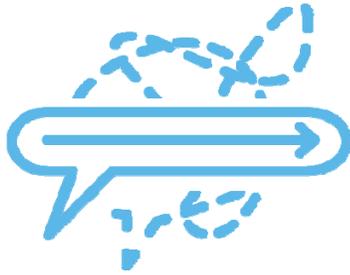


City of Rockford
Outsourcing Assessment Report
January 6, 2011



Get the straight story.

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Executive Summary

Overview

Similar to many of our municipal clients, the City of Rockford is faced with a significant budget deficit and is at a cross roads in determining how to resolve the current budget gap. At the start of the FY2011 Budget process, the projected deficit was \$5.5 million. However, based on budget reduction strategies presented to the Council on November 22, 2010, the City now estimates a reduced projected deficit of \$2.234 million for FY2011.

The budget reduction strategies being proposed are not easily implemented and, while intended to preserve existing levels of service, could have unintended service consequences. As such, the information we present in the following analysis is a further step in the City's quest to address a budget deficit without significantly impacting core municipal service levels. The City, like many other municipalities, is forced to consider a continuum of service delivery alternatives ranging from service level approach changes to outsourced service options. The report which follows analyzes service delivery alternatives (i.e., modifications to the way a service is provided be it staffing levels, salary levels, etc.) and outsourced service options.

The City initially identified eight functional areas of focus for study, which were further refined to four based on the direction of the Outsourced Steering committee. Baker Tilly analyzed specific options within these four areas based on our discussions with department staff, the outsourcing committee, City budget staff and our experience with others in terms of high potential budget reduction areas. The information presented should not be interpreted as a recommendation, but rather as a policy decision needing to be made by the City Council, relative to which options are acceptable for exploration given the fiscal situation. While all of these decision items have merit, some of them are more readily feasible in the short term given existing contractual agreements.

The chart which follows lists the potential positive fiscal impact that could be realized by the City on an annual basis. This should not be interpreted to mean that these savings could all be realized in one year or that all of the savings are possible within the first year. The reader should go to the individual items for a discussion of likely timing of potential savings. Also, while most of the savings provide a direct impact on the general fund balance, others provide impacts on general fund liquidity and/or avoided transfers from other City funds.

The results of this analysis do not represent recommendations; rather, budget reduction options for the City's current and future consideration relative to Outsourcing Opportunities.

Decision Item Summary

| Decision Item # | Area & Focus | Option | Annual Maximum | Annual Minimum | Page Number |
|--|-------------------------|--|---------------------|------------------|-------------|
| Fleet Maintenance | | | | | |
| 1 | Outsourcing | Outsource Parts Management - <i>One time 1st year</i> | \$172,400 | \$98,500 | 18 |
| | | Outsource Parts Management - <i>Recurring</i> | \$87,300 | \$27,000 | |
| 2 | Service Delivery Change | Downsize Fleet Pool to Maximize Fleet Utilizations | \$542,000 | \$216,800 | 22 |
| 3 | Outsourcing | Fleet Replacement Through Leasing | \$2,415,700 | -\$197,300 | 27 |
| Street Sweeping | | | | | |
| 4 | Outsourcing | Contract for Street Sweeping - <i>Sanitation Fund Savings</i> | \$375,500 | \$375,500 | 34 |
| 5 | Service Delivery Change | Reduce Sweeping Service Levels Outside the Central Business District - <i>Sanitation Fund Savings</i> | \$39,200 | \$0 | 41 |
| Emergency Medical Services | | | | | |
| 6 | Outsourcing | Outsource EMS | \$1,844,000 | \$0 | 47 |
| 7 | Service Delivery Change | Reduce Engine Company Apparatus Minimum Staffing to Three Firefighters | \$5,072,000 | \$0 | 57 |
| Head Start | | | | | |
| 8 | Service Delivery Change | Retain City Head Start Program - Establish Market Based Compensation Rates - <i>Increased liquidity only</i> | \$232,850 | \$0 | 65 |
| 9 | Outsourcing | Discontinue Operation of Program by the City - <i>Increased liquidity only</i> | \$1,832,900 | \$99,400 | 69 |
| | | Discontinue Operation of Program by the City | \$170,000 | \$0 | 69 |
| Total Savings General & Sanitation Fund | | | \$10,718,100 | \$520,500 | |
| General Fund Total Savings | | | \$10,303,400 | \$145,000 | |
| <i>Note: Total savings excludes decision items that result in increased liquidity only</i> | | | | | |

Summary of Potential Consolidated / Shared Service Arrangements

Shared and/or consolidated services are increasingly being examined by local government entities throughout the state and the Midwest. The current fiscal environment is leading many local decision makers to re-examine the obstacles to consolidation in light of the current budget challenges. Our work on behalf of other municipalities, school districts and other local government entities suggests that there are six primary success factors to any cooperative effort:

| Critical Success Factors | |
|-------------------------------------|---------------------------|
| Clear Fiscal Benefit | Improved Service Delivery |
| Success Factors - Additional | |
| Leadership | Trust |
| Shared Perception of Need | Community Support |

For any shared service or other cooperative effort to be successful there must first be a demonstrated fiscal benefit and potential for improved service outcomes. Without these two critical factors, it is unlikely that the effort will come to fruition. However, the existence of a clear fiscal benefit or potential for better service outcomes is not sufficient – other factors must also be present. These factors include leadership by key staff and trust between the two entities, a shared perception of need, and support from the community (or at least, the absence of outright opposition).

In addition to the outsourcing opportunities outlined as follows, there are a number of other potential short, medium, and long term shared service opportunities that deserve additional study. A separate, stand alone business case analysis for each opportunity would involve in-depth review of various options, projections and forecasts, potentially the collection of current market price points, and an assessment of potential partners' current service delivery costs. We would be happy to complete these business case analyses; however, permission from the district and potential partners would be required before proceeding.

| Function | Activity/Service |
|----------------------------|-----------------------------|
| SHORT TERM | |
| Fleet Management | Maintenance Function |
| Fleet Management | Parts & Supplies Management |
| Fleet Management | Centralized Motor Pool |
| CDBG | Grant Administration |
| MEDIUM to LONG TERM | |
| 911 | Dispatch/PSAP Management |
| EMS Service | Regional Fire/EMS District |

Each of these is a feasible alternative implemented by other municipalities both within and outside of the state. Key considerations outlined above will be critical in defining whether or not a shared service opportunity has merit, and can succeed.

Project Scope, Methodology, and Approach

In September of 2010, the City of Rockford (“the City”) selected Baker Tilly Virchow Krause, LLP (“Baker Tilly”) to conduct an outsourcing assessment and provide analysis to assist the City in addressing short and long term budget concerns. Specifically, the overall focus of this project is to critically examine the options available to the City in terms of reducing recurring costs and long-term liabilities related to staff.

Purpose and Scope

The project as a whole is intended to assist the City with identifying and implementing effective approaches to provide services in a manner that is both responsive and cost effective. Specifically, the project aims to assist City decision-makers to:

- > Reduce the City’s ongoing fiscal obligations through consideration of alternate models for service delivery (i.e. outsourcing and shared services)
- > Reduce the City’s total expenditures to provide services, both from a direct and overhead cost perspective, through more efficient allocation of scarce staffing resources
- > Provide a roadmap to align the organizational structure and resource allocations with strategic priorities and core services, and that supports optimal operational performance
- > Position the organization for success by eliminating duplicative or redundant functions, assesses the feasibility of cross-functional teams, and enhances collaboration and coordination with other entities

Originally, this project identified potential service delivery options and opportunities at a high level of analysis for eight functional areas, selected by the City’s Outsourcing Committee. The list the committee selected is as follows:

- > Emergency Medical Services
- > Community Development Block Grant
- > Parking System Management
- > Street Sweeping
- > Human Services/Head Start Program
- > Vehicle and Fleet Maintenance
- > 911 Call Taking and Dispatch
- > 311 Non-Emergency Customer Service

Based on work performed as part of the first phase diagnostic review, the City’s Outsourcing Committee then selected the following four specific functional areas for further analysis. This report defines the details around impacts, potential cost savings and alternative organizational and service delivery approaches for these four target areas.

- > Emergency Medical Services
- > Street Sweeping
- > Head Start Program
- > Fleet Management

The analysis specifically outlines key decision items for the City relative to enhancing service delivery, improving cost effectiveness management and potential cost savings within these four areas.

Approach and Methodology

The cornerstone of our approach to completing this analysis is our Decision Item model. By looking at a variety of variables within these areas, we determined the key information to be analyzed for each area and the appropriate questions to be asked to determine potential impacts and available options for reduction or elimination.

In designing the Decision Item model, we embedded two crucial features. First, we took great lengths to avoid substituting our value judgments for those of City decision-makers. As a result, we do not offer recommendations, but rather use objective quantifiable data wherever possible to frame the budget decision options. The second crucial feature of our model is that all functions are analyzed within the same framework. The application of a standard set of screening criteria (coupled with an objective perspective) was intended to foster consistency in analyzing functions across program areas.

The cumulative result of the information that follows is a series of options to be considered by the City in meeting its ongoing fiscal and operational challenges.

Report Format

The report is organized in sections; one for each of the target area programs selected by the City's outsourcing committee. Each section begins with an overall discussion of program area functions. This is followed by budget and staffing information for the area and other operational items of note. Each section then provides at least one decision item to be considered.

All of the decision items discuss a potential modification to current service delivery. Each decision item then provides specific supporting information related to current service statistics, FTE, expenditures and revenues, expected impacts on the general fund, service delivery, staff and collective bargaining, potential market and shared service considerations and risk factors relevant to the modification.

Our report also outlines key frameworks required for effective performance contract management. Given that the City is contemplating the provision of some key municipal services or internal supports to key services through a third party, it is imperative that the City carefully consider the required resources and frameworks to protect itself and its citizens from unintentional service level reductions, or increases in cost of service delivery.

Outsourcing Strategy & Framework

Outsourcing Framework

Outsourcing can take many forms but typically falls into one of the following four categories:

- > A service contract – fee based arrangement to manage part of a municipal service for a short period of time (less than two years)
- > A management contract – performance based fee for managing a municipal function for the midterm (3 to 6 years)
- > A concession contract – multi-year contract (20 to 25 years) to provide service requiring significant capital investment as part of transition or start up
- > A lease – contractor will lease assets from the municipality for a multi-year period

Regardless of the form, the City needs to keep in mind that by outsourcing it is not getting rid of the responsibility for the quality, responsiveness or cost of a service, but rather is merely staffing the service provision externally rather than internally. Too often outsource service contracts are terminated as much due to a City's lack of ability to manage a contract as due to the inability of the contract vendor's ability to meet the contract requirements.

Clearly scoping the specific activities and responsibilities of the contractor are vital for a successful contract. This will involve carefully considering what should remain and what needs to change relative to how a certain function or service is being delivered. (e.g., is one day of month for brush pick-up going to be enough or do you need to retain the one day a week schedule). These decisions and parameters will significantly impact contract costs and therefore the true net fiscal effect of a situation.

Also for each situation in which the City makes a decision to outsource, it should have the intended benefit/desired outcome (e.g. lower overall costs, revenue enhancement, and service improvement) of that arrangement clearly in mind in order to hold the contracted vendor accountable in a manner that directly aligns with the desired outcome. Performance contracting will be a key component of the City's success in pursuing an increase in outsourced services.

The following are key components of moving from outsourcing decision to implementation.

Business Case Finalization

Cost Benefit Analysis

A component of this analysis is to determine the "true" fiscal impact of going to an outsourced model of service. The "true" impact can often be difficult to determine based on difficulty in calculating the fully loaded cost of service (current city-provided model) based on inaccurate or incomplete service operational statistics and/or the inability to calculate cost per hour or cost per activity/transaction. Similarly, a vendor is often reluctant to provide costing information until they have had a chance to fully assess the operations or function they will be assuming.

A fully loaded cost methodology is required to ensure comparison of apples to apples. However, to be accurate this must assume that both entities are using the same service assumptions (e.g. hours of operation, cycles of service delivery, etc).

To ensure that the city receives the optimum benefit from outsourcing opportunities, a quantifiable and full cost analysis methodology should be developed by the Finance department for use in comparing actual internal costs to anticipated contracted costs. This methodology should include:

- > Acceptable sources (including years) for figuring current operational staffing levels
- > Parameters for figuring salary costs (current or projected) and benefit cost percentages
- > Acceptable % of overhead for central City support
- > Delineation of acceptable sources of data for preparing cost analysis

The methodology developed should ensure that costs are compared in an equivalent nature and should include analysis of costs such as follows:

| | Direct Costs | Indirect Costs | Other Costs | Revenues |
|---------------|--|---|--|---|
| City | Personnel Equipment Materials Education | Supervision City overhead | Development/ Transition | (Deducted) |
| Vendor | Monthly contract fees Upfront payments | Materials fees/upcharges Fees or add-ons for non-normal service levels (e.g. seasonal peaks, non-target costs) | Delivery fees One-time transaction or administrative fees costs One time system purchase or modification costs | One-time payout for materials or equipment (Deducted) |

However, through an RFI or RFP process it is feasible to get a better sense of what the actual potential impact might be in moving to an outsourced service delivery model as the vendor will gather information specific to the City's operation and therefore will be more willing to provide exact cost information.

RFI/RFP Process

This is a critical component of the process and needs to be handled carefully to ensure the City receives what it is anticipating. In these tough fiscal times, it is often the case that the City decision-makers choose to procure the least cost service without truly understanding what the scopes of services provided for that cost includes. Many municipalities find the conducting an RFI process prior to an RFP process can provide valuable insight into the true costs and benefits of pursuing outsourced arrangements. To protect the City and ensure a greater potential for a successful, long-term outsourced service contract we recommend the following:

- > All contacts relative to a potential outsourced arrangement selection process should be coordinated by the purchasing officer
- > Conduct an RFI process for those situations where the true costs and differences in service levels or terms have not been explored or researched previously
- > Involve the operations managers and supervisors responsible for providing this service with the opportunity for input into what service activities should be within scope and the specific outcomes/results that should be expected
- > Finalize an RFP based on the results of the RFI, with specific parameters that require the vendor to commit to typical cost and service drivers (i.e. if you find through the RFI that costs are substantially different, ensure that the RFP process requires the vendors to submit an estimated cost for the exact scope of services – so that you can compare true price differences) but yet allow them flexibility to be your proponent by offering innovative or cost effective ways or service delivery
- > Use a service requirements and levels checklist or summary to be sure that minimum service requirements are understood and can be met and that vendors are given credit for those services/activities that are in addition and could reduce cost and/or enhance service

- > Be sure that all vendors have the same information throughout the process so that decisions are based on a level playing field
- > Consider presentations including scenario costing representations for two or more finalists to get more than the typical “sales” pitch
- > Consider allowing existing City staff to submit a response to the RFP
- > Establish an independent review panel to ensure a wall of separation between the city bid team and the team that develops the request for proposals

Implementation

Vendor Selection

Ensure that those involved in the selection process understand the services or function to be provided so that detailed questions can be asked of that vendor. The vendor should be selected based on the rating criteria which at a minimum should include factors such as:

- > Exhibited experience providing similar services to similar clients
- > Knowledge of area (i.e. industry expertise)
- > Positive and long term client references
- > Service capabilities
- > Scope responsiveness
- > Scope of service flexibility - Willingness to serve as City advocate and/or consider unique approaches delivering service
- > Service delivery assurances (i.e. after hours, within specified time frames, etc)
- > Staffing plan and transition plan
- > Transparency of contract cost
- > Cost/pricing

Of utmost importance is the ability to measure the vendor’s role and willingness to ensure a smooth transition from current to outsourced operation. In many cases the existing employees can be hired to continue to provide the services but under the new management of the vendor (not always the case, but very often it is). Specific concessions, timelines and terms should be carefully worked out between the vendor and the City.

Contract Negotiation

This process sets the tone for the relationship with that vendor and can have a significant impact on whether it is a transactional or collaborative relational (i.e. here as the City's advocate) relationship. The following terms must be included as part of the contract:

- > Scope of service and service requirements/levels required
- > Legal parameters
- > Decision-making limitations
- > Cost structure/pricing terms
- > Liabilities and warranties
- > Legal relationship definition
- > Reporting requirements (i.e. output metrics, form of reporting, system integrations)
- > Performance measurements and outcome parameters (i.e. financial penalties for "x", extra compensation for "y")
- > Training requirements
- > Primary contractor relationships
- > Asset disposal and/or depreciation terms
- > Risk allocation terms
- > Termination agreement and terms

The contract should also clearly outline accountability roles as it relates to the service including who will serve as tactical versus strategic contacts on the part of the City. Also, specific mechanisms should be outlined for discussing, resolving and tracking daily and strategic or structural problems (i.e. daily contacts at supervisory level versus quarterly meetings with high level supervisors). The vendor's responsibility for developing these mechanisms jointly with the City should be discussed in the contract.

Elements of Effective Outsourced Contract Management

Once the contract has been signed there are key elements that must be monitored and adjusted to ensure that the City receives what it anticipated from the contract. Most notable are the need for comprehensive performance management and management control processes.

