



CENTER FOR CIVIC INNOVATION
AT THE MANHATTAN INSTITUTE

The Entrepreneurial City:

A How-To Handbook for Urban Innovators

Introduction by Mayor Stephen Goldsmith
Chairman, Center for Civic Innovation

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Introduction

Mayor Stephen Goldsmith

For 200 years, America built great cities and our citizens flocked to them. Industrialization brought with it urban centers that were places of limitless opportunity, and despite pockets of poverty, urban neighborhoods sprang up as centers of civic involvement and homes to our communities of faith. The divide between the working poor and the middle class was often a property boundary, not entire neighborhoods or city lines. Strong families, religious organizations, and schools worked together to instill a sense of unity and a shared set of values. At their very hearts, cities were the first step in search of the American Dream.

Sometime in the early 1970s, things began to change. It was as if the ghost of Horace Greeley had reissued his admonition to “head west, young man.” Except this time, it was not only west, but every direction: north, south, east, and west, anywhere that was beyond the boundaries of America’s major cities. Perhaps most troubling, it was not only young men, but entire families who led this migration to our suburbs.

As cities rapidly lost their population, tax revenues—the lifeblood of any government—fell dramatically, and businesses began to follow their consumers to the suburbs. Crime increased in our deteriorating neighborhoods, which all too often were characterized by empty, decaying buildings. At around the same time, the federal government sent in a host of occupying forces: counterproductive welfare programs, public housing initiatives, and a “war on poverty,” all of which simply exacerbated the plight of our cities. As a result, both literally and spiritually, our cities became empty shells of the boundless opportunity they once offered. “All of America’s cities are on greased skids,” wrote University of Pennsylvania professor Theodore Hershberg. “What differentiates one from another is the angle of descent.”

It was precisely this type of free fall in which many of today’s mayors found their cities in when they came to office during the 1990s. Our concern for the direction of our cities crossed party lines, and many of us found that despite our political differences, the isolation that cities felt from shouldering the main brunt of the blame for the nation’s social problems was a remarkably unifying force. We saw one another as fellow foot soldiers in a war that pitted us not only against poverty and the forces of urban decay, but also against our own state and federal governments. As we approach the twenty-first century, I am proud to say that we have finally made significant progress toward reestablishing the American city as a vibrant, attractive, and diverse place to live and work.

In fact, the American city is once again in fashion. One look at the references made by candidates in this year’s local elections and the early attention of many

of the candidates for president shows that the spotlight has moved from a focus on the failure of America's cities to many of the amazing success stories that we have achieved.

"Candidates for the White House in 2000 are looking to cities for support—and answers," read one headline. Terence Samuel, the St. Louis political commentator, suggested that "America's cities, left for dead and long held up as failed and unsalvageable models of cumbersome, inefficient government, are suddenly emerging as admirable blueprints for the future." *The Economist* profiled our nation's mayors by saying that "city mayors have greater power and influence than ever before," even quoting Mayor Paul Schell of Seattle, as properly saying that cities are "no longer the poor dependents of the federal government." Perhaps the greatest testament came from the American people themselves, who, in a Council on Excellence in Government poll, reported that they trusted their local government more than any other form of government.

Additionally, new concerns expressed by suburbanites, many of whom fled our cities over the past 30 years, about "urban sprawl" indicate a renewed interest in the urban environment's future. Suburban residents now clearly understand the stake that they have in stabilizing the core of the regions in which they live.

The political effect of this resurgence has been to encourage highly capable people to consider running for local offices. That is why a number of mayors and urban policy experts have collaborated with the Center for Civic Innovation to produce this primer on the major issues and challenges facing America's cities in the next century. Our goal with this urban-issues briefing book is to increase the number of local officials in both parties committed to innovative solutions to urban problems and to provide a resource that will be relevant across the broad range of issues and enormous variety of circumstances that affect America's cities.

For years, the Center for Civic Innovation at the Manhattan Institute has been committed to moving urban issues to the forefront of our national dialogue and erasing the predominant mindset that heavy-handed government solutions should direct that dialogue. As CCI has recognized, the new breed of successful mayors do not want handouts from Washington; these mayors want the freedom to solve cities' problems with innovative ideas and visionary leadership.

When first elected, the mayors contributing to this briefing book all started with a clear and coherent philosophy of innovative government, incorporated good ideas, and put them into action. They have notched many successes, racked up some failures, and learned a great deal along the way, all of which is chronicled in the pages that follow. The purpose for including these experiences in our briefing book, as Winston Churchill repeatedly advised, is that as leaders, "the further backward you can look, the further forward you can see."

