

March 12, 2024

Distinguished Members of the Vermont Senate Committee on Government Operations:

In the Public Interest (ITPI) is a national non-profit research and policy center that studies public goods and services. Our research focuses on the impacts of privatization on the democratic process and the common good. We also research best practices and policies related to responsible contracting.

We submit this testimony in support of S.96. This bill incorporates several widely identified best practices for responsible government contracting. It requires that contractors doing business with the state provide their employees with wage and health insurance benefits that are in line with public sector comparators. The bill also requires that any company that contracts with the state have a record of compliance with important laws, and meets important quality and fiscal standards, including a 20 percent cost savings requirement. Additionally, this bill ensures that the state can hold contractors accountable for poor contract outcomes. Taken together, these provisions ensure that the state of Vermont is doing business with high-road contractors who derive cost savings from true efficiencies, instead of through the degradation of service quality or the reduction of workers' compensation. Each of these provisions is discussed in greater detail below.

By requiring that contractors compensate workers at rates comparable to public sector workers, governments ensure that contractors compete on whether they can offer quality services through increased efficiencies, instead of undercutting each other in price by slashing workers' wages and benefits. By ensuring that contractors' promises of cost savings do not come from wage reductions, governments can preserve family-supporting jobs, which is good for workers, communities, and the state economy. Public sector jobs have long played a role in growing the middle class. However, contractors may cut labor costs in an effort to increase their profit margins, eroding middle- and working-class jobs. Public dollars going toward contractors to perform public work should fulfill the goal of strengthening our economy and building the middle class.

In our research, we have repeatedly found that low-road government contracting can set off a downward spiral in which reduced worker wages and benefits can hurt the local economy and overall stability of middle- and working-class communities. This dynamic is underscored by academic research by Daphne Greenwood, an economist at the University of Colorado, which shows how declines in workers' wages due to outsourcing mean less money to spend in their

local communities.¹ Lower wages mean that workers spend less in local retail, restaurants, and other establishments, negatively impacting local businesses. Lower wages also mean that local and state governments collect less in sales, income, property, and other types of taxes. In short, less money flows into the local economy and more money is routed to for-profit corporations.

S. 96 further ensures that the state does business with high-road contractors by requiring that contractors that receive state contracts do not have records of breaking labor, employment discrimination, health and safety, environmental, and other important types of laws. Research shows that governments that review information about contractors' corporate track records, and use this information to identify "responsible" bidders, report that contracts result in better outcomes: higher quality, more reliable services, reduced cost overruns and project delays, and reduced compliance and litigation costs.²

Additionally, by requiring a 20 percent cost savings from contracts, S.96 ensures it is financially advantageous for the state to contract out a given public good or service. Other states have long relied on cost savings requirements. For example, the state of Maryland requires that a service contract provides at least 20 percent cost savings, and includes both direct and indirect costs in the calculation.³ Other states, such as Massachusetts and Maine require the demonstration of some level of cost savings before a proposed contract can be approved.⁴ This savings requirement helps ensure that contracting out a public service or function will result in quantifiable savings to the state.

Lastly, S.96 contains important provisions that ensure that the state of Vermont can hold contractors accountable for their promises. Specifically, it ensures that a state panel verifies whether a contract follows state contract law and allows the Attorney General to investigate if a contract does not meet the 20% savings threshold. If these conditions are not met, the contract is either cancelled or not renewed, depending on the specific deficiency. These accountability mechanisms are critical because a broad range of research shows that public services often do not improve after being contracted out.⁵ Because a central goal for corporate contractors is to maximize profits, there may be internal pressure to cut corners,

¹ Daphne T. Greenwood, "The Decision to Contract Out: Understanding the Full Economic and Social Impacts," University of Colorado, Colorado Springs, March 2014.

² David Madland, Karla Walter, Paul Sonn, Tsedeye Gebreselassie, "Contracting that Works: A Toolkit for State and Local Governments," Center for American Progress Action Fund and National Employment Law Project, 2010.

³ Maryland Subtitle 4, Section 13-402-405, See <https://law.justia.com/codes/maryland/2022/state-personnel-and-pensions/division-i/title-13/subtitle-4/section-13-405/>

⁴ Maine §1816-B. Privatization of agency services and Massachusetts General Laws Part I, Title II, Chapter 7, Sections 52 through 55.

⁵ Michael Ballard and Mildred Warner, "Taking the High Road: Local Government Restructuring and the Quest for Quality," April 2000.

such as paying employees less, employing fewer workers, using inferior materials, or making programmatic decisions that save on costs, but result in diminished quality. A 2017 International City/County Association survey showed that the most cited reason for bringing services back in-house after contracting was unsatisfactory service quality with 54% of governments that insourced services reporting that reason.⁶ Governments should not be locked into contracts with companies that fail to deliver. The accountability provisions in S.96 help ensure that public money does not fund contracts that fail to deliver cost savings or high quality services.

In the Public Interest supports S. 96, as it incorporates best practices in government contracting, ensuring high-road contracting decisions and accountability in the contracting process. We are happy to provide support to the Committee as the State makes policy decisions regarding its contracting practices. Thank you for your time and consideration.

Sincerely,

Shar Habibi
Research and Policy Director, In the Public Interest
shabibi@inthepublicinterest.org

⁶ International City/County Management Association, "2017 Alternative Service Delivery Survey, Summary of Survey Results," 2019.