

IQ REPORT

VOLUME 33/ NUMBER 6 JUNE 2001

PERFORMANCE-BASED CONTRACTING

City and county officials, like public officials at all levels, are focusing increasingly on outcomes. Performance-based contracting replaces an emphasis on inputs with an emphasis on outcomes. It clearly specifies the result that the contractor must achieve, but it provides the contractor with considerable latitude in determining how best to produce the required objective. This latitude is accompanied by greater accountability for results because contractors do not get paid merely for doing things. Providers must achieve certain results as a condition for receiving payment, and the local government must be able to verify that the contractors have achieved those results.

This report provides background information on performance-based contracting and describes how even the smallest local government can use performance-based contracting to improve the quality of services it purchases. Topics addressed in this report include

- History of performance-based contracting in government
- Elements of performance-based contracting
- Reasons to contract on a performance basis
- Preparing your local government
- Steps for contracting a service
- Common obstacles and how to overcome them
- Building performance-based contracting into the work plan and budget.



VOLUME 33 / NUMBER 6
JUNE 2001
ITEM NUMBER E-43026

ICMA's IQ Reports (ISSN: 0047-5262) are published monthly by ICMA, 777 N. Capitol St., NE, Suite 500, Washington, DC 20002-4201. © 2001 by the International City/County Management Association. No part of this report may be reproduced without permission of the copyright owner.

This electronic E-Document has the same copyright as the printed version of this IQ Report. Your purchase is for your use only; electronic or printed versions of ICMA resources may not be duplicated in print or shared with others electronically without express written permission from ICMA. For permission to reproduce ICMA material, visit the Copyright Clearance Center Web site at <http://www.copyright.com> or call (978) 750-8400, or contact ICMA by e-mailing jcotnoir@icma.org, faxing your request to 1-(954) 212-6470, or calling Jane Cotnoir at (607) 723-5591.

These reports are intended primarily to provide timely information on subjects of practical interest to local government administrators, department heads, budget and research analysts, administrative assistants, and others responsible for and concerned with operational aspects of local government.

IQ Reports are published as part of ICMA's InQuiry Service subscription package. The package also includes unlimited access (via the Internet or staff-assisted searches) to ICMA's IQ documents—a database of thousands of local government reports, budgets, ordinances, program descriptions, purchasing manuals, job descriptions, and other materials—a bi-monthly subscriber newsletter, information packets, and a number of other valuable ICMA publications. Requests for general information concerning ICMA's InQuiry Service subscription package should be addressed to David George at 202/962-3531, or dgeorge@icma.org.

Publishing and Information Resources

Barbara H. Moore, *Director*
Christine Ulrich, *Editorial Director*
Mary Marik, *Editor*
David George, *Assistant Director*
of Clearinghouse Services
Steven Taylor, *IQ Service Manager*
Dawn Leland, *Production Director*
Joe Wallace, *Layout*

Author Contact Information

Stephen B. Gordon, Ph.D., CPPO
Director of Purchasing
Metro Government of Nashville-Davidson County
222 3rd Avenue N
Suite 601
Nashville, TN 37201
Phone: 615/862-6180
E-mail: StephenBGordon@aol.com

Recent Reports

05/01	Financing Land Conservation
04/01	Sustainable Energy: Power Solutions for Local Governments
03/01	Recruiting Key Management Personnel
02/01	Transforming Information Services: New Roles, New Strategies
01/01	The Retreat as Management Tool
12/00	GASB 34: What It Means for You
11/00	Continuous Learning: A Leadership Challenge
10/00	Waterfront Redevelopment
09/00	Design Review
08/00	Police Accountability: Establishing an Early Warning System
07/00	Managing Conflict in Combination Fire Departments
06/00	Sexual Harassment: Successful Policy Implementation

Performance-Based Contracting

Stephen B. Gordon, Ph.D., CPPO, author of this month's report, is purchasing agent for the metropolitan government of Nashville and Davidson County. He is first vice president of the National Institute of Governmental Purchasing (NIGP) and will serve as that professional association's president in 2002.

HISTORY OF PERFORMANCE-BASED CONTRACTING IN GOVERNMENT

Federal Initiatives

Much of the initial government activity in performance-based contracting was at the national level. Although there is evidence that the U.S. Corps of Engineers used outcome-based procurement as early as the 1870s,¹ there were no detailed guidelines for the use of this technique until the Office of Federal Procurement Policy (OFPP) published a set of instructions and recommendations in 1980.² Many federal agencies have used the OFPP guidelines to draft scopes of work for performance contracts.³

Eleven years after the publication of the OFPP guidelines, the administration of George H. W. Bush issued Policy Letter 91-2, which advised the heads of federal agencies and departments that they had to use "performance requirements and quality standards in defining contract requirements, source selection, and quality assurance" when contracting for services. The letter stated, "This approach provides the means to ensure that the appropriate performance quality level is achieved, and that payment is made only for services which meet contract standards."⁴

The emphasis at the national level on performance-based contracting of services continued through the 1990s, and it remains today as federal government policy. In October 1994, 28 federal agencies—ranging from major cabinet departments to small independent agencies such as the Railroad Retirement Board—pledged to improve the value the public receives "through improved definition of desired results in service contracts."⁵ These agencies committed themselves to convert contracts worth an estimated \$585 million to a performance-based format. They were joined in their pledge by four industry associations represent-

ing more than a thousand companies. The associations and their members agreed to work with the federal agencies to minimize protests and disputes, identify candidate services for contracting on a fixed-price basis, work with the government to eliminate obstacles, and identify commercial industry practices the government might be able to adapt. At the end of the evaluation period, the agencies reported "an average of 15 percent reduction in contract price in nominal dollars, and an 18 percent improvement in satisfaction with the contractors' work."⁶

Although performance-based contracting has not been used as extensively as federal procurement policy makers would like, there are several impressive examples of how national government agencies have used this technique effectively:

- Immediate savings of \$25 million on aircraft maintenance by the U.S. Navy
- Enough savings by the National Aeronautic and Space Administration (NASA) on janitorial services contracts to reinstate several tasks previously cut because of insufficient funds
- Enough money saved by EPA from its first performance-based Superfund task order to fully fund the next task order.⁷

Some of the services procured by federal agencies—especially the engineering and other unique services related to the development of defense and space technology—have no direct counterparts in state and local government. However, many services that are purchased at the national level—including such obvious ones as janitorial services, landscaping services, and refuse collection services—are similar or virtually identical to those purchased by state and local entities. The specifics of scope and dollar value may differ, but the services are essentially the same.

2 Performance-Based Contracting

Examples of Services Purchased by the U.S. Navy on a Performance Basis, 1987–2001

Performance Work Statement Title

Bus services
Central heating plant and distribution systems operation, repair and maintenance
Custodial services
Electric power generation, heating plant, and steam distribution systems operation, maintenance, and repair
Grounds maintenance services
Guard services
Hazardous waste management services (rough draft)
Hospital housekeeping services
HVAC: refrigeration; and compressed air systems operation, maintenance and repair
Maintenance of buildings and structures (other than family housing)
Maintenance of fire protection systems
Maintenance of military family housing
Multifunction public works services
Operation and maintenance of electrical distribution and emergency generation systems
Operation of telephone/communication system
Pest control services
Rail facilities maintenance and repair
Solid waste collection and disposal
Surface areas maintenance services
Transportation operations and maintenance systems (rough draft)
Vertical transportation equipment maintenance
Wastewater collection systems and treatment facilities, operation, and maintenance
Water plants and systems operation and maintenance

Source: Naval Facilities Engineering Command, Southern Division, "Guide Performance Work Statement Program," www.efdsouth.navfac.navy.mil/gpws/. These documents can be downloaded in Word for Windows 2000 or in Adobe PDF format from this site.

