AGENDA

Meeting Type	B
Date:	03-29-1993
SUBJECT	

City of Charlotte, City Clerk's Office

CITY COUNCIL
WORKSHOP AGENDA
March 29, 1993

5:00 Presentation and Discussion of Compensation Task Force Report

6:15 Dinner

6:30 Discussion of Privatization Task Force Report

7:30 Discussion of Organization Task Force Report

COUNCIL WORKSHOP
AGENDA ITEM SUMMARY

TOPIC: Report and Discussion of Mayor's Compensation Task Force Recommendations

KEY POINTS (Issues, Cost, Change in Policy):

OPTIONS:

COUNCIL DECISION OR DIRECTION REQUESTED:

This is City Council's opportunity to discuss the Task Force's report with members of the Task Force No action requested

ATTACHMENTS:

-Executive Summaries from Compensation Task Force Sub-Committees (Council received these on March 1, 1993)·

1. Pay and Classification
2. Benefits
3. Incentives

-Manager's Response to Compensation Task Force Report

II. EXECUTIVE SUMMARY

The following highlights the findings and recommendations of the Committee.

Assessment

- The City's classification system is cumbersome, time consuming, and inconsistent.
- The City's compensation levels are competitive, but inconsistently so as you move from grade to grade and into the various pay plans.
- The performance management system is in its infancy and inconsistently applied.

Recommendations

- The City needs to develop a compensation and reward philosophy which supports and is anchored by their six core values.
- The City needs to implement a disciplined job ranking system based on consistent compensable factors. This should be automated in order to effectively use staff time in the evaluation process.
- The City needs to make more effective use of their compensation surveys developing additional analytical tools and broader analysis so the City Manager and City Council can make informed compensation budget decisions. In particular, the City needs to develop, through internal or external sources, more indepth information on private market jobs in evaluating professional and managerial positions.
- The classification structures should be simplified. There should be two basic structures (Exempt and Nonexempt) with pricing policy lines for specific market issues.
- The step systems should be kept for labor/trade, police, and fire positions. Consideration should be given for using skill or merit based pay in a step type system in order to bring these groups into the spirit of compensation tied to performance. All other job types should be put in an open range with performance increases.
- The City should concentrate on the implementation of their performance management program contracting with outside vendors to enhance the process and train all personnel.

All of our recommendations are designed to make the compensation program more effective, administratively efficient, and motivational for the City employees. This is not a cost cutting issue where the City can save money on the salaries it pays. The City management and City Council should look for efficiencies and productivity increases and if this lowers total compensation, as it should, all of us will be winners

EXECUTIVE SUMMARY

INTRODUCTION

The benefits subgroup relied on a number of external resources in developing the recommendations summarized in this report. These included discussions with City staff members, reports by the City's benefit consultants, projections by the incumbent insurance carrier and survey information provided by the City. The subgroup did not verify the accuracy of these sources, although we are confident that our conclusions are sound.

This section of our report sets forth our basic findings and recommendations without amplification. In subsequent sections we have offered supporting exhibits.

The recommendations made in this report would result in a competitive benefit program and provide greater opportunity for employees to choose those benefits which best meet their needs. The effect of these changes would be to reduce the City's annual cost by over $3.2MM or 2.5% of payroll.

In addition we have proposed significant changes to the way in which future retirees will receive health coverage. Our recommendation to adopt a plan which contributes a specified dollar amount based on service for retiree medical coverage is estimated to reduce future expense by about half while providing a very competitive benefit to career employees.

Finally, it should be noted that the City has recently initiated a separate study to evaluate benefit redesign and medical cost savings concepts. We would expect that study to complement and expand upon the work of this subgroup and lead to effective change beginning not later than July 1, 1993.

BASIC BENEFIT OBJECTIVES

It is the recommendation of the benefits subgroup that the City's benefit system support the following basic objectives:

- To provide needed benefits that are reasonably competitive
- To provide benefits that are cost effective and cost shared where appropriate
- To offer benefit choices where appropriate and feasible

BASIC BENEFIT FINDINGS

Based on these objectives, our discussions and review of relevant information, the benefits subgroup offers the following observations:

- In general, the current system is fully competitive with both public and private competitors.
- Some areas show benefits above the norm, such as in basic retirement benefits, basic life insurance coverage, cost sharing for medical and dental benefits and accrual of vacation days.
- Other areas show some deficiencies, such as the lack of a 401(k) match, no long term disability coverage during early employment, and insufficient benefit choices.

- From a cost perspective, the City needs to readdress the design, cost, and cost sharing practices attributable to employee and retiree health coverages. The City is not subject to recognizing retiree health liabilities on the same basis as the private sector, but the escalating cost for both active and retiree health coverage is an area of major concern.

SUMMARY OF BENEFIT RECOMMENDATIONS

The benefits subgroup recommends that the following changes be considered:

- Medical Plan for active employees:
  - Move to Managed Care concept with 80% coverage for in-network use and 60% coverage for out-of-network charges.
  - Add a second medical option requiring a $400 deductible.
  - Readjust cost sharing with employees, requiring employees to pay 10% of the high option single employee coverage, and phase in to employees paying 50% of family coverage cost. Add multiple dependent cost breakouts (e.g., employee plus one, employee plus two).
  - Add wellness features to the Plan, including a $100 annual allowance toward the cost of an employee physical.

- Medical Plan for retirees:

  - Move to Managed Care concept to parallel changes for active employees.

  - Establish a separate premium structure for retirees based on actual retiree claims and phase into this structure for retirees over the next 3 to 5 years.

  - Readjust cost sharing approach (where permitted) to parallel strategy for active employee coverage.

  - Change cost sharing approach for employees retiring after July 1, 1993 to defined contribution approach for those with at least 15 years of service. The City's contribution could be as follows:

    - $50 per year of service for retirees under 65
    - $25 per year of service for retirees over 65

    The retiree would pay the balance of any premiums due.

- Dental Plan:

  - Add a Dental Maintenance Organization (DMO) option for employee election.

- Readjust cost sharing with employees, requiring employees to pay at least 10% (but not less than $2 per month) for single coverage and 100% of family coverage. Add multiple dependent cost options.

- Survivor Benefits:

  - Continue current basic life coverage of 2 times pay.

  - Delete basic matching Accidental Death and Dismemberment (AD&D) coverage and replace with 5 level voluntary employee paid AD&D Plan.

  - Increase voluntary employee paid Dependent Life Insurance options to $5,000 and $10,000 for covered dependents.

- Disability Income:

  - Continue current Sick Leave and Short Term Disability Plans.

  - Add a separate Long Term Disability Plan to cover those with less than 5 years of service who are not yet eligible for LTD under the State's Retirement Plan.

- Time Off Benefits:

  - Continue current vacation, holiday and leave practices.

- Retirement Benefits:

  - Since City participates in State run systems, continue current Plans.

SUMMARY OF COST IMPLICATIONS

Based on our review of available data and the estimates of the consultants and insurance carrier, we believe that the above recommendations will have a first year impact on City costs as follows:

AREA	COST IMPACT
▪ Medical - Active	
— Managed Care and dual medical option	($1,800,000)
— Employee premium	(675,000)
— Dependent premium	(475,000)
— New employee physical (70% use)	+ 329,000
NET ACTIVE	($2,621,000)
▪ Medical - Retirees	
— Managed Care and dual medical option	Included in above
— Retiree premium	($330,000)
— Dependent premium	(200,000)
NET RETIREE	($530,000)
▪ Dental	
— Employee premium	($113,000)
▪ Accidental Death and Dismemberment (Deletion)	($103,000)
▪ Long Term Disability	+ 79,000
TOTAL NET SAVINGS:	($3,288,000)
AS PERCENT OF PAYROLL: ($130,000,000 Estimate)	2.5%

EXECUTIVE SUMMARY

The following represents the viewpoints of subgroup members in regard to the use and design of incentive programs for city workers. A more detailed review is covered in Section D:

Assessment

* Current city incentive programs do not receive enough funding to be motivational to city employees and therefore lack effectiveness.
* Incentive plans that are currently in place are not strategically aligned with city objectives and business plans.

Recommendations

* Incentive plans work because they focus employees, individually and collectively, on objectives to be accomplished.
* The city should move forward with the design and implementation of employee incentive plans as part of the total compensation package for city workers. This was also the recommendation of the 1989 Study Team (see appendix - Section E)
* Recommendations on incentive plans should be integrated with other cash compensation programs and changes resulting from the review of base salary programs to form a total cash compensation package for city employees.

Incentive Design

* Incentive plans should have a strategic focus and be linked to city business plans. They should also be self-funding and designed to result in a shared partnership between city employees and taxpayers, providing a reward for employees and cost savings or increased value of service for taxpayers.
* Incentive plans should be tailored to meet the needs of the organization with the realization that "one size does not fit all."
* Incentive plans should be team-based at the unit organization level.

Implementation

* The city should not move forward with final design of incentive plans until the service inventory, privatization, and restructuring efforts are complete.
* The city should ensure that a quality goal setting process is in place and that measurement systems are established to measure and monitor progress of incentive measures.
* The design and implementation process should include employee involvement to ensure successful results.
* The final incentive design process should be lead by the city's Human Resource Department.
* The city should assess the readiness of the workforce to change and to make a cultural shift.

Communications

* The city should establish communication channels that clearly and regularly communicate the status of actual results verses incentive plan measures.

