



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: SEE BELOW

DATE: May 12, 2008

Approved

Christine J. Sheppley

Date

5-16-08

COUNCIL DISTRICT: City-Wide

**SUBJECT: REPORT ON REQUEST FOR INFORMATION (RFI) TO EXPLORE THE
FEASIBILITY OF OUTSOURCING THE CITY'S CENTRAL
WAREHOUSE OPERATIONS**

RECOMMENDATION

Report on Request for Information and direct the Director of Finance to develop and issue a formal Request for Proposal (RFP) for the purpose of potentially outsourcing the City's Central Warehouse Operations in accordance with the City's Public Private Competition Policy.

OUTCOME

To provide a status report on the analysis for potentially outsourcing the Central Warehouse operations in accordance with the City's Public Private Competition Policy and set parameters for a Request for Proposal and potentially resulting contract(s).

EXECUTIVE SUMMARY

This memorandum discusses the results of the Request for Information (RFI) to potentially outsource the City's Central Warehouse Operation; the City's Public Private Competition Policy; and the parameters for the issuance of a Request for Proposal to outsource the City's Central Warehouse Operation.

BACKGROUND

On March 21, 2006 (Item 9.1), the City Council, through the adoption of the Mayor's March Budget Message for Fiscal Year 2006-2007, directed the City Manager to examine the operations

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of the Central Warehouse and determine whether it is more cost-effective to provide just-in-time service for over 900 stock items through an outside contractor or continue with existing operations through the City's Central Warehouse.

During the last two decades, the trend in the global manufacturing industry has been to invest substantial resources to streamline the supply chain starting with raw materials to intermediate goods resulting in final products. This effort has resulted in Just-In-Time (JIT) contracts which have eliminated the need for warehouses at production facilities. Similarly, for certain commodities, public agencies began to introduce JIT contracts for office supplies and food purchases. In the early 1990s, public agencies discontinued stocking office supplies in central warehouses and implemented 24 hour desk-top delivery contracts. In the early part of this decade, the Counties of Santa Clara and San Diego closed their respective food warehouses and established JIT contracts with food suppliers to service hospitals, jails, and other social service agencies.

Similar to the manufacturing industry trend, the City's warehouse function streamlined its operations. In the early 1990s, the City closed two warehouses located at the Main and Mabury Yard and consolidated stock items at the Central Warehouse. Additionally, the Central Warehouse replaced its office supply inventory with a Just-In-Time contract, adjusted the combined inventories reflective of the customers' operational needs, and moved stock items, which are required by only one department to departmental operations. For example, HVAC parts and paint supplies, tires and auto parts, traffic signal and light parts were moved to the Facilities and Fleet Maintenance Divisions of General Services and the Street Maintenance Division of the Department of Transportation, respectively.

The City's Central Warehouse, located at the Central Service Yard, stores over 900 items which assist operational departments to achieve daily objectives. Specifically, the Warehouse stocks maintenance items such as janitorial, safety, electrical, and building supplies; tools and batteries; irrigation and landscape supplies; first aid supplies; and office and janitorial paper. The average inventory value is approximately \$400,000 and the average turn-over rate of the inventory is 5.5 to 6.0 times per year. In general, staff selects stock items that are in high demand by operating departments and address the majority of operational needs.

