



Date: October 21, 2014
To: Members of the Budget Oversight Committee
From: Patrick H. West, City Manager *PLW*
Subject: Management Partners Project Update

At its August 12, 2014 meeting, the Budget Oversight Committee requested a more detailed reporting of the work undertaken by Management Partners since we contracted with them to provide consulting services to enhance the City's organizational efficiency and financial sustainability.

Beginning in March 2013, Management Partners has undertaken a number of projects for the City. They include:

- Employee Compensation Review
- Employee Assistance Program Review
- Competitive Outsourcing Analysis (Street Sweeping and Refuse Collection)
- Fleet Efficiency Analysis
- Fleet Utilization Analysis
- Fleet Activity-Based Cost Analysis
- Capital Improvement Project Planning Project Management Review
- Public Works Organizational Review

This report provides a summary of each of the projects identified above.

EMPLOYEE COMPENSATION REVIEW

The purpose of this review was to analyze the potential to realize cost savings by changing various compensation practices to bring them into line with market practices and to develop a schedule for implementation, taking into account the dates existing labor agreements are open for negotiation.

Management Partners analyzed existing agreements between the City and its various labor associations and compared them to best practices. They also compared key provisions in Long Beach memorandums of understanding (MOUs) with publicly available MOUs from 10 agencies typically utilized by Long Beach for market compensation comparisons.

Based upon their review, Management Partners identified several opportunities for cost savings. Some of these changes are within management's rights to implement immediately, although informational meetings with labor associations regarding impacts of the changes may be required. The remaining modifications

to compensation require negotiation through a meet and confer process when labor agreements are due to expire.

The Human Resources Department has worked to implement several of the recommendations. Reviews of the employees receiving various assignment pays (i.e., floor warden, standby pay) have been completed, and the number of employees receiving these pays has been reduced, as is management's prerogative. Additionally, Management Partners' recommendation that management negotiate to have Confidential, Management, Engineers and Lifeguard association employees pay 100 percent of the employee share of retirement costs has been implemented.

Labor agreements with the IAM, Attorneys, and Prosecutors associations will be open for negotiation in 2014 and 2015, while agreements for Police and Fire Units will be open for negotiation in 2016. Management Partners has identified that there is significant potential to reduce costs in the areas of overtime, standby pay, and special pay for employees in these units. They concluded the City could substantially reduce retiree health contribution costs by negotiating to cap the sick leave conversion rate at \$25 per hour.

EMPLOYEE ASSISTANCE PROGRAM REVIEW

The purpose of this review was to analyze the feasibility of competitively outsourcing the City's Employee Assistance Program (EAP) by evaluating current performance and service delivery standards and costs so they can be compared to private sector offerings.

An employee assistance program typically provides:

- Basic counseling services to employees and their immediate family members;
- Referrals to professional counseling for issues such as marriage and family problems, alcohol or drug abuse, anger management, and financial problems; and
- Individual and group grief counseling, critical incident debriefings, and counseling to employees who are referred by their managers because of work-related issues.

The City currently utilizes 2.5 full-time equivalent employees to provide EAP and substance abuse professional services to City employees.

Management Partners concluded that the current workload of the in-house EAP operation does not appear to justify the current level of staffing. In addition, benchmarking research showed that all but 1 of 11 peer local government agencies currently outsource their EAP program. The analysis showed that, not only would the City save money contracting with an outside vendor for such services, it would likely provide employees with additional benefits, such as regular training programs, a 24/7 toll-free hotline, orientation, and open enrollment seminars. Management Partners recommended that the City initiate a RFP process for these services and prepared a draft RFP and contract document for that purpose.

The RFP for competitively outsourcing the City's EAP program was issued in September 2013, and the City received five proposals. A preferred provider has been identified, and their proposal reflects both savings and service enhancements. Human Resources management staff intends to bring this matter to the City Council in the near future. A Proposition "L" finding is required. If the City Council approves the outsourcing of EAP services, the Human Resources Department will look for an appropriate transfer opportunities within the City organization.

COMPETITIVE OUTSOURCING ANALYSIS

The purpose of this analysis was to evaluate the feasibility for outsourcing selected services by (1) identifying current performance and service delivery standards and associated costs so they can be compared with proposals from the private sector, (2) drafting requests for proposals and supporting the RFP processes, (3) conducting Proposition "L" analyses and making recommendations based on those analyses, and (4) supporting implementation of services selected to be outsourced.

Management Partners' previous analysis for Long Beach (presented to the City Council in July 2012) identified several strategies for improving financial sustainability by bringing private sector competition to bear on the cost of City services. Services identified as having significant competitiveness potential included custodial, street sweeping, refuse hauling and towing. Management Partners also identified the City's fleet operations, workers' compensation administration, jail management, and technology support services as having the potential to reduce costs through alternative service delivery. To confirm whether the private sector can provide these services at current or higher standards for less cost requires additional analysis and a request for proposals process.