CITY OF CHARLOTTE
EFFICIENCY IN CITY GOVERNMENT

INCENTIVE REWARDS SUBGROUP
RECOMMENDATIONS
SUMMARY POINTS

Recommendations:

1. The City should move forward with design and implementation of city-wide employee incentive plans, but only after a decision has been made regarding the privatization of city services

2 The incentive plans should have a strategic focus and be linked to city business plans. They should also be self-funding and designed to result in a shared partnership between city employees and taxpayers, providing a reward for employees and cost savings or increased value of service for taxpayers

3. As part of implementation, the city should ensure that a quality goal setting process is in place and that measurement systems are established to measure and monitor progress of incentive goals

Process for Moving Forward:

Included in the recommendation package developed by the Incentive Rewards Subgroup is a model for incentive plan design and a process for moving forward with final plan design. The task force recommends that the Human Resources Staff lead this effort.

Significance of Change:

Incentive plans work because they focus employees, individually and collectively, on objectives to be accomplished A city-wide incentive plan will assist in uniting and focusing city workers on common objectives that will contribute to efficiency in city government.

Impact of Change:

If designed properly incentive plans can result in no additional cost (efficiency improvements offset cost of incentive payments). An incentive plan is compensation delivery tool that allows an employer to deliver compensation in a very specific and focused manner. Because they are paid out in the form of lump-sum cash payments they do not add to fixed costs or impact benefits costs.

Cost to Implement:

Indeterminate at this time Additional costs are anticipated associated with the establishment of measurement systems and communication to employees, but these are justified and beneficial

M E M O R A N D U M

March 24, 1993

TO: Mayor and City Council

FROM: O. Wendell White
City Manager

RE: Task Force Report on Compensation

Attached are two pieces of information that may be helpful as you review the compensation report.

The first is a summary of comments I sent to Don Johnson covering findings and recommendations in their report. Overall, it was a good report with many recommendations pointing in the same direction as we are heading in our review of benefits. There are some recommendations and findings I question and those are identified in the attached summary.

The second attachment is an overview of pay categories for City employees. Councilmember Mangum had earlier asked, "What is the average salary for City employees?" In answering that question, we also prepared other salary information which we believe could be useful in your discussions.

Review Process

The Personnel and Finance Committee met on Monday, March 22, to review our initial recommendations on the health insurance package. As part of that presentation, our Human Resources staff compared our recommendations with the task force recommendations. After Council hears from the task force on Monday, March 29, the Personnel and Finance Committee will meet again on April 5 in order to finalize recommendations to the full Council.

The Personnel and Finance Committee will review recommendations on changes to our compensation and classification system on May 5.

cgm

Attachment

March 17, 1993

SUMMARY OF RESPONSES TO RECOMMENDATIONS OF

THE MAYOR'S COMPENSATION TASK FORCE

COMPENSATION/SALARY ADMINISTRATION

- **Develop a compensation and reward philosophy.**

  We will work with City Council to develop a compensation philosophy which supports the City's objectives and core values and will communicate this philosophy to the entire organization. We will follow up with members of the Task Force to request information about guidelines followed in these organizations.

- **Make more effective use of compensation surveys to better assist the City Manager and City Council in making informed compensation decisions.**

  The Task Force only used pay data compiled by the City's Human Resources Department in arriving at their conclusions. We had hoped they would supplement our data with other pay information available to them; however, it is our understanding this was not done. We have tried on a regular basis to collect a broader base of salary information from local companies, but they are understandably reluctant to share data they consider confidential. We annually survey a large number of local companies, but typically have a low response rate of around 35%. Because we compete for many of our jobs locally, we will ask the members of the Task Force for assistance for obtaining more private sector pay data.

- **Simplify grade and salary range structures.**

  We agree that there are too many pay grades for clear grade level differentiation and effective administration. We have already begun to design a new pay structure and are evaluating areas in which we can increase automation.

- **Develop a merit increase guide based on performance (percentage increase determined by performance level and appropriate control point, with a 3% - 4% differentiation between performance levels).**

  Automatic increases are not the most appropriate use of available compensation dollars and performance must have a clear impact on pay increases. We currently have a performance-based pay structure for professional and managerial positions; however, budget constraints have impacted our ability to implement our pay for performance plan. Work on the Management-By-Results program is well underway for exempt and management employees. Revision

of the performance appraisal system for non-exempt positions has been temporarily put on hold due to the need to move City employees around to meet the goals of rightsizing. However, we are proceeding with the development of performance indicators for non-exempt employees and will begin using these measures as a part of their evaluation this year.

- **Retain step systems for labor/trade, police and fire positions. Consider using skill or merit based pay in a step system in order to tie compensation to performance.**

  We will consider incorporating the use of skill or merit based pay into a step system for labor/trades and public safety positions. The pay system for this group is a critical decision since our combined labor/trades and public safety positions represent approximately 65 percent of the City's workforce. Because they are such a large portion of employees, the issues of perceived equity and fairness will have to be weighed heavily.

- **Longevity pay is not performance driven and could be used for productivity/performance awards. Consider a payout option in order to discontinue growth of these dollars in future years.**

  Longevity pay was eliminated for all employees hired after 1983 in exchange for a performance incentive system. The incentive program was canceled by City Council in 1990. Any elimination of longevity pay for those employees still eligible must be considered in the context of the City's entire pay and benefits program. This will be an extremely sensitive issue with employees now receiving longevity pay.

- **Implement a disciplined job ranking system based on consistent compensable factors.**

  We are considering alternatives such as "broad banding" that may or may not require developing a formal point factor system.

- **The City should set its pay against the median of the market rather than using the third quartile as is the City's present practice.**

  The salary data used by the City for comparison purposes is collected in the spring of each year; however, typically pay range changes are not implemented until the beginning of the next fiscal year. Since these adjustments do not reflect changes/increases granted by other organizations for the new fiscal year, the City continues to compare and "catch-up" the following year. This cycle of lagging behind projected increases of other organizations has sometimes resulted in being less than competitive even though the higher third quartile comparison was used.

In addition, we do not receive adequate pay data from the private sector for all our jobs. Therefore, using a lower standard of measurement such as the median could further distort a determination as to our competitive position.

BENEFITS

The Task Force recommended the following major changes to the employee insurance program:

- Implement a managed care system
- Shift costs so that employees and retirees would pay a greater portion of premiums
- Establish a separate premium structure for retirees, based on actual claims
- Base contribution by the City for retiree premiums on years of service
- Provide additional choices for family coverage based on number of dependents

Since October, the City has been in the process of rebidding the entire employee insurance package. This will include incorporating a managed care program and several major changes/employee choices. A committee of City staff, working with the Human Resources Department, will consider all of the Task Force's recommendations.

Employees will perceive the health insurance changes recommended by the Task Force as being a cut back even though many of the suggestions are good ones. The recommended benefit changes for retirees will be extremely controversial and will result in an out pouring of strong negative reactions from our retiree population.

INCENTIVE/BONUS/PERFORMANCE SYSTEMS

- **Move forward with the design and implementation of employee incentive plans, but only after a decision is made regarding the privatization of City services.**

  As a result of the last compensation study in 1989, we are implementing a new performance evaluation system. We were advised not to initiate performance pay until that was completed. We also implemented a small payment ($25, $50, $75) incentive program on the advise of the Advisory Committee; however, it was not funded in FY93 because of budget constraints. It is not clear why incentives should not be implemented prior to the decision being made regarding privatization.

9 1993
CITY MANAGER'S OFFICE

MEMORANDUM

TO: Pam Syfert
Deputy City Manager

FROM: William H. Wilder
Human Resources Director

DATE: March 8, 1993

SUBJECT: Additional Information on Pay Distribution for City Employees

The Human Resources staff has prepared several charts which provide information about the salaries of our work force. Also, we have noted below some interesting facts about employee pay distribution breakpoints (50%, 60%, 75%, etc.). It is frequently difficult to break this data at specific percentages because of the large number of employees assigned to pay steps. For example, 3229 employees (73.6%) are below $32,100 but, because there are a large number of employees at $32,168, 3385 employees (77.2%) are below $32,200.

