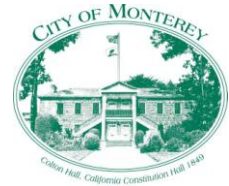


Military - Municipal Partnerships

The Monterey Model



EXECUTIVE SUMMARY

Monterey Model – Core Mission and Core Functions

The Monterey Model has been the benchmark for public-public partnerships since its start in 1998. The federal budget constraints as well as the efforts by the Department of Defense to reinvigorate the discussions about new base operation maintenance paradigms has put the Monterey Model back on the forefront of a national discussion.

The U.S. Army's Presidio of Monterey, which was originally founded by Spain in 1770 to protect its territory of California from invaders from sea, has become more than a local historic landmark. Today the Presidio houses the Department of Defense's Defense Language Institute Foreign Language Center (DLIFLC) with more than 3,500 military personnel being trained by 1,100 instructors in more than 75 different languages and dialects.



In 1997, the Presidio of Monterey and the City of Monterey recommended and implemented an innovative program intended to save the military money, add to Monterey's own revenues and provide a first in U.S. history with respect to military-municipal partnership. In that year, the Department of Defense (DoD) and Monterey entered into a contractual agreement for Monterey to maintain the Presidio's street, sewer, storm drain and fence systems. The vision for this partnership was simple: Let the military do what it does best (language training), and allow Monterey to do what it does best (infrastructure and asset management).

Through this small partnership, the DoD immediately benefited from noticeable cost savings in maintenance. In fact, an Army audit in 2000 showed that the DLIFLC, through the partnership with the City of Monterey, saved 41% of its budgeted maintenance dollars (almost \$2.5 million).

In 2012, another internal audit conducted by the Presidio of Monterey concluded that the Monterey Model saves around 22% of costs when compared to other competitive service providers.

Additionally, a better understanding of operational costs gave Monterey a chance to re-evaluate their own internal procedures. The military-municipal partnership has helped lower operational costs for both DLIFLC and Monterey.

Problem Assessment/Initial Policy Environment

BRAC Process Threatens the Economy and the Cultural Heritage of the Monterey Peninsula

In 1994, the Base Realignment and Closure Commission (BRAC) resulted in the closure of the Garrison at Fort Ord, on the Monterey Peninsula. Losing Fort Ord's substantial payroll was a blow to all the local economies.

The communities of the Monterey Bay region have long recognized the rich heritage and significant social, educational, and economic contributions to the community of the 150-year-old Presidio of Monterey. With a payroll of more than a quarter billion dollars, it became obvious that the preservation of the mission of the Presidio of Monterey would play a key-role in the economic recovery of Monterey and the region. Further military downsizing in Northern California and the potential closure of the Presidio would be an additional major blow to economies and to the people in the community which houses it.

Further downsizing also threatened the cultural composition of the Monterey Peninsula. Military installations and their populations play many other vital roles in their communities. Their staff, personnel and families help form, characterize and build the community. The military's rich, multi-ethnic composition significantly shapes and influences the web of activities and services a municipality can provide. For example, in Monterey, the teaching staff of the Defense Language Institute literally comes from over 40 different countries to teach more than 3,500 students in more than 75 languages and dialects. This staff, presently 1,100 employees strong, and their families enrich the community by sharing their traditions, religions and cultures.

High Operation and Maintenance Costs of the Garrison Jeopardizes Survival in Future BRAC Rounds

In 1994, the year of the base closure at Fort Ord, the local Garrison Command at the Presidio and city management decided to proactively explore creative ways to partner. An analysis of the core missions and competencies of the military and Monterey revealed that the Garrison knows best how to train linguists and that Monterey knows best how to operate and maintain infrastructure and assets. The challenge was identifying a strategy that would allow a federal agency to contract with a local government since existing legislation did not provide a solution. However, the local Garrison, Monterey officials and district Congressman, worked together to develop the necessary legislative language that permitted a military-municipality demonstration project.

The preliminary analysis showed that in recent years, significant Army resources were being diverted from the installation's core mission—language education—to its ongoing maintenance and operations. This, in turn, undermined the base's efficiency and economic health and increased the possibility of the Army implementing major reorganization and/or cost-cutting strategies that might move the language-training mission from the Monterey Bay community.

This triggered the exploration of a military-municipal partnership that could help prepare a region for a new round of base closure initiatives by allowing municipalities to provide critical maintenance and operations services to the Army, thus improving the use of resources and eliminating a significant duplication of effort.

In 1994, Public Law 103 – 337, Section 816 was passed to allow the Department of Defense (DoD) to enter into a demonstration project with the City of Monterey. The new legislation permitted the DoD to purchase fire fighting, security guard, police, public works, utility and other municipal services from government agencies located within the county of Monterey.

Base closure initiatives can come in different packages, but all have the same goal: eliminate costly and unnecessary infrastructure. The events of September 11, 2001 changed some military planning priorities, but creating dollars for defense remains the most important issue. Every dollar saved on non-core activities is a potential dollar invested in mission capabilities. With this in mind, the DLIFLC had better positioned itself for the current round of the BRAC process by significantly lowering its operational costs through the military-municipal partnership with Monterey.

The partnership is also playing a vital role in fostering community collaboration and preserving the economic vitality of such valuable military installations as the DLIFLC. This is particularly significant since the DLIFLC, along with other premier language resources within the Monterey Bay area community, has played a key role in making Monterey the *Language Capital of the World*. In addition, the DLIFLC is one of the region's twenty-three advanced education and research institutions. With this powerful combination of high quality educational resources, the Monterey Bay area has been recognized as one of the nation's premier centers of higher education. The collaborative military-municipal partnership directly supports retention and development of the area's valuable educational resources, and the community benefits from a clean, non-polluting enterprise. This enterprise generates an annual payroll of approximately \$250 million, which is eventually pumped into the local economy.