Management Partners conducted detailed competitive outsourcing analyses of street sweeping and refuse collection, the results of which are described below.

Street Sweeping

Management Partners reported that benchmarking with peer agencies showed that Long Beach's street sweeping budget per capita is slightly above average. The City's authorized street sweeping staffing is among the highest of the peer agencies, behind only Bakersfield. The average number of FTEs for the peer agencies is 16.9, while the number of FTEs in Long Beach is 20.2, higher than the average. In the last two years, at least three street sweeping RFP processes in Orange County have been conducted. Recent bids from qualified vendors have a mid-range price of \$15 to \$20 per curb mile. Based on the analysis, Management Partners concluded that Long Beach has the opportunity to achieve significant cost savings through competitive outsourcing and still provide the high-quality street sweeping services that the community expects.

Management Partners prepared an RFP and draft contract for competitively outsourcing the City's street sweeping service. The RFP was released by the City on October 4, 2013. The RFP used existing service levels and practices, but also contained options for alternative service levels. These options included street sweeping without debris collection

and disposal, street sweeping with a two-hour window, and street sweeping on a five-day per week schedule as opposed to the current four-day per week schedule. The RFP also provided the proposers the opportunity to purchase the equipment and vehicles in the City's street sweeping fleet. Two proposals were received on November 22, 2013.

Management Partners was asked to analyze the proposal of the recommended vendor and determine whether the findings required by Charter §1806 (Proposition "L") can be made. To that end, Management Partners conducted tests for effectiveness and efficiency and cost savings by comparing current and proposed street sweeping services and associated costs. The analysis showed that savings to the General Fund from outsourcing street sweeping would be \$1,309,760. This includes the savings due to the redistribution of various overhead charges totaling \$444,958 from the General Fund to other funds.

Based on the results of the RFP process, the City Manager planned to bring the issue of outsourcing to the City Council in February 2014. Immediately prior to the date the item was agendaized for City Council consideration, the employees in the street sweeping operation requested that they be given an opportunity to find efficiencies within the operation to reduce costs prior to the time that the City Council considers contracting out the service. Management felt this was a reasonable request, and modified its approach to accommodate this. Human Resources staff worked with the IAM through the "Meet and Confer" process for several weeks in an effort to elicit the employees' ideas. No well-developed ideas were provided to management from that process.

Per the Approved FY 15 Budget, efforts to outsource street sweeping have been suspended. Instead Public Works management staff has been given direction to identify opportunities to improve efficiency in the operation that would result in shorter sweeping windows and other service improvements.

Refuse Collection

Management Partners reported that benchmarking with peer agencies showed that Long Beach's refuse collection costs are higher than the average, but fall in the middle of the range. Their review noted that total annual expenses were exceeding annual revenues by approximately \$4 million (in FY 13). This situation required the use of Refuse/Recycling Fund balance to support the current level of spending, an approach the City has been using for a number of years. While the current reserve level of \$12.4 million (in FY 13) did not indicate an imminent emergency for the refuse operation, at the current pace, unless the City finds ways to reduce expenses or increase revenues, the fund balance will be completely expended in approximately four years.

Management Partners noted that opportunities to achieve cost savings by outsourcing refuse hauling are greatest when the collection equipment is at or near its useful life. Such is the case with Long Beach's equipment. Based on the analysis, Management Partners concluded the City has the opportunity to achieve significant cost savings through competitive outsourcing and still provide high-quality refuse collection services.

Upon completion of the Street Sweeping RFP, Management Partners prepared a draft RFP (approximately 75 percent complete) and draft contract for competitively outsourcing the City's refuse collection service. In November 2013, City management decided that further effort toward the completion and issuance of an RFP should be postponed until after a decision regarding the outsourcing of street sweeping was made. Work on the RFP is still suspended.

FLEET EFFICIENCY STUDY

The purpose of this study was to conduct a high-level analysis of the City's fleet operations to identify opportunities to enhance the efficiency and effectiveness of the City's fleet operations. This project looked at the three fleet operations (City, Water, and Harbor) to identify opportunities for consolidation, shared services, or other economies of scale and developed recommendations for more detailed analyses of the City's fleet operations.