The challenges that America's cities will face in the twenty-first century will undoubtedly be daunting. The prospect of exploding child abuse, juvenile crime, and teen pregnancy, along with deteriorating public schools, is sobering. The mobility of wealth and continued political pressure will prohibit mayors from raising taxes to fund even the most important services. Finding a permanent solution to dilapidated and insufficient public housing may present one of the greatest challenges to inner cities, and taking preventive, cost-effective measures to protect the environment will be crucial to future generations.

Recent studies have also touted the success of federal welfare reforms. Yet be certain that the mandate for city governments to address issues related to poverty has not subsided. In the coming years, cities will be called upon to sustain the current levels of economic growth, to create permanent, high-paying jobs, and to continue to provide viable alternatives to the culture of dependency spawned by failed welfare programs. The challenge becomes even more difficult as many low-income residents turn to local government for solutions to the current national health-care dilemma.

Yet no amount of meaningful government reform will sustain the ascendancy of our urban areas without the support of active neighborhood-based organizations, vibrant communities of faith, and strong families. While government can punish criminals, it cannot engender respect for human life or property. Government can require work in exchange for public assistance, but it cannot instill a work ethic. Government can collect child support, but it cannot make parents care for their children—let alone keep parents together or prevent out-of-wedlock births. No amount of concrete, no number of police officers, and no amount of spending can create a city that works if its citizens are not actively involved in the decision-making process. In Indianapolis, we have been so concerned with forging partnerships with our community groups that the number of neighborhood and community associations has grown by 300 percent since I took office.

Over the past eight years, in addition to the many successes experienced in America's urban areas, I have witnessed the amazing transformation of my own city. Unemployment is at its lowest level in years, crime rates are lower today than when I took office, and perhaps most important, we have helped stimulate the creation of nearly 47,000 jobs and \$7 billion worth of private investment.

The renewal of the American city is not complete. Despite our successes, in Indianapolis and in other major cities across the country, we can do better yet. That is why we still need talented, dedicated individuals to implement and advocate innovative solutions to urban challenges. As current and future leaders, we can strive to provide the highest quality of life for those residents and businesses that do call urban America their home. By doing so, we can ensure that America's cities will continue to serve as shining examples to the rest of the nation for years to come.

Managing City Finances: Doing More for Less

When people talk about America's urban renaissance, they always start with the revolution in managing city finances. At the start of the decade, cities looked forward and saw another 10 years of migration of jobs and residents to the suburbs. For years, people knew that one major reason businesses and families chose suburbs over the cities was the cost of living, particularly the significantly higher level of taxation they often found in cities. What made the 1990s different is that mayors finally decided to do something about it.

Across America, mayors of all ideologies and parties found ways to manage public finances more effectively, and they used the savings to cut tax rates. Philadelphia attracted the most attention on the tax-cutting front, reducing the 4.98 percent wage tax for residents to 4.61 percent, with further reductions scheduled for the coming years. Indianapolis also cut taxes, but national praise was even more forthcoming for its extensive program instituting a competitive bidding process for over 60 city services. Both cities have served as models over the past decade for new mayors—such as Washington, D.C.'s Anthony Williams, who recently spearheaded a reduction in D.C.'s wage tax for the first time in many years—seeking to emulate their success and make their own cities more competitive.

We are fortunate to have essays from Philadelphia's Edward Rendell and Indianapolis' Stephen Goldsmith explaining step-by-step what they did and how other mayors can replicate their programs. We also have an essay by noted privatization experts Adrian Moore and Wade Hudson of the Reason Public Policy Institute that provides general guidelines used by innovative mayors and public officials around the world to streamline government operations. Our case studies give concrete examples of how introducing private-sector techniques in areas such as sewer plant management, road construction and maintenance, wastewater treatment, and airport management can work for mayors anywhere. Taken together, these essays and case studies provide every mayor with a workable blueprint for an efficient and effective city government.

Phone numbers and e-mail addresses of individuals whom readers can contact to obtain more details about specific recommendations are on pages 16–17.

Mayor Stephen Goldsmith

First elected to office in 1991, Stephen Goldsmith is the mayor of Indianapolis. He serves as chairman of the Center for Civic Innovation and is the author of The Twenty-First Century City: Resurrecting Urban America (Regnery Press). He is an adjunct professor at Indiana University and a research fellow at Harvard University's Kennedy School of Government.

