REQUEST FOR COUNCIL ACTION CITY OF SAN DIEGO		CERTIFICATE NUMBER (FOR COMPTROLLER'S USE ONLY)
TO: CITY COUNCIL	FROM (ORIGINATING DEPARTMENT): Business Office	DATE: 4/11/2014
SUBJECT: Report from Huron Consulting Group on Competitive Initiatives Analysis		
PRIMARY CONTACT (NAME, PHONE): Barbara Lamb,236-7789/8A	SECONDARY CONTACT (NAME, PHONE): Ronald H. Villa, 236-7795/9A	

COMPLETE FOR ACCOUNTING PURPOSES

FUND					
FUNCTIONAL AREA					
COST CENTER					
GENERAL LEDGER ACCT					
WBS OR INTERNAL ORDER					
CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00

FUND					
FUNCTIONAL AREA					
COST CENTER					
GENERAL LEDGER ACCT					
WBS OR INTERNAL ORDER					
CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00

COST SUMMARY (IF APPLICABLE):

ROUTING AND APPROVALS

CONTRIBUTORS/REVIEWERS:		APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
Liaison Office		ORIG DEPT.	Villa, Ron	06/09/2014
		CFO		
		DEPUTY CHIEF	Villa, Ron	06/09/2014
		COO		
		CITY ATTORNEY		
		COUNCIL PRESIDENTS OFFICE		

PREPARATION OF: ☐ RESOLUTIONS ☐ ORDINANCE(S) ☐ AGREEMENT(S) ☐ DEED(S)

receive information-only report

STAFF RECOMMENDATIONS:
receive information-only report

SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION)

COUNCIL DISTRICT(S):	all
COMMUNITY AREA(S):	all
ENVIRONMENTAL IMPACT:	N/A
CITY CLERK	none

INSTRUCTIONS:	

COUNCIL ACTION
EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO

DATE: 4/11/2014
ORIGINATING DEPARTMENT: Business Office
SUBJECT: Report from Huron Consulting Group on Competitive Initiatives Analysis
COUNCIL DISTRICT(S): all
CONTACT/PHONE NUMBER: Barbara Lamb/236-7789/8A

DESCRIPTIVE SUMMARY OF ITEM:
Receive an information-only report from Huron Consulting Group on its Competitive Initiatives Analysis, conducted under a consulting contract to improve government efficiency.
STAFF RECOMMENDATION:
receive information-only report
EXECUTIVE SUMMARY OF ITEM BACKGROUND:
As part of the Improvement of the City of San Diego Government Operations effort that the City Council unanimously approved on October 28, 2013, the City retained the services of Huron Consulting Group to identify opportunities for efficiencies in the following five areas:

1. Procurement and Contracting
2. Fleet Services
3. Real Estate Assets
4. Open Data
5. Competitive Initiatives

Huron conducted its work from December, 2013 through March, 2014. Huron presented to Council its reports on the first four tasks on April 8, 2014. This report to Council provides the report for the fifth task: Competitive Initiatives Analysis. In addition to Huron's report, City management's response is attached.

FISCAL CONSIDERATIONS: It is expected that the implementation of the recommended efficiencies found in this report will have a positive operational and fiscal impact to the City.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (IF APPLICABLE): N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTION (describe any changes made to the item from what was presented at committee): On April 8, 2014, City Council received an information-only report from Huron Consulting Group on the other four tasks in its engagement.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: none

KEY STAKEHOLDERS AND PROJECTED IMPACTS: City employees, labor organizations, and the public may ultimately be impacted by the recommendations made in this report.

Villa, Ron

Originating Department

Villa, Ron
Deputy Chief/Chief Operating Officer

Competitive Initiatives Analysis: City of San Diego

June 5, 2014

Conducted and prepared by:

Steve Goldsmith, Huron Consulting Group
Mike Brink, Huron Consulting Group

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I. Executive Summary

Huron Consulting Group (Huron) was engaged by the City of San Diego's Office of the Assistant Chief Operating Officer in December 2013 to conduct an analysis (Strategic Review) of the City's competitive initiatives, including Managed Competition (MC), with the goal of identifying potential improvements to the process that would enable the City to use it more efficiently and effectively.

Huron's effort involved interviews of City of San Diego personnel, discussions with outside experts, analysis of documents and data, and research on industry best practices. The Strategic Review identifies opportunities for improvement to the City's initiative as well as a range of both short- and longer-term actions that have the potential to further improve the success of the initiative. The broad areas of analysis included:

- Strategy
- Process
- Employee Relations

Managed Competition can be a powerful tool to unlock taxpayer value by encouraging innovation and efficiency in the delivery of public services. It can also be implemented such that employees generally benefit financially and in terms of enhanced career opportunities. The City of San Diego can point to some clear MC project successes, including identifiable budget reductions resulting from some MC projects. However, almost all of the stakeholders who were interviewed agree that San Diego's MC process has become a process-heavy, contentious process that consumes valuable time and resources without, for the most part, fulfilling all of its potential.

Through this process, Huron made a number of findings and observations, some of which include:

- The primary focus on MC has led to limited use of other useful management reform tools;
- The MC process has not generated a robust flow of efficiency and effectiveness innovations from the private sector;
- The City's MC process is highly-prescriptive, contentious, time-consuming, and cumbersome;
- MC project scopes have been seriously flawed;
- The lack of reliable quantitative and qualitative data on the services subject to MC diminishes the integrity of the process;
- There is no financial "upside" for employees participating in MC;
- Leaving serious issues until the Meet & Confer process step undermines the competitive integrity of the process and extends uncertainty for affected employees; and
- MC, instead of creating win/win opportunities, has from the start in San Diego been occupied by a discussion about who is going to lose in the process.

Listed below are the 24 options for the City's consideration developed by Huron. Each option is detailed in the subsequent sections of this document and supported by our observations identified throughout the assessment.

Options	
Strategy	1. Create an overall efficiency/quality/innovation initiative of which MC is an important part
	2. Take confidence-building steps to improve customer service while establishing a more effective labor-management partnership

	Options
	3. Introduce and preliminarily evaluate private sector ideas and innovations by creating a Mayor's Council on Service Innovation
	4. Create greater transparency around the MC project selection process
	5. Consider other models that inject private sector expertise into the delivery of public services, such as "in-sourcing" of private sector management expertise
	6. Use the San Diego County process as a baseline to negotiate a new, streamlined MC process
	7. Based on the evaluation of MC project candidates to date and using the Yellow Pages Test as a major criterion, identify a small number of relatively simple projects that may be suitable for outsourcing
	8. Clarify and confirm the City's ability to consider MC proposals that involve changes to service delivery
	9. Invest in an outcome-oriented performance measurement and data analytics program
Process	1. Seek a solution to the Charter Sections 94/117 conflict regarding the conflict between "repair" projects and MC
	2. Decentralize and grant more autonomy to Department heads
	3. Use RFQ/RFI process to solicit private sector input as to appropriate project scope and to receive feedback on other key questions surrounding the procurement
	4. Negotiate elements of Meet & Confer that can be moved into the pre-award phase of the MC process
	5. As appropriate, use terms other than five years in MC RFPs
	6. As appropriate, use cost/pricing formats other that Firm Fixed Fee in MC RFPs
	7. Improve the MC review process to confirm SOW compliance and harvest new ideas
	8. Allow employees to solicit informational bids
	9. Equip the MCIRB to fully review all proposals received that represent savings versus the current services baseline cost
	10. Commit to adequately resourcing and supplementing in-house capacity to develop effective SOWs
	11. Create a standard implementation monitoring approach and define consequences for internal failure to meet proposal commitments
Employee Relations	1. Emphasize the City's continuing commitment to employment opportunities for those City employees affected by MC
	2. Create employee "upside" in the MC process
	3. Assign an executive resource to investigate the feasibility of and, if warranted, to help implement cost savings ideas put forth by union employees
	4. Promote opportunities for employees to compete for other work for public agencies

These findings and recommendations are explained in detail in the following sections of this Strategic Review. As next steps, the City of San Diego should validate these opportunities, determine the proper sequence, and move forward with those deemed appropriate for implementation.

While the most extreme pressures of the Great Recession have abated somewhat, the City will continue to face challenging circumstances for the foreseeable future. Residents and jobs are highly mobile, and San Diego must be competitive. To respond to these challenges, the most important thing that the City can do to improve the MC process is, however, not about "fixing" this or that certain step. It is about re-casting MC both relationally and operationally. To be successful, MC must be:

- A generator of real innovation, allowing existing employees to break free of existing bureaucracy in order to propose new approaches;
- Employed as one important tool among several efficiency and effectiveness approaches; and
- Grounded in a workable labor-management partnership.

II. Huron's Assessment Approach

2.1 Objectives

Huron Consulting Group was engaged by the City of San Diego to conduct an initial review to identify improvements to the Managed Competition initiative. Specially, Huron's in-scope tasks included:

- Assessing how the City's various competitive initiatives, including Managed Competition, have functioned to this point and identifying opportunities for improvement;
- Interviewing various management and union personnel involved in the effort and identifying recommendations for improving the competitive processes;
- Determining how success is defined, tracked, and communicated and whether improvements can be made to strengthen the initiative. Huron will specifically consider the value that a "City Stat" type system of performance measures could provide to enhance accountability;
- Identifying structures, such as gain sharing plans, pay for performance, or bonus plans that could incentivize employee ideas and greater productivity;
- Considering the role that other process infrastructure improvements can make, such as regular communication, Memoranda of Understanding (MOUs), and employee access to tools and training; and
- Based on the successful experience in Indianapolis and elsewhere in fostering labor-management collaboration and generating substantial savings for taxpayers, presenting options as to how Managed Competition and other competitive processes can be employed in the future to generate the best outcomes for San Diegans.

2.2 Assessment Approach

To meet the above stated objectives, Huron employed our standard and proven approach documented below to complete this assessment.

