# Staff Report
## City of Manhattan Beach

**TO:**　　　　　Honorable Mayor Ward and Members of the City Council

**THROUGH:**　Geoff Dolan, City Manager

**FROM:**　　　Bruce Moe, Finance Director
　　　　　　　　Russell Morreale, Assistant Finance Director
　　　　　　　　Sherry Morelan, Revenue Services Manager

**DATE:**　　　March 21, 2006

**SUBJECT:**　Authorization to Award a Three Year Contract to Turbo Data Systems Inc. for Parking Citation Payment and Notification Processing (Estimated Annual Value of $65,000)

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**RECOMMENDATION:**

Staff recommends that the City Council: A) accept the Finance Subcommittee recommendation to outsource parking citation processing; and B) approve the staff recommendation to authorize the City Manager to execute a three year contract with Turbo Data Systems, Inc. for an estimated value of $65,000 per year.

**FISCAL IMPLICATION:**

Staff has estimated annual savings of at least $29,000 over current costs of providing this service internally. Furthermore, outsourcing may result in increased revenue through the application of expanded collection techniques and internet and phone based e-commerce technology. The full cost comparison is included on Attachment "A." The cost of service is calculated on a per citation basis, therefore the actual annual cost is dependent upon citation volume.

**BACKGROUND:**

The City currently has a hybrid and non-integrated system of processing parking citations – some tasks are handled in-house while others are contracted out. For example, the City maintains the main database and receives and processes payments, while DMV services (registered owner information, holds on registration, etc.) and delinquent notices are handled by a third party (currently Phoenix Group). This arrangement has developed over time as contracting out DMV services and delinquent noticing became more efficient and cost effective.

The City's current in-house citation payment software is over twenty years old, and the platform on which it resides (Pick) is virtually unsupported in the industry. As a result, we have made its replacement a priority. When discussed during budget hearings last year, Council asked that as we look at replacement, we consider two approaches: 1) retaining the processing in-house by purchasing software and upgrading hardware, and 2) completing the outsourcing by contracting for the remaining services. Proposals have been received for both approaches and are discussed below.

**DISCUSSION:**
Before we discuss the specifics of the methods, an understanding of current citation billing processes will be beneficial:

1.  A citation is issued by a Community Services Officer (CSO) within the Police Department using a ticketing (Autocite) handheld device that captures data such as license, make, model, color, and violation.

2.  At the end of each shift, the CSO downloads the data into the City's parking citation software system within the Finance Department. The citation information is then sent electronically to the City's current DMV/delinquent notice provider (provider) where it is stored pending further action.

3.  The person receiving the citation has twenty-one days from the issuance of the citation (or 14 days from the mailing date of the delinquent notice) to pay the fine without incurring a penalty. Approximately 50% of citations are paid prior to delinquent notices being mailed. Upon payment, the City posts the receipt on our in-house cashiering and citation systems and sends the provider the payment information.

4.  Citations not paid by the twenty-first day of issuance prompt a delinquent notice issued to the registered owner of the vehicle. The registered owner has an additional 14 days to pay the citation before a penalty of $31 is applied. If the citation remains unpaid at the end of that period, a DMV hold is placed upon the vehicle registration by the provider.

5.  If and when the citation and penalty are paid through the hold process, the DMV sends the provider the citation data which is transferred to the City. This data is used to update customer records along with a monthly check received from the DMV.

The current process is complicated, redundant, and suffers from technology limitations. The current structure relies on maintenance of two separate databases – the City's and the current provider's, resulting in inherent inefficiencies. Mostly, this interim model impacts the quality of customer service. On occasion, because transactions are batch processed between the provider and the City, payments are not recognized in a timely manner. This sometimes leads to late notices going out even after payment has been received by the City. One objective of any new system is to tighten the processes and eliminate possible points of failure.

The DMV has since changed their processes to, among other things, accept electronic files. While we could begin processing of those files directly with DMV once again, the effort and staffing required to stay on top of the daily processing, as well as issuing delinquent notices, would be more cost intensive and may require added staffing above current levels. The cost of developing and maintaining a new web-based solution is also very expensive. In recent years we have learned that the use of an outside provider's expertise in dealing with the DMV registration hold processes has been quite beneficial. The extension of this concept to a full outsourcing solution, including receipt processing, noticing, banking, and systems maintenance has developed to a point where it results in both cost savings and improved, and expanded, customer service.

*In-House Processing Vs. Outsourcing*
The City has identified two possible operational models for performing parking citation processing: (1) In-house model – maintaining the service in-house while still outsourcing the DMV processes; (2) Outsource model – outsource billing, noticing, collections, systems, and DMV processing.

