



## **MANAGED COMPETITION IN INDIANAPOLIS: THE CASE OF INDIANAPOLIS FLEET SERVICES**

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## Executive Summary

The City of Indianapolis has been widely touted as a success story for managed competition. Faced with a fiscal crisis, its mayor, Stephen Goldsmith, introduced competitive bidding to redefine the roles of local government and the private sector in providing public services. The results generated greater efficiency, windfalls in savings for the city, as well as in-house units that were able to effectively compete with their private counterparts.

This case focuses on the critical years between 1992 and 1999, when Goldsmith held public office. It traces the challenges he faced in reforming the city's services, and examines the factors that enabled him to do so. Research was conducted through interviews with key participants and analysts, review of government publications and data, as well as other reports and publications. In addition, a study of the Indianapolis Fleet Service as a competitive bidding process model was undertaken. The findings help to illustrate the components necessary for the organization and implementation of competitive bidding in general, which include ensuring a level playing field, supporting the in-house bid, thoroughly developing a bid request, managing the contract and monitoring performance, and using leadership to involve stakeholders such as unions. The potential risks and costs of each factor are also evaluated.

However, when Goldsmith left office, questions arose over the continued advantages of managed competition. The sustainability of the competitive bidding process as an effective tool to improve cost-efficiency and service quality is explored. Moreover, its applicability to other cities is presented through a review of lessons learned from the Indianapolis experience. In Goldsmith's words, "it can be done, but it takes the right amount of incentives and leadership."<sup>1</sup>

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<sup>1</sup> Stephen Goldsmith, personal interview, 1 December 2005.

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## Background

The history of Indianapolis has demonstrated how innovation in management and governance can yield qualitative improvements in public services. Indianapolis is the nation's twelfth largest city and a center for transportation and distribution, conventions and tourism. As home to one of the world's leading pharmaceutical companies, it has enjoyed strong economic performance in recent years, with the unemployment rate hovering around three percent. Studies in the early 1990s showed citizens were generally satisfied with the city's administration after thirty-two years of Republican mayors.<sup>2</sup> Despite a relatively small workforce, however, fiscal problems loomed: unfunded infrastructure liabilities totaled \$1.1 billion, and there were \$50 million in unfunded fire and police pensions. At the same time, the city faced growing competition for jobs with nearby suburbs.<sup>3</sup> If Indianapolis decided to compensate for shrinking federal funds by raising taxes, it faced the same vicious circle experienced by other cities in the early 1990s: the tax increase would drive away companies and skilled workers, which in turn would increase demand for public services.<sup>4</sup>

When Stephen Goldsmith ran for mayor of Indianapolis in 1991, he promoted a privatization agenda that promised to make the city more competitive within and beyond the city by reducing the size and cost of local government. During his campaign, Goldsmith argued that the city's administration could be ultimately slimmed down to the mayor, a police chief, and a few purchasing agents. He stressed the need for a smaller and more efficient government, as well a cap on taxes, and expressed a commitment to ensuring safe neighborhoods, a growing economy, and a greater voice for citizens in governing their city.

Goldsmith's advocacy of privatization tapped into a growing free-market sentiment nationwide, and he was elected mayor in 1991.<sup>5</sup> However, his agenda was not entirely unopposed. The American Federation of State, County, and Municipal Employees (AFSCME)—a labor union representing public service and health care workers—campaigned aggressively against Goldsmith

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<sup>2</sup> Howard Husock, "Organizing Competition in Indianapolis (A)," Kennedy School of Government Case #1269 (Harvard University: Cambridge, 1995), 1.

<sup>3</sup> Goldsmith, interview.

<sup>4</sup> Husock, 2.

<sup>5</sup> Kevin Lavery, Smart Contracting For Local Government Services: Processes and Experience (Westport, CT: Praeger, 1999), 124.

and cited job loss fears on behalf of its members.<sup>6</sup> It became clear that Goldsmith would have to secure the union's approval and cooperation in order to restructure the city's public services.

