



## **The Bid-to-Goal Program**

### **San Diego Metropolitan Wastewater Department**

#### **Introduction**

Bid-to-Goal is a program originally developed by the City of San Diego's Metropolitan Wastewater Department (MWWD), in conjunction with consulting firm Henningson, Durham and Richardson (HDR), in 1997 as an "optimization strategy" to more cost-effectively implement large public works initiatives. By means of a binding pact between the city and public sector employees, the MWWD had hoped to create a hybrid dynamic that incorporates the most desirable features of both public and private sector contracting.

This effort brought the city into an ongoing debate over the respective strengths and proper roles of the public and private sectors. The clamor on one side resonates with the usual complaints about government-run public works projects: Bureaucrats monopolize the reins, costs explode well above market value, and work drags on unaccountably. The other side may reply that both safety and ethics take a back seat to profit when the private sector takes charge. From airline deregulation to the breakup of the Bell System to attempts to privatize Amtrak, the debate over how best to deliver essential services has gone on for decades.

In the midst of this polarizing discussion, San Diego seems to have found room for a compromise.

#### **The Problem**

The origins of the Bid-to-Goal program date back to 1997, when the San Diego City council singled out the MWWD Operations and Management (O&M) Division to undergo a two-year competitive assessment under the Competition Program.

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## *The Bid-to-Goal Program*

A commission led by a third party consulting firm established a “competitive level” goal of reducing cumulative budgets by 18% (\$77 million) over six years for select O&M operated facilities.

Following its own mandate to improve and streamline city services, the City Council initiated and approved a pilot program that would take steps to execute a “Public Contract Operations” agreement between the City and the employees of the O&M Division to meet this budget target, while continuing to uphold existing service levels. The intent of this agreement would be to develop business goals and objectives for the division based on standards of performance and related incentives that would incorporate best practices from both the public and private sectors. Ideally, the new system would create timely, tangible benefits for the ratepayers, while optimizing productivity and safety in the workplace.

The City continued its partnership with a third party industry consultant this time to conduct a comprehensive benchmarking study to determine the baseline levels of core service delivery and subsequent budgets that would be on par with private sector capabilities/standards. Details of this study were formalized in (1) a Memorandum of Understanding (MOU) signed by all key stakeholders and (2) an Employee Bid, which committed to the benchmarked Goal and provided details for reporting and accountability.

The resultant contracts bore much resemblance to a typical City-private sector firm agreement. Detailed guidelines were incorporated regarding time-sensitive budgets, accountability through scheduled performance reports, the acceptable scope and levels of service, and mechanisms that would both determine performance-based incentives

## **The Solution**

Within the parameters of the program, public workers continue to hold preferred status in the dispensation of contracts, but are now held accountable to a precise “validated competitive standard,” where performance is expected to be at least on par with that of comparable private sector service providers.

For each respective project, the MWWDD brings in a third party expert to determine baseline levels of core service delivery and attendant budgets competitive with private sector capabilities. Both city and labor officials convene to approve the budget figure that comes out of this market-oriented “mock bidding” process, and continue to work together throughout the endeavor to enact and enforce stringent accountability standards and set performance-based incentives.

Although the budgetary and quality control aspects of Bid-to-Goal are redolent of private-sector projects, the program also incorporates features that only government can provide. The public retains complete control of infrastructure that was funded by public dollars, access to advantageous public sector financing is maintained, and the city retains any potential surplus. Most importantly, health and safety criteria that may be compromised in for-profit contracting will be heavily regulated through public standards.

The original six-year (FY 1998 – FY 2003) pilot program has achieved remarkable fiscal success—and a six-year extension—as well as many other long-term benefits related to accountability, employee empowerment, and labor relations. The citizens of San Diego have saved an estimated \$116 million, and sewer spills are down a remarkable 64 percent. The city credits the success of the program to its resolution of three major organizational problems: 1) It vastly improved labor-management relations by giving laborers both incentives and control over the manner in which productivity gains are distributed; 2) it eliminated ex post facto budget amendments common to private sector bidding, as private firms tend to readjust budget estimates after a project has commenced; and 3) it vastly reduced “non-competitive” government spending by holding public employees to a private-sector style budget.

Framed as a complement to the overall City labor contract, the Public Contract Operations (Bid-to-Goal) Agreement stipulates a tangible belief in and support of employee capabilities, provides employees with the tools to succeed, and empowers them with a share of key decision making.

This fiscal solvency is due in no small part to the decidedly fixed budget that only a program like Bid-to-Goal can guarantee. Most existing signed service agreements contain examples of post-bidding modification and amendments that erode the originally projected savings. The Bid-to-Goal approach addresses this cost growth problem by harnessing the benefits of competitive pressures without enduring an onerous bidding process, where “underbidding” is a constant problem.

The second important measurement of program success is the operating performance of the regional wastewater treatment plants. From FY 2001 to FY 2004, annual sewer spills have been reduced by 64%. Since San Diego is a popular tourist destination in the United States, recognized for its beautiful beaches, it is a top priority for the City to keep beaches and bays clean and open for year-round enjoyment of citizens and tourists.

The third key measure of program success concerns the assurance of adequate attention and resource application toward maintaining the extensive wastewater treatment infrastructure entrusted to this LMP. This service level is addressed by a number of indicators, the most representative of which is the percent of periodic maintenance actions completed within one week of the due date (with a standard of not less than 85%). The actual figures were 89.9% for fiscal year 2002 and 89.5% for fiscal year 2001.

The original six-year pilot program was a success. The program was implemented in a second large operating division of the Metropolitan Wastewater Department in FY 2002, and in FY 2004, the original six-year agreement was extended an additional four years.

## Relevance to Massachusetts

Bid-to-Goal could present an ideal compromise in the broad Massachusetts debate over “reinventing government,” where there currently exists a controversial and polarized impasse between privatization proponents and “public sector protectionists,” especially in terms of public works contracting.

While the privatization of some portion of government services has been regarded as logical and commonplace in most of the country since the early 1990s, this process is still considered radical by a powerful portion of the leadership in Massachusetts. The Pacheco Law, enacted in 1993, places substantial limitations on Massachusetts public agencies from contracting out public services to private firms by placing a series of complex requirements on non-government sector bids. Particular constraints give public applicants overwhelming advantages in the bidding process, deterring competition within the Commonwealth.

Stipulations include higher quality standards for private bidders than public entrants, artificially inflated wage floors for all employees on any job, an inability to adjust the size of the staff on a project, and “selective accounting” that favors public bids. For example, lost tax revenues for work done in other states are added to the bottom line of private bids, but additional tax revenues for business conducted in Massachusetts is not accounted for. Most significantly, however, is that the cost and quality of the private service from private contractors is not compared to actual, existing public levels but a hypothetical situation of “public employees working in the most cost effective manner.”

Despite this, public employees are not held accountable for meeting such standards. In the end, the State Auditor, who wields absolute veto power over any privatization plan with no appeals process, will award the contract based on strict comparison of hypothetical costs, while ignoring quality of service, revenue flow, incentives for innovation, and workforce flexibility. Under these terms, the contract inevitably goes to a public bidder who is held to no further accountability.

## Conclusion

While outright privatization may never become the standard in Massachusetts, Bid-to-Goal offers many appealing grounds for compromise.

The mock-bid process takes the budget out of the hands of politicians and puts it into the hands of sector experts. The “public contract” format mandates that safety and performance, as well as low costs, will dictate the joint goals of the municipality and its employees. The contract also enforces accountability standards for employees on the job, with resources to penalize inadequate work, as well as funds to create performance-based salary incentives.



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