COUNCIL AGENDA: 10-16-12
ITEM: 3.5

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Dennis Hawkins, CMC
City Clerk

SUBJECT: **SEE BELOW**

DATE: 10-04-12

SUBJECT: RECYCLE PLUS BILLING AND CUSTOMER SERVICE – SERVICE DELIVERY EVALUATION ANALYSIS

RECOMMENDATION

As recommended by the Public Safety, Finance and Strategic Support Committee on September 20, 2012 and outlined in the attached memo previously submitted to the Public Safety, Finance and Strategic Support Committee:

(a) Accept the staff report on service delivery evaluation options for Recycle Plus Billing and Customer Service; and

(b) Approve staff's proposed strategy to discontinue the in-house service delivery model and continue to evaluate two alternate service delivery options with a final recommendation to be brought forward to Council in Spring 2013.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper
Kerrie Romanow
Vijay Sammeta

SUBJECT: SEE BELOW

DATE: September 12, 2012

Approved

Date 9/12/12

SUBJECT: RECYCLE PLUS BILLING AND CUSTOMER SERVICE– SERVICE DELIVERY EVALUATION ANALYSIS

RECOMMENDATION

a. Accept staff report on service delivery evaluation options for Recycle Plus Billing and Customer Service.

b. Recommend that Council approve staff's proposed strategy to discontinue the in-house service delivery model and continue to evaluate two alternate service delivery options with a final recommendation to be brought forward to Council in Spring 2013.

BACKGROUND

On January 19, 2012, in accordance with Council Policy 0-41, which requires a preliminary business case analysis be conducted to evaluate service delivery changes that could result in the addition, deletion, or reclassification of four or more full-time employees, the Administration provided the Mayor and City Council with an information memorandum entitled "2012-2013 Preliminary Alternative Service Delivery Evaluations". The memorandum identified five services that are undergoing a preliminary business case analysis as part of the 2012-2013 Proposed Budget. The five services include Airport Traffic and Parking Control, Adult School Crossing Guards, Recycle Plus Billing, Parks Maintenance, and Workers' Compensation.

ANALYSIS

Recycle Plus Billing and Customer Service Overview

Recycle Plus Billing and Customer Service is an integral component for the provision of the City's residential solid waste and recycling services. The overarching goals of the billing and customer service functions are to provide timely and accurate customer billing and problem

resolution, as well as to take customer requests for starting and stopping service and a variety of field activities such as bulky item pick up and cart exchanges. The billing system assists the City in monitoring hauler performance and provides the source information to compensate the four service providers: GreenTeam, Garden City Sanitation, California Waste Solutions, and GreenWaste Recovery for a total annual compensation of nearly $87 million.

The Integrated Billing System (IBS) is the technology system the City currently uses to administer Recycle Plus and other City billing functions, along with related customer service activities. The City currently provides residential solid waste billing, customer service, account maintenance, and remittance processing; business tax billing; municipal water billing; and storm and sanitary billing through the IBS. The City Call Center also uses the Customer Relationship Management (CRM) module, accessed through IBS, to manage general resident calls and cases that are of a non-utility nature.

The City has been re-evaluating its investment in technology in an effort to evaluate Total Cost of Ownership (TCO). Concurrently, the IBS system is nearing the end of its useful life and product life. The total cost to replace the current system is estimated to be approximately $16 million. In addition, continuing with an in-house solution would require additional capital outlay in the future to upgrade the system every five years, with a new installation or major upgrade expected after approximately 15 years.

Since IBS is funded through a shared use and cost model by each of the users, the General Fund, along with the other users, would also bear a portion of the burden of upgrading the current system. Migrating to a new system that would replace the IBS would likely be more costly for the General Fund than a system designed to track general informational calls for a general City call center. As such, City staff has been working to develop an alternative replacement solution for billing related activities for all programs to ensure continued revenue collections totaling approximately $300 million annually.

Alternative Service Delivery Strategies

City staff has identified two viable alternate service delivery options for Recycle Plus Billing and Customer Service. The two options are:

1. Place Recycle Plus billing for single family households on the Santa Clara County ("County") Secured Property Tax Bill and contract with municipal solid waste haulers for customer service and billing of premium services and multi-family household solid waste pick-up services or;
2. Shift Recycle Plus billing and customer service for all residential and multi-family household solid waste pick-up to the municipal solid waste haulers.

Although both options could be viable service delivery options, Option 1 appears to be the preferred strategy, given its potential to generate significant cost savings and result in service efficiencies. The preliminary business case analyses for both alternative service delivery options are posted on the City's website via the following link:
http://www.sanjoseca.gov/budget/FY1213/ServiceDeliveryEvaluations12-13.asp

The preliminary business case analysis for the County Secured Property Tax Bill service delivery option indicates that an estimated savings of approximately $27 million over a nine year period could be generated by transitioning Recycle Plus billing for single family households from an in-house billing scenario to the County Secured Property Tax Bill. By comparison, the preliminary business case analysis for shifting Recycle Plus billing for all residential households to municipal solid waste haulers indicates an estimated savings for ratepayers of approximately $3 million over a nine year period could be generated. The transition of Recycle Plus billing to the County Secured Property Tax Bill or to municipal solid waste haulers (haulers) is part of a larger plan to replace IBS for all billing services by July 1, 2015. IBS is the technology system the City currently uses to administer Recycle Plus billing as well as other City billing programs, including Business Tax, Municipal Water and storm and sanitary (Sewer Service and Use Charges and Storm Sewer Service Charges).

By placing Recycle Plus billing for single family households on the County Secured Property Tax Bill, the City would achieve an estimated $3 million in annual cost savings for ratepayers when compared to the option of developing and implementing an in-house billing solution to replace the current IBS. By transitioning Recycle Plus billing responsibilities for all residential customers to haulers, the City would achieve an estimated $333,000 in annual cost savings when compared to developing an in-house billing solution. Neither service delivery model presents any significant implementation risks, and both models align with the City's Technology Strategy of divesting from technologies that require heavy customization, large capital investments and specialized skill sets from consultants and/or in-house staff. It should be noted that both the County Secured Property Tax Bill and Hauler Billing options would result in a loss of approximately $500,000 in overhead reimbursement to the General Fund. In addition, the County Secured Property Tax Bill option would result in a loss of $2.1 million in unrestricted Late Fee charges. Late Fees have been used in the past as a General Fund budget balancing strategy. Table A compares the various service delivery options, its impacts to ratepayers, reductions in City staff, and impacts to the General Fund:

Table A - Service Delivery Options

#	Major Considerations	In-House System	Billing by Hauler	Property Tax Bill
1	Estimated Cost over 9 years (avg. cost/year)	$106 million ($11.8M avg./year)	$103 million ($11.4M avg./year)	$79 million ($8.8M avg./year)
2	Rate Payer Savings over In-House System	N/A	$333,000/year	$3 million/year
3	Technology Strategy Alignment	No	Yes	Yes
4	City Staff Reductions	-3 FTEs	-30 FTEs	-33 FTEs
5	General Fund Impact	Overhead: Minimal Impact Late Fees: N/A	Overhead: -$500,000/year Late Fees: N/A	Overhead: -$500,000/year Late Fees: -$2.1 million/year

NOTE: The estimated savings noted above are preliminary estimates and may change as we develop the Final Business Case Analysis.

Although both alternative service delivery options would result in the elimination of approximately 30-33 full-time equivalent (FTE) positions, the City would attempt to mitigate the impacts to staffing to the extent possible through attrition planning and redeployments. If the Council approves the proposed strategy to discontinue the in-house service delivery model and continue to pursue the two alternative service delivery strategies, the Administration would schedule meet and confer discussions with appropriate bargaining units representing the affected staff beginning in October 2012. Feedback from these discussions would be considered by the Administration in developing the final Business Case Analysis for Council consideration in Spring 2013.

Option 1 – Billing on the County Secured Property Tax Bill

Under the proposed County Secured Property Tax Bill option, billing for single family households would be placed on the County Secured Property Tax Bill, while customer service functions and billing for single family premium services and multi-family households would be contracted out to haulers. For example, with this option, a single family household that subscribes to premium services would be billed for standard service though the County Secured Property Tax Bill, and would also be billed separately by haulers for the additional premium services. City staff recently commenced negotiations with haulers to confirm their pricing model and revised scope of services under this service delivery option. Additional information pertaining to hauler pricing will be available later this year, and the estimated annual cost savings referenced in Table A will be revised accordingly.