1. Compete-out contracts to perform city services

Mayors can realize extraordinary savings and improve service quality at the same time by allowing private companies to compete against public employees for contracts to provide city services. Private vendors can produce savings through innovation and a deep commitment to customer service. For example, the winning bidder for Indianapolis' printing and copying contract, Pitney Bowes Management Services, reduced the city's costs by more than 25 percent, improved pickup and delivery of city documents, and saved hundreds of hours of clerical work by city staff.

Competitive bidding also provides incentives for city agencies to trim bureaucratic bloat, eliminate waste, increase productivity, and focus on outcomes. To defeat their private-sector competitors, union workers at Indianapolis Fleet Services, the city agency responsible for maintaining and repairing the city's fleet of some 2,500 vehicles, cut their overhead by two-thirds, reduced the number of managers, doubled the productivity of their mechanics, established bonus-pay plans based on performance, and for the first time created customer-evaluation procedures.

In Indianapolis, we save an average of 20 percent for each service put up for competitive bid, regardless of whether private companies or government workers win—and public employee salaries virtually never go down.

Contacts: Kim Derchak, Skip Stitt

2. Empower unions to compete

When union workers are given the freedom to put their own ideas into action, they can be as innovative, effective, and cost-conscious as their private-sector counterparts. The problem is that union workers traditionally have been trapped in a system that punishes initiative, ignores efficiency, and rewards big spenders. Instead of privatizing city services, mayors should allow union employees to compete for contracts to provide city services.

Empowering frontline employees requires freeing workers from bureaucratic rules and trimming middle management. In some instances, we have also provided public employees with independent business consultants to help them reengineer their work systems and prepare bids for city contracts.

Union workers in Indianapolis win more than half the contracts for which they compete, including such activities as street repair, fleet maintenance, solid waste pickup, and sewer maintenance. Our workers often outperform their own bids, sharing in the savings they generate through substantial bonus checks.

Contacts: Kim Derchak, Steve Fantauzzo

3. Create real competition between private firms

Many cities already rely on private firms to perform vital municipal functions. Yet often, these private contractors operate under franchise arrangements that give each a monopoly in its service area. Allowing open competition among public and private firms within each service district can dramatically reduce costs while improving service quality. In Indianapolis, for example, real competition reduced the cost of garbage pickup from \$85 per household to just \$68—saving taxpayers \$15 million over the five-year contract term. Union workers benefited as well, increasing their productivity significantly, eliminating waste, reducing complaints, and increasing their share of the local trash-hauling market. Allowed to act like

Case Study 1—Improving Your Window to the World: Private Management of Airports

In the United States, airports are owned by government entities. Most are functional departments of municipal government, although some are run by a special purpose port or airport authority and others are owned by state government. The basic arrangement is that the airport operator develops and maintains the airport property and facilities and leases them to the airlines and other businesses. At most airports, the airlines' payments are based on the funding needed to operate the airport after counting the non-airline revenue generated by concessions, parking, and rent from other businesses on airport property.

In 1994, after an intense competitive bidding process, the Indianapolis Airport Authority awarded a 10-year contract to BAA USA for the private management of Indianapolis International Airport. By increasing non-airline revenue through better retail, food/beverage, and other customer-service offerings while at the same time controlling costs through better management, the costs for the airlines at Indianapolis International Airport were reduced significantly. The airlines win with lower costs, the customers win with better services, and the Airport Authority wins by providing an overall improved airport for the community.

Private management is the best assurance for meeting these objectives because the profit motive is a factor. BAA's contract provides that management fees are paid only if the objectives of reducing airline operating costs and improving customer service are met. Airports that are still operated as a government monopoly simply do not have the same incentives. The same free-market principles that drive the rest of the American economy can be applied to airports with financial success and benefits for all airport customers.

Contact: David Suomi

entrepreneurs, city employees beat their own bid price by \$2.1 million, garnering bonuses averaging \$1,750 per worker.

Contact: Kim Derchak

4. Compete-out the management of municipal assets, not just services

Millions of dollars in savings can be locked inside even comparatively well-run municipal utilities. Tapping the large national and sometimes international reservoir of private-sector talent in these areas can give mayors access to cutting-edge technology and superior management practices that produce dramatic savings. The private consortium that now manages Indianapolis' wastewater treatment system saves taxpayers more than \$18 million a year—more than 40 percent of the city's previous costs—even as it has improved water quality, increased employee salaries and training opportunities, and decreased accidents and workplace grievances. Airports, wastewater treatment plants, golf courses, and public housing

Case Study 2—Activity-Based Costing: Making Sure the Price Is Right

When the City of Reno decided to examine how much its services were costing, its goal was not to put all its services out to competitive bid in the open market. Instead, officials simply wanted to know what they were actually spending and what they were spending it on, to establish a baseline for costs, and to see where they might save some money.