Huron spent multiple days onsite meeting with various members of the City of San Diego staff, including management, attorneys, and labor. Additionally, we solicited input from citizen volunteers familiar with the MC process. We conducted multiple site visits and reviewed many documents produced by the City

on the subject of Managed Competition. City employees were uniformly helpful and fully-engaged when it came to providing feedback and opinions with regard to their experience with the City's MC program to date.

Attachment A includes a list of some of the meetings and site visits conducted by Huron. Barbara Lamb, Program Manager for Analytics and Performance Management in the Office of the Assistant Chief Operating Officer, joined Huron for almost all of the meetings.

Additionally, Huron reviewed many documents on the Managed Competition process. A sample of such documents is included as **Attachment B**.

The intent of this Strategic Review was neither to provide a detailed assessment of each step in the MC process nor to catalogue exhaustively the history of the effort. Rather, it is an effort to assess the broad history of the effort, to understand where stakeholders stand on the program at this point, and to chart a path forward in such a way that City goals can be achieved, costs and services improved, and citizens benefitted. It is not about the "rightness" or "wrongness" of Managed Competition, but how it can best be used. Managed Competition is, at its core, a tool that can be used, and has been used elsewhere, to drive significant savings while maintaining or improving service quality. It is a tool that has been endorsed by a majority of San Diego voters as a means of improving their government.

As with all serious government innovation efforts, Managed Competition involves some degree of risk for citizens, employees, and officeholders. Service innovation rarely occurs in static environments. Rather, it is competition, and more specifically both the downside and upside risk, which generates innovation. For City employees, this means the potential loss of job security, a serious and daunting prospect at a time in which economic opportunities overall remain stunted.

However, Managed Competition can be employed in such a way that employees are given opportunities to advance and even earn more as they deliver higher quality services to citizens. To this point, the City of San Diego has not tapped this "upside" for the benefit of its employees or citizens.

III. Background Information

Over the past 7+ years, employees of the City of San Diego (City or San Diego) have moved forward with the implementation of the Managed Competition (MC) proposition approved by voters on November 7, 2006. For much of the four years following the voters' adoption of the proposition, the City's MC policy was subject to multiple challenges by the City's unions (American Federation of State, County and Municipal Employees Local 127 (Local 127), the International Association of Fire Fighters (Local 145), and the San Diego Municipal Employees' Association (MEA)) which resulted in rulings from the Public Employment Relations Board (PERB) and subsequent negotiations between the City and its unions.

It was more than four years later (late 2010) when the first MC project – Publishing – started, with the employees announced as the winners in May of 2011.

In the intervening years since the passage of the proposition, five MC projects been taken at least through the award phase of the process:

- Publishing
- Fleet Maintenance
- Street Sweeping
- Landfill Operations
- Street and Sidewalk Maintenance

Each project that has completed the bidding phase has been awarded to the City Employee Proposal Team (EPT). Of these five, Fleet Maintenance has not yet been fully implemented, although it is very

close. Street and Sidewalk Maintenance Managed Competition plan was not implemented because the City Auditor identified a, "similarly efficient approach to organizing the street and sidewalk maintenance work" that City leadership adopted instead.

Numerous other City services have been considered for MC, some even reaching advanced stages of the process. These include:

- Storm Water Operations and Maintenance
- Public Utilities Customer Service
- Capital Improvement Program Delivery
- Transportation Engineering and Operations
- Solid Waste Collection

With the election of the new Mayor in November of 2012, executive support for MC as a strategy diminished. As of the time of the beginning of this Review (December 2013), direct MC process activity had ceased on all of the projects previously identified as MC candidates.

IV. Positive Findings

While the San Diego experience with Managed Competition has involved numerous challenges that this Strategic Review documents, there have been some positive elements that have emerged.

4.1 Managed Competition Has Generated Collaboration

Numerous interviewees pointed to specific examples of collaboration between labor and management that resulted in process improvements. While, in theory, MC was not necessarily required for these collaborations to happen, it was the context in which they emerged. Specific individuals noted that MC put labor and management on the "same team", fighting together instead of against one another, and really encouraged individuals to take ownership of their jobs.

A number of those interviewed gave credit to the work of consultants that the City brought in to assist the employee teams in facilitating and reinforcing that collaboration. That collaboration led to employee team success in each MC instance.

4.2 Managed Competition Has Facilitated the Adoption of New Ideas

In many public jurisdictions, even the best Business Process Reengineering (BPR) ideas meet resistance when there is no mechanism to require their implementation. A few individuals negatively impacted by a process change are often able to keep it from happening, even though a much broader number of individuals would potentially benefit from it.

In the San Diego experience, there are specific instances cited in which MC, and the labor-management collaboration it facilitated, resulted in new service innovations. For example, the landfill operations group was faced with the prospect of staunch competition from private sector providers as a result of MC. Working with the assistance of a consultant, the labor-management team was able to identify, assess, and implement a process that led to more efficient application of landfill waste.

We see a well- executed MC as changing the culture of an organization producing a continuing flow of good ideas. For example, the innovation within the landfill operations group hasn't stopped there. The group has subsequently developed a monitoring approach that allows them to judge whether they are performing to their MC financial plan and also to track modifications to the operation that effectively serve as "change orders".

4.3 Managed Competition Has Generated Savings

The City has captured savings associated with MC projects by making corresponding budget adjustments as the MC services model are implemented. As a result, the City estimates that specific MC projects have generated significant savings. For example, the Independent Budget Analyst estimates that the MC process applied to the Fleet Services operation generated almost $3M in annual savings versus the pre-MC baseline in FY2013 and over $2M in FY2014.[1]

This does not mean that MC is the only way in which the City can achieve savings, nor that it necessarily has been the most efficient and effective way of achieving such savings for the City. However, it is a tool that has been used to generate budget savings in San Diego.

4.4 Managed Competition Has Enhanced the Process Ownership

Managed Competition changes the culture of an organization in which it is implemented; while some would argue that the "negatives" outweigh the "positives", few contest that there are indeed some positives. One of the positives is the focus that it puts on service cost and quality. It challenges the notion that often takes hold in government that public service costs will just continue to rise year-over-year. It forces management and employees to think about the efficiency of their operations. It requires them to look "outside" to see how other organizations are performing similar services. Questions of what are "inherently governmental functions" come to the forefront. City employees think about competing and winning additional work.

The interviews show that the City of San Diego has not been an exception to these positive considerations wrought by MC. Labor and management individuals both talk of the need for innovation, collaboration, and cost competitiveness. They are focused on meeting MEGO commitments and on evaluating scope changes. They exhibit a sense of process ownership.

4.5 Impacted Employees Have Been Given Alternative Opportunities at the City

Interviewees almost universally acknowledge that the implementation of MC has been a stressful process for employees. Labor representatives cite that some employees feel as if the process puts a "gun to their heads".

However, almost all parties cite that City employees in Labor Relations and Human Resources have been extremely diligent and effective in assisting employees who have been negatively impacted by MC when the development of the Most Effective Government Organization (the "MEGO") results in employee job loss. In fact all employees who have lost their positions as a result of Managed Competition have been offered opportunities elsewhere in the City.

While Huron received conflicting reports on this, it appears as if only two City employees, so far, have been involuntarily separated from City employment as a result of MC. Through the hard work of committed individuals with City government, all other employees have been offered necessary training and opportunity to fill other positions.

V. Opportunities for Improvement

Notwithstanding the "positives" discussed in the previous section, there are significant opportunities to improve the functioning of the MC process as employed by the City of San Diego. Many observations from various stakeholders have already been identified and documented in documents listed in Attachment B to this report. Huron's list that follows is not, therefore, meant to be exhaustive. Rather, we have attempted with this Review to highlight some of the most important findings while also providing

[1] http://www.sandiego.gov/iba/pdf/reports/2014/14_08_140220.pdf

strategic advice and a practical path forward toward successful implementation. Our focus is not simply on "what should be done differently", but "how the City can move forward successfully".

In organizing both our findings and recommendations, we have broken them into three categories:

- Strategy
- Process
- Employee Relations

These are not hard and fast categories; some of the both findings and recommendations could fit comfortably within multiple categories. However, the categories do help to group like findings and recommendations together in order to better consider how they are related.

5.1 Strategy Issues

Key Finding		Supporting Observations
1.	The primary focus on MC has led to limited use of other useful management reform tools.	• MC is most effectively employed as one of a number of efficiency and effectiveness tools, such as BPR, process automation, performance measurement/management, and shared services development. It should be used as one effort within a broader initiative focused on overall City service efficiency and effectiveness in order to provide value to taxpayers. It is not intended to be the exclusive tool used to drive efficiency and effectiveness. • While the City cites substantial City savings from other tools (efficiency studies and BPR), a number of the individuals interviewed indicate that the complexity of the MC process and the broad scope of the projects involved resulted in the former Business Office focusing exclusively on MC. This disproportionate emphasis leads to missed opportunities in capturing potential efficiency and effectiveness improvements in services that are not the subject of MC. • Union leaders and some other interviewees indicate that fear that a particular service may sometime in the future be subject to MC leads to a "hoarding" of improvement ideas by employees. Such employees are concerned that they may need such ideas to make their service more competitive in a future MC.
2.	The MC process has not generated a robust flow of efficiency and effectiveness innovations from the private sector.	• One of the great advantages of engaging with the private sector is the opportunity to create a pipeline of new management and technology approaches into the City that can be used to improve service overall. • Based on interpretation of the legal advice provided by the City Attorney's office, the City has generally required that MC Scopes of Work are written in such a way as to prescribe current service processes and levels – diminishing the opportunity for innovative technologies and approaches to be considered. • Additionally, because of the way in which the evaluation process is structured, there has been no concerted effort to glean innovative ideas from those private sector proposals that have been submitted.