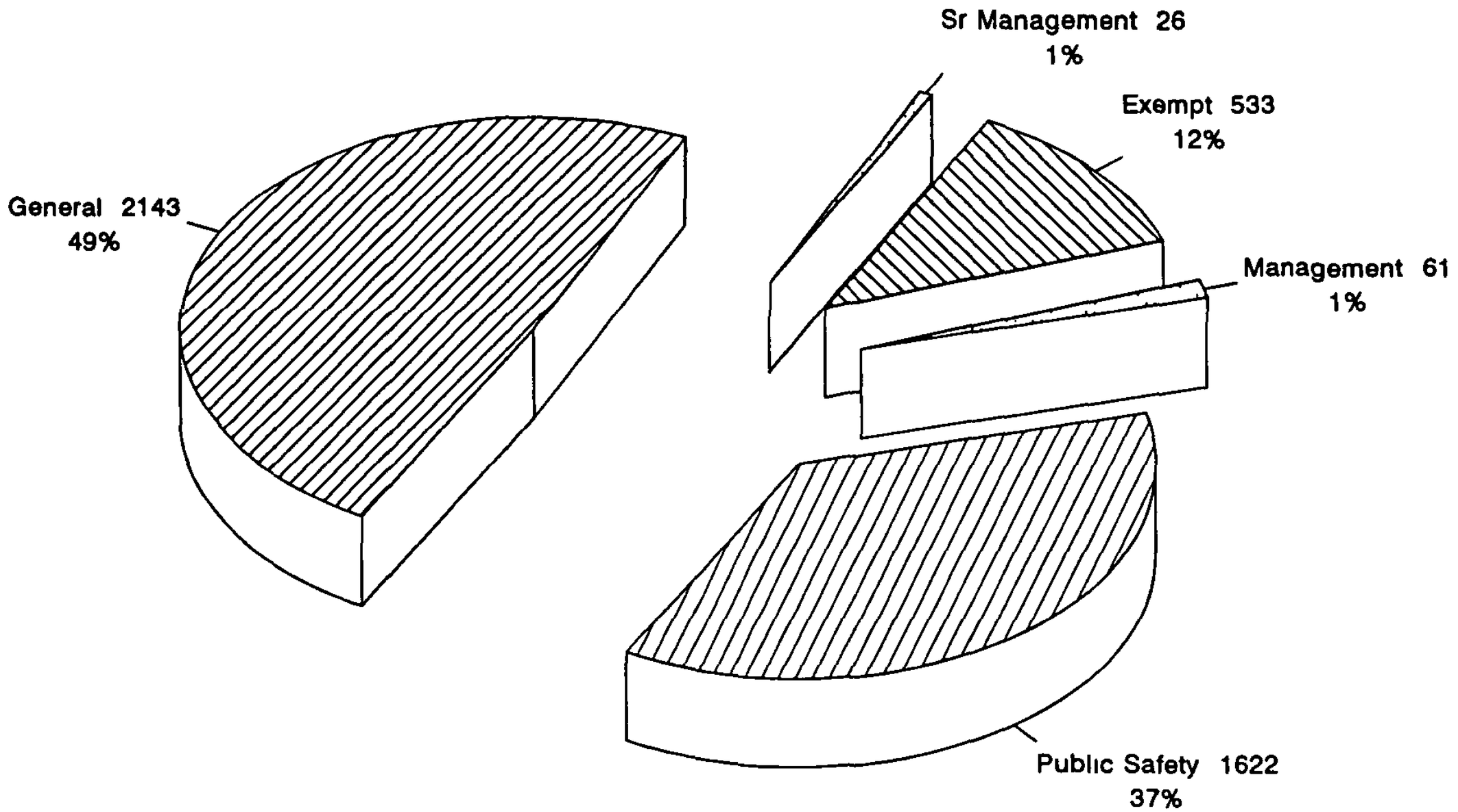
We have included only data for our permanent, full-time work force of 4386 employees (we have 31 permanent part-time employees). These data were current as of early March, 1993.

* **1992 employees (45.4%) earn less than $25,300**
* **2639 employees (60.2%) earn less than $27,800**
* **3385 employees (77.2%) earn less than $32,200**
* **3959 employees (90.3%) earn less than $41,100**
* **4205 employees (95.9%) earn less than $45,300**

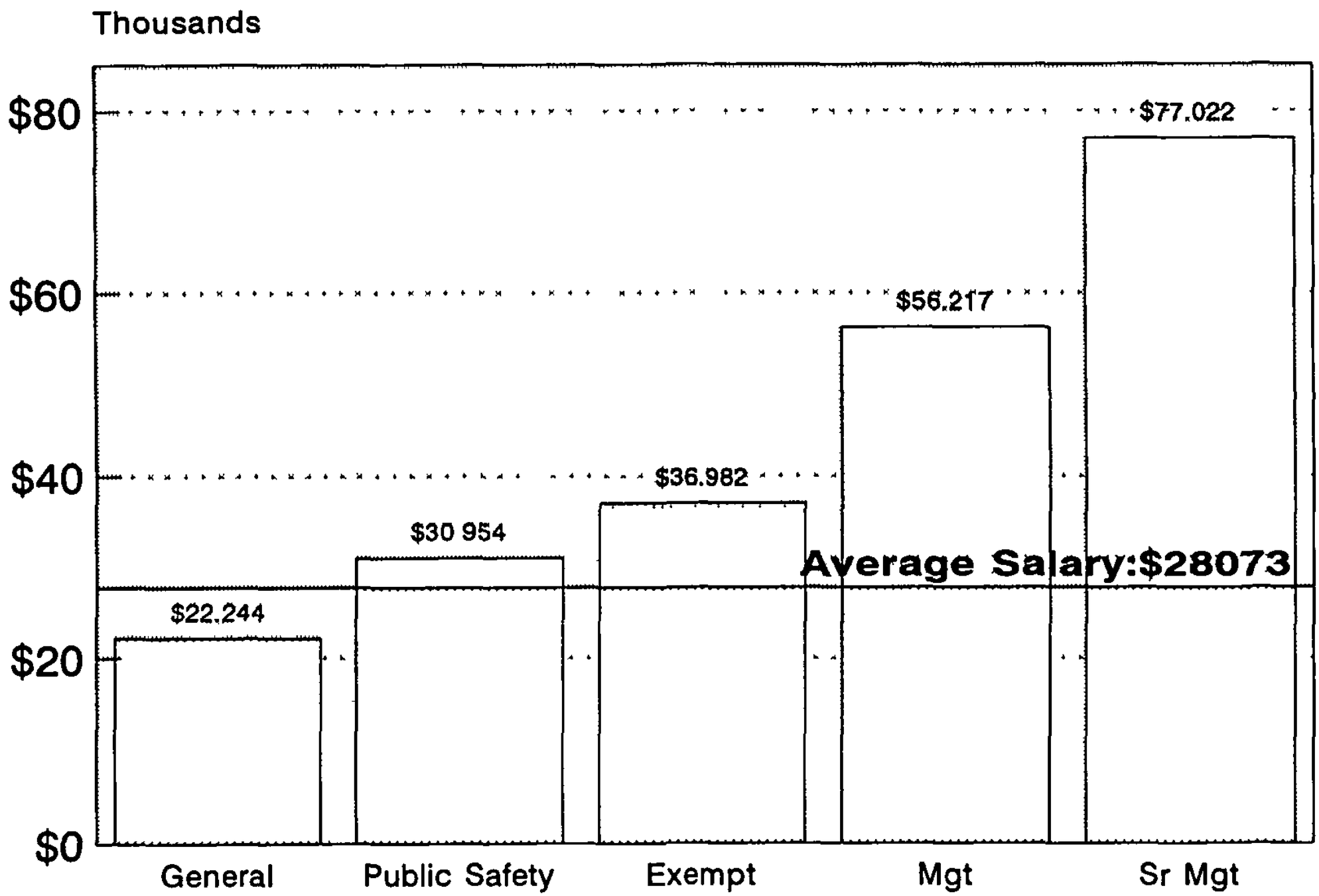
* **The average salary for all employees is $28,073**
* The average salary for our 3509 nonexempt employees is $24,697
* The average salary for our 877 exempt employees (which includes 257 employees in the Public Safety Pay Plan) is $41,594
* The average salaries by pay plan is shown on an attached chart

We have also shown some comparative data for average worker wage for this geographic area. Unfortunately, this information is somewhat dated (December, 1991). If you have any questions about the data , please contact me.

