

# From Privatization to Innovation: A Study of 16 U.S. Cities



**The Civic Federation**  
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## **Outsourcing**

Chicago  
Fort Worth  
Norfolk

## **Competitive Contracting**

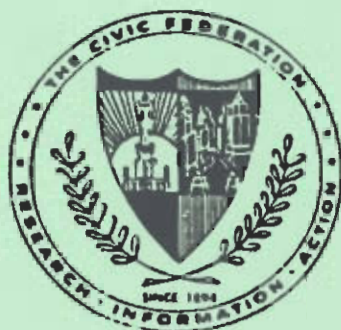
Cleveland  
Indianapolis  
New York  
Philadelphia  
Phoenix

## **Restructuring**

Austin  
Charlotte  
San Diego

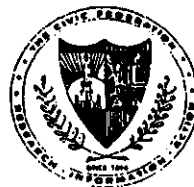
## **Employee Innovation**

Louisville  
Milwaukee  
Scottsdale  
Seattle  
St. Paul



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## Foreword

The language of government today—privatization, competition, outsourcing, innovation, reengineering, entrepreneurialism—reflects a new reality. Voters are frustrated with the public sector's inability to deal with society's problems, and governments are scrambling to find ways to meet growing needs with shrinking resources.

A new way of thinking and working is needed in the public sector, and, as the above language suggests, government is increasingly turning to the private sector for help. This may take the form of contracting out with private companies for non-core functions or "competitive contracting," in which public employees bid against their private sector counterparts for government business. Or it may mean learning from the private sector's experience with techniques such as Total Quality Management or reengineering, in which the organization radically rethinks its mission and restructures its delivery systems.

Whatever the approach, the monolithic, monopolistic, and mediocre service provider is out—and the entrepreneurial, responsive, and results-oriented public servant is in.

This report presents the "best practices" along the road from privatization to innovation. Rather than cutting services or increasing taxes, the city governments profiled in this report are attempting to do things better by analyzing their operations and determining what can be bid out, what can be reorganized, and what, in fact, can be eliminated entirely.

Our hope in organizing and presenting this information is that cities will learn from each other. Most local governments—whether they're in trouble financially or just planning ahead—should be able to find something here to spark their interest or boost their case for "reinventing" their own organizations. An appendix provides more detail about some of the reinvention strategies profiled here.

Because the language of government improvement is not standardized, we have compiled a glossary of terms at the end of the report, along with a list of resources for further information on privatization and innovation.

We extend our thanks to all of our contacts in the cities surveyed who gave of their time so generously. We also thank Terry Nichols Clark of the University of Chicago, Burton Ditkowsky, Harry Kelley of the Illinois Institute of Technology, and William A. Testa of the Federal Reserve Bank of Chicago for reading and commenting on this work for us.

*-William H. Hudnut III, President, Civic Federation*



## Introduction

The 1990s have been a decade of privatization and innovation for America's big city governments. Caught between declining federal support for urban programs on the one hand and increasing voter rejection of tax increases and referenda on the other, America's cities—some reluctantly, others more rapidly and thoroughly—have begun the process of rethinking and reworking how they do business.

Privatization is not a panacea. As noted by Fryklund, turning over a public service to the private sector does not necessarily improve the service or lower the cost of providing it.<sup>1</sup> In fact, privatization of this type—merely “outsourcing”—may not save money and may just continue patronage in a different form.

Many cities have developed more sophisticated responses to fiscal stress. These responses often reflect a distinct attitude on the part of city leaders, whether they be mayors or city managers. Clark identifies a style of leadership—the “New Fiscal Populist”—as most inclined to seek productivity improvements and public-private solutions in comparison to traditional leaders of the right or left, who, respectively, tend to cut taxes and benefits or raise taxes and benefits.<sup>2</sup>

We chose to take a closer look at the specific approaches cities around the United States have taken to improving productivity. With the help of the National Council for Public-Private Partnerships and the Reason Foundation, we identified cities which work with private business to provide public services. Through discussions with officials in these cities, we identified which cities the innovators themselves consider innovative and focused our attentions on these municipalities. Information was collected from conversations with officials and from documents provided by the cities. If the researcher did not have a contact name, she spoke to the Budget Office or the Mayor's Office in order to track down the official or unofficial “ombudsperson” for privatization/competition/reengineering matters.

We found that cities' approaches to privatization and innovation depend not just on leadership, as mentioned above, but also on cities' relationships with their labor unions; the relative strength of unions; the attitude of the city administration and the public toward government employees; and the health of the local tax base.

We identified four general strategies used to respond to the challenge of improving productivity. Almost every city uses a combination of these four strategies, as determined by the local political and economic circumstances. Nevertheless, in this study we categorized each city according to the response we judged to be predominant in order to

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<sup>1</sup> Inge Fryklund, “Privatization: American Style,” *Business Forum* 19, 1 & 2 (Winter/Spring 1994): 6.

<sup>2</sup> Terry Nichols Clark, “Introduction,” in Terry Nichols Clark, ed., *Urban Innovation: Creative Strategies for Turbulent Times* (Thousand Oaks, CA: SAGE Publications, 1994), 16.

explore more fully the basic alternatives that cities have when confronting the issues of rising costs and stagnant or declining revenues.

The four strategies are as follows:

### **Outsourcing**

The three cities that primarily outsource, or purchase from the private sector services that were previously provided by public sector employees, are Chicago, Fort Worth, and Norfolk.

In outsourcing cities, an attitude that the private sector can “do it better” than the public sector prevails. The decision to outsource is also driven by a sense that the private sector can do it cheaper, so results are usually presented in terms of cost savings. Outsourcing tends to be done on a case-by-case basis, rather than as part of a long-term plan.

### **Competitive Contracting**

In cities that competitively contract, city departments or divisions competitively bid against private contractors to provide many public services. The five cities that primarily competitively contract are Cleveland, Indianapolis, New York, Philadelphia, and Phoenix.

Taxpayers and elected officials in these cities generally believe that injecting competition into the delivery of services will result in service improvements and cost savings, even if these services continue to be provided by public employees. Competitive contracting thus creates a strong incentive for employee innovation (see below).

Competitive contracting cities tend to have strong unions, and unions are typically included early on in the process. Like outsourcing, competitive contracting measures its results in terms of cost savings. Unlike outsourcing, it tends to be more centrally controlled and promoted by the mayor and/or city manager.

### **Restructuring**

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?” The cities of Austin, Charlotte, and San Diego started with a blank slate and decided what their local governments should do.

Restructuring requires strong leadership to cope with drastic change. It is typically not done in response to short-term financial stress, but results from a long-term vision and plan for city government. It is top-down. Cities that restructure typically have good relationships with their unions (or weak unions). Employees are encouraged to contribute innovative ideas, but competition is used to keep innovations institutionalized. Results

under restructuring are not measured in terms of short-run cost savings, but by improvements in quality and by the flexibility of government to respond to new challenges.

## **Employee Innovation**

The five cities that concentrate primarily on employee innovation, rather than privatization per se, are Louisville, Milwaukee, Scottsdale, Seattle, and St. Paul.

Public perception of government employees in these cities is generally positive. Because public employees are viewed as good workers trapped in a bad system, these cities focus on employee empowerment and employee involvement. Change is bottom-up. Employees are encouraged to “reinvent” and restructure their work processes to make them more efficient and customer-friendly.

The language used by employee innovation cities to describe the change process would sound strange to an outsourcing or competitive contracting city. For example, Scottsdale’s “institutional values” include: “respect the individual,” “value diversity,” “be a team player,” “commit to quality,” and “take ownership.” The cities that favor employee innovation tend to have strong unions and strong leadership. Improvement is measured primarily in qualitative, not quantitative, terms.

## **Conclusion**

Which approach is the best? The results of this survey suggest that the most successful approach for any city is the one that is best suited to the relative strengths of leaders, unions, the local economy and the tax base, and public perception of government.

That said, there is room for improvement in many cities currently engaged in privatization and innovation efforts. Moving along the curve from outsourcing to competitive contracting, or from competitive contracting to restructuring, many cities could realize greater rewards, both qualitative and quantitative, from innovation. Chicago, for example, could learn from similar large cities with strong unions in both the competitive contracting group and the employee innovation category.

A final word on comparing results. At this point there is no standard methodology for calculating the cost-effectiveness of privatization and innovation, so in each case we have simply reported the cities’ own figures. These are sometimes calculated in annual terms, sometimes cumulative. Also, the baseline against which savings are determined (e.g., in-house costs, competitive bids) differs from city to city. As the trend toward privatization and innovation gathers steam, there is a need for more consistent reporting of the costs and benefits of public vs. private contracting.







**Outsourcing**

Chicago  
Fort Worth  
Norfolk





# Chicago, Illinois

## The Case-by-Case Approach

### **Background**

Like most cities, Chicago has faced increasing budgetary constraints and is searching for ways to do things more efficiently. Privatization, consolidation with other governments, and reengineering are some of the solutions to which the City has turned.

### **Process**

The decision to outsource a service is made on a case-by-case basis, motivated primarily by the promise of cost savings. The suggestion to outsource may come from the department itself, the Office of Budget and Management, or the Mayor's Office. There is no comprehensive departmental review process.

City employees are not allowed to bid on the contract, although the unions are notified when a service is slated to be outsourced and are given a chance to put in place efficiencies which might make outsourcing unnecessary. Sometimes this forestalls the outsourcing; sometimes it does not.

Outsourcing has been structured to minimize layoffs. The outsourcing of custodial services, for example, was performed gradually to allow time for attrition to provide new jobs for displaced janitorial workers. The City has also written into some RFPs that outside vendors must allow current workers first interview rights with the new providers, and displaced workers are given the first choice of jobs vacated due to attrition.

Besides outsourcing, Chicago has experimented with consolidating services provided by more than one government, process reengineering, hiring outside contractors to perform specialized or unusual services, and more proactive marketing of assets, especially real estate. (By simply putting up "For Sale" signs on properties it wanted to sell, the City increased responses significantly.)

### **Accomplishments**

From 1989 to 1995, Chicago saved \$56.6 million through outsourcing and consolidation, according to city estimates. This savings was calculated by taking the difference between the estimates of what it would cost to provide the services had nothing changed, and the actual costs.

Successes include the outsourcing of the parking garage at O'Hare Airport, which Standard Parking now manages. In two years the City has saved \$2.4 million in management costs, and revenues have increased by about \$3 million annually, due in large part to the rehabilitation and resulting greater usage of the garage. Another success was the contracting out of abandoned car collection. The City has saved \$25 per tow since

1989 (adding up to \$6.2 million), increased the number of tows, and returned revenue to the City. By closing its "general store" warehouses and contracting with an outside company for office supplies, Chicago has saved \$1.9 million since 1991; by contracting out janitorial services, the City has saved \$3.6 million.

Chicago's efforts at governmental consolidation have been controversial. All the duties of the Vital Records Office were shifted to the Cook County Clerk's office in 1994, allowing the City to avoid \$478,559 in 1995 costs. Similarly, all lab services were shifted to the Illinois Department of Public Health (\$3.6 million in 1995) and the Near South Maternal/Child Health Center was closed and its functions shifted to Cook County Hospital in 1994, for \$931,298 in cost avoidance in 1995. However, this sort of "load shifting" often merely transfers costs from one government to another, resulting in few net savings to the taxpayers.

Specialized services for which the City has contracted out include a parking enforcement computer system, designed by a private vendor in 1990. Since then, parking ticket revenues have increased from \$25 million annually to \$65 million (1994 figure) and compliance with parking regulations has increased. Additional towing services are provided by a private company to clear snow routes during snow season, and private law firms are hired to collect delinquent city accounts. The former produces some revenue for the City and the latter contract gives the law firms a cut of the accounts they collect, but no payment for accounts they do not. These contracts allow the city to provide an improved level of service while saving money through new technologies, cost avoidance, and efficiencies.

### **Contact**

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*Please see Appendix for more information.*

## Fort Worth, Texas Classic Privatization

### **Background**

While Fort Worth's property tax revenues have remained flat or declined, the city's population has grown, and the City has had an increasingly difficult time making ends meet. The City began outsourcing in 1986 with its ambulance services. However, the end of the Cold War hit Fort Worth, home to various defense contractors, particularly hard, and most privatization has occurred since 1990.

### **Process**

Fort Worth's focus is on outsourcing, although it has also used reengineering and governmental consolidation to cut costs. City employees do not compete with private vendors for contracts, and there is no central office which manages privatization, although the Budget Office issues an annual report on what services have been outsourced and how much has been saved. The decision to privatize is made by each department, on a case-by-case basis. Before a service is outsourced, it is reviewed. Several services have been rejected as candidates for outsourcing due to considerations of cost (the City can sometimes perform a service more cheaply), policy, time (the print shop has not been entirely privatized in part because of the time bidding every print job would take), and service.

Although Fort Worth has considered switching to an activity-based costing system (see Glossary), it has no immediate plans to do so. Savings from privatization are calculated by taking the difference between what the City paid in salaries, benefits, and equipment costs to provide the service and what the City is now paying the private vendor.

The City attempts to find other, comparable jobs for workers displaced by privatization. Fort Worth has no unions.

### **Accomplishments**

Fort Worth has privatized many of its services, including ambulance service, airport management, engineering, certain fleet maintenance functions, garbage collection, management of the Cowtown Coliseum, delinquent tax collection (for which the City incurs no cost, since expenses are covered by fines), library cataloging, and golf course management. The City also contracts with non-profit organizations to run the city pound and the zoo. Contracts with the County allow the City to reduce its costs for tax collection (City and County tax bills are consolidated and collection is handled by the County) and prisoner detention. Savings due to privatization in FY94-95 were \$3,725,160.

Fort Worth has also been able to turn some services into revenue sources. Such services include a new trunk radio system which has been successfully marketed to surrounding communities, generating \$1,053,530 in revenue in two years, and the City's computerized mapping system, which has been used by local utilities and brought in \$197,000 in revenue.

Several departments have reengineered for efficiency, although reengineering is not as widespread in Fort Worth as in some cities. The engineering divisions within several departments have been consolidated, creating a single, independent department and reducing staff by 25. The new department employs activity-based costing and is organized to maximize accountability. The Water Department recently restructured, contracting out heavy construction and reorganizing and reassigning maintenance crews. Each new crew was assigned to one area of the City to increase accountability, and the worker-to-supervisor ratio decreased, encouraging teamwork and adherence to Total Quality Management goals (see Glossary).

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# Norfolk, Virginia Decentralized Privatization

## **Background**

Norfolk's decisions to privatize certain assets and services were made for financial and service considerations which were unique to each situation. Services were contracted out primarily as a cost reduction measure. The Norfolk Botanical Garden's management was leased to the Norfolk Botanical Garden Society in part because the Society was hampered in its fund-raising efforts by the Garden's obvious association with the City. And the management of the Hospital was handed over to an independent public corporation because the City realized that with the growing complexity of health care administration, city staff no longer had the specialized expertise necessary to run a large public hospital. The switch also allowed the hospital to bring its personnel regulations and pay in line with those of the health care industry.

## **Process**

Norfolk is an example of a City which has a decentralized approach to improving its competitiveness and coordinating privatization. The City chose this approach because it felt that it was more efficient to leave decisions to those who are experts in their fields rather than creating an office charged with managing all sorts of contracts, from janitorial services to lab testing. The decision to contract out is made on a case-by-case approach. The City generally does not compete for services with outside providers, although there are some exceptions. While outsourcing was initiated as a cost-cutting measure, not having a central office to oversee matters of contracting and privatization makes it hard to find out exactly how much money the City has saved by using outside contractors.

Norfolk has also privatized the management of several of its larger facilities, including the Norfolk Botanical Garden, which are now being run by the not-for-profit Norfolk Botanical Garden Society, and the Lake Taylor Hospital, a long-term care facility which has been placed under the management of a Council-created hospital authority. Both facilities were privatized to save the City money.

