



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: William F. Sherry, A.A.E.

**SUBJECT: ALTERNATIVE SERVICE
DELIVERY PROPOSAL –
AIRPORT PARKING AND TRAFFIC
CONTROL**

DATE: May 10, 2012

Approved

Date

5/10/12

This Manager's Budget Addendum provides additional information regarding the proposed alternative service delivery proposal for the Airport Parking and Traffic Control program.

BACKGROUND

In May 2010, the City Council directed the Administration to take the necessary steps to continue to keep costs to airlines at a competitive level so that the Airport can successfully recruit and retain air service. The Airport Department (Airport) identified the highest priority and most practical items to keep costs to the airlines low as reflected in the Airport's Cost per Enplanement (CPE). An information memorandum regarding the status of these actions taken over the past two years was submitted to the City Council on October 4, 2011. Among the items noted in the report that had a potential for cost reductions was outsourcing the Parking and Traffic Control function.

On January 19, 2012, the Administration provided the Mayor and City Council with an information memorandum entitled "2012-2013 Preliminary Alternative Service Delivery Evaluations", which listed the Airport Parking and Traffic Control program as one of the services that was undergoing a preliminary business case analysis as part of the 2012-2013 Proposed Budget process.

In accordance with Council Policy 0-41, the Airport is submitting the attached final business case analysis for Airport Parking and Traffic Control Officers (APTCO) services.

ANALYSIS

The Airport Department has completed the business case analysis evaluating a new service delivery model that would outsource the Parking and Traffic Control function (See Attachment A). As outlined in the 2012-2013 Proposed Budget document, this recommended model generated about \$1 million in ongoing savings for the Airport by expanding an existing city-wide security contract, reducing airport staffing by 20 total PTCO positions and reassigning the remaining 1.5 supervisory and management staff positions to other functions at the Airport.

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The business model change will result in the bumping of fifteen current employees (five positions are vacant) to Department of Transportation (DOT) PTCO positions in accordance with Civil Service regulations. The Human Resources Department has identified potential redeployment opportunities in the City for PTCOs, which may minimize the laying-off of displaced DOT employees. The qualifications of the PTCOs will need to be evaluated with the potential openings to determine how many will be able to be redeployed during the six-month transitional period.

The transition of PTCOs from the Airport to the DOT will extend through December 2012 to minimize training and productivity impacts associated with a single large staff reallocation. Five PTCOs will be transferred by the end of June, five by the end of September and the last five by the end of December. If the City Council approves this recommendation, Human Resources, Airport and DOT staffs will work together to assign and transition employees.

In early April 2012, the City provided notice to the affected bargaining unit, the International Union of Operating Engineers, Local #3 (OE#3) regarding the changes and transition plan being considered as described herein. Upon request from OE#3, the parties met on May 8, 2012. Staff will be providing information requested by OE#3 and additional meetings, if needed, will be scheduled as necessary.

While the most significant benefit of the proposed model is cost savings of approximately \$1 million, it also provides flexibility to meet the staffing needs for the Airport curbsides and facilities, and provides additional services to the Airport, tenants and passengers that do not exist today. Contracted staffing would maintain responsibilities within the terminal buildings and on the airfield ramps which PTCOs currently are not able to perform, as well as the limited curbside security services provided each day. In addition, contracted PTCO staff would provide expanded services at the curbsides, as well as additional services such as crowd control during specified or emergency events; coordination with SJPD for security or traffic control activities, airside or landside; and will permit the flexibility needed for more effective and efficient use of staffing resources.

If approved by the City Council, the proposed business model will require that the City Manager grant authority to the contract staff for issuance of citations for Airport rules violations, minor curbside and parking offenses and traffic control. Further, if this recommendation is approved, the Security Services agreement with the current vendor will be amended to include the new scope of work for these curbside services at the Airport. Since the current city-wide security services contract is scheduled to expire in spring 2013, staff plans to issue a Request for Proposal in summer 2012 that will include the Airport security services and parking control needs.

