

City of Charlotte’s Privatization and Competition Advisory Committee

By David Elmore

As the demand for City services increases, the City of Charlotte is constantly looking at new ways of providing quality services at the lowest cost. Charlotte’s population is growing at a dramatic pace. Population increased from 396,000 in 1990 to 541,000 in 2000 and an estimated 651,000 in 2006; an increase of 64% in a sixteen year period. The trend for growth in Charlotte and greater demands for government services are expected to continue. According to recent data, the population of Charlotte is expected to grow to 980,000 by 2030.

Some examples of the dramatic service level changes driven by population increases in Charlotte are listed below:

Service Level Changes	1972	2000	2007
Miles of Water/Sewer Pipe	2,300	5,700	6,961
Street Lights	20,000	51,000	79,000
Signalized Intersections	250	550	675
Miles of Streets	756	1,963	2,300

In the early 1990s, City of Charlotte leaders saw the impact of innovations in service delivery in cities like Phoenix and Indianapolis and suspected that

similar opportunities could be possible in Charlotte. The City had already partnered with Mecklenburg County to eliminate duplicative services resulting in Charlotte assuming responsibility for Police, Planning, Water, Purchasing, Customer Service Center, Insurance and Risk Management, and Animal Control. Mecklenburg County assumed responsibility for Board of Elections, Parks and Recreation, Tax Administration/Collections, Building Standards, Library, and Solid Waste Disposal.

In addition to these significant organizational changes, City leaders decided to explore privatization and managed competition. Privatization is the outsourcing of traditional government services to the private sector and managed competition allows government employees to compete directly with private sector companies to provide services for the City.

This led to the City Council creating the Privatization and Competition Advisory Committee (PCAC) in 1993 to assist the City with managed competition projects and provide oversight for asset management. The design of the PCAC is to focus on the larger

issue of who should provide the services (public or private workers), while issues associated with efficiency improvement and day-to-day management of employees are the responsibility of the City Manager.

The PCAC consists of eleven citizens; eight members are appointed by City Council, three members including the Chair are appointed by the Mayor. The membership of the PCAC currently consists of three technology professionals, two bankers, two small business owners, two real estate professionals, one attorney, and one purchasing professional. City staff support for the PCAC is provided by an Assistant City Manager, the Director of Charlotte-Mecklenburg Utilities, and the Business Process Improvement Manager all devoting a portion of their time to the committee. Internal Audit staff also spends a significant amount of their time working on competition-related activities.

The full committee meets once a month and sub-committees meet as needed throughout the year. PCAC sub-committees are assigned oversight responsibilities for specific key business units (departments) with the City's organization. This allows committee members to become familiar with the services provided by the Key Business Units (KBU) through presentations, reports and interacting with KBU staff.

The City's privatization and managed competition process is a component of the City's strategic operating plan process. Each year, every City KBU submits a five-year competition plan for review by the City Manager as a part of its strategic operating plan. To include a service in the competition plan the City uses a cost of service guideline of approximately \$500,000 as sufficient size to begin a managed competition effort. Smaller services may be bundled

together to achieve a project of sufficient size for consideration. The competition plan outlines KBU participation in the competition and privatization program for the next five years and lists the service description, service budget, number of employees, and type of participation planned (benchmark, outsource, optimization, or competition). The City Manager reviews the plan from each KBU and may identify additional services for consideration.

The five-year competition plan is then reviewed by the PCAC and its City support staff. The purpose of this review is for the PCAC to analyze the plans and make suggestions on the KBU competition plans that may include additional services that should be considered for the competition plan and/or the type of competition process (benchmarking, outsourcing, optimization, or managed competition) to use. The PCAC then monitors each project listed on the competition plan and are involved in each stage of the process. The PCAC monitoring efforts are supported by City staff through reports such as the progress of benchmark activities, status of internal Memorandum of Understanding (MOU), costing methodology for optimization, production standards, development and evaluation competition Request for Proposals (RFP) and final selection service providers.

