



REPORT TO COUNCIL

City of Sacramento

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Staff Report
September 1, 2009

Honorable Mayor and
Members of the City Council

Title: Report Back: Citywide Financial and Operational Review

Location/Council District: Citywide

Recommendation: Approve a scope of work and process approach, and provide direction to staff on conducting a Citywide Financial and Operational Review.

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

Department: City Manager's Office

Division: N/A

Organization No: 02001011

Description/Analysis

Issue: The Mayor and City Council have discussed conducting a review of city finances and operations to identify cost savings, efficiencies and potential revenue opportunities. Earlier this year, staff presented a report on conducting this review using an independent consulting firm. Council directed staff to report back with a RFP (request for proposals) process to provide a competitive framework for selecting independent consultants to carryout the review. Subsequently, staff reported on a possible scope of work and details on a RFP process. In response to Council discussion and requests, this report provides information on similar efforts conducted by other agencies, provides Council with several alternative approaches for conducting such a review, options on scope of work, and includes a framework for the solicitation of proposals should that be the preferred approach.

Policy Considerations: A review of the City's operations and finances is consistent with City strategies to identify cost saving efficiencies and right-size the organization to meet reduced revenue trends.

Environmental Considerations: N/A

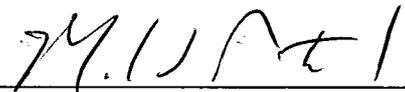
Commission/Committee Action: N/A

Sustainability Considerations: N/A

Rationale for Recommendation: This report seeks direction from Council regarding options on scope of work and alternative approaches on the process to conduct a financial and operational review including issuance of a Request for Proposals (RFP).

Financial Considerations: The cost of a citywide financial and operational review will depend on the scale and focus of the scope of work desired by Council and the approach used in conducting the process. If the City Auditor position remains vacant through December 2009, approximately \$100,000 in one-time labor savings will be realized and available to be reprogrammed for other uses if so desired.

Emerging Small Business Development (ESBD): N/A

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

Recommendation Approved:


Ray Kerridge, City Manager

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Background

At the June 9, 2009 City Council meeting, Mayor Johnson requested the City Manager prepare a report for Council's consideration related to the possibility of conducting a citywide financial and operational review to identify opportunities for cost savings, efficiencies and improved service to citizens. At their July 14, 2009 meeting, the Mayor and City Council discussed a draft scope of work for such a review and directed staff to return with additional research on similar efforts in other cities, additional scope detail, possible role for the City Auditor, and a review of funding options for such a review. The following report summarizes the strategies used by other cities and presents several approaches and options for Mayor and Council consideration.

The report is organized as follows:

Attachment 1 – Background

Attachment 2 – Scope of Work

- Scope of Work
- Possible Role for the City Auditor
- Other Considerations
- Process Approach
- Funding

Attachment 3 – Evaluation Criteria

Financial and Operational Review. Financial and operational (performance) reviews are common studies conducted by local government agencies. These studies are conducted for various reasons including efforts to improve operational performance, enhance customer service, identify future challenges, and seek efficiencies in the delivery of service. Typically, these reviews focus on a specific department or two that an agency seeks to improve. It is not uncommon, however, for agencies to periodically conduct a comprehensive organizational audit. Most reviews are conducted on an as-needed basis by agencies given the considerable cost and/or time investment associated with such studies. Moreover, the results of these studies often lead to lasting organizational changes (and savings) that are intended to endure for several years thereby justifying the investment.

Designs of organizational studies depend on the goals of the agency along with a determination of available resources. The cost for such a study will reflect the study's depth and complexity. Staff is aware of several public agencies that are pursuing or have completed some form of citywide review in recent years as noted in the following table.