EMPLOYEE DISTRIBUTION BY PAY PLAN
CITY OF CHARLOTTE

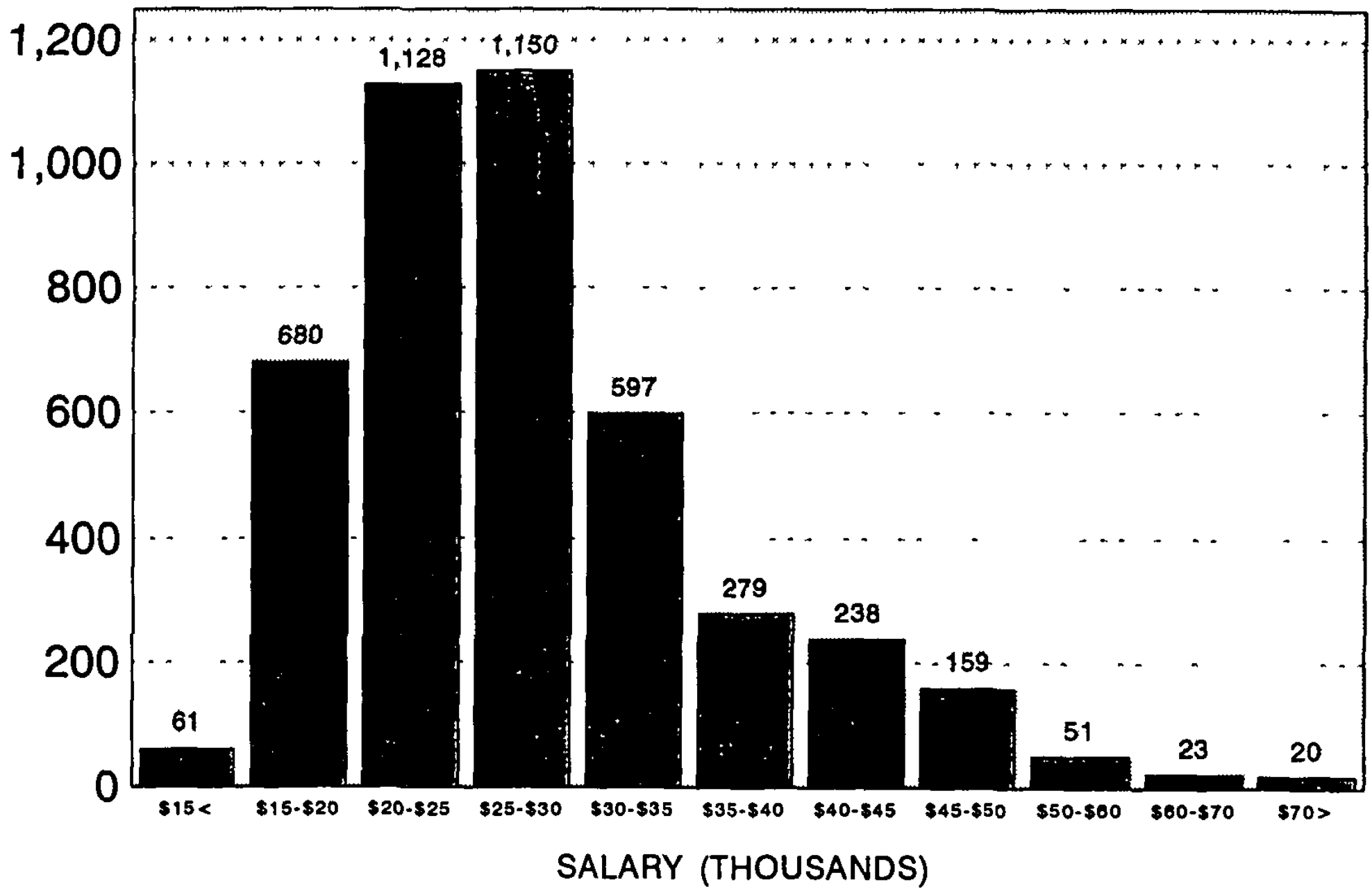


AVERAGE SALARY BY PAY PLAN
CITY OF CHARLOTTE



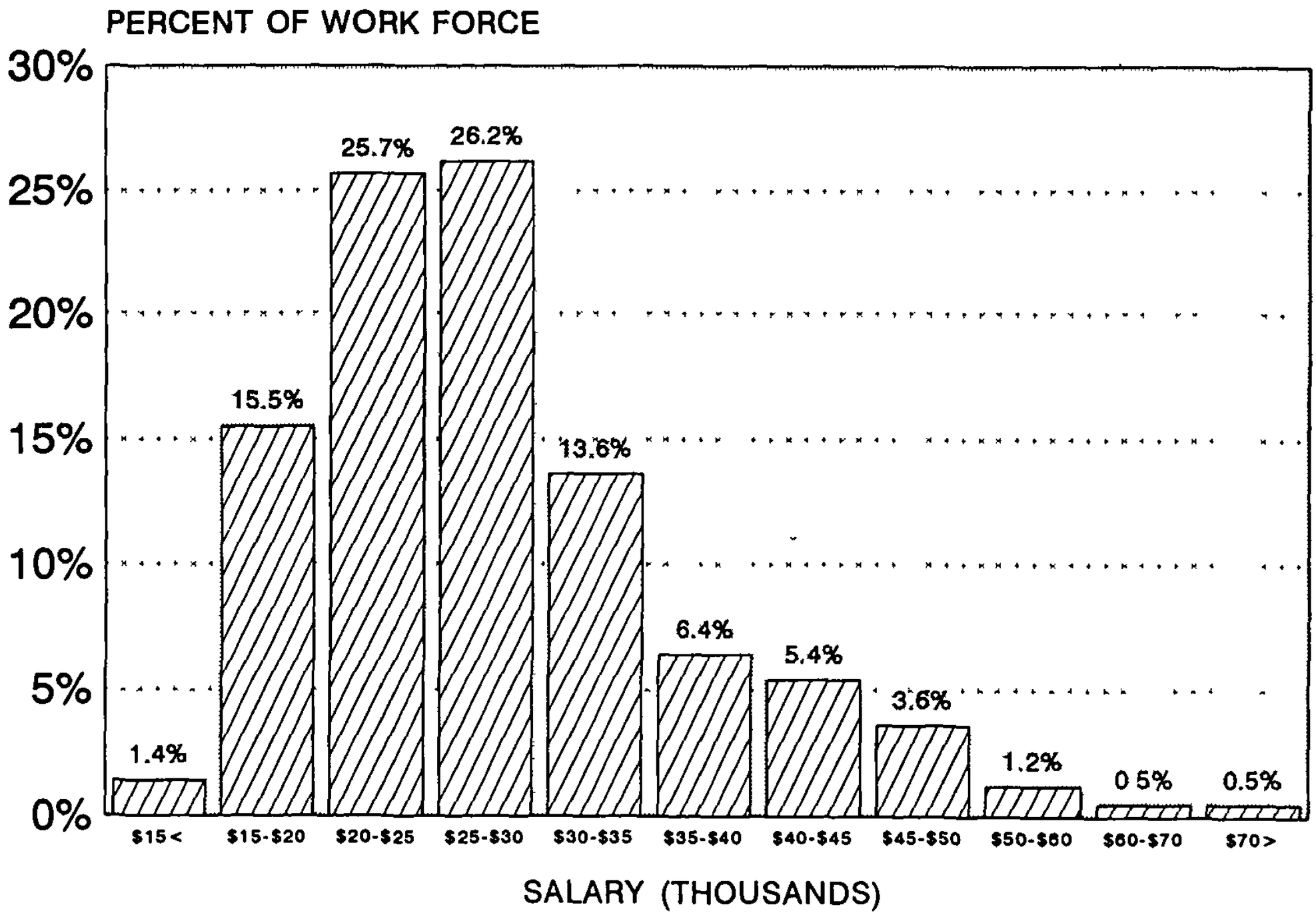
Permanent Full Time Employees as of March, 1993

EMPLOYEE DISTRIBUTION BY SALARY
CITY OF CHARLOTTE



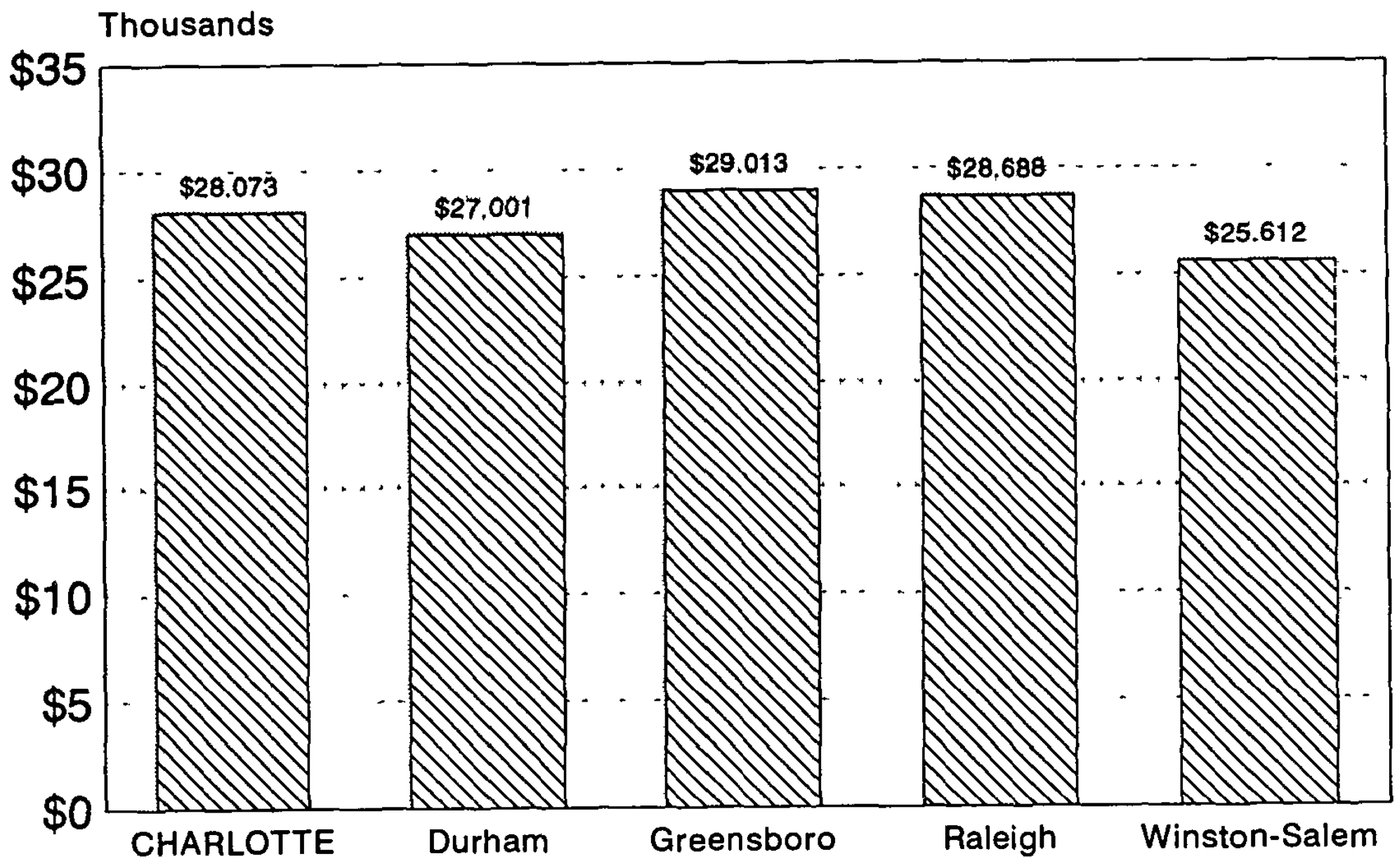
Permanent Full-Time Employees as of March, 1993

EMPLOYEE DISTRIBUTION BY SALARY
CITY OF CHARLOTTE



Permanent Full-Time Employees as of March, 1993

AVERAGE SALARY FOR CITY OF CHARLOTTE
Comparison to Average Annual Salary
Major North Carolina Cities



Average Charlotte city employee salary as of March, 1993
Average annual salaries for other cities as of January, 1993 except Durham (July, 1992)

COUNCIL WORKSHOP AGENDA ITEM SUMMARY

TOPIC: Discussion of Mayor's Privatization Task Force Report

KEY POINTS (Issues, Cost, Change in Policy):

OPTIONS:

COUNCIL DECISION OR DIRECTION REQUESTED:

The Task Force presented their interim report to City Council on March 1,1993 This is Council's opportunity to discuss the Task Force's report with members of the Task Force. No action is requested

ATTACHMENTS:

-Privatization Task Force: Interim Report
-Manager's Response to Privatization Task Force Report

PRIVATIZATION TASK FORCE

Interim Report

March 1, 1993

Stan Vaughan, Chairman
Bobby Lowery, Vice-Chairman
Dieter Klauss
Barney Lawson
John McArthur, Jr.
Randal Arthur
Dick Sahlie
Herb Watkins

TO Mayor Richard Vinroot

FROM Privatization Task Force

SUBJECT Interim Report and Recommendations

DATE January 25, 1993

The purpose of this report is to present you with an interim report about the Privatization Task Force's work to date

On May 27, 1992, you appointed a Privatization Task Force to study the feasibility of privatizing selected City activities The Task Force was charged with evaluating the services and facilities provided by the city to determine whether there are areas in which those services may be more effectively and efficiently provided by the private sector.