When a KBU is selected as the winner of a service competitive proposal, the services contract takes the form of a Memorandum of Understanding (MOU) between the KBU and the City Manager. The PCAC is responsible for reviewing KBU performance reports prepared by the City's Internal Audit Division (either quarterly or semi-annually). These reports help PCAC to assess the KBU financial and service performance

against the criteria established in the MOU. Services under an MOU that perform better than expectations have the ability to earn gainsharing dollars as bonuses to employees. Services that perform below expectations must comply with the City's Procedure for Cure. PCAC members are copied on all competition-related Internal Audit reports and routinely discuss their implications on service delivery.

The selection process in a managed competition project may not lead to selecting the lowest cost proposal. Many other factors are taken into consideration including past performance, financial stability, proposed staffing levels, contract language exceptions and a variety of other considerations. When a private company is selected as the winner of a managed competition project, a contract establishes the agreement between the City and the company selected. Typically, the contract language is included with the RFP which helps to keep negotiations down to key points and exceptions taken during the solicitation process. The City attempts to take substantial risk out of each solicitation if possible, allowing City employees and private sector firms not to inflate their proposals with extra costs for risk. Known variables appropriate for each solicitation such as electricity usage for wastewater plants, fuel pricing for solid waste collection, asphalt pricing for road construction and other uncontrollable or unusual costs are often treated as pass through costs or have escalation/de-escalation clauses in the contract language.

With more than 60 managed competition projects and over 100 privatization projects completed, Charlotte's managed competition and privatization program can be considered mature, with

well-defined structure, audit processes, program guidelines and credibility with the private sector vendors. The working relationship between the PCAC and City staff is positive and continues to have an impact on the provision of City services.

When Charlotte employees began competing with private sector companies, the City's infrastructure resources had to undergo changes. Over the years, investments in resources for Internal Audit, Legal, Procurement and department specific staff; activity-based-costing tools, internal Service Level Agreements (SLA), business process reengineering, and employee training were necessary to be successful. The payoff of those investments is being realized today through:

- RFPs, contracts and MOUs that clearly define our expectations for private companies and City employees. Performance-based contracting is used whenever possible, providing incentives for superior performance as well as liquidated damages to improve performance,
- Use of the Internet and the automated North Carolina Interactive Purchasing System www.ips.state.nc.us to notify new vendors from around the country and the world to participate in managed competition RFPs,
- Creation of activity-based-costing reports to give timely and accurate information to managers so they can recognize trends and make adjustments to stop cost overruns,
- Measurable goals and realistic expectations communicated clearly from management to employees,
- Production standards based on industry best practices and local conditions,

- SLAs between support departments and operating departments to define roles and expectations for internal support services such as vehicle maintenance and technology; and
- The right mix of temporary and full-time employees, to provide services in the most efficient manner.

A major challenge for the PCAC and its support staff in recent years has been finding enough private sector firms to participate in competitive solicitations. The City has been so successful in certain areas (Solid Waste Collection and Water Treatment) that finding vendors to participate in subsequent competitions has proved to be difficult.

Because managed competition requires substantial cultural and operational change, obstacles to implementation have to be dealt with expeditiously. Overcoming employee resistance to change and fears of lay-offs; acquiring the technical expertise to establish fully allocated costs for services; establishing credible evaluation, auditing and monitoring process; and dedicating enough time to successfully compete are some other examples of challenges that Charlotte has faced and addressed.

The committee is currently looking beyond managed competition and has begun to focus on asset management. The City owns over 1,500 parcels of real

property, which the PCAC is reviewing to analyze the location, tax value, acreage, and reason acquired to determine if alternative recommendations might increase the value of these assets to the City.

Innovative programs such as bid-to-goal are also currently being examined by the PCAC and City staff to evaluate if they have a place in our competition program. While traditional managed competition has worked well for Charlotte, we realize that it may not be the solution for every service. This evaluation of alternate methods is part of a comprehensive review of all the PCAC policies and guidelines taking place for the first time since 1993.

Managed competition and privatization has resulted in real dollar savings of over \$10,000,000 for Charlotte. The current five-year competition plan lists 31 projects (competition, outsourcing, optimization, and benchmarking) from 10 of the City's 14 KBUs, involving 848 employees, and \$87,000,000 in services. The managed competition program and the PCAC have provided countless other savings by improving business processes, increasing employee morale, and enhancing communication between employees and management.

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