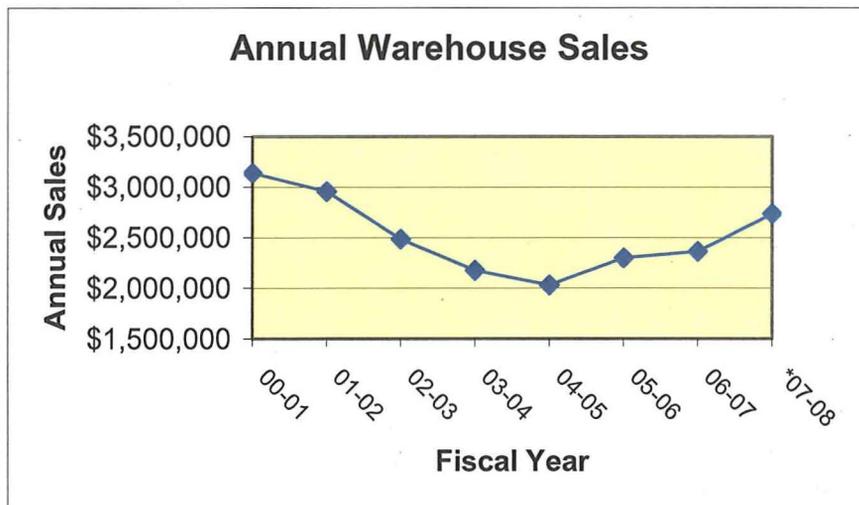
Additionally, the Central Warehouse has served as the central receiving point for deliveries to the Central Service Yard. The operation also has stored and managed materials for a short period, such as pandemic flu medical items, IT equipment, bleachers, infrared lamps, and emergency supplies for the Central Service Yard. To prevent emergencies and during declared emergencies Warehouse personnel have opened the Warehouse with one hour's notice to issue supplies to City crews.

The Central Warehouse operates through the Stores Fund (Fund No. 551). Through this fund, staff purchases inventory off competitively bid contracts. Through volume purchasing, the Warehouse takes advantage of economies of scale. To fund the operation of the Warehouse, when the Warehouse issues stock, it charges a surcharge to the department requesting the stock. The surcharge is reviewed annually and set at a rate which ensures that the warehouse operating

expenditures are covered. Financially, the Central Warehouse operates through the Stores Fund. Expenditures for stock and personnel and operational costs are charged against the fund. The revenue generated through the surcharge pays for the personnel and operational costs.

Since Fiscal Year 2000-2001, the Warehouse Surcharge rate fluctuated between 25% and 35%. Currently, the surcharge is set at 35%, i.e., the Warehouse "sells" stock to the various City departments at the purchase price plus a 35% mark-up. For the remainder of this memorandum the volume of inventory distributed through the warehouse will be referred to as "sales."

With the start of the recession in 2002, which has resulted in budgetary impacts to City operations, the Central Warehouse sales have reduced significantly. As the graph below depicts, the volume of sales dropped to its lowest number in Fiscal Year 2004-2005 and this volume has recovered slightly during the last two fiscal years. In fact, during the last nine months of the current fiscal year, sales increased significantly resulting in a request for additional appropriations for inventory purchases in March of this year. The sales figure for the current fiscal year is annualized based on increased sales activity during the first half of the current fiscal year and is projected to reach \$2.8 million.



* 07-08: The sales figure for the current year is projected to reach \$2.8 million.

ANALYSIS

The analysis section of this memorandum first provides the applicable context of the Public Private Competition Policy as it relates to the City's Central Warehouse operation followed by a discussion of the Request for Information (RFI) process. Through the RFI process, the City requested information from the supplier community to determine the overall cost effectiveness and feasibility of outsourcing the City's warehouse operations. This section concludes with a summary of the parameters for a Request for Proposal, which may result in the recommendation to outsource the central Warehouse operation.

Public Private Competition Policy and Applicability of Policy to Central Warehouse Operations

On March 25, 1997, the City Council adopted Council Policy 0-29, Public Private Competition Policy (see attached policy). The policy describes the goals and guiding principles for the public-private competition process, criteria for selection of services for the competition process, and guidelines for conducting a competition process.

Per the Council Policy, the public-private competition process shall consist of a competitive assessment of the in-house service selected for competition prior to issuing a Request for Proposals. To prepare the Central Warehouse for the public-private competition process, during the last two years, Finance reviewed the allocation of costs for the Warehouse fund, streamlined operations, and discontinued tasks which added little or no value to City operations. Specifically, in cooperation with the Budget Office, Finance reviewed and changed cost allocations reducing the impact to the Stores Fund by over \$100,000. As part of the Fiscal Year 2008-2009 budget process, Finance requested the transfer of 0.5 FTE from Fund 551 to the General Fund.

