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MAR 1 2013
City Manager's Office

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Debra Figone

SUBJECT: 2013-2014 PRELIMINARY
ALTERNATIVE SERVICE DELIVERY
EVALUATIONS AND ALTERNATIVE
SERVICE DELIVERY PILOT
PROGRAM UPDATES

DATE: March 1, 2013

INFORMATION

This memorandum identifies services considered for a service delivery evaluation as part of the 2013-2014 budget process and provides an update to alternative service delivery pilot programs.

BACKGROUND

Over a decade of budget shortfalls have created significant service delivery challenges for the City. Due to budget reductions, innovative approaches to service delivery have been used successfully on many fronts to initiate numerous process improvements and cost avoidance projects. These projects have resulted in high-quality customer service at an affordable cost. In addition, the City has entered into public-private partnerships with organizations to share maintenance costs at some parks and trails and leveraged substantive volunteer efforts in our libraries and parks. Examples of these innovations include:

- Public/private partnerships between the City and volunteer groups and private entities such as the Friends of the San Jose Rose Garden, Adobe Systems (McEnery Park), and various O&M agreements with developers and communities for public parks;
- Process innovations for code enforcement services to respond to citizen complaints of code violations with fewer staff;
- Streamlining of strategic support functions through adoption of new technologies and services offered by others; and
- The Innovation Incubator Program which enables project teams to evaluate their current service delivery models and develop process improvements; project teams to date have included staff from Public Works, Library and Transportation.

Given the recent significant budget shortfalls in the General Fund, in addition to making continuous improvements and leveraging volunteers and partnerships, the City has also evaluated whether certain services can be delivered most effectively by the City or by non-City entities.

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Over the past three years, the City has used a formal Service Delivery Evaluation process (City Council Policy 0-41, Service Delivery Evaluation) to successfully preserve and/or improve city services while reducing the cost for services. Through this service delivery evaluation process, business case analyses and subsequent RFP processes were conducted which resulted in City Council approval to contract out services such as custodial, graffiti eradication, and airport parking and traffic enforcement services.

City Council Policy 0-41 establishes a decision-making framework for evaluating service delivery model changes that meet certain criteria. The policy requires that a business case analysis be undertaken to evaluate service delivery changes. The purpose of the business case analysis is to determine the feasibility of alternative service delivery and to develop the Administration's recommendation to the City Council regarding the applicability of City Council Policy 0-29, Public-Private Competition Policy. A business case analysis must be undertaken if a proposed service delivery change is expected to result in the addition, deletion, or reclassification of four or more full time equivalent positions. The process does not apply to budgetary service reductions/eliminations or episodic, one-time, and temporary work.

For service delivery model changes that may be considered as part of the development of the City's annual budget, the Policy requires that the Administration inform the City Council of such proposals no later than the release of the "City Manager's Budget Request and Five-Year Forecast and Revenue Projections for the General Fund and the Capital Improvement Program."

Over the past three years, the Administration has evaluated approximately 20 alternative service delivery models; some of which have resulted in full Service Delivery Evaluations. In some cases, the SDEs have achieved significant cost savings or system efficiencies. In others, the decision was made to maintain the existing service model, some with identified improvements. Previous SDEs have also resulted in various pilot programs that are currently underway and a status update is provided towards the end of this memorandum. However, due to limited staff resources in Strategic Support functions and other higher priority projects within departments, the implementation of some pilot programs has taken longer than originally anticipated. Given the extensive effort to evaluate alternate service delivery models in the past few years, there are fewer opportunities for new SDEs. It is important to note however, that the Administration continues to look to reduce the cost of existing services while preserving the service level to the community or internal customers.

ANALYSIS

In accordance with Council Policy 0-41, the service areas that are undergoing a business case analysis are identified in the table on the following page.

Responsible Departments	Title	Description
Env. Services/ Finance/ Information Technology	Recycle Plus Billing and Customer Service	Transfer the billing function to either the property tax bill or to waste haulers and transfer most of customer service to the waste haulers
Office of Economic Development	work2future Client Services	Transition workforce development client services delivery to the work2future Foundation

The preliminary business case for the Recycle Plus Billing and Customer Service was posted on the City's website last year. In October 2012, the City Council approved staff's strategy to discontinue the in-house service delivery model. In January 2013, after staff had reached out to applicable bargaining units and other stakeholders, the City Council approved staff's recommendation to discontinue the in-house service delivery, to not implement the City's Public-Private Competition Policy, and to continue to evaluate two alternative service delivery options during the next few months. The two alternative service delivery options under consideration are to place the Recycle Plus billing on the property tax role and transfer most of the customer service function to the haulers (Option A) or to contract out the entire billing functions and most of customer service function to the haulers (Option B).

The second SDE evaluates an alternative service delivery model for work2future client services. In September 2011, the work2future Foundation was established to accept public and charitable contributions for the purpose of creating new opportunities to connect workforce and economic development and to promote small business development. The preliminary business case for work2future Client Services will be completed in March 2013 and will evaluate the benefits of transferring the delivery of client services from the City to the work2future Foundation. The City would remain as the responsible administrative entity and, in the short term, would continue to provide fiscal monitoring and contract management oversight.

Service Delivery Evaluation Timeline

The two tables on the next page outline the next steps and timelines for City Council consideration of the two alternative service delivery models. For the Recycle Plus Billing Service Delivery Evaluation, the Administration plans to release the Final Business Case in April and bring forward a recommendation to the City Council for consideration later in the spring to proceed either with Option A, placing the Recycle Plus bill on the property tax role and contracting out most of the customer service functions to the haulers, or with Option B, contracting out the Recycle Plus billing and most of the customer service functions to the haulers.