State and Local Government Initiatives

Energy management in buildings. Energy management in buildings was perhaps the first service to be contracted on a performance basis with any significant frequency at the state and local levels. As far back as the 1980s, cities, counties, school districts, and state agencies and institutions began to turn to performance-based contracting as a means for reducing their electric and gas bills and financing energy infrastructure improvements. The city of St. Paul, Minnesota, for example, used performance-based contracting in 1983 to fund a computerized energy management system at its fire and police garage that paid for itself in 14 months. A year later, for comprehensive energy management

services at its main library, Clearwater, Florida, initiated a fixed-fee arrangement through which a contractor committed to reduce costs by 12 percent. That same year, Brentwood, Missouri, received vendor offers on comprehensive energy services at its recreation complex/indoor ice arena.⁸

Performance-based contracting has become a popular approach for government entities and institutions to lower their building energy and operational costs without having to make up-front payments for equipment and other expenses.⁹ The city of Redlands, California, for example, executed a performance-based energy contract with a third-party service provider for a service package that included the financing, installation, and maintenance of capital improvements that would reduce energy consumption and costs. The contractor projected that the improvements would "save the city at least \$462,683 in energy and \$143,455 in labor and equipment costs for the first year of operation." The contractor guaranteed the city that its savings would at least meet the sum of the lease payments and maintenance payments. If savings exceeded payments, the city would keep the extra money.¹⁰ According to the Redlands public works director, the city's energy use was cut in half at the two-year mark of the contract.

A number of entities at the state and local levels in Tennessee have benefited from performance-based contracting for energy management services in buildings. (See the appendix on page 13 for a description of performance-based contracting initiatives undertaken in Metropolitan Nashville and Davidson County, Tennessee.) Through a 10-year contract that began in 1997, Shelby County received a contractor commitment to achieve \$2,100,000 in energy savings based on improvement costs of \$1,400,000. Four years earlier, the University of Tennessee at Martin had entered into a five-year contract in which the service provider guaranteed \$446,000 in energy savings. The actual savings fell short of the guaranteed amount, and the vendor had to write the university a check to cover the difference.

Results for Tennessee school districts under contracts that are still in effect include

- Energy savings of \$108,511 in one six-month period against committed savings of \$100,620 for the Bradley County school district, which had 9,000 students on 16 campuses in 1998
- Energy savings 120 percent ahead of plan at the one-and-a-half-year mark for the Dickson County school district, which in 1998 had 7,800 students in 11 schools
- Guaranteed savings of \$3,350,000 over a 10-year period for the Hamblen County school district, which in 1998 had 8,600 students in 19 schools
- Guaranteed energy savings of \$88,775 per year for the very small Rhea County school district, which had only 4,000 students in five schools in 1998.¹¹

Design-build. Also during the 1980s, local governments began to experiment with design-build contracting, an application of performance-based contracting to construction procurement. Around the middle of that decade, Kingsport, a city with a population of less than 50,000 and one of the Tri-Cities in northeastern Tennessee, contracted for two construction projects on a design-build basis. One project was for a storage area for equipment, and it had a price tag of around \$20,000. A second was a \$15,000 bird retreat. Both projects were successes. They yielded more creative designs, and the contractors in each case completed them more quickly and more economically than a contractor in a traditional design-bid-build approach would have done.¹²

California has used performance-based contracting to collect millions of uncollected business tax dollars.

Highway maintenance. The commonwealth of Virginia expanded the use of performance-based contracting to include privatized highway maintenance during the late 1990s. In its initial outcome-based contract for such services, the state gave a contractor responsibility for “every single thing that happens’ on the highways under [the contractor’s] jurisdiction, from pavement and bridge repair to drainage, signage, and incident response.” The contract was for a five-year term, and the contractor claimed it would result in \$22 million in savings to the state. One hundred lineal miles of interstate highway were assigned to the contractor initially. One hundred and fifty miles were added soon thereafter.¹³

Tax collection. California has used performance-based contracting to “collect millions of uncollected business tax dollars” that its Franchise Tax Board had been unable to collect. With a five-year contract that began on March 1, 1995, the state had collected nearly \$19 million by the end of 1997. As of early 1998, more than \$32 million in lost tax revenue had been recouped.¹⁴

Human services. At the state level, in the area of foster care, the state of Illinois has used performance-based contracting to increase adoptions, increase the number of subsidized guardianships, and secure an overall increase in performance levels for its department of children and family services. A press release described the success of this initiative:

During the 1999 fiscal year, more children were moved to adoption than in the entire period from 1987 through 1994. In the first 12 months of the program, 1997–1998, the number of adoptions nearly doubled from 2,229 to 4,923. The number of adoptions nearly doubled again in the next 12 months, with the majority of the increase coming from performance contracts.

The Illinois performance-based contracting program received a \$100,000 grant and national recognition as a recipient of an Innovations in American Government Award.¹⁵

Local governments also are using performance-based contracting to improve outcomes in human services contracting. For example, according to Mayor Rudolph Giuliani, New York City is “completely rethinking the way the City contracts with those providers who attempt to find jobs for people on welfare.” Mayor Giuliani has stated that New York City will pay such contractors in full only if they “successfully find people jobs and place people in those jobs.” Further, he has said that the contractors will make more money if the jobs in which people are placed offer medical and other benefits. In addition, according to Mayor Giuliani, the better the job is, the more money the contractor will make. The goal is to “move people from welfare to work; from dependency to self-sufficiency.”¹⁶

New York City is not alone in using outcome-based contracts to put unemployed persons on their feet. Local government officials and private industry councils throughout the United States, using grant funding provided by the U.S. Department of Labor, are requiring contractors to produce measurable impacts that support hard-to-employ welfare recipients and noncustodial parents in their efforts to keep and find jobs. In addition to job placement, services provided under these contracts include child care, transportation, mentoring, and housing. The goal is “permanent unsubsidized employment and economic self-sufficiency.”¹⁷

Performance Incentive Contracting

Performance incentive contracting (PIC) is contracting-for-results with an additional twist. PIC can take various forms, but those different versions share an emphasis on motivating the contractor to do more than it is minimally required to do.

One version of PIC provides an incentive for a vendor to identify opportunities for savings, reduce costs, or increase revenues associated with the provision of a service without the government or other customer having to make any up-front investment of its own resources. “Found” money is the desired economic outcome, and the contractor, which bears the cost of designing and implementing the service, is paid only if it produces the required economic outcomes.

Services that many state and local governments have purchased through this approach include those that reduce operating costs, such as energy management in buildings; those that recoup money that is owed to the government, such as bad debt collection; and those that generate revenue for the government, such as concessions.¹⁸

A second type of PIC involves the use of bonuses to encourage contractors to work faster, or better, or both. This type of PIC is hardly new and has been used effectively by governments at all levels for many years.

