

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: March 10, 2010

To: Lee Holloway, Chairman, Milwaukee County Board of Supervisors

From: Jerome J. Heer, Director of Audits

Subject: Cost Savings from Privatization of Security Services

Background

On February 26, 2010, the County Executive announced plans to lay off 76 Milwaukee County employees as part of an effort to bring 2010 operating expenses into alignment with the adopted budget. The affected positions are all assigned to either the Parks Department or the Transportation and Public Works Department. The single largest group of employees to be laid off is the TPW Facilities Management Security Workers. In addition to the layoffs, the administration also issued a notice of an emergency procurement to retain private security services as a bridge to the eventual privatization of services provided by the 31 security positions (27 of the positions are currently filled).

As required under the County's agreement with AFSCME District Council 48, the administration has provided an analysis of the cost savings to be achieved as a result of the layoffs and privatization (see attached). The Chairman of the County Board of Supervisors called for an independent analysis of those savings by the Department of Audit.

Analysis

We met with the Department of Administrative Services to review a draft of the attached analysis. In summary, their conclusions are:

- First year savings from the privatization initiative are approximately \$151,000.
- Savings for future years would be approximately \$436,000 in 2011 and \$471,000 in 2012.
- If the privatization did not occur and alternative savings were achieved with 22 furlough days, the 2010 savings would be \$72,300 (rather than \$151,000) but there would be no additional savings in future years.
- If the privatization did not occur and alternative savings were achieved with the wage and benefit provisions of the 2010 adopted budget the 2010 savings would be \$62,600 (instead of the \$151,000 savings from privatization) and these savings would continue annually, increasing slightly in future years.

In addition to these conclusions by DAS, we offer the following observations:

- The 2% wage assumption that DAS used for Security Workers for 2011 and 2012 is reasonable but not absolute. It is conceivable that negotiations could result in a wage freeze. One large factor in the cost savings of the privatization is that the County security workforce has an average wage of over \$14 per hour and the private security vendor states in its proposal that it pays \$10 for officers and \$12 for site supervisors. It is also conceivable that the labor negotiations process could result in a wage increase greater than 2%. On a related point, the DAS analysis also assumes step increases that may be the subject of labor negotiations.

- The analysis of alternative savings of \$62,600 from the adoption of the 2010 Wage and Benefit Modifications does not include the use of furlough days. However, the additional savings of about \$42,400 would be offset by some overtime costs.
- A 2% cost increase was used for the vendor pricing. While the agreement is for only one year, our work on the security contract at Milwaukee County Transport Services, Inc indicates that this is a reasonable assumption. If the vendor seeks a larger increase, the County could re-solicit for the services. There were four proposals in response to the August 2009 Request for Proposals.
- Unemployment compensation is assumed for five employees for 26 weeks. While DAS is using historical information for this assumption, it is difficult to determine whether the current condition of the economy, the recent extension of UC benefit eligibility and the specific job opportunities make this estimate unreasonably low. We note, however, that this assumption would likely primarily affect only the first year savings conclusions.
- DAS notes that the first year savings from privatization are potentially offset by up to \$45,000 for emergency services in the event that County employees do not show up for work. While it appears that the full \$45,000 will not be needed, there may be additional costs from having sworn Sheriff's Deputies assigned to Courthouse security duties during the transition period.
- The question was also raised about a savings offset based on the impact of accumulated sick leave payouts for security workers who are laid off. As an enterprise fund operation, those costs are already accounted for. In addition, the payout is only available for employees who separate from service via retirement.

Conclusions

It appears that the initial cost savings that could be generated from the outsourcing of security services could be approximately \$151,000 for 2010. This savings amount could grow to \$436,000 in 2011 and \$471,000 in 2012. The assumptions that were used in the calculation of these savings are reasonable but will only be borne out by actual experience.