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, working jointly with the SJPD, would assume responsibility for managing and coordination of the contract curbside management services as well.

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PUBLIC OUTREACH

A public stakeholders meeting for interested parties, including airline carriers, union representatives, and airport tenants was conducted on May 9, 2012. Two stakeholders were in attendance, including one Airport PTCO and a representative from an airport tenant, and no comments were received.

COORDINATION

This Manager's Budget Addendum (MBA) has been coordinated with the Department of Transportation and the Office of Employee Relations.

/s/ Kimberly B Aguirre for
William F. Sherry, A.A.E.
Director of Aviation

Attachment: Airport Parking and Traffic Control - Preliminary Business Case Analysis,
4/26/2012



**Airport Parking and Traffic Control
Preliminary Business Case Analysis
4/26/2012**

Current Service Model:

The Airport Operations Division, through the use of Parking and Traffic Control Officers (PTCO's), provides curbside management, traffic control, parking enforcement and customer service for the terminal curbsides and parking facilities at the Mineta San Jose International Airport. The Airport annually serves approximately 4.2 million enplaned passengers and another 4.2 million deplaned (arriving) passengers.

- The Curbside Management Program is part of the Airport Operations Division and works closely with the San Jose Police Department (SJPD), the San Jose Fire Department (SJFD), the Airlines, other Airport Tenants and the Transportation Security Administration (TSA) to support necessary curbside and security services in a way that meets the customer's needs, ensures safety and fulfills regulatory requirements. Under the proposed model, this cooperative team approach with the contractor will continue.
- The Curbside Management Program consists of 20 PTCO's managed by one Airport Operations Supervisor and one half-time of an Airport Operations Superintendent who also has management responsibility for the Airport's parking program (21.5 FTE total assigned to Curbside Management).
- In addition to the PTCOs, the Airport utilizes contract security guards to comply with curbside control, TSA security requirements and security related issues.
- The Airport operates 24 hours per day, 7 days per week and 365 days per year. The PTCO's are scheduled in shifts from 5:00 AM through 11:30 PM and the contract guard service manages the curbs from 11:00 PM to 5:00 AM on a daily basis, including all holidays and weekends.
- Organizationally the Airport has, over the last three budget cycles, reduced staffing to align Airport expenditures to Airport revenues. Specifically, PTCO Staffing was adjusted during the New Airport construction process and further reductions were made upon completion of the Terminal Area Improvement Program (TAIP) due to a much improved roadway configuration.
- An annual cost for the Airport's Curb Management Program (20.0 FTE PTCO, 1.5 FTE management staff and 12 hours per day of contractual services) is approximately \$2.15 million. These costs are made up of Personal Services costs (salary, benefits (includes Health, Dental, Unemployment, etc.), and retirement), Overtime (holiday and constant staffing), City overhead, non-personal (uniforms) and contractual services.

New Service Model Concept:

City Council directed the Administration in May 2010 to take the necessary steps to continue to keep costs to airlines at a competitive level so that the Airport can successfully recruit and retain air service. Airport staff identified the highest priority and most practical items to keep costs to the airlines low as reflected in the Airport's Cost per Enplanement (CPE). An information memo regarding the status of these actions taken over the past two years was submitted to the City Council on October 4, 2011. Among the items noted in the report that had a potential for cost reductions was outsourcing the Parking and Traffic Control function. In order to further reduce costs while providing curbside safety and security services, the Airport recommends contracting out the entire curbside management service. This new model would result in ongoing Curbside Management Program annual savings of approximately \$1.2 million by reducing 20.0 FTE Parking and Traffic Control Officer positions and the reallocation of 1.5 FTE management positions.

The implementation of the new service model will be recommended in the 2012-2013 Proposed Operating Budget. Budget actions for FY 2012-2013 include the transitional reduction of Parking and Traffic Control

personal service savings of \$1,352,489, a reduction in the uniform allowance of \$4,250, a reduction of \$163,072 in overhead, offset by a partial year increase for additional contractual services of \$672,282. The total Airport net reduction with this business model change for 2012-2013 is \$847,529 and over \$1 million ongoing.