Goldsmith assumed office without a concrete plan to improve local government, and as he explored the potential benefits of privatization, he embraced a broader approach of competitive bidding. In his own words, he realized that "if we were to simply privatize without creating a competitive environment, the benefits would be minimal."<sup>7</sup> His decision was based on recommendations by the Service, Efficiency, and Lower Taxes for Indianapolis Commission (SELTIC), an advisory group composed of nine businessmen who were each supported by a study team of both private sector and city department representatives. SELTIC determined which core services required government involvement, and which could be provided with greater efficiency at a lower cost.<sup>8</sup> Goldsmith introduced another evaluation method by hiring the consulting firm KPMG to develop an Activity-Based Costing (ABC) model that compared the costs of in-house services to those provided by private firms. He invited AFSCME members to participate in ABC trainings that would enable them to develop budgets and strategies for participating in competitive bidding.<sup>9</sup>

To specifically identify services that were amenable to competition, Indianapolis developed an informal "yellow pages test": if several companies offered the same core service provided by the government, then competition was possible. The city later refined the criteria to distinguish between policy-making functions and policy-implementing functions; only the latter could be put out for bidding. Certain core functions such as police were also not subject to competition.<sup>10</sup> One of the first services that qualified for competitive bidding was sewer billing. In 1992 the city spent \$3 million annually to collect \$40 million in sewer bills. The private Indianapolis Water Company (IWC) processed the bills, but city employees were responsible for mailing them, which led to time lags and general inefficiencies. In its bid proposal, the IWC offered to consolidate the

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<sup>6</sup> Barry Rubin and Richard Rubin, Labor-Management Partnerships: A New Approach to Collaborative Management, PricewaterhouseCoopers Endowment for the Business of Government, July 2001, 11.

<sup>7</sup> Lavery, 125.

<sup>8</sup> Lavery, 127.

<sup>9</sup> Rubin and Rubin, 11.

<sup>10</sup> Stephen Goldsmith, The Twenty-First Century City: Resurrecting Urban America (Lanham, MD: Rowman & Littlefield Publishers, Inc., 1999), 25-26.

compiling and mailing processes and won the contract, which led to substantial savings for the city and a consolidated bill for customers.<sup>11</sup>

From 1992 to 1997 Indianapolis subjected more than 70 city services to managed competition and reaped total savings of \$230 million. The city's budget fell by 7 percent and its work force—not including police officers and fire fighters—shrank by more than 40 percent.<sup>12</sup> At the same time, the city invested more than \$750 million in streets and parks, slightly reduced taxes, and maintained its unemployment rate below 3 percent.<sup>13</sup>

## **Indianapolis Fleet Services**

The case of Indianapolis Fleet Service (IFS) epitomizes Indianapolis' success in outsourcing. Once considered to be “everyone's favorite example of everything that was wrong with public service,” IFS responded to the introduction of competition by transforming itself into a streamlined and cost-efficient operation and becoming a successful public bidder.<sup>14</sup>

IFS, known before 1993 as the Central Equipment Management Department (CEMD) was responsible for the maintenance of 2,700 city-owned vehicles. As a full-service department, the CEMD attended to all the city's vehicle-related needs, including procurement, management, maintenance, remedial repairs and other services.<sup>15</sup> It was established in 1978 when Indianapolis' independent fleet services were consolidated. By centralizing vehicle maintenance facilities for the police, public works, parks and recreation, and fire departments, the city had hoped to reduce costs through economies of scale. However, little notice was given to the practical problems of managing the reorganization process. As a result, lack of planning resulted in a poorly run and costly municipal department.

CEMD's reputation for poor quality of vehicular service and repair led to complaints from other departments. Its funding was allocated from the operating budgets of its client departments, but CEMD made no attempt to break down the costs in the bills it submitted to these departments. Its

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<sup>11</sup> Leary, 127.

<sup>12</sup> Goldsmith (1999), 10.

<sup>13</sup> Goldsmith (1999), 31.

<sup>14</sup> Elliott D. Sclar, *You Don't Always Get What You Pay For* (Ithaca, NY: Cornell University Press, 2000), 134.