4 Performance-Based Contracting

Perhaps the best-known use of this type of PIC occurred when the California Department of Transportation, following a major earthquake in the mid-1990s, paid \$13.8 million in performance bonuses to a contractor that gave the state an “estimated \$74 million in savings to the local economy and \$12 million in contract administration savings thanks to the shortened schedule.”¹⁹

Skokie, Illinois, is experimenting with yet another type of PIC. Skokie has awarded mandatory, government-wide term contracts for printing and for office supplies, with the renewal points set at dollars of goods sold rather than at the anniversary date. Up to the renewal point, each contractor is guaranteed an “exclusive.” Following renewal, however, individual departments must keep buying from the contractor only if the department is satisfied with the quality of the goods and services provided.²⁰ This type of PIC closely resembles the concept of “internal markets” through which “internal customers [can] reject the offerings of internal service providers if they do not like their quality, or if they cost too much.”²¹

Johnson City, a city with a population of around 50,000 and another of Tennessee’s Tri-Cities, has bought two services on a performance incentive basis: merchandising services for a sports tournament and concessions services for one of the city’s parks. The merchandising contractor agreed to develop a full line of event-specific merchandise, assume all inventory risks, provide displays and staff at no charge, and give the city 30 percent of its gross sales. The concessionaire agreed to pay the city 15 percent of its net profit. Its contract with Johnson City is renewable up to three years in one-year increments.²²

ELEMENTS OF PERFORMANCE-BASED CONTRACTING

NASA has provided a definition for performance-based contracting that is instructive for officials at any level of government:

Performance-based contracting requires structuring all aspects of an acquisition around the purpose of the work to be performed as opposed to how the work is to be performed.... It emphasizes quantifiable, measurable performance requirements and quality standards in developing statements of work, selecting contractors, determining contract type, incentives, and performing contract administration, including surveillance.²³

The key concepts in performance-based contracting at any level of government include

- Shifting government’s management role from telling a contractor what actions it must take to telling the contractor what impact its actions must have

- Specifying required performance outcomes in measurable terms
- Inviting interested parties to propose to the government how they, if awarded a contract, would work with the entity to produce the required results
- Giving contractors more autonomy in proposing solutions, yet at the same time holding them more accountable (if hired) for the impact of their work
- Considering in the selection process the extent to which each party that wants to provide the service for the government will meet or exceed the jurisdiction’s performance expectations

Performance-based contracting in schools

In 2000, the **Williamson County, Tennessee**, school district had 19,000 students in 28 schools that accounted for 2.6 million square feet of space—and the district was growing by about 900 students a year. The district spent approximately \$3.7 million on energy and, because of a lack of funds, had a backlog of deferred maintenance projects.

In response, the district put in place an energy management project that used energy savings to pay for upgrading school infrastructure. With performance-based contracting, the contractor agreed to finance a \$5.7 million upgrade under a 10-year lease that is expected to generate \$9.6 million in energy savings. The contractor is guaranteeing a savings of nearly \$900,000 each year.

In these early stages of the contract, the school district has purchased a new boiler for one school and tuned up the boilers at five other schools, undertaken water conservation measures at seven sites, installed new HVAC equipment in one school, upgraded cooling towers at 11 schools, and is retrofitting lighting that will comply with guidelines issued by the Illuminating Engineers Society of North America.

The contract has also permitted the district to centralize its energy management control system (EMCS) despite multiple manufacturers and products that had hampered maintenance and control in the past. All facilities will now have similar EMCS and communication abilities, and all 28 schools will be connected on an existing district wide area network (WAN) that will enable speedy maintenance. All equipment in a zone will be controlled with one output, each zone can override the unoccupied mode for two hours at a time, each can adjust room temperature, and zone temperature sensors are connected directly to the EMCS and allow night setback/setup control logic.

Source: “Building Maintenance: School district utility upgrade gets an ‘A’,” *American City & County*, January 2001, p. 20.

- Agreeing with the selected proposer on how the attainment of outcomes will be verified
- Figuring out precisely how the contract document should be structured and written in order to assure the best possible results
- Properly monitoring the contractor's performance in order to assure that payments are commensurate with the achievement of required impacts.

REASONS TO CONTRACT ON A PERFORMANCE BASIS

There are several reasons why local governments should contract for services on a performance basis.

First, the nature of a performance-based contract keeps the focus on outcomes rather than processes. When cities and counties involve themselves in specifying the details of how things are to be done, they frequently lose sight of what must be accomplished through a service contract.²⁴ Contracting on a performance basis requires governments to take a step back and define their required outcomes in specific, measurable, assignable, realistic, and time-related terms. Whereas in traditional, level-of-effort contracting there is a natural incentive for the contractor to do no more than necessary to get paid, a performance-based contractor must not only go through the required motions, it must achieve clearly delineated goals and objectives as a precondition for compensation.

Second, contracting on a performance basis helps cities and counties establish the true cost of achieving required results. Just as performance-based contracting makes it necessary for a government to document, perhaps for the first time, the full range of activity required to accomplish an objective, it also compels the government to establish the complete and accurate cost of providing the service as it should be provided. Although local governments are doing more cost accounting and getting better at it, local governments frequently do not know what it takes or what it costs them to achieve a particular outcome. This can be just as true for a simple service such as lawn maintenance as for a more complex function such as financial management. Contracting on a performance basis forces the prudent local government official to think in terms of total effort and total cost. More basically, it requires the local government official to consider anew the goals and objectives that must be addressed, then to work through a structured management approach to engage a provider that will meet those needs at the lowest total cost and best value to the entity.

Third, performance-based contracting opens the door to savings and to improved services by allowing and encouraging maximum competition based on cost, qualifications, and committed impact. Traditional contracting approaches have effectively bound and gagged innovative contractors as well as creative internal man-

agers and employees who could have saved local governments money and improved service quality by introducing more efficient, economical, and effective service delivery strategies. The idea that there is one best way to do anything was discredited years ago, yet many local government officials still insist on imposing their traditional approaches on businesspeople and government staff persons who are much more knowledgeable of what can and should be done to achieve a required result. Performance-based contracting leverages a proven principle of market economics: when compensation is linked to results, service quality typically improves.

Fourth, performance-based contracting shifts risk away from the government and makes the contractor accountable for delivering on its commitment. Under traditional, level-of-effort contracting, the contractor gets paid as long as it goes through the specified motions—no matter the outcome. Under performance-based contracting, the contractor is like the hog at breakfast. Unlike the hen, which is involved only through the contribution she makes, the hog is totally committed. Contractors that breach their performance commitments are not sent to the packinghouse, but they are sent packing. Depending on how the contract is structured, they may forfeit their performance bonds, pay liquidated damages, or both. They certainly mar their reputations. In contrast, performance-based contractors that meet or exceed their commitments gain an advantage on future solicitations, where past performance is almost always a significant evaluation factor.

Performance-based contracting keeps the focus on outcomes rather than processes.

Fifth, performance-based contracting makes it simpler, more efficient, and less costly to assure contractor performance. Even when traditional government specifications have accurately described an adequate approach to providing a service, they typically have been difficult, time-consuming, and expensive to enforce. Vague statements of work with few or no quantifiable performance standards and inadequate cost measurement and control provisions have made it challenging and resource intensive for local officials to hold contractors accountable. As a result, local governments often do little if anything to ensure that contractors fulfill their obligations under traditional, level-of-effort contracts.

