SCOMM

122:19

August 31, 1999

Marco,

Jerry wanted you to have info re:
Skip Stitt - speaker @ NCSL Conference in Indianapolis, Indiana. Contact info enclosed.

Background:
He ran the Mayor's race on privatization campaign, then designed and implemented different strategies. Biggest was privatization of middle management at the Indianapolis Airport.

Jerry wants to have him come up to speak to the Commission for the September 20th meeting. If you want me to contact him, please let me know. Jerry suggested telling him that the silvers are running strong, as an incentive to come up.

Thanks,

Debbie Higgins
269-0107

COMPETITIVE
GOVERNMENT
STRATEGIES, LLC

Skip Stitt

101 WEST OHIO STREET • SUITE 1350 • INDIANAPOLIS, IN 46204
(317) 681-5072 • FAX (317) 681-5068 • sstitt@iquest.net

COMPETITIVE
GOVERNMENT
STRATEGIES, LLC

August 6, 1999

Senator Jerry Ward
Alaska State Legislature
716 W. 4th Ave., Ste. 450
Anchorage, AK 99501

Dear Senator Ward:

I enjoyed having an opportunity to serve as a speaker on the privatization panel at the recent National Council of State Legislatures (NCSL) conference in Indianapolis. It was a pleasure to share some of my work experience on this important issue.

I specifically wanted to follow up on several requests for additional information that I received regarding both my presentation and my firm's work around the country. The enclosed materials include:

1. A short Fact Sheet on my firm, Competitive Government Strategies;
2. A copy of the Indiana statute regarding public-private partnerships;
3. A copy of my slide presentation to NCSL conference attendees;
4. A few clippings regarding our managed competition work; and
5. A few clippings regarding our regulatory reform work.

I hope that the information is helpful. If you have any questions regarding any of the enclosed materials, please contact me at (317) 681-5072.

Sincerely,

Skip Stitt

Skip Stitt

Enclosures

101 WEST OHIO STREET • SUITE 1350 • INDIANAPOLIS, IN 46204
(317) 681-5072 • FAX (317) 681-5068 • sstitt@iquest.net

COMPETITIVE
GOVERNMENT
STRATEGIES, LLC

FACT SHEET

THE CHALLENGE

Across America, public employees are being asked to do more work with limited resources. Innovative officials, managers, and workers are developing new ways to provide services in this fast-paced, competitive environment.

Difficult questions abound. How do you improve service, save money, and satisfy customers — all at the same time? How do you involve workers in the process? How do you avoid mistakes?

THE SOLUTION

Competitive Government Strategies (CGS) can answer those questions. Founded by former Indianapolis Deputy Mayor Skip Stitt, CGS is a professional services firm dedicated to assisting public-sector clients interested in competitive government issues.

- In Indianapolis, Stitt identified and led 50 managed competition projects that generated $400 million in savings, improved service, and increased efficiency.
- The savings helped the city lower operating budgets, increase fund balances, and cut the tax rate.
- Stitt implemented a strategy that empowers workers and managers so they can participate in the process of improving government.
- No union worker lost his or her job as a result of competition. In fact, the labor-management partnership is stronger. Wages are up, grievances are down, and workplace safety has improved.

THE EXPERIENCE

The CGS team has identified and managed projects in many areas of government activity, including:

- Wastewater & Water Treatment
- Billing & Collection Services
- Solid Waste Collection
- Airport Operations & Management
- Facilities Maintenance
- Print/Copy/Microfilm Services

The CGS team has broad experience in several managed competition disciplines, including:

- Activity-Based Costing
- Performance Measurement
- Proposal Design & Development
- Project Communications
- Labor-Management Relations
- Contract Management

- CGS maintains strategic collaborations with experienced accounting and law firms. This allows CGS, at a client's request, to deliver a team of full-service professionals to meet any need.
- Stitt has worked with federal, state, and local government employees from around the country on their efforts to improve public services.

If you would like to know more about the CGS team or its work in these areas, please call or write.

101 WEST OHIO STREET • SUITE 1350 • INDIANAPOLIS, IN 46204
(317) 681-5072 • FAX (317) 681-5068 • sstitt@iquest.net

INDIANA CODE

As Amended Through 1998 Regular Session

IC 5 - 23 - 5 -

GO! TEXT SEARCH ?

Information Maintained by the Office of Code Revision Indiana Legislative Services Agency
07/30/1999 02:39:02 PM EST

[Main Table of Contents] - [Title 5 Table of Contents] - [Article 23 Table of Contents]

IC 5-23-5
Chapter 5. Selection of Contractor by Request for Proposals

IC 5-23-5-1
Sec. 1. Any public-private agreement contemplated by this chapter must require the governmental body to request proposals under this chapter before entering into the public-private agreement.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-2
Sec. 2. Proposals for public-private agreements shall be solicited through a request for proposals, which must include the following:
(1) The factors or criteria that will be used in evaluating the proposals.
(2) A statement concerning the relative importance of price and the other evaluation factors.
(3) A statement concerning whether the proposal must be accompanied by a certified check or other evidence of financial responsibility.
(4) A statement concerning whether discussions may be conducted with the offerors for the purpose of clarification to assure full understanding of and responsiveness to the solicitation requirements.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-3
Sec. 3. Notice of the request for proposals shall be given by publication in accordance with IC 5-3-1.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-4
Sec. 4. As provided in the request for proposals, discussions may be conducted with the offerors for the purpose of clarification to assure full understanding of and responsiveness to the solicitation requirements.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-5
Sec. 5. Eligible offerors must be accorded fair and equal treatment with respect to any opportunity for discussion and revisions of proposals.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-6
Sec. 6. The governmental body may refuse to disclose the contents of proposals during discussions

with eligible offerors.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-7
Sec. 7. The governmental body shall negotiate the best and final

offers of responsible offerors who submit proposals that are determined to be reasonably susceptible of being selected for a public-private agreement.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-8
Sec. 8. After the best and final offers from responsible offerors have been negotiated under section 7 of this chapter, the governmental body shall either make a recommendation to the board to award the public-private agreement to an offeror or offerors or shall terminate the request for proposal process.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-9
Sec. 9. If a recommendation to award the public-private agreement is made to the board, the board shall schedule a public hearing on the recommendation and publish notice of the hearing one (1) time in accordance with IC 5-3-1 at least seven (7) days before the hearing. The notice shall include the following:
(1) The date, time, and place of the hearing.
(2) The subject matter of the hearing.
(3) A description of the public-private agreement to be awarded.
(4) The recommendation that has been made to award the public-private agreement to an identified offeror or offerors.
(5) The address and telephone number of the board.
(6) A statement indicating that the proposals and an explanation of the basis upon which the recommendation is being made are available for public inspection and copying at the principal office of the board during regular business hours.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-10
Sec. 10. (a) The proposals and a written explanation of the basis upon which the recommendation is being made shall be delivered to the board and made available for inspection and copying in accordance with IC 5-14-3 at least seven (7) days before the hearing scheduled under section 9 of this chapter.
(b) At the hearing, the board shall allow the public to be heard on the recommendation.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-11
Sec. 11. After the procedures required in this chapter have been completed, the board shall make a determination as to the most appropriate response to the request for proposals and may award the public-private agreement to the successful offeror or offerors.
As added by P.L.49-1997, SEC.34.

IC 5-23-5-12
Sec. 12. If the request for proposal process is terminated under section 8 of this chapter, all proposals may, at the option of the

governmental body, be returned to the offerors, and the governmental body may refuse to disclose the contents of the offers.
As added by P.L.49-1997, SEC.34.

Competitive Government
The Indianapolis Experience

Skip Stitt
Competitive Government Strategies, LLC

1

Indianapolis - A Successful City

- Thirty-two years of Republican mayors
- Nearly veto-proof Republican Council
- In 1992, it was already one of the leanest city governments in the country
- Nobody was clamoring for change

2

Indianapolis Faced a Series of Challenges in 1992

- Unfunded infrastructure - $1.1 billion
- Unfunded CSO issues - $250 million
- Unfunded UAL project - $220 million
- Unfunded police and fire pensions - $50 million
- Competition for jobs was from the suburban communities surrounding the city

3

SELTIC Commission - A Catalyst for Change

- Service, Efficiency and Lower Taxes for Indianapolis Commission
- Nine local entrepreneurs and 100 public and private-sector volunteers
- Goals - high-quality, cost-effective services
- Reliance on competition and market forces
- No reports and no sacred cows

4

Starting the Process - Identifying Opportunities

- Low hanging fruit
- Start relatively small
- Yellow Pages Test - fluid marketplace
- Internal versus external customers
- Simple analysis - outcomes and measures
- Input from employees and entrepreneurs
- Areas subject to innovation and technology

5

Barriers, Bumps and Baggage

- The Big Four - human resources, legal, finance and purchasing
- Strategic tools
  - Activity based costing - a tool, not an outcome
  - Performance measures - outcomes, outcomes, outcomes
  - Pay-for-performance and incentive pay
  - Core competencies - do what you do best

6

People, People, People - The Most Important Issue

- Competition programs succeed or fail based almost exclusively on people issues
- Leadership is required at all levels
  - Chief executive, legislative, senior managers, mid-managers, unions, and line workers
- Competition requires a new look at labor-management issues
  - New rules and new tools

7

Second Generation "Lessons Learned" Regarding Competition

- You must create goal congruence with incentives, upsides and consequences
- Benchmarking - measure the benefit, not the mistakes; measure against the best in class
- Communicate - early, often, open and honest
- No "cookie cutter" projects

8

Competition Results

- City operating budget
  - 1992 - $459.9 million; 1998 - $437.9 million
- Police and fire budget
  - 1992 - $141.1 million; 1998 - $183.3 million
- City budget surplus
  - 1992 - $24.8 million; 1998 - $101.8 million
- Property tax rate reduced three times

9

More Competition Results

- $1.1 billion in infrastructure work done
- Debt service levels lowered 6 years in a row
- CSO issues - funded
- UAL project - funded
- Police and fire pensions - funded
- $419 million in savings in the bank or contractually committed

10

Still More Competition Results

- No union employee lost his/her job
- Over 90% reduction in labor grievances in areas of competition
- Over 85% reduction in accident rates in areas of competition
- Pay and benefits increased in every case
- Customer satisfaction on the rise