Key Benefits

As part of the preliminary business case analysis for the County Secured Property Tax Bill service delivery model, staff has determined that this alternative delivery strategy will benefit the City in several ways:

- Cost Savings: Reduces costs by approximately $27 million over nine years. Avoids a 3% rate increase per year (Estimated $3 million cost avoidance annually over in-house technology billing solution).

- Process Improvements: Streamlines and creates efficiencies in billing operations and business processes by eliminating redundancies in delivery of customer service. One billing cycle per year for most single family households.

- Improved Customer Service: Gives residents more direct access to their service provider and maintains City involvement to ensure quality of service remains high.

- Alignment with Key City Priorities: Aligns with City Technology Strategy and community priority of controlling costs. Realigns City focus on core service delivery.

Key Issues

As part of the preliminary business case analysis for this service delivery model, staff has identified the following key issues:

- Staffing Impact: Results in the elimination of approximately 33 FTEs. The City would mitigate impacts to staffing to the extent possible through attrition planning and redeployments.

- Elimination of Late Fees: Approximately $2.1 million in annual Recycle Plus late fees for single family households would be eliminated two years after transition to the County Secured Property Tax Bill. Late fees, which are an unrestricted source of funding, have funded a variety of special programs, including: solid waste collection and disposal at approximately 140 City facilities and parks; addressing homeless encampments and major debris or illegal dumping on City property. The costs of providing these services cannot be included in the Recycle Plus rates due to Proposition 218 restrictions on using rate payer funds for purposes other than that for which the rate was imposed. As such, the General Fund would likely have to cover the costs for these services.

  In addition, the elimination of Recycle Plus late fees would eliminate funding for Garbage Rate Assistance Programs. Funded entirely by approximately $342,000 in Recycle Plus late fees, these programs have included low income, hardship and uninhabitable programs. An alternate unrestricted, non-ratepayer funding source would need to be identified in order to continue these programs. The low income program offers a $9.00 per month discount to eligible customers, but the program is currently limited to 1,800 customers Citywide due to budget s. San José is one of the few cities in California that has offered a low income rate assistance program for solid waste services.

- Less-Frequent Payment Schedule: Transition from a bi-monthly to a bi-annual payment schedule may create a hardship for some customers due to the higher payment amounts. This bi-annual payment would be paid as part of the property tax payment.

- Elimination of 20 gallon Cart Service: Beginning in 2013-2014, 20 gallon cart service would be eliminated for the approximately 7,400 customers Citywide who currently subscribe to this service. Representing roughly 3.5% of all subscribers, these customers would be transitioned to 32 gallon cart service, which currently represents 86% of all service provided Citywide and would become the standard billing unit when billing for single family households which would be transitioned to the County Secured Property Tax Bill. Subscription to the 20 gallon cart service currently saves customers approximately $1.72 per month ($28.23) from the standard 32 gallon cart service rate of $29.95. In considering this service for possible transition to the County Secured Property Tax Bill, staff has concluded that including these accounts would require significant administrative support for account maintenance issues, such as account reconciliation and issuance of rebates to customers. These costs are projected to be greater than the savings currently experienced by customers using the 20 gallon cart service.

- Multiple Billing Systems: Due to the variability and size of multi-family household and premium service accounts, staff has concluded that these accounts cannot be easily transitioned to the County Secured Property Tax Bill. Instead, billing for these customer accounts would be shifted directly to the contracted haulers. Thus, separate customer billing systems would exist--single family household customers would be billed through the County Secured Property Tax Bill while multi-family households and single family premium service customers would be billed by the haulers providing those services. Examples of premium service customers include those with larger cart sizes (64 or 96 gallons) and those who subscribe to on-premises or yard trimming cart service. The haulers would only be billing for the premium services received by single family households, as the service charges for the 32 gallon cart would be placed on the County Secured Property Tax Bill.

Should the Council approve moving forward with this service delivery option, staff would develop strategies to lessen the impacts of these program changes.

Option 2 - Hauler Billing

Under the proposed hauler billing service delivery option, billing and customer service functions for all residential households would be shifted to municipal solid waste haulers. The City would exercise an option in the existing haulers' contracts to provide billing and customer service on a fee-for-service basis.

Key Benefits

As part of the preliminary business case analysis for the Hauler Billing service delivery model, staff has determined that this alternative delivery strategy will benefit the City in several ways:

- Cost Savings: Reduces costs by approximately $3 million over nine years. Reduces costs to the City by contracting for billing and customer service functions with residential haulers. Estimated $333,000 in annual savings for rate payers over using an in-house technology billing solution. Late fees would not be eliminated and would continue to be available to support General Fund activities.

- Process Improvements: Streamlines and creates efficiencies in billing operations and business processes by eliminating redundancies in delivery of customer service.

- Improved Customer Service: Gives residents more direct access to their service provider by means of providing a single point of contact for both service and billing inquiries, and maintains City involvement to ensure quality of service remains high.

- Alignment with Key City Priorities: Aligns with City Technology Strategy and community priority of controlling costs. Realigns City focus on core service delivery.

Key Issue

Staff has identified the likely elimination of approximately 30 FTEs as a key issue that may arise from the hauler billing service delivery model. The City would attempt to mitigate impacts to staffing to the extent possible through attrition planning and redeployments. As with the County Secured Property Tax Bill option, should the Council approve moving forward with this service delivery option, staff would develop strategies to help lessen the impacts of these program changes.

Given the considerations identified, and further outlined in the business case analyses, staff recommends the Council approve staff's proposed strategy to discontinue the in-house service delivery model and continue to evaluate the two alternative service delivery options. In the coming months, staff will meet with stakeholders and bargaining units representing staff that may be affected by either of the two alternative service delivery models, with the goal of returning to Council by December with a final recommendation on the in-house billing service delivery model. A final Business Case Analysis will be brought forward for Council consideration in Spring 2013.

EVALUATION AND FOLLOW-UP

The next steps in the process will be to conduct outreach to stakeholders. As applicable, meet and confer session(s) will occur with affected City employee bargaining units. A finalized plan will be developed following these meetings and staff will return to Council later this year with a final recommendation on the in-house billing service delivery model. A final Business Case Analysis will be transmitted to the City Council as part of the 2013-2014 Budget process. Table B on the following page outlines the key activities and proposed implementation timelines for both alternative service delivery options.

Table B – Proposed Implementation Schedule

Key Activity	Tentative Schedule	
	Option 1 - Property Tax Bill Service Delivery Model	Option 2 - Hauler Billing Service Delivery Model
Public Safety, Finance and Strategic Support Committee Consideration of proposed strategy	Sept. 20, 2012	Sept. 20, 2012
Hauler Contract Negotiations, Development and Agreement to Terms	Aug.-Oct. 2012	Aug.-Oct. 2012
City Council Consideration of proposed strategy	Oct. 2, 2012	Oct. 2, 2012
Conduct Stakeholder Outreach/Meet with Bargaining Units	Oct-Dec. 2012	Oct.-Dec. 2012
City Council Consideration of Discontinuing In-House Service Delivery Model	Dec. 2012	Dec. 2012
Finalize Business Case Analysis	Feb. 2013	Feb. 2013
Council Consideration of Recommended Alternative Service Delivery Model and Direction to Negotiate and Execute Hauler Contract Amendments	Spring 2013	Spring 2013
Begin phased redeployment/transition of affected staff	Fall 2014	Fall 2013
Recycle Plus Hauler Billing Begins	N/A	Fall 2014
First Recycle Plus bills on County Secured Property Tax Bill	July 2015	N/A

PUBLIC OUTREACH/INTEREST

This item will be posted on the City's website for the PSFSS Committee meeting on September 20, 2012.

- ☐ **Criterion 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**
- ☐ **Criterion 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)**
- ☐ **Criterion 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)**

COORDINATION

This memorandum has been coordinated with the offices of the City Manager and City Attorney.