## **Accomplishments**

The City has been contracting out a variety of services for years and adds others as it sees an opportunity to save money. The services Norfolk contracts out include:

- Janitorial services
- Grounds maintenance
- Security guards
- Solid waste/dumpster removal
- Elevator inspections
- Lab testing (i.e., drug testing on city employees and applicants for employment)
- Food service for jail
- Food stamp issuance



- Temporary services (clerical/industrial)
- Electrical repairs

The City is also considering contracting out the collection of parking fines. The only city service which participates in competitive contracting is the print shop. The City has made a commitment to public employees that no one will lose his or her job due to outsourcing, and every effort is made to relocate displaced workers to vacant city positions.

The Garden was privatized after the City decided that parks and recreation were relatively low-priority items on its budget agenda. The Garden was being run more as a glorified park than as a botanical garden, with employees at the park having on average a tenth grade education. The City put in about \$1 million annually (not including hidden overhead costs such as insurance, human resources, payroll, etc.) and saw a return of about \$210,000-220,000 each year. There were only two degreed professionals on a staff of about 40, but salaries were relatively high because of the City's tenure policies. The Norfolk Botanical Garden Society attempted to raise money for the Garden's support but found itself stymied, especially when it sought support outside the city limits, by the Garden's obvious association with the City. So the Society stepped in and suggested that it be allowed to manage the Garden in order to save it as a horticultural center.

The arrangement which was hammered out over two years allows the Society to lease and manage the Garden for a term of five years, with the option to extend the agreement up to 25 years. The City still owns the property and continues to provide about \$1 million annually. The City also matches all funds raised by the Society for capital improvements. Through fund-raising and ticket sales, the Society has been able to increase the Garden's operating budget from \$1.4 to \$1.9 million since it took over management in January 1993. The Garden actually showed an operating surplus of \$43,018 in 1993 and \$39,941 in 1994. The City reduced its contribution by \$50,000 in FY95, but fundraising has been able to more than cover the decrease. Furthermore, capital campaigns have brought in \$4.7 million to date. In October 1995 a \$3.2 million Visitor Reception and Orientation Center was dedicated. In addition, there are four or five capital projects ongoing in the Garden at any one time. The Society hopes to reduce the Garden's dependence on the City by building an endowment of \$1,000,000 as well as continuing to generate revenue surpluses.

The privatization of the Botanical Garden has also greatly improved the service the Garden provides. Of the Garden's 45 employees, 11 hold bachelor's degrees and eight master's. Education, marketing, visitor services, and finance departments have been added to the original horticultural/maintenance department. The new staff has developed educational programs, an outdoor concert series, and other programs to take maximum advantage of the Garden's resources. The Garden's attendance jumped from 139,368 in 1993 to 322,600 in 1994 mainly due to the addition of a new feature, the Garden of Lights, a drive-through light show which attracted 179,835 visitors. Membership increased from 1,061 in January 1993 to 2,039 in January 1995.

The Lake Taylor Hospital was privatized gradually during the 1980s. The City determined that it did not have the expertise to deal with the growing complexities of the

Medicare/Medicaid systems which supported many of its patients at this long-term care facility. The City lost over seven million dollars because it did not receive adequate Medicare/Medicaid reimbursements. The City's pay scale, which did not coincide with health care industry standards, also meant that the City was paying more for the same level of care than a private hospital would. In 1985 the City contracted with a local hospital to manage the facility. In 1988, at the recommendation of a blue-ribbon commission which studied the problem, the City Council created a hospital authority which became the owner and manager of the hospital. The City still has some influence because the Council names the authority's board, but generally it considers the management of the hospital to be the responsibility solely of the hospital authority. The hospital pays the annual debt service on the bonds the City sold to finance renovations to the facility. Until 1994, the City was subsidizing the pay of former city employees at the hospital whose pay could not be reduced. The privatized hospital is also eligible for other kinds of reimbursement that the City could not get. Questions now exist about the hospital's long-term survival, but they mainly come from concern over the changing structure of health care in the United States rather than the structure of hospital management.

### **Contacts**

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**Competitive Contracting**

Cleveland

Indianapolis

New York

Philadelphia

Phoenix



## Cleveland, Ohio “Cleveland Competes”

### **Background**

During the last few years, Cleveland has turned around its image as a decaying steelbelt city. Its most publicized coup was becoming the home of the Rock and Roll Hall of Fame. Less publicized but perhaps more important have been Cleveland's efforts to retool its municipal government.

### **Process**

In 1993, Mayor Michael White introduced the “Cleveland Competes” initiative and created an Office on Competitiveness to run it. The goal was “to provide our citizens with high quality services at the best possible price.” The Cleveland Competes program has five facets:

- The reorganization of city departments for greater efficiency;
- The encouragement of an entrepreneurial spirit among employees (asking them to consider how their department could be saving and making money);
- The introduction and better use of up-to-date technology;
- The leasing of assets to private companies which could manage them better than the City does; and
- Competitive bidding between the City and private providers for service contracts.

The City researched efficiency programs in other cities (including Phoenix, Indianapolis, Milwaukee, Seattle, Philadelphia, and New York), looking at where and how these cities had been able to save money. Cleveland also analyzed the true costs of delivering city services. By seeing where other cities had been able to save money and comparing their costs with Cleveland's, the Office on Competitiveness identified two services to be contracted out in FY95: downtown waste removal and local street resurfacing. The City also decided to lease out the operation of the golf courses, the convention center, and some of the city-owned parking garages. In FY96 the City will consider contracting out vacant lot maintenance and will reevaluate the 1995 contracts.

Cleveland has rewritten its union contracts to mandate labor-management meetings before any changes, such as competitive contracting of a service, can be made. At this time employees have a chance to suggest changes to improve efficiency and forestall the need to put the contract up for bid. In return, the City is considering returning a portion of the funds saved by efficiencies to the programs to enhance employee skills and refurbish equipment.

The City has also reengineered and restructured certain government functions. The City has committed itself to reducing steps and simplifying the bureaucracy, although this does

not necessarily mean reducing departments or employees. Two task forces identified inefficiencies in city government. The City is now considering how to iron these out.

Another goal of the Cleveland Competes program is to make government more accessible, accountable, and responsive to the citizens. With this in mind, the Mayor's office developed the "People's Budget" (see Appendix for sample pages). This document, which presents Cleveland's income and expenditures in a simple, non-technical format, also provides the mission statement and performance targets of each department to give citizens a reference against which to measure the government's performance.

## **Accomplishments**

Cleveland's program is very new, and therefore it is difficult to assess its impact as yet. Among the successfully completed changes is the outsourcing of payroll services. The City did not compete for this contract. Instead, it netted \$600,000 in cost avoidance by not having to replace the aging mainframe computer that had been performing the payroll functions. The City saves another \$100,000 a year in operating costs by outsourcing payroll. The installation of a computerized human resource management system will save the City another \$195,000 annually.

In late summer 1995 Cleveland awarded downtown waste collection and local street resurfacing contracts to city employees. These employees were able to beat the competition in the bidding process after improving labor-management communications and reorganizing to become more efficient. Small changes, such as having resurfacing workers clock in on site instead of at a central location before going to the site, have saved significant money. The estimate for FY96 waste collection savings is \$700,000. Efficiencies in resurfacing mean that for the same money (\$4 million) the City is getting \$1.3 million/200,000 square yards more in resurfacing, a 32 percent increase in productivity. Before the reengineering of the service, resurfacing cost \$6.53 a square foot. The lowest private sector bid was \$4.80 a square foot. The City's final bid came in at \$4.69 a square foot, and early contract monitoring shows the actual cost as less than that. Quality has been maintained at the pre-contract level.

As of the end of 1995, the bids for leasing operation of the golf courses, the convention center, and the parking garages had come in and were being studied.

Restructuring successes have included the consolidation of billing, which used to be done by each department independently, in the finance department, which has improved collection by up to 200 percent. Conversely, the mainframe system has been decentralized so that each department can operate using a system more closely tailored to its individual needs.

The task force on reorganization has suggested consolidating municipal property management, although this change has not yet been implemented. Previously each department responsible for city real estate had its own property management division,

resulting in a duplication of efforts. By consolidating these divisions into a real estate department, the City hopes to save \$1 million annually through efficiencies of operation. (This change should not result in any personnel reductions.) The new department should benefit from economies of scale. Furthermore, it will be able to make available to all departments resources such as the City's own survey staff, which could pick up work now being outsourced.

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*Please see Appendix for more information.*



## Indianapolis, Indiana A Recognized Leader in Better Government

### **Background**

In February 1992 Mayor Stephen Goldsmith created the Service, Efficiency, and Lower Taxes for Indianapolis Commission (SELTIC), composed of nine of Indianapolis's most successful entrepreneurs. This commission examined the functioning of city government and looked for ways to lower costs while maintaining or increasing service delivery levels. SELTIC pegged over 80 services for evaluation, and by September 1995 over 60 services had been competitively contracted.

### **Process**

Indianapolis calls its competitive contracting process "managed competition." Before competition takes place, services are reengineered to make the City as competitive as possible. An example of such reengineering would be the reduction in the number of garbage collection districts which preceded the competition process for garbage collection contracts.

By allowing city workers a chance to bid, Indianapolis has been able to work with its unions rather than against them. The City provides the unions with consultants to develop their bid and has made a good faith effort to employ or find employment for city employees when a service is contracted out. The vendor that wins the contract must give city employees the first chance at jobs, and the City works with the private vendor to develop cross-training programs, job finding services, and, if necessary, severance pay packages.

### **Accomplishments**

Indianapolis reports actual or expected savings of approximately \$150 million due to competitive contracting. These savings are calculated with the aid of activity-based costing, taking the difference between what the service used to cost and what it now costs. The savings are used to improve services, invest in capital projects, or reduce costs to consumers and taxpayers. Savings from the competitive bidding of trash collection will provide leaf pick-up. Savings from the privatization of wastewater treatment plants will do much-needed maintenance work on the sewer infrastructure. Savings from the privatization of airport management mean that airlines will pay less to use Indianapolis International Airport.

Some of the services which have been privatized include:

- Sewer bill collection, which saves the City up to \$1.8 million annually.
- Trash collection, which was estimated to lower the price of trash pickup from \$85 to \$68 per household annually, amounting to a savings of \$15 million over three years. City crews were awarded contracts in three of the ten districts up for bid, the most any one bidder could win.
- The management of the City's wastewater treatment plants, which saved almost \$12.5 million in its first year alone (the City budgeted \$19.3 million for their operation in 1994, the first year of private operation, down from \$30 million in 1993; the actual cost came to \$17.5 million).
- Abandoned vehicle collection, which saved the City about \$174,000 a year during a three year contract and provided a guaranteed revenue of \$500,000 over three years with the possibility of up to \$400,000 more if income from the sale of abandoned vehicles remains high.
- Airport management, which was privatized even after airport personnel worked out \$1.7 million in savings; the City expects to save possibly more than \$100 million over ten years by leasing management of the airport to BAA USA, Inc.

Service delivery has also been improved, dramatically in some instances. The Water Company took over billing for sewer service, reducing the number of separate bills homeowners must pay. Three times as many abandoned vehicles have been removed annually by private contractors as were removed by city crews. Privatizing the airport could increase services for travelers, including the implementation of a policy of street pricing, which would guarantee that goods and services would cost the same at the airport as elsewhere in the city. The privatization of the wastewater treatment plants reduced the number of violations from seven per year to just one in the first year of private operation. The number of overflows were cut in half and their duration shortened by 50 percent. Increased preventive maintenance reduced vibration problems by 70 percent, and safety improved dramatically, with workplace accidents decreasing by 70 percent. Turnaround time was reduced in wastewater's accounts payable department, meaning that the plants could work with more small companies, including women and minority owned businesses. Business with such companies increased 11 percent.

Private vendors have been successful, but in fact approximately 80 percent of public-private competitions in Indianapolis have been won by public employees. Fleet maintenance, for instance, was won by the union, which discovered \$8 million in savings when it was faced with the possibility of losing the contract. Indianapolis has been able to work with its unions while still cutting back its work force, and no one has gone without a job.

**Other services which have completed the competitive contracting process include:**

- Microfilm (savings of 63%)
- Window washing
- Printing/copying (savings of 43%)
- Courier services
- Swimming pool management
- Golf course management
- Mowing
- Tree removal
- Graphic arts
- Street repair (kept in-house, savings of 25%)

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## New York City Change on a Huge Scale

### **Background**

When Mayor Giuliani came into office in 1994, New York City was struggling with twin burdens: a bloated bureaucracy and a massive budget gap. In addition, the city's quality of life was deteriorating, eroding its tax base and threatening its ability to attract new investment. Giuliani's administration faced the difficult challenge of trying to streamline one of the largest governments in the nation: New York City has a budget of \$32 billion, larger than many countries, serves roughly 8 million people, educates 1.1 million schoolchildren, maintains 5,600 miles of roads, 26,000 acres of parkland, and supports the world's largest financial, banking, fashion, publishing, and media industries.

### **Process**

To begin reforming the City, the Giuliani administration initiated a series of programs designed to achieve three integrated goals:

- Innovate to improve the way the City delivers services;
- Improve the quality of life in New York City to retain and attract investment, and create more jobs to broaden the tax base;
- Downsize government and cut debt to enable the City to reduce taxes and invest in its future.

New York City began working toward its goals by asking each city agency to identify services that could benefit from a public asset sale, where the private sector had better expertise for delivering a service, or where in-house employees could become more productive through competition. The Guidelines for the Public/Private Competition Program, released in November 1994, encourage department managers to investigate alternate forms of service delivery, including competitive contracting, outsourcing, the contracting in of services previously contracted out, and the complete privatization of a service.

New York City has also implemented the nation's largest "workfare" program, which has both helped reduce the welfare rolls and supplement some city services.

In addition, the Administration looked at ways to streamline service delivery. The Agency Partnership Program aims to use the city's business talent to guide the reengineering of city government. City departments set up partnerships with private companies, which donate their time and expertise to help reengineer specific operations in the department. Xerox teamed with the Department of Health to speed service time on birth and death certificate registration and issuance. United Parcel Service worked with the Department of Sanitation to teach the latter how to improve its fleet management, procurement, and inventory management. Chemical Bank partnered with the Department of Buildings to

improve customer service by analyzing and streamlining applications processing and cashier services. Other partnerships included NYNEX and the Department of Environment Protection (Procurement Processes Improvement), Andersen Consulting and Arthur Andersen and the Department of Housing Preservation and Development (Cost of Ownership Model, Redesign of Agency Organizational Structure), ITT Sheraton and the Department of Parks and Recreation (Improvements in Hospitality and Management Information Systems), Metropolitan Life Insurance Company and the Human Resources Administration (Reengineering Income Support Operations), Deloitte and Touche and the Landmarks Preservation Commission (Cost Accounting Review), Xerox Corporation and the Department of Personnel (Reengineering of Civic Service Administration Bureau), and Tishman Construction Corporation of New York and the Department of Cultural Affairs (Capital Improvements Analysis). In total, ten partnerships had been set up by July 1995.

Simultaneously, the Giuliani Administration began to shrink government and launched a series of programs to improve the city's quality of life. In particular, the City focused on improving public safety, reducing taxes, and developing programs to encourage economic development.

### **Accomplishments**

In less than 22 months, the City has reduced the size and the cost of government for the first time in 15 years. The city workforce has been downsized by 17,000 positions—without layoffs—through a unique voluntary severance and redeployment agreement with the City's municipal unions. New York City has been cited by *Business Week* as the nation's leader in government downsizing.

The City has implemented the nation's largest privatization and managed competition program. Forty services have already completed the contracting procedure, generating annual savings of some \$100 million, and 60 more services are targeted for outsourcing or competition. The services have included facility maintenance at schools and firehouses, park maintenance at various city parks, management of homeless shelters and substance abuse programs, road resurfacing, fleet maintenance, laboratory services, print shop services, and Deadbeat Dad locators. The City has also considered asset sales. Recently, the City transferred its television and radio stations to the private sector for \$227 million, completing the nation's single largest municipal asset sale.