11

Typical Projects and Results

- Fleet Services - $9 million saved
- Wastewater Treatment $189 million saved
- Customer Billing - $16 million saved
- Airport Management - $30 million saved
- Solid Waste - $15 million saved
- Street Maintenance - 25% saved
- Mowing and Landscaping - 25% saved

12

More Projects and More Results

- Print/Copy Services - 35% saved
- Administrative Services - 5% - 50% saved
- Facilities Maintenance - 20% - 30% saved
- Other services include golf courses, nursery management, roadside and median mowing, welfare-to-work services, vehicle towing and parking enforcement

13

Case Study Results Regulations and Competitiveness

- Public employees are often burdened by paperwork that does not add value
- Regulatory Study Commission asks whether the benefits of paperwork exceed the costs
- Over 45,000 transactions per year have been eliminated or totally streamlined
- Savings to citizens are over $1 million in fees and hundreds of thousands of hours

14

Competition Wrap-up

- There will always be budgetary pressures
- Competition is a proven way to create enormous taxpayer and citizen value
- Competition is a proven way to help empower public employees
- Don't wait until you are in a crisis - plan ahead and work from a position of strength

15

THE BOND BUYER®

THE DAILY NEWSPAPER OF MUNICIPAL FINANCE

Wednesday, April 15, 1998

INFRASTRUCTURE

Cities Increase Savings as Private Water, Wastewater Services Industry Grows

Privatization Trend Cuts Expenditures For Water Agencies

By Ola Kinnander

WASHINGTON — Increasingly, local governments looking to save money are privatizing their drinking water and wastewater services.

This trend was evident last Friday, when **Gary**, Ind., signed a 10-year contract with a private company that will lease, operate, and manage its wastewater facilities.

Estimates show the Gary deal will save the city $30 million. Other cities that have gone the privatization route include **Buffalo**, N.Y., **Charlotte**, N.C., **Indianapolis**, and **Milwaukee**, which outsourced its services starting March 1.

Less than 5% of the nation's several thousand municipal water systems are managed by the private sector today. But that business grew 30% last year, experts said.

"The absolute numbers are still not very big, but the relative growth in the private water and wastewater treatment area is very robust," said **Skip Stitt**, who last January left his position as Indianapolis' senior deputy mayor to launch **Competitive Government Strategies**, a consulting firm advising local governments on privatization.

"We have a list of 30 to 40 cities that are at least thinking about it," said **Joe Doyle**, vice president of **United Water Resources Inc.**, which won the Gary contract and provides water services for several local governments. The list includes Atlanta and several cities in Texas, he said.

Saving money seems to be the primary objective of cities privatizing their water services. In October, Indianapolis extended to 10 years its contract with a private partnership that is managing its wastewater system, saving $189 million over that period.

"People are very rigorously looking at costs, and some of the times that results in privatization," says Indianapolis' Skip Stitt.

Milwaukee will save about $145 million over 10 years, and Buffalo an estimated $23 million over five years, according to city officials.

"When we go into a city and bid on a contract, the bids are coming in 25% to 40% below the cost for the municipality," Doyle said.

"I think there's a trend toward cost-consciousness," said Stitt. "People are very rigorously looking at costs and sometimes that results in privatization." On the other hand, "Sometimes it results in re-engineering by government employees," he said.

Another reason for some cities to get the private sector on board is they may not have the funds, expertise or technology necessary to upgrade their often old water facilities into compliance with federal environmental regulations.

In virtually all cases, the cities remain owners of the water systems. Private firms typically lease, manage, and operate the facilities, as well as hire the city's water system employees. The work force is then usually reduced through attrition.

Some Cities Saving Money By Partly Privatizing Their Water Systems

Buffalo, N.Y.
is saving $23 million over 5 years under a contract signed last July.

Charlotte, N.C.
expects to save $4.2 million over 5 years under a contract finalized in January 1996.

Gary, Ind.
signed a 10-year contract with a firm last Friday that will save the city $30 million.

Indianapolis
will save $189 million over 10 years under a contract finalized in January.

Milwaukee
will save $145 million under a 10-year contract that began March 1.

The contracts also must be carefully crafted so that the cities do not violate private-use restrictions, which would prevent them from issuing tax-exempt debt to finance upgrades of their water systems. Under tax rules, a contract must run less than 20 years, and involve a fixed fee — as opposed to profit-sharing — that the city pays the company.

Both Indianapolis and Gary officials said their cities will be able to issue tax-exempt debt for their wastewater systems, if necessary.

"We entered into a qualified management contract that allowed us to maintain our tax-exempt bonds," said **Bob Swintz**, executive director of the **Indianapolis Local Public Improvement Bond Bank**.

It remains uncertain how privatization will affect cities' credit-worthiness.

"We don't advocate privatization, and we don't speak against it," said **Standard and Poor's** director **Marla Fox**. "But in cases where it could lead to greater economic efficiencies — cost reductions and better system management — then it certainly ultimately could be helpful and may in fact result in ratings upgrade."

She noted that the privatization of water systems is part of a broader trend. "Certainly it's on the upswing. We see privatization within all the infrastructure [areas] heating up over the years, particularly in the water and sewer areas, airports, and increasingly so for electric utilities," Fox said.

However, concerns do exist, and questions do arise.

"What we are going to ask is, 'how are cost savings derived, and what are you doing with the freed-up resources?' " Fox said. "And we want to make sure that we understand the role of the private operator. What is their credit worth? How capable are they of financing and operating an entity?"

In some cities, concerns among labor unions and others are so prevalent that privatization efforts there are blocked altogether.

The city council of **Allentown, Pa.**, for example, last month voted to give itself veto power over private contracts, except in emergencies. The vote came after Mayor **William Heydt** raised prospects of privatizing Allentown's water systems to cut costs to help finance a $20 million upgrade of its facilities.

The cities that take the leap find several uses for the savings they are realizing.

Milwaukee, for instance, plans to lower its utility rates. Gary, on the other hand, may use its savings to borrow up to $50 million from the state's revolving loan fund, which would allow it to significantly upgrade its facilities.

"The savings from privatization would enable us to repay those [SRF] loans," said **Jim Meyer**, an attorney with Gary Sanitary District. ❑

THE BOND BUYER®

THE DAILY NEWSPAPER OF MUNICIPAL FINANCE

Wednesday, April 15, 1998

Indianapolis Bond Bank's Bob Swintz and Mayor Steve Goldsmith.

Thrifty Policies of Indianapolis Mayor Credited for City's Healthy Ratings

By Steve Goldsmith

INDIANAPOLIS — So what will Indianapolis do with its newly earned distinction as the largest U.S. city to carry unified triple-A bond ratings?

Probably not much, says Mayor Stephen Goldsmith and his retinue of financial crackerjacks. In fact, Indianapolis, which historically has not been a frequent issuer compared with cities its size, has no significant general obligation deals slated for the next few years. However, some refundings are expected.

A lean bond docket shouldn't surprise anyone in public finance familiar with the tight-spending Goldsmith administration. With a competitive approach to government and a disdain for property tax hikes, Goldsmith, 51, isn't an eager borrower.

Luckily, his city also has a buffer against heavy borrowing because it addressed its pressing needs — with a big hand from a huge infrastructure undertaking — as soon as Goldsmith, a Republican, took office in 1992. The city, through various issuing districts, has about $330 million of outstanding GO debt. It merged governments with **Marion County** in 1970, and the mayor also serves as chief county executive.

"My intention has always been to keep our debt service down," says Goldsmith, still considered by many as an up-and-coming GOP star despite his 1996 loss in the Indiana gubernatorial election. "We certainly are going to continue to be restrained in our issuance of GO debt."

Bob Swintz, executive director of the **Indianapolis Local Public Improvement Bond Bank** and the mayor's top financial man, put it even more succinctly: "We try to come up with every solution possible before we use debt."

That's exactly the approach Goldsmith expects from all the city's separate municipal corporations. Just last month, the mayor wrote a newspaper editorial imploring the **Indianapolis-Marion County Public Library** to scrap a property tax hike proposal needed to back $47 million of bonds for major expansion.

The library didn't heed his advice and priced its first of two planned bond issues yesterday.

"It wasn't that I'm against using bonds," Goldsmith explained during an interview. "I'm against using a property tax increase to pay for it."

PUBLIC-PRIVATE PARTNERSHIP

But if that levy can't go up, Indianapolis under Goldsmith's administration will never be a big GO borrower. The city's property tax rate has hit its lowest level since 1981, at $3.79 per $100 of assessed valuation. The rate has steadily dropped from a peak of $5.17 in 1989.

"It's pretty much dirt cheap to live there," notes **Joseph O'Keefe**, senior director with **Fitch IBCA Inc.**

Pushing down property taxes is just one piece of Goldsmith's innovative approach to government, a strategy that has won him accolades from Republican leaders and even such national publications as Time magazine.

Another key element is requiring public employees to bid against private businesses for municipal services contracts ranging from operation of its vehicle fleet — which remained publicly managed — to the Indianapolis International Airport, now run by a British company. The mayor's office sets up the public workers with consulting firms to draft bids.

Indianapolis has cut about $250 million of total costs since 1992 by auctioning off municipal functions, according to Goldsmith's office.

"Indianapolis distinguishes itself from other cities by its privatization efforts,"

Mayor Steve Goldsmith and the Bond Bank's Bob Swintz at the Circle Centre Mall, a former mayoral "headache."

says **Richard Ciccarone**, co-head of municipal investments at **Van Kampen American Capital Management** Inc. "I don't have figures, but I know it reduces expenditures and means more revenues."

Goldsmith's governing style has caught the eye of so many municipalities that his former senior deputy mayor, **Skip Stitt**, formed a private company called Competitive Government Strategies to consult municipalities on competition.

Stitt and Goldsmith argue that privatization merely exchanges a government monopoly for a private monopoly. But in the process, they contend, competition results in better service by forcing both public employees and private companies to think creatively on cost-cutting.

"When you drive down the costs of services, you can control the budget and have more financial flexibility," Stitt said during an interview. "That may leave you in situations where you have more cash on hand and you don't need to borrow."