Jerome J. Heer

JJH/cah

Attachment

cc: Milwaukee County Board of Supervisors
Scott Walker, Milwaukee County Executive
Cynthia Archer, Director, Department of Administrative Services
Steven Kreklow, Fiscal & Budget Administrator, Department of Administrative Services
Steve Cady, Fiscal and Budget Analyst, County Board Staff
Delores Hervey, Chief Committee Clerk, County Board Staff



COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

Department of Administrative Services
Cynthia Archer, Director

DATE: March 5, 2010

TO: Supervisor Lee Holloway, Chair, County Board of Supervisors
Supervisor Elizabeth Coggs, Chair, Committee on Finance and Audit

FROM: Steven Kreklow, Fiscal and Budget Administrator

SUBJECT: Fiscal Analysis of Security Privatization Initiative

This past week Milwaukee County began the implementation of a new contract for security services in DTPW Facilities Management. In this memo, the Department of Administrative Services (DAS) – Fiscal Affairs reports the budgetary savings associated with the new privatization initiative. This information was provided to DC48 on Thursday, March 4, 2010, in compliance with contractual requirements.

The privatization initiative eliminates 30 full time equivalent Facilities Security Worker positions and 1 hourly Facilities Security Worker position for a total savings in wage and active fringe benefits of \$1,147,355 for the remainder of 2010. The resulting contract with Wackenhut, Inc., awarded through a competitive bidding process and effective in mid March, for security operations will cost Milwaukee County a total of \$907,811. In total, **the estimated 2010 savings is \$239,544**. The security contract will provide an annualized **budgetary savings of \$436,026 in 2011**.

The 2010 Budget savings will be reduced by several one-time expenses related to this initiative. Based on the percentage of employees placed in other county jobs and hired by the private vendor for similar initiatives during 2009 and 2010, DAS Fiscal anticipates that 5 individuals will be eligible to collect unemployment benefits. Assuming these individuals remain unemployed for 26 weeks, the current statewide average, the cost is estimated to be \$43,560¹. Additionally, in order to insure a smooth transition during the two-week period after lay-off notices were sent out, an emergency contract was executed with Wackenhut, Inc. for a not-to-exceed amount of \$45,000. The total actual cost will depend on the number of posts Wackenhut ultimately must staff during this period. Initial indications are that the full amount will not be necessary.

Figures have also provided for several alternative savings opportunities related to this service. If we maintained county security workers and applied 22 furlough days, as per

¹ Represents the average amount of unemployment compensation used. Individuals may be eligible for greater longer periods of time.

County Board adopted policy, the savings would be \$72,292. This does not take into account potential increased overtime. Alternatively, if the wage and benefit modifications included in the Adopted Budget were applied to these employees, the savings would be \$62,645 in 2010 and \$70,117 in 2011.

Detailed figures and assumptions are provided below.

Ongoing Budget Savings				
1 FTE Facilities Security Worker Hrly 30 FTE Facilities Security Workers	Year 1 Savings (Cost)	Year 2 Savings (Cost)	Year 3 Savings (Cost)	Assumption
Wages	\$745,109	\$940,967	\$959,786	Wage Table, 2% Incr
Step Increases	\$4,100	\$12,000	\$12,240	Wage Table, 2% Incr
Social	\$57,315	\$72,902	\$74,360	7.65% of salaries
Health	\$307,230	\$454,054	\$490,378	19 pay periods; 8% increase
Overtime	\$33,600	\$42,000	\$42,000	2009 Actuals - \$1,600 per pay period
Pension		\$83,746	\$85,421	8.9% of salary
TOTAL SAVINGS	\$1,147,355	\$1,605,668	\$1,664,185	
Security Contract Costs (9.5 Months in 2010)	\$907,811	\$1,169,642	\$1,193,035	2% Annual Increase
Estimated Budget Savings	\$239,544	\$436,026	\$471,150	

One-time Costs				
Unemployment Comp	(\$43,560)	\$0	\$0	5 Eligible @ 26 Weeks
Contract Start-Up	(\$45,000)	\$0	\$0	

Alternative Savings Opportunities				
Furlough Day Savings	\$72,292	\$0	\$0	Time & Att Balances
1972 Wage and Benefit Mod.	\$62,645	\$70,117	\$73,375	

We have reviewed this analysis with staff from the County Board and the Department of Audit. If you have any questions or would like to discuss this analysis further I would be happy to meet with you at your convenience.