Agency	Review Focus/Title	Year	Consultant, Internal or Volunteer?
City of San Jose	General Fund Structural Deficit Elimination Plan	2008	Combination
City of San Buenaventura	Operations Review – Departmental Self Assessments	2004	Internal
City of Rohnert Park	Review of programs to reduce City expenditures/increase revenues	2009	Consultant
City of Lafayette	Financial and Organizational Review	2008	Volunteer
City of Monrovia	Citywide Organization and Management Study	2005	Consultant
City of Vancouver, BC	Business, Service Delivery Practices & General Operations	2009	Consultant
City of Naperville, IL	Organizational Staffing Analysis	2009	Consultant
City of Spokane, WA	Organizational, Efficiency and Effectiveness Study	2007	Consultant
City of Deltona, FL	Citywide Cost Efficiency Study	2008	Consultant
City of Goodyear, AZ	Organizational Study and City Staff Assessment	2007	Consultant
City of Tucson, AZ	Citizen Finance and Service Review Committee	2004	Volunteer

NOTE: Generally, the above studies have ranged in cost from \$100,000 to \$300,000 and taken six months to more than a year to complete depending on the approach.

While there are a considerable number of talented management consultants/firms available to conduct financial and operational audits, it should be noted that other agencies sometimes opt to conduct either self-assessments or utilize a committee of community volunteers or both. For example, in 2004, the City of San Buenaventura conducted a citywide Operations Review via Departmental Self Assessments. The process was coordinated by a citywide committee of staff supported by an independent advisory committee of local business leaders that helped guide the process, and included professional peer reviewers who provided independent assessments for each department's efforts. The resulting study was used to document the work they do and identify challenges and opportunities in each department. Similarly, the cities of Tucson and Lafayette have used volunteer citizen-based committees to evaluate their agency's budget and operations. Agencies that pursue citizen-based committees often specify the membership qualifications of committee members (e.g. members must have a finance or business background, be a certified public accountant, etc.).

Over the last 25 years, the City has engaged in a number of efforts to identify budget savings, efficiencies and opportunities to recover costs or fund programs without impact to the General Fund. As part of the 1997/98 budget development process, the City facilitated a process called "Sacramento Decisions" utilizing community input to form the recommendations for reductions and efficiencies related to service delivery in efforts to cut costs with a minimum of impact to public services.

As part of 2003/04 and 2004/05 budget development, the City Manager's Office implemented the Sacramento Organizational Assessment Project (SOAP) to identify best

practices and ideas that would allow the organization to reduce costs and improve service delivery. This process generated over 1,500 ideas from the workforce, many of which were implemented as part of the balanced budget.

Overall budget strategies have also included the opportunity, where appropriate, to increase existing fees to accommodate increases in inflation as well as implement new charges to ensure cost recovery for services. In 2006, for example, the Council adopted a Fees and Charges Policy to document the necessity of recovering costs where appropriate. The Council also implemented a practice of annually reviewing fees and charges to ensure cost recovery.

Scope of Work

Scope of Work. Previous Council discussion of a potential scope of work largely focused on goals of identifying functions of departmental overlap, seeking cost savings/efficiencies and exploring potential opportunities to enhance revenue. The framework discussed by Council for achieving these goals included a macro-level blended review of city finances and operations, and a refined study of a select number of departments that presented the greatest opportunities for cost savings, efficiencies and revenue enhancement.

Based on the Council’s discussion of the issue including specific requests for additional scope detail and/or alternatives, and a review of studies conducted by other organizations, Staff has identified three distinct scope of work categories of potential review for Council consideration. The categories are intended to reflect the discussion the Council has had on this issue to date, organize various elements of potential study, and identify specific tasks within each category for such a study. A fourth category identified as “Hybrid” in the shaded column (see Table 2 below) reflects Staff’s professional recommendation for study should the Council decide to direct Staff to release an RFP.

It is important to note that the City’s Fiscal Year 2009/10 budget includes several findings that are similar to many of the tasks identified in Table 2’s Citywide Financial Review category. This information includes a five year forecast of revenue and expenditures, and an identification of alternative revenue options. Therefore, some of the work associated with a Citywide Financial Review would include validation of the analysis conducted by the Finance Department. Also, it would be appropriate to direct any staff/consultant utilized for such a project to focus on identifying new actionable opportunities that have not been recently vetted/identified by the City, and any challenges to the successful implementation of a recommendation.