The city hired KPMG LLP to implement its activity-based costing (ABC) methodology to gauge the real costs of providing services—the first step in improving government and business processes.

The city selected five service areas as ABC pilots: street sweeping, sewer-line cleaning, vehicle preventative maintenance, emergency medical response, and work-card processing. Because KPMG trained city employees to use ABC on an ongoing basis, the city has costed other service departments on its own. Among these departments are the public works, police, and finance departments, as well as the city attorney's and city clerk's offices.

ABC provides real performance indicators, in which costs can be measured on a per-employee, per-task, or per-project basis, among others. In Reno, KPMG worked with city officials to determine which divisions were incurring the greatest costs, examine the reasons for that, and choose whether business process reengineering or outsourcing may be appropriate.

ABC also lets government officials present tangible data to voters, city councils, or boards of supervisors. As the budget manager of the City of Reno points out, "One of the good things about ABC is that you can create a budget scenario...and take that to the voters. For example, if you know you can do one less plan review and, with the money saved, hire half a patrol person, you have the data to back that initiative."

Contact: Bridget Anderson

are just some of the opportunities for private management.

Contacts: Skip Stitt, David Sherman

5. Buy outcomes, not processes, and establish performance measures

Governments typically focus on inputs—measuring the quality of a service by the amount of money spent providing it. Mayors can change this by spelling out the precise outcomes that each city department or private vendor is expected to accomplish and at what cost. Rather than specifying how often contractors mow a certain median, mayors ought to specify how tall the grass may be allowed to grow. Rather than buying asphalt, trucks, and employee hours (inputs) or even buying a certain number of repaired potholes (outputs), mayors ought to purchase smooth streets (outcomes). Performance standards can be used internally as well to evaluate and reward city employees, enabling managers to tell at a glance whether a certain division is over or under budget, whether its productivity is adequate, and what areas need improvement. Indianapolis now measures itself on more than 200 factors each month.

Contact: Sarah Burnham

6. Institute activity-based costing

Mayors who want to make their government more efficient can start with a process called activity-based costing (ABC). ABC is a simple but powerful mechanism that measures the real costs of providing a service—filling a pothole, for example, or plowing a mile of snow. For every identifiable activity of government, ABC determines the cost of everything that goes into conducting that activity. The process uses private-sector definitions of depreciation and includes all the costs of idle equipment, building space, and other fixed costs. Accurate information about costs provides a foundation for managers to identify inefficiencies, compete-out services, and establish performance measures.

Contacts: Mike Williams, Bridget Anderson

7. Make public employees “owners” through incentive programs

Most public employees are smart, hardworking people who work in ways that are consistent with the incentives and rewards in their workplaces. Unfortunately, traditional compensation systems simply divide employees into wage levels and award raises at uniform rates to all employees based on seniority. This approach provides workers no incentive for efficiency and may actually reward inefficiency. Connecting pay to performance causes the bureaucracy to focus on outcomes and allows managers to create either individual or team-based incentives that enhance productivity.

Contact: Kim Derchak

8. Decentralize purchasing

Public managers at all levels complain that government purchasing processes are characterized by complicated procedures, multiple approvals for each transaction, and general confusion. One of the best ways to make the purchasing process more efficient is to push budget authority down to the lowest-level managers. One option—allow departments to make out their own purchase orders for totals under \$1,000. Mayors can also use technology to streamline the authorization process for larger purchases. In Indianapolis, our electronic approval process eliminates the need for an estimated 32,000 sheets of paper a year. The electronic procurement system also reduces approval time and facilitates the tracking of requisitions.

Contact: Ann Lathrop

9. Create broadband job descriptions

Numerous, narrowly defined job descriptions do not recognize the reality of the modern workplace—the changing technological environment and the need for constant employee growth. By broad-banding job descriptions and reducing the

Case Study 3—Paying Less for Prisons

Like many cities and counties a few years ago, Delaware County, Pennsylvania, was facing the unpleasant—and costly—prospect of having to build a new jail. Unlike most jurisdictions, however, Delaware County decided to get creative. Their solution, hiring a private company to design, build, and operate the new jail, shaved over 35 percent off their total construction cost and will cost about 20 percent less to operate each year than a publicly managed jail would have.

The county accomplished this by instituting a competitive bidding process for the new jail. Wackenhut Corrections won the bid and started construction. According to a report issued by the Allegheny Institute for Public Policy, Wackenhut was able to build the jail for just \$56 million, compared with the \$93 million the jail would have cost using traditional methods. Wackenhut also has been able to run the jail more efficiently by reducing overtime costs significantly and introducing other innovations.

