CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Ed Shikada

**SUBJECT: 2012-2013 PRELIMINARY
ALTERNATIVE SERVICE DELIVERY
EVALUATIONS**

DATE: January 19, 2012

Approved _____   Date   1/19/12

INFORMATION

This memorandum identifies services considered for a service delivery evaluation as part of the 2012-2013 budget process and outlines the alternative service delivery evaluation process timeline.

BACKGROUND

Ten consecutive years of budget shortfalls have created significant service delivery challenges for the City. Budget reductions have necessitated and catalyzed innovative approaches to service delivery and staff has been successful on many fronts in initiating numerous process improvements and cost avoidance projects in order to continue providing high-quality customer service at an affordable cost. The City has also 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. Some examples include:

- Public/private partnerships with volunteer groups and private entities such as the Friends of the San Jose Rose Garden, Adobe Systems (McEnery Park), and O&M agreements with developers and communities for various 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
- 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 significant budget shortfalls during the last three years, in addition to making continuous improvements and leveraging volunteers and partnerships, the City has also had to evaluate which services need to be delivered by the City versus non-City entities. During the last two 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 services for the public and City staff while reducing the cost for services. Where the service delivery evaluation through the business

case analysis and subsequent RFP processes have so demonstrated, recommendations to contract out services have been made by the City Manager and approved by the City Council.

In the 2011-2012 Mayor's June Budget Message as approved by the City Council, the City Manager was directed to review and consider additional opportunities to contract out, at a minimum, Real Estate, Park Maintenance, Accounting/Payroll, Fleet Services, and Workers' Compensation services to prepare for next year's anticipated budget shortfall. As of December 2011, the 2012-2013 Preliminary General Fund shortfall was anticipated to be about $25 million and the Administration believes it is in the City's best interests to continue to pursue efforts to reduce the cost of existing services while preserving the service level to the community or internal customers.

City Council Policy 0-41, Service Delivery Evaluation, 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 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 the Administration to inform the City Council of such proposals no later than the end of February which coincides with the release date of the "City Manager's Budget Request and Five-Year Forecast and Revenue Projections for the General Fund and the Capital Improvement Program."

Staff began exploring opportunities for alternative service delivery much earlier than prior years and is bringing forward this memorandum in January instead of February in order to adjust resources and workloads for affected departments as well as staff from Purchasing, the Office of Employee Relations, and the City Attorney's Office in support of the service delivery evaluation effort. Recognizing that the analytical capacity to evaluate these service delivery models has diminished, unless otherwise directed by Council, staff will be focusing efforts on only those service delivery evaluations which, based on our initial review and the last few years of experience with the process, could result in significant efficiencies and cost savings.

Over the past year, the City's experience in implementing alternative service delivery models has demonstrated that a successful implementation must account for an adequate transition period and the cost of oversight by staff including effective contract management. These elements will continue to be a focus as we evaluate future alternative service delivery models.

ANALYSIS

In accordance with Council Policy 0-41, the service areas that are or will be undergoing a business case analysis shortly are identified below. The preliminary business cases will be shared with the City Council and will be posted on the City's web-site as they are completed.

Responsible Department	2012-2013 Service Delivery Evaluation
Airport	Airport Parking and Traffic Control
Police	Crossing Guards
ESD/Finance/ITD	Recycle Plus Billing and Customer Services
PRNS	Parks Maintenance
Human Resources/City Attorney's Office	Workers' Compensation

The Administration will continue to analyze these proposals and conduct stakeholder outreach over the next few months to determine whether to include the results of the service delivery evaluations as budget proposals in the 2012-2013 Proposed Operating Budget. The business cases will be updated periodically as new information becomes available and the analysis is refined. Stakeholder meetings that are being held to discuss the preliminary business cases will be posted on the City's web-site. Further, for each of the alternative service delivery evaluations identified above, the Administration will meet and confer with affected City employee bargaining units, as applicable.

In addition to the five services listed above, staff is also conducting further analysis and evaluation of the following services to determine whether to proceed with a formal business case analysis, subject to the outcomes of the steps described below. Staff will keep Council updated on the analysis and findings at appropriate times in the process, for each for the areas listed below.

Responsible Department	Service Delivery Models Needing Further Evaluation
Finance/HR	Accounting Payroll/Benefit *Determine outside interest and ability to provide payroll/benefit functions – RFP has been released and proposals are currently under evaluation.*
Public Works	Fleet *As approved at the December Transportation and Environment Committee, a pilot will be initiated to compare cost and performance metrics for leased vehicles (20) and O&M only for City vehicles (20).*
Library	Library *(1) RFI to be released to determine outside interest and ability to provide staffing for four branch libraries (Bascom, Calabazas, Educational Park, and Seven Trees) whose openings have been deferred as a budget balancing strategy. (2) Feasibility study underway to determine viability of an opt-in option into the County Library system.*
DOT	Parking and Traffic Control *Conduct preliminary research to learn about alternative service delivery models in other jurisdictions; determine next steps based on this research.*

Responsible Department	Service Delivery Models Needing Further Evaluation
DOT/DPW	Sanitary Sewer *A package of additional repair projects beyond the current resource capacity of DOT's in-house sewer repair program was competitively bid by Public Works and is underway. Once completed, the projects will be analyzed to determine the cost effectiveness and performance of the outside vendor.*

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.

In addition to the ten service delivery areas listed above, staff is continuing to explore other streamlining and alternative service delivery opportunities as part of the 2012-2013 budget process. Some examples include Accounts Receivables, Animal Care Services, Information Technology, and Real Estate. Any potential efficiency improvements and cost savings currently being considered in these and other areas do not require a business case analysis since it affects less than four FTEs or are the result of efficiency gains. However, 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 2012-2013 Proposed Operating Budget.

SERVICE DELIVERY EVALUATION TIMELINE

The table below outlines next steps and timeline for City Council consideration of alternative service delivery models. The actual implementation of any approved alternative service delivery models may vary based on the specific work plans.

Date	Steps
Jan. 2012 – Feb. 2012	Develop and release of preliminary business case analyses through Information Memoranda
Jan. 2012 – March 2012	Meet and Confer process* (if applicable)
Jan. 2012 – June 2012	Procurement process (if applicable)
March – April 2012	Conduct internal and external stakeholder outreach
May 1, 2012	Release of the 2012-2013 Proposed Operating Budget which may contain services recommended for outsourcing and efficiency proposals
May 2012	Release of final business cases as part of the Manager's Budget Addenda process
June 2012	City Council consideration of the Mayor's June Budget Message, approval of the 2012-2013 Adopted Operating Budget, and approval of related contract awards

Depending on scope of discussions, this step in the process could extend to June 2012 for some alternative service delivery models

For questions regarding this memorandum, please contact me at (408) 535-8190.

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