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City Manager's Office

Memorandum

**TO: HONORABLE MAYOR
AND CITY COUNCIL**

**FROM: William F. Sherry, A.A.E.
Director of Aviation**

**SUBJECT: Airport Public Safety
Outsourcing Preliminary
Business Cases**

DATE: February 1, 2011

Approved

Date 2/2/11

FOR INFORMATION

The City Council approved the Airport Competitiveness Strategic Plan in May 2010 that provided a policy framework to guide efforts to ensure that Mineta San Jose International Airport (SJC) will continue to be a cost-competitive and attractive facility to retain and recruit air service and airlines to serve Silicon Valley. As part of this strategy, the Council approved direction to evaluate alternative methods of delivering services that could reduce the SJC cost per enplaned passenger (CPE) and to bring recommendations to City Council so that implementation could take effect July 1, 2011.

Among these competitive strategies is the major potential for more cost-effective methods for providing law enforcement and airport rescue and fire fighting (ARFF) services at the Airport. This information memo provides an update on the status of these two initiatives and the next steps that staff is taking to complete the research and analysis required by Council policy.

Over the past several months Airport Operations staff has evaluated several approaches to provide safety and security services at SJC that could reduce costs, maintain appropriate levels of service, and meet regulatory requirements of the Federal Aviation Administration and Transportation Security Administration. Airport staff has worked with San Jose Police and Fire Departments to develop alternative staffing plans that could further reduce the cost of using these City-provided and Airport-funded services.

Staff also has met with other airports and local corporate/federal facility managers to investigate practical options for contracting out airport law enforcement and fire services. As a result of these investigations, staff has identified the use of contract law enforcement and contract fire services in place of SJPD and SJFD services as having the greatest potential for achieving the Airport's competitiveness cost reduction goals, as well as providing opportunities to enhance safety and security for both the Airport Department and the travelling public.

For both functions, the Airport and the Administration have developed a preliminary business case under Council Policy 0-41 – Service Delivery Evaluation. The policy requires a business case analysis to evaluate service delivery changes that could result in the addition, deletion, or reclassification of four or more fulltime equivalent employees.

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Staff also has developed two Requests for Proposals, one for contract police and one for contract fire services at the Airport. The Airport is working the Finance Department/Purchasing to coordinate the RFPs and ensure process integrity. The RFPs are scheduled to be released this week, and proposals are due back in early March.

Data from the RFP responses will be used to prepare final business case analyses in order to update and validate staff's assumptions and findings in the preliminary analyses. The final business case analyses and staff recommendations will be brought to the City Council no later than early May this year for Council consideration. Contingent on Council action this spring, this compressed schedule is necessary to make it possible for the Airport to meet its goal of completing the transition to contract services by July 1, the beginning of FY 2011-12. This will enable the airport to achieve significant planned budget savings that will maintain a competitive CPE.

The possibility of outsourcing services also triggers "meet and confer" requirements with the affected bargaining units and outreach to other stakeholders. The Office of Employee Relations has begun this effort and it will continue over the next several months with both formal and informal stakeholder outreach meetings to gather additional input for the final business case analyses.

Schedule Target	Milestone
January:	▪ Begin stakeholder outreach, continuing through April
Early February:	▪ Release RFPs for contract police and fire services
Early March:	▪ RFPs due
March-April:	▪ Evaluation of proposals and due diligence; ▪ Complete outreach efforts
Late April-Early May:	▪ Final Business Case Evaluations; ▪ Staff recommendations to Council; ▪ Council action

/s/

William F. Sherry, A.A.E.

Director of Aviation

For questions, please contact William F. Sherry, A.A.E., Director of Aviation, at (408) 501-7600.

Attachments:

- A. Airport Law Enforcement Alternative Service Delivery Preliminary Business Case
- B. Airport Rescue and Fire Fighting Alternative Service Delivery Preliminary Business Case

Contract Law Enforcement Services – Airport
Preliminary Business Case Analysis
1/31/2011

Current Service Model:

The San Jose Police Department provides law enforcement services at the San Jose Mineta International Airport to include response to security related issues per Transportation Security Administration (TSA) regulations, assistance with traffic control/enforcement, visible deterrent for crime prevention and K9 operations to support cargo and baggage screening. The Airport annually serves approximately 4.1 million enplaned passengers – and another 4.1 million deplaned (arriving) passengers. Law Enforcement services also include response to airport tenant issues related to criminal activity and federal regulations. Service details are provided below:

- The San Jose Police Department – Airport Division (SJPD-AD) substation is located at the Mineta San Jose International Airport and reports directly to a Police Captain in the Bureau of Field Operations. Services are currently provided by a staff of 41 officers plus an administrative assistant (42 FTE total). SJPD-AD overtime is not controlled by the Airport Department, but by local command staff at SJPD-AD. However, the airport budgets \$283,498 annually for overtime coverage, training and contingency operations.
- In addition to SJPD-AD, the Airport utilizes contract security guards and Airport Operations staff to comply with the TSA security requirements and security related issues.
- Current SJPD-AD staffing levels consist of 1 Sergeant and 6 officers on both day and swing shift, and 3 officers on the midnight shift. Additional staffing includes the Airport's K9 program, (1 Sergeant and 4 officers) and Administration (1 lieutenant, 1 Sergeant & 1 administrative assistant). A combined total of 42 FTEs.
- The Airport is open for business 24 hours per day, 7 days per week, regular SJPD-AD shifts coincide with the same 10 hours per day, 4 days per week schedules that are in effect downtown. This schedule creates excessive overlap between shifts and double coverage each Wednesday at a direct cost to the Airport.
- As detailed below; costs for the SJPD-AD (42 FTE) for the 2010-2011 Modified Base Budget is approximately \$11 million, which is made up by Personal Services, Salary, Benefit costs (includes Health, Dental, Unemployment, etc.), Retirement, and 41.82% in overhead which serves as revenue to the General Fund. Additional non-personal allocations are made for general staffing supplies, vehicles and equipment and are included in the above base budget. Overtime and non- personal budgeting and spending has no Airport Department oversight.

