

**Competitive Governance Strategies
For Baltimore City:
Lessons from Other Cities**

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**Prepared for the Baltimore Efficiency and Economy Foundation
September 2000**

Conclusions or opinions expressed in this publication are those of the authors and do not reflect the views of staff or others affiliated with the Institute of Policy Studies, The Johns Hopkins University, or the Baltimore Efficiency and Economy Foundation.

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1. EXECUTIVE SUMMARY

During the 1990s, many American cities have sought to reinvent themselves through performance-based government. In this market- and customer-centered approach, competition and innovation -- rather than monopoly and bureaucracy -- drive the provision of public services.

Performance enhancement approaches

Privatization, while perhaps the most obvious route, is only one of several strategies used to foster more cost-effective and competitive government. These include:

- **Managed (or "public-private") competition:** the process in which both public and private vendors vie to provide a public service opened to competition.
- **Outsourcing (or "contracting out"):** a technique in which the city government allows private vendors to compete to provide a public service.
- **Restructuring (or "reengineering"):** an approach in which public functions are inventoried, direct and indirect costs enumerated, decisions made about which are core functions of government, and efficiency and effectiveness measured. Collaborative management/worker efforts are then focused on developing and implementing structural, management, and work organization innovations that improve efficiency and service quality of core functions.
- **Employee innovation:** a strategy in which the city offers employees greater flexibility and/or incentives in return for service enhancement ideas.

Five city case studies

This report examines performance-based government initiatives in five U.S. cities: Charlotte, North Carolina; Indianapolis, Indiana; Philadelphia, Pennsylvania; Phoenix, Arizona; and San Diego, California.

Charlotte. The City of Charlotte has long used contracting out and began its first five-year managed competition program in 1992. Charlotte's rightsizing strategy began with dramatic restructuring and reengineering of the city's delivery of services and then turned to managed competition. With an emphasis on obtaining the best service at the lowest cost regardless of the service provider, the city's competitive re-engineering initiative encourages constant improvement and high levels of citizen and employee involvement. The results of Charlotte's strategy include decreased costs, a stable tax rate, greater employee competitiveness, and ongoing savings of \$12 million per year since 1999.

Indianapolis. Indianapolis's experience with competition began in 1992 and has become a model for those aiming to reinvent government. Under its comprehensive program, the city injected competition into 85 city functions and employs managed competition, outsourcing, management contracts, internal markets, and volunteers. Among the many results of Indianapolis's successful competition strategy are reduced costs, enhanced service, and cumulative savings of over \$450 million.

Philadelphia. The City of Philadelphia introduced competition in 1992 as part of a sweeping financial recovery program. Emphasizing service improvement over who would provide a service and its cost, the city kept five services in-house and contracted out 47 functions. Competitive government strategies helped Philadelphia get back on a firmer fiscal footing, improved citizen satisfaction, and generated over \$150 million in savings by fiscal year 1998.

Phoenix. Phoenix's longstanding pursuit of service enhancement has won it national and international praise as an innovative and skillfully governed city. The city has contracted out for decades and is widely regarded as the trailblazer in its use of managed competition, which it introduced in 1979. Since then, Phoenix's application of this technique to numerous service areas generated savings of over \$34 million as of 1999 and has boosted service quality, employee morale, and citizen satisfaction levels.

San Diego. San Diego employs both outsourcing and managed competition in its competitive re-engineering program, which was begun in 1994. Among the many benefits of the city's shift to more entrepreneurial government are improved labor relations; greater employee productivity, pride, and empowerment; and \$117 million in anticipated cumulative cost savings through fiscal year 2002.

Lessons Learned and Recommendations for Baltimore City

The cities profiled in this report and elsewhere hold valuable lessons for cities like Baltimore that are interested in enhancing government performance. The cities recommended that Baltimore's efforts include:

Clarity of goals and objectives. Clear goals are essential for: 1) decisions about what services the city should continue to offer its citizens (provided by either public or private parties); 2) evaluating alternative approaches to delivery; and 3) mobilizing the city workforce and the public to become partners in the performance enhancement effort. A focus on customers, whether internal to government in the case of support agencies, or the public for most others, pervades the work of successful cities.

Political champion. Every city surveyed and all studies examined identified leadership as an essential ingredient for success.

Finely tuned measurement capabilities. The ability to make accurate measurements of costs and benefits is critical in every stage of a competition program, from the decision about whether to introduce competition to the setting of performance targets and monitoring of

contracts and outcomes. Moreover, reliable, defensible economic analysis is essential for demonstrating that the competitive process is fair. A number of the cities have highly developed systems for calculating the cost of delivering services (activity-based costing). These are useful not only for making sure that public and private bids are made on comparable bases, but also for helping managers and workers see where internal efficiencies can be effected, even if competitive contracting is not part of the picture.

Careful program design. Once the goals are set, the leaders are leading, and measurement capacity is in place, strategic choices must be made about what approaches to take and how to tailor them to different places and situations. Choices include managed competition, outsourcing, reengineering, and employee innovation. Most cities have used a combination of tactics.

Implementation structure. The importance of central management in the process of performance enhancement is often cited in the literature on competition. Many cities have formed government-wide commissions, often with private as well as public members, to set policy, and a centralized staff entity to work with line departments to monitor day-to-day program operations.

Inclusive process and extensive communication. The most frequently mentioned element said to be critical to the success of a performance enhancement program is outreach and continuous communication with all affected parties. Beyond communication, genuine collaboration, both with employees and citizens, has characterized the most effective city initiatives.

Management, legislative, and resource challenges. Program designs must reflect and address a variety of contextual variables or risk foundering on procedural grounds. A city looking to execute competition-based policies can encounter federal, state, and local rules and regulations as well as union contracts and various management structures and procedures.

Support for workforce transition. The impact on the existing workforce is high on every city chief elected official's list of concerns about performance-enhancing initiatives. A number of strategies have been devised to soften competition's impact on city workers. Many cities, for example, offer career planning and training and require private contractors that win public-private competitions to give first preference to displaced city workers.

Continuous monitoring and oversight. Governance cannot be contracted out. No matter what approach is adopted, government's responsibility is to make sure that service delivery is effective. The process begins with developing a strong work statement; without it, evaluation of performance is impossible. Cities have used a combination of methods to ensure contract compliance.

Persistence and flexibility. Openness and willingness to change are essential in a process that by definition is continually reexamining the way in which government does business.

2. INTRODUCTION

“I’d like to see the government get out of war altogether,” wrote Joseph Heller in *Catch-22* (1961), “and leave the whole feud to private industry.” Though few take so extreme a position today, governments at all levels are rethinking the ways they provide services and conduct business. Stereotyped as stagnant and wasteful, many administrations have been prompted to question whether a public monopoly is the best vehicle for serving the public interest. Increasingly in their search, elected officials and public administrators are looking to competition as a beacon in an uncertain political landscape. Though shifting from a bureaucratic to a more entrepreneurial model is no panacea, governments from Boston to Bahrain have found that introducing competition can generate greater efficiency, responsiveness, and innovation in the provision of services.

Prodded by an increasingly demanding public, governments in the 1960s began to rethink the ways they performed, and since then the public sector has arguably been at its most introspective and innovative on the municipal level. In the 1970s and particularly the 1980s, when the federal government withdrew from urban aid, taxpayers revolted, recession-plagued states reduced local assistance, and cities began to experience severe fiscal stress, market-oriented strategies won many adherents. In the 1990s Age of Accountability, both public and private sectors became obsessed with measuring inputs, outputs, and impact in their pursuit of the “better, faster, cheaper” grail. The old management adage, “what gets measured gets done” has been elevated to a mantra. Stimulated by the adoption of ISO 9000 quality standards as one of the requirements of European buyers, U.S. companies have been forced to assess the ways in which all systems and processes in their operations affect the quality of their products. When they began to see the bottom line operating efficiency impacts effected by their new quality-driven focus on measurement, businesses became true believers. The U.S. Department of Commerce, ever mindful of the nation’s companies’ global competitiveness, gives its most eagerly sought honor, the Malcolm Baldrige Award, to organizations in business and government that meet the highest quality standards. Service sector industries, including government, have been slower to see productivity gains than have manufacturers, but techniques are improving and notable successes, such as Federal Express (the first service company to receive the Baldrige award), Nordstrom, and Ritz Carlton Hotels, have inspired imitation.

Performance-based government

The movement that spawned Total Quality Management and all its progeny has taken flight in the public sector as “performance-based government.” The basic premise is that “if you want better management, untie the managers’ hands and let them manage. Hold them accountable for results – not for following silly rules” (Osborne 1998). The new governance approach encourages managers and workers to innovate in order to achieve higher efficiency, in many cases by removing their monopoly on providing services. But while competition may be one of its underlying tenets, the “reinventing government” guru David Osborne includes many tactics in the toolkit: “contracting out, public vs. private competition, performance bonuses, group bonuses, total quality management, customer surveys, business process reengineering, internal markets, ‘one-stop shopping’ and more” (Osborne 1998).

Privatization is not the goal of these efforts. “The issue is not public or private,” according to former Indianapolis Mayor Stephen Goldsmith in an interview for the *New York Times*, “the problem is monopolies. If you bring in a private contractor with a monopoly, you’re not going to be any better off – maybe worse” (Johnson 1995). As Chicago Mayor Richard Daley said at a 1994 big city mayors conference focused on revolutionary urban governance:

One recent development signals a real victory in the effort to make government more competitive. This year, we deprivatized one particular program we first bid out three years ago: maintenance of street sweepers and garbage trucks. Today we can do it cheaper in-house. This sends an important message to city employees who harbor suspicions about privatization. I have not embraced privatization so wholeheartedly that I have forgotten the bottom line – which is better service at lower cost. If city departments can do a job more efficiently than outside firms, they should do it. They’re encouraged to compete for the contract. In and of itself, privatization is not a goal. And it is by no means the only tool to make government more efficient (speech by Mayor Richard Daley, included in proceedings by Reason Public Policy Institute 1994).

Calibrating and recalibrating the public and private sector roles in provision of services to the American citizenry has been underway since the country began. Thomas Jefferson said, “It is better for the public to procure at the common market whatever the market can supply, because there it is by competition kept up in its quality and reduced to its minimum price”¹

Osborne (1996) identifies five basic strategies for moving organizations from the bureaucratic to an entrepreneurial model:

- Core strategy – 1) Strip away functions and missions that do not contribute to the primary purpose of a public organization, by abandoning, devolving, selling, or leasing them; 2) Separate regulatory functions of government from service functions; 3) Create new steering mechanisms, such as the Oregon Progress Board, a representative body that sets long term goals (the Oregon Benchmarks), measures progress, and reports to elected officials and the public on results.
- Consequences strategy – Create consequences for performance, by 1) putting a public enterprise into the market, dependent on its customers (internal within government or external) for revenue; 2) creating managed competition through competitive contracting; or 3) undertaking performance management, in which results are measured (often through performance contracts) and incentives such as performance awards, performance pay, performance-based budgets, and gainsharing are used to reward high performance.
- Customer strategy – Make the organization accountable to its customers, by 1) creating customer choice and allowing funding to follow customers’ choices of preferred service providers; or 2) setting customer service standards and requiring organizations to meet them or provide compensation to the customer.

¹ Cited by Arizona Governor’s Office, Office of Excellence in Government website, www.governor.state.az.us/excellence/competitive_government.htm.

- Control strategy – Push significant decision-making downward through the hierarchy and outwards to the community, which can in some cases take responsibility and solve its own problems.
- Culture strategy – Change the workforce’s habits, hearts, and minds, by changing what people do, “celebrating successes and honoring failures,” building teams, investing in people and their work spaces, and working to ensure that employees are involved in creating mission statements and the systems to achieve them.

Adoption by federal, state, and local governments

Governments around the world are pursuing these new approaches to improving their operating efficiency. A 1999 Economist Intelligence Unit/Andersen Consulting survey of almost 700 officials and civil servants in 12 countries found that nearly 80 percent expect a “significant change” in the ways their organizations are structured to provide services by the year 2010. In the United States, the study found that 69 percent of elected officials and senior civil servants in state and federal governments expected new ways of doing business. The strongest forces propelling change in the United States in 2010 are projected to be: information technology (rated very important or vital by 94 percent of respondents), electronic commerce (86 percent), changing organizational culture (73 percent), productivity pressures (68 percent), increasing citizen expectations and budget constraints (both 66 percent). In 2010, 38 percent of those surveyed in the U.S. expect privatization to play a very important or vital role in delivering services; outsourcing was cited by 47 percent and other partnerships with the private sector by 60 percent. Private sector delivery was judged to be likely or highly likely in health (62 percent) and education (49 percent) functions. The leading motivations for outsourcing included: keeping up with advances in information technology (cited as very important or vital reasons by 58 percent), the difficulty of hiring and retaining in-house personnel with necessary skills (51 percent), increasing service levels (44 percent), reducing head count (41 percent), increasing flexibility (40 percent), reducing costs (38 percent), and increasing productivity (38 percent).

A 1993 study by the Council of State Governments found that state use of contracting out, by far the most prevalent form of privatization, was most frequently used in corrections (92 percent of respondents), administration/general services (92 percent), transportation (84 percent), education (81 percent), social services (71 percent), health (70 percent); 65 percent said they used it in mental health/retardation (cited in GAO 1998).

A survey of towns and counties in New York State completed in 1996 and 1997 by researchers from Cornell University found that half of the responding governments² had implemented some form of local government restructuring during the 1990s. Intermunicipal cooperation was the most common form of innovation (54 percent of the total), followed by privatization (28 percent), reverse privatization³ (7 percent) and public sector entrepreneurship⁴ (6 percent). Restructuring was most prevalent in public works, public safety, and general government support functions (Warner and Hebdon 1998).

² 22 percent of the 932 towns and 57 upstate county governments in New York State.

³ Competitions between public and private service providers.

⁴ Offering services to private sector customers.

A 1998 study by the Illinois Center for Competitive Government of 516 municipalities in the state found that 52.7 percent of the cities contracted for 10 or more services. Commercial solid waste collection (92.6 percent of the respondents), residential solid waste collection (87.7 percent), solid waste disposal (84.5 percent), vehicle towing and storage (76.2 percent) and day care facility operations (53.4 percent) led the list of core functions most frequently outsourced. Support functions most often outsourced were legal services (67.6 percent), food services (45.1 percent) and janitorial services (27.1 percent). The larger the city, the more likely it was to be increasing its use of outside contractors. Nearly three quarters of the cities reported some degree of cost savings (Johnson, Walzer and York 1997).

A 1995 survey of 66 of the largest cities in the U.S. by researchers at West Virginia University updated information collected by the International City/County Management Association (ICMA) in 1982, 1988, and 1992 about privatization activities specifically. The most frequently privatized functions in the cities surveyed were vehicle towing (80 percent of the cities), solid waste collection (50 percent), building security (48 percent), street repair (40 percent) and ambulance services (36 percent). The motivations for privatization were primarily cost reduction and service improvement (Dilger, Moffett, and Struyk 1997, see summary in Chapter 4).

John O’Looney of the University of Georgia’s Human Services and Civil Education Division has found that 80 percent of major U.S. cities outsource vehicle towing, followed by solid waste collection (50 percent), building security (49 percent), street repair (40 percent), ambulance services (36 percent), printing services (35 percent), street lighting/signals (26 percent), drug/alcohol treatment centers (24 percent), employment and training (24 percent); 24 percent outsourced legal services (OutsourcingGovernment.com 1999).

The 1996 annual fiscal survey by the National League of Cities found that 14 percent of the responding cities had pursued privatization by selling assets (Stone, Bell and Poole 1997). The potential for significant privatization through asset sales or leases is huge. The U.S. Senate’s Joint Economic Committee has identified over \$227 billion in state and local government assets that could be privatized, including highways, airports, water companies, and electric facilities (U.S. Senate Joint Economic Committee 1996).

Functions most frequently subjected to competition

The experiences of cities that have used private contractors to help deliver public services, either through privatization, managed public-private competition, or contracting, hold lessons for Baltimore City government as it considers ways of enhancing its operating efficiency. The following sections describe studies and individual city programs in several key areas. The focus is on those functions that today are performed by Baltimore City government and funded by the General Fund.