CEQA

Not a Project, File PP10-069(a), City Organizational & Administrative Activities.

/s/
JULIA H. COOPER
Acting Director of Finance

/s/
KERRIE ROMANOW
Director of Environmental Services

/s/
VIJAY SAMMETA
Acting Director of Information Technology

For questions please contact Ashwini Kantak, Acting Assistant Director of Environmental Services, at 408-535-2553.

Attachments
Recycle Plus Billing - Preliminary Business Case Analysis for Property Tax Bill
Recycle Plus Billing - Preliminary Business Case Analysis for Hauler Billing

Current Service Model:

Overview

Recycle Plus Billing and Customer Service is an integral component for the provision of the City's residential solid waste and recycling services. The overarching goals of the billing and customer service functions are to provide timely and accurate customer billing and problem resolution, as well as to take customer requests for starting and stopping service and a variety of field activities such as bulky item pick up and cart exchanges. The billing system assists the City in monitoring hauler performance and provides the source information to compensate the four service providers: GreenTeam, Garden City Sanitation, California Waste Solutions, and GreenWaste Recovery for a total annual compensation of nearly $87 million.

The Integrated Billing System (IBS) is the technology system the City currently uses to administer Recycle Plus and other City billing functions, along with related customer service activities. The City currently provides residential solid waste billing, customer service, account maintenance, and remittance processing; business tax billing; municipal water billing; and storm and sanitary billing through the IBS. The City Call Center also uses the Customer Relationship Management (CRM) module, accessed through IBS, to manage general resident calls and cases that are of a non-utility nature.

The City has been re-evaluating its investment in technology in an effort to evaluate Total Cost of Ownership (TCO). Concurrently, the IBS system is nearing the end of its useful life and product life. The total cost to replace the current system is estimated to be approximately $16 million. In addition, continuing with an in-house solution would require additional capital outlay in the future to upgrade the system every five years, with a new installation or major upgrade expected after approximately 15 years.

Since IBS is funded through a shared use and cost model by each of the users, the General Fund, along with the other users, would also bear a portion of the burden of upgrading the current system. Migrating to a new system that would replace the IBS would likely be more costly for the General Fund than a system designed to track general informational calls for a general City call center. As such, City staff has been working to develop an alternative replacement solution for billing related activities for all programs to ensure continued revenue collections totaling approximately $300 million annually.

Placing Recycle Plus billing for single family households on the Santa Clara County ("County") Secured Property Tax Bill has been proposed as one option to avoid the capital outlay of procuring a new billing system. Since the Recycle Plus billing module is only one part of IBS, this proposal to shift Recycle Plus billing to the County Secured Property Tax Bill is part of a larger plan to replace the current IBS system for all users by July 1, 2015. By de-coupling the various City program functions from the IBS shared use and cost model, the City will be able to procure solutions that are more appropriate to the users' needs and budgetary resources for each program function. These services could potentially be supported by a less complex system that is more appropriate to the business needs, and cost considerably less to implement than the replacement of IBS.

Functional Goals

Monitoring performance measures on an ongoing basis allows the City to assess the effectiveness of its revenue and hauler payment management systems, the quality of its customer service and the ability to determine if the Recycle Plus program being provided is meeting the needs of the residents, haulers, and achieving City Green Vision goals. As this service is being evaluated with respect to a new service delivery model, a prime consideration is ensuring quality customer service. The functional goals and associated performance measures of Recycle Plus Billing and Customer Service are:

1) To achieve quality customer service in the Call Center:
   Call Center performance measures include:
   - Estimated call volume (projected at 16,000 calls a month)
   - Answer rate (goal 85-90%)
   - Abandoned calls (goal 10-12%)
   - Average wait time (goal: 2-3 minutes)

2) To provide accurate account billing and collections procedures
   Account Billing and Collections performance measures include:
   - Revenue billed per month/per year
   - Number of liens/assessments per lien/assessment cycle
   - Number of liens in error per lien cycle
   - Accounts receivable statistics per quarter

3) To provide oversight and accurate compensation for the haulers
   Service level reconciliation and Hauler Performance Standards:
   - Service unit and service level reconciliations between IBS and hauler field data
   - Services performed within contractual time requirements

How the Service Is Currently Performed

The Recycle Plus Billing and Customer Service function is handled through a coordinated multi-departmental effort involving the City's Environmental Services, Finance, and Information Technology Departments. In addition to the Recycle Plus Billing & Customer Service functions, these same groups of staff use the IBS to handle aspects of Municipal Water Billing, Storm and Sanitary Sewer billing, and the City Call Center.

Environmental Services Department (ESD)

The *IBS Functional Support Team* is part of ESD and this group supports the day to day operations and maintenance of IBS, while also supporting the ESD program staff with data reporting needs. This group also performs audits of customer premises in the field to ensure accuracy of IBS information.

The *Recycle Plus Program Administration and Contract Management Team* manages all aspects of the residential program, including but not limited to the solid waste and recycling hauler contracts and addressing escalated customer service issues. The group handles

hauler performance issues and reconciliation of hauler bills and payments using IBS as a tool for many tasks involved in contract management.

Finance Department

The Finance Department handles Recycle Plus account maintenance, liens, account adjustments, researching billing irregularities, and collections as needed for the approximately 220,000 residential Recycle Plus accounts.

Information Technology Department (ITD)

The *Call Center* handles all aspects of customer service by phone, correspondence, and web inquires, as well as walk-in service at the City Hall Customer Service Center. There are approximately 200,000 calls received and 17,000 walk in customers per year for the Recycle Plus program. There are approximately 100,000 non-utility general information calls received and approximately 25,000 non-utility walk in customers per year. The primary activities of this group include all of the customer account service, starting and stopping of accounts, requests for on-demand services, account payments, and service and billing issue resolution.

The IBS Technology Team supports all aspects of the IBS technology infrastructure for all users of the system.

The City needs to identify a billing system and related customer work order management alternative to IBS in the near future, including solutions for Municipal Water, Business Tax billing, and storm and sanitary sewer billing (Sewer Service and Use Charges and Storm Sewer Service Charges), currently done on IBS because this system will need to be replaced by July 1, 2015. The City is assessing alternate ways to perform billing and customer service for all of these functions. The City has been working with a consultant to perform a professional, independent evaluation, based on industry best practices, of a number of alternatives the City could consider to replace the aging IBS system and provide an effective and efficient customer service and billing option. This evaluation has looked at all aspects of various options, including cost and potential risks. The Recycle Plus Billing and Customer Service function is the only component undergoing a service delivery evaluation at this time and information on the other users is being provided in this evaluation to give context to the overarching decisions and implications for other users.

Proposed Service Model Concept:

Description

This business case analysis evaluates a contracted services delivery model to provide Recycle Plus billing and customer service. Under the alternative service delivery model, the City would transition the Recycle Plus billing function for single family households to the County Secured Property Tax Bill, while service providers (haulers) would assume billing responsibility for premium services and multi-family households. Due to the variability and size of multi-family household and premium service accounts, staff has concluded that these accounts cannot be easily transitioned to the County Secure Property Tax Bill. Haulers would also assume responsibility for the Recycle Plus customer service function. The City would continue to use in-house staff to perform contract management, hauler billing reconciliation and payments, handle escalated customer service issues, and monitor hauler performance. This proposed service delivery model would save the City an estimated $27 million over a nine year period when compared to the continued use of an in-house technology billing solution. This service delivery concept aligns with the City's Technology Strategy of divesting from technologies that that require heavy customization, large capital investments and specialized skill sets from consultant and/or in-house staff. In addition, this service delivery concept does not present any significant implementation risks to the City.

Under this new service delivery model, the City would transition the billing function for all single family Recycle Plus customers from the current IBS system to the County Secured Property Tax Bill, using the 32 gallon cart as the standard tax roll billing unit. Customers utilizing the 32 gallon cart service represent 86% of all Recycle Plus customers Citywide, or approximately 183,000 customers. Billing for Recycle Plus outside of the standard 32 gallon cart service and multi-family households would be contracted out to haulers. Examples of such services include: those with larger cart sizes (64 or 96 gallons) and those who subscribe to on-premises or yard trimming cart service. Additionally, the haulers would take on the customer service functions and would become the first points of contact for customers with service-related questions. Haulers in general have experience, capacity, and the technology systems to effectively manage these functions and currently provide these services for the other jurisdictions they service.