The Task Force was requested to recommend

1 What criteria should be used to evaluate which services and/or facilities to privatize
2 What services and facilities should be considered for privatization
3. A suggested timetable for proceeding

There are two general methods of privatizing municipal activities. One is to contract out services now being performed by public employees. The other is to sell, or franchise, businesses, infrastructure, and other facilities. The Privatization Task Force has concentrated its efforts, to date, on contracting services The recommendations in this report are limited to contracting of services

The Task Force is beginning to look into the feasibility of asset privatization It is possible that this area of privatization will offer additional opportunities for financial benefits to the City. In view of the work ahead, the Task Force recommends that our charter be extended from the original completion target of January 1993 until mid 1993.

Our report is presented in the following manner:

I. Recommendations Summary
II. Introduction and Background on Contracting Services
III Recommended Principles for Contracting Services
IV Recommended Approach and Guidelines for Contracting Services

RECOMMENDATIONS SUMMARY

The Task Force believes that privatization initiatives, which involve competition between the private and public sectors, offer opportunities for improving the City's financial condition and service delivery to customers **We recommend** that (before implementing the privatization process recommended herein) *the City of Charlotte adopt a policy on privatization.* Specifically, we recommend a policy that is similar one adopted by the Federal Government in 1983 It reads as follows

> "In the process of governing, the Government should not compete against its citizens In recognition of this principle, it has been and continues to be the general policy of the Government to rely on commercial sources to supply the products and services the Government needs

> The Government shall rely on commercially available sources to provide commercial products and services **the government shall not start or carry on any activity to provide a commercial product or service if the product or service can be provided more economically from a commercial source."** (emphasis added)

In implementing such a policy, the City, not the private sector, has the burden of proof to show that in-house provision of the service meets quality guidelines at the most economical cost The basis for determining who should provide the services the City offers is presented in this report.

Further, the **Task Force recommends** that.

1 The City undertake an aggressive initiative to privatize activities which meet the principles and guidelines in this report

2 Approaches recommended herein be followed to assure that each contract is fairly and impartially consummated.

3 The following activities are among the candidates for and should be considered for full or partial contracting

Police and Fire Communications	*Sanitation*
Meter Maintenance and Reading	*Animal Control*
Grounds Maintenance	*Engineering*
Building Maintenance	*Special Services*
Equipment Services	*Finance*
DOT Construction & Maintenance	*Police Records*
Water & Sewer Construction and Maintenance	*Water Pumping &Treatment*
Wastewater Treatment Operations	*Special Transportation*
Communications and Information Services	

Not all activities can be selected at once for privatization. We recommend that the following guidelines be used to prioritize the selection of candidates.

Potential cost savings (based on size of budget)
Impact on local taxes (General Fund activities should be looked at first)
Ease of implementation

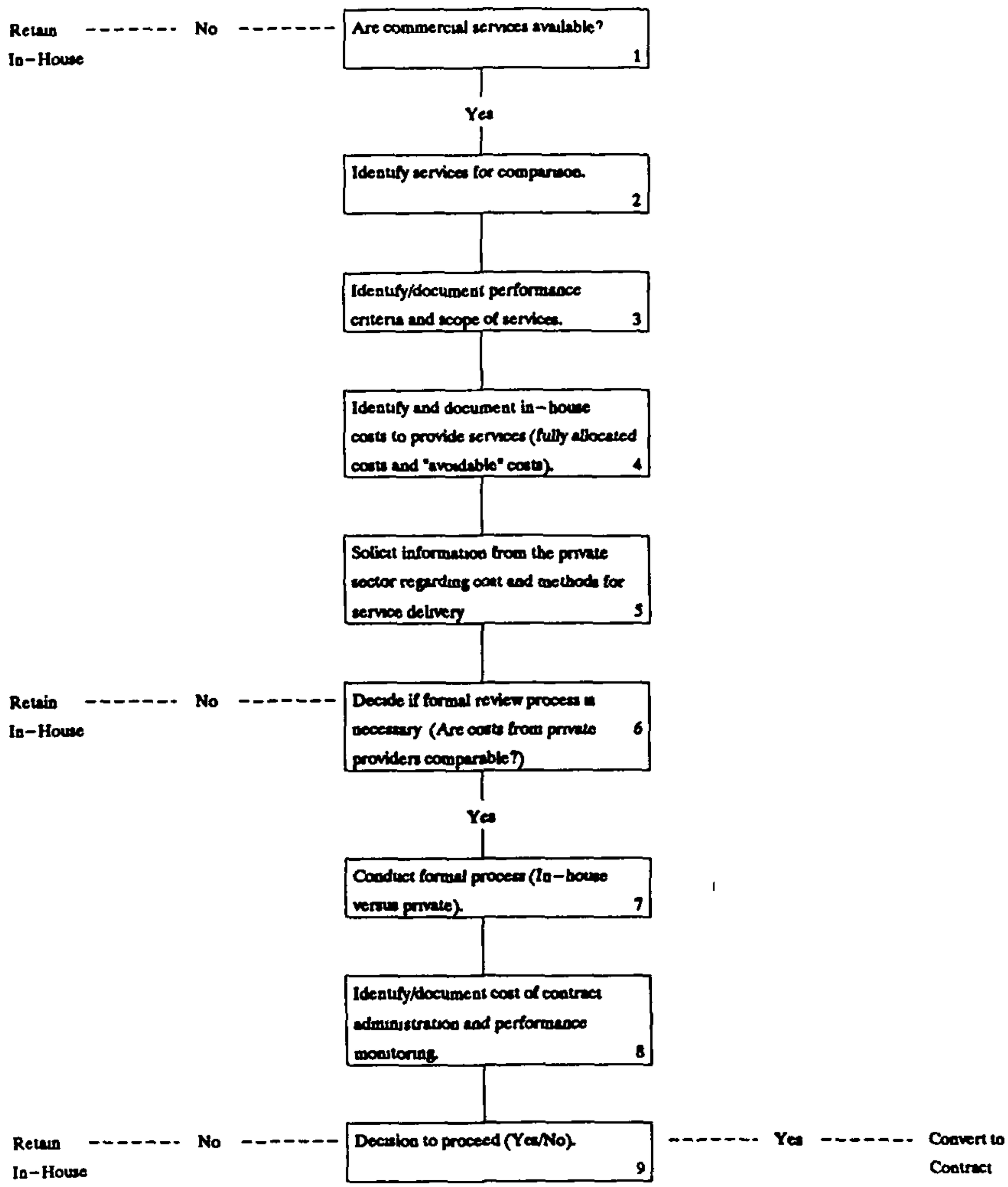
4 City staff complete the review process for bidding out Grounds and Tree Maintenance activities and the Task Force monitor that process

During our review, we also reviewed the scope of work and cost of Sanitation and Communications and Information Systems. These activities could be logical candidates for subsequent review under this recommended process.

INTRODUCTION AND BACKGROUND

Like most local governments, City of Charlotte expenditures in recent years have increased while revenue increases have slowed This situation is prevalent throughout the United States and has accelerated a nationwide trend toward privatization during the past two years State and municipal governments are, increasingly, downsizing and streamlining operations Privatizing is a primary strategy to accomplishing this

City of Charlotte
Recommended Privatization Review Process
Adapted from the OMB Circular No. A-76



CHARLOTTE

March 24, 1993

Mr. Stan Vaughan
Carolinas Managing Partner
Coopers & Lybrand
NationsBank Corporate Center
100 North Tryon Street, Suite 3400
Charlotte, NC 28202

Dear Stan:

I want to thank you and the Task Force for your work thus far on privatization. I read the Task Force's Interim Report and wanted you to have my comments prior to your meeting on March 29 with the Mayor and City Council.

I appreciate the Task Force's detailed and thoughtful approach in getting to where you are today. It is evident you spent time researching the issue and learning about what we do in some of our departments. I believe you have also seen that the City has privatized already some of our services.

Overall Approach to Evaluating Privatization Opportunities

I believe the approach you are recommending, of evaluating possibilities for privatization and the entering into a formal bid process, is a workable approach.

Some of our departments have traditionally benchmarked their costs with the private sector, but a formal bid process in which our departments compete on even terms with private business is one way to determine the most cost effective provider.

