

Memorandum



Public Works

DATE: November 9, 2012

TO: Mayor and City Council

FROM: Greg Jordan, Deputy Public Works Director, Transit (858-2094)
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THROUGH: Charlie Meyer, City Manager (350-8884)
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SUBJECT: TRANSIT REGIONALIZATION: UNIFICATION OF BUS OPERATIONS

The purpose of this memo is to provide follow-up information to the January 20, 2012 report to the City Council on a proposal to unify bus operations that are now operated separately by Tempe and the Regional Public Transportation Authority (RPTA) and seek City Council direction on whether or not to proceed with the unification project.

Information specific to the firms' proposals must remain confidential until the City Council provides direction on whether or not to proceed with the "unified" scenario.

The RPTA has completed the transit contractor procurement process and the evaluation committee recommends award of a ten (10) year contract (3 year base term with 7 year option period) to the highest scoring firm under the "unified" service delivery model. The following points summarize the general outcomes of the procurement process:

- The highest scoring firm's proposed ten (10) year pricing under the "unified" scenario is lowest of the three (3) firms that submitted proposals. The same firm's proposed pricing under the "stand-alone" scenarios was also the lowest.
- The highest scoring firm's price proposal for the "unified" service delivery model offers substantial cost savings compared to the combined costs to operate the RPTA and Tempe contracts separately. The cost savings exceed the estimates made by the Tempe-RPTA project team which studied this issue in 2011. Additionally, because the Tempe and RPTA purchase fuel directly, additional savings will be achieved because of the added mileage efficiency under the "unified" scenario compared to the sum of the "stand-alone" scenarios.

The procurement information is confidential because the private firms involved have not yet been notified about the evaluation committee's award recommendation. The firms will not be notified until after the Tempe City Council reviews the results of the procurement process and provides direction to staff on whether or not to proceed with the "unified" scenario.

Please note that under the "unified" scenario, the RPTA, not the Tempe City Council will award a contract to the successful firm. If the City Council directs staff to proceed with the "unified" scenario, then the City Council will be asked to review and approve an intergovernmental agreement in January 2013 which will cover the terms of agreement between Tempe and RPTA.

BACKGROUND

The initiative to examine the unification of Tempe and RPTA bus operations, also called a "Scout Program," has now demonstrated its potential to reduce costs, improve operational and administrative efficiency, improve service quality to the public, and prevent cuts to productive Tempe bus service by strengthening the fiscal positions of Tempe's Transit Fund and RPTA's twenty year transit life cycle program.

Bus operations is one of the twelve (12) organizational elements in Tempe's transit program. This recommendation does not suggest Tempe reduce or relinquish direct control of local transit planning, service levels, system investment decisions or alter any other elements of the transit program.

In 2011, a project team comprised of 20 RPTA and Tempe staff members evaluated the strengths, weaknesses, risks, risk mitigation strategies as well as potential costs and cost savings related to this initiative. The project team estimated \$800,000 to \$1,000,000 in potential annual cost savings stemming from unification with Tempe's local savings ranging from \$400,000 to \$500,000. The output of this assessment was presented to the City Council on January 20, 2012.

In the January 2012 report, staff recommended an **evidenced-based strategy** to accurately understand the potential costs savings associated with unification before proceeding and, if the "unified" scenario is selected, implement an evaluation process to report on RPTA's and the contractor performance during a three (3) year trial period.

The major elements of the strategy are defined below:

1. **Test the Market** – Assess the actual cost-competitiveness of combining Tempe and RPTA bus operations contracts by having RPTA implement a procurement process that requires contractors to bid on both "unified" and "stand-alone" approaches.
2. **Implement Intergovernmental Agreement (IGA)** – If the cost-competitiveness of the unified bus operations contracts is proven and the magnitude acceptable to the Tempe City Council and RPTA Board of Directors, then execute the "Scout Program" as a three (3) year IGA with the following components:

- a) Transfer operational control of Tempe bus operations and contract management responsibilities to RPTA;
 - b) Transfer bus fleet to RPTA, but Tempe retains vehicle ownership through the IGA period;
 - c) Allow RPTA staff to share space at the Tempe owned East Valley Bus Operations and Maintenance Facility (i.e., the “Tempe facility”);
 - d) Contract (i.e., loan) two Tempe transit operations employees (Senior Transit Operations Coordinator and Transit Operations Coordinator II) to RPTA to help manage the single larger operation).
 - e) Establish within the IGA a charter that binds RPTA and Tempe staff to form a project team, work collaboratively in good faith, articulates conflict resolution mechanisms, and mandates quarterly reports to Tempe City Council and RPTA Board including an annual performance report card.
 - f) Implement rigorous performance objectives and robust evaluation methods designed to drive cost-efficiency, high service quality, safety, good maintenance, customer responsiveness, and effective regulatory compliance.
 - g) Establish an “escape clause” within IGA and bus operations contract that allows a return to the current business model after three (3) years if performance objectives are not met.
3. **Post-Implementation Evaluation** – Allow at least two (2) years of operations and performance assessments (FY 2013-14 and FY 2014-15) and engage policy level discussion during FY 2015-16 on whether to make the arrangement permanent or return to the previous business model.

The “**Test the Market**” phase is now complete and the competitive process has concluded substantial costs savings associated with uniting the bus operations of Tempe and the RPTA.

Staff recommend moving forward with the proposal to unify Tempe’s and RPTA’s bus operations and negotiate and approve a three (3) year IGA between the city and RPTA. In addition to covering the elements indicated under items 2a-2g above, the IGA would a) govern the terms of transfer and outline mutual responsibilities, conflict resolution mechanisms, performance objectives, and reporting requirements, b) affirm Tempe’s full control of locally funded transit services, programs, and projects, and c) affirm the city’s cooperative role in approving regionally funded transit services, programs, and projects which are provided within the city.

OVERVIEW OF PROCUREMENT PROCESS

Following direction by the City Council in January 2012, the RPTA Board of Directors authorized its staff to issue a Request for Proposals (RFP) for a new bus operations contract. The Board’s authorization allowed staff to solicit proposals for a “unified” service approach that would merge

RPTA and Tempe bus operations under one contract and a “stand-alone” approach that would maintain the separate operations as they exist today.

Tempe and RPTA staffs conducted in-depth discussions and research regarding a unified procurement for both RPTA and Tempe bus operations services. The two agencies worked jointly in developing the RFP’s Scope of Work and evaluation criteria. The evaluation criteria, provided below, were submitted to the City Council for information and input in a June 8, 2012 confidential memo.

- Cost – 35%
- Comprehensive Integrated Operations Plan – 35%
- Management Team/Firm Experience – 15%
- Continuous Improvement – 10%
- Employee Development, Recruitment, Training, Retention – 5%
- Responsiveness to RFP – Pass/Fail
- Financial Strength – Pass/Fail based on third party evaluation

The RFP was issued on June 21, 2012. Pre-proposal meetings were held at each of the operating facilities (RPTA and Tempe) with briefings and tours provided to firms interested in submitting proposals.

The RFP required firms to submit proposals for two (2) service delivery models. The “unified” service delivery model required one proposal from each firm. The “stand-alone” service delivery model required two (2) proposals: one for the Tempe operation and one for the RPTA operation. In short, the RFP required all firms to submit three (3) proposals:

- Stand-alone RPTA – a distinct contract operated from RPTA’s Mesa Bus Operations Facility and directly managed by RPTA;
- Stand-alone Tempe – a distinct contract operated from Tempe’s East Valley Bus Operations and Maintenance Facility and directly managed by Tempe.
- Unified Approach – a unified contract that combines system management and operates from both the Valley Metro and EVBOM facilities and would be directly managed by RPTA.

Three firms submitted proposals.

