
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: January 10, 2008

IBA Report Number: 08-2

Budget Committee Date: January 16, 2008

Item Number: 1

Managed Competition

OVERVIEW

In the last few months there have been multiple discussions in regard to the status of the Managed Competition Program. In our last report on Managed Competition ([07-114](#)), a matrix was created to capture previously raised issues and questions as they relate to numerous components of Managed Competition. The Mayor's Office has provided responses to these questions.

FISCAL/POLICY DISCUSSION

In review of the Mayor's information and additional concerns and questions from the labor organizations and elected officials, the IBA believes that further discussion needs to occur to fully understand the interlink between the Business Process Reengineering (BPR) and Managed Competition processes. Primarily, concerns have been focused on when a BPR is completed; when BPR results are communicated; when and if to implement the organizational improvements to achieve the savings identified in the BPR process; and what the key roles of the Mayor and City Council are.

The Definition of "Completed"

First, the IBA believes that "Completion of BPR" needs to be discussed and clearly defined in the Business Process Reengineering Guide. The Mayor has identified BPR as the first step in preparing a function for managed competition. As stated in the Managed Competition Guide, "Before proceeding to the managed competition process, a function will be reengineered using the BPR methodology." It is imperative that a function be given the opportunity to reengineer their processes in order for that function to be

competitive. However, it has become practice that the implementation of the reengineered processes identified in the function's BPR be withheld pending the competitive procurement process. As noted in the Mayor's November 30th press release, "the functions now beginning pre-competition assessments have completed their BPR studies and the City has chosen to hold back on the implementation of some of the recommendations included in those studies." This was exemplified in the handling of the Environmental Services-Collection Services BPR. The function finished its core reengineering activities and met and conferred with the respective labor organizations. Although Council approval was not obtained, the City Council was notified that the implementation would be withheld pending the results of the competitive procurement process. In this press release, seven functions from Environmental Services-Collection Services were identified for pre-competition assessment, which will determine whether these functions will proceed with competitive procurement.

The Mayor also identified nine functions from the General Services Department that would undergo pre-competition assessments. The press release stated that the BPRs had been completed for functions within both Environmental Services and General Services. However, at the time of the Mayor's announcement, a meet and confer process had not been completed as it relates to the functions identified in General Services. The IBA recommends that the Mayor's Office identify at what point they determine a BPR to be "completed", whether that is before or after meet and confer, council approval, implementation of BPR recommendations, etc; and include language in the Business Process Reengineering Guide.

Communication of BPR Report and Recommendations

Concern exists about the communication of recommended improvements as identified in the BPR process prior to the initiation of the Managed Competition process. The IBA has reviewed the Business Process Reengineering (BPR) Guide, the Managed Competition Guide, and the Municipal Code and Implementation Ordinances for BPR and Managed Competition to understand when communication of the BPR findings should occur and how the decision to identify a candidate for managed competition might impact this communication to labor organizations and elected officials.

Business Process Reengineering (BPR) Guide

Based on the Business Process Reengineering Guide (Version 2.3.1, dated August 30, 2007) "labor organizations should be briefed on the proposed MEGO concurrent to the briefing of department employees." However, "department employees will not be briefed if the process(es) are subjected to managed competition." Thus, there is no clear direction given in the BPR Guide indicating when to brief labor organizations if the process(es) are subject to managed competition. The Guide also states that when meeting with the labor organizations, "a discussion of which services (if

Most Efficient Government Organization (MEGO): The result of the BPR Process, incorporating recommendations for efficiency improvement.

any) will be recommended for managed competition” should occur. This appears to be a conflict in language within the Guide.

Also, as listed in the Guide, the final steps in the Business Process Reengineering process are identified as follows:

- X. *Communicate Reengineering Findings*, which includes communicating impact of reengineering study with labor through the Meet & Confer process and the docketing the BPR study findings for council approval.
- XI. *Review Function as a Potential Candidate*, which identifies that a pre-competition assessment will be completed to determine if the function(s) studied are candidates for managed competition.
- XII. *Implement Recommendations*

These last steps are not consistently applied in the order identified. In practice, it appears that Step XI-Review Function as a Potential Candidate has actually occurred before the Communication of Reengineering Findings (Step X). Also, the Guide does not make it clear that the docketing of the BPR study for Council review, and therefore implementation and achievement of identified savings, will not occur upon BPR completion if the function is considered for managed competition.

Managed Competition Guide

The Managed Competition Guide states that “once a function within a department has completed BPR, it will be evaluated through a pre-competition assessment to determine if it will proceed on to a competitive procurement.” A pre-competition assessment will be conducted after a BPR is completed. However, as discussed in the beginning of this report, it is unclear when a BPR is completed and subsequently when a pre-competition assessment should commence.

According to the Managed Competition Guide, the earliest discussion with labor organizations occurs “once the mayor has made the determination regarding the pursuit of competitive procurement.” This language is contradictory to information in the BPR Guide.

If a function is determined (by the Mayor) to not proceed to competitive procurement, then the function will transition to its MEO. Although not clarified in the Managed Competition Guide, it is our understanding that once the decision is made not to proceed to competitive procurement, the BPR findings would be communicated and docketed for Council approval before implementation. We recommend that this be explicitly stated in future editions of the Guide.