The Amendment to H.R. of the Defense Appropriation Bill for Fiscal Year 2004 recognized the success of the demonstration project and allowed the communities and the military installations on the Monterey Peninsula to permanently continue contracting with each other. Furthermore, the Department of the Army directed their Installation Management Agency (IMA) to select two more installation to test the feasibility of recreating this type of military-municipal partnership in other communities. The first installations chosen were Fort Hood, located next to the City of Augusta, Georgia and Fort Huachuca, located close to the City of Sierra Vista, Arizona. Both of these communities have started the process of creating a partnership that can leverage the lessons learned from the Monterey Model.



New language in the Defense Appropriation Bill for Fiscal Year 2013 permanently codified the partnership model pioneered by Monterey. Section 331 of that bill, modified Chapter 137 of Title 10, United States Code and now permits sole source contracts for Base Operations services through a

cost reimbursement base-plus-4 option years contract to local governments

Since its inclusion in the National Defense Authorization Act, there has been strong and growing interest in the new Section 331 authority allowing shared services agreements among defense communities, the military and the private sector.

Project Description/Changes Implemented

The Garrison turned over maintenance services to the Municipal Joint Powers Agency

The Presidio Municipal Services Agency (PMSA), a joint powers agency (JPA) between the cities of Monterey and Seaside, are responsible for the maintenance of the Presidio of Monterey and certain properties at the former Fort Ord and the Satellite Command Installation at Camp Roberts.

The City of Seaside, a community of 31,700 residents, had been most negatively affected by the closure of Fort Ord and the migration of 35,000 soldiers and family members to their new installation in Fort Lewis, Washington. Seaside, understanding the opportunities of this unique partnership, assumed the maintenance responsibilities for the remaining military assets within their jurisdiction, known as the Ft. Ord Military Community (OMC).

The JPA is open to other communities to join. The basic business principle within the JPA is that every community will apply their own procedures, standards and resources when servicing the military installations. The agencies involved also complement each other's work forces when the military service level requires certain resources or expertise. Monterey is the lead agency and as such is responsible for the overall performance of contractual obligations.

The PMSA provides the military with a wealth of specialized skill and expertise, and all the resources needed to maintain and operate the installation. A few of the many specialized services provided under this unique contract include the following:

- Ballfield Maintenance
- Storm water collection system management
- Facilities maintenance
- Fire detection/suppression/emergency lighting
- Elevator maintenance
- Heating, ventilation, & AC maintenance
- Project Engineering and Management
- Waste water collection system management
- Street and surface area maintenance
- Fire protection services
- Pest control
- Fencing maintenance
- Other municipal projects
- Energy Management

Presidio Operations Improve City Operations

The delivery objective of the military-municipality partnership remains successful because operating procedures, work management and workforce have grown together to create a **strong public enterprise**.

This new role of “contractor”, allows Monterey to rethink and redevelop its use of cost information as the key to a more thorough understanding of the dynamics of infrastructure needs and costs. This partnership demands improved business practices. Primarily, the first function is to fundamentally rethink what could be offered at what cost—what were the real strengths and weaknesses of Public Works? Where could value be added to the maintenance schedules? How much does it cost to street sweep a curb mile? Is it more efficient to buy or lease equipment? What projects should be kept in-house or subcontracted? Monterey implemented changes that began the use its work management system as a support system for managerial decisions with the Army. The answers to these and many other questions became more transparent as studied data revealed the numbers on hundreds of cost reports.

Monterey had benchmarked street sweeping costs at \$14.50 per curb mile by using best practices information from other municipalities.¹ The plan: inform the division chiefs about the costs of their operations on a new detailed level and empower them to make changes and adjustments to procedures and schedules.

Monterey implemented a reporting system using its networking capabilities to help department heads, division chiefs, supervisors, clerical staff and other city employee’s access up-to-the-minute cost information for various city services utilizing asset and work management information generated by the HANSEN software.² A cost reporting system created using CRYSTAL Reports allows the creation of any type of data view³ and supports an auditing trail. As a result, decisions for possible corrective actions can be decided long before an issue emerges as a crisis.

Award of the Base Operations and Maintenance contracts in August, 2001 was another milestone in Monterey’s transformation to cutting-edge business practices and thinking. Previous municipal success stories, like Mayor Goldsmith’s efforts in the City of Indianapolis, focused on competitive initiatives within a city operation. In Monterey, for the first time in the nation’s history, **a city outbid national** private companies in the maintenance business for a military installation. Monterey’s cost proposal was clear, transparent and easy to understand. Best of all, Monterey’s effort to present itself, as an honest broker between local and federal taxpayers was convincing and believable.

Not only is the Army a winner, with the help of the Internet, Monterey was able to offer residents the same access to its work management system. The implementations of many E-government solutions were completed faster than expected to provide the military a better product. In 2000, Monterey was the first city in the nation to have successfully linked their work management system with the Internet utilizing Hansen’s Dynamic Portal technology.

¹ The particular challenge with benchmarking, exemplified here with street sweeping services, is that various standards published by municipalities are derived using different sets of supporting metrics; i.e. does the benchmark include a fully burdened labor rate? Does the equipment rate contain estimated maintenance costs or actual costs? Are the dump fees included in the costs? What defines a curb mile? This case study cannot explore the topic of creating metrics further; however, we found the publication *Municipal Benchmarks – Assessing Local Performance and Establishing Community Service Standards*, 2001, by David Ammons particularly insightful and informative.

² Since 1997 the City of Monterey has used the Sacramento, California based HANSEN INFORMATION TECHNOLOGIES’ asset and work management system. Currently Monterey uses version 7.7 of that software. For more information visit www.infor.com.

³ CRYSTAL REPORTS is a report writing software from BUSINESS OBJECTS. The features of the software allow the user to generate a variety of reports utilizing SQL database queries. Currently Monterey uses version 11 of that software.

