

## SECTION IV ROLE OF PRIVATIZATION

---

### USING A FULL SERVICE CONTRACTOR

Marty Frederickson, Finance Director, *City of Des Moines, Iowa*

The City of Des Moines, Iowa, has contracted for vehicle maintenance services with one contractor since 1983. The city's experience has been very positive. To provide insight into equipment vehicle maintenance contracting and why it has been a success, my presentation will cover the following:

- The condition of equipment maintenance for the City of Des Moines and the chain of events that led us to contracting for maintenance services;
- The development of the contract and the city's relationship with the contractor; and
- In conclusion, I will attempt to identify how contracting has affected vehicle maintenance performance and point out attributes that make for a good relationship between contractor and public agency based on the city's experience.

### Structure Prior to Privatization of Equipment Maintenance

The city's equipment maintenance operation was funded from a revolving account. Revenue for the account came from charging users for maintenance work conducted at the garage. This is important in understanding the sequence of events leading to privatization because the charge back system meant that the using departments were all aware of service costs.

The second key item in the sequence of events was that the equipment maintenance center was part of the Public Works Department. The Public Works Department was also the greatest user of equipment maintenance services.

The equipment maintenance center conducted comprehensive maintenance and vehicle servicing, including body repairs. It also conducted equipment management operations, including specification writing, and building and specialized repairs. The fleet they maintained included about 1,300 pieces of equipment.

### Chain of Events

The privatization process started with a series of blue ribbon committee hearings on the management and

administration of city departments. One of the committee's findings was that action needed to be taken to improve the operation and management of the equipment maintenance department.

During the same time period as committee hearings and departmental budget hearings, top city management received numerous complaints about the equipment maintenance center. The most frequent complaint was the poor performance of the garage as measured by repeat repairs, high cost, and poor employee attitude.

After discovering the level of dissatisfaction with the garage, top management decided to investigate new management arrangements. One effort was to assign new personnel to supervise garage employees by promoting new supervisors from existing maintenance workers. The new supervisors lacked appropriate management training and could not function efficiently as managers. The second approach was to hire a professional manager. The third approach assigned the assistant public works director to manage the garage. All approaches failed to improve performance.

After the unsuccessful attempts to improve the equipment maintenance center, city management examined the department itself. It found that, in fact, the maintenance shop did perform poorly when compared to most reasonable performance standards. In addition, the mechanics were either under trained or not current with modern technology. The facility was in poor condition, and the shop lacked modern maintenance equipment. Scheduled maintenance (preventive maintenance) was not being regularly conducted. Many employees in the shop had a great deal of seniority and, as a result, a great deal of job security. Because of the job security implicit in the city's civil service system, there was little that could be done to motivate employees to improve performance.

After its attempts to improve performance failed and after studying the department, the city considered privatizing the facility. The city felt that if it privatized the shop, it could have the contractor establish additional management controls, such as computerizing maintenance records and inventory control. The city also felt that it could contract for greater management expertise than what it could have hired given the city's civil service system.

A proposal was made to the city's top administration to privatize the garage. Based on the evidence provided in the staff study, the city manager and council approved

contracting for maintenance service in 1981. It was not until 1983 that a contract was signed with the firm that still manages and operates the equipment maintenance center today.

The Request For Proposal (RFP) development process was a difficult step for the city. Staff was very concerned about having an outside firm take over an important city function. Some of the major concerns that the contractor was asked to address in the proposal included:

- The contractor should be able to provide the city with a significant savings over in-house staff. A target of 20 percent was established;
- The contractor should possess significant personnel and equipment management capability;
- The contractor must be financially responsible. To help diminish financial concerns, the city required a performance bond in the amount of the entire contract;
- The contractor must have had prior experience with similar agencies;
- The contractor must design and establish a regimented preventive maintenance management program;
- The contractor must develop a transition plan that would identify how the contractor would takeover the facility and identify how the contractor planned to deal with existing employees;
- The contractor must develop a staffing plan that identifies the contractor's employees, their salaries, and experience;
- The contractor shall provide a list of references including prior agencies he/she has contracted with previously and vendors that have sold the contractor supplies;
- The contractor must develop a billing plan that only charged the city for repairs that were made and did not charge the city for repeat work. The contractor could only charge cost for parts, which partially eliminated the incentive for making unneeded repairs;
- The contractor will provide the city with a specific vehicle downtime guarantee. (Before the contractor initiated maintenance, downtime was a great concern. Department managers would complain as their vehicles were tied-up for days. After the contractor took over, downtime was reduced to less than four percent of available utilization time.);
- The contractor shall prepare a plan for an employee training program;
- The contractor will provide a list of maintenance equipment, shop tools, and subcontractors that they will utilize to repair city equipment;

- The contractor will develop a detail operating plan including the system for scheduling work, the work schedules, numbers of employees, etc.; and
- The contractor will develop a contingency plan to take into account a disruption in the contractors ability to service the contract. Disruptions could include a strike by the contractor's employees.

