

# BRIEFS

NEWSLETTER 2

Baltimore Efficiency & Economy Foundation, Inc.



BALTIMORE EFFICIENCY & ECONOMY FOUNDATION  
formed to restore the tradition and practices of  
Commission on Governmental Efficiency & Economy.

In this issue of *Briefs*, we describe a recent Baltimore Efficiency and Economy Foundation report that will be a valuable contribution to the often emotional public debate over privatization of governmental services. The debate became heated earlier this summer as a result of the Mayor O'Malley's proposal to privatize some functions of the Department of Public Works.

The report, "Competitive Governance Strategies for Baltimore City: Lessons from Other Cities," is available in its entirety on the B.E.E.F. web site, [beefbaltimore.org](http://beefbaltimore.org). It was prepared by Marsha Schachtel, Ph.D., Senior Fellow at The Johns Hopkins University Institute for Policy Studies. It is 'must reading' for anyone with a serious interest in how 'change agents' should or should not go about improving the efficiency with which cities deliver services to their citizens. Mayor O'Malley has expressed his appreciation to B.E.E.F. for its "significant contribution to ongoing efforts to improve the efficiency and quality of the services delivered to Baltimore's citizens."

The B.E.E.F. Board is gratified by the encouragement and cooperation it has received from the City of Baltimore. We have three meaningful projects underway, or soon to start, with the active support of City government.

The first project, "Alternate Revenue Sources and Structures for Baltimore City," will explore how the City can create revenue streams in addition to the property tax. Various options will be examined in detail and the revenue implications played out and other positive and negative effects studied if the options were to be adopted in Baltimore City. The study will examine the revenue structure of 10 - 12 major

U. S. cities and in 3 - 4 Maryland counties where property tax caps have necessitated revenue diversification. The City of Baltimore, T. Rowe Price Associates Foundation and the France-Merrick Foundation are funding the project.

In a second study, B.E.E.F. will review the City's management of the various tax credit programs created to encourage residential growth and spur homeowner investment in Baltimore City. The historic tax credit program, the "Waverly" program, and programs granting a tax credit for the purchase of a newly constructed home, improvements to an existing home, and following the rehab of a vacant home will be examined.

The project entails looking at the City agency structure, operations and marketing initiatives that affect the implementation of the programs. The "best practices" employed by other U.S. cities will also be examined. The final report will outline a specific organizational structure for administering the tax credit programs so that they can achieve their maximum potential as incentives for homeowner investment. The project is funded by the France-Merrick and Proctor & Gamble Foundations.

And finally, B.E.E.F. will partner with the Greater Baltimore Board of Realtors (GBBR) to assist the

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GEORGE A. NILSON  
PRESIDENT  
B.E.E.F. FOUNDATION

## B.E.E.F. Welcomes Collaboration with the Public

B.E.E.F. sponsors independent research that will benefit local government operations and fiscal management. Business, civic and nonprofit organizations, local foundations and members of the public are invited to suggest areas for research and to collaborate with us. Research projects are carried out by volunteer task forces with the relevant expertise or contracted to independent research organizations.

All B.E.E.F. final reports are published on its web page at [www.beefbaltimore.org](http://www.beefbaltimore.org)

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inter-agency City Task Force on the Disposition of City-Owned Property. The project will enlist GBBR brokers to help inventory City's holdings of 2000 improved properties.

The project enables the City to complete the inventory made impossible by budget and staff cuts and by the inability at this time to purchase essential, but costly, real estate management software. As the real estate brokers collect inventory data, properties with potential for immediate sale will be identified and listed on the industry's MRIS system with private sector brokers as listing agents. The project objective is to enable the City to realize \$1 million next year from the initial sale of surplus property. The Goldseker Foundation is funding the project.

We regret to report that we were unable to secure the cooperation of the Baltimore City Public Schools (BCPS) to review the efficiency and effectiveness

of the BCPS information technology system. Last November, The Abell Foundation awarded B.E.E.F. \$100,000 to review and evaluate information technology in the system. The IT system had been described by both state and city officials to be dysfunctional. The Baltimore *Sun* had reported on excessive spending and poor work product of the then IT provider, ICS, whose contract was not to be renewed.

BCPS senior management opposed the study and, and without advising B.E.E.F., sought unsuccessfully to have the Abell grant revoked. The Abell Foundation ultimately rejected an alternative technical assistance project suggested by the schools and submitted by B.E.E.F. and, at that point, canceled the original grant. At its September meeting, the BEEF Board will determine whether or not it will attempt to develop further projects to assist the management of the Baltimore City Public Schools.