Many cities in California, including Berkeley, Dublin, East Palo Alto, Union City, Laguna Beach and Twenty-Nine Palms utilize tax roll billing as the approach for billing their customers for solid waste and recycling services. Like most of these other cities the City of San José would bill separately through our haulers for premium services and would no longer offer Garbage Rate Assistance programs, such as low-income, uninhabitable, and hardship programs. In the past, these programs have been funded from Recycle Plus late payment charges, as these programs cannot be funded through Recycle Plus ratepayer revenue due to Proposition 218 restrictions on use of rate payer funds for purposes other than those for which the rates were imposed. Placing Recycle Plus billing on the County Secured Property Tax Bill would eliminate late payment fees, and thus the sole funding source for Garbage Rate Assistance programs.

This proposal to place Recycle Plus billing on the County Secured Property Tax Bill is part of a larger initiative to replace the existing IBS which is addressed through the IBS Business and Technology Strategy. A significant driver for shifting the responsibilities for customer service and billing away from the continued use of an in-house system is that the City would need to invest approximately $16 million into the

capital project to procure and implement a replacement enterprise software solution so that the City could continue to have the tools to provide the customer service and billing functions. In addition to the capital outlay, there would be ongoing licensing and system maintenance in the out years, which would create an ongoing funding, staffing, and management requirement. Additionally, our Information Technology Department estimates that an in-house system would require future additional capital outlay to upgrade the system every five years, with a new installation or major upgrade likely required after approximately 15 years.

The current resources in the Information Technology Department are not sufficient to manage a new implementation and system without additional staff, including a dedicated project manager. The City is re-evaluating the feasibility of providing specialized systems that require significant staff investment, customization or reliance on consulting services if they are to be maintained in house. Opting to place Recycle Plus billing for single family households on the County Secured Property Tax Bill is a service delivery model that supports the Information Technology Department's goals to provide in-house systems only where an alternative does not exist or is not feasible.

Should this alternative service delivery model be implemented, the City will amend existing haulers' contracts to provide their services on a fee-for-service basis. Within the contract, performance goals will be established which are comparable to the Call Center's current levels which are specified in the 'Functional Goals' section above.

One of the key call center customer service metrics is the average wait time. The contracts have penalties the haulers will be required to pay to the City if certain standards are not maintained. For instance, if the monthly '*telephone average time to answer*' exceeds five minutes, the haulers have to pay penalties. The hauler call center data will be monitored through reports by City staff in the Environmental Services Department as part of the hauler invoice reconciliation process. Financial auditing functions will be conducted by the Finance department.

Key Benefits

As part of the preliminary business case analysis, staff has determined that this alternative delivery strategy will benefit the City in several ways:

- Cost Savings: Reduces costs by approximately $27 million over nine years. Avoids a 3% rate increase per year ($3 million cost avoidance annually over in-house technology billing solution).
- Process Improvements: Streamlines and creates efficiencies in billing operations and business processes by eliminating redundancies in delivery of customer service. One billing cycle per year for most single family households.
- Improved Customer Service: Gives residents more direct access to their service provider and maintains City involvement to ensure quality of service remains high.
- Alignment with Key City Priorities: Aligns with City Technology Strategy and community priority of controlling costs. Realigns City focus on core service delivery.

Key Issues

This alternative delivery option does raise the following key issues:

- Staffing Impact: Results in the elimination of approximately 33 FTEs. The City would mitigate impacts to staffing to the extent possible through attrition planning and redeployments.
- Elimination of Late Fees: Approximately $2 million in annual Recycle Plus late fees would be eliminated two years after transition to the County Secured Property Tax Bill. Late fees have funded a variety of special programs, including: solid waste collection and disposal at approximately 140 City facilities and parks; addressing homeless encampments and illegal dumping on City property. The costs of providing these services cannot be included in the Recycle Plus rates.

  In addition, the elimination of Recycle Plus late fees would eliminate funding for Garbage Rate Assistance Programs. Funded entirely by approximately $300,000 in Recycle Plus late fees, these programs have included low income, hardship and uninhabitable programs. An alternate unrestricted, non-ratepayer funding source would need to be identified in order to continue these programs. The low income program offers a $9.00 per month discount to eligible customers, but the program is currently limited to 1,800 customers Citywide due to budget constraints. San José is one of the few cities in California that has offered a low income rate assistance program for solid waste services.
- Elimination of 20 gallon cart service in FY 2013-2014: Beginning in 2013-2014, 20 gallon cart service would be eliminated for the approximately 7,400 customers Citywide who currently subscribe to this service. Representing roughly 3.5% of all subscribers, these customers would be transitioned to 32 gallon cart service, which currently represents 86% of all service provided Citywide and would become the standard billing unit when billing for single family households which would be transitioned to the County Secured Property Tax Bill. Subscription to the 20 gallon cart service currently saves customers approximately $1.72 per month from the standard 32 gallon cart service. In considering this service for possible transition to the County Secured Property Tax Bill, staff has concluded that including these accounts would require significant administrative support for account maintenance issues, such as account reconciliation and issuance of rebates to customers. These costs are projected to be greater than the savings currently experienced by customers using the 20 gallon cart service.
- Less-Frequent Payment Schedule: Transition from a bi-monthly to a bi-annual payment schedule may create a hardship for some customers due to the higher payment amounts. This bi-annual payment would be paid as part of the property tax payment.
- Multiple Billing Systems: Due to the variability and size of multi-family household and premium service accounts, staff has concluded that these accounts cannot be easily transitioned to the County Secured Property Tax Bill. Instead, billing for these customer accounts would be shifted directly to the contracted haulers. Thus, separate customer billing systems would exist--single family household customers would be billed through the County Secured Property Tax Bill while multi-family households and single family premium service customers would be billed by the haulers providing

those services. Examples of premium service customers include those with larger cart sizes (64 or 96 gallons) and those who subscribe to on-premises or yard trimming cart service. The haulers would only be billing for the premium services received by single family households, as the service charges for the 32 gallon cart would be placed on the County Secured Property Tax Bill.

Staffing Comparison

Approximately 48 FTEs are budgeted in the Integrated Waste Management (IWM) Fund to support and manage Recycle Plus billing and customer service--approximately 28 FTEs are budgeted in Information Technology, approximately 11 FTEs in Finance, and 9 FTEs in Environmental Services.

Table 1 on the following page provides a detailed comparison of current staffing levels with the estimated staffing levels in 2015-2016, the first year in which Recycle Plus billing would be included in the County Secured Property Tax Bill. Should Council approve the proposed alternative service delivery model, a gradual decrease of staff to approximately 15 FTEs over the next several years is anticipated.

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TABLE 1: Recycle Plus Staffing Comparison (IWM Fund 423)

Classifications	FY 2012-2013 FTE	FY 2015-2016 FTE (Estimated)
Environmental Services		
Analyst II C	2.05	0.50
Deputy Dir U	0.25	0.25
Env Svcs Prog Mgr	0.25	0.25
Env Svcs Spec	2.00	2.00
Financial Analyst	0.25	0.25
Senr Accountant	1.00	1.00
Senr Analyst	0.51	0.35
Senr Office Specialist	1.00	1.00
Staff Specialist	1.00	1.00
Staff Specialist	0.51	0.35
Supv Env Svcs Spec	0.25	0.25
Sub Total	**9.07**	**7.20**
Finance		
Accountant II	0.73	0.73
Accounting Tech	1.11	1.11
Assist Dir U	0.04	0.04
Division Mgr	0.25	0.25
Investigator Collector I	0.95	
Investigator Collector II	1.00	
Prin Account	0.5	0.25
Senr Account Clerk	5.51	1.00
Senr Accountant	0.5	
Senr Invest. Collector	0.05	0.05
Sub Total	**10.64**	**3.43**
Information Technology		
Analyst II C	1.00	
Info Systs Analyst	2.27	0.27
Network Engineer	0.65	0.15
Prin Office Specialist	3.16	
Program Manager I	0.43	0.43
Senr Office Specialist	18.78	2.90
Senr Supvr, Admin.	1.53	
Supervising App. Analyst	0.49	0.49
Sub Total	**28.31**	**4.24**
Total	**48.02**	**14.87**

Cost Comparison

The cost of the service delivery model is calculated by using baseline costs that have been established through the contract amendments that were executed in Fall 2011. The costs to acquire a replacement system (the same class as the current IBS system) to be used by the City, along with transitional costs during the life of the product over 10 years (which would include implementation costs as well as an upgrade after five years) have been considered in the financial analysis prepared by the consultant.

