**Case Studies: Best Value Services**

**Municipal Service Delivery – How to Get to Best Service At Lowest Cost**

The continued “stall” of the economy coupled by an increasing demand for responsive municipal services has government entities of all sizes rethinking how to provide the best service at the lowest cost. Each community or governmental entity has its own approach to alternative service delivery, but what remains constant is the need to figure out a way to reduce the cost of delivering a broad spectrum of services while meeting ever expanding service expectations.

So what makes the most sense if you are a community with residents that demand high service levels at the same time expecting no increases in the price of service (i.e. tax levy, fees)? A variety of options are available to public sector entities across a broad alternative service delivery spectrum. However, we have found that most entities do not truly understand the actual costs of the current service delivery approach, so that is where the assessment must start with an activity or functional-based costing of existing resources toward the current approach. Once this has been determined, the entity can then assess the viability of lower cost options.

Baker Tilly’s strategy in assessing operations is to look at the full continuum of options available for our clients. The diagram below provides an overview of the various options that are considered. Productivity Enhancements and Strategic Resource Alignment are options that the city can consider without any major structural change to staffing. The options Outsourcing, Consolidated, and Shared Services would require a shifting of work to another entity. This shift can be to an outside entity (outsourcing), or it may mean the city will need to significantly affect the design of the organizational structure (consolidation and shared services).

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.
* **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.

**Case Study #1: City of Carlsbad**

Known for providing an extremely high quality of service, the City was challenged to figure out a way to continue its high level of services into the long term. The city consistently receives a high level of satisfaction from residents. The most recent annual public opinion 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 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 are key options to provide the most significant impact 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). 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***–*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. 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.
* **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 City is currently considering and prioritizing the recommendations it plans to pursue.

**Case Study #2: City of Rockford**

The City needed to reduce a projected budget gap of $5.5 million for FY2011 without significantly impacting core municipal service levels. In September 2010, the City selected Baker Tilly to facilitate the assessment of service delivery alternatives ranging from service level approach changes to outsourced service options. The City initially identified eight functional areas of focus for study: Emergency Medical Services, Community Development Block Grant, Parking System Management, Street Sweeping, Human Services / Head Start Program, Vehicle and Fleet Maintenance, 911 Call Taking and Dispatch, and 311 Non-Emergency Customer Service. A Phase II project focused on Human Resources, Legal, and Financial functions.

**The result (Phase I)—Identified potential savings of $10.5 million.** In completing a business case for each, Baker Tilly identified additional savings beyond the original request to review outsourcing. In the end, Baker Tilly identified significant savings to be realized via outsourcing services, provided vendors were able to commit to their initial assumptions and that the City has a strong performance management framework. Contract agreement terms meant some opportunities were not possible in the short term. Even so, Baker Tilly pinpointed nine budget decision options totaling a potential annual fiscal impact of $10.5 million.

**The result (Phase II)—Identified potential savings of more than $800,000.** This project resulted in eleven decision items totaling more than $800,000 in potential savings from the employment of primarily internal service delivery and staffing approach changes. However, the potential for additional significant savings was identified through the pursuit of external providers of service for three areas of service delivery including debt collection, collective bargaining negotiations, and diversity procurement oversight. Also, several changes were suggested relative to payroll, worker’s compensation and procurement management – all with positive fiscal impacts.

The analysis focused on current approaches to service delivery and considered a continuum of available options to reduce cost and level of effort for these functions. Our analysis included review of current operational practices in comparison to best practices, assessment of staffing levels in comparison to internal and external benchmarks, and assessment of potential cost or resource effort drivers (e.g., age of fleet, frequency of street sweeping). The City has implemented many of these recommendations including centralization of customer service functions, a competitive RFP process for vehicle leasing, and implementation of many recommendations relative to process efficiency and performance management.

**Case Study #3: Northern Illinois Municipality (population 35,000)**

In its tradition of proactively innovating and embracing service delivery solutions that maintain services while reducing costs to the taxpayer, this entity pursued an assessment of the current cost of providing public works functions and potential alternative delivery approaches for streets maintenance, tree and forestry management, snow and ice control, water system management, and sanitary and storm sewer management.

Specific options being considered include:

* Outsourcing more snow and ice activities
* Eliminating costly bargaining agreement language
* Modifications to winter shifts
* Conduct managed competition process for asphalt/patch function
* Modify staffing approach for patching
* Outsource locating functions through a cooperative purchasing agreement

Currently this entity has a public works department operating budget of $25 million. The fiscal impact of all options identified was over $2 million depending upon which options are selected.

All of these case studies are examples of entities who have worked to identify innovative and effective service delivery approaches allowing them to maintain or enhance services while managing costs. The Baker Tilly consulting team can facilitate an objective and valid assessment of current costs and potential savings or revenue enhancements that can proactively position your entity for fiscal sustainability. For more information about our approach, please contact Christine Smith, Principal 800.362.7301, ext. 2391.