As a requirement of the contract, the contractor would have to establish their own parts and component inventory management system (using contractor owned parts and components). The bidding documents were sent to consultants for review and some revisions were made.

In deciding whether to proceed with the contract, several anti-contractor issues were raised. Issues ranged from economic concerns to whether the quality of services provided by a contractor would live up to the city's expectations. They included:

- Fears that the contractor would be controlled by organized crime;
- The contractor would purposely bid low ("low-ball") to win the contract and later coerce the city into increasing payments to the contractor;
- The contractor would not use local vendors, thus diminishing the business revenues within the city;
- The contractor would attempt to break the union and pay employees wages below the norm; and
- The Public Works Department (the current operator of the maintenance garage), argued that a contractor would not understand the needs of the city's citizens and using departments.

The city council appointed a committee to address those issues and to determine whether the city should proceed with its plans to contract for equipment maintenance services. In a series of meetings held by the committee, those issues were addressed and several rules were developed for the contractor to follow. The rules included:

- The contractor would have to first consider existing city employees when hiring staff.
- No city employee would lose his/her job as a result of the contractor taking over the maintenance function. If the contractor did not want to hire an employee, the individual would be assigned to another function. The displaced employee would be carried as an overage in the budget until an appropriate vacancy occurred. Then the employee would fill the vacancy.
- Current employees that were within two years of retirement would have their public employees retire-

ment pension program maintained regardless of whether they were employed by the contractor or continued with another position with the city.

With these constraints, the Request For Proposals (RFP) was finally prepared and distributed. Two proposals were received from contractors and a bid was also solicited from the Public Works Department. One of the contractor's proposals was viewed to be non-responsive to the conditions of the RFP. The other proposal conformed to the requirements of the RFP. One of the key attractive elements of the remaining contractor's proposal was its cost. The contractor's bid was \$330,000 less than the Public Works Department's bid on the service.

The city began to negotiate the transfer control of the maintenance facility to the contractor. The contractor wanted to start work as soon as possible and identified a 45-day transition period. The final agreement was a three-year contract with the ability to terminate the contract at the end of each year. Other service requirements were negotiated but the final contract did include the \$330,000 savings over the Public Works Department's bid.

One major source of the contractor's costs saving was reducing the maintenance work force. The size of the staff at the maintenance garage was originally 75 employees; the Public Works Department's bid called for 68 employees and the contractor's proposal included only 44 employees. This work force reduction created some disbelief that the contractor could actually keep up with the work flow. However, the contractor did in fact meet the downtime requirement.

The contractor leases the existing maintenance facility and equipment at a cost of one dollar per year. The city maintains the building. The contractor agreed to purchase all the non-obsolete parts in the city's existing inventory at the cost of the parts. The contractor found that roughly half of the inventory was obsolete.

The contractor's profit for services was set at ten percent of the contract price. This is considered a management fee. This fee is set at the beginning of the contracting period and remains the same regardless of the work flow. As an incentive for the contractor to perform as efficiently as possible, any savings below the contract price (the budgeted amount), is split between the contractor and the city. Each party receives half of the savings. Any overage, up to ten percent above the budgeted amount, is split equally between the city and the contractor. Above a ten percent overage, the con

tractor pays 100 percent. The contractor provides a performance bond for the amount of the contract and has the operation audited annually.

The city has retained the management of fuel and lubricants and procurement of these products. This was done to avoid the management fee on the cost of fuel. One of the contractor's employees, however, fuels and services vehicles. The city employee responsible for managing the fuel and lubricants also manages the replacement program, and licensing and registration of vehicles.

### **Contractor's Operation**

The contractor has established a training program, employees are becoming certified, and the quality of repairs has improved. This has resulted in a general increase in employee morale.

The contractor has established a computerized information system which automates the record-keeping process, including invoices to the city for work conducted. The data processing system has aided in establishing time standards for repairs.

