



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 5

Savings Related to Fleet Services Managed Competition

OVERVIEW

On January 29, 2014, the Public Safety and Livable Neighborhoods Committee heard a report from the Department of Public Works, Fleet Services Division, on the status of maintenance operations for the City's reserve fire engines. Much of the discussion focused on the status of the Fleet Services Managed Competition proposal since its selection in October 2011. Although the proposal was selected in FY 2012, delays related to lengthy contracting and meet and confer processes postponed the implementation of cost-saving measures to FY 2013 and again to FY 2014. Cost savings associated with full implementation are not expected until FY 2015.

Following the Fleet Services presentation, the Committee requested that the IBA prepare a report on the estimated savings the City has experienced to date as a result of the delayed and partial implementation of the Managed Competition proposal. While recent City budgets have assumed savings related to Managed Competition and included them in Fleet Services' budget allocations, the realization of those savings has been incomplete.

This report highlights the most significant issues that have impeded Managed Competition implementation to date. We also analyze adopted budgeted savings related to Managed Competition and offer an estimate of related actual savings experienced by Fleet Services to date.

FISCAL/POLICY DISCUSSION

Past Budget Assumptions

The Fleet Services employee team bid was selected as part of the Managed Competition process in October 2011. Due to a lengthy meet and confer process and other delays described in detail

below, savings related to Managed Competition did not appear in the City’s budget until FY 2013.

The FY 2013 Adopted Budget included various assumptions based on components of the Fleet Services Managed Competition proposal. These included reducing 80.5 FTEs, outsourcing functions of the parts division, and eliminating underutilized facilities by consolidating work locations. In total, the FY 2013 Adopted Budget included \$5,275,205 in anticipated savings related to Managed Competition.

Between adoption of the FY 2013 and FY 2014 budgets, the proposed outsourcing of the automotive parts division was abandoned in favor of an Alternate Employee Proposal for the automotive parts function. This change added \$1,274,990 in expenditures to the FY 2014 Adopted Budget, reducing assumed Managed Competition savings to approximately \$4,000,000.

Managed Competition Adopted Budgeted Savings

	FY 2013		FY 2014	FY 2013-2014 Change
	FY 2013	Revised		
Savings Assumed in Adopted Budget	\$5,275,205	\$4,000,215	\$4,000,215	Alternate Parts Proposal restored personnel and non-personnel expenses, reducing savings by \$1,274,990.

Barriers to Implementation

Both the FY 2013 and FY 2014 budgets assumed a full implementation of Managed Competition that did not, in fact, occur. There are still a number of steps Fleet Services must take to fully implement the Managed Competition proposal. These include carrying out reduction-in-force procedures, bidding and awarding multiple service contracts, and relocating fleet repair functions.

The major component of Managed Competition that has taken effect is the reduction of the Fleet Services workforce. The FY 2013 adopted budget eliminated 80.5 FTEs in positions related to the proposal. However, the associated reduction-in-force process continues to be on hold nearly two years later. The personnel savings that have been achieved in the interim have been due to attrition.

While Fleet Services has reduced its employee count, and lowered personnel-related costs, it has not been able to achieve the desired efficiencies of the Managed Competition proposal given partial implementation. Attrition-related vacancies occur essentially at random. Reduction-in-force procedures, on the other hand, target specific positions in an attempt to restructure the organization. For example, current vacancies in Fleet Services have disproportionately affected heavy fleet technician positions. In response, the Division began utilizing as-needed contracts totaling \$250,000 for fire apparatus maintenance in FY 2014, which has offset savings.

Another significant source of savings in the Managed Competition proposal was the consolidation of repair and maintenance facilities. In particular, work on Fire-Rescue Department engines and ladder trucks is planned to relocate from the Kearny Villa Fire Repair

Facility to the Miramar Operations Station, currently used by the Environmental Services Division. Negotiations between Fleet Services and Environmental Services continue to delay the consolidation of repair facilities.

Estimating Savings

It is difficult to estimate savings related to a Managed Competition proposal that has been implemented only partially, and in a manner different from the assumptions laid out in corresponding budget documents. Further, changes to the Fleet Services budget since FY 2012 cannot be attributed solely to Managed Competition. Other factors have influenced the Division’s budget, including fuel costs, non-discretionary salary and benefit adjustments, and other costs that would have been incurred regardless of the status of Managed Competition.

