Municipal Contract Management

Michael Armstrong & Dennis Bagley

ICMA Conference Presenter

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Michael Armstrong – CIO, City of Corpus Christi, TX
Dennis Bagley – Partner, Plante Moran

• Experience constructing/managing municipal contracts
• Share experience regarding municipal contracts and answer your questions
• Best practices in constructing and managing municipal contracts
About Corpus Christi

• Located on Gulf of Mexico
• 490 sq. mi. (147 sq. mi. of land)
• Population: 303,000
• Major industries: Tourism, petroleum refining, military, fishing, cotton, medical
• 7th busiest port in US
• Texas A&M-Corpus Christi, Del Mar
• City employees: 3,000
• Technology leader
Performance

- Roles and Responsibilities
- Jurisdiction
- Arbitration
- Service Levels
- Modifications
- Reporting
- Transitions
Time

- Effective Date
- Performance Milestones
- Payment Milestones
- Duration
- Termination
- Renewal
Money

- Consideration
- Indemnification
- Payment Schedules
- Performance Penalties
- Buyouts
- Termination Costs
Municipal Contracting

• Providing government services by contract

• Primary reasons to pursue (*incentive*):
  – Reduce costs
  – Improve service levels

• Other reasons
  – Free up resources to focus on core competencies
Municipal Contracting

• Privatization -> Managed Competition
• Seeking accountability
• Greater competition leads to lower costs
• More providers in larger cities -> greater competition
## 2 Different Views - Example

<table>
<thead>
<tr>
<th>Philosophy</th>
<th>View 1</th>
<th>View 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology as a strategic enabler</td>
<td>Invest in IT to enable service enhancements / cost reductions in other areas</td>
<td>Reduce costs while maintaining service levels</td>
</tr>
<tr>
<td><strong>Trend</strong></td>
<td>![Up Arrow]</td>
<td>![Down Arrow]</td>
</tr>
<tr>
<td>Contracting</td>
<td>Outsource non-strategic elements of IT (i.e. commoditized services)</td>
<td>Outsource all of IT</td>
</tr>
</tbody>
</table>
Industry Trends - IT

Shared Services Trend

93% of respondents indicated they were interested in, planned to or had already implemented some type of shared services program.

67% use their central IT organization as their shared services provider.

50% indicated cost savings as the primary reason for adopting shared services in their organization.

19% named services as the area most in need of a new delivery model within their organization, followed closely by disaster recovery and backup (17%)

Source: Center for Digital Government (2013)
Contracting Competency/Capacity

• Competency must be developed/acquired; many local governments have limited capacity
• Internal costs for contract management can represent 10% (or more) of the total contract cost
Methodology
Competencies in each of these areas can be developed in-house, contracted for or a combination of both
Feasibility/Development

• Most often, more effort goes into feasibility and development
• More effort should go into developing contract management competency and capacity to:
  – Ensure a smooth transition
  – Ensure service levels are met
  – Control costs
Feasibility/Development

Services
- Increases manpower to improve service levels
- Improves employee performance and morale
- Enhances career opportunities for staff
- More efficient use of personnel
- Improves quantity and quality of service
- Reduces duplication of services
- Broadens resource accessibility / utilization

Finances
- Spreads financing responsibility and risk
- Achieves volume purchasing discounts
- Achieves economies of size, scale, and scope

Community Relations
- Meets citizen expectations for service
- Improves equity of access to service
- Expands sense of community

Source information taken from the MGFOA’s white paper entitled “The Business Case for Interlocal Cooperation”
Feasibility/Development - Readiness

- **Risk of Outsourcing the Wrong Services**
  - Strong Candidate for Considering Outsourcing
  - Weak Candidate for Considering Outsourcing

- **No Metrics**
  - Risk of Overpaying for Outsourcing

- **Detailed Metrics; Communicated Regularly**

**Cost of Service Definition**

- Nebulous; Lacking Specificity
- Clear and Well Communicated

**Performance Metrics**

- Detailed Metrics; Communicated Regularly
Feasibility/Development - Options

- Multiple Providers/Open Market
  - Selective Sourcing
  - Prime Contractor
- Number of Providers
  - Brand Service Company
  - Best-of-Breed Consortium
- Single Provider/Captive Market
  - Joint Ventures
  - Build Operate Transfer
  - Full Outsourcing
  - Internal Delivery
  - Build
  - Build vs. Buy
  - Outsourcing
  - Shared Services

