



REPORT TO COUNCIL

City of Sacramento

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Staff Report
November 3, 2009

**Honorable Mayor and
Members of the City Council**

Title: Citywide Financial and Operational Review

Location/Council District: Citywide

Recommendation: Adopt a **Resolution** 1) authorizing the City Manager to execute, on behalf of the City, a City standard Professional Services Agreement with Management Partners, Inc. to conduct a citywide financial and operational review for an amount not to exceed \$129,950.

Contact: Patti Bisharat, Director of Governmental Affairs, (916) 808-8197
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Presenter: Patti Bisharat, Director of Governmental Affairs, (916) 808-8197

Department: City Manager's Office

Division: N/A

Organization No: 02001011

Description/Analysis

Issue: On September 1, 2009, the City Council approved a scope of work and directed staff to release a Request for Proposals (RFP) seeking proposals from firms related to a citywide financial and operational review. The focus of this effort is to identify cost savings, efficiencies/service delivery changes, and potential revenue opportunities in the General Fund and Utilities Department.

Policy Considerations: A review of the City's operations and finances is consistent with City Council interest in identifying opportunities for cost savings, efficiencies and to right-size the organization to meet reduced revenue trends.

Environmental Considerations: N/A

Commission/Committee Action: N/A

Sustainability Considerations: N/A

Rationale for Recommendation: On September 1, 2009 the City Council directed staff to issue a RFP for consultant services to conduct a citywide financial and operational review based on the scope of work approved by the City Council and return with a recommendation on a consultant contract.

Financial Considerations: The recommended contract amount is \$124,150 plus \$5,800 for travel and other expenses for a total of \$129,950. The cost of the contract will be funded through a combination of salary savings from the vacancy of the City Auditor position and an allocation from the Utilities Department.

Emerging Small Business Development (ESBD): Management Partners is not a certified small business.

Respectfully Submitted by: M. Bisharat
for Patti Bisharat, Director of Governmental Affairs

Recommendation Approved:

Ray Kerridge
Ray Kerridge, City Manager

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Background

On September 1, 2009, the City Council directed staff to release a Request for Proposals to conduct a citywide financial and operational review.

The scope of work approved by the City Council for this project:

1. Evaluate citywide operations, organizational charts, policies and procedures for effectiveness, adequacy and functionality.
2. Review city financial and budgeting practices with the goal of recommending changes to reduce cost, improve service, and generate new revenue.
3. Evaluate duplication of efforts by departments that present opportunities for consolidation or reorganization.
4. Develop and implement a strategy to engage City employees and solicit and evaluate their recommendations as part of the project.

The City received nine proposals which were evaluated by a Selection Panel including the City Treasurer, Sr. Investment Officer, City Manager's Office and Finance Director of another city. Interviews were conducted with the top four proposers. Management Partners, Inc. was unanimously identified as the top proposal.

The Management Partners proposal offered the City a deeply talented team led by Project Manager Andy Belknap and offered the City the most comprehensive workplan at the most competitive hourly rate.

Following is a summary of the key elements of the proposed workplan for this project. The entire workplan is included as Attachment 3. While the focus is on the general fund, the Utilities Department will be participating in the study and provide a portion of the funding for the contract.

Proposal Summary:

Strategies: Identification of independent "strategies" grouped in four dimensions which together comprise a reasonable range of the alternative approaches to closing the deficit gap which can be integrated into the proposed budget for FY2010-11 and future years:

- New/Increased Revenue Sources – This involves identification of new revenue sources based on best practice and benchmarking analysis
- Expenditure Controls/Shifts – This refers to strategies which cap or save General Fund expenditures either by shifting costs to other funds or service providers
- Service Delivery Model Changes – This includes looking at alternative service delivery approaches resulting in efficiencies and elimination of redundancies
- Service Delivery Reductions – Reductions can be suggested by benchmarking or performance measures

Employee engagement: Design and deploy an electronic survey or similar instrument as part of the FY 2010-11 budget preparation to assist with the prioritization of City programs and services.

Best Practices and Benchmarking: Identify large cities with demographic factors similar to Sacramento that have dealt with budget realignments and organization rightsizing; research these and other jurisdictions as appropriate to identify approaches that have proven successful in addressing on-going budget deficits; specifically analyze the results of the best practice case studies to distill ideas that would be relevant to the City of Sacramento.