FY 10-11 Base Staff (42 FTE)

Salary	\$4,843,674
Retirement	1,807,223
Other Fringe	827,726
Overhead	2,025,624
Overtime (coverage, training and contingency	283,498
Overtime (Aviation Security)	1,100,000
Non-personal	124,612
	\$11,012,357

- The SJPD-AD works closely with the Airport Operations Divisions, the Airlines, other Airport Tenants and the TSA to support necessary security services in a way that meets the customer's needs, ensures safety

and fulfills regulatory requirements. Under this new model, this cooperative team approach with the contractor will continue.

- Organizationally the Airport and SJPD-AD has over the last two budget cycles, reduced staffing to assist the airport in meeting its budgetary constraints. In FY 09-10, SJPD-AD reduced staffing by 4 officers. Subsequently, in FY 10-11, SJPD-AD reduced staffing by 1 Captain, 1 Sergeant and 2 additional officers. Even with the overall reduction of 8 FTE between 2009 and 2011, additional increases in salary, retirement and overtime resulted in only \$1,000,000 savings to the Airport.

New Service Model Concept:

The Airport recommends proceeding directly to contract law enforcement services. The Airport's fiscal constraints, growing labor costs, excessive overhead and runaway retirement costs, and the Airport's need to remain competitive have required that the Airport look at alternative service models in a variety of areas, including law enforcement support. The option to contract out Airport law enforcement services was identified in the Airport competitiveness Strategic Plan as a possible mechanism to reduce costs and improve services. TSA regulations allow for outsourcing in accordance with the provisions of CFR 1542. This new model would result in an ongoing annual savings of \$7.5 million beginning in FY 2011-12. However, the proposal would require the reassignment and absorption of 41 police officers and one Senior Office Specialist by the San Jose Police Department; although a small number might be laid off depending on available vacancies.

The most significant benefit of this model is cost savings, however the model also provides flexibility to meet the staffing needs in the new terminal and provide additional services to the Airport, tenants and passengers that do not exist today. Contract staff will be paid for hours on the job providing services. SJPD-AD 4/10 shifts, excessive overlap and overstaffing for vacation, worker's comp and other absences, results in approximately 32,448 hours per year in excessive costs to the Airport for unneeded services. This additional unneeded hourly impact results in an ongoing annual cost to the Airport approximately \$3.5 million. Additionally, overhead paid to the city for police services that would not be paid for contract employees is approximately \$2 million per year. These two totals combined make up approximately \$5.5 million of the anticipated \$7.5 million savings as a result of contract law enforcement services. The other \$2 million in savings is a result of unit costs for the SJPD officers.

The Airport has considered both the availability and cost of providing adequate supervision and administration for outsourcing. The Airport Operations, Security Section, currently administers a contract for unarmed guard security services. This section would assume responsibility for managing the contract law enforcement services as well.

Table 2 provides a cost comparison between in-house and out-sourced services.

**Table 2. Cost Comparison to Provide Contract Law Enforcement Services
In-house vs. Contracting Out in FY2011-12**

Service/Position	Budget
In-House Law Enforcement Service	
Salary	\$4,843,674
Retirement	1,807,223
Other Fringe	827,726
Overhead	2,025,624
Overtime	1,383,498
FY2011-12 Total	\$11,012,357
Contracted Law Enforcement Services	
Regular Time	\$2,814,034
Holiday Time	\$112,950
Contingency	\$573,016
Comparable Contractual Total	\$3,500,000
Projected Ongoing Annual Savings	\$7,512,357

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).

Although this proposal eliminates a large number of SJPD positions from the Airport, it is this type of proposal – “a new way of doing business” that is necessary to pursue given the Airport’s current financial situation. It is imperative that the Airport evaluate all services and seek to be cost competitive or less expensive than the other Bay Area airports. Over the past two years, the Airport has eliminated approximately 200 positions, including the Custodial out-sourcing. This represents a 50% reduction in staff, all this while we are modernizing and making plans to open and operate a “New Airport”. These are very difficult decisions, but they must be considered given our current situation. In contrast, during that same two year period, SJPD-AD has reduced staff by only 17.6% or 9 FTEs.

The impact will result in the need to reassign and absorb 41 police officers and one Senior Office Specialist by the San Jose Police Department; although a small number might be laid off depending on available vacancies. If contracting out this service is not approved by Council the Airport would still need to achieve \$7.5 million in savings through staff reductions or revenue enhancements. In order to close this gap, the Airport would face alternatives that may be impossible to achieve.

These would include:

- further substantial reductions in Airport costs, services, and additional positions, which would create the real risk of not being able to meet federal and airline requirements for airport operations;
- a subsidy from the General Fund in some form, such as a direct transfer of funds or a waiver of City overhead charges for Airport staff and public safety personnel, which would complicate the City's own budget challenges; or
- increases in Airport rates and charges that would increase the CPE to a non- competitive level for airlines as well as costs to passengers.

