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City Manager's Office

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kim Walesh

SUBJECT: WORK2FUTURE DIRECT
CLIENT SERVICES –
PRELIMINARY BUSINESS
CASE ANALYSIS

DATE: April 30, 2013

Approved

Date

4/30/13

INFORMATION

This memorandum transmits the preliminary business case analysis for the transition of work2future direct client services to a third party administrator as recommended as part of the 2013-2014 Proposed Budget.

BACKGROUND

On March 1, 2013, the City Manager provided the Mayor and City Council with an information memorandum entitled "2013-2014 Preliminary Alternative Service Delivery Evaluations and Alternative Service Delivery Pilot Program Updates." The memorandum identified work2future Client Services as one of two service areas undergoing a business case analysis as part of the 2013-2014 budget process. Council Policy 0-41 provides a decision-making framework for evaluating service delivery models and requires that a business case analysis is undertaken to evaluate service delivery changes anticipated to result in the addition, deletion, or reclassification of four or more City full-time equivalent positions.

The preliminary business case analysis for work2future direct client services evaluates the benefits of transferring the delivery of direct client services from the City to a third party administrator (TPA). Under the proposed service delivery model, the City will continue to be the responsible administrative entity and provide fiscal monitoring and contract management oversight.

ANALYSIS

Due to the recent federal sequestration and other funding reductions, work2future will see a further decline in its overall funding levels. Over the last five years, base funding has decreased from \$16 million to \$9 million. In addition, recent legislation now requires work2future to allocate a minimum amount of its funding for training which reduces the amount of funding available for case management, additional staffing and other client related services such as supportive services and occupational assessments.

work2future's current service delivery model utilizes regular and temporary unclassified City employees to provide direct client services to businesses and job seekers in conjunction with contractual workshops, youth technical training services, and youth enrollment/follow-up services. The preliminary business case analyzes the ability to provide direct client services by contracting out most of direct client service delivery to a TPA. Contracting out direct client service delivery to a TPA will optimize the amount of funding available in order to maintain and potentially enhance current service delivery levels and improve work2future's operational flexibility and responsiveness, encourage innovation, and streamline program operations and oversight. The TPA will conduct its own recruitment and payroll processes to adjust staffing levels according to Board direction, fluctuations in funding, and client demand without impacting City staffing levels or the City's Strategic Support departments. The preliminary business case analysis for work2future's direct client services has been completed and is now posted on the City's website via the following link:
<http://www.sanjoseca.gov/index.aspx?nid=2795>.

The preliminary 2013-2014 budget for the alternative service delivery model was approved by work2future's Board on Thursday, March 21, 2013, and assumes funding levels consistent with 2012-2013 pending formal notification of actual 2013-2014 allocations. If the proposed alternative service delivery model is approved by the City as part of the adoption of the 2013-2014 Proposed Budget scheduled for June 11, 2013, the work2future program is expected to generate annual savings of approximately \$880,000. Subject to the work2future Board's approval, the projected annual savings may be used for additional direct client services that may include, but not be limited to workshops or trainings, supportive services to clients, and case management services.

The proposed service delivery model change will result in the net elimination of 24.0 City positions. The City will retain 17.3 positions to provide fiscal monitoring, compliance, fiscal/payments, contracting, grant writing, Board liaison, marketing and outreach, and business services functions.

The next steps in the service delivery evaluation process will be to conduct outreach to stakeholders and union representatives during May 2013. As applicable, meet and confer session(s) will occur with affected City employee bargaining units. In parallel, the business case will be finalized and is scheduled for issuance to the City Council late May 2013 as a Manager's Budget Addendum. If approved, the transition of direct service delivery to a third party administrator will be phased in over a nine-month period.

/s/

KIM WALESH

Director of Economic Development
Chief Strategist

For questions, please contact Jeff Ruster, at (408) 535-8183.