Contracts with performance-based requirements are, by contrast, simpler and less costly to oversee. Instead of having to check and document whether a certain contractor employee worked a contractually agreed-upon number of hours during a specified time frame to perform a required task or set of tasks, a monitor of a performance-based contract has to verify only that the contractor has fulfilled the measurable outcome requirements to which it committed itself contractu-

6 Performance-Based Contracting

ally. In the case of a janitorial services contract, this can be as simple as checking daily to ensure that an office building has been cleaned to the monitor's satisfaction.

Depending on what is found in the examination of work performed, the monitor will provide for the appropriate rewards or accountability. If the contractor has performed well, it will be paid on the contractually agreed-upon basis and schedule. If the contractor has performed poorly, it may face withholding of payment, liquidated damages, or other sanctions.

Contracting on a performance basis helps cities and counties establish the true cost of achieving required results.

The approach or solution that a contractor proposes and the government approves when it awards the contract will contain tasks, steps, and milestones—the same elements contained in the scope of work in a traditional level-of-effort contract. At least two differences exist, however. One is that the plan of approach in a performance-based contract is proposed by the contractor, then approved and accepted by the government after the city or county determines that the plan is feasible and will produce the required result without exposing the entity to unacceptable risk. Another difference is that the government, although it insists on seeing and approving the details of the contractor's plan of approach before entering into a contract, usually will not monitor and evaluate contractor performance at the level of tasks and steps. Instead, it will seek only to verify that the agreed-upon results are produced on schedule and at the committed levels of satisfaction, quality, or impact.

Sixth, performance-based contracting increases the likelihood that the working relationship between the government and the contractor will be better than in traditional contractual arrangements and that the quality of service will be higher as a result of the improved relationship. One reason for this is that contractors and customers in performance-based contracting relationships are more likely to view each other as partners instead of as adversaries. The contractor now has a true stake in whether the customer is satisfied with the quality of services provided.

The source selection method generally used to choose performance-based contractors also serves to enhance the quality of the working relationship between the contractors and the government. During the selection process, the firm (or other party) that is submitting a proposal on a contract knows that it must bring with it a track record of good working relationships with previous customers. The firm also knows that it must propose a business plan that will offer maximum advantage to the customer. A significant number of evaluation points will be allocated to these two factors when the proposals are reviewed and scored.

PREPARING YOUR LOCAL GOVERNMENT

If your city or county is not already doing performance-based contracting, or if you would like to make performance-based contracting the approach through which your jurisdiction buys essentially all services, you should take a few specific steps before you dive in headfirst.

First, secure top management support for both the concept and the process you intend to use. Just as you will require interested firms to tell how they intend to meet your desired outcomes for the services you will buy on a performance basis, you also should provide your management—whether elected or appointed—with your business plan for implementing performance-based contracting.

Second, select a test project that has a very high probability of success and will not create an undue burden for your government's staff. The service you select should be as straightforward and as simple as possible, and it should require your government's staff to do as little additional work as possible for the contractor. Utility auditing is a service that many public entities use as a starting point. You can only come out ahead financially with such a service, the contractor does not get paid at all if it produces no results, no one gets hurt if no savings are found, and it is typically very easy for the government staff to provide the contractor with the utility bills it needs to do its work. Certain services, such as janitorial services, can be more complex to contract than they seem, and it may be best to attack them after the concept has been demonstrated successfully with simpler services.

Utility auditing is a service many public entities use as a starting point.

Third, manage the test project, following the action steps outlined in the next section. This will include everything from defining required outcomes to overcoming any barriers that arise.

Fourth, determine (in the broad sense) how you are going to track, report, and use results. This includes who is going to do the task, the workflow process, and the tool or tools that are going to be used. The best person to do the tracking may be the department manager who is responsible for the service, or it may be someone in central administration. That is something you have to decide, taking into account the size of your government's staff and the skill sets of specific individuals. The workflow process will consist of some relatively basic steps, including capturing (actual) performance data; comparing the actuals to the performance standards; analyzing any differences between actuals and standards; reporting the results to key decision makers; and working with service owners, stakeholders, and providers to improve the quality of the service going forward.

Fifth, provide education and training for all staff in your government who, at some point, could be involved in performance-based contracting. Share the results of the test procurement, including the lessons—good and bad—that were learned. Involve the people who were directly involved in the test project in the educational and training effort you conduct for the whole local government.

Sixth, identify those services and the general characteristics of such services that appear to lend themselves to a performance-based contracting approach, including:

- The government is able to describe the desired goal or goals for the service
- It is possible and practical to reach agreement with a contractor on specific, measurable, and realistic standards that can be used to evaluate the quality, quantity, and timeliness of the service provided
- It is in the government's best interests to contract on a performance basis.

STEPS FOR CONTRACTING A SERVICE

The specific services you select and the order in which you decide to contract for them on a performance basis will depend on your government's priorities as described in its strategic plan. Regardless of the service, here are some suggested steps to follow when contracting a service on a performance basis.

Step 1: Define Outcomes

Define the required outcomes for the service, and establish the metrics—the measurable standards—that you will use to determine whether the outcome requirement has been fulfilled. Know what results you are looking for, both at a general level and at a specific and measurable level. In the case of utility bill audit services, your goal—your desired result—is to save money without adversely affecting government productivity. A more specific and measurable objective is to recoup the dollars that are being paid unnecessarily to the local telephone service provider as a result of overcharges, improper charges, and other billing errors. In this case, the metric that is used to measure performance is dollars. The government can set a minimum performance standard in the request for proposals (RFP) on the basis of its knowledge of what is possible; it can set no standard and allow the market to establish the standard through the awarded contract; or it can set both its own standard in the RFP and allow the market to compete at and above the standard.

Metrics in performance contracts will fall into one or more of several possible categories, including quality measures, customer satisfaction, productivity, cost-benefit ratios, and continuous improvement.²⁵ A major challenge for the local government in preparing the

Examples of performance standards

Custodial services. The floors must be clean, free of scuff marks and dirt, and have a uniformly glossy finish. (Not "Strip and re wax the floors weekly.")

Snow removal. Keep driveways clear of snow so that depth does not exceed two inches. (Not "Clear snow as required.")

Lawn maintenance. Maintain grass between two and three inches high. (Not "Mow grass as necessary.")

Road repair. Contractor must repair a pothole to the department's satisfaction within 24 hours of receiving notice of its location. (Not "Contractor must try to repair a pothole as soon as possible, in accordance with industry standards.")

Concession services. Alcoholic beverages shall be served only during the first three quarters of any football game. (Not "Alcohol should not be served toward the end of a game.")

"A Guide to Best Practices for Performance-Based Service Contracting," final edition (Washington, D.C.: Office of Federal Procurement Policy, October 1998), www.arnet.gov/Library/OFPP/BestPractices/PPBSC/BestPPBSC.html.

scope of work for the service that is to be contracted on a performance basis is to strike the appropriate balance between constraining the contractor and freeing the contractor. The former is necessary to protect the government and its stakeholders from harm. The latter allows the contractor to innovate and create and thereby promote the entity's best interests. Several examples of performance standards are provided in the sidebar on this page.

Peter Covey has said that we must begin with the end in mind. What an appropriate statement this is, because performance-based contracting is not possible unless you can define the outcome or outcomes you seek.

Step 2: Identify Contractors

List the firms and other organizations that can provide and are interested in providing the service on a performance basis. Although it may be possible in some cases to enter into a performance-based contract when there is only one potential provider for a service, it is obviously preferable to know of more than one firm that is interested in working with your government. Use all avenues available to you—including your professional networks as well as the wealth of information that is now available through the Internet—to develop a list of firms that provide the desired service and may have an interest in providing it to your local government.

