Memorandum

CITY OF DALLAS

DATE October 7, 2005

TO Finance, Audit and Accountability Committee -
Mitchell Rasansky, Chair; Gary Griffith, Vice-Chair; Mayor Pro Tem Donald Hill;
Bill Blaydes; Linda Koop; Ron Natinsky; Ed Oakley; and Steve Salazar

SUBJECT Fleet Privatization

Attached is a copy of materials for your October 10th meeting. The materials are provided as follow-up to questions and comments from your September 26th briefing on Fleet Privatization.

Subsequent to your last meeting, the Commission on Productivity and Innovation has been further briefed on this topic. During their meeting on October 6th, the commission passed the following resolution on a 5-2 split vote:

> The Commission on Productivity and Innovation recommends the Dallas City Council award a 57-month contract to Serco Group, Inc., for fleet maintenance and repair services of Sanitation Heavy equipment as a pilot fleet privatization program.
>
> The Commission on Productivity and Innovation believes this privatization will benefit the City by introducing competition and reducing costs by approximately $910,000 per year on an ongoing basis for the life of the contract. With full implementation by December 31, the amount saved during FY05-06 is anticipated to be less due to only 9 months of contract effectiveness as well as anticipated implementation costs.

During the meeting, some commission members requested that the City Council be informed of their reservation regarding Serco's quoted non-target labor rates which is $93.00 per hour for outsourced labor. Concern was expressed that Serco should provide outsourced labor at the best value possible and not at the quoted hourly rate.

Should you have any questions, please contact me.

David Cook
CFO and Interim Assistant City Manager

c: Honorable Mayor and Members of the City Council
Members of the Commission on Productivity and Innovation
Mary K. Suhm, City Manager
Ramon F. Miguez, P.E., Assistant City Manager
Ryan S. Evans, Assistant City Manager
Charles W. Daniels, Assistant City Manager
Jill Jordan, P.E., Assistant City Manager

Fleet Maintenance Privatization
Finance, Audit and Accountability Committee
Follow-up to Questions and Comments – September 26, 2005

1. **Did Equipment Services go over budget last year and estimating to go over budget again this year?**

Yes. The Equipment Services division of EBS went over budget on fleet maintenance by about $2.1m in FY 2003-04. The briefing on September 26th, showed an estimate of $0.7m over budget for FY 2004-05. Although the books for FY 2004-05 have not closed yet, an updated estimate is $611,052 over budget.

2. **Provide explanation of why Equipment Services is exceeding budget.**

Equipment Services exceeded budget primarily due to the need for additional labor hours which was accomplished by using outside vendor labor and overtime. These additional labor hours were needed in order to meet the equipment availability needs of customer departments; for example, to ensure that Police had as many squad cars as possible and Sanitation had as many garbage trucks as possible on a daily basis. This availability requirement is higher than the levels specified in the 2003 managed competition process for which Equipment Services is budgeted. The availability requirements were increased in the specifications for the 2005 process.

3. **Is Serco the vendor that was recommended to Council in 2003 for full privatization of fleet maintenance?**

Yes.

4. **If First Vehicle Services withdrew their bid rather than affirm their pricing for the Sanitation Heavy equipment class, what guarantee do we have that Serco can honor their pricing?**

Serco has affirmed their bid price for the Sanitation Heavy equipment.

5. **Is there a guarantee that Serco can actually complete the required maintenance of the Sanitation Heavy equipment class for the amount bid?**

Not entirely. Serco must perform all <u>target</u> work including labor (regardless of the number of hours required) and parts for a single annual fee. Thus, the target repair costs are guaranteed. There is no guarantee regarding the <u>non-target</u> estimate which is based on an estimated number of hours, labor rate, and parts. This is industry standard for outsourcing agreements. Serco's non-target bid is based on their estimate of 12,231 labor hours for non-target work for each of the 5-years. The per hour cost for in-house labor and for outsourced labor (see table below) is guaranteed. Serco has indicated a 5.5% mark-up for all parts associated with non-target repairs.