Service delivery and efficiency have been improved due to the Agency Partnership Program. Ten partnerships have been set up, and results have been promising: the time taken for processing a written application for a copy of a birth or death certificate dropped from 14 weeks to less than one week; when fully implemented the process will allow for a 24-hour turnaround time. For an in-person request, the wait will drop from 20 minutes to under five. Delivery time for items in the Bureaus of Clean Water and Air, Noise, and Hazardous Materials dropped from over eight weeks to under two days for small items, and from 16 weeks to one to two for larger ones. New technology has speeded up processes at the Parks Department and the Human Resources Administration. Xerox was

so intrigued by its experience with the Public Records Division that it requested a partnership with the Department of Personnel to assist in tackling the records problems for which public personnel systems are notorious.

Service delivery has also been improved at the Department of Buildings, which created an Express Service construction permitting and approval process. The process used to require visits to at least four different agencies; Express Service consolidates the agencies to create a “one-stop shopping” service. This consolidation has reduced the construction permitting and approval process from six months to three to four weeks.

The City has eliminated or reduced many taxes and regulations particularly onerous to business, stimulating new investments in the city and helping to add 50,000 new private sector jobs to the local economy.

The City has also implemented the nation’s largest “workfare” program, which has allowed more than 20,000 participants to help the City maintain its parks, streets, and city buildings in exchange for benefits. The City estimates that this program is generating more than \$500 million in additional service delivery.

By using daily crime statistics to target areas which needed extra police coverage, New York City Police were able to nip emerging crime trends in the bud. New York City’s incidence of serious felonies fell by 27.1 percent, the largest two-year decline in the city’s history. Last year, New York City was among the three U.S. cities with the greatest decline in overall crime.

## **Contact**

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## Philadelphia, Pennsylvania Competitive Contracting Procedure

### **Background**

In 1991-92, the City of Philadelphia went bankrupt. The City was unable to meet one payroll, and its bonds were unrated at the time of the 1991 mayoral election. Putting the City back on solid financial ground was clearly at the top of the agenda when the new mayor began his term in 1992. Mayor Ed Rendell's answer to the financial crisis was the Productivity Initiative. This Initiative encouraged the reexamination of every function of government in order to trim the budget and increase returns without sacrificing efficiency. One facet of the Productivity Initiative was the Competitive Contracting Committee.

### **Process**

Competitive contracting in Philadelphia is not open bidding between City and private providers. The unions are given a chance to respond after the private bids have been opened with efficiencies of their own as part of a tightly choreographed routine between the City, the unions, and private vendors.

The Competitive Contracting Committee is an interdepartmental committee charged with overseeing all contracting initiatives. It identifies services which could produce cost savings or improve performance if subject to competition, ensures that bidding occurs successfully, and works with the unions to ensure that the City complies with its collective bargaining agreements.

The Competitive Contracting Committee has produced a "19-Point Checklist for Contracting Out." The checklist instructs departments in every facet of how to contract out, from determining what the service should be and how it should be measured and priced, to coping with the bidding process and working with potential vendors, to monitoring the performance of the contract holder. The checklist reflects the attitude that the final goal is to make government not just more efficient but more effective by stressing the importance of the customer, the end-result, competition as a motivating factor, and incentives for good performance.

The Competitive Contracting Committee oversees the relationship between the City and the bargaining units as the City contracts out services. The City's collective bargaining agreements had always allowed contracting out, but the City only took advantage of this clause after the 1991-92 financial crisis.

When the City decided to competitively contract, it developed the Philadelphia Competitive Contracting Procedure for preparing bids and notifying the union of each step, as mandated by the City's labor contracts. Before a Request for Proposals (RFP; see Glossary) can be released, an economic analysis must be performed proving that it would

be more economical for the City to contract out the service than to maintain the status quo. The soundness of this economic analysis is critical, for it gives the City the legal right to contract out under its collective bargaining agreements.

The union must be notified 30 days before the RFP is released, giving union members time to correspond with the department in question; after the release of the RFP, the union may request an opportunity to discuss it. After a vendor has been chosen, further discussions take place between the City and the union. The long lead-time is intended to allow the unions to develop cost-cutting and efficiency measures which could make the City bid competitive with the private sector. If the union is unable to offer a competitive proposal, then the contract is awarded to the selected vendor.

Philadelphia has also instituted a process to review contractors, requiring a report 90 days into the contract and another 180 days before the contract comes up for renewal or expiration.

### **Accomplishments**

As of September 1995, 32 services have completed the competitive contracting process, with 28 contracts going to private vendors and four to the City. Another 16 services are in the middle of the process, ten are being considered for it, and three have been considered but kept in-house. In addition, golf course management and prison health services were contracted out prior to the initiation of the contracting process.

With the current contracts, the City realizes a savings of \$36.6 million each year and has been able to eliminate or avoid the creation of 1,249 positions. Of the services currently involved in the competition process (but for which contracts have not yet been awarded), seven are far enough along that potential savings can be estimated. These contracts will save \$7.6 million and result in the elimination or avoidance of 78 positions.

The following table shows that Philadelphia has saved a total of \$34.4 million through the end of FY95 just in General Fund expenditures. This does not include Water Department savings made by competitively contracting water monthly billing mailings, sludge haul and disposal, and the sludge processing center. These total an additional \$18.8 million.

Year	Total Savings	General Fund Savings (without Water Department)
FY93	\$3,222,625.00	\$1,870,812.00
FY94	\$19,681,496.00	\$12,797,825.00
FY95	\$30,265,626.00	\$19,729,418.00
Through FY95	\$53,169,747.00	\$34,398,055.00
FY96	\$35,183,366.00	\$30,495,195.00
Through FY96	\$88,353,113.00	\$64,893,250.00



The procedure instituted to encourage union efficiency has to this point been largely fruitless; only once has the union been able to offer a viable alternative to putting a contract out for bid. Furthermore, the City has won only four of the 32 contracts which have been up for bid, although these contracts have been large ones, including the sludge processing center (\$15.7 million annually) and the water pollution control plant (\$16.1 million annually).

The Productivity Initiative has put the City back on track financially, so that Philadelphia's bonds are now rated medium grade secure.

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*Please see Appendix for more information.*

## Phoenix, Arizona Public/Private Competitive Process

### **Background**

The City of Phoenix has long been recognized as a leader in the field of competitive bidding between public and private service providers. It was the first in the nation to develop a process for comparing city and private bids. During a 1979 budget crisis, the business community suggested that the City could realize significant savings by outsourcing its refuse collection. The City agreed, but it also decided to submit a bid of its own, requiring the development of the Public/Private Competitive Proposal Process. Since that date, cost savings and avoidance have totaled \$29.4 million (as of June 30, 1995).

### **Process**

The bidding process was developed to ensure that the City's bid would have integrity. It begins with an evaluation of the service delivery process to identify where improvements could be made and what level of service delivery the City will specify in the RFP. Before outside bids are opened, the cost proposal put forward by the operating department undergoes a thorough review. The figures are scrutinized for budgetary and policy implications, future financing implications, compliance with legal standards and statutes pertaining to the public bidding process, business soundness, accuracy, and reasonableness. Costs are divided into "differential" (will go away if bid is put out to the private sector) and "non-differential" (will not go away if contracting occurs, e.g., administrative and support services), and both are included in the calculations of how much the service costs to supply. However, the final cost proposal—that is, the City's bid—contains only the differential costs.

Phoenix's unions are not in favor of competition, in part because they stand the risk of losing members if city employees move to private employment. However, the City has been able to reach a working arrangement with the unions, which have been instrumental in introducing changes to make the City more competitive. The City has also found that the competition program gives it leverage in union negotiations by discouraging the unions from making demands which could cause city crews to lose a contract.

The City tries to avoid layoffs due to competitive bidding. Contractors are asked to give city employees first consideration when hiring. When a large contract is to be bid, vacancies in the City's workforce are frozen or filled by temporary workers, so that city employees displaced by the loss of a contract may move to other city jobs if they wish to stay with the City.

## **Accomplishments**

The City of Phoenix has used its Public/Private Competitive Proposal Process in twelve general service areas:

1. Refuse Collection
2. Billing Services
3. Street Sweeping
4. Public Defender
5. Street Repair
6. Data Entry
7. Landscape Maintenance
8. Senior Housing Management
9. Ambulance Service
10. Fuel Distribution
11. Landfill Operation
12. Instrumentation Maintenance

In FY 94-95 Phoenix saved \$1.9 million; since 1979 the City has saved \$29.4 million overall. These figures may be low in comparison to other cities' savings because they are calculated so conservatively, based not on what the service used to cost the City but on the difference between the City's already more competitive bid and the winning private sector bid, or between the winning city bid and the next lowest bid.

The City's first and most successful program has been the refuse collection program. The first contract on refuse collection began in July 1980, and since that date Phoenix has saved \$17.1 million on this service alone. Furthermore, the monthly cost per household of refuse collection declined by almost \$1 (base year dollars) between 1979 and 1992, from almost \$5 to a little over \$4.

Service level has also improved, most notably in emergency transportation. In 1984 less than 50 percent of calls were answered within ten minutes; since the process was bid competitively in 1985 (the City won the contract back from the private sector), an ambulance arrives in under 10 minutes more than 90 percent of the time. In addition, between October 1985 and September 1988 the City saved \$2.9 million on emergency transportation.

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*Please see Appendix for more information.*



***Restructuring***

Austin  
Charlotte  
San Diego





# Austin, Texas

## Aiming for Affordability

### **Background**

Austin was not suffering from an immediate financial crisis in 1994, but as Assistant City Manager Toby Futrell explained, "We felt like the frog in the cauldron, and we were afraid that if we didn't do something as the water around us got hotter, we would get boiled alive." Specific signs of the increasing temperature of the water were escalating prices at Austin's City-owned Brackenridge Hospital and the looming loss of federal dollars; over the next five years, Austin expects to lose some \$41 million in federal money.

In order to avoid such against-the-wall measures as across-the-board budget cuts and deferred maintenance, the City decided that it would begin a comprehensive restructuring process.

### **Process**

Austin's restructuring began unofficially in 1994, when the City implemented two initiatives. The first was designed to address the growing concerns around environmental regulations, which make land development expensive and cumbersome. The other began a process of delayering and increasing the span of control in city government. In 1995 the City decided to launch a full-scale, five-year reengineering program entitled "Affordability: A Strategy for the Year 2000."

The Affordability Initiative has four goals:

- **Benchmark basic services.**  
The City will benchmark against both other cities and itself over time. The manager's office expects to complete the benchmarking exercise by April 1996.
- **Convert to a program budget by FY96-97.**  
Austin's budget is currently functional. Budget amounts are allocated to departments and sections, not services. A program budget would instead allocate money according to services and objectives. For example, the Police Department's budget is currently broken down by functions: Chief Services, Field Services, and Support Services. In a program budget, police dollars would instead be allocated by program: 9-1-1, drug prevention, youth gang prevention, family violence counseling, and automobile theft prevention.
- **Evaluate every city program during the next five years.**  
The five-year schedule to evaluate every program intends to "unbundle and rebundle" each department, asking if the City ought to be providing the service at all and, if so, if the City is delivering service in the most effective way possible. Departments will be asked to produce program packages, describing each

program's objectives, legislative and financial history, and benchmarking information, and including an analysis of the cost of not providing the program. The program packages will be reviewed by the Executive Steering Committee, which will examine them according to thirteen fundamental questions:

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?
6. How do our results compare with those of other entities performing this service?
7. Are the performance measures useful in evaluating this program?
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 non-profit 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 collections?
13. Is this service a candidate for outsourcing or privatization?

The Executive Committee will be supported by Field Research Teams assigned to each department, a Corporate Executive Task Force composed of nine local corporate executives, the Audit and Finance Council Subcommittee, and citizen participation at open Council meetings.

The work done on land use, environmental regulations, and planning in 1994 has made it possible for the three departments most involved with those areas—Public Works, Planning, and Environmental and Conservation Services—to be the first departments to be evaluated.

- Evaluate and streamline the organizational structure.

The final objective of the Affordability Initiative is an extension of the delayering process begun in 1994. Delayering increases the number of people reporting directly to a manager and decreases the layers of management. The goal is to increase accountability and improve communication.

The City holds vacancies and matches employees displaced by reorganization against these vacancies in hopes of reallocating as many city employees as possible to other city jobs. Eighty of the 90 employees whose jobs were terminated in 1994 were placed in other city jobs. The City has also begun GED, literacy, and computer training programs to prepare its employees to find new jobs. It is working with the union to improve its tuition reimbursement plan for employees who want to continue their education. The hope is to

prepare employees for the time when it will be harder to find new city jobs for displaced employees.

Austin has a non-strike union, and less than half of city employees are union members. At times, such as when the City outsourced the management of Brackenridge Hospital, the union has been an adversary, but generally it is not a strong player.

The Affordability Initiative's goal is to create a city which will be able to move fast enough to keep up with a rapidly changing world. With flexibility in mind, Austin hopes to institutionalize self-evaluation as a corporate value, so that each department is constantly considering how and why it is performing services, and whether it or someone else could perform them better.

### **Accomplishments**

Austin completed the review of its hospital operations in 1994; the decision was made to outsource management while retaining ownership and oversight. The 30-year lease between Seton, the company which will run the hospital, and the City removes from Austin much of the financial burden of operating the hospital, but it demands that the hospital still provide health care for every citizen, no matter what their ability to pay.

The Affordability Initiative is still in the first, evaluatory stages, and has no reportable achievements to date.

### **Contact**

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# Charlotte, North Carolina Restructuring City Government

## **Background**

Charlotte, despite its reputation for financial health, found itself facing increasing budgetary difficulties in the early 1990s. A stagnant city tax base, growth in the outlying suburbs which added to demand for city services, and political resistance to raising taxes forced Charlotte to consider alternatives to conserve its limited resources.

Charlotte had begun to outsource in the late 1970s, with custodial, security, and legal services and fleet maintenance. In the 1980s the City began a process which continues today, the consolidation of the city and county governments. The objective is complete political consolidation between the City of Charlotte and Mecklenburg County, already achieved in the police, planning, purchasing, parks and recreation, and utility departments, among others.

Nevertheless, the City decided it was time to conduct a comprehensive analysis and overhaul of the way Charlotte did business, with the goal of making city government smaller, cheaper, and more efficient. The hope was to forestall any potential financial crisis before it came to a head.

## **Process**

Charlotte rejected short-term, ad hoc measures in favor of a comprehensive “rightsizing” campaign, guided by eight key principles:

1. Customer-focused;
2. Decentralized;
3. Competitive with private services;
4. Many decisions made by self-managed work teams;
5. Ability to respond quickly to innovation and technology, new programs, or changes in service delivery;
6. Results-oriented and innovative at solving problems;
7. Flexibility in dealing with citizens; and
8. More emphasis on leadership (as opposed to supervision).

The campaign asked, “If we were to design City services today, what would they look like?” The City inventoried its services, identified their direct and indirect costs, and determined which were core services and how effectively each was being provided. Employee teams representing all levels of management brainstormed new organizational models and ideas about how costs could be reduced. One team was dedicated to keeping other employees informed about changes so that they could react accordingly.

The City Manager declared a “no-layoff” policy. (This policy was terminated in 1995, but layoffs are still considered a last resort.) A hiring freeze and an early retirement program

helped reduce the size of the workforce. A Job Bank was created to hold vacated jobs for employees whose jobs were eliminated. The City committed to retraining displaced employees. It also offered training to all city employees in stress and change management, customer service, work teams, and other areas critical to coping with the transformations accompanying rightsizing.

The campaign required delayering (see Glossary), with the largest departments (more than 125 employees) allowed no more than five layers of management, and the smallest (under 50) only two. The City invested in new technology to assist in delayering and also to encourage employees to work in teams, to reduce clerical and administrative positions, and to improve internal and external communication and customer service.

Citizen task forces under the Mayor addressed the issues of the City's organizational structure, employee compensation plans, and privatization of services and assets. The reorganization of the City's 26 departments into nine Key Businesses (Aviation, Fire, Neighborhood Development, Planning, Police, Engineering & Property Management, Solid Waste Services, Transportation, Utilities) and four Key Support Businesses (Budget & Evaluation, Business Support Services, Finance, Human Resources) took place in September 1993. Restructuring and reengineering within the departments continues. (See Appendix for "before" and "after" organizational charts.)