<sup>15</sup> Sclar, 132.

high costs made department heads complain they could get the work done more cheaply and quickly if they took their vehicles to local repair shops.<sup>16</sup>

When Goldsmith promised to privatize a quarter of Indianapolis' public services, AFSCME argued it would be difficult for agencies to compete with private companies. It maintained that overhead costs were driven up by a high ratio of supervisors – one supervisor for every three line workers, in the case of Indianapolis' sewer services.<sup>17</sup> This was particularly true for the CEMD. Its supervisors were typically appointed by elected officials and the number of supervisors increased over successive administrations. At the same time, CEMD had developed bureaucratic procedures that significantly affected productivity and increased overhead costs. For example, an authorization form to repair a broken door on a bus required signatures from multiple supervisors before any work could begin. If any signatures were missing, no repairs could be undertaken.<sup>18</sup> Yet any attempts by management to improve productivity were stymied by poor labor relations. Line workers were generally reluctant to offer suggestions for improvement to an unresponsive management.

When Goldsmith took office, he publicly expressed his intention to outsource vehicle services. Suddenly, both employees and management faced the prospect of losing their jobs. At the union's insistence, Goldsmith offered the CEMD an opportunity to reform itself and participate in the bidding process. In particular, he gave the organization three years of lead time before the competition would take place.

The workers took up the challenge and began reforming CEMD. The prospect of privatization forced them to work cooperatively to win the competition. They sought out innovative ways to reduce costs and compete with private firms. To reflect their new commitment to productivity they changed their organization's name from the stigmatized CEMD to IFS.

At the same time, the agency's manager retired and was replaced by his deputy, John McCorkhill. McCorkhill was keen to implement cost-efficient operations and a management style based on

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<sup>16</sup> Sclar, 132.

<sup>17</sup> Sclar, 132.

<sup>22</sup> Elliott D. Sclar, personal interview, 22 November 2005.

conciliation and negotiation, rather than confrontation.<sup>19</sup> He appreciated his employees' skills and he relied on their motivation to raise the department's performance. When they received authorization from McCorkhill to initiate reforms and were given three years to prepare for the bidding process, they put their knowledge into action.

IFS drew on three key strengths in its drive to improve overall performance. First, IFS employees were highly trained and motivated. They were able to fix any kind of vehicle, from mowers to fire trucks, and they knew how to reduce costs. Elliott Sclar, author of several studies on privatization, notes that "IFS employees knew virtually everything about the operation of a municipal fleet service and needed an organizational form that would permit putting their knowledge to productive use."<sup>20</sup>

Second, McCorkhill created a cost record-keeping and performance-measuring system. He introduced a stringent Activity-Based System (ABS) where employees recorded the length of time needed and the parts used to repair or service a vehicle. Bar codes and timers were installed in workshops so activities and resources used could be measured accurately, translated into costs, and fed to a central database.<sup>21</sup> Employees learned to use computers and provide cost-estimates of the work they performed. The IFS was thus no longer blind to the gap between its costs and those of private vehicle repair firms. To insure competitiveness, the IFS adopted a market-based rate structure for its clients. With this system, IFS' customers could regularly benchmark the value and service quality they receive. With a better understanding of their cost structure, the employees discovered that in some cases, private companies could perform services such as body work at lower cost. As a result, IFS ended up contracting with private companies to perform 20 to 25 percent of its work.

Accurate record-keeping and performance-measuring systems also enabled management to estimate realistic budgets for each year and compare individual workers' relative performance. These innovations paved the way for another: the use of performance-based incentives. When IFS finally presented a bid to the city in 1995, it proposed that one quarter of any savings *below* the

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<sup>19</sup> Sclar, 134.

<sup>20</sup> Sclar, 144.