The cost comparison shown in Table 2 details estimated total costs for two scenarios:

1. The current In-House Service Delivery Model with the existing cost sharing structure, including all users presently on the system and their existing funding split. This option assumes that the system is upgraded to the Oracle Tier 1 System (the same category of system currently in place) called Customer Care and Billing (CCB).
2. County Secured Property Tax Billing Option with billing for Recycle Plus single family households to transition to the County Secured Property Tax Bill beginning in 2015-2016. This option assumes that billing for Recycle Plus services outside of the standard 32 gallon cart service and multi-family households would be contracted out to haulers.

TABLE 2: Cost Comparison – Current Service Delivery Model vs. County Secured Property Tax Bill Option

In-House Service Delivery Model	FY12-15	FY16-20	FY12-20
Staffing Costs (1)	$30,611	$40,026	$70,638
Maintenance & Support (2)	$6,465	$8,816	$15,281
Miscellaneous (3)	$1,245	$1,753	$2,997
Contractor Fees	-	-	-
Project Costs (4)	$12,702	$4,500	$17,202
Totals	$51,023	$55,095	$106,118
Property Tax Bill Service Delivery Model	**FY12-15**	**FY16-20**	**FY12-20**
Staffing Costs	$23,271	$22,464	$45,736
Maintenance & Support	$4,684	$1,652	$6,337
Miscellaneous	$2,430	$5,005	$7,435
Contractor Fees (5)	$2,116	$5,806	$7,922
Project Costs	$10,211	$1,250	$11,461
Totals	$42,713	$36,177	$78,890
Recycle Plus Property Tax Bill Projected Nine-Year Savings			$27,228

(1) Estimated salary and benefit costs for City staff who support the billing and customer service functions. Amounts do not include estimated overhead
(2) Estimated maintenance costs for Kubra Services
(3) Estimated costs for supplies, taxes and other non-personal costs
(4) Estimated system replacement/upgrade costs
(5) Estimated payments to service providers for non-standard Recycle Plus service

Service Delivery Evaluation Decision-Making Criteria:

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

Adoption of this recommendation will result in the reduction of approximately 33 staff over the next several years. The City will mitigate impacts to staffing to the extent possible through attrition planning and redeployments in collaboration with the City's Human Resources Department and Office of Employee Relations.

Integrity - City staff will provide the audit function once the billing function for single family households is placed on the County Secured Property Tax Bill beginning in 2015-2016, and remaining billing and customer service functions are transferred to haulers to ensure that Recycle Plus customers and rate payers continue to receive similar quality service.

Innovation - The City will maximize its use of technology tools to effectively manage the Recycle Plus program through a more cost effective and efficient service delivery model.

Excellence - The City will provide an excellent billing and customer service process to residents that is cost effective and more efficient by modifying the existing service delivery model.

Collaboration - City staff will foster a tighter relationship with the City's partners to provide a more cost effective service to residents and/or rate payers.

Respect - The City will implement an appropriate change management effort and include staff with updated information when decisions are made that will impact staff.

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

Although City staff currently provides the services, it is not practical for City staff to continue providing the proposed service as it cannot do so in the most cost effective manner when compared to alternative solutions. By placing Recycle Plus billing for single family households on the County Secured Property Tax Bill, the City will save an estimated $27 million over nine years versus continuing with an in-house technology solution for providing billing services. By contracting out billing services for multi-family households and premium services to haulers, the City will take advantage of efficiencies gained by the haulers that the City does not have, as haulers are able to leverage their customer service operations and technology amongst all the cities for which they do billing.

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

No. Many other cities in California use tax roll billing to bill their customers for solid waste and recycling services. Cities include: Berkeley, Dublin, East Palo Alto, Union City, Laguna Beach and Twenty-Nine Palms. Nearly all cities bill separately for

premium services. Under the proposed service delivery model haulers would be responsible for billing for single family premium services and multi-family households.

Service interruption and default can occur for numerous reasons including technical infrastructure failure, labor action, and failure of the service provider's business. However, these events are no less likely to occur if the City were to continue providing these services.

The risks are mitigated through contract terms of the agreement such as the requirement for computer systems that have full redundancy, City revenue monitoring functions, and the ability for the City to seize the haulers equipment in order to continue providing service to the customer. In addition, the contract would allow for the transfer of customer accounts from one service provider to another in the event of default.

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

It is unknown at this time whether a City staff unit would be interested in developing a managed competition proposal. However, the implementation of a new system would, at minimum, require specialty staff and additional project management staff that have specific knowledge and skill sets regarding how to architect and integrate a new system and the City does not have those skill sets in-house at this time. In addition, the capital cost of a new system and associated implementation costs make technology investment cost prohibitive.

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

Yes, the work involved is not episodic in nature, but rather consistent and repetitive on a day-to-day basis. However, the customer service function does duplicate work that the haulers are already providing and therefore it is not cost effective or efficient for the City to continue to provide these services.

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

As a long term service provider (current operational model) the City will have to make a significant capital investment (approximately $16 million) in a new billing system. In addition, the City risks incurring other future costs that are inherently difficult to budget for, such as substantial resources needed to address unanticipated system replacements and upgrades. The recommended strategy would eliminate the need for additional significant capital outlay in the future.

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?

The service model described in this strategy is designed to retain a similar level of service to customers that is currently being delivered by the City, but at a lower cost.

Service levels will be contractually agreed upon and failure to reach a service level will carry significant monetary penalties. The cost of providing this service is significantly reduced compared to the cost of the City providing the services.

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

No, there are no restrictions on the method of service delivery.

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

The risks of implementing the new service delivery model are relatively low. Quality of service, billing accuracy, and the security of the City's Recycle Plus revenue stream are low risk areas that will be addressed through the contract terms and performance monitoring as follows.

Risks

A. Quality Customer Service - It is anticipated that the quality of customer service will remain comparable to the current service delivery model. It is also possible that the resolution of customer service issues will be timelier for several reasons. First, the City as a go-between service provider will be eliminated and customers will be contacting the haulers directly. Additionally, the haulers maintain call centers specific to solid waste and recycling services, their call center staff are subject matter experts in handling these issues. This is unlike the City's current customer service staff who must be proficient in all City utility issues (including Municipal Water) and the organization in general. Under the proposed service delivery model, City staff would continue to take escalated calls from the hauler call center for research and resolution. Call center performance standards would be monitored by City staff.

B. Accurate Billing – This risk will be mitigated by placing a greater focus on auditing and compliance. Finance would be responsible for billing accuracy and ESD contract managers would ultimately be responsible for monitoring hauler performance and customer service quality.

C. Security of Recycle Plus Revenue – The County Teeter Program guarantees transfer of revenue to the City for Recycle Plus single family household customers since the full billed amount would be remitted from the County to the City. Additional safeguards will be built into the agreement terms with haulers for billing of multi-family households and premium services, and monitored by the Finance Department.

The risk of not implementing an alternative service delivery model is high because of the uncertainty of the funding source for procuring a new billing system, along with implementation costs, scheduled major upgrades every five years, and the likely need for a new system every 15 years.

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

No. The City has faced significant challenges in cost-effectively acquiring and providing the specialized skills, technology, and equipment needed to provide these services. These challenges are significant drivers in recommending an alternative service delivery strategy as a new system implementation would require the City to hire a significant consultant team to fill the roles for specialized integration skills that would be required for a new implementation. This proposed change of service delivery enables the City to avoid significant investment costs in technology as well as ongoing operational, maintenance and upgrade costs should the City own the billing system.