Given that the Airport is trying to attract new business and more passengers as well as be competitive, now is not the time to cut back on the existing customer service levels that have been established. The Airport has also transitioned into a common use facility and the air carriers expect certain service level to be achieved in a 24/7 environment. The use of contract staff with a strong and clear scope of work, and performance measure requirements can achieve savings while still maintaining a safe and secure environment.

Contract law enforcement services can and will incorporate collaboration with various stakeholders including the Airlines and TSA to ensure mutual success in the provision of services, and innovation in staffing and scheduling. The contract can provide both incentives for peak performance through performance indicators, as well as disincentives such as penalties for non compliance or response concerns. It is anticipated that City staff displaced by the proposal could be potential hires for the contract service provider.

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

This could be practical; however it is not financially viable. The Airport has to make some very difficult business decisions and has to prioritize very limited resources. The cost for these services, when performed SJPD staff is approximately \$11 million annually. If services were contracted out the Airport would receive the similar services for an annual cost of approximately \$3.5 million. A savings of approximately \$7.5 million annually will result. The Airport has been dealing with reduced passenger activity for the past several years, the way we sustain and increase airline and passenger activity will be to offer quality services at lower costs. In order to be competitive, the Airport must make difficult decisions to control costs and reduce expenses to the extent possible. The Airport also has to have the flexibility to temporarily reduce staff while still meeting security and safety requirements if passenger levels continue to fluctuate as they have been. This would be much more achievable with contract staffing in place as opposed to full-time SJPD staff.

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?

There are numerous firms that handle contact law enforcement services for large scale, high profile facilities. There are approximately 4 or 5 large contracting firms in this area and many others with the capabilities of expanding to the Bay Area. Transportation Security Regulation 1542 allows commercial airports to use private law enforcement personnel, or contract security services, to meet TSA-mandated security requirements. Hawaiian Airports operated by the State of Hawaii, including Honolulu, Maui and Kona airports, have successfully used contract law enforcement to meet TSA requirements for the past twelve years. Additionally, the City of Syracuse, New York recently issued a letter of interest for private security services to replace Syracuse Police due to excessive costs. The Airport will require labor peace to cover any potential contractor or service interruptions.

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

The potential for this service to be outsourced was introduced back in March 2010 at an Airport Study Session with City Council. Since that time, the Airport did not begin discussions nor did the SJPD POA union representatives express interest in developing a managed competition proposal. However, the Airport has worked closely with SJPD-AD representatives on a staffing reduction plan that would provide significant

budget savings. The San Jose Police Department's efforts to reduce costs in collaboration with the Airport were outstanding. However, the police staffing proposal fell significantly short (\$4 million) of meeting the Airport's budget forecast. The Airport is also mindful of the union's exclusive representation rights as well as the right to bargain over wages, hours and working conditions. If the managed competition proposal were undertaken, it is estimated this process would take at least 18 months and staff would need to hire an outside consultant to develop the managed competition proposal as well as it would be necessary to allocate staff time to this process. The allocation of staff time necessary to collect additional data and write a proposal could include at least 100 plus hours that are not currently funded. The other issue is that given the anticipated shortfall in funding the Airport can not afford to wait 18 months to achieve the savings needed. Each month of delay to this proposal is estimated to cost over \$916,000. Additionally, given the current contractual cost structure, it is evident that through contract labor, the Airport will be able to save approximately \$7.5 million annually.

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

Yes, the Airport is required, per TSA regulations, to have law enforcement personnel in the number and manner adequate to support its security program and the screening of passengers and accessible property. Based on the Airport's TSA approved security program, the airport layout and passenger traffic, the Airport has established minimum staffing levels based on time of day. Additionally, contractual services would give the Airport the ability to increase or decrease resources rapidly as changes occur in the aviation security environment.

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

No, given the current economic situation there is no interest in being a long term direct service provider. The Airport is in situation where it needs to be competitive and cost is a very large factor in being as efficient as possible. Airlines, as direct rate payers are looking to reduce any and all costs while ensuring passenger safety, security and effective and timely service. If the Airport were able to contract out this service the savings would be millions of dollars each year. SJPD staff cost the Airport on average approximately \$108 per hour (fully loaded rate) whereas contract staff (with prevailing wage) cost the Airport approximately \$42 per hour. On an hourly basis the cost for contract staff is 61% less than City staff. Contracting out also gives the Airport the ability to flexibly staff these services during peak times and the Airport receives 100% productive hours at all staffing levels. There is sufficient competition in the industry so finding expert and experienced contractors to compete for providing the services is expected to be readily available long-term.

The ability to contract these services places the Airport in a more stable financial environment. Not only are the overall cost savings significant, but any ongoing annual increases will be based on Cost of Living Adjustments (COLA) and not subject to the unpredictable circumstances of SJPD retirement, benefits and overhead. Over the past 2 years, SJPD-AD assisted the Airport in achieving an overall reduction of 8 FTE. However, during this same time period retirement cost paid by the Airport increased approximately \$600,000.

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?

There are several potential advantages to contract law enforcement for the Airport, including:

- It would result in significantly lower costs while providing staffing levels equivalent to or greater than proposed SJPD-AD staffing to support the Airport's security program.
- The Airport would be able to meet budget forecasts and ensure its cost-effective service delivery to maintain a competitive CPE and competitive operating costs for airlines at SJC.