As you pointed out, the critical factors of success are: "clear, concise contract specifications; experienced contractors; the existence of competition in the marketplace; the ability to replace or penalize contractors in a timely manner; and, a close, accurate monitoring of contractual performance."

The process you recommend leads to an economical solution; however, I have some concerns that cost is not the only factor that elected officials should use in making a decision to privatize. I've enclosed a short article from a recent issue of Governing which raises some of the pitfalls we need to look out for as we move forward.

Potential Impact on Employees

One of your recommended principles covers the impact on current City employees. I agree that we should include in each privatization evaluation an assessment of the effect on employees and recommendations for handling any negative impact.

Implementation of Recommended Process

As the Task Force concluded, each privatization opportunity will require a lot of time and effort. Effort will need to be expended in the departments to prepare detailed specifications for request for proposals, the Purchasing Department will need to administer the bid process including pre-bid conferences, bid opening and contract preparation for Council approval, and an evaluation will need to be completed regarding the potential impact on City employees.

I will recommend to City Council an amendment to the process you have suggested. Before staff expends the hours and hours of work to bring the privatization process to a decision point, I believe that Council should first approve the direction (of privatization) for that particular service.

This will keep us from expending our resources on a privatization opportunity which the majority of Council does not support.

Health Insurance Coverage for Private Sector Employees

I am aware that the Task Force discussed the issue of requiring private sector firms to provide a minimum level of health insurance coverage in order to compete for the City's business. As I understand, the Task Force believed that this would be an example of government interfering in the marketplace.

Other local governments which make such a requirement (Phoenix and Los Angeles County) cite that employees of contractors without health insurance tend to rely on publicly-supported healthcare facilities.

I will recommend that Council consider this issue before finalizing future privatization opportunities.

Oversight Committee Role

The Task Force recommended an oversight role for a "City Council designated group" to ensure that your recommended process is followed and that contract compliance is applied consistently to both private sector firms and City departments.

We are open to working with standing citizens' committees, and do so in many service areas, but I think that any oversight should be conducted by the elected officials.

I will recommend to City Council that one of their standing committees--either Personnel and Finance or Public Services--assumes this oversight role.

Current Status With Grounds and Tree Maintenance

The Task Force recommended that we "complete the review process for bidding out Grounds and Tree Maintenance activities and the Task Force monitor that process."

Our Landscaping Management Division has been working toward that end. We are moving forward on a short-term plan (for this growing season) and a longer-term plan (when this growing season ends next fall). I understand our staff will give you an update at your meeting on March 29.

> Short-Term Plan: Since we are already in this year's growing season and the Landscaping Division has lost vacant positions due to rightsizing, we will be contracting out much more of their work. In the short-term the City will not be a bidder for the work and we will extend existing contracts and use new short-term contracts with private sector firms.
>
> Longer-Term Plan: During this summer, we will develop detailed service and maintenance specifications for a comprehensive contract for bidding next fall. We plan to use your recommended process and we plan to bid for the work, as well.

Again, I thank you and the Task Force for your work. I look forward to seeing you on March 29.

Sincerely,

O. Wendell White
City Manager

Enclosure

cc: Privatization Task Force Members

COMMENTARY

BY AUSTIN V. KOENEN

SOME POINTED QUESTIONS ABOUT PRIVATIZATION

The debate over privatization continues to spread, driven in large part by fiscal pressures on all levels of government. Those pressures are creating incentives for budget "one-shots," for new productivity initiatives and sometimes for major restructuring of services and programs. Proponents of privatization promise to help meet all of those needs.

A more positive source of pressure for privatization comes from entrepreneurs, both inside and outside government. Too often, however, the argument in support of privatization is used as an ideological weapon against government. In this garb, privatization is promoted as a panacea, capable of accomplishing many goals—shrinking government, reducing its scope and discrediting liberal public policy goals. Somehow, the ideologues argue, privatization will allow government to raise billions of dollars, decrease the cost of providing services and increase the quality of that service.

While the debate over privatization is a healthy phenomenon, it is a mistake to see privatization as a panacea We have to remember that our objective is effective service to the public at a lower cost, not victory on some ideological battlefield.

No easy rules of thumb can provide instant analysis of an ideal opportunity for privatization. But asking a few pointed questions can help us avoid situations where results are most likely to be disappointing:

Are we considering privatizing an intermediate service or a final service of government? It is easy to contract out for printing, messengers, food service, maintenance or even data processing. It is much more difficult to contract out final services, such as education, policing or monitoring for environmental compliance. We can be quite clear about standards for cleaning halls in schools, but much less clear about the measurable results we want from teachers in classrooms

Is competition among non-governmental providers possible? Privatization is not likely to succeed if the result is simply to transform a governmental monopoly into a non-governmental monopoly We can even imagine circumstances where it would make sense for government to "contract in" functions that were previously performed by the private sector New York City broke down the oligopolistic pricing structure of its local asphalt industry by opening a city-owned plant.

Can private providers produce real economic efficiencies that government cannot replicate? Many government services are provided by small stand-alone agencies or districts—resource recovery plants, for example, or smaller airports Private corporations that manage several such facilities might be able to operate more efficiently by spreading their overhead costs across those facilities. However, many supposed efficiencies are simply transfers of wealth or income from one group to another. Private carters can sometimes reduce the cost of garbage collection simply by paying their workers less than government sanitation workers are paid. This result presumably could also be achieved by a local government willing to take a much tougher stance in labor negotiations

Could a private provider make pricing decisions that better reflect the underlying economics of service delivery? Political considerations often make it difficult for governments to reduce their employees' wages or levy appropriate user fees A private provider might be free of such restrictions. If a private toll road could introduce congestion pricing, for example, those fees might better ration use of the road.

Will continued subsidy, price control or other regulation by government be necessary? Many of the goals of privatization are undercut if government has to continue to subsidize a service. Moreover, the costs of regulation may reduce or even offset the expected savings from more efficient service delivery Critics of proposals for school choice and voucher programs often point to the high costs of introducing a new regulatory apparatus to inform families of available options, monitor schools to be sure they do not discriminate and certify that students are in fact attending school.

There is another important question we should ask ourselves in debating privatization whether some functions might be too sensitive to be turned over to private entities When we consider privatizing prisons or other elements of the criminal justice system, for instance, we should worry about maintaining democratic control over government's historic monopoly over the legitimate use of force. When we debate choice in education, we should be concerned above all about the role of schools in the creation and maintenance of common democratic values.

These are important considerations, and we must be careful to distinguish our feelings about them from our analysis of the economic issues at stake in privatization. G

Austin V. Koenen is managing director of Morgan Stanley & Co Inc. and a former chairman of the Public Securities Association.

The Task Force has met eleven times since July and thoroughly and thoughtfully pursued our charge We have studied current privatization efforts both in the City of Charlotte and nationally We found that a large majority of cities throughout the country are actively pursuing the contracting out of services previously performed by in-house personnel We reviewed a 1992 survey (performed by the Reason Foundation) of the 24 largest cities in the United States which found that all respondents contract out one or more services

Types of services being contracted out are broad and cover the whole range of services offered by municipalities Here are some examples

Administration	Data Processing	Street maintenance
Emergency Services	Solid Waste	Traffic Signals
Stadiums & Coliseums	Buildings & Grounds	Parks
Water Treatment Plants	Wastewater Plants	Convention Centers
Vehicle Maintenance	Accounting	Transit Operations

In Charlotte, privatization has been considered a viable option for service delivery for many years We reviewed examples in which the City currently contracts with the private sector for service delivery and examples in which the City bid against the private sector to win the opportunity to provide the service We are also aware of the City's Rightsizing process and believe privatization is a viable strategy to achieving some of the Rightsizing goals. Our recommendations are intended to endorse these past practices but also to accelerate the current and future utilization of privatization for any and all services provided by the City

The reason most cited for contracting out municipal services is to **save money.** One survey cited cost reductions in the range of 10% to 40% There have been instances, however, where contracting out has resulted in increased costs and reduced quality Most of these cases, we believe, can be attributed to poorly defined contract specifications and/or monitoring of contracts The Task Force concludes that beneficial results can be obtained only after careful cost/benefit analyses are undertaken for each activity being considered. Critical factors for success are. clear, concise contract specifications, experienced contractors, the existence of competition in the marketplace, the ability to replace or penalize contractors in a timely manner; and, close, accurate monitoring of contractual performance.

For contracting out to be successful, there must be an element of competitiveness There must be an incentive to provide service at lower cost. Cost analyses of current in-house costs must be made to document actual costs for services These cost analyses must capture every element of cost associated with the service including overhead and depreciation, as well as direct costs In addition to determining actual costs for services it is necessary to measure and monitor the quantity and quality of work performed in-house

For the services we have reviewed to date, we requested a total-cost approach when presenting in-house costs and we requested detailed descriptions of the type of work being performed. We recognize that not all City activities will have detailed quantity and quality measures of their work readily available for preparing request for proposals from private sector companies However, the availability of this type of information is a prerequisite for privatization comparisons.

It also is necessary to recognize that by contracting out the City retains the oversight responsibility for the services performed by the contractor and therefore contracting out is not free The City must recognize that an administrative cost for procurement and oversight is involved in every contract. These costs must be part of the competitive bid comparison

Once costs as well as performance quantity and quality requirements are objectively determined, competitive bidding can provide fair comparisons of service levels and costs among various

bidders The City itself may also be considered a bidder Experiences of other municipalities have shown that the introduction of competition, whether services are contracted or not, encourages better management and lower internal costs

In the City of Charlotte, we estimate that there are at least 1900 employees who provide services that can be performed by private business The work performed by these employees can be competitively bid for potential improved service and reduced costs

In summary, through our review we have identified the following benefits which can result through privatization

* savings to the taxpayer through reduced costs to the City of Charlotte, or at least, the ability to limit exposure to future cost increases (of employee benefit and retirement programs)
* improved service delivery
* competition principle institutionalized within government
* expansion in local private sector employment and potential increases in tax revenues (property, corporate income,)
* ability to employ specialized skills and resources that may not be available within government.