Key Finding		Supporting Observations
		In most cases, interviewees relate that there was no consideration of the competing proposals from private sector providers because they did not meet the 10% cost savings requirement. • A group of interested and committed private sector volunteers with industry experience could serve as such a conduit for ideas that go well beyond for the specific scope of an MC project. • The seven-member Managed Competition Independent Review Board (MCIRB), comprised of four volunteer members and three City employees, has the makings of such a body that could encourage the injection of private sector service approaches into City services. While its role within the current MC process is to evaluate MC proposals and make recommendations to the Mayor as to which one should be chosen, it could be much more. Such a body could have a major impact in terms of providing ideas, direction, and assistance regarding MC scoping and other service innovations.
3.	The MC project selection process has been opaque and without clear justification.	• The former Business Office developed a tool for inventorying over 150 separate City services for suitability for Managed Competition. However, at the end of the analysis, the process for deciding whether a project was suitable for MC was unclear, with simply a binary answer of “Yes” or “No” assigned. Over 85 particular services were determined as falling in the “Yes” category. • Without the development of ranking methodology that places potential projects on a spectrum of suitability for MC, the process of selecting projects became shrouded in uncertainty and viewed as inherently political. This created greater fear and uncertainty on the part of many potentially affected employees, as it allowed for a sense that “lightning could strike” at any time.
4.	The City’s MC process is highly-prescriptive, contentious, time-consuming, and cumbersome.	• In our experience, MC processes should run from three to six months for the least complex to twelve to eighteen months for the most complex projects. • To this point, the average time taken to implement fully a City of San Diego MC project is over two years. The length of these processes adds cost, diminishes service quality, and sustains uncertainty among affected employees for what they believe to be an unacceptable period. • There are multiple models for MC that are employed by local governments across the country. While the much-criticized Federal A-76 model has its positive elements, its resource-intensiveness and overall process costs are very high. It is Huron’s experience that A-76 type MC processes take a frustratingly longer time to complete than other MC models employed at the local level. • At the Federal level, the A-76 process has exhibited serious weaknesses and has been the subject of government-wide

Key Finding		Supporting Observations
		moratorium since 2009.[2] Similar to the experience in San Diego, the A-76 process has been subject to contentious debate on issues such as true "cost savings, process delays and their effect on employee morale, the adequacy of oversight mechanisms, and the possible performance of "inherently governmental functions" by contractors."[3] • At various points in the process, San Diego County's Managed Competition process appears to have been considered as a potential model, but was apparently dismissed given the City's investment of resources in the creation of an A-76 type model. Those familiar with San Diego County's effort indicate that it has been used in more than 15 completed MC projects, such as fleet maintenance, welfare-to-work services, and print/copy.
5.	The City's MC process has been conducted in a highly centralized and top-down manner.	• In a strong mayor form of government, one of the most effective management tools that the Mayor has is the ability to appoint Department heads who are not only competent, but who also support the Mayor's priorities and vision. • As it relates to MC, Department directors should have a significant role as the main drivers of the MC process and should be highly involved in the decisions around how MC is deployed within their organizations. They are the individuals who have the expertise to make appropriate scope and performance-level determinations, and they must be the ones held accountable for the efficiency and effectiveness of the service, ultimately. • In order to succeed, the Department heads need direction regarding the objectives of the MC process and staff support to make the MC process work.
6.	MC project scopes have been flawed.	• Interviewees report that the City's MC approach was originally intended to provide professional consulting assistance for the development of the MC Statements of Work (SOWs). Due to budget constraints, this consultant support was not provided and the process of SOW development was assigned to a SOW team with assistance from the Business Office and, to a lesser extent, Purchasing and Contracting (P&C). Many interviewees characterize the SOWs that resulted as overly broad, prescriptive, and difficult to understand. It is reported that the scopes generated numerous questions from the private sector, many of which were not effectively answered during the MC process.

[2] A government-wide moratorium on the conduct of Circular A-76 competitions was put in place with the passage on P.L. 11-8, the Omnibus Appropriations Act for FY 2009, and has been in place since then. It was most recently extended for FY 2014 by section 737 (Title VII, General Provisions - Government-wide) of Division E- Financial Services and General Government Appropriations of the Consolidated Appropriations Act, 2014 (Public Law 11 3-76).

[3] http://assets.opencrs.com/rpts/R40854_20091009.pdf

Key Finding		Supporting Observations
		• Decisions concerning project scopes have immense impact on the ultimate success of an MC project. It appears that a general principle of the City's program in the past was that making MC project scopes as broad as possible would lead to synergies that would maximize savings to the City. However, when it comes to an effective MC program, bigger is not always better. • While the City worked diligently to determine which responsibilities should be excluded from SOWs based on regulatory and/or legal requirements, just the combination of a broad set of services creates challenges for private businesses that are generally more specifically focused than City operations. While partnerships among private providers may be an option, those that are required by the scope of a single project may not be reliable. • SOWs have been more prescriptive than performance-based and have generally required the existing service delivery model. This limits innovation among both the private and public sector competitors.
7.	Private sector participation has substantially diminished, reducing the integrity of the MC process.	• The City reports that the number of private sector parties showing active interest in MCs declined over the course of the five projects for which awards were made. The number of actual bids received from private sector competitors ranged from a high of five to a low of one. The EPT cost proposals were lower in all cases, and in no case did a private sector cost proposal come within 5% of an EPT cost proposal. • In addition to the cost hurdles, other specific issues cited as driving this lack of success and diminishing private sector participation that were raised by both City and private sector personnel include vague and overly complex scopes, rushed site tours, and the City's failure to answer significant number of questions submitted during the MC process. • To the extent that the private sector believes that there is little or no opportunity to win an MC, the integrity of the entire program is undermined.

5.2 Process Issues

Key Finding		Supporting Observations
1.	The conflict between City of San Diego Charter sections 94 and 117 severely limits the application of the MC program.	• Given the legal opinion that the City Charter Section 94 requirement that a public facilities "repair" project must be awarded to the lowest responsible and reliable bidder conflicts with the Charter Section 117 selection criteria for an MC winner, many potential MC projects are rendered practically unworkable. This is because many City crews perform both repair and maintenance work. • Attempting to separate the "maintenance" from the "repair" SOWs for operations that do both inevitably leads to artificial segregation of tasks and inherent process inefficiencies. This defeats the entire purpose of the MC effort.
2.	The City has not taken advantage of the opportunity to solicit crucial private sector input on potential MC project SOWs through a Request for Information ("RFI") and/or Request for Qualification ("RFQ") process.	• By failing to take outside input on any aspect of an MC project before the RFP hits "the street", the City is missing the opportunity to define more accurately the project's particular scope, to understand the types of information that vendors would need to develop competitive bids, to pre-qualify appropriate competitors, and to generate broad interest in the competition. • RFIs and RFQs are inexpensive tools to solicit input from interested parties on these topics and more. Their use generally greatly improves the quality of the competition.
3.	The MC Guide does not contemplate significant changes in the way work is delivered.	• This is one of the biggest missed opportunities of the current City of San Diego process. One of the leading virtues of an MC process is fundamentally questioning the way that service is delivered. To the extent that a Statement of Work cannot be modified from the way in which it is currently done, much of the power of MC is diminished. • In an era of rapid technological change, committing the City to a status quo scope of services for five years – whether provided internally or externally – curtails the ability of the City to meet citizen needs through service innovation. • While the City Attorney's opinion is that, "the negotiated process does not appear to contemplate a competition between City employees and outside contractors based on service levels beyond what are budgeted" (2/1/2012 Report to Rules Committee), this does not prevent the Council from increasing service levels through the budget process. Even if "service levels" are not explicitly changed by the Council, this does not mean that the service cannot be delivered in a significantly different manner as long as "service levels" are maintained. • The rapidly-changing industry of publishing services is an example of the problems with an overly strict definition of "service levels". The City Auditor's review of the City's Publishing Services MC cites the substantial overestimates of predicted document volumes included in the RFP, in some instances by more than 10X than

Key Finding		Supporting Observations
		actually realized. When combined with fixed fee pricing and a five year pricing agreement, the RFP essentially attempted to "freeze" a service model that was in the midst of rapid change. The issues identified with the City Auditor's review of Publishing Services are not surprising, in retrospect.
4.	The standard five year term for Proposal duration is not always appropriate.	• The MC Guide appears to allow, but not require, a five year term. However, the City has used a five year term in each MC process. • The use of a five year agreement term in all cases fails to allow the City sufficient flexibility to innovate and/or alter service models based on the new technologies, management approaches, and/or regulatory requirements that might emerge over the period. • Additionally, when such a term is coupled with a fixed price requirement and uncertainty about service volume requirements, it can create prohibitive risk for private sector companies, especially where they are dependent upon commodities that exhibit significant year-to-year price variations. • While the five year term is not a bad aspirational standard to start with when considering an MC, these issues should be considered when specifying the contract term.
5.	"Firm Fixed Price" pricing structures are inappropriate in some circumstances.	• As with the immediately preceding item, the MC appears to allow, but not require, that a Firm Fixed Price be used as the pricing approach. The City has required a Firm Fixed Price in all five MC RFPs. • When the City is unable to accurately define the workload, a Firm Fixed Price structure puts substantial risk on bids, both internal and external. This is reflected in higher costs. • The development of the RFP must take into account standard pricing approaches in the industry in which the MC is taking place. • As the response from Department of Public Works Director to the City Auditor's report noted, "It is also critical that any future RFPs include pricing mechanisms that are consistent with the underlying business practices being competed. In the case of the Publishing Services RFP, the required lump sum pricing should have been replaced by a pricing schedule consistent with printing industry practices, such as a fixed per-unit cost schedule."
6.	The lack of reliable quantitative and qualitative data on the services subject to MC diminishes the integrity of the process.	• One of the most common refrains heard from those interviewed on the MC process concerned the lack of reliable, operational-level quantitative data to define the services defined in any particular MC project. While not every aspect of a service need be measured, it is essential to be able to define key elements of the service. • The lack of reliable operational data puts outside competitors at a distinct disadvantage in terms of developing a cost-effective proposal. To the extent that service levels cannot be identified up front, a private firm must price additional risk into the proposal cost.