### **Experience With Contracting**

The vast majority of the city's vehicle maintenance employees eventually became employees of the contractor. Most of the management and supervisory personnel retained the positions they held when they were city employees. Some of the mechanics decided to move to another city department and continue as city employees. The employees that were retained by the contractor, continued at the same salary as the city paid them. The contractor's salary increases have maintained parity with city increases. The contractor's benefit package is different from the city's. The contractor's benefit package, for example, includes profit sharing, while the city cannot collect profits to share. The contractor's benefit package is considered to be at least as good as the city's and may be better in some respects.

Fears of union busting held by former city employees proved unfounded. They are still represented by the same union as before. Working conditions are at least as good as they were with the city and are felt by some workers to have improved.

The contractor's budget, over the years of operation since the initiation of operation in fiscal year 1983-84, has increased only minimally. During the second year of operation, 1984-85, the budget was increased by 4.9

percent. The next year, 1985-86, the budget was increased by 1.1 percent. During 1986-87 the budget was increased by five percent and the next year by 4.7 percent. In 1988-89 the budget was not increased and in 1989-90 the budget was increased by 1.6 percent. The average increase in seven years has been 2.9 percent. It is likely that had the city operated the equipment maintenance garage, the budget increases would have been far greater. The contractor's most recent budget (1989-90), is still less than the budget proposed by the department of public works bid proposed in 1983.

The contractor buys parts from the same vendors that supplied the city with parts. However, the contractor has more freedom to negotiate better prices.

### Conclusions

Contracting for equipment maintenance services has, in general, exceeded expectations. Some of the factors that indicate the satisfaction with the contractor include:

- Costs to the city's user groups are down;
- The equipment maintenance facility is clean and is well kept. The internal layout of the facility has been changed to make it more efficient;
- The management of equipment maintenance is professional and competent;
- The attitudes of the employees have improved due to better training and the availability of modern tools and diagnostic devices;
- The parts inventory is under control;
- About two-years after initiation of the contract, the contractor's preventive maintenance program began to provide noticeable increases in vehicle reliability;
- Equipment is lasting longer and needs to be replaced less frequently. This is particularly noticed in equipment with harsh duty cycles, like the city's garbage packers;
- Downtime is less than the contractor's target level of four percent;
- Repeat repairs are very low. In a typical recent month they were at 0.6 percent of the total maintenance work flow; and
- The number of complaints by user groups has diminished down to almost none.

Seven years of experience indicate there are two key factors that lead to good performance by the contractor. Other public agencies that are contemplating contracting for any type should endeavor to select a contractor with the following two attributes:

- Select a contractor that is financially sound. The contractor should have the financial capability to allow the on-site manager to gather the resources necessary to complete a job correctly; and
- It is important to select contractor with on-site management that is flexible, cooperative and able to work with city and its many departments. Because of the importance of the on-site manager, the public agency should reserve the right to interview the manager and see the company's policy on the authority granted to the on-site manager.

### SERVICES OFFERED BY MAINTENANCE CONTRACTORS

#### Noble Beardsley, *Managed Logistics Systems*

Managed Logistics Systems (MLS) started providing contract fleet management and maintenance services to municipalities in 1978. The City of Gainesville, Florida, was its first contract. Since 1978, MLS contracts have grown to 23 in number across the country. The company currently has contracts with counties, cities, the federal government, public utilities, and one private firm.

A maintenance service contractor can offer a variety of services including all normal maintenance shop activities. The most important service a maintenance contractor provides, however, is "managed maintenance." Minimizing the resources consumed by maintenance is the key to efficient maintenance. Resource controls include monitoring purchase of parts, tires, and fluids, monitoring maintenance technicians' time, and creating an efficient layout and utilization of shop space. Managed maintenance controls the allocation and use of all maintenance resources.

One of the primary difference between an in-house maintenance organization and a maintenance contractor is the difference in missions that the two groups carry out. The main mission of an agency that operates equipment is to conduct the work accomplished by the equipment--equipment maintenance is secondary. For example, a state highway agency's mission is to maintain, construct, and operate roads and not to maintain the equipment used to perform that mission. Therefore, equipment maintenance tends to be a secondary responsibility. For the maintenance contractor, however, equipment maintenance is the primary mission and the primary point of management focus.

Because the contractor's focus is equipment maintenance, incentives, training, management systems, and support systems, all aim to promote and enhance the