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Recycle Plus Billing Service Delivery Evaluation		
Next Steps	Option A Property Tax Option	Option B Hauler Billing Option
Finalize Business Case Analysis	April 2013	April 2013
Council considers Recommended Alternative Service Delivery Model and provides direction to negotiate and execute hauler contract amendments	Spring 2013	Spring 2013
Begin phased redeployment/transition of affected staff	Fall 2014	Fall 2013
Recycle Plus Hauler Billing Begins	NA	Fall 2014
Recycle Plus bills on County Property Tax Bill begins	July 2015	NA

The preliminary business case for work2future is scheduled to be released to the City Council and posted on the City’s website in March 2013. The Administration will continue to analyze the work2future alternative service delivery proposal and conduct stakeholder outreach over the next months to determine whether to include the results of the service delivery evaluation as a budget proposal in the 2013-2014 Proposed Operating Budget. Stakeholder meetings to discuss the preliminary business case will be posted on the City’s web-site. Further, the Administration will meet and confer with affected City employee bargaining units, as applicable. If the work2future SDE is included in the 2013-2014 Proposed Operating Budget, applicable major budget development milestones are included in the table below.

work2future Client Service Delivery Evaluation	
Next Steps	Date Due
Develop and release preliminary business case analysis through an Information Memorandum	March 2013
Conduct Meet and Confer process (if requested)	March – May 2013
Conduct internal and external stakeholder outreach	March – May 2013
Release the 2013-2014 Proposed Operating Budget which may recommend to contract out the service	May 1, 2013
Release the final business case analysis as part of the Manager’s Budget Addenda process	May 2013
Consideration by City Council of the 2013-2014 Mayor’s June Budget Message and approval of the 2013-2014 Adopted Operating Budget	June 2013

ALTERNATIVE SERVICE DELIVERY PILOTS

This memorandum is also providing an update on current alternative service delivery pilot programs. The following services are undergoing further analysis to determine whether to

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proceed with a formal business case analysis, subject to the outcomes of the steps described below, or to continue in-house service delivery. Once the initial analysis is complete, the Administration will decide whether to consider these services within the Service Delivery Evaluation policy framework and update Council accordingly.

Pilot Program Description	Status	Next Steps	Due
Sanitary Sewer (DOT & PW)			
The pilot evaluates in-house sewer repair projects versus projects competitively bid by Public Works to determine the cost effectiveness and performance of outside vendors	22 backlogged sanitary sewer repair projects originally designated for repair by in-house DOT crews were completed contractually by Public Works. Repair data and expenditures were tracked and analyzed, and a fully-loaded unit cost for repair was determined	Develop a plan to collectively eliminate the growing backlog of sewer repairs using both DOT's in-house crews and contracted projects through Public Works.	July 1, 2013
Workers' Compensation (HR)			
The 2-year pilot compares the cost and performance metrics of contracting out portions of the Workers' Compensation Program	An RFP was issued and the proposals were evaluated as part of the SDE process. The City Council accepted the SDE report in October 2012.	Conduct contract negotiations with the selected vendor	March 2013
		Initiate the transition of claims to the vendor	Summer 2013
Fleet Services (PW)			
The 2-year pilot 1) compares the cost and performance metrics of leasing 20 vehicles and 2) compares outsourcing maintenance and repair services for 20 City vehicles.	An RFP was issued and the proposals were evaluated.	Negotiate contract with the two selected vendors	March 2013
		Initiate study of contracted repair and maintenance contract	March 2013
		Delivery of vehicles leased through leasing contract	June 2013
		Initiate study of leased vehicles through Landscape Maintenance (PRNS) pilot	June 2013
Landscape Maintenance (PRNS)			
The 2-year pilot reorganizes and consolidates park maintenance into a commercial team-based model that includes leasing new vehicles through the fleet services pilot	PRNS has re-organized into seven park districts for efficient service delivery. District 2 has initiated a park maintenance pilot using existing fleet delivering a commercial park maintenance service delivery model. A Business Intelligence Data Model has been implemented to collect and analyze data to improve service delivery.	Fleet services will negotiate contract with vehicle leasing vendor	March 2013
		Delivery of vehicles leased through leasing contract	June 2013
		Initiate study of leased vehicles (timing contingent on Fleet Services Pilot)	June 2013
Accounting Payroll/Benefits (Finance/HR)			
The pilot determines outside interest and ability to provide payroll and benefits functions through an RFP process	Completed Phase I Request for Proposal and evaluated submitted responses. The outcome of Phase I was that there are alternatives to an Oracle/PeopleSoft upgrade. Based on the outcome, the City will issue a Phase II Request for Proposal soliciting proposals for 1) an upgrade of the existing Oracle/PeopleSoft application and 2) alternative solutions	Develop and release Phase II Request for Proposals	Spring 2013
		Evaluate submitted proposals	Summer 2013
		Select Solution/Vendor	Fall 2013
		Implement of Payroll/Benefits solution	Winter/Spring 2014

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In addition to the five pilots listed above, staff will continue to explore other streamlining and alternative service delivery opportunities as part of the 2013-2014 budget process. Any potential efficiency improvements and cost savings currently being considered in these and other areas do not require a business case analysis if they affect less than four FTEs or are the result of efficiency gains. These potential efficiency improvements will be reviewed by the City Manager's Budget Office and may be brought forward as budget reduction recommendations as part of the 2013-2014 Proposed Operating Budget.

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