Sustaining the in-house model is clearly more expensive and does not allow for the rapid deployment of the latest customer service tools. Under this model, the City would need to purchase (license) new software, incur set up and training fees, and invest in a new server. On-going expenses would include continued contract services with a DMV intermediary, noticing materials- supplies-postage, and continued full time staffing levels. Additional on going costs to maintain this in-house supported model would include new software support fees and hardware depreciation. Most significantly, any of the desired web/internet and phone service solutions provided by third party vendors would have to be developed, maintained, and updated in house using the support of both Finance and Information Systems staff. The cost of keeping citation billings in-house easily exceeds $135,000 per year; a number that can be expected to increase annually with labor & materials. Furthermore, research and development costs required to match current outsourcing service solutions (internet, voice support, ticketing) are likely to add on to this base operational cost. For all of these reasons, staff focused on the more service oriented and cost effective outsourcing solutions.

Outsourcing the entire function is cost effective and will result in superior citation processing service. Under this approach, the entire collection and DMV processes would be provided by an outside contractor. This includes receipt of mailed payments, posting of payments, depositing of receipts into a City bank account, delinquent notices, and DMV holds and releases. Impact on our City Hall customers would be seamless as the City would maintain the ability to receive citation payments over the counter and post them, real-time, to the contractor's system via the Internet. Additionally, the recommended outsourced solution dramatically expands our accessibility to our customers by providing an internet based credit card payment option (an enhancement to the City's E-Gov initiatives), 24 hour telephone payment options as another payment choice, and a well- staffed help desk to supplement City staff assistance.

The many advantages of this approach include:

❖ Greatly improved customer access and service options via established and tested internet and telephone payment processing options, providing us with instant E-Gov solutions;

❖ Maintenance of software, upgrades, environmental and security issues reside with the contractor under an efficient vendor hosted model;

❖ The possibility of increased collection rates through aligned associations with collection agency/citation vendor relationships;

❖ No capital cost associated with the purchase of software and hardware;

❖ Stronger ties between DMV processing and citation processing which will result in elimination of timing errors due to maintenance of dual databases (City's and DMV processing agent's);

❖ The savings of staff time results in the more rapid development of other internet and customer service enhancements including on-line business and animal licensing, expansion of cashiering solutions, business and community outreach, document imaging and electronic bill presentment.

Outsourcing also allows us to take advantage of additional capabilities which we inherit by virtue of

joining a vendor that services a large number of cities. These opportunities include:

**Adjudication Services:** The recommended vendor provides on-line scheduling, notification and tracking of administrative hearings. These hearings are provided when a citation recipient wishes to dispute a ticket by providing information to the hearing officer (contracted by the City), who then reviews and issues a ruling supporting or denying the request. This process is currently performed manually, but with outsourcing, can be streamlined and automated (requests can be made on-line with the date set, the ticket placed on hold automatically, and the notification letters issued at the beginning and end of the process). The Police Department, who is participating in the selection process, is very interested in this portion since the current process is labor intensive. The basic adjudication software capability and accessibility to Police staff is included in the contract cost. Should the Police Department want to take advantage of add on services, such as hearing scheduling and hearing performance, those costs can be easily identified and implemented in the future.

**Integrated Ticketing Devices:** The recommended vendor also provides an impressive array of handheld ticketing devices which integrate with their billing systems. These devices are only made available by the contracting vendor as part of the overall billing service and cannot be purchased and supported on a stand-alone basis. This solution provides the City with the potential to update these ticketing devices and to do so in a meaningful way resulting in more efficient parking reporting, enforcement and operations. CSO's currently use big, bulky handheld units (Autocites) built upon fifteen year old technology. New devices similar to Palm Pilots are now used to capture citation data, at a much lower cost (the old "Autocite" devices typically cost $5,000 each, while the new devices are approximately $3,500 when equipped as needed). These devices can be purchased with built-in cameras and license plate scanning capabilities which minimize data input and enhance data quality, while photographing evidence for maximum legal enforcement. Finally, these devices simplify the downloading process to the main servers, which has, at times, been difficult with our current system. These devices are not immediately needed to make the transition to the outsourced solution (the Autocites are supported) nor are they part of this contract costing, but would be an enhancement that would benefit the Police Department in the near future.