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

Yes, the proposed service delivery model would involve close coordination with the County of Santa Clara to include accurate data related to Recycle Plus bill calculations into the County Secured Property Tax Bill, and ensure revenue transfer from the County Teeter Program.

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

Existing resources in ESD and Finance are already tasked with the management, audit, and financial compliance of the existing hauler contracts and hauler billing and customer service would be additional aspects to be managed. The adoption of this proposal will require a review and adjustment of the policies, procedures, and processes by which those functions are performed. It is not anticipated that additional positions beyond the ones already identified would be eliminated because the remaining staff would also be assuming additional audit duties related to the contract haulers' billing and customer service work, in addition to current workload.

ESD staff will continue to administer the Recycle Plus program, manage the waste hauler contracts, conduct compliance monitoring, and will audit and approve hauler payments as well as handle escalated calls. Finance staff will conduct lien-related activities (pertaining to multi-family households), revenue monitoring, and the periodic billing audits.

Public/Private Competition Policy (Policy 0-29):

Faced with a one-time capital cost of approximately $16 million to upgrade the current billing system and coupled with staff reductions in ITD to provide on-going system maintenance, staff conducted this service delivery evaluation. Staff recommends that the Council proceed to place Recycle Plus Single Family billing on the County Property Tax Roll billing system and contract out billing of multi-family households and premium services and customer service functions to the City's residential garbage service providers.

Based on this analysis, cost savings, and the 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.

Next Steps:

Key Milestones

Hauler contract negotiations, development, and agreement to terms	Aug-Oct 2012
Conduct stakeholder outreach	Oct-Dec 2012
Meet and confer as applicable	Oct-Dec. 2012
City Council considers discontinuing in-house service delivery model	Dec 2012
Finalize business case	Feb 2013
City Council considers alternative service delivery model	Spring 2013
Begin phased redeployment/transition of affected staff	Fall 2014
Complete phased redeployment/transition of affected staff	Mid 2015
Ramp up, implement and stabilize Recycle Plus	2015-2016
First Recycle Plus bills on County Secured Property Tax Bill	Jul 2015

Final

Current Service Model:

Overview

Recycle Plus Billing and Customer Service is an integral component for the provision of the City's residential solid waste and recycling services. The overarching goals of the billing and customer service functions are to provide timely and accurate customer billing and problem resolution, as well as to take customer requests for starting and stopping service and a variety of field activities such as bulky item pick up and cart exchanges. The billing system assists the City in monitoring hauler performance and provides the source information to compensate the four service providers: GreenTeam, Garden City Sanitation, California Waste Solutions, and GreenWaste Recovery for a total annual compensation of nearly $87 million.

The Integrated Billing System (IBS) is the technology system the City currently uses to administer Recycle Plus and other City billing functions, along with related customer service activities. The City currently provides residential solid waste billing, customer service, account maintenance, and remittance processing; business tax billing; municipal water billing; and storm and sanitary billing through the IBS. The City Call Center also uses the Customer Relationship Management (CRM) module, accessed through IBS, to manage general resident calls and cases that are of a non-utility nature.

The City has been re-evaluating its investment in technology in an effort to evaluate Total Cost of Ownership (TCO). Concurrently, the IBS system is nearing the end of its useful life and product life. The total cost to replace the current system is estimated to be approximately $16 million. In addition, continuing with an in-house solution would require additional capital outlay in the future to upgrade the system every five years, with a new installation or major upgrade expected after approximately 15 years.

Since IBS is funded through a shared use and cost model by each of the users, the General Fund, along with the other users, would also bear a portion of the burden of upgrading the current system. Migrating to a new system that would replace the IBS would likely be more costly for the General Fund than a system designed to track general informational calls for a general City call center. As such, City staff has been working to develop an alternative replacement solution for billing related activities for all programs to ensure continued revenue collections totaling approximately $300 million annually.

Shifting the Recycle Plus billing and customer service functions to the existing municipal solid waste haulers (haulers) has been proposed as an option to avoid the capital outlay of procuring a new billing system. Since the Recycle Plus billing module is only one part of IBS, this proposal to contract the work to the haulers is part of a larger plan to replace the current IBS system for all users by July 1, 2015. By de-coupling the various City program functions from the IBS shared use and cost model, the City will be able to procure solutions that are more appropriate to the users' needs and budgetary resources for each program function. These services could potentially be supported by a less complex system that is more appropriate to the business needs, and cost considerably less to implement than the replacement to IBS.

Functional Goals

Monitoring performance measures on an ongoing basis allows the City to assess the effectiveness of its revenue and hauler payment management systems, the quality of its customer service and the ability to determine if the Recycle Plus program being provided is meeting the needs of the residents, haulers, and achieving City Green Vision goals. As this service is being evaluated with respect to a new service delivery model, a prime consideration is ensuring quality customer service. The functional goals and associated performance measures of Recycle Plus Billing and Customer Service are:

1) To achieve quality customer service in the Call Center:
   Call Center performance measures include:
   - Estimated call volume (projected at 16,000 calls a month)
   - Answer rate (goal 85-90%)
   - Abandoned calls (goal 10-12%)
   - Average wait time (goal: 2-3 minutes)

2) To provide accurate account billing and collections procedures
   Account Billing and Collections performance measures include:
   - Revenue billed per month/per year
   - Number of liens/assessments per lien/assessment cycle
   - Number of liens in error per lien cycle
   - Accounts receivable statistics per quarter

3) To provide oversight and accurate compensation for the haulers
   Service level reconciliation and Hauler Performance Standards:
   - Service unit and service level reconciliations between IBS and hauler field data
   - Services performed within contractual time requirements

How the Service Is Currently Performed

The Recycle Plus Billing and Customer Service function is handled through a coordinated multi-departmental effort involving the City's Environmental Services Department, Finance, and Information Technology Departments. In addition to the Recycle Plus Billing & Customer Service functions, these same groups of staff use the IBS to handle aspects of Municipal Water Billing, Storm and Sanitary Sewer billing, and the City Call Center.

Environmental Services Department (ESD)

The *IBS Functional Support Team* is a part of ESD and this group supports the day to day operations and maintenance of IBS, while also supporting the ESD program staff with data reporting needs. This group also performs audits of customer premises in the field to ensure accuracy of IBS information.

The *Recycle Plus Program Administration and Contract Management Team* manages all aspects of the residential program, including but not limited to the solid waste and recycling hauler contracts and

addressing escalated customer service issues. The group handles hauler performance issues and reconciliation of hauler bills and payments using IBS as a tool for many tasks involved in contract management.

Finance Department

The Finance Department handles Recycle Plus account maintenance, liens, account adjustments, researching billing irregularities, and collections as needed for the approximately 220,000 residential Recycle Plus accounts.

Information Technology Department (ITD)

The *Call Center* handles all aspects of customer service by phone, correspondence, and web inquires, as well as walk-in service at the City Hall Customer Service Center. There are approximately 200,000 calls received and 17,000 walk in customers per year for the Recycle Plus program. There are approximately 100,000 non-utility general information calls received and approximately 25,000 non-utility walk in customers per year. The primary activities of this group include all of the customer account service, starting and stopping of accounts, requests for on-demand services, account payments, and service and billing issue resolution.

The IBS Technology Team supports all aspects of the IBS technology infrastructure for all users of the system.

The City needs to identify a billing system and related customer work order management alternative to IBS in the near future, including solutions for Municipal Water, Business Tax billing, and storm and sanitary sewer billing (Sewer Service and Use Charges and Storm Sewer Service Charges), currently done on IBS because this system will need to be replaced by July 1, 2015. The City is assessing alternate ways to perform billing and customer service for all of these functions. The City has been working with a consultant to perform a professional, independent evaluation, based on industry best practices, of a number of alternatives the City could consider to replace the aging IBS system and provide an effective and efficient customer service and billing option. This evaluation has looked at all aspects of various options, including cost and potential risks. The Recycle Plus Billing and Customer Service function is the only component undergoing a service delivery evaluation at this time and information on the other users is being provided in this evaluation to give context to the overarching decisions and implications for other users.