Paramedic services. A 1995 survey of the 200 largest U.S. cities by the *Journal of Emergency Medical Services* found that in 25 percent of the cities, paramedic services were wholly contracted to the private sector. In 16 percent the city government (usually the fire department) and the private sector were both involved. Often the city is first-responder and

private contractors are responsible for transports. Service in the remainder of the cities was provided solely by the city government. (Privatization.org n.d.). About two dozen cities, including Las Vegas and Fort Wayne, Indiana, have transferred emergency medical services wholly to the private sector, where they are 100 percent user funded (Independence Institute 1999). The City of Fort Worth has also privatized its ambulance services (Civic Federation 1996).

Fleet management and maintenance. Between 1982 and 1992, the use of private contractors for fleet management and vehicle maintenance increased 27 percent (Privatization.org n.d.). Over 50 cities and counties outsource the management and maintenance of vehicle fleets. Average cost savings for contracting out fleet management is 30 to 40 percent (Allegheny Institute 1997).

Information technology. In 1995, 32 percent of all cities outsourced information technology services, an increase of 15 percent since 1987. Cost savings from outsourcing information technology functions typically range from 10 to 20 percent (Privatization.org n.d.). Other benefits include increased flexibility, access to up-to-date technology without major capital outlays, and availability of technical specialists hard to hire and retain in the public sector.

A growing percentage of information technology outsourcing is related to the movement toward e-government, which uses the technology to enhance access to and delivery of a government's services to its constituent "customers." Thanks to the Internet, there is a growing expectation that information and services, including those provided by government, are available to suit the convenience of the customer, 24 hours a day, seven days a week. E-government is an important new performance-enhancing tactic, and like others before it, has corollary operating benefits. Andersen Consulting estimates that every interchange currently conducted in person or by telephone that is replaced by an online transaction saves government between \$40 and \$400 (cited by Goldsmith 2000) and shortens processing times. Other benefits include stimulating resident companies that do business with the city to become e-businesses and thereby increase their competitiveness, helping to bridge the digital divide among the population, and make the city more attractive to potential residents by improving the quality of the relationship of citizens to their government.

KPMG International's 2000 survey of national, regional and city governments worldwide found that 80 percent were providing information electronically through websites and 59 percent of government sites were capable of "basic interactivity" but only 39 percent currently processed even simple transactions online. The National Association of Counties' survey of American counties in April 2000 found that 61 percent of the counties had websites, 48 percent used the sites for information dissemination only, and 8 percent for both transaction processing and information dissemination. Transactions most frequently supported were access to county records (11 percent), procurement (8 percent); seven percent supported on-line bids and proposals (National Association of Counties 2000).

Contracts can be structured in a variety of ways, many of which involve little cash outlay by the public sector: the contractor either receives a standard licensing fee, transaction fees, or a

percentage of the savings the client government realizes (self-funding contracts). Contractors see a huge opportunity in taking governments digital, since only one percent of the \$1 trillion of federal, state, and local transactions each year are now conducted on line (Birnbaum 2000). The GartnerGroup, a leading information technology consulting and market information firm, estimates that spending on e-government hardware, software, internal labor, and external services will grow from \$1.5 billion in 2000 to more than \$6.2 billion by 2005 (cited in *Washington Technology* June 2000).

Recreation and parks. Between 1987 and 1995, 10 percent more cities contracted out park maintenance; by 1995, 33 percent of cities, including New York City (Civic Federation 1996) outsourced the function, sometimes to nonprofit organizations. Cost savings ranged from 10 to 28 percent. Cost savings from outsourcing recreation facilities operation and management ranged from 19 to 52 percent (Privatization.org n.d.)

Solid waste. More than 50 percent of U.S. cities of all sizes, including Ft. Worth and Norfolk (Civic Federation 1996), contract with the private sector for all or part of their solid waste collection services (Scarlett and Sloan 1994). The *Wall Street Journal* estimates that outsourcing grew from 30 percent of cities in 1987 to 50 percent in 1995. A study for the Allegheny Institute by Kengor and Haulk found that among the 50 percent of municipal governments in the U.S. that contracted for trash collection, savings averaged 30 to 60 percent (1996). In 1995, Cleveland's managed competition of downtown waste collection resulted in an award to city employees who were able to save \$700,000 by improving labor/management communication and reorganization (Civic Federation 1996).

Private sector involvement in trash collection can take at least six different forms:

- Single district, winner take all competitive contracting
- Multi-district competitive contracting
- Noncompetitive negotiated contracting
- "Free for all" competition
- Nonexclusive franchising
- Competitive exclusive franchising

Two thirds of materials recovery facilities were privately owned in 1997, an increase from 50 percent four years earlier. The National Solid Wastes Management Association (now the Environmental Industries Association) has estimated that more than half of waste disposal capacity is privately owned and operated. A 1984 study of 20 California cities found privatization cost savings of 28 to 42 percent (Scarlett and Sloan 1994).

General services and support services. In Chicago, \$3.6 million was saved between 1990 and 1994 by privatizing custodial services and \$886,000 between 1992 and 1995 on police photocopying and facilities management. Savings of \$6.2 million between 1989 and 1995 on abandoned vehicle towing were realized through a public-private partnership that also shared scrap sales revenues with the city. A private vendor-designed parking enforcement computer system has increased parking ticket revenues from \$25 million in 1990 to \$65 million in 1994 and enhanced compliance. Norfolk, Virginia contracts out janitorial services, grounds

maintenance, security guards and electrical repairs. New York City contracts out facility maintenance at schools and firehouses, laboratory services, and print shop services (Civic Federation 1996). The first Cleveland Competes initiative, which contracted out payroll and time and attendance services, saved the city \$603,000 in 1994 in deferral of computer costs and annual savings estimated at \$195,000 (Clark 1995).

Other performance-enhancing initiatives

The Civic Federation, a 100-year old citizens' good-government organization, looked at big city efforts to improve productivity and innovation in 1996 and grouped them into four categories. In addition to competitive contracting and outsourcing, they included restructuring and employee innovation. Restructuring is defined as "a complete top-to-bottom overhaul of city government. Instead of asking the question, 'Are we doing things right?' restructurers ask, 'Are we doing the right thing?'" (p. vi) The efforts, often referred to as reengineering, are typically long-term, bold, and are aimed at improvements in quality and flexibility rather than short-term cost savings. Employee innovation encourages and empowers employees to innovate, reinventing their work processes to improve efficiency and customer satisfaction.

Some of the restructuring and employee innovation examples the Federation cites include:

Restructuring. The City of Chicago saved \$3.6 million in 1995 by shifting responsibility for laboratory services to the Illinois Department of Public Health. Many other cities have had success convincing the counties within which they are located to assume functions, but this is clearly not an option for Baltimore City. Fort Worth reduced staff requirements by 25 by consolidating engineering divisions within several departments.

In New York City's Agency Partnership Program, corporate partners donate time and expertise to help departments tackle productivity challenges. For example, Chemical Bank worked with the Department of Buildings to improve customer service. The agency established a one-stop shop that reduced the construction permitting approval process, which formerly required six months and visits to at least four different agencies, to three or four weeks. Xerox's partnership with the Department of Health produced a drop in the length of time required to obtain a birth or death certificate from 14 weeks to one week, and further improvements are expected to reduce the period to 24 hours. The United Parcel Service helped the inventory divisions of several bureaus to reduce delivery time from over eight weeks to under two days for small items and from 16 weeks to two for larger ones.

Beginning in 1995, the City of Austin, Texas has been evaluating every city program every five years to ask whether the city should be delivering the service and whether it is doing so in the most efficient way.

Employee innovation. Louisville's CityWork program calls on teams of employees (sometimes expanded into town meetings) to work with a facilitator to brainstorm ideas for improving efficiency and quality. In response to ideas generated at the first CityWork session at the Fleet Management Garage, employees were assigned the same vehicles whenever they came

in for repair. A total of \$410,000 was saved and work orders were reduced by 60 percent. Similarly the Law Department saved \$97,440 annually by changing its assignment process. In FY94-95, innovations in Scottsdale suggested by individuals in its 1600-member workforce saved \$1.4 million and generated \$1.3 million in revenue. Innovations included: a new boring tool to enable traffic signal cable-laying without tearing up the street, creation of a new print and design shop, purchasing prescription drugs directly from manufacturers, renegotiating the city's contract with its health insurer, and phone-in registration for recreation programs.

Ideas surfaced through the Seattle Works program have resulted in: 1) greater citizen participation in decisionmaking, including those about competitive contracting and outsourcing; 2) saving \$6,000-\$7,000 monthly by taking advantage of vendor discounts for paying bills early, and 3) saving \$100,000 annually in travel expenses by consolidating travel bookings and taking advantage of bulk discounts.

Previous Baltimore studies and experience

In Baltimore, during the previous administration, the recent mayoral campaign and since, a variety of suggestions have been made and initiatives undertaken aimed at enhancing the operating efficiency of city government, most of them in response to the city's projected budget deficits.

Millennium Group. The Baltimore City Government Millennium Group was established by Mayor Kurt Schmoke in July, 1998 to "coordinate and accelerate current [better government] initiatives, and to find new ways to deliver more efficient, more cost effective, and higher-quality services (Report of the Baltimore City Government Millennium Group 1999). Five areas were examined using a competitive reengineering approach: personnel operations, workers' compensation, building maintenance, fleet management, and solid waste collection. The group recommended a number of measures that fall into Osborne's five strategies:

- Consequences – Increase city managers' accountability for risk management costs associated with workers' compensation claims; on a pilot basis, contract for maintenance and custodial services at one building to provide a benchmark for judging the competitiveness of city operations
- Customer orientation – Increase use by the Personnel Department of management discretion allowed by the City Charter to support its client agencies' objectives; develop performance-based service agreements with tenants of city-managed buildings
- Control – Give fleet management full responsibility for life cycle management of the city's vehicles, not just maintenance
- Core – Create a new entity to oversee a competitive reengineering program in city government

Privatization, state assumption (restructuring), performance measurement. Over the last decade, Baltimore City has privatized or outsourced a number of its enterprise-type functions, including golf courses, arena management, and public market management. No significant city agencies have been eliminated, but over 30 years, the city has supported the the

State of Maryland's assumption of responsibility for formerly local criminal justice and income-redistributive functions such as district courts (1971), public defenders (1972), local probation (1973), Medicaid local contribution (1975), public assistance and social services local contribution (1975), local circuit breaker property tax credits (1976), food stamp administration (1980) and pre-trial release (1986). More recently, the state has assumed functions for Baltimore City alone: Baltimore City Community College (1991), Baltimore City Jail (1992), and central booking (1995).

Within the last five years, the city has instituted a Program Performance Measurement Project, designed to assist agencies in re-engineering work for improved performance. Plans are underway for linking the performance measurement program with budgeting. An experiment in contracting out education to a private entity ended in failure. When the Department of Public Works was directed by the Mayor to issue a request for proposals (RFP) for collecting solid waste from 10,000 households in three sections of the city on a pilot basis, only one extraordinarily high bid was received and the pilot was abandoned. The process of developing the RFP, however, focused attention on operating characteristics of the current trash collection and disposal program, many of which had not been modified for decades.

Mayor Martin O'Malley has also initiated programs to regularly measure and display geographically the delivery of a wide variety of public services, beginning with public safety (ComStat) and later expanded throughout city government (CityStat). These techniques are expected to improve managers' understanding of the problem they are being asked to solve, whether it is drug corners or alley litter or lead paint poisoning, and thereby sharpen tactics to improve service delivery, and at the same time enhance accountability.

GBC/Presidents' Roundtable report. More recently, at the request of Mayor O'Malley, the Greater Baltimore Committee (GBC) and the Presidents' Roundtable assembled committees of business executives who spent six months examining five key city agencies.⁵ On July 25, 2000, they made 250 recommendations for improving the performance of Baltimore City government. While competitive governance initiatives did not constitute a major element of the report, a number of the suggestions sounded performance-based government themes:⁶

Core strategies

- Expand the scope and significance of the city's Program Performance Measurement Project...Issue an easy to understand Quarterly Performance Review Report that summarizes the city's progress in implementing its financial and management goals (VII-3)
- Create an Office of Management Incentives (VII-4)

Consequences strategies

- Develop a program making the city's top managers eligible for annual bonuses based on performance (VII-3)
- Create a formal incentive program that rewards City employees for suggesting improvement projects that prove to be beneficial (VII-4)

⁵ Fire, health, housing and community development, public works, and recreation and parks.

⁶ Numbers in parentheses refer to sections and pages of the report.

- Develop a comprehensive service performance measurement program for all facets of departmental operations (II-9, IV-7, VI-7, VIII-5)
- Set and clearly articulate service goals for every departmental division and develop a set of regularly reported service measures to track the department's performance in meeting its goals (II-9, III-10, IV-11, VI-7)
- Tie compensation and regular performance evaluations to objective performance standards established for each inspector. Identify a workable bonus system (IV-13)
- Develop financial incentives for recreation centers to increase citizen participation and encourage fundraising efforts (VI-7)

Competition strategies

- Privatize Housing Authority of Baltimore City (HABC) property management services (IV-8)
- Privatize the management of all scattered sites and prepare a comprehensive capital plan, which could include the eventual disposition of more than 1,000 units (IV-8)
- Privatize the Section 8 program or overhaul the program's management strategy (IV-15)
- Privatize or transfer resident services programs (IV-16)
- Privatize the Department of Housing and Community Development's (HCD) day care programs (IV-16)
- Use competition and outsourcing as a catalyst to encourage city managers and workers to enhance productivity and improve efficiency (V-8, VII-4)
- Use managed competition to select:
 - ◆ Operator of the Northwest Transfer Station
 - ◆ Providers of custodial services in city facilities
 - ◆ Providers of security services at city-controlled watersheds
 - ◆ Providers of tree trimming and turf maintenance services
 - ◆ Providers of rat eradication and animal carcass removal services
 - ◆ Provider of laboratory services for the Bureau of Water and Wastewater in the Department of Public Works (DPW)
- Competitively award concession and pouring rights at the Department of Recreation and Parks' (DR&P) special facilities (VI-6)
- Reengineer the City's contracting process to...increase departmental and service provider accountability (VII-5)
- Make better use of outcome-based contracts (III-6)
- To increase the performance and competitiveness of contractors, rebid the cleaning and boarding contract after re-writing the RFP to emphasize performance (IV-11)
- Examine further the potential benefits of contracting for the management of the city's water and wastewater utilities (V-8)

Customer strategies

- Institute formal service agreements between interdependent city departments that articulate specific intergovernmental service expectations and standards (VII-4)

Control strategies

- Create a standing committee composed of key City decision makers to establish formal guidelines by which opportunities for managed competition will be evaluated, to identify municipal services that could benefit from managed competition, and to oversee the managed competition process from the development of requests for proposals through proposal evaluation, contract negotiations, and performance monitoring (VII-4)
- Utilize create approaches to budgetary management and project funding to increase financial flexibility (VII-3)
- Revise long-standing bureaucratic practices and processes that have inhibited management and operational improvements (VII-5)
- Make the [Health] Department the subject of a 12-24 month “demonstration project” where its executive leadership would be given increased autonomy in critical administrative areas such as personnel and procurement (III-7)
- Provide department and agency leaders “directors’ checkbooks” to make limited, small discretionary merit-based awards to exemplary city employees (VII-4) *Also a consequences strategy*
- Actively engage the public in the process of improving Baltimore’s municipal government...Enlist neighborhood leaders to serve as volunteer “block captains” to coordinate interactions between the municipal government and neighborhoods (VII-6)
- Transfer HABC police to Baltimore City Police Department and develop community policing programs at targeted properties (IV-9)
- Update the city’s outdated labor contracts to reflect modern-day organizational and operational realities (VII-5)
- Contract Community Service Block Grant funds (for human service delivery) to existing nonprofit organizations throughout the city that are helping low-income residents reach self-sufficiency (IV-9) *Also a competition strategy*

Culture strategies

- Create a renewable intergovernmental venture fund as an independent source of funding for qualified public sector initiatives (VII-3)
- Infuse the city’s workforce with new talent and opportunities for professional development (VII-5)
(Greater Baltimore Committee and Presidents’ Roundtable 2000)

Scope of this study

As the Administration sorts through the recommendations of the GBC and the Presidents’ Roundtable, the experience of other cities may prove illuminating. The following report describes the ways five cities have developed and implemented various competitive government strategies, based on telephone interviews with key managers in each place and on third party descriptions of their initiatives. An overview matrix summarizing over 400 initiatives is included in the Appendix. The case studies are followed by summaries of independent analyses of the results of competitive governance strategies. The report concludes with lessons learned from other places about the considerations and methods Baltimore City might use to determine 1) whether introducing competition into city agencies will be successful, 2) what services are the

best targets, and 3) the necessary conditions for maximizing the possibility of success. A glossary and bibliography are also included.

