

Restructuring Committee Quarterly Report

July 26, 2010

Submitted by:

John Szerlag, City Manager
John M. Lamerato, Assistant City Manager/Finance & Administration
Mark F. Miller, Assistant City Manager/Economic Development Services
Peggy E. Sears, Human Resources Director
Susan Leirstein, Purchasing Director
Richard Carlisle, Consultant

BACKGROUND

In Michigan, the challenges to local government have never been greater. Declining property tax revenues, the reduction in State – shared revenue, and the lack of development activity have presented Michigan communities with an unprecedented challenge.

The City of Troy management team has long recognized the fiscal challenges the City would face. Management has initiated a process of evaluating options for service delivery which is broadly characterized as privatization, regionalization, elimination and/or consolidation.

The failure of the proposed millage placed greater importance on evaluation of service options, including the use of privatization, to address the City's budget issues. This report summarizes the work that has been completed to date regarding privatization and identifies additional options the City may wish to pursue.

PRIVATIZATION

Outsourcing certain government services to the private sector is not new. Over the past two decades, local governments, regardless of their political makeup, have used privatization to lower costs and increase efficiency. Privatization is most typically associated with contracting out public duties to private organizations, which may be either for-profit or non-profit. However, privatization is really a term which more broadly describes a range of choices shifting some responsibilities of the public sector to the private sector. As local government is being asked to do more with less, its role is changing from being a primary service provider to being a facilitator or broker of services.

The reason most frequently cited for privatization is cost savings. Reduction in cost ranging from five percent to fifty percent is a compelling factor. However, communities that have gone the route of privatization have done so for other reasons as well:

- Innovation – Create new and innovative solutions to service delivery
- Access to Expertise – Contracting is a means to obtain expertise otherwise not available in-house
- Respond to Peak Demand / Improve Speed of Delivery – Additional help can be obtained when it is most needed, thereby preventing service delays

Although the City of Troy's process is still evolving, the model on which the City has initially focused was showcased in Indianapolis, where "competing-out" allows public-sector employees to bid on contracts in competition with private vendors.

Another term for public employee competition is called managed competition. As with "competing-out", managed competition encourages City employees to compete against the private sector and submit a proposal to continue to provide the government services in-house.

TROY PROCESS

There is a growing body of knowledge in the public sector regarding privatization and City Management borrowed from the experience of others. The keys to a successful process are having clear-cut roles in place. The City of Troy is no stranger to contracting out services. The Purchasing Department has a well-established process based on both experience and strong professional standards. With the introduction of managed competition, City Management established a systematic process to evaluate privatization opportunities which also allowed employees to compete against the private proposals.

Step 1

The first step was identifying opportunities in consultation with department directors. The results of this evaluation, discussed more fully later in this report, have been shared with the Restructuring (Privatization) Committee established by City Management. This evaluation was by no means exhaustive and there are several areas where more specialized expertise will need to be applied.

Step 2 – Process for Privatization

If it is determined that a department has potential for privatization in whole or part, and the scope of work has been identified, the matter will be turned over to the Purchasing Director and consultant for specification development. In certain circumstances, use of a consultant with expertise in a particular service area may be needed. The Purchasing Director and consultant will work with the appropriate department and receive department head concurrence on the qualifications and request for proposals that are being solicited. Should concurrence not be achieved, the City Manager's Office will resolve the conflict.

Step 3 – Selection of Firms to be Interviewed

The evaluation committee will review proposals and select the appropriate number of qualified firms to be interviewed.

Step 4 – The Interview Process

The City Manager's Office will select an outside subject matter expert to assist the Purchasing Director and consultant in conducting interviews (exception was Building Department where consultant was replaced by another outside expert). Thus an interview panel of three people will recommend the most qualified bidder. Department directors and other management staff of that department may be present during the interview, as well as ask questions.

Step 5 – In-house Proposal to Compete with Private Sector Bid

If the City Manager's Office concurs with the recommendation of the Purchasing Director, consultant, and the other outside party, the City Manager's Office will turn the matter over to the Human

Resources Director who will work with the appropriate department director to see if the work can be performed as cost efficiently in-house. The Human Resources Director can draw on anyone else she deems necessary to assist in this endeavor.

Step 6 – The Final Outcome

Once the Human Resources Director and the department director have performed their analysis, they will share it with the Purchasing Director and consultant. If all agree on a course of action, they will submit a joint recommendation to the City Manager's Office. If there is disagreement, the City Manager's Office will decide. Of course, all contracts require City Council approval.