This was accomplished without loss of public control, sacrificing quality, or firing jail employees. Delaware County's Board of Prison Inspectors retains ultimate authority and control over the jail, and the Pennsylvania Department of Corrections rates the facility as "excellent." And all but two of the 250 employees of the old county jail were offered jobs—with increases to their base salaries—at the new jail.

Sources: Allegheny Institute's Pennsylvania Privatization Monitor, vol. 3, no. 10; Delaware County Councilman Wally Nunn.

Contacts: Wally Nunn, Wackenhut Services

number of classifications, mayors can create a more flexible workforce that is able to respond to changing needs. Workers should be assigned to a project or geographical area rather than to a specific function, so that the same employees who plow snow in the winter can fill potholes in the spring, mow street medians in the summer, and pick up leaves in the fall. In addition to improving customer service and cutting costs, this flexibility better prepares employees for future challenges.

Contact: Kim Derchak

Mayor Edward G. Rendell

Edward G. Rendell is the mayor of Philadelphia.

1. Launch a competitive contracting program

As part of its comprehensive approach to the improved management of government, the City of Philadelphia embraced competition as an opportunity and incentive for city managers to enhance productivity and develop a leaner, more efficient government. Beginning in 1992, through its Competitive Contracting Program, Philadelphia has contracted out 46 city services.

Competition has produced immediate service improvements, saved \$38 million per year, and avoided the need to create 500 new city jobs. For example, a new maintenance contract for three city buildings was negotiated for \$1 million less than in-house costs would have been; yet the city has been able to obtain a higher quality of service, including preventive maintenance to safeguard the city's investments in these renovated buildings.

The intent of our Competitive Contracting Program has never been to privatize city services. Instead, we want to ensure that taxpayers receive the best service at the lowest cost. The city's managers and unions have consistently been given the opportunity to demonstrate that keeping services in-house would be the most cost-effective option, and in four instances they have been successful. City employees retained the sludge-processing work at the Biosolids Recycling Center, the operation of the Southwest Water Pollution Control Plant, Police Department horseshoeing, and the operation of the client support center in the Mayor's Office of Information Services—while generating \$12.5 million in combined savings annually.

This approach to competitive contracting has reflected our long-standing concern about the displacement of city employees. We give first preference for all city job openings to employees displaced as a result of contracting for services. As an additional protection, every successful contractor is required to give first preference to affected city employees for any new jobs created as a result of the contract. To date, not one of the almost 1,000 city workers displaced by

competitive contracting has been involuntarily separated from city service without first being offered alternative employment by the new service provider or the city.

Contact: Marla Neeson

2. Create and publish performance measures

In 1996, the City of Philadelphia published its first annual Mayor's Report on City Services, a summary of the government's performance. The report allows city managers, elected officials, and the public to gauge in a comprehensive and concrete way what the city is accomplishing with taxpayer dollars.

Case Study 4—Competition Reduces Sewage-Treatment Costs

Indianapolis was the first major city in the country to contract with private management to operate its wastewater-treatment facilities. The contract completed its fifth year early in 1999 and has exceeded performance expectations in terms of savings, water quality, and employee satisfaction.

Although the city was forced to contemplate a 33 percent sewer-rate increase in 1993, private operation of the plants has allowed it to maintain its existing rates—the city hasn't had a sewer-rate increase since 1985. More than \$70 million has been saved thus far, with a projected savings of \$250 million over the life of the contract.

As for the performance of the company, employee salaries are up, grievances are down, and the water produced is better quality than ever before. The company has outperformed expectations in terms of the inclusion of minority- and women-owned business vendors and in the community-involvement commitment of its contract, where it has contributed more than \$300,000 to an award-winning adopt-a-school program for one of the city's inner-city public high schools.

Accountability has increased through an improved maintenance program and high-tech testing procedures to gauge wear and tear on the city's equipment. An independent panel of industry experts meets bimonthly to review the company's activities, in addition to the daily contract-compliance monitoring that is performed by city staff. More than 6,000 people have visited the plants in hopes of learning more about the successful program.

In 1996, the city bid a second contract for the sewer-collection system, which includes more than 3,500 miles of sewers, 215 lift stations, and thousands of storm basins and manhole covers. Interestingly enough, the union—which had dramatically opposed the first private contract—chose to partner with the company on this second competitive bid. They liked what they saw in the company and saw joining forces as a move in the best interest of their members. In fact, the two groups that were the most vocal in opposing the initial privatization—environmentalists and the employee unions—are now among the most vocal supporters of the private company, a transition many attribute to the company's openness in communication and genuine knowledge and resources in its technical field.