The challenge of separating Managed Competition-related line items from the overall Fleet Services budget is compounded by the fact that many of the assumptions related to costs of service are opaque. The recently released Huron report on Fleet Services highlighted the fact that “the City does not accurately know the costs of operating its fleet.”¹

Two components of the Fleet Services budget, however, are directly linked to the partial implementation of Managed Competition. The first is personnel costs. Since FY 2012, when it became known that Managed Competition would go into effect, Fleet Services has actively allowed attrition to reduce its workforce without backfilling positions. From the end of FY 2012 to February 2014, Fleet Services has reached and maintained a total of 66 vacant positions. This has resulted in a significant reduction in personnel costs despite the delayed implementation of reduction-in-force procedures. Using FY 2012 personnel costs as a baseline, Fleet Services saved approximately \$2.9 million in actual personnel expenditures in FY 2013.

Second, as-needed maintenance contracts for the Fire-Rescue Department’s fire apparatus vehicles have been utilized beginning in FY 2014. The contract authorization amounts total \$250,000 for FY 2014 and were not included in adopted budgeted assumptions related to Managed Competition. These expenditures will offset savings related to reductions in personnel costs.

IBA Estimate of Fleet Services Managed Competition Savings

	FY 2012 Actual (Baseline)	FY 2013 Actual	FY 2013 Savings from Baseline	FY 2014 Projected	FY 2014 Savings from Baseline	FY 2015 Projected Savings*
Personnel (Salary & Fringe)	\$22,263,599	\$19,333,389	\$2,930,210	\$19,784,189	\$2,479,410	
As-Needed Maintenance Contracts				\$250,000	(\$250,000)	
Total Savings			\$2,930,210		\$2,229,410	\$4,000,215

*Projected overall savings if fully implemented in FY 2015.

Using actual personnel costs from FY 2013 as compared to the baseline pre-Managed Competition year FY 2012, we estimate savings related to Fleet Services Managed Competition

¹ Huron Consulting Group, 2014, p. 3.

to be approximately \$2.9 million for FY 2013. For FY 2014, we have used projected personnel costs. Actual personnel costs for the first six months of the fiscal year were used to create an estimated full-year projection using the straight-line method. We then reduced projected savings by \$250,000 to account for the likely cost of as-needed maintenance contracts. Assuming for illustrative purposes that Managed Competition implementation continues to be delayed, we estimate savings for FY 2014, as compared to the base year of FY 2012, to be approximately \$2.2 million.

CONCLUSION

The incomplete implementation of the Managed Competition proposal has limited related cost savings to date. Based on our review of the Fleet Services Managed Competition proposal and related budget documents, we find the anticipated savings reflected in the FY 2013 and FY 2014 Adopted Budgets to be reasonable **but for** the delayed implementation of the proposal. As the various components of the Managed Competition proposal go into full effect, we would expect to see increased savings over time.

We have noted a significant decrease in Fleet Services personnel expenditures between FY 2012 and FY 2014. This reduction coincides with the partial implementation of the Managed Competition proposal, as it has resulted in 66 unfilled positions to date due to attrition. We have also noted increased costs incurred by outside maintenance contracts attributable to the delayed implementation of reduction-in-force procedures.

Managed Competition Savings - Adopted Budget vs. IBA Estimate

	FY 2013	FY 2014	FY 2015*
Adopted Budgeted Savings	\$5,275,205	\$4,000,215	\$4,000,215
IBA Estimate of Savings	\$2,930,210	\$2,229,410	\$4,000,215
Difference	\$2,344,995	\$1,770,805	\$0

*Projected overall savings if fully implemented in FY 2015.

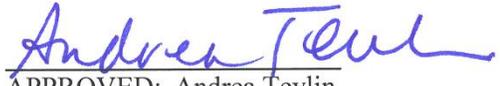
Taking these two factors into account, we estimate savings related to Fleet Services Managed Competition to be approximately \$2.9 million for FY 2013, compared to adopted budget assumed savings of \$5.3 million. For illustrative purposes, we have projected estimated savings for FY 2014 to be approximately \$2.2 million, compared to adopted budget assumed savings of \$4.0 million. Absent more robust data collection and reporting on the part of Fleet Services, we feel this is our best estimation of savings related to Managed Competition, as partially implemented.

The forthcoming FY 2014 Mid-Year Report will be a useful source of information for monitoring progress with regard to Managed Competition implementation and related savings. The Public Safety and Livable Neighborhoods Committee may wish to consider requesting regular updates from Fleet Services on the status of Managed Competition implementation and

related mid-year budget adjustments. The Committee may benefit from receiving these updates concurrently with reports on service impacts to Fleet Services' customers, particularly the Fire-Rescue Department.



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