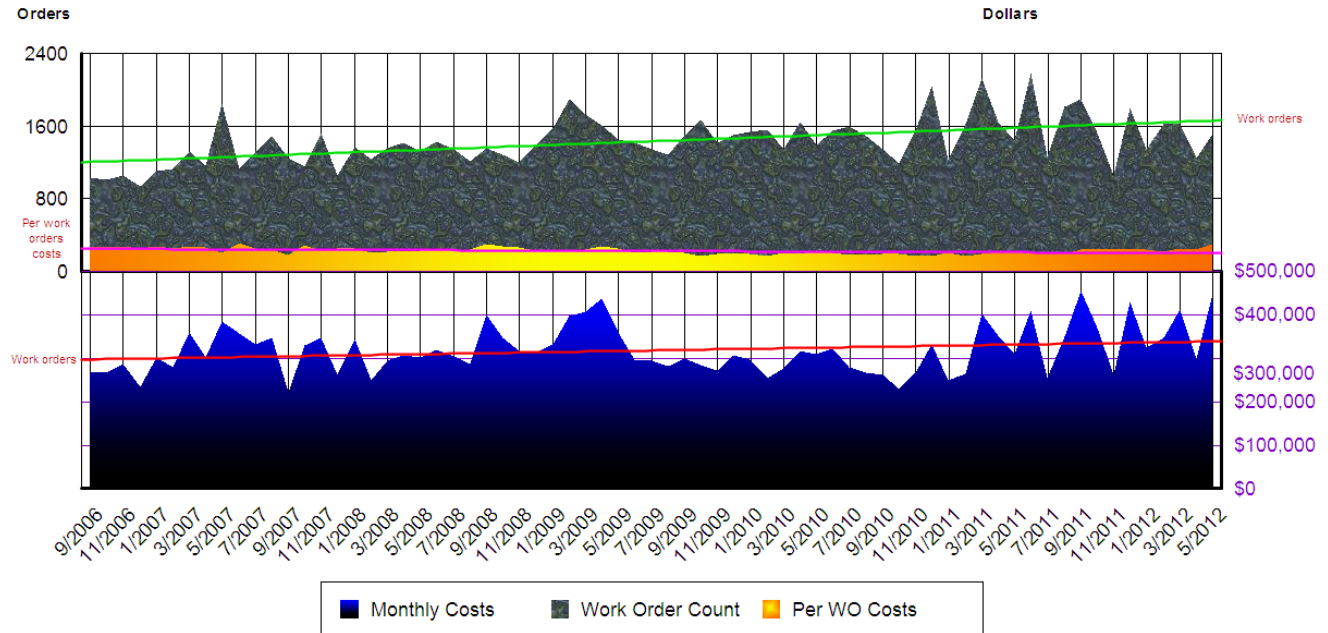
Today, any resident—military or civilian—can access Monterey’s Web site and request services 24/7. E-mail generated by the service module keeps the resident updated about the progress of their service request. The resident is also getting a bigger bang for the buck – a classic example of value-added service!

Offered services did not change—infrastructure maintenance remained the primary product. What changed was the Monterey’s awareness and improved knowledge of the costs associated with delivering those services.

The Presidio receives reliable services that are driven by an organization that is in the business of administering tax payer's dollars, whether they are local, state or federal tax dollars.

In 2005, the contract renewal effort furthered proved the efficiencies and effectiveness of the partnership, resulting in a sole source contract for the maintenance and repair operations at the Presidio, OMC and SATCOM.

Monterey is in the beginning stages of acquiring another sole source contract with the Army for continued services. It is worth noting that over the past 15 years; Monterey has improved the working efficiency with the Army and averages over 1600 completed work orders per month, while maintaining work order costs at a fairly consistent level.



Costs/Savings/Fiscal Impact

The Military-Municipal Partnership Provides Cost Savings For All Involved

The following prototypical statements generalize military asset management:

- Do not use activity-based costing

- No idea of maintenance and operation costs
- Work management system is not installed or poorly maintained
- Maintenance is reactive rather than proactive
- The local garrison does not make infrastructure design and maintenance decisions; these decisions are made at Headquarter level and by the Corps of Engineers
- Operational costs are high, but the quality of life is lower
- Hazardous response procedures are in place, but end at the fence line

Monterey offers a variety of solutions to these problems. Monterey owns and operates a work management system that allows nearly total control over costs. The activity-based work management system is rooted on a complete inventory of assets. Every work order is broken down in the following categories:

- Location of job performed
- Activity performed
- Labor costs
- Material costs
- Vehicle and equipment costs
- Contractor costs

Furthermore, Monterey owns and operates a variety of heavy equipment and specialized vehicles for all aspects of maintenance. Last, but not least, Monterey employs a fully mobilized and experienced local workforce, which is captured through the work management system by job class, job qualification, labor rate, fringe benefits and other indirect costs.

How does this translate into dollars? Look at the following examples:

Table 1 Economies of Scale

Example	Benefit for the City of Monterey	Benefit for the Defense Language Institute
Street Sweeping	Lower costs for the operation of the City's sweeper fleet	No need for ownership and operation of a street sweeper
Street Maintenance	Annual resurface program includes military quantities; higher quantities translate into lower overall price	
Public Works Employees	Maximize use of existing workforce –new employees can be hired as needed	No need to keep a costly in-house workforce
Storm Drain Maintenance	Lower costs for the operation of heavy equipment (Vactor)	No need for ownership and operation of a Vactor truck

Army's Auditing Agency confirms the success

In fall of 2000, the Army's Auditing Agency conducted an audit of the costs associated with the contract for base operations and maintenance. The auditing agency compared the costs of the services provided by the municipalities to the costs of previous maintenance providers from in-house

federal work force and private industry. The base had previously utilized a mix of federal and private industry services for the operations and maintenance. For example, the heating, ventilation and air condition contract was subcontracted to a local private contractor while the remaining building maintenance functions were performed by a civil federal work force. The Auditing Agency concluded that the Presidio had decreased expenses by 41% through the contract with the Presidio Municipal Services Agency.