Attachments: work2future Preliminary Business Case Analysis

Background & History

The City of San José is designated as a Local Workforce Investment Area and serves as the legal recipient and local area administrator of federal funding through the Workforce Investment Act (WIA) for seven cities in the southern portion of Santa Clara County. The work2future Program is the City's Workforce Investment Act program and is located in the Office of Economic Development (OED). OED staff manages the work2future Program and provides support to its Workforce Investment Board (WIB). The work2future Program is one of forty-nine Workforce Investment Boards in the State of California.

On July 1, 2000, the governing legislation for workforce development programs shifted from the Joint Training Partnership Act (JTPA) to the Workforce Investment Act (WIA) and responsibility for the administration of the program transferred from the County of Santa Clara to the City of San José. Effective with this transition, the City's Mayor has become the federally designated Chief Local Elected Official (CLEO) and the City of San José has assumed the responsibility of fiscal agent for the work2future Program. The CLEO's responsibilities include approving the work2future Program's Local Plan, developed by City staff with input from the WIB and other community stakeholders. The work2future Program provides a wide variety of workforce services at five local one-stop facilities, located in San José, Gilroy, Campbell, and a satellite site in Morgan Hill.

The work2future Program's 42-member WIB guides the City's work2future staff in the development and implementation of targeted strategies and solutions to meet local workforce development needs. The Board provides a broad base of local experience and expertise on the Board and represents diverse industries. The Board includes local employers such as Google, Apple, and Cisco Systems as well as mandated public sector partners such as Employment Development Department (EDD), the National Council on Aging, the Department of Rehabilitation, and the Job Corps.

The work2future Program has established itself as a leader within the California workforce development community. While serving thousands of job seekers and businesses annually in and around Santa Clara County, work2future has continuously met or exceeded all of its federally mandated and California Department of Labor (DOL) performance outcomes and has developed a wide array of innovative programs to maintain a high level of service for its diverse customer base. Work2future has done so despite significant budget reductions in recent years. Key to the organization's resiliency and success has been the continuous re-engineering of its service delivery and funding model in order to sustain its performance and high levels of customer satisfaction.

For example, in response to reductions in WIA funding and the desire of the WIB to increase opportunities to attract additional discretionary funding, in October 2011, the work2future Board established a 501(c) 3 work2future Foundation as a funding conduit for non-WIA grants and other funding sources.

Challenges

In 2008, work2future was selected by the State of California's EDD to be a "Learning Lab" for a new, integrated one-stop service model. This new model increased the number of enrolled clients from approximately 600 to as many as 10,000 clients annually, requiring additional staffing despite ongoing reductions in base funding from \$16 million to \$9 million over the last five years.

Recent changes to State legislation have also impacted the work2future Program's ability to respond to local employment needs and provide workforce development services. In October 2011, State legislation (SB 734) was enacted requiring that, beginning July 1, 2012, 25% of work2future's Adult and Dislocated Worker (DW) funds be directed to pre-vocational and long-term vocational trainings. This amount will increase to 30% in 2016. The remaining funds provide other services such as supportive services, workshops, assessments, case management and job search assistance. Prior to this requirement, work2future allocated up to 10% of annual Adult and Dislocated Worker funding to pre-vocational and long-term training.

When WIA was originally designed, Local Workforce Investment Areas could allocate their funding based on locally identified needs. In Silicon Valley, work2future focused on short term, pre-vocational training opportunities, in large part due to our client preference to get back into the workforce faster. work2future provides an orientation to WIA services, assessments, individualized employment plans, case management, supportive services, referrals to supplemental programs, and job search assistance to prepare its clients for training and subsequent employment. Long term vocational skills training can take up to ten months to complete and out-of-work clients find it difficult to support their households for that length of time. In addition, work2future's low-income, hard-to-serve clients have multiple barriers and often need other supportive or wrap-around services before they are ready to enter training. Wrap-around services may include mental health and/or substance abuse counseling. And finally, the Learning Lab model has attracted a large number of highly educated individuals who require only short-term training. All of these client-focused services make meeting the 25% expenditure requirement for pre-vocational and long-term vocational trainings a challenge.