Performance Management

Effective contract management through performance contracting can be a challenging thing to do, especially for those municipalities who have typically allowed contract management to be handled by the departments. Thus we recommend the following:

- > Dual Contract Management Points
 - Matrix management of the operational oversight with a centralized contract manager reviewing the “bigger” picture relative to outcomes and a department specific manager reviewing daily tactical information and metrics

Contract Performance Monitoring

| | <i>Central Purchasing Manager</i> | <i>Department Contract Manager</i> |
|-----------|--|---|
| Monthly | Sign off on vendor payment | Review Tactical Metrics/Outputs Reconcile Charges & Fees to Services Rendered Review Complaints |
| Quarterly | Assess overall Financial Performance (upcharges, extra fees, etc) Review trends and identify needed changes or contract amendments | Review Tactical Metrics/Outputs Trend performance relative to metrics Trend complaints |
| Annually | Review actual fiscal impact - Year 1 Review outcomes and summary of outputs, efficiency and effectiveness measures Define performance measurement objectives or changes Determine financial penalties and rewards | Summarize key variances from anticipated costs, performance Review vendor summary of outputs, efficiency and effectiveness measures and recommend performance objectives for next year Define performance measurement objectives or changes |

- Integrated reporting system so that all involved in outsourced service management are using the same data
- Explicit agreements as to after hours or 24/7 response

- > Explicit Performance Measurements
 - Requirements in terms of results translated into production methods/metrics,
 - Clear definitions of performance measurement methods and goals, (i.e. Key Performance Indicators (KPIs), efficiency and effectiveness measures)
 - Description of how the contractor’s performance will be evaluated in a quality assurance plan
 - Positive and negative incentives based on key metrics (including plan for frequency of review and by whom)

- > Example of Measures
 - Input Measure: Number of calls received
 - Output Measure: Average time per call
 - Efficiency Measure: Number of calls per employee or cost per call
 - Outcome/Effectiveness Measure: Percentage of calls resolved during first call

- > Policy & Accountability Definition & Monitoring
 - Transition roles relative to daily decision making (timeline for total change over)
 - Regulatory requirements
 - Customer complaint resolution parameters

The city should establish a process to evaluate outsourced projects after completion to examine the extent to which objectives were achieved. Specifically, the following should be included in any evaluation of contractor services:

- > Quantify fiscal impact
- > Quantify impact on FTE needs (and staffing costs)
- > Assess adherence to project completion standards

Linkage to Municipal Management Control Process

In setting up the performance management framework, it is critical that the vendor is clear as to at what point and in which processes they are feeding into another processes or reporting frameworks and what specific controls and data modification requirements they must follow as an agent of the City. To ensure a collaborative and mutually successful arrangement, we highly recommend the following be determine at the onset of the contract and modified as needed.

- > Incorporate vendor input into key control process (i.e. budgeting, programming)
- > Require reporting that is incorporated into overall department reporting
- > Require the same level of controls over reporting and financial management

This may involve system modifications or investments which could carry with them a significant investment, thus, determining the benefit for the type of reporting and how it integrates with the City is crucial.

To realize the benefits from outsourced arrangements, the City needs to be astute in its management of the contract, but also needs to allow the appropriate level of flexibility to reach the “best” solution for the City in terms of cost and service delivery. The change management process is one that those at the highest levels of City government should be involved in crafting to ensure that the City understands its obligations and expected receivables from each contract.

Summary Checklist to Maximize Effectiveness of Outsourcing Decisions

Step One: Qualify specific issues with current method of performing the work or delivering the specific service

- > Quality of service
- > Cost of service (e.g. costs appear higher than similar efforts in other comparable cities or in comparison to industry standards)
- > Ability to meet project deadlines
- > Ability to address unique project completion requirements (e.g. disruption to citizens due to work on major street because of available hours to work)

Step Two: Analyze process specifics

- > Quantify positives/strengths to maintain
- > Identify key tasks performed as part of the process
- > Assess resource inputs (i.e. staff hours/FTE equivalent, salary and benefits rates for required staff, equipment needed and associated costs)
- > Develop delivery expectations (i.e. project benchmarks, service frequency, service expectations, quality measures)

Step Three: Identify scope of services performed as part of the process and assess need to continue ancillary tasks.

Step Four: Assess possible ways to reengineer the current process or method of delivery for efficiency.

- > Improve internal methods – retain in-house
- > Reevaluate way of doing business – set parameters/requirements for potential vendors
- > Identify need to create or modify information tracking systems

Step Five: Determine if sufficient market competition

- > Determine potential vendors in area, costs of securing vendors who must travel
- > Identify if contractors will have limitations on how service is delivered based on equipment, etc.

Step Six: Perform formal cost analysis

- > Determine cost and resource impacts of outsourcing using fully loaded approach for both avoided as well as anticipated cost analysis

Step Seven: Initiate contract process

- > Incorporate benchmarks and service expectations identified in Step Two.
- > Consider issuing contracts on a pilot basis
- > Include provisions relating to contracting on an as-needed/supplemental basis (i.e. heavy snowfall)
- > Identify exceptions to low bid process
- > Consider performing RFI as first step

Step Eight: Award Contract

Step Nine: Coordinate city and contractor efforts and processes

- > Define the respective roles of the contractor and the city staff
- > Outline any efforts or issues relating to the coordination of service delivery (i.e. snow removal storage)

Step Ten: Evaluate Contractor Performance

- > Appoint designated contract manager
- > Quantify performance related to benchmarks, service expectations and quality measures (results, outcomes and outputs expected)
- > Conduct cost comparison/evaluation to determine actual costs

Target Area Analysis

Fleet Management

Overview

The City of Rockford Equipment Division of its Public Works Department is charged with providing preventative maintenance and repair services and employs 10.0 FTE (1 FTE cut as part of the FY11 budget process) to perform these services. The City of Rockford currently expends approximately \$3.6 million annually to maintain its fleet (with the exception of the Fire and emergency response vehicles which are maintained within the Fire department).

Expenditure Trends

As the City has faced financial constraints, it has not had the ability to make capital purchases, thus, the age of the fleet has significantly increased. While the Equipment Division has developed a Capital Replacement Program on paper, in reality the City has been unable to fund its implementation which creates significant liabilities and costs. Specific key information about the entire fleet follows:

- > There are 611 vehicles in inventory, excluding equipment (boats, chippers, compressors, diggers, mowers, rollers, sewer suckers, strippers, thermolays, trailers, and small equipment)
- > The average age of a city owned vehicle is 10.13 years
- > Total repair costs on an annual basis averages \$6,992,764, with an average repair cost per vehicle per year of \$3,281
- > Total Preventative Maintenance (PM) costs on an annual basis averages \$1,085,694, with an average PM cost per vehicle per year of \$502

A key priority for the City should be to get its fleet inventory up to date to ensure effective management of fleet resources necessary to conduct the City's business.

Fleet Management Best Practices

The Fleet Manager and Equipment Division have implemented many best practices including:

- > Automated Fueling System
- > Comprehensive Preventative Maintenance Program & Approach
- > Vehicle Replacement Program
- > Vehicle Utilization Rotation (as authorized by departments)

The City has taken steps to institute a Centralized Fleet Management approach; however, the current level of authority granted to the Central Garage in carrying out this function is not always at the optimal level. The City does not require the maintenance of all vehicles to be managed by the Central Garage. For example, the Fire Department maintains their own emergency response vehicles, the Streets Department performs minor preventative maintenance tasks, and the PSB previously maintained police vehicles. This decentralized approach does not allow the City to take advantage of the benefits of a centralized fleet management approach, which costs the City money and results in duplicative efforts.

While actual repair and maintenance tasks should ideally continue to be performed on location at Fire Department stations, the management of the staff maintaining the vehicles, how these vehicles are repaired, purchasing decisions, the management of the preventative maintenance program and other key vehicle parameters (e.g. required use of the fuel management system, coordination with Central Garage replacement program) should be under the direction of a Centralized Fleet Management Program. This centralized program would work collaboratively with department heads, but would ultimately be held responsible for decisions relative to city-wide fleet management.

Fleet Management Challenges

While the City has invested in systems and approaches that are best practices, the lack of consistency of departments working within these systems/approaches is severely impacting the effectiveness of fleet management, City-wide. This results in low utilization, invalid/poor data, and less than optimal preventative maintenance timing, all which drive up the cost of maintaining a fleet of vehicles. Specific examples include:

- > **Fuel Management System Overrides** – these systems work by automatically capturing and tracking key vehicle information at the time of fueling, including requiring preventative maintenance to be conducted before authorizing fuel to be dispensed. Currently, there are instances where the parameters of the system have been compromised to allow City employees to enter erroneous data. In other words, in some cases, employees are keying inaccurate information in order to keep vehicles “in service” which are due for maintenance, and results in ineffective and inconsistent usage reporting. The scope of this study did not allow for a direct analysis of which employees, or vehicles are involved in such situations; however, a quick review of the data provided by the City indicates 232 of the 661 vehicles and equipment within the City fleet (roughly one-third) include erroneous information. We have eliminated the vehicles with erroneous data from our detailed analysis, reducing the sample size by 11 percent.
- > **Validity of Data** – information is manually entered which is resulting in inaccurate and incomplete data. In our review of the fleet utilization information at least two departments had information that was so inaccurate or incomplete that we were unable to use it at all. For example, in these two departments there is cost information entered consistently into mileage fields and/or no miles shown for the bulk of the vehicles in several months of the year for vehicles which are used daily.
- > **Duplicative Tracking of Preventative Maintenance** - the Equipment Division has taken to maintaining a separate preventative maintenance system which requires duplicative entry and results in inconsistent information.

To be effective in managing the significant investment in fleet and related resources, the City should have the benefit of comprehensive and valid data on which to base fleet decisions. The systems to provide this information are available. In our analysis that follows, we have eliminated, as much as possible, any data that was obviously erroneous; however, there are enough inconsistencies in the data provided that we are not totally confident that data provided shows the total picture. Thus, the assumptions made in conducting the analysis are critical and should be discussed thoroughly before major investments or operational modifications are made.

Bottom Line Relative to Fleet Management

While the City has invested in systems and resources to ensure effective fleet management, the current lack of ability to adhere to its fleet replacement plan and lack of a truly centralized fleet management approach is significantly hampering the effectiveness of fleet management within the City. There are three primary things that the City needs to focus on in the short term:

1. **Requiring centralized management of all fleet resources**
2. **Upgrading the age and condition of the fleet inventory**
3. **Reset the fuel management information system to function as a management tool**

To truly realize effectiveness and efficiency gains through proactive fleet management and realize a return on the investments made in fleet management systems, the City must be willing to hold its departments accountable to required fleet best practices.

If the City is uncomfortable making the changes necessary (i.e. holding departments accountable) to ensure an effective in-house fleet division, it may be in the City's best interest to outsource fleet maintenance. In the short term, the cost to the City will be higher from a recurring operational perspective given the anticipated non-target costs associated with the older fleet, but it will assist the City to manage the fleet operation as is intended from efficiency and cost effectiveness perspectives, which will result in long term cost savings. Other cities which have entered into such an arrangement include: Wilmington, Delaware; Washington D.C. Metro Police; Arlington, Texas; and Los Angeles County, California.

Another consideration, short of outsourcing the fleet maintenance function, would be to hire a temporary **fleet turn around specialist**, who could come in and work alongside the equipment division supervisor to ensure high impact cost drivers are addressed and the accurate information analyzed to make key decisions.

If the City does not take seriously the need to improve the effectiveness of its centralized fleet management approach, it may find itself expending resources without the return on investment desired; i.e. pursuing parts outsourcing, leasing and eliminating underutilized vehicles will not have the long term benefits required to make the short term investment and effort worthwhile.

Potential ways to upgrade the fleet inventory are described in the decision items which follow.

Budget Reduction Options and Decision Items

| Decision Item #1 | Outsource Parts Management |
|---------------------------|---|
| Modification | <p>The City should outsource the management of the parts inventory and create a centralized and integrated parts store. A key decision point is defining the scope of inventory to be managed by a third party. The Central Garage Supply function currently manages automotive parts, tools and commodities, and small equipment, a scope which may or may be something a vendor is willing to manage. This shift would involve selling off existing, agreed to inventory to the vendor and allowing them to manage the needs assessment, procurement, parts supplier relationships and receiving for all parts and supplies maintain in the Central Supply area moving forward. These arrangements typically involve the following:</p> <ul style="list-style-type: none"> > Agreed to Value for “Useable” Inventory – Cash Buy-out Upfront > Parts Provided at Cost plus a 10% markup > Monthly fee for On-site Stores Staffing and Management (contract for fixed fee for three years) <p>The benefits of such an arrangement can include:</p> <ul style="list-style-type: none"> > Enhance Inventory Management – minimized obsolete inventory write offs, improved warranty recovery, no surplus, reduced shrinkage. > Reduced Labor Costs – if positions are not transferred within the organization, typically find reduced cost > Lower Transaction Costs – eliminate costs associated with procurement as the parts contractor handles all supply vendor transactions and cuts one monthly bill > Productivity Improvement through Enhanced Equipment Availability – through improved fill rate (i.e. on average up to 85% on-demand within 3 months) and reduced vehicle/equipment down time due to unavailable parts <p>The City could enter into one of two arrangements:</p> <ul style="list-style-type: none"> > Contract for all parts inventory (all currently managed by the Central Stores function) to be managed through outsourced arrangement > Contract for “automotive” parts inventory to be managed through the contract |
| Annual Service Statistics | <p>The City currently has a significant number of parts in inventory with over 1,000 unique parts managed. Inventory turn information is not readily available, but is an important metric for the City to consider tracking as an indicator of effective management of the parts inventory.</p> |
| FTE | <p>Four full time employees (FTE) staff the parts management function. A Central Supply Supervisor, two Inventory Control Clerks and a Senior Account Clerk are responsible for managing parts inventory distributed by the Central Garage. Total Cost for these positions is estimated at \$298,055 (i.e. \$191,175 in salaries, \$6,000 overtime and an additional \$100,880 in benefits).</p> |

Expenditures/Per Customer Cost Information

The City currently budgets approximately \$400,000 annually for its automotive parts maintained by Central Garage.

Revenues

No revenues are generated from this function. However, costs for parts are allocated back to the departments.

Anticipated Savings/Impact on General Fund

If the City were to enter into a contract with a third party to manage an on-site central parts and supplies store, it is estimated that the most significant fiscal impact would be the one time upfront payment receive for the existing inventory. It is estimated based that the cash value of the existing inventory could be in a range from \$12,981 to \$172,423 dependent the scope of inventory to be managed and the agreed to “useable inventory”.

Parts Inventory Summary

| | Current Parts Value | Assumed Potential Cash Value | |
|----------------------------|---------------------|------------------------------|-------------------|
| | | Low End | Upper End |
| Central Garage Inventory | \$ 213,866 | \$ 85,547 | \$ 149,707 |
| Water Department Inventory | \$ 32,452 | \$ 12,981 | \$ 22,716 |
| Total Parts Value | \$ 246,318 | \$ 98,527 | \$ 172,423 |

Caution should be used in taking this estimate at face value given that parts vendors will not commit to a figure until:

- > They have conducted a physical inventory
- > Inventory figures have been verified with the City
- > A determination of eligible for purchase inventory has been determined (typically between 40 and 70% of inventory on hand)
- > All obsolete and overstocked inventory has been removed

It is not uncommon once a physical inventory is conducted for it to be determined that: a) the actual inventory varies significantly from what is indicated in the inventory system; and b) the non-valued inventory (i.e. obsolete, overstocked) is considerable.

The City will need to ensure that it carefully negotiates the terms of the contract in order to ensure that the benefits of this arrangement and potential cost reductions or productivity enhancements outweigh the potential for increase recurring costs associated with parts costs (acquisition plus 10%) and/or the monthly fee (must be less than what is paid out for City staff). While it is not possible to calculate an actual savings/ROI for this given the variety of variables involved, it is assumed that the City will realize the following types of savings:

| Saving Type | Illustrative Estimated Savings |
|-------------------------------|---|
| Payroll | \$176,471 (partially offset by monthly fee to vendor) |
| Inventory (obsolete & shrink) | \$30,600 |
| Productivity | Based on estimated hours of parts search and pricing effort |
| Transaction | Based on key metrics such as number of vendors, number of P.O.'s, cost of issuing P.O.,etc. |

Note: This is based on the assumptions of a \$400,000 budgeted inventory and \$246,000 in inventory value. Assumes the same number of staff required to manage. Also, assumes a benefit add-on of 50% to get to the fully loaded hourly cost when computing staff savings.

Anticipated Savings/Impact on General Fund (cont.)

These savings will be offset by a monthly administration fee which is determined based on a number of factors including:

- > Volume of parts purchased
- > Hours of operation
- > Level of staffing required (e.g. based on hours of operation, scope of inventory and need for additional staff i.e. drivers)
- > Resources for sourcing parts

This fee can range significantly but is often in the range of \$10,000 - \$15,000 per month.

A quick illustration of just the labor and inventory savings anticipated for a \$400,000 inventory indicates the potential for savings equal to a **range of between \$27,000 and \$87,000 annually** when factoring in a potential monthly fee of between \$10,000 and \$15,000. This figure does not include productivity or transaction savings nor does it consider the additional 10% administrative upcharge for parts which may be negated by potential savings from economies of scale by virtue of the parts vendors' relationships and volume of purchase with vendors.

Also, as opposed to the current situation of having to purchase parts and pay for them even if they aren't used immediately, this arrangement allows the City to not have to pay until the part is actually put into service. Based on the "turn rate" of the inventory, this could mean a substantial savings to the City.

Service Impact

The contract should specifically outline expectations relative to: hours of operation, levels of security, fill rates and vendor performance indicators. Dependent upon what terms are negotiated, this could result in service enhancements or perceived limitations.

The vendor will not only serve as the manager of the parts and supplies store, but will also negotiate pricing on behalf of the City. Some contracts offer a contingency fee (i.e. ability for vendor to keep part of the savings realized through this negotiation).

In addition, some of these vendors offer additional services such as cores and warranty tracking, customized automotive services (e.g. custom paint-mixing, custom lubricants, etc).

Other municipalities currently engaged in outsourced supply and parts operations include:
Huntsville, Alabama; Lynchburg, Virginia; Greenwich, Connecticut; and Cary, North Carolina.

Staff Impact

Staff effort for procurement will be reduced given that the vendor will source non-stocked products. However staff will need to get used to working with an outside vendor to identify equipment and supplies needs.

The level of data available for managers to make decisions should increase due to computerized inventory control and the ability to monitor stock levels and inventory effectiveness, and have readily available billing information.