Contact: David Sherman

To gather additional information on how the city's customers evaluate the services they receive, we added annual surveys to the report beginning in 1997. An independent polling company completes more than 1,100 telephone interviews each year with a representative sample of Philadelphia residents over the age of 18.

The benefits of measuring the performance of local governments are numerous. Performance reviews assist managers in evaluating their efforts and accomplishments; help explain the value of public programs; establish standards for performance; and improve the ability of government to make responsible, well-informed decisions about service priorities, staffing levels, and budgets. Measuring performance holds city managers accountable for not only *how much* money they spend, but also *how well* they spend it. Performance measures challenge departments to set ambitious goals and enable legislators and members of the executive branch to determine more accurately what resources are necessary to support desired levels of service.

For example, Philadelphia has increased the number of properties and street fixtures cleaned of graffiti from 7,520 in 1997 to 25,745 in 1998. The number of properties cleaned in 1998 was 72 percent more than the combined number cleaned from 1995 through 1997. At the same time, the police department is reporting that because of the success of the graffiti removal program, the incidence of graffiti vandalism has declined.

Contact: Rob Dubow

To view a copy of the *1998 Mayor's Report on City Services*, please refer to www.phila.gov.

3. Establish a productivity bank to stimulate innovation

The Mayor's Office and the Philadelphia City Council created the Productivity Bank in 1992 to promote innovation within city government. Using a capital base of \$20 million, the Productivity Bank grants loans to city departments and agencies for projects that cannot be funded from existing budgets without endangering normal service levels.

Funds from the Productivity Bank can be used for projects that achieve cost savings, revenue gains, or service improvements. Funds can also be used to encourage innovation, accountability, or entrepreneurship. Savings and revenues achieved through bank projects are reflected in adjusted operating budgets, as are the loan repayments so that the bank's lending capacity is never depleted.

The bank has proven to be a significant tool in reforming the operations of the government. As of January 1999, the bank had loaned more than \$22.7 million for 16 projects that are forecast to provide financial benefits of more than \$70.9 million over their five-year repayment periods. Moreover, these projects are

responsible for long-lasting innovations that will create service benefits well beyond their financial impacts.

Contact: Matthew D. Gallagher

4. Create a private-sector task force on management and productivity

In 1992, we brought together the heads of 41 local corporations and approximately 300 loaned executives to create the Mayor's Private Sector Task Force on Management and Productivity. The task force conducted management reviews throughout city government and made specific recommendations for improving service quality, cutting costs, increasing revenues, and otherwise streamlining operations. At the end of the task force's year of service, it generated 17 reports on 26 departments and seven citywide issues.

Together, these assessments presented a comprehensive view of deficiencies and opportunities in city operations. The benefits of implementing Task Force recommendations, more than 90 percent of which the city adopted entirely or in part, will continue to grow for a projected cumulative value of close to \$100 million through 2000. Task Force insights were of inestimable value because they provided city managers with a framework for new thinking and direction.

Contact: Linda S. Berkowitz

5. Redesign the management of professional services contracts

Like most cities, Philadelphia manages a substantial number of professional service contracts—more than 1,500 contracts, worth more than \$1 billion a year, for a variety of services including health and human services, legal services, investment counseling, architectural and engineering design, and computer systems development. We reengineered our management of these contracts in 1993 to create a streamlined contract review and approval process that improved the timeliness of contract execution and increased accountability and responsiveness on the part of those who are responsible for contracting functions. A manual for contract management procedures was also compiled, which has enhanced fiscal and legal accountability by establishing, for the first time, cost principles and guidelines for contracts.

To support these improvements, the Automated Contract Information System (ACIS) was implemented citywide to strengthen contract planning and monitoring through a centralized, comprehensive database. ACIS allows the electronic drafting, retrieval, and transfer of contract documents between departments, tracks contracts under development, and provides management reports that can be used to assess contract-management performance citywide. ACIS received an award for innovative technology from the Smithsonian Institution in 1996.

Contact: Linda E. Howard

Case Study 5—Better Roads for Lower Cost

Repairing, rebuilding, and maintaining city streets is often an expensive, drawn-out process. The City of Aspen, Colorado, has recently taken a bold step to quickly improve its street system by implementing a 15-year improvement plan that calls for a majority of work to be completed in the first year.

The heart of the plan is a design/build/warranty arrangement with Koch Performance Roads, a business unit of Koch Materials Company. Under the terms of the arrangement, Koch contractually assumes responsibility for the roads that need the most critical repair, approximately one-third of the entire system, and will maintain them at near excellent condition for 15 years. This permits the city to complete the four remaining years of its original six-year improvement plan in just one year.