In addition, federal Sequester actions will require an ongoing cut in funding of 5% to 8%. In 2013-2014, the Sequester actions represent a reduction of approximately \$500,000 in funding. In addition to the Sequester reductions, work2future is anticipating an additional \$400,000 reduction in its preliminary proposed FY 2013-2014 base funding allocation.

Without action to implement cost reductions and service delivery efficiencies, work2future will be challenged to maintain current service delivery levels and to monitor program services.

Current Service Model

The work2future Program has two distinct functions: (1) direct service delivery for both individual job-seekers and local businesses and (2) administrative oversight. Both functions are currently provided by the City through the work2future Program which has 41.3 FTEs and as many as 35 Temporary Unclassified (TU) employees.

Annually, approximately 5,000 individual job-seekers receive work2future services. Twenty-five budgeted positions and 35 Temporary Unclassified (TU) employees provide Adult, Dislocated Worker (DW), and Youth services including enrollment, coaching, training support, job fairs, and special recruitments, which leverage the efforts of contractors and temporary staffing. These services are provided in-house at three one-stop facilities in San José, at one-stops in Gilroy and Campbell, and at a satellite site in Morgan Hill.

Work2future employs TU staff to respond to service delivery demands on an as-needed basis. At this time, the work2future Program's staffing structure includes 35 filled TU positions to provide the adult and youth services described above except workshops, which are provided by contractors. Work2future has also employed additional TU positions to staff special programs funded by State of California and Department of Labor grants for large-scale layoffs. Some recent examples include NUMMI, Solyndra, and Cisco Systems.

The work2future Program also provides workforce development services, placement services, and career technical training through contracted local service providers to approximately 250 enrolled, at-risk youth annually at its Youth Training Center and the Gilroy One-Stop facility. To be eligible for services under WIA, youth must be low-income and have at least one additional barrier to employment; for example, be homeless, a run-away, or a formerly incarcerated youth. Of the youth served in the work2future Program, 60% have two or more barriers. As part of work2future's new Youth service delivery model, a combination of full-time permanent and TU employees provide case management services to WIA-eligible youth.

In addition, a combination of full-time and TU employees provide WIA-mandated Rapid Response services funded through a separate allocation. These services include outreach services on-site to downsizing companies to minimize the impact of layoffs on employees and assist with layoff aversion.

Local businesses are served through the Business Services Unit. As part of work2future's effort to support local employers and self-employment, two budgeted positions and two TU positions support BusinessOwnerSpace.com (BOS). BOS assists local entrepreneurs and small business owners through collaborative partnerships and online tools with 40 business community service providers in and around Santa Clara County.

The remaining 17.3 budgeted positions provide fiscal and program oversight of WIA funds, labor market information management, Business Services and Rapid Response activities, staff support to the 42-member private sector-led WIB; and coordination with 19 mandated WIA partners. In addition, this staff is responsible for grant writing, funding support, partnership development in pursuit of specific discretionary funding opportunities from the State of California that requires application directly from the City due to its fiscal agent responsibility.

The work2future Program does not receive funding from the General Fund; however the program does have a General Fund impact. For example, the City allocated overhead reimbursement are usually not fully paid since federal regulation only allow a maximum of 10% to be allocated to administrative costs. Further, since the City is reimbursed for activities, approximately \$10,000 in interest earnings was not collected in the General Fund because the WIA Fund at times had a negative cash balance in 2011-2012.

Proposed Service Model Concept

The proposed service delivery model would transition direct client service delivery to individual clients from the City's work2future Program to a third party administrator (TPA), but would retain the program and administrative oversight responsibilities with the City. In addition, the Business Services function, which provides services and assistance to local businesses, would remain with the City.