The study focuses on those functions that the City of Baltimore performs today, and gives particular attention to those services that are supported by the General Fund. Striking examples of savings or performance enhancement in areas that are no longer performed by Baltimore City or are structured as self-funded enterprises are highlighted for illustrative purposes.

3. CASE STUDIES

Several cities mentioned frequently in studies of high performance governments were selected for profiling. Officials knowledgeable about the process used and the results achieved were interviewed by telephone. Efforts were made to interview individuals who had been involved in the initiation of the program in order to gain as much insight about the issues that surrounded its introduction as possible. Secondary sources were used to supplement the information gathered in the interviews. Discussion centered on those functions that are provided by Baltimore City and supported by the General Fund, but other activities were included to provide a more complete picture of the cities' experiences.

Charlotte

Population: (1990) 419,558; (1998) 504,637
Change in population 1990-98: +20.3%

(NOTE: All information in this survey report was obtained from officials in the City of Charlotte except where otherwise noted.)

The City of Charlotte embarked on a path toward more competitive and cost-effective government in the early 1990s. With its focus on obtaining the best service at the lowest cost regardless of the service provider, the city's competitive re-engineering initiative encourages high levels of citizen and employee involvement and continuous improvement. Decreased costs, a more business-like culture in government, and a stable tax rate have resulted from this city's innovative and effective competitive governance program.

Program Specifics

Charlotte employs many tactics in its performance-enhancement program. The city has extensively used restructuring and employee innovation to achieve productivity. First, the city conducted a government-wide effort to inventory services, identify their direct and indirect costs, determine which were core functions of government, and measure how effectively each was being delivered. Employee teams produced ideas about new organizational models and cost cutting (Civic Federation 1996).

The City Manager merged 24 departments into nine key businesses, the city's core functions⁷, and four support businesses.⁸ Five departments that provided some form of neighborhood service, for example, were combined into one key business called "neighborhood services." Department director positions were eliminated and replaced by "Key Business Executives," who have been given considerable management latitude (Eggers 1994). Charlotte has also aggressively flattened the management structure of its agencies. Large agencies are

⁷ Aviation, fire, neighborhood development, planning, police, engineering and property management, solid waste services, transportation, utilities

⁸ Budget and evaluation, business support services, finance, and human resources.

allowed five layers of management, and small agencies only two. The city invested in new technology to streamline clerical and administrative support functions and to improve communication and customer service (Civic Federation 1996).

While contracting out has long been a service delivery option for the city, its managed competition program (which also encourages contracting out) was officially instituted on October 25, 1992. In its first five-year program, Charlotte injected competition into several service areas such as transportation, neighborhood development, and solid waste. Initially, some “core” city services were considered but not subjected to competition, such as uniformed police and fire services and strictly regulatory departmental functions (i.e. planning and permitting). For tables detailing the functions selected for competition in both the FY95-FY99 and FY01-05 five-year plans, please see the Case Studies Appendix.

The criteria Charlotte uses in qualifying potential contractors depend on the size and nature of the contract and/or service. A prequalification process is included as part of the request for proposal (RFP) submittal process for some functions but is conducted separately for larger contracts. In evaluating competing proposals and selecting a winner, the city typically selects the lowest cost qualified bidder, though it also weighs employee impact costs, transition costs, contract administration and monitoring costs, and capital costs in its decision.

Contract development is conducted by the city RFP development team, which consists of private sector potential bidders, members from the contracting, procurement, contracts administration, legal, and human resources departments, and occasionally an outside consultant. For contracts over \$500,000 per year, the RFP development team manages contract development along with the members of the privatization/competition advisory committee. For a comprehensive, step-by-step account of Charlotte's competitive process, please refer to "City of Charlotte Privatization/Competition Advisory Committee Guidelines for Services Contracting" in the Case Studies Appendix.

Planning History

In response to fiscal stress brought on by suburbanization and citizen resistance to new taxes in the early 1990s, the City of Charlotte began encouraging both public agencies and private sector contractors to restructure and rethink the ways they do business. Its comprehensive “rightsizing” campaign was guided by eight principles:

- Customer focus
- Decentralized
- Competitive with private services
- Many decisions made by self-managed work teams
- Quick response to innovation and technology, new programs, or changes in service delivery
- Results-oriented and innovative problem-solver
- Flexibility in dealing with citizens
- More emphasis on leadership than supervision

(Civic Federation 1996)

In 1992, Mayor Richard Vinroot formed three citizen task forces: city organizational structure, employee compensation plans, and privatization of services and assets. Immediate action was taken on the restructuring recommendations of the first task force.

After exploring city functions and best practices for a year, the privatization task force recommended to the city council that Charlotte introduce public-private competition into service provision (City of Charlotte 2000). The factors that influenced the decision to introduce competition were said to be campaign platform/promises, fiscal stress, rising costs, the city council's "no tax increase" policy, additional unfunded needs in public safety, and the public perception that the city should "operate like a business." All of the factors above were judged to be equally important. The overriding goals of the city's competitive re-engineering model were 1) to save money by improving the efficiency of service delivery and 2) obtain the best service at lowest cost regardless of service provider. Charlotte received some initial advice from Indianapolis, Phoenix, and the Reason Foundation, and the lessons it applied while shaping its own competition policy were that a city should: 1) outline the steps of its process, 2) encourage citizen involvement, 3) utilize activity-based costing, cost allocation, and internal audits, and 4) hire consultants.

Charlotte has introduced competition into several service areas under its five-year plans, tables of which can be found in the Case Studies Appendix. The city is consolidating with Mecklenburg County.

Environment and Influences

The biggest obstacles to Charlotte's competition plans were financial constraints/concerns and governmental/departmental fear of the unknown (i.e. the prospect of downsizing due to privatization, etc.). These obstacles were said to have been overcome through 1) the development of an activity-based costing approach approved by consultants and the citizen's advisory committee and 2) the city's plan of setting and reaching small goals. Some citizens and public employees opposed the city's competition policy; the latter's misgivings were most evident in the beginning. The response of public employees during both the planning and implementation phases of Charlotte's competition strategy was mixed (both positive and negative). Some strategies used by the city to include public employees in development and implementation processes were to:

- include employees in every project from the beginning
- devise a five-year plan that gave employees time to prepare for competition
- instruct employees on how to become more competitive
- offer stress training
- initiate employee gainsharing (profitsharing) strategies
- foster dialogue for sharing lessons learned
- allow employee representatives on project RFP and bid teams
- form inter-departmental "swat teams"
- calculate and share costs with employees, and
- involve the human resources department early in the process.

Employees displaced by competition and transferred to other city departments at lower job classifications did not see pay reductions for the first year (Eggers 1994). An early “no layoffs” policy was terminated in 1995.

The city and public employees collaborated during the development and execution stages of the competition plans: vehicle maintenance and solid waste worked together to cut cost for the residential collection competition; non-competing service departments held positions open for potentially displaced employees; and there was some employee support for departments cutting positions and overhead costs.

The response of the citizenry during the planning and implementation stages of the city's competition program was positive. As part of its successful strategies for including the public in both the planning and execution phases, the city allowed citizens to:

- review and suggest items for/in five-year competition plans
- sit on bid evaluation teams
- recommend award of contracts
- assist on RFQ and RFP development, and
- monitor city-awarded contracts.

The city also included the public in the development of services competition and asset management policies, and established the citizen's privatization/competition advisory committee. After a somewhat shaky start in 1993, this mayor/council-appointed body remains critical to the success of Charlotte's competition program. For more information on the Privatization/Competition Advisory Committee, please see the Case Studies Appendix.

In contrast to Charlotte's relations with its employees and the public, the media were reported to have had little or no response to the city's competition program. Interestingly, Charlotte's experience with competition is without mention of organized labor because North Carolina is an “employment-at-will” state that does not recognize unions.

The relationship of the city with the private sector during the formation and the implementation of the city's competition plans was characterized as positive (generally friendly). Two of the successful strategies employed to include the private sector in planning and execution phase processes were to allow some of its members to review and comment on draft RFPs and also to participate in the citizen's advisory committee. In addition, Charlotte provides full cost disclosure upon request to private sector companies after bid openings, makes all historical budget and costs available at any time during the competitive process, and follows up with prospective bidders who chose not to submit a bid.

City government-public employee-corporate relations today are characterized as positive (generally friendly), as the program gets high marks from employees, management, citizen's committees, the city council, private sector companies, and citizens. Also, a new public employee-management framework has emerged as a result of the city's competition program. In

this new environment, employees understand that they must remain competitive, the city is now more receptive to employee ideas and suggestions, and both sides realize that they must work together to be successful.

Finally, the introduction of competition-based initiatives is not believed to have affected the city's connections to the federal and state governments, though one state policy that was cited as beneficial to the city's pursuit of more competitive government was that North Carolina is an "employment-at-will" state.

Results and Lessons Learned

The results of "rightsizing" announced in 1993 included:

- Reduction of 272 city positions with no layoffs, producing \$5.1 million in savings
- Employee-generated innovations that resulted in \$2.8 million in savings
- Reductions of layers of management in all departments
- Create of employee teams to improve service even with a smaller workforce
- Creation of a Customer Service Center
- Prioritization of city services
- Streamlining of city organizational structure
- Training for all employees, enabling them to acquire new skills and effectively manage change
- Investment in new technology to increase administrative efficiency

(Civic Federation 1996)

As of 1996, Charlotte had found that the savings that resulted from restructuring (\$4.9 million, 242 positions) surpassed those realized through managed competition (\$1.4 million, 79 positions). The largest single reengineering cost reduction resulted from the move to automated trash collection, which saved \$2.9 million. The city outsourced 25 percent of its garbage collection first to gain experience dealing with contractors on such a large multi-year contract. The city considered contracting out its wastewater management or selling its systems, but public managers were able to reduce costs by \$400,000 with advice from the private sector, and the service was kept in-house (Civic Federation 1996).

The greatest benefits reaped from the introduction of competition in city services were decreased costs, increased employee competitiveness, a 20 percent reduction in number of overhead department employees, and a tax rate that has been stable for 12 years. Charlotte had fewer General Fund employees in 1994 than it had in 1970 (Eggers 1994), despite significant population growth. City employees have won 47 of 56 competitions (84%) with private vendors, and a more business-like culture is said to have emerged among city employees (City of Charlotte 2000). Also, savings reoccur annually under Charlotte's model, and since 1999 the city has realized ongoing savings of \$12 million per year.

The primary disadvantage of competitive re-engineering was reportedly the contentious issue of costing and the fact that it is an often political, intense and time-consuming process. For employees displaced because of competition, Charlotte has established employee-transition strategies, which were characterized as very effective. The vast majority of displaced employees

have been successfully placed within the city, though sixteen out of 5,100 total employees (0.3%) have been laid off under Charlotte's competition plan. Most in this group, however, had been offered a job within the city government yet chose to leave. For a comprehensive look at the city's employee-transition processes, please see "City of Charlotte Employee Placement Policy" in the Case Studies Appendix.

The city's competition strategies have changed from their early phases to the present day, primarily in the growth in size and extent of services to which the city applies competition. The city's program is believed to have continually spurred innovation without hitting a plateau. One explanation offered for this continuous innovation is the gainsharing program, in which employees share 50 percent of contract savings below their bid for the work.

A view of the public as customers is widely held in the city, a philosophy that was prevalent before the competitive re-engineering program but which has been reinforced by its introduction in the early 1990s. City efficiency and service quality have changed, evidenced by heightened employee pride and a greater awareness of costs; employees are more involved in equipment selection, costing, and suggestions relating to cost and service; and there has been no service or quality erosion. Among city employees and officials today, there is a general sense that the city government still controls the delivery of services through strong contract oversight. Charlotte maintains this control but tells bidders what it wants rather than how to do it, enabling the providers to remain creative in their approach to service delivery.

Respondents in each of the cities surveyed were asked to identify the extra-governmental forces (i.e. geography, U.S. economy, etc.) and intra-governmental forces that are essential to the success of city-level performance enhancement strategies. The critical extra-governmental factor cited in Charlotte was locating private sector companies that desire to compete with employees for the delivery of specific services. The important intra-governmental forces identified were:

- top-to-bottom commitment to the program
- citizen involvement and support
- written policies and procedures
- full employee participation
- having a plan, not a program
- consistent and committed leadership (cited as essential)
- willingness to change
- communication with employees.

The necessary conditions for a successful competition program cited by Charlotte officials were:

- openness
- a willingness to change
- employee incentives
- active private sector competition
- communication
- citizen involvement and

- having a long-term plan (five years or longer).

For the advice or lessons learned Charlotte would offer to an administration seeking to implement competitive government strategies, please consult the Case Studies Appendix. They include:

- There is no cookie cutter approach.
- Experimenting is okay.
- Citizens must be involved as problem solvers.
- Know your competition.
- Know your customers' expectations.
- Involve employees early.
- Involve Human Resources early.
- You CAN do more with less.
- RFPs can be tricky.
- Know your costs.

Indianapolis

Population: (1990) 731,278; (1998) 741,304
Change in population 1990-98: +1.37%

(NOTE: All information in this survey report was obtained from past or present officials in the City of Indianapolis except where otherwise noted.)

Described as "the jewel in the crown of urban Republicanism" by one commentator, competition has been used very successfully by the City of Indianapolis (Lavery 1999). Begun in 1992, the city's competitive re-engineering program has saved over \$450 million and made Indianapolis a model for those aiming to reinvent government.

Program Specifics

Indianapolis selected 85 functions for competition, ranging from street maintenance to airport management to audio-visual/microfilm services. Under its program, the city introduced to the provision of services the techniques of contracting out, public-private competition, management contracts, internal markets, and volunteers. In the area of policy implementation, the city focuses on experience, service quality, and cost when qualifying potential contractors. Service quality and cost guide the city as it evaluates proposals and selects a winner. Contract development is a results-focused process, and contract development, administration, and the monitoring of service delivery are the responsibility of a separate competitive government agency. For a step-by-step account of the competitive process in Indianapolis, see the Case Studies Appendix [GAO p. 36 chart].

Planning History

When Stephen Goldsmith became mayor of Indianapolis in 1992 he inherited a \$20 million deficit (GAO 1997). Though his campaign promised sweeping privatization of city services, Mayor Goldsmith soon came to view a competitive environment lacking monopolies as the most desirable for the city (Kim 1998). For example, after a month in office in 1992 he formed the Service, Efficiency, and Lower Taxes for Indianapolis Commission (SELTIC) to reduce government waste. The same year, Goldsmith introduced an activity-based cost (ABC) system designed by the consulting firm KPMG, and in 1994 he implemented "popular budgets," which fused ABC analyses with performance measurement (Lavery 1999).

The factors that influenced the initial decision to introduce competition were public opinion about cost, public opinion concerning the quality of services, campaign platform/promises, and fiscal stress, each equally influential. The overriding goals of the city's competitive re-engineering efforts were: 1) to save money by improving the efficiency of service delivery and 2) to improve the quality of services. The lessons Indianapolis learned from others and applied when shaping its own competition policy were that a city must agree on goals, move quickly, be fair, and focus on results rather than the process.

Environment and Influences

The biggest obstacles to Indianapolis's competition initiatives were financial constraints/concerns, bureaucracy, apathy, and governmental/departmental fear of the unknown. These obstacles were overcome through leadership. Public employees and unions opposed the city's competition plans and their implementation. The citizenry, interest groups, and business/corporations resisted somewhat and the city council offered opposition in the initial stages.

