



RISK
TRANSFER
VIA
OUTSOURCING

EXECUTIVE SUMMARY

The City of Norwalk used risk transfer to eliminate injuries incurred by its Department of Public Works' trash collection operations, thereby significantly controlling its escalating Workers' Compensation costs. The City outsourced its refuse pick-up via a multi-year contract with a private hauler and reassigned Sanitation workers to other jobs within the Public Works department. Cost savings for the first two years of outsourcing are estimated to be \$1,210,000.

PROBLEM

The numbers were grim: from 2005 to 2010, Norwalk Sanitation workers, who represented 10% of the Public Works staff, accounted for 42% of its Workers' Compensation claims.

Claims during this period totaled \$538,000 and resulted in a loss of 1,400 work days. Catastrophic claims from three employees resulted in settlements totaling over \$1,206,000. These costs factored into higher Workers' Compensation costs of \$662,542 for 2012-13, a 54% increase over 2011-12.

ACTION

The challenge was clear: the City had to control escalating costs by reducing the potential for employee injuries. After a thorough analysis of risk management options, City leaders decided to use a risk transfer approach by outsourcing refuse pickup. Amid resistance by the Sanitation workers, the competitive outsourcing approach that the City pursued gave both private contractors and the union the right to bid on the work. The best proposal was a multi-year contract with a private vendor who invested in new trucks and assumed the associated risk, including the Workers' Compensation exposures.

LESSON LEARNED

Outsourcing, sometimes confused with privatization, refers to the transfer of a business activity or function to a third-party service provider. Well-structured outsourcing arrangements bring service efficiencies and reduce risk exposures to the municipality. The

City of Norwalk achieved its cost savings objectives by managing the contracting process and effectively transferring risk.

Benefits to the City, its employees, and residents brought by outsourcing of the sanitation operations were immediate. Employee injuries for refuse hauling and the cost of Workers' Compensation are no longer the City's responsibility. Sanitation workers have been reassigned positions within the Public Works department, preventing layoffs. The City is now able to provide, through its third-party contractor, refuse hauling for its residents.

SAVINGS

The first year savings are estimated at \$260,000 and at \$950,000 for each year thereafter.

CIRMA RESOURCES:

- *Risk Transfer Best Practices Guide*
- *Independent Contractors Best Practices Guide*

Order these Best Practice Guides online by visiting CIRMA's Media Library.

For more information on this topic, please contact your CIRMA Risk Management Consultant.