Despite an unhappy experience with the Baltimore City Public Schools, the

B.E.E.F. Board of Directors remains very confident that there is an important role for the Baltimore Efficiency & Economy Foundation in the City. We are very grateful to The Abell Foundation and to two anonymous family foundations for their continuing operating support and to the various foundations that have funded our specific projects.

Cordially,



George A. Nilson  
President

## Also in the news

**A**s a direct result of a study commissioned by B.E.E.F. of city employees' health benefits, Baltimore City saved at least \$400,000 in just the first year of adopting some of the study's cost-saving recommendations. The study, completed by consulting firm of Bolton Offutt Donovan, Inc. and forwarded to the city in July 2000, identifies several avenues for eliminating as much as \$20 million from the expenses of its health benefits program for city employees and their families without reducing the quality of services.

Responding to BEEF in December 2000, Mayor Martin O'Malley outlined several steps the City has taken and the savings expected from each step. They include reducing the number of HMOs from which employees can choose (several health insurance choices are still

available) and implementing two- and three-tier co-pay programs for many prescription drugs steps. First-year savings are expected to be in the range of \$400,000 to \$600,000. In pursuit of additional savings in future years, Mayor O'Malley wrote to BEEF, "our goals for 2002 include expanding these initiatives to other employee groups not currently affected," as well as tying the levels of retirees' coverage to their years of active service and improving existing incentives for both current and retired employees to get their health coverage from another source, usually their spouse's workplace or retirement coverage. ♦

**T**he Council on City Living is being established as City Hall's advisory group on issues and practices critical to attracting and retaining City residents (both owners and renters). B.E.E.F. was a catalyst for the creation of the Council, which will focus on promoting new, market-rate development, marketing neighborhoods to attract homeowners, creating incentives, performing research to evaluate home and neighborhood marketing strategies and recommending ways that the City can help maximize the recently renewed investment in Baltimore City. ♦

**L**ook for the next issue of *Briefs* with more details and the latest developments in these initiatives for responsive, effective management for Baltimore's people and its future as a great American city. ♦

## Leaner, Not Meaner: Performance Based Strategies Improve Service and Cut Costs

Research Presented to Mayor O'Malley Shows that Public Employees Are Part of Satisfied Teams in Urban Experiments.

A crew at the repair shop for the city auto fleet decides that every city vehicle that came into their shop would be assigned to a particular mechanic, who would then “own” the vehicle—it would always come back to the same worker for repairs or scheduled maintenance. The average number of times vehicles came back for more repairs dropped sharply under this system, and the resulting savings were shared with the employees who proposed and implemented it.

Agency heads give individual site managers the discretion to spend their office supply budgets with the vendors of their choice, with the promise to make half of any savings available for the staff's choice of either bonuses or additional training.

**P**erformance-based strategies and customer-centered practices for delivering services to the public are the future of effective, affordable city government. They are already a fact of city life in many other large American cities. BEEF sponsored a study of these practices and has presented the results, a cookbook of ideas and processes that have saved millions of dollars and improved the quality of local government services, to Baltimore Mayor Martin O'Malley.

BEEF commissioned Marsha Schachtel of Johns Hopkins University's Institute for Policy Studies to conduct the study, “Competitive Governance Strategies for Baltimore City: Lessons from Other Cities.” The heart of the report presents, in depth, the experiences of five urban governments with pioneering histories of competitive re-engineering: Charlotte, Indianapolis, Philadelphia, Phoenix, and San Diego. Data from 16 other cities were also reviewed. The report includes both hard data (dollars saved, productivity gains) and answers to many questions about the ingredients of successful performance-centered initiatives and the attitudes that preceded and resulted from municipal efforts to adopt them.

The report's hard data reflect tens or hundreds of millions of dollars in

The short and obvious answer is “Yes,” it does and it will, even after careful planning and innovation. But any big city's budget includes substantial sums routinely committed and spent on other things, like outmoded positions and the maintenance of underused (or unusable) public land and buildings. By ending budgetary commitments to obsolete, inefficient, or non-value-adding items, money is freed up not only for possible tax relief, but also for the costs of revamping or improving service delivery—the “better mousetraps” of a re-engineered city government.