In addition to the Finance Department's gradual elimination of unrelated costs to the Stores Fund, Finance also reviewed the operations for streamlining opportunities. As a result, Finance will freeze 1.0 Warehouse Worker during the Fiscal Year 2008-2009. The freezing of the one position and the Fiscal Year 2008-2009 proposed budgetary actions results in a cost-neutral impact to the General Fund. Through these actions, the Warehouse will be able to reduce the surcharge from 35% to 30% and issue stock less expensively to departments.

The Warehouse also adjusted its hours of operation to better serve the needs of its clients. Effective March 3, 2008, the Warehouse opening hours changed from 7 a.m. to 6 a.m. and the closing hours from 4:30 p.m. to 3:30 p.m.

Serving customers' needs is the guiding principle for staff at the Central Warehouse. The annual Finance survey and frequent "Kudos" from customers acknowledge that the Warehouse is highly valued for its customer service. Additionally, the Warehouse achieves high marks in its performance measures. In Fiscal Year 2006-2007, the Warehouse filled 100% of all over the counter orders within 24 hours and completed 97% of all deliveries of orders within 24 hours.

The Public Private Competition Policy discusses employment options for potentially displaced City employees. In the event that the recommended Request for Proposal process results in the transfer of the service delivery of the Central Warehouse operation to a contractor, the City intends to avoid lay-offs of affected City employees by following appropriate procedures under the applicable Memorandum of Agreement or Civil Service Rules.

Request for Information (RFI) and Review of Warehouse Operation

To address Council's direction from March 2006 and to determine level of interest from the private sector, Finance issued a Request for Information (RFI) on May 11, 2007, to prospective companies for a Just-in-Time (JIT) contract to replace Warehouse operations. Additionally, staff

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contacted corporate headquarters of major suppliers who carry items stocked in the Warehouse such as maintenance, janitorial, safety, and building supplies. The RFI was developed with the following objectives:

- Provide the supplier community with key data and information about the City's existing warehouse operations.
- Determine if an outsource model is feasible, and the level of supplier interest in bidding on this business if the City were to issue a formal Request for Proposal (RFP) to outsource the operation.
- Request budgetary information on the estimated cost savings the City could potentially achieve if operations were outsourced.
- Identify business requirements.

Nine companies requested the RFI package, and two companies submitted responses by the June 8, 2007 due date. In July, oral interviews were held with Grainger and Extron Logistics to further understand supplier capacity and capability. Grainger is a national supplier of maintenance equipment and supplies with branch locations in Santa Clara County. Extron Logistics is a global supply chain service provider with warehouse operations in Fremont.

Both companies stated the following in their non-binding RFI responses:

- Willingness to purchase the City's existing warehouse inventory at cost (inventory's current estimated value is approximately \$400,000).
- Existence of local warehousing infrastructure, including personnel and warehouse capacity, to meet the City's service and performance metrics.
- Estimated annual cost savings as high as \$900,000 plus the initial buy-out of the City's inventory estimated at a value of \$400,000. These estimated cost savings would be realized in departmental operational budgets.
- The capacity and expertise to meet or exceed existing service levels, including making inventory available to City personnel during declared emergencies at any time within one hour notice.

The Public Private Competition Policy states that the City shall continue to deliver a service in-house in those cases where in-house service delivery results in effectiveness and efficiency, which is equivalent or greater than alternative means of service delivery. Additionally, a service shall be continued to be delivered with City forces, if the potential savings for an outside service provider are less than ten percent for the same level of service provided in-house. Because the potential cost savings, as identified by the respondents to the RFI, are greater than 10%, staff recommends issuance of a Request for Proposal to potentially outsource the Central Warehouse operation.

Request for Proposal and Just-in-Time Contract

In accordance with the goals of the Public Private Competition Policy, the objectives of the RFP will reflect the breadth of qualities necessary to be competitive, the broader public interest, and cost. Therefore, the RFP will contain the following performance specifications mirroring the operational needs of Departments and ensuring that quality products are offered by proposers.