RECOMMENDED PRINCIPLES

Our review and discussion of contracting City services have been guided by the following principles

1 All services provided by the City which can be purchased in the marketplace are candidates for privatization.

2 Competition is the primary force that keeps private business efficient and focused on meeting customer needs. The City should have to compete and perform in the same manner as demanded for private business to continue performing services

3. The City and private bidders will compete equally and successful bidders will be monitored through a formalized Quality Assurance process to assure quantitative and qualitative measures of service delivery are being met.

4 Cost calculations for performance by the City should be carefully performed and evaluated to ensure that "true" comparisons can be made OMB Circular A-76 provides a good methodology for preparing and presenting costs. The Task Force has carefully analyzed costs for several activities and has agreed to an acceptable method for determining in-house costs.

5 Performance work statements and quality assurance plans must be prepared for each candidate for contracting. All bidders, including the City, must conform to the work statements Quality assurance plans will be used to monitor performance

6 Efforts should be made to minimize the impact on current City employees affected by privatization Each privatization recommendation should include an assessment of the effect on employees and recommendations for handling any negative impact.

with oversight in the short-term by the Privatization Task Force and later from a City Council designated group The purpose of this oversight is to ensure that this recommended process is followed

4 Bids from both commercial and government providers will be based on the same scope of work as defined in the request for proposals

5 The independent review as described in paragraph 3 should substantiate the reasonableness, completeness and accuracy of the cost comparison This includes assuring that the in-house cost estimate is based on the same performance of work included in the request for proposal

6 Costing of government services should be prepared in accordance with the guidelines as specified in OMB Circular A-76 The guidelines can be updated and modified to meet the City of Charlotte's need

7 Common costs, those that would be the same for either in-house or contract operation, need not be computed as part of the in-house cost estimate, but the basis for those common costs must be identified and included in the cost comparison documentation (requirement for in-house provider only.

8 Bidders should be notified that an in-house cost estimate is being developed and that a contract may or may not result.

9 Multi-year contracts, or contracts with renewal options, should be pursued when possible Multi-year contracts or prepriced renewal options provide advantages such as continuity of operations, lower contract prices, and reduced disruption.

10 If work is contracted to commercial providers and the firm needs additional employees to provide the service, then qualified City employees must be given the right of first refusal

11. When packaging the bid (preparing the request for bids or proposals), the City should ensure that two aims are met:
    a the City does not preclude potential successful bidders,
    b the public's interest can be maintained over the long run.

    This may require the City to package and award work to multiple firms, package work based on geography, etc.

<u>Guidelines for Monitoring Work After Contract is Awarded</u>

1 For contracts awarded to current City departments.

a. The City will ensure that no additional funds (other than the amount specified in the in-house bid) are used to support the in-house activities and that performance standards (including scope of work) are met.

b. The designated oversight group will conduct independent reviews of in-house contract compliance to ensure that the same contract oversight that would be applied to a contractor is applied to the City's departments The City also should provide oversight from an agency independent of the department providing the service

c Failure of City departments to comply with the cost and quality standards of the contract will mean termination of the contract and rebidding of the service

2 For services awarded to commercial providers, the City will ensure the following

a Cost and quality standards of the contract will be reviewed by the City Failure of commercial providers to comply with those standards will mean termination of the contract and rebidding of the service

b Recommendations for termination will be reviewed by an independent agency of the City prior to completing termination proceedings and rebidding of the service

IN CONCLUSION

The above information represents our interim report. We have borrowed from those that have experimented and experienced privatization as an alternative to providing local government services Over the next several months we will continue to learn about other areas of privatization--specifically asset privatization What we learn during this period may refine what we have included in this interim report, however, we believe our approach to be sound public policy and in the best interests of the customers of this City and its taxpayers Our final report will include any modifications to our recommendations we have put forward in this report.

COUNCIL WORKSHOP
AGENDA ITEM SUMMARY

TOPIC: Discussion of Mayor's Organization Structure Task Force Report

KEY POINTS (Issues, Cost, Change in Policy):

OPTIONS:

COUNCIL DECISION OR DIRECTION REQUESTED:

The Task Force presented their report to City Council on March 1, 1993. This is City Council's opportunity to discuss the Task Force's report with members of the Task Force. No action is requested.

ATTACHMENTS:

-Report and Recommendations of the Organization Structure Task Force

nucor corporation
2100 Rexford Road Charlotte, North Carolina 28211 Telephone 704/366 7000 Facsimile 704/362-4208
Executive Offices

TO: Mayor and City Council

Report and Recommendations

The purpose of this report is to update you on the Organization Structure Task Force Committee.

On August 5, 1992, the Organization Structure Task Force Committee was formed to evaluate and review the reorganization and rightsizing of the Charlotte City's activities and functions.

The specific purpose being to solicite ideas and recommendations from private industry that had already rightsized or in the process of rightsizing and help the City of Charlotte to implement these ideas to achieve a more cost efficient and more effective organization. The "bottom line" saving in Tax dollars and more cost effective city government.

Martin Cranston, Jr., Chairman of the organization team and City Manager Wendel White and their respective staffs have cooperated closely with this committee.

The key to this exercise is as follows:

1. Organize around key business units as few units as possible

Suggestions:	(1) Fire	(4) Aviation
	(2) Police	(5) Utilities
	(3) Transporation	(6) Solid Waste

2. Decentralize - Key business should have one head with the authority to make day to day decisions. They should be empowered to perform these duties under the guidelines set forth by the Mayor and City Council. They should report only to the City Manager (CEO). Along with the empowerment, they should be held fully accountable for their business units.

"Ideal Operational Structure for the New Organization"

1. Business Heads have authority to acquire all goods and services which are approved in the annual budget.

2. Department Heads (Business Unit Managers) have authority for all personnel transactions.

   Result: Civil Service Boards (for Police and Fire) are eliminated; staff hours in Police, Fire and Attorney's Offices are reduced.

3. a. The collection of certain information will be centralized (to enhance the effectiveness of information collection) but is provided to and used by business unit managers. Decision making is decentralized (for quick decisions to serve the customer better).

   Result: Accountability rests with business units. Staff functions are reduced or eliminated.

b. Business unit managers exercise "choice" in using internal support services -- CIS, Fleet Maintenance, Building Maintenance Services, Training, etc., -- or outside service providers.

Result: Staff functions are reduced or eliminated; support services become/remain competitive or fail.

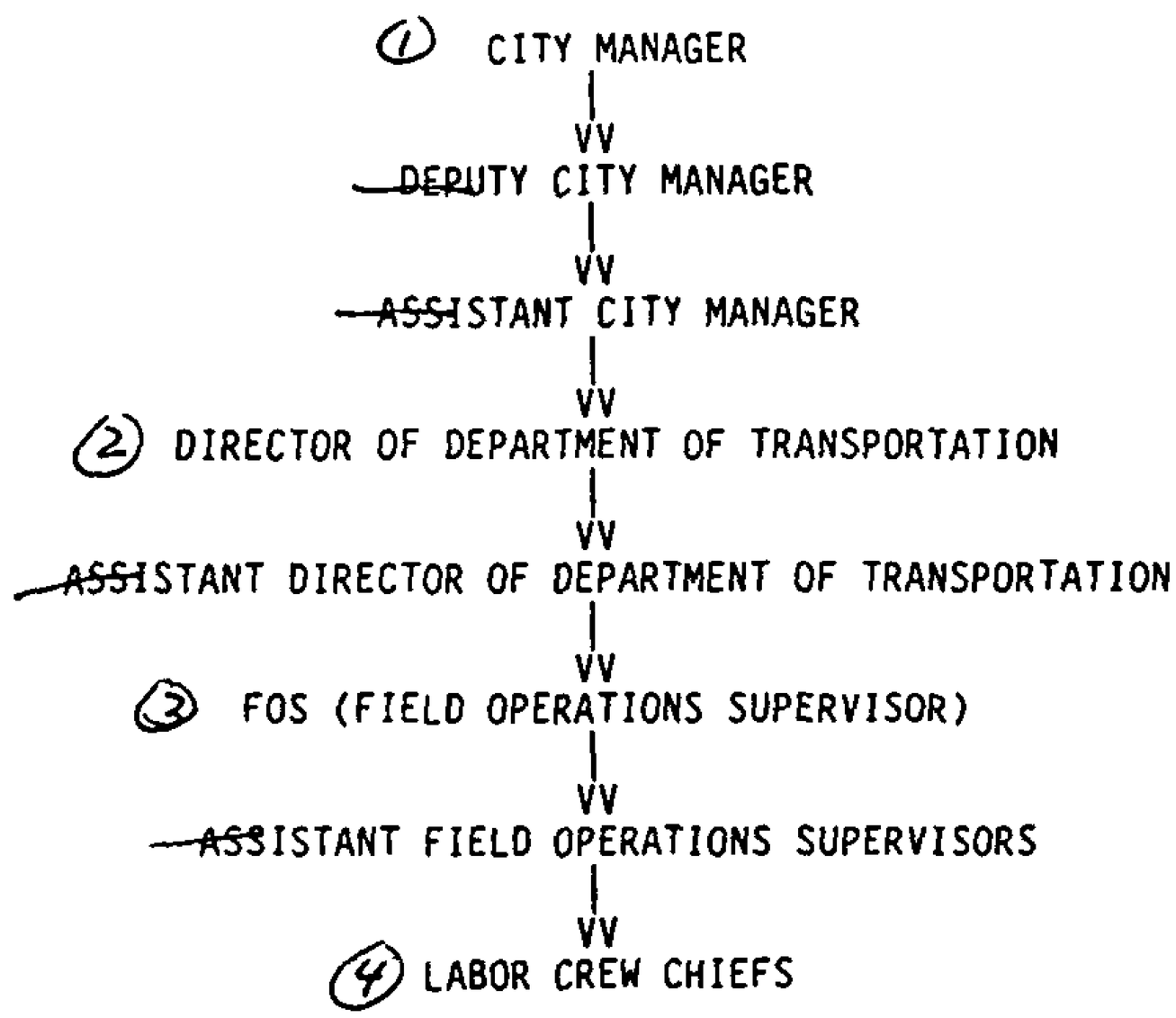
c. Organization-wide information is easily accessible (e.g., human resources, financial, and service level information).