Ciccarone also says the city's paucity of paper is important to its appeal on Wall Street. "[There are] just enough [bonds] to go around, but not too much that it floods the market," he says.

According to Municipal Market Data, yields on the Indianapolis bond bank's February refunding were about five basis points higher than average uninsured triple-A GOs. A bond bank bond maturing in 1999 yielded 3.60%, while the average triple-A GO bond maturing the same year priced at 3.55%.

But one underwriter notes Indianapolis bonds always have to offer a little more than similar credits because Indiana does not tax out-of-state bonds, meaning issuers are on the same playing field.

Because the city isn't a frequent issuer, demand for its paper remains high, according to **Thomas L. Enright**, senior vice president of underwriting at Indianapolis-based **City Securities Corp.**

Privatization can have a slight downside in terms of the ability to issue tax-exempt debt, Swintz admits. He notes the city was forced to issue taxable bonds for a jail last year because of Internal Revenue Service rules on private management contracts. He says he does not know how more debt service that translated into for the city.

EARLY CITY INVESTMENT

The limited bond issuance on the radar screen for the next few years also stems from the city's heavy investment at the onset of the mayor's tenure.

When Goldsmith took office, the Indianapolis Chamber of Commerce identified more than $1.1 billion of infrastructure needs. In 1993, the city, through the Local Public Improvement Bond Bank, issued about $223 million of GOs for street and sewer work. Indianapolis is considering another $60 million to $70 million bond issue, probably a revenue deal, to correct sewer overflows.

In total, Goldsmith has infused the city's infrastructure with nearly $800 million of bond proceeds and cash since 1992 without raising property taxes. Aside from growth in the tax digest, that feat was accomplished through a variety of funding sources, such as gasoline taxes and state and federal aid.

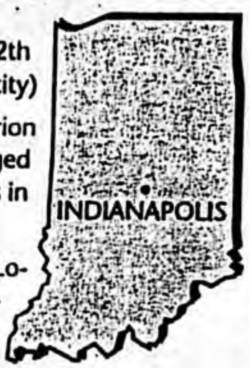
Goldsmith also had to address a slew of projects he inherited from his predecessor, Republican **William H. Hudnut 3d**, who left office in 1991. Hudnut's pet project became one of Goldsmith's biggest headaches.

In 1988, the bond bank issued about $200 million of bonds to finance the Circle Centre Mall, a huge retail complex in the heart of downtown Indianapolis. When Goldsmith assumed control, he found the project a financial morass.

He says he literally sent everybody home who was working on the project for several reasons, including the fail-

INDIANAPOLIS

Key Facts



- Population: 817,525* (12th largest U.S. city)
- City and Marion County merged governments in 1970.
- Indianapolis Local Public Improvement Bond Bank sells debt for Civil City, Redevelopment, Sanitary, Flood Control, Metropolitan Thoroughfare, and Park districts.
- Independent issuers: Airport Authority, Building Authority, Public Library, Convention & Recreational Facilities Authority, Indiana Public Transportation Corp.

*1996

Bond Ratings

Moody's Investors Service	Aaa
Standard & Poor's	AAA
Fitch IBCA Inc.	AAA

Key Players

Steve Goldsmith, mayor

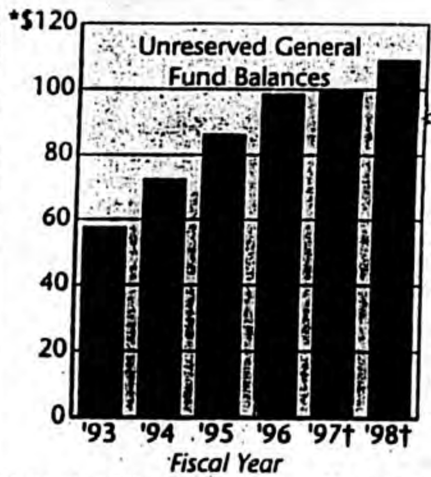
Bob Swintz, executive director, Indianapolis Local Public Improvement Bond Bank

Ann Lathrop, city controller

Jim Steel, former controller

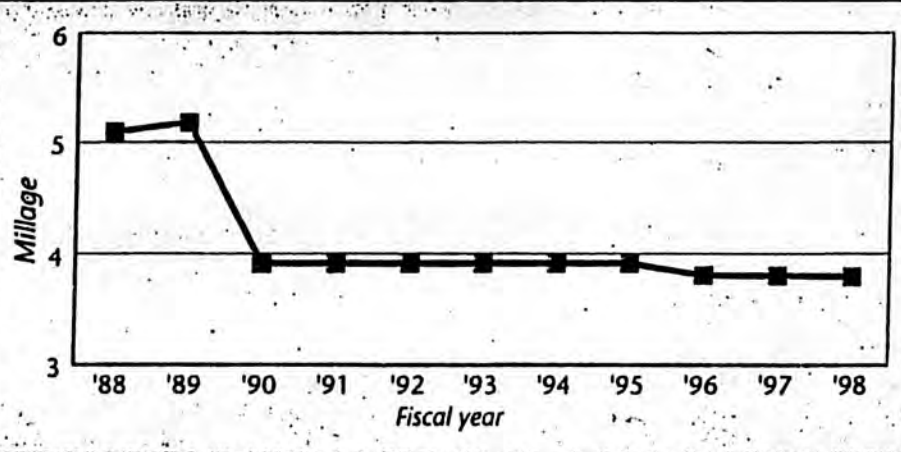
Jim Snyder, former special counsel to mayor

Budget Leftovers

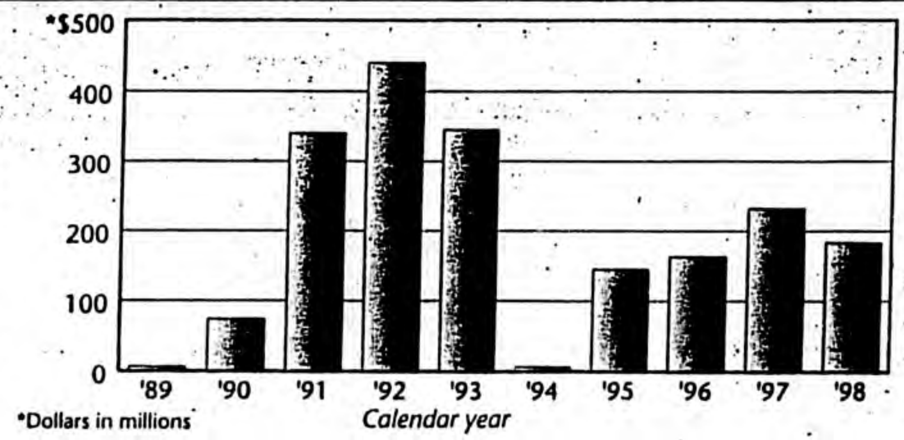


*Dollars in millions. †Estimated

City Property Taxes on Down Slope



Bond Issuance



*Dollars in millions

Includes Indianapolis Local Public Improvment Bond Bank, Marion County, Indianapolis Airport Authority, Marion County Convention and Recreational Facilities Authority

Sources: Indianapolis comprehensive annual financial report, rating agencies, Indianapolis Local Public Improvement Bond Bank, U.S. Census Bureau.

re to line up any anchor tenants.

"I was very anxious about the mall because it did not fit squarely into my approach to government," he recalls, meaning that the planning and execution were lacking.

Goldsmith's office put together a new design plan, and found a new mall location and solid tenants.

The bond bank refunded the bonds in 1992 with $290 million of debt, and Circle Centre finally opened in September 1995.

Since the debt is secured by tax-increment financing revenues, the city's ability to pay back the bonds hinges partially on the mall's success. And concerns about the prospect of city coffers bailing out the project persuaded **Standard & Poor's** to wait until February of this year to upgrade the city's GO rating to AAA from AA-plus. **Moody's Investors Service** and Fitch IBCA already rated the city triple-A.

Steve Murphy, a Standard & Poor's director, said his agency was skeptical that a downtown retail mall would succeed at a time when similar complexes were faltering in other cities.

But "it's been a huge success," Murphy says. "And traffic through the mall continues to be very good."

Goldsmith also had to address the city's share of the $1 billion **United Airlines** maintenance center. The bond bank in 1991 issued $140 million of lease-backed revenue bonds for the facility, which has been operational since 1994 though still under construction. The city estimates that the project will have created at least 7,500 new jobs by 2004.

The bonds never were in danger of default because they have first lien on a county-option income tax. But Goldsmith did not want to tap that source, since it is primarily used for public safety.

Instead, the mayor last year presented a spending plan that allocates privatization savings to pay debt service. Such savings materialized from privatizing the city's sewer system and the Naval Air Warfare Center, which had belonged to the federal government. It is now in the hands of **Hughes Technical Services Co.**, which engineers and manufactures electronic equipment used in military vehicles.

Building Up Indy

Despite Goldsmith's tightfistedness with GOs, there has been a flurry of bond activity of late in Indianapolis.

In December, the **Marion County Convention and Recreational Facilities Authority** issued $222 million of excise-tax lease rental revenue bonds for a new Indiana Pacers basketball arena.

The authority issues bonds for the Capital Improvement Board, a municipal corporation of the county that operates all of the local sports, recreation and convention facilities.

The city did not pledge any general tax dollars to back the arena bonds. Instead, the Indiana General Assembly created a taxing district to collect income and sales taxes derived from the city's sports venues.

"The arena effort highlighted the mayor's borrowing strategy," says **Jim Snyder**, former executive director of the bond bank. "It proves you can get things done without raising taxes."

Snyder stepped down last September as special counsel to the mayor. But he remains part of what Swintz dubs the "alumni club," the city's former financial gurus who continue to huddle with the mayor on certain projects. Stitt and **Jim Steel**, the previous controller who remains on the city's payroll as a part-time employee, also help keep an eye on the city's finances. **Ann Lathrop** became city controller in January.

When the Colts football team earlier this year sought a new lease with the city, Goldsmith — as he did with the Pacers — avoided new taxes to keep the team.