One of the most interesting by-products of Indianapolis's program was that workplace safety improved. Wages, training opportunities, and worker satisfaction all increased as well, probably because so many of the plans and bids for re-engineered services came from people with a stake not only in restoring city finances but also in better working conditions and higher rewards for themselves. Stephen Goldsmith, the Indianapolis mayor who began his city's management transformation, told the *New York Times*, “Nobody knows better than the worker how the job can be done efficiently.” Implementing a more efficient way of deploying the city's trash trucks saved taxpayers even more than it saved the workers who proposed it, even after each worker got a \$1,750 bonus check as their share of the savings. This illustrates that “managed competition” is not a code word for “cutting corners.”

cost (and tax) savings using the most commonly recognized tools of performance-based governance: managed public-private competition, outsourcing, restructuring (“re-engineering”) the delivery of city services, and employee innovation.

Charlotte, Indianapolis, and Philadelphia, three of the cities studied in depth for this report, all began managed competition programs in 1992. In Charlotte, the results include lowered costs, stabilized tax rates, more competitive employees, and savings that have reached \$12 million a year.

Indianapolis's approach evolved quickly from a “privatization” push into innovative programs that welcomed public employees into the competition, improving citizens' satisfaction with services, improving employee wages and safety records, and saving taxpayers over \$450 million in less than a decade.

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## Leaner – *cont. from page 3*

Philadelphia, though it is twice as large as Baltimore, probably has the most similar culture of service delivery, with a substantially unionized public work force and a comparably aging infrastructure and demographics. It, too, reports success, bringing municipal bond ratings back from the brink of disaster, converting city workers from apprehensive naysayers into key allies, and saving taxpayers \$150 million in its first six years.

Phoenix and San Diego, in settings less comparable to Baltimore's, have also realized annual savings in the millions of dollars, together with greater citizen and employee satisfaction, since adopting performance-based strategies.

Examining these cities' accomplishments has identified not only strategies and devices for better government performance, but also the ingredients, from hard data to intangibles, that led to success. Common elements of these urban success stories include:

**Clarity** – All stakeholders understand what the goal is, what their part in it will be, and why it's important to change the way the city does its work. When changes are implemented, the new instructions are clear.

**Leadership for the Long Haul** – Because of the time involved in building a consensus that change is needed before creating the agenda for specific changes, consistent strong leadership is essential. One finding of the study is that Phoenix, which reported less follow-up of re-engineering proposals with vendors and employees, also reported less positive attitudes about the value of the changes.

**Measuring and Monitoring Performance** – “What gets measured, gets done” is an axiom of good management. It's as true in the public arena as it is in the private sector. Performance standards must be clearly communicated

and compared continuously with results. Ongoing oversight of contracts with private-sector service providers as well as of city agencies and work teams keeps service innovations on track, or discovers small problems before they get big. For this and other reasons, all five cities stressed the importance of keeping strong managers within city government. Oversight cannot be outsourced, and it cannot be an afterthought.

**The Right Mix of Strategies** – This depends on many variables, including state and federal limits on outsourcing, the civic and workplace cultures of each city, and the availability of private- and public-sector resources ready to deliver the desired results. The mayors of San

**In 1995, according to an earlier survey cited in the BEEF report, the five most frequently privatized services were vehicle towing, trash collection, building security, street repair, and ambulance service.**

Diego and Indianapolis both learned after starting their initiatives that not every private-sector solution is a good fit with the demands and concerns of the public sector. Awareness and flexibility characterize sensible paths to the goal of better services to city residents.

**Support for the Workforce** – Every one of these municipal management experiments was met at first by public sector employees' anxiety and fear that their jobs would, by accident or design, be eliminated or become less valuable. Even so, these cities eventually counted public sector employees among their most satisfied and productive partners in success. Both the initial resistance and the ultimate buy-in make sense, but the persistence required to get from one to the other is an aspect of the focused and consistent leadership cities need to succeed with this strategy.

Respondents from the different cities expressed themselves uniquely, but all their answers converged on the

principles listed above. From Charlotte came the briefest statement of principles for success:

- one** Agree on goals
- two** Move quickly
- three** Be fair
- four** Focus on results, not process

How do these common elements of good performance-based government work in practice? What are the lessons for Baltimore?

## Agree on goals

All of these cities understood their “stakeholders” broadly: citizens as taxpayers, citizens as customers, local businesses, public employees, and

unions. And consensus about what to accomplish (not about how to accomplish it—see no. 4) was cited by respondents from all these cities as vital to their ultimate achievement of better city government for less money.