- The Airport also would be able to establish and assign other duties for contract law enforcement staff relating to customer service enhancements and Airport operation's support that do not exist today.
- Contract law enforcement could result in greater consistency in operating protocols and procedures by eliminating the regular staff transitions that currently occur with SJPD staffing through semi-annual shift bidding, duty changes and changes in unit leadership.
- Contract law enforcement staff would be trained and certified to meet appropriate TSA and California standards.

It is anticipated that the Airport will get the same and/or more efficient services for a lower cost. Quality performance measures and flexible hours of services can be effectively maintained via contractual requirements. By utilizing an outside contractor, the Airport has the ability to set multiple parameters based on TSA requirements, operational needs and current threat levels. Flexibility is a major factor in this situation and decision. Due to City staff paid holidays, vacation and sick time, the same level of service would be maintained with less FTEs by a contracting company. Once this transition is completed, general fund annual revenues will be reduced by approximately \$2 million as a result of the elimination of the 42% police service personnel overhead that is charged to the Airport enterprise fund.

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?

The TSA requires the Airport to provide law enforcement officers or private law enforcement personnel in the number and manner adequate to support its security program and the screening of passengers and accessible property. The requirements also specify an approved training program and minimum qualifications. These restrictions are specified in CFR 1542 and not subject to change without TSA approval. The RFP will provide sufficient detail to ensure the selected contractor meets all federal, state and local requirements.

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

Risks associated with the proposed service delivery model are minimal and any potential impacts can be overcome through training standards and qualification requirements of the contract, as well as establishing a cooperative working relationship with the San Jose Police Department in the event of an arrest. In the rare occurrence that contract law enforcement has no other alternative but to arrest an Airport customer, SJPD would be notified to respond to the Airport to take custody of the individual for transport and booking, at their discretion. This handoff of the customer between contractor and city PD staff has the potential for delay due to SJPD response times depending on activity levels within the City. Under these circumstances, the Airport and the contractor would have to establish a method and location for holding arrested individuals until they can be transferred to San Jose PD custody.

A potential challenge from the use of contract law enforcement would be in the area of interagency communication and coordination. This is a vital concern in the event of a significant security-related incident at the Airport. In a large incident, the Airport would continue to require the support of SJPD and possibly other surrounding agencies, much as the current case with any large corporate campus such as San Jose State University, eBay or Cisco. Although contract law enforcement would be responsible for the initial response at the Airport, any escalation in the scale or complexity of an incident likely would require additional support from San Jose Police Department. In conjunction with SJPD and other agencies, the Airport would need to establish effective communication and response protocols for security incidents of this

nature or emergencies, and ensure that training, exercises, and coordination for back-up can be managed effectively.

Numerous VIP operations occur at the Airport throughout the year and the San Jose Police Department works cooperatively with Airport staff to organize logistics and support surrounding these events. As SJPD would not have on-site staff, under the proposed service delivery, additional advance coordination would be required to support this activity. The Airport has staff with appropriate security clearance levels to support advance coordination with Federal, State and local agencies and communication protocols can be implemented to ensure a smooth transition for these operations.

Due to the expected cost difference between private security and the current model, the Airport anticipates the ability to increase staffing levels of private law enforcement officers above the staffing levels currently in place with SJPD. This staffing increase will allow for enhanced and more frequent patrols of the terminal complex as well as increased response capability for security and safety related airline, tenant and passenger concerns. Under a contracted service, the Airport also would be able to establish and assign other duties relating to customer service enhancements and Airport operation's support that do not exist today.

In addition, all contract employees will be required to complete and pass TSA mandated background checks and associated airport badging and training requirements. Airport familiarization training and policy and procedure knowledge will be accomplished through an extensive in-house training program prior to performing contract law enforcement services. Mandates for current and prospective Airport, City, state and federal regulations or other policies can be incorporated into scope and contract language and incentives or deterrents (liquidated damages or penalties, etc.) can be used to help ensure compliance and appropriate levels of oversight can be provided with remaining staff. Supervision of the contract will be provided by existing in-house staff. Outreach communication and feedback from local TSA representatives, tenants and customers can be obtained in a number of ways to get continuous quality service from and to the service provider. An additional benefit by going contractual is the requirement for contractors insurance, this would enhance the overall coverage available for liability insurance. The new contract would provide for labor peace to help insure uninterrupted delivery of services, the City would continue to pursue agreements that would support the continuity of service and contingency development.

The Airport would to the extent possible encourage existing staff displaced by this proposal to seek employment with the selected contractor. This provides not only employment to those employees who maybe displaced but would also provide a trained staffing pool for the contractor.

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

No. The specialized skills required for contract law enforcement services at SJC are specified in TSA regulation CFR 1542. These requirements are less stringent than what is required of a sworn police officer. Although TSA has set the minimum standards, it is the Airport's intent to specify standards over and the above the minimums to ensure Airport safety and security. A private contracting firm is able to provide comparable services at a rate of approximately 61% less than City staff would cost. A contracting firm would also able to offer specialized skills and services in customer service and assistance to Airport operations that do not exist in the current service model.

Additionally, the Airport has purchased and maintained, through GSA, a fleet of vehicles equipped for law enforcement services. The exterior of the vehicles can be easily transitioned from displaying the SJPD logo

to a private security logo or a generic "Airport Security" indicator. The Airport also maintains and operates a communication center with direct dispatch capabilities for contract services.