<sup>21</sup> Husock, 2.

contract bid would be divided among the employees every year. These savings would provide a powerful incentive for continued improvement.<sup>22</sup>

The city held the competition for provision of vehicle services in May 1995. By this time, IFS had improved to such a level that it was able to underbid all of the private vehicle repair firms that submitted bids. Its bid of \$16.3 million for the three-year contract was \$78,000 less than the next-lowest bid. Yet IFS found that it had not exhausted the potential for savings: eight months later, the IFS employees split a bonus check of \$75,000, representing 25% of the total savings *below* the contract bid. By the end of the contract period in 1997, IFS had cut its costs by 35% relative to the pre-IFS era and saved a total of \$8.4 million since 1991. The following table shows IFS' financial performance from 1991 to 1997:

| <b>Indianapolis Fleet Services: Comparative Budgets, 1991-1997 (in million of US dollars)</b> |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   | <b>1997</b> | <b>1996</b> | <b>1995</b> | <b>1994</b> | <b>1993</b> | <b>1992</b> | <b>1991</b> |
| <b>Budget</b>   | \$11,822    | \$12,578    | \$12,192    | \$12,561    | \$13,997    | \$13,854    | \$13,688    |
| <b>Less new costs since 1991</b>  | (3,272)     | (3,142)     | (2,915)     | (2,288)     | (2,352)     | (551)       | (442)       |
| <b>Adjusted Budget</b>  | \$8,550     | \$9,437     | \$9,278     | \$10,273    | \$11,645    | \$13,302    | \$13,246    |

*Source: Sclar, 141. Figures are estimated for 1997. That year's budget was taken from the Indianapolis' Department of Administration. For the sake of comparison, expenditures have been adjusted to account for new service commitments and costs since 1991.*

These improvements would likely have been difficult to achieve if the threat of privatization had not integrated employees into a strongly committed team focused on cutting costs and improving performance. Sclar recalls asking an employee with an injured hand why he not chosen to stay at home and collect disability benefits. To his surprise, the employee replied that he still had one functional hand and that he could help his fellow workers by typing data into computers. Moreover, if he stayed at home, he would then become a cost to the agency and a detriment to its productivity.<sup>23</sup>

<sup>22</sup> Sclar, 149.

<sup>23</sup> Sclar, interview.

## **Making Managed Competition Work**

The contracting experience of Indianapolis was not unique in the United States. Managed competition and, especially, privatization gained momentum in the 1980s and 1990s as an anti-big government, pro-free market ideology that swept the nation. Beyond ideology, however, there are a number of pragmatic reasons for government managers to consider managed competition. First and foremost, competition is seen as a way to lower costs, an important consideration for elected officials who are either unwilling or unable (by law) to raise taxes.

Government managers can also use competition to improve the quality of service they provide. Opening service provision to competition “brings unconscious managers to consciousness and makes recalcitrant workers cooperative,” in the words of Linda Morrison, former Director of Competitive Contracting under Philadelphia Mayor Ed Rendell.<sup>24</sup> It also allows government to draw on the best expertise available, whether in the existing organization or in the private sector. Governments are asked by their citizens to carry out an extremely wide range of tasks, from “writing traffic tickets to giving tennis lessons, from printing documents to paving streets. No organization could do so many tasks well,” argue William Eggers and John O’Leary, prominent advocates of privatization.<sup>25</sup> Stephen Goldsmith notes that private bidders “have technologies we don’t have, research we don’t have, scale we don’t have. It’s not that our employees are bad, but our technology and research and scale are limited.”<sup>26</sup>

Yet, even the most ardent advocates of privatization agree that not all functions should be outsourced. “Steering” functions such as policy-making should be kept in-house. Services that involve violence, such as police and high-security prisons, should be maintained in-house, as should functions that involve sensitive information such as tax records and intelligence.

As a campaign issue, managed competition or privatization may have helped some candidates attain elected office, but actual implementation is not a straightforward task and requires careful attention to process. The process includes creating a level playing field for public and private bidders, giving in-house bidders the ability to compete, developing a bid request that reflects the

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<sup>24</sup> William Eggers and John O’Leary, Revolution at the Roots: Making Our Government Smaller, Better, and Closer to Home (Free Press: New York, 1995), 100.

<sup>25</sup> Eggers and O’Leary, 113.