Proposed Service Model Concept:

Description

This business case analysis evaluates a contracted services model to provide the Recycle Plus billing and customer service. Under the alternative service delivery model, the City would shift Recycle Plus billing for all residential households to haulers. The City would continue to use in-house staff to perform contract management, hauler billing reconciliation and payments, handle escalated customer service issues, and monitor hauler performance. This proposed service delivery model would save the City an estimated $3 million over a nine year period when compared to the continued use of an in-house technology billing solution. This service delivery concept aligns with the City's Technology Strategy of divesting from technologies that require heavy customization, large capital investments and specialized skill sets from consultants and/or in-house staff. In addition, the service delivery concept does not present any significant implementation risks to the City.

Under this service delivery model, haulers would assume responsibility for Recycle Plus billing and customer service functions. Many comparable cities in California including Oakland, San Francisco, Santa Rosa, Stockton, Irvine, Chula Vista, Fremont, Modesto, and San Ramon have their haulers provide billing and customer service functions for garbage and recycling services. This is the way the City provided billing service prior to 1993. In an effort to mitigate the risk of inaccurate bills and maintain high quality customer service, the City opted at that time to bring the service in-house. Since then, technology advances in billing systems have allowed multi-party access to customer billing information in real time via the Internet, which has eliminated the risk that existed previously with hauler billing. Haulers in general have experience, capacity, and the technology systems to manage this function. They can conduct fee collection functions up to placing a lien on the rate payer's property for outstanding bills, and at that point can provide the information for the City to conduct the lien process.

This proposal to contract out Recycle Plus billing and customer service functions to haulers is part of a larger initiative to replace the existing IBS, which is addressed through the IBS Business and Technology Strategy. A significant driver for shifting the responsibilities for customer service and billing away from the continued use of an in-house system to the haulers is that the City would need to invest approximately $16 million into the capital project to procure and implement a replacement enterprise software solution so that the City could continue to have the tools to provide the customer service and billing functions. In addition to the capital outlay, there would be ongoing licensing and system maintenance in the out years, which would create an ongoing funding, staffing, and management requirement. Additionally, our Information Technology Department estimates that an in-house system would require future additional capital outlay to upgrade the system every five years, with a new installation likely to be required after approximately 15 years.

The current resources in the Information Technology Department are not sufficient to manage a new implementation and system without additional staff, including a dedicated project manager. The City is re-evaluating the feasibility of providing highly specialized systems that require significant staff investment, customization or reliance on consulting services if they are to be maintained in house. Opting to have haulers provide the billing and customer service functions is a service delivery model that supports the Information Technology Department's goals to provide in-house systems only where an alternative does not exist or is not feasible.

Should this alternative service delivery model be implemented, the City will exercise an option in the existing haulers' contracts to provide the service on a fee-for-service basis. Within the contract, performance goals are established which are comparable to the Call Center's current levels which are specified in the 'Functional Goals' section above.

One of the key call center customer service metrics is the average wait time. The contracts have penalties the haulers will be required to pay to the City if certain standards are not maintained. For instance, if the monthly *'telephone average time to answer'* exceeds five minutes, the haulers have to pay penalties. The hauler call center data will be monitored through reports by City staff in the Environmental Services Department as part of the hauler invoice reconciliation process. Financial auditing functions will be conducted by the Finance department.

Key Benefits

As part of the preliminary business case analysis, staff has determined that this alternative delivery option will benefit the City in several ways:

- Cost Savings: Reduces costs to the City by contracting for billing and customer service functions with residential haulers. Estimated $333,000 in annual savings for rate payers over using an in-house technology billing solution. Unrestricted Late Fees would continue to be available to support General Fund activities.
- Process Improvements: Streamlines and creates efficiencies in billing operations and business processes by eliminating redundancies in delivery of customer service.
- Improved Customer Service: Gives residents more direct access to their service provider and maintains City involvement to ensure quality of service remains high.
- Alignment with Key City Priorities: Aligns with City Technology Strategy and community priority of controlling costs. Realigns City focus on core service delivery.

Key Issues

This alternative delivery option does raise the following key issue:

- Staffing Impact: Results in the elimination of approximately 30 FTEs. The City would mitigate impacts to staffing to the extent possible through attrition planning and redeployments.

Staffing Comparison

Approximately 48 FTEs are budgeted in the Integrated Waste Management (IWM) Fund to support and manage Recycle Plus billing and customer service--approximately 28 FTEs are budgeted in Information Technology, approximately 11 FTEs in Finance, and 9 FTEs in Environmental Services.

Table 1 provides a detailed comparison of current staffing levels with the estimated staffing levels in 2014-2015, the first year in which residential haulers would be responsible for Recycle Plus billing and customer service functions. Should Council approve the proposed alternative service delivery option, a gradual decrease of staff to approximately 17 FTEs is anticipated.

TABLE 1: Recycle Plus Staffing Comparison (IWM Fund 423)

Classifications	FY 2012-2013 FTE	FY 2014-2015 FTE (Estimated)
Environmental Services		
Analyst II C	2.05	1.00
Deputy Dir U	0.25	0.25
Env Svcs Prog Mgr	0.25	0.25
Env Svcs Spec	2.00	2.00
Financial Analyst	0.25	0.25
Senr Accountant	1.00	1.00
Senr Analyst	0.51	
Senr Office Specialist	1.00	1.00
Staff Specialist	0.51	
Staff Specialist	1.00	1.00
Supv Env Svcs Spec	0.25	0.25
Sub Total	**9.07**	**7.00**
Finance		
Accountant II	0.73	0.73
Accounting Tech	1.11	0.60
Assist Dir U	0.04	0.04
Division Mgr	0.25	0.25
Investigator Collector I	0.95	
Investigator Collector II	1.00	1.00
Prin Accountant	0.50	0.25
Senr Account Clerk	5.51	3.00
Senr Accountant	0.50	0.50
Senr Invest. Collector	0.05	
Sub Total	**10.64**	**6.37**
Information Technology		
Analyst II C	1.00	
Info Systs Analyst	2.27	
Network Engineer	0.65	0.25
Prin Office Specialist	3.16	
Program Manager I	0.43	
Senr Office Specialist	18.78	4.30
Senr Supvr, Admin.	1.53	
Supervising App. Analyst	0.49	
Sub Total	**28.31**	**4.55**
Total	**48.02**	**17.92**

Cost Comparison

The cost of the service delivery model is calculated by using baseline costs that have been established through the contract amendments that were executed in Fall 2011. The costs to acquire a replacement system (the same class as the current IBS system) to be used by the City, along with transitional costs during the life of the product over 10 years (which would include implementation costs as well as an upgrade after five years) have been considered in the financial analysis prepared by the consultant.

The cost comparison shown in Table 2 details estimated total costs for two scenarios:

1. The current In-House Service Delivery Model with the existing cost sharing structure, including all users presently on the system and their existing funding split. This option assumes that the system is upgraded to the Oracle Tier 1 System (the same category of system currently in place) called Customer Care and Billing (CCB).
2. Hauler Billing Option with Recycle Plus billing and customer service functions transitioning to residential haulers beginning in 2014-2015.

TABLE 2: Cost Comparison – Current Service Delivery Model vs. Hauler Billing

In-House Service Delivery Model	FY12-15	FY16-20	FY12-20
Staffing Costs (1)	**$30,611**	**$40,026**	**$70,638**
Maintenance & Support (2)	**$6,465**	**$8,816**	**$15,281**
Miscellaneous (3)	**$1,245**	**$1,753**	**$2,997**
Contractor Fees	**-**	**-**	**-**
Project Costs (4)	**$12,702**	**$4,500**	**$17,202**
Totals	**$51,023**	**$55,095**	**$106,118**
Hauler Billing Service Delivery Model	FY12-15	FY16-20	FY12-20
Staffing Costs	**$21,585**	**$23,405**	**$44,990**
Maintenance & Support	**$3,461**	**$1,556**	**$5,018**
Miscellaneous	**$922**	**$1,155**	**$2,077**
Contractor Fees (5)	**$14,146**	**$26,215**	**$40,361**
Project Costs	**$9,335**	**$1,000**	**$10,335**
Totals	**$49,449**	**$53,331**	**$102,780**
Recycle Plus Hauler Billing Projected Nine-Year Savings			**$3,338**

(1) Estimated salary and benefit costs for City staff who support the billing and customer service functions. Amounts do not include estimated overhead
(2) Estimated maintenance costs for Kubra Services
(3) Estimated costs for supplies, taxes and other non-personal costs
(4) Estimated system replacement/upgrade costs
(5) Estimated payments to residential haulers/service providers

Service Delivery Evaluation Decision-Making Criteria:

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

Adoption of this recommendation will result in the reduction of approximately 30 staff over the next several years. The City will mitigate impacts to staffing to the extent possible through attrition planning and redeployments in collaboration with the City's Human Resources Department and Office of Employee Relations. The City may encourage the contractors to hire laid-off City employees.