Source: Gartner.
Implementation/Transition

- Avoid over-paying
- Avoid incomplete services
- Avoid ambiguity relative to service levels
- Avoid compliance issues
- Include transition period
- Include termination clause
Implementation/Transition - Example Methods

• Master Services Agreement (MSA)
  – Complex
  – Fully funded by the municipality (or shared)

• Inter-local Agreement
  – Easy to establish
  – Funding is tied to individual municipality budgets

• Authority
  – More difficult to establish
  – Funding can be tied to a dedicated revenue source, such as a millage, creating a stable and equitable funding source
Implementation/Transition - Sharing the Costs and Savings

- Cost Allocation
  - Division of total costs between all parties

- Savings Allocation
  - Division of total savings between all parties

- Example
  - Unit A current cost = $5 M, Unit B current cost = $3M
  - Proposed solution cost = $7M
  - Total net savings = $1M

- The division of costs or savings determines how much each unit must pay for service
Contract Management
Contract Management Essentials

1. Governance
2. Senior Level Support
3. Effective Communication
4. Strong Change Management
5. Phased Approach to Implementation
6. Stay on Course
7. Measure Performance
1. Governance

- Identify and clarify budgetary requirements upfront
- Clearly define scope along with quality and time expectations
- Build a strong business case for the contract based on measurable returns
- Defined governance structure and clearly defined roles and responsibilities for the team
- Clearly define and closely managed decision making process with appropriate decision making authority
2. Senior Level Support

- Obvious but “absolutely critical” to a successful partnership
- People within the organization who have credibility and are willing to champion the contract and sell the concept to constituencies
- Build a rapport and trust among leaders
- Ensures appropriate human and financial resources for the project
- Must be sustained
3. Effective Communication

- Element that most addresses the human element of the contract
- Comprehensive communication plan developed during development phase
- Open communication during planning, implementation and contract management that clearly conveys how the various constituencies will be affected
4. Strong Change Management

• Four stages:
  1. Assess the organization’s willingness and ability to change
  2. Build a strategy to make the change
  3. Implement the change and track progress
  4. Evaluate experiences and address lessons learned from the change

• Multiple organizations surveyed said their organization should have begun change management efforts earlier

• Change is difficult – expect dissension from employees or other constituents
5. Approach to Implementation

- Most governments surveyed recommend a phased implementation over a parallel approach or direct cutover of services
- Consider pilot projects; small successes to develop a ‘track record’ before additional services are rolled out
- Institute contract management competency and build capacity
6. Stay on Course

• Need for a dedicated contract management role
• Flexibility is needed, but it is important to stay on the selected course
• Track “Issues & Action Items”; set realistic dates and assign responsibility to named individuals
• Defined and consistently followed processes for:
  – Payment
  – Service delivery
  – Service level monitoring
  – Escalation
  – Etc.
7. Measure Performance

