OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Business Process Reengineering (BPR) Update and Role of the City Council

OVERVIEW

In response to a request from the Budget and Finance Committee, the Mayor's Office has provided a comprehensive report, dated January 25th, 2008, "Business Process Reengineering (BPR) Status Update." The Mayor's report provides an update on 25 service areas that have either been completed, or will soon complete their BPR studies.

Their report discusses which studies have been approved by City Council to date and implemented; which ones have been completed and are in pre-competition assessment; and BPR's that are nearly complete and have been identified for pre-competition assessment. Additionally, their report indicates where the meet and confer process stands relative to each study area. According to the Mayor's Office, meet and confer will be carried out simultaneously with the pre-competition assessment for the applicable functions.

The purpose of this report is to augment the information provided by the Mayor's Office. We raise issues regarding the role of the legislative body in the BPR process for studies that are proceeding directly to pre-competition assessment, and potentially to managed competition, without Council review of service levels. We further discuss the need to reintegrate the City Council back into the role of legislative oversight of service levels that have been identified through the BPR process, when functions have been identified for pre-competition assessment.

FISCAL/POLICY DISCUSSION

Summary of BPR Status Update

The information provided in the Mayor's Office report shows that 25 departments or functions have completed or will soon complete business process reengineering studies. **Attachment A of this report provides our summary chart of the status of each of the 25 studies, plus one additional study completed last year (Police Civilians- Phase I), for a total of 26.**

Of the 26 BPR studies, eight have been reviewed and approved by City Council. No BPR's have been brought forward to Council since July 2007. Of the 18 remaining studies discussed in their report, 13 have been identified for the pre-competition process, which is either underway or soon to be. Of the 13 being evaluated by management for possible managed competition, ten have been withheld from Council review and implementation due to procurement sensitive information and/or the conclusion of meet and confer. Among those being withheld are high priority services including **Park and Recreation, Reservoir Recreation, Libraries**, **Solid Waste Collection Services, Streets, Development Services and Storm Water Management.**

The remaining significant completed studies noted in the Mayor's Report include Police and Fire-Rescue, which are exempt from managed competition, and Homeland Security. According to the Mayor's Office, these completed BPR's will be docketed for Council review in February, March and/or April 2008.

Council's Role in Maintaining Service Quality

Proposition C "Contracting Out of City Services City of San Diego," approved by the voters in the November 7, 2006 election, emphasized the importance of maintaining City service levels and the role of the legislative body in ensuring that this happen:

> "The City may employ any independent contractor when the City Manager determines, subject to City Council approval, City services can be provided more economically and efficiently by an independent contractor than by persons employed in the Classified Service **while maintaining service quality and protecting the public interest. The City Council shall by ordinance provide for appropriate policies and procedures to implement this subsection**. Such ordinance shall include minimum contract standards and other measures to protect the quality and reliability of public services."

Chapter 2 - Section 22 of the Municipal Code provides the implementing language for the managed competition process including Section 22.3703 "Minimum Contract Standards

and Contractor Qualifications" which requires "that any independent contractor providing services to the City meet minimum contract standards to be contained in the solicitation for services." The Ordinance does not address how or by whom performance standards for the solicitation will be determined; or how the legislative body will go about ensuring that service quality will be maintained.

BPR Process and Performance Indicators

In addition to streamlining operations and implementing efficiencies, the BPR Process was always intended to serve as the vehicle whereby performance indicators were identified for services throughout the City as called for in the BPR Guide. Additionally, all completed BPR's were to be provided to Council prior to their implementation per the BPR Ordinance:

> "Prior to implementation, the Mayor shall provide to the Council a report on proposed changes to any department, division, or board of the City as a result of BPR, including changes required to the Administrative Code and changes necessary to the Appropriations Ordinance; such report to be filed with the City Clerk, who shall place notice of such report on the next available Council docket following receipt of the report, and provided to the President and Members of the City Council."

The Ordinance further calls for the President to docket a hearing on the BPR results if requested by four members of the Council. If not docketed within 60 days or five Council meetings, the BPR will be considered approved for implementation.

As discussed earlier, in the first full year of the BPR process, all completed BPR's were provided to Council consistent with the Ordinance. The Mayor docketed eight BPR's for Council review from October 2006 to July 2007, and they were all approved. In the second year of the process, no BPR's have been brought forward to Council.

Linking BPR and Managed Competition Has Impacted Council's Role

Providing Council with the service levels contained in a BPR is important, as these service levels will be incorporated into the Statement of Work and the Request for Proposal (RFP) when a function is chosen for managed competition. Without this information, Council will not be able to fulfill their oversight role for maintaining service quality as called for in Proposition C.