Lastly, outsourcing of the citation process is not new within local government. Many agencies throughout the State are currently contracting this function due to the cost effectiveness and expertise needed to perform this activity. A partial list of agencies that contract out includes:

| | | |
|---|---|---|
| Redondo Beach | Huntington Beach | Culver City |
| Fullerton | Seal Beach | San Clemente |
| Tustin | Del Mar | San Jose |
| Oxnard | County of L.A. | County of Monterey |

*Staffing Levels*
Current authorized staffing for parking citation processing consists of one dedicated full time Finance employee. Ancillary processes, such as receiving and opening payments, phone support, and cashiering, are covered in association with others within the department. During peak summer months, it is not uncommon to have other staff assisting with input of manually written parking citations, processing of payments and customer service issues.

In FY 2004-2005, Finance management considered and planned for the possibility of outsourcing the billing function and its impact on internal staffing levels. In that time period, one full time position was vacated within the unit through attrition and Finance considered it prudent to leave that position unfilled and maintain operations in the interim with a 3/4 time part-time staff member. Should City Council approve the outsourcing of citation billing tonight, Finance is confident it can support operations comfortably by retaining the existing part time position. This position will assist in the transition, support redesigned citation duties, and help bring our department forward in several key service initiatives listed below:

- Implementation of new business license solutions starting FY2007
- Development of other e-gov solutions for Finance, including on-line business and animal licensing
- Expanded cashiering
- Business License Enforcement (ex: field audits)
- Back-up on film permitting
- Back office administration of e-gov payments (Water Web – Citations – Business Licenses)

By completely outsourcing this function, payments will now be received, processed and deposited into the City's account by the contractor. While this reduced workload may make it possible to reassign the authorized unfilled full time position in the future, staff recommends no action at this time but rather allow such staffing discussions to take place normally in the budgeting process after we have had the opportunity to evaluate the full impact of outsourcing.

Duties such as Business License field audits, while desirable, are not possible due to time constraints. Outsourcing of the parking citation processing would allow us to expand our licensing compliance activities. Additionally, film permit activity, which is handled in Finance, has grown from 44 permits issued in 2003 to 61 permits in 2005. Administration of these revenue generating activities is requiring more staff time, particularly with more location filming needs by productions at the Raleigh Manhattan Beach Studios.

Maintaining a part time position provides the division and department flexibility while saving the expense of providing benefits for a full time employee. It also allows us to plan for continuity in operations as future expected attrition in the division is realized.

*Proposals*
Outsourcing proposals were received from four vendors: Phoenix Group (our current DMV and noticing provider); Turbo Data Systems, Inc; Reino Enforcement Technology; and Data Ticket, Inc. Proposals addressed a number of areas, including: costs; processing services; data entry; DMV communications and processing; delinquent mailings; payment processing; correspondence; reporting; internet connectivity; support; database backup and disaster recovery; off-site security; confidentiality of records; and administrative tracking of hearings. Staff eliminated the most expensive outsourcing proposal, moved beyond the less attractive more expensive in-house system solutions (ranging in cost from $110,000 to $68,000 for software and set up alone), and met individually with the remaining three outsourcing providers (Phoenix Group, Data Ticket and Turbo Data).

Finance staff also met with the Finance Subcommittee to present the case for outsourcing such operations. Many of the same arguments noted above were discussed and the Subcommittee

unanimously approved proceeding with the RFP review process and making a recommendation to City Council to outsource these functions.

With direction provided, City staff moved ahead to scrutinize the remaining outsourcing RFP's and selected three vendors for a more detailed, hands-on, evaluation. Turbo Data Systems, Phoenix Group, and Data Ticket were invited to make presentations at City Hall to a panel including Finance, Information Systems, and Police representatives. In a second presentation and review phase, Data Ticket was eliminated from consideration for several key reasons including: 1) the absence of a 24/7 Interactive Voice Response (IVR) customer service center; 2) fewer hand held ticket device options; and 3) a less preferred customer internet interface.

These City Hall presentations were followed up with on-site visits to the two top facilities, Turbo Data and Phoenix Group, where actual operations were viewed first-hand. Site review advantages and disadvantages were analyzed and reference checks were made of both vendors. Although both were highly rated, in the end result, Turbo Data Systems prevailed given a variety of preferred features including:

- The clean presentation and ease of customer based web pages;
- Well structured phone service & support systems;
- Availability of several flexible hand held ticket device options;
- Outstanding references;
- The existence of redundant systems and back up options;
- A strong technology culture promoting flexibility & best practices.

All participating disciplines (Police, Finance & Information Systems) were unanimous in their desire to engage Turbo Data Systems, Inc.

