OFFICE OF THE

CITY AUDITOR

AN AUDIT OF THE GENERAL SERVICES/ FLEET MANAGEMENT DIVISION-- PERFORMANCE STANDARDS

– BY DEVELOPING AND IMPLEMENTING PERFORMANCE STANDARDS, THE FLEET MANAGEMENT DIVISION CAN ASSESS ITS OPERATIONAL EFFECTIVENESS AND EFFICIENCY AND ITS COMPETITIVENESS WITH PRIVATE INDUSTRY AND OTHER GOVERNMENTAL ORGANIZATIONS

A REPORT TO THE

SAN JOSE

CITY COUNCIL

JANUARY 1996 96-01

CITY OF SAN JOSÉ, CALIFORNIA

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January 5, 1996

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
San Jose, CA 95110

Transmitted herewith is a report on *An Audit Of The General Services/Fleet Management Division--Performance Standards*. This report is in accordance with City Charter Section 805.

An Executive Summary is presented on the blue pages in the front of this report while an Administration response is shown on the yellow page(s) before the Appendices.

I will present this report to the Finance Committee at its January 10, 1996, meeting. If you need additional information in the interim, please let me know. The City Auditor's staff members who participated in the preparation of this report are Nestor Baula and Gregory Elliott.

Respectfully submitted,

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EXECUTIVE SUMMARY

In accordance with the City Auditor's 1995-96 Audit Workplan, we have audited the operations of the Department of General Services' Fleet Management Division. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

BY DEVELOPING AND IMPLEMENTING PERFORMANCE STANDARDS, THE FLEET MANAGEMENT DIVISION CAN ASSESS ITS OPERATIONAL EFFECTIVENESS AND EFFICIENCY AND ITS COMPETITIVENESS WITH PRIVATE INDUSTRY AND OTHER GOVERNMENTAL ORGANIZATIONS

The Fleet Management Division (Fleet Management) of the Department of General Services (General Services) services and maintains automobiles, light trucks, and heavy trucks for General Services and other city of San Jose (City) departments. Fleet Management charges the departments for which it provides services based upon an hourly rate and the number of hours required to perform the services. As such, it is in the best interest of the departments that Fleet Management provides efficient and effective services that are competitive with private industry and other governmental organizations. Our review of Fleet Management's use of performance standards to assess its competitiveness with private industry and other governmental organizations revealed that

- Performance standards cannot be incorporated into Fleet Management's Equipment Management Information System (EMIS). As a result, Fleet Management has no procedures to either incorporate performance standards into the EMIS or monitor actual performance against established performance standards;

- The performance standards Fleet Management has developed are not used to assess its competitiveness with private industry or other governmental organizations; and
- Fleet Management has not fully implemented its new fleet management system;

In addition, with regard to privatizing the vehicle maintenance function,

- Our review of authoritative sources and surveys of other governmental jurisdictions revealed that vehicle maintenance services can be successfully privatized and
- Obstacles to privatization, such as union resistance, contracting-out pitfalls, and the City Council's current policy on privatization can be overcome.

In our opinion, Fleet Management should expedite the implementation of its new Equipment Management System for the IBM Personal Computer Environment (EMS/PC). By establishing performance standards, developing economic benefit criteria for recommending privatization, and monitoring actual performance against those standards and criteria, Fleet Management will be able to assess if it is functioning economically, efficiently, and effectively and to identify any functions that can be successfully privatized.

RECOMMENDATIONS

We recommend that the Department of General Services/Fleet Management Division:

Recommendation #1:

Use recognized authoritative performance standards or develop performance standards for each type of vehicle maintenance or repair service. (Priority 2)

Recommendation #2:

Set target dates for:

a. Completing the implementation of its new fleet management system (Prototype Equipment Management System for the IBM Personal Computer Environment);

b. Incorporating the performance standards developed in Recommendation #1 into its fleet management system;

c. Comparing actual vehicle maintenance and repair performance to the established performance standards; and

d. Developing economic benefit criteria for recommending that vehicle maintenance and repair functions or sections be contracted out. (Priority 2)

Finally, we recommend that the San Jose City Council:

Recommendation #3:

Amend Council Policy 0-24 to add demonstrated economic benefit to the city of San Jose as an exception to its City staff delivering a service function. (Priority 3)

INTRODUCTION

In accordance with the City Auditor's 1995-96 Audit Workplan, we have audited the operations of the Department of General Services' Fleet Management Division. In connection with this audit, we reviewed the Fleet Management Division's system for developing and using performance standards in repairing and maintaining City-owned vehicles and for determining whether the Division's performance is competitive with private industry and other governmental organizations. We also contacted other jurisdictions that have attempted to privatize their vehicle maintenance functions. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

BACKGROUND

In 1979, fleet maintenance was part of the Public Works Department. Prior to this, the Finance Department managed police vehicle maintenance. In early 1980, the Department of General Services was formed to administer purchasing, vehicle maintenance, and building maintenance.

In 1985, there were four separate city of San Jose (City) departments that were responsible for maintaining the City's automotive fleet and motorized equipment. The Airport, Fire, and Water Pollution Control Departments maintained their own equipment, while General Services' Fleet Management Division (Fleet Management) maintained the balance of the City's automotive fleet and motorized equipment.

It was not until 1989-90 that Fleet Management assumed vehicle maintenance for the Airport Department. This consolidation resulted from a City Auditor's report on the cost to maintain the Airport Department's shuttle buses. This consolidation was successful in that the $1.2 million annual cost to maintain the shuttle buses was reduced to $534,000 per year--an annual savings of $666,000.

A November 1991 study recommended consolidating the Fire Department's fleet maintenance with that of Fleet Management. The study concluded that "*transfer of this responsibility to the Vehicle Maintenance Division (VMD) could be accomplished with a net savings to the City of approximately $104,000 per year*." Fleet Management took over the Fire Department vehicle maintenance function on July 1, 1993.

Major Accomplishments Of The Fleet Management Division

In Appendix B, the Department of General Services informed the City Auditor's Office of its major accomplishments relating to the maintenance and replacement of police vehicles. In Appendix D, General Services summarized the condition of the Fire Department fleet. Among the major accomplishments of Fleet Management over the past five years are the following:

- Consolidated maintenance and repair of all City vehicles (except Water Pollution Control equipment) within Fleet Management resulting in significant savings and California Highway Patrol compliance for Airport shuttle buses and major improvements in the condition of fire apparatuses.
- Restructured staff and operations resulting in the ability to provide adequate maintenance and repair services for a total growth in fleet size of 30 percent (470 vehicles) without any increase in Fleet Management staffing level.
- Established a warranty recovery program which annually recovers more than $95,000.
- Implemented in-house and factory-sponsored training to keep staff current on new technologies for shop equipment and passenger vehicles and light trucks.
- Restructured interdepartmental billing charges by eliminating the base rate and adopting an hourly labor rate to parallel billing practices in the private sector.

SCOPE AND METHODOLOGY

Our objectives for this report on the audit of the Department of General Services' Fleet Management Division (Fleet Management) were

- To determine if Fleet Management has developed and used performance standards for the repair and maintenance of City-owned vehicles and for assessing Fleet Management's comparative performance with private industry and other governmental organizations and

- To survey other jurisdictions and learn of their attempts to privatize their vehicle maintenance functions.

We interviewed Fleet Management's staff including the fleet manager, the staff analyst, the municipal garage supervisor, the automotive equipment specialist, and the main yard supervisor. In addition, we contacted the following jurisdictions that have privatized their fleet maintenance functions:

- City of Indianapolis, Indiana
- City of Fort Lauderdale, Florida
- City of San Mateo, California
- City of Des Moines, Iowa
- County of Montgomery, Alabama
- County of Los Angeles, California
- City of Winter Park, Florida
- County of Richland, South Carolina

We limited our review to Fleet Management's efforts to develop and implement vehicle maintenance performance standards to assess its operational effectiveness and efficiency and its competitiveness with private industry and other governmental organizations.

Our audit initially included a review of maintenance repair costs, preventative maintenance schedules, customer usage, the fueling system, new car build-up, and inventory. We were unable to complete our review in these areas due to the resignation of the auditor assigned to the audit. We will, however, share with General Services what analyses we were able to complete.

We also performed a preliminary review of Fleet Management's Equipment Management Information System (EMIS). Our review of the EMIS revealed several internal control deficiencies. We did not pursue these internal control deficiencies as an audit finding because Fleet Management is currently implementing a new equipment management system called Prototype Equipment Management System for the IBM Personal Computer Environment (EMS/PC). According to Fleet Management administration, the new system is designed to mitigate most, if not all, of the deficiencies of the old system. Once the new system is implemented, the City Auditor's Office will include an audit of the new system in its proposed annual workplan.

FINDING I

BY DEVELOPING AND IMPLEMENTING PERFORMANCE STANDARDS, THE FLEET MANAGEMENT DIVISION CAN ASSESS ITS OPERATIONAL EFFECTIVENESS AND EFFICIENCY AND ITS COMPETITIVENESS WITH PRIVATE INDUSTRY AND OTHER GOVERNMENTAL ORGANIZATIONS

The Fleet Management Division (Fleet Management) of the Department of General Services (General Services) services and maintains automobiles, light trucks, and heavy trucks for General Services and other city of San Jose (City) departments. Fleet Management charges the departments for which it provides services based upon an hourly rate and the number of hours required to perform the services. As such, it is in the best interest of the departments that Fleet Management provides efficient and effective services that are competitive with private industry and other governmental organizations. Our review of Fleet Management's use of performance standards to assess its competitiveness with private industry and other governmental organizations revealed that

- Performance standards cannot be incorporated into Fleet Management's Equipment Management Information System (EMIS). As a result, Fleet Management has no procedures to either incorporate performance standards into the EMIS or monitor actual performance against established performance standards;

- The performance standards Fleet Management has developed are not used to assess its competitiveness with private industry or other governmental organizations; and

- Fleet Management has not fully implemented its new fleet management system;

In addition, with regard to privatizing the vehicle maintenance function,

- Our review of authoritative sources and surveys of other governmental jurisdictions revealed that vehicle maintenance services can be successfully privatized and

- Obstacles to privatization, such as union resistance, contracting-out pitfalls, and the City Council's current policy on privatization can be overcome.

In our opinion, Fleet Management should expedite the implementation of its new Equipment Management System for the IBM Personal Computer Environment (EMS/PC). By establishing performance standards, developing economic benefit criteria for recommending privatization, and monitoring actual performance against those standards and criteria, Fleet Management will be able to assess if it is functioning economically, efficiently, and effectively and to identify any functions that can be successfully privatized.

The Fleet Management Division Of The Department Of General Services

Fleet Management's mission is to provide authorized users of City vehicles and equipment with safe and dependable vehicles and construction equipment. This includes all City equipment except that of the Water Pollution Control Department.

The program purpose and description states:

> *. . . provide interdepartmental services including the purchase, replacement and repair of vehicle and construction equipment. Equipment is maintained in optimum condition by performing periodic preventive maintenance, scheduled and unscheduled repair work, and supplying fuel and lubricants at support facilities throughout the City . . .*

As of September 1995, Fleet Management indicated that there were approximately 2,250 pieces of equipment in the City's fleet. These included 775

sedans; 785 trucks, vans, buses; 105 fire suppression apparatuses; and 585 miscellaneous equipment items.

Fleet Management locations are spread throughout the City. There are four maintenance yards and three garages. The maintenance yards and garages are as follows:

1. Main Corporation Yard, Seventh and Taylor Streets
2. Mabury Yard, 1404 Mabury Road
3. South Yard, 4420 Monterey Road
4. West Corporation Yard, 5090 Williams Road
5. Municipal Garage, 825 North San Pedro Street
6. Airport Garage, 1395 Airport Boulevard
7. Fire Department Garage, 245 South Montgomery Street

Fleet Management's 1995-96 staffing level is 90 positions. These include 1/2 of a deputy director position; 1 fleet manager; 2 analysts; 1 automotive equipment inspector; 3 equipment maintenance supervisors; 8.5 administrative support staff; and 74 mechanics, equipment mechanic assistants, and parts workers.

The Fleet Management program budget is funded through an internal service fund. The approved budget for 1995-96 is approximately $16 million, providing $10 million for operations and $6 million for vehicle replacement, alternative fuel vehicle development, and reserves. Budgeted 1995-96 expenditures and reserves are as follows:

TABLE I

BUDGETED 1995-96 EXPENDITURES AND RESERVES

Vehicle and Equipment Operation and Maintenance		
Personal Services	$5,096,646	
Non-Personal Expenses	1,758,121	
Inventory Purchases	3,279,022	
Subtotal		$10,133,789
Vehicle Replacement and Alternative Fuel Vehicle Development		
Vehicle Replacement and Improvements	$3,403,520	
Alternative Fuel Vehicles	2,114,864	
Alternative Fuel Vehicle Fueling Station	130,000	
Subtotal		$ 5,648,384
Operating Contingency and Reserves		
Operating Contingency	$ 50,000	
Reserves (Ending Fund Balance)	363,132	
Subtotal		$ 413,132
Total		$16,195,305

Fleet Management Intends To Be Competitive

The Director of General Services issued a memorandum on June 6, 1994, explaining the department's new equipment repair rate changes. The Director also stated that General Services intended to set its rates at a level competitive with other jurisdictions and the private sector. The Director's memorandum stated in part:

> *As part of an ongoing effort to improve service delivery and to benchmark vehicle operating and maintenance charges, the Vehicle Management Program is revising its rate structure to parallel the private sector. The specific changes affecting all user departments beginning July 1994 are as follows:*
>
> - *Elimination of the "Base Rate;"*
> - *Incorporation of applicable overhead costs in a flat hourly labor rate; and*

- *Instituting a surcharge on fuel to recover overhead costs of the fuel program;*

Parts and outside costs will continue to be charged in the same manner.