In exchange for the Colts' promise to pay penalties of as much as $77 million for breaking the lease before it terminates in 2013, the team can keep as much as $8.9 million annually from concessions, parking, suite sales, and advertising at the RCA Dome. While that is money the city is forfeiting, Goldsmith's office noted that it is money that the city would lose if the Colts actually left.

The Capital Improvement Board also will spend about $18 million for renovations to the dome. The board originally had planned on a bond issue, but likely will have enough cash on hand to avoid debt, Swintz says.

Not All Is Rosy

Indianapolis is not without its faults. Though crime and indigence aren't of the same magnitude as in other Midwest cities such as **Chicago** or **Detroit**, they are problems.

Fitch's O'Keefe says one future concern is a poor urban core surrounded by an affluent ring.

The way to combat deterioration of the inner city, Goldsmith says, is by persuading the schools to use money more prudently and by attracting more business. He assembled a task force on high technology to study ways to improve the city's telecommunications infrastructure, which he hopes would entice more businesses.

But in general, analysts agree that the city is in remarkable shape economically.

A shift away from a manufacturing-based economy means Indianapolis is better prepared for any downturn. And the city recently forecasted a $108.9 million unreserved general fund balance, or 30% of operating expenditures, by Dec. 31, 1998. Unemployment levels also have hit all-time lows, dipping below 3%.

And while Goldsmith is loathe to hike property taxes, Indianapolis has put itself in position to accept one in the event of a recession.

But city officials will kick hard to prevent getting in that position.

"There certainly are needs the city will have to address in the future," Swintz says. "But we're not going to run out and raise property taxes for infrastructure projects. It's all about trying to live within the means of this city." ❑

INDIANAPOLIS

The public sector is not known for adopting leading-edge business strategies. Indianapolis is trying to change that.

Harvey Meyer

YOU'D SWEAR YOU'RE SITTING WITH A CEO, NOT A CITY official, when you listen to Indianapolis Mayor Steve Goldsmith talk about the strategy he's developing to serve his city's "customers." The 51-year-old Goldsmith, dubbed "Robomayor" for his no-nonsense, cerebral manner, rattles off terms such as "delayering," "reengineering," "activity-based costing," and "performance-based compensation" when describing his city's accomplishments.

Not only does the slender, boyish-looking Goldsmith talk like a businessman, he acts like one. That may explain why many observers consider Indianapolis, the nation's 12th largest city with about 800,000 residents, to be more business-like in its operations than any other large U.S. municipality. Indianapolis, Inc., if you will.

During Goldsmith's six-year stewardship, city officials say Indianapolis has saved more than $400 million through opening up city services to competition; the city's fund balance has quadrupled; debt, as a percentage of the city budget, has declined from 11.4% to 8.4%; the nonpublic-safety work force has been slashed by 45%; the city's property tax rate has been lowered three times; and Indianapolis is soon expected to receive the highest bond rating (AAA+++) from all three of the most esteemed municipal bond-rating services.

As if those accomplishment weren't impressive enough, 30,000 new private jobs have been created during Goldsmith's watch, businesses have spent a robust $4.5 billion in constructing new facilities or expanding existing ones, and the city has invested nearly $1 billion in its infrastructure. Meantime, observers laud the city for fashioning a model relationship with unions while vastly revamping municipal operations, including instituting efficiencies more likely to be discussed in board rooms than city council chambers.

"I'm confident Indianapolis has the single most aggressive and comprehensive application of efforts to reduce costs and improve efficiencies of any public-sector agency in the country," says Peter Hutchinson of Public Strategies Group, a St. Paul, Minn., consulting company that has achieved renown for proposing—and sometimes implementing—bottom-line measures in public agencies.

So admirable is the city's new strategic direction, many believe the private sector might actually learn something this public entity. Indeed, Chrysler has examined the city's activity-based costing approach, and the Harvard Business School offers a case study on the method.

"Businesses can learn a lot of things from the city of Indianapolis," maintains Indiana University economist Morton Marcus, "but perhaps the biggest lesson is not being afraid to make changes in operations during good economic times."

That the city has been able to implement these new programs—which have drawn inquiries from hundreds of public officials, including the mayors of Los Angeles and New York and even Israel's Prime Minister Benjamin Netanyahu—is all the more compelling considering the obstacles it faced as a municipality.

For instance, in two very expensive areas, the city's hands are tied: The city government's influence on social services and schools policies and programs is limited; and while it might be able to save a great deal of money by contracting out Indianapolis' police and fire operations, there is no private entity providing those services on such a massive scale. Plus, public-sector bargaining laws and civil service rules hinder Goldsmith's ability to transfer, reward, promote, and demote employees.

Despite the difficulties and in the face of critics, the city has forged ahead. The crown jewel of Goldsmith's accomplishments is establishment of widespread competitive contracting, whereby city departments vie against private firms to perform city services. To become competitive, the departments had to adopt processes and practices that are used in the private sector, including performance measurements, incentive pay, activity-based costing, and self-directed work teams. Perhaps just as important, competitive bidding instilled a business-like attitude into the city's lumbering bureaucracy.

Learning the City's ABCs

When the soft-spoken but driven Goldsmith—whose sometimes brusque, analytic manner many believe contributed to his decisive loss in the 1996 Indiana governor's race—brought up "privatizing" city services during his first mayoral campaign in 1991, the concept was hardly new. Federal, state, and local government had experimented with privatization for 90 years, and Indianapolis itself had decades earlier privatized some of its public services.

But Goldsmith—who is such a competition devotee that he frequently pits city department heads against each other and himself to find the best answers—envisioned capturing world-class management efficiencies by massively overhauling how the city operated. Introducing competition on a grand scale, he said, was necessary to stanch the continuing flow of city residents and businesses to the suburbs. Indianapolis needed to adopt that strategy, said Goldsmith, author of the recently published book, *The Twenty-First Century City* (Regnery, 1997), because the federal government was curtailing municipal subsidies, and citizens were increasingly demanding better service from government—just as they were from the private sector.

Once Goldsmith was elected in 1991, he followed up his words with action. With assistance from Indianapolis' business community, including scores of volunteer lawyers, MBAs, and accountants, city officials evaluated nearly every city service to determine whether it could be opened up for competition. They also examined whether the city should provide the service in the first place.

Part of this process required an exhaustive breakdown of the costs of thousands of city activities. If the city didn't know how much it cost to plow a mile of highway or fill in a pothole, it wouldn't know if city departments or private contractors were offering cost-effective bids. Indianapolis turned to activity-based costing (ABC) to make these calculations.

Business has used various forms of ABC for some time, but in most of the public sector, it is regarded as an unexplored—and almost inaccessible—frontier. And, before Goldsmith, Indianapolis hadn't demonstrated ABC pioneer spirit. The city had tracked the amount of money spent on salaries, equipment, capital investments, and professional service contracts but had never broken those costs down by individual activities. As a result, the city lacked a clear view of its costs of doing business. ABC costing could change all that. While it is a

A Red Tape Committee saved thousands of dollars and millions of pieces of paper by paring the number of internal forms from 1,400 to about 400.

Harvey Meyer is a freelance business journalist based in St. Louis Park, Minn.

India-No-Place no more.

painstaking process, it's an effective means of pinpointing unexamined expenses and cost drivers.

Indianapolis launched perhaps the most ambitious big-city ABC effort in the country by hiring KPMG Peat Marwick to develop models for determining costs—including labor, materials, equipment, administrative overhead, and real estate—and to train city administrators and employees to use the method. The training was especially important. Not only was rank-and-file buy-in critical to the success of city's cost-cutting efforts, but also it was essential that line workers understand the cost breakdowns that would form the basis for the city departments' upcoming bids against private contractors.

The first service the city targeted for open bidding was pothole repair, a service that is highly visible and important to the average citizen. To give the drivers union at the Department of Transportation, which had traditionally been responsible for pothole repair, a fair shot at that bid and future ones, Goldsmith laid off 18 supervisors because they represented superfluous overhead. That action, which was stunning because many of the supervisors were Goldsmith's political supporters, was pivotal in the city's transformation. It convinced union officials that Goldsmith was irrevocably committed to competition—and that their heads could easily be next on the chopping block.

Union members were also swayed by the sheer time and effort city officials put in helping workers develop a viable bid. Not only did officials work through the night with those preparing the bid, but the mayor's established Enterprise Development Group, which roamed throughout the city offering efficiency suggestions, was also available for bid-structuring and other advice.

The effort paid off when the drivers union bested several other private bidders. After a thorough study of the process, the union discovered the traditional eight-man pothole crew could be trimmed to five; only one truck, not two, was necessary; and that overall costs could be shaved 25%.

"I think Goldsmith has a bottom-line business approach that's easy to understand," says Steve Fantauzzo, executive director of the American Federation of State, County, and Municipal Employees (AFSCME) Council 62, which represents 1,000 union workers in the city. But Fantauzzo is quick to add that the city's efficiency processes evolved after a lot of input from union members.

The city's relationship with unions, hailed as a model by former U.S Labor Secretary Robert Reich, represents a remarkable turnaround from Goldsmith's first campaign, when they viciously opposed him, said Fantauzzo. On a visit with union workers during his first day as mayor, Goldsmith, surrounded by a phalanx of security personnel, was loudly booed and called "things you can't even print," said Charles "Skip" Stitt, former deputy mayor who recently formed his own consulting company.

"I was amazed at how everybody viewed things as a zero-sum game then—I win, you lose,' " said Stitt. "It was when we tied the fate of union and management together and made their goals and incentives congruent that we gained the ability to make changes."

New Thinking Yields New Savings

Since Goldsmith took office, about 75 city services have been privatized or forced to compete with private companies. A majority of the contracts bid out were won by public employees. No union member lost a job because of competitive bidding; many were simply hired by the winning private bidders.

The assessment that city depart-

Pothole repair was the first city service put up for bid. In preparing its bid, the union discovered the traditional eight-man pothole crew could be trimmed to five; only one truck, not two, was necessary; and that overall costs could be shaved 25%.

ments are forced to undertake before drawing up their bids often offers a fresh perspective on how that service can be performed more cost efficiently and better. The resulting reengineering sometimes even produces new revenues.