The response of public employees/unions/union-management teams during both the planning and implementation phases of the city's competition strategy was characterized as negative at first and then positive as the program developed. Their initial fears were replaced by a sense of empowerment. Successful strategies for including public employees/unions/union-management teams in development and implementation processes included employee-led teams, incentives, and team building and employee empowerment initiatives. An interesting example of collaboration between the city and public employees/unions/union-management teams was that the latter actively outsourced portions of the work in services for which they submitted bids.

Similar to the reaction from unions and public employees, the response of the citizenry during the planning and the implementation stages of Indianapolis's competition program was said to be negative initially but positive as the program matured. Establishing communication and tying results to the priorities of the public were strategies used by the city to include citizens in both the planning and execution phases. The response of the media was positive when competitive governance worked well and negative when it did not.

Regarding the private sector, the city largely embraced its members in planning and execution phase processes, as is evident in its use of an assertive private sector group to promote the competition program. The relationship between the private and public sectors, however, was characterized as mixed (both negative and positive) during the formation and the implementation

of the city's competition strategy. City government-labor-corporate relations today were characterized as excellent, though, and a new labor-management framework is said to have emerged as a result of the city's competition program.

The introduction of competition-based initiatives was not felt to have affected the city's connections to the federal and state governments, though one federal policy identified as detrimental to the city's pursuit of more competitive government is that federal transit funding rules preclude transit reform.

Results and Lessons Learned

Results. The greatest benefits reaped from the introduction of competition in city services were reduced costs, enhanced service, a safer workplace, fewer employee grievances, and higher-paid and better-trained employees. Since the introduction of competitive strategies in 1992, the city balanced the budget in three years and has saved over \$450 million (Lavery 1999). The *New York Times* reported that in the first three years of his administration, Mayor Goldsmith cut \$100 million from the budget, reduced the number of city employees by 25 percent without any union layoffs, won wage concessions, and increased productivity (Johnson 1995). On the first 64 bids, public employees won 16 and shared 13 others with private contractors. When public employee groups have chosen to bid, savings have averaged 25 percent (Osborne 1998).

The union won the competitive bidding of fleet management with cost savings estimated at \$4.2 million between 1995 and 1997, a 21 percent savings (U.S. General Accounting Office 1997). Service quality has improved to the point where customers from outside city government have been attracted. Job losses were almost exclusively among middle management (Allegheny Institute 1997). The contract contains a gainsharing provision which allowed workers to share 25 percent of the savings they generated, which in 1997 amounted to \$75,659 (Osborne 1998). There were fewer labor grievances in the first year of the contract than in the previous year, and the cost of workers' compensation claims between 1995 and 1997 decreased by two thirds compared to the last year (1994) of city management of the service (U.S. General Accounting Office 1997).

One of the first services to undergo managed competition, street maintenance cost reduction has been estimated at \$700,000 between 1992 and 1997, a 30 percent savings. Chuckhole crew daily productivity increased by 68 percent, and the annual average lane miles repaired (cracks sealed) improved 200 percent compared to the 1993 baseline (U.S. General Accounting Office 1997).

In 1995, after more than a year of study, Indianapolis contracted out its city/county information systems for a seven-year period, with options for three one-year extensions. Expected savings were \$26 million over the seven-year contract term. The private contractor is providing network management, LAN/Desktop/Server management, disaster recovery and security, help desk management, education and training, management of the Information Services Agency data center, and technology contracting for city and county frameworks. The city created a new CIO (chief information officer) position to manage the contract, and kept a core staff to do strategic planning (Humphrey n.d.).

In 1990, with the city's blessing, a neighborhood group took control of their drug-infested local park. They raised \$300,000 in private donations for a security guard, new equipment, and better maintenance (Privatization.org n.d.).

The public operator won the contract for 70 percent of the bus system in Indianapolis, and reduced hourly costs by 22 percent between 1994 and 1996. Service levels have been increased by 38.4 percent while total inflation-adjusted operating costs have increased only 8.5 percent (Cox 2000). Contracting out abandoned vehicle collection saved the city \$174,000 a year over the three year contract and provided guaranteed revenues of \$500,000 over three years, and up to \$400,000 more if projections of sales of abandoned vehicles remains high (Civic Federation 1996).

The city issued an RFP in 1993 for curbside trash collection services. Of the existing 11 districts, one was kept in-house in order to maintain some public sector capacity. The City Department of Public Works (DPW) was allowed to bid on the remaining 10 contracts, but in any case, winning contractors were required to give preference in hiring to former city workers. Bids were accepted for three-to-five year contracts and no single contractor could be awarded more than three districts. Performance bonds were not required because state law did not require them on contracts under \$300,000. Five entities (including DPW) were assigned to serve the districts. DPW exceeded its own first year savings target of \$3 million by \$2.1 million. Each city trash hauler and administrative staff member received a \$1,750 share of the additional savings as a result of the contract's service bonus provisions. In addition to performance bonuses, the city's contract contained performance targets and a stringent schedule of liquidated damages for breaches, such as failure to collect refuse on time or complaints beyond the contract limit. Major public communications campaigns were mounted to inform residents about the change (Privatization.org n.d.). Savings from trash collection finance leaf pick-up (Civic Federation 1996).

Indianapolis Solid Waste Services and Facilities	Service Provider A = agency C = contractor
Source reduction/recycling outreach	A
Drop-off recycling	A and C
Curbside recycling	A and C
Leaf composting	A
Household hazardous waste	A and C
Bulky item collection	A
Residential trash collection	A and C*
Institutional trash	A
Emergency disposal response	A
Other solid waste management services	A
Waste-to-energy facilities	C
Transfer stations	A and C
Landfills	C

(U.S. Environmental Protection Agency 1998)

*added based on information from other sources

Mayor Goldsmith first attempted to sell the water/wastewater plants to a private entity, but found that the Internal Revenue Service code governing facilities that were local bond and federally funded could not be sold (Reason Foundation 1994). The decision to outsource was made, and the competition was very controversial, opposed by the union and plant managers. A partnership between the company that already had the contract for supplying the city's drinking water and a large French waste water treatment firm won the bid, offering a 29.5 percent savings over five years. In its first three years, the partnership has outperformed the previous all-public management. Union members were either hired by the contractor, placed in another city job, or retrained and placed in a private sector job. The union head now says that the majority of former city workers, for whom the city required to the company to recognize the union as their bargaining unit, would not want to come back to city service (Osborne 1998). Savings have been applied to long-overdue maintenance work on the sewer infrastructure of the city (Civic Federation 1996).

The greatest disadvantage resulting from injecting competition was reported to be anxiety, although overall public employees/unions/union-management teams have won 70 percent of 100 contracts. While the total number of non-public safety staff has dropped by 50 percent, no employees have been laid off under the competition program. Affected employees were trained and redeployed by the city. Indianapolis has established employee-transition strategies (including cross-training, retraining, etc.) that are characterized as effective.

Change over time. Indianapolis's competition program has not spurred continuous innovation, and the city has sought to rejuvenate and revive city departments using incentives and other tools. Among city employees and officials today, there is a general sense that the city government still controls the delivery of services through strong contract oversight. This control, in fact, is said to have increased under managed competition. There is also a view of the public as customers that is more widely held today than in the past. The political repercussions of competitive government initiatives are said to have been almost entirely positive as the program advanced.

Advice for other cities. In discussing their city's competition program, respondents in each of the cities surveyed were asked to identify the extra-governmental forces (i.e. geography, U.S. economy, etc.) and intra-governmental forces that are essential to the success of city-level performance-enhancement strategies. The extra-governmental force cited was crisis, and an intra-governmental force mentioned was leadership, which was judged to be essential.

Indianapolis officials advise an administration seeking to implement performance enhancement to:

- Set the vision
- Seek assistance from outside parties
- Treat employees fairly
- Reach out to and communicate continuously with public employees, public interest groups, citizens, and potential bidders throughout the competition process

- Move briskly

Philadelphia

Population: (1990) 1,585,577; (1998) 1,436,287

Change in population 1990-98: -9.42%

(NOTE: All information in this survey report was obtained from officials in the City of Philadelphia except where otherwise noted.)

Philadelphia's approach to competition has from the beginning emphasized service improvement over concerns about who would provide a service and its cost. Competition was most extensive from 1992 to 1994 under then-Mayor Edward G. Rendell, and it was one component in a sweeping plan that has helped the city overcome many of the financial crises it faced in the early 1990s. Under its competitive re-engineering initiative, Philadelphia kept five services in-house and contracted out 47 others.

Program Specifics

Philadelphia's overriding emphasis on service enhancement guides nearly every aspect of the city's program and is evident in the area of policy implementation. When the city qualifies potential contractors, cost is generally not the sole determinant and is weighed along with other factors such as the expertise and experience of the vendor. Specific criteria and the weight given to cost, however, vary according to the type of service under review. The provision of custodial services, for example, was decided solely by price, while the operation of the Riverview Home (which provides residential services for the indigent elderly) was contracted out largely on the basis of the expertise and high service quality of the vendor.

The process for conducting competitive contracting in Philadelphia differs from the other cities in that public and private bidders do not compete directly in response to a request for proposals (RFP). Before an RFP can be released, the city is required by law and union contracts to conduct an economic analysis that shows that there would be benefits from contracting not realizable under the current operations. The unions must be notified 30 days before the RFP is released and after its release may request an opportunity to discuss it. After the bids are opened and a vendor is chosen, further discussions take place with the union, which is given a chance to respond with efficiencies of their own. If the union is unable to offer a competitive proposal, the contract is awarded (Civic Federation 1996).

Various methods are used for proposal evaluation and vendor selection, according to whether the provision of a service is allotted by a bid or non-bid procedure. For those services not open for bids, which can include some professional services, the city often drafts a request for proposal (RFP), an evaluation committee convenes and makes a recommendation to the city, and negotiations begin. In cases where a bid is submitted, selection is generally a more cost-oriented, multidisciplinary process involving the affected department, the Mayor's Office, and the Procurement Department. Contract development for both bid and non-bid services is

typically handled by both the appropriate department and the city's law department. Contract administration and the monitoring of service delivery are the responsibility of the municipal department, though a competitive contracting committee made up of senior management oversees Philadelphia's entire competitive re-engineering program.

Philadelphia has also made productive use of reengineering by existing city agency managers and workers. In recognition of the reality that saving money in the long run often involves up-front investment, the city created a Productivity Bank to finance performance-enhancing initiatives. Agencies borrow the initial investment and pay it back from cost savings on a 2:1 basis over five years. By October 1993, the bank had made \$12 million in loans to 11 projects, for which it expected to receive \$42 million in cost savings and revenue increases over the next five years (Eggers 1994).

Planning History

As the 1990s began, Philadelphia had lost 200,000 jobs and 400,000 people in the previous three decades (Siegel and Hymowitz). The threat of bankruptcy was looming as the City of Brotherly Love reeled from a host of problems that included a \$200 million deficit and a junk bond credit rating (Quehl 2000). In response, the city launched a comprehensive recovery program comprising over 150 strategies, among which were competitive governance measures. Competition was but one cog in a larger machine and it was not widely anticipated to be a panacea for Philadelphia's problems. The overriding goals of Philadelphia's competitive re-engineering model were to improve the quality of services and save money by improving the efficiency of service delivery, regardless of who performed the service. The City government, moreover, did not expect private service to prove superior to public service but sought to avoid dependence on monopoly private sector providers. The decision to introduce competition was most influenced by Rendell's campaign promises and fiscal stress, with the latter cited as being the most important.

The city selected target functions for competition by asking departments to look at their activities and identify the areas in which they could provide better service at lower cost. Suggestions for choosing target functions were also made by the Mayor's Private Sector Task Force and from the Rendell campaign's scan of other cities. Eventually, the city kept five services in-house and contracted out 47 functions that included park turf maintenance; the management and operation of the city nursing home; museum security; custodial and building maintenance services; prison food services; city printing; sludge removal; and a significant portion of automobile body work at the Office of Fleet Management. Those services that Philadelphia has traditionally contracted out (such as substance abuse treatment and care for emotionally disturbed children) are not included in these figures.

Environment and Influences

The biggest obstacles to Philadelphia's competition initiatives were the bureaucracy, a bureaucratic mindset and related fear of the unknown, and the demands that arose from competing priorities. Bureaucratic methods, culture, and concerns were overcome by a leadership-driven effort to encourage workers to think differently and even verbally defend

bureaucratic *modus operandi*. As it launched its competition program, the city government was also under pressure to adopt the 410 efficiency-enhancing recommendations made in the 17 reports of the Mayor's Private Sector Task Force. These demands were met largely through the tireless efforts of city officials, who worked (often in small groups) to implement 95 per cent of the Task Force's recommendations.

The response to Philadelphia's competition program was considered to be positive among citizens, the media, and the private sector, as each group welcomed the attempt to resuscitate their city and the resulting improvements that were made. In contrast, the response of public employees/unions/union-management teams to the notion of competitive government was mixed (both positive and negative). Philadelphia is a city with four major municipal unions in a traditionally pro-labor state, and while some in organized labor were resistant to competition many also came to view it as a viable prescription for their city's desperate condition. There was thus a slight variation in perception among these groups from the start, when many were welcomed by the city into the collaborative, dialogue-oriented process that would influence much of the competition program. To reach out to labor, for example, the uppermost city leadership initially met with unions about how to improve their competitiveness, and unions were offered the opportunity to contend for every service subject to competition. The city also stipulated that private vendors must give public employees the right of first refusal for any job openings, and in 1992 Rendell engaged in successful contract negotiations with the four municipal unions. Furthermore, the city promised organized labor that there would be no layoffs and established a redeployment office. Under this policy, displaced employees are moved to vacant positions at current or higher salary levels and are allowed to return to the city government within one year if they had been with a private contractor. Since the initiation of this redeployment plan, most affected public employees have been redeployed at the same or higher salaries.

In its efforts to encourage community involvement, the city held town hall-style meetings in which citizens could voice their concerns and listen to competition policy briefings and updates, and the Mayor's Private Sector Task Force and City Council members also actively solicited citizen feedback. Regarding Philadelphia's efforts to further incorporate members of the private sector into the planning and execution phases of its competition strategy, Mayor Rendell formed his instrumental Private Sector Task Force and maintained a dialogue with the local business community after the task force report's release. In addition, the city received a large amount of assistance from the business and philanthropic communities and *pro bono* work from consulting agencies.

Results and Lessons Learned

Philadelphia's successful performance enhancement program allowed the city to get back on a firmer financial footing that in turn enabled investments in infrastructure and in other much needed areas. After the city injected competition into service provision in 1992 under its sweeping recovery program, the deficit was eliminated by the fall of 1993 and by fiscal year 1998 competitive government strategies had saved over \$150 million (Siegel and Hymowitz 1999). The following year Philadelphia enjoyed a budget surplus of \$205.7 million and a credit rating of BBB+, and in January 2000 its economic stimulus investments totaled \$6.5 billion

(Quehl 2000). It is estimated that managed competition saves the city \$16.4 million annually. Cost savings from competitive bidding have averaged 40 to 50 percent and for functions kept in-house, internal productivity improvements have reduced costs by 20 to 30 percent (Eggers 1994)

Three years into the program, the city was reporting the following annual savings in selected functions:

Service/Facility	City Cost In-House (precompetition)	Contractor or Internal	Competitive Contract Cost	Annual Savings	%
Custodial: City Hall/Concourse	\$1,684,000	C	\$1,340,000	\$344,000	20
Custodial and building maintenance: Art museum	\$1,575,512	C	\$1,096,794	\$478,718	30
Security: Art museum	\$3,600,000	C	\$2,200,000	\$1,400,000	39
Master facilities management (MSB/CJC)	\$3,064,487	C	\$2,250,000	\$814,487	27
Solid waste: Transfer stations	\$4,800,000	C	\$2,317,000	\$2,483,000	52
City warehouse	\$3,981,847	C	\$2,828,994	\$1,152,853	29
City print shop	\$1,399,960	C	\$851,176	\$548,784	39
Disability management	\$15,200,000	C	\$12,800,000	\$2,400,000	84
Prison food service	\$9,287,574	C	\$7,198,980	\$2,088,594	22
Sludge hauling and disposal	\$5,588,582	C	\$2,690,100	\$2,188,582	52
Fairmount Park (987 acres) turf maintenance	\$1,567,109	C	\$783,029	\$829,080	50
Nursing home	\$7,800,000	C	\$3,660,000	\$4,140,000	53
Sludge processing center	\$23,900,000	I	\$15,700,000	\$8,200,000	34
Southwest water pollution control plant	\$20,371,400	I	\$16,111,400	\$4,260,000	21

(City of Philadelphia 1995, included in Civic Federation 1996; calculations by JHU IPS)

In addition to the fiscal rewards, which for which competitive government strategies are given partial credit, surveys have revealed high levels of citizen satisfaction and optimism, the municipal unions have emerged unscathed, and today city government-labor-corporate relations are described as positive (generally friendly). Service quality is perceived to have improved since 1992, and today among city employees and officials there is a general sense that the city government still controls the delivery of services through strong contract oversight. Currently the city is working to foster more labor-management collaboration and is maintaining its continual effort to reinvigorate city departments against the natural tendency to 'plateau', or stabilize, creatively. Philadelphia also continues to reinforce among its employees a view of the public as 'customers' with its annual Mayor's Report on Citizen Services and by other means.

