



Good Neighbors

San Diego  
Housing Commission

## REPORT

**DATE ISSUED:** June 17, 2005

**ITEM 105**

**REPORT NO.:** HCR05-60  
For the Agenda of July 8, 2005

**SUBJECT:** Outsource Contract for Human Resources/Payroll Services

### SUMMARY

**Issue:** Should the Housing Commission recommend Housing Authority authorization to enter into a contract with Full Time Solutions to outsource the Housing Commission's Human Resources and Payroll functions?

**Recommendation:** Recommend that the Housing Authority authorize the President & Chief Executive Officer (CEO) to execute a contract between the Housing Commission and Full Time Solutions (FTS) for a not-to-exceed amount of \$595,080 (\$249,040 for year one and \$292,040 for year two) during the initial two year term of the contract with three one-year options to extend the contract term and a ten percent contingency (\$54,000) to address any process customization needed during the contract term.

**Fiscal Impact:** Estimated administrative savings of \$340,000 in FY06 with similar savings anticipated in subsequent years.

**Previous Related Action:** The Housing Commission and the Housing Authority approved the original FY04-06 Business Plan in December 2002 and February 2003, respectively. Strategy 9 of the Business Plan referred to potential outsourcing of Housing Commission functions.

**Future Related Action:** If approved by the Housing Commission Board, this item will be scheduled for the August 9, 2005 Housing Authority meeting.

**Environmental:** This activity is not a project within the meaning of CEQA and is categorically exempted and/or excluded under the provisions of NEPA and these administrative issues were exempted and/or excluded in connection with the actions on the FY 06 budget. The City of San Diego as Responsible Agency has issued the Notice of Exemption under NEPA.

## **BACKGROUND**

In recent years there has been significant interest by public organizations in outsourcing non-core functions, driven by expectations of more efficient government services and a need to reduce operating costs. Although a few public organizations are experimenting with outsourcing as a viable alternative to maintaining internal support services, many private sector businesses, for profit as well as non profit, have begun to outsource support functions such as human resource management, payroll services, financial services and information technology management. In December 2002 the Board approved the Housing Commission's first Business Plan, which was subsequently approved by the Housing Authority in February 2003. In the private sector, business plans are prepared for specific projects or to map expansion of an organization. The Housing Commission's Business Plan was developed and approved as a first step in focusing the Housing Commission on becoming a more effective and business-like organization. A major strategy of the initial Plan, that will continue with the updated Plan being prepared for Housing Commission Board review, is to identify individual functions that could be outsourced to improve service delivery and/or reduce overall operating costs. To date, several tasks associated with human resource management at the Housing Commission have been outsourced, including benefits administration, employment reference checks, pre-employment testing.

In a survey published in July 2004 by the Society for Human Resource Management, outsourcing one or more human resources functions from an in house function to an outside provider is a practice used by almost sixty percent (60%) of the respondents. Of the survey respondents, thirty seven percent (37%) were not-for-profit organizations.

## **DISCUSSION**

Over the last several years the Housing Commission has outsourced various specific Human Resources (HR) and Payroll tasks to outside vendors, resulting in 30 individual contracts. Based on the number of contracts, the costly administrative burden of monitoring those contracts and issues with service delivery, the Chief Operating Officer assembled a team to explore the feasibility of outsourcing the entire human resources and payroll functions.

There are numerous benefits to outsourcing including:

- Ability to adjust support costs as the work force decreases or increases;
- Overall cost reduction;
- Mitigation of risk by reliance on experts in a variety of specialties, e.g., labor, recruiting, training, employee assistance, payroll maintenance;
- Access to newest technology without need for capital investment;

- Service improvement;
- Skills retention - vendor is required to provide specific level of skills throughout contract term.

Potential benefits and concerns were weighed during the extensive selection process, described below. Among them were providers responsiveness to agency-specific policies and issues, maintenance of the “corporate culture” through management of human resources, timeliness and responsiveness of a selected vendor, and the availability of services currently not provided internally, e.g., policy assessment.

### **Selection Process**

In order to ensure that all required and desirable HR and payroll services were identified prior to issuing a Request for Proposal (RFP), a human resources consultant was hired to assist in the development of a comprehensive RFP and the evaluation of proposals received from qualified Human Resource vendors. In January 2005 HR Solutions, a division of Eastridge Personnel, was selected to assist in that process. HR Solutions assigned Naja Wilson as the Housing Commission’s designated representative.

Ms. Wilson interviewed several staff members of the Housing Commission and gathered extensive data about processes, systems, responsibilities and associated functions of the HR and payroll departments. A very detailed Scope of Services was developed for the Request for Proposal.

Numerous vendors, both locally and nationally, were notified of the opportunity to submit a proposal and, prior to the deadline date of May 6, 2005, all interested vendors were invited to participate in a conference call with the consultant and key Housing Commission staff to discuss the proposal and Housing Commission operations. Notices and subsequent information was published and/or posted on the website.