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

The Airport is changing the service delivery model, however the actual service provided will not change. Safety and security of the travelling public and airport tenants is of primary concern. Flexible staffing to accommodate increases or decreases in TSA mandates can be easily achieved as part of the contract scope and performance standards can be met without additional overtime costs or schedule restrictions. By providing quality service at a lower cost to the air carriers, there is a greater potential for the airlines to bring in additional flights to the City's Airport, and a busier Airport provides greater sales tax revenue, it supports the creation of additional jobs and supports a vibrant economy. Failure to remain cost-competitive could seriously jeopardize the City's ability to sustain private investment at the Airport and the resulting economic benefits to the community.

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

Yes, the Airport is prepared to provide close supervision and oversight of a detailed contract for law enforcement services. The Airport Operations, Security Section will administer the contract and provide oversight similar to the oversight and input currently provided to SJPd because of the TSA regulatory requirements and Airport Operations expertise in maintaining compliance with TSA regulatory requirements.

Summary

Because of its unique competitive environment, federal regulatory requirements, and current financial pressures, the Airport has little flexibility to increase revenues or raise rates and charges to airlines. It is for this reason that the Airport is recommending that the City Council proceed directly to private sector contracting so that the Airport will be able to remain competitive, keep its carriers, and obtain more air service. It is critical the City and Airport make difficult business decisions about how we provide cost efficient services. The savings associated with the outsourcing of Airport law enforcement will provide not only reduced costs, but help to ensure that passenger safety and quality service are maintained and protected.

	2009-2010 Adopted	2010-2011 Base	2011-2012 Proposed
Current Model	\$11,870,165	\$11,012,357	(\$7,512,357)
Contractual Model	-	-	\$3,500,000

Public/Private Competition Policy (Policy 0-29)

Due to the extreme savings between City employees and contract employees, it can be reasonably determined that the restructuring of city personnel cannot achieve the significant annual savings by using contract law enforcement personnel.

- Based on this analysis, cost savings, and the urgent need to reduce cost while ensuring existing service delivery level, it is recommended that the City Council choose not to implement Council Policy 0-29 and pursue a managed competition process.

- The business case analysis demonstrates the restructuring of city personnel (SJPD) cannot achieve the significant annual savings that contract law enforcement can provide.
- The Airport acknowledges the importance of jobs/loss, however given the current situation not to pursue this proposal may cause greater reductions to become necessary.

Next Steps

Key Milestones

Draft Business Case

Discussion with Airport Commission

Mayor's Ad Hoc Committee on Airport Competitiveness

Outreach with Union (POA)

Post RFP

Outreach to Stakeholders

RFP Proposals Due

Finalize Business Case

Council Action on Business Case and contractual award

Notify Contractor of Award

Transition to new service delivery model

Redeployment/Transition of affected staff

Schedule

Dec/Jan 2011

Dec - 2010

Jan - Jun 2011

Jan/Feb 2011

Feb 4, 2011

Feb 11, 2011

Mar 8, 2011

Mar 2011

April 26, 2011

May 2011

July 2011

July 2011

PRELIMINARY

Aircraft Rescue and Fire Fighting Services – Airport
Preliminary Business Case Analysis
1/31/2011

Current Service Model:

The San Jose Fire Department provides Aircraft Rescue and Fire Fighting (ARFF) services at the San Jose Mineta International Airport in compliance with Federal Aviation Administration (FAA) regulatory requirements. The Airport annually serves approximately 4.1 million enplaned passengers – and another 4.1 million deplaned (arriving) passengers. Service details are provided below:

- The San Jose Fire Department (SJFD) personnel are housed on-site at the Mineta San Jose International Airport provided Fire Station 20 for the purpose of providing ARFF services in compliance with the performance and equipment standards established by the FAA.
- The ARFF Program is considered to be part of the Special Operations branch of SJFD and therefore oversight for the ARFF Program is provided by the Battalion Chief from Station 29.
- Current SJFD staffing levels consist of 1 Captain; 2 Fire Engineers; and 1 Fire Fighter/Paramedic per 24 hour shift (for a total of 12 FTE). There are currently 3 shifts who work alternating 24 hour shifts.
- As detailed below; costs for the SJFD for the 2010-2011 Modified Base Budget is approximately \$3.5 million, which is made up by Personal Services, Salary, Benefit costs (includes Health, Dental, Unemployment, etc.), Retirement, and 38.07% in overhead which serves as revenue to the General Fund. Additional non-personal allocations are made for FAA required annual training.

FY 10-11 Base Staff (12 FTE)

Salary	\$1,763,667
Retirement	629,462
Other Fringe	339,635
Overhead	671,444
Overtime	74,019
Non-personal	27,831
	\$3,506,058

- The SJFD works closely with the Airport Operations Division, the Airlines, other Airport Tenants and the FAA to provide necessary ARFF services in a way that meets the customer's needs, ensures safety and fulfills regulatory requirements. Under this new model, this cooperative team approach with the contractor will continue.
- Organizationally the Airport and SJFD have reduced staffing to assist the airport in meeting its budgetary constraints. At mid-year of FY 09-10, SJFD reduced staffing by 3 Fire Engineers and 3 Fire Fighters (18 FTE to 12 FTE).

New Service Model Concept:

The Airport recommends proceeding directly to contract ARFF services. The Airport's fiscal constraints, growing labor costs, excessive overhead and runaway retirement costs, and the Airport's need to remain competitive have required that the Airport look at alternative service models in a variety of areas, including ARFF services. The option to contract out Airport ARFF services was identified in the Airport Competitiveness Strategic Plan and the FAA regulations allow for outsourcing as a possible mechanism to reduce costs and improve services. This new model would result in an ongoing annual savings of approximately \$2.25 million beginning in FY 2011-

12. However, the proposal would result in the reassignment and absorption of 12 SJFD personnel; although a small percentage of this number might be laid off depending on available vacancies.