Key Finding		Supporting Observations
		• For the winning internal team, such as with Publishing Services, the lack of reliable data upon which to base service costs leads to the type of cost allocation issues identified in the Auditor's report.
7.	City Purchasing & Contracting was not provided the training and resources to adequately fulfill its MC role, as contemplated by the MC Guide.	• Another common refrain revolves around the fact that P&C did not have the resources and/or training to fulfill its role in an effective MC process, as documented on page 6 of the MC Guide: "During Phase II, Purchasing and Contracting will lead the team developing the Statement of Work (SOW) and the Request for Proposals (RFP)." Specifically, two MC Guide-specified functions are at issue: ○ "Assist in developing (as appropriate) and approve the SOW and other RFP documents in advance of their release." ○ "Tailor the selection process to suit individual acquisitions to minimize the cost of the process for the City as well as prospective competitors." • The MC Guide contemplates that the SOW Team would receive professional consulting assistance, which was not provided. Given the leadership and personnel turnover that Purchasing experienced during this timeframe, the effort became even more challenging. • Union leaders report that P&C personnel did not feel like they had received adequate training as to what was expected of them within the MC process. • Interviewees report that P&C activity related to MC was completed, for the most part, by a single designated individual who is no longer with the City. • In effect, it appears that P&C did not ever play the role envisioned by the MC Guide. Implementing an effective MC program requires the active participation of the City organization most familiar with the procurement process in order to promote transparent and robust competition.
8.	The MC proposal evaluation process is lacking when it comes to proposal scope validation.	• A number of interviewees indicate that the process of confirming that the proposals indeed met the required SOW was weak. While much effort went into PSOW and SOW development, there was no thorough City staff vetting of the Proposals against the SOW. • The role of the MCIRB in the proposal evaluation process is as follows: ○ "Make an award recommendation based on technical and cost proposals received by the City." ○ "The MCIRB's best overall value recommendation to the Mayor shall include a written explanation for its recommendation rationale in a decision document." • However, MCIRB volunteers interviewed indicate that their ability to fully evaluate the proposals against the required SOW was limited by time, expertise, and resources. At least one individual did not feel equipped to truly validate the proposals.

Key Finding		Supporting Observations
		• The MC Guide does not clearly specify the role of the SOW team or of P&C in validating that the proposals meet the SOW requirements, even in an advisory capacity to the MCIRB.
9.	In at least one instance, the City has captured budget savings before implementing the new service model, leading to reduced funding for and service levels provided by the status quo operation.	• Developing a feasible MEGO is one effort; determining the best path of achieving that MEGO while maintaining adequate service quality is a separate necessary step. The MC Guide requires that a transition plan be included in private and employee proposals: "This plan will have provided a detailed description of the changes in staffing, equipment, materials, service levels or processes required to meet the commitments in their technical and cost proposals." • Despite the fact that the budget savings expected from the Fleet Services MC were implemented beginning in FY2013, transition to the new service model has not yet occurred. • As documented in Huron's assessment of the City's Fleet (released 2/18/2014), in the absence of an implemented transition plan, this disconnect between timing of the implementation of the MEGO service model and the associated budget action has contributed to a decline in the readiness of the Fire and ESD fleets.
10.	There remains great uncertainty around how implemented MC projects are monitored, any cure period for issues to be resolved, and the consequences of unachieved commitments.	• The MC Guide requires the development of a Quality Assurance Surveillance Plan (QASP) by which awarded service models are to be monitored, whether the awarded organization is internal or external. The MC Guide also contemplates the development of a Memorandum of Understanding (MOU) for winning EPT proposals which would function as an accountability mechanism, similar to an external service agreement. • However, the City Attorney has determined that, "the City does not enter into a contract with a City department to provide services or with City employees if they 'win' a Managed Competition." • Thus, while some of the MC projects have been implemented already and some monitoring/quality assurance procedures are in place, questions abound among both management and labor as to what the path forward is when it comes to monitoring the effectiveness of the project and whether commitments are being met.

5.3 Employee Relations Issues

Key Finding		Supporting Observations
1.	A high level of concern remains among employees regarding the impact of Managed Competition.	• In the MC Guide, the City requires its employees impacted by an MC won by a private provider be given "First Preference in Hiring". Additionally, the Guide indicates that impacted employees may access, "the layoff procedures set forth in Section L-5A of the Personnel Regulations of the City of San Diego, entitled —Layoff, other than Police or Fire Units, as well as Rule V of the Civil Service Rules, entitled —Layoff and Reemployment."

		• Interviewees, both labor and management, cite the diligent and largely successful efforts that employees in City Personnel and Human Resources have made to place into other City jobs those who have been negatively impacted by MC. This has been accomplished by "banking" vacancies and retraining individuals, when necessary. • Interviews indicate that City has offered alternative positions, and training for such, to all individuals whose roles were eliminated through Managed Competition. Despite these efforts, union leaders represent that the existence of the MC process continues to generate much concern among City employees.
2.	There is no financial "upside" for employees participating in MC.	• Huron understands that there have been issues with the implementation of employee "gain sharing" arrangements in the past that resulted in an elimination of such programs at the City. However, one of the most crucial factors in a MC program is that employees be able to receive tangible benefits from their innovation. • People respond to both positive and negative stimuli to varying degrees – "upsides" and "downsides". Even given the perfect record of City employees in winning Managed Competitions, those interviewed report that the "honeymoon" after the EPT win is very short. For the most part, employees put forth their best ideas in the context of an intense competition and then, in the end, simply keep their jobs without reward for improved productivity and innovation. This is not an environment to stimulate long-term innovation and efficiency.
3.	There has been a lack of consistent advance communication with employee unions regarding MC.	• Union representatives report that the past process for final selection of projects for MC was conducted in a manner that did not include any advance notice or chance for discussion. Union leaders believe this led to increased employee insecurity and resistance as well as missteps on the part of the City resulting from issues that were not taken into account during project selection. • While it is difficult to envision circumstances under which the unions would support any MC, advance discussion might provide an opportunity to exchange ideas concerning the "least bad option" (from the union's perspective).
4.	Leaving serious issues until the Meet & Confer process step undermines the competitive integrity of the process and extends uncertainty for affected employees.	• Consistent with the Meyers-Millias-Brown Act (MMBA) and Council Policy 300-06, the City is required to negotiate with its unions if the MC award results in changes to wages, hours, or working conditions for City employees. • The Meet & Confer process begins after the MC award has been made. The Meet & Confer MC process step following the award to the EPT can lead to substantial changes to the City's estimated savings. While in two cases, savings estimates actually increased following Meet & Confer, in two cases savings estimates decreased. In the case of the Fleet Services competition, savings estimates

		were reduced by 10% from the original award decision. This amount of cost fluctuation following the proposal evaluation process further diminishes the attempt to achieve "competitive neutrality" between the private and public sectors.
		• The Meet & Confer processes for two of the MCs have taken well over one year. As of 2/21/2014, estimated lengths of the Meet & Confer processes were, by project:
		  ○ Publishing
		  • MEA: 57 days
		  • Local 127: ~ 50 days
		  ○ Fleet Maintenance
		  • MEA: 1123+ days
		  • Local 127: 832+ days
		  ○ Street Sweeping
		  • MEA: 73 days
		  • Local 127: 80 days
		  ○ Landfill Operations
		  • MEA: 534+ days
		  • Local 127: 534+ days
		• With the Fleet Services Meet & Confer, there have been flurries of significant activity and extended periods of downtime. A Meet & Confer can continue six months without making progress.
		• Additionally, there is a State of California law that adds a fact finding process when there is a Meet & Confer impasse. This potentially adds additional time to the process going forward.

VI. Menu of Options

It is recognized that some of these options, if implemented, would require revisions to the Managed Competition Guide and Meet & Confer with the City's labor groups. While we have endeavored to tailor these options to San Diego's political and legal environment, Huron Consulting Group is not a law firm and final assessments as to the appropriateness and legality of these recommendations must be made by City leaders working with the San Diego City Attorney.

These ideas are presented as options instead of a static set of recommendations to be implemented because of the fluid nature of the environment in which MC will move forward. Given the significant role of organizations like Council, the City's unions, and private sector parties, it is impossible to predict with certainty their perspectives and actions. Therefore, we have presented options that should be considered for implementation moving forward with an eye towards generating process efficiencies and quality improvements.

6.1 Guiding Principles

While individuals interviewed have dramatically different opinions on whether the City's implementation of MC can be termed a "success" to this point, all are agreed that some use of MC as an efficiency strategy is the taxpayers' will and that the process can be significantly improved.

Huron's recommendations are based on our experience with running successful MC programs as well as our study of similar efforts. We are committed to the utility of MC as one tool in elected leaders' toolboxes when it comes to improving the efficiency and effectiveness of government operations. It is our experience that MC and/or similar tools that involve private sector participation must be a viable prospect if real, sustainable efficiencies are to be captured.

These options are grounded on the following guiding principles.

a. Place Vision and Objectives First: Managed Competition transactions are not an end unto themselves. Transactions do not stand on their own and must always be viewed in terms of how they promote the accomplishment of the City's mission – providing cost-effective and high-quality services to the citizens of San Diego. In some cases, MC will be the right tool to achieve maximum efficiency and effectiveness gains; in others, it will not.

b. Engage and Communicate with Stakeholders: Cities are complex enterprises with diverse constituencies whose interests must be carefully identified and addressed. While the City of San Diego's MC process has been extremely contentious from Day 1, common ground can still be found between labor, management, and other stakeholders.

c. Bring out the Best in Existing Labor: The City must develop an approach that better leverages the talent of its current work force in order to improve operations. This includes incentivizing superior performance by City employees.

d. Improve Service Quality and the Citizen Experience: The City should seek to promote public-private partnerships and service innovations that increase the competitiveness of San Diego and the quality of services received by its citizens.