Identify Best Opportunities: Qualitatively weigh the importance of various implementation barriers such as a charter change, policy change or a relatively simple management change - not all barriers are of equal difficulty; differences in barriers are likely to dictate both the time frame and the priority, as well as the degree of difficulty to implement.

The intent is to integrate the efforts of this study into the development of the Proposed 2010-11 Budget. The project recommendations will be completed and presented to City Council by mid-March 2010.

RESOLUTION NO.

Adopted by the Sacramento City Council

AGREEMENT: CITYWIDE FINANCIAL AND OPERATIONAL REVIEW

BACKGROUND

- A. The City is projecting a budget deficit in FY2010/11 and experiencing declining revenues in the current fiscal year.
- B. The City Council directed staff to issue a Request for Proposal (RFP) to solicit proposals to conduct a review of the city's operations and finances to identify cost-savings, efficiencies and possible revenue opportunities.
- C. The City received nine proposals and interviewed four firms scoring highest on the City's selection criteria.
- D. Management Partners was unanimously identified as the top proposer by the selection panel.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. The City Manager, or authorized designee, is hereby authorized to execute a City standard Professional Services Agreement with Management Partners, Inc. to perform a citywide financial and operational review, in an amount not to exceed \$129,950.

Workplan

Activity 1 – Acquire Background Information

Management Partners will begin this project with a careful learning phase. We will acquire background information relevant to understanding the City's current fiscal status and environment. This will include information on the City's budgeting methods, revenue sources and trends, expenditure allocations and trends, and labor environment. We will interview City leaders to understand their perspectives on the challenge ahead, including elected and appointed officials, as appropriate.

The review and analysis that we complete during the initial weeks of the project, as well as dialogue that we expect to have with City leaders, will enable us to refine this plan of work. The result will be reliable expectation that no stone will be left unturned in a systematic, professional approach to addressing the budget challenges. To organize our work we will develop independent "strategies" grouped in four dimensions which together comprise a reasonable range of the alternative approaches to closing the deficit gap:

- **New/Increased Revenue Sources** – This involves identification of new revenue sources based on best practice and benchmarking analysis
- **Expenditure Controls/Shifts** – This refers to strategies which cap or save General Fund expenditures either by shifting costs to other funds or service providers
- **Service Delivery Model Changes** – This includes looking at alternative service delivery approaches resulting in efficiencies and elimination of redundancies
- **Service Delivery Reductions** – Reductions can be suggested by benchmarking or performance measures

During this activity we will be building a project database to be used throughout the analysis phase of the project. We will include previous budgets, budget analysis work, departmental program recommendations, and other relevant information documented during this activity. In addition, we will review budgeting approaches and test budget assumptions against actual experience. To understand the City's fiscal situation we will track both actual expenditures and budget projections made at the time spending plans are adopted. It will be essential to get this trend data early in the project. Finally, we will review and factor in the City's inventory of unmet or deferred infrastructure and maintenance needs, to the extent the information is available.

At this time we will also work with the City to develop a representative steering committee composed of City management that will act as a sounding board and review vehicle as we develop recommendations.

We will also work with City staff to continue supporting a dialogue with employees to solicit their ideas and suggestions. To maximize our efficiency in this area we will utilize previous work products developed by the City as part of the budget process, which includes numerous suggestions and ideas for addressing budget problems developed by employees. We will also work with City staff to design and deploy an electronic survey or similar instrument as part of the FY 2010-11 budget preparation to assist with the prioritization of City programs and services.

Activity 2 – Conduct High Level Organizational Review and Evaluate the Budget Process

Management Partners will review operations Citywide to develop potential strategies in the four dimensions discussed above. Our focus will be to integrate this work with ongoing City budget development work which is focused on establishing core priorities within four discrete areas or “pods.” These service category pods include operational services, support services, services related to development and charter-defined services. As we complete this activity, we will include an evaluation of overall effectiveness as measured by program performance measurement and other budget data that may be available. This portion of the work will include a number of interviews with management throughout the City. We will prepare for each interview carefully using an interview guide developed for the project and the information gathered in Activity 1.

For each departmental program area we will complete an evaluation matrix that includes that following: optimization opportunities that may exist, alternative service delivery approaches that might be possible, revenue enhancement options and the potential for cost shifts. The evaluation matrix will also include any potential redundancies observed with respect to program operations (internally and with regard to other service providers) and the potential for organizational consolidation. Finally we will use benchmarking information developed concurrently during Activity 5 to evaluate service levels and potential cost reducing best practice approaches that Sacramento might adopt. This program evaluation matrix, the employee input, service rankings priorities developed by the City’s budget process and the benchmarking information will be the basis for developing strategies in the next activity.