<sup>26</sup> Eggers and O’Leary, 112.

organization's needs, as well as managing contract and monitoring performance. Successful competitions also take into account the interests of key stakeholders, particularly government employees. The next sections describe best practices for this process as elaborated by those involved in the field.

### **Creating a Level Playing Field**

Managed competitions require a level playing field, since there could be asymmetric conditions for different public or private bidders. In order to create that playing field, organisations must design policies and legal arrangements that ensure participants are treated in an equal manner. According to AFSCME leader Steve Fantauzzo, without a transparent bidding process, “you never know what hangs in the shadows.”<sup>27</sup> Entrenched bureaucracies can hide costs and corrupt the bidding process. At the same time, public bidders may also be hamstrung by personnel requirements that private companies do not have. Thus, an important part of the process is creating a competitively neutral environment in which public and private bidders can bid effectively against each other.

To manage the process, governments should establish independent oversight of the privatization process. A firewall should be established between this unit and the in-house organization that will be bidding. An ombudsperson or inspector general should also investigate anonymous complaints about the process. Without guarantees of confidentiality and independent review, potential bidders will be reluctant to file complaints for fear of hurting their chances to receive the contract.<sup>28</sup>

In the case of IFS, Indianapolis was able to level the playing field for both public and private bidders. In other cases, notably the privatization of its golf courses, the city was not as successful in creating a neutral competitive environment. Golf professionals who received contracts to manage the city's golf courses were alleged to have contributed \$29,000 to Goldsmith's reelection campaign, around the same time that the contracts were being issued.<sup>29</sup> Moreover, the pros were ordered to proceed expeditiously with repairs and remodeling and send the bills to the city. To cut

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<sup>27</sup> Steve Fantauzzo, quoted in David Osborne and Peter Plastrik, Banishing Bureaucracy: The Five Strategies for Reinventing Government (Addison-Wesley: Reading, Massachusetts 1997), 142.

<sup>28</sup> Osborne and Platrik, 142-144.

<sup>29</sup> Bob Ashley, “Privatization Could be GOP's Goldsmith's Achilles Heel,” South Bend Tribune, 15 September 1996: B6.

through tiresome red tape, the golf pros disregarded statutory requirements for competitive bidding, as well as city and state building inspections and permits. After maintenance of city golf courses was awarded to the pros, the Marion County prosecutor charged that state law on bids had been violated. But he brought no charges, and his successor as prosecutor has not taken up the case.

### **Supporting the In-House Bid**

In-house units have many advantages in bidding, not the least of which is experience in the work to be performed. Their chief disadvantage, of course, is lack of experience with the competitive environment. Governments may hire consultants to help units prepare bids; these consultants must be independent of any consultants hired to manage the privatization process. On the other hand, public bidders should be prohibited from unfairly leveraging public resources to compete for outside contracts, where a commercial market exists. In-house units also may need additional flexibility, for example to negotiate gainsharing agreements in exchange for union givebacks. Moreover government units need to be relieved of many bureaucratic pressures or procedures that decrease their productivity.

In the case of IFS, workers quickly realized that in order to become competitive, they would have to eliminate a number of supervisory positions. Supervisors were political appointees, and laying off these workers required action by the mayor. The mayor complied, and with his support IFS cut its staffing levels from 129 to 84. This support from top management was critical in allowing IFS to cut its overhead costs and improve productivity.

Providing a public agency with sufficient time to adapt to the competition requirements is crucial, as was evidenced by the three years allotted to IFS. However, the approach should be case-specific. In the example of the Offutt Air Force Base in Nebraska, the competition process lasted for 42 months, which was longer than average, but the timeline was allowed due to the base's exceptional size (there were 1,459 workers originally that were reduced to 511 for the competition).<sup>30</sup>

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<sup>30</sup> Jacques S. Gansler and William Lucyshyn, "Implementing Alternative Sourcing Strategies: Four Case Studies," IBM Center for the Business of Government, October 2004, 48.