- Lowest prices offered on the 900+ items (referred to as 'Core Catalogue') currently stored at the Warehouse.
- Will-call location for picking up supplies within a 12 mile radius of Downtown San José.
- 99% availability of Core Catalogue items.
- Delivery of supplies to any City department within 48 hours.
- Performance Measures for on-time and accurate deliveries and backorders.
- Minimum storage requirement for supplies needed during a declared emergency.
- Guaranteed product quality in comparison to currently stocked items.
- "Third Tier Review" of employment practices such as employee benefits, employee complaint procedure, and compliance with state and federal workplace standards.
- Corporate and operational demonstration of environmental commitment.

After Council approval, staff will develop and issue the Request for Proposal for a Just-in-Time contract following the schedule as outlined below.

Milestone	Date
Issuance of RFP	July 2008
Proposal Submission	September 2008
Evaluation of Proposals and Final Analysis of Warehouse Operations	September - October 2008
Preparation of Council Memorandum	November 2008
Recommendation to City Council	December 2008

The evaluation team will consist of one representative from Purchasing's Materials Management Unit, a local public agency, the City Manager's Office, and two representatives from customer service departments.

As part of the analysis of Warehouse Operations and per the Public Private Competition Policy, staff will consider proposals as well as the function of the Warehouse as part of the City's emergency response, future investments necessary to ensure long-term viability of Central Warehouse operations, the opportunity cost of the existing Warehouse space, and additional operational costs to administer Just-In-Time contracts and for ordering products from more than one contractor.

Emergency Operations

As discussed above, the RFP and the resulting contract will require that the contractor keep a minimum stock level of certain items available for City personnel to purchase within one-hour notice to prevent emergencies and during emergencies, including nights and weekends.

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Future Investments

In Fiscal Year 2000-2001, the Warehouse installed the current inventory management system. The current system is running on obsolete servers and is no longer supported. Therefore, Warehouse staff is currently exploring utilizing the inventory module from an existing City application. The estimated one-time cost for implementation is approximately \$80,000. The estimated annual maintenance and license fees are expected to be less than \$20,000. Staff will delay the request to appropriate the funds for a new system until returning to Council with a final recommendation regarding Warehouse Operations.

Opportunity Cost for Warehouse Space

The total Warehouse space is approximately 25,000 sq. ft. Currently the lease cost for Class C Office space in geographic area of the Warehouse is between \$1.50 and \$1.75 per sq. ft. The investment cost to design and build office space is estimated at \$200 per sq. ft. Conservatively, assuming a \$1.50 per square foot cost and a consumer price index of 3% in the increase of the per square foot cost of leased office space, the amortization period for the initial development of the Warehouse into office space is expected to be 10 years.

While considering this opportunity cost, it's important to note that there remain City operations in lease spaces or other City buildings being considered for demolition. One such City facility is the old Martin Luther King Library (oMLK) which is planned for demolition as part of the potential Convention Center expansion. The Warehouse could undergo office space improvements to accommodate some of the tenants currently housed at the oMLK.

EVALUATION AND FOLLOW-UP

Upon completion of the evaluation of proposals, staff will make a final recommendation to the Public Safety, Finance and Strategic Support Committee, expected for October 2008.

POLICY ALTERNATIVES

Alternative #1: Do not issue a Request for Proposal to identify a contractor for a Just-in-Time contract and continuously improve Warehouse Operations including an investment into a new Inventory Management System.

Pros: This alternative will ensure the continuation of a well-documented effective service provided by City staff; ensure that City supplies are available during emergencies; and direct staff to continue improving the internal service delivery model.

Cons: This alternative does not promote the identification of an alternative and potentially more cost-effective service delivery model.

Reason for Not Recommending: Given the projected structural deficit for the General Fund and the results of the RFI process, staff believes that at least one contractor potentially can provide the service more economically.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this item does not meet any criteria listed above, the memorandum will be posted on the City's website for the June 3, 2008 Council agenda.

To outreach potential contractors, this RFI was advertised on the City's internet Bidline and the Demand Star bid notification system. In addition, this RFI was emailed to three vendors directly and staff contacted various corporate headquarters to solicit interest in responding to the RFI.

In accordance with the Public Private Competition Policy, this memorandum was distributed to the affected employees and bargaining unit representatives. If Council approves staff's recommendation, the affected employees and bargaining unit representatives will be kept abreast of the RFP process in accordance with Council Policy 0-35, Procurement and Contract Process Integrity and Conflict of Interest.