Under this new service delivery model, a TPA will have greater flexibility to align resources to address specialized program needs, changing funding levels, and variable workload demands. By transitioning the direct individual client services function to a TPA, the City's work2future Program will be able to provide this function in a more cost-effective manner in response to reduced federal funding levels and State mandated training allocations. Providing individual client services directly through a TPA will focus the City's responsibilities on performance management and administrative and fiscal oversight,

The direct individual client services to Adult, Dislocated Worker, and Youth clients that will be provided through a TPA are:

- One Stop Operations (five locations)
- Coordination of workshops and training activities
- Client enrollment and assessment
- Individual Employment Plans
- Coaching and short-term and long-term vocational skills training
- Multiple-employer job fairs
- Special recruitments for specific employers

As envisioned, a TPA will serve as the direct service delivery arm of the work2future WIB and provide services to Adult, DW, and Youth through a grant sub-recipient agreement with the City. In addition, a TPA will continue to look for additional funding opportunities to support key work2future Board initiatives that do not require application directly from the City as fiscal agent. With WIA funding from the City's grant subrecipient agreement and other funding sources, the TPA will have its own staff and senior management team to provide the level of services needed to ensure that the TPA is responsive to the work2future WIB and the City of San José.

With WIA funding from the City to a TPA, the TPA will be able to maintain and enhance the work2future Program's service delivery levels. Annually, the work2future Program serves up to 5,000 Adult and Dislocated clients and 250 Youth clients. Contracting out direct individual client service delivery to a TPA while retaining oversight and performance management within the City, will provide to the City's work2future Program operational flexibility and responsiveness, support innovation, and streamline Program operations.

This new model will ensure that the City's work2future Program can comply with service delivery demands and the funding expenditure requirements of recently passed legislation, maintain sufficient staffing levels and resources, and continue to meet DOL performance goals and maintain customer satisfaction levels. This more nimble service delivery model will also help to mitigate the actual funding reductions of \$1.5 million from SB 734 and the expected impacts from Sequestration estimated at \$900,000 in funding reduction for 2013-

2014. Further, a TPA will be able to adjust staffing levels according to work2future Board direction, fluctuations in funding, and client demand without impacting City staffing levels or the City's Strategic Support departments since recruitment and payroll services for the TPA will be handled by the TPA instead of the City's Human Resources and Finance Departments.

The Mayor will continue to serve as the WIB's CLEO and the local grant recipient of WIA funds, and the City will continue to act as the fiscal agent responsible for the WIA funds allocated to the work2future Program. Since the TPA will be designated a grant recipient of these funds, the work2future staff remaining with the City will continue to provide oversight of the TPA's fiscal and programmatic performance and compliance with City, State, and federal requirements. Under WIA, the City remains liable for any misuse of WIA funds. The TPA will conduct its own payroll, accounts payable, and accounts receivable functions. The TPA's performance management will remain the responsibility of the work2future City staff under the proposed service model.

The TPA model is similar to those used by other WIBs throughout the State of California. The City's work2future Program staff have researched and/or visited the Tulare County, Fresno County, Madera County, and South Bay (Inglewood) WIBs that have created non-profits for similar purposes to understand of the lessons learned and the reporting relationships with the CLEO and their respective Boards of Directors. The existing work2future Board of Directors will continue to provide strategic direction, allocate funding, and oversee the WIB's operating budget.

Key Benefits of the Proposed Service Model Concept

The proposed TPA service delivery model encourages innovation, cost-effectiveness, and greater operational flexibility in terms of human resource and procurement activities. This will optimize the amount of funding that will be available to maintain as well as enhance current service delivery levels. The key benefits of the proposed new service delivery model include the ability to:

- Maintain or increase current service levels at lower delivery cost.
- Rapidly enhance service delivery in response to increases in demand, to new WIB directives, and to the receipt of discretionary funding such as special grants.
- Provide the flexibility to scale-down when resources are reduced without impacting City staffing levels and Strategic Support departments.
- Focus City staff expertise on the oversight and monitoring of the TPA's operations and expenditures, contracting, and performance outcomes as well as staff support to the work2future Board and committees.