After screening all proposals received, four vendors were determined to have submitted qualified proposals that justified further review. Each vendor was invited to the Housing Commission to make a presentation and answer questions for the review panel. The review panel included staff from Information Technology, Financial Services, Board & Executive, Business Services, the Chief Operating Officer and a union representative from SEIU, Local 535. Proposers were evaluated on four criteria including:

- Qualification of key personnel
- Experience of the firm with similar organizations

- Ability to perform Scope of Services
- Total costs over one and five year terms

The review panel rankings for the four proposals are shown below.

<b>Proposer</b>	<b>Cost (Year One)</b>	<b>Panel Points</b>	<b>DVE</b>
Full Time Solutions	\$249,040	88	No
Kimstaff HR	\$465,000	51	No
Human Resource Capital Consultants	\$518,322	63	Yes
Tri-State Employment	\$516,000	83	No

After presentations, lengthy interviews and discussions by the panel, two of the vendors, Full Time Solutions, Inc. and Tri-State Employment Services were selected to continue in the evaluation process.

Staff from the Information Technology and Financial Services Departments held conference calls and online demonstrations with both firms to gather further information on the payroll, HR processes and technology aspects offered by FTS and Tri-State Employment.

Following extensive reference verification, the panel's recommendation is to contract with Full Time Solutions (FTS). The firm's understanding of the scope of services required by the Housing Commission, the software used by FTS, pricing and location were the determining factors in this recommendation.

Full Time Solutions (FTS) was established in 1997 and is headquartered in Irvine, California; the staff includes experienced, credentialed HR and payroll professionals. Their services include full service human resource and payroll outsourcing, recruitment services, human resources consulting and PEO services. A partial FTS client list includes: SPS Holdings; Catholic Charities of Orange County; Pediatric Partners; Dolan Construction Co.; InoStar Corporation; and Huntington Learning Center.

Should the Board approve the outsourcing contract, FTS will assume responsibility for all HR and payroll functions based on the Implementation Plan (Attachment 1) submitted with the final proposal.

The total amount of the contract for years one and two will be \$249,040 and \$292,040, respectively. The recommended not to exceed amount of \$595,080 includes a ten percent (10%) contingency should some customization not included in the contract price be necessary. The contract will include three one-year extensions dependent upon the Housing Commission's experience and satisfaction with the firm. Increases in cost for the annual extensions will be based on the Consumer Price Index (CPI). It should be noted that during the first year of the contract, FTS will not be assuming the responsibility for third party benefits administration since, to ensure continuation of these necessary services, contracts with current vendors were extended for one year, through June 2006, at a cost of \$49,380.

### **Cost Analysis**

In FY05 the Housing Commission spent about \$760,000 for human resources/payroll functions as well as related costs, e.g., legal services, IT support (including software licensing and maintenance) and third party benefits administration. To ensure a smooth transition period and to adequately monitor the progress of the outsourcing process, the Housing Commission will assign a Senior Program Analyst to oversee the implementation plan and will employ a consultant for up to six months to maintain the current payroll system in parallel with the FTS system. This oversight and the associated IT costs are estimated to be about \$100,000. Therefore, it is anticipated that the Housing Commission will save about \$340,000 in administrative costs in FY06. Following the implementation period, similar savings may be realized in subsequent years.

NOTE: It is anticipated that the Housing Commission's General Counsel will continue to provide legal review and advice as needed. These estimated costs have been included in this analysis.

### **Transition and Implementation**

The Implementation Plan included in the FTS proposal calls for two FTS staff persons to be at the Housing Commission on a full time basis.

In the first 30 days after contract execution, FTS staff will work with Housing Commission staff to plan the project roll-out. It is anticipated that the first payroll to be processed by FTS will follow 60 days of testing and data integrity. Other major functions FTS will provide early in the implementation cycle are assessment of current policies and procedures and identification of potential compliance issues. The contract also calls for FTS to

conduct a benefits review and make recommendations for reducing employer and employee costs and increasing efficiencies.

## **SUMMARY**

Outsourcing an internal support function is a major step for a public organization. The Housing Commission staff involved in the research process and recommendation included in this report have attempted to anticipate possible issues or problems and identify options and solutions. The objectives of the project were to continue, or, when possible, improve delivery of human resources services to employees, provide necessary reporting tools for managers and to reduce the cost of these services. The staff believes the recommendation to contract with FTS will enable the Housing Commission to meet those objectives in a more effective manner and the staff will continue to work to ensure success of this project.

## **ALTERNATIVES**

- (1) Direct staff to outsource only certain identified functions of Human Resources.
- (2) Direct staff to retain the current model of HR service delivery to the Housing Commission.

Respectfully submitted,

Approved by,

Carrol M. Vaughan  
Executive Vice President and  
Chief Operating Officer

**Signature on File  
With Original Document**

Elizabeth C. Morris  
President and  
Chief Executive Officer

Attachment 1: FTS Implementation Plan