Generally, we believe that going back to the same approach that was active primarily during the 2010-2012 timeframe would reap similar results – opaque selection processes, flawed SOWs, uncompetitive and disconnected decision processes, lengthy and contentious Meet & Confer procedures, and uncertain implementation efforts. In this section, we have identified a series of proposed recommendations, many of which correlate directly with the findings from the previous section. However, the most important factor that must change if the City's MC process is to be more successful is to locate it within the context of the City's overall strategy to improve service cost and quality, which in turn must be founded on a working labor-management partnership that is linked to the City's strategic priorities, such as promoting economic growth, creating safer neighborhoods, and enhancing quality of life.

6.2 Strategy Options

Option		Specifics
1.	Create an overall efficiency/quality/innovation initiative of which MC is an important part.	• MC is an important tool by which public organizations can drive service cost savings and quality improvements. While the implementation of MC is almost never without political controversy, the level of attention and debate that it has drawn at the City of San Diego is substantial. • Going forward, MC should be communicated as "one of a number of tools" that the City is using to drive service cost savings and quality improvements. These tools may include BPR, process automation, shared services creation, revenue maximization, and performance measurement/management. They would comprise a spectrum of approaches that the City employs to achieve the desired results of service cost savings and quality improvements. • This "quality and efficiency" initiative should be given a memorable name that communicates that its objective is to achieve City strategic goals. The name must also resonate with citizens. Additionally, the specific beneficiaries of the initiative must be identified, such as particular service enhancements (such as more police) and/or particular capital projects. • For example, Mayor Goldsmith launched a "Building Better Neighborhoods" initiative in Indianapolis that focused on the use of savings to support bonds that funded a set of important and identifiable capital projects. • The quality and efficiency initiative should involve a number of key

Option		Specifics
		metrics such as savings/additional revenues captured, police officers added, reductions in citizen service request response times, capital projects funded, etc. Citizens must be able to see that they are stakeholders in the service efficiency and quality effort. • The City must communicate regularly on initiative progress, including providing updates to key metrics as well as specific anecdotes that provide citizens with tangible examples of initiative progress.
2.	Take confidence-building steps to improve customer service while establishing a more effective labor-management partnership.	• San Diego's union members have an immense stake in enabling the City to improve the efficiency and quality of its operations in a manner that is organic and gradual. The impact of deep cuts to services, such as were required in response to the Great Recession, is felt most acutely by the City employees delivering those services. • As the economic conditions and service demands will be challenging for the foreseeable future, both labor and management have a common interest in finding ways to making City services more efficient and effective. In fact, doing so without the whole-hearted participation of labor will be impossible. • Without denying that there will continue to be real differences of opinion, labor and management must seek to move beyond the MC conflicts of the past. This is best achieved, we believe, by finding significant projects in which to work together in such a way as to benefit the citizens of San Diego. • Therefore, management should work collaboratively with labor to identify one or two customer-facing services in which investments in technology, training, and management can lead to measurable service cost and customer service improvements. These would <u>not</u> be MC projects. For example, the City's Development Services operation may be a good first candidate, based on input from the MEA. In addition to providing a substantial opportunity for improvement, this service could also result in improved economic development outcomes for the City. • Such confidence-building projects would involve commitment from the administration, as well as support and funding from the Council, to provide the technology, facility upgrades, and process expertise to create a new environment for employees and citizens alike. • The City should measure and monitor project success and provide regular updates to the public and show skeptics that the City management and labor can work together cooperatively and effectively.

3.	Introduce and preliminarily evaluate private sector ideas and innovations by creating a Mayor's Council on Service Innovation.	• One of the main benefits of a robust MC initiative is the introduction of private sector ideas and innovations into City service delivery. However, MC is not the only means by which such ideas can be introduced. • San Diego has an incredibly innovative, active, and civically-minded business community. Their input on and attention to City service issues could be immensely beneficial. They could be convened quarterly - with administration, department, and union representatives – to discuss specific City service challenges that are nominated for consideration. Discussions could consider all aspects of the service with a focus on introducing proven technologies and approaches from the private sector. • Between quarterly meetings, the City could challenge interested firms to dedicate volunteer hours to assist the City in vetting and scoping some of the ideas that arose at the quarterly meetings. • The MCIRB has a Charter-designated MC minimum role to recommend MC awards to the Mayor. However, the volunteer body proposed by this recommendation is an appropriate additional use for the MCIRB if the MCIRB can be staffed with the types of business leaders described in this section.

4.	Create greater transparency around the MC project selection process.	• The City should develop a more quantitative approach to evaluating MC opportunities, focusing not on a binary "yes" or "no", but a scaled answer based on identified criteria. Some of the criteria may include:
		  o The degree to which the service is a core service provided uniquely by the City within its boundaries
		  o Who the direct customers of the service are
		  o Service simplicity versus complexity
		  o An assessment of the interfaces that would be required between a private provider and other City entities
		  o The "Yellow Pages Test" – whether there are a significant number of providers who currently provide the service or a similar one
		  o Successes in other comparable cities or counties
		  o The estimated magnitude of savings
		• Additionally, involving department leadership in the MC project evaluation process is essential. They must be given an active role in evaluating the suitability of potential projects.
		• Finally, involving union representatives in a discussion about MC project candidates before selecting a final set of projects is worth attempting.

5.	Consider other models that inject private sector expertise into the delivery of public services, such as "in-sourcing" of private	• In highly-technical areas, such as water and wastewater infrastructure, some operations companies are willing to contractually provide management and/or consulting services on a "share of savings" basis following an initial validation period in

	sector management expertise.	which they are allowed the opportunity determine the magnitude of savings available. • For example, a city releases an RFP setting up a two-stage SOW. In the first SOW stage, the winning firm commits to come in and perform a management audit for a substantially reduced price. At the termination of this phase, the consulting firm presents the savings opportunities to the city and stays on to see through (in a management capacity) the successful implementation of the opportunities (those that are approved by the city) in return for a share of the verified savings achieved. The city can require, during the initial bidding process, that the competing firms submit pricing not only on the initial management audit, but a share of savings methodology for the follow-on implementation phase. • While this approach involves some risk on the part of both parties, it allows cities to tap the best in private sector expertise and to learn from and incorporate private sector approaches while retaining internal management, all at minimal out-of-pocket cost to the city. For the New York City Water Board, for example, such an arrangement generated an estimated $108M-$130M in annual efficiencies/enhanced revenues identified in the first phase of the project. • Such agreements could be structured so that a portion of the scope also involves knowledge transfer to City employees so that they can continue the proven approaches going forward.
6.	Use the San Diego County process as a baseline to negotiate a new, streamlined MC process.	• The City's MC process, based as it is on the Federal A-76 process, is too cumbersome to be effective in the long term, especially if involving complex projects. It is simply too inefficient. • San Diego County's approach, while not perfect, warrants strong consideration as the starting point for a revised City of San Diego MC model. For example, there is no 10% cost savings standard versus the EPT proposal that must be met by a private proposal for it to be recommended. Additionally, County Department Heads play a more prominent role in the process, as is appropriate for their position, as ultimately responsible for service delivery quality. The County process includes provision for reviewing smaller services for possible "divestiture, outsourcing, reengineering or consolidation with another governmental agency."[4] Finally, while the County prohibits people writing the RFP/RFB from being on the EPT, its approach does not construct such a stringent firewall, which is cited by City employees as complicating not only the MC effort, but also daily operations. • Additionally, through the interviews we learned that at one time in the process, union representatives were open to consideration of

[4] http://www.sdcounty.ca.gov/purchasing/docs/dpc_mcg.pdf

		the County's process as a template. Therefore, we recommend that the City seek immediately to enter into negotiations with labor to revise substantially the current MC Guide and to adopt a policy that is based on the County's approach.
7.	Based on the evaluation of MC project candidates to date and using the Yellow Pages Test as a major criterion, identify a small number of relatively simple projects that may be suitable for outsourcing.	• As noted above, we recommend that the City move forward in good faith to negotiate an MC process that is more in line with the County's model. • At the same time, however, we recommend that the Mayor consider exercising his authority under Section 117 to solicit proposals from private sector providers without soliciting MC proposals from EPTs. There are a number of City services that also have substantial market competition. • In doing so, we recommend that the City begin Meet & Confer immediately to minimize the negative impact on City employees.
8.	Clarify and confirm the City's ability to consider MC proposals that involve changes to service delivery.	• The City Attorney confirms that the Council has the authority to "increase service levels, which is generally done through the budget process" (Report to the Rules Committee, 2/1/2012). However, the same document cautions that the "negotiated process does not appear to contemplate a competition between City employees and outside contractors based on service levels beyond what are budgeted". • Interviews indicate that this "service levels" guidance has been generally interpreted to mean that RFP scopes must essentially require the status quo provision of services. It is not clear that the City could accept a proposal for services with a different service level even if it provided cost savings. For example, a mowing contractor might propose to mow the grass only when it reaches 5 inches versus having to mow at the currently-defined service level of "X" times per year whether the grass needs it or not. This static and restrictive approach to service levels is reflected in scopes of service that have been generally prescriptive of how services must be delivered. • A narrower reading of the "service levels" guidance may be warranted, however. With internal City services, changes are made to "how" a service is provided all of the time; the gradual replacement of typewriters with personal computers throughout City government is an example. Rather, the emphasis must be on developing output and outcome measures that equate to the "service levels" reference while allowing for broad opportunity for internal and external providers to innovate as to how those service levels are met. • To the extent that an RFI or RFQ is used as a preliminary step in an MC process to solicit new ideas as to how a service can be delivered, this information might be included in the presentation of the PSOW to the Council to receive explicit consideration as to

		whether such ideas satisfy the meeting of the "service levels" that the Council is to oversee. If necessary, Council could specifically act to authorize such a change to "service levels". The goal is simply to allow for the same type of periodic changes to service levels that regularly occur with internally provided services.
9.	Invest in an outcome-oriented performance measurement and data analytics program.	• As a foundation for all of its efficiency and service quality efforts, the City should consider upgrading its existing performance measurement and management program. "Citi Stat" types of programs in cities such as Louisville and Boston provide good examples. These programs have both internal and external benefits, enabling managers to focus on key areas while providing citizens with reliable information as to how their city is operating. • Such a program would benefit efficiency efforts generally and MC project in particular by enabling services to be defined more in terms of desired outputs and outcomes versus having to be prescribed. • Design of such a program should also take into account the opportunity to use data to improve overall program performance. Analytical tools applied to City datasets can be used for such diverse purposes as crime prevention, predictive street maintenance, and improving the effectiveness of social services interventions.