Contract Format was Important for the Success

Federal contracting is regulated by the Federal Acquisition Regulations (FAR). Basically, this set of complex rules and regulations, supplemented by Defense Federal Acquisition Regulations Supplement (DFARS), are governing the contractual relationship between the federal government and other federal agencies, private industry, local governments, etc. It is important to elaborate on these rules and regulations since they tend to discourage local governments from entering into a contractual relationship with the military.

The FAR contains literally thousands of rules and regulations pertaining to all types of contracting. From the start, the City of Monterey was concerned about recovering its costs for the services offered to the military. In 1997, when the negotiation process started, the local Contracting Office offered a ***firm-fixed price*** contract to Monterey. In short: a firm-fixed price contract guarantees the contractor will receive a firm price for services supplied. It also requires the contractor to determine a price that covers all eventualities for the delivery of the service. Usually, a contractor 'buffers' a firm-fixed price by 'insuring' his profits through additional safety mark-ups. The bottom line is that the federal government ends up paying the marked-up price in exchange for budgetary certainty regarding the requested services.

Monterey did not want to be in the position of inflating the prices since the prime objective of the partnership was (and is) to lower the operational costs of the base. By establishing firm-fixed prices, Monterey would basically copy private industry pricing with the added advantage of working on a zero profit margin. Adding to the aversion to entering into a firm-fixed price contract was the fear that the metrics of 1997, which measured the work and services, were not reliable and objective.

By utilizing the broad range of rules and regulations of the FAR, Monterey successfully negotiated a ***cost-reimbursable contract*** format. The advantage of this format is the guaranteed recovery of all allowable costs for the services delivered, and, much more importantly, the military installation only pays for the actual costs and not buffered, inflated costs.

Table 2 Comparison of Contract Formats

<i>Cost Reimbursement</i>	<i>Firm-Fixed Price</i>
<ul style="list-style-type: none"> • Army pays for actual delivered services 	<ul style="list-style-type: none"> • Army pays for pre-determined number of services calls
<ul style="list-style-type: none"> • Contractor and Army adjust services 	<ul style="list-style-type: none"> • Contractor allocates entrepreneurial risks on Army
<ul style="list-style-type: none"> • Entrepreneurial risks are minimized and shared 	<ul style="list-style-type: none"> • Contractor locks the Army into a limited number of services
<ul style="list-style-type: none"> • Still allocates a financial ceiling 	<ul style="list-style-type: none"> • Adjust increases of service volumes through contractual negotiations \$\$\$

While the contractual rules and regulations are complex, the very complexity of the FAR also offers a great opportunity for both partners to select the best set of options possible based on specific local requirements.

The following Internet links will provide additional information with respect to cracking the federal contracting code:

- Defense Acquisition Guidebook: <https://dag.dau.mil/Pages/Default.aspx> Has central access to all relevant regulations and guidelines.
- Association of Defense Communities :<http://www.defensecommunities.org/> Best site for communities to get advice and networking opportunities
- Where in Federal Contracting? <http://www.wifcon.com/> Provides good information and answers with respect to all aspects of partnerships and contracting

Monterey started small by managing a part of the Presidio. Monterey prepared for the smaller management project and provided bottom-line results in easy-to-read reports. Based on that success, Monterey had proven the necessity of managing the entire installation and with that had shown that Monterey was in turn the perfect partner.

General Fund of Monterey Improved

One of the contractual requirements is to make sure all incurred charges meet the requirements of the OMB Circular A-87, “Cost Principles for State, Local, and Indian tribal Governments”. This circular specifically states what is and isn’t allowed as far as correct costs for invoicing.

“Indirect Costs” are of interest from the OMB A-87. These costs should be determined by independent auditor and fully substantiated by a Cost Allocation Plan and Indirect Cost Rate. Basically, the indirect cost are those costs that do not meet the criteria of a direct cost (like labor), but are costs incurred as a result of general business activities in support.

The indirect costs cover the expense of various supporting departments within Monterey, such as the City Manager’s Office, City Clerk, City Attorney, Finance and so forth. All of the costs are determined as allowable indirect costs identified in the Cost Allocation Plan.

Because these costs are reimbursed as a part of doing business with the Army, Monterey does not have to carry an undue burden while in support of the contract. The revenue into the General Fund is currently around \$75,000 per month. It allows for promotional and/or positional opportunities within the staff of Monterey working on and for the Base Operations contract and assures that Monterey is not devaluing tax dollars received from the local citizens and businesses or the state.

The Partnership Provides Other Benefits to Monterey County Businesses and Communities

The scope of the base operations and maintenance services contract is sometimes more than the PMSA can manage on their own. This has been a boon for local contractors by providing significant opportunities for subcontracting on base projects. In fact, over the course of the past 3 years the partnership has provided an estimated \$2.359 million to small businesses in the tri-county area through subcontracting opportunities for organizations that can do the job where the PMSA may not have the capacity, knowledge or resources on hand. These opportunities have the added benefit of helping to secure jobs by reallocating resources to local business. Monterey has also been able to partner with and aid small businesses and booster recognition of their great talents and work contributions to the Army. Alpha Air Balancing Agency was nominated by Monterey for the Small Business Sub-Contractor of the Year (2010) and was subsequently selected as just that. Nominees for this award were evaluated on the basis of management ability, financial stamina and controls, labor relations, customer interface, technical capabilities, resource utilization, cost performance, delivery performance, quality performance and overall performance.

The need for qualified local subcontractors has also enabled the cities to help several Monterey county businesses become state-certified small businesses and disadvantaged businesses. This certification benefits local businesses by positioning them to be eligible for other state and federal small-business programs. These programs allow small businesses to participate in a more level playing field with certain advantages when competing against other non-certified small businesses for state and federal contracts and purchases.