8 Performance-Based Contracting

Suggested format for scope of work

- 1.0 Overview
 - A. Purpose and objectives
 - B. Background
 - C. Inquiries
 - D. Method of source selection
 - E. Preproposal conference
 - F. Minimum criteria for responsibility
 - G. Projected timetable
- 2.0 General description of required performance outcomes
- 3.0 Constraints on the contractor
- 4.0 Contractor personnel requirements
- 5.0 Contractor responsibilities
- 6.0 The local government's responsibilities
- 7.0 Reporting requirements (for the contractor)
- 8.0 The local government's right to inspect
- 9.0 Terms and conditions of the contract for services
- 10.0 Assistance to small businesses
- 11.0 Instructions for proposals
 - A. Compliance with the RFP
 - B. Acknowledgment of insurance requirements
 - C. Delivery of proposals
 - D. Evaluation of proposals
 - E. Ambiguity, conflict, or other errors in the RFP
 - F. Proposals and presentation costs
 - G. Rejection of proposals
 - H. Acceptance of proposals
 - I. Requests for clarification of proposals
 - J. Validity of proposals
 - K. Response format
 - L. Proposal evaluation panel and factors

Attachments

Step 3: Develop Scope of Work

The scope of work (SOW), also sometimes called the performance work statement (PWS), is the foundation of a performance-based contract. It is how the local government documents its understanding of its needs, communicates those needs to interested providers, and determines whether the selected provider met its needs.

Although it certainly is possible to organize an effective SOW in any of several ways, a suggested format, used by the metropolitan government of Nashville and Davidson County, is provided. Clearly, each jurisdiction must develop a standard format that conforms to its unique needs. Even so, the jurisdiction should try to use the standard format, once adopted, in all of its performance-based contract procurements.

When completed, the scope of work will become a central part of the RFP that is used to invite offers from parties that are interested in providing the service. Essentially all you will have to add is your jurisdiction's standard contract for services, any additional terms and conditions specific to the anticipated contract, and other necessary attachments.

A government contracting expert has noted that there is no need to reinvent the wheel or the flat tire when writing a performance-based work statement.²⁶ It is smart and efficient to learn and borrow from documents put together and used by your colleagues in other government entities. One valuable source of such information is the National Institute of Governmental Purchasing (NIGP). Member agencies can download RFPs and other useful information from NIGP's Web site at www.nigp.org/. They can also use NIGP's specification electronic mailing list to query their colleagues online.

Step 4: Determine Contract Type

Performance-based contracts will typically be of the fixed-price or fixed-fee type. They may or may not include incentives for better-than-required service. It may be sufficient in many instances just to get the job done at a certain level if the government has no interest in paying for performance above that level. Performance-based contracts must always include disincentives for nonperformance—if nothing else, the condition that if performance outcomes are not met, the contractor will not be paid. See the section on page 3 for additional information regarding performance incentive contracting.

Step 5: Estimate Costs

Estimate as accurately as possible the cost of achieving the required outcomes through the contracted performance-based service. This step is important for at least a couple of reasons. First, unless the contractor is going to front-end the cost of the service—in other words, absorb the costs of developing and producing the service—and then allow the local government to share in the revenue or savings that are produced, it is obviously necessary to ensure that there is sufficient money in the budget to cover the cost of the service. Second, an estimate provides a basis for determining the reasonableness of the prices that are offered in the proposals that are received. One effective way to develop an estimate is to get input from potential providers. Another is to ask other local governments and state agencies what they have paid for similar services. If the estimate suggests that the service is going to cost more than is allocated in the budget, you will have a factual basis that the affected department or departments can use in their efforts to secure additional funding.

Step 6: Establish a Monitoring Plan

If possible, establish a monitoring plan for the service before you solicit proposals. If that is not feasible, know how you are going to monitor the contract before you award the contract. Regardless of when the plan is developed, it should address who is going to monitor contract performance and how that person or persons will do the monitoring. In addition, focus on checking whether the required results have been achieved instead of whether specific actions have been taken.

Colleagues in other government entities can be a valuable resource for developing monitoring plans, as can potential providers. When adapting other governments' and agencies' plans, public officials should take care to remove all provisions that do not apply to their own entities. Likewise, they should be careful to solicit ideas and suggestions from more than one interested vendor. Proposers can also be asked to submit a detailed, proposed monitoring plan as part of their proposal. Then, through discussion if necessary, such plans can be revised to the government's satisfaction.

Depending on the nature of the specific service, monitoring strategies may include

- Logging complaints from service recipients
- Intensive staff oversight where there are safety or security risks
- Reviews of periodic reports and/or other submittals
- Financial audits.

Step 7: Solicit Proposals

The competitive sealed proposals (CSP) method of source selection is the procurement method most often used by governments at all levels to select performance-based contractors. Governments prefer this method of selecting performance-based contractors because it offers several advantages over competitive sealed bidding, the method traditionally used by governments to select providers of goods and services. A principal reason for the preference is that with the CSP method the city or county awards the contract to the offeror whose proposal represents the best value to the government.

Performance-based contracts must always include disincentives for nonperformance.

A second important reason why local officials prefer the CSP method is the freedom it gives them to discuss the proposals that different offerors have submitted. Local officials cannot share ideas and information among competing offerors, but they can ask each firm individually to make presentations and to respond to questions about their proposals. In procurements handled through competitive sealed bidding, there can be no discussions with bidders after bids have been opened. Such discussions would not contribute very much anyway because the government has already locked in the specifications.

Local governments that do not have the legal authority to use the CSP method generally can use a variant of competitive sealed bidding that offers many, but not all, of the advantages of the CSP method. That method is multistep competitive sealed bidding, which enables governments to receive proposals for outcome-based scopes of work and compare and discuss those

proposals, yet—as in traditional competitive sealed bidding—award a contract to the lowest responsive and responsible bidder.

A local government should not use the CSP method or the multistep version of competitive sealed bidding unless and until it has been given a green light to do so by its legal counsel.

Step 8: Evaluate Proposals

When the CSP method is used, an evaluation panel composed of technical, financial, legal, and purchasing experts selects the firm whose offer is most advantageous to the government on the basis of the evaluation factors set forth in the RFP. The panel chooses the proposal that, based on careful evaluation and scoring by panel members, represents the best package of cost, qualifications, technical approach, performance commitments, past performance, and other factors as described in the RFP. If multistep bidding is the approach used, the local government awards the contract to the short-listed firm that offers the lowest price.

The basics of the evaluation process when the CSP method is used include the following:

- Evaluation factors that are to be used must be set forth in the RFP.
- Those factors, and only those factors, must be used to evaluate proposals.
- The weights that are to be assigned to these factors must be documented to the procurement file *before* proposals are received.
- Evaluators must affirm in writing on the front end that they have no real or apparent conflicts of interest; otherwise, they must recuse themselves.
- Evaluators must agree, also in writing and on the front end, not to disclose or discuss the contents of any proposals with anyone who is not a voting or advisory member of the evaluation panel.
- Evaluators should first evaluate proposals independently, then meet as a group (as many times as it takes) to develop a consensus score.
- Evaluators should always check references provided by a proposer and ideally should require proposers to submit contact information for all jobs of similar size and scope. Proposers should not be allowed to provide only their good or best references.