FAA regulations establish the training and competency requirements for personnel performing ARFF services at commercial service airports. These requirements are very specific to the aviation environment and are very different from the requirements that SJFD firefighters are required to meet in other San Jose fire stations. Allowing the contractor to focus on meeting the specialized needs of the aviation environment, without being required to satisfy the training requirements of SJFD that are unrelated to airport operations would allow significant budgetary savings over services delivered by SJFD personnel.

The most significant benefit of this model is cost savings, however the model also provides flexibility to provide additional services to the Airport, tenants and passengers that do not exist today. Contract staff will be paid for hours on the job providing services. SJFD charges the Airport for .5FTE for every 3 FTEs to provide “constant staffing” for vacation, worker’s comp and other absences. This additional unneeded FTE impact results in an ongoing annual cost to the Airport approximately \$252,000. Additionally, overhead paid to the city for ARFF services that would not be paid for contract employees is approximately \$671,000 per year. These two totals combined make up approximately \$923,000 of the anticipated \$2.25 million savings as a result of contract ARFF services.

The Airport has considered both the availability and cost of providing adequate supervision and administration for outsourcing. The Airport Operations, Airside Section, currently administers several contracts for services. This section would assume responsibility for managing the contract ARFF services contract as well.

Table 2. Cost Comparison to Provide Contract ARFF Services In-house vs. Contracting Out in FY2011-12

Service/Position	Budget
In-House ARFF Services	
Salary	\$1,763,667
Retirement	629,462
Other Fringe	339,635
Overhead	671,444
Overtime	74,019
Non-personal	27,831
FY2011-12 Total	\$3,506,058
Contracted ARFF Services	
Salary	\$1,000,000
Contingency	250,000
Comparable Contractual Total	\$1,250,000
Projected Ongoing Annual Savings	\$2,256,058

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).

Although this proposal eliminates a significant number of SJFD positions assigned to the Airport, it is this type of proposal – “a new way of doing business” that is necessary to pursue given the Airport's current financial situation. It is imperative that the Airport evaluate all services and seek to be cost competitive or less expensive than the other Bay Area airports. Over the past two years the Airport has eliminated approximately 200 positions, including the custodial outsourcing. This represents a 50% reduction. These are very difficult decisions, but they must be considered given our current financial situation.

The direct impact of this proposal will be 12 filled positions resulting in potential layoff or redeployment of SJFD staff. If contracting out this service is not approved by Council, the Airport would still need to achieve approximately \$2.25 million in savings through staff reductions or revenue enhancements. If contracting out ARFF services is not approved by Council, the Airport would face alternatives that may be impossible to achieve. The alternatives might include a further substantial reduction in Airport costs, services and staff which would create the real risk of not being able to meet federal and airline requirements for airport operations; a subsidy from the General Fund in some form, such as a direct transfer of funds or a waiver of City overhead charges for Airport staff and public safety personnel, which would complicate the City's own budget challenge; or increases in Airport rates and charges that would increase the CPE to a non-competitive level for airlines as well as costs to passengers.

Given that the Airport is trying to attract new business and more passengers as well as be competitive, now is not the time to cut back on the existing customer service levels that have been established. The Airport has also transitioned into a common use facility and the air carriers expect certain service level to be achieved in a 24/7 environment. The use of contract staff with a strong and clear scope of work, and performance measure requirements can achieve savings while keeping service levels high.

Contract ARFF services can and will incorporate collaboration with various stakeholders including the Airlines and FAA to ensure mutual success in the provision of services. The contract can provide both incentives for peak performance through performance indicators, as well as disincentives such as penalties for non compliance or response concerns. It is anticipated that City staff displaced by the proposal could be potential hires for the contract service provider.

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

This could be practical; however it is not financially viable. The Airport has to make some very difficult business decisions and has to prioritize very limited resources. The cost for these services when performed by SJFD staff is approximately \$3.5 million annually. If services were contracted out the Airport would receive the similar services for an annual cost of approximately \$1.25 million. A savings of approximately \$2.25 million annually will result. The Airport has been dealing with reduced passenger activity for the past several years, the way we sustain and increase airline and passenger activity will be to offer quality services at lower costs. In order to be competitive, the Airport must make difficult decisions to control costs and reduce expenses to the extent possible.

FAA regulations establish the training and competency requirements for personnel performing ARFF services at commercial service airports. These requirements are very specific to the aviation environment

and are very different from the requirements that SJFD firefighters are required to meet in other San Jose fire stations. One of the primary advantages of contract ARFF services is that a contractor could focus on meeting the specialized needs of the aviation environment without being required to satisfy the other training requirements of SJFD that are unrelated to airport operations. Such focused training would allow significant budgetary savings over services delivered by SJFD personnel.

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?

Airport staff have identified a minimum of three firms who are able to provide contractual ARFF services at Airports. Examples of airports using contractual ARFF services include but are not limited to; Bob Hope Airport in Burbank California, Will Rogers World Airport in Oklahoma City, Port Columbus International Airport in Columbus Ohio, FedEx Corporation – Hub Operations in Memphis Tennessee (direct contract with FedEx not with Airport) and Roanoke Regional Airport in Roanoke Virginia.