The remaining 1.5 staff would be redeployed as follows; The 0.5 FTE Airport Operations Superintendent of the Curbside Management group will be redeployed to fill operational needs in the parking management section due to staff reductions in that section. Additionally, the Airport is undergoing an organizational restructuring in a variety of areas. The 1.0 Airport Operations Supervisor position (currently vacant due to staff retirement) will be analyzed and potentially reclassified as part of the overall organizational changes. The position will remain vacant while the restructuring is in process. The redeployment of the 1.5 FTE management staff will be a savings to the Curbside Management Program, but cost neutral to the Airport Fund.

The most significant benefit of this model is cost savings, however the model also provides flexibility to meet the staffing needs for the Airport curbsides and facilities, and provide additional services to the Airport, tenants and passengers that do not exist today. Contracted staffing would assume responsibilities within the terminal buildings and on the airfield ramps which PTCO's currently are not able to perform. From crowd control during specified or emergency events to coordination with SJPD for security or traffic control activities, airside or landside, the flexibility allows for more effective and efficient use of staffing resources. Contract staff will be paid for hours on the job providing services. Currently PTCO shift coverage, due to vacation, workers' compensation and other absences results in reduced curbside coverage and requires the use of overtime to achieve minimum staffing levels. A contractor would be responsible for full staffing at all times at a fixed hourly rate. If approved by the City Council, this proposal will also require that the City Manager grant authority to the contract staff for issuance of citations for Airport rules violations, minor curbside and parking offenses and traffic control.

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, working jointly with the SJPD, would assume responsibility for managing and coordination of the contract curbside management services as well.

Table 1 provides a cost comparison between in-house and out-sourced Airport Curbside Management Services. This table compares the full cost for service 24 hours a day, including the 6 night-time hours where contract services are currently provided.

**Table 1. Cost Comparison to Provide Contract Curbside Management Services
In-house vs. Contracting Out***

Service/Position	Annual Curbside Management Program costs
In-House Curbside Management Service 24/7	
(20.0) Parking and Traffic Control Officers	
Salary	\$945,119
Retirement	470,145
Other Fringe	207,927
Overhead @ 21.10%	199,420
Overtime	34,000
(0.5) Airport Operations Superintendent **	
Salary	\$38,818
Retirement	19,603
Other Fringe	8,076
Overhead @ 21.10%	8,191
(1) Airport Operations Supervisor ***	
Salary	\$69,664
Retirement	35,181
Other Fringe	5,039
Overhead @ 21.10%	14,699
Non-Personal Uniforms	4,250
Contractual guard services (current)	
2 x 6 hrs x 359 days x \$19.57	84,308
2 x 6 hrs x 6 holidays x \$27.00	1,944
Total	\$2,146,384
Contracted Curbside Management Services 24/7	
Contractual guard services	
6 x 20 hrs + 2 x 4 hrs x 359 days x \$19.57	\$899,281
6 x 20 hrs + 2 x 4 hrs x 6 days x \$27.00 (holiday)	20,736
Comparable Contractual Total	\$ 920,017
Projected - Curbside Management Program Ongoing Annual Savings	\$1,226,367

* 2012-2013 Transition costs: The reduced savings in the first year is based on the phased in transition that reduces 10 PTCO positions on June 24, 2012, 5 positions by the end of September 2012 and the final 5 positions by the end of December 2012. Full savings are expected starting in January 2013 when the full transition to contracted staff is completed.

** Airport Operations Superintendent is currently assigned 50% to Curb Management and 50% to Parking Operations. The position will be assigned 100% to Parking Operations due to earlier reductions in Parking Operations staff.

*** Airport Operations Supervisor will be analyzed and potentially reclassified as part of the Airport Department's overall organizational changes.