For instance, a private engineering firm, which outbid others to redesign the planning department's permit-issuing system, helped eliminate some permits entirely, collapsed the steps required to issue others, and created a system of case managers. The private firm even allowed the city to offer a new service—expedited permitting—which guarantees applicants a 48-hour turnaround time for an added fee.

Removal of abandoned vehicles on public property, which cost the city $174,000 in 1993, is another service that is now producing revenue. A private company savvy about selling autos won the contract by proposing to *pay* the city for the right to dispose of the cars. In the first two years of the contract, the city earned $510,000 from the sale of abandoned vehicles—while dramatically improving the service.

Thorough examination of city services also sometimes exposed cases of egregious waste. When department of public works managers analyzed their costs of picking up trash, they discovered that, over four years, they had spent $252,000 on repairs to a garbage truck that sold new for $90,000. When all costs were calculated, the city discovered it cost $39 per mile to operate the truck.

In some cases, the city identified savings and improved services by forming alliances. Instead of continuing to use city employees to staff recreational programs at some parks, Indianapolis forged partnerships with not-for-profit organizations which provide those services at no charge to the city. And the city now pays a number of churches to tidy up nearby parks. Observers say the improved cleanliness boosts park usage.

Cost-consciousness is pervasive in the city—even where departments aren't working on competitive bids. For instance, a Red Tape Committee saved thousands of dollars and millions of pieces of paper by paring the number of internal forms from 1,400 to about 400.

Getting City Workers Involved

Opening up city services to competitive bidding prompted city officials to embrace other, complementary business strategies. Once they had the cost breakdowns, the city could measure employee performance more accurately. And if officials wanted performance to improve, employees needed more empowerment, incentive pay, and training.

Employee empowerment became even more important after a number of city workers were laid off, not replaced, or took jobs with the private bidders. The effect of competitive bidding can be seen in the headcount of employees who are not involved in public safety (that is, everybody but the police and firefighters), which has dropped from about 2,400 in 1992 to 1,300 today. Stitt estimates up to half of those no longer on the payroll had managerial responsibilities.

"In several areas of city government, our multiple levels of management were hindering progress," Stitt maintains. "Middle managers controlled the flow of information, both top down and bottom up. We found that many good ideas from line employees got to the middle management ranks and then sort of disappeared. So a number of managers who derived power from maintaining chaos and acrimony were moved."

Whereas the ratio of workers to managers in some departments had been was as low as three to one, today there is often one supervisor for every 12 or more employees, which is much more in line with private-sector standards. In fact, a number of city operations now have self-directed teams that determine their own labor, equipment, and materials needs and even assemble their own bids.

"We are no longer asked to park our brains at the door," says Steve Quick, a union official and department of public works equipment operator. "We have a partnership with management and are allowed to do what needs to be done on the job."

Workers have begun to feel more challenged by their jobs, and a variety of statistics suggest they are happier with them, as well. For example, employee absenteeism dropped drastically from an estimated 2.72% of total hours worked in 1994 to 1.04% in 1996. And there was a significant decrease in worker grievances. About of 30 grievances were filed in 1997—about one-tenth the number registered before Goldsmith took office. At the wastewater treatment plants alone, grievances declined from 48 in 1992 to zero in 1996.

At the same time the city was empowering employees, it was aggressively seeking high-quality professionals, says Stitt. Officials have spoken with several hundred MBA candidates over the past several years and have recruited from corporations such as Indianapolis-based Eli Lilly, which was offering early retirement for hundreds of employees.

"The mayor is a real talent hound," says Stitt. "We promised them terrible hours, low pay, enormous public scrutiny—and the chance to make a difference in the community."

Along with employee empowerment and recruiting, the city instituted a performance-based incentive system. It applies widely, affecting not-for-profit organizations providing social services in the city, private firms, and most city departments. It's estimated that up to half of the city's union employees are eligible for incentives—a radical departure from the days when workers' only income gains came from wage increases won after acrimonious negotiations. In some cases, if employees don't achieve certain performances or fall behind, penalties kick in.

For example, some nonunion workers may not even receive annual wage increases if they don't meet agreed-upon performance goals. And in what is believed to be an unprecedented action among city union employees nationwide, Indianapolis garage workers gave up a previously negotiated pay raise in return for sharing incentives derived from meeting certain goals.

Incentive pay has helped both the city and workers. Taxpayers saved $13 million in 1994 when the city's solid waste division submitted the winning bids in three municipal districts. And the same contract paid off for employees, too. After the union workers identified an additional $2.1 million in savings on those jobs, each worker was awarded an average of $1,750 in incentive pay. The workers benefited from an informal program that encourages employees to suggest ways to improve city services or lower costs. Workers receive 10% of any identified savings, up to $3,000.

training about 40% per employee during that period. Significantly, customer-service training is required for every employee, Stitt said, and middle managers must also take a skills course that includes training on performance evaluation, ABC costing, and customer service improvement.

The city saw some dramatic results when it increased safety training for workers. For example, at the city's wastewater treatment plants, the number of accidents fell from 92 in 1992 to five in 1996.

Not surprisingly, with all the time, effort, and money aimed at helping employees do their job better, the city expects improved results. It is now tracking about 260 performance measures monthly—everything from the number of days it takes to issue a zoning permit to whether a division is over or under budget.

The performance indicators, which were determined with input from

Since Goldsmith took office, about 75 city services have been privatized or forced to compete with private companies.

"Usually no one listens to laborers," says Quick. "But now (managers) do because we have suggestions and experience that can help save the city money. And when that happens, we can make extra money, too."

Managing What You Can Measure

Making workers eligible for incentive pay was not the only way in which Indianapolis got its workers to buy into the changes in city management strategies. The city also invested in training programs that would enable them to do their jobs better.

In 1996, Indianapolis spent $3.46 million on training and between 1994 to 1996 increased annual hourly

employees, allow officials to obtain quick updates on activities and ascertain which areas need improvement. Private contractors are also held to performance measures, thus preventing the kind of graft and corruption that afflicted municipal privatization efforts decades ago.

Measuring performance can often be an inexact task, and flexibility is paramount, Stitt says. Initially, the city concentrated on developing "inputs"—for example, the number of tons of asphalt used to fill potholes—but it is now working more on quantifying "outcomes"—whether the street is in fact smooth, an indicator more reflective of the city's quality and customer-service goals. One city staffer's sole task is to manage, monitor, and tweak these performance measures.

"You'd like a perfect performance measurement system to be in place before you even get started," said Stitt, "but that would take years of study. We took some risks by picking measures and said, 'Even if it's wrong, we have something to work from.' Every six months we review whether we're measuring the right thing, whether we actually care about that measure, whether the goal is high enough, and whether it's congruent with other measures."

Such in-depth analysis often offers yet another opportunity to examine whether an activity itself can be performed differently and better. In one department, for example, employees realized that when more tickets were written for zoning violations, more cases ended up in litigation, and thus it took much longer to resolve the cases. Front-line employees and senior managers approached city officials and suggested these cases could be resolved more quickly through emphasizing collaboration and mediation. Furthermore, employees said they no longer wanted the number of zoning tickets written to be part of the mathematical mix for computing their incentive pay.

Mayor Steve Goldsmith whacked waste from the municipal budget by insisting on competitive bidding for city services.

In most of the public sector, activity-based costing is regarded as an unexplored frontier.

"It was one of those moments when you go back to your office and jump for joy and high-five and say, 'They got it. They figured it out,'" says Stitt. "When line employees want to discuss these kinds of customer service measures, then you're really beginning to change your organization."

It helps that the city encourages bottom-up communications with management. Goldsmith himself responds to 80 to 90 email messages daily, many of them suggestions from the rank and file. The ability to communicate directly with senior city government officials tends to nip grievances in the bud and "smashes the bureaucracy to some degree," said union spokesman Fantauzzo.

Further encouraging dialogue, Goldsmith weekly works alongside employees, soliciting their advice. "I've never worked alongside any group of employees that didn't have at least a dozen suggestions, most of which were useful and practical," Goldsmith says. "It's stuff you'd think the average employee wouldn't have to talk to his mayor or CEO to remedy."

Future Challenges

Ultimately, the city's new management strategies are aimed at one thing—improving the quality of life for the city's residents, Goldsmith says. Not surprisingly, that means the city of Indianapolis, like many corporations, is increasingly concentrating on customer service. The emphasis on the importance of customer-service is reflected in the "Going the Extra Mile" award, a gift certificate for lunch given to employees in recognition of outstanding customer service. And it's apparent in the many follow-up calls employees make to citizens who complain about city services.

Goldsmith, whose mayorial term expires at end of 1999 and whose future plans are uncertain, believes the city has already made significant headway in indirectly and directly improving its service to its citizen-customers. Officials point to, for instance, the three reductions in property taxes, and the city's elimination of about 60 licenses and permits representing hundreds of thousands in waived revenues.

While Indianapolis' accomplishments suggest the city is no longer deserving of the disparaging sobriquet, India-No-Place, not everyone agrees that life in Indiana's capital is sweeter. Some residents complain the city's cost-conscious mentality at times comes at the expense of customer service. Others gripe that the needs of the poor and racial minorities are being compromised. Still others note most major crime, including murder, has escalated recently.

City officials know that much more needs to be done. To that end, plans for the next several years include fine-tuning performance measures and activity-based costing methods so they're more directly linked to producing high-quality customer service, Stitt says.

An employee once asked Stitt when all the work on efficiency and customer-service strategies and measures would end. His response is one most corporations can identify with: "It's a never-ending process," he said. "It goes on forever." ◆

EDITORIALS

"Let the people know the facts and the country will be saved."
ABRAHAM LINCOLN

A worthy achievement

One of the most significant milestones in Mayor Stephen Goldsmith's career occurred Tuesday when Standard & Poor's upgraded the city's bond rating to AAA, the highest possible rating.

It is significant because when Goldsmith first stepped into the mayor's office in 1992, the city's financial situation was far from rosy. Property tax levies were out of control, crumbling streets and sewers were in dire need of repair, Circle Centre mall was a huge financial gamble, and Bill Hudnut had committed the city to pay a whopping bill for the United Air Lines maintenance hub.

Indianapolis is now the largest city in the nation with top bond ratings from all three major rating services.