The primary reason for revising the rate structure is to better enable the Vehicle Management Program to judge its competitiveness to other jurisdictions and to the private sector. Subject to changes in the Proposed Budget, the flat hourly rate is estimated to be $55 per hour. This rate is $5 to $15 less than most dealerships and outside repair shops, and will be applied to all services rendered. [Emphasis added.]

The above-mentioned memorandum shows Fleet Management's intention to be competitive by setting hourly rates that are below those in the private sector. However, our review indicated that Fleet Management has not yet established performance standards and a monitoring system to determine whether the actual hours spent for the work performed are indeed comparable to those in private industry and other governmental organizations. Fleet Management has not established such an evaluation system primarily because its current information system cannot handle the volume and/or processing of the information involved in a performance evaluation system.

Performance Standards Cannot Be Incorporated Into Fleet Management's Equipment Management Information System (EMIS)

Fleet Management currently uses the EMIS to keep track of vehicle repair and maintenance work orders, labor hours, and fuel and parts usage. The system was implemented over 15 years ago. The Fleet Management staff now considers EMIS obsolete. In a 1985 Department of General Services-commissioned study, Hughes, Heiss & Associates identified several deficiencies which prevented the EMIS from functioning efficiently (Appendix C summarizes these deficiencies.)

With regard to controlling work and assessing shop performance, the consultants cited this deficiency:

> *EMIS does not provide a means to help shop supervisors plan and control work. Shop supervisors (as well as the Vehicle Maintenance Superintendent) lack data by which to evaluate the efficiency of their staff (such as comparisons of time spent on repairs compared to "flat rate" time). Lacking information to assess current workload levels, workload trends and shop performance, VMD supervisors and managers are placed more in reactive modes.*

The Fleet Management staff agrees with this assessment. According to the staff, EMIS cannot accommodate the use of performance standards against which the system can compare actual repair times. Therefore, Fleet Management would have to manually do all of the computations and analyses required to evaluate shop performance for each repair code used on each work order for the vehicles in the fleet. Given the hundreds of thousands of individual repairs performed each year, the cost of such a manual evaluation process is prohibitive. As a result, Fleet Management has not established EMIS procedures to incorporate performance standards into the EMIS and subsequently monitor actual performance against those standards.

The Performance Standards Fleet Management Has Developed Are Not Used To Assess Fleet Management's Competitiveness With Private Industry Or Other Governmental Organizations

Fleet Management currently uses a limited number of performance standards for functions such as preventative maintenance. According to Fleet Management staff, Fleet Management developed these standards so that its maintenance supervisors could use them to train and provide guidance to employees. These standards were not intended as evaluation tools to assess Fleet Management's competitiveness primarily because the current information system

(EMIS), as discussed above, cannot handle the amount of information and/or processing needed for an automated performance evaluation system.

According to Fleet Management staff, an evaluation system that can truly assess Fleet Management's competitiveness should be able to handle not only preventative maintenance functions but also the myriad repair jobs that Fleet Management performs. However, EMIS can accommodate only a limited number of repair codes. Furthermore, EMIS cannot link the repair codes to the various vehicle classes. For example, the same repair code should not be used for a brake repair job on a standard sedan and a tractor because the tractor brake job takes considerably more time. Thus, it would be wrong to evaluate a standard sedan brake job using a tractor brake job repair code, and vice versa. Given the numerous repair tasks and the variety of vehicle classes within the City, the EMIS cannot support the data processing needs of an effective vehicle maintenance performance evaluation system.

Fleet Management Needs To Formalize A Policy To Adhere To Authoritative Performance Standards Or Develop Its Own Performance Standards

Although Fleet Management has a policy to use time guides to train and provide guidance to employees, it has not formalized or documented, through a policy statement or procedures, its intention to adopt performance standards. Fleet Management has used recognized authoritative repair manuals to train its employees and provide reference materials for the vehicle maintenance staff. Of these authoritative sources one is the Mitchell Manual. Both private and public entities use this manual as a standard and/or bench marking tool in establishing their own standards to compute charges to customers. Mitchell Manual editors with extensive mechanical backgrounds in the automotive industry determine the

Mitchell Manual labor time estimates. The editors determine these time estimates based on field research, time studies, and information that vehicle manufacturers supply to Mitchell.

The Mitchell Manual provides the user with detailed instructions on the following:

- Labor Times
- Overlapping Labor Times
- Additional Times
- Combinations
- Factory Times
- Hourly Rate
- Part Numbers
- Part Prices
- Mechanical Skill Level Code
- Definitions

In our opinion, Fleet Management should complete the development of a policy to adhere to recognized authoritative performance standards, such as the Mitchell Manual, or develop its own standards if authoritative standards are not available or applicable. By so doing, Fleet Management will be able to use these formally adopted performance standards not only for training but also for evaluating the performance of its staff.

We recommend that the Department of General Services/Fleet Management Division use recognized authoritative performance standards or develop performance standards for each type of vehicle maintenance or repair service.

Fleet Management Has Not Fully Implemented
Its New Fleet Management System

In 1991, General Services proposed under the Employee Innovation Program to upgrade Fleet Management's EMIS utilizing the latest fleet management technology. According to General Services, the EMIS was obsolete, cumbersome, and generated much paperwork that could be eliminated by using a bar-code system.

According to the Employee Innovation Program application, the anticipated benefit of the proposed system was to enhance fleet management by

- *Reducing paper transactions;*
- *Improving parts inventory accountability;*
- *Monitoring mechanics' labor distribution; and*
- *Tracking fleet performance by individual vehicle, vehicle class, shop facility, and division performance goals.*

Fleet Management selected, as a replacement for EMIS, a computer-based system for the management of vehicles and motorized equipment. Specifically, Fleet Management selected a Prototype Inc. product called Equipment Management System for the IBM Personal Computer Environment (EMS/PC). Among other things, EMS/PC should be capable of handling the data processing required for a shop performance evaluation system. According to the system description, EMS/PC offers the following capabilities:

- *Equipment inventory tracking, including maintenance of detailed descriptive and component data on-line;*
- *Interactive work order entry, status and tracking, with complete detail for all parts and labor charged to any task under a work order;*
- *Complete repair and preventative maintenance (PM) history data available on-line for the life of each equipment unit in both summary and detail formats;*
- *Labor analysis based on complete records for all employee labor recorded;*

- *In-depth cost analysis for operational, repair, and PM costs, including cost per mile/engine hour;*
- *Fuel and oil consumption analysis and reporting;*
- *Exception analysis and reporting of costs and fuel and oil consumption measured against user standards by equipment class (not just averages of past data);*
- *Automated PM scheduling and monitoring with special PM tasks assigned for equipment units with high costs in order to help reduce those costs;*
- *Parts and fuel inventory tracking at multiple locations with support for average, FIFO, and LIFO pricing;*
- *Purchase order tracking for parts on order with full support for blanket purchase order tracking;*
- *Usage tracking with support for rental billing to departments and agencies for equipment usage (in addition to cost billing);*
- *On-line vehicle pool reservations booking, dispatch, and tracking for multiple locations;*
- *Support for bar codes and hand-held data entry devices to capture data from both inventory and maintenance operations at maximum accuracy and minimum cost;*
- *Interface with all major automated fuel dispensing systems for processing of fuel tickets without rekeying data; and*
- *Interface files available to pass data to other systems.*

Testing and implementation of the new system started in February 1992 with the issuance of a request for proposal for the Fleet Management Software Pilot Program. In place of a separate contract for a pilot program, the City accepted from Prototype Inc. a trial period to implement EMS/PC starting in August 1992. After the trial period, the City purchased the EMS/PC program in April 1993 at a cost of $8,389. Annual software support was an additional $3,200.

Fleet Management estimates that it would cost $110,925 for the following equipment in order to implement the current version of EMS/PC. Of this amount, Fleet Management has spent approximately $79,425 as of November 1995.

TABLE II

ESTIMATED COST OF COMPUTER EQUIPMENT
TO IMPLEMENT EMS/PC

Qty	Description	Cost	Comments
1	Laitron 386DX33 8 mb 130 HD	$1,100	Prototype parts lookup
2	MIS 486 computers	2,800	Needed with or without Prototype
1	NAC 386 33 8mb 3.5" floppy	1,000	Remote dial-in
1	NAC 386sx25 4mb 3.5" floppy	800	FIRE remote access
1	NAC 386 33 16mb 1.2/1.44 mb floppy	800	Phone closet/remote access
1	Epson LQ 1170 printer	600	FIRE remote printer
1	Epson LQ 510 printer	300	ADMIN remote printer
7	Homebase for microwands	2,275	Hand-held data entry devices
50	Hand-held microwands	69,750	Hand-held data entry devices
1	ALR/HP application server	31,500	Prototype client server
	TOTAL	**$110,925**	

Fleet Management requested funding for annual hardware maintenance in its 1995-96 budget request. However, the City's Budget Office did not approve Fleet Management's request for funding. Consequently, Fleet Management has not incurred any costs for maintenance agreements for the EMS/PC system.

The original target date for implementation of the EMS/PC system was July 1993. However, due to staff reductions and the consolidation of new services into Fleet Management (such as the repair and maintenance of the Fire Department fleet), EMS/PC implementation has been delayed.

Fleet Management Should Expedite The Implementation Of The New EMS/PC

In 1978, the United States Department of Transportation, Federal Highway Administration, published an equipment management manual in which it described the importance of establishing operational goals or standards and measuring their outcome. According to the United States Department of Transportation manual,

> *The greatest value in implementing an equipment management system . . . is likely to lie in improved management understanding of established operational goals* [i.e., performance standards], *of the actions necessary to attain them* [i.e., the operational procedures], *and in the measurement of their outcome* [i.e., the performance evaluation system].

Prototype Inc., the developer and vendor of EMS/PC, also recognizes the role performance standards play in an effective fleet management system. According to the EMS/PC system description,

> *The only way to determine that a unit is not performing satisfactorily on an economic measurement is by having some standards against which to compare it. An important feature of EMS/PC, therefore, requires the establishment of standards for cost performance.*

In another section of the system description, Prototype Inc. explains the flexibility of EMS/PC in using either industry-recognized performance standards, such as the Mitchell Manual, or user-generated performance standards.

> *EMS/PC provides great flexibility in the area of standards: what you measure actual performance against. Other systems rely on national norms or a comparison against self-generated averages. With EMS/PC you choose your own standards based on what you know about your operation. We also provide tools to make standards and performance monitoring exceptionally meaningful: a tolerance percentage factor permits fine-tuning by multiple runs of exception reports. Standards also monitor employee performance and productivity on a task-by-task basis. . . .*
>
> [Y]*ou may not have any standards now and may ask, "What is the right standard?" There is no answer for that question, since there is no such thing as an objective or universal standard. A number of sets of standards have been promulgated by various organizations; and there are several flat-rate*

manuals available which provide repair labor hour standards for specific repair tasks on specific types of equipment.

These standards may or may not apply to your situation. Accordingly, there are no standards embedded in EMS/PC. You must establish your own standards and load them.

Further on, the EMS/PC system description gives an example of the usefulness of performance standards in evaluating performance and controlling costs.

A similar approach is taken to the standards for labor hours on various tasks. The average time per task of each employee over a rolling twelve-month period is compared to the standard time for that task. This comparison permits you to evaluate whether an employee is performing as well as others or up to the standard. It also assists in identifying what specialties particular employees are good at--because they perform well under standard and without comebacks--and where additional training would pay off.

When Fleet Management implements the EMS/PC's performance evaluation modules, it will have a competition and costing program and be able to monitor its employees' performance against its own or industry-recognized performance standards. In our opinion, Fleet Management should expedite completing the implementation of the new EMS/PC's performance evaluation modules. By establishing performance standards and monitoring its performance against such standards, Fleet Management will be able to assess if City employees are performing effectively and competitively.

In conjunction with the performance evaluation system, Fleet Management should develop the economic benefit criteria under which a service function is to be recommended for privatization. Such criteria should address economic benchmarks or indicators so that it can be demonstrated and documented that contracting out a specific Fleet Management function or section would enhance effectiveness, efficiency, equity, or accountability. In their book, Reinventing Government: How the Entrepreneurial Spirit is Transforming The Public Sector,

David Osborne and Ted Gaebler observed that flat-out privatization is not an automatic solution.

> *Conservatives have long argued that governments should turn over many of their functions to the private sector--by abandoning some, selling others, and contracting with private firms to handle others. Obviously this makes sense, in some instances. Privatization is one arrow in government's quiver. But just as obviously, privatization is not the solution. . . . It makes sense to put the delivery of many public services in private hands (whether for-profit or nonprofit), if by doing so a government can get more effectiveness, efficiency, equity, or accountability.* [Emphasis added.]

It should be emphasized that competition, and not contracting out, is the ultimate goal of the performance evaluation system and the contracting-out criteria. The results of Fleet Management's performance evaluation system should be to document that the services Fleet Management provides to other City departments are competitive and cost effective. Only if it is economically justified based on the aforementioned economic benefit criteria should a Fleet Management function or section be recommended for contracting out. By implementing the performance evaluation system and formulating the economic benefit criteria, Fleet Management should be able to systematically analyze its performance in specific vehicle maintenance service functions or sections and identify those functions or sections that are to be recommended for contracting out.

We recommend that the General Services Department/Fleet Management Division set target dates for:

a. Completing the implementation of its new fleet management system (Prototype Equipment Management System for the IBM Personal Computer Environment);

b. Incorporating the performance standards developed in Recommendation # 1 into its fleet management system;

c. Comparing actual vehicle maintenance and repair performance to the established performance standards; and

d. Developing economic benefit criteria for recommending that vehicle maintenance and repair functions or sections be contracted out.