Because the FAA regulatory requirements are very specific to the aviation environment, Airport staff believe that contractual services may actually provide improved service because the contractual services provider will be able to better focus on these specialized needs. The Airport will also require Labor Peace in the RFP/Contract for these services to cover any contractor or labor based service interruptions.

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

The potential for this service to be outsourced was introduced back in March 2010 at an Airport Study Session with City Council. Since that time, the Airport did not begin discussions nor did the SJFD unit's union representatives express interest in developing a managed competition proposal. However, SJFD worked with Airport staff to decrease staffing (6 FTEs) in 2010 in accordance with reduced flight activity. SJFD continued to pursue additional alternative measures to decrease costs, but could not provide a proposal that did not conflict with union work requirements. SJFD should be commended for their efforts to develop alternative proposals. The Airport is also mindful of the union's exclusive representation rights as well as the right to bargain over wages, hours and working conditions. If the managed competition proposal were undertaken, it is estimated this process would take at least 18 months and staff would need to hire an outside consultant to develop the managed competition proposal as well as it would be necessary to allocate staff time to this process. The allocation of staff time necessary to collect additional data and write a proposal could include at least 100 plus hours that are not currently funded. The other issue is that given the anticipated shortfall in funding the Airport can not afford to wait 18 months to achieve the savings needed. Each month of delay to this proposal is estimated to cost over \$187,500. Additionally, given the current contractual cost structure, it is evident that through contract labor, the Airport will be able to save approximately \$2.25 million annually.

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

Yes, the Airport is required, per FAA regulations to have adequate staffing in the number and manner adequate to support commercial aircraft operations. Based upon the Airports' Airport Certification Manual, as approved by the FAA, we are required to provide ARFF services during operating hours. Although the Airport has a curfew program which typically prevents commercial aircraft operations between 11:30 p.m. and 06:30 a.m., the Airport remains open 24 hours per day for delayed flights, diversions from other bay

area airports and emergency operations. Additionally the use of contractual services would allow the Airport to more efficiently increase or decrease staffing levels in the event passenger volumes change dramatically.

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

No, given the current economic situation there is no interest in being a long term direct service provider. The Airport is in situation where it needs to be competitive and cost is a very large factor in being as efficient as possible. Airlines, as direct rate payers are looking to reduce any and all costs while ensuring that customers receive effective and timely service. If the Airport were able to contract out this service the savings would be millions dollars each year. Contracting out also gives the Airport the ability to flexibly staff these services in the event passenger activities significantly increase or decrease. There is sufficient competition in the industry so finding expert and experienced contractors to compete for providing the services is expected to be readily available long-term.

The ability to contract these services places the Airport in a more stable financial environment. Not only are the overall cost savings significant, but any ongoing annual increases will be based on Cost of Living Adjustments (COLA) and not subject to the unpredictable circumstances of SJFD retirement, benefits and overhead.

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?

There are several potential advantages to contract ARFF services for the Airport, including;

- Contractual ARFF services would result in significantly lower costs while providing equivalent staffing levels in accordance with FAA regulatory requirements.
- The Airport would be able to meet budget forecasts and ensure cost-effective service delivery to maintain a competitive CPE and operating costs for airlines operating at or considering new service to our Airport.
- Contractual ARFF services might be able to provide enhanced services providing an improvement in customer services to our tenants. Other Airports who have migrated towards contractual ARFF services have found contractors are typically more flexible and have less restrictive work rules.
- Contractual ARFF services could greatly enhance consistency in operating protocols and procedures by eliminating regular staff transitions that currently occur with SJFD staff due to shift bidding and changes in unit leadership.
- Contract ARFF services can focus on meeting the specialized needs of the aviation environment without being required to satisfy the other rigorous training requirements of SJFD that are unrelated to airport operations. Such focused training would allow significant budgetary savings over services delivered by SJFD personnel.
- Contractual ARFF services would be solely dedicated to meeting the needs of the Airport and our tenants and would not be tasked with administrative duties in support of SJFD. Airport staff believes that this increased focus would make the contractor a much more efficient service provider.

It is anticipated that the Airport will get the same and/or more efficient services for a lower cost. Quality performance measures and flexible hours of services can be effectively maintained via contractual requirements. By utilizing an outside contractor, the Airport has the ability to set multiple parameters based on FAA requirements and operational needs. Flexibility is a major factor in this situation and decision. Due to City staff paid holidays, vacation and sick time, the same level of service would be maintained with less

FTEs by a contracting company. Once this transition is completed, general fund annual revenues will be reduced by approximately \$671,000 as a result of the elimination of the 38% SJFD personnel overhead that is charged to the Airport enterprise fund.

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?

FAA regulations establish the standards for ARFF services at commercial service airports. These regulations do not restrict the service delivery methodology as long as the regulatory requirements are maintained.

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

Risks associated with the proposed service delivery model are minimal and any potential impacts can be overcome through training standards and qualification requirements. FAA regulations establish the training and competency requirements for personnel performing ARFF services at commercial service airports. These requirements are very specific to the aviation environment and are very different from the requirements that SJFD firefighters are required to meet in other San Jose fire stations. One of the primary advantages of contract ARFF services is that the contractor can focus on meeting the specialized needs of the aviation environment without being required to satisfy the rigorous training requirements of SJFD that are unrelated to airport operations. Such focused training would allow significant budgetary savings over services delivered by SJFD personnel.