Another benefit to local businesses and the local economy resides in the large number of potential customers created by the military presence in Monterey County. The annual payroll generated by the region's military-related higher education assets is estimated at approximately \$750 million. By keeping the base more cost efficient, more of this money is ultimately funnelled into the local economy. Therefore, local businesses benefit by having a sense of a secure, large customer base and city governments benefit from the tax revenues generated by their spending. Ultimately, the entire community benefits from a healthier economy and an increase in the quality and number of resources and service available through the local municipalities.

Unique Partnership with Universal Applicability

Monterey's partnership with the Department of the Army is certainly unique in terms of its genesis and the special local circumstances involved. But, driven by economic parameters as well as a deeper understanding of local history and community composition, this partnership has allowed all partners to become better and more efficient at their core missions, as the numerous examples have shown.

However, if you conduct an analysis of this successful partnership, you will find that under the surface of the Monterey Model itself are lessons learned that can be easily adopted by local government agencies and military installations throughout the Nation. These lessons are based on the efficient development and management of a municipal corporation. In other words: while in many cases budget constraints force municipalities to restructure, cut back, outsource, sell, or raise fees and taxes, the Monterey Model required Monterey to function more as an entrepreneurial entity.

The following lessons can be used by all local government agencies:

- Become a True Municipal Corporation
- Recruit/Transform the Work Force from a municipal to a corporate mindset
- Measure Performance
- Be Innovative and Cutting Edge

Monterey Model and Becoming a Municipal Corporation

An important hypothesis of this case study is, in short, that the Monterey Model can be replicated everywhere. The attributes derived from the unparalleled success of this military-municipal partnership are basic and simple. Yet, unfortunately, they are not prototypical for most local agencies.

To be successful in becoming a municipal corporation, the City of Monterey had to invest in hiring and/or retaining qualified management from a sound mix of the public and private sector. This mix of experiences and management styles helped Monterey compete with private companies by allowing Monterey to quickly adapt to the successful strategies of its private competitors. Once Monterey was awarded the contract with the military, it had to implement strategies to continuously foster a relationship with the customer. Benchmarking became a necessity for survival rather than a temporary, technical term used to impress policy makers. Value added services such as Internet access to Monterey's work management system streamlined daily interactions between the military and Monterey. Information technology, training, quality control, and out-of-the-box thinking characterize and continuously challenge the business relationship.

Transformation of the Work Force

Historically, municipal workers are accustomed to working at their own pace. The effectiveness of these employees is usually not rated on

- units of production;
- quality of work;
- efficient use of newest practices and technology;
- responsiveness; or,
- efficiency and courtesy.

Rather, most municipal employees are judged by measuring labor hours worked. Generally, there is no actual business need for a municipality to transform its workforce unless outside factors drastically threaten its existence.

The new partnership between the Presidio and Monterey required city leaders to develop a staff attitude that was willing to continuously compete with the private industry. Aside from public safety services, nearly all municipal services are commodities that can be outsourced at any given time if the political will to do so exists. The newly formed work force understood these facts based on the all too real possibility to be replaced by the military through a different contractor.



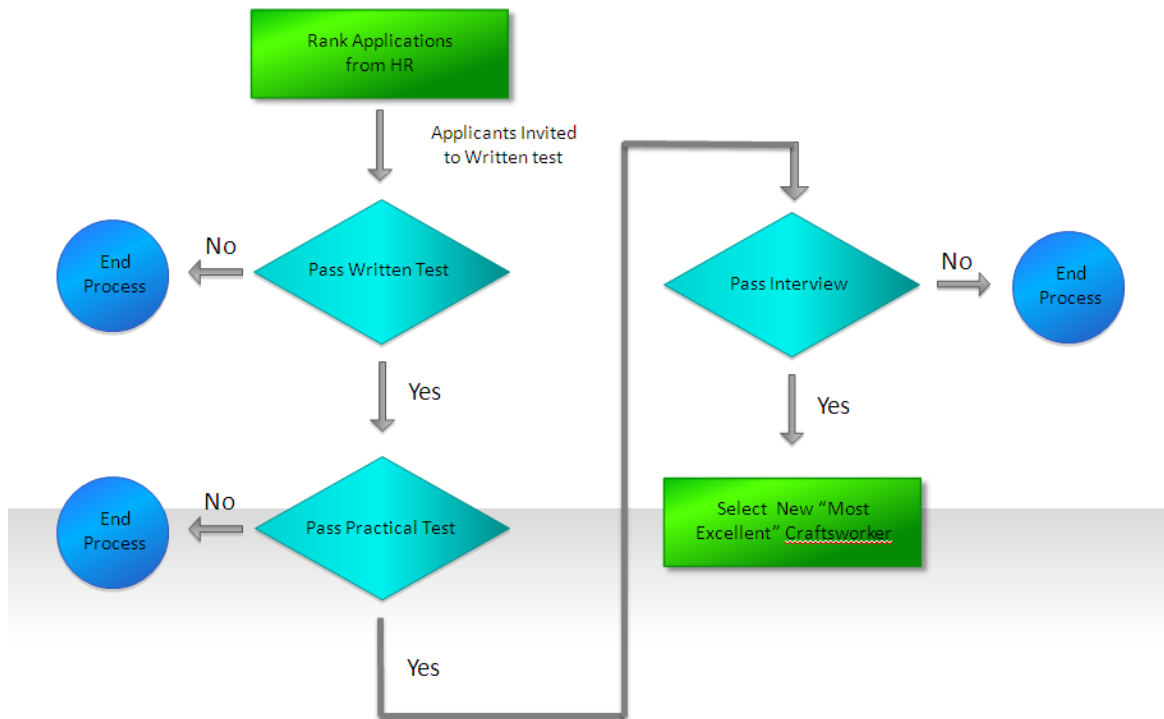
The work force servicing the Presidio of Monterey can be compared to any private work force in the country. The work of the employees is tracked by labor hours, activity, location and materials used. Every month a team of 28 building maintenance craftworkers complete over 1600 work orders ranging from simple maintenance tasks such as leaking faucets, light bulb changes, to more complicated tasks such as installing energy efficient heating system controllers.