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 the PTCO 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. This represents a 50% reduction in staff, all while modernizing, opening and beginning to operate a “New Airport”. The decision to outsource staff is very difficult, but new business models must be considered given our current situation and the growing cost of City staff.

The reduction in positions will result in the reassignment of employees to Department of Transportation PTCO positions in accordance with Civil Service regulations. Human Resources has identified potential redeployment opportunities in the City for PTCO's, which may minimize laying-off of employees. The qualifications of staff will need to be evaluated with the potential openings to determine how many PTCO's will be able to be redeployed during the transition. The transition of the remaining fifteen PTCOs at the Airport will extend through December 2012 with five PTCOs transferring to the Department of Transportation by the end of June, five by the end of September and 5 by the end of December to minimize training and productivity impacts associated with a single large staff reallocation. If the City Council approves staff's recommendation, Human Resources, Airport and Transportation Department staffs will work together to assign and transition employees which, depending on the dates of position availability, may impact the proposed schedule above.

If contracting out this service is not approved by the City Council, the Airport would still need to achieve \$1.23 million in annual ongoing savings. In order to close this gap, the Airport would face alternatives that may be impossible to achieve.

Alternatives include:

- further substantial reductions in Airport costs, services, and additional position reductions, which would create the real risk of not being able to meet federal and airline requirements for airport operations;
- increases to Airport rates and charges that would increase the Cost per Enplanement (CPE) to a non-competitive level for airlines which may create an environment of reduced flights, as well as increased costs to passengers.

Given that the Airport is trying to attract new business and more passengers as well as be cost and service competitive with other bay area airports, now is not the time to cut back on the existing customer service levels that have been established (as indicated in the above alternatives). 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 curbside management services can and will incorporate collaboration with various stakeholders including Airport Operations, SJPD, SJFD and TSA to ensure mutual success in the provision of services, and innovation in staffing and scheduling. The contract can provide liquidated damage penalties for non-compliance or response concerns. City staff displaced by this proposal may 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)?

City staff can provide this service; however, it is not cost-effective. 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 City employees and complemented with contractual staff is approximately \$2.15 million annually. If services were fully contracted out the Airport would receive the similar services, plus additional flexibility to provide services within the terminals and on the airside ramps, for an annual cost of approximately \$920,000 and \$1.23 million in annual program savings. The Airport has been dealing with reduced passenger activity for the past several years, and offering quality services at lower costs is one way to sustain and increase airline and passenger activity. 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 activity levels continue to fluctuate. Flexibility would be much more achievable with contract staffing in place as opposed to full-time PTCO 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 curbside management services for large scale, high profile facilities. There are multiple security service companies that have responded to a recent Request for Proposals process for security services that has resulted in the contracted guard service currently in use at the Airport. The Airport requires labor peace assurances from contractors to address any potential contractor or service interruptions.

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

Pursuing the managed competition path will be difficult with the airport parking and traffic control group as their regular work does not require the skills that are necessary for such an effort. The managed competition process allows for staff training in order to develop these skills, however, this will require a significant effort. Based on previous work efforts, one time expenses are estimated to be \$190,000 including \$100,000 for consultant services and \$90,000 in lost staff time due to training for and participation in the managed competition effort. The proposal would include utilizing a current Airport Operations Supervisor in aiding with the managed competition effort.

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

Yes, the Airport is required, per TSA regulations, to have curbside management personnel in the number and manner adequate to support its security program. 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 due to the substantial cost savings. The Airport is in a situation where it needs to be competitive and cost is a very large factor in being as efficient as possible. Airlines, as direct ratepayers 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 significant. PTCO staff cost the Airport on average approximately \$43 per hour (fully loaded rate) whereas contract staff (with living wage requirements) cost the Airport approximately \$20 per hour. Contracting out also gives the Airport the ability to flexibly staff these services, as well as the ability to provide additional services not currently feasible with City PTCO staff, and the Airport receives 100% productive hours at all staffing levels. There is sufficient competition in the industry, and finding expert and experienced contractors to compete for providing the services is therefore 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 potentially higher per hour increases due to PTCO retirement and benefits costs.