## Developing a Bid Request

The basic requirements in preparing a bid request are straightforward: (1) ask for what you want; and (2) make sure you get what you ask for.<sup>31</sup> The service to be performed must be carefully described, and performance must be measured in terms of outcomes. For example, a contract for highway landscape maintenance should specify that litter be removed from the grass before mowing. Performance should be measured in terms of maximum grass height (the outcome) instead of minimum frequency of mowing (the process).<sup>32</sup> In the privatization of street repair in Indianapolis, the evaluation process had to be performed from scratch to discover and reduce the price of filling potholes – something not even private firms could specify the price of. It was problematic to initially set up a way to calculate direct costs such as labor and materials, and indirect costs such as tracking annual upkeep and repair costs, and deciding how and whether to appropriate the cost of management.<sup>33</sup>

When Indianapolis finally drew up the request for proposal for fleet services, it hired an outside consulting firm, David M. Griffith & Associates. The firm was highly regarded within the fleet service arena in the United States and was well acquainted with the requirements for running the fleet service in Indianapolis. The objective was to find the lowest-cost competitor that simultaneously maintained quality service. The city administration was not involved in the bidding process and left the decision-making to the consulting firm to ensure the competition results were impartial and qualified.

Contract size is an important consideration. Contracts should be large enough to reap whatever economies of scale exist, but not so large as to restrict competition. For the Nebraska Air Base, services were bundled in a contract that included highly technical aircraft maintenance functions along with more generalized overall base operations. The complexity and scale of the contract deterred all but one private firm from bidding for the service provision.<sup>34</sup> Some services can be divided among multiple providers. In order to maintain competition over the long term, the contracts can also be designed with the condition that no single provider can win more than a

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<sup>31</sup> Eggers and O’Leary, 353.

<sup>32</sup> Sclar, 35.

<sup>33</sup> Husock, “Organizing Competition in Indianapolis (B),” Kennedy School of Government Case #1270 (Harvard University: Cambridge, 1995), 3.

<sup>34</sup> Gansler and Lucyshyn, 52.

certain percentage of all contracts. For example, in the case of waste collection in Indianapolis, the city prevented monopolization by forbidding any single firm (including the city) from winning more than three districts.<sup>35</sup>

When both public and private bids are received, some adjustments are needed to properly evaluate the bids. The cost of private bids should include the cost of transferring operations to the private operator; this cost should be amortized over the span of the contract. Moreover, private bids should account for increased government revenue due to increasing tax payments.<sup>36</sup>

### **Managing the Contract and Monitoring Performance**

Effective contract management can require a new set of skills for government. Recruitment and staff training policies need to be taken into account. Organizations that contract services need to maintain their awareness of the market and their technical knowledge of the outsourced activity.<sup>37</sup> This is important in order to be able to communicate with the contractor on equal terms.

In addition, the contract should specify the service, service quality measures, reporting requirements, regular meetings and complaint procedures, and should provide access to the contractor's records.<sup>38</sup> It should also specify performance-based incentives and fines. The contract should identify sanctions for in-house bidders who fail to meet financial targets; for example, they could be barred from future competitions.<sup>39</sup>

Another key but often-overlooked aspect of successful managed competitions is monitoring the performance of contractors. When the service is being provided by a third party, monitoring is crucial to ensure fulfillment of performance standards stipulated in the contract. When the contractor reports performance measures, they should be audited to ensure accuracy. Monitoring is similarly important when the service is being provided by an in-house bidder. A winning in-house bid should be awarded on the basis of a formal document that obligates employees to meet the

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<sup>35</sup> Edwin Blackstone and Simon Hakim, "Private Ayes: A Tale of Four Cities", *American City & County*.

<sup>36</sup> Eggers, 25.

<sup>37</sup> Organization for Economic Cooperation and Development, "Best Practice Guidelines for Contracting out Government Services", PUMA Policy Brief No.2, Public Management Service, February 1997, 6.

<sup>38</sup> Eggers and O'Leary, 353-358.