Frequently, the services provided are regularly compared to private industry based on submitted cost proposals. The existing FAR regulations require the federal contracting officer to prepare an Independent Government Estimate (IGE) that is based on the scope of work and industry costs. Only if Monterey's cost proposal is equal to or less than the IGE is the project awarded to Monterey. The message being sent to the military customer and the work force is simple: Monterey needs to compete with private industry in order to keep the partnership alive. The military customer will allocate their resources to the contractor who offers the best value.

Additional employees had to be hired since the existing work force was based on city's assets and city services. Adding 1.2 million square of feet buildings required Monterey to amend the existing position allocation list. In comparison, Monterey maintains around 300,000 square feet of space, excluding the parking structures.

Selecting the most qualified employees requires a careful recruitment process. Every recruitment consists of an interview process and a practical test in which the potential employees have to demonstrate their level of craftsmanship in plumbing, carpentry, heating and air-conditioning, and painting. The final selection is based on a one-on-one interview with the hiring manager. During the following 12-month probationary period the employees are carefully monitored and coached by a senior craftworker or supervisors. The bar to pass probation is set high and not everyone can meet the expectations of the team.

PMSA Craftworker Hiring Process



Monterey’s existing employee recognition program has been extended to include an “employee of the month program,” written thank-you letters by the department head, quarterly quality awards in the form of gift certificates or restaurant vouchers, and on-the-spot recognition with gift cards from local hardware stores or electronic super-stores. The success of these measures is reflected in a motivated work force, which continuously strives to improve the teaching and living conditions of the military personnel.

Employees are also aware that the personnel rules and regulations, as defined in the memorandum of understanding between city and labor groups, are being enforced. Employees who have the slightest difficulties complying with the rules and regulations usually do not pass probation. Early warning signs are being addressed promptly and swiftly.

Weekly crew meetings focus on maintenance issues found in the facilities, safety messages and other issues. More importantly, these meetings also are designed to allow workers to share their tips, and tricks of the trades with others. The value of these weekly meetings for the crews is high. The sharing of information improves their individual performance as well as the team performance.

One Senior Craftworker generally leads a crew of two or three craftworkers. One crew usually oversees a defined group of buildings. The assignment of a group of buildings to crews generated an attitude of personal ownership for that particular team. Rotations throughout the crews are made on an annual basis; however, the Senior Craftworker remains responsible for the same group of buildings. This ensures consistency and retains past work experience with the building, components of the building, and more importantly, the building occupants and their specific desires. Currently

Monterey has five teams dedicated to the Presidio of Monterey and one team dedicated to the rest of Monterey. Three electricians complement the team composition where necessary.

The Monterey work force on the Presidio has been successfully transformed into a truly new culture of corporation. In contrast to the rest of Monterey's work force, the economics of the contract require a work management that accounts for every dollar spent. In contrast to the private industry, the economics of the base maintenance contract dictate that Monterey delivers the service with no profit margins. The result is astonishing: the process has created a work force that looks out for the interest of the customer and the municipality. The earlier mentioned cost savings of 41% when compared to previous federal and private maintenance providers can be explained by the attributes and attitudes of Monterey's unique work force.

Another rewarding aspect of the military-municipal partnership is the creation of additional positions within the municipal work force. Monterey was able to create over 25 positions as a result of the partnership. Eighteen of those employees work in the Building Maintenance Division in various positions ranging from Building Maintenance Worker (entry position) to Building Maintenance Craftswoman (Journeyman level position) to Senior Craftswoman (Master Craftsperson level). Monterey also hired an additional Building Maintenance Supervisor to help manage the additional workload. In the Maintenance Division, Monterey hired three additional Street Maintenance Workers, and partially funded an additional Street Sweeper Operator and an All-Voltage Technician. Additional clerical staff as well as managerial oversight was hired to complete the necessary team. Whenever possible Monterey elected to promote existing staff members, however, quality was never substituted by seniority.

Clearly, the work force is the main asset of the existing relationship between the military and Monterey.

Measure Performance - Work and Asset Management

Monterey's work and asset management system became a critical tool for the partnership. The system not only creates and tracks the various work orders; it also is able to forecast future maintenance needs and costs. The system is based on the methods and process of activity-based costing.

A reporting system extracts the data to show costs by location, activity, system, and defined category or by employee. Monterey's network structure allows many users to access the data simultaneously. The Army has also been given access to the same cost information in real time. At any given time, the Army's contracting officer, quality assurance inspector or any other garrison representative can check Monterey's resource allocation and expenditures.



The cost data is being used jointly to define the scope of work; with adjustments being done on a regular basis. It is not in the interest of the partners to 'waste' taxpayer dollars on achievements that do not need to be accomplished. While private contractors would see these opportunities as revenue