COORDINATION

This memorandum was coordinated with the Department of General Services, the Office of Emergency Services, the City Manager's Budget Office, the Office of Employee Relations, and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This memorandum is consistent with the general budget principle "We must continue to streamline, innovate, and simplify our operations so that we can deliver services at a higher level, with better flexibility, at a lower cost."

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COST SUMMARY IMPLICATIONS

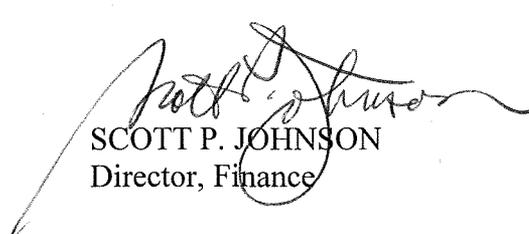
Staff does not anticipate any expenditure resulting from the development and issuance of the RFP. Depending on Council's acceptance of staff's recommendation, staff will report any cost implications resulting from the RFP process at the time of reporting on the results of the RFP process.

BUDGET REFERENCE

Not applicable.

CEQA

Not a project.



SCOTT P. JOHNSON
Director, Finance

For questions, please contact Walter C. Rossmann, Chief Purchasing Officer, at (408) 535-7051.

City of San José, California

COUNCIL POLICY

TITLE PUBLIC PRIVATE COMPETITION POLICY	PAGE 1 of 18	POLICY NUMBER 0-29
EFFECTIVE DATE March 25, 1997	REVISED DATE	
APPROVED BY COUNCIL ACTION		March 25, 1997, Item 9d

BACKGROUND

Over the years, the role of government as a monopolistic provider of public services has evolved into a role as a partner with the private and non-profit sectors in the delivery of public services. Government has chosen to involve others in service delivery due to limited resources, increased demands, and to the recognition that partnerships can leverage the quality and cost-effectiveness of services delivered to the public. At the same time, government continues to deliver many services competitively in-house and also retains the responsibility for core services that require a certain level of government control and accountability.

With an overarching goal of providing quality services to the public in a cost-effective manner, the City of San José mirrors government-wide trends in service delivery. In many cases, the City utilizes the private and non-profit sector to deliver City services, in accordance with existing Council Policy 0-24 which provides the context for the use of private contractors to deliver City services. In addition, City employees continue to provide high quality, cost-effective services and to use Continuous Improvement practices to enhance the efficiency and cost-effectiveness of City services. Recognizing the value and quality performance of City employees, Council Policy 0-24 sets forth a preference for using City employees to deliver City services.

In San José and other government agencies, the delivery of public services by private firms has resulted typically from private competition processes, in recognition of the fact that competition challenges private firms to provide better services at lower costs. More recently, governments have begun to apply the concept of competition more broadly to determine the most cost-effective method for delivering City services. In applying the concept more broadly, governments are subjecting many more services to a competition process in which they, themselves, are a competitor. The underlying assumptions of this public-private competition process are that government should be competitive in cost and quality with the private sector and that competition provides an incentive to enhance quality and lower costs. Assumptions of this public-private competition process are that government should be competitive in cost and quality with the private sector and that competition provides an incentive to enhance quality and lower costs.

To support the City's goal to deliver high quality services to the public in a cost-effective manner, San José seeks to merge Council Policy 0-24 into a new policy which applies the concept of competition more broadly, while retaining the preference for City employees to deliver City services and other applicable services.

PURPOSE

The purpose of this policy is to set forth the goals and guiding principles for the public-private competition process, criteria for selection of services for the competition process, and guidelines for conducting a competition process.

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POLICY

Overview

It is the policy of the City of San José to deliver quality services in the most cost-effective and efficient manner, within the context of other public policy goals and interests. The City shall use a public-private competition process where appropriate to determine the most competitive service delivery method.

