



MEMO

TO: THE HONORABLE Mayor and City Council
FROM: Bert Lumbreras, City Manager
DATE: November 28, 2018
RE: Council inquiry related to outsourcing in the Techline contract for warehouse services

In response to an inquiry related to outsourcing the Warehouse Supervisor position, staff performed a cost/benefit analysis of contract versus hiring a person on staff for this function.

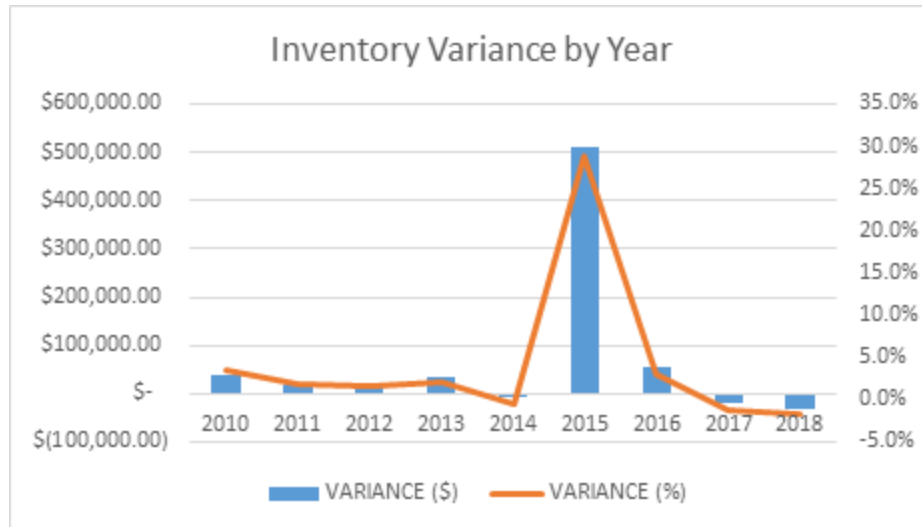
In the past, there have been challenges associated with this function. Public Services was originally configured in three divisions which have separate inventories that used different methods of ordering, stocking and accounting for materials used to complete our work. The levels of material loss or variance from documented stock levels vs. physical counts were higher than industry norms in some of the divisions and exhibited high levels of volatility. This caused fiscal losses and uncertainty.

The three Divisions were reorganized to report to a central supervisor to standardize the methods for ordering, stocking and accounting for usage in the field and improve accountability and performance. These efforts were successful and metrics improved on the variance levels and we achieved better standardized control with less volatility.

The Public Services Department also planned the consolidation of the multiple warehouse and storage locations that would occur, once a central Public Services Complex was constructed. With the consolidation, staff also evaluated the potential for outsourcing all the inventory and material acquisition services with several companies being evaluated.

The Department concluded that while beneficial in keeping very low investment levels for stock on hand vs. the \$2-3M that is the current level, there was real concern on how much control of our mission to maintain the City infrastructure we would place in a vendor's hands. Staff found the value of hiring an inventory and warehousing professional which could stabilize the situation and help move our performance to a higher level. Staff also understood that if we did decide ultimately to outsource the entire function and/or if after we all co-located at the new facility, we didn't need as many personnel, it would be more flexible to just end a contract vs. lay off an employee.

A contract was entered for contracted Warehouse Supervisor Services with Techline and was planned to use funds for the approved in-house staff position. The contract was for \$90,000 annually which was unchanged over the three year contract. The current proposed contract is an increase to the amount from 2015 as labor costs (in and out) have increased since that time. The proposed contract is for \$102,000, a \$12,000 increase. Funding is split between the W/WW and Electric Enterprise Funds and the Transportation General Fund as the contract serves all three funds.



The initial year of the contract showed a reduction in unaccounted for material nearing half a million dollars (out of approximately \$4 million in inventory and annual usage). The results of the FY17/18 annual inventory are shown below. This is the best result we have ever achieved and was completed in record time. The annual inventories are conducted in combination with Finance staff and in some cases the outside auditors to ensure accuracy.

	Electric	WWW	TStreets	TControl	SMCA	Totals
Maximo	\$ 2,329,586	\$ 616,848	\$ 246,401	\$ 108,136	\$ 62,975	\$ 3,363,947
Inventory	\$ 2,336,916	\$ 615,245	\$ 247,634	\$ 110,775	\$ 62,975	\$ 3,373,546
Difference	\$ 7,329	\$ (1,602)	\$ 1,233	\$ 2,639	\$ -	\$ 9,599
Variance %	0.31	-0.26	0.50	2.44	0.00	0.29

The record indicates we have received high value for our expense and significant ROI benefit for the cost. Finance concurs with the conclusion this has been highly effective in improving our material control and preventing losses and write-offs.

Please let me know if you have additional questions.