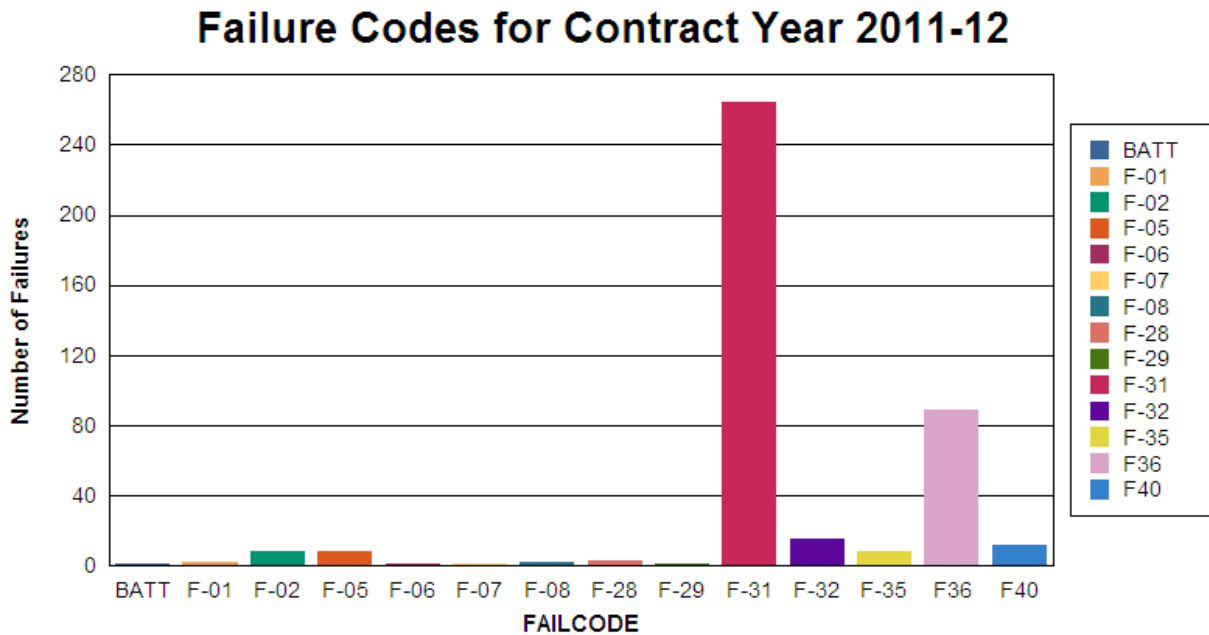
enhancements, Monterey tries to channel these dollars back into the contract without raising overall costs.

A quality control system was introduced on the Monterey side. Monterey employed Quality Control Inspector inspects 10% of all work orders. The results of the inspections are logged in the work management system and, if necessary, the corrective action as well. Bar charts as well as trend analysis tools further interpret the results. After the completion of each work order, the customer is asked to rate the services received. The return rate of the customer survey is around 15%. The data associated with the survey is analyzed through statistical software, but more importantly, the data is also being shared with the employees during the weekly crew meetings and the Army in monthly Base Operations meetings.

The hiring of a Quality Control Inspector had a significant impact to the partnership. The military acknowledged that Monterey had taken an important step ensuring quality work and quality standards. It also reinforced the concept to the work force that a quality product had to be delivered each and every time.

Quality control also monitors the reason why a work order begins. The example below represents information about the failure type codes during a specified time period. The top three failure codes causing a work order during that period are:

- F-31 Wear and tear
- F-36 Not per code
- F-32 Add-on request by customer



Innovation and Cutting Edge

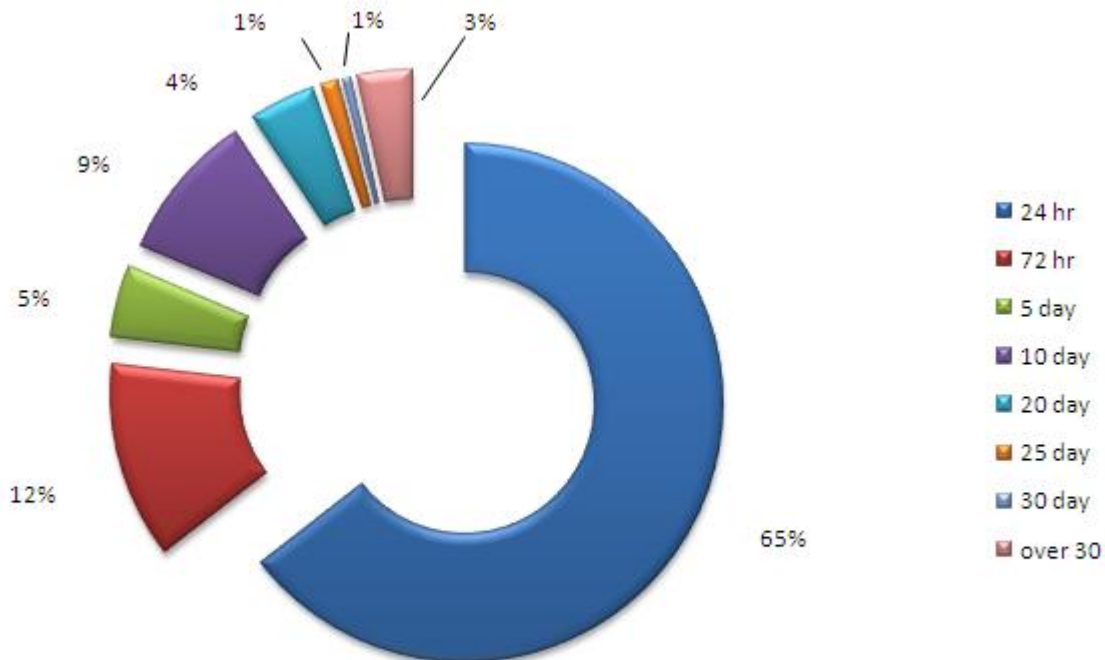
Data Utilization

The military and Monterey continuously collaborate to identify options to improve the value of services. Similar to private industry, Monterey is leveraging its comprehensive database of the installation's assets to provide a variety of useful information to the military. Many reports, required by the Installation Management Agency (IMA), are actually prepared by Monterey and forwarded to the representatives of the army's Directorate of Public Works.