From interviews and analysis conducted, Management Partners identified a number of possible next steps that would support improving the performance and cost effectiveness of the City Fleet's operations. These include, but are not limited to:

- Conducting a fleet utilization study for the City fleet to ensure that it is sized appropriately to meet its transportation needs;
- Performing an activity-based cost analysis to identify fleet operations and maintenance costs, and benchmark those costs against other possible providers of those services;

Subsequent to the completion of this project, City management asked Management Partners to proceed with a Fleet Utilization Study and Activity-Based Cost Analysis for the City Fleet (both of which are summarized in subsequent sections).

FLEET UTILIZATION STUDY

The purpose of this study was to conduct a detailed review of each vehicle or piece of equipment in the City's inventory to ensure the fleet is appropriately sized and configured to meet transportation needs as efficiently and effectively as possible. Identifying underutilized or inappropriately assigned vehicles, and either reassigning them or eliminating them from the inventory, is a fleet management best practice. The study also provided an opportunity to explore alternative transportation options that may be less costly, such as reimbursing mileage for individuals who use their own vehicle, downsizing to less expensive and more economical units, centralizing and/or pooling vehicles, sharing equipment with other public agencies, and using commercial car rental companies.

Management Partners used a variety of analytical and management techniques to conduct the analysis including reviewing documents, collecting and analyzing data from user departments, and comparing the City's operations and policies with the best practices for effective fleet management. Due to the data intensive nature of this work, they also collaborated with staff from each department to review vehicle utilization, discuss

departmental transportation requirements, and explore more cost-effective options for meeting those requirements.

Management Partners made numerous recommendations based on their analysis. They identified 48 vehicles that should be removed from the fleet inventory. The relatively low number of validated excess units is due to the City's successful efforts to achieve major reductions in fleet units over the last 10 years, and is reflective of a fleet inventory that is appropriately sized to meet current needs.

A vehicle cost analysis was conducted to determine the most economical means of meeting Long Beach's transportation requirements. This involved comparing the costs of an assigned City vehicle with alternative options. The analysis showed that it is less expensive for Long Beach to provide mileage reimbursement for the personal use of vehicles than to provide a City vehicle when the business-related transportation needs are less than 1,184 miles per month.

Management Partners also reported that opportunities exist to both reduce departmental costs and improve vehicle utilization by reassigning seven currently underutilized vehicles to the central City Hall motor pool. In addition, the State of California rental car contract could be used to supplement the City Hall motor pool when units will be out of service for extended periods of time, or during periods of peak demand. Seven pieces of heavy equipment were also recommended for reassignment to a centralized pool at the City Yard. This will improve efficiency and availability of specialized vehicles so that they can be shared by more departments.

Fleet Services staff has embraced the Management Partners' recommendations and is proceeding to implement them.

FLEET ACTIVITY-BASED COST ANALYSIS

The purpose of this analysis was to evaluate and quantify all costs associated with fleet maintenance activities, including costs for labor, parts, commercial repair work and overhead. It is useful to ensure appropriate levels of cost recovery and facilitates budget planning from organization-wide and department perspectives. Management Partners used a variety of analytical and management techniques to conduct an activity-based cost analysis of Long Beach fleet operations, including interviewing staff from both the Fleet Services Division and user departments, reviewing documents, analyzing fleet and financial data and comparing the City's operations with best practices for effective fleet management. Management Partners' review resulted in numerous findings and recommendations.

Long Beach uses several approaches and methods for allocating costs in three categories that are consistent with those used by modern fleet operations. These categories are:

- Operation and maintenance (direct costs for labor, materials such as parts and fuel, and commercial services);

- Fixed costs (overhead; costs for fleet maintenance facilities, systems and software; and debt service); and
- Replacement costs.

Cumulatively, the different approaches and methodologies enable the Fleet Services Division to fully recover the costs to provide services. Management Partners reported that the basic methodologies are sound, with two exceptions. The first is that fleet acquisition fund overhead collected through markups and indirect charges by the fleet operations fund are not being credited or transferred back to the acquisition fund. This results in capital replacement funds being used for acquisition-related operations. The second is that some methodologies and supporting data are not well documented. This makes it difficult for internal customers to understand the basis for the rates being charged, and makes it difficult for Fleet Services staff to adjust the rates when necessary.