Implementation Process for and Cost Comparison of Proposed Service Model

Under the proposed model, the TPA will begin phasing in operations over a nine month period, implementing some direct individual client services beginning September 2013, and will be fully operational by March 2014. During this same period, the City's work2future Program will be phasing out 24 City FTE positions, as the TPA becomes the direct service provider. It is estimated that the TPA will have 42 employees by March 2014 in order to provide these phased-out City services. The City will retain 17.3 FTEs to provide administrative services in the areas of contract and performance management, regulatory compliance, business services, partnership development, and board development and support. Since discretionary funding opportunities from the State of California require application directly from the City as fiscal agent, the City will also continue grant writing, funding support, marketing, and outreach services. The City's work2future Program impact on the General Fund is expected to continue as federal regulation only allows a maximum of 10% of overhead reimbursement to be allocated to administrative costs. Further, since the City is reimbursed for activities, given the available fund balance in the WIA fund, the General Fund may continue to forgo interest earnings. work2future is working with EDD to develop a process that would allow the City to draw cash in advance for the TPA's WIA expenditures. The TPA would need to ensure that its account does not reflect an "excess cash" balance. This change to the cash flow process would ensure that the City will no longer forgo interest earnings on the General Fund.

In addition, one Analyst I/II will be deleted and one Accountant I/II position will be added to the staffing that remains with the City. The Accountant I/II position will monitor the TPA's fiscal operations to ensure proper accounting of costs to the City and will prepare the monthly and quarterly financial statements as required by the State and Federal government.

The employees in the filled positions recommended for elimination will have the opportunity to apply for positions with the TPA if the TPA and the employees elect to pursue this option. City staff that move to the TPA will be subject to conflict of interest rules. Employees who wish to remain with the City may be placed in accordance with the City's layoff policies. Human Resources will assist the work2future Program to identify potential redeployment opportunities within the City for employees who are not selected by the TPA or who have placement rights. The qualifications of staff will be evaluated and compared with the potential openings to determine how many employees will be able to be placed or redeployed during the transition.

Table 1 outlines the phased in transition to the proposed service model by budgeted positions and identifies the 2013-2014 savings. These budgeted savings are based on the status of vacant and filled positions as of March 2013.

Table 1: Direct Individual Client Services – Phased In Transition

Title	# FTE	Transition Date				
		6/23/2013	8/4/2013	9/29/2013	12/22/2013	3/30/2014
Senior Office Specialist	(2.0)	(\$140,246)				
Senior Office Specialist	(3.0)			(\$218,453)		
Senior Office Specialist	(1.0)				(\$49,741)	
Senior Office Specialist	(1.0)					(\$22,916)
Account Clerk II	(1.0)			(\$67,903)		
Senior Account Clerk	(1.0)				(\$50,507)	
Accounting Tech	(1.0)			(\$93,710)		
Network Technician II	(2.0)					(\$67,199)
Analyst II	(1.0)			(\$99,878)		
Analyst II	(3.0)	(\$280,774)				
Analyst II	(2.0)				(\$138,582)	
Analyst II	(1.0)					(\$33,718)
Senior Analyst	(2.0)	(\$223,825)				
Community Coordinator	(1.0)				(\$63,807)	
Community Coordinator	(1.0)			(\$89,468)		
Community Coordinator	(1.0)					(\$33,168)
Community Services Supervisor	(1.0)			(\$110,829)		
Accountant II	1.0		\$84,099			
Total	(24.0)	(\$644,845)	\$84,099	(\$680,241)	(\$302,637)	(\$157,001)
Net Total					(\$1,700,625)	

The 17.3 FTEs remaining with the City will be responsible for the following:

- Fiscal and program management and oversight
- Contract administration and management and compliance with WIA regulations
- Performance management including interface with the State of California's JTA system
- Monitoring and reporting of fiscal and contract activities
- Grant writing, funding support, partnership development¹
- Labor market information management
- Board development and support
- Coordination of 19 mandated WIA partners
- Coordination of services to local small Businesses through the BOS Network
- Rapid Response and lay-off aversion services to businesses

¹ For discretionary funding opportunities from the State of California that require application directly from the City as Fiscal Agent.