Information Technology

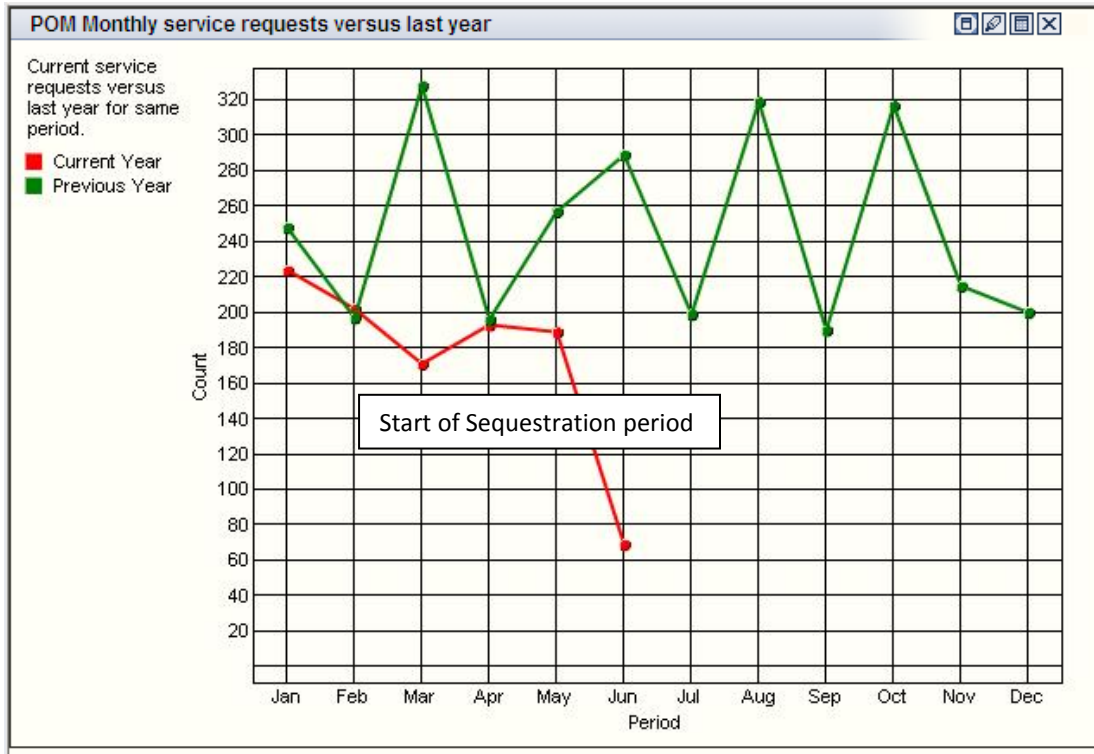
The efficient use of technology also satisfies the information and control demands of the military. Not every soldier is allowed to submit work requests, these tasks have been delegated to designated points of contact. Through an electronic notification procedure, the work management system automatically keeps these points of contact informed about the status of requested work. As a result, the points of contact can immediately inform their superiors, at any given time, the status of their assignments. Monterey also utilizes technology to solicit customer feedback through an on-line questionnaire, thus gaining a real-time measuring of Monterey's performance at yet another access point.

Another example, through a Garrison question regarding work orders costing \$2500 or less and their completion times, Monterey was able to utilize the work management system and Crystal Reports, to provide a quick turnaround with easy to read answers. The total completion rate for all work orders 30 days and under is equal to 97.14%.



103,000 Work Orders - \$2500 or Less
Period: 1/1/1997 - 5/30/2013

This next example reflects the recent changes brought on by the Sequestration cut-backs. The real-time chart compares current year customer service requests (red) to the previous year (green). The large down-tick in March requests coincides with the implementation of the Sequestration cutback. April represents a slight roll-back to the stringent implementation and May continues at that level of service with overall services planned on remaining at reduced levels through the end of this current contract year in November 2013.



Energy Savings

For more than 10 years now, Monterey Model has been able to create additional savings for the Army through an energy performance program. The military and Monterey have worked together to identify energy saving projects throughout the installation. This collaboration resulted in savings through reductions in energy use, through rebates from the State of California and the local energy provider, Pacific Gas and Electric (PG&E). Another funding source for federal energy projects is being provided through Monterey’s affiliation with the Association of Monterey Bay Governments. This unique funding method is only available through the partnership with a local government.

The Monterey Model utilizes the combined expertise of Monterey and military personnel to manage this program rather than contracting the services of Energy Savings Performance Contractors (ESPC). The military has seen substantial benefits from this program since its inception. In the traditional model, an ESPC would finance the initial upgrades to the installation’s utility systems. When the upgrades are complete, the contractor amortizes his investments through the savings realized in the installation’s utility costs. A healthy profit ensures that the ESPC also receives a part of the savings of the installation. The Monterey Model eliminates the ESPC by utilizing the

expertise of its City personnel (engineers, craftworkers and electricians). The model calculates the up-front investments and the amortization after the receipt of the discounts and reduction and utility costs. In many cases, it takes from six to 18 months to truly leverage the dollars saved in energy bills. Instead of being contractually obligated to an ESPC for up to 10 to 15 years, the installation can utilize the savings directly and without a middleman.

The partnership is not a one way street. Monterey has learned to utilize the same energy program for its own facilities such as our Sports Center, Conference Center, Library and Community Centers. Again, Monterey is financing the necessary capital investments without utilizing an ESPC. This allows Monterey to leverage additional savings, which in return translate into services for the public.

Results Reachable, Maintainable and Beneficial

With the Monterey community's historic civil-military partnership firmly in place and generating unprecedented savings and efficiency for everyone involved, the model exists to replicate the partnership in other communities throughout the nation. This is especially important at this particular juncture in history, when local economies that are reliant on a military component face the threat of ongoing military reductions and base closures. The success of this partnership is unquestionable and the motivation to recreate it in other communities is substantial and immutable.

Contractual relationships between municipalities and military installations:

- Create numerous win-win partnerships
- Lower operational costs for municipal public works departments
- Improve the cost awareness at every level of operations
- Add value and benchmarks to existing procedures and work processes
- Advance the overall efficiency of municipal operations

To apply this example to other communities, we recommend that you:

- Assess and explore possibilities of cooperation with local military installations
- Convince local politicians about the economies of scale
- Convince staff
- Implement, adjust, modify and improve your work management system
- Cost control and cost reports
- Benchmark
- Inventory the assets

Start small and increase services:

- Street sweeping or tree maintenance is a good starting point; no need for competitive bid or demonstration legislation
- Focus on services that help the base save maintenance dollars
- Always, always, always remain patient and stay focused on the objective