

# How to Estimate the Effects of Outsourcing on Local Economic Development Where You Live

## Step 1: Collect the following information related to the potential contract:

1. Expected changes in average hourly/weekly/monthly wages for employees in various classification groups (example: drivers/clerks/ maintenance/managers).
2. Expected changes in average hourly, weekly, or monthly monetary benefits (such as health insurance, pensions, disability insurance) for each of these classifications.
3. Changes in non-monetary benefits for affected workers: days of sick leave, personal or family leave, paid vacation and any other relevant areas.
4. Number of personnel at each of the different classification levels.
5. Average salary and benefits for different classifications of administrative staff and estimates of future changes in staffing levels, pay and benefits.
6. How much more (or less) will be spent on consultants during the exploratory phase? If outsourcing is decided upon? If a transition back in is needed?
7. The racial and gender mix of the public employees who will be affected and any expected changes after contracting.
8. Is there a requirement for public employees to live within the jurisdiction? Will this change with contracting, due to different requirements? Different pay scales that affect where housing is affordable?
9. The share of expenditures for soliciting, writing, funding and monitoring contracts that will go to entities, workers, or corporations outside the area.
10. If using a regional model like IMPLAN to calculate the indirect effects, what is the relevant political unit or geographic area in which the economic impact will occur? (Note that since IMPLAN is based on zip code, some analysis can be done for a school district, a political subdivision, or portions of a large city.

Since each situation is unique, some questions will be more relevant than others. Others must be modified to fit local needs and preferences, and there are likely to be other questions that should be added. The goal is to collect information that can be presented to help estimate the direct *and indirect* economic effects on the community as part of a contracting or P3 decision.

## Step 2: Much of this can be used in a formal economic analysis, but just collecting data to construct something like Tables 1-3 -- will help in understanding the initial economic effects.

**IMPLAN (IMpact analysis for PLANning)** is one model that can be used to analyze economic effects, including data-based estimates of how much spending will continue to circulate in the local economy and how much will leak out of the local economy. It can also identify which local business sectors are likely to experience less demand due to contracting out or outsourcing. It is basically an input-output model – somewhat like a giant set of spreadsheets -- showing the linkages between different economic sectors and actors, but has added Social Accounting Matrices that include ‘non-market’ transactions like unemployment benefits. It uses multipliers tailored to the region in question, rather than the mid-range example used in the text.

**IMPLAN was designed under the direction of the USDA Forest Service to work with the Rural Development Act of 1972.** First housed at the University of Minnesota, it was spun off through a technology transfer agreement to become a private company. IMPLAN is most often used to analyze the effects that the opening/closure of a military base, new factory, or other business would have on related sectors, employment, household incomes, and tax revenues. It can also be used to study changes in tourism, land management, health and human services, water, and energy, and **how the economy is affected by the use of contracted workers to replace former public sector employment.** It can be purchased by a local or state government as a package that includes the model and the most recent data related to a particular county or state, which comes from the U. S. Department of Commerce's Bureau of Economic Analysis (see [www.implan.com](http://www.implan.com) for more information). For cities or specialized districts or neighborhoods, the data can be broken down by zip code and aggregated as appropriate. The model is used directly by the purchaser.

**IMPLAN customers include:**

- The Bureau of Reclamation, since 1995
- The Bureau of Land Management, since 1999
- The Federal Reserve Bank, since 2000
- Booz Allen Hamilton, since 2001
- The Cherokee Nation, since 2003

**Specific studies using IMPLAN include:**

- The Economic Impact of Marshall County Hospital on Marshall County, Kentucky, available at [www2.ca.uky.edu/KRHW/pubs/04aug\\_marshall\\_impact.pdf](http://www2.ca.uky.edu/KRHW/pubs/04aug_marshall_impact.pdf)
- The Economic Impact of Minnesota's Weatherization Programs, available at [www.waptac.org/data/files/Website.../eia-mn-wap-success-story.pdf](http://www.waptac.org/data/files/Website.../eia-mn-wap-success-story.pdf)
- An Illustration of the Impact on the Santa Clara County Economy of Repealing the Prevailing Wage Policy of the City of San Jose. 2011. Kevin Duncan, Ph.D. for *Working Partnerships, USA*, January, available at [http://wpusa.org/5-13-11%20prevailing\\_wage\\_brief.pdf](http://wpusa.org/5-13-11%20prevailing_wage_brief.pdf)

**IMPLAN was also approved for calculating probable economic impacts in applications for the American Recovery and Reinvestment Act (ARRA). Examples available online include:** Iowa Department of Transportation, Burlington Bridge Replacement; South Park Bridge in King County, Washington; and the Fort Worth, Texas rail connection of BNSF railway.