Year	Estimated Hours Non-Target	Non-Target In-Shop Rate	Non-Target Outsourced Rate	Non-Target Parts Mark-up	Annual Target Fee
Year 1	12,231	$69.15	$93.00	5.5%	$1,773,684
Year 2	12,231	$70.76	$94.86	5.5%	$1,811,384
Year 3	12,231	$72.10	$96.76	5.5%	$1,846,895
Year 4	12,231	$73.47	$98.69	5.5%	$1,883,093
Year 5	12,231	$74.86	$100.67	5.5%	$1,919,985

6. **What is the experience of the recommended vendor, Serco?**

See attachments provided by Serco. Page 8 provides the corporate experience and pages 9 and 10 provide experience of specific individuals Serco indicates will be utilized for the Dallas contract.

7. **What were the results of reference checks for Serco?**

Serco reference checks conducted by the Department of Business Development and Procurement are attached on pages 11 through 18.

8. **What additional cost is expected from allowing Serco to charge the City separately for "pre-existing" conditions?**

The bid requires pre-existing conditions to be identified at the time of each vehicle's first visit or within 6-months whichever comes first and allows for pre-existing conditions to be repaired as non-target. Serco's bid does not include additional non-target labor hours during the first year, but rather the bid estimates non-target labor hours to be 12,231 for each of the five years of the contract. Therefore, Serco's estimate for the amount of labor/time needed to repair pre-existing conditions is unknown. As with all non-target repairs, the City has the authority to approve or disapprove the repairs.

9. **Why was the Sanitation Automated equipment not included in the recommendation for privatization?**

The RFB required separate bids for the Sanitation Automated equipment class and the Sanitation Heavy equipment class for the purposes of distinguishing a higher availability requirement for the automated class as well as the critical nature of their use and maintenance. Serco's bid estimate for the Sanitation Automated equipment class is only $0.18m better than the City's actual performance. Considering the risk, it was determined to not be worth this potential savings amount.

10. **Did our request for bid for privatization include having the vendor provide all the equipment?**

No. Due to the City already owning the assets including both the fleet maintenance facilities and about 4,600 vehicles/equipment, the bid specifications allow the vendor to utilize the City assets. Specifically, the bid states, "the successful contractor will have the option of using City-owned or Contractor-owned facilities…"

11. **Who will be responsible for parts inventory management?**

Serco. The bid specification states, "The contractor will own and maintain an inventory of parts, materials, supplies, and fluids of an appropriate size and composition for the City's fleet at each vehicle maintenance facility."

12. **What will happen with the City's inventory of parts that will not be needed after the privatization?**

An inventory will be conducted by the City and Serco at the onset of the contract. Serco will sign for all parts contained in the beginning inventory and will purchase the usable parts. Purchase price will be based on the average price paid by the City for each type of part in inventory. The City will be paid within 30 days of commencement of contracted services. However, Serco is not required to purchase inventory that exceeds one inventory "turn" which is approximately equal to 90 to 120 days of stock. The value of inventory above this level may be sold to Serco at a negotiated price.

Parts deemed unusable will be classified as such and disposed of through return where possible or sold at auction.

13. Is the vendor or the City liable if there is an accident resulting from poor maintenance?

Serco is required to purchase and maintain insurance and agrees to the indemnification agreement.

Contractor agrees to defend, indemnify and hold City, its officers, agents and employees harmless against any and all claims, lawsuits, judgments, costs and expenses for personal injury (including death), property damage or other harm for which recovery of damages is sought, suffered by any person or persons, that may arise out of or be occasioned by contractor's breach of any of the terms or provisions of this contract, or by any negligent or strictly liable act or omission of contactor, its officers, agents, employees or subcontractors, in the performance of this contract; except that the indemnity provided for in this paragraph shall not apply to any liability resulting from the sole negligence or fault of City, its officers, agents, or employees, and in the event of joint and concurrent negligence or fault of the contractor and the City, responsibility and indemnity, if any, shall be apportioned comparatively in accordance with the law of the State of Texas, without waiving any governmental immunity available to the City under Texas law and without waiving any defenses of the parties under Texas law.