The retention of these positions will also ensure a smooth transition to the TPA’s business systems, including accounts payable and receivable, payroll, contracting and procurement.

Additionally, the City’s Business Services and Rapid Response functions will remain with the Office of Economic Development to coordinate small business services with the City’s Economic Development team, leverage existing partnerships to assist small business growth and vitality, and avert layoffs. These services to small and medium size businesses and local entrepreneurs include access to a network of 40 business community service providers through the BOS Network, online tools, business plan assistance, capital investment and other funding opportunities, and employment assistance.

Lastly, the TPA will contract out payroll and accounting services to a third-party provider. Based on cost estimates received, it is expected that the cost for contracting out these services will be approximately \$64,000 annually. Payroll services will cost approximately \$4,000 annually, and accounting services will cost \$60,000.

Based on a history of ongoing decreases in funding, work2future will continue to engage in continuous process refinements and additional streamlining subject to Board and City approvals.

Table 2 provides a staffing and cost comparison between current and proposed service delivery models based on the full annual cost for providing these services by the City and information received from non-profit Workforce Investment Boards surveyed by staff. In addition, a report of Nonprofit Compensation Associations entitled “Fair Pay for Northern California Nonprofits: The 2012 Compensation & Benefits Survey Report” was consulted to determine a baseline with data from nonprofits that provided similar employment and training programs within social service agencies.

Table 2: Direct Individual Client Services – Annual Savings

City Service Costs		
Service/Position (2013-2014 Base)*	# FTE	Budget
Staff Costs **	23.0	\$2,510,091
Temporary Staff Costs	19.0	\$1,163,530
Total In-House Costs	42.0	\$3,673,621
TPA Service Costs		
Staff Costs***	39.0	\$2,730,243
Payroll and Accounting Services	N/A	\$64,000
Total Contract/Admin Costs	39.0	\$2,794,243
Annual Savings		\$879,378

* As of March 2013.

** Regardless of the proposed transitioning of direct client services to a TPA, 1.0 Network Technician would have been recommended for elimination as part of the 2013-2014 Proposed Operating Budget. Further, there is no savings in overhead reimbursement since overhead is only charged for the Administrative positions which are remaining with the City.

*** Payroll and accounting services will be provided through a third-party vendor.

Non-personal program expenditures incurred by the TPA in 2013-2014 will continue to be managed by the work2future City staff. This will allow the TPA to establish a baseline to determine an appropriate non-personal budget for 2014-2015. The projected annual savings of approximately \$880,000 may be used for additional client services that may include, but not be limited to workshops or trainings, supportive services to clients, and case management services.

Service Delivery Evaluation Decision-Making Criteria

1. What is the potential impact on public employees currently providing the service and on the workforce in general with respect to issues such as workload, productivity, diversity, and availability of measures to mitigate negative impacts? Impacts will specifically be evaluated relative to the City's core values (Integrity * Innovation * Excellence * Collaboration * Respect * Celebration).

Adoption of the proposed service delivery model will result in the reduction of 18 filled positions (as of March 2013) over a nine-month period. The Administration will mitigate impacts to staff to the extent possible through placement and redeployment efforts.

Integrity – Under the proposed service delivery model, City staff will continue to provide oversight, monitoring, and auditing functions for the TPA to ensure continued positive performance outcomes.

Innovation – The TPA will use technology developed by the work2future Program to continue to maximize the number of clients who can be effectively served with fewer staff through an enhanced case management system and web-based job placement tools. By transitioning direct client services to a TPA, the TPA provides the flexibility to reduce costs, serve additional clients, and continue to generate new discretionary funding opportunities.

Excellence – The TPA will invite permanent and temporary unclassified work2future staff, most of whom are certified workforce development professionals, to apply for positions with the TPA. Recent customer satisfaction survey data on staff-provided services indicates a high level of client satisfaction (approximately 90%).

Collaboration – City staff will work closely with the TPA to ensure that the proposed service model is designed and implemented in a collaborative and respectful manner with Board, City Council, and client input.