RESULTS TO DATE

For the most part, early emphasis has been placed on "on-demand" services (i.e. the Planning, Building and Engineering Departments). Because such services are more sensitive to economic activity, the potential savings is more significant. While evaluation of golf course management had been initiated prior to establishment of the current process, the Troy process was followed with the exception of the interview panel. Here the raters were all employees.

The following summarizes current results:

Planning Department

At the outset of this evaluation, the Planning Department had already downsized from five full-time staff to two. Planning was previously outsourcing some work to private consultants. Now most development review activity (which is unpredictable) is outsourced to a consultant using escrow accounts to pay for the services. Consulting services are due to be re-evaluated at the end of this year.

We estimate that by reducing the Planning Department workforce and installing a part-time consultant, the City will save over \$250,000 per annum.

Planning has taken on additional responsibilities when Code Enforcement was shifted to the department. The Zucker Report had recommended that there would be better zoning ordinance interpretation and administration by shifting that function to the Planning Department. The Zoning and Compliance Specialist assists the Director with the zoning administration and appeals to the Zoning Board of Appeals (ZBA). Additional responsibility has been assumed with building official duties combined with code enforcement activities, creating some of the efficiencies recommended by the Zucker Report.

Code Enforcement

Code Enforcement consists of zoning and nuisance code enforcement and rental housing inspection. The rental housing inspection program is already handled by two part-time staff.

Therefore, it was determined there was little or no benefit or cost savings to outsourcing this function to a private contractor.

A Statement of Qualifications (SOQ) was released for other code enforcement functions, and only one proposal was received which met the pass/fail criteria. The Planning Department submitted a proposal to retain code enforcement, and it was determined that savings would be minimal by outsourcing code enforcement to a private contractor. Further, management weighed the benefit of maintaining control over this function, since enforcement is not an on-demand service; rather, it is a blight mitigation tool.

Building Department

On June 7, 2010, the City Council approved hiring SAFEBuilt, Inc. to perform all building inspection and plan review functions. The Building Department's proposal was theoretical rather than actual, as the Building Department could not compete from a standpoint of cost when compared to the variable model presented by SAFEbuilt. Further, the Building Department proposal did not address service levels and needed improvements in the use of technology.

There is not a more clear example to privatize than having an on-demand service be predicated on user fees with a portion thereof being reverted to the General Fund as a revenue.

Retaining SAFEbuilt will save the City approximately \$1.1 million in the first year, when compared to the fiscal year 2009/10 Building Inspection operating budget.

Engineering Department

The Engineering Department has been a model example of a hybrid department, maintaining a core staff and outsourcing a variety of engineering, design, plan review, and inspection activities to private consultants. Nearly 50 percent of cost associated with general operating and capital projects is outsourced to consultants. Engineering currently has three general engineering services contracts and two municipal testing services contracts with private firms, and has a great deal of experience in negotiating both scope of work and fees in order to achieve cost effective service to the City.

Engineering has reduced the number of personnel from 23 full-time and seven part-time in fiscal year 2004/05 to 13 full-time and three part-time in fiscal year 2010/11. Much of Engineering's work is driven by the City's Capital program. The office also supports both in-house and outsourced design with surveying. While this function has been downsized, the Department has not eliminated it. Thus, some additional survey functions may be outsourced, even to firms not currently under a general services agreement.

Engineering also enforces soil erosion and sedimentation permits, plan review and inspection. While this function may be outsourced to Oakland County, the result will be loss of revenues, greater inconvenience to permittees, and a loss of local control over enforcement.

To better support the function, Engineering is working on a fee structure that covers the actual cost and will be in line with other communities.

The Department and City rely on up-to-date GIS, including data entry in the Engineering Department. It will be counterproductive to put data entry on hold for any significant period of time. The cost of entering data after a delay will be greater than the benefit received.

However, both the Department and City need to explore better cost recovery options. Currently, the City does not charge outside users of the City's GIS data.

The final Department function relates to ROW acquisition. The function has been shared between a City staff member and a consulting firm. However, since the duration of the work is capital project related and is estimated at one and half to two years, it was determined to be more cost effective to keep the position in-house, and minimized the use of a consultant.

In summary, the Engineering Department has achieved the optimum balance between the use of in-house staff and consultants. This is primarily attributable to our rolling six-year \$100 million Capital improvements programming.