Few would have predicted that all these problems could be resolved and city government put on a sound financial footing in just six years. But Goldsmith did just that. His sometimes controversial efforts to inject competition into the way city services are provided worked so well that the city saved more than $200 million.

He has allowed no increases in city-controlled property tax rates, a feat almost unheard of in modern municipal government. By aggressively working to expand the city's tax base, he has created new revenue streams that are not only paying off the UAL debt but making possible some $800 million in infrastructure repairs.

The city's budget surplus has grown from about $20 million to $100 million, giving it great ability to resist even a severe downturn in the economy. True, Goldsmith has benefited from six years of steady growth in the national economy, but these are nonetheless extraordinary accomplishments.

The nation's two other major bond rating services, Moody's Investor Service and Fitch IBCA, had previously given Indianapolis AAA ratings. But Standard & Poor's held back, rating the city as "AA Plus," meaning its financial situation was good and appeared to be improving.

Two years ago, analysts for Standard & Poor's told city officials they were still concerned about unfunded liability in police and fire pensions, how the city would repay the UAL debt and whether Circle Centre would be viable.

Since then, the mall has proved to be more successful than anyone imagined and Goldsmith has shored up financing for both the UAL debt and the pensions. That was enough to persuade the analysts to take another look, and this time they concluded the city merited a AAA rating.

Now for the first time in its history, the city enjoys the top rating from all three bond rating services. The obvious benefit is that it can sell bonds at lower interest. But more importantly, it strengthens our confidence in the city's future.

Indianapolis now has the distinction of being the largest city in the nation with top ratings from all three major bond ratings agencies.

That's something to build on. We agree with Mayor Goldsmith:

"We want people to see Indianapolis as having a strong, growing economy, so when they think about expanding their business they think about us."

The Indianapolis Star
May 12, 1994

Rummaging through city government

GEORGE WILL

Indianapolis — Asked by the mayor how he is getting to the airport, the visitor says he'll hail a cab. No you won't, says the mayor. This city has made it illegal for cabs to cruise for fares.

Why? That is what government does. It abets "transfer seeking" — the use of government power to transfer wealth from one group to another, in this case from weak taxi competitors to the three companies that control most of the market and can afford sophisticated radio dispatching systems.

The city has set taxi rates high, so taking a cab to the airport can cost twice as much as a stretch limousine. Mayor Stephen Goldsmith wants the cab market opened and cab operators freed to charge less than the rates set by government. Who is this anarchist?

Most mayors, if they cannot brag about something, change the subject. "We have an awful bus system," says Goldsmith. He would like to open bus service to competition. However, the federal government, playing the transfer seeking game, mandates that any municipal transit worker "negatively impacted" by such competition must be paid six years of full pay and benefits.

This city, 800,000 patriots clustered around war memorials (Hoosiers never forget a fight), has 30 percent fewer non-public safety employees than it did three years ago when Goldsmith, a Republican of libertarian stripe, came to City Hall and learned that a city warehouse held about 40 tons of chalk for softball field lines — enough to chalk a field with the bases 110 miles apart. Why? Fish gotta swim, birds gotta fly and governments gotta behave weirdly.

Why? Well, some bureaucrats will spend any leftover money on lots of anything, lest they get a smaller budget next year. And government purchasing systems often are so cumbersome, bureaucrats order too much lest they run out.

Los Angeles Times Syndicate

Want to buy some chalk? At about the time the chalk mountain was found, the city began spray painting softball lines because it is 40 percent cheaper.

Goldsmith put street repair work out to private bids but provided a consultant to help the city repair shop bid. It won, having suddenly discovered that what previously required eight workers on two trucks could be done by four on one. Goldsmith also sacked most of the Republican patronage "supervisors." Republicans, having controlled City Hall since 1967, are much of the fat being cut.

"Everything can be sold or submitted to competition," he says, "except police and fire services." The counting of the parking meter coins was contracted out. The collecting of the coins will be next. Window washing at city buildings, microfilming, sewer building, all have been privatized. A huge wastewater treatment plant has been put under private management, which will save taxpayers $65 million over five years.

Goldsmith is campaigning for public school choice, noting that only 40 cents of every education dollar gets to the classroom and that schools, like other providers of services, will be improved by having to compete for customers.

But he does not want government to wither away entirely. Twelve years as a prosecutor taught him that there are some people, usually between ages 15 and 30, who are nasty and need locking up, in new prisons: "Most of the serious offenders we're catching have been arrested 12, 13 times. We are not failing to catch them, we're just not keeping them."

He cites James Q. Wilson, the UCLA political scientist frequently quoted by the new breed of mayors: "The benefits of work must exceed the costs of work by more than the benefits of crime exceed the costs of crime." Incarceration raises the cost of crime, low taxes decrease the cost of work. This is not complicated.

He favors delivering food and many other municipal services to poor neighborhoods through churches and other institutions that exist to transmit values. This gives heartburn to American Civil Liberties Union "establishment of religion" fetishists, which is an ancillary benefit.

Cities, he says, would be better off if the federal and state governments, instead of churning out grants and supervision and inefficiencies, would just keep half the taxes they take from cities and mail the rest back. "There is no value added by additional people passing dollars around."

Slender, laconic and ironic, his manner expresses his politics of minimalism. "Make government as small as possible and devolve it to as small a geographic base as possible," he says, adding, almost wistfully, "I could be a really good mayor of 1,000 people." Perhaps, but the nation's 12th largest city is pleased to have him rummaging through its government, looking for things to sell.

Washington Post Writers Group

The Washington Post
Sunday September 21, 1997
A3

A Winning Combination in Indianapolis

Competitive Bidding for City Services Creates Public-Private Success Story

By Jon Jeter
Washington Post Staff Writer

INDIANAPOLIS—Henry Birk has been playing golf at a course on this city's west side for more than 40 years and it has never looked better, he says, now that the city has turned management of it over to a private contractor.

"It's a poor man's country club. They've landscaped the place, the greens are better and it's just a lot more fun to play," he said one day last week as he sat perched atop his golf cart.

"It used to be that you could come here and fire off a cannon and you wouldn't hit a soul, but now you can barely get on," Birk said, nodding to the dozen or so golfers alternately swatting and cursing at balls. "They're really running it like a business now."

From the Clinton administration to small-town city managers, all echelons of government are searching for a more efficient way to do the public's business, and elected officials across the nation have begun to remake the public sector in the private sector's image. But no city resembles a corporation as much as this conservative midwestern community of 800,000. Indianapolis has reinvented government by auctioning it off.

The city's boyish-looking Republican mayor, Stephen Goldsmith, requires public employees to compete against privately owned businesses for contracts to deliver all but the most sacred of municipal services. Only police, fire and zoning operations are exempt from the city's bidding wars. Indianapolis has parceled out virtually all other municipal functions—everything from plugging potholes to hauling trash to managing the city's airport—to the highest bidder, or rather, the bidder who can provide the service at the lowest cost to the city.

Even jobs like washing windows at city-owned buildings and counting coins collected from parking meters have been put out for bids.

The ensuing free-market competition has driven the cost of municipal government down by nearly 25 percent, pared the city's work force by one-third and saved taxpayers a bundle—about $240 million since 1992—according to figures provided by Goldsmith's office.

"Indianapolis has really become a national model for a way to cut costs but not services," said Stephen Moore, director of budget and policy at the Cato Institute, a libertarian think tank based in Washington.

One of a new breed of big-city mayors who have defied ideology and partisanship in an effort to reform government, Goldsmith is a pragmatist and self-described policy wonk whose first campaign for mayor in 1991 focused on privatization and rebuilding the poorest neighborhoods in the country's 12th-largest city.

"We knew going in that we were not going to raise taxes," Goldsmith, now in his second term, said in an interview. "That's only going to accelerate the [exodus] of people and businesses out to [the suburbs]. That means we had to come up with a completely different way of doing business. We had to break the government monopoly on city services."

Shortly after his inauguration, Goldsmith's administration invoked the "Yellow Pages" test for determing which municipal operations would be contracted out.

"The rule was that if you could thumb through the phone book and find three or more companies that provide a service that government is producing, then government is probably not the best at providing that service," said John Hatfield, a Goldsmith aide.

But Goldsmith's initial efforts at privatizing city services were bitterly opposed by city employees and their labor union, the American Federation of State, County, and Municipal Employees.

"We really thought we were about to lose our jobs," said David Dewitt, a public works department employee.

Pressed by the resistant union, Goldsmith agreed to let them slug it out for contracts along with everyone else, effectively shifting his emphasis from privatization to free-market competition.

"We basically went to the union and said: 'Are you prepared to walk the walk like you talk the talk?' " said Deputy Mayor Skip Stitt.

The union was convinced that it could compete, but only if Goldsmith leveled what rank-and-file workers believed was an uneven playing field. Union officials told the mayor that they would need consulting help to prepare bids, better equipment and, most important, a leaner work force.

But the fat, they argued, wasn't union workers. It was middle managers who occupied the plum patronage jobs of the city's dominant Republican political machine. "Most of them were precinct committee people or ward chairmen or someone's nephew," said Dewitt, the city truck driver. "We were taking four guys out to do a job when we only needed three."

Goldsmith agreed, laying off half of the 38 supervisors who managed the 90 truck drivers responsible for patching potholes. That enabled city employees to essentially bid on their own jobs—and by winning the contract, to remain on the public payroll. In 1993, they outbid private firms for city contracts to repair potholes and haul trash.

Since then, unionized employees have gone on to win 37 of the 86 contracts put out for bid by the city, including some for jobs that had been doled out to private industry years before Goldsmith was elected mayor.

While some city employees have been transferred to other departments or hired by private contractors who have taken over municipal services, the union has not lost a single job because of the privatization.

"We had for years been saying that if we weren't saddled with the bureaucracy and the heavy layers of management, then we could provide services as efficiently and effectively as any private vendor," said Stephen Fantauzzo, executive director for AFSCME Council 62. "No one knows the work better than the guys who are already doing it."

It is, in fact, the paradox of Indianapolis's ambitious experiment that a conservative mayor in a Republican stronghold has dramatically empowered the labor union, while taking jobs away from the very people who helped put him in office.