6.3 Process Options

Option		Specifics
1.	Seek a solution to the Charter Sections 94/117 conflict regarding the conflict between "repair" projects and MC.	• As has been noted by many individuals in many instances, this conflict severely limits the breadth of projects to which MC can be applied. At some point, the City was able to receive support to include an exception for "design-build" type projects (94.2) presumably to allow the City to use more innovative project approaches that benefit the citizens of San Diego. This is a similar instance.
2.	Decentralize and grant more autonomy to Department heads.	• The past practice, referenced by some interviewees, of excluding senior level Department leaders from key decisions around MC project selection and scope cannot continue if the MC program is to be successful. The individuals in these roles must be an integral part of the process and must be able to be trusted to seek the most efficient and effective way of providing services, including through the use of MC, when appropriate. • To the extent that they are assessed by their budget commitments and by metrics developed through the type of performance measurement/management program described above, they will have every incentive to make prudent decisions when it comes to all of the efficiency tools at their disposal. They can then serve as

Option		Specifics
		effective champions of MC and the other tools.
3.	Use RFQ/RFI process to solicit private sector input as to appropriate project scope and to receive feedback on other key questions surrounding the procurement.	• These are important tools to be able to solicit best ideas from the private sector in a low-cost, no-commitment way. Their use prior to the presentation of the PSOW to the Council (or similar step in any new process) will enable the City to consider up-front the value from service innovations and develop MC SOWs that promote best value solutions.
4.	Negotiate elements of Meet & Confer that can be moved into the pre-award phase of the MC process.	• Multiple interviewees indicated the value of involving Labor Relations and union representatives earlier in the MC process to identify issues with the EPT proposal approach that might lead to extended post-award Meet & Confer periods. From an MC process integrity standpoint, moving as much of this Meet & Confer work as is legally possible and practicable to before the EPT proposal is finalized makes sense even if it extends the pre-proposal stage of the process. • By identifying and discussing with Labor Relations and union representatives potential Meet & Confer issues prior to finalizing the EPT proposal, with appropriate commitments of non-disclosure, time could likely be saved on the back end as all parties would be aware of the negotiable issues raised by the EPT proposal. • As a minimum step to improve recommendation process integrity, the MCIRB and the Mayor should be aware if key elements of EPT proposals are likely to trigger extensive Meet & Confer periods that could result in material changes to the EPT proposal prior to the MCIRB recommendation and Mayoral award. • Nothing in the discussion of this option is meant to indicate that any party has misused or attempted to misuse the Meet & Confer process step to this point.
5.	As appropriate, use terms other than five years in MC RFPs.	• Five years is a reasonable aspirational standard, as longer term agreements usually generate more savings, especially when capital equipment is involved. However, each MC project should be considered independently as to the most appropriate agreement term based on factors such as the pace of technology change, the possibility of regularly changes impacting the process, and standard agreement lengths for the particular service.
6.	As appropriate, use cost/pricing formats other that Firm Fixed Fee in MC RFPs.	• As with above, the Firm Fixed Fee approach may well be a good cost/pricing requirement for some services where there is a high level of confidence that the SOW and corresponding service levels have been identified accurately. Where they have not been, however, a Firm Fixed Fee pricing format requires both internal and external proposers to price in much risk and drives

Option		Specifics
		the cost significantly higher than it would otherwise be. • While pricing simplicity is great for comparison and contract management purposes, variable pricing and/or unit pricing structures are required in cases where volumes are unpredictable. The City can support the MCIRB's evaluation of such proposals by providing a range of reasonable volume values that can be run through competitors' pricing structures to identify how such volume assumptions would change the ranking of proposals on price.
7.	Improve the MC review process to confirm SOW compliance and harvest new ideas.	• By some of its members' admission, the MCIRB must be better equipped to evaluate whether proposals meet the required SOW. The City should make provision for this assistance, most likely involving some pre-evaluation by SOW Team that includes a non-binding assessment of conformity in order to maintain the MCIRB's mandated role. • The SOW Team could also be tasked with reviewing all of the proposals submitted with an eye towards collecting good ideas from proposals that do not receive the award.
8.	Allow employees to solicit informational bids.	• Several complaints were made that the employees were unable to solicit information bids from outside vendors in order to include such pricing in their proposals. City P&C should be tasked with developing a process for this to grant EPT's the information they need in order to develop competitive proposals.
9.	Equip the MCIRB to fully review all proposals received that represent savings versus the current services baseline cost.	• The Guide's requirement that the MCIRB cannot make a recommendation to the Mayor to accept a private sector proposal unless it represents a 10% cost savings versus the EPT proposal diminishes competition and reduces the City's ability to benefit from technical innovations and service variations that may be included in private sector proposals. In some cases, a private sector proposal may offer significant qualitative advantages over the EPT, but only, for example, 8% savings versus the EPT. • Additionally, to the extent that the City allows for variable pricing in response to an RFP, as discussed above, this 10% cost savings threshold becomes much harder to calculate and justify. • While the Mayor is not bound to the MCIRB's recommendation, this current Guide requirement makes it more difficult for the Mayor to reject the MCIRB's recommendation and select a proposal that does not meet the 10% threshold since the MCIRB has not generally completed full technical reviews of those private proposals that do not meet the 10% standard. • Therefore, the City should equip the MCIRB with the support resources necessary to complete full technical reviews of all private proposals that represent savings versus the current services baseline cost.

Option		Specifics
10.	Commit to adequately resourcing and supplementing in-house capacity to develop effective SOWs.	• As contemplated by the MC Guide, P&C's role relative to the SOW Team must be better defined in any revised MC process that the City negotiates. P&C should appoint an "MC Coordinator" in order to promote clarity and consistency regarding the organization's role in the MC process. Additionally, consulting assistance should be engaged for P&C in supporting the SOW Team for MC processes. • In addition to providing assistance with a few specific MC projects, the consulting scope should also include assisting P&C with developing the templates and processes to enable them to support the SOW Teams effectively. As the City conducts more MC projects, the need for this external assistance should diminish, especially where the complexity of the SOW is not great.

11.	Create a standard implementation monitoring approach and define consequences for internal failure to meet proposal commitments.	• While the current MC Guide provides some helpful guidance as to the development of a helpful QASP, there is more work to be done.
		• In our experience, an effective implementation monitoring approach must include:
		  o Regular oversight by the customer department;
		  o Quantitative and qualitative measures of compliance drawn from the proposal;
		  o A formal quarterly review process conducted by a review committee made up of departmental personnel and union representatives;
		  o A formal quarterly report document produced by the department that gives the review committee the information it needs to monitor the contract;
		  o A specified cure period for operational and financial deficiencies;
		  o Defined consequences for uncured deficiencies that continue for a specified time period; and
		  o A process for communicating results.
		• Given the visibility and importance of the MC process to the City, management should consider a report to the Council at least annually and in the instance of any proposed termination of the agreement resulting from uncured deficiencies.
		• Multiple interviewees mentioned that the Landfill Operations model for proposal compliance monitoring may warrant consideration as a City-wide model.
		• The City Attorney has opined that the type of MOU apparently contemplated by the MC Guide, and used in other jurisdictions' MC processes, is not a binding instrument in any way comparable to an external service agreement ("Legal Obligation to Implement MEGO Proposal Following MC", 12/19/2013). In the absence of

Option		Specifics
		any other specified consequences for uncured deficiencies, the Mayor appears to retain authority to dissolve the MEGO and/or to move to another MC process or even directly outsource the service.

6.4 Employee Relations Options

Option		Specifics
1.	Emphasize the City's continuing commitment to employment opportunities for those City employees affected by MC.	• The MC Guide lays out both the internal City processes that are available for affected employees as well as the First Preference in Hiring recommendation for employees in the event a service is won by a private firm. • Since the City has already effectively committed itself to a thoughtful policy when it comes to employee protections and offered internal opportunities to all of those impacted, we recommend that leadership should affirmatively and regularly communicate its commitment to seek to either place all affected employees elsewhere within the City and/or to encourage, to the fullest extent of its ability, the employment of affected employees for an initial period with a winning private contractor at equal pay and the company's standard benefits, subject to non-negotiable requirements like a drug test. • When it comes to pension vesting issues, retirements, and other "milestone" events for affected employees, the City should communicate its willingness to work with employees and their union representatives to make any transition to the private sector as smooth as possible, including retaining individuals in City employ for a period of up to a year in order that they might reach such milestones. There is likely little additional cost to such an effort, any of which would likely be far outweighed by the productivity increase from employees worrying less about their futures. • With the public sector "retirement crisis" ahead and a track record of aggressively managing City vacancies, there should be more than enough opportunity for qualified employees who seek to remain in City employment. • San Jose's explicit "No Lay-Off" commitment from the City's policy could be a useful model: "In the event that managed competition results in the outside delivery of a service previously provided in-house, the City shall provide any person displaced with other employment opportunities within the City to totally avoid the need for lay-offs."
2.	Create employee "upside" in the MC process.	• Good ideas most often come from those who are closest to the work. It is essential to realize, recognize, and reward this fact.