Performance Roads focuses on helping governments that are unable to perform all the infrastructure maintenance necessary because they have limited annual budgets dedicated to street improvements. It recently struck a similar deal with the New Mexico Transportation Department to construct a 140-mile-long, four-lane highway along the State Highway 44 route. This project, which would take the department 27 years to complete, will be finished by Performance Roads in six years. Performance Roads also has signed a warranty contract with the department guaranteeing that it will maintain the road to specified levels of pavement quality for 20 years.

Contact: Bob Heitmann

6. Create a division of risk management

The City of Philadelphia created the Division of Risk Management in 1993 to address two related and long-standing problems. First, Risk Management was charged with reforming the city's long-criticized employee disability and workplace safety programs. Second, Risk Management was given responsibility for professionalizing the city's insurance and loss-prevention programs to reduce the impact of lawsuits and third-party claims filed against the city. In both areas, substantial progress has been made, and new systems are being institutionalized to achieve even greater results in the years ahead.

Since 1993, some of Risk Management's accomplishments include: decreasing injury leave across major city departments by 77 percent; reducing the average number of employees not able to work because of job-related injuries from 263 to 65; and reducing employee disability medical costs from \$18.3 million annually to \$6.6 million—a decrease of 64 percent. In carrying out this mission, the division plays a vital role in freeing up funds that would otherwise be spent on claims and claims-related issues, making them available for other uses throughout the city.

Contact: Joseph R. Perrello

7. Create an office of fleet management

Approximately 90 percent of all city services involve the use of vehicles. In 1993, in response to recommendations made by our Private Sector Task Force on Management and Productivity, we created the Office of Fleet Management (OFM) to centralize responsibility for the acquisition, assignment, maintenance, rehabilitation, and disposal of what is now a fleet of 5,855 city vehicles.

Between 1993 and the end of 1998, OFM, under the direction of a professional fleet manager, improved vehicle availability citywide from 65 percent to 90 percent. The office was able to improve availability while also achieving one of its other key goals—reducing the size of the fleet, as it cut the number of vehicles from 6,500 in 1993 to 5,855 in 1998. Fleet operations are now based on a philosophy of preventive maintenance of city vehicles over the duration of their useful lives.

To better manage the city's fleet, OFM installed two new automated systems, the Fleet Accounting Computer Tracking System (FACTS) and the state-of-the-art Fuel Management System (FUMES). FACTS tracks and analyzes vehicle acquisition, maintenance history, parts inventory, and individual shop performance. FUMES monitors and controls the dispensing of fuel to city vehicles at 34 city-operated sites.

Overall, in 1999, Philadelphia has better maintained and more reliable vehicles than it had in 1993, when fleet activities were decentralized among eight separate departments. City departments now have more vehicles available to complete their missions each day, which is especially important for public health and safety services.

Contact: Riley Harrison

8. Create a municipal energy office

Philadelphia created the Municipal Energy Office (MEO) in 1993 with the goal of cutting the city's energy expenditures by five to 10 percent within five years. MEO's primary objectives include optimizing energy use in city facilities, fostering the development and implementation of energy-efficient technologies, and protecting the environment.

MEO has far surpassed its initial goals, saving \$13.7 million between 1994 and 1997, with another \$7.1 million in 1998 and a projected savings of \$8.2 million in 1999. In addition, by 1998, MEO had obtained a cumulative \$5.7 million in grant commitments and incentives to supplement city funds for long-term, energy-conservation projects.

By the year 2004, MEO projects cumulative savings since 1993 of \$83.1 million.

These financial gains have been accomplished through closely monitoring city utility expenditures, negotiating rate reductions with local energy providers, and implementing conservation projects such as installing energy-efficient lighting at city facilities, instituting a lamp and ballast recycling program, and initiating an alternative fuels program.

Contact: Kent Miller

9. Create a mayor's business action team

A significant portion of the city's strategy to attract and retain businesses focuses on creating a business-friendly environment. A key initiative in that strategy was the creation of the Mayor's Business Action Team (MBAT), a one-stop support center for business that helps them secure necessary licenses, permits, financing, and other city services. From facilitating land acquisition to mediating business community disputes, from helping with parking problems to arranging for the removal of graffiti, MBAT offers proactive, personalized services to Philadelphia's existing and prospective businesses, both large and small. Since its creation in 1994, MBAT has helped more than 23,000 clients, produced and distributed more than 55,000 copies of the informative *Services to Businesses* directory, and established ongoing working relationships with all—over 80—of the city's active business associations.