Respondents to the Johns Hopkins Institute for Policy Studies survey were asked to identify the extra-governmental forces (i.e. geography, U.S. economy, etc.) and intra-governmental forces that are essential to the success of city-level competitive government strategies. The extra-governmental forces cited in Philadelphia's case were: the strength of the national economy and low levels of unemployment, the stimulus from the city's fiscal crisis, and the enormous pressure on the city to succeed with its plans. Joseph Torsella, Philadelphia's former Deputy Mayor for Policy and Planning said:

We are lucky we had such a terrible fiscal crisis in Philadelphia. It was an opportunity for the city. By making people understand that change was absolutely necessary and could no longer be avoided, in the long run, the crisis will be one of the best things that happened to Philadelphia (Eggers 1994).

Regarding Philadelphia's relations to the federal and state governments, the introduction of competition-based initiatives is not believed to have affected these connections in any way. The intra-governmental forces identified as instrumental to the success of Philadelphia's competition program were strong executive-legislative branch coordination and the articulation of a clear vision by the city leadership.

Officials in Philadelphia believe that in order for a city to have a successful competition program it should:

- Understand and define its goals;
- Clarify its expectations with contractors;
- Utilize performance standards and contract oversight;
- Use detailed economic analyses;
- Be willing to continually re-examine its program; and
- Know that cost and value are not one in the same

The city's 19-point checklist of steps to be considered and followed in contracting is included in the Case Study Appendix.

The lessons Philadelphia would offer an administration seeking to implement performance enhancement strategies for government services are to:

- Be clear about the principal objective and its reasons;
- Have a strategic approach;
- Be cognizant of its environment; and
- Have confidence and a willingness to take intelligent risks.

Phoenix

Population: (1990) 988,015; (1998) 1,198,064

Change in population 1990-98: +21.26%

(NOTE: All information in this survey report was obtained from officials in the City of Philadelphia except where otherwise noted.)

Phoenix's pursuit of service enhancement has won it widespread acclaim as an innovative and skillfully governed city. The self-proclaimed "best run city in the world" has contracted out for decades and is widely regarded as the trailblazer in its use of public-private competition, which it introduced in 1979 (Bertelsmann Foundation n.d.). Since then, Phoenix's application of this technique to numerous service areas generated savings of \$34.5 million as of June 30, 1999 and has boosted service quality, employee morale, and citizen satisfaction levels (City of Phoenix n.d.).

Program Specifics

Phoenix employs both contracting out and public-private competition, or "managed competition," in its competitive re-engineering program. Phoenix first used public-private competition in the public works sphere and has extended it into such areas as emergency transportation, data entry, and printing services.

The City first evaluates the service delivery process to identify possibilities for improvement and what performance standards should be built into a request for proposals (RFP). Bids from the private sector are solicited. Before outside bids are opened, the cost proposal submitted by the operating department is evaluated on financial and policy grounds, including future budgetary implications, compliance with legal standards, business soundness, accuracy, and reasonableness. Costs are categorized as "differential" (will not be experienced if the service is outsourced) or "non-differential" (will not disappear if an outside contract is awarded). These calculations are used by the city to decide how much the service costs to supply, but only the differential costs are included in the city's bid (Civic Federation 1996).

Despite some differences, the procedural specifics of the city's competition strategy are considered to be similar to those used in most municipal procurement processes (Commission on Privatization 1997). One distinction is that citizens -- along with public and private vendors -- can suggest that a city service be opened to competition. A step-by-step account of the competitive proposal process in Phoenix is included in the Case Studies Appendix.

Planning History

In 1979, fiscal demands and a booming population were prodding Phoenix toward trimming its roster of public functions. When private companies approached the city council and offered their services, Phoenix opted to innovate rather than privatize outright. Public-private competition was born as the city devised and then implemented a sealed bid procedure in which both public and private vendors vie to provide a service (Bertelsmann Foundation n.d.).

The factors that were influential in the decision to introduce competition were public opinion about cost and fiscal stress, with the latter cited as the most important. Lavery (1999) contends that this decision was also shaped by "a charismatic public official, the public works director, who promoted public/private competition." A pioneer in its use of public-private competition, Phoenix had few lessons to learn or models to emulate in executing its plan. The overriding goals of the city's competitive re-engineering model were (1) to save money by improving the efficiency of service delivery and (2) to improve the quality of services. Public-private competition was first utilized for public works functions in 1979 and later applied to a broad range of city services. Initially, private haulers won all the solid waste collection contracts, but after several years, the public employees became competitive by introducing new cost tracking systems, buying new trucks to reduce crew size, and instituting a reward of \$2,000 for money-saving ideas. By the early 1980s, city teams had won 18 of the 50 contracts put out to bid (Eggers 1994).

Since its inception, this competitive technique has been used in the areas of residential refuse collection, billing services, custodial services, street sweeping, public defender, street repair, bus stop maintenance, dead animal collection, data entry, fuel distribution and storage, temporary employment assistance, printing services, landscape maintenance, senior housing management, ambulance service, landfill operation, instrumentation maintenance, security services, and insecticide painting (City of Phoenix website n.d. and Office of the City Auditor n.d.).

Environment and Influences

The biggest obstacle to Phoenix's competition initiatives was the fear of the unknown among public employees and unions. These two groups had a mixed response (both positive and negative) to both the planning and implementation phases of the Phoenix's competition strategy. These impediments were overcome largely by the city's efforts to engage the two parties and welcome them into a collaborative, dialogue-driven process. To assuage the particular concerns of public employees, Phoenix established clear lines of communication and formed the Service Delivery Committee to help them become more competitive. Regarding organized labor's fears, the city government invited a critique of its competitive re-engineering plans from the unions, whose misgivings were said to have dissipated considerably as they began to view the new system as fair and truly competitive. Out of the dialogue came a requirement that private vendors provide a health insurance package identical to the city's, which city officials claim has inflated costs.

Phoenix did not initiate any strategies to further include the private sector after opening up city services to competition. In fact, the relationship between the public and private sectors during the formation and implementation of the City's competitive strategy was said to be strained at times, especially in those instances when the City lost a bid but managed the contract. In contrast to this climate and the mixed response from public employees and organized labor, the responses of the citizenry and the media to Phoenix's competition strategy were positive.

Results and Lessons Learned

The greatest benefits reaped from the introduction of competition in city services were cost savings, enhanced service delivery, and improved public perception. Regarding the first, public-private competition saved Phoenix over \$34 million from its inception in 1979 to 1998. In the area of refuse collection alone the city enjoyed life-to-date savings of \$21,230,000 as of June 30, 1999 (Office of the City Auditor n.d.).

In addition to generating considerable savings, competition has also stimulated marked improvements in several service delivery areas. Regarding emergency transportation, for instance, today over 95 percent of responses occur within 10 minutes, compared to less than 50 percent before public-private competition was introduced (Lavery, 1999). The city also saved a total of \$2,898,000 in this service area alone as of June 30, 1999 (Office of the City Auditor n.d.). Data for cost savings and service enhancements in other areas in Phoenix are included in the Case Studies Appendix.

Increases in citizen satisfaction and awareness have also occurred in Phoenix because of competition and helped stimulate the city's quality results movement. This effort was introduced by City Manager Frank Fairbanks in 1990 and later launched such citizen-focused initiatives as the Vision and Values and Seamless Service programs (City of Phoenix website n.d.).

Along with the benefits of competition discussed above, some have argued that public-private competition has transformed the way the public and private sectors do business with Phoenix (Bertelsmann n.d.). Though the initial shift to competitive government proved somewhat difficult for Phoenix's public sector, public employees/unions/union-management teams adapted and have won roughly 50 percent of contracts. Today city government-labor-corporate relations are characterized as positive (generally friendly) and the City of Phoenix is widely seen as an equitable employer. In addition, the city now enjoys good relations with unions, though it remains unclear as to whether a new labor-management framework emerged as a result of Phoenix's competition program.

A corollary benefit that has resulted from the managed competition process is an improved management information system, which is essential if competitions are to be conducted in a fair manner. New efficiency and outcome indicators not traditionally found in city accounting systems have been added (D.C. Privatization Task Force 1995).

The greatest disadvantage resulting from the introduction of competition was reported to lie in the negative effect occasionally felt by employees and operating departments. Concerning those employees displaced because of competition, Phoenix has no formal transition plan but utilizes various employee-transition strategies. The city generally has a nine- to twelve-month "window" in which to fill positions, during which time affected employees are offered instruction in job-related areas ranging from computers to interviewing techniques. These transition strategies were characterized as effective, as no one has been laid off and the three to four employees who were demoted later regained their original positions.

Phoenix's competition strategies changed from the period following their early phases to the present day. One major change is that city departments have grown more aggressive in

competing for a service, largely in response to the increase in public awareness stimulated by competition. Also, city and departmental efficiency and service quality have improved since the introduction of competitive strategies. The culture within the Phoenix City government was described as one of constant change, and the city's competition program was said to have continually spurred innovation among its employees and departments. A view of the public as customers is widely held in Phoenix; this philosophy was perceived to be a relatively recent product of the city's quality results movement begun in 1990. Furthermore, among city employees and officials today, there is a general sense that the city government still controls the delivery of services through strong contract oversight.

Respondents in each of the cities surveyed were asked to identify the extra-governmental forces (i.e. geography, U.S. economy, etc.) and intra-governmental forces that are essential to the success of city-level competitive government strategies. The extra-governmental force cited in Phoenix's case was fiscal stress. The intra-governmental forces cited as instrumental in Phoenix's success were decent relations between labor and management, creativity, and city leadership, which was described as essential. More broadly, the officials said that the necessary conditions for a successful competition program rest upon labor-management relations, city leadership, and the openness from the City government toward outside parties. The advice or lessons learned that Phoenix would offer to an administration seeking to implement competitive strategies for government services are that it should:

- Avoid total privatization (for which resistance quickly builds) in favor of a more balanced approach centered upon managed competition
- Set targets for services under competition
- Be open with unions
- Be proactive in the effort to remain competitive
- Ensure that both public and private vendors are offered the (1) opportunity and (2) the time to compete.

San Diego

Population: (1990) 1,110,623; (1998) 1,220,666
Change in population 1990-98: +9.91%

(NOTE: All information in this survey report was obtained from officials in the City of San Diego except where otherwise noted.)

San Diego's decision to inject competition into the provision of city services has yielded tremendous results for the nation's sixth-largest city, according to Mayor Susan Golding.⁹ Considerable savings, empowered employees, and improved labor relations are but a few consequences of the city's shift toward more innovative and entrepreneurial governance.

Program Specifics

⁹ "Mayor Susan Golding's Prepared Remarks", from Cities Talk Technology at World Bank Conference by Bryan Gold, www.prismonline.org/features/worldbank.html.

San Diego employs restructuring, contracting out, and public-private competition in its performance enhancement program, which was begun in 1994. At that time, competition was initiated into a number of city functions, including fleet maintenance, city custodial services, and mail and messenger services. Initially, other service areas were considered for competition but not chosen: the water treatment plants, which were in transition and for whom it was unclear whether competition would prove beneficial, and refuse collection, an area that had a history of benchmarking and was already highly competitive.

The Competition Team of designated staff from the city's financial, organizational development, and operating departments, is charged with responsibility for managing the performance enhancement program, including routine performance measurement and benchmarking by departments. The first step in the Competition Program is the Competitive Assessment, which the Competition Team helps the department conduct. The department is then given a chance to make changes that would bring its performance up to benchmark standards before a decision is made by the City Manager, the Mayor, and the City Council to issue a request for proposals (RFP) from outside parties (Civic Federation 1996).

In the area of policy implementation, some criteria San Diego uses in qualifying potential contractors are the vendor's track record, experience, responsibility, reliability, financial backing, financial burdens, and the risks involved. As it evaluates competing proposals and selects a winner, the city's procurement process is not designed to be low-bid, though many are qualified at best cost. Responsibility for contract development is shared by both the legal department (which works with employees and handles contractual aspects) and the Competition Team (which writes requests for proposal, hires a legal counsel to prepare a draft agreement, chooses vendors, and negotiates agreements). The party responsible for monitoring service delivery is typically the municipal department responsible for the service, and there are often performance outcomes requirements in contracts. The competition team, though, oversees the entire program and there is an annual performance monitoring report.

Planning History

When Mayor Susan Golding assumed office in 1993, San Diego was in the throes of a recession caused in part by considerable federal military downsizing.¹⁰ She named a task force of business leaders¹¹ to review city operations. The City Manager also instituted the STEP¹² process to systematically collect ideas from employees and involve them in making productivity changes. Fifty brainstorming sessions were held and 3000 suggestions recorded. The Competition Program resulted from the CHANGE and STEP recommendations, and its goal is "to insure that the City of San Diego is competitive and provides and maintains the highest quality service for the optimum cost" (Civic Federation 1996).

¹⁰ "Mayor Susan Golding's Prepared Remarks", from Cities Talk Technology at World Bank Conference by Bryan Gold, www.prismonline.org/features/worldbank.html.

¹¹ CHANGE: Citizens to Help Advocate Needed Government Efficiency and Effectiveness

¹² Streamlining and Efficiency Program

The factors that influenced the city's decision to introduce competition were public opinion about cost, public opinion concerning the quality of services, fiscal stress, and private sector interest (particularly in water- and wastewater-related areas) to provide city services. Of all the factors mentioned above, public opinion concerning the quality of services was cited as the most important. San Diego received some initial advice from Indianapolis, Charlotte, and the Reason Foundation. Based on its own experience, San Diego officials recommended that cities should:

- foster employee-union involvement
- create a level playing field
- contract in administrative costs, and
- write clear contracts.

The target functions for competition were selected through the mayor's office and the CHANGE committee, and also by using the 'yellow pages test' and exploring the service areas in which the city excelled and where improvements were needed. The functions that were selected for competition were: water, wastewater, fleet maintenance, airports, city custodial services, dead animal collection, mail and messenger services, park maintenance, parking citation processing, street sweeping, land surveying, management of gas utility facility, and water meter reading.

After the initial reengineering effort, the City Manager's office developed a five year schedule for regularly subjecting each government service to the evaluation and competition process (Civic Federation).

Environment and Influences

The biggest obstacles to San Diego's competition plans were financial constraints/concerns, bureaucracy, and a governmental/departmental fear of the unknown (i.e. the prospect of downsizing due to privatization, etc.). These obstacles were overcome through education, incentives, collaboration with employees and unions, and the reengineering approach itself. The parties that offered opposition to the city's competition plans and their implementation were public employees and unions, whose response during both the planning and implementation phases of San Diego's competition strategy was mixed (both positive and negative). Some successful strategies used by the city to include public employees/unions/union-management teams in development and implementation processes were: inviting early involvement, partnering, enhancing communication, and offering rewards. These collaborations:

- helped to create and implement policies
- established communication plans
- participated on oversight committees, and
- formed employee-union task forces.