**It is important to note that a regional model like IMPLAN *cannot* make estimates for**

- 1. equity issues such as disparate effects by race and gender**
- 2. the dynamic long-term effects of current changes on opportunity and mobility**
- 3. accountability, transparency, responsiveness, or citizen participation**
- 4. public health and safety, including the effects on workers**

**Each of these contributes to quality of life and therefore to economic development**, but is difficult to quantify as precisely as short-term economic effects. However, the likely effects on each element (equity, opportunity and mobility, health and safety, and principles of good government) should be compared to the vision statements of a city, school district or other entity.

Similar comparisons can be made with statements of principles in the relevant agencies for states and other organizations that do not have an overarching principles statement. These generally include commitments to fair hiring and treatment of employees, to environmental protection, to public safety, and often to increasing quality of life and sustainability in the community.<sup>1</sup>

**There should be mechanisms in place to guarantee that contracts are made only with those who have a record of following accepted public standards on equality of opportunity, worker health and safety, or public health. Standing policy should also require looking at the short and long term economic impacts where there is any reason to think they will be significant.** This will require legal or procedural changes in many states and cities. Others that already have policies simply need to track performance and terminate relationships with repeat offenders.

For example, California code specifies many requirements for contracting with private entities. Along with many provisions directed to cost and quality concerns,

**“(2)** Proposals to contract out work shall not be approved solely on the basis that savings will result from lower contractor pay rates or benefits. Proposals to contract out work shall be eligible for approval if the contractor's wages are at the industry's level and do not significantly undercut state pay rates.

**(3)** The contract does not cause the displacement of civil service employees. The term "displacement" includes layoff, demotion, involuntary transfer to a new class, involuntary transfer to a new location requiring a change of residence, and time base reductions. Displacement does not include changes in shifts or days off, nor does it include reassignment to other positions within the same class and general location.

**(4)** The contract does not adversely affect the state's affirmative action efforts.”<sup>2</sup>

California also stipulates that contracting can occur only when “the potential economic advantage of contracting is not outweighed by the public’s interest in having a particular function performed directly by state government<sup>3</sup>.” Maryland specifies that contracts must not “adversely affect the affirmative action efforts of this State.”<sup>4</sup> Massachusetts provides that “the amount of income tax revenue, if any, which will be lost to the commonwealth by the corresponding elimination of agency employees...”

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<sup>1</sup> See Greenwood and Holt, Ch. 8 (2010) on aligning public policy with indicators and statements of purpose.

<sup>2</sup> Tit. 2, Div. 5, Pt. 2, Ch. 5, Art. 4 § 19130. Conditions for personal services contracting.

<sup>3</sup> California Gov. Code Sec. 19130 (11).

<sup>4</sup> Maryland State Personnel and Pensions Code Sec. 13-404(2)(ii).

should be added back in as a cost.<sup>5</sup> It requires written certification to the state auditor that the contract is in compliance with all relevant statutes "concerning labor relations, occupational safety and health, nondiscrimination and affirmative action, environmental protection and conflicts of interest."<sup>6</sup>

Miami-Dade County (Florida) code of ordinances<sup>7</sup> requires information on the characteristics of the contractor work force, whether there is a collective bargaining agreement, and whether health insurance is provided. A San Diego council resolution states evaluations must "consider safety, public health, employee compensation, and economic benefit" along with traditional concerns about quality, cost, and liability. San Jose's council resolution requires advance posting on the city's website of informational memos (28 days in advance of a council meeting) and of the staff report (14 days in advance) for use of public funds of over \$1,000,000.<sup>8</sup>

**Examples from abroad are also useful models for how to include the public interest**, as well as direct savings to government, in a contract consideration. In Australia, the state of New South Wales requires a formal evaluation of public interests for privately financed infrastructure projects. The state of Victoria specifies aspects of the public interest to consider. These go beyond effectiveness, accountability and transparency to include **public access (especially for disadvantaged groups), consumer rights (especially for affected individuals and communities, as well as vulnerable populations), public health and safety, and privacy.**<sup>9</sup>

These are each pieces of the comprehensive look at social and economic impacts recommended here. Another source in constructing implementation language is the emerging literature on the need to consider the "public interest" in P3's. References to these can be found in Appendix B in the full report "The Decision to Contract: Understanding the Full Economic and Social Impacts" on the Colorado Center for Policy Studies website. (That appendix addresses the more traditional concerns of how contracting directly affects governments).

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<sup>5</sup> Massachusetts ALM G.L. Ch. 7, Sec. 54(6).

<sup>6</sup> Dannin (2001, n99).

<sup>7</sup> Part III, Chapter 2, Sec. 2-8.1.

<sup>8</sup> San Diego Resolution R-284169 passed June 1994, San Jose Resolution 76184 March 2012.

<sup>9</sup> U. S. Government Accountability Office (2008, 52-54).