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 contracting curbside management for the Airport, including:

- It would result in significantly lower costs while providing staffing levels equivalent to or greater than current staffing to support the Airport's customer service and 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 would be able to establish and assign other duties for contract curbside management staff relating to customer service enhancements and Airport operation's support that do not exist today.
- The Airport Operations Superintendent will be able to focus 100% of his time on the \$24 million per year parking program revenues, the parking facility operator and the installation and maintenance contract with the parking and revenue control system manufacturer. Additional attention will provide more oversight, improved customer service and a higher probability of increased revenues needed by the Airport.
- Contract curbside management could result in greater consistency in operating protocols and procedures and potentially increased job responsibilities in tasks not currently approved for PTCO's.
- Contract curbside management staff would be trained to meet appropriate SJPD, TSA and Airport standards.

It is anticipated that the Airport will get the same and/or more efficient services at 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 traffic levels. Flexibility is a major factor in this model. Due to City staff paid holidays, vacation and sick time, the same level of service provided by a contractor would be maintained with fewer FTEs. Once this transition is completed, General Fund funded functions will not provide the indirect support for these positions resulting in the reduction of overhead revenue to the General Fund of approximately \$200,000.

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 method of service is not restricted, however training to meet SJPD and TSA requirements at the Airport will be required of any staff working in curbside management services. Similar training has already been undertaken by the contracted security guard services. Pending City Council authorizations, the contract staff would be authorized to issue Administrative Citations as well as City Parking Citations for violation of the municipal code related to parking and related curbside violations.

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 similar regardless whether the work is performed by City staff or contract staff. Potential impacts can be overcome through labor peace commitments, training standards, detailed job and post orders and personnel qualification requirements of the contract, as well as continuing a cooperative working relationship between the contractor, Airport Operations, SJPD and the TSA.

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 in-house training programs prior to performing curbside management services. Mandates for current and prospective Airport, City, state and federal regulations or other policies can be incorporated into scope and contract language.

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 may be 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. Although TSA has set the minimum standards, it is the Airport's intent to specify standards over and above the minimums to ensure Airport safety and security. A private contracting firm is able to provide comparable services at a rate of approximately 57% less than City staff would cost. A contracting firm would also be able to offer specialized skills and services in customer service and assistance to Airport operations that do not exist in the current service model.

The Airport maintains and operates an Airport Operations Center with direct communication 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 and in the process improving the service levels provided by the curbside management positions. The contracted staff will have the capability to provide additional services in and around the terminal and passenger processing areas, as well as better support security needs when incidents occur as 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 oversight of a contract for curbside management services. The Airport Operations, Security Section currently administers the contract for guard services within the Security Section and will similarly provide oversight for the additional contractual duties. Contract oversight will be absorbed by existing management staff.

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 curbside management will provide not only reduced costs, but also help to ensure that passenger safety and quality service are maintained and protected.

Public/Private Competition Policy (Policy 0-29)

Due to the significant savings to contract out this service while complying with TSA and SJPD requirements, it can be reasonably determined that these cost savings cannot be achieved through utilization of City staff.

- Based on this analysis, cost savings, and the urgent need to reduce cost while ensuring existing service delivery level, the 2012-2013 Proposed Budget document will include a recommendation 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 cannot achieve the significant annual savings that contract curbside management can provide.
- The Airport acknowledges the importance of jobs/loss, however given the current economic situation, not to pursue this proposal may cause greater reductions to become necessary.

Next Steps

Key Milestones

Preliminary Business Case
Conduct Stakeholder Outreach/Meet and Confer
Finalize Business Case
City Council Amendment of Contract
Transition to new service delivery model

Schedule

April 2012
Late April-May 2012
June 2012
June 2012
Late June 2012 - December 2012

PRELIMINARY