The Privatization/Competition Campaign, the City's primary focus once the rightsizing campaign was completed, led from the work of the third citizen task force. It operates according to the five-year competition plans each department produced by the end of 1994. These plans outline the objectives of the department; its finances, including how much of its budget is contracted out, how much is a candidate for competitive bidding, and how much is kept in-house; and an overview of plans for future privatization and competition.

The decision about whether to outsource or competitively contract a service is made by the Council, which designates city services "public" or "private." "Public" services ("involving a citywide standard of service, determined and administered by the City and paid for by a tax or governmental levy") are subject to competitive contracting or outsourcing. The City "gets entirely out of the business" of providing "private" services (total privatization). The Council also reviews all city assets to determine whether the property should be sold or its management outsourced.

If a service is to be competitively contracted, the relevant department draws up a Request for Proposals (RFP). Each RFP includes a quality assurance and customer complaint resolution plan. All bidders, including the city department, have access to the same information. The department's working papers related to its bid are confidential, as if it were a private bidder. All bids are submitted at the same time, and the City Manager's office reviews each bid for reasonableness, completeness, and accuracy of cost figures and cost comparisons, and for quality assurance and customer complaint procedures.

The department must identify all costs associated directly and indirectly with the service in question, including direct or variable costs, which would disappear within one year if the service were contracted out (the "go-away" costs); capital costs, including depreciation and financing costs; semi-variable costs, which cannot be eliminated in the short term but which would disappear if more privatization took place; and fixed costs which cannot be eliminated however much work is contracted out. Also considered in the evaluation process are the costs of the transition to the private sector and the costs of contract monitoring and oversight for the city department and the private bidders. By identifying these costs, the City can make a true comparison between the costs of outsourcing the service and keeping it in-house.

The City attempts to keep both its own employees and the public informed about its Privatization/Competition/Reengineering Campaign. Employees may take an eight-hour training session, "Competition 101." For citizens and businesses, the City has produced a flyer entitled "We Want To Do Business With Your Business" describing the competition and outsourcing process, and each month a "Competition/Privatization Update" is released. This newsletter lists all services currently up for bid, with a contact person for each, as well as providing information about particularly large or interesting contracts and noting progress made on asset sale and outsourcing.

### **Accomplishments**

The City Manager announced the results of rightsizing in March 1993. They included:

- Reduction of 272 city positions with no layoffs; \$5.1 million in savings;
- Employee-driven innovations resulting in \$2.8 million of savings;
- Reductions in layers of management so that no department has more than five layers;
- Creation of employee teams to accommodate a smaller workforce and improve service;
- Creation of a Customer Service Center;
- Citywide reorganization into nine "Key Businesses" and four "Supporting Businesses;"
- Prioritization of city services;
- Training for all employees to manage change and retraining to acquire new skills; and
- Investment in technology to reduce layers of management and clerical and administrative staff.

By late 1995 the Privatization/Competition Campaign had guided approximately 25 percent of all services scheduled for outsourcing/competition through the process. Services are scheduled for competition or outsourcing into 1999. However, Charlotte has found that its largest savings have not come from outsourcing or competition (or from total privatization) but from the extensive reengineering and restructuring initiated by the rightsizing campaign. In FY95 (July 1994-June 1995), reengineering and restructuring saved the City \$4.9 million and eliminated 242 positions. Outsourcing, by contrast, saved the City \$1.4 million and eliminated 79 positions in the same time period. In all, Charlotte's campaign to compete, outsource, totally privatize, reengineer and restructure saved almost \$6.5 million and eliminated 321 positions in FY95.

The largest single reengineering savings came from the shift to automated garbage collection, which costs the City \$2.9 million less annually than the old manual system. These and other changes meant that when the City outsourced 25 percent of its garbage collection, the winning bid came in at only \$70,000 less than the City's expenses. (The decision was made to outsource a portion of garbage collection rather than to competitively contract in order to gain experience working with a private contractor on such a large contract—\$2.3 million annually for five years—and to enable the City to benchmark its performance.) Reengineering has allowed the City to compete for and win several contracts in the last year, including the night/holiday/weekend transportation service for the physically impaired, which had been outsourced in 1988; vacant lot mowing; various surveying projects; and fire station painting.

The private sector won \$5.4 million in new contracts in FY95 either through outsourcing or competitive contracting. These include fleet fuel service, print shop operation, custodial services and grounds maintenance at utilities facilities, cemetery maintenance, and tree pruning. In total, the City of Charlotte contracted out almost \$183 million in FY95, of which \$26.3 million was services, \$143.2 million construction, and \$13.5 million commodities. (For perspective, the FY96 operating budget is \$493.2 million and the capital budget is \$230.6 million.)

The City sold \$10 million of real estate in FY95. Another \$8-10 million remained on the market, and in August 1995 the Old Convention Center went up for sale (land valued at \$10.8 million), although it had not been sold as of January 1996. Charlotte also considered selling its wastewater treatment facilities or outsourcing the management of the facilities, but after the employees worked with private sector advice to cut costs by over \$400,000 the decision was made to keep management in-house.

Plans for the future include at least \$18.9 million in services to be outsourced or competitively contracted in FY96, according to the departmental competition plans. The competition plans also commit the departments to less tangible goals, such as continuing to look for ways to save money in in-house operations, maintaining a positive attitude, and ensuring better communication between management and employees.

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*Please see Appendix for more information.*

## San Diego, California “The Most Effective and Efficient”

### **Background**

The City of San Diego began to seriously address the issue of making city operations more competitive in 1993, after several difficult budget years. In August 1993, Mayor Susan Golding appointed a task force of business leaders to review city operations. The group, called CHANGE<sup>2</sup> (Citizens to Help Advocate Needed Governmental Efficiency and Effectiveness), met for several months in late 1993 and early 1994 before issuing recommendations in June 1994. Meanwhile, in November 1993 the STEP (Streamlining and Efficiency Program) process was implemented at the instigation of the City Manager. The goal of STEP was to work with employees to improve efficiency and, if possible, reduce costs while institutionalizing a culture of continuous improvement.

### **Process**

The CHANGE<sup>2</sup> task force determined that the City's goal should be to “make San Diego the most effective and efficiently run city in the United States.” The task force recommended a more citizen-accountable, decentralized style of management, which includes the introduction of Total Quality Management and activity-based costing, the benchmarking of city services, outcome-based budgeting, and the introduction of “competitization.”

STEP was an effort to encourage employees to suggest how governmental functions and services could be performed more efficiently. Fifty sessions were held to allow employees to brainstorm better ways to provide their services, and 3,000 suggestions were noted. Among these suggestions were simplified procurement procedures, a hotline for city employees with ideas, and the creation of a consolidated department to deal with permits.

One of the products of the STEP and CHANGE<sup>2</sup> recommendations was the Competition Program. 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.” Cost savings are not the only determining factor in any changes made because of this program; rather, the City asks if the quality of services should be maintained or improved without increasing costs.

San Diego refused to jump directly into the competitive bidding melee. The decision to take matters more deliberately was made in accordance with a recommendation from the CHANGE<sup>2</sup> task force that the best way to assure the failure of competitization was to attempt system-wide change all at once. The City Manager's office has drawn up a schedule submitting each service to the evaluation and competition process within the next three to five years.

Critical to the controlled introduction of competition is the Competition Team, consisting of select staff from the City's financial, organizational development, and operating

departments. It is charged with institutionalizing systemic changes in how the City does business, including introducing routine performance measurement and benchmarking, and building an ethos of accountability in San Diego's city government. The Competition Team does not make recommendations or decisions itself; instead it works with city employees as they go through the evaluation and competition process. The Team is an interim body; if they are successful, the team members will have worked themselves out of a job, and the departments will continue assessment and benchmarking on their own in order to remain competitive.

San Diego precedes the introduction of competition into a service with an evaluation to see how the service could be performed more efficiently, a process known as Competitive Assessment. The Competition Team helps each service assess itself for competitiveness. The service must benchmark its performance, analyze its performance measures, and pinpoint how it could become more competitive. Then it is given a chance to implement the changes and bring itself up to industry standards before a decision is made whether there is benefit to the tax or ratepayer to issue an RFP. This decision is made by the City Manager, the Mayor and the Council. If they decide to put a service up for bid, the Competition Team helps the department prepare a bid. The City Manager's office evaluates the final bids.

### **Accomplishments**

Financial savings are mostly estimates at this early date (January 1996) in the program. Savings reflect changes resulting directly from the Competition Program, as well as changes initiated outside the formalized competition process. Savings projections are based on immediate reduction of positions, the reduction of positions which will be made possible by investment in new technology, and the cost avoidance resulting from doing more with the same staff even as demands increase. The annual cost reduction based on implementation of the first year changes is estimated at \$5.38 million once all those changes have been implemented. Currently, approximately one-third of those changes have been put in place. The automation of waste management, one of the most sweeping changes, is scheduled to be completed in 1999. By 1999, the City hopes to have reduced 138.7 positions due to changes which were identified just in 1995. These changes include automated trash collection, the contracting out of downtown enhancement services, and efficiencies in dead animal pick-up and airport management.

The City has also been able to improve service delivery in several areas at no additional cost. The most impressive improvement is in the street sweeping schedule. Due to the constraints placed on city finances by Proposition 13, street sweeping had been reduced from once a week to once a month in commercial areas, and from once every three weeks to once or twice a year in residential areas. As the street sweeping division worked on its Competitive Assessment Report, it realized that sweeping speed and effectiveness was much higher in regularly scheduled commercial areas than in residential areas, where temporary "no parking" signs were used due to the infrequency of sweeping. The time it took to post signs and issue tickets also reduced the speed and cost efficiency of

residential sweeping. By posting permanent signs and putting the people who were posting temporary signs onto sweepers, the division was able to increase the frequency of sweeping in residential areas to once a month and ensure that commercial areas would get swept at least once a week. In addition, the City purchased new equipment for both custodial staff and pothole crews which, while requiring an initial outlay, increased the vacuuming efficiency of the janitors in certain city buildings by 15 percent and allowed the City to redeploy road crews to work on backlogged sidewalk and road repair requests.

Since the Competition Program's inception in October 1994, San Diego has not contracted out many services. After the Competitive Assessment Report was issued on custodial services in two city buildings and on dead animal collection, the Council decided to keep these services in-house in order to allow the staff to implement proposed improvements. Several services are being considered for competition during the winter of 1995; these include airport management, water production, biosolids processing, and parking citation processing. Employees in the Citation Processing Program, through the assessment process and the purchase of a new processing system, have identified estimated savings of \$680,000 annually, reflecting the reduction of 11 positions from the city payroll.

Other services being considered for competitive bid or further study in FY96 include:

- Curbside recycling
- Mail and messenger services
- Monthly water meter reading
- Street sweeping (will be reevaluated after changes have been made)
- Fleet maintenance
- Park maintenance
- Cemetery maintenance
- Parking meter collection
- Print shop
- Water distribution.

## **Contact**

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*Please see Appendix for more information.*



***Employee Innovation***

Louisville  
Milwaukee  
Scottsdale  
Seattle  
St. Paul







## Louisville, Kentucky “CityWork”

### **Background**

Many cities have looked to the private sector for solutions to fiscal constraints. Louisville, in contrast, under the direction of its 12-year mayor Jerry Abramson, looks closer to home for ideas about how to spend less and provide better service, among its own employees.

### **Process**

Louisville calls its Total Quality Management-style program “CityWork.” This program puts employees into problem-solving teams which, under the direction of a CityWork facilitator, brainstorm better ways to conduct city business. CityWork sessions can be very large, involving town meetings and several departments, or as small as five people. They are preceded by planning sessions to decide what the main topic of discussion should be and who will be on the teams. The teams’ recommendations are taken directly to the relevant managers. The decision about whether to implement a recommendation is made by the manager, and no approval is needed from either the Mayor or the Council, although the Mayor is kept informed about larger issues.

The goal of the CityWork facilitators is to make this “the way we work.” The CityWork staff’s main job is to change people’s attitudes so that they see that “good enough is not good enough anymore.” There has been resistance, mainly from employees who feel threatened by the changes. There has also been some resistance from unions, which see the CityWork process as an attempt to side-step negotiations with them. The City, however, has made a commitment that, although duties may be reassigned, no one will be laid off. Positions are eliminated only through attrition.

At first the CityWork process was used on services which were clearly operating below par, but recently the process has helped improve successful services, such as CityCall, an innovative citizen hotline. The process has also been used to develop new programs, including a community policing initiative and the coordination of various departments’ youth programs under one umbrella.

The City has no outsourcing or competitive contracting program as such, although it has outsourced several areas, including the running of its mailroom and its print shop. A courier service now manages the mail, and a printing company runs its own machinery in the City’s print shop space. However, Louisville believes that city employees can generally do the job for less; city representatives cite the example of garbage collection, which they have determined is done more cheaply in-house. The City attributes its competitive edge to having such a comprehensive innovation program.

## **Accomplishments**

CityWork has built up a team of 78 trained facilitators, volunteers drawn from all levels of city government. They are directed by one full-time coordinator. From the program's introduction in 1992 until September 1995, there were 24 CityWork sessions, resulting in over 200 improvements in policy and work practices.

The first CityWork session occurred at the Fleet Maintenance Garage. Vehicles would sometimes return to the garage several times for the same problem. Employees realized that the system, which sent vehicles to the first available mechanic, did not foster accountability. To give mechanics more stake in their repairs, the CityWork team decided to assign each mechanic to certain vehicles. This "mini-fleet" system gave each mechanic the responsibility for and a sense of ownership in his work. The number of work orders was cut by 60 percent, saving an estimated \$410,000. To use the extra time productively, the garage won from manufacturers the right to be reimbursed for warranty work. In this way, the garage began to bring in revenue, something it had never done before.

The Law Department has reorganized its assignment process thanks to a CityWork session, and by reducing its contract work it has been able to save \$97,440 annually. The Parks Department maintenance program has become a more productive operation thanks to CityWork innovations.

Two programs mentioned earlier were a result of the CityWork process: the community policing program, which was developed with the cooperation of police officers and citizens in CityWork sessions, and the Youth Consortium, which coordinates some eight or nine youth programs initiated by various city departments.

## **Contacts**

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## Milwaukee, Wisconsin Reengineering Over Contracting Out

### **Background**

In the face of shrinking budgets and increased demands, Milwaukee has invested more energy into innovation and reengineering than contracting services out, although it also does the latter. These processes are made possible by the strong support of the Mayor John Norquist and other elected officials.

### **Process**

In spring 1993, Milwaukee became the first city in the country to adopt performance-based budgeting. The budget allocates money to each department based on the Mayor's long-term policy objectives, but gives managers more control over day-to-day spending. The bottom line is determined centrally for each department, but the budget office no longer haggles with managers over line items. Managers are now responsible not for spending the money in their budget, but for producing results in accordance with the Mayor's objectives. There is an annual review of each department's success in achieving its objectives for the year. This form of budgeting attempts to get away from the most common criticisms of government budgets: that they reward poor performance and reflect tradition and politics rather than the needs of the citizens. Managers now must figure out how to work within their budgets to achieve objectives rather than how to work the system to increase their budgets.

Performance-based budgeting is effectively a form of decentralization, which should release employee creativity. However, Milwaukee also has had to deal with the issue that in a decentralized system it is sometimes hard to coordinate responses to interdepartmental problems. Therefore, in spring 1994 the Business Practice Improvement (BPI) Group was created. The BPI Group, which includes department heads and senior elected officials such as the treasurer and the controller, brainstorms about problems. A brief workplan is developed to describe each problem, and the BPI Group appoints working groups of employees, managers, and administrators to come up with solutions. As employees have become more aware of the program, they have started suggesting changes to be considered by the Group. The Mayor and other elected officials strongly support this program, which helps give it the authority it needs to make changes.