Result: Staff functions (Finance, Human Resources and CIS) require minimal staff; managers of these agencies serve as advisors/consultants to business managers.

All staff positions and support to the business units should be kept at an absolute minimum. Positions such as "assistant to", "executive to", "director of", "deputy to", etc., should be reduced, redefined or eliminated. There should be only 4 or 5 levels of authority maximum between the hourly worker and the City Manager (CEO).

As an example, the current maintenance department organization with eight layers, should be reduced to 4 or 5 levels.

MAINTENANCE DEPARTMENT ORGANIZATION



8 LAYERS JUST TO MAINTAIN THE STREETS

The City Manager should function as the CEO running the day to day business of the City. The Mayor and the City Council should serve as the Chairman and the Board of Directors and should only set policy and approve budgets. The City Council must get out of the month to month, day to day, hour to hour and minute to minute business of running the City.

In closing, and I know for some here, this maybe tough to swallow but to serve as a successful business or city in the 21st century you must empower and delegate. Push the decision making down to the lowest possible level. Let people know what your expectations are and hold them accountable. Let them do the job that they are hired to do. Everyone has to work within a box. Let's make the box as big as possible. Empowerment, trust, delegation, they are not just "buzz" words of the 90's, they work, if you let them.

ORGANIZATIONAL STRUCTURE TASK FORCE

Name	Address
(1) John Correnti (Chairman)	President Nucor Corporation 2100 Rexford Road Charlotte, N. C. 28211 366-7000
(2) A. F. (Pete) Sloan (Vice-Chairman)	Lance Corporation P. O. Box 32368 Charlotte, N. C. 28232 554-5566 366-0681 (home)
(3) Jim Bavis	Duke Power Company Director Human Resources 422 S. Church Street Charlotte, N. C. 28242-0001 382-4714
(4) Bob Beatty	Hoechst Celanese Corporation Vice President Human Resources P. O. Box 32414 Charlotte, N. C. 28232 554-2325
(5) Jodie Figge	Royal Insurance Company Assistant Vice President Human Resources 9300 Arrowpoint Blvd. Charlotte, N. C. 28273 522-3356
~~Sharon Matthews~~	~~IBM Corporation~~ ~~Manager~~ ~~Human Resources~~ ~~1001 W. T. Harris Blvd. (201-3)~~ ~~Charlotte, N. C. 28257~~ ~~594-2700~~
(6) George Harmon	Southern Bell Telephone Company Assistant Vice President Corporate & External Affairs 200 S. College Street (808 SNC) Charlotte, N. C. 28202 378-7722

PRIVATIZATION TASK FORCE

Stan Vaughn (Chairman)
Coopers & Lybrand

Bobby Lowery (Vice-Chairman)
Better Cleaning Janitor Service, Inc.

Randal Arthur
Arthur Anderson & Company

Dale Halton
Pepsi-Cola Bottling Company

D.H. Klauss
J.A. Jones

Barney Lawson
Modern Management

John McArthur, Jr.
McArthur, Elliot & Company, P.A.

Dick Sahlie

Herb Watkins
IBM

COMPENSATION TASK FORCE

Don Johnson (Chairman)
First Union National Bank

Jan Wilkinson (Vice-Chairman)
Duke Power Company

Kristy Blackman
J.A. Jones

David Burkhalter
Balk Stores Services, Inc.

Henry L. "Hank" Federal

Rick Kipp
Okuma America

Charles D. Loring
NationsBank

Tom Philson
Carolinas Medical Center

Ed Wadsworth
Consolidated Planning

Council Workshop 3-29-93

Mayor Vinnot ✓
Campbell ABSENT
Clodfelter ✓
Hammond ✓
McCraw ✓
Majed ✓
Martin ✓
Marquis ✓
Patterson ✓
Reid ✓
Scarborough ✓
Wheeler ✓ 5:10 pm

Mayor Vinnot - call to order
Don Johnson - First Union
Mayor Vinnot
Hank Federal
Vinnot
Federal
Reid - what do you mean by fully competitive
Federal
Mayor
Reid
Mayor

Reid

Federal

Reid who's in the sample?

Fed

Reid

Fed

Reid

Fed

Mayer

McCrory any int regarding Longev.79?

Fed

McC pattern regarding attrition

Fed

Martin cohesive philosophy

Fed

Martin

Fed (what a clown!) Do we have 4 or 5 days?

Majlud - bear out - he'll say this again later

Hammond

Fed

Hammond

Fed

Mayer

Reid - trend seems that employees are above the median

Fed

Reid

Fed

Reid

Fed

Reid

Fed

Reid

Mayer

Reid

Fed

Mayer D.W. White - repeated statement - Federal - Mayer - white OVER →

Chuck Loring - Benefits Tape 2 (5:55)

(He mumbles - will be hard to understand

Good Luck !!)

Mayer

Patterson

Hammond

Martin

Hammond

Loring

Hammond

Loring

(Jerry - They introduced Chuck Lovig
+ then started all that other talk)

Hammond

White - public safety area standards
see so tight

Don: Johnson — chart does
match data.

Hook Federal — I was reading wrong one

Johnson

Mayer

Mangum

Federal

Mangum

Federal

Mayer

fed

Mayer — now back to Chuck Lovig

Mayer

JAN
W: JACKSON - Duke Power

Loring

Don Johnson - obviously one of the more delicate issues.

McCrory - thinks we have 40 year olds retiring!

Loring

Majeed

Loring

Majeed

Mayer

Martin

Loring

Reid

Loring

Reid

Loring

Mayer

Reid

Loring

Patterson

Loring

Patterson

Loring

Don Johnson

Mc Crory

Jan Wilkerson

Mc

Patterson

Mayor Are we consistent with other governments?

Loving

Mayor

Loving

Majeed

White

Mangum

White

Mangum

White

Patterson

Don Johnson

Mayor

Majeed Is 2½% competitive?

White

Majeed

Mangum

Mayor Jan Wilkerson - Outer Power

Patterson

Wilkerson

Hank Federal

Don Johnson - Just pick up where he says - what we recommend (etc) type jammed

TAPE 3 6:45

Mayor

Mayor

Sam

White

Mayor

Mayor

Stan Vaughan introduced Committee

Barney Lawson John McArthur

Dieter Klauss Harold Arthur

Vaughan Herb Watlins Bobby Lavery Dick Sahlie

Sam

Vaughan

Who

Vaughan

Mayor

Barney Lawson

Vaughan

Lawson

Mayor

Hammond

Vaughan

Dick Sahlie

Hammond

Lawson
Reid
Vaughan
Reid
Vaughan
Reid
Wheeler
Mayor
McCrory
Vaughan
McCrory
Lawson
McCrory
Vaughan
Mayor
Martin
Vaughan
Martin
Lawson
Vaughan
Mangum
Mayor
Hammond
Vaughan
Mayor
Randy
Smith

White

McCrory

White

Vaughan

Martin

White

Mayor

Dick Sahlie

Mayor not a panacea but we can look

Organization

John Correnti - Nucor Corp.
(CORRENTI)

Comm. Hee!
Jody Figge BOB Beatty
Pete SLOAN, George Harmon
Jim BAVIS

(Most of what he said follows closely the WORDING in the agenda)

Mayor -

Tape 4 7:40

Pete SLOAN

George Harmon

Mayor

George Harmon

LEVEL OF INEPTNESS

BOB BEATTY

Mayor

Jim Bavis

Bob Beatty
Patterson
Pete Sloan
Patterson
Sloan go back 63 years
Mayor
Mojeed
Mc Crory
Cornetti
Mc Crory
Pete SLOAN
White talk a change in State law
SLOAN
Mc Crory
SLOAN
George Harmon
Martin
Scar ? leave out
Hammond
Patterson - Goals that re-elect people have little
to do w/ goals that move us forward
George Harmon
Patterson - Jester
Hammond
Mc Crory

Correnti

Mangum

Martin

Hammond

Correnti

Patterson

Hammond

Martin

Patterson

Martin

Patterson

Mayor

Bob Beatty need to have a disciplined approach

Majeed utopian —

Scar

Mc Crary

Correnti

Mayor partisanship

White appreciate conversation

Enjoy my work a great deal

Mc Crary

White

Correnti Give Council a date

White generalist

Mayor

Next to
(Jim Davis)

Mayor

Mangum
White
Mayer

Adjourn 8:30