- Measure performance as much as possible; continually identify measurable returns for the contract
- Choose metrics that are aligned with constituent expectations
- Develop processes and systems to measure and report on performance
- Escalation process for measures that do not meet goals on a consistent basis
- Remedies for insufficient performance
<table>
<thead>
<tr>
<th>Measurement</th>
<th>Benchmark</th>
<th>Goal</th>
<th>Floor</th>
<th>Measurement Period</th>
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<tbody>
<tr>
<td><strong>People</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff Retention Rate</td>
<td>90%</td>
<td>80%</td>
<td></td>
<td>Quarterly</td>
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<tr>
<td>Staff Education Plans Compliance</td>
<td>75%</td>
<td>60%</td>
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<td><strong>Quality</strong></td>
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<tr>
<td>Failed Change Management Requests</td>
<td>5%</td>
<td>10%</td>
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<td>Monthly</td>
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<tr>
<td>System Availability (Up Time)</td>
<td>99.9%</td>
<td>99.0%</td>
<td></td>
<td>Monthly</td>
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<tr>
<td>Network Availability (Up Time)</td>
<td>99.9%</td>
<td>99.0%</td>
<td></td>
<td>Monthly</td>
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<tr>
<td>Telecommunications Availability (Up Time)</td>
<td>99.9%</td>
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<tr>
<td>Annual the City Satisfaction Score</td>
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<td>4.5</td>
<td>4.00</td>
<td>Annual</td>
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<tr>
<td>Weekly the City Satisfaction Scores</td>
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<td>4.5</td>
<td>4.00</td>
<td>Monthly</td>
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<tr>
<td>Tickets Resolved First Contact</td>
<td>25%</td>
<td>20%</td>
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<td>Monthly</td>
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<tr>
<td>Incident Response Time - Urgent Severity</td>
<td>15 minutes</td>
<td>30 minutes</td>
<td></td>
<td>Monthly</td>
</tr>
<tr>
<td>Incident Response Time - High Severity</td>
<td>15 minutes</td>
<td>30 minutes</td>
<td></td>
<td>Monthly</td>
</tr>
<tr>
<td>Incident Response Time - Medium Severity</td>
<td>30 minutes</td>
<td>2 hrs</td>
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<td>Monthly</td>
</tr>
<tr>
<td>Incident Response Time - Low Severity</td>
<td>2 hrs</td>
<td>4 hrs</td>
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<td>Monthly</td>
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<tr>
<td>Request Response Time</td>
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<tr>
<td>Time to Resolve Urgent Severity</td>
<td>4 hrs</td>
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<td>Monthly</td>
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<tr>
<td>Time to Resolve High Severity</td>
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<tr>
<td>Time to Resolve Medium Severity</td>
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<td>5 days</td>
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<tr>
<td>Time to Resolve Low Severity</td>
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<td>10 days</td>
<td></td>
<td>Monthly</td>
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<td>Access &amp; Projects</td>
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<tr>
<td>Projects within Budget</td>
<td>90%</td>
<td>80%</td>
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<td>Monthly</td>
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<td>Projects Timely Completion</td>
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<tr>
<td>Project Survey Results</td>
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<td>Finance</td>
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<tr>
<td>Operational Budget Variance</td>
<td>5%</td>
<td>15%</td>
<td></td>
<td>Quarterly</td>
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</tbody>
</table>
MMSA

Profile
- State of Michigan – Michigan Municipal Services Authority
- Population:

Shared Services
- Initial projects include: ERP Solutions

Results
- Interlocal Agreement between Grand Rapids and Livonia; others may be added
- The MMSA may provide services and functions to participants under express written consents and agreements.
- Participants are not financially obligated or required to provide services through the MMSA or transfer functions to the MMSA.
- ERP RFP Release September 2013
Local Govt. Info. Systems (LOGIS)

Profile
• 45 member cities; LOGIS has 54 staff
• Joint Powers Act; separate government org run by its members
• No service level agreements!

Shared Services
• A variety of information systems including payroll, public safety, etc.
• Started with a shared services study, followed through with:
  – Governance
  – Automatic Mutual Aid Agreement
• A great deal of cooperation

Results
• Saved “millions of dollars” over the years for its members
• Each organization has a vote
• Vested organizations have board representation
• Cost model to determine charges (e.g., # of utility accounts, etc.)

Source: Government Technology (January 2012)
Genesee Intermediate School Dist.

APPENDIX A – SERVICES
GENESEE INTERMEDIATE SCHOOL DISTRICT
Technical Services
Management and Oversight of Technical Services for
Michigan School for the Deaf (MSD)
2012 – 2013 SCHOOL FISCAL YEAR

Required Services. GISD will provide the following Shared Technical Support Services (STS)
1. Remote Network Administration and Support
2. Local Network Administration and Support
3. Local File Server Administration and Support
4. Local File Server Backup Services Administration and Support
5. Remote Desktop Support (1st Level)
6. Local Desktop Support (2nd Level) 20 hours per week on-site PC technician
7. Local System Administration
8. Remote System Monitoring
9. Management of District Technology Helpdesk
10. Management of GISD Shared Technical Support Staff

The listed services (1 through 10 above) are based on normal operational daily support needs and activities and are covered by the $80,439.56 per year fee. Optional Services as shown below are available at additional cost and not covered in the $80,439.56 per year base pricing.
Questions/Comments?

MichaelAr@cctexas.com
Dennis.Bagley@plantemoran.com