Our Review Of Authoritative Sources And Surveys Of Other Governmental Jurisdictions Revealed That Vehicle Maintenance Services Can Be Successfully Privatized

In the past few years, several governmental jurisdictions have made the decision to have internal service functions compete with outside vendors to provide services to other departments or citizens. This has helped to create a spirit of competition and has served to make the internal service departments more efficient and effective. Some governmental jurisdictions have gone as far as privatizing or contracting out to outside vendors for internal service department functions.

Review Of Authoritative Sources

An article titled "Opening Up the Bidding" in the November 1995 issue of Governing describes the success of the city of Indianapolis in providing its own employees the incentive to be competitive. The city of Indianapolis accomplished

this by implementing the Indianapolis Competition and Costing Program. According to the article,

> *Initially, public employees opposed the Indianapolis Competition and Costing program. . . . In their view, the program was just another name for privatization. But after the administration assisted city workers' efforts to submit a competitive bid to repair streets -- and they won it -- the resistance began to diminish.*
>
> *And it's not all that hard to see why. Activity-based costing, an accounting technique that translates every single activity and product into a dollar figure that includes indirect labor and other costs, makes managers and employees more cost-conscious by improving the accuracy of cost information and by identifying cost drivers . . . .*
>
> *With a more efficient management structure and more authority over their jobs, union employees have won 80 percent of all bids for repairing potholes and road resurfacing since the program began. Two years ago, city workers won the maximum territory allowable for trash collection services. <u>And this February, city employees beat out three national companies for a fleet maintenance and repair contract, at a savings of $8 million.</u>*
>
> *The ultimate result of introducing competition and activity-based costing in Indianapolis has been a 2 percent reduction in annual operating expenses, a 30 percent reduction in the non-public-safety work force and the identification of $123 million in savings for reinvestment in infrastructure.* [Emphasis added.]

In Chapter 3 of their book, <u>Reinventing Government: How the Entrepreneurial Spirit Is Transforming The Public Sector</u>, David Osborne and Ted Gaebler discuss "Competitive Government: Injecting Competition into Service Delivery." They discuss how many government agencies are turning to the privatization decision to deliver more services at a lower cost. The idea is that the private sector can oftentimes provide the same level and quality of services more efficiently. The reason for the increased efficiency is not because government is inefficient. "*It is not a question of public versus private. It is*

competition versus monopoly."[1] It is not a great unknown that competition increases efficiency. With increased competition, businesses are forced to look towards cost efficiency and customer service. The same is true for governments.

The thought has been in the past that governmental services are natural monopolies. "*It is one of the enduring paradoxes of American ideology that we attack private monopolies so fervently but embrace public monopolies so warmly.*"[2] But as the city of Phoenix found out, not all public services need to be kept in the public sector. The city of Phoenix introduced competition into certain services such as garbage collection, landfill operation, custodial services, parking lot management, street sweeping, street repair, printing, and security. The city of Phoenix invited bids in these areas from public companies and from internal governmental units. The city auditor in Phoenix estimates that installing competition into certain city services saved the city of Phoenix over $20 million over a ten-year period. The idea is not that private firms are inherently more efficient but rather that competition forces governmental units to become more efficient. Competition forces government workers to meet competitive standards or lose their jobs. The result is greater public sector efficiency.

Dr. E. S. Saves, chairman of the Department of Management at City University of New York, states that "*the most obvious advantage of competition is greater efficiency: More bang for the buck.*" According to Dr. Saves, on average, public service delivery is 35 percent to 95 percent more expensive than contracting, even when the cost of administering the contracts is included.

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[1] John Moffit, Chief Secretary to Massachusetts Governor William Weld.

[2] Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector, Osborne and Gaebler, p. 79

In the book The Privatization Decision, John D. Donahue discusses the results of a research team study the Department of Housing and Urban Development commissioned. This research team concluded that municipal agencies are 50 percent less efficient than private contractors; therefore, the average city could cut its budget for these services in half without any change in service by privatizing. In addition, the research team determined that there was "*no statistically significant difference in the quality of service provided by contractors as compared to municipal agencies . . . for any service studied.*" In fact, the team found that in each case the "*quality*" variable had no statistically detectable effect on costs at all. Therefore, the team attributes cost savings primarily to astute management practices and superior technology. Private contractors improve efficiency through more flexible use of labor, a richer array of incentives and penalties, and, often, a more precise allocation of accountability. Private contractors are less constrained by process and are more tightly focused on results.

The Department of Housing and Urban Development research team also found that contractors have three distinguishable advantages rooted in their freedom to let technical efficiency govern the size of their operations.

1. Contractors can spread the costs of capital and overhead across several cities, unlike municipal agencies which due to their size use capital equipment that is outmoded, too small, or otherwise wrong for the job. For example, the public works agencies studied tended to lack the specialized tools and labor needed for rapid traffic signal repairs. For several other services, individual cities are too small to afford an adequate inventory of spare parts and, hence, suffer from too much downtime.

2. Developing more efficient ways to deliver public services can be very costly in terms of money, time, and specialized labor, and in terms of the public disgruntlement caused by failed

experiments. A private contractor, however, can claim proprietary rights to innovations, diffuse new methods throughout its operations, and use technological advances as a competitive edge to expand its market.

3. Private contractors may be able to offer a long and flexible career ladder. This motivates workers to exert their best efforts. However, in a municipal department, advancement usually depends in large part on seniority, and room for advancement is limited by the size of the department.

While there is a considerable amount of evidence that shows that competition with for-profit rivals can dramatically boost the efficiency of public organizations, the absence of competition can just as dramatically stifle any benefits that privatization would otherwise offer.

Survey Of Other Jurisdictions

- *City of Indianapolis, Indiana*

As mentioned previously, Indianapolis, Indiana, provided an example of city employees competing against private sector companies and succeeding. The result of the competition was not only that the city employees continued to provide fleet services for Indianapolis, but the city also saved $8 million in the process. The Indianapolis Fleet Services Fact Sheet described the accomplishment:

> *In January 1995, the services of the entire operation were put out to bid and Fleet Services was successful in outbidding three private sector companies for the right to manage and maintain the City's fleet. IFS received a three year contract with two 1 year options as a result of the bid with the contract running from May 1, 1995 through April 30, 2000 (with extensions).*

It is interesting to note that the employees' union played a major role in securing the successful bid for the city employees. An April 1995 article in NAFA Fleet Executive reported,

> [John] *McCorkhill* [Administrator of Indianapolis Fleet Services] *credits Indiana Local 3131 of AFSCME, and Dominic Mangine, its president, with a significant role in the bid victory. "You've got to get your union working with you as a team rather than fighting and bickering with each other. By working with the union, we started empowering them and making some of the employees working group leaders. And now they actually help manage the process. Rather than a lot of foremen looking over their shoulders, we made these people responsible for getting the work done. They not only turn the wrenches but they lead and guide."*

The Indianapolis Fleet Services began preparing for the competition in 1992 by "*reorganizing the department, trimming middle management and empowering employees to work in self-directed teams.*" From the beginning, it was made clear that the administration's goal was competition, not just flat-out privatization. Part of preparation for competition was the implementation of performance standards. According to the fact sheet,

> *Mechanics are responsible for meeting labor standards when performing repairs. Each assigned task carries with it a standard labor time that has been gathered from manufacturer's manuals governing repair; or warranty allowances; or rates that have been established through in-house time studies.*

Furthermore, Indianapolis formalized the performance standards for the entire Indianapolis Fleet Service by including the performance standards in the fleet services request for proposal and the fleet services contract. These formal performance standards are described in the contract overview:

> ***Performance Standards****: Three main performance standards will be monitored for contract compliance:*

(1) Turnaround: The following percentages of maintenance and repair work must be completed within 24 hours of delivery to IFS.

Police vehicles (excluding confiscated vehicles)	*80%*
Fire Department vehicles	*85%*
Solid Waste trash collection vehicles	*75%*
One ton or smaller vehicles	*80%*
Larger than one ton vehicles	*75%*
All other vehicles	*75%*

Excluded from the turnaround calculations will be vehicles in the garage for accident or vandalism repairs; vehicles awaiting repair authorization by the City; vehicles needing a major component overhaul or replacement; and vehicles with a special exemption from the City.

(2) Fleet Availability: At all times 95% of every department's fleet of vehicles should be up and running. Excluded from the calculation are vehicles in the garage for "quick fix", awaiting repair authorization, user abuse, vandalism, accident, recalls, warranty work, confiscated vehicles, Acts of God or those specifically exempted by the City.

(3) Rework: No more than 15 incidents of rework will be allowed each month and all rework must be performed within 24 hours of notification.

Finally, the fleet services request for proposal required that a quality assurance program be put in place. According to the request for proposal,

The Provider will implement a Quality Assurance Program for the management of the repair and maintenance of assigned vehicles. The program will include provisions for meeting specified performance standards, for maintaining quality workmanship, for providing a high level of customer service, and for reducing fleet costs incurred by the City. The Provider will include a detailed description of its proposed Quality Assurance Program in its proposal. The plan will address, at a minimum, the following items:

- *Fleet Availability*
- *Preventative Maintenance Performance*
- *Repair Performance*
- *Parts Availability*
- *Vehicle Safety and Reliability*
- *Customer Service*
- *Cost Reduction Initiatives*

A mandatory component of the quality assurance program is user surveys. Two types will be required: (1) a survey of individual vehicle operator satisfaction each time a vehicle has been serviced, and (2) an annual user satisfaction survey of designated representatives of each user department.

- *City Of Fort Lauderdale, Florida*

In his "Contracting For Fleet Services" article published in the January 1987 issue of the APWA Reporter, the city engineer for Fort Lauderdale, Florida, said *"between 1982 and 1986, the city of Fort Lauderdale, Florida saved $1.8 million by contracting out its central garage maintenance and repair operations. These savings were in fleet maintenance, repair, and depreciation costs."* Privatization gave Fort Lauderdale the opportunity to redirect its central garage operation toward maintenance and minor repairs and away from fabrication and manufacturing. As a result, the condition of Fort Lauderdale's fleet of approximately 900 cars, light and heavy trucks, fire apparatuses, and different types of off-road vehicles has improved significantly overall with downtime reduced to 2 percent.

As the aforementioned data was somewhat dated, we called the Fort Lauderdale contract administrator to see if the city was still satisfied with its privatization decision. According to Fort Lauderdale's contract administrator, the city's overall privatization experience is still positive. The quality of service has been satisfactory. There are few complaints, and most of the customer satisfaction surveys that are returned give positive marks to the contractor. The amount of savings has not been quantified, but the staff size has been cut from 42 to 32 mechanics.

- *The City Of San Mateo, California*

The city of San Mateo, California, has a fleet of approximately 330 pieces of equipment made up mostly of cars and light trucks. City management did not necessarily start out to privatize its fleet maintenance. City management was more concerned with San Mateo's in-house service being competitive with outside private automotive repair shops. San Mateo privatized its fleet maintenance in May of 1993. The contractor is providing virtually the same level of service as was provided in-house.

The maintenance manager is the contract administrator for San Mateo. He monitors the contract on a regular basis and is the city's liaison with the contractor. His fiscal year-end report indicates a first-year savings of $163,406. This equates to a reduction of 15 percent from what vehicle maintenance was costing San Mateo prior to privatization.

Additionally, the contractor has provided very cost-effective services to San Mateo that were not part of the original contract. For example, the fire department used the contractor rather than an outside vendor to salvage and rebuild one good engine from three engines that were being removed from service. The contractor was also asked to recondition an old ladder truck so that it could be safety-certified and function as a backup piece of equipment. This was extremely cost effective because San Mateo has a negotiated fixed hourly labor rate with the contractor of $28 or less depending upon the class of mechanic needed to do the work. Market rate for the same work would have varied between $55 and $95 per hour and would have caused the fleet

maintenance modifications to double or triple in cost if San Mateo had the work done on the outside.

According to San Mateo's contract administrator, "*as confidence in the service ability of the contractor to do these more demanding jobs grows, more departments begin to use them for work that had been left pending or had formerly been done by outside vendors*." For example, San Mateo and the contractor agreed that the contractor would install communications and safety and warning equipment on police, fire, and public works vehicles rather than having an outside firm do this work. While this work was not included in San Mateo's original contract with the contractor, this service generally results in a $27 per hour labor savings to the city of San Mateo. Table III shows San Mateo's actual costs for 1993-94.

TABLE III

CITY OF SAN MATEO ACTUAL COSTS FOR 1993-94

Item	Original Estimate	Actual	Variance
Base Contract	$554,853	$535,918	($18,935)
Tires	44,000	38,280	(5,720)
Accidents or Operator Error	50,000	100,286	50,286[3]
Extras/Direct Work	12,000	93,719	81,719
Totals	$660,853	$768,203	$107,350[4]

[3] This variance resulted from San Mateo not accurately computing historical accident/operator errors costs prior to the contract.

[4] City of San Mateo Administrative Report June 15, 1994, p. 1

The San Mateo estimates it saved $163,406 in 1993-94 by privatizing its vehicle maintenance function as follows:

Total Contract Costs in 1993-94	$768,203
Add: Fuel Costs	137,891
Administrative Costs	11,500
Total All Costs	**$917,594**
Cost Analysis:	
Historical Annual Costs	$1,081,000
Total 1993-94 Costs	917,594
Savings	**$ 163,406**

San Mateo's privatization contract is a fixed-price contract. The contract is tied to the Bay Area Consumer Price Index (CPI). The Bay Area CPI rose 1.9 percent in 1993-94. Therefore, San Mateo's 1994-95 contract will not exceed the 1993-94 contract price by more than 1.9 percent.