Similar to the reaction from public employees and unions, the response of the media as the city formulated and executed its competition initiatives was mixed (both positive and negative). The response of the citizenry, however, was positive during both the planning and the

implementation stages of the city's competition program. Citizens were invited to participate in competition oversight committees and to help develop strategies and approaches to the program.

With regards to the private sector, its relationship with the public sector during the formation and the implementation of the city's competition strategy was characterized as positive (generally friendly). Both public and private sectors judged the competition process to be fair and objective. In order to involve members of the private sector, the city government welcomed assistance from consultants, particularly in regards to benchmarking and suggestions of best practices. City government-labor-corporate relations today are characterized as positive (generally friendly) and highly collaborative, and a new labor-management framework is said to have emerged as a result of competition.

The introduction of competition-based initiatives is not believed to have affected the city's connections to the federal and state governments in any way, though two state policies that were cited as detrimental to San Diego's pursuit of more competitive government are the "Caltrans" state supreme court decision and the state charter itself.

In response to a lawsuit brought by state highway engineers, in 1997 the California Supreme Court ruled that the state could not hire private companies for jobs civil servants could do. Only if it could be shown that private contractors would be cheaper, or that state employees were unable to do the job, or that a public safety-threatening emergency loomed, could the state contract with private vendors. According to *Los Angeles Times* accounts at the time of the Supreme Court action, cities and counties were not affected by the ruling. A state constitutional provision enacted in the 1930s requires the use of Civil Service employees whenever possible (Dolan and Ellis 1997).

Results and Lessons Learned

Results. San Diego interviewees said that the greatest benefits reaped from the introduction of competition in city services were:

- \$117 million in cumulative cost savings anticipated through fiscal year 2002 (projection includes one-time, cost-avoidance, and actual cost savings and efficiencies)
- greater employee productivity, pride, and empowerment
- heightened awareness of competitors and of competition itself
- improved labor relations
- improved public relations with citizens
- improved technologies, and
- performance rewards, activity-based costing and benchmarking.

In the area of solid waste management, for example, as of end of 1998, the following mix of public and private entities provided services:

Solid Waste Services and Facilities	Service Provider
	A = agency C = contractor
Source reduction/recycling outreach	A and C
Drop-off recycling	A and C
Curbside recycling	A and C
Yard trimmings collection	A
Household hazardous waste	A and C
Bulky item collection	A and C
Residential trash collection	A
Government recycling	C
Commercial trash collection	A
Other solid waste management services	A
Mulching facilities	A
Landfill	A

(U.S. Environmental Protection Agency 1998)

An innovative approach was taken in response to the request for proposals for ambulance service. The city fire department formed a partnership with a private ambulance firm and won the bid with a dramatically lower price, a total of \$4.5 million for five years -- \$1.5 million for the first three years and nothing for the last two. Private services have a much higher collection ratio from their billings of third party payers (Privatization.org n.d.).

San Diego has also made extensive use of volunteers in its police department. More than \$1.5 million worth of police man-hours are saved (net of volunteer program costs) through the work of 800 volunteers, several new policing services have been added, police/community relations have been improved, and police have been able to spend more time on serious crimes. Volunteers are involved in broken street lights and potholes, fingerprinting, crime-prevention

presentations, marking abandoned vehicles, witness checks, and other assistance to area investigators. Selected specially trained volunteers provide immediate emotional and practical support to victims of crime, witnesses and others involved in traumatic situations (Kessler and Wartell 1996).

Currently, forty-three percent of San Diego's bus system has been outsourced, a conversion process that was begun in 1979 and proceeds at a rate that guarantees the jobs of transit agency employees. No layoffs have occurred. From 1979 to 1996, the inflation-adjusted, system-wide bus costs per vehicle hour have dropped 41 percent. Bus costs were \$475 million less than if costs had risen at industry rates. The savings have made it possible to increase bus service levels by 82 percent since 1979 with a budget that increased only seven percent (Cox 2000).

Officials said that the disadvantages of competitive re-engineering were employee fear and the fact that it is often a complex, high-stakes, and time-consuming process. None of San Diego's 11,000 employees were laid off under the city's program. The city has established employee-transition strategies, which were characterized as effective, and it utilizes broad band classifications that provide a framework that gives employees flexibility to move without creating new positions.

Change over time. San Diego's competition strategies have changed from their early phases to the present day. The city has shifted from a managed competition strategy to a more re-engineering/optimization-centered approach. The city's competition program spurred innovation in some areas but not in others, depending on the department and management involved. In order to continuously rejuvenate and revive city departments, San Diego has used performance monitoring, bid to goal, and gainsharing initiatives.

Public response. A view of the public as customers is widely held in San Diego government (as is evident in surveys and a customer service employee event), though this philosophy is believed to have preceded the city's competitive initiatives. City efficiency and service quality have changed, evidenced by the increase in the amount of service without additional cost, and the prevalence of surveys. Among city employees and officials today, there is a general sense that the city government still controls the delivery of services through strong contract oversight. Some political repercussions of the city's efforts have resulted from appeals by vendors to elected officials.

Advice for other cities. According to San Diego officials, the necessary conditions for a successful competition program are:

- leadership commitment,
- performance metrics,
- accountability, and
- rewards consistent with city's mission and vision.

They advise an administration seeking to implement competitive strategies for government services to:

- provide education about its programs
- set clear goals and objectives
- encourage an inclusive process, and
- foster collaboration -- with employees, managers, elected officials, citizens, and unions.

Other related performance-enhancement activities

Through its Competition and Reengineering Group in the county's chief administrator's office, San Diego County has also innovated in its efforts to concentrate on core missions. County services are being regularly evaluated. Eight functions have been reengineered for better efficiency internally, producing over \$14 million in annual cost savings. The savings are earmarked for specific reinvestment strategies, including reducing user fees, expanding services, and reducing debt. Employee groups may compete for any functions selected to be contracted out. In the two competitions held in 1998, the in-house unit won the fleet management contract with a bid \$1.4 million lower for the four year contract than the lowest private bidder, which cut costs by 14 percent. The contract for alternate public defender and dependency services was won by a private contractor for an annual savings of \$235,000. Next on the agenda are information technology services, workers' compensation, correctional health services, road maintenance, and revenue and recovery services, according to the Reason Public Policy Institute's 1999 annual report on privatization.

San Diego County also sold all its solid-waste assets (four landfills, 10 rural bin stations, and recycling facility) in 1997 to Allied Waste Industries, after having contracted for landfill operations with another contractor and being assured that the private sector had the requisite capabilities. The county's net gain (after repaying \$100 million in debt on the relatively new recycling facility) was \$184 million, which were used to create an environmental trust fund that is financing the maintenance of closed landfills, augment other county reserve funds, and enhance county services. Bond ratings improved, lowering interest costs, and environmental liability was transferred to the private contractor. The county retains its regulatory enforcement responsibilities (Segal and Moore 2000).

4. SUMMARIES OF OTHER STUDIES

Many studies of the experiences of local governments that have adopted performance enhancement programs were examined in the course of this study. Several of the most credible are summarized below. Given the high degree of politicization that has characterized much of the discussion of the issue of private provision of public services, a brief statement of the perspective of the author or organizational sponsor of each study is included so that readers can reach their own conclusions about the degree to which conclusions are free of bias.

FROM PRIVATIZATION TO INNOVATION: A STUDY OF 16 U.S. CITIES

The Civic Federation of Chicago

February 1996

Written with support from the National Council for Public-Private Partnerships and the Reason Foundation, this 1996 report outlines four primary strategies utilized by American municipal governments to inject competition – outsourcing, competitive contracting, restructuring, and employee innovation – and consists of 16 city case studies organized by strategy:

- ❖ ***Outsourcing:*** Chicago, Fort Worth, Norfolk
- ❖ ***Competitive Contracting:*** Cleveland, Indianapolis, New York, Philadelphia, Phoenix
- ❖ ***Restructuring:*** Austin, Charlotte, San Diego
- ❖ ***Employee Innovation:*** Louisville, Milwaukee, Scottsdale, Seattle, St. Paul

Concise and impartial, this report refrains from drawing conclusions about competitive government and focuses instead on the factual particulars of each program and its impact. A recurrent theme in the case studies, however, is that of a city keenly aware of its environment. Amidst the diversity of circumstances and corresponding adaptations made by the cities, one possible inference could be that flexibility is key in a field where there is no clear-cut path to success.

Each case study begins with a brief introductory ‘Background’ that is followed by a ‘Process’ section that describes the city’s program. The ‘Accomplishments’ section primarily lists the savings realized from the initiative, and contact information is provided in a ‘Contacts’ section. Following the 16 case studies is an ‘Appendix’ offering charts, mission statements, and other information from 6 of the 16 cities. After listing information on relevant organizations, programs, articles, and books in the ‘Additional Sources’ section, the report concludes with a glossary of some of the oft-used terms relating to competition.

The Civic Federation of Chicago website, www.mcs.com/civicfed/, states that the Federation “provides three primary services: First it promotes efficiency and management of public business. Second, it guards against excessive taxation and wasteful expenditure of public funds. And last, the organization services as a technical resource, providing nonpartisan research and information regarding government revenues and expenditures.”

PERFORMANCE MEASUREMENT OF MUNICIPAL SERVICES: HOW ARE AMERICA’S CITIES MEASURING UP?

The Pennsylvania Economy League, Eastern Division
Adapted from a thesis by Michael G. Turner

September, 1995

This report explores how major American cities measure the performance of their competitive governance initiatives. It concludes by calling for more benchmarking in academia and the public sector, more research to increase understanding about performance measurement implementation, and it argues for an increase in managers’ use of the Internet and other telecommunications technologies.

Among the report’s key findings:

- Older performance measurement systems are the most effective.
- The personnel and public culture of a department is a “considerable factor” in its program’s success.
- When departments and their employees reorient their thinking towards “customer service, outcomes, and quantifiable objectives, productivity and innovation blossom.”
- Municipal performance measurement systems in the United States vary significantly in their methods, scope, complexity, incentive structures, and in levels of employee acceptance.
- To be effective, performance measurement must be easily manageable, adaptable, and should never replace analysis by city managers.
- Every city surveyed publishes some of its performance measurement results and had difficulty in judging (1) the extent to which one can define and quantify an agency’s activities and (2) how much control to give an agency to pursue its objective.

- Most cities surveyed utilize mission statement, formal standards, and established methods of reviewing performance.
- Half of the cities polled used surveys, and public opinion surveys were the most frequently employed.
- Few cities used inter-agency comparisons, and only one city (Sunnyvale, CA) conducted internal surveys.

Data for the report was collected from (1) academic writings; (2) a measurement questionnaire completed by 7 cities (Charlotte, Chicago, Indianapolis, Milwaukee, New York City, and Philadelphia); and (3) from documents sent by 9 cities (Austin, Boston, Charlotte, Chicago, Cincinnati, Dallas, Dayton, Indianapolis, Jacksonville, Memphis, Milwaukee, New York City, Phoenix, Philadelphia, Portland, and Sunnyvale).

On its website www.peleasant.org, the Pennsylvania Economy League describes itself as “an independent nonprofit public policy research and development organization” whose “mission is to promote better government for a more competitive region by providing information and support to the civic leadership of Southeastern Pennsylvania.”

PERSPECTIVES ON PRIVATIZATION BY MUNICIPAL GOVERNMENTS

by Mary N .Stone, Amy K. Bell,
and James Brandon Poole

The National League of Cities

May 1997

This 1997 report examines how American city officials perceive the use of privatization to reinvent municipal governments. Prior to presenting their survey data, the authors provide an introductory overview of privatization and its related issues.

Among the report’s key findings:

- Two factors stand out as the most important in privatization decisions: (1) ‘Dollar savings to the city’ and (2) ‘Efficiency in carrying out a function’. Out of 103 cities surveyed, 78 percent of municipal finance managers cited ‘Dollar savings’ -- and 65 percent listed ‘Efficiency’ -- as “very significant factors” in the decision to contract out in the past three to five years.
- When asked to identify the three most important factors in the decision to privatize a service, 82 percent of respondents cited ‘Dollar savings’, 58

percent listed 'Efficiency', and 'Contractor accountability' and 'Impact on municipal employees' tied for third at 30 percent each.

- The three most frequently used methods for oversight of privatized services were 'On-site inspection' (used by 76 percent of respondents), 'Measuring goods and services against specifications' (at 69 percent), and 'Accounting and auditing oversight of privatized services' (67 percent).
- Of the cities that conducted privatization oversight, 85 percent used multiple performance measures.
- Fourteen percent of cities surveyed have placed privatized services back under 'in-house' control.
- When city officials "with experience in privatization" were asked to rate the success of their program, 54 percent said their cities were "Somewhat successful", while the categories of "Very successful" and "Not at all successful" both garnered 23 percent of responses.
- Fourteen percent of cities sold major city assets as an aspect of privatization in 1995.
- Most cities are able to accurately project savings from privatization services.

The data for this report was gathered by National League of Cities (NLC) surveys conducted during the spring and fall of 1996. "Perspectives on Privatization by Municipal Governments" is part of the larger project "Doing Privatization Right", a joint endeavor between the NLC, the Center for the Study of Ethics in the Professions at Illinois Institute of Technology, and the Joyce Foundation.

On its official website www.nlc.org, the National League of Cities states that its mission is "to strengthen and promote cities as centers of opportunity, leadership, and governance. NLC was established in 1924 by and for reform-minded state municipal leagues. NLC now represents 49 leagues, more than 1,500 member cities, and through the membership of the state municipal leagues, NLC represents more than 18,000 cities and towns of all sizes in total."

PRIVATIZATION OF MUNICIPAL SERVICES IN AMERICA'S LARGEST CITIES

by Jay Dilger, Randolph R. Moffett, and
Linda Struyk
West Virginia University

Public Administration Review, January/February 1997, Vol. 57, No. 1

This article aims to shed light on many of the "nuances" of American municipal privatization sometimes left unexplored in the literature on the subject. Using data from four surveys spanning 13 years and focusing on America's largest cities, the authors investigate oversight practices, satisfaction levels, and reasons for privatization, as well as its extent, impact, and lessons learned by city officials.

In 1995, the authors surveyed 66 of America's largest cities in order to build upon three studies administered by the International City/County Management Association (ICMA) in 1982, 1988, and 1992. After weighing their findings against the ICMA data, the authors conclude that while most of America's largest cities have embraced privatization as a "viable" means of delivering services, few regard it as an urban "cure-all".

Among the study's key findings:

- The 1995 survey results support the evidence of a significant decrease in privatization activity growth suggested by the 1988 and 1992 ICMA surveys.
- Privatization saves money but not to the extent argued by its proponents and some earlier studies.
- Privatization improves service delivery at roughly the same rate in each of the 5 service categories of public works/transportation; public safety; health and human services; parks, recreation, and culture; and support functions.
- Privatizing can cause part-time employees without benefits to replace full-time public employees with benefits.
- Large cities utilize more far-reaching oversight methods than their smaller counterparts, though the former's methods are by no means perfect.
- Only 3 of the 66 cities surveyed in 1995 had not privatized any services, though 47 (71 percent) had privatized less than ten services.
- In 1995, the five most privatized services in the 66 largest American cities were: (1) Vehicle towing (80 percent of the cities); (2) Solid waste collection (50 percent); (3) Building security (48 percent); (4) Street repair (40 percent); and (5) Ambulance services (36 percent).

- In the 1995 survey, 5 cities stated that they were "Very Satisfied" with their privatization initiative(s), while 49 responded that they were "Satisfied" and 12 replied "Neutral". None of the respondents claimed to be "Dissatisfied" or "Very Dissatisfied".
- The two most important reasons for privatizing were to "Reduce Costs" and to "Improve Service".
- When asked about their oversight methods in the 1995 survey, 5 cities responded that they used none, 9 claimed to monitor only customer complaints, and 52 replied that they used multiple oversight methods.

**SAN DIEGO COUNTY'S INNOVATION
PROGRAM: USING COMPETITION AND
A WHOLE LOT MORE TO IMPROVE
PUBLIC SERVICES**

by William B. Eimicke
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A Grant Report of the PricewaterhouseCoopers
Endowment for The Business of Government

January 2000

This report explores San Diego County's recent successes with competition for the purpose of distilling recommendations and 'best practices' for governments considering competitive governance strategies. Facing bankruptcy only four years ago, San Diego County has enjoyed a remarkable turnaround that many officials argue is due to the innovative reforms it launched three years ago.