The public-private competition process shall consist of a competitive assessment (1) of the in-house service selected for competition prior to issuing Requests for Proposals (RFP) (2) and a managed competition process (1) during which RFPs are issued. In the competitive assessment, City employees providing the service shall be given an opportunity to implement readily achievable improvements, if necessary, prior to the decision to pursue managed competition. The City shall continue to deliver the service in-house if it is deemed competitive according to the measures set forth later in this policy. The public-private competition process shall be carried out in accordance with the goals, guiding principles and criteria for selection set forth in this policy.

A glossary of key terms used in this policy is included in Attachment A.

Goals of Competition

The overall goal of the competition process is to ensure competitive service delivery, regardless of which delivery method is selected ultimately. The goals of the competition process shall reflect the breadth of qualities necessary to be competitive and the broader public interest, rather than simply focus on costs. Accordingly, the goals of the competition process are to:

- Increase responsiveness to customers through flexible service delivery.
- Reduce costs and/or avoid costs.
- Increase efficiencies of service delivery.
- Improve quality and levels of service provided.
- Encourage creativity and innovation in the delivery of services.
- Identify opportunities to leverage resources.
- Insure the City's mission and scope of services evolve with the changing environment.

Guiding Principles

The following principles shall guide the development and implementation of the public-private competition process.

Application of Competition Process: The premise of the public-private competition process is that competition in the marketplace produces value for customers and that either in-house or alternative service delivery methods may produce superior value for customers; therefore:

- The City may subject services that are currently provided in-house to the competition process.
- The City may subject services that are currently contracted out to the competition process.
- The City may also propose to provide services to other government agencies and, when it properly furthers an appropriate public purpose, to the private sector.

The City shall continue to utilize Continuous Improvement practices to enhance in-house service delivery outside of this process. The City shall also continue to use the current private competitive bid process in which the City is not competing and/or other alternative delivery methods without utilizing the public-private competition process, in situations such as when the benefits to the City of alternative service delivery are clear and/or delivery of the service is time-sensitive.

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Employee Partnerships: Fair and respectful treatment of employees shall be a cornerstone of the public-private competition process. To achieve the participation and acceptance of City employees, the City shall involve employees and unions (3) throughout the development and implementation of the public-private competition process. The City shall establish appropriate structures to ensure on-going participation of the employees and unions, including, but not limited to, labor and management teams.

Employment Stability: The City's commitment to employment stability for City employees affected by the public-private competition process shall be dependent upon employee and union commitment to flexible redistribution of resources, such as alternative career paths, broadened class specifications, and other measures to allow employees to assume greater and/or different responsibilities in a cost-effective manner.

Consistency with Other City Policies: The implementation of the competition process shall be consistent with other City policies and public policy goals, such as the minority and women business enterprise policy, prevailing wage policy, and community employment standards.

Level Playing Field: The competition process shall not favor or disadvantage any competitor in the process. The following principles shall apply:

- Request for Proposals (RFP) shall require competitors to provide prevailing wages (1) to their employees when it is deemed to be in the best interest of the City in obtaining the services requested.
- The RFP evaluation process shall include "Third Tier Review" of employment practices of private proposals, which includes review of employee benefits, employee complaint procedures and compliance with state and federal workplace standards.
- Methods for comparing costs shall be reasonable and unambiguous, shall ensure objectivity and integrity of the data, and shall ensure that all internal costs and gains associated with outside contracts are captured.
- The cost methodology used to calculate in-house service costs shall consider both direct and appropriate indirect costs of the service, such as those costs which would be avoided if the service is not provided in-house.
- Performance standards and quality measures shall be reasonable, quantifiable and unambiguous.

Internal Competitiveness: The City shall make every reasonable effort to enhance the ability of employees to compete successfully on an on-going basis. Actions to accomplish this objective shall include:

- Continuing to utilize Continuous Improvement practices to enhance in-house effectiveness and efficiency on an on-going basis.
- Providing competitiveness training to employees and unions, through a collaborative effort to define needs and select trainers. Training shall include components such as unit cost accounting, development of performance standards, benchmarking, preparation of Requests for Proposals, preparation of proposals, and general business principles.
- Involving internal support functions in competitiveness training and in competition processes for which their operations are a cost factor.
- Removing internal barriers to competitiveness, such as outdated or unnecessary procurement, legal, personnel, financial and other operational procedures.
- Providing alternative rewards (e.g., gainsharing, bonus programs, etc.) for successful employee efforts to reduce service costs and enhance service quality.