Possible Role for the City Auditor. The vacant City Auditor position and the Council’s recent action to move the reporting requirements for this position from the Office of the City Manager to the Mayor and City Council presents an opportunity for potential engagement of the City Auditor’s Office. The City Auditor to be hired by the Mayor and Council will have a wealth of training and experience with government finance and operations. Additionally, the new City Auditor has been authorized to hire two additional staff (offset by anticipated savings from the risk fund). The Council, therefore, could consider utilizing the City Auditor and Auditor staff to conduct all or specific portions of the scope of work. The following table summarizes the benefits and limitations of utilizing the City Auditor’s Office:

Benefits	Limitations
Opportunity for cost-savings by utilizing in-house staff	Due to current vacancies, work may not be able to begin until at least January 2010
Accelerates the City Auditor’s familiarity with City Departments (assumes person is hired externally)	Postpones other work anticipated to be completed by City Auditor’s Office
	Does not provide independent third party professional recommendations

TABLE 2 - SCOPE OF WORK CATEGORIES

	1. Macro Level Review of City Organization	2. Targeted Operational Review of 3-5 Depts	3. Citywide Financial Review	4. Hybrid
Tasks	<ul style="list-style-type: none"> ▪ Conduct initial interviews with key staff/elected officials to identify trends and plans which impact operational, staffing, organizational and management needs ▪ Review organizational charts, labor agreements and city policies ▪ Conduct SWOT analysis of City (strengths, weaknesses, opportunities, and threats) ▪ Compare the City's labor costs to other municipalities and public sector employers to consider union / management ratios, benefits costs, salary and benefit escalation trends, etc. 	<ul style="list-style-type: none"> ▪ Evaluate citywide operations, policies and procedures for effectiveness, adequacy and functionality ▪ Conduct validation of best practices with select cities to determine opportunities for improved efficiency and service ▪ Evaluate duplication of efforts by departments that present opportunities for consolidation or reorganization ▪ Analyze operations and staffing needs in each department 	<ul style="list-style-type: none"> ▪ Complete an analysis of revenue and expenditure trends/patterns over past five fiscal years ▪ Develop revenue and expenditure projections for next five fiscal years ▪ Review city financial and budgeting practices with the goal of recommending changes to reduce cost and improve service ▪ Identify weaknesses in internal and external control mechanisms for each department ▪ Determine availability, feasibility and implementation aspects of grants and other alternative financial resources/revenue opportunities 	<p>Citywide:</p> <ul style="list-style-type: none"> ▪ Evaluate citywide operations, labor agreements, organizational charts, policies and procedures for effectiveness, adequacy and functionality ▪ Review city financial and budgeting practices with the goal of recommending changes to reduce cost, improve service, and generate new revenue ▪ Evaluate duplication of efforts by departments that present opportunities for consolidation or reorganization <p>Targeted Review of 3 to 5 departments:</p> <ul style="list-style-type: none"> ▪ Analyze operations and staffing needs in each department ▪ Conduct validation of best practices with select cities to determine opportunities for improved efficiency and service ▪ Identify potential cost saving measures in each department

TABLE 2 - SCOPE OF WORK CATEGORIES (Continued)				
	1. Macro Level Review of City Organization	2. Targeted Operational Review of 3-5 Depts	3. Citywide Financial Review	4. Hybrid
Strengths	<ul style="list-style-type: none"> ▪ Low cost; timely; helps identify trends and macro-level organizational opportunities or areas for future study ▪ Can be useful as a first step of organizational analysis 	<ul style="list-style-type: none"> ▪ Will provide well-researched findings and recommendations about the efficiency and effectiveness of city operations ▪ Provides information about how the city's operations contrast with other cities 	<ul style="list-style-type: none"> ▪ Provides useful financial analysis of city revenue and expenditure trends and projections ▪ Provides specific recommendations to improve fiscal stability and organizational sustainability 	<ul style="list-style-type: none"> ▪ Will provide well-researched findings and recommendations about the efficiency, effectiveness and structure of city operations ▪ Provides information about how the city's operations contrast with other cities ▪ Less costly than combination of scopes 1 - 3
Weaknesses	<ul style="list-style-type: none"> ▪ Lacks depth ▪ May not result in easily implementable cost-saving and/or efficiency recommendations 	<ul style="list-style-type: none"> ▪ Can be costly depending on depth of review and time intensive for staff 	<ul style="list-style-type: none"> ▪ Likely requires significant time investment by Finance Department and other staff 	<ul style="list-style-type: none"> ▪ Will require significant staff time ▪ Cost