<sup>39</sup> William D. Eggers, "Competitive Neutrality: Ensuring a Level Playing Field in Managed Competitions, (Washington, DC: Public Policy Institute, 1998), 16-17.

terms of their bid, and the performance of in-house staff should be monitored using the same processes and criteria applied to outside contractors.<sup>40</sup> Monitoring is not cheap: it averages nearly 20 percent of contract costs.<sup>41</sup> Yet, when governments fail to monitor performance of private contractors, they are much more likely to revert to in-house provision, presumably because service levels do not meet expectations.<sup>42</sup>

In the case of IFS, the contract was administered by McCorkhill and monitored by the Office of Enterprise Development, which was organized under the Administrative Services Department of the City. The Office of Enterprise Development was responsible for creating competitive marketplaces for the delivery of the traditional government services while systematically reviewing and monitoring competitive initiatives.<sup>43</sup> In the beginning of the restructuring process, IFS worked with the director of the Office of Enterprise Development, Charles Stett, to determine accurate public service costs. After IFS won the bid and signed a contract, its performance and spending measures were also analyzed by this office.

To ensure that service levels and costs remain competitive, the government should hold regular re-bidding competitions. These should be held regardless of whether an in-house or private organization won the previous competition. As will be discussed in the epilogue, Indianapolis has not subjected fleet services to re-competition since 1995 and may therefore be losing out on potential benefits.

### **Using Leadership to Involve Stakeholders**

Successful competition processes require government to understand the interests of relevant stakeholders and take action to mitigate potential opposition. Elected officials, government employees, customers and potential new owners all have an interest in the outcome of managed competition. Failure to account for these interests can stall the process and cast a shadow over future efforts.

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<sup>40</sup> Organization for Economic Cooperation and Development, "Best Practice Guidelines for Contracting out Government Services", PUMA Policy Brief No.2, Public Management Service (1997), 3.

<sup>41</sup> Amir Hefetz and Mildred Warner, "Privatization and Its Reverse: Explaining the Dynamics of the Government Contracting Process," *Journal of Public Administration Research and Theory* 14:2 (2004), 175.

<sup>42</sup> Hefetz and Warner 180-181.

<sup>43</sup> City of Indianapolis, Department of Administration, 2000 Annual Budget.

In addition, privatization and/or contracting require decisive and dynamic leadership. In this regard, the diligent and personal approach of Mayor Goldsmith to privatization stimulated the administration, CEMD staff and unions to come together. He convinced the unions, employees and citizens that making public units competitive with their private counterparts was the only way to decrease taxes and offer better services. He also gave them the opportunity to share in the cost savings of their agencies. Consequently, incentives and purpose emerged for all the stakeholders under his leadership.

To alleviate employees' concerns and allow them to focus on assembling a quality bid, many governments establish a no-layoff policy as part of their managed competition programs. Osborne and Plastrik argue for the morality of not laying off employees who are not responsible for creating inefficient bureaucracies. More pragmatically, no-layoff policies can lessen resistance from employees and their unions.<sup>44</sup> Governments have a number of tools for implementing a no-layoff policy. Most of these rely on attrition, which tends to be 5-10 percent per year, to eventually bring the work force to a more cost-effective size. In the short term, no-layoff policies mean that contracts are more expensive than they would be otherwise, but the benefit is cooperation from employees who might otherwise not allow privatization to proceed at all. Among the techniques that can be used are shifting displaced employees into other public jobs; requiring private bidders to hire dislocated employees; requiring private bidders to guarantee wages and benefits will not be reduced for current employees; and providing outplacement services, severance packages, and early retirement benefits.<sup>45</sup>

## **Epilogue**

The case of Indianapolis Fleet Services was one of the city's most successful managed competitions. Today IFS continues to develop and streamline its operations. In 1995 the department was responsible for maintaining 2,700 cars, trucks, and other vehicles; by 2005 IFS was maintaining 4,200 vehicles. At the same time, the workforce has been reduced from 82 workers after the initial restructuring to 76 workers in 2005. Looking forward, IFS is currently

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<sup>44</sup> Osborne and Plastrik, 132-135.