The changes suggested by the BPI working groups have not eliminated many positions, and those employees who have been displaced have been easily relocated to vacancies in different departments. The groups have been able to work productively with the unions.

Milwaukee also contracts out services. Privatization in Milwaukee is done on a case-by-case basis, rather than through a central office. The budget office makes many of the decisions about what will be eliminated or contracted out, but departments also have the authority to decide whether to "make or buy." Cost is the major consideration in the

decision to outsource. A city department will sometimes, but not always, enter a bid in competition with private vendors.

### **Accomplishments**

The performance-based budget has helped Milwaukee to think in a long-term way and to rationalize its budget spending. The BPI program has streamlined and improved service delivery for various city government functions. The most impressive change was the removal of the "net 30" rule which required that vendors wait 30 days for payment. A carry-over from the era of manual processing, the rule kept the City from accepting low bids from companies which demanded faster payment, or from qualifying for discounts for quick payment of invoices. Other improvements have been faster turnover for licenses and permits, the development of backup systems for electronic public records, the reduction of workers' compensation costs through better management, and a study of inter-departmental cooperation in cities around the country. Currently the group is studying how to streamline the vacancy review procedures and how electronic mail can be used to reduce the amount of paper processed by the inter-office mail system. Despite the group's successes, not all suggested changes have been implemented; the City Council, for example, rejected a proposal to remove the Council's Finance and Personnel Committee from reviewing requests to fill vacancies on the grounds that the Council needed to maintain oversight of affirmative action progress.

Milwaukee has contracted out various services, including oil changes on squad cars and parking citation processing. The City bid on the former but did not come in the low bidder; contracting out the latter on a fee per citation basis allowed the City to avoid the cost of purchasing computer equipment to perform this function. The City also terminated a contract with a towing and storage company to remove and store illegally parked cars. Problems with the contractor persuaded the City to move to a more flexible arrangement in which many contractors tow the vehicles but the City provides the storage.

### **Contacts**

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## Scottsdale, Arizona A Value-Driven Organization

### **Background**

In 1991 a new City Manager, Richard A. Bowers, came to Scottsdale with the idea that an organization should be value-driven, rather than leader- or project-driven, and made it one of his goals to institutionalize seven basic values in Scottsdale city government. Those seven values were:

- Respect the individual
- Value diversity
- Be a team player
- Commit to quality
- Risk, create, innovate
- Listen, communicate, listen
- Take ownership

### **Process**

To institutionalize these values, the City Manager created the Office of Organizational Effectiveness. The Office encompasses functions from human resources, quality resource management (budget analysis), and professional training and development. Its employees have been given the latitude to experiment, take risks, and make mistakes as they try to instill in Scottsdale's employees the basic values. The final goal is to create a flatter, more flexible, team-based organization which can respond quickly to change. Cross-departmental interaction and a reduction in the number of supervisory positions are critical to this change.

The Office of Organizational Effectiveness considers itself the "research and development" arm of the government. It works with other cities, studying their models and trying to see what approaches would function best in Scottsdale. The Office also works closely with city employees. Unlike many other cities, where the reengineering teams have scheduled a comprehensive review of every department, Scottsdale's Office of Organizational Effectiveness waits for the departments to come to it. Its staff members see themselves as facilitators, not enforcement officers, and liken their efforts to customer service. Departments come to the Office with problems and with ideas, looking for solutions and help in implementing their ideas. The Office's staff has constant contact with city employees from every department, and they search for people who will "champion" change from within. They facilitate "victories" for these champions, so that other employees will become excited by and involved in the effort to become more effective.

The Office's strategies include encouraging innovation to improve city services and to do "more with less." The Office has also pushed for the delayering of management to increase accountability and contact with citizens.

The Office is helped by the facts that there are no unions in Scottsdale, that the economy is relatively healthy, and that development is strong. Scottsdale is also a small city (1600 employees), which allows the Office to work very closely with the employees in a way that would be more difficult in a larger city.

In addition, Scottsdale has an active volunteer program to encourage citizens to get involved in their community. The volunteer program, called "I'll Do It," matches people with jobs in virtually every department, from communications to human resources to public safety.

### **Accomplishments**

By institutionalizing the seven basic values, Scottsdale hopes to improve the effectiveness and efficiency of city services. Cutting costs or finding new ways to generate revenue are often the results of these endeavors. In FY94-95 innovations saved \$1.4 million and generated \$1.3 million in revenue. Savings were determined by calculating increased productivity due to employees' ideas, as well as adding up avoided costs and the difference between previous and current costs.

Cost savings ideas have included:

- Inventing a boring tool to lay cable for traffic signals without ripping up the pavement;
- Creating an internal print and design shop;
- Purchasing prescription drugs directly from manufacturers rather than through a middle man (this has also allowed the City to collect \$30,000 in rebates that previously were going to other vendors); and
- Renegotiating the City's contract with Blue Cross/Blue Shield.

Service improvement ideas have included:

- Offering a marriage certificate and passport service twice weekly at the City Clerk's office (this has also generated revenue because the Clerk charges a \$10 fee for each passport issued);
- Phone-in registration for Parks and Recreation's programs; and
- Authorizing certain employees to use credit cards so that supplies can be purchased and paid for immediately.

In FY 94-95, volunteers performed approximately 98,000 hours of service and provided the city with \$914,313 worth of service free of charge. Volunteers do computer programming, work in summer programs, and perform benchmarking studies. A panel of volunteers (mainly retired executives from successful businesses) even advises the City Manager on a regular basis.

### **Contact**

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## Seattle, Washington

### The Innovation Project and “Seattle Works”

#### **Background**

In January 1993 Ted Gaebler, co-author of *Reinventing Government*, commented during a visit to Seattle that the City needed an Office of Ideas. Mayor Norman Rice decided to follow through with the suggestion, and the Innovation Project was born.

#### **Process**

Until 1993, city employees were not trained to think about how things could be done differently or to facilitate the implementation of anything new. The Innovation Project was created to make possible and encourage creativity and experimentation by helping employees become leaders, organizational stewards, and innovators, and by providing channels for employees to make suggestions. The Innovation Project was, in essence, the “research and development” arm of the City.

In 1995 the Innovation Project gave way to the more comprehensive “Seattle Works” Program. Seattle Works is “an umbrella to stimulate, coordinate, communicate, and celebrate citywide efforts” to improve service delivery, create a high performance learning institution which taps employee creativity and participation, break down bureaucratic barriers, and increase efficiency and improve cost-effectiveness. Its focus areas include citizens, customers, and community; leadership; employees; accountability; and systems and organizational change. It articulates goals, values, and responsibilities for all city workers. In short, Seattle Works is attempting to institutionalize the concepts introduced by the Innovation Project: innovation, leadership, quality improvement, and efficiency and effectiveness. Some of its tools are an “Idea Fest,” where people can see the innovations other employees have put in place, an innovation recognition program, employee involvement committees, and leadership training courses.

Seattle began to consider involving the private sector in city service delivery only in 1995. The strong influence of unions in Seattle has made privatization a politically dangerous concept. However, the City recognizes that it must consider competitive contracting as it strives to be more efficient. The City underwent an audit to determine which areas might be good candidates for managed competition; sixty-seven were identified, based largely on other cities’ experiences. Seattle also adopted a cost comparison methodology to help it make informed decisions when developing Requests for Proposal and preparing bids. It then began reviewing a few services chosen to be competitive contracting pilot programs, including candidates for consolidation and several maintenance contracts. The unions have begun to work with the City to develop competition guidelines.

An opportunity for competition arose when the City’s power utility announced that it was moving to a new building and would like to competitively bid the building’s phone service.



In the City's first competitive contract, the Department of Administrative Services bid against U.S. West, the local phone provider, and won.

Despite this success, the City is still trying to determine how much money must be saved to make the up-front costs of the bidding process worth it, how to be fair in choosing between bids so that city workers do not become discouraged but private companies continue to compete, and how to cope with the amount of work that goes into preparing for a competitive bid.

The City is also considering whether there are certain areas it should get out of entirely, such as zoo and aquarium management, which could perhaps be done more efficiently by a non-profit organization.

The Seattle Works Task Force is striving to enhance citizen participation in the decision-making process. The City is developing a citizen survey which is designed to discover what citizens' expectations are, how people use government services, and which services are seen as indispensable, among other things. Once the survey format is in place, the City hopes to use it every other year to gauge how attitudes and expectations are changing over time.

In addition, the City is looking for citizen input into its comprehensive neighborhood planning process. The City is attempting to work with the neighborhoods to design a plan that will satisfy everyone while containing urban sprawl.

### **Accomplishments**

Some of the changes instituted by a program like the Innovation Project can be hard to quantify, particularly those related to changes in how the system functions. For instance, soliciting citizen input increases the time it takes to make a decision, but it also helps guarantee that when money is spent it is spent wisely. Furthermore, Seattle Works and the changes it plans to make are still in their early stages.

Given this disclaimer, some of the Innovation Project's more quantifiable successes follow. They include a rethinking of utility bills, which means that large electric, gas, and water users now receive one bill for all their utility lines, with separate accounting for each hookup enclosed. Before, a large user could receive hundreds of bills; the Parks and Recreation Department, for example, used to receive 400 bills each month, one for each of its utility hookups. The one-bill policy was accompanied by a shift to electronic billing for all major customers. These two changes have resulted in an annual savings of \$48,000.

Employees also realized that by taking advantage of vendor discounts for paying bills early, they could save \$6,000-7,000 monthly, which has amounted to a total savings of \$800,000 to date. By consolidating travel bookings with a few travel agencies (instead of each department making bookings individually) and taking advantage of bulk discounts, the City has been able to save approximately \$100,000 in travel expenses.

The leadership institute which was set up in association with the Innovation Project and Seattle Works has also saved Seattle money. Now city employees can perform facilitation which formerly was contracted out. Given the City's need for approximately 700 hours of facilitation annually, at a cost of \$150 per hour, the City is able to save over \$100,000 a year by keeping this function in-house. The job descriptions of the employees who have been trained in facilitation have been rewritten to include that task as one of their core duties. Even taking into account the \$39,000 start-up cost for the training of 36 facilitators, the savings are still considerable and can only increase over time.

### **Contacts**

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## St. Paul, Minnesota “The Entrepreneurial City” Returns to its Roots

### **Background**

In 1984 the Rand Corporation published a report entitled “The Entrepreneurial City: Innovations, Finance, and Management for St. Paul.” It described policies then current in St. Paul’s city government which tried to encourage employees to think entrepreneurially. Each organizational unit was expected to capitalize on any revenue generating service it could provide and consider ways to save money through efficiencies. Incentives included allowing agencies a cut of whatever revenue or savings their innovation had produced. The report also described a new model—the “revenue center”—for enterprise management.

These policies were eliminated during the difficult financial times in the early 1990s, and St. Paul is now struggling to reinstitute and expand upon its entrepreneurial tradition. The issue has become especially critical because of the changes taking place at the federal and state levels which will cut federal and state money going into cities. Coupled with taxpayers’ resistance to annual property tax increases and service cuts, these changes are forcing cities like St. Paul to reconsider the entire scope of their activities simply to survive in the coming years.

### **Process**

Privatization is a touchy issue in St. Paul because of the strong union culture among city employees. The city government must deal with 25 bargaining units representing 3500 employees. Furthermore, the City is in only the beginning stages of switching to activity-based costing. Until that switch has been made, it will be difficult to determine whether private companies can provide services more cheaply because the City does not know how much it spends to provide each unit of service.

The City has also turned to consolidation. City government shares a building with Ramsey County, and it therefore makes sense for the two governments to cooperate rather than to duplicate services. Several services, such as the print shop and purchasing, have already been consolidated, and more consolidation plans are currently being implemented.

St. Paul continues its tradition of selling services to other governments to generate revenue. The large number of small communities in Minnesota makes cooperation between communities important. A community which cannot afford advanced fire training facilities can come to train its firefighters on St. Paul’s, for instance. Minnesota also allows joint powers agreements, which means that one government can provide contract services for many governments. The state, for example, has a contract for patrol cars which allows many Minnesota police departments to buy their cars through the state.

In June 1995, Mayor Norm Coleman declared that one of his top six priorities was reinventing city government. The four goals of the Innovation Initiative are:

1. Stronger emphasis upon adding value to city services;
2. Organizing and providing services which are customer driven;
3. A more effective organization; and
4. A reduction in the cost of city government.

The Mayor created the Innovations Board to direct the Initiative. Comprised of the directors of various city departments and chaired by the Mayor's chief of staff, the Board provides policy guidance and ensures that innovations are not just discussed but implemented. The Board describes its role as:

1. Recognizing and reinforcing innovating behaviors;
2. Providing support and removing obstacles to innovations;
3. Forwarding appropriate innovations to the Quality Steering Team for action;
4. Advocating "big picture" systems change;
5. Answering the question "What should the City be doing?"; and
6. Advocating organizational cultural changes that ensure innovations are generated and implemented.

The Board is advised by a ten-member Innovation Advisory Team. Represented on this Team are AFSCME, the City's Budget Office and Organizational Development, manual and maintenance supervisors, the Quality Steering Team, Ramsey County, St. Paul Companies, and the State of Minnesota.

The Board has both short-term and long-term priorities. Reviewing the purchase of personal computers, parking meter hooding procedures, energy conservation, and contracting out for the CAFR audit are examples of short-term priorities. Reinventing the city and county health departments, vehicle maintenance and fleet management, city use of information technology, the budget process, city and county police communications, and the civil service system are examples of long-term priorities.

The Board is also considering a Service Innovations Awards Program to recognize and reward employee innovations. This program's existence is contingent upon raising funding from the private sector for the awards. With this program, the City has come full circle in attempting to encourage entrepreneurial and innovative attitudes among employees.

## **Accomplishments**

In the 1980s St. Paul completely got out of the garbage collection business. St. Paul residents now choose their own hauler and pay it directly. The City has been able to contract out paramedic fee and old accounts receivable collection. Also being considered for outsourcing or privatization under the new Innovation Initiative are portfolio management, oil changes for the city fleet, animal control, building design services, and data entry.

The City and the County have already consolidated their print shops. Periodically the purchasing department checks the prices to see if it is still cheaper to keep the print shop internal. The city and county election bureaus and records departments are also consolidated. The City's purchasing department directs a purchasing cooperative which includes both the County and the Water Board.

Services that are sold to other governments include police radio repair, police canine training, fire inspection, the use of the fire department's training tower, and road sign making. These all generate revenue for the City.

Three projects that are high on the Innovations Board's agenda are the consolidation of city garages, the creation of a consolidated city-county emergency communications center, and the merger of city and county health departments. The purchasing department is also directing a switch to activity-based costing.