Unless there is some compelling reason to the contrary, evaluators should always seek to clarify and learn more about proposals. If nothing else, they should ask the proposers to respond in writing to questions, or perhaps conduct oral interviews by telephone. Information gained through reference checks is an excellent source of questions for written interrogatories and oral interviews.

10 Performance-Based Contracting

Partnering

Partnering is a tool that can increase the likelihood that the provider will be able to produce the required outcomes. Used successfully for many years in the construction field, it is equally useful for almost any public service that is contracted out.

Partnering does not replace the legal or business relationships established in the formal contract document. Instead, it overlays the traditionally adversarial approach to contracting with the understanding that “we are in this together. It’s not you or me; rather, it’s you and me.” It is a way of working, thinking, and dealing with people, and its benefits go far beyond the formally partnered arrangements. Because performance based-contracting is often uncharted water for both local governments and contractors, partnering can be especially beneficial.

In performance-based contracting, partnering includes

- A written and signed commitment from each stakeholder to work together
- Consideration of all stakeholders’ interests in creating mutual goals
- Agreement on mutual goals and objectives
- Agreement on strategies for implementing objectives
- Open, frank, and regular communication
- Continuing evaluation of the partnering process itself
- Timely communication and decision making to keep a problem from growing into a dispute.

In the real world of contracting, misunderstanding, miscommunication, insufficient communication, and sometimes a lack of trust and respect occur. People—whether they are government representatives or contractor representatives—will posture, try to take advantage of the other party, or maybe even (in an effort to do the right thing) partner too much.

Partnering usually leads to getting things done better. Less time is needed to implement a contract, and it’s implemented with fewer problems. Approvals are quicker, and downtime is reduced. Contract modifications are made in less time, and less paperwork and administrative effort are required. There is less need for litigation, and projects tend to get completed on time and on budget.

Step 9: Launch the Contract

A good award is no guarantee of successful performance. It must be followed by a proper start-up of the contract. Getting a contract started properly can be as simple as convening a meeting of all involved parties—including participants and stakeholders—to review, discuss, and clarify such points as:

- The local government’s goal or goals for the service

- Measurable outcomes that will be used to verify goal attainment
- The approach the local government will use to monitor the contractor’s performance
- How the contractor is to be paid
- When and how the local government will take corrective action, if it is needed
- Whether and how the contractor will be rewarded for superior performance
- How issues and conflicts will be resolved
- Other key terms and conditions of the contract.

An approach that many state and local governments have used to increase the probability of a successful contract is called partnering. When a contract is partnered, the local government and the contractor (and often key subcontractors, too) covenant to work together within the framework of the contract to achieve mutually beneficial outcomes. They agree to communicate openly and to resolve promptly and at the lowest possible level any disputes that arise. More information about partnering is provided in the sidebar on this page.

Step 10: Evaluate Performance

Measure and evaluate the contractor’s performance accurately and fairly. If the monitoring plan has been developed properly in Step 6, this step requires only proper implementation. In most cases, monitoring and evaluating a performance-based contract should be simpler and less time-consuming than monitoring a traditional level-of-effort contract. It is usually necessary to check results only at intervals or perhaps only once.

COMMON OBSTACLES AND HOW TO OVERCOME THEM

Barriers to performance-based contracting can include internal obstacles as well as external ones. Most of the typical internal barriers can be overcome through education, training, and networking with professionals. Internal barriers include

- Resistance to change
- Ignorance of the potential benefits
- Thinking “inside the box”
- Additional time required on the front end to develop performance-based contracts
- An excessive focus on hard dollars as opposed to total costs
- Outcomes that are difficult to quantify.

One common internal barrier is the absence of enabling authority to use the CSP method of source selection. Hurdling that obstacle requires working with

the appropriate legislative body to put the required enabling authority in place.

External barriers may include

- Lack of potential vendors or lack of vendor interest
- Anticipated vendor risk that exceeds the anticipated return.

If there are multiple providers for a service, they can be found by networking with peers, consulting with organizations such as NIGP and Public Technology, Inc. (PTI), and conducting Internet searches. Pooling contracting power through purchasing cooperatives can lessen vendors' concerns about excessive risk or trouble and enable smaller entities to benefit from contracts that otherwise might be available only to larger entities.

Surprises—good and bad—can develop at any step in the process. Obviously it is best to minimize bad surprises by properly planning, developing, implementing, and administering a performance-based contract. Some surprises may be unavoidable and must be dealt with in a manner that is fair and equitable to all parties, including the contractor. For example, a concessionaire that has performed admirably during the first two years of its five-year contract at the raceway could nevertheless find its contract about to be cancelled because the city council has decided unexpectedly to close the raceway immediately. At the very least, the contractor should not be forced to suffer a monetary loss.

BUILDING PERFORMANCE-BASED CONTRACTING INTO THE WORK PLAN AND BUDGET

Performance-based contracting is a powerful and effective tool, but it is only a means to an end. That end is ensuring that the local government, through its various offices and departments, serves the entity's citizens and other consumers as well as possible.

For local governments that manage themselves on a performance basis, performance-based contracting—like performance-based management of staff—will increasingly show up in the “strategy” or “tactics” columns of their strategic plans. It will appear as the “how” that has been selected to accomplish a particular “what.”

If the service is one that does not involve the local government in sharing “found” additional revenue with an enterprising contractor—as Johnson City did with the sports merchandiser—or jointly benefiting with a contractor from the recovery of “lost” funds—as Nashville has done on several contracts—then it likely will be necessary for the local government to budget in advance for the cost of a service. The good news—as Illinois found in its highly successful contract for foster care services—is that the cost of a service should go down when the contracting approach is shifted to performance and away from level of effort.

Tips for performance-based contracting

To do:

- Describe objectives and results, including the agency's minimum requirements.
- Include background information to clarify requirements and a detailed description of technical tasks.
- Set performance measurement criteria.
- Define all terms.
- Write in short sentences, use simple language and consistent terms, define abbreviations and acronyms; write in the active voice.

To avoid:

- Unclear objectives to be achieved or technical problems to be solved.
- Lack of specificity in describing tasks.
- Abstract phrases, inconsistent terms, errors in cross-references, arcane words, slang, pronouns.

Remember:

- Output—not work performed—is the essence of the work statement.
- Performance criteria should identify which feature of the service will be measured, set the limits of successful performance, and provide a maximum error rate. Criteria should be realistic and objective, and therefore measurable.
- Describe the property and services the agency will provide and those the contractor must furnish.
- Describe tasks in logical sequence.

Source: Anne Laurent, “Performance Boosters,” April 1, 1997, <http://govexec.com/features/0497s2s1.htm>.

Even so, the cost estimating for budget purposes should be done with as much care and accuracy as possible. Responses to performance-based RFPs can be expensive and time-consuming for interested providers to prepare, and it would be embarrassing, at the very least, for a local government to have to rescind a contract award because of a lack of funds.

CONCLUSION

Performance-based contracting is an exciting and effective way to achieve a local government's strategic goals and objectives. The concepts of this approach are easy to understand and apply, and a wealth of information exists for interested officials to draw upon. You can use the guidelines and other information provided in this report to put performance-based contracting to work for your taxpayers and other consumers today.