THE NEW YORK TIMES
THURSDAY, MARCH 2, 1995

In Privatizing City Services, It's Now 'Indy-a-First-Place'

By DIRK JOHNSON
Special to The New York Times

INDIANAPOLIS, Feb. 25 — Except for one day a year, when cars race at breakneck speed for 500 miles around an oval track, this unpretentious Midwestern city is so unaccustomed to the national limelight that it mockingly calls itself "Indy-a-no-place."

But as Indianapolis pursues the nation's most daring experiment in transforming local government into a business-like enterprise, this city of about 800,000 people is anything but obscure among urban experts and politicians around the country.

Mayor Stephen Goldsmith, a Republican, has cut more than $100 million from the municipal budget since taking office in 1992, largely by forcing city departments to bid for contracts against private businesses on more than 50 services, from filling potholes to cleaning fire engines. In the process, he has reduced the number of city employees by a quarter, won wage concessions and increased productivity.

Moreover, Mr. Goldsmith has won the backing of unions that had vigorously opposed his election. While he has cut hundreds of jobs in middle management, not a single union worker has been laid off.

Big-city mayors from around the country have been calling to learn about the programs. Mayor Richard J. Riordan of Los Angeles flew here to study the Indianapolis strategy. And Mayor Goldsmith has flown to New York three times at the invitation of Mayor Rudolph W. Giuliani to discuss that strategy. Indeed, the volume of visitors is so heavy that Indianapolis has scheduled a day in April when more than 30 urban experts can visit at one time.

"It's amazing what Goldsmith has been able to do," said Jim Mercer, who heads a government consulting group in Atlanta. "Everybody is paying attention to him."

It has become axiomatic in American politics that whatever public workers can do, private business can do better. And governments in recent years have begun to hire outside companies to do work usually done by municipal employees, a trend known as privatization.

When he took office, Mr. Goldsmith initially planned to privatize most city services. And he has done so in some cases, for example, selling off the waste water treatment service. But more often, he has pursued a strategy known among government administrators as competition, which treats the city departments as businesses and gives workers a voice in ways to cut costs. If the department can put in a winning bid against private competitors, the city workers continue to provide that particular service and remain on the city payroll.

"The issue is not public or private," said the 47-year-old Mayor, who is rumored to be considering a run for governor next year. "The problem is monopolies. If you bring in a private contractor with a monopoly, you're not going to be any better off — maybe worse."

The use of private businesses to provide services to city governments dates to the turn of the century. But when many of these private businesses developed monopolies and took unfair advantage, Progressives in the 1920's and 30's began bringing many services under government control.

The more recent trend toward ing private companies to prov city services began largely in 197 Phoenix, which hired outside bu nesses to collect trash. But in t case, city departments have v back jobs in the last few years bettering the bids of outside com nies.

Indianapolis's 1995 budget of $ million will include the smal number of employees in more t 20 years. Since Mr. Goldsmith t office, total employment dropped about 25 percent, to 3, Most of the reductions have b achieved through attrition.

Mary Ann Carter for The New York Ti

"I feel like I have some say-so around here now," said Dwayne Fletcher, a mechanic who helped the City of Indianapolis save money on fire engines. At the city's fleet maintenance garage recently, Mr Fletcher, left, talked to Mayor Stephen Goldsmith who has been a leader in privatizing city services.

hile Indianapolis is pursuing the t ambitious effort to turn city ırtments into businesses, scores ıayors around the country are tuning services in ways that · money.

\t the same time that resources dwindling, city governments are g asked to do more than ever — ıg care of the homeless, for ex- ıle," said Inge Fryklund, who hes a course on innovative gov- nent techniques at Northwest- University. "So you've got may- desperately looking for ways to ·ide services, and they've got to reative."

ayor Goldsmith, who joins a v of city employees on a job once ·eek, has also won over union iers by consulting with workers. Nobody knows better than the ker how the job can be done ·e efficiently," he said. "You

ıd an hour with a guy filling ıoles, and he can give you a dozen d ideas about ways to make the vice more efficient."

ıne leader in the mechanics' on, for example, had complained t the ratio of supervisors to work- in the fleet services department s nearly 1 to 1. The Mayor agreed t such a ratio was absurd, and ered deep cuts in managers, to 4 m 12.

I feel like I have some say-so ound here now," said Dwayne tcher, a 37-year-old mechanic o recently went to the city man- ·ment and complained that an oil er on fire engines was causing ıblems and costing too much mon- in labor. "Before, nobody wanted hear your ideas. They were the ıses. We were the workers. There s a lack of respect."

On services that have gone to bid, public workers have won in a ıjority of cases. In the most recent tance, the city's fleet mainte- nce workers outbid three outside npanies. The three-year contract h the fleet department workers, o earn $12 to $14 an hour, included agreement by the union to give ck a raise that had been scheduled total 10 percent over four years. In urn, the workers will get 20 per- ıt of reductions in the budget in form of profit sharing.

While Mr. Goldsmith has won the ıport of the unions, some of his ıst heated opposition has come m within the Republican Party.

earlier Republican administrations. The mayor's office in Indianapolis has been controlled by Republicans since 1967.

To be sure, the union has not supported Mr. Goldsmith on every move. In some cases, like waste water treatment, they note, he decided not to allow city workers to bid on jobs. The Mayor argued that some services were simply better done by outside companies.

Critics have said Mr. Goldsmith has sometimes been too hasty. After maintenance of city golf courses was awarded to businesses, the Marion County prosecutor charged that the state law on bids was violated. But he brought no charges, and his successor as prosecutor has not taken up the case.

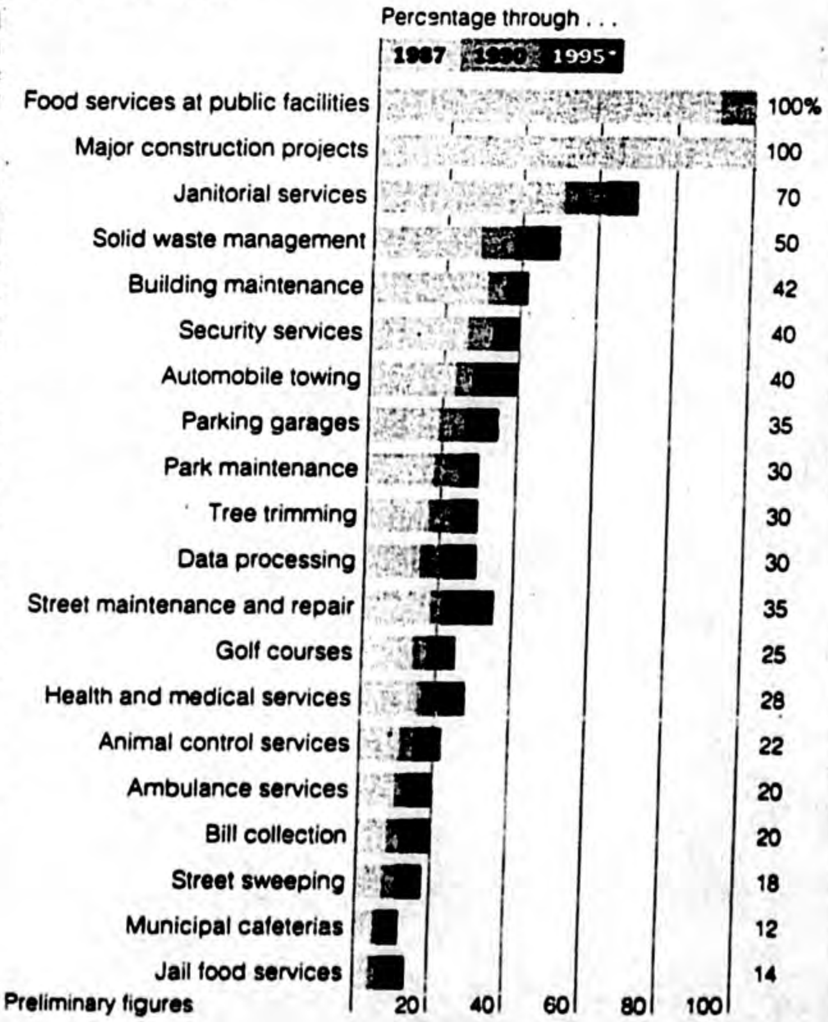
Despite such bobbles, the Mayor argues that privatization offers ample rewards for city residents. He has earmarked $70 million of the savings for development in the seven poorest neighborhoods of Indianapolis. In one especially downtrodden district, the Meadows, where there had not been a new retail store in more than 40 years, the city bought land for a new grocery store. To allay fears about crime, the city established a satellite police station in the neighborhood.

The new grocery opened last week. More than 300 customers were lined up outside, waiting to get in.

KEEPING TRACK

The Move to Privatization

Of 82 cities surveyed, the percentage that contracted each service to private companies. The Mercer Group, a management consulting firm based in Atlanta, conducted the survey in 34 states in 1987, 1990 and in 1995.



*Preliminary figures

Local Government Regulatory Reform:

Indianapolis Case Study

by Adrian T. Moore

Adrian Moore
Director of Economic Studies
RPPI

[adriantm@aol.com]

There is a growing realization in the United States that regulation, for all its apparent benefits, comes with significant costs as well. Long concerned with the rising costs of federal regulations, public officials are now starting to realize that the costs of state and municipal regulation are also quite substantial, and they are beginning to develop state and local regulatory reform programs.

Local governments regulate a myriad of activities and create miles of red tape, especially for small businesses and homeowners. While cities struggle to stop the flight of residents to the suburbs, municipal regulations make improving city homes an expensive uphill battle. And while cities struggle to encourage new jobs, their own regulations often limit opportunity in many entrepreneurial pursuits, like driving a taxi cab. Municipal regulations go on to limit who can be in a business, where they can open their business, who they can hire, how much they can pay, how they can decorate their shop, how they dress, etc. etc. The minutia of some regulations boggles the mind. In many cities, the result is an encyclopedic municipal code. The sheer burden of coping with such a complex set of rules means *less opportunity, fewer jobs, and direct costs to taxpayers of billion of dollars a year.*

The James Chatman Story

TAXI

James Chatman was a cab driver in Indianapolis for more than 25 years, and he had been trying for years to own his own cab business. He argued, "Because I've driven so long in this city, I think I know our streets as well as anyone, and I know that no one knows my customers better than I do."