After its thorough analysis of San Diego County's experience, the report concludes that competition-based programs made a "substantial contribution" to the County's resurgence. Among its other findings:

- Strong leadership is critical for a successful innovation policy.
- Competition in public services is "difficult and not always best".
- Private sector techniques do not always beget public sector successes.

- A competition policy's biggest contribution may be the "change in public employee attitudes and behaviors" it engenders.

San Diego County's competition program is examined according to five factors the author maintains are essential to a successful innovation:

- (1) "The need for innovative change is well established and communicated widely."
- (2) "Innovation advocates make a strong case for their solution."
- (3) "Implementation is accomplished fairly and efficiently."
- (4) "The innovation produces meaningful, measurable outcomes."
- (5) "The beneficial impact of the innovative change can be sustained."

With these factors as guidelines, the report assigned a letter grade to five of the County's initiatives. The privatization of the County's solid waste system received an 'A'; the bonus system was awarded a 'C'; Health and Human Services Agency management reforms received an 'A'; the Competition and Reengineering Group's "enormous positive impact" of won it an 'A' grade; and the new policy of outsourcing of information technology was given an 'Incomplete'.

The PricewaterhouseCoopers Endowment for The Business of Government states that it "stimulates research and facilitates discussion on new approaches to improving the effectiveness of government at the federal, state, local, and international levels. Founded in 1988 by PricewaterhouseCoopers, The Endowment is one of the ways that PricewaterhouseCoopers seeks to advance knowledge on how to improve public sector effectiveness. The PricewaterhouseCoopers Endowment focuses on the future of the operation and management of the public sector."

5. LESSONS LEARNED AND RECOMMENDATIONS FOR BALTIMORE CITY

The five cities profiled in this report and a host of others that have been analyzed by third parties in studies included in this research provide valuable messages to cities like Baltimore that are interested in enhancing the performance of government. The following elements have been consistently included in the advice offered by experienced cities and analysts. When asked what lessons were learned there, the former Deputy Mayor of Indianapolis summarized: “set vision, find assistance, treat employees fairly, move briskly.” Recommendations for Baltimore City are in bold.

Clarity of goals and objectives

The city embarking on a performance enhancement program needs a vision, particularly if the process is undertaken by a new leader. In the absence of clear signals about priorities, middle management will continue to do business as it always has. If everything is up for grabs, all previous assumptions about the roles and routines of government to be rethought, and a renewed priority to be placed on efficiency in serving informed citizens who have choices, then the message needs to be communicated directly and often to public servants, other elected officials, and the public.

Deciding which functions a city should offer its citizens. William Eggers, Director of the Reason Foundation’s Privatization Center, expresses the key core questions a government must ask itself at the outset of a reinvention process like this:

- If we were not doing this already, would we start?
- Is this activity central to our mission? Is it advancing me towards one of my desired outcomes? Does it fit with my strategic plan?
- If we were to design this organization from scratch, given what we now know about modern technology, what would it look like? (Eggers 1994)

Goal setting. According to the Government Performance Project, a multi-year analysis of management capacity in federal, state, and local governments, Jacksonville, Florida has done a particularly good job of developing and communicating consistent goals. The city has used a tiered approach. At the top are the five goals that formed the mayor’s campaign platform, both in his original election and his recent re-election. The second tier goals are defined by the mayor with input from a number of citywide community organizations that provide policy advice; the third level goals are generated by individual agencies, and the fourth level is generated by individual employees. All of the goals are included and published in the annual Business Plan and are linked to named managers and agencies at each level. The last tier, the individual’s contribution to the achievement of the goal, is used for employee annual salary and performance reviews. For each of the fourth tier goals, the Business Plan includes: 1) objective, 2) quantified goal to be achieved in the next 12 months, 3) planned actions required to achieve results, 4) resources required, 5) funding requirements, 6) other organizations involved, 7) legislative requirements if any, and 8) expected results and measurements. The budget office is working toward being able to analyze how the achievement of fourth level goals is affecting first tier goals (Moynihan 2000).

Looking at the goals and objectives of specific services. The Executive Steering Committee in Austin, Texas gives agencies the following thirteen fundamental questions to answer. The questions themselves include implications about priorities, about not assuming that programs will survive forever through inertia, about benchmarking, and about competition.

1. Is this program driven by a legal mandate?
2. Are other cities providing this service, or this level of service?
3. Is this program critical to the community's well-being?
4. Is some other entity better positioned to provide this service?
5. What are the program results or outcomes and what do they cost? What is the cost of not providing the service?
6. How do our results compare with those of other entities performing this service?
7. Are the performance measures useful in evaluating this program? (The 1997 GAO study adds, Can the services objectives be defined and measured for monitoring purposes?)
8. Are there opportunities to consolidate similar services that are provided by another city or county department?
9. Can we reduce or eliminate any service duplication with other governmental or nonprofit agencies?
10. Are services provided in the most cost-effective manner?
11. What technological improvements could reduce costs and/or improve customer service?
12. Are there opportunities for increasing revenue collection?
13. Is the service a candidate for outsourcing or privatization? (Included in Civic Federation 1996)

Philadelphia's 19-point checklist for contracting out begins with the following four steps:

1. Identify the customer/end-user of this service.
 2. Define the service/function in terms of the desired end result.
 3. Determine the measurable unit of service.
 4. Establish quantifiable and measurable performance standards.
- (Included in Civic Federation 1996)

Quality vs. cost. Particular care must be taken to distinguish between service quality and cost effectiveness objectives, because strategies to achieve one do not always achieve the other. Cost does not equal value, which is the perception by the public that it is getting quality services commensurate with the price they pay through taxes and fees. Over 75 percent of municipal finance officers in the National League of Cities' annual fiscal survey cited cost savings as the primary driver of privatization decisions, closely followed by interest in improved efficiency (Stone, Bell and Poole 1997).

Using goals to set performance standards. Clear goals are essential in order to set targets for service levels, weigh options, and measure results. The Cleveland People's Budget, for example, shows the typical total budget request for 1995 broken down by object of expenditure (salaries, supplies, etc.) but also includes performance targets such as:

- Increase by 10 percent the number of arrests and seizures for drug enforcement.
- Decrease by 10 percent the amount of drug-related crimes.
- Increase by 10 percent the citizen involvement in drug enforcement through citizen tips.
- Achieve a 95% availability rate for all police vehicles.
- Improve response time to priority one assignments to under six (6) minutes.
- Improve the processing time of police misconduct investigations and notifications to within 60 days.

(Included in Civic Federation 1996)

Political champion

The obvious corollary to the requirement for clear goals and objectives is leadership commitment. Every city interviewed put this requirement at the top of the list of necessary ingredients for success. The manager from Philadelphia described the ideal leader of a government performance enhancement effort as one who is confident and willing to take intelligent risks.” The leader must communicate the urgency and need for change.

The U.S. General Accounting Office’s March 1997 report cited the requirement for a “political champion” first among their six lessons learned about privatization. The leader must “develop and communicate a privatization philosophy and...garner public, business, and political support” (p. 8). The report cited the need for flexibility on the part of the leader about midcourse corrections and adaptation to local environments, noting that most leaders emphasized quality and competition rather than privatization as objectives.

In general, the chief elected official of the jurisdiction has led government reinvention efforts, although in some cities, powerful and confident agency heads have pioneered new approaches that subsequently spread throughout the government.

Finely tuned measurement capabilities

The ability to make measurements is critical for decisions about:

- whether the public sector should have a service in its portfolio, and if so,
- whether to structure a competition or
- whether to reengineer internal service delivery.

Further, measurements are needed to:

- benchmark the city’s current performance against other cities
- develop work statements and performance standards for agency or outside contractor performance
- implement gainsharing with employees or contractors
- administer contracts and monitor outcomes
- assure accountability

Designing a competitively neutral process in which public and private entities are bidding poses particularly challenging measurement issues:

- What does it cost the city today to deliver the service? As one manager from Charlotte said, “Costing is ALWAYS an issue.”
- How should overhead costs of government be allocated?
- How to account for differences in public and private costs of capital?
- How to account for the need by private parties to pay taxes, meet government standards, post performance bonds, assume risks, make profits?
- How to make sure that replacement reserves for depreciating equipment are taken into account?
- How to factor in the cost of public administration of contracts when weighing outsourcing options?

Reliable, defensible economic analysis is not only critical to assuring public employees, private contractors and the public that competitions are fair, but also the activity-based costing that it requires is an effective management tool. Every story of the introduction of managed competition, or even the exploration of the idea, contains an instance of new revelations about possible efficiencies that arose out of the process of looking intensively at public costs.

Cost lessons learned in solid waste. The U.S. Environmental Protection Agency’s 1998 study of full cost accounting (FCA) in six solid waste management agencies included profiles of both Indianapolis and San Diego, noting that both cities used FCA to enable public and private entities to bid fairly for contracts. Understanding the true costs of providing services helps the public agencies “succeed in a competitive market,” provide “a credible, publicly defensible basis for [local government’s] choices between contracting for services and providing them itself,” evaluate the potential savings of the adoption of new technology, and properly set user fees. A study of 64 cities found that on average, cities that were not using FCA underestimated their true costs of delivering services by 30 percent (cited by Eggers 1994).

Indianapolis’ Solid Waste Division uses a customized spreadsheet application to develop its cost and bid information. More than 100 separate costs are allocated to 10 service categories (residential, bulk trash, dead animals, leaf diversion, final disposal, etc.) in two steps: first costs associated with a single service are assigned to that category (\$20 million of the \$25.7 million total could be allocated in this way), and then the remaining costs are allocated among the categories based on well-defined cost allocation procedures. Specifically, the agency:

- Assigns personnel expenses, including both salary and non-salary expenses (ie. costs such as workers’ compensation and social security taxes) directly to services.
- Allocates costs for supplies primarily in proportion to direct labor hours provided for each service.
- Assigns approximately \$15 million in contract costs directly to specific division service categories based on current contract arrangements.
- Assigns equipment costs, primarily for collection vehicles, to service categories based on equipment usage rates by service categories.

- Allocates fleet service costs in proportion to tonnage collected by each vehicle (or percent of total tonnage collected).
- Allocates \$1,129,533 in administrative charges in proportion to the direct labor hours provided for each service.

The spreadsheet also includes performance factors such as:

- Tonnage collected
 - Number of houses served
 - Number of crew members or vehicles on routes
- (EPA, 1998)

Indianapolis solid waste managers advise other cities to use consultant experts to develop the full cost accounting system and train employees, to focus on a usable system (they abandoned the original consultant's proprietary software for a customized spreadsheet application they could support and maintain in house), and to recognize that adoption of FCA often leads to other performance innovations because once costs are known, they can be attacked. The bureau used FCA to develop an incentive-based employee compensation system that shares cost savings with workers who helped generate them (EPA 1998).

San Diego used FCA to evaluate the cost effectiveness of a major investment in automated refuse collection. Even though there was substantial cost involved in acquiring the equipment, the FCA analysis showed that over the decade between 1993 and 2004, the city would save about \$22.6 million, \$18.8 million from a reduced number of trucks, drivers, and supervisors and \$3.8 million from "light duty" costs, which resulted when injured workers were not able to do strenuous work as well as reductions in risk management costs associated with lower accident rates. The City made the investment. The Environmental Services Division advises that the city's Accounting and Management Resource Information System, which is administered by the city's auditor and comptroller and can allocate costs in the ways described above for Indianapolis, has fostered the adoption of FCA and that careful accounting of overhead and indirect costs can substantially affect comparisons as was seen in the case of light duty and risk management costs (EPA 1998).

Performance measurement. A recent look at innovative practices by cities interested in "Managing for Results" by Syracuse University and *Governing* magazine (Moynihan 2000) describes the use by New York City of trained city staff observers to evaluate performance, particularly in maintenance of the urban environment. Visual criteria for meeting standards are applied to street cleanliness, the conditions of road pavements and small parks and playgrounds; the technique is being expanded to large parks. Ratings are used to hold local managers responsible for performance, and have led to improvements such as interagency cooperation, more flexibility in city capital budgeting, and use of transitional welfare workers to clean and maintain public facilities as part of their participation in the Work Experience Program.

In Indianapolis, monthly management reports of performance compared to objectives in such areas as pothole repair requests and time to be filled, response times for emergency services, and customer complaints. Copies of the monthly reports go not only to department

managers and the Mayor, but also to local media, unions, community leaders, and any citizen who requests them. Portland's city auditor publishes an annual report that contains information about performance in police, fire, parks, water, sewer, and streets, including customer satisfaction and comparisons to other cities.

Careful program design

The cities profiled here and others described in studies examined recommend a strategic approach. Once the goals are set, the leaders are leading, and measurement capacity is in place, choices must be made about what approach or approaches to take, and how to tailor them to different places and different situations. The Civic Federation's four strategies -- competitive contracting, outsourcing, restructuring/reengineering, and employee innovation -- provide a framework for examining these choices. Most cities employ all four, but emphasize one.

David Osborne and Ted Gaebler, in their seminal book *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (1992), quote then-governor Mario Cuomo, saying, "It is not government's obligation to provide services, but to see that they're provided."¹³ The variety of means available to governments for delivering high quality, cost effective services make the design of performance-enhancement programs particularly challenging. Privatization is one answer, but it is not the only answer, and privatization itself takes many forms, from cessation of service to asset sales to contracting out to vouchers.

Officials in a number of the cities profiled emphasized that there is no cookie cutter, that each city, with full cognizance of its particular environment and especially its citizens' opinions about government's roles and missions, must reinvent itself. This customization puts a premium on knowing the customer's expectations, which in practical terms means getting citizen input at the early stages of any initiative, when the performance goals are being specified.

One of the trickiest challenges is to balance the need to achieve impact on a scale that affects the bottom lines of tax rates and citizen satisfaction, and yet does not unduly disrupt large numbers of public employees, many of whom are citizens too. The former director of enterprise development in Indianapolis wrote that initial efforts will be strongly influenced by the political climate and that a "low hanging fruit" approach was preferred. Projects that received first priority include those that are "not too complex, short time frame, least controversial, and [with] most reliable outcomes. Largest savings were not necessarily the first priority...establishing credibility and delivering measurable, reliable results was, in our experience, the necessary way to establish a beachhead for this approach to public management" (Privatization.org n.d.).

Interviewed officials encouraged experimentation, but analysts caution that small, cautious pilots are vulnerable to concerted opposition and because of their size, cannot generate convincing impact. The U.S. General Accounting Office cites examples of cities in which the issue of competition was studied to death, and no program was ever adopted (1997). One interviewed manager summarized, "it's all theoretical until you do it."

¹³ P. 30.

The five elements of Cleveland Competes reflect the adoption by one city of a variety of approaches:

- New technologies, often acquired through contracts with private parties
- Reorganization and elevation of good managers who are leaders, risk takers
- Empowerment of employees, who are sources of innovation
- Leasing of assets that are being operated by the public sector at a loss
- Managed competition

(Reason Public Policy Institute 1994)

Managed competition. Competitions are viewed by the profiled cities as an effective management tool. Employees and management must become knowledgeable about the elements that contribute to costs and stay current with the latest technological and management innovations in order to remain competitive. Competitions also highlight the consequences of individual and collective action. The process usually has the following steps:

- Through a request for proposals (RFP), a public agency solicits competitive proposals to deliver a specific quality and quantity of service for a defined period of time. In Indianapolis, affected unions were part of the decision to open an activity to competitive bidding.
- The public agency may submit its own proposal, which must reflect all attributable costs and adhere to the same conditions required of private proposers. Indianapolis provided managers and union member with training to help them analyze inefficiencies and costs and prepare proposals. A public sector union-management bid team worked to streamline work processes and write the work plan reflected in the bid.
- The contract is awarded to the bidder that can provide the same quantity and quality of service at a cost below that of the current public provider.
- Failure to perform is penalized financially or the contractor is replaced. In Indianapolis, if the public sector team won the bid and performed at the required level of quality for less cost than bid, the team received a share of the savings at the end of the year.
- Repeat competitions are held in anticipation of the expiration of the original contract. In Indianapolis, if the public teams consistently won the bids, demonstrating excellent performance at competitive costs, a moratorium on competitive contracting is declared (Wendell Cox, 1995; U.S. General Accounting Office 1997).