Competitive Assessment: Reflecting the preference for in-house service delivery, the competition process shall begin with a competitive assessment of the in-house service function prior to issuing requests for proposals. City employees providing the service shall be given an opportunity to develop and implement readily

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achievable efficiency and effectiveness improvements prior to the decision to pursue managed competition. Efficiency and effectiveness improvements shall include actions affecting both line staff and management, such as reducing management layers balanced with broadening class specifications to encompass other responsibilities.

In general, the City shall continue to deliver the service in-house in those cases where effectiveness and efficiency is equivalent to or greater than alternative means and where the potential savings for an outside service delivery are less than ten percent (10%) for the same level of service provided in-house, which is the general percentage used in business to account for the cost of contract administration and basic transition costs. Based on the recommendation of the competitive assessment team, the City Manager shall decide if the service will remain in-house or be subjected to managed competition. The decision to keep a service in-house shall be subject to City Council approval.

In situations involving currently contracted-out services and new services, a similar process will be used to determine if the City can deliver the service competitively. In this situation, the assessment will be based on the expected costs of the City providing the service rather than the actual costs.

Core Capacities and Resources: As part of the decision-making process, the City shall consider the level of core capacities, if any, which should be maintained within the City to enable the City to compete for service delivery in the future and/or to provide the service in the event of a contractor default, changed circumstances, or future non-competitive proposals. Measures to maintain core capacities may include retaining a portion of the service in-house and/or maintaining comparable skills in other units of the City. Where City funds are invested in equipment, real property or other capital assets, the City shall identify appropriate measures to ensure the ability to resume operations in the case of default, changed circumstances, or future non-competitive proposals.

Long-Term Competitiveness: To ensure the delivery of competitive services to the public over the long-term, the City shall avoid actions that result in the creation of a "private monopoly" in which only one private firm is likely to be viewed as a tenable provider of a particular service. If the creation of a private monopoly is likely, the City shall consider contracting out only part of the service or not contracting out any of the service. The City shall also monitor contract costs over the long-term to ensure on-going cost competitiveness.

Fair and Reasonable Process: During the competition process, the City shall maintain high ethical standards and avoid any actual or perceived conflict of interest in selecting service providers. The existing Code of Ethics, and when developed, the Code of Professional Conduct Policy shall apply.

CRITERIA FOR SELECTION OF SERVICES FOR COMPETITION

As part of the annual Administrative Work Plan, the City Manager shall identify services that will be subjected to the public-private competition process and the target dates for completing the public-private competition process. Services may include those currently provided in-house, those currently contracted out and new services. The City Manager shall solicit recommendations for services from the City Council, City Attorney, City Auditor, departments heads and the unions. The City Manager shall utilize the following criteria to select services to subject to the competition process:

1. **Nature of Service:** The extent to which a service is a self-contained service or a component of a larger service delivery system; is a core versus an ancillary service; can be subdivided geographically, with respect to volume of work, or duration of work; and can be measured in terms of quantity, quality, and other performance standards.
2. **Competitive Marketplace:** The availability of a competitive market for the service, in which providers have an interest in competing for the service and the ability to provide the service in terms of skill sets and resources.

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3. **Public Policy Acceptability:** The degree to which stakeholders accept the concept of competition and the possibility of alternative service delivery. Stakeholders can include the residents, users of the service, interest groups, public employee unions, current providers of the service, whether provided in-house or by an outside entity, and/or public officials.
4. **Cost Savings Potential:** The degree to which competition is likely to reduce or avoid future costs without compromising the quality of service.
5. **General and Enterprise Fund Enhancement:** The degree to which competition is likely to have a positive effect on the general fund or enterprise funds, as appropriate.
6. **Quality of Service:** The degree to which performance standards can be defined for the quality and level of service. The degree to which competition is likely to improve quality, customer satisfaction and/or responsiveness for the same or lower cost.
7. **Impact on Employees:** The potential effect on public employees currently providing the service and on the work force in general, with respect to issues such as work load, productivity, diversity, etc. availability of measures to mitigate negative impacts on employees.
8. **Legal Restrictions:** The extent to which local, state and federal laws, regulations, and funding guidelines restrict the method of service delivery or the competition process. The extent to which laws can be changed to accommodate competition and alternative service delivery.
9. **Risk:** The degree to which alternative service delivery presents risks to the City and the public in the case of defaults, breach of contracts, service interruption, costs overruns, and threats to the public safety, health and welfare.
10. **Resources:** The availability of government financial, human, technological, and capital assets to provide the service as compared to the resources of outside providers.
11. **Government Control:** The degree to which the City needs to exert control over the delivery of the service, can retain accountability for public funds, and has the ability to establish and maintain oversight of the service through adequate contract management.