Respect – OED/work2future management has been holding informational meetings with staff regarding the proposed alternative service delivery model. The City and the TPA will implement an appropriate change management effort and will continue to keep work2future staff informed of decisions likely to impact them.

2. Is it practical for City staff to provide the proposed service (versus being precluded by proprietary, supply chain, or other factors)?

No. Shifting client service delivery to the TPA will allow work2future to provide more services to more clients more effectively. In addition, implementation of the proposed service delivery model will improve work2future's operational flexibility and responsiveness, encourage innovation, and streamline program operations and oversight.

Without action to implement cost and service delivery efficiencies, ongoing decreases in formula funding, federal Sequestration actions, and SB 734's training expenditure requirements will impact work2future's ability to maintain current service delivery levels and monitoring activities. In addition, the TPA will work to alleviate the impacts to service delivery and enhance services by raising additional discretionary funds.

3. Is there limited market competition for the service or other reasons that the City directly providing the service would protect public interests from default or service interruption?

No. The public interests would continue to be protected from default or service interruption if services are provided directly through the TPA. The TPA will be subject to work2future Board direction. The TPA will receive funding from the City through a grant subrecipient agreement according to the annual allocations from the State of California Employment Development Department. In addition, the TPA will be required to adhere to WIA regulations and meet Department of Labor performance goals, and will be subject to oversight and monitoring by the City. Other WIBs statewide successfully provide services by contracting with nonprofit foundations.

4. Is there currently a City staff unit capable of and interested in developing a managed competition proposal?

No. Pursuing the managed competition path will be difficult with the work2future division because their regular work does not generally require the skills necessary for such an effort. The managed competition process allows for staff training in order to develop these skills; however, this would require a very significant effort. The estimated \$190,000 cost of managed competition training for staff, provided as part of the 2012 business case analysis for airport parking and traffic control, included \$100,000 for consultant services and \$90,000 in lost staff time due to training for and participation in the managed competition effort. The cost for such a managed competition process would not be reimbursable from the federal government and the General Fund would have to pay for such costs. At this time, there are no funds allocated for such an effort. The proposal would include utilizing a current work2future manager to assist with the managed competition effort. Allocating staff time to a managed competition process would make it difficult if not impossible to achieve federal performance standards.

5. Is the workload sufficiently steady to support a permanent workforce (versus episodic)?

No. Fluctuations in service delivery demand have been addressed through the use of temporary unclassified (TU) personnel. These positions are hired on an as-needed basis to address significant increases in the local unemployment rate and to administer grants in response to plant closures and mass layoffs. WIA funding fluctuates regularly as a function of volatility in local unemployment. In addition, work2future has successfully secured a significant number of grants over the past three years, from \$1 million to \$5 million, to support workers dislocated due to large layoffs, such as NUMMI, Cisco and Solyndra. Based on these two factors, work2future hires temporary workers to provide services under these short-term grants.

6. Is a City interest served by being a long-term direct service provider, such as avoiding future costs?

No. Based on ongoing funding reductions and new legislation impacting California WIBs, the City's interest would not be served by continuing as a direct service provider. However, the City's interests will be served by retaining City oversight of service delivery and reporting and monitoring requirements at this time. In addition, work2future's service delivery mandate extends beyond the borders of San Jose and includes eight cities with-in Local Workforce Investment Area (LWIA) of the southern portion of Santa Clara County. Given that work2future has a wider service delivery area, the City's decision-making should consider the needs and interests of the entire area.

7. Is the service model likely to improve the quality, customer satisfaction, and/or responsiveness for the same or lower cost, with particular focus on the General Fund?

Yes. A nonprofit TPA would be able to obtain grants through foundations that would not be available to government entities. In addition, work2future is now able to pursue grants from national and regional foundations and various organizations that would not otherwise donate to a government entity.

The proposed service model will establish an efficient, nimble and flexibly-managed service delivery program through a TPA with continued fiscal and administrative oversight by City staff as fiscal agent. The use of a TPA as a direct service provider will allow current service levels to continue and will maintain the customer satisfaction and strong performance outcomes that the City, work2future's Board of Directors and staff have achieved over the last nine years. Please note that the work2future Program relies fully on federal funding.