Changes in the BPR process relative to Council's role have evolved over the last year as a result of the Mayor's Office linking the BPR process directly to the managed competition process. This shift in the Council's role first surfaced with the ESD – Collection Services BPR which was completed in January 2007, but not docketed for Council nor

implemented. Since Collection Services was identified early on as a candidate for pre-competition assessment, the Mayor's Office and City employees were concerned about hurting the City's competitive position in managed competition if procurement sensitive information was made public through Council review. The decision to not docket certain BPR's eliminated Council's opportunity to review BPR results as required in the BPR Ordinance.

The schedule for completing meet and confer has also impacted Council's ability to review BPR's, since meet and confer is to take place prior to Council review. This is particularly the case now that meet and confer and pre-competition assessments are taking place simultaneously. The end result of these two factors is that ten BPR's representing high priority functions have been withheld from Council review.

With no knowledge of the service quality standards that will appear in the Statement of Work and Request for Proposals if chosen for managed competition, the Council's ability to ensure service quality is effectively diminished**. The Council will not be aware of the service quality assumed in the managed competition process until the final step in the process, when they are asked to either approve or disapprove the Mayor's recommended service provider.**

Reintegrating the Council into the BPR Process

When Council considered the ballot language for Proposition C (Managed Competition) for referral to the voters in November 2006, the Council's action recognized **management's role** in determining which services would be considered for managed competition. At the same time, as discussed earlier in this report, the Council ensured that the ballot language recognized their **legislative role** with regard to maintenance of service quality in this process.

Our office is currently discussing options that would ensure the Council is provided BPR service level information, as reflected in the Statement of Work **prior to** issuance of a managed competition Request for Proposals. In recognition of concerns about procurement sensitive information, we believe that a distinction can be made between service level information versus cost information.

At the Budget Committee meeting of December 10, 2007, the Center for Policy Initiatives (CPI) proposed the following:

> "As a strong safeguard to protect the level of services, the City Council should be allowed to provide input on the Statement of Work, through a public hearing prior to publication of any RFP."

We are considering this option, along with others, in an effort to determine which would be most effective in ensuring the Council's role in the process, while safeguarding the

City employees' bid and allowing managed competition to move forward as intended by the voters in November 2006. We plan to bring a recommendation forward to the Budget and Finance Committee on March 26, 2008.

The following key issues also need to be clarified regarding what happens after pre-competition assessment for:

Functions Recommended for Managed Competition

The Mayor's timeline for the first phase of managed competition shows that initial pre-competition assessments will be completed by spring 2008; RFP's will be developed/advertised during summer 2008; proposals will be evaluated and a recommendation made by December 2008; and transition to private contractor **or** City employee Most Efficient Organization (MEO) completed by summer 2009.

This schedule applies to 16 functions chosen for pre-competition assessment from Environmental Services (e.g. Solid waste collection) and General Services (e.g. Street maintenance, Street sweeping). The BPR's for these functions were completed in January 2007 and May 2007 respectively, but the BPR for ESD-Collection Services has not been implemented and the General Services BPR has only been partially inplemented. In the case of Collection Services, if the City wins the bid, two years will have passed between BPR study completion and Most Efficient Government Organization (MEGO) implementation. For General Services, it would be over one-and-a-half years.

> *"BPR assists the City in becoming the most efficient government organization (MEGO) that it can while managed competition provides a method to test whether the City's most efficient organization is the absolute most efficient organization (MEO)."*
>
> *Mayor's Office, "BPR Status Update," January 25, 2008*

If this same schedule applies to the 14 new functions recently announced for pre-competition assessment, some of the functions may meet the timetable for BPR (MEGO) implementation as noted in the Mayor's Office report, others will likely not based on their study completion date:

> "To appropriately balance competitive advantage with the need to realize efficiencies on behalf of the City, going forward, all BPR efficiencies will be slated to begin moving toward implementation no later than a year following the completion of the study."

Is consideration being given to implementing any of the completed BPR's in advance of managed competition given the lengthy schedule for implementation of managed competition?

Functions Not Recommended for Managed Competition

The Mayor's Office is also asked to clarify the next steps and timing for the docketing of completed BPR's for functions not recommended for managed competition. As

discussed earlier, the Mayor's timeline indicates that pre-competition assessments will be completed this spring. This could include up to 12 BPR's that will need to be docketed for Council review if the functions are not recommended for managed competition.

What is the plan for bringing these BPR's to Council for implementation and how will this tie into the Mayor's Proposed Budget and Council budget hearings and deliberations? The Budget and Finance Committee had expressed concerns at a meeting last fall about BPR's overlapping with the complexity of the budget process. Mayor's staff indicated that only those BPR's approved by December 2007 would be included in the budget process for FY 2009. Consistent with this, there was no mention of BPR results in the Mayor's Five Year Outlook for FY 2009. However, with the planned conclusion of numerous pre-competition assessments this spring and the desire to implement efficiencies as soon as possible, this schedule may need to be revisited. It would be helpful to clarify this now to avoid confusion during the budget process. This report is provided for Council information and discussion.

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Attachment A