Other Impacts

Most of these contractual arrangements include a buy-back clause that indicates what will happen if the City determines it wishes to terminate the contract and revert to its former operation. This is a positive in that the vendor will purchase any of its own parts. However, the City will be responsible for any parts that are not the vendor's.

| | |
|--|---|
| Market/Vendor Considerations | <p>There are a significant number of vendors available to provide outsourced parts management functions with one of the major national vendors with a considerable presence within the Rockford region. Many of the same vendors that provide these services are currently working with the City to stock the Central Garage Storage room (e.g. CarQuest, NAPA, Rockford Valley). The City should ensure that the vendor selected for these services can demonstrate that they have past municipal experience in managing parts and supplies, and have the level of resources and infrastructure necessary to totally manage this type of an operation in a manner that will reduce costs, and ensure enhanced productivity.</p> |
| Shared Service Options/Discussion of Redundancies | <p>The City has historically had multiple locations where parts are stored including Central Garage, Public Safety Building and Fire. With the closing of the PSB fleet center, parts for those vehicles will be managed through a contract with Fran Kral. The centralization of all parts inventory into an on-site parts supply store function (with parts specific to Fire being stored at the remote locations but managed by the parts operation) can benefit the City through reduced labor effort and improved economies of scale in purchasing. Also, merging to one location can significantly improve fill rates.</p> |
| Risk Factors | <p>Vendor system required investment and/or required integration with existing systems can create significant risks and costs for the City.</p> <p>Absent significant contract oversight the City could find itself faced with risks such as inappropriate deployment of used parts, double billing for the same part, up charges for on- demand occurrences, unsubstantiated purchases, charge timing issues, and potential for lack of inventory security.</p> |
| Collective Bargaining Impacts | <p>Article II, Section 2.2(H) of the most recent collective bargaining agreement specifies that the City has the right to:</p> <p><i>“Change methods of operations, equipment or facilities, including contracting and subcontracting.”</i></p> <p>Per Article IV, Section 4.8 of the agreement, if the City seeks to implement this modification and attempt to realize the potential savings outlined in this decision item, which includes a reduction in force, the following is required:</p> <ul style="list-style-type: none">> The City will meet with the Union to discuss the proposed reduction in force prior to implementation> The City will provide the Union with the rationale for the reduction in force and give the Union the supporting data> The Union has two weeks to use this data to develop alternative approaches to achieving the same financial or organizational goals <p>If no feasible alternative is proposed by the Union that provides a comparable level of benefits, the City must follow the reduction in force steps laid out in Article IV, Section 4.9 of the agreement.</p> |

Decision Item #2

Downsize Fleet Pool to Maximize Fleet Utilization

Modification

The City should closely review the current utilization of vehicles and plan to retire those vehicles that are proving to be high cost vehicles that are not justified based on age and/or miles driven per year. A major factor to consider is the average miles per year for each vehicle. We have conducted a very high level analysis of vehicle utilization applying a standard threshold by vehicle type, and have identified that roughly 74% of vehicles owned by the City are suspected of being underutilized.

As is the case with any piece of equipment, as vehicles age the cost to repair and maintain them increases given that they are no longer under warranty and are more prone to having “issues”.

The total cost to maintain all vehicles currently in the City fleet is roughly \$1.437 million on average per year.

Significant variations in cost exist between vehicle classes and individual vehicles based on age and usage.

In conducting this analysis, we recognize that the information is not totally reliable due to data entry errors and lack of consistency in how information is gathered; however, there is sufficient information to make the case that closer fleet utilization analysis is warranted and required if the City is to effectively manage its fleet. Specifically, the information we are using are meter readings captured the last time a vehicle was in for maintenance or off of the fuel system (where we felt the data was reliable). The fuel management information system (FMIS) has been breached allowing it to be an unreliable means of capturing good utilization data. If used appropriately, this is a critical factor in effective vehicle maintenance. Given significant issues with data, we have excluded 11 percent of vehicles from our utilization analysis.

Annual Service Statistics

Of the 590 total vehicles owned by the City (excluding 11 percent) 74% of them do not meet mileage thresholds used as industry best practices for utilization. Specifically, we identified 429 vehicles (of the 590 unique vehicles) that are suspected to be underutilized when applying the following parameters and discussing specific vehicles with city staff:

| Vehicle Type | Threshold - Average Miles Per Month |
|---|-------------------------------------|
| Sedans and SUVs | 400 |
| Task Vehicles (pickups, midsized trucks, dump trucks) | 250 |
| Police Vehicles | 750 |
| Hourly Units | 25 hours |

Additionally, in 2009, a review of average miles for just cars shows that 36 of the 198 total cars suspected of being underutilized were driven less than 200 miles (average of 108 miles per year). Excluding police cars, this number drops to 12.

Within the current fleet, 340 vehicles are greater than 7 years old with the average age of vehicles by type as follows:

Annual Service Statistics (cont.)

| Vehicle Type | Count | Average Age |
|---------------------|--------------|--------------------|
| Car | 125 | 10.87 |
| Pickup | 41 | 12.56 |
| Van | 31 | 13.78 |
| Bus | 15 | 15.13 |
| Dump | 15 | 14.09 |
| Trailer | 15 | 14.67 |
| SUV | 14 | 12.13 |
| Tandem | 11 | 13.58 |
| Sweeper | 10 | 11.84 |
| Flatbed | 6 | 16.97 |
| Service | 6 | 14.26 |
| Backhoe | 5 | 13.29 |
| Bucket | 5 | 13.42 |
| Compressor | 5 | 14.92 |
| Loader | 5 | 11.20 |
| Mower | 4 | 14.25 |
| Small Equipment | 4 | 21.50 |
| Thermolay | 4 | 15.25 |
| Chipper | 3 | 11.67 |
| Forklift | 3 | 23.00 |
| Tractor | 3 | 14.33 |
| Clamloader | 2 | 23.50 |
| Ambulance | 1 | 23.00 |
| Command | 1 | 11.00 |
| Derrick Digger | 1 | 14.00 |
| Roller | 1 | 11.00 |
| Sewer Sucker | 1 | 13.00 |
| Stepvan | 1 | 15.00 |
| SWAT | 1 | 30.00 |
| Tanker | 1 | 24.00 |

For certain vehicle types, the City is holding on to vehicles that are over 20 years old.

FTE

There are 10 FTE assigned in the FY11 Budget to the Equipment Division responsible to maintain City-owned vehicles. Total salary and benefit budgeted cost for these positions is \$924,445.

Expenditures/Per Customer Cost Information

The average cost per vehicle type to maintain City owned vehicles of over 7 years of age is \$3,843. (i.e., \$448 is Preventative Maintenance and \$3,395 is repair, excluding 11 percent of vehicles due to poor data).

Revenues

Net Revenues are not generated for the general fund from this function; however, an internal service fund model is employed to fund the equipment division operations.

Anticipated Savings/Impact on General Fund

If the City were to identify those vehicles that truly should be retired based on age and utilization (i.e. those less than the industry best practice thresholds and determined by department heads to be no longer useful) it could generate the following recurring savings related to vehicle preventative maintenance and repair costs based on an assumed 10% and 25% vehicle retirement rate overall:

| Department | Average Annual - Current | | | Potential Savings | |
|----------------|--------------------------|-------------|--------------------|-------------------|------------------|
| | PM Cost | Repair Cost | Total Cost | 10% Retire | 25% Retire |
| Streets | \$54,893 | \$435,257 | \$490,150 | \$49,015 | \$122,537 |
| Traffic | \$11,650 | \$65,852 | \$77,502 | \$7,750 | \$19,375 |
| Water | \$33,467 | \$220,492 | \$253,959 | \$25,396 | \$63,490 |
| Sewer | \$1,189 | \$6,950 | \$8,139 | \$814 | \$2,035 |
| Equipment | \$1,456 | \$10,211 | \$11,667 | \$1,167 | \$2,917 |
| Engineering | \$2,908 | \$12,917 | \$15,825 | \$1,582 | \$3,956 |
| IT | \$127 | \$410 | \$536 | \$54 | \$134 |
| CD | \$3,825 | \$22,435 | \$26,260 | \$2,626 | \$6,565 |
| Building | \$619 | \$6,778 | \$7,398 | \$740 | \$1,849 |
| PW Admin | \$619 | \$2,384 | \$3,004 | \$300 | \$751 |
| Property | \$2,669 | \$20,797 | \$23,467 | \$2,347 | \$5,867 |
| Police | \$50,313 | \$262,504 | \$312,816 | \$31,282 | \$78,204 |
| Parking | \$1,971 | \$12,633 | \$14,604 | \$1,460 | \$3,651 |
| Forestry | \$9,189 | \$122,191 | \$131,380 | \$13,138 | \$32,845 |
| Human Services | \$9,189 | \$51,427 | \$60,617 | \$6,062 | \$15,154 |
| Total | | | \$1,437,324 | \$143,732 | \$359,331 |

Note: This assumes vehicles that are suspected of being underutilized per the industry standard thresholds.

Additionally, given the reduction in PM and repairs services required, it is assumed that between 1 to 1.5 mechanic FTE can be reduced equating to reduced annual salary and benefits savings as outlined below:

Savings for Labor Reduction

| | Current | Reduction level | |
|----------------------------|------------|------------------|-------------------|
| | | 10% | 25% |
| FTE Reduction | 10 | 9 | 7.5 |
| Salary Level | \$ 586,183 | \$ 46,353 | \$ 115,883 |
| Benefits Level | \$ 338,262 | \$ 26,748 | \$ 66,871 |
| Total Labor Savings | | \$ 73,101 | \$ 182,754 |

Anticipated Savings/Impact on General Fund (cont.)

Therefore total savings anticipated to the City for reducing the fleet for non-utilized vehicles could result in a range of between \$217,000 and \$542,500 in annual recurring savings.

Total Annual Savings

| | Reduction level | |
|--------------------------------|-------------------|-------------------|
| | 10% | 25% |
| Avoided Maintenance Costs | \$ 143,732 | \$ 359,331 |
| Labor Savings | \$ 73,101 | \$ 182,754 |
| Total Estimated Savings | \$ 216,834 | \$ 542,085 |

In examining this issue even more closely for one category of vehicles (CARS), it appears that if the City were to reduce the fleet of those cars that are driven less than 200 miles per month, it would reduce the cost of maintenance and repair by \$43,200 annually, (i.e., for 36 cars which average 10.94 years in age and less than 200 miles driven per month).

A key step in the process of determining which vehicles to retire will be the input of the department. As the scope of this engagement was not a full fleet utilization study, we were unable to include discussions with each department as would normally be the case. It is our recommendation that the City take that step using the information analyzed as part of these decision items.

Service Impact

The creation of an expanded “Motor Pool” would significantly enhance the efficiency of fleet management within the City. Less used vehicles in all classes could be added to the current pool and rented on demand as departments need them rather than carrying them as departmental capital.

Not having vehicles specifically assigned to departments may result in the need for improved advance planning relative to vehicles usage and/or policy changes relative to Personal Owned Vehicle (POV) use. Not having extra vehicles available may also reduce productivity if these vehicles are currently used as backups when others are in for repairs.

Staff Impact

Staff may need to get used to using POVs and submitting reimbursement requests. This could result in increased efficiency relative to vehicle use.

Other Impacts

There are none related to this decision item.

Market/Vendor Considerations

There is resale value for these vehicles despite their age and rather than using an auction, which is a more traditional approach, the City should consider using internet sales media to dispose of vehicles. These types of internet sales transactions typically bring in 15% more profit than auctions.

Shared Service Options/Discussion of Redundancies

An alternative to retiring these vehicles could be to pursue a shared fleet pool with another public sector entity – most likely candidate would be the County. This arrangement would allow the City to retain access to infrequently used vehicles/equipment without having to pay the high cost of maintenance. In other words, by combining fleets vehicle utilization can be improved; however, the challenge may be that certain low utilization vehicles may be needed at the same time by each entity (e.g. Tandems).

Risk Factors

If the City expands the use of personally owned vehicles (POV) because of the fleet downsizing (which based on the utilization should not be significant), it could increase the potential for false reporting and use of POV reimbursement for personal use.

Collective Bargaining Impacts

The Mechanics position is represented by AFSCME.

Article II, Section 2.2(H) of the most recent collective bargaining agreement specifies that the City has the right to:

“Change methods of operations, equipment or facilities, including contracting and subcontracting.”

Per Article IV, Section 4.8 of the agreement, if the City seeks to implement this modification and attempt to realize the potential savings outlined in this decision item, which includes a reduction in force, the following is required:

- > The City will meet with the Union to discuss the proposed reduction in force prior to implementation
- > The City will provide the Union with the rationale for the reduction in force and give the Union the supporting data
- > The Union has two weeks to use this data to develop alternative approaches to achieving the same financial or organizational goals

If no feasible alternative is proposed by the Union that provides a comparable level of benefits, the City must follow the reduction in force steps laid out in Article IV, Section 4.9 of the agreement.

Decision Item #3

Fleet Replacement through Leasing

Modification

The City has an extremely old and high mileage fleet based on the fact that it has been unable to fulfill its vehicle replacement program due to lack of funds. The average age of vehicles across the fleet is 10.13 years of age. During the past few years, the City has been unable to adhere to its Capital Replacement Program due to a lack of Capital Budget funding. The average cost of a new vehicle by category is as follows:

| | New Vehicle Costs | |
|----------------|-------------------|--------|
| Sedan/Car | \$ | 22,500 |
| Police Car | \$ | 27,500 |
| SUV/Van/Pickup | \$ | 31,600 |

The City should consider updating its fleet through a lease to purchase program. Once the City has verified those fleet vehicles over seven years of age, that are good candidates for leasing (i.e. car, pickup, van and SUVs) it should consider entering into a municipal lease program for those vehicles.

Municipal lease financing has distinctive advantages over commercial equipment leasing in that it offers the ability to:

- > **Forego Difficult Capital Outlays** – allows municipality the ability to replace capital asset without waiting until next budget cycle and offers the added flexibility of payment intervals set to meet the entity’s needs (i.e. monthly, quarterly, annual)
- > **Termination for non-appropriation** – most include non-appropriation clauses, to cover situations where the lessee is unable to obtain funding for future payment obligations on the lease, which enable the lessee to terminate the lease agreement at the end of the current appropriation period without further obligation or penalty
- > **Municipal lease purchase** – for the term of the lease, the municipality holds the title to the leased equipment while the lessor holds the security interest. It is a full payout contract to purchase the equipment rather than a series of rental payment as with traditional commercial leases. The financing is structured so that there is no residual value, balloon payment or purchase option to consider.
- > **Tax-exempt** - interest income on a municipal lease is tax exempt to the lessor. The municipality benefits when the lessor passes these savings on to the municipality in the form of a lower interest cost.
- > **Lease to Purchase Credit** - municipal lease payments build equity in the future unencumbered ownership of the asset. Without penalty, the lessee has the option of purchasing the equipment outright, at any time, for a predetermined purchase price consisting of the remainder of principal and any accrued interest.

Modification (cont.)

Based on the age, mileage and type of vehicles it is estimated that 94 of the City's 661 fleet vehicles would be excellent candidates for leasing within the next fiscal year. Specifically, for purposes of this analysis we are restricting our pool to vehicle types of car, SUV, pickup or van. We analyzed candidate for leasing from the total pool (except 11 percent) for those vehicles that are greater than 7 years of age and for which the mileage exceeds 85,000 (roughly the average mileage for the City's pool within all categories). As such, the following vehicle numbers are eligible for consideration of being retired:

| Vehicles type | Total Count - Candidates for Leasing |
|----------------|--------------------------------------|
| Sedan/Car | 19 |
| Police Car | 45 |
| SUV/Van/Pickup | 30 |
| TOTAL | 94 |

The City has historically purchased used vehicles for certain vehicle categories (i.e. Fire) to try to contain capital replacement costs. However, this is not a best practice.

Annual Service Statistics

The majority of City vehicles are listed in poor or fair condition per the January 2010 Condition Report.

| Lease Candidates | Average Annual Repair Costs | Percent of Total Fleet |
|------------------|-----------------------------|------------------------|
| Sedan/Car | \$2,011.79 | 2.87% |
| Police Car | \$2,691.93 | 6.81% |
| SUV/Van/Pickup | \$3,612.81 | 4.54% |

FTE

There are 10 FTE assigned in the FY11 Budget to the Equipment Division responsible to maintain City-owned vehicles. Total salary and benefit budgeted cost for these positions is \$924,445.

Expenditures/Per Customer Cost Information

The City spent \$300,781 during 2009 on preventative maintenance. The average cost per vehicle type to maintain City owned vehicles of over 7 years of age is \$3,843. The average cost of Preventative Maintenance per vehicle is \$448 and repair is \$3,395. This excludes 11 percent of vehicles due to poor data.

Revenues

Net Revenues are not generated for the general fund from this function; however, an internal service fund model is employed to fund the equipment division operations.

Anticipated Savings/Impact on General Fund

If the City were to enter into a Municipal Lease Purchase arrangement it is estimated that the net annual fiscal impact on the general fund would be as follows:

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|--|-------------|------------|------------|-------------|------------|------------|
| Cost Reduction | | | | | | |
| Eliminated Repair Costs | \$267,745 | \$267,745 | \$267,745 | \$248,080 | \$248,080 | \$248,080 |
| Eliminated PM Costs | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Reduced Labor Expense | \$133,873 | \$133,873 | \$133,873 | \$124,040 | \$124,040 | \$124,040 |
| Avoided Capital Costs | \$2,613,000 | \$0 | \$0 | \$2,445,900 | \$0 | \$0 |
| Lease Payment | | | | | | |
| Annual Payment Plus Fees | \$598,950 | \$598,950 | \$598,950 | \$876,225 | \$876,225 | \$876,225 |
| Lease End Payment Offset | \$0 | \$0 | \$0 | \$235,000 | \$0 | \$0 |
| Net Savings per Year | \$2,415,668 | -\$197,332 | -\$197,332 | \$2,176,795 | -\$504,105 | -\$504,105 |
| Total Savings Over 6 Years: \$3,189,589 | | | | | | |

Assumptions:

- > Only includes sedans, SUVs, vans and pickups
- > Assumes cost of \$765 per month for police cars, \$250 for sedans/cars and \$350 for SUV, vans or pickups
- > Assumes additional \$475 delivery fee twice per year
- > Repair costs would be reduced by 50%, PM cost would remain the responsibility of the City
- > Reduction in labor effort and therefore cost equal to 25% (i.e. repair is 50% of total cost and the vendor would cover about half through extended warranty services)
- > In fourth year would receive a \$5,000 per vehicle residual value fee for the 50% of vehicles not purchased

It is also important to note that often vendors will offer deferred payment of up to one year if a 10% down payment is provided. We did not include this assumption in our savings calculation.