Additionally, contract ARFF services also would enhance the stability of staffing at the Airport since the contractor would not be subject to the regular transitions caused by routine shift bidding and changes in unit leadership of current operations. These periodic staff transitions can contribute to inconsistencies in operational protocols and procedures as new staff members become familiar with the Airport and the specialized role of ARFF personnel. Although contract ARFF services will experience some level of turnover, other airports with contract services have indicated that the amount of staff movement is significantly lower, which enhances operational consistency.

A potential challenge/risk from the use of contract ARFF services would be in the area of interagency communication and coordination. This is a vital concern if there is an incident requiring off-site assistance from SJFD or other fire agencies providing mutual aid. If City Council directs Airport staff to pursue contract ARFF services, the Airport will need to establish effective communication and response protocols for incidents requiring additional emergency responders, and ensure that training, exercises, and coordination for back-up can be managed effectively.

SJC is an FAA certificated commercial service airport and as such requires strict adherence to all applicable FAA regulations and advisory circulars, with respect to ARFF services, to ensure the safety and security of the traveling public. The RFP and subsequent contract will require the contractual ARFF services provider to abide by all Federal, State and local requirements as well as all Airport Rules and Regulations, FAA approved Airport Certification Manual and Airport Emergency Plan. Additionally the ARFF contractual services provider will be required to undergo continuous testing by Airport Operations to ensure compliance with the contract terms and conditions as well as the FAA regulatory requirements. The contractual ARFF services provider will also be subject to annual inspections by the Airport's assigned FAA Certification Inspector

An additional benefit by going contractual is the requirement for contractors insurance, this would enhance the overall coverage available for liability insurance. The new contract for ARFF services will provide for labor peace to help insure uninterrupted delivery of services, the City would continue to pursue agreements that would support the continuity of service and contingency development.

The Airport would to the extent possible encourage existing staff displaced by this proposal to seek employment with the selected contractor. This provides not only employment to those employees who maybe displaced but would also provide a trained staffing pool for the contractor.

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

The Airport currently owns 3 ARFF vehicles and all of the required specialized equipment and accessories for each ARFF vehicle. These ARFF vehicles were purchased with FAA grant funding and will be utilized by the contractor and maintained by the Airport Department. Specialized training, as required by the FAA, is specifically listed in FAA regulatory documents and incorporated into the SJC Airport Certification Manual and approved by the FAA.

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

The Airport is changing the service delivery model; however the actual services provided will not change. The FAA regulatory requirements remain the same regardless of the delivery model. Contract scope and performance standards will be designed to ensure the highest level of service at the most cost effective price. By providing quality service at a lower cost to the air carriers, there is a greater potential for the airlines to bring in additional flights to the City's Airport, and a busier Airport provides greater sales tax revenue, it supports the creation of additional jobs and supports a vibrant economy.

In fact, given that the funding needed for ARFF services is primarily generated from the private sector, pursuing the proposed contracted service delivery model is likely an important factor in the Airport's ability to remain cost-competitive. Failure to remain cost-competitive could seriously jeopardize the City's ability to sustain private investment at the Airport and the resulting economic benefits to the community.

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

Yes, the Airport is prepared to provide close supervision and oversight of a detailed contract to provide ARFF services. The Airport has considered both the availability and cost of providing adequate supervision and administration for outsourcing. Airport Operations, Airside/Terminal Section, will administer the contract and provide oversight similar to the oversight and input currently provided to SJFD because of their expertise in maintaining compliance with FAA regulatory requirements.

Summary

Because of its unique competitive environment, federal regulatory requirements, and current financial pressures, the Airport has little flexibility to increase revenues or raise rates and charges to airlines. It is for this reason that the Airport is recommending that the City Council proceed directly to private sector contracting so that the Airport will be able to remain competitive, keep its carriers, and obtain more air service. It is critical the City and Airport make difficult business decisions about how we provide cost efficient services. The savings associated

with the outsourcing of Airport ARFF services will provide not only reduced costs, but help to ensure that quality service and infrastructure are maintained and protected.

	2009-2010 Adopted	2010-2011 Base	2011-2012 Proposed
Current Model	\$4,035,217	\$3,506,058	(\$2,256,058)
Contractual Model	-	-	\$1,250,000

Public/Private Competition Policy (Policy 0-29)

Due to the extreme savings between City employees and contract employees, it can be reasonably determined that the restructuring of city personnel cannot achieve the significant annual savings by using contract law enforcement personnel.

- Based on this analysis, cost savings, and the urgent need to reduce cost while ensuring existing service delivery level, it is recommended that the City Council choose not to implement Council Policy 0-29 and pursue a managed competition process.
- The business case analysis demonstrates the restructuring of city personnel (SJFD) cannot achieve the significant annual savings that contract ARFF services can provide.
- The Airport acknowledges the importance of jobs/loss, however given the current situation not to pursue this proposal may cause greater reductions to become necessary.

Next Steps

Key Milestones

Draft Business Case
 Discussion with Airport Commission
 Mayor's Ad Hoc Committee on Airport Competitiveness
 Outreach with Union (IAFF)
 Post RFP
 Outreach to Stakeholders
 RFP Proposals Due
 Finalize Business Case
 Council Action on Business Case and contractual award
 Notify Contractor of Award
 Transition to new service delivery model
 Redeployment/Transition of affected staff

Schedule

Dec/Jan 2011
 Dec - 2010
 Jan - Jun 2011
 Jan/Feb 2011
 Feb 1, 2011
 Feb 9, 2011
 Mar 4, 2011
 Mar 2011
 April 26, 2011
 May 2011
 July 2011
 July 2011