8. Do local, state and federal laws, regulations, and funding guidelines restrict the method of service delivery, and if so can these restrictions be changed?

No. The method of service is not restricted; however, services must be provided pursuant to the Workforce Investment Act's regulations and funding guidelines. These regulations cannot be substituted. However, WIA and its regulations may be changed based on WIA reauthorization.

9. What risks to the City and public do the service delivery models present, and how would these risks be managed?

The City currently possesses expertise regarding WIA regulations, processes, oversight and monitoring. If the new service delivery model is not approved, ongoing funding reductions will result in reductions to trained staff. The work2future Program will be challenged to continue the necessary program and fiscal oversight and monitoring, increasing the potential for disallowed costs that must be paid from the General Fund. If the program were to remain with the City, staff reductions would be required due to federal funding reductions and the impacts of SB 734. These reductions could include staff allocated to oversight and monitoring. Insufficient oversight and monitoring could result in disallowed program costs. If the work2future program or the TPA is charged with disallowed costs, the City, as fiscal agent, is responsible to cover the amount of the disallowed cost(s) per federal regulations.

In addition, if the new service delivery model is not approved, work2future will not be able to maintain the same level of resources or have the necessary flexibility and speed to maintain

and enhance current service delivery under the ongoing mandated training requirements of SB 734, which can carry budgetary impacts from one year to the next. The increase of dollars allocated to training decreases funding available to provide other workforce development services, such as case management and supportive services. Therefore, transitioning direct client services to a TPA generates cost savings that will mitigate the impacts of future funding reductions and SB 734.

If the new service delivery model is approved and implemented, some of work2future's highly qualified staff may not want to leave City employment to join the TPA. This risk will be mitigated through a coordinated City redeployment and placement plan, early identification of those employees who will remain with the City, and a prioritized and streamlined TPA hiring process.

10. Is the City able to cost-effectively maintain the specialized skills, technology, and equipment needed for the service?

No. It would not be cost effective for the City to maintain the skills needed for the direct delivery of services because the ongoing impacts to federal funding discussed in Question 9 above would require the City to reduce staffing for the delivery of services to the 5,000 clients served annually as well as the administration and monitoring of the program. These reductions would jeopardize the City's ability to meet performance goals and avoid disallowed costs.

11. Does the service delivery model maximize the leveraging of prospective non-City resources (such as sponsorships and donations)?

Yes. A third party can leverage non-City and non-WIA resources to support work2future's mission and key Board initiatives and to take advantage of funding opportunities that a municipal government cannot access.

In addition to grant funding opportunities, the TPA can explore ways to enhance its responsiveness to business through fee-for-service arrangements outside City procurement processes and approvals. The TPA would be able to provide these services at a lower cost than the City as the City would need to hire additional staff in order to implement a fee for services model.

12. Is there management and administrative capacity to support the in-house workforce or contract oversight needed?

Yes. Under the new model, the City will retain 17.3 FTEs to provide oversight/monitoring of TPA service delivery, subcontractor agreements, and vendor contracts.

Public/Private Competition Policy (Policy 0-29)

Based on the documented annual savings, the 2013-2014 Proposed Budget will include a recommendation that the Mayor and City Council choose not to implement the Public Private Competition Policy (Council Policy 0-29).

Next Steps

Key Milestones

Preliminary Work2future Board Approval of Budget

Stakeholder Outreach/Meet and Confer

City's 2013-2014 Proposed Operating Budget

Released

Business Case finalized and released to the City Council

Work2future Executive Committee Approval of Budget

City Council approves 2013-2014 Adopted Operating Budget

Work2future Board Final Approval of Budget

Transition to new service delivery model

Schedule

March 21, 2013

April - May 2013

May 1, 2013

May 2013

June 6, 2013

June 18, 2013

June 21, 2013

July 2013-March 2014

PRELIMINARY