- *The City Of Des Moines, Iowa*

The city of Des Moines, Iowa, privatized its fleet maintenance in 1983. The goal of privatization was to provide annual savings of at least 20 percent. The annually-required 20 percent savings has been realized over the eight-year life of the contract. The cost savings is the result of the private contractor, Managed Logistics Systems, Incorporated (MLS), being a more efficient operation. For example, before privatization in 1983, a staff of 72 maintained approximately 1,500 pieces of equipment. Since privatization, the number of staff has been sharply reduced to the point where currently a staff of 41 maintains over 1,600 pieces of equipment. Furthermore, Des Moines built in three benchmarks to hold the annual contract price in check.

1. The annual contract price increase for wages cannot exceed what city employees receive in contracted wage settlements;
2. Parts prices are passed through at cost with no markup; and
3. The contract target is negotiated annually and based upon actual personnel costs; other expenditures are adjusted based upon experience and as agreed to by both the contractor and the city.

We contacted the contract administrator (finance director) for Des Moines, and he told us that Des Moines has been and continues to be extremely satisfied with the contractor's service and resultant savings. The current contract cost is $3.7 million annually. Through the 12 years of the contract, savings have averaged approximately 20 percent. In 1993-94, savings were $700,000.

He stated that the quality of fleet maintenance has increased and the amount of downtime and number of vehicle breakdowns in the field have decreased significantly. He further stated that the contractor does repairs and maintenance in a timely and efficient manner and that Des Moines has had few problems administering the contract. He credits the lack of problems with the contract to the manager at the garage (an employee of the contractor). The manager ensures that all of the tasks are done efficiently and shows great flexibility in doing extra work that may not have been anticipated in the contract. Since the contract's inception, the finance director has been the contract administrator. He currently spends approximately two hours per month monitoring the contract. He conducts random spot checks of work completed. He has never found a problem.

- *Montgomery County, Maryland*

Montgomery County, Maryland, also privatized its fleet maintenance in July 1987 as a result of massive budget cuts. The county's manager of automotive equipment (contract administrator) stated there have been no significant or difficult problems to resolve with the contract.

Montgomery County's original contract included 1,325 pieces of equipment. Currently, it has approximately 1,600 pieces of equipment which include 1,200 cars, 400 light trucks, and 50 motorcycles. The contract is for three years with two, two-year extensions. The contractor is allowed to negotiate the contract on an annual basis for increases in price level or fleet size.

The current contract cost is $2.6 million annually. The manager of automotive equipment could not quantify the county's savings, but he feels it has been significant. Before the contract, 35 full-time equivalents (FTE) handled in-house fleet maintenance for 1,325 vehicles. When the contract first started, the vendor serviced the 1,325 vehicles with 24 FTEs. Currently, 20 FTEs service the fleet of 1,600 pieces of equipment. Furthermore, the contract price has remained at $2.6 million annually. Finally, the "target" contract costs have gone down each year since the start of the contract. With the contract price being held "flat" for the past eight years, the fleet size increasing by 21 percent, and 15 fewer mechanics now servicing the fleet, one can safely assume that privatization has produced substantial savings for Montgomery County.

The manager of automotive equipment has a staff of three that monitor the contract. The time he spends on the contract is minimal. Most of his time is spent on other fleet issues. He gets heavily involved in purchasing new equipment and other administrative duties. His staff consist of one technician, one administrator, and one clerk.

The technician spends 60 percent of his time monitoring the contract, an administrative person spends approximately 30 percent of her time on contract issues, and a clerk spends approximately 30 percent of her time on contract issues including overseeing the hourly leasing of motor pool vehicles.

The county's overall experience with the contractor is favorable. The service level is better than when the county provided the services in-house. The contract administrator said if he had to do it all over again, he would still privatize.

- *Los Angeles County, California*

Los Angeles County, California, privatized its fleet maintenance in 1988. Los Angeles County uses three private firms to maintain its 7,200 vehicles and pieces of equipment. The county has 4,700 pieces of equipment under a fixed-price contract and 2,500 pieces of equipment under a fee-for-service contract. The cost of the contract is as follows:

- Fixed-price portion--$11.5 million per year
- Fee-for-service portion--$3 million (most recent year)

The assistant contract administrator stated the projected savings for the seven-year contract were $10 million, or an average of $1.4 million annually. Although he would not discuss specific dollar amounts, he stated actual savings are "*somewhat under the original projections.*"

The assistant contract administrator stated he and his staff of nine do not spend all of their time monitoring the contract. The majority of their contract monitoring time is spent monitoring the fee-for-service contract. A great deal of their time is spent doing reports and special projects for supervisors and department managers.

An administrative services vendor handles such items as writing specifications and licensing vehicles, while two other vendors handle maintenance and repairs. The two vendors providing maintenance and repairs are Johnson Controls and M.P.R. Johnson Controls took over from Holmes & Narver as the major provider of fleet services. The assistant contract administrator thinks Johnson Controls is better known for providing facilities maintenance with fleet maintenance as part of the package. Johnson Controls is responsible for over 3,000 vehicles at a fixed-price contract.

The second maintenance and repair vendor is M.P.R. which is responsible for 1,650 vehicles at a fixed-price contract. M.P.R. was a local repair shop until it became a subcontractor of Holmes & Narver (the first vendor to have the contract). As M.P.R.'s work load from Los Angeles County increased, it expanded to occupy four repair facilities throughout the county.

- *The City Of Winter Park, Florida*

The city of Winter Park, Florida, privatized its fleet maintenance in October of 1991. It has 715 pieces of equipment which consist of cars, light and heavy trucks, and off-the-highway equipment.

The assistant city manager who administers the contract spends approximately one day a month doing so. The annual cost of the contract is $900,000. By privatizing its vehicle maintenance, Winter Park, Florida, has saved $350,000 annually, or 28 percent, over in-house costs.

- *Richland County, South Carolina*

Richland County, South Carolina, privatized its fleet maintenance in July of 1992. They have a fleet of 665 pieces of equipment which consists of cars, light trucks, and off-the-highway equipment.

A manager in the public works department monitors the contract. The contract administrator spends approximately five hours per month monitoring the contract. Monthly, he approves all non-contract repairs and contract items over $500 per car and light truck and $1,000 per piece of heavy equipment. The 1995-96 cost of the contract is $1,165,000. First year's savings amounted to $200,000, or 14.5 percent. The first year's savings included non-contract items; therefore, future years' savings could be even greater.

Obstacles To Privatization Such As Labor Union Resistance, Contracting-Out Pitfalls, And The City Council's Policy On Privatization Can Be Overcome

Labor Unions

Government labor unions are generally opposed to the idea of privatization and competition in government. The city of Phoenix, Arizona, addressed this problem by requiring the contractor to hire those public works employees who were displaced and transferring those who wanted to stay with the city to other jobs (sometimes at lower pay). Phoenix also discovered that competition boosts the pride and morale of public employees. The key issue of job security was solved when Phoenix adopted a no layoff policy. Once job security was no longer an issue, public employees accepted the challenge of competing with private entities.

The city of Des Moines, Iowa, also avoided employee morale problems by ensuring that no city employees lost their jobs due to privatization. Des Moines also required the private contractor to pay comparable wages to all the employees it hired. Some of the city employees stayed on with the private contractor while the other employees were transferred to other city departments. Because both Des Moines and the private contractor's employees were unionized in the same union, there was no union objections to the privatization.

The city of San Mateo, California, avoided union concerns and employee morale issues by stipulating in its privatization contract a "*right of first refusal of employment.*" This section essentially required the contractor to offer employment to all city vehicle maintenance employees and stated in part: "*The offers of employment by the Contractor shall only be conditioned on the passage of a drug usage test and of a physical examination by the affected employees.*" Furthermore, the contract included language that provided compensation that would be equal to or more than the first step of the city's current wage scale for similar classifications.

Contracting-Out Pitfalls

Contracting out is a common method of injecting competition into public services. Writing and monitoring a public services contract must be done skillfully in order to avoid pitfalls, such as lowball bids, gradual monopolies, and fraud.

> ***Lowball Bids*** - A common problem that public organizations experience when contracting out for service. The contractor bids low to get the first contract and then later raises prices. A solution is to not necessarily use the lowest bid but to use the 'lowest responsible bid.' If a company bids a contract that will generate an obvious loss or very low profit margin, chances are the bid is not a responsible bid. Another solution is to enter into

long-term contracts with fixed prices that can be increased based only upon a predetermined index.

Gradual Monopoly - Another danger to be addressed when contracting out for services is that of the private contractor developing a monopoly. If a governmental agency accepts a "lowball bid" and gets rid of its own equipment, then the contractor has effectively created a monopoly. If the contractor raises prices, it is difficult for the government organization to resume performing services in-house. Thus, the government organization is forced to pay the contractor's higher prices. The city of Phoenix, Arizona, found that the solution was to retain part of the services in-house and, if the contractor raised prices, it could simply go back to performing the contracted services in-house.

Fraud - One of the more serious dangers to contracting out for services is the danger of fraud. The solution is to ensure that

a. The bidding is truly competitive;

b. The competition is based on hard information about cost and quality of performance;

c. The contractors are monitored carefully; and

d. An impartial body is set up to perform these tasks.

<u>The City Council's Current Policy On Privatization</u>

On March 19, 1991, the San Jose City Council adopted Council Policy 0-24, "*CONTRACTED SERVICES.*" The purpose of this policy is to provide guidelines governing a decision to use non-City employees to deliver City service functions.

A City service function is an organized group of individuals, supplies, equipment, and facilities which the City establishes to deliver a service or services into the foreseeable future. Such a group may deliver a service to

residents, to others within the same department, to other City departments, or to other public agencies.

This policy does not apply to a decision to use a contract employee to provide individual labor to the City, but it does apply to independent contractors or firms that provide professional or consulting services. The policy states that, as a service organization, San Jose's purpose is to provide a full range of public safety, capital maintenance, and community services that are responsive, within financial constraints, to the community.

The City's policy states that City staff will deliver the desired day-to-day level of all City services. The policy lists eleven specific exceptions, eight specific conditions, and four specific decision criteria for using contract services. The current policy does not allow contracting out purely for economic reasons as an exception to its City staff requirement. In other words, the City must use City staff to provide City services even if a private entity can provide the same service for less cost. Therefore, until Council Policy 0-24 is revised to allow contracting out for economic reasons, privatizing is not an available option for more efficient and effective operation of a City department, program, or division. A complete text of Council Policy 0-24, is included in this report as Appendix E.

We recommend that the San Jose City Council amend Council Policy 0-24 to add demonstrated economic benefit to the city of San Jose as an exception to its City staff delivering a service function.

CONCLUSION

Our review of Fleet Management's system for developing and using performance standards and for determining whether its performance is competitive with private industry and other governmental organizations revealed that

- Performance standards cannot be incorporated into Fleet Management's Equipment Management Information System (EMIS). As a result, Fleet Management has no procedures to either incorporate performance standards into the EMIS or monitor actual performance against established performance standards;
- The performance standards Fleet Management has developed are not used to assess Fleet Management's competitiveness with private industry or other governmental organizations; and
- Fleet Management has not fully implemented its new fleet management system.

In addition, with regard to privatizing the vehicle maintenance function,

- Our review of authoritative sources and surveys of other governmental jurisdictions revealed that vehicle maintenance services can be successfully privatized and
- Obstacles to privatization, such as union resistance, contracting-out pitfalls, and the City Council's current policy on privatization can be overcome.

In our opinion, Fleet Management should expedite the implementation of its new Equipment Management System for the IBM Personal Computer Environment (EMS/PC). By establishing performance standards, developing economic benefit criteria for recommending privatization, and monitoring actual performance against those standards and criteria, Fleet Management will be able

to assess if it is functioning economically, efficiently, and effectively and to identify the functions that can be successfully privatized.

RECOMMENDATIONS

We recommend that the Department of General Services/Fleet Management Division:

Recommendation #1:

Use recognized authoritative performance standards or develop performance standards for each type of vehicle maintenance or repair service. (Priority 2)

Recommendation #2:

Set target dates for:

a. Completing the implementation of its new fleet management system (Prototype Equipment Management System for the IBM Personal Computer Environment);

b. Incorporating the performance standards developed in Recommendation #1 into its fleet management system;

c. Comparing actual vehicle maintenance and repair performance to the established performance standards; and

d. Developing economic benefit criteria for recommending that vehicle maintenance and repair functions or sections be contracted out. (Priority 2)

Finally, we recommend that the San Jose City Council:

Recommendation #3:

Amend Council Policy 0-24 to add demonstrated economic benefit to the city of San Jose as an exception to its City staff delivering a service function. (Priority 3)

CITY OF SAN JOSE — MEMORANDUM

TO: Gerald A. Silva, City Auditor

FROM: Ellis M. Jones, Jr.

SUBJECT: RESPONSE TO AUDIT OF FLEET MANAGEMENT DIVISION (VEHICLE MAINTENANCE)

DATE: January 4, 1996

APPROVED

DATE 1/4/96

The General Services Department has reviewed the Audit of the Fleet Management Division. The Department is generally in agreement with the findings of the audit and provides the following specific responses to each of the recommendations.

Recommendation #1: Use recognized authoritative performance standards or develop performance standards for each type of vehicle maintenance or repair service. (Priority 2)

Department Response: The Department concurs that standardized performance measures for each type of maintenance and repair service are essential in evaluating the efficiency and cost effectiveness of these activities. This was one of the primary reasons that the Department sought innovation funds in 1992/93 to acquire a new fleet management system. The Department also agrees with the Auditor that the standards used should be based on industry standards whenever possible. The particular fleet management system chosen, Prototype Incorporated's Equipment Management System for the IBM Personal Computer Environment (EMS/PC), was selected because it has the flexibility to be developed in a manner that facilitates benchmark comparisons of the City of San Jose's maintenance operations to recognized industry standards.