APPROACH FOR PUBLIC-PRIVATE COMPETITION PROCESS

Following is the general approach for conducting the public-private competition process.

Competitive Assessment (1)

1. Select service for competition and identify target dates for completion in Administrative Work Plan.
2. Conduct competitive assessment of in-house service.
3. Implement effectiveness and efficiency improvements as needed.
4. Determine next step based on competitiveness of in-house service.

Managed Competition Process (if decision is made to continue the competition process)

1. Develop Request for Proposal (RFP)
2. Issue RFP
3. Conduct RFP process
4. Select provider
5. Monitor performance and costs

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EMPLOYMENT OPTIONS

Outside Contractor Employment

In the event that managed competition results in the outside delivery of a service previously provided in-house, the City shall facilitate the transition of employees to the successful contractor, if the employees elect to pursue this option. Actions to facilitate the transition to private employment with the successful contractor shall include, but not be limited to:

Requiring outside contractors that create new jobs or have currently existing job vacancies to deliver a City service to first consider displaced city employees for new jobs.

Providing one-time incentives to employees that accept employment offers from the successful contractor.

"No-Lay-Off" Provision

In the event that managed competition results in the outside delivery of a service previously provided in-house, the City shall provide any person displaced with other employment opportunities within the City to totally avoid the need for lay-offs. Appropriate lay-off procedures under the Memorandum of Agreement or Civil Service Rules shall apply. When the "bumping" procedures are used, City employment will be offered to affected employees.

"No Lay-Off" means no separation from City employment, unless the employee is hired by the successful contractor or chooses lay-off in-lieu of internal placement. If the employee remains with the City, the employee will not experience a reduction in current pay, although the employee may be transferred, assigned to a different classification, have salary Y-rated, or have other opportunities for employment. The no lay-off provision shall not apply in situations other than reductions in positions resulting from the public-private competition process.

In addition to the obligations in the Civil Service Rules and the City's Memoranda of Agreement, the City shall mitigate the impacts of the change in service delivery with actions including, but not limited to, the following:

- Notifying the unions, the Office of Employee Relations, and the Department of Human Resources (HRD) of the impending competition process.
- Committing to full partnerships with the employees and unions and meeting and conferring with unions as the sole representative of the employees, as appropriate in accordance with state statute.
- Banking appropriate vacancies to prepare for the impending competition.
- Identifying opportunities for moving displaced personnel into other City positions with comparable benefits and salary levels without compromising current job standards.
- Assisting employees in transition by offering training and cross-training.
- In the event an affected employee elects not to accept a position within the City, the employee shall separate from City employment within 30 days and the City shall provide outplacement support services for the employee for 60 days following separation from the City.

Meet and Confer Provision

For purposes of this policy, the meet and confer process shall incorporate the following principles:

- The process shall consider the competing interests of other stakeholders beyond the affected employees.
- Flexibility in redistribution of resources is necessary to guarantee employment protection.
- The process shall attempt to coordinate solutions city-wide, not just in one bargaining unit.

(1) See Attachment A "Glossary" for definition of term

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- (2) Requests for Qualifications (RFQs) and Requests for Information (RFI) may also be a part of the managed competition process.
- (3) "Unions" and "bargaining units" are used interchangeably throughout this Policy.

Attachments:

- A. Glossary of Terms
- B. Public-Private Competition Policy Implementation Plan
- C. Policy Development Teams