Contact: Dee Kaplan

Adrian Moore and Wade Hudson

Adrian Moore is Director of Economic Policy and Wade Hudson is a policy analyst at the Reason Public Policy Institute. Both have written extensively on policies to improve government efficiency and competitiveness .

1. Create an independent agency to drive reforms

Too many cities approach reforms in a piecemeal fashion, with no leader taking ownership of reform and little or no follow-through on reform efforts. Committees or legislative bodies are easily sidetracked by other priorities, lose focus during the process of consensus building, and react slowly when change is needed—all of which can hamper reform efforts. To overcome obstacles and maintain focus, it is important to have one highly organized agency to implement and oversee reforms. A special executive agency, preferably within the mayor's office, builds experience in both the politics and process of reform and can assist city departments trying to implement their own internal reforms.

Contacts: Lana Willingham, Kim Derchak, Ed Sizer

2. Sell unused government-owned assets

Many municipal governments have unused, underused, and sometimes unwanted facilities, land, tax liens, and equipment that can be sold. Yet many mayors aren't aware of what or where these assets are, and city departments have little incentive to keep track. One way cities can uncover unused assets is by activity-based costing, a methodology that measures the real costs of a service. For example, if the water utility owns a lot of unused land, the cost of maintaining that land ought to be included in the department's cost of providing water services. At the same time, the value of the land ought to be reflected in the agency's books as an asset—either for future use or for conversion to cash. Another way to identify unused assets is to provide a financial incentive for city departments to identify them. One good way to do this is to let the agency keep a share of the money earned from the sale, rather than having all proceeds revert to the general fund. All this will become much more urgent over the next two to four years as new government accounting standards issued by the Governmental Accounting Standards Board begin to require cities to list on their balance sheets all assets and their value.

Contacts: Louis Arreola, Maurice McTigue, John Stainback

3. "Corporatize" city agencies such as utilities, airports, and seaports

A good way to restructure some city departments to be more efficient is to force them to operate like private firms. Corporatization is the process of converting an agency to a corporate legal status with the city as the sole shareholder. Once corporatized, the department must use private-sector accounting standards, obey corporate law, and operate under greater accountability. New Zealand did this with many agencies, including forestry and transportation, and here in the United States corporatization is being considered for some municipal utilities. In the end, this new way of operating will bring about more efficient management and will prepare the department for potential competition or privatization in the future.

Contacts: Adrian Moore, Maurice McTigue

4. Require city agencies to purchase services from one another

City budgets often contain hidden or unreported costs that skew the true efficiency of a department. A common unreported item, for example, is the cost to provide services to sister departments. One way to think of it is as similar to the way enterprise funds work, but with better accounting. City departments are used to paying enterprise fund agencies for services delivered. The same practice can be extended to all departments, which helps make it clear which are the more important and interrelated services. This is the approach Fresno, California, is using: as several of its agencies prepare to compete against private firms for

contracts to provide services, they are setting up market charges to other departments. This will help all departments determine their true costs of doing business. With such a system in place, departments can make better choices about where to get services—from another department, a private firm or a nonprofit body—and mayors can make better decisions about which services should be subject to outside competition.

Contacts: Adrian Moore, Maurice McTigue, Kim Derchak, Ted Rhinehart

5. Move appropriate services to user-fee financing

In an era when taxpayers demand more and better services but fight any attempt to increase taxes, establishing a user-fee system is an excellent way to pay for popular services. Typical services where user-fees may be better than tax-based funding include recreation activities, transit, and much more. User fees also help city residents make better decisions about what services to use, while traditional tax financing creates an incentive for everyone to use as much of any city service as possible. To address equity concerns and ensure that all residents have access to public services, cities can establish a voucher system. For example, vouchers have been issued by cities to poor residents to use the transit system or for taxis, and to pay for job counseling and other social services.

Contacts: Adrian Moore, Maurice McTigue

6. Review and streamline regulations

Regulations are a powerful tool for managing public problems, but they can also create inefficiency and confusion for local businesses and taxpayers. Mayors can do their cities a great service by putting in place a thorough, yet streamlined, review system for the municipal code. Too often, new regulations are passed in response to a crisis or pressure from specific groups, without ever going through a nonpolitical economic and technical analysis. Once a regulation is written, it is likely to live forever, even after technology, people, and the market have changed.

To prevent such inefficiencies, a regulatory review commission can provide the mayor and city council with an analysis of the technical and economic effects of a proposed regulation. The commission can also systematically review the existing code for outdated and unneeded regulations that often impose costly restrictions.

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