Option		Specifics

		The City should re-institute and fund something similar to the previously-authorized employee "hot ideas" bonus program described at: http://citynet.sannet.gov/documentsforms/ar/pdf/ar9592.pdf
		• In Huron's experience, creation of an employee financial upside is a necessary part of a successful MC initiative. While taxpayers must be the primary beneficiaries of the savings from MC, we believe that more closely aligning the incentives of employees with taxpayers will generate better outcomes overall.
		• In the interviews, there was some uncertainty as to whether such an approach would be prohibited by the recently-adopted Proposition B. The majority who discussed this matter seemed to think that such performance-based bonuses for employees would be permitted.
		• We understand that the City has history with employee performance bonuses and that the previous "bid to goal" program generated significant criticism and was revoked. We understand that there are challenges to designing such programs in such a way that they generate continuous improvement. However, we believe that the benefits outweigh the risks and that there are examples of workable programs upon which the City can draw.
		• In the context of an MC program, elements of an effective gain sharing program generally include:
		  ○ All operational commitments from the EPT proposal must first be met;
		  ○ All financial commitments from the EPT proposal must first be met;
		  ○ A portion of the "excess savings" beyond the proposal commitments goes to the employees with a portion going back to the City;
		  ○ Oversight of the gain sharing agreement is included in the quarterly review process;
		  ○ At least quarterly communication concerning team performance occurs with affected employees;
		  ○ There is team-based methodology for distributing bonuses;
		  ○ Pay-outs are made annually; and
		  ○ The gain sharing plan does not extend past the term of the proposal.

3.	Assign an executive resource to investigate the feasibility of and, if warranted, to help implement cost savings ideas put forth by union employees.	• Another confidence-building effort that the City should consider is designating an employee, volunteer, or contractor with deep operational experience to investigate cost savings ideas put forth by the City's unions. While we understand that the City currently has a process for considering such ideas, through its Labor-Management Committees, assigning such a resource would be a

Option		Specifics
		clear communication to the employees that their ideas for improving City services are valued and will be expedited for consideration. • Again, building on the principle that those closest to the work have the best ideas for improvement, the City should commit to diligently investigating the merit of such ideas. To the extent the ideas are workable, the employees should be rewarded through the "hot ideas" process described above. The City should also actively communicate to the public such instances of employee innovation, giving the individuals full credit for their ideas.
4.	Promote opportunities for employees to compete for other work for public agencies.	• The flip side of MC is that employees should have the opportunity to compete to provide services to other public sector organizations. City leadership should signal their willingness to support such efforts to the extent that they do not interfere with necessary duties. • Reach out to the County and other municipalities to explore options to provide City services, such as in fleet operations.

VII. Conclusion

Given past history, improving the MC process will take a well-balanced approach. At a high level, a path forward may include the following areas of emphasis:

Finding Common Ground with Employees	Using a Mix of Competitive Tools	Engaging the Private Sector
Re-affirm commitment to continued employment options for those City employees affected by MC	Reframe MC as a piece of the City's overall efficiency/quality/innovation initiative	Introduce and preliminarily evaluate private sector ideas and innovations by creating a Mayor's Council on Service Innovation
Work with labor to jointly identify at least two services to modernize to improve customer experience and employee conditions	Seek to negotiate a new, streamlined MC process based on the SD County model	Use RFQ/RFI processes to solicit private sector input as to appropriate project scopes
Identify, reward, and publicize employee excellence throughout the City	Identify a small number of relatively simple projects that may be suitable for direct outsourcing	Consider models that inject private sector expertise into the delivery of public services, such as "in-sourcing" private management
Signal support for a gain sharing program for employees in current MC projects	Invest in an outcome-oriented performance measurement and data analytics program	Equip the MCIRB to fully review all proposals received that represent savings versus the current services baseline cost

Crafting such an approach will likely entail:

- A labor-management partnership that recognizes areas of opportunity and common interest as well as areas of continuing disagreement;
- A linkage between the City's strategic goals and the various means to achieving such goals, like MC;
- Encouragement of a range of means by which to gain efficiencies and to introduce private sector dynamism and ideas into City service delivery that includes, but also goes well beyond, MC;
- Sustained engagement with interested private-sector volunteers;
- A focus on moving forward with a few City services that are ripe for private sector competition;
- Numerous channels and rewards for City employees to bring their best ideas to the table, including through a fair and more expeditious MC process; and
- An MC process that is characterized by greater transparency, competitive neutrality and involvement from department leaders, and that is based on successful MC models.

Especially given the history of MC at the City of San Diego, the options presented do not guarantee success. However, Huron has observed broad areas of overlapping interest across stakeholders that could serve as the foundation for making the City a more efficient, responsive, and inclusive provider of crucial public services.

VIII. Attachment A - Interviews

Interview Date	Name	Title	Organization
12/12/2013	Kip Sturdevan	Director	Transportation and Storm Water, City of San Diego
12/12/2013	Chris Gonaver	Director	Environmental Services Department, City of San Diego
12/12/2013	Stephen Grealy	Waste Reduction and Disposal Deputy Director	Environmental Services Department, City of San Diego
12/12/2013	Mario Serra	Assistant Director	Environmental Services Department, City of San Diego
12/12/2013, 1/21/2014	Cathleen Higgins	Managed Competition Director	San Diego Municipal Employees Association
12/13/2013	Rimah Khouri	Deputy Director	Labor Relations Division, Human Resources Department, City of San Diego
12/13/2013	John O'Neill	Labor Relations Officer	Labor Relations Office, Human Resources Department, City of San Diego
1/8/2014	Tony Heinrichs	Deputy Chief Operating Officer	Infrastructure/Public Works, City of San Diego
1/8/2014	Faye Wilson	Chairperson	Managed Competition Independent Review Board
1/8/2014	Mary Lewis	Chief Financial Officer	City of San Diego
1/8/2014	Maureen Jugar	Supervising Management Analyst	Analytics and Performance Management, City of San Diego
1/9/2014, 1/22/2014	Jeff Sturak	Deputy Chief Operating Officer	Internal Operations, City of San Diego
1/9/2014	Leslie Valdez	Procurement Specialist	Purchasing and Contracting, City of San Diego
1/10/2014, 1/13/2014	Grace Lowenberg	Deputy City Attorney, Civil Division	Office of the San Diego City Attorney, City of San Diego
1/10/2014	Thomas Zeleny	Deputy City Attorney, Civil Division	Office of the San Diego City Attorney, City of San Diego
1/10/2014, 1/21/2014	Joan Dawson	Deputy City Attorney, Civil Division	Office of the San Diego City Attorney, City of San Diego
1/21/2014	Michael Zucchet	General Manager	San Diego Municipal Employees' Association
1/22/2014	Karen Dennison	Program Manager	Analytics and Performance Management, City of San Diego
1/22/2014	Carlos Mejia	Business Representative	AFSCME District Council 36
1/22/2014	Frank Pitarro	President Local 127	AFSCME District Council 36
1/22/2014	Marcos Cardenas	Business Agent	AFSCME District Council 36
2/18/2014	Andrea Tevlin	Independent Budget Analyst	Office of the Independent Budget Analyst, City of San Diego
2/21/2014	Judy von Kalinowski	Director	Human Resources, City of San Diego
2/24/2014	Walt Ekard	Former Chief Administrative Officer	County of San Diego

IX. Attachment B – Documents Reviewed

- Performance Audit of Publishing Services, Office of the City Auditor, City of San Diego, September 2013
- Chronology of Managed Competition Program Events, prepared by City of San Diego Staff, August 4, 2011
- City of San Diego Managed Competition RFPs
- City of San Diego Managed Competition Proposals
- City of San Diego Proposition C – Managed Competition Charter Amendment Ballot Language
- City of San Diego Managed Competition Guide (Ordinance 1127) – 7/2010
- City of San Diego Managed Competition Guide, July 26, 2010
- County of San Diego Managed Competition Guide – 9/2009
- Managed Competition Program: Lessons Learned and Recommendations (unreleased DRAFT document), Office of the Assistant Chief Operating Officer, 7/22/2013
- Managed Competition Project Prioritization List – 12/22/2010
- Potential Next Managed Competitions document – 12/01/2011
- Prioritization List_9142010
- 2011 MC City Costing Tool Template
- 2011 MC Street Sweeping CCT_City of SD_TSW_revised 20120113
- CCT Handout SS_20110928
- Office of the Independent Budget Analyst. "Savings Related to Fleet Services Managed Competition: Office of the Independent Budget Analyst Report." February 26, 2014. http://www.sandiego.gov/iba/pdf/reports/2014/14_08_140220.pdf
- Memorandum from Office of the City Attorney re: Legal Obligation to Implement "Most Efficient Government Organization" Proposal Following Managed Competition, December 19, 2013
- Report to Rules Committee from Office of the City Attorney re: Managed Competition and Service Levels, February 1, 2012
- Memorandum of Law from the Office of the City Attorney re: Enforcement Functions at Miramar Landfill, June 16, 2011
- City of San Diego City Charter, Article VII, Section 94: Contracts and Section 94.2: Design-build Contracts
- Report to the Committee on Rules, Open Government, and Intergovernmental Relations from the Office of the City Attorney re: Contracts for Repair and Maintenance of Public Facilities, September 26, 2011
- Opinion Number 2009-2 from the Office of the City Attorney re: Outsourcing City Services, October 8, 2009
- E.L. Hamm-produced document: City of San Diego Managed Competition Lessons Learned
- DRAFT Memorandum from Kip Sturdevan re: Managed Competition – Lessons Learned reflecting lessons learned from 18 City of San Diego employees familiar with the effort
- AFSCME LOCAL 127 and SAN DIEGO MUNICIPAL EMPLOYEES ASSOICATION, Charging Parties, v. CITY OF SAN DIEGO, Respondent, No. LA-CE-352-M, California PERB Administrative Law Judge, August 22, 2008
- "PUBLIC PRIVATE COMPETITION POLICY", City of San Jose, Rev. 3/20/2009

- Congressional Research Service, “Office of Management and Budget Circular A-76 and the Proposed Moratorium on Future DOD Competitions: Background and Issues for Congress.” http://assets.opencrs.com/rpts/R40854_20091009.pdf

THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: June 9, 2014

TO: Honorable Mayor Faulconer and Members of the City Council

FROM: Barbara Lamb, Program Manager, Department of Performance and Analytics *VIA* Ronald H. Villa, Deputy Chief Operating Officer, Internal Operations

SUBJECT: Response to Huron Consulting Group Report on Competitive Initiatives

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This memorandum is in response to the Huron Consulting Group's report on Competitive Initiatives Analysis. The following are Huron's report recommendations with City staff responses:

STRATEGY RECOMMENDATION #1: Create an overall efficiency/ quality /innovation initiative of which MC is an important part.