The Department is in the process of defining standards of performance. To date, preventive maintenance and repair task codes to be used in the new fleet management system (EMS/PC) have been defined to enable the Division to systematically compare its performance to industry standards available in various flat rate manuals. The next step in this process is to implement the basic interdepartmental billing components required to replace the existing fleet management system (EMIS). All of these tasks must be completed to replace EMIS with EMS/PC. After EMS/PC is brought on-line, the Division's highest administrative priority will be to compile industry time standards and enter the benchmark comparative data into the system. This step will be followed by accumulating internal information for repairs and equipment for which industry standards do not exist.

Recommendation #2: Set target dates for:

a. Completing the implementation of its new fleet management system (Prototype Equipment Management System for the IBM Personal Computer Environment);

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Recommendation #2: Set target dates for: (Continued)

b. Incorporating the performance standards developed in Recommendation #1 into its fleet management system;

c. Comparing actual vehicle maintenance and repair performance to the established performance standards; and

d. Developing economic benefit criteria for recommending that vehicle maintenance and repair functions or sections be contracted out. (Priority 2)

Departmental Response:

a. To date, Prototype implementation has been accomplished with only existing mechanical staff. Projects completed include development of vehicle classification codes, repair and preventive maintenance task codes, and parts inventory codes for the new system. The focus of all codes and coding structures applied has been on developing a system with full management information and bench marking capabilities.

   A pilot project to field test the EMS/PC system with all revised coding will be initiated in March 1996 at the Fire Equipment Repair Facility. Although a previous trial implementation was conducted last year at the Fire Facility using the generic codes provided with the system's software, it was found that bench marking comparisons to industry repair standards was not possible unless the coding used was significantly redefined. This resulted in delaying implementation. The Division has since completed redefining 100 vehicle classification codes and approximately 1,000 preventive maintenance and repair task codes in November 1995, and has identified the basic code structure to be used for the thousands of different parts used in vehicle maintenance and repair. Actual parts codes should be completed in February 1996 in time for the March field test at the Fire Facility. However, all interdepartmental billing, accounting, and various system checking and performance reports will still need to be developed as well as completion of data server system set-up and fuel system interface.

   Staff agrees with the Auditor's recommendation to implement the new system; however, it is important to note that all time spent developing the new system draws directly from core services of maintaining and repairing the City's fleet. The Department is awaiting approval to unfreeze a staff support position approved in the Adopted Budget to develop and meet a Division-wide implementation timeline. The Department will set target dates for this project after the status of this position is determined.

Departmental Response (Continued)

b. Incorporation of performance standards for major light equipment repairs will begin the first year of Division-wide implementation. As staff resources are available, compilation of all other available industry standards will be undertaken and integrated into the system. Accumulation of data for which no outside standards exist will then need to be compiled.

c. As indicated in b. above, incorporation of performance standards for major light equipment repairs will begin the first year of Division-wide implementation. After these standards have been input into the system, the Division will begin comparing its performance to recognized private repair times.

d. The criteria for comparing the economic benefit of contracting out vehicle maintenance and repair functions or components of them in contrast to continuing to provide that service within the organization will be established by June 1997. (Priority 2)

Recommendation #3: This recommendation is directed to the City Council.

a. Amend Council Policy 0-24 to add demonstrated economic benefit to the City of San Jose as an exception to its City staff delivering a service function.

Department Response: Adding economic benefit to the list of exception to in-house delivery of service function, in Council Policy 0-24, is a major change of policy direction which affects many City programs, not just Fleet Management. This will require broader discussion and Council action.

The General Services Department agrees with the Auditor's findings that performance standards are necessary and that those standards need to compare favorably with similar activities being performed by private sector companies.

Ellis M. Jones, Jr.
Director of General Services

(96010202)
O:\Vehicle\Audit

APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Policy Manual (6.1.2) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class[1]	Description	Implementation Category	Implementation Action[3]
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.[2]	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists.[2]	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

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1 The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number. **(CAM 196.4)**

2 For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of $25,000 or more to be involved or for a potential loss (including unrealized revenue increases) of $50,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.
(CAM 196.4)

3 The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.
(CAM 196.4)

APPENDIX B

CITY OF SAN JOSE - MEMORANDUM

TO:	Nestor Baula, Senior Auditor	FROM:	Don Beams
SUBJECT:	VEHICLE MAINTENANCE DIVISION MAJOR ACCOMPLISHMENTS	DATE:	November 15, 1995
Approval		Date:	

This memorandum briefly describes the major accomplishments achieved by the Vehicle Maintenance Division over the past five years.

Operational Achievements

- Consolidated maintenance and repair of all City vehicles (except Water Pollution Control equipment) within the Vehicle Maintenance Division resulting in significant savings and CHP compliance for Airport shuttle buses, and major improvements in the condition of fire apparatus.

- Initiated repair and maintenance of park rides at Happy Hollow Park.

- Restructured staff and operations resulting in the ability to provide adequate maintenance and repair services for a total growth in fleet size of 30% (470 vehicles) without any increase in Division staffing level. Operational improvements and streamlining measures include the following:

    - relocated the patrol vehicle repair section from the Main Yard to the Communications Center and Police Garage thus eliminating costly travel time and reduced productivity;

    - transitioned from full service fueling for police vehicles to officer self-fueling;

    - reopened Mabury Yard and established a swing shift to perform preventive maintenance on site when vehicles are not needed;

    - upgraded shop equipment and purchased digital test equipment to remain competitive with industry time standards in repair and diagnostic troubleshooting;

    - renovated and reopened the municipal garage car wash; and,

    - implemented Total Quality Management (TQM) Teams at maintenance shops with line staff resulting in various improvements in shop layout and processes at all maintenance facilities

Environmental Achievements

- Applied for and maintain hazardous material handling licenses as mandated at the State and Federal levels.
- Purchased and maintain freon recovery equipment for automotive vehicles and truck air conditioning systems.
- Implemented an Alternative Fuel Vehicle (AFV) grant program and have acquired methanol, electric, and compressed natural gas powered vehicles.
- Consulted on leaking fuel tank cleanup and fuel tank upgrades in service yards.
- Began testing synthetic fluids and lubricants to replace use of fossil lubricants.
- Initiated monitoring and maintenance of the following programs:
  - waste oil recovery;
  - antifreeze recovery;
  - biannual emission vehicle testing;
  - metal scrap recycling;
  - parts cleaning solvent recycling; and,
  - hazardous waste disposal.
- Tested, evaluated and implemented the use of re-refined oil antifreeze.
- Implemented the recycling of used tires by retreading tire casings and selling non-reusable tires to recyclers.
- Implemented air filter recycling by selling used filters to an outside filter recycling vendor and repurchasing at half price.

Administrative Accomplishments

- Established Warranty Recovery Program which recovers approximately $6,000-$11,000 monthly in excess of $95,000 annually.
- Researched, planned and initiated an equipment management computer system upgrade pilot program.
- Developed and implemented fuel conservation guidelines during the Persian Gulf War.
- Initiated mechanic apprenticeship program at the Airport and Fire Facility.

Administrative Accomplishments (continued)

- Sought and implemented in-house and factory sponsored training which is essential to keep pace with the technology of new shop equipment and the electronic evolution of passenger vehicles and light trucks.

- Implemented driver training and practical testing program citywide for employees to qualify for Class A and Class B licenses. (New State mandate.)

- Initiated a Partsroom Total Quality Management (TQM) Team to identify improvements in parts purchases, inventory stocking, and parts availability. Benefits to date include relocation of tire storage to one main location improving inventory and security, and adopting a new non-stock parts checkout procedure.

- Initiated a Supervisory TQM Team to introduce Division supervisors to the team process and data collection. Outcomes to date include better understanding of the financial aspects related to operations, improvements in cost based decisions on contracting out specific repairs, greater focus on customer service and team work, implementation of TQM Teams at maintenance shops with line staff.

- Restructured interdepartmental billing charges by eliminating the base rate and adopting an hourly labor rate to parallel billing practices in the private sector.

- Developing a Request for Proposal to have a consultant assist with the re-evaluation of the City's vehicle replacement criteria.

Interdepartmental Projects

- Designed and built frame assembly backflow devices for sewer crew.

- Modified 270 fiber-light water meter covers for Municipal Water Department.

- Designed, fabricated, and installed new storm drains for the Downtown Transit Mall.

- Repaired or rebuilt catch basin grates for Streets and Traffic (significant liability to the City if not repaired).

- Installed brackets for MDT terminals in patrol cars and moved the shotgun racks.

- Installed security gates at the Children's Discovery Museum.

- Installed louvered doors on 675 PAB lockers.

Interdepartmental Projects (continued)

- Installed oil drain lines on Communications Center generator to enable staff to perform preventive maintenance.
- Modified the fuel supply lines at the Oakmead Pump Station.
- Installed lock boxes on all yard gates for 24-hour access for police and fire emergency fueling.
- Manufactured light bar frames for police motorcycles.
- Made and installed shuttle bus destination signs ($20,000 savings over hiring an outside contractor).

Don Beams
Fleet Manager
General Services Department

c: File

APPENDIX C

DEFICIENCIES OF THE EQUIPMENT MANAGEMENT INFORMATION SYSTEM (EMIS)

In a 1985 Department of General Services-commissioned study, Hughes, Heiss & Associates identified the following deficiencies which prevented the EMIS from functioning efficiently:

- **The Parts Inventory System is Not Part of EMIS**. The Purchasing Division of the Department of General Services (General Services) has a separate information system for parts inventory, costs, reorder points, turnover, etc. The Fleet Management Division (Fleet Management) personnel do not have access to this system.

- **The System is Paper-Intensive**. The system relies upon a variety of single-purpose forms for collection of data regarding the operations and maintenance of equipment. These include: work orders, time cards, fuel logs, and parts requisitions. Many jurisdictions have eliminated most hard-copy work orders and time cards.

- **EMIS Does Not Provide a Means to Help Shop Supervisors Plan and Control Work**. Shop supervisors (as well as the Fleet Management superintendent) lack data by which to evaluate the efficiency of their staff (such as comparisons of time spent on repairs compared to "flat rate" time). Lacking information to assess current workload levels, workload trends, and shop performance, Fleet Management supervisors and managers are placed more in reactive modes.

- **Lack of Exception Reports**. The exception report produced by EMIS omits some critical information needed by Fleet Management or a fleet manager to assess fleet needs and mechanic productivity. While this report flags excessive or too few work orders, costs downtime, damage, fuel gallons and mileage, it should display reasons for excessive downtime, labor hours, and miles per gallon.

- **Inconsistency of Terms**. For example, terms such as "flat rate" and "basic charge" appear in EMIS to represent the term "basic rate." The terms "work order labor rate" appear to be equivalent to "burdened labor rate." EMIS terminology does not always correlate with common industry terminology. Some titles shown on menus do not match up with titles found on report screens. The point is that for occasional EMIS users or for department heads examining Fleet Management reports, terminology and format can be confusing. EMIS screens should consistently employ industry terminology where possible. Other terminology can be applied where appropriate, but this too should be used consistently.

- **Records Retention**. Work orders are dropped from EMIS after two years. Summary data from these work orders is stored on microfiche. Fleet Management personnel attempting to access information from microfiche find it difficult and time-consuming as microfiche sheets are organized by the date. Unless the user knows the exact date a work order was written, he or she will have to spend time searching microfiche sheets.

APPENDIX D

FINANCE COMMITTEE: 04/26/95 #7
COUNCIL AGENDA: 05/09/95 #7d

CITY OF SAN JOSE — MEMORANDUM

TO: Finance Committee

FROM: Ellis M. Jones, Jr.

SUBJECT: FIRE FLEET CONDITION ASSESSMENT REPORT

DATE: April 11, 1995

APPROVED

DATE: 4/19/95

BACKGROUND

In 1992, a consultant concluded that operational improvements and efficiencies could be achieved by consolidating the Fire apparatus maintenance with the Police fleet and general fleet maintenance. In 1993, the City Council approved a recommendation to transfer the maintenance of Fire apparatus to the fleet maintenance operation in the General Services Department. The transfer was effective July, 1993. At the time of the transfer, General Services staff was to assess the condition of the fleet, undertake improvements and repair of the equipment, and report the condition of the fleet after that intensive effort. The Department submitted a status report six months after the transfer of responsibility had occurred with the intent of submitting a final report at the completion of the repairs that would upgrade the condition of the fleet. This report complies with the commitment of preparing a final report.

CONTENTS OF THE REPORT

The report provides a summary of the composition of the firefighting apparatus. It describes the effort of the maintenance staff during the first 18 months of making corrective repairs to the fleet. The Fire Shop went into a six-day work week and contracted for an extra team of mechanics to undertake the repairs of the fleet. The chassis, power train, power plant, and electrical components to 70% of the fleet were repaired. Eighty percent of the labor during the first 18 months was devoted to repairs and 14% to preventive maintenance. The end result of the effort is detailed in the report. In a table/chart format, the report details each piece of equipment, its condition in 1993, and its current condition. Overall, as the charts indicate, the condition for each type of equipment has been improved. The transfer and the focus on the maintenance of the fleet has been very successful.

RECOMMENDATIONS IN THE REPORT

The only means to ensure that the fleet is maintained in good readiness condition is to have a good preventive maintenance program. The implementation of such an aggressive program cannot be done with existing staffing levels at the facility. The Department submitted a recommendation as part of the budget process that would convert existing Vehicle Maintenance positions to mechanics to initiate a swing shift operation at the Fire Shop. The proposal has been reviewed by the City Manager's Office and will be recommended for approval.

