

## *Outsourcing of City of San Diego Street Light System & Maintenance*

<b>Staff Recommendation:</b>	<b>SUPPORT City of San Diego Issuance of an RFQ/RFP to potential bidders to determine potential savings and service levels</b>
<b>TEWI Committee Recommendation:</b>	<b>SUPPORT Staff Recommendation (4-0-0)</b>
<b>Executive Committee Recommendation:</b>	<b>SUPPORT Staff Recommendation (12-0-0)</b>
<b>Board Action:</b>	<b>SUPPORT City of San Diego Issuance of an RFQ/RFP to potential bidders to determine potential savings and service levels ()</b>

### **Rationale**

A proposal letter to purchase the City's street light system was offered by City Light & Power, stating the City could receive as much as \$21.35 million. There are obvious details regarding any potential purchase that need to be negotiated and mutually agreed upon. With the City facing a \$56.7 million budget deficit for Fiscal Year (FY) 2012, and a "structural" budget deficit of well over \$100 million, the City must exhaust all opportunities to generate savings, but in a manner that is efficient and economically sound. Inviting qualified companies to bid on either the sale or lease of the system, and any subsequent negotiations may help alleviate any concerns from City staff regarding this proposal.

### **Background**

The City of San Diego (City) is currently projecting a \$56.7 million budget deficit for FY 2012. The Mayor is expected to release his proposed budget by April 15, 2011. The San Diego County Taxpayers Association (SDCTA) has developed a set of Budget Reform Principles to outline the reform areas and items SDCTA believes should be included in any budget proposal that is adopted by the Mayor and City Council. Among those included in the "Reform of City Operations Principle" are the following:

- The City should expand and create public-private partnerships that enhance service and/or reduce costs to taxpayers
- The City shall implement Managed Competition and/or Direct Outsourcing

#### *City Street Light Maintenance Department*

Currently the City owns and maintains approximately 47,000 street lights. Based on the City's FY 2011 Adopted Budget, the City has allocated 23.33 full-time equivalent positions and \$4.87 million for street lights. SDCTA staff is unable to determine the job classifications, personnel expenses and non-personnel expenses for each employee. We are therefore unable to determine the average personnel cost per employee.

### *City Street Light Conversion Project*

The broad spectrum street light conversion program (Program) is intended to convert approximately 38,700 existing Low Pressure Sodium and High Pressure Sodium street lights to broad spectrum lighting using induction type technology.<sup>1</sup>

The City's Environmental Services Department has received Council approval to move forward with a \$5 million<sup>2</sup> project to convert existing street lights to induction type technology. An additional \$13.1 million was acquired through Qualified Energy Conservation Bond (QECB)<sup>3</sup>, for a total of \$18.1 million to complete the Program.

While annual lease payments will total \$1.1 million, it is expected maintenance cost savings will total approximately \$1.8 million, with the remaining \$700,000 in annual savings over the 17-year payment period.

### **Proposal**

In June 2010, City Light and Power (CLP) conducted a preliminary assessment of the City's Street Lighting System. This effort included reviewing, assessing and verifying maintenance and energy costs, along with inspecting and recording the various existing field inventory units with the use of GPS/GIS camera equipment. CLP has recently sent a letter to the Mayor and Council indicating their ability to provide the City a one-time payment of \$21.35 million, as well as guarantee annual savings of more than \$2 million on the system.

CLP's offer is based on a sale/purchase of the City's system, and it is unclear if these savings could be generated from a lease of the asset.

### **Policy Discussion**

#### *City Concerns*

Based on SDCTA discussions with City staff, the Program must be completed no later than July 2012 in order to maintain the EECBG and CEC funding. It is expected the Program will commence in April 2011, with between 2,400 and 4,000 street lights replaced each month. If the City does decide to move forward with issuing a Request for Qualifications/Request for Proposals (RFQ/RFP), there would potentially be impacts related to the already-approved financing mechanism to complete the conversion Program due to the delay in completing the project. There may also be potential impacts of renegeing on the already-approved \$13.1 million in financing for the Program.

City staff and the Mayor's office expressed many concerns related to the proposal submitted by CLP. These concerns include the ramifications of the sale of a municipal asset, as well as inflation factors paid to the company during the lifetime of the contract. It is possible these points, and any others brought

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<sup>1</sup> City of San Diego Report to City Council. September 8, 2010. Report No. 10-119.

<sup>2</sup> \$2 million from Energy Efficiency Community Block Grant and \$3 million loan from California Energy Commission.

<sup>3</sup> The QECB program was first introduced by Congress through the American Recovery and Reinvestment Act of 2009. Passage of the HIRE Act allows the City to receive a semi-annual cash subsidy payment equal to 70% of the tax credit rate. The net effective rate is 1.82%, with annual lease payments totaling \$949,000 over a 17-year period.

forward by the City, could be negotiated with any company that is chosen following the issuance of an RFQ/RFP. Furthermore, City staff has indicated that any future state or federal grants related to the street light system may be in jeopardy if the City does not own the asset.

Following the completion of the Program, the Mayor's office has stated its intent to move forward with submitting the street light maintenance department for managed competition. The date by which this process will begin has yet to be determined.

#### *Fiscal Impact*

As noted in its letter to the City, CLP is prepared to offer an upfront payment of \$21.35 million to purchase the system, as well as guarantee \$2 million in annual savings. CLP is also prepared to maintain current service levels as well as absorb current city staff into their company. Other details of this proposal have not been released because the City has not issued an RFP.

The current proposal by the City estimates generating savings of \$1.5 million annually. Under the QECB loans however, \$1.1 million of these savings will be used as payments towards the loans for a 17-year period. In addition, the City has reported it will receive a one-time incentive payment of \$700,000 once it has completed the conversion Program. This payment must be used in one of two ways: 1) to reduce the cost of the pending replacement street light bids from vendors, thereby increasing annual savings for the General Fund beginning in FY 2013; or 2) to fund the energy efficient replacement of additional street lights above the 38,700 contemplated in the current program.<sup>4</sup>

#### *SDCTA Budget Reform Principles*

The adopted SDCTA Budget Reform Principles outline the City's need to begin the process of putting forward City functions for managed competition, and outsourcing when appropriate and economically feasible. Furthermore, the Principles note that expanding the use of public-private partnerships could also enhance various public services, reduce City operating costs, and even generate revenue.

While the City rightly has concerns regarding impacts related to any potential contract, nothing has been brought forward to SDCTA that states moving with forward with an RFQ/RFP would negatively impact City services. It is concerning that there remains hesitation to move forward on a cost-saving and revenue-generating idea.

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<sup>4</sup> "Broad Spectrum Street Lighting with Qualified Energy Conservation Bonds". Office of the Independent Budget Analyst Report. Report Number: 10-83. October 15, 2010