RESPONSE TO STRATEGY RECOMMENDATION #1: *Agree.*

- The new Department of Performance and Analytics provides the framework for the City's overall efficiency/quality/innovation initiative. The department will focus on strategic and tactical planning, development and tracking of performance measures, operational excellence studies to improve efficiency and effectiveness, managed competition, data analytics, and open data.
- The new department will perform data mining and analysis, conduct operational excellence work, and advance efficiency initiatives and managed competition program improvements.
- In conjunction with the Mayor's office and the Executive Team, the new department will develop and report on appropriate internal and external performance measures to reflect its positive impact on the City's operations.

STRATEGY RECOMMENDATION #2: Take confidence-building steps to improve customer service while establishing a more effective labor-management partnership.

RESPONSE TO STRATEGY RECOMMENDATION #2: *Agree.*

- The City's Executive team emphasizes cultivating a relationship with the recognized employee organizations that supports improvement efforts for the benefit of both service providers and recipients via improved efficiency and effectiveness.

STRATEGY RECOMMENDATION #3: Introduce and preliminarily evaluate private sector ideas and innovations by creating a Mayor's Council on Service Innovation.

***RESPONSE TO STRATEGY RECOMMENDATION #3**: Agree.*
The Mayor's office will explore the expansion of the duties of the Managed Competition Independent Review Board (MCIRB) to encompass these recommended duties of a Council on Service Innovation.

STRATEGY RECOMMENDATION #4: Create greater transparency around MC project selection process.

***RESPONSE TO STRATEGY RECOMMENDATION #4**: Agree.*
The City will improve outreach for identifying, selecting, and announcing candidate functions for Managed Competition; this new process would emphasize input from the City departmental leaders who know their own business best, from the recognized employee organizations that can advise on the practical considerations of front-line employees, and the MCIRB (see Strategy Recommendation #3 above) which may offer insights into market factors and the competitive and technological landscape for a function.

STRATEGY RECOMMENDATION #5: Consider other models that inject private sector expertise into the delivery of public services, such as "in-sourcing" of private sector management expertise.

***RESPONSE TO STRATEGY RECOMMENDATION #5**: Agree.*
The Mayor's office is open to any model that saves money and/or improves service delivery, including the concept of in-sourcing private sector management expertise.

STRATEGY RECOMMENDATION #6: Use the San Diego County process as a baseline to negotiate a new, streamlined MC process.

***RESPONSE TO STRATEGY RECOMMENDATION #6**: Agree.*

- After conducting a number of competitions in accordance with the City's current Managed Competition Guide, the City recognizes the need to improve the process for conducting competitions.
- In Fiscal Year 2015, City leadership will meet and confer with the impacted recognized employee organizations to adopt a more streamlined Managed Competition approach that more closely reflects the County of San Diego's model than the Federal Government's A-76 model.

STRATEGY RECOMMENDATION #7: Based on the evaluation of MC project candidates to date and using the Yellow Pages Test as a major criterion, identify a small number of relatively simple projects that may be suitable for outsourcing.

RESPONSE TO STRATEGY RECOMMENDATION #7: *Agree.*
While the administration and recognized employee organizations discuss a more simplified process for managed competition, the City will continue to seek out opportunities to save taxpayer dollars and/or improve service delivery, which may include direct outsourcing.

STRATEGY RECOMMENDATION #8: Clarify and confirm the City's ability to consider MC proposals that involve changes to service delivery.

RESPONSE TO STRATEGY RECOMMENDATION #8: *Agree.*
Going forward, as it meets and confers with the impacted recognized employee organizations to determine a more streamlined approach, the City will address this issue.

STRATEGY RECOMMENDATION #9: Invest in an outcome-oriented performance measurement and data analytics program.

RESPONSE TO STRATEGY RECOMMENDATION #9: *Agree.*
The new Department of Performance and Analytics will develop an integrated approach to conducting strategic and tactical planning, and performance management, which will be closely coordinated with the data analytics and open data work that the new department also encompasses.

PROCESS RECOMMENDATION #1: Seek a solution to the Charter Sections 94/117 conflict regarding the conflict between "repair" projects and MC.

RESPONSE TO PROCESS RECOMMENDATION #1: *Agree.*
- The current conflict between Charter Sections 94 and 117 prevents the most effective use of the managed competition tool.
- The City will consider addressing this issue during future Charter review initiatives.

PROCESS RECOMMENDATION #2: Decentralize and grant more autonomy to Department heads.

RESPONSE TO PROCESS RECOMMENDATION #2: *Agree.*
As referenced in its Strategy Recommendation Response #4 above, the City will develop a more inclusive process for identifying, selecting, and announcing candidate functions for Managed Competition; this new process would emphasize input from the City departmental leaders and employees who know their own business best.

PROCESS RECOMMENDATION #3: Use RFQ/RFI process to solicit private sector input as to appropriate project scope and to receive feedback on other key questions surrounding the procurement.

***RESPONSE TO PROCESS RECOMMENDATION #3**: Agree.*
Going forward, the City will obtain crucial information from the marketplace at the appropriate times using tools like an RFQ/RFI process.

PROCESS RECOMMENDATION #4: Negotiate elements of Meet & Confer that can be moved into the pre-award phase of the MC process.

***RESPONSE TO PROCESS RECOMMENDATION #4**: Agree.*
Although the City is unable to meet and confer in the pre-award phase of the MC process given the restrictions under the Meyers-Milias-Brown Act, the City will meet and discuss potential impacts related to any issues within the scope of bargaining as early in the MC process as possible.

PROCESS RECOMMENDATION #5: As appropriate, use terms other than five years in MC RFPs.

***RESPONSE TO PROCESS RECOMMENDATION #5**: Agree.*

- The old assumption was that longer contract terms would provide more stability for bidders that would result in lower bids.
- Going forward, the City will determine an appropriate term based on each function's unique market conditions.

PROCESS RECOMMENDATION #6: As appropriate, use cost/pricing formats other that Firm Fixed Fee in MC RFPs.

***RESPONSE TO PROCESS RECOMMENDATION #6**: Agree.*
Going forward the City will select pricing models that best reflect the market realities and the demand profiles of the functions.

PROCESS RECOMMENDATION #7: Improve the MC review process to confirm SOW compliance and harvest new ideas.

***RESPONSE TO PROCESS RECOMMENDATION #7**: Agree.*
The City will provide the MCIRB with enhanced technical evaluation expertise.

PROCESS RECOMMENDATION #8: Allow employees to solicit informational bids.

RESPONSE TO PROCESS RECOMMENDATION #8: *Agree.*
The Purchasing & Contracting Department (P&C) will develop a process by which employee proposal teams may solicit informational but nonbinding bids.

PROCESS RECOMMENDATION #9: Equip the MCIRB to fully review all proposals received that represent savings versus the current services baseline cost.

RESPONSE TO PROCESS RECOMMENDATION #9: *Agree.*
The MCIRB will tailor its review process in accordance with this recommendation.

PROCESS RECOMMENDATION #10: Commit to adequately resourcing and supplementing in-house capacity to develop effective SOWs.

RESPONSE TO PROCESS RECOMMENDATION #10: *Agree.*

- The Department of Performance and Analytics will work closely with P&C to develop specific procedures and roles for personnel in both departments.
- Going forward, expert SOW consultant resources will work with the SOW teams.

PROCESS RECOMMENDATION #11: Create a standard implementation monitoring approach and define consequences for internal failure to meet proposal commitments.

RESPONSE TO PROCESS RECOMMENDATION #11: *Agree.*
The Department of Performance and Analytics will continue to monitor implemented competitions and will regularly report status. This will be reinforced by the more rigorous attention that the departments will apply to performance reporting overall.

EMPLOYEE RELATIONS RECOMMENDATION #1: Emphasize the City's continuing commitment to employment opportunities for those City employees affected by MC.

RESPONSE TO EMPLOYEE RELATIONS RECOMMENDATION #1: *Agree.*

- To date, the City's existing reduction in force processes have successfully placed all employees that could have potentially been displaced by Managed Competitions.
- The City will continue to regularly communicate its commitment to retain employees in a City position, to the extent possible, throughout the Managed Competition process should there be any resulting reduction in force.

EMPLOYEE RELATIONS RECOMMENDATION #2: Create employee "upside" in the MC process.

RESPONSE TO EMPLOYEE RELATIONS RECOMMENDATION #2: *Agree.*
This recommendation will be forwarded to the City's Citywide Rewards & Recognitions Advisory Committee composed of Department representatives to provide recommendations to City Management on the most effective and efficient programs for rewarding and recognizing City employees. The City will meet and confer with recognized employee organizations over any changes to the City's Rewards and Recognition Programs.

EMPLOYEE RELATIONS RECOMMENDATION #3: Assign an executive resource to investigate the feasibility of and, if warranted, to help implement cost savings ideas put forth by union employees.

RESPONSE TO EMPLOYEE RELATIONS RECOMMENDATION #3: *Agree.*

- The City currently has several labor-management committees (LMCs) across the City composed of representatives from Department Management, recognized employee organizations, employee representatives, and Human Resources Department liaisons where ideas for streamlining and efficiency are discussed along with issues associated with wages, hours and working conditions.
- Going forward, the City will add to the LMC agendas requests for employee ideas related to efficiencies and cost savings.

EMPLOYEE RELATIONS RECOMMENDATION #4: Promote opportunities for employees to compete for other work for public agencies.

RESPONSE TO EMPLOYEE RELATIONS RECOMMENDATION #4: *Agree.*
The Department of Performance and Analytics will refresh its regional services survey and will inform employee proposal teams of the results and the possibilities.

cc: Jaymie Bradford, Deputy Chief of Staff/Chief of Policy
Scott Chadwick, Chief Operating Officer
Stacey LoMedico, Assistant Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Almis Udrys, Director of Government Affairs
Judy von Kalinowski, Human Resources Director