The leasing option could also be possible for additional vehicles including dump trucks, ambulances, etc if the City were willing to consider a slightly modified approach to the maintenance of these vehicles. i.e., leasing companies typically will not be able to accommodate quick changes required of municipal fleets (e.g. snow plow blades change outs, etc). The arrangements for this are more complicated and would require specific decisions on the part of the City relative to what would be contracted versus in-house in terms of maintenance.

| | |
|--|---|
| Service Impact | <p>The main advantage of using a leasing program to fund vehicles is that it provides the ability for the City to adhere to its vehicle replacement plan, thus allowing capital purchases, ensuring safe and effective vehicles and driving down the overall cost of vehicle maintenance. Leasing payments typically cover extended service plans with coverage up to 3 years or 100,000 miles while would mean the City's outlay for maintenance would be minimal.</p> <p>A key consideration in entering a lease program is whether or not the productivity losses incurred in having to take the vehicle back to the lessor for maintenance cancel out any maintenance productivity savings.</p> |
| Staff Impact | <p>This could result in a reduction in maintenance staff and should reduce overall labor effort required; however, this effort savings may not be realized immediately.</p> |
| Other Impacts | <p>There are none related to this decision item.</p> |
| Market/Vendor Considerations | <p>There are two types of vendors involved with municipal leasing: 1) the equipment vendor, and 2) the lease financing entity. Many of these entities have strategic partnerships with one another or are affiliates of the same company. Lease agreements are available based on the type of vehicle and the region. Within Rockford, there are local dealerships that are willing to provide leasing arrangement for certain vehicles.</p> <p>There are numerous municipal lease financing entities across the nation including: Govfunds, WB, Mosaic International, Alpha Equipment Leasing, etc.</p> |
| Shared Service Options/Discussion of Redundancies | <p>If the City were to enter into a pooled fleet management approach with the City (as was previously in place), the school district or another public or private entity, the concept of leasing vehicles would still be feasible.</p> |
| Risk Factors | <p>The City would need to carefully craft its contracts to ensure that the specifications of vehicles unique to municipal service delivery are fully accommodated through these arrangements. While companies exist that offer the ability for leasing all vehicles, certain types of vehicles are much more easily managed through a leasing program provided by a non-City fleet shop.</p> |

Collective
Bargaining Impacts

The Mechanics position is represented by AFSCME.

Article II, Section 2.2(H) of the most recent collective bargaining agreement specifies that the City has the right to:

“Change methods of operations, equipment or facilities, including contracting and subcontracting.”

Per Article IV, Section 4.8 of the agreement, if the City seeks to implement this modification and attempt to realize the potential savings outlined in this decision item, which includes a reduction in force, the following is required:

- > The City will meet with the Union to discuss the proposed reduction in force prior to implementation
- > The City will provide the Union with the rationale for the reduction in force and give the Union the supporting data
- > The Union has two weeks to use this data to develop alternative approaches to achieving the same financial or organizational goals

If no feasible alternative is proposed by the Union that provides a comparable level of benefits, the City must follow the reduction in force steps laid out in Article IV, Section 4.9 of the agreement.

Street Sweeping

Overview

The street sweeping group within the Streets Maintenance Division of the Department of Public Works has responsibility for sweeping a minimum of approximately 1,760 lane miles of arterial and residential streets multiple times per year, as well as streets in the central business district (CBD) on an ongoing basis. Primary functions of the street sweeping group include:

- > Central Business District sweeping
- > Arterial & residential sweeping
- > Raised median cleaning
- > Disposal of debris collected via sweeping operations

In addition, the street sweeping group is occasionally called on to complete sweeping for special events, such as parades and festivals, as well as debris and spill cleanup resulting from truck or vehicle accidents on City roads.

To accomplish these functions, street sweeping staff are assigned to operate the City's eight street sweeping machines, including performing daily maintenance on these vehicles, and to haul debris collected during street sweeping operations. During winter, street sweeping staff are re-assigned to other functions, including:

- > Participating in snow and ice removal during winter storm events (i.e. driving snow plow trucks on an assigned plow route)
- > Performing maintenance on the City's fleet of snow plow trucks in the winter
- > Working on pothole patching and related street maintenance
- > Performing tree and brush removal

Revenue and Expenditure Trends

For 2011, the Public Works Department began budgeting for the street sweeping function differently than in years past. Specifically, the implementation of a new time reporting system allowed for an improved ability to allocate staff time, resulting in a significant jump in the level of FTE allocated to the cost centers for city-wide street sweeping, in general, and central business district (CBD) street sweeping. As a result, there is limited utility in comparing revenue and expenditure trends for this function. In 2011, the total expenditures for street sweeping were an estimated \$960,204, or 12.4% of the Streets Division overall budget.

City expenditures for the Streets Division overall have decreased significantly over the past four years, as shown in the figure on the following page. 2008 actual expenditures were \$11.9 million, but the 2011 budget appropriates a total of \$7.7 million, a decrease of \$4.2 million in just four years (35.0% reduction).

Streets Division Total Expenditures and Revenues
2008 Actual to 2011 Budget

| | 2008 Actual | 2009 Actual | 2010 Budget | 2011 Budget | Change over 2010 |
|----------------------------|---------------------|--------------------|--------------------|--------------------|-------------------------|
| Expenditure | | | | | |
| Personnel | \$3,257,810 | \$2,875,395 | \$2,885,436 | \$2,603,852 | (\$281,584) |
| Contractual | 6,265,127 | 4,040,653 | 3,507,955 | 3,663,430 | 155,475 |
| Supplies | 1,910,021 | 1,214,106 | 1,384,000 | 1,384,000 | 0 |
| Other | 263,959 | 167,521 | 87,959 | 92,559 | 4,600 |
| Capital | 226,602 | 1,125 | 0 | 0 | 0 |
| Total | \$11,923,519 | \$8,298,800 | \$7,865,350 | \$7,743,841 | (\$121,509) |
| Revenue | 2008 Budget | 2009 Budget | 2010 Budget | 2011 Budget | Change over 2010 |
| Property Taxes | \$2,100,780 | \$2,166,100 | \$2,098,800 | \$2,098,800 | 0 |
| Street & Bridge Reimb. | 559,557 | 554,398 | 598,272 | 408,231 | (190,041) |
| Other Governments | 270,000 | 270,000 | 270,000 | 270,000 | 0 |
| Transfers from other Funds | 1,183,900 | 925,400 | 718,825 | 957,300 | 238,475 |
| General Revenues | 5,939,678 | 3,756,353 | 4,179,453 | 4,009,510 | (169,943) |
| Total | \$10,053,915 | \$7,672,251 | \$7,865,350 | \$7,743,841 | \$(121,509) |

Level of resources/staff

As noted, the method by which the Streets Division accounts for staff assigned to the street sweeping unit changed in 2011, resulting in an artificial increase in the number of FTE reported under the street sweeping cost centers. However, in recent years, the amount of actual employees who perform street sweeping has not changed. A total of seven operators and one maintenance worker spend time performing street sweeping between April and November (depending on the weather). In 2011, the total FTE allocated (as a portion of these eight employees' time) was 6.2 FTE.

Budget Reduction Options/Decision Items

| Decision Item #4 | Contract for Street Sweeping | | | | | | | | | | | | |
|--------------------------------|--|-----------------|-------------------|--------------------------------|---------|---------------------------|---------|--------------|------------|-----|-----|-----|-----|
| Modification | <p>This modification involves contracting out for the bulk of the City’s street sweeping needs. Specifically, the City could contract for street sweeping on its system of arterial and residential streets, and retain a much reduced level of resources to provide in-house street sweeping services in the Central Business District (CBD). Contracting for street sweeping is fairly common in Illinois, including both mid-sized cities such as Naperville, and smaller municipalities such as Gurnee, Orland Park, Oak Park, Glenview, and Downers Grove. The City of Naperville, with a population of approximately 143,000, contracts out for street sweeping on its 488 centerline miles of arterials and residential streets (an estimated 1,464 lane miles), but also maintains a smaller in-house street sweeping unit for their central business district and in case of emergency sweeping needs in other parts of the City.</p> | | | | | | | | | | | | |
| Annual Service Statistics | <p>Between April and November, there are five operators assigned during the day shift to operate street sweepers in various sections of City roads (which are aligned with the City’s snow plow routes), supported by a maintenance worker for debris removal as needed, and an additional two operators to perform street sweeping in the central business district on the overnight shift.</p> <p>As shown in the figure below, the street sweeping group averaged 486 centerline miles of street sweeping per month. The Division’s performance target for this group is to perform 350 centerline miles of street sweeping per month; it is apparent that the group is currently sweeping considerably more miles per month than the targeted level of performance.</p> <p style="text-align: center;">Miles of Streets Swept By Month, April – August 2010</p> <table border="1" data-bbox="483 1230 1198 1318"> <thead> <tr> <th>April</th> <th>May</th> <th>June</th> <th>July</th> <th>August</th> <th>Average</th> </tr> </thead> <tbody> <tr> <td>455</td> <td>369</td> <td>422</td> <td>616</td> <td>568</td> <td>486</td> </tr> </tbody> </table> <p>As of the completion of street sweeping operations in November 2010, the street sweeping unit swept a total of 3,609 centerline miles, or approximately 9,311 lane miles. The targeted number of citywide cycles for 2010 was three (outside the central business district).</p> | April | May | June | July | August | Average | 455 | 369 | 422 | 616 | 568 | 486 |
| April | May | June | July | August | Average | | | | | | | | |
| 455 | 369 | 422 | 616 | 568 | 486 | | | | | | | | |
| FTE | <p>As shown in the figure below, the Division currently allocates 6.2 FTE to street sweeping, which represents an allocation of a total of eight employees’ time in all.</p> <p style="text-align: center;">Street Sweeping Staffing Level 2011</p> <table border="1" data-bbox="483 1682 1198 1854"> <thead> <tr> <th>Street Sweeping</th> <th>2011 Budgeted FTE</th> </tr> </thead> <tbody> <tr> <td>City Arterials and Residential</td> <td>6.2</td> </tr> <tr> <td>Central Business District</td> <td>0.0</td> </tr> <tr> <td>Total</td> <td>6.2</td> </tr> </tbody> </table> | Street Sweeping | 2011 Budgeted FTE | City Arterials and Residential | 6.2 | Central Business District | 0.0 | Total | 6.2 | | | | |
| Street Sweeping | 2011 Budgeted FTE | | | | | | | | | | | | |
| City Arterials and Residential | 6.2 | | | | | | | | | | | | |
| Central Business District | 0.0 | | | | | | | | | | | | |
| Total | 6.2 | | | | | | | | | | | | |

**FTE
(cont.)**

There are currently seven operators, and one maintenance worker who spend time at various parts of the year on street sweeping operations.

From approximately April to November (depending on the weather), the operators are assigned to drive the street sweepers on a staggered shift, ensuring 7-day a week operations. Five of the operators work during the day shift, and two operators are assigned to the night shift to sweep the Central Business District. During the winter, four of these staff are assigned to the City yard to perform light maintenance on the City's fleet of 30 snow plow trucks.

The Maintenance worker is assigned to street sweeping during heavy periods of debris removal.

**Expenditures / Per
Customer Cost
Information**

The 2011 street sweeping budget includes a significant percentage increase over 2010 expenditures. This is entirely due to a revised budget allocation of the level of resources (staff time) actually spent operating the street sweeping program. In other words, the 2011 budget better reflects actual City costs for street sweeping when compared to past years. The estimated 2011 budget amount of \$960,204 includes a conservative estimate of \$15,000 for street sweeping overtime, based on the 2010 actual overtime level (through November). Assuming that the total number of lane miles swept is comparable to the 2010 output (9,162 lane miles), the projected cost per lane mile for 2011 may be as high as an estimated \$103.12.

**Estimated Cost per Lane Mile
2010 and Projected 2011**

| Street Sweeping | 2010 Budget | 2011 Budget |
|--------------------------------|--------------------|--------------------|
| City Arterials and Residential | \$637,697 | \$905,454 |
| Central Business District | 81,128 | 39,750 |
| Subtotal Street Sweeping | 718,825 | 945,204 |
| Street Sweeping Overtime | 12,894 | 15,000 |
| Total | \$731,719 | \$960,204 |
| Lane Miles | 9,311 | 9,311 |
| Cost Per Lane Mile | \$78.58 | \$103.12 |

Note: 2010 Expenditures likely understate the actual cost of the program.

The street sweeping expenditures presented above are funded via a transfer from the Sanitation Fund, which is primarily funded through user fees (81.5%) and property taxes (18.1%). Therefore, any potential savings would primarily impact the Sanitation Fund, rather than the General Fund.

It should also be noted that the City's current fleet of street sweepers is nearing the end of its useful life. Within the next several years, five of the City's nine street sweeping vehicles will need to be replaced, with a total anticipated cost of between \$625,000 and \$750,000. The current average age of fleet vehicles is nine years, with an anticipated useful service life typically between ten and twelve years. We contacted a vendor of street sweeping machines that serves the Northwest suburbs, and they confirmed that the expected price range for a new street sweeper is roughly \$125k-\$150k per unit.

Revenues

There are currently no revenues specifically associated with street sweeping. The Division has, in the past, discussed billing for special events, but to date has only charged an outside entity once (specifically the 2010 Waterfront festival, labor costs only).

Anticipated Savings / Impact on General Fund

This item impacts a transfer from the Sanitation Fund. A review of the current contract cost per lane mile currently being paid by medium and small municipalities in Illinois suggests a market with an upper end price point of approximately \$68 per lane mile, or lower. There are no guarantees that Rockford will receive similar pricing were it to contract for this service. However, given the City's current estimated cost per lane mile (\$103.12), it appears that there is an opportunity for significant savings, were the City to outsource sweeping for its arterials and residential streets. In 2010, sweeping the central business district represented a total of 3,367 miles, or approximately 36.1% of the total output of the street sweeping group, while the group swept 5,944 lane miles (63.9%) of arterial and residential streets.

Potential Outsourced Street Sweeping Costs
Based on Current Level of Service for
Arterial & Residential Streets and High-End Market Price Point

| Total Lane Miles | CBD Lane Miles | Arterial & Residential Lane Miles | Bid Estimate | Estimated Contract Costs |
|---|----------------|-----------------------------------|--------------|--------------------------|
| 9,311 | 3,367 | 5,944 | \$68 | \$404,214 |
| <i>Notes: CBD lane miles provided by the Streets Division</i> | | | | |

The City of Naperville's approach to outsourcing street sweeping (in house sweeping in the CBD, outsourced for arterials and residential streets) offers a useful model for the City to consider. There are several advantages to retaining an in-house street sweeping function to service the central business district over the short- and medium term:

- > Maximum accountability for street sweeping performance in the central business district, which is important to the City's economic development efforts
- > Operational flexibility to dispatch street sweeping assets without incurring additional contract costs for special events such as parades and festivals, and for emergency debris cleanup
- > Maintenance of street sweeping skill sets if outsourcing performance or cost issues require the City to bring the function back in-house
- > Potentially lower contract costs

The potential savings presented on the following page will change significantly, depending on the value of potential bids received and the scope of services desired by the City. For example, the City could reduce contract costs by cutting the number of cycles it wishes to complete each year. However, the figure below presents potential contract costs, given current service levels and a higher-end market price point.

The figure on the next page compares the estimated five year costs to operate the street sweeping program with the five year costs for outsourcing sweeping for arterials and residential streets (but retaining two operators to sweep the central business district, and for special events such as parades and festivals, and for emergency debris cleanup).

Anticipated Savings / Impact on General Fund (cont.)

Five-Year Cost Comparison
Annual Detail, FY2012 to FY2016

| | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | Total |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| No Change | | | | | | |
| Operational Cost | | | | | | |
| Est | \$ 989,010 | \$1,018,680 | \$1,049,241 | \$1,080,718 | \$1,113,140 | \$5,250,789 |
| Capital Costs Est | \$ 150,000 | \$ 150,000 | \$ 150,000 | \$ 150,000 | \$ 150,000 | \$ 750,000 |
| Surplus Auction Est | \$ (5,000) | \$ (5,000) | \$ (5,000) | \$ (5,000) | \$ (5,000) | \$ (25,000) |
| Total No Change | \$1,134,010 | \$1,163,680 | \$1,194,241 | \$1,225,718 | \$1,258,140 | \$5,975,789 |
| Hybrid Contract / In House | | | | | | |
| Operational Cost | | | | | | |
| Est | \$ 317,770 | \$ 327,303 | \$ 337,122 | \$ 347,236 | \$ 357,653 | \$1,687,085 |
| Capital Cost Est | \$ 150,000 | \$ 150,000 | \$ - | \$ - | \$ - | \$ 300,000 |
| Surplus Auction Est | \$ (30,000) | \$ (5,000) | \$ - | \$ - | \$ - | \$ (35,000) |
| Contract Cost Est | \$ 404,214 | \$ 416,340 | \$ 428,830 | \$ 441,695 | \$ 454,946 | \$2,146,026 |
| Total Hybrid Contract / In House | \$ 841,984 | \$ 888,643 | \$ 765,953 | \$ 788,931 | \$ 812,599 | \$4,098,111 |

For the purposes of determining the impact of the hybrid outsourcing approach on the City's ongoing operating cost to keep CBD street sweeping in-house, we assumed that the City would reduce the number of operator positions assigned to the street sweeping function by five, resulting in a net FTE reduction in force of 4.2 FTE. We made the following assumptions:

- > The number of positions allocated to the street sweeping function would be reduced from 6.2 FTE to 2.0 FTE, resulting in personnel costs of 32.3% compared to the 2011 budget
- > Personnel costs would be reduced by 68.7%

Expenditures for vehicle repair, fuel, and garbage disposal would be approximately 36.1% of the FY2011 budget (representing the 2010 percentage of CBD lane miles compared to total lane miles swept).

Given these assumptions, it appears that the City has the potential to realize \$1.9 million in potential savings over five years, as shown in the summary figure below. It should be noted that if the vendors' bid price or the City's operating costs differ from these estimates, the actual savings will vary significantly.

5-Year Summary Comparison

Current Street Sweeping Approach vs. Hybrid Outsourcing Model

| Expenditure Type | No Change | Hybrid | Savings Estimate |
|------------------|---------------------|---------------------|---------------------|
| Operational Cost | \$ 5,250,789 | \$ 1,687,085 | \$ 3,563,704 |
| Capital Costs | \$ 750,000 | \$ 300,000 | \$ 450,000 |
| Surplus Auction | \$ (25,000) | \$ (35,000) | \$ 10,000 |
| Contract Cost | \$ - | \$ 2,146,026 | \$ (2,146,026) |
| Total | \$ 5,975,789 | \$ 4,098,111 | \$ 1,877,678 |

Anticipated Savings / Impact on General Fund (cont.)