### **Contacts**

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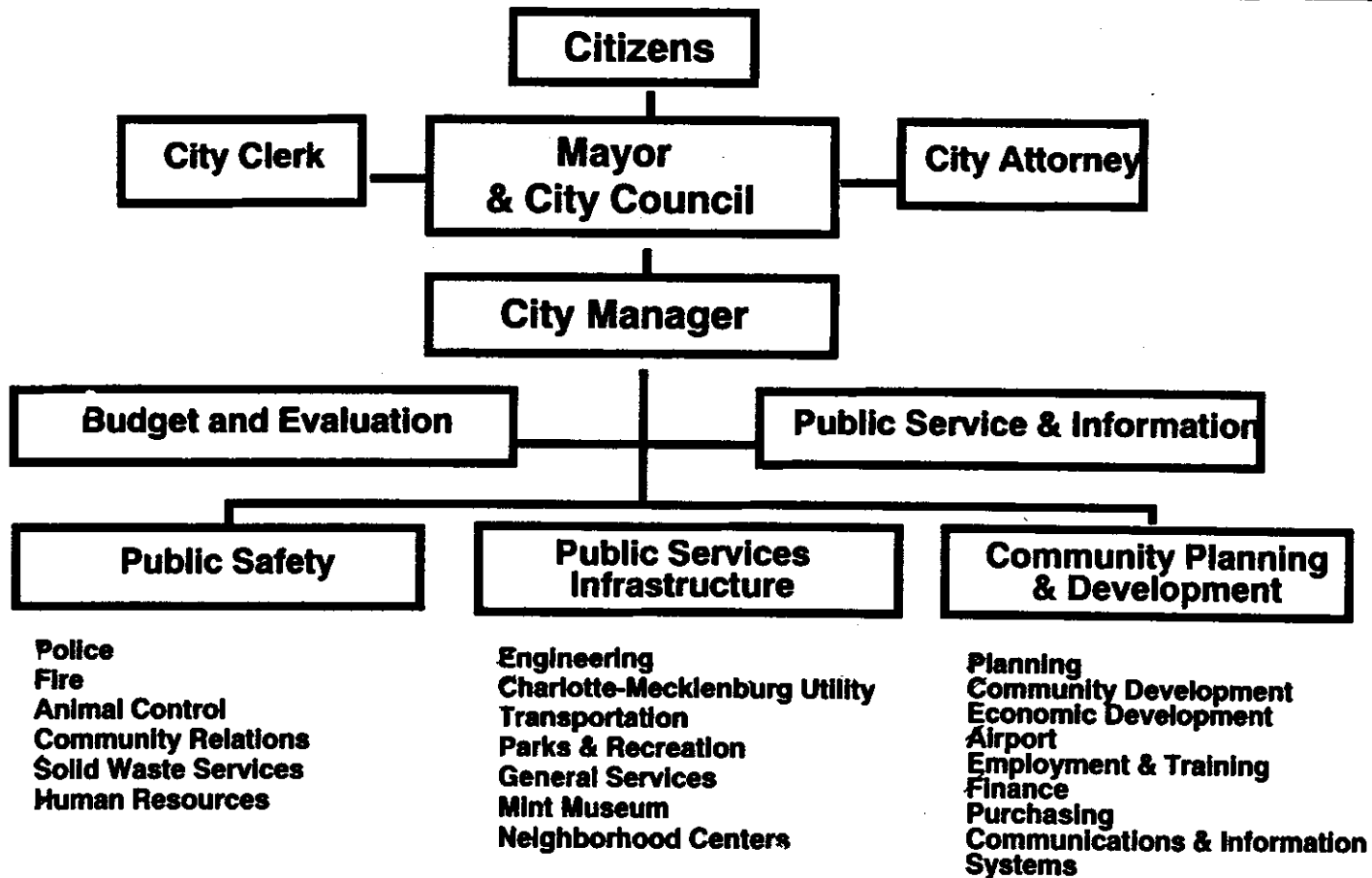


**Appendix**  
**(arranged alphabetically by city)**

1. Charlotte: Pre-September 1993 Organization Chart
2. Charlotte: Post-September 1993 Organization Chart
3. Chicago: Savings from Outsourcing and Consolidation; December 1994
4. Cleveland: 1995 People's Budget (sample pages)
5. Philadelphia: Successfully Bid Contracts and Savings; September 1995
6. Philadelphia: 19-Point Checklist for Contracting Out
7. Phoenix: Refuse Collection and Emergency Transportation; June 1994
8. San Diego: Results of Competition Program/Competition Initiatives To Date; September 1995

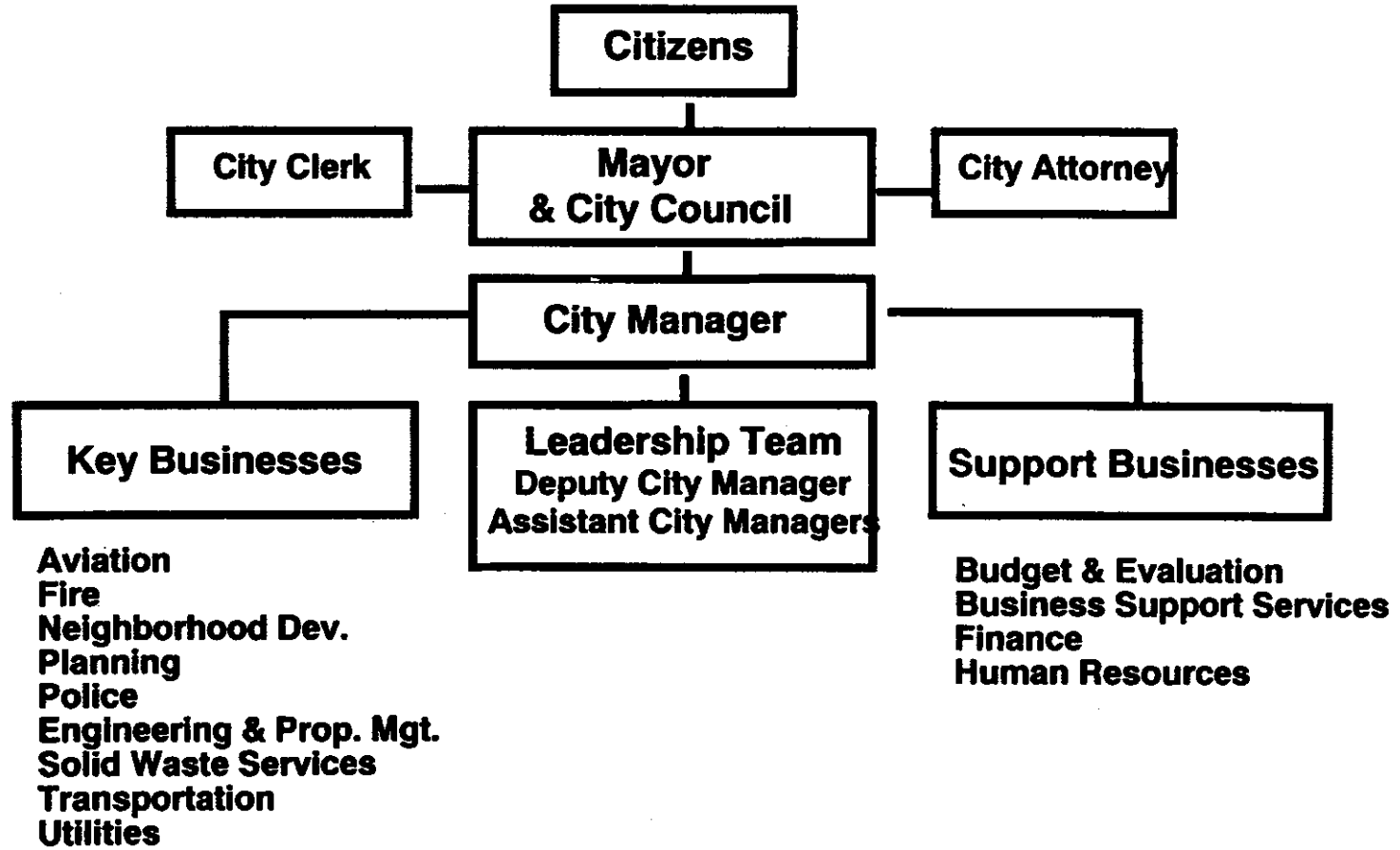


# Organizational Chart Prior to September 1993





# Organizational Chart Today



City of Chicago -- Savings from Outsourcing and Consolidation

December 31, 1994

Compiled by Civic Federation from Chicago's data

<b>SAVINGS FROM CHICAGO OUTSOURCING/CONSOLIDATION</b>						
<b>SAVINGS FROM OUTSOURCING</b>						
DEPARTMENT	PROGRAM	DATES	SAVINGS	SUBTOTALS	POSITIONS	COMMENTS
				(service, non-bold; dept, bold)		
Aviation	O'Hare Parking	1994	\$ 782,424.00			
		1995	\$ 1,677,551.00			
				<b>\$ 2,459,975.00</b>		
General Services	General Stores	1991	\$ 422,979.00			
		1992	\$ 468,128.00			
		1993	\$ 494,534.00			
		1994	\$ 522,261.00	<b>\$ 1,907,902.00</b>		
	Window Washing	1992	\$ 468,759.00			
		1993	\$ 495,088.00			
		1994	\$ 580,620.00			
		1995	\$ 447,471.00	<b>\$ 1,991,938.00</b>		
	Custodial	1990	\$ (12,515.00)			
		1991	\$ 585,796.00			
		1992	\$ 1,091,595.00			
		1993	\$ 878,135.00			
		1994	\$ 1,074,363.00	<b>\$ 3,617,374.00</b>		
				<b>\$ 7,517,214.00</b>		
Health	Woodlawn Adult Health Ce	1992	\$ 791,117.00			
		1993	\$ 858,973.00			
		1994	\$ 930,222.00			
		1995	\$ 1,005,033.00	<b>\$ 3,585,345.00</b>		
	Addiction Treatment	1991	\$ 585,166.00			
		1992	\$ 469,164.00			
		1993	\$ 294,560.00			
		1994	\$ 408,668.00			
		1995	\$ 279,290.00	<b>\$ 2,036,848.00</b>		
	Austin Clinic	1993	\$ 752,685.00		20	
		1994	\$ 806,819.00			
		1995	\$ 863,660.00	<b>\$ 2,423,164.00</b>		
	Pharmacy	1993	\$ 627,983.00		30	
		1994	\$ 122,014.00			
		1995	\$ 128,115.00	<b>\$ 878,112.00</b>		
	North Park Village	1991	\$ 256,790.00		6	
		1992	\$ 332,149.00			
		1993	\$ 349,916.00			
		1994	\$ 355,935.00			
		1995	\$ 361,996.00	<b>\$ 1,656,786.00</b>		
	West Side TB	1993	\$ 176,816.00		13	
		1994	\$ 258,627.00			
		1995	\$ 291,708.00	<b>\$ 727,151.00</b>		
	SW Adult Health	1994	\$ 194,914.00		4	
		1995	\$ 204,660.00	<b>\$ 399,574.00</b>		
				<b>\$ 11,706,980.00</b>		
Human Services	Youth Delinquency	1993	\$ 494,404.00		39	community based organizations
		1994	\$ 659,473.00			
		1995	\$ 685,696.00			
				<b>\$ 1,839,573.00</b>		
Police	Photocopying & Fac. Mgm	1992	\$ 267,580.00		8	sworn positions reassigned
		1993	\$ 225,600.00			
		1994	\$ 179,638.00			
		1995	\$ 193,191.00			
				<b>\$ 866,009.00</b>		
Sewers	Operations Support	1993	\$ 101,588.00			
		1994	\$ 123,014.00			
		1995	\$ 130,716.00	<b>\$ 355,318.00</b>		
	TV Evaluation	1994	\$ 2,890,502.00			
		1995	\$ 5,842,880.00	<b>\$ 8,733,382.00</b>		
				<b>\$ 8,088,700.00</b>		

Traffic Services	Abandoned Vehicle Tow	89-95	\$ 6,250,000.00			
				\$ 6,250,000.00		
Forestry	Stump Removal	1993	\$ 78,845.00			
		1994	\$ 88,445.00			
		1995	\$ 88,445.00			
				\$ 255,735.00		
Transportation	New Alleys	1993	\$ 85,000.00			4
		1994	\$ 28,000.00			
		1995	\$ 28,000.00	\$ 121,000.00		
	Surf. Trans. Planning Stud	1995	\$ 73,831.00	\$ 73,831.00		
	Maintenance Contract	1994	\$ 12,000.00	\$ 12,000.00		
	Residential Curb/Gutter	1992	\$ 2,790,000.00			
		1993	\$ 2,586,000.00	\$ 5,376,000.00		
				\$ 5,582,831.00		
Treasurer	Check Cashing	1990	\$ 90,550.00			
		1991	\$ 362,000.00			
		1992	\$ 362,000.00			
		1993	\$ 355,000.00			
				\$ 1,169,550.00		
Water	Bill Printing, Mailing	1990	\$ 120,000.00			
		1991	\$ 106,000.00			
		1992	\$ 100,000.00			
		1993	\$ 90,000.00	\$ 416,000.00		
	Admin & General support	1993	\$ 28,878.00			
		1994	\$ 30,014.00	\$ 58,892.00		
				\$ 474,892.00		
			\$ 47,211,459.00	\$ 47,211,459.00		118
<b>SAVINGS FROM CONSOLIDATION</b>						
DEPARTMENT	PROGRAM	DATES	SAVINGS	SUBTOTALS	POSITIONS	COMMENTS
Health	Lab Services	1994	\$ 3,475,929.00		77	consolidation with IDPH
		1995	\$ 3,649,725.00			
	Nr South Maternal/Child	1994	\$ 660,950.00		21	services provided by Cook Co.
		1995	\$ 931,298.00			
	Vital Records	1994	\$ 239,280.00		11	consolidation with Cook
		1995	\$ 478,559.00	\$ 9,435,741.00		
			\$ 9,436,741.00	\$ 9,436,741.00	109	
<b>TOTALS</b>			\$ 56,647,200.00	\$ 56,647,200.00	225	

# DEPARTMENT OF PUBLIC SAFETY

## DIVISION OF POLICE

### MISSION STATEMENT

To provide a safe and secure Cleveland by working in partnership with the community to improve the quality of life for all who live, work or visit our city.

### 1995 PERFORMANCE TARGETS

- Increase by 10% the number of arrests & seizures for drug enforcement.
- Decrease by 10% the amount of drug related crimes.
- Increase by 10% the citizen involvement of drug enforcement through citizen tips.
- Achieve a 95% availability rate for all police vehicles.
- Increase arrests for violent crime by 10%.
- Increase conviction rates for violent crimes by 10%.
- Improve response time to priority one assignments to under six (6) minutes.
- Increase curfew enforcement by 10%.
- Reduce the number of crimes committed in parks & recreation centers by 10%.
- Increase traffic citations by 15%.
- Achieve Drug House Task Force boardup #900, a 20% increase over 1994.
- Improve the processing time of police misconduct investigations and notifications to within 60 days.
- Improve the towing & impound program by reducing the contractor response time by 10%.
- Reduce the citizen complaints by 50% in the towing impound program.