Golf Course Management

On June 7, 2010 the City Council approved the hiring of Billy Casper Golf to manage the two City-owned courses. Proposals were received from five firms, and three were selected for an interview. The recommendation made by City management was to retain Billy Casper Golf with a management contract. Golf course staff, which includes AFSCME bargaining unit personnel, were given an opportunity to compete, and proposed an aggressive plan to reduce expenditures and hire a marketing consultant. However, staff could not compete on boosting revenues, critical to the success of the courses. Further, staff was unable to provide the same assurances for non-performance as Billy Casper Golf, in other words, providing the City with a guaranteed revenue stream.

Under the AFSCME collective bargaining agreement, City management has the right to subcontract work normally performed by bargaining unit personnel providing three conditions are met:

- 1) The requisite manpower or time, skills, tools, or equipment are not available; or
- 2) The work cannot be as economically performed by the bargaining unit personnel.
- 3) Management will advise the Union of those construction projects involving subcontracting.

Of these, the second requirement is paramount. The analysis demonstrates that the work cannot be as economically performed by AFSCME personnel as it can by Billy Casper Golf.

City Assessor's Office

The City Assessor's Office is well qualified and knowledgeable in the complexities of property in Troy. Staff has been cross-trained and is flexible in the assignment of duties.

The City Assessor's Office is sensitive to economic conditions, although not to the extent of other "on-demand" services. There has been some discussion about outsourcing to Oakland County. However, to respond to the economic downturn the department has eliminated two positions. There are other alternatives to consider, such as outsourcing to a private contractor(s) under the contractual control of the City Assessor. Contractual arrangements under the supervision of the City Assessor would ensure maintenance of their high standards. The City Assessor's Office will continue to identify periods when contracting would benefit a staff of reduced size.

EVALUATION OF OTHER DEPARTMENTS

As part of **Step 1**, initial observations were made of the other departments. Since the initial evaluation was performed in December, the millage failure and implementation of Option 1 has affected many of the initial observations.

For example, outsourcing the management of the Library is a moot point. Other options such as transitioning the Museum and Historic Village over to a private non-profit are currently being discussed. Therefore, this report will not discuss options for functions which are being eliminated.

Department of Public Works

The DPW manages and maintains the City's water and sewer, storm drains and streets, as well as the equipment and fleet needed to perform these tasks. DPW has had significant staff reductions, and already contracts out quite a bit of its work. They also perform fleet maintenance for other communities and school districts.

Not all City maintenance functions are housed within DPW. Some maintenance activities are performed by Building Operations and Parks and Recreation. Therefore, there is some redundancy that is currently being addressed. In conjunction with management, the three departments have been evaluating overlapping responsibilities. Consolidation and maintenance under a single department (DPW) will increase opportunities for outsourcing.

Community Affairs

Most of the activities of this Department are so directly related to other internal City functions that it would be difficult to outsource. The Community Affairs Director's position has been split half-time between the Police Department and the City Manager's Office.

This decision has the advantage of relieving a uniformed officer of some community relations. That said, we are considering utilizing the International City Management Association (ICMA) to conduct an independent analysis of the City Manager's Office.

City Clerk's Office

Most of the City Clerk's Office functions are statutory, i.e., elections, record-keeping, voter registration, Freedom of Information Act (FOIA) requests, etc. Election cycles have a major impact on staffing in the City Clerk's Office. As other departments downsize, record-keeping may again need to be centralized, thereby impacting the City Clerk's Office. The department also performs a number of non-statutory service functions that may either be shifted or eliminated.

However, the elimination of some functions such as dog licenses, passports, and vitals will leave a permanent negative effect on revenues. One area being explored for outsourcing is minute-taking for all boards and commissions.

Finance

Finance is an internal service department. Some functions such as water billing and benefit administration have already been consolidated with other internal departments. Implementation of the integrated New World software system has allowed for reduction and consolidation of staff from 10 ½ full-time employees in fiscal 2007/08 to seven full-time employees in fiscal year 2010/11. Clerical staff is shared among all finance functions. Outsourcing of other functions has occurred. For example, water and tax bill printing and mailing are done by a contractor. The Finance Department continues to explore outsourcing opportunities. The outsourcing of payroll may be revisited if there are further staff reductions.

