

Agenda Report

DATE: May 24, 1999

TO: CITY COUNCIL
FROM: CYNTHIA J. KURTZ, CITY MANAGER
SUBJECT: Competition in Government Policy

RECOMMENDATION:

It is recommended that City Council adopt the attached policy and cost comparison methodology for the introduction of competition in the delivery of city services.

BACKGROUND:

This policy and methodology have been developed to provide a basis for decision-making when comparing internal and external service delivery. Although it is not the intent of the city to unilaterally seek contracting opportunities, it is appropriate in some cases to examine alternative service delivery methods that may improve cost effectiveness and/or improved service levels. Determination that a service could be better provided by the private sector involves a wide range of factors, expanding well beyond cost per unit analysis. The attached policy seeks to encompass all such factors. In addition, staff believes the cost comparison methodology includes all applicable costs, creating a "level playing field" for comparison.

Mayor's Blue Ribbon Committee

In 1995, the Mayor appointed the Mayor's Blue Ribbon Committee on Competition in Government to develop a process for evaluating opportunities to improve efficiency and reduce costs through market-based competition. Members of the committee represented residents, local businesses, city staff and employee unions. The Committee agreed on a general policy statement and developed a process chart for the evaluation of possible competition. These documents serve as the basis of the attached policy.

At the time recommendations were presented to City Council, the Committee outlined several outstanding issues that have since been addressed. Two issues had the potential to significantly impact cost comparisons with the private sector - the city's benefit and burden rate and living wage. Since these issues were raised, the city has revised the methodology for calculation of benefit and burden rate, ultimately lowering the total cost of city labor, and adopted a Living Wage Ordinance. The resolution of these issues cleared the way for development of a cost comparison methodology to support the committee's policy statement and process chart.

Competition Policy Statement and Process Chart

As stated above, the attached policy and process chart were developed by the Blue Ribbon Committee.

The Committee identified several key issues reflected in both the policy statement and the process chart. Those issues are:

- Contracting decisions should not be based on cost alone, but should also consider factors such as service quality, employee impact, ability to monitor and control performance, market strengths, availability of resources, and the city's exposure to risk.
- Although comparisons may be necessary for benchmarking, employees should always be given adequate opportunity and resources to improve costs and/or service before a service is contracted out.
- In cases where contracting is the optimal choice, every effort should be made to place existing city staff in new positions through transfer, retraining, or outside job placement, thus avoiding layoffs.
- Contracts should be carefully monitored to ensure that service levels, quality and costs are maintained.

The Committee believed that these issues were critical components of an effective competition process producing the positive results desired by the city.

Cost Comparison Methodology

The cost comparison methodology was developed by staff to support the steps in the Committee's process chart regarding comparison and evaluation of costs. The methodology compares *fully allocated in-house costs* to *adjusted contract costs*. Identification of total direct costs will provide comparative information on the costs of personnel, materials, supplies and equipment. Using competitive industry costs and practices as benchmarks, city services can be assessed to determine productivity, quality of service provision, efficiency and cost-effectiveness providing a realistic assessment of opportunities for costs savings or service enhancements through internal operational improvement or contracting out.

Although the methodology is presented as a standard process through which all applicable *costs* are identified, it is important that each service be analyzed comprehensively to incorporate all of the unique factors that influence the delivery of the service. Using this methodology in conjunction with the process outlined by the Blue Ribbon Committee ensures that all influential variable factors are considered systematically.

FISCAL IMPACT

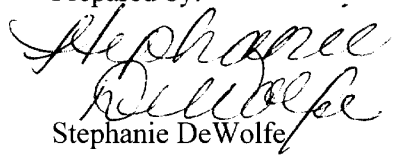
There is no direct fiscal impact as a result of adopting this policy.

Respectfully submitted,



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