The assessment identified pieces of equipment that should be considered for replacement. Of those identified, the most critical are the aerial trucks. Of the total truck fleet, it was determined that five should be considered for replacement. Due to immediate operational issues, aerial truck replacement

needs were identified in the 1994-95 Mid-Year Operating Budget Review, and the City Council approved setting aside $2,000,000 to replace four trucks and appropriated $117,000 to repair the fifth. Since that time, a sixth ladder has failed. At the time of this memorandum, the Administration's recommendation to proceed with the acquisition of equipment will be presented to the City Council on April 25, 1995. Based on the Fire Department's review of current operational needs, the recommendation is to replace five trucks with two aerial ladder trucks and three heavy rescue units. The funds appropriated for repairs will be used to fix the sixth ladder that later failed.

The condition assessment identified no replacement needs for fire engines. The recent purchase of twelve engines has placed this fleet in good condition. The overall condition of the rescue units is good. There are some deficiencies with the patrol tankers and water tenders. If sufficient funds are available after the purchase of the two aerial ladder trucks and three heavy rescue units, the Administration recommends in the April 25 memorandum that the savings be used to replace a patrol tanker and ancillary equipment.

This Fire Fleet Condition Assessment report addresses the mechanical condition of the fire fleet, immediate replacement needs, and ongoing maintenance issues. Recommended revisions to the City's current apparatus replacement policy, however, are not addressed. The Fire Department is preparing a revised replacement policy based on current operations and firefighting equipment. This report will be completed and presented for Council consideration this Fall.

Francis B. McVey
for Ellis M. Jones, Jr.
Acting Director of General Services

jl(95033102)
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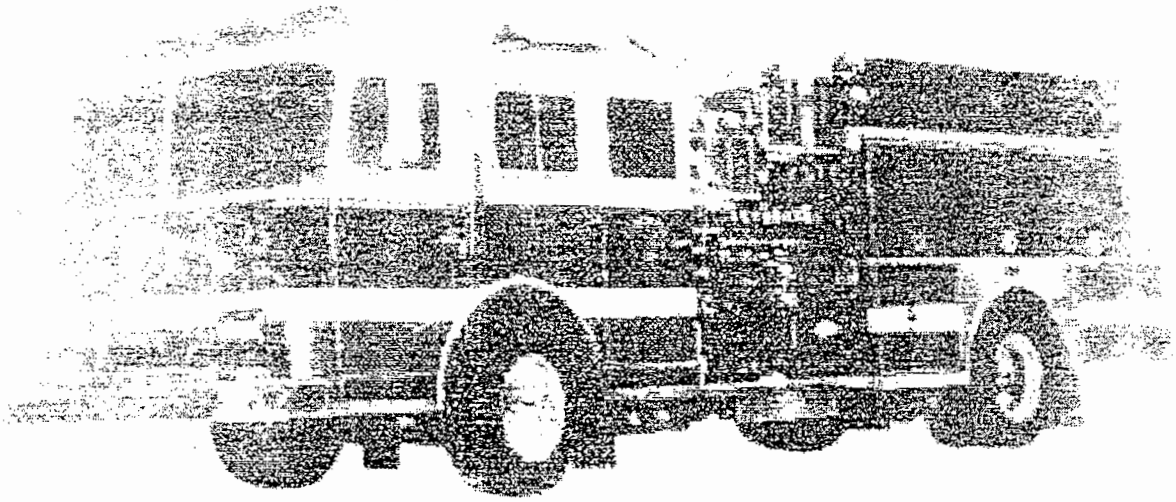
FIRE FLEET CONDITION



General Services Department
March 20, 1995

INTRODUCTION

In July 1993, the Fire Department's fleet maintenance operation was transferred to the General Services' Vehicle Management Division. Since that date, there has been an extensive effort to repair the fleet and assess its overall condition. The primary purpose of this report is to summarize the condition of the fleet, but it will also summarize the effort during the first fifteen months.

The report has been divided into the following sections.

1. Composition of the Fire Fleet.
2. Summary of Operations in the Past 15 Months.
3. Condition of the Fleet.
4. Summary and Recommendations.

The General Services Department's original objective was to fully assess the fleet and report to the Council within the first six months. This was not feasible, as reported to Council in December 1993, due to the extensive critical repairs that the fleet required. Compounding the situation, there were insufficient reserve units to support both the repairs and the assessment. In February 1994, the Council approved an allocation of $60,000 to augment in-house staffing to do the assessments and $210,000 to contract out some of the work that was being deferred. With that allocation, the operation at the Fire maintenance shop went to six-day work weeks and an outside contractor crew was brought in to work full time on both assessing and repairing the fleet. The assessment of the last vehicle was completed September 20, 1994.

THE REPORT

COMPOSITION OF THE FIRE FLEET

The fire suppression and emergency medical fleet (Fire fleet) consists of 70 front-line rigs and 21 reserve units for a total of 91 apparatuses. The age and mileage of the Fire fleet ranges from one to 25 years, and 700 to 125,250 miles, respectively. *Table 1* breaks down front-line equipment by classification, and provides the average age and mileage for each equipment classification.

The engine statistics will significantly change with the purchase of 12 new units expected to go into service by July, 1995. The individual description of the engines and the impact of the 11 new engines are detailed in the discussion regarding the condition of the fleet. Each piece of equipment is detailed later in this report.

Table 1 *- Front-line Apparatus by Classification*

Apparatus Classification	Front-line Units	Average Years	Average Mileage
Engines	33	11	61,385
Ladder Trucks	11	12	39,232
Rescue Units	10	6	26,875
Patrol Tankers	7	7	29,202
Water Tenders	3	16	21,134
Other	6	8	25,440
Total	70	10	44,792

In firefighting operations, reserve apparatuses are an important aspect of operations. Reserve apparatuses are used for each front-line piece of equipment taken out of service for maintenance and repair. The number of reserve units by classification, and the average age and mileage of the 21 vehicles in the reserve fleet are presented in *Table 2*.

Table 2 *- Reserve Apparatus by Classification*

Apparatus Classification	Reserve Units	Average Years	Average Mileage
Engines	6	21	95,847
Ladder Trucks	3	20	61,067
Rescue Units	3	17	73,199
Patrol Tankers	6	14	56,851
Water Tenders	2	25	88,351
Other	1	19	85,406
Total	21	19	75,290

The number of reserve units have and continues to impact the Maintenance Program. There are not enough reserve units to back up the number of front-line equipment being pulled for preventive maintenance servicing and repair. This was the primary cause for the delay in completing the mechanical assessment and completing all repairs. As for the future, the acquisition of 11 new engines will eliminate these problems for this class of apparatus. The Department intends to use future replacements as a means of establishing appropriate reserve levels.

The Fire Department has 100 non-emergency support vehicles that are now maintained by General Services. The Fire Department also has an extensive inventory of small tools and firefighting components that has traditionally been serviced by light duty personnel. The maintenance of this kind of equipment was retained by the Fire Department and is now part of the department's Stores operations. These maintenance areas are not covered in this report.

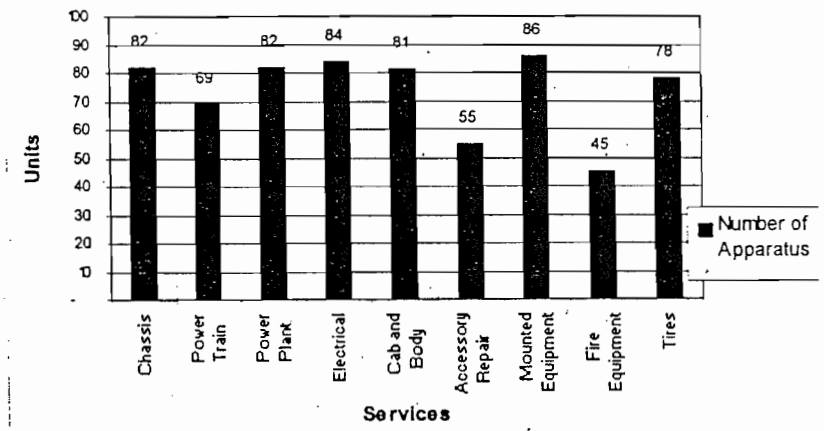
MAINTENANCE OPERATION IN THE FIRST 15 MONTHS

General Services' basic objective was to initiate an aggressive preventive maintenance (PM) and repair program. The Department's PM program is based on thorough inspection of the vehicles and on making all critical repairs identified in the inspection as part of the PM program. When a vehicle is turned over for preventive maintenance, that vehicle is not released until it is mechanically safe and all critical defects have been corrected. Such a program is labor intensive but results in a long term program that reduces equipment downtown.

When General Services took over the fire shop operation in July 1993, staff attempted to implement a structured program that would assess and PM all Fire fleet vehicles within the first six months. With the level of repairs discovered during the first weeks of operation, however, staff concluded that the objective could not be achieved. The shop had to concentrate on the repairs in order to avoid a reduction to the City's fire suppression and medical response capabilities.

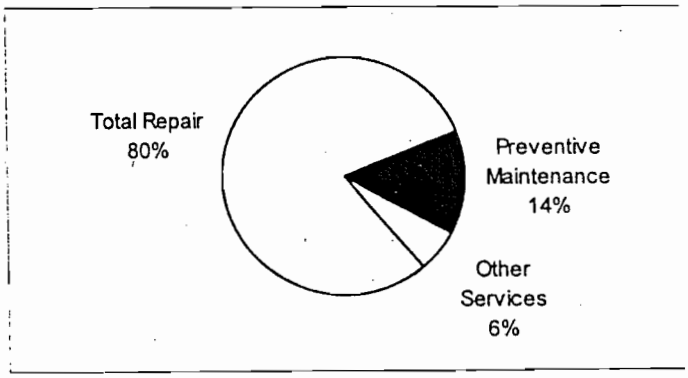
The following charts and data summarize the level of repairs that were completed. In order to illustrate the extensiveness of the repairs, Chart A summarizes the number of apparatuses that received different types of repairs. For example, the chart shows that 90% of the entire fleet (82 apparatus) received chassis work. The category *Chassis* includes frame, wheel suspension system, brake systems, and so forth. The chart also shows that or 90% (82 vehicles) of the fleet had some power plant (engine) repairs, and 92% of the fleet (84 apparatus) had electrical repairs. The defects have been corrected, but the past deficiency in maintenance may continue to result in premature failures of components that have not been overhauled.

CHART A - Repair Services Provided to Number of Apparatus



Another measure of the abnormal level of repairs is the distribution of labor. Chart B illustrates the Fiscal Year 1993-94 breakdown

CHART B - Percent of Time: Repairs versus PM

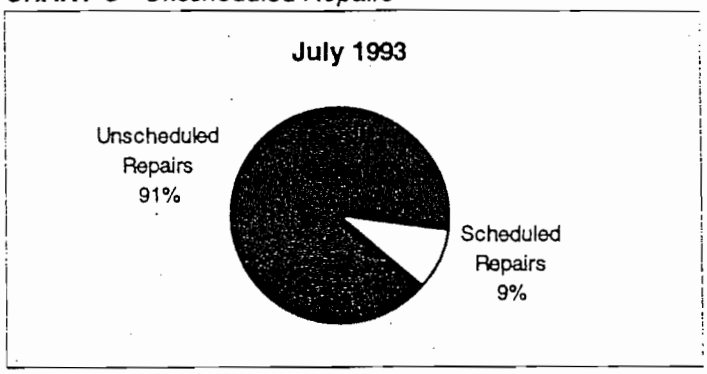


of labor time among repairs, preventive maintenance, and other services (inspections, certifications, et cetera). As indicated, 80% of labor time was expended for repairs which is an extremely high rate. Many of the repairs required were common to the various pieces of equipment. For example, staff found that all gas engines (non-diesel) had faulty emission control mechanisms and were out of compliance with state requirements. The repairs ranged from minor instrumentation lighting to major overhaul of suspensions and differentials.

Besides the repairs that were being identified by the mechanics, there was an extensive demand on the shop for unscheduled drop-in repairs of Fire fleet equipment brought in by the fire engineers. Charts C and D below compare scheduled repairs to unscheduled repairs experienced in the shop in July, 1993 against July, 1994.

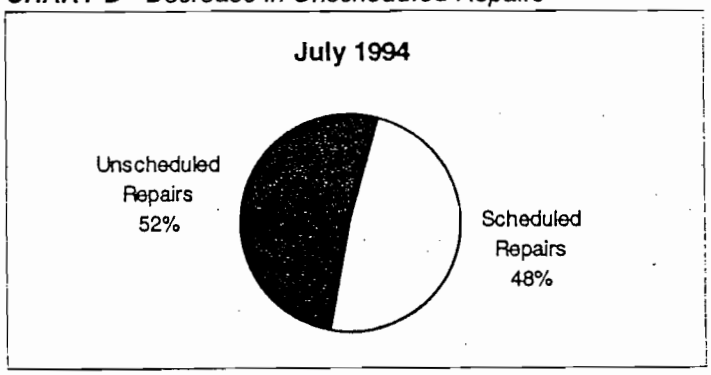
The unscheduled repair service calls during July 1993 amounted to 91% of total work orders. The 91% unscheduled work in a maintenance shop simply means chaos with no opportunity for a structured maintenance program. This unscheduled repair rate was reduced to 52% in July 1994, which is still higher than the 40% common in the industry.

***CHART C** - Unscheduled Repairs*



During the first two months that General Services' operated the shop, staff made the following operational changes to cope with the unscheduled repair situation.

***CHART D** - Decrease in Unscheduled Repairs*



a. Non-emergency vehicles (sedans, etc.) were transferred to the Municipal Garage for servicing and repairs. This allowed the dedication of staff and shop bays for repairs of emergency apparatuses.

b. The Fire Shop crew went into a six day work week operation. Overtime expenditures for the Fire Shop amounted to $54,000 last fiscal year.

c. A roving mechanic was initiated to perform minor repairs at fire stations, avoiding the downtime of units while enroute to the shop for minor repairs and reducing the demand for bays at the fire maintenance facility.