Other major findings and recommendations provided by Management Partners include the following:

- The spreadsheet tool utilized by Fleet Services to calculate and allocate costs to user departments is complex and extremely labor-intensive to maintain. Management Partners suggested a simpler approach that requires less staff effort to maintain and would generate cost and allocation results to maintain appropriate cost recovery without any material loss of fairness in allocating costs to internal customers.
- The City has not consistently or annually analyzed and recalculated the shop labor rate and markups to ensure they are consistent with industry standards and are effective in recovering various overhead costs. Linkage between Fleet Services' fixed costs and the use of vehicles by departments would be strengthened by charging an annual fixed cost per vehicle instead of assessing a lump fee for such overhead. This would be consistent with industry best practice and might encourage departments to give up low utilization vehicles to avoid the annual "cost of ownership" fee.
- A review of staffing, workload, and productivity indicates that the City's current mechanic staffing is sufficient to support the number and type of units being maintained. Fleet Services has a 70 percent mechanic productivity rate, which is within the range for well-managed public sector fleets. While 70 percent is within the recognized national standard, additional productivity should be sought through various means. One method is to use less skilled, non-mechanic positions to perform non-repair tasks such as picking up parts, cleaning the shop and/or delivering and picking up vehicles from customers and/or vendors.
- A significant number of vehicles have not been replaced as scheduled. Current cash available can fund approximately 81 percent of the replacement costs. Since the replacement of all backlogged units at one time is not practical, it will need to be planned over the next several years. The practice of keeping units beyond their normal life is resulting in higher maintenance and parts costs for Long Beach than

comparable fleets having newer vehicles. Staff should analyze lifecycle costs for vehicles to determine when it would be more efficient to replace a vehicle than to repair it.

- The City would benefit from more detailed policies to guide decision making on the addition, utilization, and replacement of vehicles and equipment. Such policies include criteria for requesting that vehicles be replaced ahead of schedule, standardizing vehicles to generate maintenance economies of scale, and allowing excess replacement fund dollars accumulated by a department to support replacement of underfunded assets, such as replacing old vehicles with alternative fuel units.

Fleet Services staff has embraced Management Partners' recommendations and is proceeding to implement them.

CAPITAL IMPROVEMENT PROJECT PLANNING PROJECT MANAGEMENT REVIEW

The purpose of this study is to review the systems and processes being utilized by the Public Works and Parks, Recreation and Marine Departments to plan and execute capital projects, and to identify opportunities for improved effectiveness, efficiency and accountability. In addition, the City desires assistance implementing recommendations through the development of a detailed Implementation Action Plan.

Management Partners' work on this project is ongoing. To date, they have:

- Reviewed current and historical CIP budget information and trends;
- Reviewed policies, procedures, performance metrics, and other documentation;
- Interviewed staff responsible for identifying and managing capital improvement projects for the Public Works and Parks, Recreation and Marine Departments to obtain information about project manager roles and responsibilities, the status of existing projects, use of project management systems, challenges experienced in completing projects on time and within budget, and ideas for improving project management efficiency and effectiveness; and
- Researched best practices for CIP management.

Management Partners is currently developing preliminary observations and recommendations for review with City management. After receiving the City's initial feedback, they will make recommendations for improving capital improvement project management, including opportunities to clarify roles and responsibilities, improve the use of technology, and enhance reporting capabilities. Management Partners will then develop an Implementation Action Plan to facilitate the implementation of recommended improvements. The Plan will include a schedule, milestones and assigned responsibility, as well as performance measures to track performance.

PUBLIC WORKS ORGANIZATIONAL REVIEW

The purpose of this project is to conduct a high-level evaluation of the Department's existing organizational structure, functions, and staffing at the managerial level to identify opportunities for improved effectiveness and efficiency, and to help inform decision making about whether the additional positions should be approved.

Management Partners' work on this project is ongoing. To date, they have:

- Reviewed relevant background information such as organization charts, budgets (operating and capital budgets, including revenue sources), staffing information, job descriptions, work plans, performance indicators, and previous studies conducted about each bureau; and
- Interviewed managers and supervisors to hear perspectives about workload, staffing, performance expectations, changes in operations, impediments, current projects, technological concerns, and other factors that will provide a solid picture of the present environment.

Management Partners is currently compiling an inventory the programs and services provided by each bureau to identify compatible service areas and functions, and will create a functional organization chart to provide a visual representation of the existing alignment of functions within the department. Once this is complete, they will conduct benchmarking with three or four agencies comparable to Long Beach to obtain information to enable us to compare organization structure, staffing, budgets, and key performance indicators, which will be particularly useful while examining the department's staffing, organization structure, workload, and performance measures.

Upon completion of their evaluation, Management Partners will develop preliminary observations and recommendations for review with City management. After receiving the City's initial feedback, they we will make recommendations to optimize the efficiency and effectiveness of the Public Works Department through organizational and functional realignment. Management Partners will then develop an Implementation Action Plan to facilitate the implementation of recommended improvements. The Plan will include a schedule, milestones and assigned responsibility, as well as performance measures to track performance.

CONCLUSION

As you can see from the project summaries above, we have made good use of our contract with Management Partners. They have provided, and continue to provide, expertise and perspective that we can draw upon to enhance the City's organizational efficiency and financial sustainability.

Please let me know if you require additional information.

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