<sup>45</sup> Osborne and Plastrik, 132-135.

requesting federal grants to acquire cleaner, more fuel-efficient technologies as a way of improving cost efficiency.<sup>46</sup>

In 1998, a Memorandum of Understanding (MOU) between the union local and the city administration was drafted and added to the contract.<sup>47</sup> The MOU was for five years and included all the previous commitments that both parties had agreed upon such worker benefits and responsibilities. However, the gainsharing provisions were eliminated, so that a fraction of cost savings was no longer returned to the employees. IFS returned to flat pay rates with an incremental wage increase mechanism, whereby all IFS employees received annual 3 percent increases.<sup>48</sup> Randy Bault, current president of the local chapter of AFSCME at IFS, explained that incentives based on budget savings were terminated when the city's administration realized that "we were saving so much."<sup>49</sup> Some higher-paid workers agreed with the switch to annual increases, since once the city had taken back all of the savings created by workers under the original contract, they saw little room for additional cost-savings benefits.

Elliott Sclar asks whether IFS' success was "unique to its time and place:" is it a replicable model?<sup>50</sup> Did IFS' derive from a detailed plan for privatization, or was it the haphazard result of a combination of various factors that came together and produced a positive outcome? Conditions were favorably aligned only after the threat of "privatization" drove workers to perform better. Therefore, many of IFS' innovations that led to its success may have been the result of arrangements between a city in a financial crisis and a labor union that in the words of Randy Bault, "just wanted to keep their jobs."<sup>51</sup>

## **Lessons Learned**

Indianapolis' success in competitive bidding drew interest from other municipalities that hoped to emulate its achievements. 3500 mayors, governors, and other official representatives visited the

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<sup>46</sup> Randy Bault, personal interview, 2 December 2005.

<sup>47</sup> Bault, interview.

<sup>48</sup> Indianapolis Fleet Services Division, "Addendum to Master Agreement, 1998."

<sup>49</sup> Bault, interview.

<sup>50</sup> Sclar, 147.

<sup>51</sup> Bault, interview.

city to learn more about its experience.<sup>52</sup> Goldsmith has maintained that cases such as IFS are not isolated incidents and can be replicated in other cities. However, he notes certain factors are necessary to enable a fair and successful managed competition: enlightened union leadership, measurable performance standards, and financial metrics. In addition, city leadership must be intent on managing its workers progressively.<sup>53</sup> Indianapolis' success was also partly due to the city's moderate political climate and Goldsmith's thoughtful and involved approach. Goldsmith was willing to buck his party to achieve policy goals. Yet, as a result of implementing nonpartisan reforms to fire politically patronized middle managers, he lost his bid in the 1996 Indiana State governor election, due in part.<sup>54</sup>

There are other lessons to be learned in how to lower costs and improve performance that are relevant to managed competitions in other contexts. First, managed competition programs are difficult to implement. They require great attention to detail at all stages of the process, from identifying candidates for privatization to monitoring and follow-up. Second, successful competitions and privatization require a long-term commitment to high performance. Governments frequently carry out competitions to the point of letting a contract, but then fail to follow up; in fact, fewer than half perform even minimal monitoring of contracts.<sup>55</sup> Finally, monitoring is an expensive but necessary element of successful contracting; when organizations do not monitor, they frequently terminate privatizations and revert to public provision.

However, the long-term viability of managed competitions is difficult to assess. If employees are motivated by the prospect of gainsharing to improve productivity, what happens when they run out of opportunities to cut costs? Furthermore, unless governments maintain a long-term commitment to competition, they risk receiving only one-time improvements in performance.

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<sup>52</sup> Stephen Goldsmith, "Getting the Job Done In Cities and Town," Transcript of speech given at Allegheny Institute for Public Policy Luncheon, 18 March 1998,

<sup>53</sup> Goldsmith, interview.

<sup>54</sup> William Eimicke, personal interview, 21 November 2005.

<sup>55</sup> Warner and Hefetz, "Privatization and the Market Role of Government," Briefing Paper #112 Washington, DC: Economic Policy Institute, 2001, 6-8.

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