Activity 3 – Develop Initial List of Strategies

Following a thorough review of the background information, including input received through interviews, we will develop a preliminary list of short- and long-term strategies to address the City’s structural General Fund deficit. The initial list will be organized into the categories established in Activity 1. Revenue options will include such ideas as improving cost recovery from special funds and subsidiary city agencies for the services provided by the City.

The initial list of strategies will incorporate preliminary results from best practice research (further outlined in Activity 5). Management Partners will commence the benchmarking/best practices research activity at the start of the project to quickly inform the discussion of potential strategies.

We will develop a detailed presentation with initial strategies that includes estimated timeframes (short- vs. long-term) and order of magnitude effects for review by the City. The presentation will indicate the strategies that require more in depth analysis, which will occur as part of Activity 6. We will incorporate the feedback we receive from the City’s management staff and then present the resulting information to the City Manager by December 10, 2009. We will update the initial set of strategies to reflect input from the City Manager and the executive leadership team in advance of the first round of stakeholder focus groups. These threshold presentations will provide good opportunities for dialogue about the ideas initially developed, as well as identify other possibilities that ought to be explored.

Activity 4 – Conduct Best Practices Research and a Benchmarking Survey

Although best practices research is included as the fourth activity in this proposed plan of work, the tasks associated with the activity will commence shortly after the project kick-off and

will inform the initial list of budget strategies developed during Activity 3. We will begin this activity by identifying large cities with demographic factors similar to Sacramento that have dealt with budget realignments. We will research these and other jurisdictions as appropriate to identify approaches that have proven successful to addressing on-going budget deficits. We will specifically analyze the results of the best practice case studies to distill ideas that would be relevant to the City of Sacramento.

We then propose to conduct a workshop for the steering committee that is focused on discussing lessons learned from best practices. We will incorporate these lessons through the best practices research as we analyze each strategy in greater detail.

Activity 5 – Analyze Each Strategy

Incorporating the feedback received at this point in the project, including direction from the City Manager and executive team, we will perform an analysis of each suggested strategy and develop a matrix that includes at least the following information: priority rank; description/rationale; fiscal impact; implementation scheduling (short- vs. long-term); implementation barriers; and any one-time costs for implementation. Because we will have developed a consistent analysis plan during Activities 1 and 2, each strategy and, more importantly, the actual change options included with each strategy, will be examined in a comprehensive and complete manner. Consistent benchmarks will be used in the analysis across all strategy types to ensure that all approaches are portrayed in a comparable manner for the decision makers.

Care will also be taken to qualitatively weigh the importance of various implementation barriers. Such barriers might span a charter change, policy change or a relatively simple management change; not all barriers are of equal difficulty. The differences in barriers are likely to dictate both the time frame and the priority, as well as the degree of political difficulty to implement.

We will present the results of our analysis to the City Manager and conduct additional research as needed. The revised analysis and deliverables will be presented to the Mayor and City Council in Activity 6.

Activity 6 – Present Strategies for Feedback

Having completed the analysis of initial budget strategies and carefully reviewed them with the steering committee and the City Manager, we will prepare a presentation to the Mayor and City Council and stakeholder groups. We will meet first with the Mayor and then finalize the presentation for the Council. We will present the strategies along with supporting analysis and seek their input, then compile the results and prepare a draft implementation plan with key milestones for review by the steering committee.

The key elements of the recommended strategies will be categorized by type, along with the analysis developed in Activity 5 that provides context for the consideration of each idea. It will be important to understand the actions (and timelines) required for implementation, and those will be estimated to inform the deliberations.

Activity 7 – Report Results

Incorporating the feedback we receive during Activity 7, we will refine our strategies and, incorporating the input of the Mayor and City Council, prepare a draft report with

recommendations. We will review the draft with the City for clarity and factual accuracy then finalize the report in accordance with the timeline identified in the RFP.

Activity 8 – Present Final Report

The final activity is to present the report first to the Mayor and City Council. By this point, if the deliberations and dialogue have been thorough, the extent of Council consensus or disagreement will be clear. While it may be possible that the Mayor and Council members will face difficult choices at the conclusion of the process, their decision-making should benefit from this thorough vetting of the choices confronting the City. The full engagement is expected to be completed in sufficient time to prepare the FY 2010-11 Recommended Budget.