14. Who is responsible for maintenance costs in the facility to be used by the vendor?

The Contractor is allowed to use the City-owned facility including maintenance and repair equipment, tools, and furniture for a lease charge of $1.00 (one dollar) per year. Upon completion of the contract, these assets will be returned in the same condition in which they were provided to the Contractor, less normal wear and tear.

The contractor agrees to accept the City's facilities in "as is" condition. Since the facility is an asset of the City, it is the City's responsibility to ensure that the facility is safe and well maintained unless repair needs are the result of contractor misuse or negligence. If the contractor identifies deficiencies pertaining to building structure, equipment or other assets, City will determine the appropriate action to take in response to these deficiencies. The contractor must inform the City immediately upon determining that any element of the garage or its contents is in need of repair. Failure to do so could be deemed contractor negligence. Serco has indicated that part of their procedure includes obtaining garage insurance.

The complement of tools and equipment is considered to be reasonably complete. The contractor will work with the equipment available and will not demand additions to equipment. Contractor will be responsible for preventive maintenance and normal operator maintenance of all the garage equipment owned by the City, such as compressors, lifts, overhead doors, etc.

The Contractor will be responsible for their share of grounds maintenance, facility maintenance (custodial), environmental and normal clean-up within each garage and on staging parking areas as well as all utilities.

15. Will the City be able to convert heavy equipment to alternative fuels if we privatize fleet maintenance?

Yes. Privatizing a part of fleet maintenance does not prohibit the City from purchasing or converting to alternative fuel vehicles. The only reference to alternative fuel vehicles states, "the contractor shall…cooperate with staff in alternative fuel vehicle planning projects, evaluations and demonstrations as requested by the Contract Administrator." Since the bid did not specifically address this type of change in equipment, EBS will work with Serco as the need arises to determine if any cost adjustments are appropriate.

16. What is our plan for continuing our use of alternative fuel vehicles, such as CNG or LNG?

27% (1,258 of 4,615 units) of the City's fleet utilizes alternative fuels. The units include: 1,101 CNG Dedicated, 42 CNG Bi-fuel, 113 Hybrids, and 2 Propane. Currently we only have one unit that is part of the Sanitation Heavy equipment class that is alternative fuel operated.

We continue to be committed to having the cleanest fleet possible. Whenever possible and economically feasible, we purchase alternative fuel equipment. Since these decisions have been made case by case, a more comprehensive strategy for both vehicles and infrastructure such as fueling sites is being developed and will be briefed to the Transportation and Environment Committee.

17. Do we perform preventive maintenance on our equipment?

Yes. The City adheres to a preventive maintenance program for all equipment that is specific to manufacturer-recommended programs and the City's operational use of each unit. Serco will be required to continue the preventive maintenance program for Sanitation Heavy equipment and ensure 90% compliance.

18. What are the terms for cancellation of the contract?

The City may terminate a contract awarded under the RFB in whole or in part for cause or for convenience by giving ten days written notice. Serco is required to provide and maintain a performance bond in the amount of $1,000,000.

19. Is this privatization and subsequent savings included in the FY 2005-06 budget recommendation?

No. Savings anticipated from this privatization is not included in the recently adopted budget for FY 2005-06.

The savings in the first year is estimated to be $915,290 for 12 months or $686,468 for the period from January 1st to the end of the fiscal year. The start-up cost is anticipated to be $450,000 for parking improvements and $50,000 to set up appropriate parts room and office for Serco. An on-going cost of $75,000 per year is projected in order to assign a contract compliance administrator.

The City's projected cost for FY 2005-06 is budgeted in the amount of $4,070,943. Serco's estimated cost for 57 months is listed below.

- Year 1 - $3,155,653 ($2,366,740 for 9 months)
- Year 2 - $3,223,555
- Year 3 - $3,286,485
- Year 4 - $3,350,622
- Year 5 - $3,415,980

20. Why is additional parking needed at the Southwest Service Center?

In addition to the 744 units currently maintained at Southwest Service Center, this complex will receive an additional 262 units to be maintained and an additional 89 units to be domiciled. Preliminary estimate to pave a vacant area at the complex as well as to add lighting, fencing, and storm water infrastructure is $450,000. Additional review will be conducted to reduce the scope of this work if possible.