The procurement was led by RPTA’s Procurement Officer. Proposals were evaluated by a five (5) member panel comprised of transit professionals from the participating cities of Mesa, Scottsdale, Tempe as well as RPTA. Also participating on the evaluation panel was the Assistant General Manager, Bus Operations Department of the Regional Transit District (RTD) in Denver, Colorado. Panel advisors included two (2) Tempe procurement specialists and RPTA’s Chief Operating Officer.

The evaluation panel qualitatively evaluated each firm’s written proposals, oral interviews, and best-and-final offers (BAFO) in relation to the four (4) technical criteria: comprehensive integrated operations plan, management team and firm experience, continuous improvement, and employee development. Price proposals were objectively evaluated through use of a mathematical formula.

Following the first review of the written proposals, the evaluation panel concluded the “unified” proposals were strongest in terms of price and overall quality. The cost savings stemming from the “unified” service delivery model is the result of the following factors:

- **More Efficient Utilization of Facilities** – decrease in non-revenue miles due to reassignment of routes between the two operating facilities (non-revenue miles refers to travel when the bus is not actively on-route);
- **Streamlined Contractor Management** – reduced staffing requirements are possible through use of one contract or firm to manage the two facilities instead of one for each facility;
- **Economies of Scale** – efficiencies gained in areas of service supervision, parts purchasing and inventory, operator and mechanic training, and administrative functions.

At the conclusion of the review of the written proposals, one (1) firm was eliminated from further consideration. The evaluation committee determined that, based upon the firm’s written and cost proposals, it was not in a competitive position in relation to the other two firms. The remaining two (2) firms were considered to be in the competitive range and were invited to oral interviews on the basis of their “unified” proposals. The panel provided the remaining two (2) firms with 20-25 technical questions which were to be answered in writing prior to the interviews and explained during the interview.

Based on the firms responses to the interview questions, follow-up questions were sent to each firm along with a request to submit a best and final offer (BAFO). Final scoring of the firms was completed following the review and evaluation of the BAFOs. It is worth noting that the interview and BAFO stages of the process yielded significant value in terms of cost and improvements to the technical proposals.

TIMELINE AND NEXT STEPS

January 20, 2012	City of Tempe staff provides report to City Council proposing a “Scout Program” to examine the potential cost savings associated with unifying Tempe’s and RPTA’s bus operations.
February 16, 2012	RPTA Board of Directors authorizes the issuance of an RFP soliciting private sector proposals to operate fixed route bus service under two (2) major service delivery approaches: “unified” and “stand-alone.”

June 8, 2012	City of Tempe staff provides memo to City Council outlining the RFP's evaluation process and criteria.
June 21, 2012	RPTA issues RFP.
August, 30 2012	Proposal due date.
September-November 2012	RPTA evaluation committee meets to score written proposals, interview firms, and evaluate best and final offers.
November 15, 2012	City of Tempe staff provides report to City Council on the outcomes of the procurement process and seeks policy direction on whether to proceed with the "unified" scenario.
November 28, 2012	RPTA recommends to its Transit Management Committee, that RPTA award the ten (10) year contract (3 year base with a 7 year option period) to the highest scoring firm under the "unified" service delivery model.
December 13, 2012	RPTA recommends to its Board of Directors, that RPTA award the ten (10) year contract (3 year base with a 7 year option period) to the highest scoring firm under the "unified" service delivery model.
December 2012 - January 2013	Tempe City Council asked to consider and approve a three (3) year intergovernmental agreement with RPTA that, at a minimum: <ul style="list-style-type: none"> a) Governs the terms of transfer and outlines mutual responsibilities, conflict resolution mechanisms, performance objectives, and reporting requirements; b) Affirms Tempe's full control of locally funded transit services, programs, and projects; c) Affirms the city's cooperative role in approving regionally funded transit services, programs, and projects provided within the city.
January-June 2013	Contract start-up and transition period.
July, 2013	New contract takes effect.
July 2013 – June 2015	Evaluation period during which the City Council will be provided quarterly and annual reports on the performance of RPTA and the Contractor.
July-September 2015	Tempe City Council will be presented with 24 months of performance data and analysis and asked to consider whether the "Unified" scenario should continue.