12 Performance-Based Contracting

NOTES

- 1 John M. Barry, *Rising Tide: The Great Mississippi Flood of 1927 and How It Changed America* (New York: Simon & Schuster, 1997).
- 2 "Guidelines for Administering Performance Statements of Work," pamphlet no. 4 (Washington, D.C.: Office of Federal Procurement Policy, October 1980).
- 3 Jason Peckenpaugh, "Pentagon Unveils New Guidebook on Performance-Based Contracting," *GovExec.com Daily Briefing*, February 1, 2001, www.govexec.com.dailyfed/0201/020101p1.htm.
- 4 Allen V. Burman, "Policy Letter 91-2 to the Heads of Executive Agencies and Departments" (Washington, D.C.: Office of Federal Procurement Policy, April 9, 1991), www.arnet.gov/References/Policy_Letters/PL91-2_4-9-91.html.
- 5 "Performance-Based Contracting Discussion Paper" (Arlington, Va.: Professional Services Council, August 2, 1999), www.pscouncil.org/westand/perfbasedcontract.htm.
- 6 "A Guide to Best Practices for Performance-Based Service Contracting," final edition (Washington, D.C.: Office of Federal Procurement Policy, October 1998), www.arnet.gov/Library/OFPP/BestPractices/PPBSC/BestPPBSC.html.
- 7 Ibid.
- 8 Stephen B. Gordon, "Performance Contracting by Government: Process and Progress in Local Government Contracting" (course materials for workshop, "Practical Lessons in Energy Conservation Performance Contracting," March 23, 1984).
- 9 Stephen B. Gordon, "Performance Incentive Contracting: Using the Purchasing Process to Find Money Rather than Spend It," *Government Finance Review*, August 1998.
- 10 "Financing Local Energy Improvement Projects," DOE/CH10093-346, DE94011803 (Washington, D.C.: U.S. Department of Energy, June 1994), www.eren.doe.gov/cities_counties/elecfin.html.
- 11 Gordon, "Performance Incentive Contracting."
- 12 Frank Moore, purchasing agent, City of Kingsport, Tennessee, interview with author (April 27, 2001).
- 13 Highway Maintenance Pilot Plan Expands Further This Summer," *ENR* 240, no. 20 (May 18, 1998): 20.
- 14 Penelope Lemov, "The Performance Factor," *The Public Purchaser*, May/June 1998.
- 15 "Performance-Based Contracting Receives Innovation in American Government Award: Illinois effort to increase permanent foster care for foster children among 10 recipients of \$100,000 grants," Institute for Government Innovation, John F. Kennedy School of Government at Harvard University, www.innovations.harvard.edu/release/2000winners/perfbase-cont.html.
- 16 Rudolph W. Giuliani, "Awarding Welfare-to-Work Contracts Based on Performance," Mayor's WINS Address, February 6, 2000, www.nyc.gov/html/om/html/2000a/me000206.html.
- 17 "Welfare to Work: General Questions" (Washington, D.C.: U.S. Department of Labor, Employment and Training Administration, undated), <http://wtw.doleta.gov/q&a/general.asp>.
- 18 For additional information on this particular form of PIC, see "Performance Incentive Contracting," *Government Finance Review*, August 1998.
- 19 William D. Eggers, Timothy J. Burke, Adrian T. Moore, Richard L. Tradewell, and Douglas P. Munro, "Cutting Costs: A Compendium of Competitive Know-How and Privatization Source Materials," *Calvert Institute Brief* 3, no. 2 (September 1999), <http://calvertinstitute.org/issue/9909/>.
- 20 Keith Glatz, purchasing agent, Skokie, Illinois, interview by author, April 27, 2001.
- 21 Eggers et al., "Cutting Costs."
- 22 Jane Ogle, purchasing agent, Johnson City, Tennessee, correspondence with Stephen B. Gordon, purchasing agent, metropolitan government of Nashville and Davidson County (April 27, 2001).
- 23 Performance Based Contracting (Washington, D.C.: National Aeronautics and Space Administration, October 2000), <http://procure.msfc.nasa.gov/hq/library/perfba.htm>.
- 24 James H. Johnson, "How to Succeed with Performance-Based Contracts," *Softwaremag.com*, October/November 2000, www.softwaremag.com/archive/2000oct/Performance.html.
- 25 Eggers et al., "Cutting Costs."

APPENDIX

METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

The metropolitan government of Nashville and Davidson County has made extensive use of results-oriented procurement. Among the services that this city-county government has purchased on a performance basis are utility audits, accounts payable audits, bad debt collection, concessions and banquet services, and energy management services for buildings. In one instance, following a tornado that felled several very-high-quality hardwood trees, metro Nashville used performance-

based contracting to make money on the removal of the downed timber. The savings were not enormous, but the lesson learned was priceless: Do not assume that achieving a result must cost you money when instead it could be a break-even, or even a revenue-producing, proposition. A more complete list of the services contracted by metro Nashville, with the results achieved and other useful information, is provided below.

Services Purchased on a Performance Basis by the Government of Metropolitan Nashville and Davidson County

SERVICE	TECHNICAL OBJECTIVE	ECONOMIC OBJECTIVE	ECONOMIC METRIC	PERFORMANCE GUARANTEE	PERFORMANCE INCENTIVE	PAYMENT GUARANTEE	RESULTS
Utility audit (two successive 5-year, indefinite quantity, term contracts available to all departments)	Obtain refunds or credits for over-charges and unnecessary charges on Metro utility and telephone bills	Recoup lost revenue for departments that request an audit	Dollars recouped from bills previously paid	None	Metro and contractor share recouped revenue on a 60% Metro-40% contractor basis	None	During first 5-year contract and first year of second contract, approximately \$470,000 in savings had been achieved, with an additional \$6,000 to \$7,000 per month in ongoing savings from measures already identified
Golf cart rental (5-year contract)	Provide a required service for golfers on golf courses managed by the parks and recreation department	(1) Avoid having to purchase or maintain the golf carts; (2) generate revenue for the department	Dollars avoided and dollars generated for the parks and recreation department	None	Metro and contractor share sales revenue on a 62%-38% basis	None	\$723,000 in revenue to Metro in the 12-month period ending in April 2000
Concessions services (5-year contract)	Provide a service for patrons at Metro department of parks and recreation facilities	Secure a guaranteed annual return for the department	Dollars paid to the department for the service	Contractor pays Metro \$35,000 annually (regardless of revenue)	None	None	Department is satisfied with services provided and is being paid the annual fee