The assumptions used in calculating these potential savings are conservative. Specifically, we assumed:

- > No change to the level of service
- > High-end costs for contractor bid per lane mile and sweeper capital replacement cost
- > Comparable annual rates of increase in both City and contract costs (3%)

Service Impact

In the central business district, there should be no change in the current level of service experienced by businesses, shoppers, and residents. Relative to arterial and residential streets, the hybrid outsourcing model presented above assumes a directly comparable level of service provided under contract. If the City wishes to realize greater savings, it could reduce the level of street sweeping service provided on arterial and residential streets, as is discussed in a separate decision item.

Staff Impact

If the City chooses the hybrid outsourcing model, and reduces expenditures by eliminating 4.2 FTE positions, the current position incumbents will have “bumping” rights under the collective bargaining agreement. This means that staff with less seniority will most likely be impacted by this modification.

Other Impacts

There will be several impacts of reducing the overall number of operators in the streets division. In terms of current staff resources, the total amount of staff time recorded by these staff on non-street sweeping functions is an estimated (combined) 1.8 FTE. The other functions include:

- > The Division will need to re-assign some staff to perform light maintenance duties on the City’s fleet of snow plow trucks, thereby reducing output in other Streets functions (such as pothole patching and tree removal)
- > Potential for increased overtime during snow events, because operators from the street sweeping group currently are assigned to snow plow routes in the winter. With fewer operators available to assign, the Division may need to hire back staff from within the Division and other units of the Department on an overtime basis
- > Two of the street sweeping operators currently assist with the pothole patching function in the winter. Eliminating these positions will potentially result in an increase in the existing backlog of potholes (131 pending as of October 2010)
- > One of the street sweeping operators currently assists with tree removal in the winter. Eliminating this position will potentially result in an increase in the existing forestry backlog (559 pending as of October 2010)

Market / Vendor Considerations

A review of the current market for contract street sweeping services suggests that there are several qualified vendors that have bid on municipal street sweeping contracts in the Chicagoland region within the past two years. These include:

- > Waste Management of Illinois, Inc., Chicago
- > Elgin Sweeping Services Inc., Chicago
- > K. Hoving Clean Sweep, LLC, West Chicago
- > Diamond Coring Company, Chicago
- > Illinois Central Sweeping LLC, Blue Island

The expected cost of contracted street sweeping services will vary by:

- > Vendor rate structure
- > Size of the City's road system
- > Preferred number of cycles (i.e. number of times each year all city streets are swept)

There is some publicly available contract cost and service information relative to the current market for contract street sweeping services, which is shown in the figure below. The data presented below are high-level in nature, and should not be considered as direct comparisons of what eventual bids might be for an RFB issued by the City of Rockford. For example, Naperville contracts for arterials and residential streets, and performs central business district (CBD) sweeping on an in-house basis. Further, these cost data may or may not include specific items like sweeping services following parades or festivals – in other words, the details of each contract are specific to that municipality, requiring caution in interpretation. However, they do provide a general reference point relative to what other municipalities are currently paying for outsourced street sweeping.

Illinois Municipal Street Sweeping Contract Market Snapshot
2010 Contract Cost and Service Levels

| | Lane Miles Estimate | Number of Cycles | Bid Information | Cost per Lane Mile |
|--|---------------------|------------------|-----------------|--------------------|
| Downers Grove | 329 | 6 | \$104,500 | \$52.94 |
| Park Forest ¹ | 181 | 5 | 45,325 | 50.19 |
| Naperville ² | 1259 | 2 | 114,240 | 45.37 |
| Glenview ³ | 351 | varies | 120,299 | 67.81 |
| <i>Notes:</i> | | | | |
| ¹ Lane miles estimated using centerline miles shown on Village website (70) * 2.58 | | | | |
| ² Number of cycles refers to residential; arterials swept 3x/annum; City does street sweeping for CBD in-house; centerline miles shown on City's website (53 arterial, 435 residential); lane miles estimated by 488 * 2.58 | | | | |
| ³ Lane miles estimated using centerline miles from Village website (133) * 2.58 | | | | |

Shared Service Options / Discussion of Redundancies

There are no redundancies or duplicative operating groups relative to street sweeping within other parts of City government.

As an alternative to this modification, the City could consider serving as a contract street sweeping provider for neighboring municipalities. However, several significant barriers would need to be addressed, including:

- > The City's current cost per lane mile does not appear market competitive when compared to other recent bids received by other municipalities in the Chicagoland area
- > Under any contracting arrangement, the City would need to pass on the costs associated with its capital replacement needs, which will increase its total cost per mile
- > Providing contract street sweeping service to its neighbors would require the City to determine whether it would be willing to accept a lower level of service in terms of lane miles swept, or if it would be cost effective to add additional staff and equipment to provide these services outside the City

Risk Factors

Key risk factors to the successful adoption of a hybrid approach to outsourcing street sweeping as described above include:

- > Cost of the contract in terms of bids received
- > Performance of the contractor in sweeping the arterial and residential streets at a level consistent with resident expectations
- > Ensuring that sufficiently robust contract language is in place to protect the City's financial and service delivery interests relative to the vendor's performance

Collective Bargaining Impacts

Article II, Section 2.2(H) of the most recent collective bargaining agreement specifies that the City has the right to:

"Change methods of operations, equipment or facilities, including contracting and subcontracting."

Per Article IV, Section 4.8 of the agreement, if the City seeks to implement this modification and attempt to realize the potential savings outlined in this decision item, which includes a reduction in force, the following is required:

- > The City will meet with the Union to discuss the proposed reduction in force prior to implementation
- > The City will provide the Union with the rationale for the reduction in force and give the Union the supporting data
- > The Union has two weeks to use this data to develop alternative approaches to achieving the same financial or organizational goals

If no feasible alternative is proposed by the Union that provides a comparable level of benefits, the City must follow the reduction in force steps laid out in Article IV, Section 4.9 of the agreement.

Decision Item #5 **Reduce Sweeping Service Levels Outside the Central Business District**

Modification

This modification involves reducing the number of street sweeping needs in the arterial and residential areas of the City. If the City is willing to tolerate a lower level of street sweeping service in these areas, this would create the opportunity to either:

- > Maintain the current level of staffing and re-allocate staff resources towards existing backlogs in other Streets functions
- > Realize ongoing annual operating savings through reduced personnel costs following a reduction in force

Given the importance of the central business district (CBD) to the City's economic development strategy, this modification does not envision a reduction of street sweeping services in the CBD.

Annual Service Statistics

As of the completion of street sweeping operations in November 2010, the street sweeping unit swept a total of 3,609 centerline miles, or approximately 9,311 lane miles. The targeted number of citywide cycles for 2010 was three (outside the central business district).

The figure below estimates the number of sweeping cycles completed in 2010 for the CBD, arterials, and residential streets maintained by the Streets Division. The Streets Division maintains performance data on the number of centerline miles swept for the CBD and for the other street types. We estimated the total number of lane miles swept for the various categories using a factor of 1 centerline mile = 2.58 lane miles, which is the current factor used by the Streets Division. We estimate that the street sweeping group performed approximately 76.8 cycles in 2010; an estimated 3.5 cycles were completed for the arterial and residential streets.

Completed Sweeping Cycles Estimate
2010, By Area / Type of Street

| Area / Type of Street | Centerline Miles | Est. Lane Miles | Estimated 2010 Lane Miles Swept | Estimated Cycles |
|--|------------------|-----------------|---------------------------------|------------------|
| Central Business District | 17 | 44 | 3,367 | 76.8 |
| Arterial | 219 | 565 | 1,962 | 3.5 |
| Residential | 444 | 1,146 | 3,983 | 3.5 |
| Total | 680 | 1,754 | 9,311 | |
| <i>Note: Centerline miles estimated per the Streets Division, lane miles estimated by a factor of 1 : 2.58</i> | | | | |

The estimated Lane Miles Swept equates to a total of 3,609 centerline miles swept in 2010. The Streets Division was the data source for the number of centerline miles swept, the total number of centerline miles for the City overall, the CBD centerline miles, the proportion of arterial to residential streets, and the lane miles factor.

FTE

As shown in the figure below, the Division currently employs 6.2 FTE. This 6.2 FTE represents an allocation of a total of eight employees' time in all.

Street Sweeping Staffing Level
2010 - 2011

| Street Sweeping | 2011 Budgeted FTE |
|--------------------------------|-------------------|
| City Arterials and Residential | 6.2 |
| Central Business District | 0.0 |
| Total | 6.2 |

There are currently seven operators, and one maintenance worker who spend time at various parts of the year on street sweeping operations.

From approximately April to November (depending on the weather), the operators are assigned to drive the street sweepers on a staggered shift, ensuring 7-day a week operations. Five of the operators work during the day shift, and 2 operators are assigned to the night shift to sweep the Central Business District. During the winter, four of these staff are assigned to the City yard to perform light maintenance on the City's fleet of 30 snow plow trucks.

The Maintenance worker is assigned to street sweeping during heavy periods of debris removal.

Expenditures/Per Customer Cost Information

As discussed in the previous decision item, the 2011 street sweeping cost per lane mile is an estimated \$103.12 without capital costs. Assuming a comparable level of service in 2011 when compared to the previous year, we estimate that the Streets Division will spend an estimated \$347,195 to sweep the CBD, \$410,695 to sweep residential streets, and \$202,283 to sweep arterials.

Estimated Street Sweeping Cost
2011, by Area or Type of Street

| Area / Type of Street | Estimated 2010 Lane Miles Swept | Estimated Cost |
|---------------------------|---------------------------------|------------------|
| Central Business District | 3,367 | \$347,195 |
| Arterial | 1,962 | \$202,283 |
| Residential | 3,983 | \$410,695 |
| Total | 9,311 | \$960,173 |

It should be noted that these are estimated operating costs; increased future outlays, such as capital replacement of aging street sweeping equipment, are not included. However, given the change in budget allocation adopted for 2011, we believe these cost estimates represent the best accounting to date for street sweeping.

Revenues

There are currently no revenues specifically associated with street sweeping. The Division has, in the past, discussed billing for special events, but to date has only charged an outside entity once (specifically the 2010 Waterfront festival, labor costs only).

Anticipated Savings/Impact on General Fund

As shown in the figure below, reducing the number of sweeping cycles to two on arterial and residential streets should result in a workload reduction equating to approximately 0.65 FTE.

Workload Reduction Estimate
Two Cycles compared to 3.5 for Arterial and Residential Streets

| | 2010 Cycles | Estimated 2010 Lane Miles | Revised Cycles | Revised Lane Miles | Lane Miles Reduction | Hours Reduction | FTE Reduction Estimate |
|--|-------------|---------------------------|----------------|--------------------|----------------------|-----------------|------------------------|
| CBD | 76.8 | 3,367 | 76.8 | 3,367 | 0 | 0 | 0 |
| Arterials | 3.5 | 1,962 | 2.0 | 1,130 | 832 | 448 | 0.215 |
| Resid. | 3.5 | 3,983 | 2.0 | 2,291 | 1,692 | 911 | 0.438 |
| Total | | 9,311 | | 6,788 | 2,523 | 1,358 | 0.653 |
| <i>Note: Lane miles reduction based on Streets Division per-operator productivity estimate of 0.72 centerline miles per man hour, or 1.8576 lane miles per man hour.</i> | | | | | | | |

Assuming a one-to-one reduction in staff hours, a reduction in force of 0.65 FTE would equate to an estimated annual savings of \$39,164 in salary and fringe benefits at the midpoint of AFSCME Pay Range 23 (Equipment Operator).

Service Impact

A reduction in the number of street sweeping cycles may potentially result in an increased number of complaints from City residents regarding the level of service. Additionally, fewer street sweeping cycles would result in increased levels of debris accumulation on and near City streets. This would mean that it will likely take longer to complete a street sweeping cycle.

Alternative to a reduction in force to reflect fewer street sweeping cycles, the City could choose to re-allocate the estimated 0.65 FTE to address other backlogs in the Streets Division. These backlogs include:

2010 Streets Division Service Backlogs

| | Total Requests | Completed | Pending |
|---|----------------|-----------|---------|
| Pothole Patching | 2,004 | 1,873 | 131 |
| Forestry / Tree Removal | 2,453 | 1,894 | 559 |
| Various Other | 1,143 | 1,045 | 98 |
| <i>Note: 'Various Other' includes mowing, right of way issues not related to patching or forestry, storm sewer and drainage items, sweeping, etc.</i> | | | |

Staff Impact

If the City chooses the hybrid outsourcing model, and reduces expenditures by eliminating 0.65 FTE positions, the current position incumbents will have “bumping” rights under the collective bargaining agreement. This means that staff with less seniority will most likely be impacted by this modification.

| | |
|--|---|
| Other Impacts | Increased debris accumulation due to fewer sweeping cycles could potentially affect urban runoff in storm water. However, it is difficult to estimate the potential impact of such. The City is required to comply with federal regulations regarding water quality, and an important factor in maintaining water quality in an urbanized environment is the extent to which the Streets Division is able to control urban runoff via abatement efforts such as street sweeping. |
| Market/Vendor Considerations | There are none related to this decision item. |
| Shared Service Options/Discussion of Redundancies | There are none related to this decision item. |
| Risk Factors | <p>Key risk factors to the successful reduction of street sweeping cycles for arterial and residential streets as described above include:</p> <ul style="list-style-type: none">> Potential for increased resident complaints> Potential for storm water / water quality impacts> Need to determine whether a re-allocation of staff time or a reduction in force best suits the interest of the City |
| Collective Bargaining Impacts | <p>Article II, Section 2.2(H) of the most recent collective bargaining agreement specifies that the City has the right to:</p> <p><i>“Change methods of operations, equipment or facilities, including contracting and subcontracting.”</i></p> <p>Per Article IV, Section 4.8 of the agreement, if the City seeks to implement this modification and attempt to realize the potential savings outlined in this decision item, which includes a reduction in force, the following is required:</p> <ul style="list-style-type: none">> The City will meet with the Union to discuss the proposed reduction in force prior to implementation> The City will provide the Union with the rationale for the reduction in force and give the Union the supporting data> The Union has two weeks to use this data to develop alternative approaches to achieving the same financial or organizational goals <p>If no feasible alternative is proposed by the Union that provides a comparable level of benefits, the City must follow the reduction in force steps laid out in Article IV, Section 4.9 of the agreement.</p> |

Emergency Medical Services

Overview

Emergency Medical Services (EMS) in the City are primarily provided by the Rockford Fire Department (RFD), with four private ambulance vendors supplementing the RFD's EMS on an occasional, as-needed basis. Similar to other fire departments throughout the country, the vast majority of RFD emergency calls for service involve EMS/Rescue incidents. In 2008, EMS/Rescue calls represented 71.2% of all calls, and in 2009, this figure was 77.7%.

Revenue and Expenditure Trends

City expenditures for the RFD increased significantly under the 2011 budget, as shown on the figure below. The majority of the increase was in personnel, which was primarily due to the elimination of 2010 temporary salary savings, as well as significant increases due to step and longevity salary adjustments and in the health insurance fringe benefit category.

Relative to the EMS function, the 2010 budget for the EMS cost center included a total of \$5.6 million, including salary and fringe benefits for 42 personnel, pension contribution, supplies and services, and two ambulances purchased used from the Byron Fire Department for approximately \$125,000. EMS expenditures in 2010 represent an estimated 15.2% of the total RFD for that year.

Fire Department Total Expenditures and Revenues
2008 Actual to 2011 Budget

| | 2008 Actual | 2009 Actual | 2010 Budget | 2011 Budget | Change over 2010 |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Expenditure | | | | | |
| Personnel | \$32,637,296 | \$33,000,120 | \$33,975,117 | \$35,126,087 | \$ 1,150,970 |
| Contractual | 2,659,440 | 2,613,105 | 2,399,542 | 2,513,085 | \$ 113,543 |
| Supplies | 1,258,928 | 759,805 | 680,447 | 680,447 | \$ - |
| Other | 0 | 67,961 | 0 | 0 | \$ - |
| Capital | 1,328,136 | 0 | 0 | 0 | \$ - |
| Total | \$37,883,800 | \$36,440,991 | \$37,055,106 | \$38,319,619 | \$ 1,264,513 |
| Revenue | | | | | |
| | 2008 Budget | 2009 Budget | 2010 Budget | 2011 Budget | Change over 2010 |
| Property Taxes | | | | | |
| Fire Protection | \$8,403,100 | \$8,752,000 | \$9,858,000 | \$9,021,000 | \$ (837,000) |
| Fire Pension | 3,742,621 | 4,273,748 | 5,975,691 | 5,881,090 | \$ (94,601) |
| Fringe Benefit Reimb. | 1,220,835 | 1,354,229 | 1,259,855 | 1,312,218 | \$ 52,363 |
| 911 Fringe Reimb. | 91,742 | 99,365 | 99,365 | 121,872 | \$ 22,507 |
| Replacement Tax | 1,344,000 | 1,360,800 | 1,035,100 | 931,600 | \$ (103,500) |
| Ambulance Charges | 2,970,000 | 3,915,000 | 4,380,000 | 4,400,000 | \$ 20,000 |
| Foreign Fire Insurance | 170,000 | 0 | 0 | 0 | \$ - |
| Other Charges | 90,000 | 90,000 | 90,000 | 630,000 | \$ 540,000 |
| Airport Reimbursement | 650,000 | 650,000 | 877,000 | 905,800 | \$ 28,800 |
| General Revenues | 18,893,094 | 16,277,085 | 13,480,095 | 15,116,039 | \$ 1,635,944 |
| Total | \$37,575,392 | \$36,772,227 | \$37,055,106 | \$38,319,619 | \$ 1,264,513 |

In 2010, ambulance revenues amounted to \$4.4 million, resulting in a net cost to the City to operate the EMS program of \$1.2 million.

Level of resources/staff

All RFD firefighters have EMT certification; in addition, 186 are trained as Paramedics / Advanced Life Support (ALS). The RFD operates five ambulance units, or "companies," at its eleven fire stations. 39.0 FTE staff are assigned to these five companies, with an additional three staff providing administrative or support functions related to EMS. There was no reported change in the EMS staffing level between 2010 and 2011.