# DEPARTMENT OF PUBLIC SAFETY

## DIVISION OF POLICE

### 1995 BUDGET REQUEST

\$127,019,739

### EXPENDITURES

Salaries	\$85,600,043
Benefits	32,557,354
Training	15,250
Utilities	1,206,704
Contractual Services	1,164,360
Supplies & Materials	547,450
Maintenance	170,620
Claims, Refunds & Miscellaneous	250,000
Inter-departmental Service Charges	5,507,958

**QUARTERLY CITY MANAGERS REPORT  
CALCULATION OF COMPETITIVE CONTRACTING SAVINGS  
IN FISCAL YEAR 1998  
COMPLETED INITIATIVES**

9/13/95

City of Philadelphia -- Successfully Bid Contracts and Savings  
September 1995

Service/Facility	(1) City Cost in-house (Annual Basis)	(2) Competitive Contract Cost	(3) Annual Savings	(4) Percent of Contract in FY 96	(5) Savings FY 96
<b>COMPLETED - Outside</b>					
Golf Courses	.	.	.	.	.
Prison Health Services	.	.	.	.	.
Vine Street Maintenance	\$265,227	\$116,000	\$149,227	100%	\$149,227
Water Monthly Billing Mailing	\$387,167	\$239,541	\$147,626	100%	\$147,626
Fairmount Park Equestrian Center	\$174,171	\$0	\$174,171	100%	\$174,171
Custodial City Hall/Concourse	\$1,684,000	\$1,340,000	\$344,000	100%	\$344,000
Art Museum Security	\$3,600,000	\$2,200,000	\$1,400,000	100%	\$1,400,000
Transfer Stations	\$4,800,000	\$2,317,000	\$2,483,000	100%	\$2,483,000
City Warehouse	\$3,981,847	\$2,828,994	\$1,152,853	100%	\$1,152,853
Fairmount Park Tree Maint.	\$421,260	\$96,390	\$324,870	100%	\$324,870
City Print Shop	\$1,399,960	\$851,176	\$548,784	100%	\$548,784
Riverview Medical Services	\$689,681	\$454,272	\$235,409	100%	\$235,409
Disability Management	\$15,200,000	\$12,800,000	\$2,400,000	100%	\$2,400,000
Port of History Museum Building	\$289,676	(\$60,000)	\$349,676	100%	\$349,676
Prison Food Service	\$9,287,574	\$7,198,980	\$2,088,594	100%	\$2,088,594
Art Museum Building Maintenance/Custodial	\$1,575,512	\$1,096,794	\$478,718	100%	\$478,718
Sludge Haul and Dispose	\$5,588,582	\$2,690,100	\$2,188,582	100%	\$2,188,582
Fairmount Park Trolley	\$254,000	\$0	\$254,000	100%	\$254,000
Worker's Compensation	.	.	.	.	.
Nursing Home	\$7,800,000	\$3,660,000	\$4,140,000	100%	\$4,140,000
Fairmount Park Turf Maintenance (987 acres)	\$1,567,109	\$738,029	\$829,080	100%	\$829,080
Prison Commissary	\$90,497	\$0	\$90,497	100%	\$90,497
Fairmount Park Historical Houses	.	.	.	.	.
OSHA (Singles) Case Management (6)	\$792,683	\$554,000	\$238,683	100%	\$238,683
Parking Garages	\$4,679,328	\$2,996,757	\$1,682,571	100%	\$1,682,571
MSB/CJC Master Facilities Management	\$3,064,487	\$2,250,000	\$814,487	100%	\$814,487
Parking Tax Enhancement	\$306,806	\$106,104	\$200,702	100%	\$200,702
Riverview Security	\$152,289	\$65,265	\$87,024		
<b>Sub-totals</b>	<b>\$68,051,856</b>	<b>\$44,539,402</b>	<b>\$22,802,554</b>		<b>\$22,715,530</b>
<b>COMPLETED - In House</b>					
Police Horseshoeing	\$19,575	\$11,739	\$7,836	100%	\$7,836
Sludge Processing Center	\$23,900,000	\$15,700,000	\$8,200,000	100%	\$8,200,000
Southwest Water Pollution Control Plant	\$20,371,400	\$16,111,400	\$4,260,000	100%	\$4,260,000
Operations Support Center	\$0	\$0	\$0	75%	\$0
<b>Sub-totals</b>	<b>\$44,290,975</b>	<b>\$31,823,139</b>	<b>\$12,467,836</b>		<b>\$12,467,836</b>
<b>Totals</b>	<b>\$112,342,831</b>	<b>\$76,362,541</b>	<b>\$35,270,390</b>		<b>\$35,183,366</b>
<b>General Fund Only: (Less Water Department)</b>	<b>\$91,543,260</b>	<b>\$60,251,141</b>	<b>\$30,582,219</b>		<b>\$30,495,195</b>

**NOTES:**

- (1) Includes all costs to perform this function at specified standard.
- (2) Cost of private contractor to perform this function.
- (3) Annual savings [1 - 2 = 3]

(4) Percent of the contract (and the savings) in FY 96.

(6) Five year average

(5) Percent of savings in FY 96.

\* Quantification of savings not yet determined

**19-Point Checklist  
for Contracting Out**

Read, think and follow these steps in this order:

1. Identify the customer/end-user of this service. Focus on the individual, not a group. If the service is filling potholes, the customer is not the Streets Department, the customer is the individual driver on that street. If the service is litter removal and mowing of Pastorius Park, the customer is not the Fairmount Park Commission, it is the individual adult or child who strolls or plays in this park. If the service is adoption placement, the customer is not DHS, but the small child who needs a good permanent home right away.

2. Define service/function in terms of desired end-result provided to the above defined customer. This definition should be in simple, clear language and probably not more than a paragraph. Try not to define the service in terms of procedures, processes, amount or type of equipment, time or labor used or dollars spent. (Usually it's not a good idea to define the service in terms of inputs.) Writing this simple definition will help you write the objectives of the Request for Proposal (RFP), which should appear on the first page.

3. Determine the measurable unit of service. You need this to make sure you are getting what you are paying for and, internally, to decide if you are doing better or worse than last month or last year in terms of service quality, quantity or cost. Depending on the service, units can be large or small. It helps to think of how private businesses in the field price the service. Examples are: an hour of security guard service, a meal in a prison, an acre of grass mowed, or cleaning City Hall or delivering all interoffice mail.

4. Establish quantifiable and measurable performance standards to make sure we get the end result we have contracted for. Try to define the performance standard using the desired end result--try not to define the performance standard using inputs. Be specific, not vague or arbitrary. Both the contractor and the City contract monitor will be more comfortable and confident if both are clear what is required. However, don't insist on what we do now and ask the contractor to duplicate it. We might not be doing it the best way to achieve our desired end-result. This is why most service contracts should be put out using and RFP, not a bid.

5. Calculate the costs for performing this service in-house at the defined performance level. Besides wages and benefits of the employees directly involved in performing the service, be sure to include all equipment, vehicles, gasoline, utilities, rent, building maintenance, insurance, etc. Calculate the costs of supervising both the in-house provided service and supervising the contractor provided service. When calculating costs, make sure you are comparing "apples to apples" with what you are asking the contractor to provide. It would not be fair to compare a higher level of service from a contractor with what we might be spending

in-house for a lower quality of service. Therefore, it may be necessary to cost-out what the City would have to spend if we were to deliver this defined performance level.

You will need these costs to compare whether the contractor is providing you with a better deal. And, you can use these costs as a reference point for streamlining your in-house operation if we decide not to contract out.

6. Pricing. How you ask for a price can make all the difference. Guaranteed maximum prices for a defined end result are best if possible. Beware of cost-plus contracts. If possible, try to price based on the units of outcome. Try not to price based on units of input or processes. Why buy a lot of process and end up with little end-result? If applicable, use incentive pricing so the contractor can be rewarded for extra good performance.

7. Contract monitoring plan. Think about how you are going to monitor the contract before you issue the RFP/bid or sign the contract. What will you require of the contractor in order for you to do a good job monitoring the contract? Your monitoring plan should be quantifiable and specific. Include reporting requirements, regular meetings with minutes, complaint procedures and access to contractor's records (if necessary). Decide how many City persons are needed to monitor the contract and who these individuals are. NEVER renew a contract unless you have clear information that the contractor performed well under the last contract. Don't assume that this is so just because there are no derogatory memos in the file.

8. Subject the service to competition. Consider carefully before you award a sole source contract to anyone. There are very few services that are so special that only one company can provide them. Even if you believe that one company is superior to the rest, subjecting the service to competition will make that company sharpen their pencils and give you a better deal.

If at all possible, don't define the desired end-result or scope of work so narrowly that only one contractor qualifies.

9. You can't have competition unless you have competitors. Work hard at sourcing. Don't just advertise in the back of one newspaper. Check the yellow pages, industry groups, trade associations, mailing lists, trade magazines, other companies and cities who buy this kind of service, etc. Put ads in trade magazines. Very important: call to get the name and address of the individual in the private company who should get this RFP/bid.



10. Ask for qualifications and references of potential contractors, then spend time methodically checking them. You can use a two-step process where contractors are pre-qualified first and then later, only pre-qualified contractors can submit proposals. Or ask contractors to include their qualification information with their proposal, and give a lot of weight to their qualifications when making the award. This can save a lot of headaches later. Customer references are most important (for similar type work), but ask for credit, financial and supplier reference, resumes of key personnel, and legal problems, also. However, don't insist on unnecessary qualifications or requirements that won't guarantee you a better end result. Doing this will merely serve to limit competition.

By the way, a good time to get service ideas, is while you are on the telephone checking customer references.

11. Actively solicit contractors for feedback, suggestions and comments throughout the process. Consider sending out a draft RFP/bid to contractors for comment first. They are in the business full time, and we want to take advantage of their expertise. They are not the enemy. Contractors are reluctant to give you unsolicited feedback because: a) they don't want to be seen as critical, or b) they think you are not interested or open to change. Therefore, you must actively solicit this information. Of course, keep your ears open for self-serving suggestions and don't talk exclusively with one contractor, or become best friends with any of them. Buy your own lunch.

12. Use specific evaluation criteria including checklists and scoring with assigned mathematical weights when evaluating contractors' qualifications and proposals. Establish these evaluation criteria before proposals are in. This will keep your thinking organized and objective, and keep the process honest. Give sufficient weight to the thoroughness and responsiveness of the contractor's plan, references and qualifications--don't just award to the lowest price.

13. Remember, that this is a business deal and both parties have to feel they benefit from the deal. The City is not necessarily doing the contractors a big favor. We can't demand everything our way. When it comes to evaluating the impact of some contract terms, do a cost/benefit analysis. To make something risk free can be very costly for the City. (Remember that our lawyers are only advisors in a business deal.)

14. Give contractors enough time. They need time to gather information and evaluate the circumstances, talk to subcontractors, investigate the facilities, talk to their experts, price out materials, calculate costs, sharpen their pencils and put together a good proposal. An unrealistic time frame can cost the City both in terms of dollars and uninterested contractors (reduced competition).

15. Size of the contract: Make it large enough to capture any economies of scale, but not so large that you eliminate a lot of smaller companies that could do the job well. Don't automatically assume that a big contract performed by a big company is always the best way to go. Why eliminate competition unnecessarily?

16. Hold a Pre-proposal Conference (and Tour, if appropriate). Let contractors ask questions. Answer all questions in writing to all contractors. If one contractor asks a question later, make sure all other contractors receive the answer, too.

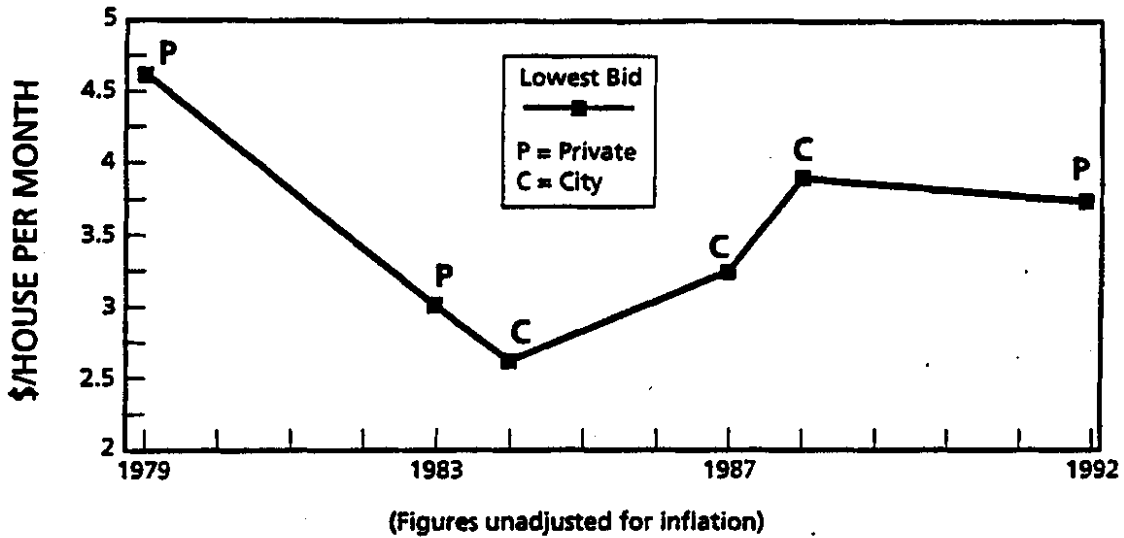
17. A Performance Bond can help assure that the contractor will perform the contract. However, some good, qualified companies--especially small ones--cannot get or cannot afford large performance bonds. The bond amount should not be excessive, because it will only serve to eliminate competition from good companies or increase the contractor's price when the bond premium amount is passed along to the City. References and qualifications are a much better indicator of contract performance than performance bonds.

18. Bonuses for extra performance are a good idea. Penalties are appropriate in some contracts, because they are a way to get the contractor's attention without having to take the drastic step of firing him.

19. Generally, the larger the investment by the contractor, the longer the length of the contract. If we require the contractor to buy a lot of equipment or hire a lot of specialized people, we almost have to sign a longer term arrangement to let him amortize these costs over the life of the contract.

An example of savings is the cost of refuse collection service, which has decreased over the last 15 years, as shown in the graph below.

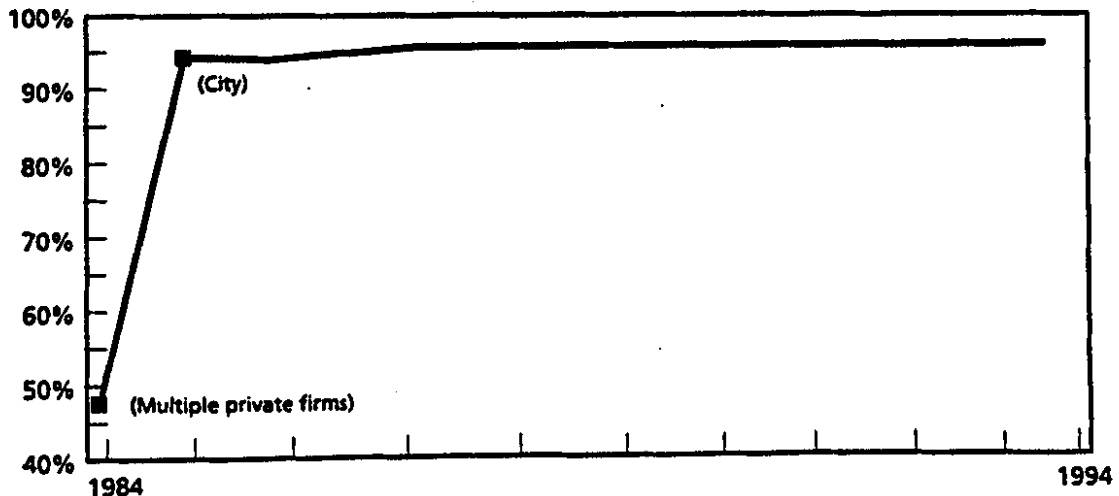
## REFUSE COLLECTION



The City has also experienced service level improvements using the process. The next graph illustrates response times improving dramatically when emergency transportation services were bid in 1985 using this process.

## EMERGENCY TRANSPORTATION

RESPONSES WITHIN 10 MINUTES



CITY OF SAN DIEGO COMPETITIVE EFFORTS

Ongoing Project Cost Reductions:

Project	First Year Cost Reduction	20 Year Cost Reduction Projection	30 Year Cost Reduction Projection	Position Changes	Comments
Airports	\$210,000	\$4,200,000	\$6,300,000	-5.00	Airports Division will achieve staffing and equipment efficiencies by restructuring the organization and increasing the use of contract services.
Automated Trash Collection	\$1,800,000	\$37,000,000	\$56,000,000	-89.00	The acquisition of new equipment necessary for automation of services is being phased in over a six year period. Savings (approximately \$18 million per ten year period) result primarily from reduced staffing -- 89.00 positions will have been reduced by 1999.
Bi-monthly Water Meter Reading	\$123,000	\$2,460,000	\$3,690,000	-3.40	More efficient bi-monthly water meter routes were developed which reduced staffing needs by 15%.
Biologists	\$125,000	\$2,500,000	\$3,750,000	0.00	Change to use of City staff for underwater inspections, samples, and repairs resulted in program cost reductions of over 50%.
Dead Animal Collection	\$32,000	\$640,000	\$960,000	-0.45	Rightsizing vehicles and reducing staff costs through more efficient scheduling reduced program costs by 20%.
Downtown Enhancement	\$250,000	\$5,000,000	\$7,500,000	-11.00	Provision of service via contract reduced service costs.
Monthly Water Meter Reading	\$29,500	\$590,000	\$885,000	-0.60	More efficient routing and adjustments to reading frequency are projected to result in cost savings.
Parking Citation Processing	\$680,000	\$13,600,000	\$20,400,000	-11.00	Implementation of new computer processing system and associated staffing reductions will reduce costs by 35%.
Equipment Division	\$504,000	\$10,080,000	\$15,120,000	-18.25	Staffing reductions achieved through an organizational restructure shifting tasks and redefining responsibilities.
Cogeneration, MWWD	\$500,000	\$10,000,000	\$15,000,000	0.00	Privatization of production and sale of energy from landfill and biosolid gases to NSPF and SDG&E.
<b>Total Reduction</b>	<b>\$4,253,500</b>	<b>\$86,070,000</b>	<b>\$129,605,000</b>	<b>-138.70</b>	

\* Average annual cost reduction over a ten year period is \$1.8 million. During the phase-in period, the annual cost reductions will be significantly less due to reinvestment in equipment.