Chatman was consistently denied a license by the city, in spite of his hard work, good record, and obvious entrepreneurial spirit. Frustrated by the city's refusal, Chatman personified the good guy wronged by a bad system. "[illegible] to make a go of it? The worst thing that can happen is that [illegible] all I am asking of the city-county council is the right to [illegible] my decisions, my service, low prices, and my hard work," [illegible]

Indianapolis reformers [illegible] stories like Chatman's would go a long way towards persuading [illegible] and the public. Chatman spent the week prior to the council vote [illegible] from one television studio to the next touting the proposal as the ordinance that would give him the right to make a living.

Adapted from RPPI policy study no. 239. For more information, contact George Passantino at 310/391-2245 or gpassantino@reason.org

Indianapolis Sees the Light

For the last five years, Indianapolis has been involved in a revolutionary regulatory reform process. Where most regulatory reform efforts have focused on preventing bad regulations from being passed, Indianapolis stands out because its reforms are focusing on existing regulations. By systematically going through the city code and methodically analyzing the merits of its regulations, Indianapolis brought sense to its regulatory structure by eliminating or modifying regulations that make no sense or are more costly than their benefits merit.

Proof that it Works

The first round of reforms in Indianapolis sought to eliminate the most obviously unwarranted regulatory burdens on local businesses and residents. During this first round alone, reform efforts saved businesses, property owners, and other residents over $1,000,000 a year, and have greatly increased their freedom to start new businesses, hire new employees, and make improvements to their homes. The first set of reforms focused on three areas:

Business and Occupational Licenses

The Problem: Cities charge large fees for licenses to sell food, operate vending carts, shine shoes, remove and dump snow, repair VCRs, etc. The minutia of regulatory restrictions raises the cost of starting a business, while licensing fees and arbitrary license requirements restrict the opportunity to succeed.

The problem is compounded when municipal regulations restrict opportunities for individuals to start new small busi-

Indianapolis Business Journal

OCTOBER 3-9, 1994

EDITORIAL

STRONG BUSINESS TODAY FOR A STRONGER CITY TOMORROW

Permitting reform

If you're building a home or adding a room or doing extensive remodeling, you probably expect that you or your contractor are going to have to wade through some red tape collecting building permits at the City-County Building.

But would a simple Saturday fix-up project require you to jump through the same hoops?

Yes it would.

According to city code, homeowners must get a permit when performing such simple projects as replacing a door or window. Mayor Goldsmith thinks this is a waste of time, resources and money. So he has proposed the Indianapolis Homeowner Freedom Act.

This act, which is expected to be considered by the Metropolitan Development Commission this month, would allow homeowners to perform a number of "low-impact" projects—relatively small projects that have no bearing on occupants' health or safety—without City Hall permission. It could eliminate as many as 7,200 permits each year, according to the mayor's office, and result in a $750,000 savings to homeowners.

This is a move that makes sense, and could help the building community as well as homeowners: The act would allow general contractors to get one permit for an entire project, replacing a system that requires every subcontractor on a job to get a separate permit for his or her work. This, again, would save time on jobs, reduce the amount of resources dedicated to red tape, and allow enforcement officials to concentrate on more important matters.

The dangers of such a plan are clear: shoddy work, unscrupulous contractors and permit violations. But Goldsmith contends that the reduction in the permit load would allow for better enforcement. The act sets up a tougher fine system, and allows for city workers to patrol neighborhoods to search out illegal contractors. It also would create a consumer hot line providing consumers with information on contractors and allowing them to report suspicious contractors.

Goldsmith sees this as a way to let homeowners improve their homes without unnecessary burdens, thus bettering the city's neighborhoods.

We agree, and give this act a hearty endorsement, as long as the promises of improved enforcement are delivered. Then, it not only will reduce burdens, but also reinforce the original intent of the permitting process: protecting the public.•

THE INDIANAPOLIS STAR

TUESDAY, JANUARY 17, 1995

EDITORIALS

Untying red tape

Excessive government and red tape go together like overeating and fat, one leads to the other. Untangling government red tape can prove about as hard as losing weight.

That seems to be the case with a measure to reduce city government red tape even though it is favored by Mayor Stephen Goldsmith and was recommended as the result of a substantial study.

The mayor's Regulatory Study Commission analyzed city licensing procedures many months ago and concluded that "city government licenses too many businesses for no reason and charges too much doing it."

Reforming the licensing and fee schedules has moved very, very slowly. Untying red tape is not easy. Measures to do just that have been stalled in the City-County Council's Administration and Finance Committee since last summer.

But a committee hearing has finally been scheduled for today on four measures that comprise the Fair Fees for Small Business initiative. They would eliminate annual licensing fees for some 425 local small businesses, saving them some $85,000 annually.

Councilor Ron Franklin explains more about the development and the need for the Fair Fees initiative in a letter spotlight today on the opposite page.

We agree with Franklin that in many cases there is no need at all to license small businesses since various aspects of their operations, including health and safety standards, are already regulated and would continue to be regulated by other local, state and federal agencies.

The city needs to encourage small business in Indianapolis, not bleed it for more revenue. After all, it is small business that creates most of the city's jobs.

THE INDIANAPOLIS STAR

TUESDAY, AUGUST 2, 1994

EDITORIALS

A good idea

One of the city's better ideas for reducing unnecessary government red tape is now languishing in a City-County Council committee without the benefit of a hearing.

It is a series of four proposals that would eliminate annual license fees for some 426 local small businesses, saving them nearly $85,000 a year. These include hotels and motels, movie and live entertainment theaters, secondhand dealers and pawnbrokers.

There is really no good reason for these businesses to be licensed at all by the city since various public aspects of their operations are already regulated by local, state or federal health, safety and zoning laws. Among the more frivolous laws that would be repealed is the licensing of shuffleboard tables and the regulation of sneezing and itching powder.

What these city fees and license charges really represent is a revenue source for the city, a simple cash cow fed by Indianapolis business people who get nothing in return.

That may be why the City-County Council seems to be dragging its feet on these measures introduced by Councilman Ron Franklin. They are Proposals No. 389, No. 390, No. 391 and No. 392 and they are stalled in the council's Administration and Finance Committee.

These are sound proposals that should be considered now before the City-County Council starts its budget process and its search for new revenues and new spending. Otherwise this important initiative may get buried in the process.

Mayor Stephen Goldsmith has backed the proposals as "an important first step toward eliminating some of the unnecessary red tape and expense" faced by Indianapolis small business people.

The recommendation for the repeal of these licenses and fees was made after the mayor's Regulatory Study Commission analyzed city licensing procedures and concluded what Goldsmith said many business people already knew:

"City government licenses too many businesses for no reason and charges too much doing it."

These proposals before the City-County Council might begin to reverse that process. They deserve a fair hearing.

Indianapolis Business Journal.

JULY 25-31, 1994

EDITORIAL

STRONG BUSINESS TODAY FOR A STRONGER CITY TOMORROW

Small gesture, big implication

Earlier this month, a committee created by Mayor Goldsmith did a most ungovernmental thing: It recommended that some government revenue sources be eliminated. And, in doing so, it solidified the Goldsmith administration's reputation for disassembling accepted folly in the name of progress.

After a couple of years of looking into ways to relieve the regulatory burden on businesses, the city's Regulatory Study Commission proposed the abolition of four kinds of business licenses: those for secondhand shops, hotels and motels, movie theaters, and live theaters such as the Indiana Repertory Theatre.

The overall impact is small. In all, 426 businesses will be affected, and the city will be out about $85,000 in licensing fees—a relative drop in the city's bucket and an average of less than $200 per year per affected business.

But the Goldsmith folks looked at these fees and decided they were unnecessary. They did not support any public safety, and the licenses they bought did not guarantee any public good. The money was not earmarked for anything special—it simply was dumped into the city's general fund.

So, regardless of whether the impact is great or small, the RSC decided, the licenses should go.

Granted, sometimes regulations are eliminated or reduced and chaos ensues. That seems unlikely in this case. The affected businesses still must comply with all basic health, fire, zoning and building ordinances and regulations. They must still pay the same taxes. But they will not have to submit to outdated and ridiculous regulations.

And they won't have to file an unnecessary bunch of papers with City Hall. And they won't have to pay attorney's fees to have those papers filed.

All of which means they can concentrate more of their resources on doing business.

Certainly, 426 businesses and $85,000 are not overwhelming numbers. But they do represent progress.

Indianapolis is trying to position itself as a city that is business-friendly, especially small-business-friendly. And this sort of move sends a message loud and clear: We're not just talking about helping business; we're actually doing something. We're not just talking about reducing government regulation; we're doing it.•

THE INDIANAPOLIS NEWS

Tuesday, July 12, 1994

Editorials

No more license fees

Government eliminating taxes? Government working to ease rules and regulations for small businesses?

It's enough to give government a good name.

Mayor Stephen Goldsmith hopes so.

Ordinances 389, 390, 391 and 392, endorsed by Goldsmith's Regulatory Study Commission and introduced to the City-County Council as a package Monday night by Councilor Ron Franklin, aim to save local business some $85,000 a year by eliminating their need to secure licenses from city government.

Under the proposed ordinances, local hotels/motels, secondhand goods dealers, motion picture theaters, live entertainment theaters such as Beef and Boards and shuffleboard tables/shooting galleries — a total of 426 small Indianapolis businesses — no longer would have to obtain permits from the city, nor pay special fees to it.

All enterprises still would have to pass existing fire, zoning and building inspections, and their owners must be current on taxes owed to the city and county.

So why would the city repeal licensing fees that area businesses have been paying for years?

Goldsmith and the RSC have pledged to seek the removal or reform of any municipal regulation that fails a simple test: It must provide at least as much community benefit as the costs it imposes.

Because the described licensing revenue covers no benefits to the public at large — it subsidizes no health or welfare inspections at the taxed operations, but simply goes to city coffers — Mayor Goldsmith supports halting its collection.

Bravo to this kind of thinking. These proposed ordinances exemplify a good litmus test for keeping government running lean and mean.

Collecting revenue for revenue's sake is one of the main reasons government on every level has gotten so bureaucratic and bloated in the first place.