Fire Department

The Fire Department is unique for a city the size of Troy. Using volunteer firefighters to supplement full-time staff saves the City at least \$10 million per year. A key to the Fire Department's success is prevention, which comes through plan review, pre-fire surveys, and inspections. While some of this can be outsourced, there seems little reason to do so, especially since personnel in fire prevention also respond to fires.

Library/ Museum

While this function was evaluated, results of the preliminary observations are no longer relevant due to failing of the millage.

Police Department

Although the City's largest department, the Police Department has downsized from 194 to 179 positions largely through attrition. A number of vacant positions are not filled. The Police Department also uses civilians to perform certain functions (i.e. communications, lock-up), freeing up uniformed officers for other duties. The Police Department has been encouraged to explore other positions that can be filled by civilians and/or consolidate certain functions.

The replacement of some of the functions of the community relations officer with a half-time position shared with the City Manager's Office is an example.

There is little in the Police Department that can be outsourced, although animal control is a non-required service that can be largely eliminated. Like the City Manager's Office, we are considering a proposal from ICMA to find the most effective way to manage Police operations, with the assistance of the Plante-Moran consulting firm.

The Police Department is working to consolidate dispatch and jail services with the Cities of Madison Heights and Royal Oak.

Human Resources

The Human Resources Department manages most functions related to employment and labor relations. Labor counsel is contracted to a private firm. The responsibilities of Human Resources will increase with the elimination of City staff. The management of benefits is assigned to Risk Management. Certain tasks such as recruitment are already outsourced and could be expanded. As retirements take place, the recruitment of qualified individuals to replace the years of lost experience will be critical. Performance evaluations of remaining staff will increase in importance. Training activities will be largely confined to that which is legally required.

Purchasing Department

The Purchasing Department is responsible for all aspects of procurement of goods and services, except if construction-related. Purchasing also provides administrative oversight of contracts once awards have been made.

The significant role that Purchasing plays has never been more evident than recently. Expanded restructuring, in general and managed competition, more specifically, will place increased responsibility on the Purchasing Department. Therefore, it makes little sense to privatize a department that plays such a major role in restructuring.

City Manager's Office

As the City organization continues to downsize, a number of functions will be shifted to the City Manager's Office. Community Affairs has been reduced in size and is a position shared between Police and the City Manager's Office. Economic Development has also been shifted to the City Manager's Office. Again, we are going to have an independent third party review of this department.

Parks and Recreation

Parks and Recreation has extensive responsibilities which include managing and maintaining the City's park system, operating the Community Center, operating the Nature Center, programming and managing over two dozen day camps, and conducting athletic, adaptive and enrichment programs.

The Department is also responsible for the seniors program, runs a licensed preschool program, and operates four municipal cemeteries.

In addition to maintaining public parks, the Department has also been charged with responsibilities not related to the parks and recreation mission, such as maintaining all City-owned property, enforcing corner clearance, and conducting landscape reviews and inspections.

Parks and Recreation also manages the forestry function of the City, which includes planting and maintaining street trees. However, foresting work has been outsourced to a private contractor.

In difficult economic times, it is likely that residents rely even more upon Parks and Recreation to provide leisure activity that is affordable. With less disposable income, families rely more heavily on recreation closer to home.

Emphasis has been placed on Parks and Recreation focusing on its primary mission.

- Certain functions such as the Nature Center will be eliminated.
- Management of the golf courses has been privatized to Billy Casper Golf.
- Evaluation is underway to transfer all park, cemetery, public property maintenance, and forestry to DPW.
- Landscape review and inspections has been transferred to the Planning Department, who will outsource most of the function.
- The Community Center has the potential of producing excess revenues over expenses. A number of changes are being explored, including the sales of liquor for special events.

City Attorney's Office

The City Attorney will work directly with the City Council in determining the most cost-effective manner to deliver municipal legal services.

FINAL OBSERVATIONS

Troy has enjoyed a reputation as a leader in municipal services and infrastructure within the region. How the City maintains that position will be solely dependent on the innovation and courage applied to this problem.

As the City grapples with a bleak economic outlook and resulting loss of tax revenues, various forms of alternative service delivery and/or the elimination of services will continuously be on the table for discussion. Privatization of certain services is among the more immediate options available to the City.

Privatization will not be appropriate for all City services. Poorly executed privatization will do a disservice to taxpayers. However, as the City digs deeper into privatization opportunities, the benefits can include a high degree of transparency, accountability, and efficiency in the delivery of services.