In order to be successfully employed, managed competition requires that there be qualified vendors capable of performing the task to be competed, and enough of them to assure that the results will not transition a public sector monopoly to a private sector one. Other lessons from the front lines:

- Choose functions to be subjected to competition if the potential savings are sufficient to be worth enduring attacks by opponents, the degree to which savings can be applied to other government functions, the vulnerability of the community to service disruption if the contractor should fail to perform, the degree to which other

government activities are interrelated and dependent on it, the size of the competitor pool, the capability and willingness of government employees to participate in the competition, and the alternatives available for potentially displaced government workers

- Longer contracts (7-10 years), especially in services such as solid waste and recycling, will attract more competitors initially and are likely to produce lower rates, even though competition is thereby limited over the term of the contract. Special attention must be given to performance standards definition, compliance monitoring, and non-compliance remedies in long-term contracts.
- Give potential public and private vendors the time to compete effectively; complete briefings for outside contractors and training in preparing bids and costing for inhouse teams may need to be provided
- RFP design is critical, particularly the specification of performance standards
- Avoid specifying inputs or solutions; define output desired and leave it to the winner to achieve it most efficiently
- Use know-how of existing workers, but be cautious about having those who have always done it one way be solely responsible for designing the RFP
- No matter who is chosen, existing employees or contractor employees, they should see incentives beyond just keeping their jobs, “rewards consistent with the city’s mission and vision” in the words of a San Diego competition program manager.

Competitions for internal services may also improve efficiency. Through Milwaukee’s Internal Service Improvement Project, established in 1992, city agencies can purchase six different internal services, such as building maintenance, from private firms instead of city departments if they offer better prices and/or quality (Eggers 1994).

Outsourcing. In many cases, a public-private competition does not make sense. The government may not have the inhouse expertise, may not want to make the capital investment required, may want more flexibility to meet peak or seasonal fluctuations in demand, may wish to expand services without hiring additional public employees, or may be seeking a reduction in overhead costs associated with payroll or supervisory staff. If these conditions obtain, a competition among private (both for profit and nonprofit) parties should be structured. A number of sources cautioned that careful staffing and resource decisions need to be taken into account when outsourcing is chosen. Managers who do an excellent job in administering the delivery of services may not have the training or experience to administer a contract for the delivery of the same service. According to Osborne and Gaebler (1992), cities should anticipate spending 20 percent of the bid amount for administering external contracts. Cities have been moving to a two-step process in which they solicit and evaluate contractors’ qualification statements and then solicit proposals from those who are deemed able to meet contract criteria.

Lake County, an urban county in northeast Illinois, established five criteria for deciding whether a service should be privatized:

- Regulatory, oversight, or core functions were not contracted out
- Support functions not critical to direct operations of core functions could be considered

- Financial viability of private provision without subsidy
- Vendors with appropriate qualifications available in sufficient numbers to avoid creating a private monopoly
- Displaced public employees could be accommodated with the vendor or in other government agencies

Services are reviewed regularly as technology, finances, in-house performance, and private market changes dictate (Reason Public Policy Institute 1999).

School Planning and Management magazine (August 1999), writing about outsourcing food services, has the following tips for assessing contractors:

- Choose a company that will be a true partner
- Look at the firm's track record of working with other similar entities
- Find out how they treat their employees
- Consider whether the contractor is committed to being part of the community
- Flexibility to design a program that meets the needs of the specific customer

Other considerations in the outsourcing decision that are mentioned often are:

- The cost of reentry should the government seek at some time in the future to reassume responsibility for delivering the service. The 1996 National League of Cities fiscal survey found that 14 percent of the cities had taken back functions previously privatized (Stone, Bell and Poole, 1997).
- Likelihood of cost savings.

Restructuring/Reengineering. Keeping functions inhouse but improving their efficiency may require radical reengineering, which starts with customer preferences for desired outcomes and reconstructs work processes to achieve them. It has been employed widely by the private sector to save costs by improving labor productivity. While it is not the same thing as automation, it often requires up-front investment in new technology in order to realize subsequent savings. A number of restructuring initiatives involve "delaying" the bureaucracy, by flattening the management structure, eliminating layers of management, and expanding the remaining managers' span of control.

Best practices and lessons include:

- Philadelphia's Productivity Bank allows agencies that have received approval of their reengineering proposals to borrow the initial investment and pay it back from cost savings on a 2:1 basis over five years. By October 1993, the bank had made \$12 million in loans to 11 projects, for which it expected to receive \$42 million in cost savings and revenue increases over the next five years (Eggers 1994).
- Use outside expertise to help sort out the forest from the trees.
- Charlotte merged 24 departments into nine key businesses, eliminating at least one layer of management in each department. Heads of the nine areas have been given enhanced discretion.

Employee innovation. Whether inspired by dedication to public service or competitive fears, most observers agree that existing employees are among the best sources of ideas about ways to improve the efficiency of government, and can readily identify barriers to better performance. Former Mayor of Indianapolis Stephen Goldsmith, who joined city crews once a week, said in an interview with the *New York Times*, “Nobody knows better than the worker how the job can be done more efficiently. You spend an hour with a guy filling potholes, and he can give you a dozen good ideas about ways to make the service more efficient” (Johnson 1995). Charlotte has created innovations teams that solicit cost savings ideas from employees that have saved \$2.8 million. In some departments, teams can immediately implement ideas without obtaining department director’s approval. Phoenix and Charlotte pay employees for good ideas.

Implementation structure

Not much mentioned by cities interviewed, but emphasized by analysts is the importance of central management of the process of performance enhancement. The U.S. General Accounting Office’s 1997 study of privatization in six jurisdictions concluded that a formal structure was required to implement privatization.

A number of places have created government-wide commissions, often with private sector as well as government members, to promote the process, identify opportunities, and establish procedures. In order to ensure that consultant reports get implemented and that the program stays on course, most of the cities examined have also established a staff entity to manage the process on a day-to-day basis. In all cases, they are headed by individuals who enjoy the confidence of the chief elected official who is the political champion for the program. Examples include:

- Philadelphia’s Competitive Contracting Committee, an interdepartmental committee charged with overseeing all contracting initiatives, and the Office of Management and Productivity Improvement
- Indianapolis’ Service, Efficiency, and Lower Taxes for Indianapolis Commission (SELTIC), composed of nine of the city’s most successful entrepreneurs and the city’s Office of Enterprise Development
- Charlotte’s Privatization/Competition Advisory Committee
- San Diego’s Competition Team of designated employees from the financial, organizational development, and operating departments
- Seattle Works, a cadre of “innovation facilitators”
- St. Paul’s Innovations Board of union, county, state, and city officials

Inclusive process and extensive communication

The most frequently mentioned element said to be critical to the success of a performance enhancement program is communication, one of the key jobs of both the political champion and the entity charged with implementation. Outreach to all affected parties, beginning early in the process, has proven to be essential.

Beyond communication, genuine collaboration, both with employees and citizens, has characterized the most successful city efforts. Involving employees and human resources departments early in the process and open cooperation with workers were cited even by those cities where organized labor is not strong as keys to their success.

In a genuinely customer-centered effort, citizens must be involved in specifying desired performance outcomes. Beyond that, however, cities such as Charlotte have found that citizens from business can be very valuable advisors on issues ranging from the assignment of overhead to the evaluation of competing proposals.

Communication is also important in the management of competitive processes. Making sure that expectations are clearly understood at the outset by potential contractors can avoid nasty misunderstandings later.

Management, legislative, and resource challenges

Program designs must reflect and address a variety of contextual variables or run the risk of foundering on procedural grounds. In many cases, legislative or resource changes are required.

Federal rules and regulations. In some cases, federal regulations impede cities and states from transferring assets to private parties. If the asset was financed through a federal grant, the federal government usually requires the return of the grant if the asset is leased or sold, even if the asset is currently worth substantially less than the original grant. Labor provisions in federal requirements may govern severance pay to dislocated workers, and environmental regulations applied to privatized treatment facilities may be more stringent than those governing public facilities. Internal Revenue Service rules may severely limit the terms of contracts for facilities that have been built with tax-exempt bonds (U.S. Senate Joint Economic Committee 1996).

State laws and regulations. In response to a lawsuit brought by state highway engineers, in 1997 the California Supreme Court ruled that the state could not hire private companies for jobs civil servants could do. Only if it could be shown that private contractors would be cheaper, or that state employees were unable to do the job, or that a public safety-threatening emergency loomed, could the state contract with private vendors. Cities and counties were not affected by the ruling (Dolan and Ellis 1997).

Local laws and regulations. Laws, regulations, and policy regarding employee compensation, procurement, and personnel may hamper public agencies from effectively competing with private contractors.

Union contracts. Cleveland's new union contracts allow managed competition or outsourcing, but require labor-management meetings before they are initiated. The employees are given an opportunity to make suggestions to improve efficiency and thereby obviate the need to consider private sector provision. In return, the city is reportedly considering earmarking some of the efficiency-generated savings for skills upgrading of employees and refurbishing of

equipment. Consolidation of billing in the finance department has improved collections by up to 200 percent (Civic Federation 1996).

Management structures and procedures. In order to be competitive with the private sector and to generate maximum value for the tax dollars allocated to them, regulations and bureaucratic procedures may have to be changed. Job classifications and work rules constrain managers' flexibility and creativity. Surveys of managers about barriers to increased productivity often produce valuable insights. Mayor Rendell of Philadelphia asked all managers, what constraints make your job harder to perform? What elements in union contracts impedes your operations? What isn't working in your department, and what changes are needed to make it work better?

Support for workforce transition

The impact on its existing workforce is high on every city chief elected official's list of concerns about performance-enhancing initiatives. The U.S. General Accounting Office analysis of privatization experience in six jurisdictions found that moving governments toward privatization required "employee involvement in the privatization process, training to provide skills for either competing against the private sector or monitoring contractor performance, and creating a safety net for displaced employees" (1997, p. 14). Few layoffs have been reported in association with adoption of the programs (Johnson, Walzer and York) but some have criticized private contractors for lower salaries or benefits and lack of commitment to workforce diversity. A number of strategies have been employed:

- Many cities require private contractors that win public-private competitions to give first preference to displaced city workers. A 1989 survey by the National Commission on Employment Policy, a research arm of the U.S. Labor Department, found that 35 percent of the cities and counties that had privatized functions used this strategy (Privatization.org n.d.)
- Most cities succeed in finding other government employment for workers not hired by private contractors (29 percent of cities and counties had a no layoff policy and guaranteed workers other government jobs).
- Cities offer career planning and training to displaced city workers.
- In some cases, displaced employees are offered early retirement, severance pay, or a buyout.
- Contracts can specify that contractors pay comparable wages and offer comparable benefits, and promote diversity.
- Charlotte's employee innovations program includes a no layoff policy to assure workers that adoption of their efficiency ideas will not work them out of a job.
- Charlotte employees that end up in lower job classifications as a result of restructuring or displacement by private contractors are kept at their previous salary for one transition year.
- All Charlotte employees receive training in self-managing work teams and handling change (Egger 1999).

Continuous monitoring and oversight

Governance cannot be contracted out. Government's responsibility is to make sure that service delivery is effective. Fran Clark of the U.S. General Accounting Office testified before the D.C. Privatization Task Force in 1995 that:

Our work at the federal level indicates that poor procurement and contract administration practices can be a continuing impediment to effective contracting out programs. Poorly worded performance work statements can contribute to contract revisions and cost escalations that quickly outdate cost comparisons used to make the decision to contract out. In addition, such practices limit competition and make performance difficult to assess. Inadequate oversight and monitoring of contractor performance can result in reduced levels of performance or cost overruns.

Subsequently, the U.S. General Accounting Office's 1997 study of lessons learned from privatization experiences in six jurisdictions concluded that contract auditing and technical or performance monitoring were judged to be critical by the managers involved. They agreed with Ms. Clark that writing a good work statement was the largest challenge, and when poorly drawn made evaluation virtually impossible. Employee skills had to be enhanced to permit them to effectively monitor contracts performance.

The annual fiscal survey of cities by the National League of Cities in 1996 found that the three most frequently used methods of contract oversight were on-site inspection, measuring goods and services against specifications, and accounting and auditing procedures. Most (85 percent) cities used multiple means of oversight. (Stone, Bell and Poole 1997). Dilger, Moffett, and Struyk surveyed the 100 largest U.S. cities in 1995 and found that five of the 66 cities that responded did no monitoring of the quality and effectiveness of privatized services, nine monitored only customer complaints, and the remaining 52 using more than one monitoring technique, including customer complaints (50), formal inspections (37), surveys of citizens (19) (1997, p. 24).

Persistence and flexibility

"Competition is not one leg of a 440. Competition is a marathon." Ed Sizer, Managed Competition Program Director, Charlotte. Openness and willingness to change are essential in a process which by definition is continually reexamining the way in which government does its business.

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GLOSSARY

This Glossary is a synthesis of some of the most authoritative definitions of the terms relating to competitive government. Its aim is to provide a guide to the occasionally bewildering jargon often used in discussion on the subject. Key to sources is provided at the end.

Activity-Based Costing

A system that “measures the cost of providing a service in terms of how much it costs to provide each unit of that service”(II).

Asset Sales

The selling of “city assets to the private sector” such as “land, buildings, utilities, or other property”(IV).

Benchmarking

Process of “comparing what services are provided, at what level, and at what price in comparable cities” in order to “keep city services in line with industry and historical standards both in their quality and their price”(II).

Commercialization (or ‘Service Shedding’)

Process whereby a government “stops providing a service and lets the private sector assume the function”(III).

Competition

“Competition occurs when two or more parties independently attempt to secure the business of a customer by offering the most favorable terms or highest quality service or product. Competition in relation to government activities is usually categorized in three ways: (1) public versus private, in which public-sector organizations compete with the private sector to conduct public-sector business; (2) public versus public, in which public-sector organizations compete among themselves to conduct public-sector business; and (3) private versus private, in which private-sector organizations compete among themselves to conduct public-sector business”(I).

Competitive Contracting

The “provision of a public service through a competitively awarded contract”(VII).

Contracting Out (or ‘Outsourcing’)

Process whereby the government “competitively contracts with a private organization, for-profit or non-profit, to provide a service or part of a service”(III).

Efficiency

“A measurement of how much it costs to perform a service at a particular service delivery level, especially in a comparison situation”(II).

Entrepreneurial Government

The endeavor of public-sector entities to “constantly use their resources in new ways to heighten both their efficiency and their effectiveness”(V).

Innovation

“The rethinking or reengineering of a process”(II).

Internal Markets

Process in which “[d]epartments are allowed to purchase support services such as printing, maintenance, computer repair and training from in-house providers or outside suppliers. In-house providers of support services are required to operate as independent business units competing against outside contractors for departments’ business”(III).

Managed Competition

System whereby “a public-sector agency competes with private-sector firms to provide public-sector functions or services under a controlled or managed process”(I).

Management Contracts

The process whereby the “operation of a facility is contracted out to a private company. Facilities where the management is frequently contracted out include airports, wastewater plants, arenas and convention centers”(III).

Outsourcing

Method whereby “a government entity remains fully responsible for the provision of affected services and maintains control over management decisions, while another entity operates the function or performs the service”(I).

Performance Measurement

Procedure that “determines what the outputs (e.g. the response time of emergency medical technicians or the number of lightbulbs replaced in streetlights) and the outcomes (the reduction in the infant mortality rate or the number of traffic accidents) of the service are”(II).

Privatization

The “provision of publicly-funded services and activities by non-governmental entities”(IV).

Public-Private Competition

“When public services are opened up to competition” and “in-house public organizations are allowed to participate in the bidding process”(III).

Public-Private Partnership

A “contractual arrangement ... between public- and private-sector partners that can include a variety of activities that involve the private sector in the development, financing, ownership, and operation of a public facility or service”(I).

KEY:

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