Budget Reduction Options and Decision Items

| Decision Item #6 | Outsource EMS |
|------------------|---|
| Modification | <p>This modification involves a reduction in force equivalent to the level of staffing currently needed to operate the RFD’s five ambulance companies, using one of two general approaches:</p> <ul style="list-style-type: none"> > Immediate reduction in force for the entire EMS complement (39.0 FTE) and replacement with contract staff > Gradually replace current RFD positions assigned to the ambulance companies with contract staff as normal attrition occurs <p>There does not appear to be an immediate business case for this modification due to an October 2010 arbitration decision affecting minimum shift staffing levels for the duration of the current contract. At the earliest, it would be 2013 before the City would realize the fiscal benefits of such a change. In other words, until the City successfully negotiates with the firefighters’ union (IAFF Local 413) to remove the minimum shift staffing/company strength requirement language (64 firefighters) from the collective bargaining agreement, it appears to make little financial sense to pursue this option. This is because the arbitration decision requires the City to staff 64 posts <i>on all three shifts</i> each day, regardless of duty assignment (with the exception that 2 posts must be assigned to the airport).</p> <p>We believe that reaching such an agreement will be difficult; in order to remove the minimum shift staffing requirement language, the City will likely be required to make significant concessions in other areas of the contract. Even if it is successful in doing so, the union could still potentially challenge any change to minimum staffing based on past practice. If, however, such a revision to the contract can be achieved, this modification could present an opportunity for the City to realize significant annual savings. The current collective bargaining agreement is set to expire on December 31, 2011.</p> <p>Other mid-sized and smaller Illinois municipalities currently contract out their EMS services. For example, the Town of Cicero (est. population of 109,400) currently is served by a private EMS service, which operates a total four ambulance companies for Cicero. Other communities that contract for EMS include Carol Stream, Bartlett, St. Charles, and Batavia, as well as others.</p> <p>In addition, the City currently contracts with four private ambulance companies to serve as backup when the RFD experiences a higher volume of EMS calls than it is able to respond to with its five in-house ambulance companies.</p> <p>The analysis included in this decision item assumes that there would be an immediate reduction in force for the entire EMS function to demonstrate the total potential fiscal impact.</p> |

Annual Service Statistics

The RFD's five ambulance companies respond to a significant number of calls each day. As shown in the figure below, ambulance Charlie 29 (operating from Fire Station #3 on South Main) responded to an average of 12.5 calls per day during this two-year period. Ambulance company Charlie 12 (Station #4 on Shaw Woods Dr.) responded to an average of 8.5 calls per day.

Ambulance Company Average Calls for Service
2008 and 2009

| | 2008 | 2009 | Avg. Annual Responses | Avg. Responses per Day |
|--------------|---------------|---------------|-----------------------|------------------------|
| Charlie 12 | 3,125 | 3,103 | 3,114 | 8.5 |
| Charlie 16 | 3,648 | 3,663 | 3,656 | 10.0 |
| Charlie 27 | 4,478 | 4,340 | 4,409 | 12.1 |
| Charlie 28 | 3,831 | 3,734 | 3,783 | 10.4 |
| Charlie 29 | 4,662 | 4,462 | 4,562 | 12.5 |
| Total | 19,744 | 19,302 | 19,523 | 53.5 |

FTE

There are currently 39.0 FTE firefighters assigned to operate the RFD's five ambulance companies. The current complement for each ambulance companies is two firefighters per shift. Given the current contract hours for Firefighters of 2,652 hours per year (51 hours per week, with 24 hours on, 48 hours off), the estimated average availability of staff is 84.7%, as shown in the figure below.

Current EMS Staffing Profile
Estimated EMS Regular Staff Hours

| Ambulance Companies | Est. Annual Work Hours Needed | Current EMS Staff | Est. Regular Contract Hours (39.0 FTE) | EMS Staff Availability Estimate |
|---------------------|-------------------------------|-------------------|--|---------------------------------|
| 5 | 87,600 | 39.0 | 103,428 | 84.70% |

This estimate excludes leave or other time off that leads to overtime, and may overstate availability accordingly. .

**Expenditures/Per
Customer Cost
Information**

The estimated 2011 total cost for the EMS program is \$5.4 million. As shown in the figure below, after adding in planned capital costs for ambulance replacement and subtracting out medical billing revenues, the net cost to the City is approximately \$1.0 million per year.

2011 EMS Budget

| | 2011 Budget |
|---|---------------------|
| EMS Salaries | \$ 2,735,357 |
| Current Pension Payments | 347,000 |
| Amortized Pension | 598,000 |
| All Other Fringe Benefits | 882,531 |
| Medical Billing Contract | 276,370 |
| 911 Internal Chargeback | 320,000 |
| All other contracts and supplies | 79,115 |
| Building Rental Chargeback | 11,000 |
| Ambulance Capital Replacement* | 200,000 |
| Total Expenditures | \$ 5,449,373 |
| | |
| Medical Billing Revenues** | \$ 4,400,000 |
| Estimated Net Cost | \$ 1,049,373 |
| <i>Note: Avoidable costs under an outsourced approach are highlighted</i> | |
| <i>*Estimated (not part of approved budget)</i> | |
| <i>** Projected</i> | |

Most, but not all, of these expenditures would be avoided by the City if it were to outsource the EMS function. However, current expenditures such as the amortized pension payments on the future liability, operation of the Public Safety Answering Point/911 Center, and facility costs would continue to be incurred by the City and would need to be re-allocated to other cost centers in the budget. We estimate that the amount of non-avoidable costs is approximately \$929,000 per year, or 17.0% of the current budget.

Revenues

The RFD receives a significant revenue stream from ambulance billing associated with its EMS service, but it is currently not sufficient to cover the full costs of operating the EMS program. Estimated 2011 revenues from ambulance billing are \$4.4 million, which represents an estimated 83.8% of the City's total EMS costs. The RFD contracts for medical billing administration and collection, at a 2011 budgeted cost of \$276,370. The Department changed providers in 2008, and revenues have increased over the past three years, increasing from \$2.4 million in 2008 to the current budgeted amount of \$4.4 million.

In spite of these improvements, it will be challenging to close the current gap between expenditures and revenues received, given Rockford's current resident demographics, which tend towards the lower end of the socioeconomic scale. Per the RFD's current medical billing vendor, in 2009 the City collected 38.7% of its billed revenues (gross), compared to the industry average collection rate of 68% (combined resident and non-resident collections). This average is based on a recent benchmarking survey on ambulance fees and collections completed by the Naperville Fire Department, a copy of which was provided to us by the RFD. The authors of the survey (Naperville Fire Department) indicate that this rate may be a combination of both gross and net revenues. Therefore, while not a perfect comparison, these data represent the best information currently available.

Anticipated Savings/Impact on General Fund

As noted, approximately 11.6% of current costs to operate the function would continue regardless of whether the City was successful in outsourcing this function. The total estimated avoidable costs, as shown in the figure below, would be approximately \$4.0 million per year.

Avoidable Annual EMS Program Costs
Estimated

| | 2011 Budget | Avoidable Costs |
|----------------------------------|--------------------|------------------|
| EMS Salaries | \$2,735,357 | \$2,735,357 |
| Current Pension Payments | 347,000 | 347,000 |
| All Other Fringe Benefits | 882,531 | 882,531 |
| All other contracts and supplies | 79,115 | 79,115 |
| Non-avoidable costs | 1,205,370 | 0 |
| Total Expenditures | \$5,249,373 | 4,044,003 |

Non-avoidable costs include expenditures for amortized pension, medical billing contract, 911 Center Internal chargeback, and building rental. The medical billing contract is considered to be non-avoidable in order for the City to continue receiving the projected \$4.4 million in ambulance billing revenue.

Potential savings will be driven by three factors:

- > Level of staffing required by the private vendor to operate five ambulance companies
- > The bid amount per FTE equivalent and required certification level of the contract staff
- > Additional contract requirements by the City

Absent a formal RFP process, it is difficult to determine what the actual number of contract hours per EMT will be offered by vendors, which directly affects potential contract costs. According to publicly available information, the outsourced EMS operation in the Town of Cicero consists of four ambulance companies staffed by a total of 24 contract staff, who work a 24 hours on, 48 hours off schedule. Given minimum ambulance company staffing of two Paramedics, the total number of hours of coverage provided by these staff equates to 70,080 working hours annually. In other words, the effective staff hours on a per FTE basis for the Town of Cicero's EMS operation are 2,920 hours per employee per year. In comparison, assuming 84.7% availability under the RFD's current staffing profile for its five companies, the RFD's effective staff hours per FTE is an estimated 2,246 per year, as shown in the figure below.

Staffing Level Comparison
Current RFD vs. Estimated Contract

| Provider | Ambulance Companies | Est. Annual Work Hours Needed | Effective Staff Hours | Staff Needed |
|----------|---------------------|-------------------------------|-----------------------|--------------|
| Rockford | 5 | 87,600 | 2,246.15 | 39.0 |
| Vendor | 5 | 87,600 | 2,920.00 | 30.0 |

Note: Vendor effective staff hours estimate based on reported data for the Town of Cicero (4 ambulance companies, 24 total contract staff on a 24 hours on, 48 hours off schedule)

Anticipated Savings/Impact on General Fund (cont.)

As noted, the City's revenue collection rate is 38.7%. This reported rate is lower than in previous years, when the RFD used a different vendor of billing services. The previous vendor billed for residents receiving public assistance at the approved state reimbursement rate, whereas the current vendor bills at the City's rate regardless, which results in a lower reported rate of collection. Companion data may include vendors that follow either approach. Actual revenues have increased in recent years. The City is currently challenged to increase its level of revenue collection over the current rate. This is due to the fact that the City has challenging socioeconomic characteristics and, as will be discussed further below, current fee rates for the RFD tend to be on the high end of comparable municipalities, limiting the advisability of increasing rates further.

As noted, approximately 17.0% of current costs to operate the function would continue regardless of whether the City was successful in outsourcing this function. The total estimated avoidable costs, as shown in the figure below, would be approximately \$4.2 million per year if the City retains medical billing, and \$4.5 million if the vendor performs billing.

Avoidable Annual EMS Program Costs
Estimated

| | 2011 Budget | Avoidable Costs – City Retains Billing | Avoidable Costs – Vendor Retains Billing |
|----------------------------------|--------------------|---|---|
| EMS Salaries | \$2,735,357 | \$2,735,357 | \$2,735,357 |
| Current Pension Payments | 347,000 | 347,000 | 347,000 |
| All Other Fringe Benefits | 882,531 | 882,531 | 882,531 |
| Medical Billing Contract | 276,370 | 0 | 276,370 |
| All other contracts and supplies | 279,115 | 279,115 | 279,115 |
| Non-avoidable costs | 929,000 | 929,000 | 929,000 |
| Total Expenditures | \$5,449,373 | \$4,244,003 | \$4,520,373 |

Non-avoidable costs include expenditures for amortized pension, 911 Center Internal chargeback, and building rental. The medical billing contract expenditure is non-avoidable if the City wishes to continue receiving the projected \$4.4 million in ambulance billing revenue. The Town of Cicero, for example, currently retains the revenues from the medical billing, which helps offset the cost of the EMS contract. On the other hand, medical billing would be an avoidable cost if the potential vendor (not the City) performs medical billing and receives the associated revenues (projected: \$4.4 million).

Potential savings will be driven by four factors:

- > Whether the EMS contract envisions zero payments to the vendor, in exchange for allowing the vendor to retain the medical billing revenues
- > Level of staffing required by the private vendor to operate five ambulance companies
- > The bid amount per FTE equivalent and required certification level of the contract staff
- > Additional contract requirements by the City

Anticipated Savings/Impact on General Fund (cont.)

Absent a formal RFP process, it is difficult to determine what the actual number of contract hours per EMT will be offered by vendors, which directly affects potential contract costs. According to publicly available information, the outsourced EMS operation in the Town of Cicero consists of four ambulance companies staffed by a total of 24 contract staff, who work a 24 hours on, 48 hours off schedule. Given minimum ambulance company staffing of two Paramedics, the total number of hours of coverage provided by these staff equates to 70,080 working hours annually. In other words, the effective staff hours on a per FTE basis for the Town of Cicero's EMS operation are 2,920 hours per employee per year. In comparison, assuming 84.7% availability under the RFD's current staffing profile for its five companies, the RFD's effective staff hours per FTE is an estimated 2,246 per year, as shown in the figure below.

Staffing Level Comparison
Current RFD vs. Estimated Contract

| Provider | Ambulance Companies | Est. Annual Work Hours Needed | Effective Staff Hours | Staff Needed |
|----------|---------------------|-------------------------------|-----------------------|--------------|
| Rockford | 5 | 87,600 | 2,246.15 | 39.0 |
| Vendor | 5 | 87,600 | 2,920.00 | 30.0 |

Note: Vendor effective staff hours estimate based on reported data for the Town of Cicero (4 ambulance companies, 24 total contract staff on a 24 hours on, 48 hours off schedule)

Assuming a comparable number of effective staff hours per FTE as is the case in Cicero, a vendor could potentially operate five ambulance companies with an estimated 30.0 FTE, or 9.0 FTE fewer than the RFD.

The next critical assumption relates to fully-loaded per-FTE contract cost. Oak Brook Illinois also contracts for EMS services, and has a contract for six Paramedic staff, which is a comparable certification level to the RFD's current EMS program. Per Oak Brook's 2011 budget book, the contract for EMS services is estimated to be \$400,000 in the upcoming year, or approximately \$66,667 per staff. We were unable to determine, using publicly available information, the number of effective staff hours provided under Oak Brook's contract.

In order to better estimate the potential business case for outsourcing this function, it is recommended that an RFI is completed by the City for outsourced EMS services, including detailed bid specifications. This is due to the potential scope of the contract.

In this decision item, we provide an estimate of the potential savings at a given contract price point, using publicly available information, and assume that the City retains the revenues from medical billings.

If the City were to receive bids for outsourced EMS services that are comparable to the ones presented above, the difference between the estimated EMS contract plus non-avoidable costs and the current net cost is a positive swing of \$1.8 million annually. Specifically, assuming a contract cost of \$2.4 million, and a consistent level of medical billing revenues, the City could potentially realize a net surplus of just under \$800k, rather than a program deficit of \$850k.

Anticipated Savings/Impact on General Fund (cont.)

There appear to be two options relative to this Decision Item:

- > **Option A:** The City contracts for EMS services, and retains the medical billing revenue (and associated medical billing contract arrangement) to pay for the EMS contract; or
- > **Option B;** In exchange for providing EMS services free of charge to the City, the vendor retains medical billing revenues.

Anticipated Fiscal Impacts from Outsourcing EMS
Comparison between City Retaining Medical Billing Revenue vs.
Allowing Vendor to Retain Billings

| | Option A: City Retains Medical Billing | Option B: Vendor Retains Medical Billing |
|-----------------------------------|---|---|
| Number of Contract Staff Provided | 30.0 | 30.0 |
| Per-Staff Contract Estimate | \$66,667 | \$0 |
| Estimated Contract Personnel Cost | \$2,000,000 | \$0 |
| Estimated Overhead Percentage | 20% | \$0 |
| Estimated Overhead | \$400,000 | \$0 |
| Total Estimated Contract Cost | \$2,400,000 | \$0 |
| City Non-avoidable costs | \$929,000 | \$929,000 |
| Medical Billing Contract | \$276,370 | \$0 |
| Estimated EMS Cost per year | \$3,605,370 | \$929,000 |
| Estimated Billing Revenues | \$4,400,000 | \$0 |
| Outsourced Net Cost / (Revenue) | \$ (794,630) | \$929,000 |
| | | |
| Current Net Cost | \$1,049,373 | \$1,049,373 |
| Net Fiscal Impact / (Improvement) | \$(1,844,003) | \$(120,373) |

The potential contract cost for Option A was estimated assuming a winning vendor bid of \$2.4 million per year, with the following assumptions:

- > Five ambulance companies
- > 30 contract Paramedic staff
- > \$66,667 fee per staff
- > 20% overhead charge

The City will experience a positive fiscal impact under **Option A** even if the winning vendor bid reaches a maximum of approximately \$4.1 million per year. The estimated contract “break even” point, at which the City would realize **no savings** if it were to contract for EMS services, is estimated to be roughly \$4.25 million. In other words, a contract cost of any amount less than \$4.25 million would result in some degree of savings, up to a projected potential of \$1.8 million per year at the \$2.4 million contract price point, as shown in the Figure above.

Option B assumes that, in exchange for retaining the medical billing revenue (projected \$4.4 million annually); the winning vendor would provide an equivalent level of EMS services at no charge to the City. Option B features a positive fiscal impact of \$120,373 annually for the City.

There are no potential savings to be realized if the City were to turn over medical billing revenues to a vendor **and** pay any significant contract fees for EMS services.

Anticipated Savings/Impact on General Fund (cont.)

A final variable that could potentially influence the fiscal impacts associated with this decision item relates to the level of ambulance fees currently being charged by the City. The City must carefully consider the level of fees currently being charged against two primary criteria:

- > What are the reasonable and customary fees being charged by other Fire Departments and private ambulance companies to provide this service?
- > What are the RFD's actual costs to provide the service, and what is the City's cost recovery policy (percentage)?

Fee information provided by the RFD suggests that the City currently has some of the highest ambulance fees among larger Illinois municipalities (excluding Chicago). As shown in the figure below, Rockford's resident fees are well above average for all three categories of EMS service.

Comparison of Ambulance Fees
Larger Illinois Municipalities, 2009, Ranked by ALS-1 Fee

| Department | Population | ALS-1 (Resident) | ALS-2 (Resident) | BLS (Resident) |
|------------------------------|------------|---------------------|---------------------|-------------------|
| Rockford FD | 156,596 | \$625.00 | \$725.00 | \$575.00 |
| Tri-City Ambulance (Kane Co) | 108,500 | \$600.00 | \$700.00 | \$500.00 |
| Naperville FD | 149,695 | \$575.00 | \$790.00 | \$470.00 |
| Elgin FD | 104,000 | \$429.05 | \$0.00 | \$361.31 |
| Aurora FD | 175,000 | \$425.64 | \$616.06 | \$358.44 |
| Average (Exc. Rockford) | 129,325 | \$405.94 | \$571.21 | \$537.95 |
| Cicero FD | 109,429 | \$0.00 | \$750.00 | \$1,000.00 |

Source: Naperville FD 2009 Ambulance Fee Survey

Among this comparison group, the City currently has:

- > The highest fee for resident ALS-1 calls
- > The third-highest fee for ALS-2 calls
- > The second highest fee for BLS

Moving forward, if the City determines that it is in the interest of the City's residents to alter the current fee structure, the preceding business case will be altered accordingly. Specifically, the level of medical billing revenues will most likely decline, resulting in:

- > A higher annual operating deficit if the City does not outsource EMS
- > Reduced net revenues if the City implements this decision item

The impacts of on the ultimate business case for this decision item will vary, based on the size of the change in fees.