*Internet Credit Card Convenience Fee*
Although there is no net new cost to the City, the use of the internet citation payment option does entail the introduction of a convenience credit card fee which is added to the basic citation amount. Such fees cover the provider's merchant card and banking fees associated with credit card use and are commonly deployed in such applications. Turbo Data Systems, Inc. applies a $3 per transaction fee and has successfully done so with its other clients. The City has the right to pass on such third party processing costs and the Finance Subcommittee supported this recommendation. It is important to note that the convenience fee is applied to remote internet and telephone transactions only and, as such, will not apply to customers paying citations in person at City Hall consistent with all other City Hall business.

*Collection Agency Information*
Several months ago, Council asked staff to look into using an agency to attempt collection of past due parking citations. This approach would be used for those citations which have not been paid even after submission to the DMV for registration hold. Although staff continues to review collection agencies and fee structures for such services, we are pleased to point out that Turbo Data offers just such a service which we can activate at any time. For the moment staff will concentrate on transitioning core systems and duties to Turbo Data after which time the implementation of these additional services can be entertained and compared with other available collection service options. It is important to note that such services would be implemented on a percentage of collections basis, resulting in no net-new budgetary costs.

**CONCLUSION:**

Staff recommends that City Council authorize the City Manager to execute a three year contract with Turbo Data Systems, Inc. for the processing of citation payments and notifications. If approved, staff plans to implement the outsourced solution by the start of the new fiscal year commencing July 1, 2006.

Attachments:    A.       Cost analysis

# City of Manhattan Beach
# Citations Costing Sheet
# Exhibit A

| | Phoenix | Turbo | DataTkt |
|---|---|---|---|
| **TRANSACTION FEES** | | | |
| Per Citation | $1.00 | $0.70 | $0.55 |
| Manual Cites | | $0.82 | |
| Out of State | 30% | 30% | 25% |
| Delinquent Notices 1st | 0 | $0.61 | $0.56 |
| Delinquent Notices 2nd | $0.60 | $0.61 | $1.50 |
| Postage | 0 | 0 | 0 |
| NSF Checks | $1.00 | $0.61 | $5.00 |
| Partial Payment letters | $0.60 | $0.61 | $1.50 |
| Lessee notices | $0.60 | $0.61 | $1.50 |
| Customer Services | 0 | 0 | 0 |
| Payment processing | 0 | 0 | 0 |
| DMV interface | 0 | 0 | 0 |
| User Id's | web-based | web-based | 2 |

| | Phoenix | Turbo | DataTkt |
|---|---|---|---|
| **SERVICE STATISTICS** | | | |
| YR Cites _Auto | 58,000 | 58,000 | 58,000 |
| YR Cites _Manual | 2,000 | 2,000 | 2,000 |
| Yr Notices 1st | 29,000 | 29,000 | 29,000 |
| Yr Notices 2nd | 5,000 | 5,000 | 5,000 |
| NSF | 180 | 180 | 180 |
| PARTIAL | 1,000 | 1,000 | 1,000 |
| LESSEE NOTICES | 2,000 | 2,000 | 2,000 |

| | Phoenix | Turbo | DataTkt |
|---|---|---|---|
| **COST OF SERVICE CONTRACT** | | | |
| Annual cites 58,000 | 58,000 | 40,600 | 31,900 |
| Manual Cites 2,000 | 2,000 | 1,640 | 1,100 |
| Delinquent notices ( 1st) 29000 | 0 | 17,690 | 16,240 |
| Delinquent notices ( 2nd) 5000 | 3,000 | 3,050 | 7,500 |
| NSF checks 180 | 180 | 110 | 900 |
| Partial Payments 1,000 | 600 | 610 | 1,500 |
| Lessee Notices 2,000 | 1,200 | 1,220 | 3,000 |
| 6 additional users | | | 50 |
| Postage | | | |
| **Total Outsource Contract** | **64,980** | **64,920** | **62,190** |

| | Phoenix | Turbo | DataTkt |
|---|---|---|---|
| **IN HOUSE COSTS** | | | |
| Current Projected Process Fee | 39,840 | 39,840 | 39,840 |
| Net Labor (Full Time Less P/Time) | 32,355 | 32,355 | 32,355 |
| In House Users License (avg) | 13,900 | 13,900 | 13,900 |
| Annual Depreciation | 8,400 | 8,400 | 8,400 |
| **Total In House Retention** | **94,495** | **94,495** | **94,495** |

| | Phoenix | Turbo | DataTkt |
|---|---|---|---|
| **SAVINGS** | **(29,515)** | **(29,575)** | **(32,305)** |