14 Performance-Based Contracting

SERVICE	TECHNICAL OBJECTIVE	ECONOMIC OBJECTIVE	ECONOMIC METRIC	PERFORMANCE GUARANTEE	PERFORMANCE INCENTIVE	PAYMENT GUARANTEE	RESULTS
Concessions at the Nashville Convention Center (5-year contract)	Provide a service for patrons of the racetrack at the Tennessee State Fairgrounds	Generate revenue for the Board of Fair Commissioners	Dollars generated for the Board of Fair Commissioners	None	Metro and contractor share revenue on the following basis: 41% Metro and 59% contractor for food; 36.5%–65.5% for beer; 20%–80% for vending and cigarettes	None	\$308,500 in revenue in 1 year of the contract
Indoor advertising at the Nashville Convention Center (5-year contract)	Provide an opportunity for businesses to market their goods and services	Generate additional revenue for the center	Dollars earned from sale of advertisements in the center's facility	\$21,900 per year minimum in revenue for Metro	Metro and contractor share revenue on a 50%–50% basis	None	\$42,500 in revenue for Metro in the 1st year of the contract
Telecommunication and data services for the Nashville Convention Center (5-year contract)	Provide a service for exhibitors who participate in trade shows at the center	Generate additional revenue for the center	Dollars earned from the provision of telephone and data equipment and services for exhibitors	Guaranteed annual income: Y1: \$ 66,000; Y2: \$102,000; Y3: \$102,000; Y4: \$108,000; Y5: \$114,000	Total sales revenue shared on the following basis: Y1: 21%; Y2: 21%; Y3: 25%; Y4: 25%; Y5: 28%	None	\$77,000 in revenue in Y1
Audio-visual services for the Nashville Convention Center (5-year contract)	Provide a service for exhibitors who participate in trade shows at the center	Generate additional revenue for the center	Dollars earned from the provision of audio-visual equipment and services to exhibitors	None	Contractor pays Metro a 50% commission on the rental of all audio-visual equipment	None	\$177,000 in revenue generated for the Nashville Convention Center during the first year of the contract
Unbilled water for the department of water and sewer services (5-year contract)	Identify and correct situations in which Metro water services did not bill, or billed incorrectly	Recoup lost revenue for water and sewer department	Dollars recouped by billing for services that were not billed or were billed incorrectly	\$5.5 million by the 3-year point of the contract	Department retains 55% of recouped dollars and remits remaining 45% to contractor; contractor receives its share of savings for 36 months following corrective action	None	By 2-year point of contract, contractor had increased actual and projected revenue by more than \$6.4 million

SERVICE	TECHNICAL OBJECTIVE	ECONOMIC OBJECTIVE	ECONOMIC METRIC	PERFORMANCE GUARANTEE	PERFORMANCE INCENTIVE	PAYMENT GUARANTEE	RESULTS
Unaccounted water for the department of water and sewer (1-year base contract with two possible extensions)	Identify leaks in water distribution system	Recoup lost revenue for water and sewer department	Dollars recouped by billing; able to sell the lost water	3,125,000 gal. per day in lost water	For leaks identified above guaranteed minimum, contractor will be paid on a sliding scale on a cents/gallon basis	Contractor paid \$80/mile for sonic leak-detection survey of full 2,560 mile system	9,342,144 gallons per day of leaks identified and earmarked for repair at the 1,942-mile mark in the survey; a total of 668 leaks had been located at this point
Reduction of sewer system inflow and infiltration for the department of water and sewer (up to 5 years)	Avoid having to treat water that has seeped into sewer lines	Avoid the cost of treating water that has seeped into the sewer lines	Dollars recouped by not having to treat water that has seeped into sewer lines	Minimum of 20% reduction in water seeping into sewer lines	If the level of 30% reduction is achieved, contractor will earn an additional \$500,000; if not, contractor will return \$500,000 of its fixed fee	Contractor paid \$7.5 million fixed fee	Not yet available; contract began in August 2000
Change manager for the department of water and sewer (5-year term contract; also referred to as reengineering contract)	Position water and sewer department to be cost competitive with potential private sector providers	Reduce the department's operating budget	Dollars by which the department's operating budget is reduced by two specified deadlines	Achieve (1) a level of "actual and verifiable" expenses of \$64 million or less by June 30, 2002, and (2) a level of \$60 million or less by June 30, 2004	When department reaches first objective, contractor and department employees share additional savings on specified basis; until that objective is reached, 10% of contractor's monthly compensation is escrowed; entire escrowed amount, plus interest, is paid upon achievement of objective	For phase I, the 6-month operations study, contractor is paid a \$400,000 fee. For phase II, the 2-1/2-year implementation period, the contractor receives an \$800,000 fee	Operations study was completed in December 1999; implementation period is now under way; department anticipates that both the 2002 target and the 2004 target will be met
Inmate telephone services (5-year contract)	Provide this service for inmates, as required by law	Generate revenue for the sheriff's department	Dollars earned from charges to service consumers	None	Metro receives 25% of gross revenues	None	Averaging \$45,000 per month in revenue; contract is in its third year

Recent IQ Reports

IQ Reports are available for \$14.95 each.

The discount for 5–49 copies is 20%; 50–99 copies, 25%; and 100+ copies, 30%.

To order, call 1-800/745-8780 or visit the ICMA Bookstore Web site, bookstore.icma.org.

Budget & Finance

	Item No.
Financing Land Conservation, 05/01	42664
GASB 34: What It Means for You, 12/00	42626
Multiyear Budgeting, 06/99	42472
Introduction to Infrastructure Financing, 03/99	42457
Public Purchasing: A Checklist for the Local Government Manager, 06/98	42349
Introduction to Activity Based Costing, 02/98	42306

Community Relations & Services

Media Relations: The Manager's Role, 12/99	42546
Volunteer Programs in Cities and Counties, 08/99	42477
The Role of the Public Library, 07/99	42476
Seniors in the Community, 01/98	42305
Talking With Citizens About Money, 10/97	42274
Welfare Reform and Local Government, 08/97	42253

Human Resources

Recruiting Key Management Personnel, 03/01	42662
Sexual Harassment: Successful Policy Implementation, 06/00	42604
Workforce Planning and Development, 03/00	42575
Work-Life Balance: Integrating Benefits with Responsibilities, 11/99	42545
Preventing Workplace Violence, 05/99	42471
The New Compensation Model, 12/98	42397
Employee Evaluation and Development: The Key to Performance Improvement, 11/98	42391
Career Development Programs, 12/97	42275
Leave Policies, 04/97	42195

Information Technology & Telecommunications

Transforming Information Services: New Roles, New Strategies, 02/01	42653
Access: Making Your Community Internet-Ready, 05/00	42597
Seven Keys to a Successful Enterprise GIS, 10/98	42390
Cable Network Technology: A Primer for Local Officials, 09/98	42377
Telecommunications Strategies for Local Governments, 08/98	42368

Management

The Retreat as Management Tool, 01/01	42636
---------------------------------------	-------

Management (cont.)

Continuous Learning: A Leadership Challenge, 11/00	42609
Risk Management: A Comprehensive Approach, 02/00	42574
Managing for Continuous Improvement: Chesterfield County, Virginia, 01/99	42398
Performance Measurement for Accountability and Service Improvement, 09/97	42254
Local Intergovernmental Agreements: Strategies for Cooperation, 07/97	42232

Planning & Economic Development

Waterfront Redevelopment, 10/00	42608
Design Review, 09/00	42607
Trails and Greenways, 04/00	42590
Land Use Decisions: Assuring Fairness, 09/99	42510
Smart Growth for Local Governments, 04/99	42458
Catalog of Data Sources for Community Planning, 04/98	42345
Regional Commercial Airports: Governance and Marketing, 11/97	42276
Brownfields: Options and Opportunities, 05/97	42200

Public Safety

Police Accountability: Establishing an Early Warning System, 08/00	42606
Managing Conflict in Combination Fire Departments, 07/00	42615
Information and Communications Technology for Public Safety, 01/00	42560
Developing an Emergency Operations Center, 07/98	42350
Traffic Safety: Local Options, 03/98	42328

Public Works & Environmental Services

Sustainable Energy: Power Solutions for Local Governments, 04/01	42663
Funding Water and Wastewater Infrastructure, 10/99	42513
Wetlands and Watersheds: Six Case Studies, 02/99	42440
Climate Change: Strategies for Local Government, 05/98	42346
Electric Industry Restructuring, 06/97	42231

Performance-Based Contracting

**Volume 33 / Number 6
June 2001**