21. What will the duties of the contract administrator be?

The contract administrator will work on-site at Southwest Service Center to oversee the contract. This will include ensuring compliance with performance requirements, monitoring the work of the vendor, approving non-target repairs prior to the work being done, designating repair priorities, analyzing data and trends to identify operational problems, and providing liaison between EBS, Sanitation Services, and the vendor.

22. How many RIFs are expected from the elimination of 28 positions?

The table below summarizes the number of positions to be eliminated and RIFs anticipated at this time. Employees that are impacted will receive assistance in applying for other vacancies within the City such as at the Sanitation Landfill Heavy Shop where there are currently 5 vacancies. Additionally, Serco is required to interview impacted employees for possible placement in their organization.

Position Class	Number of Positions to be Eliminated	Number of Vacancies (as of 10/1/05)	Estimated Number Of Employees To Receive RIF Notice
Certified Technician	0	1	0
Senior Welder	2	1	1
Heavy Mechanic II	1	1	0
Auto Mechanic II	22	19	3
Auto Mechanic I	3	3	0
Trades Helper	0	0	0
Total	**28**	**25**	**4**

23. How will staff inform council of the performance of the vendor?

Status reports will be provided by memo to the Finance, Audit, and Accountability Committee on a quarterly basis for at least the first 2 years of the contract term. Copies will be provided to the full council.

24. Why does the City operate 5 primary fleet maintenance locations as opposed to fewer?

The City has a land area of 384.7 square miles and has operations strategically placed throughout the entire city, such as multiple police sub-stations, etc. The maintenance facilities have also been geographically spread in order to better accommodate customer departments.

25. What is the experience of our staff that provides oversight of fleet maintenance?

The Equipment Services division of EBS is managed by an Assistant Director who has 32 years of fleet maintenance experience. Additionally, there are three manager positions with one filled and two currently vacant. The one existing manager has 33 years of experience in fleet maintenance.

26. How do we ensure mechanics are completing repairs/maintenance as quickly as possible?

Although we do not have a manager on site at each facility, we have either a shop supervisor or a certified tech that has lead responsibility including ensuring that repairs are made efficiently. Additionally, mechanic time spent on repair jobs is compared against time standards for select jobs. This data is provided on a monthly basis for supervisors to use in providing additional supervision as needed.

27. Do we provide any incentives to our employees?

No specific monetary incentive is provided to mechanics for working more efficiently. Mechanics do receive an incentive of an additional one time $100 per certification received such as ASE (Automotive Service Excellence).

All City employees including those in Equipment Services are eligible for merit pay for performance when it is included in the City's budget.

28. What is the status of the 1999 KPMG performance audit of Fleet Operations?

Over the last 6 years, Equipment Services has implemented several recommendations made in the audit such as the following examples: addressed inventory turnover ratio and eliminated the Equipment Services centralized warehouse, eliminated/reassigned low use vehicles; established directives regarding equipment abuse, misuse, and operator error; and conducted periodic checks to determine if outsourced opportunities could save the City money.

Other recommendations were not implemented in the manner suggested in the audit. Instead of disabling fuel privileges for a vehicle that is more than sixty days past due for a preventive maintenance visit, Equipment Services works more closely with departments to schedule preventive maintenance visits in order to increase compliance. Although an equipment replacement fund has not been established as suggested, the City has a well defined replacement criteria and replacements occur as funding is available such as in the case of phasing back to a marked squad car replacement schedule at 100,000 miles instead of at 125,000 miles.

29. What has been the amount of workers' compensation claims for the last 2 years for each of our 5 primary fleet maintenance locations?

For the twenty-four month period, October 1, 2002 through September 30, 2004, below is a summary of workers' compensation claims:

Site	Number of Claims	Cost of Claims
Southwest Service Center	18	61,264.74
Northwest Service Center	13	219,811.26
Central Service Center	12	43,211.70
Northeast Service Center	12	24,878.11
Southeast Service Center	16	25,651.97
SESC – Heavy Shop	6	21,148.42
SESC – Welding/Body Shop	6	47,702.41
Total	83	$443,668.61

Note: At Northwest Service Center, 4 claims accounted for $207,893.45 of the $219,811.26 cost.