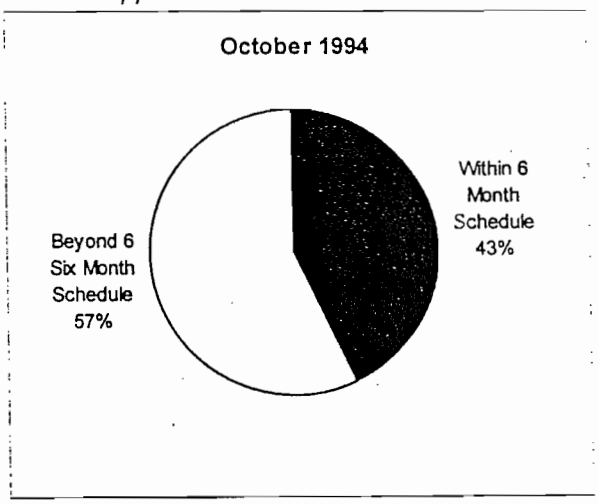
d. In March, after the Council's midyear funding augmentation was authorized, a contractor's crew of two mechanics was brought on-site.

The result of these changes is reflected in the July 1994 unscheduled repair rate. Unscheduled repairs dropped to 52% from the 91% twelve months earlier. This is a direct measure that the condition of the equipment has improved significantly. These critical fleet improvements, however, have resulted in projected budget overexpenditures in two categories -- overtime ($45,000) and contractual services ($175,000). The six day work week is the primary cause of the overtime expenditures. Now that nearly all critical repairs identified in the assessments have been completed and maintenance demands have reached a more reasonable level, the Saturday workday was discontinued effective November 1, 1994 to limit the cost overruns in this expenditure detail. Contractual expenditures consist of both expenses for the crew brought on site and contracting out repairs identified in the condition assessments. Since July 1994, the main contractor alone has completed five major overhauls costing over $20,000 each. Although the Fire fleet status report submitted to Council last year estimated one-time critical repair costs of $210,000, the estimate was based on a limited number of completed condition assessments and did not anticipate the level of deterioration later identified. Expenditure experienced to date amounts to $385,000.

The level of commitment to repairs required to upgrade the condition of the fleet and reduce the rate of unscheduled repairs resulted in the shop not achieving the goal of a rigid six month preventive maintenance servicing program. During the past 15 months, the shop performed preventive maintenance on the entire fleet once but the second six month interval PM has not been completed for all equipment.

Chart E shows the overall status of the six month service cycle. As the chart indicates, 43% of the fleet is within the six month servicing objective. Although servicing is behind schedule at the present time, it represents a significant improvement from previous servicing levels. All of the units have received preventive maintenance servicing within the last twelve months.

CHART E - Apparatus Within Maintenance Schedule



It is stressed that the PM program's current status is not from lack of effort. Staff at the shop, with cooperation from the Fire Department, have continued to strive for the objective. General Services' plan to achieve the six month preventive maintenance cycle is outlined later in this report. The plan basically consists of augmenting the resources now assigned to the Fire maintenance facility. It is now clear that existing budgeted resource levels will not achieve the six month

interval PM program even if the shop succeeds in reducing repair rates to 60%, and increasing the time available for preventive maintenance and other services from 20% to 40%. Current staffing levels after these improvements would allow only 13 apparatus to be PM'd each month. Preventive maintenance time must be available to service at least 17 apparatuses monthly to meet the six month PM schedule as prescribed by industry standards for this type of emergency response heavy equipment. The plan to achieve the six month PM cycle proposes shifting some resources within the Vehicle Management Program.

FLEET CONDITION ASSESSMENT RESULTS

The assessment procedures involved both visual inspection and testing of each vehicle's systems and subcomponents. Each subsystem or subcomponent that was inspected or tested was recorded in a document that notes the findings and, specifically, any defects that needed corrective action. The contractor's crew, consisting of two mechanics was primarily used for the assessments. They documented their findings which include a total of 86 inspection and testing entries for all systems and subcomponents evaluated. To translate all the inspection entries into a scale for this report, the following values were used to summarize the overall mechanical condition.

a. Good Condition - If 90% or more of the mechanical components that were evaluated were in good condition, the overall condition of the vehicle was given a rating of "good."

b. Fair Condition - If 70% - 90% of the mechanical components that were inspected were in good condition, the vehicle was assigned a "fair" rating.

c. Poor Condition - If less than 70% of the mechanical components that were inspected were in good condition, the vehicle was categorized as being in "poor" condition.

This report uses the above ratings. It should be understood that this is not a *predictive* value. Mechanical components that have moving parts in encasements were not taken apart and examined. With transmissions for example, fluids were tested for signs of metal disintegration that would indicate that the interior gears were defective. Exterior seals also were checked for condition and potential leaks. However, transmissions and other similar systems were not taken apart for inspection. The seal inspection and fluid testing does not measure reliability. Age of the component and usage need to be considered.

The presentation of the condition assessment findings below has been broken into categories of equipment -- engines, aerial trucks, rescue units, patrol tankers, water tenders, and other rigs (fuel truck, foam unit, air supply trucks, H.I.T. vans, and command van). Under each equipment category, a chart that details all the equipment is included. You will note that the charts depict the condition of each piece of equipment in two separate ratings. One is the original mechanical condition rating before a number of repairs were performed by General Services in the past 15

months. The second rating which is termed the "updated assessment rating" is the rating after all repairs completed to date. The discussion on the equipment starts with engines.

Engines

The Fire Department has a total of 39 engines -- 33 are front line and six (6) are in reserve status. The primary function of a fire engine is to provide an immediate response to emergency situations, access the scene, and establish priorities to abate hazards utilizing support units as needed. They are triple combination Type 1 engines (medical, firefighting, and rescue response capabilities), carry a minimum of 500 gallons of water and are designed to pump an average of 1,500 gallons of water per minute. Standard equipment includes emergency medical equipment, 50 feet of ground ladders, and specialized fire suppression tools. Responsibilities include but are not limited to rescue, evacuation, salvage, fire suppression, medical response, citizen assistance, and vehicle accidents.

Table 3a summarizes the fire engine condition assessment ratings, and Table 3b provides a detailed description of these vehicles -- their age, mileage, mechanical condition before repairs, and current mechanical condition after repairs.

As can be seen from the charts, there has been a significant upgrading of the mechanical condition in the fire engine

Table 3a - Engine Assessment Summary

Rating	Original Assm't.	Percent of Total	Updated Assm't.	Percent of Total
Good	6	15.38%	25	64.10%
Fair	16	41.03%	8	20.51%
Poor	17	43.59%	6	15.38%
TOTAL	39	100.00%	39	100.00%

Table 3b - Engine Condition Assessment

Apparatus	Model Year	June 1994 Mileage	Original Assessment Rating	Updated Assessment Rating
Engine-28	1970	85,467	Poor	Poor
Engine-22	1973	107,306	Poor	Good
Engine-11	1973	92,726	Poor	Good
Engine-Airport 20B	1974	7,020	Fair	Good
Engine-29	1975	91,274	Fair	Fair
Engine-25	1975	95,215	Fair	Fair
Engine- 27	1977	108,701	Poor	Fair
Engine-21	1978	95,464	Poor	Poor
Engine-23	1978	125,222	Poor	Fair
Engine-15	1983	93,423	Poor	Good
Engine-17	1983	87,780	Poor	Good
Engine-13	1983	67,368	Fair	Good
Engine-4	1983	66,296	Fair	Good
Engine-18	1983	97,058	Poor	Fair
Engine-24	1983	73,517	Fair	Good
Engine-14	1983	56,762	Fair	Good
Engine-6	1983	61,899	Fair	Good
Engine-19	1985	60,073	Fair	Fair
Engine-10	1985	57,998	Poor	Fair
Engine-12	1985	68,833	Fair	Good
Engine-16	1986	75,383	Fair	Good
Engine-5	1986	80,026	Fair	Good
Engine-2	1986	106,693	Poor	Fair
Engine-9	1986	66,275	Fair	Good
Engine-20C	1988	5,546	Good	Good
Engine-8	1988	70,498	Fair	Good
Engine-26	1988	66,862	Fair	Good
Engine-3	1990	7,604	Fair	Good
Engine-7	1990	31,903	Good	Good
Engine-1	1990	35,717	Good	Good
Engine-101	1990	30,767	Good	Good
Engine-Airport 20A	1992	1,794	Good	Good
Engine-8	1993	7,043	Good	Good
Reserve Engine	1969	109,616	Poor	Poor
Reserve Engine	1970	95,210	Poor	Poor
Reserve Engine	1973	104,570	Poor	Poor
Reserve Engine	1975	91,245	Poor	Good
Reserve Engine	1975	95,301	Poor	Poor
Reserve Engine	1975	105,802	Poor	Good

category. Only six engines were originally assessed as being in good condition. In the past 15 months, resources totaling $712,000 were spent on repairs of the engines. This equates to approximately $18,000 per piece of equipment. This has resulted in a total of 25 engines being upgraded to *good* mechanical condition and five engines being upgraded to *fair* condition.

A key element with regard to the overall condition of the engine fleet is the fact that the City will be receiving 12 new engines this year. This infusion of new engines will upgrade the entire engine fleet. All of the older potentially less reliable pieces of equipment will be placed on reserve or sold for salvage value. All the frontline equipment now listed above as being in *fair* or *poor condition* will be replaced with new engines, and the reserve fleet will be upgraded with equipment in fair or good condition.

One assessment component that is still ongoing and should be noted is pump testing for each fire engine. The previous practice was for Fire Department personnel to test all engine pumps during one particular month. General Services assumed responsibility for performing the pump tests. The original consolidation workplan retained pump testing by fire personnel. This strategy was changed jointly with the Fire Department because testing by trained mechanical staff added a secondary element of assurance that the pump mechanism received full mechanical assessment and corrective actions. General Services has begun a more rigorous procedure using outside contractors. Discrepancies are being found and corrected. To date, only one-third of the pumps have been tested. It is anticipated that any discrepancies found can be reconditioned with existing resources. If this should not be advisable, a report will be submitted to the Council.

Aerial Trucks

The Fire Department has a total of 14 aerial trucks. All are equipped with various aerial devices that range from 65 feet to 100 feet with some having *Type I* fire engine pump capabilities. Their purpose is to provide above-groundlevel fire scene access for rescue, evacuation, and fire suppression.

Table 4a summarizes the ladder truck condition assessment ratings, and Table 4b provides a detailed description of these vehicles -- their age, mileage, mechanical condition before repairs, and current mechanical condition after repairs.

As noted in Table 4b, there are still three front-line ladder trucks and two reserves rated in poor condition for a total of five.

***Table 4a** - Truck Assessment Summary*

Rating	Original Assm't.	Percent of Total	Updated Assm't.	Percent of Total
Good	3	21.43%	7	50.00%
Fair	5	35.71%	2	14.29%
Poor	6	42.86%	5	35.71%
TOTAL	14	100.00%	14	100.00%

***Table 4b** - Truck Condition Assessment*

Apparatus	Model Year	34,486 Mileage	Original Assessment Rating	Updated Assessment Rating
Truck-18	1973	71,785	Poor	Poor
Truck-5	1976	72,779	Fair	Fair
Truck-3	1976	54,991	Fair	Poor
Truck-9	1981	42,606	Fair	Good
Truck-13	1981	48,512	Poor	Poor
Truck-14	1981	40,012	Fair	Fair
Truck-16	1981	48,724	Poor	Good
Truck-4	1988	27,991	Fair	Good
Truck-1	1992	9,509	Good	Good
Truck-2	1992	11,509	Good	Good
Truck-29	1993	6,295	Good	Good
Reserve Truck	1971	82,703	Poor	Poor
Reserve Truck	1971	37,778	Poor	Poor
Reserve Truck	1979	69,069	Poor	Good

These trucks also have failed to pass the ladder certification as required by the National Fire Protection Association. The aerial devices have structural damage and metal fatigue from bumping up and down as the vehicles travel. This kind of damage is apparently common for these ladders which were constructed 15-20 years ago. The new ladders are constructed of steel and are structurally different which makes them much more durable. The company that was hired to certify the ladders concluded that these ladder units would best be replaced.

In March 1995, the ladder on a sixth truck failed. It now is staff's assessment that if retained in service only one truck should be repaired and five should be considered for replacement. The primary basis for this replacement recommendation is that the trucks require additional mechanical repairs, and were manufactured by American LaFrance. American LaFrance is no longer manufacturing apparatuses. The business is now limited to refurbishing and providing parts for units previously manufactured. Discussions with the national service manager confirms staff's information that the business that now refurbishes and produces the parts will be sold. The national manager could not confirm that the new buyer would continue the business as currently structured. Thus, the availability of parts for all pieces of equipment from American LaFrance is not predictable at this time.

Table 5a - Rescue Assessment Summary

Rating	Original Assm't.	Percent of Total	Updated Assm't.	Percent of Total
Good	7	53.85%	8	61.54%
Fair	4	30.77%	5	38.46%
Poor	2	15.38%	0	0.00%
TOTAL	13	100.00%	13	100.00%

Rescue Units

The Fire Department has a total of 13 rescue units -- 10 are front line. The primary function of a rescue unit is to provide support to on-scene fire trucks since these units are assigned with aerial trucks as a two-piece company. Rescue units carry all the necessary heavy rescue equipment and medical supplies to compliment backup support. These units also have large generators that provide additional lighting and emergency power at the fire scene.

Table 5a summarizes the rescue unit condition assessment ratings, and Table 5b provides a detailed description of these vehicles -- their age, mileage, mechanical condition before repairs, and current mechanical condition after repairs.

Table 5b - Rescue Condition Assessment

Apparatus	Model Year	34,486 Mileage	Original Assessment Rating	Updated Assessment Rating
Rescue-14	1981	96,898	Fair	Fair
Rescue-13	1981	70,196	Fair	Fair
Rescue-2	1988	25,394	Good	Good
Rescue-9	1988	23,303	Good	Good
Rescue-16	1988	31,430	Fair	Good
Rescue-5	1991	17,870	Good	Good
Rescue-18	1991	14,010	Good	Good
Rescue-4	1991	12,448	Good	Good
Rescue-3	1991	14,421	Good	Good
Rescue-1	1992	11,275	Good	Good
Reserve Rescue	1981	79,815	Fair	Fair
Reserve Rescue	1976	61,275	Poor	Fair
Reserve Rescue	1975	87,761	Poor	Fair

The overall situation of the City's rescue units is good. Eight out of the 10 front-line units are six years old or less. There is no immediate need to replace rescue units. However, the two 1981's that are rated fair have very high mileage. The engine and transmission in Rescue #14 will soon need to be overhauled at a cost of $17,000.

Suspension repairs are needed at a cost of $2,000. Utility cabinet doors, hinges, and bottoms need overhauling at a cost of $2,000. This unit traveled 4,848 miles for the year and cost $10,672 to maintain. Problems identified in Rescue #13 include the steering, suspension, cooling system, brakes, and transmission retarder. Repairs will total approximately $8,000. This unit traveled 4,097 miles for the year at a cost of $7,477 to maintain.

Patrol Tankers

The Fire Department has a total of 13 brush patrol tankers -- seven (7) are front line and six (6) are in reserve. The primary function of brush patrol tankers is to combat wildland fires throughout the City. These are four-wheel drive light duty chassis trucks that carry 250 gallons of water to support a single stage 150 gallon-a-minute fire pump.

Table 6a summarizes the brush patrol tanker condition assessment ratings, and Table 6b provides a detailed description of these vehicles -- their age, mileage, mechanical condition before repairs, and current mechanical condition after repairs.

***Table 6a** - Patrol Tanker Assessment Summary*

Rating	Original Assm't.	Percent of Total	Updated Assm't.	Percent of Total
Good	6	46.15%	6	46.15%
Fair	0	0.00%	0	0.00%
Poor	7	53.85%	7	53.85%
TOTAL	13	100.00%	13	100.00%

As noted in the table, front-line patrol tanker #20 is in poor mechanical condition. This unit has pump, rear end, transmission, and engine overhaul needs. Mechanical staff does not recommend investments to repair this unit. Staff also does not recommend investing in the repairs of the reserves. The premise of the recommendation is not only the existing mechanical condition, but also from the perspective that these 1981 models are undersized for contemporary needs. The 1981's are all 10,000 lbs. gross vehicle weight (GVW) while contemporary needs require 14,000 lbs. or higher GVW. These units would continue to have major problems with the suspension and drive trains. It is recommended that a multi-year program be initiated to replace the older units.

***Table 6b** - Patrol Tanker Condition Assessment*

Apparatus	Model Year	June 1994 Mileage	Original Assessment Rating	Updated Assessment Rating
Patrol Tanker-20	1981	52,179	Poor	Poor
Patrol Tanker-12	1988	27,083	Good	Good
Patrol Tanker-27	1988	39,880	Good	Good
Patrol Tanker-24	1988	29,192	Good	Good
Patrol Tanker-2	1988	36,105	Good	Good
Patrol Tanker-19	1988	24,151	Good	Good
Patrol Tanker-21	1988	28,402	Good	Good
Reserve Tanker	1973	59,450	Poor	Poor
Reserve Tanker	1981	54,418	Poor	Poor
Reserve Tanker	1981	54,418	Poor	Poor
Reserve Tanker	1981	65,667	Poor	Poor
Reserve Tanker	1981	58,433	Poor	Poor
Reserve Tanker	1981	60,211	Poor	Poor

Water Tenders

The Fire Department has a total of five (5) water tenders. In the fire service, they are also referred to as "fire engine tenders" since their primary function is to provide a 2,500-3,000 gallon water source to the fire engine at incidents where access to water is not available or the water supply is inadequate.

Table 7a summarizes the water tender condition assessment ratings, and Table 7b provides a detailed description of these vehicles -- their age, mileage, mechanical condition before repairs, and current mechanical condition after repairs.

Table 7a - Water Tender Assessment Summary

Rating	Original Assm't.	Percent of Total	Updated Assm't.	Percent of Total
Good	0	0.00%	3	60.00%
Fair	3	60.00%	0	0.00%
Poor	2	40.00%	2	40.00%
TOTAL	5	100.00%	5	100.00%

As noted, the front line equipment is in good condition. The reserves require investments to upgrade their condition.

Table 7b - Water Tender Condition Assessment

Apparatus	Model Year	June 1994 Mileage	Original Assessment Rating	Updated Assessment Rating
Water Tender-18	1981	23,458	Fair	Good
Water Tender-2	1977	15,787	Fair	Good
Water Tender-22	1977	26,579	Fair	Good
Reserve-Water T	1969	78,897	Poor	Poor
Reserve-Water T	1969	99,016	Poor	Poor

Other Apparatus

Table 8a summarizes the condition assessment ratings for other equipment (fuel truck, foam unit, two air supply trucks, two H.I.T. vans, and command van) -- their age, mileage, mechanical condition before repairs, and current mechanical condition after repairs.

Table 8a - Other Apparatus Assm't. Summary

Rating	Original Assm't.	Percent of Total	Updated Assm't.	Percent of Total
Good	2	28.57%	2	28.57%
Fair	1	14.29%	3	42.86%
Poor	2	28.57%	0	0.00%
Not in Svc.	2	28.57%	2	28.57%
TOTAL	7	100.00%	7	100.00%

As noted in the tables, none of the other equipment is rated below fair mechanical condition. The most critical apparatuses in this group are the Hazardous Incident Team units. The City has purchased and placed into service a new H.I.T. van.

Table 8b - Other Apparatus Condition Assessment

Apparatus	Model Year	June 1994 Mileage	Original Assessment Rating	Updated Assessment Rating
Fuel Truck	1985	3,336	Good	Good
Air Cascade-6	1988	6,300	Fair	Fair
Foam Unit	1989	1,913	Good	Good
Command Van	1991	707	Not in service	
HIT Unit (New)	1994	19,000	Good	Good
Reserve-Air Cascade	1975	86,769	Poor	Fair

SUMMARY AND RECOMMENDATIONS

Condition of the Fleet

The City's firefighting fleet consists of 33 engines, 11 ladder trucks, 10 rescue units, 7 patrol tankers, 9 water tenders, and 6 other miscellaneous equipment. In summary, the condition of the equipment is as follows.

- The overall condition of the engines is good. The acquisition, now in progress, of 12 new engines is going to place this city in a good situation.

- There are five aerial ladder trucks that are in poor condition and have failed ladder certification. After completion of the assessment, a sixth ladder has failed. Staff now recommends consideration be given to replacing five and investing $117,000 to repair the sixth.

- The overall condition of the rescue units is good. Eight of the ten front line units are categorized as being in good condition and two are in fair condition. No immediate replacement needs are projected by staff.

- Seven out of the eight front line patrol tankers are in good condition -- one is in poor condition. Staff does not recommend investing in repairs to the existing patrol tankers.

- The three front line water tenders are in good condition. The two reserves are in poor condition.

Replacement Recommendations. The Fire Department, in a separate report, discusses and makes recommendations regarding equipment deployment and replacements.

Maintenance Program

The overall improvement to the fleet that could be done through repairs has been accomplished, with only a few exceptions such as the aerial truck cited above. In the future maintenance program, the fire shop should pursue an aggressive preventive maintenance program. The General Services Department plans to achieve an aggressive program through the following.

1. Continue to cross train staff through inter-shop transfers, manufacturer's training, and in-house training programs. In-house staff will be certified by OSHA and the National Fire Protection Association on the testing and maintenance of pumps and all hydraulic systems on the fire apparatuses.

2. The Department has and will continue to develop the capability of servicing and repairing fire apparatuses at other facilities including the South Yard and the Main Yard as a backup, should the need arise.

3. General Services proposes to initiate a second shift operation at the Fire Shop. Staffing for the proposed shift would come from converting existing Vehicle Maintenance positions to mechanics. The proposal to convert the positions was submitted as part of the budget process, and would add two mechanics to the four permanently assigned to the Fire Shop. The staffing level achieved with the

reassignments is the minimum needed for the shift and to adequately maintain the Fire fleet. A swing shift operation is preferable to increasing day shift staffing due to the fixed number of bays and capital facilities at the Fire Shop. The total ongoing cost proposed is $80,000.

The initiation of this swing shift at the shop would also achieve the following efficiencies.

- The turnaround time for completing the PM servicing of equipment would be decreased as would the corresponding time apparatuses are placed out of service. Units pulled during the day for servicing would be worked on during the swing shift.

- The swing shift would double the utilization of the shop bays and equipment.

- The swing shift would provide on-duty mechanics during swing shift hours eliminating call-backs during that timeframe.

- The availability of the shop during the swing shift hours would provide flexibility in meeting other service demands that, because of priority, would require servicing immediately (i.e. overflow from the Municipal Garage on police patrol units or unmarked units).

MAINTENANCE PROGRAM RECOMMENDATIONS

Approve as part of the budget process a proposal that would convert metal fabrication specialist (welders) to mechanics positions. The converted positions would be used to staff a second shift at the Fire Shop. The proposal results in a net ongoing reduction of $95,000 per year.

COUNCIL POLICY

TITLE	PAGE	POLICY NUMBER
CONTRACTED SERVICES	1 OF 3	0-24
	EFFECTIVE DATE 03/19/91	REVISED DATE

APPROVED BY

Council Action: 3/19/91, Item 9o(2)

PURPOSE

It is the purpose of this policy to provide guidelines governing a decision to use non-city employees to deliver City service functions.

A City service function is an organized group of individuals, supplies, equipment and facilities which the City establishes to deliver a service or services into the foreseeable future. This group may deliver a service to residents, to others within the same department, to other City departments, or to other public agencies.

This policy does not apply to a decision to use a contract employee to provide individual labor to the City but it does apply to independent contractors or firms that provide professional or consulting services.

POLICY

As a service organization, San Jose's purpose is to provide a full range of public safety, capital maintenance and community services that are responsive, within financial constraints, to the community.

City staff will deliver the desired day-to-day level of all City service functions except when any of the following exceptions apply and all of the conditions listed below are met.

Exceptions

E-1. Legally Required: Federal or State law, the City Charter or the Municipal Code require that non-City employees perform the desired service or activity.

E-2. Low Workload: The City's workload will not support a large enough staff to provide uniform service levels and quality during vacations, sick leave, employee turnover or peak workloads.

E-3. Uneven Workload: The City's workload is seasonal, unpredictable, or highly variable.

E-4. Expertise: The City staff lacks the appropriate technical or management expertise and the service demand will not justify the cost of training and supervising a specialized staff.

E-5. Minimize Potential Risks: The City staff lacks the appropriate technical or management expertise and the use of contracted services will minimize significant potential City liabilities.

E-6. Rapid Rates of Change: The demand for the service, its desired service level or its delivery methods are experiencing rapid rates of change.

E-7. Capital Equipment and Support Intensive: The service is capital equipment intensive and requires the City to provide significant additional support capability.

E-8. Time (Duration): The work required by the City will take no more than two years to complete and no City employees are or will be available to complete that work satisfactorily within the established deadline.

E-9. Funding Source: The funding sources(s) which the City is using to provide the services, such as grants, have either a specific time limit or are subject to budget fluctuations that could lead to City employee layoffs.

E-10. Enterprise Revenues: The contracted service generates revenues to the City through an enterprise fund.

E-11. Contractor: The contractor will be another public agency or nonprofit organization.

Conditions

C-1. Legality: It must be legal to use non-City employees.

C-2. City Employee Layoffs: The use of contracted services must not result in City employee layoffs.

C-3. Prevailing Wages: The contractor's wages are at least at the prevailing wage for those services covered by the current City prevailing wage policy.

C-4. Affirmative Action: The use of contracted services must not subvert or mask the attainment of the City's affirmative action goals.

C-5. Financial Accountability: The City must retain full accountability for all public funds.

C-6. Competitive Service Markets: The City must determine that a competitive service market exists and will be maintained during subsequent delivery method selection, except for sole source nonprofit organizations (such as, the Sports Authority and the Convention and Visitors Bureau).

C-7. Contractor Performance: The City must be able to define the desired service level and quality in specific and observable terms, and be able to evaluate the contractor's performance in detail.

C-8. Contract Administration: The City must have adequate and qualified resources available to administer the contract and monitor it's performance.

TITLE	CONTRACTED SERVICES	PAGE 3 OF 3	POLICY NUMBER 0-24

The City may use non-city employees on a temporary basis to cover an initial start up of a new or resumed service that does not meet any of the exceptions and conditions, or during a transition back to delivery by City employees.

When an exception applies and all the conditions are met, the City may choose to evaluate various mixes of City and non-City employee service delivery to determine the most appropriate mix, based on the following criteria. All analyses should include comparisons between providing equivalent services with City employees and with non-City employees.

Decision Criteria

D-1. Cost Effectiveness: Within the necessary conditions above, City programs should perform a desired service level and quality at the lowest total cost.

D-2. Stability: There should be a low probability of frequent or long service disruption.

D-3. Retrenchment Capability: The selected mix should maintain an adequate City retrenchment capability during difficult financial periods.

D-4. Minimize Economic Dislocations: The selected mix should minimize the economic dislocations which individuals and contractors experience when the City changes contractors.