Service Impact

Contract staff turnover is one of the most important service impacts, as identified by other communities that outsource their EMS service. Staff that work for contract EMS providers often, although not always, are seeking to build work experience necessary to compete for scarce opportunities in the Fire service.

The RFD would not have to deal with the indirect impacts of contract staff turnover, specifically the administrative tasks associated with posting the position, recruiting, hiring, and training. Nevertheless, high contract staff turnover could result in the EMS function being performed by less-experienced personnel, which could impact service delivery.

Staff Impact

It is very likely that a decision to outsource EMS will result in **strident** opposition from RFD staff. Morale of current RFD staff will also likely be negatively affected to a significant extent. High performing public sector organizations are characterized by a high degree of agreement, if not consensus, about strategy, direction, and purpose throughout all levels of the organization. Thus, low morale and employee opposition may result in a reduction in overall organizational performance.

If the City is able to change the terms of the collective bargaining agreement, and reduce expenditures by eliminating 39.0 FTE positions, the current position incumbents will have “bumping” rights under the collective bargaining agreement. However, given that RFD personnel assigned to the ambulances on the basis of having the least seniority, there will likely be little impact on other staff in the Department.

Other Impacts

If the City is able to outsource its EMS services, it will be able to transfer the risk of medical malpractice lawsuits from the RFD and the City to the vendor. The fiscal value of transferring the liability to an outside party is not known, but could be substantial in the case of a significant award for damages.

In addition, in outsourcing its EMS function, the City would potentially eliminate the need for resolving future workers compensation claims associated with the current 39.0 FTE EMS staff. EMS staff work in a challenging environment, and injuries do occur.

Market/Vendor Considerations

In addition to the four contract ambulance services currently supplementing the RFD’s EMS operations on an as needed basis, there are other potential vendors who may be interested in submitting a bid to provide EMS services to the City. For example, Public Safety Services, Inc., of Rosemont, recently inquired about opportunities to submit a bid.

Other vendors that provide contract EMS services include:

- > Paramedic Services of IL
- > ATS Medical Services
- > Tri-City Ambulance
- > Superior Ambulance
- > Lifeline Ambulance

Shared Service Options/Discussion of Redundancies

There are none related to this decision item.

Risk Factors

Key risk factors to the successful adoption outsourced EMS as described above include:

- > Cost of the contract in terms of bids received
- > Performance of the contractor in responding to EMS calls, both in terms of response time as well as delivery of quality EMT/Paramedic services on scene
- > Ensuring that sufficiently robust contract language is in place to protect the City's financial and service delivery interests relative to the vendor's performance

Collective Bargaining Impacts

Under Article I, Section 1.2 "Management Rights" of the current collective bargaining agreement, the City has retained the power to outsource functions currently performed by the Fire Department, specifically to:

"...change methods of operations, equipment, or facilities, including contracting and subcontracting provided, however, that the exercise of any of the above rights shall not conflict with any of the provisions of this Agreement."

In other words, the City could contract out all or a portion of the EMS function, but would still be required to staff 64 firefighters regardless. As previously discussed, until the City is able to eliminate the minimum shift staffing language from the collective bargaining agreement (Article IV, section 4.1), implementing this modification does not make financial sense.

Article IV, Section 4.1 of the most recent collective bargaining agreement specifies that:

"In accordance with the total complement authorized by the City Council, the number of stations to be manned, and the manpower available, the City will continue to distribute men and officers to achieve the highest efficiency of operations and the greatest protection, and in the interest of fire fighter safety. The parties mutually agree this section shall mean that the current level of manpower will be continued, with no fewer than sixty-two (62) personnel working per shift (A, B, C), who are assigned to a maximum of fifteen (15) companies and five (5) ambulances. Plus two (2) airport personnel, so long as an Intergovernmental Agreement between the Airport Authority and the City of Rockford for fire services at the airport is in effect."

This language means that, even if the City chose to contract for EMS services, it would still have to employ sufficient personnel to staff these 64 posts on a 24/7/365 basis, likely resulting in significantly higher expenditures for the RFD overall. However, if the City is able to eliminate this language and implement this modification, any reduction in force must follow the process laid out in Article X, Sections 1 and 2 of the agreement.

**Decision
Item #7**

Reduce Engine Company Minimum Staffing to Three Firefighters

Modification

While not strictly related to potential outsourcing, in reviewing the EMS function it became apparent that the current level of EMS service provided by the Rockford Fire Department (RFD) could benefit from additional resources. This modification is included due to the fact that the RFD is currently approaching, but not meeting, industry standards for response times relative to its EMS program, which represents the vast majority of the RFD's calls for service.

One potential approach to freeing up additional resources is to reduce the minimum apparatus staffing policy of the RFD relative to its engine and quint companies, and re-allocate existing resources. The fire engine company is the backbone of the RFD's firefighting force, and the RFD also deploys quints, which is a combination firefighting apparatus that can operate either as a fire engine ("pumper") or as a ladder truck in certain situations when needed. Almost all Illinois Fire Departments currently operate with three staff on a fire engine or quint. To our knowledge, the exceptions are few, and include the City of Chicago, and the Villages of Bedford Park, and Oak Lawn.

This modification involves reducing the minimum apparatus staffing policy for the City's engine companies from the current four firefighters to three, and reducing staffing that is currently needed to cover the 4th position, accompanied by either:

- > A re-allocation of existing firefighter resources to add a sixth ambulance company to improve service levels in terms of response time, and realize ongoing fiscal savings through a reduction in force of the difference; or
- > Defer investment in the EMS program and implement reduction in force equal to the total staffing needed to fill the 4th position on engine and quint companies.

Any potential reduction must account for the necessary staffing relief factor needed to ensure that the RFD can staff each engine company with three firefighters without generating excessive levels of overtime.

There does not appear to be an immediate business case for this modification due to an October 2010 arbitration decision affecting minimum shift staffing levels for the duration of the current contract. In other words, until the City successfully negotiates with the firefighters' union (IAFF Local 413) to remove the minimum shift staffing language (64 firefighters) from the collective bargaining agreement, it appears to make little financial sense to pursue this option. This is because the arbitration decision requires the City to staff 64 posts *on all three shifts* each day, regardless of duty assignment (with the exception that two posts must be assigned to the airport).

We believe that reaching such an agreement will be difficult; in order to remove the minimum shift staffing requirement language, the City will likely be required to make significant concessions in other areas of the contract. Even if it is successful in doing so, the union could still potentially challenge any change to minimum staffing.

If, however, such a revision to the contract can be achieved, this modification could present an opportunity for the City to realize significant annual savings. The current collective bargaining agreement is set to expire on December 31, 2011.

Annual Service Statistics

It is the standard operating practice of the RFD to dispatch an engine company on many types of emergency calls for service, depending on the nature of the call and the current disposition of other assets at the time of the call. Thus, engine and quint companies respond to many more calls than working fires (there were 814 total working fires in 2009). There were significant variances in the average number of responses among engine and quint companies.

As shown in the figure below, the average number of responses to calls for service varied from a low of 4.7 per day by Engine 4 (Station #4 on Shaw Woods Drive) to a high of 8.6 per day by both Engine 2 (Station #2 on Seventh Street) and Engine 1 (Station #1 on Woodlawn).

Engine and Quint Company Responses
2008 and 2009

| | 2008 | 2009 | Avg. Annual Responses | Avg. Responses per Day |
|--------------|---------------|---------------|-----------------------|------------------------|
| Engine 1 | 3,178 | 3,078 | 3,128 | 8.6 |
| Engine 2 | 3,301 | 2,968 | 3,135 | 8.6 |
| Engine 3 | 2,086 | 1,900 | 1,993 | 5.5 |
| Engine 4 | 1,693 | 1,750 | 1,722 | 4.7 |
| Engine 6 | 2,002 | 2,070 | 2,036 | 5.6 |
| Engine 8 | 1,782 | 1,753 | 1,768 | 4.8 |
| Engine 10 | 2,285 | 2,328 | 2,307 | 6.3 |
| Engine 11 | 2,557 | 2,585 | 2,571 | 7.0 |
| Quint 5 | 1,997 | 2,014 | 2,006 | 5.5 |
| Quint 7 | 1,812 | 1,682 | 1,747 | 4.8 |
| Quint 9 | 2,238 | 2,294 | 2,266 | 6.2 |
| Total | 24,931 | 24,422 | 24,677 | 67.6 |

Per the Department's recent "Standards of Cover" Assessment (2009), the EMS program currently approaches, but does not meet National Fire Protection Association (NFPA) standards relative to response time for either EMS or Fire operations. The NFPA standard calls for an ambulance to arrive at the scene within 4:00 minutes, 90% of the time. Currently, the City's five ambulance companies are averaging 5:16 minutes. Given that the vast majority of RFD calls for service are EMS-related, the City may wish to seriously consider options to increase the level of resources allocated to the EMS function, even during the current challenging budget environment.

FTE

There are currently 45.0 FTE Driver Engineers and 126.0 FTE firefighters assigned to operate the RFD's five ambulance companies. The current complement for each engine or quint company is one officer, one Driver Engineer and two firefighters per company on each shift.

Expenditures/Per Customer Cost Information

Total RFD Expenditures in 2011 are budgeted at \$38.3 million, inclusive of all major programs.

Revenues

There are none related to this decision item.

Anticipated Savings/Impact on General Fund

As shown in the figure below, the estimated staffing impact of reducing firefighter staffing on each engine or quint company is 61.6 FTE. A critical factor in establishing the staffing need on an annual basis is the average availability of personnel in that position class; for the purposes of this estimate, we assumed an average availability of 75%. Further, this modification envisions a change to the apparatus minimum staffing policy for firefighters only; each apparatus would continue with the current complement of one officer and one Driver Engineer.

Potential Impact of Reduced Engine Company Staffing
Annual Staffing Need Comparison

| | Current FF Posts | Est. Annual Staffing Need (3 shifts) | Revised FF Posts | Est. Annual Staffing Need (3 shifts) |
|--------------|------------------|--------------------------------------|------------------|--------------------------------------|
| Engine 1 | 2 | 11.2 | 1 | 5.6 |
| Engine 2 | 2 | 11.2 | 1 | 5.6 |
| Engine 3 | 2 | 11.2 | 1 | 5.6 |
| Engine 4 | 2 | 11.2 | 1 | 5.6 |
| Engine 6 | 2 | 11.2 | 1 | 5.6 |
| Engine 8 | 2 | 11.2 | 1 | 5.6 |
| Engine 10 | 2 | 11.2 | 1 | 5.6 |
| Engine 11 | 2 | 11.2 | 1 | 5.6 |
| Quint 5 | 2 | 11.2 | 1 | 5.6 |
| Quint 7 | 2 | 11.2 | 1 | 5.6 |
| Quint 9 | 2 | 11.2 | 1 | 5.6 |
| Total | 22 | 123.2 | 11 | 61.6 |

Notes: Assumes that there will continue to be one officer and one Driver Engineer per company. Annual Staffing Need assumes an average staff availability shift of 75% / Shift relief of 1.25

The potential savings associated with a reduction in force of 61.6 FTE firefighters is approximately \$5.1 million annually. This assumes a Firefighter salary at 2 years' experience, with ALS add-on (estimated total salary of \$54,170), plus estimated fringe benefits at 52%.

The total number of staff required to operate an ambulance company is an estimated 11.2 FTE, given the annual staffing (coverage) need, and an estimated availability of 75%. Thus, if the City wishes to add an ambulance company and fully staff it, it could reduce the engine and quint company staffing to three, allocate 11.2 FTE to a new ambulance, and still realize significant savings via a reduction in force of 50.4 FTE. The figure on the following page presents the estimated savings from both options.

Estimated Savings Associated with Reducing Apparatus Minimum Staffing

| | Option 1: Eliminate All 4 th Engine Positions | Option 2: Staff 1 New Ambulance, Eliminate Difference |
|--------------------------------|--|---|
| FTE Impact | -61.6 | -50.4 |
| Per-FTE Savings Estimate | \$ (5,072,045) | \$ (4,149,855) |
| New Ambulance Capital | | \$200,000 |
| Estimated Total Savings | \$ (5,072,045) | \$ (3,949,855) |

| | |
|--|---|
| Service Impact | <p>A number of fire departments at our other municipal clients currently have company minimum apparatus staffing of three personnel, in various configurations. The RFD may strongly object to this modification, potentially citing National Fire Protection Association (NFPA) standards. A critical NFPA standard that we focus on is the ability to establish an effective firefighting force at a working fire within a specific time frame. Those fire departments that staff their engine companies with three personnel must dispatch more units to establish an effective firefighting force than those that staff with four.</p> <p>However, in our experience, other fire departments in municipalities facing similar challenging fiscal environments have made this approach work.</p> |
| Staff Impact | <p>If the City is able to change the terms of the collective bargaining agreement, and reduce expenditures by eliminating 39.0 FTE positions, the current position incumbents will have “bumping” rights under the collective bargaining agreement. However, given that RFD personnel are assigned to the ambulances on the basis of having the least seniority, there will likely be little impact on other staff in the Department.</p> |
| Other Impacts | <p>Reduced engine and quint company staffing may result in increased utilization of apparatus in the case of fire calls, due to the RFD needing to dispatch additional companies to ensure a sufficient number of firefighters are present at the fire ground.</p> |
| Market/Vendor Considerations | <p>In addition to the four contract ambulance services currently supplementing the RFD’s EMS operations on an as-needed basis, there are other potential vendors who may be interested in submitting a bid to provide EMS services to the City.</p> |
| Shared Service Options/Discussion of Redundancies | <p>There are none related to this decision item.</p> |
| Risk Factors | <p>The primary risk associated with this modification involves limiting the ability of the RFD to establish an effective firefighting force within the timeline specified under NFPA standards.</p> |

**Collective
Bargaining Impacts**

As previously discussed, until the City is able to eliminate the minimum shift staffing language from the collective bargaining agreement (Article IV, section 4.1), implementing this modification does not make financial sense.

Article IV, Section 4.1 of the most recent collective bargaining agreement specifies that:

“In accordance with the total complement authorized by the City Council, the number of stations to be manned, and the manpower available, the City will continue to distribute men and officers to achieve the highest efficiency of operations and the greatest protection, and in the interest of fire fighter safety.

The parties mutually agree this section shall mean that the current level of manpower will be continued, with no fewer than sixty-two (62) personnel working per shift (A, B, C), who are assigned to a maximum of fifteen (15) companies and five (5) ambulances. Plus two (2) airport personnel, so long as an Intergovernmental Agreement between the Airport Authority and the City of Rockford for fire services at the airport is in effect.”

This language means that, even if the City chose to reduce engine and quint company minimum staffing, it would still have to employ sufficient personnel to staff these 64 posts on a 24/7/365 basis, resulting in a zero net gain. However, if the City is able to eliminate this language and implement this modification, any reduction in force must follow the process laid out in Article X, Sections 1 and 2 of the agreement.

Head Start

Overview

The City's Human Services Department provides a variety of programs. The primary program categories or divisions are Energy and Weatherization, Community Services, and Head Start. According to published city budget documents, the latter is the largest division, both in terms of staffing (roughly 60 percent of the department) and total budget (roughly 40 percent of the department). It is also the focus of this section of the report.

The Head Start program aims to promote school readiness by enhancing the social and cognitive development of economically disadvantaged children by providing educational, health, nutritional, social and other services to these children and their families. The program receives federal funding to provide comprehensive child development services to enrolled children and families, with a special focus on helping preschoolers develop the early reading and math skills they need to be successful in school.

Of the 46 entities currently managing Head Start programs in Illinois, only four are government agencies. The City of Rockford is one of these.

| Agency Type | Number in Illinois |
|---------------------------|--------------------|
| Community Action Agencies | 21 |
| Non-Profit Organizations | 17 |
| Public School Systems | 4 |
| Government Agencies* | 4 |

*Rockford's program is counted in this category

Source: Illinois Head Start Association

The City's Head Start program serves families across Winnebago County. According to the 2010 Fiscal Report for the Human Services Department, the Head Start funding has generally trended upward over time. This is likely a product of increased enrollment figures.

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Human Services Expenditures | \$10,054,451 | \$13,954,383 | \$16,136,074 | \$14,735,302 | \$15,578,567 | \$18,953,384 | \$13,294,581 |
| Head Start Expenditures | \$4,459,852 | \$4,803,323 | \$4,726,527 | \$4,692,348 | \$5,354,285 | \$5,298,919 | \$5,317,848 |
| Head Start Percentage | 44.4% | 34.4% | 29.3% | 31.8% | 34.4% | 28.0% | 40.0% |
| Head Start Enrollment | 653 | 665 | 649 | 669 | 653 | 624 | 722 |
| Dollar Per Student | \$6,830 | \$7,223 | \$7,283 | \$7,014 | \$8,200 | \$8,492 | \$7,365 |

Note: 2010 expenditures are budgeted rather than actuals. Human Services expenditures and Head Start enrollment figures are from budget document actuals. Head Start expenditures are from the 2010 Human Services Fiscal Report.

The City is also in its second year of providing an Early Head Start program. As the continuation of this program is uncertain, it has been excluded from our analysis.