The Indianapolis experiment began in the early 1990s as a wholesale push for privatization of city service delivery, but evolved quickly into a competitive environment where public agencies were welcome as bidders and re-engineers, because privatization was not an important civic goal for its own sake. It was a tool—probably the simplest tool to understand when the process began—that, used well, could help with the city's real goals of saving money and performing more effectively.

One study respondent expressed the belief that “older performance measurement systems are the most effective”—in other words, don't rework standards of performance that people understand. In a climate of change and transition, sticking with clear and sensible ways of

measuring work may lessen employee concerns that “re-engineering” is a smokescreen for wholesale job cuts. (For example, most cities are responsible for repairing their streets, regardless of whether civil servants or contractors do the work. If a crew’s job is filling potholes, then the same yardsticks of success—number of potholes filled, number of days or hours between a pothole complaint and completion of the repair—should apply to any crew. A factor with no direct relationship to productivity results, like the number of people on a pothole crew, should not be measured but should be left to the bidders to determine—this is an issue of “how to do it,” not “what to do,” and those who win the responsibility for doing the job should be given leeway to decide how.)

## Move quickly

Once a consensus is reached, implementing the new strategies maintains momentum. Charlotte city leaders stressed the importance of generating good requests for proposals (RFPs)—the basic document from which both private- and public-sector bidders will use to decide and plan their better approaches to city business.

## Be fair

Private and public sector service providers cannot be equal in every way. Successful alliances with both sectors depended in part on recognizing the capacities and limits that make them different. Philadelphia, where communication with employees and unions started early and continues throughout the process, overcame initially negative employee reactions by extending the right of first refusal on many service contracts to the city agency. Adjust the bidding process so that the costs a competing city agency cannot control (for instance, the portion of its operating budget earmarked for employee benefits) can be brought into parity, for

purposes of choosing the lowest bidder, with those of any private-sector competitors.

Clarity at all stages of planning and implementation is an element of fairness. The rules can be simple, but they must be written and communicated to all parties.

Because payroll is such an enormous portion of any government’s current spending, it’s natural to suspect that saving money is going to be achieved by cutting workers. But these cities treated their workforce as their most knowledgeable re-engineering consultants—the people who do the work—to re-examine practices from billing to managing inventory to answering citizens’ inquiries, streamlining necessary tasks and unburdening themselves of unnecessary work.

Employees, especially working in teams, identified ways to save money in fulfilling their mission. (Nobody is more motivated than employees themselves to “work smarter” instead of working harder.) In Charlotte, increased employee involvement extended to decisions about how and where to buy equipment and scheduling breaks and days off.

Sharing the financial rewards of managed competition, or “gainsharing,” is a key component of successful managed competition programs. Charlotte paid 50 percent of cost savings realized from re-engineered work processes to the re-engineers—the employees who devised the more efficient practices. Indianapolis paid 25 percent.

The separate strategy known as competitive re-engineering involves inviting proposals from both private-sector and public agency bidders. Municipal and state laws may limit the areas in which this approach is practical or permissible. But here too, city workers’ superior knowledge of the tasks, goals, and purpose of their agency’s function means that their bids are frequently the most competitive. Though these cities made some combination of transition

programs and payments available to workers who found themselves demoted or laid off, employees were far more likely to be transferred within city government or hired by winning private-sector bidders than to be out of a job.

## Focus on results, not process

What do citizens want? Lowered and controlled taxes, responsive services, and a good quality of life: these are the goals. Reaching them consistently, economically and fairly can be achieved in a number of ways. The experiences highlighted here, are examined more fully in the report which may be found on the BEEF home page: [www.beefbaltimore.org](http://www.beefbaltimore.org)

For example, “right-sizing” Charlotte’s work force eliminated many jobs that existed only on organizational charts but were not filled. Charlotte trimmed 272 positions without a single layoff. Similar experiences were reported by the other cities studied in depth.

Strong management must be maintained within city government to monitor the performance of service contracts—results that aren’t measured can’t be known. In Philadelphia, which contracted out most of its information technology services, city leaders believed it was still important to retain a municipal chief information officer (CIO) and a core oversight staff. ♦

By Eileen O’Brien



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### Baltimore Efficiency & Economy Foundation

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Please make checks payable to B.E.E.F. and mail to P.O. Box 16281, Baltimore, MD 21210.

*Thank You!*

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