OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: September 5, 2007 **IBA Report Number:** 07-82

Budget Committee Date: September 12, 2007

Item Number: 2

Subject: Managed Competition Status Update

OVERVIEW

On November 7, 2006 San Diego voters approved Proposition C, which amended the City Charter to allow the contracting out of non-Public Safety services typically provided by Civil Service employees. Prior to contracting out, it must be determined that the service can be provided more efficiently or cost-effectively by an independent contractor than by City employees, while maintaining the quality and level of services provided. This will require City employees to essentially compete against outside contractors. This process is known as managed competition.

Shortly following the approval of Proposition C, the Mayor released a press release that outlined numerous steps that would be taken to immediately begin implementing managed competition. To date, many of those steps have not yet been taken. This report highlights the actions that have been taken over the past several months in regard to managed competition, and attempts to provide a status update on where the process currently stands.

Overall, a few key steps have been taken to implement managed competition, such as passage of the Implementation Ordinance and the drafting of a comprehensive Managed Competition Guide. However, there are still several critical steps that still must be taken, such as formation of the Independent Review Board, hiring of a Managed Competition Program Manager, and finalizing the Managed Competition Guide. As a result, the timeframe for implementing managed competition has taken longer than what was originally anticipated. This has also caused a delay in the execution of certain efficiency measures and related cost savings identified pursuant to Business Process Reengineering. This report poses numerous questions on these and other issues in order to provide greater clarity on this process, and to set the foundation for future discussions.

FISCAL/POLICY DISCUSSION

This section begins by discussing the original timeline for implementation of managed competition, the steps that have been taken to date, and additional steps that still must be taken. The following section discusses the relationship between managed competition and Business Process Reengineering, and some of the challenges that have arisen.

Managed Competition Implementation Timeline

On November 9, 2006 the Mayor issued a press release on Proposition C detailing several steps that needed to be taken in order to implement managed competition in the City of San Diego. The press release also included an aggressive timeframe for each of these steps in order to begin immediately implementing the will of the voters. These steps and associated timeframes are listed below.

Implementation Step	Timeframe
1. Complete negotiations with the labor unions on the Implementation Ordinance	Early December 2006
2. Begin training on certain aspects of managed competition, including the new COMPARE software	Begin in early November 2006 and continue as needed
3. Select and begin working with a consultant in preparing Statements of Work	Late November 2006
4. Nominate candidates for the Independent Review Board	Confirmation targeted for early 2007
5. Issue first Request for Proposal	Summer 2007

The Mayor's press release also indicated that all departments would undergo Business Process Reengineering (BPR) prior to being subject to managed competition. In addition, several other steps not detailed in the press release would need to be completed, including hiring a Managed Competition Program Manager and developing a comprehensive Managed Competition Guide.

On January 9, 2007 the City Council approved the Implementation Ordinance (O-19565), establishing the guidelines by which managed competition would be implemented and executed. Establishing the policies and procedures for implementation was a crucial step in the process. Since then, however, there has been little communication or public discourse regarding the status of the managed competition program or any of the other steps outlined in the November 9, 2006 press release.

Two other crucial steps in the implementation process also appear to be moving forward. The City Council is currently scheduled to consider the Mayor's nominations for the Independent Review Board in late September. Additionally, the Managed Competition Guide appears to be nearly completed, though the status of negotiations with the City's labor unions relative to this Guide is unclear. Finally, the job announcement for the Managed Competition Program Manager was released on March 14, 2007. However, this job announcement remains on the City's website, indicating that the position is still vacant.

Aside from the developments described above, it is unclear what other steps have been taken to implement the City's managed competition program. In order to assess the status of managed competition and to facilitate a more transparent process, the IBA submits the following questions to the Mayor's office:

- What impediments to implementing managed competition have impacted the original schedule? What is the current timeframe for implementation?

- What is the status of Managed Competition Guide?

- What is the status of the Independent Review Board?

- Has the consultant described in the November 9, 2006 press release been retained? If so, what is the scope of duties and work product?

- Has the Managed Competition Program Manager position been filled? If not, when is it anticipated to be filled? Who is the lead staff person currently?

- Given the revised timeframe, when is the first RFP anticipated to be issued?

Finally, in January the Council President raised the issue of possibly granting City employees displaced by managed competition the right of first-interview with the contractor selected to perform City services. We request that the Mayor provide a status update on any efforts to accommodate this type of a provision.

Managed Competition and BPR

Another point of general confusion is the relationship between managed competition and Business Process Reengineering (BPR), and the point at which departments or functions are determined to be candidates for managed competition. For instance, on February 6, 2007 the City Council approved the Environmental Services BPR. However, that BPR covered only about one half of the Department's operations. Details regarding the reorganization and operational efficiencies in the Collection Services Division were withheld pending a decision on managed competition.

This withholding of information was reportedly done in order to protect sensitive cost data that if released might compromise the Division's competitiveness should they be subject to managed competition. This brings up two issues. First, it appears that a preliminary decision was made that Collection Services would likely be a good candidate for managed competition. It is unclear why this determination was made solely for the Collection Services Division, and not for any of the other Divisions within the Environmental Services Department.

Secondly, and perhaps more importantly, it means that the Division will not immediately reap the benefits of the organizational and operational efficiencies identified through the BPR process as it waits for a decision regarding managed competition. As discussed, the process of fully implementing managed competition is taking longer than originally anticipated, and the IBA is concerned that substantial cost savings are being forgone during this lengthy implementation process. We recommend that the Mayor consider establishing a deadline by which identified BPR efficiencies will be implemented regardless of any decisions on managed competition.

In order to clarify the relationship between BPR and managed competition and the process by which departments or functions get selected for managed competition, the IBA offers the following questions:

- How are departments or functions determined to be candidates for managed competition?

- Are certain departments or functions determined to be likely candidates before their BPRs are completed?

- Has a pre-competition assessment been completed for any City services? If so, which ones?

- After a BPR is finished, how long will it take will it take to complete the pre-competition assessment?

- Once a decision is made to go forward with managed competition, what is the timeframe for implementation?

- When will a decision be made regarding the Collection Services Division?

The IBA recommends that the Mayor begin providing quarterly updates on the status of managed competition. We recommend that these updates include revised timelines for implementation, additional legislative or administrative steps that need to be taken, updates on relevant labor negotiations, and information on which departments or

functions are being considered for managed competition. This would allow the Council and the public to have a greater understanding of the managed competition process and would facilitate better communication between the executive and legislative branches.

CONCLUSION

With the passage of Proposition C on November 7, 2006 the City began the process of implementing a managed competition program. A press release issued by the Mayor on November 9, 2006 established a time frame for implementation, and outlined various steps that needed to be taken. To date, however, few of those steps have been completed, and the timeframe for implementation has been substantially lengthened. This has also caused a delay in the execution of certain efficiency measures and related cost savings identified pursuant to Business Process Reengineering.

The IBA recommends that the Mayor begin providing quarterly updates on the status of managed competition, including revised timelines for implementation, additional legislative or administrative steps that need to be taken, updates on relevant labor negotiations, and information on which departments or functions are being considered for managed competition. In addition, we recommend that a deadline be established by which identified BPR efficiencies will be implemented regardless of any decisions on managed competition.

[SIGNED]

Tom Haynes
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst