



*A Case Study for Consideration for the*

## 2013 Transforming Local Government Conference

### Best Value Services Program



## Case Study

### *"Best Value Services Program"*

Category: Organizational Design  
Jurisdiction: City of Carlsbad  
City Manager: Lisa Hildabrand

Would you like the application to be considered for an Innovation Award? **Yes**  
Would you like the application to be considered for our Rapid Fire Session? **Yes**

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## Synopsis

The City of Carlsbad (hereinafter, “the city”) is known for providing an extremely high quality of service. The city consistently receives a high level of satisfaction from residents in its annual public opinion survey. The most recent survey, from 2011, showed that 98 percent of residents rate the city’s quality of life as good or excellent, and 94 percent are satisfied with the job the city is doing providing services. The challenge facing the City of Carlsbad is how to maintain these excellent ratings while addressing the very real concerns of a volatile economy and increasing labor and related variable costs. To address this challenge, the city recently created a Best Value Services program. This program aligns with the city’s strategic focus area of being a **sustainable organization** – i.e., being an adaptable, responsive, and efficient organization that delivers cost effective, high quality services. In other words, a sustainable city organization is one that provides the best quality at lowest cost.

The program is intended to evaluate service delivery methods and costs for all city operations except sworn public safety services. In December 2011, the city selected Baker Tilly to assist with the Best Value Services program. The first step in this program is an operational assessment of all the services provided by a particular department. Baker Tilly consultants commenced their first operational assessment in March 2012 with the Parks & Recreation Department. Findings from this report were released July 2012. Baker Tilly consultants have begun their second assessment (Transportation Department) in July 2012 with an estimated completion by November 2012. The assessments are intended to:

- Evaluate department performance in relation to best practices and accepted industry standards;
- Quantify current resource allocations and expenditures by functional area within lines of business. (i.e., Line of Business: Parks Maintenance – Pest Control (functional area);
- Ensure that the city’s resources and strategic priorities are aligned;
- Determine the feasibility of alternative service delivery approaches, and enhance collaboration and coordination with other entities; and
- Position the city to continue the delivery of high quality services within Parks & Recreation at the lowest cost to taxpayers.

The strategy in assessing operations is to look at the full continuum of options available to the city. The following provides an overview of some of the options considered during this analysis and the criteria used to make the assessment:

- **Productivity Enhancements:** The options to consider under this category of improvements focus on enhancing the productivity of the organization. There are a number of different ways to look at improved productivity. They include:
  - Usage of technology to reduce processing times; enabling the reallocation of resources.

- Process re-engineering allows staff to decrease the number of steps to complete a process. It may also include a reduction in the number of departments participating in a process, the elimination of approvals in order to streamline tasks, and the development of staff specializations so that fewer participants in a process are needed.
  - Lean government refers to the application of lean production principles and methods to identify and implement the most efficient and value added way to provide government services.
- ***Cost Sharing Arrangements:*** Consolidation of services and functions offers municipalities the opportunity to realize significant savings while preserving, or even enhancing, service levels. There are many examples of intergovernmental cooperation, ranging from joint purchasing through full consolidation of formerly separate organizations. These arrangements offer a number of advantages beyond cost reduction: standardization, reduced processing times and greater organizational communication. The options considered under these arrangements focus on the city's ability to work with other units to share services, or whether or not options for consolidation exist.
  - ***Managed Competition:*** Although managed competition has existed for decades, it has only recently seen increased implementation. Managed competition is a process used by local governments to identify the most cost-effective method for quality service delivery. It calls for carefully comparing the costs and benefits of contracting with private business or another government entity against the costs and benefits of providing the service in-house.

We use two criteria for determining whether or not managed competition is an option at the city:

- Where the gap between the current cost of service (internal) and the cost of a potential vendor (external) is narrow enough that the city might be able to negotiate with bargaining units to lower overall cost of service or it is feasible that City employees could lower costs based on changes in service delivery approach. Negotiation strategies may include: increasing staff availability for work, decreasing crew sizes while maintaining safety and quality, and eliminating some bargaining agreement items (e.g., call back pay, duty availability). Baker Tilly selected items for managed competition based upon our professional opinion in identifying gaps which may be addressed by a competitive process. The city, however, may elect to use a different process depending upon circumstances.
  - When there are less private sector providers available.
- ***Outsourcing:*** This option considers whether or not there is a vendor in the market who can perform the services in a more cost efficient manner. The cost savings under this option lies primarily in the difference between the public sector and private sector benefit rates. Outsourcing options are typically considered where the gap between what a vendor may charge for a service is substantially less than what the city is currently

paying for it. Additionally, a substantial number of third party providers exist in the respective area.

The Parks & Recreation review completed spans the full continuum of options available to the city relative to the delivery of Parks & Recreation services. A total of 48 opportunities with a range of \$2.3 million to \$4.7 million annually in estimated potential savings, revenue enhancements or resource reallocations were identified. Not every opportunity had a tangible savings associated with it. Some are opportunities for increasing the efficiency of staff and do not necessarily translate to dollar savings.

Of the 48 opportunities the following options would provide the most significant savings to the city:

- *Consideration of outsourcing of the entire parks maintenance function* – the parks maintenance function encompasses all lines of business associated with parks maintenance activities (e.g., tree maintenance, landscape maintenance, hardscape maintenance, trails, open space and preserve maintenance). The city has the opportunity to reduce the cost of providing parks maintenance through the use of a third party. This cost impact is derived from differences in the current level of salary and benefits, the reduction of non-productive hours paid, and the economies of scale from a larger parks maintenance operation. Based on comparison of actual labor costs and initial vendor quotes, the potential savings to taxpayers ranges from \$1,700,000 - \$3,866,000. These cost estimates are preliminary; however, the magnitude of stated cost difference is so significant it warrants a formal process to assess actual cost savings for outsourcing this function.
- *Consideration of outsourcing of individual lines of business within parks maintenance* – if the city determines that it does not wish to pursue outsourcing of the entire park maintenance function, the analysis indicates that consideration of outsourcing two specific lines of business may also result in high quality service at a lower cost.
  - Landscape maintenance – if the city were to outsource routine parks maintenance (i.e., mowing, weeding, pest control, irrigation maintenance) based on a comparison of public to private sector labor costs the potential exists to save approximately \$925,700 per year.
  - Tree maintenance – if the city were to outsource tree maintenance, based on information from comparing city and a vendor quote, potential savings is estimated at nearly \$700,000 a year.
- *Consideration of managed competition for hardscape and trails* – in these two areas, the gaps between the current cost of delivering a service and what a vendor could potentially charge is narrow enough to use managed competition as a strategy for reducing the overall costs of service.
- *Consider a wider span of control for Parks & Recreation* – while both parks and recreation are in alignment with the defined span of control, it is recommended that the city adopt a ratio of 10 employees per manager in order to gain further efficiencies.

- *Alignment of labor costs with productive hours* – productive hours, in this case, is defined as the number of hours available in comparison to number of hours paid. Currently, the city pays for a higher than average amount of “unproductive hours” (i.e., vacation, leave) in many areas of Parks & Recreation. In comparison to the Bureau of Labor Statistics’ national standard of 92.6%, the city has an average availability ratio for full time employees of 85.5%. This means that, on average, the city is paying for 7.1% more unproductive hours than is seen in other sectors for similar work. The city can address this by either increasing part time staff or using private sector vendors to provide work.
- *Alignment of fees charged with market rate and demand* – the city is known for providing an exceptional quality of life experiences for its residents through Parks & Recreation programming and facilities. Currently, the city lags behind other regional government entities by 75% in rental rates. Adjusting fees by even 25% could mean an additional \$125,000 in revenue. This adjustment could be done over a period of years to ease the effect on residents. Similarly, fee levels for aquatics programming are lower than government comparables for all programs, with the exception of the masters program. An increase in fees for yearly passes and rentals to non-public entities could result in \$34,500 in additional revenue. Additionally, focusing pool scheduling on higher fee activities could result in an additional \$30,500 annually.
- *Enhanced use of technology* – the city can reduce operational costs and enhance resource allocation decision-making by using available technology to provide service and manage operations.
  - Promoting On-line Registrations – currently, only 35% of registrations are completed online. If the city were to increase the amount of online registrations to 50%, it could decrease operational costs by \$18,000. An increase to 80% could reduce cost by \$100,000. Most governmental entities are targeting 80% or more online transactions for routine transactions such as registrations, permit applications, etc.
  - Consistent Use of Hansen for Work Management and Performance Tracking – the Hansen work order system is a powerful system for tracking operational performance. Currently, the parks maintenance function is inconsistent in how it uses the system to capture data. In conducting this analysis, we found that there was not one line of business that used this system to consistently track work assignments, completion or costs. The city can realize the full potential of this investment by consistently entering and closing work orders to more effectively monitor changes in work levels, identify issues with response times or approaches, and support justification for budget requests. Similarly, a consistent method for tracking and reporting in-house and contractor performance in comparison to metrics is not evident. Ensuring vendors are meeting performance expectations is critical to ensuring anticipated cost savings and retention of required levels of service.

The most critical element related to the maintenance of existing service levels will be the presence of a solid and robust performance management framework for both internally and externally delivered services. This will require:

***Enhancement of the existing performance management framework*** for vendors and third party contracts – while the city has a solid vendor performance management framework, we anticipate that this framework will need to be strengthened through more explicit performance metrics, enhanced formality of the contract performance management hierarchy (i.e., who is the daily sign off, who is monitoring performance), and regular comparison between service and cost levels to ensure cost effectiveness without impact on service levels.

***Increased formality of internal performance management frameworks*** – the level of work performance tracking and specificity of how and by whom operational statistics are kept will need to be formalized to focus on the most critical measures and quantifying the level of effort required relative to various service levels (e.g., if there is a different expectation in terms of service level that warrants a higher level of work effort, that will need to be clearly defined).

***Focus of internal efforts*** on those services best performed internally may allow an actual enhancement to service levels given the narrower spectrum of services provided.

There are no guarantees that service levels will not be impacted in any manner; however, through the use of sound performance contract negotiation and management, the introduction of clear operational statistics tracking, and the ability of the city to partner with vendors to provide services in select areas by taking advantage of vendor specialization and expertise, the city should be well positioned to carry out its Best Value Services program.

## *Presentation Style*

The proposed presentation would be an interactive discussion of the lessons learned by this program. We plan on discussing issues related to working with employee unions, city council and the public. We will discuss how the analysis was undertaken, how operations were costed out, the challenges in doing so and how Baker Tilly worked with the vendor community in order to cost out alternatives. Our presentation would have a standard PowerPoint format.