Integrity - City staff will provide the audit function once the billing function is transferred to haulers to ensure that funds due to the City from the hauler are received.

Innovation - The City will maximize its use of technology tools to effectively manage the Recycle Plus program through a more cost effective and efficient service delivery model.

Excellence - The City will provide an excellent billing and customer service process to residents that is cost effective and more efficient by modifying the existing service delivery model.

Collaboration - City staff will foster a tighter relationship with the City's partners to provide a more cost effective service to residents and/or rate payers.

Respect - The City will implement an appropriate change management effort and include staff with updated information when decisions are made that will impact staff.

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

Although City staff currently provides the services, it is not practical for City staff to continue providing the proposed service as it cannot do so in the most cost effective manner when compared to alternative solutions. Haulers are able to take advantage of economies of scale and expertise gained from years of immersion in this market. There are efficiencies gained by the haulers that the City does not have because haulers can leverage their customer service operations and technology amongst all the cities for which they do billing.

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?**

Haulers provide customer service and billing functions for solid waste services they provide in nearly all cities in California. Oakland, San Francisco, Santa Rosa, Stockton, Irvine, Chula Vista, Fremont, Modesto, and San Ramon have their haulers provide billing and customer service functions for garbage and recycling services.

Service interruption and default can occur for numerous reasons including technical infrastructure failure, labor action, and failure of the service provider's business. However, these events are no less likely to occur if the City were to continue providing these services.

The risks are mitigated through contract terms of the agreement such as the requirement for computer systems that have full redundancy, City revenue monitoring functions, and the ability for the City to seize the haulers equipment in order to continue providing service to the customer. In addition, the contract would allow for the transfer of customer accounts from one service provider to another in the event of default.

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

It is unknown at this time whether a City staff unit would be interested in developing a managed competition proposal. However, the implementation of a new system would, at minimum, require specialty staff and additional project management staff that have specific knowledge and skill sets regarding how to architect and integrate a new system and the City does not have those skill sets in-house at this time. In addition, the capital cost of a new system and associated implementation costs make technology investment cost prohibitive

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

Yes, the work involved is not episodic in nature, but rather consistent and repetitive on a day-to-day basis. However, the customer service function does duplicate work that the haulers are already providing and therefore it is not cost effective or efficient for the City to continue to provide these services.

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

As a long term service provider (current operational model) the City will have to make a significant capital investment (approximately $16 million) in a new billing system. In addition, the City risks incurring additional future costs that are inherently difficult to budget for, such as substantial resources needed to address unanticipated system replacements and upgrades. The recommended strategy would eliminate the need for additional significant capital outlay in the future.

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?**

The service model described in this strategy is designed to retain a similar level of service to customers that is currently being delivered by the City, but at a lower cost. Service levels will be contractually agreed upon and failure to reach a service level will carry significant monetary penalties. The cost of providing this service is significantly reduced compared to the cost of the City providing the services.

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

No, there are no restrictions on the method of service delivery.

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

The risks of implementing the new service delivery model are relatively low. Quality of service, billing accuracy, and the security of the City's Recycle Plus revenue stream are low risk areas that will be addressed through the contract terms and performance monitoring as follows.

Risks

A. Quality Customer Service - It is anticipated that the quality of customer service will remain comparable to the current service delivery model. It is also possible that the resolution of customer service issues will be timelier for several reasons. First, the City as a go-between service provider will be eliminated and customers will be contacting the haulers directly. Additionally, the haulers maintain call centers specific to solid waste and recycling services, their call center staff are subject matter experts in handling these issues. This is unlike the City's current customer service staff who must be proficient in all City utility issues (including Municipal Water) and the organization in general. Under the proposed service delivery model, City staff would continue to take escalated calls from the hauler call center for research and resolution. Call center performance standards would be monitored by City staff.

B. Accurate Billing – This risk will be mitigated by placing a greater focus on auditing and compliance. Finance would be responsible for billing accuracy and ESD contract managers would ultimately be responsible for monitoring hauler performance and customer service quality.

C. Security of Recycle Plus Revenue – Safeguards to protect the City's Recycle Plus rate payer revenue stream have been built into the agreement terms and will be monitored by the Finance Department. All payments will be deposited directly into the City's bank account with limited hauler access. The haulers need read-only access to the account to do proper reconciliation of bills. Additionally, a sub-account will have a revolving fund balance that haulers can access so they can issue refunds and account adjustments. Liquidated damages have been established for failure to deposit payments as required, failure to balance payment batches to deposits on a daily basis, failure to adhere to identity theft protection requirements, and failure to adhere to the City's debt collections policy, as well as for other infractions.

The risk of not implementing an alternative service delivery model is high because of the uncertainty of the funding source for procuring a new billing system, along with implementation costs, scheduled major upgrades every five years, and the likely need for a new system every 15 years.

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

No. The City has faced significant challenges in cost-effectively acquiring and providing the specialized skills, technology, and equipment needed to provide these services. These challenges are significant drivers in recommending an alternative service delivery strategy as a new system implementation would require the City to hire a significant consultant team to fill the roles for specialized integration skills that would be required for a new implementation. This proposed change of service delivery enables the City to avoid significant investment costs in technology as well as ongoing operational, maintenance and upgrade costs should the City own the billing system.

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

No, but the City will leverage its existing contractual relationship and contracts with its haulers to provide billing services.

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

Existing resources in ESD and Finance are already tasked with the management, audit, and financial compliance of the existing hauler contracts and hauler billing and customer service would be additional aspects to be managed. The adoption of this proposal will require a review and adjustment of the policies, procedures, and processes by which those functions are performed. It is not anticipated that additional positions beyond the ones already identified would be eliminated because the remaining staff would also be assuming additional audit duties related to the contract haulers' billing and customer service work, in addition to current workload.

ESD staff will continue to administer the Recycle Plus program, manage the waste hauler contracts, conduct compliance monitoring, and will audit and approve hauler payments as well as handle escalated calls. Finance staff will conduct lien-related activities, revenue monitoring, and the periodic billing audits.

Public/Private Competition Policy (Policy 0-29):

Faced with a one-time capital cost of approximately $16 million to upgrade the current billing system and coupled with staff reductions in ITD to provide on-going system maintenance, staff conducted this service delivery evaluation. Staff recommends that the Council proceed to contract out billing and customer service functions for Recycle Plus to the City's residential garbage service providers.

Based on this analysis, cost savings, and the 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.

Next Steps:

Council approved adding the hauler billing and customer service option to the hauler contracts in Summer 2011. The haulers that already have options in their contracts for the provision of full service customer service and billing are: Garden City Sanitation, and GreenTeam of San Jose. GreenTeam will have an option to provide customer service and billing for single-family households in Collection District B plus all multi-family households, and Garden City Sanitation for single-family households in Collection Districts A and C.

Key Milestones

Conduct stakeholder outreach	Oct-Dec 2012
Meet and confer as applicable	Oct-Dec. 2012
City Council considers discontinuing in-house service delivery model	Dec 2012
Finalize business case	Feb 2013
City Council considers alternative service delivery model	Spring 2013
Notice Haulers of the City's Intent to Exercise Contract Option to assume Recycle Plus Billing and Customer Service work.	Summer 2013
Start Migration to Haulers	Spring 2014
Estimated Go Live with Haulers	Fall 2014
Begin phased redeployment/transition of affected staff	Fall 2013
Complete phased redeployment/transition of affected staff	Fall 2014

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