*Most Efficient Organization (MEO):
The Employee Proposal developed to
represent the function's most efficient
and cost-effective organization.*

Business Process Reengineering (BPR) Ordinance

As stated in Section 4 of the 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”. This has not occurred when the Mayor has decided that a function is a candidate for managed competition.

Municipal Code §22.3701-16

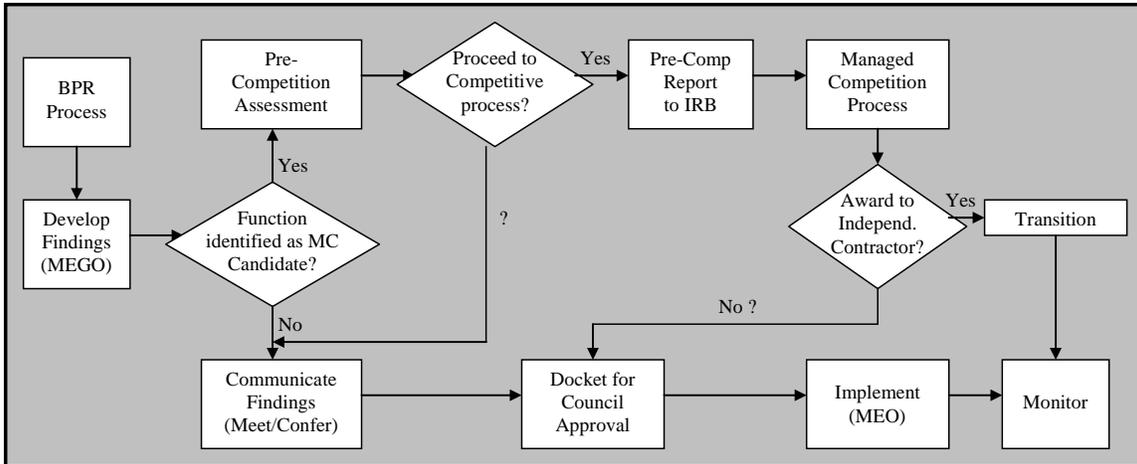
As stated in the Municipal Code, if the Mayor decides to proceed with a competitive procurement, the Mayor “will then prepare a preliminary written Statement of Work for that particular City service, and will prepare a report setting forth the rationale for putting a City service into Managed Competition. This report will be transmitted to the Managed Competition Independent Review Board for its consideration.” City Council will also be notified of the assessment’s results and decisions.

Implementation

When the Business Process Reengineering (BPR) process was initiated, it was not clear when or if implementation of efficiencies to achieve savings identified in the BPR would occur. Again, two functions, Fleet Services and Collection Services, were handled differently, but both were possible candidates for managed competition. Fleet Services finished their BPR, including the meet/confer process and Council approval. They have subsequently implemented their BPR recommendations. It is now our understanding, that if a candidate is identified for the competitive procurement process, their implementation will be withheld, as was the case for the Collection Services BPR. When a function is chosen for pre-competition assessment, according to the Mayor’s press release, “(BPR) recommendations will be used as a tool for preparing City teams for a competitive procurement process should the functions prove eligible and appropriate for inclusion in the next steps of the managed competition effort.” The utilization of the BPR recommendations to prepare for managed competition does not necessarily imply implementation. This decision to proceed with the competitive procurement process is within the authority of the Mayor as defined in the Municipal Code.

In our review of two other well known municipalities that have extensive experience with managed competition, Indianapolis and Phoenix, the decision to implement prior to the competitive procurement process varies. For instance, when Indianapolis identified its fleet services function for managed competition, the department was given three years to initiate efficiency reform in preparation for the bidding process. However, in Phoenix the employees’ cost proposals include all operational changes proposed (although they may not have been implemented) in the bidding process.

The IBA has created the following diagram, based on our understanding from the BPR and Managed Competition Guides, that we believe more accurately depicts how these two processes overlap:



However, the guides lack clarity on the specific steps, following a determination from the pre-competition assessment, that a function will not proceed with competitive procurement process. Also, once the decision is made to not award a service to an independent contractor, does the BPR/employee bid return to the process for Council approval? The IBA recommends that these two issues be clarified in future versions of the BPR and Managed Competition Guides.

Key Roles

As developed and stated in the implementation ordinances and municipal code, the Mayor has the discretion to identify a function for managed competition, the Independent Review Board (IRB) will consider the proposals from employees and independent contractors and subsequently recommend whether or not to award the contract to an independent contractor and the City Council will have the final authority to determine whether to accept or reject (in its entirety) the IRB’s decision. This decision will be determined on whether this service can be provided more economically and efficiently by an independent contractor, while maintaining service quality and protecting the public interest. The Statement of Work and Service Levels will be a vital component in this decision process.

CONCLUSION

Inconsistencies between the Mayor’s BPR, Managed Competition Guides and current practice have led to confusion and frustration. The IBA believes that discussing and addressing the issues raised in this report will help in assuring a successful process.

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