Funding

The Head Start program is funded almost exclusively with federal funds. The federal funding requires a 1:4 match; however the City's Head Start program typically utilizes match in kind, such as volunteer time or donations, to meet this requirement. Occasionally, small amounts from the Human Service Department's general fund allocation have been used to fill matching shortfalls. The Department's total general fund allocation, used to support multiple programs within the Department, has averaged just over \$200,000 per year in recent years. (See table below.) For the past three years, the City's Head Start program has requested and received a waiver from the federal government for the matching requirement, so a draw on these general funds has not been necessary.

| | 2008 | 2009 | 2010 | Average |
|--|------------|-----------|------------|-----------|
| Human Services Department General Fund Allotment | \$ 280,000 | \$170,000 | \$ 170,000 | \$206,667 |

The expenditure process for the Head Start program is similar to the process for other programs funded by federal grants. As expenditures are made from City general fund, federal funds are drawn down electronically to cover the expenditures. The city "floats" expenditures with general fund resources only until reimbursements are requested and processed. Each float is typically less than one month. This is not the case for floats to other divisions and other programs, which are not able to draw down funds electronically, and may take up to 6 months to repay a float amount from the general fund. The following chart shows the monthly float amount for the Head Start program as compared to the Human Services Department as a whole.

| Month Ending | Head Start Program Float | Human Services Department Float | Head Start Share of Department Float |
|----------------|--------------------------|---------------------------------|--------------------------------------|
| 1/31/2009 | \$320,357 | \$1,088,128 | 29% |
| 2/28/2009 | \$373,081 | \$1,553,730 | 24% |
| 3/31/2009 | \$377,555 | \$1,607,515 | 23% |
| 4/30/2009 | \$346,907 | \$709,007 | 49% |
| 5/31/2009 | \$325,108 | \$1,140,203 | 29% |
| 6/30/2009 | \$99,452 | \$793,495 | 13% |
| 7/31/2009 | \$99,683 | -\$117,658 | 85% |
| 8/31/2009 | \$340,672 | \$764,924 | 45% |
| 9/30/2009 | \$238,450 | \$1,282,976 | 19% |
| 10/31/2009 | \$658,562 | \$1,773,521 | 37% |
| 11/30/2009 | \$587,995 | \$2,900,412 | 20% |
| 12/31/2009 | \$980,485 | \$3,471,176 | 28% |
| 1/31/2010 | \$180,921 | \$1,965,282 | 9% |
| 2/28/2010 | \$597,035 | \$2,620,309 | 23% |
| 3/31/2010 | \$729,492 | \$2,088,693 | 35% |
| 4/30/2010 | \$1,035,222 | \$2,051,809 | 50% |
| 5/31/2010 | \$1,501,054 | \$2,814,246 | 53% |
| 6/30/2010 | \$1,832,896 | \$3,836,522 | 48% |
| 7/31/2010 | \$1,731,943 | \$2,766,358 | 63% |
| 8/31/2010 | \$937,600 | \$3,014,772 | 31% |
| 9/30/2010 | \$733,251 | \$2,350,554 | 31% |
| Average | \$667,987 | \$1,927,427 | 35% |

It is important to note that any measures taken to reduce Head Start program expenditures would only relieve pressure on the monthly general fund balance liquidity, but as 100 percent of costs incurred are directly reimbursed with federal funds, there are no actual savings to the general fund. Though the reduction measures would increase the liquidity of the general fund each month, it would not impact the total annual balance of the fund.

Budget Reduction Options and Decision Items

Decision Item #8 **Retain City Head Start Program – Establish Market Based Compensation Rates**

Modification

The Head Start teachers in Rockford are city employees. As such, their compensation rates are typically higher than Head Start teachers in other areas of the state.

| | Rockford Head Start | Champaign County Head Start | Peoria Head Start | Danville Head Start | Average Comparison Program |
|---------------|---------------------|-----------------------------|-------------------|---------------------|----------------------------|
| Head Teacher | \$ 31,168 | \$ 21,154 | \$19,921 | \$19,188 | \$ 20,085 |
| Asst. Teacher | \$ 23,962 | \$ 18,205 | \$14,274 | \$16,583 | \$ 16,354 |

Note: Head Start programs listed are comparable in size to the Rockford Program, comparison data from 2009.

For further market comparison, we used current Economic Research Institute (ERI) data on preschool and day care teachers' salaries. The ERI data does not have a separate category for Head Start teachers, so preschool and day care teachers were selected as proxy positions. It is important to note that those teachers in the ERI data sets all hold a minimum of a bachelor's degree in education. When the salaries of Head Start teachers in Rockford are compared to these private day care and preschool teacher salaries in comparable communities, they are slightly lower.

| | Rockford Head Start | Naperville Private Preschool | Aurora Private Preschool | Naperville Day Care | Aurora Day Care |
|---------------|---------------------|------------------------------|--------------------------|---------------------|-----------------|
| Head Teacher | \$ 31,168 | \$ 33,576 | \$ 33,926 | \$ 33,304 | \$ 33,654 |
| Asst. Teacher | \$ 23,962 | \$ 25,108 | \$ 25,436 | \$ 25,075 | \$ 25,404 |

Note: Comparison cities have median household incomes similar to those of Rockford. The median of all incumbent teachers was used as a proxy for Head Teacher salary and the 25th percentile wage for teachers with one year of experience was used as a proxy for the Assistant Teacher salary.

Likewise, when the salaries of Head Start teachers in Rockford are compared to public and private preschool teacher salaries in Rockford, they also appear lower. Again, the minimum level of education required for the preschool teachers in comparison groups is a bachelor's degree, which likely explains the disparity.

| | Head Start | Public Preschool | Private Preschool | Preschool Average |
|---------------|------------|------------------|-------------------|-------------------|
| Head Teacher | \$ 31,168 | \$44,663 | \$44,767 | \$44,715 |
| Asst. Teacher | \$ 23,962 | \$35,604 | \$35,479 | \$35,542 |

Note: The median of teachers with 5 or more years of experience was used as a proxy for Head Teacher salary and the 25th percentile wage for teachers with one year of experience was used as a proxy for the Assistant Teacher salary.

The 2009 Illinois Salary and Staffing Survey of Licensed Child Care Facilities provides another measuring stick for the compensation of Head Start teachers in Rockford. This survey profiles the qualifications, salary and benefits, and turnover rates from a sample of 13,953 licensed child care programs operating in Illinois as of July 24, 2009.

Modification (cont.)

Though the survey does not provide details by metro area, it does offer statewide averages that are helpful. The table below demonstrates the difference between the compensation for Rockford Head Start teachers and the statewide averages for compensation of early childhood teachers in Illinois. Specifically, the statewide averages below include only early childhood teachers at child care centers and exclude family child care home providers.

| | Teacher Salary | Asst. Teacher Salary | Percent Offered Health Insurance | Percent Provided Paid Time Off |
|-----------------------|----------------|----------------------|----------------------------------|--------------------------------|
| Rockford Head Start | \$31,168 | \$23,962 | 100.0% | 100.0% |
| IL Child Care Centers | \$22,880 | \$18,096 | 34.6% | 76.5% |

While it could be argued that the city is able to be more selective in teacher recruitment than other Head Start providers, given a higher than average wage rate, it could also be argued that the current rates could be adjusted to reduce overall program expenditures.

If current pay rates are reduced, the program may be able to expand the number of students served through the hiring additional teachers. This would require federal approval by HHS. It is also possible that the program would instead be required by HHS to return the savings. Given the federal focus has been on raising teacher salaries and increasing quality outcomes, expanding the Rockford program is not a guaranteed possibility.

If current pay rates are reduced, the program may be able to expand the number of students served through the hiring additional teachers. This would require federal approval by HHS. It is also possible that the program would instead be required by HHS to return the savings. Given the federal focus has been on raising teacher salaries and increasing quality outcomes, expanding the Rockford program is not a guaranteed possibility.

Annual Service Statistics

The Head Start program is currently at capacity with a waiting list. The number of children served per year is as follows:

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------|------|------|------|------|------|
| Students | 669 | 653 | 624 | 632 | 658 |

FTE

Currently, the City of Rockford Head Start Program employs 67.38 FTE. Of these, 12.59 FTE are classified as Head Teachers and 12.27 FTE are classified as Assistant Teachers. The remaining staff are Family Resource Workers, Bus Drivers, and other support and administrative program staff.

Expenditures/Per Customer Cost Information

With a total program budget of \$5,317,848 in 2010 and 632 students served, the cost per student is roughly \$8,414 per year. As a point of comparison, the cost per student in Champaign County is roughly \$6,594 per year. It is possible that a substantial portion of this difference is attributable to salary disparities.

Revenues

Per federal guidelines, up to 15 percent of Head Start grant funds may be directed to administrative costs, rather than direct program service provision. In a manner of speaking, these are revenues to the city, as they are generally used to pay the city for administrative services provided.

Anticipated Savings/Impact on General Fund

It is important to note that the Head Start program is almost exclusively operated with federal funds. As expenditures are made from city funds, federal funds are drawn down electronically to cover the expenditures. The city “floats” expenditures only until reimbursements are requested and processed. Each float is typically less than one month.

The float for the Head Start Program, averaging \$668,000 per month, represents roughly a third of the total float for the Human Services Department, averaging \$1.93 million per month. As a point of reference, the float provided for the Community Development Department averages \$1.02 million per month.

A reduction in overall Head Start program expenditures should proportionately reduce the amount of the float from the city’s general fund each month.

One approach for lowering the city’s general fund float to the Head Start program would be lowering expenditures on teacher salaries. The city would need to negotiate new market based compensation rates for teachers and assistant teachers. If the current salary was reduced to the market based comparison salary, the annual savings would be just under \$300,000 per year.

| | Current Salary/ FTE | Comparison Salary | | Savings/ FTE | | Current FTE | Total Savings | |
|---|------------------------|-------------------|-----------|--------------|-----------|-------------------------|---------------|-----------|
| | | Low | High | Low | High | | Low | High |
| Head Teacher | \$ 31,168 | \$ 20,088 | \$ 44,572 | \$ (3,936) | \$ 11,080 | 12.59 | \$0 | \$139,502 |
| Asst. Teacher | \$ 23,962 | \$ 16,354 | \$ 35,725 | \$ (3,684) | \$ 7,608 | 12.27 | \$0 | \$ 93,350 |
| Total Salary Savings Per Year After Reduction Measure: | | | | | | \$0 to \$232,852 | | |

If teacher salaries were reduced, the annual cost savings is estimated to be \$232,852. Dividing this amount equally over 12 months, the monthly float would be reduced by \$19,404. This represents less than 3 percent of the monthly float amount. If the 33 percent reduction was applied to all Head Start salaries, not just teacher salaries, the annual savings would be \$607,739, or \$50,645 per month, roughly 7.6 percent of the monthly float amount for the Head Start Program. (This assumes teaching staff salaries are annualized over 9 months and other staff salaries are annualized over 12 months.

It is important to note that reducing program expenditures would only relieve pressure on the monthly general fund balance liquidity, but as 100 percent of costs incurred are directly reimbursed with federal funds, there are **no actual savings to the general fund**. Though the measure would increase the liquidity of the general fund each month, it would not impact the total annual balance of the fund.

| | |
|--|---|
| Service Impact | Assuming staff response to the salary reduction measure is negative, staff retention, and consequently service continuity may be affected. Less experienced staff may need to be hired to balance any attrition. This could impact the quality of service to the students and parents served by the Head Start Program. |
| Staff Impact | It is reasonable to assume that implementation of a salary reduction measure will be met by opposition and will be likely to affect staff morale. No reduction in the total number of staff is anticipated. |
| Other Impacts | It is possible that this measure will be politically unpopular and likely that it will be met by union resistance. Changes to this program also could create tension with the population groups most served by the program. |
| Market/Vendor Considerations | Given the high unemployment rate in the Rockford area, any openings created by attrition of current teaching staff are likely to be pursued by numerous applicants. |
| Shared Service Options/Discussion of Redundancies | There are none related to this decision item. |
| Risk Factors | As discussed in the impact sections, loss of experienced staff, political unpopularity and strong union resistance are risk factors to be considered. |
| Collective Bargaining Impacts | The current collective bargaining agreement, which expires on December 31, 2010, would need to be renegotiated. |

Decision Item #9

Discontinue Operation of the Head Start Program by the City

Modification

The City of Rockford is one of the only government entities in the State of Illinois managing a Head Start Program. It has been doing so since 1975. According to the U.S. Department of Health and Humans Services (HHS), the city may not redesignate the operation of the Head Start program to a third party. Likewise, the city may not elect to outsource or delegate operations to another entity without prior federal approval. It may, however, choose to wholly discontinue its operation of the Head Start program.

Therefore, there appear to be two distinct options for the City to explore should it wish to discontinue operating the Head Start Program:

1. Wholly discontinue its operation of the Head Start program.
2. Enter into delegation negotiations with HHS

According to staff at the Midwestern Regional Head Start Office, covering Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin, the Rockford program is welcome to initiate a preliminary discussion regarding becoming an approved delegating grantee with them. Some of the barriers to obtaining federal approval for delegation of operations are as follows:

- > HHS has become leery of programs that delegate all operations, serving only as a pass through, since this does not seem to be an efficient use of funds
- > The grantee (Rockford) would need to identify and select agencies to provide services through a competitive process, then manage that contract
- > Though delegating, grantees maintain ultimate responsibility for quality of services and must monitor for compliance issues
- > The 15 percent administrative limit, which Rockford already has difficulty remaining within, would need to be split with between the grantee (Rockford) and the agency delegated to provide services

There are also multiple options to be considered when developing a plan for the scope and implementation details related to applying for delegation authority. With that in mind, it is premature to attempt quantification of costs and benefits related to a delegation scenario. Instead, this modification focuses on the wholesale discontinuation of the City's grantee status and operational responsibilities for Head Start.

Annual Service Statistics

The Head Start program is currently at capacity with a waiting list. The number of children served per year is as follows:

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------|------|------|------|------|------|
| Students | 669 | 653 | 624 | 724 | 750 |

Note: 2010-2011 figures are estimates from the Human Serviced Department Budget

FTE

Currently, the City of Rockford Head Start Program employs 67.38 FTE. Of these, 12.59 FTE are Head Teachers, 12.27 FTE are Assistant Teachers, 8.35 FTE are bus drivers, 8.48 FTE are Resource Workers, and the remaining staff serve in various supportive or administrative roles.

Expenditures/Per Customer Cost Information

With total a total program budget of \$5,317,848 in 2010 and 724 students served, the cost per student is roughly \$7,345 per year. As a point of comparison, the cost per student in Champaign County is roughly \$6,594 per year.

Revenues

Per federal guidelines, up to 15% of Head Start grant funds may be directed to administrative costs, rather than direct program service provision. In a manner of speaking these are revenues to the city, as they are generally used to pay the city for administrative services provided to the program. Additional federal grant funds are occasionally awarded to the city for capital purchases such as busses and building upgrades.

Anticipated Savings/Impact on General Fund

The Head Start program is almost exclusively supported with federal funds. Thus, no staff expenditure impact will be realized. As expenditures are made from city funds, federal funds are drawn down electronically to cover the expenditures. The city “floats” expenditures only until reimbursements are requested and processed. Each float is typically less than one month. Eliminating the program and thus, all program related expenditures should reduce the amount of the float from the city’s general fund by \$668,000 per month.

The city also provides a small amount of general fund resources each year to the Human Services Department, a portion of which is allocated to the Head Start program, depending on the needs of the various programs within the Department. Eliminating the city’s operation of Head Start, could reduce the city’s annual contribution to the Human Services Department. The figure below shows the recent general fund support of the Department as a whole.

| | 2008 | 2009 | 2010 |
|----------------------------------|------------|-----------|------------|
| General Fund Contribution | \$ 280,000 | \$170,000 | \$ 170,000 |

There are also some potential one time revenue opportunities associated with the discontinuation of the city’s operation of Head Start. Some existing capital, originally purchased with federal funds, could be liquidated. Specifically the city could consider selling the buses currently used by the program. As part of this process, the city would need to apply the federal fiscal standards to determine “federal interest” in existing capital. If any residual value is determined, the city would need to satisfy the federal interest by paying that amount to HHS. The federal threshold for recovery related to a capital asset is \$25,000. The value of most buses used by the program is likely to fall below this threshold given their age; however a few of the newer buses may be above this threshold and require reimbursement of funds to HHS. Current fleet inventory shows that the Human Services Department owns 19 buses, of which 15 are at least 10 years old. Of the four remaining buses, two are 2007 models and two are 2009 models. It is unclear if all four of the newer buses are exclusively for Head Start.

Similarly, the city owns the Henrietta School building, which is currently used by the program. This asset could also be liquidated. Though federal funds were used to make updates to the building, they were not categorized as “major renovation” by HHS, and therefore, no federal interest would need to be satisfied upon sale of the building. It is important to note that if the building is not sold or rented, the maintenance and utility costs, currently born by Head Start, would need a new source of funding.

| | |
|--|---|
| <p>Anticipated Savings/Impact on General Fund (cont.)</p> | <p>The on-going maintenance and utility costs for the Henrietta School are just one example of costs the city may bare upon the discontinuation of Head Start operation. The Head Start program also contributes funds to the city for overhead expenses such as information technology, risk management, auditing services and other service contracts. While some of these areas of overhead will be easy to scale back in direct proportion to their use, other recurring costs may require another funding source.</p> <p>According to city staff, the continuing costs that Rockford would need to absorb if it discontinued operation of Head Start would be \$255,145 per year. This assumes an immediate sale of the Henrietta School. If the school is retained, over \$20,000 more would need to be absorbed, a total of \$275,643 per year. City accounting staff estimates roughly 75 percent of these costs would be charged to the general fund.</p> |
| <p>Service Impact</p> | <p>It is likely that the transition to an interim provider and the subsequent transition to a newly selected grantee will be difficult for those currently served by the program. The students and parents are likely to experience logistical changes.</p> |
| <p>Staff Impact</p> | <p>The city would likely eliminate all 67.38 FTE positions currently funded by federal grant funds from the Head Start program</p> |
| <p>Market/Vendor Considerations</p> | <p>Other possible grant applicants in the area may include the YWCA, the Salvation Army or the School District, though the likelihood of these groups applying to be Head Start providers is unknown.</p> |
| <p>Shared Service Options/Discussion of Redundancies</p> | <p>The city may not independently redesignate operation of Head Start to a third party, though it may choose to discontinue its role as a grantee.</p> <p>Grantees wishing to no longer function as Head Start providers must inform HHS, at which point HHS provides an interim grantee and initiates a formal bid process for new grant applicants. Community Development Institute (CDI) has a national contract with HHS to serve as interim provider. According to staff at the Head Start Regional Office, CDI aims to maintain the status quo of an existing program and avoid disruption in service provision. It often hires the existing Head Start staff for program services, though CDI tends to primarily use its own administrative staff. A recent example of a relinquished grantee in Illinois is Lifelink in Du Page County, if the City wishes to investigate this option further.</p> <p>The selection of a new permanent provider by HHS could take up to two years, which may delay any fiscal impact on the City. If the city wishes to pursue this option, numerous impacts must be considered</p> |
| <p>Risk Factors</p> | <p>It could be politically unpopular for the city to discontinue its involvement with Head Start, particularly given its long history. Transitioning out of managing this program could also create tension with the population groups most served by Head Start.</p> |
| <p>Collective Bargaining Impacts</p> | <p>There is likely to be resistance from the union representing the teachers concerning the discontinuation of the city's role in operating Head Start, however, it is within the city's purview to make this decision.</p> |