09/26/95

Service Enhancements:

89

Project	Service Efficiencies
Custodial -- CAB/COB	Employees increased efficiency through acquisition and use of new vacuuming equipment. Staff were also redeployed to better meet identified customer needs. The results were a 15% increase in vacuuming efficiency and increased customer satisfaction.
Street Sweeping	Employee ideas on operating efficiencies and redeployment of staff will enable a significant increase in swept miles. Residential areas are projected to receive an increase in service from two times per year to 12 times per year. Service in commercial areas will increase to a minimum of once per week.
Biosolids	The City's ability to effectively process and dispose of biosolids will be substantially enhanced through use of a variety of processing and disposal methods, both privatized and City provided. Anticipated City capital costs of 24 million dollars for setup of processing systems will be eliminated.
Equipment Division	Construction of a high pressure equipment washer at each maintenance station provides for cost effective removal and environmentally sound disposal of grease and grime from the exterior of City equipment.
Equipment Division	Established an Interactive Voice Response (IVR) phone system enabling City staff to check the status of motive equipment brought for repair without the need to contact and speak directly with a supervisor.
Pothole Patching	The number of employees required to provide a constant level of response to pothole repair requests was reduced by purchasing more efficient trucks for spray injection and heated patching. Personnel were reallocated to help reduce the backlog of work requests for sidewalk and road repair.

Onetime Project Cost Reductions:

Project	Cost Reduction	Comments
Fiesta Island Conveyor Electrical	\$53,000	City employees completed work on schedule and under budget. Cost was 75% less than the contractors quote.
Fire Services Building Maintenance	\$300,000	Fire Department has reassigned some staff to station repair and maintenance duties. The results have been reduced wait times for fire station maintenance and a reduced allocation for fire station maintenance costs. Savings will continue to accrue until reassignments must be reversed.
<b>Total Cost Reduction</b>	<b>\$353,000</b>	



***Additional Sources***





### **The Alliance for Redesigning Government**

This group's mission is to connect people with ideas and experience in innovation from across the country, so that they can learn from each other. The Alliance publishes a semimonthly newsletter, *The Public Innovator*, outlining innovations in governments of all levels, in every state. The Alliance also maintains a World Wide Web home page at the address <http://www.clearlake.ibm.com/Alliance/>. This page is full of information about innovations, as well as contact lists and links to other pages that might be of interest.

1120 G Street, NW, Suite 850  
Washington, DC 20005  
202/466-6887 (INNOV8R)  
FAX: 202/347-3252

### **Fiscal Austerity and Urban Innovation Project (FAUI)**

The FAUI Project coordinates over 500 persons working on urban innovation in the U.S. and other countries. Innovations are documented in case studies and analyses. Over 20 books and 200 articles are available, summarized in the *FAUI Newsletters*. Books include Terry Clark, ed., *Research in Urban Policy* (Greenwich, CT: JAI Press), five volumes; Westview Urban Policy Challenges Series, multiple volumes, Sage Series in Urban Innovation, three volumes. The FAUI Project also coordinates the Urban Innovation in Illinois Project (see below). The Project maintains the FAUNET, an Internet resource including communications among participants, memos, reports, and data files. For *Newsletters* or to access FAUNET, contact:

Terry Nichols Clark, Coordinator  
Fiscal Austerity and Urban Innovation Project  
1126 East 59th Street, Suite 322  
The University of Chicago  
Chicago, IL 60637  
312/702-8686, FAX 312/702-9673  
E-mail: [tnc@cicero.spc.uchicago.edu](mailto:tnc@cicero.spc.uchicago.edu)

### **The International City/County Management Association**

A professional and educational association of appointed administrators in cities, counties, and councils of government in the United States, Canada, and other countries. ICMA offers membership, data, and information services, including a Management Information Subscription service, *Public Management* magazine, a municipal yearbook, and a special report entitled *Service Delivery in the 90s: Alternative Approaches for Local Governments* which describes seven alternative service delivery approaches, functional areas of government, and 17 case studies. (This description is from the Alliance for Redesigning Government's home page.)

777 N. Capital Street, Suite 500  
Washington, DC 20002-4201  
800/745-8780 (for documents)  
202/289-4262 (for membership and MIS subscription services)



### **Local Government Network's Innovation Groups**

This is a network of local governments that communicate about innovations. Their World Wide Web address is <http://civic.net/ignet/ig.html>. The site is also accessible from the Kennedy School's Innovations in American Government home page under the button "Other WWW Resources."

### **John F. Kennedy School of Government's Innovations in American Government Program**

Each year the Kennedy School of Government at Harvard University awards governments around the country for their innovative approaches to governing and service delivery.

The Innovations Awards also has a World Wide Web home page at

<http://ksgwww.harvard.edu/~innovat/index.html>. This home page describes the award-winning innovations as well as the process for submitting an application to the awards.

The Innovations in American Government Program

Taubman Center for State and Local Government

John F. Kennedy School of Government

Harvard University

79 JFK Street

Cambridge, MA 02138

617/495-0558

### **The National Council for Public-Private Partnerships**

An organization dedicated to promoting research, providing education, and sponsoring forums for the exchange of information relating to the use of public-private partnerships for the provision of public services and public works. The Council organizes conferences and training sessions on how to become competitive, maintains lists of written resources on privatization, and directs inquiries to people with experience and knowledge in specific areas of privatization. The Council's membership includes public, private, and non-profit entities with an interest in privatization.

1010 Massachusetts Ave., NW

Suite 350

Washington, DC 20001-5402

202/467-6800

FAX: 202/467-6312

### **"Privatization: American Style"**

Article by Inge Fryklund

*Business Forum*, Winter/Spring 1994, Volume 19, Nos. 1 & 2, pp. 4-8.

Cited in Introduction.

### **The Reason Foundation**

A national public-policy research organization with a practical, market-based approach and an outside-Washington perspective. The Foundation publishes *Reason* magazine to offer outside-the-Beltway social and political commentary. One branch of the Foundation is the Privatization Center, which publishes the monthly newsletter *Privatization Watch* and the more extensive annual *Privatization* report, both of which describe trends and developments in privatization across the country. The Center also publishes how-to guides, case studies, and reports about privatization.

3415 S. Sepulveda Blvd., Suite 400  
Los Angeles, CA 90034-6064  
310/391-2245  
FAX: 310/391-4395

### ***Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector***

David Osborne and Ted Gaebler  
New York: Plume Books (Penguin), 1992  
The bible of those who would make government more efficient.

### ***Urban Innovation: Creative Strategies for Turbulent Times***

Terry Nichols Clark, Editor  
Thousand Oaks, CA: SAGE Publications, 1994  
Cited in Introduction.

### **Urban Innovation in Illinois (UII)**

UII was created as the Illinois section of the FAUI Project (see above). UII has held four competition programs for local governments and made over 100 awards for innovation. These are summarized in case studies and reports by the participating local officials, listed in *URBAN INNOVATION: Who's Doing it? What Really Works?* (17 pp.), a summary of Urban Innovation Awards for 1987 and 1988 with an attached order form for related documentation. Available from Terry Nichols Clark, 1126 East 59th Street, Suite 322, Chicago, IL 60637. The third year's awards (1991) were published in the Illinois Government Finance Officers Association Newsletter, *Communiqué*. The fourth year awards (1995) were summarized in a report produced by the Civic Federation, 243 S. Wabash, Suite 850, Chicago, IL 60604.





## **Glossary**





Just as each city calculates its savings from privatization and innovation differently, each city uses the jargon of privatization, competition, restructuring, and innovation in a different way. This glossary represents our attempt to put some method into the madness, and we have tried to use these terms consistently throughout the text. The first definition is the one we have assigned to each word. The italicized definitions describe some of the ways governments and others use the word or refer you to other words in the glossary.

- Accountability**
- Each worker is personally responsible for failures and successes. When the employee is accountable, he or she feels more “ownership” of a job. The goal of those who give employees more authority and responsibility.
- Activity-based costing**
- A system which measures the cost of providing a service in terms of how much it costs to provide each unit of that service (e.g., the cost of sweeping a mile of streets or collecting garbage from one house for a month). Activity-based costing takes into account not just direct costs, such as wages and equipment upkeep, but also indirect costs such as pension contributions, insurance costs, and payroll processing. Activity-based costing is critical to privatization, because until a city knows how much it actually costs to provide a service, there is no way to evaluate whether bids received from private companies are offering a better or a worse price than what it currently costs.
  - *See “performance measurement,” “efficiency,” “effectiveness,” and “input-output-outcome.” Activity-based costing measures the price of inputs; performance measurement measures the cost of outputs and outcomes.*
- Benchmarking**
- The process of comparing what services are provided, at what level, and at what price in comparable cities. Benchmarking can also compare costs and service levels over time. Benchmarking is an attempt to keep city services in line with industry and historical standards both in their quality and their price.
- Competitive contracting**
- An arrangement in which the city department that has traditionally provided the service competes on an equal footing with outside vendors for the contract to provide the service.
  - *Also called “managed competition” (Indianapolis) and the “public/private competitive process” (Phoenix).*
- Consolidation**
- The merging of government offices which perform duplicate functions. Generally it involves the elimination of an office under the jurisdiction of one government and the assumption of full responsibility for the function by another branch of government.

- Contracting in**
- When a city contracts with its own employees to perform a service. Just as in a contracting out situation, cost overruns must be borne by the department. This arrangement encourages city employees to look for ways to generate revenue and keep expenses low. Terminology developed by the Rand Corporation to describe St. Paul's management methods in the 1980s.
- Contracting out**
- *See "outsourcing."*
- Cost avoidance**
- Costs which are not incurred due to a change of process. These are usually capital costs (avoiding purchasing a new computer system by outsourcing payroll, for example) or hiring costs (efficiencies which make hiring unnecessary even when demand increases).
- Delaying**
- The reduction of the number of levels in the governmental hierarchy. The goal is to increase the number of employees under each manager, make it clearer who is responsible for each function, and reduce the tendency of middle managers to "micromanage."
  - *See "span of control."*
- Downsizing**
- Reducing the number of employees. There are various techniques for downsizing without layoffs, including early retirement packages and job banking.
  - *See "job bank."*
- Effectiveness**
- A qualitative and quantitative measurement of how successful a service has been in achieving its objectives. For example, if the service is an experimental community policing initiative, questioning effectiveness would mean questioning whether crime rates had dropped since the service was begun. This concept is most useful when two services are being compared, either explicitly or implicitly.
  - *See "activity-based costing," "performance measurement," "efficiency," and "input-output-outcome."*
- Efficiency**
- A measurement of how much it cost to perform a service at a particular service delivery level, especially in a comparison situation. To compare the efficiency of two bids for street sweeping services, one would compare how much each cost per mile and the level of cleanliness each provided.
  - *See "activity-based costing," "performance measurement," "effectiveness," and "input-output-outcome."*
- Entrepreneurialism**
- The attitude that governments should be run with many of the same assumptions as businesses, including a profit motive, a bottom

line, incentives for saving money, and a culture which encourages employees to seize opportunities.

**Innovation**

- The rethinking or reengineering of a process. Often makes use of new technology. We use the term “employee innovation” to refer specifically to ideas suggested and implemented by employees under a system which empowers employees to improve the efficiency and effectiveness of government.
- See “reengineering.”

**Input-output-outcome**

- Input refers to the units put into providing a service, often measured in full-time equivalent positions. Governments have notoriously budgeted by input; if crime goes up, more police personnel are hired. Output refers to the product of a service. Performance measurement attempts to put the emphasis on output: how many criminals are arrested, how many cars are ticketed. Outcome refers to the success a service has in achieving its goals. It is the hardest to measure, but the most important. A successful outcome would be reduced crime or illegal parking.
- See “activity-based costing,” “performance measurement,” “efficiency,” and “effectiveness.”

**Insourcing**

- See “reverse privatization.”

**Job bank**

- An arrangement whereby jobs vacated due to attrition are held for workers displaced by the elimination of their jobs due to downsizing, outsourcing, or competitive contracting. The displaced workers are run against the available jobs to see which match their skills the best. Often accompanied by a retraining program.
- See “downsizing.”

**Outcome**

- See “input-output-outcome.”

**Output**

- See “input-output-outcome.”

**Outsourcing**

- An arrangement in which the city contracts with a private vendor to provide a service. City departments do not bid on the contract.
- Used interchangeably with “contracting out.”

**Performance measurement**

- A system which 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. Performance measurement can be used to determine how effective a service is, how much the output/outcome costs, and a service’s efficiency. Without



performance measurement, it is difficult to benchmark, to evaluate current services or compare them to bid proposals, or to monitor the performance of a contractor. Effective budgeting (which rewards successes rather than failures) is generally based on performance measurements and outputs/outcomes rather than on inputs. (See the Milwaukee case study.)

- See “activity-based costing,” “efficiency,” “effectiveness,” and “input-output-outcome.”

### **Privatization**

- Any arrangement which involves the private sector in service delivery, including competitively-bid contracts. This is the broadest possible definition of the term.
- *When the city “gets out of the business entirely,” such as when citizens must choose and pay their own haulers to collect garbage. See “total privatization.”*
- *Sometimes used interchangeably with “outsourcing” or to describe the situation when a private company has won a contract, even if public employees bid.*
- *Asset sales.*

### **Public-private partnerships**

- Any arrangement in which the public and the private sector work together to accomplish a goal.
- See “privatization.”

### **Reengineering**

- The internal restructuring of how a service is provided or a department organized. Also called “process reengineering.” An example would be the rerouting of street sweeping schedules to cover more miles per day.
- See “innovation.”

### **Reinventing**

- Any attempt to change how government runs.
- *Used to mean “reengineering” in terms of a single service and “restructuring” in terms a comprehensive rethinking of how government is organized and run. Used most famously by David Osborne and Ted Gaebler in their book Reinventing Government and also by Vice-President Gore in his “Reinventing Government” (REGO) effort (officially called the National Performance Review) to make the federal government more efficient.*

### **Request for Proposals (RFP)**

- The document a city releases when it is soliciting bids, explaining what service the city needs, what the minimum service level is, and any other factors which a potential provider will have to consider in preparing a bid.

- Restructuring**
- The comprehensive rethinking of city government, asking what services should be provided, how they should be provided, and how government can be designed to provide or ensure the provision of those services in the highest quality way at the lowest possible price.
- Reverse privatization**
- When a service which has traditionally been provided by a private vendor is provided in-house by city employees.
  - *Also called “insourcing.”*
- Rightsizing**
- A process of reducing employees and costs, accompanied by the restructuring of government to make it generally more efficient, not just smaller. Also called “downsizing.”
- Savings**
- Each city calculates savings in a different way: some, like Phoenix, take the difference between the winning bid and the next lowest bid, some take the difference between the cost of service delivery before and after privatization, some take the difference between the “after” cost and the projected cost of a service if no changes had made. These differences must be taken into account when comparing savings figures.
- Span of control**
- The number of employees for which each manager is responsible.
  - *See “delaying.”*
- Total privatization**
- When a city “gets out of the business” of providing a service. The entire responsibility of the service, including paying for it, is shifted to another party. Called in this book “total privatization” to distinguish it from the fuzzy term “privatization,” which means different things to different people.
- Total Quality Management (TQM)**
- A management methodology that seeks to continually improve the processes of an organization in order to satisfy its customers. Full implementation of TQM generally involves bringing managers and employees together to solve problems and implement needed changes.
- Unbundle-rebundle**
- The process of reviewing services (generally includes benchmarking, performance measures, and consideration of reengineering or privatization measures which could be used to make service delivery more efficient) and then redesigning them to be more efficient.



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