The hybrid option is recommended for several reasons should the Council desire a study of City operations and finances. First, the identified scope of work generally reflects the Council's discussion to date on the type of information desired by such a study. The scope has been refined to reduce the anticipated cost of such a study and does not duplicate any work already completed by City staff. Moreover, the scope focuses on tasks that will be expected to yield recommendations that could be useful in addressing anticipated budget challenges in Fiscal Year 2010/11.

Other Considerations

Optional Add-Ons. Some agencies include additional components to their scope of work that the Council may wish to consider incorporating into an organizational review. A RFP can be written to request the optional add-ons be included in proposals or identified as a separate cost if desired. While these components are not essential to the successful completion of an organizational review and will increase the cost of a review, they can improve the chances the study and any resulting recommendations will be embraced by employees and the community. Staff has identified the following two potential "add-ons" for Council consideration:

1. Employee Engagement. Engagement of employees via focus groups and/or survey is often a useful strategy to solicit useful recommendations and improve employee buy-in for the study.

2. Community Advisory Committee. Create a Community Advisory Committee comprised of local business and community leaders (including potentially the Mayor and/or Council Members) to review and comment on a draft report. While the addition of this step will increase the review time associated with the report, it presents an opportunity to solicit additional feedback on the draft report and likely will improve community support for the report's recommendations.

Process Approach. As discussed, the completion of the Scope of Work can be completed by utilizing consultants, in-house staff or a combination thereof. These options are simplified below as three general approaches for Council consideration. Each approach presented below presumes that the Council will have selected a scope of work from the alternatives identified earlier in the report. Provided below is a short generalized summary of each approach and its associated strengths and limitations.

Approach	Description	Strengths	Limitations
1.	Utilize Consultant	Independent analysis by a neutral 3 rd party; will provide targeted review of city finances and operations; can begin in approximately 8 weeks	Most costly
2.	Utilize a Combination of Consultant and City Auditor	Potentially reduces cost of analysis by using in-house staff; accelerates City Auditor's familiarity with City departments	Coordination may be challenging; may reduce overall cost of study by utilizing in-house staff; study may need to be delayed until City Auditor's Office is fully staffed
3.	Utilize City Auditor	Cost effective; Will accelerate the City Auditor's familiarity with City departments	Limited staffing of the City Auditor's Office may not provide opportunity to conduct thorough and timely study; does not provide independent third party analysis; study may need to be delayed until City Auditor's Office is fully staffed

If Council approves the approach of using a consultant, the City Manager's Office will prepare a Request for Proposal (RFP) based on Council's direction regarding the

desired scope of work. As a best practice, the RFP will encourage each proposer, based on their expertise, to develop a work plan and specific actions to achieve successful completion of the tasks/deliverables identified in the RFP.

Proposers may submit a work plan exceeding the scope of services to be performed in the RFP. However, the RFP will indicate that the cost proposal must show separate costs for work items above the minimum scope. The RFP will also note that the City will consider consortium proposals from two or more persons or firms having no formal corporate links who wish to form a joint venture or consortium solely for the purpose of submitting a proposal in response to the RFP. The City will reserve the right to accept the consortium as proposed or choose to negotiate an Agreement with individual consortium members separately.

Staff will assemble a Selection Panel consisting of internal staff and at least one external public agency representative (e.g. Finance Director from another city) to review the proposals. Staff has developed a two-part evaluation process to guide the Selection Panel's review of proposals (see Attachment 3). Part 1 will consist of a review of the written proposal based on the criteria and weighting. The RFP will reserve the City's right to evaluate the qualifications of the responding firms on the basis of the written submittal only. However, the RFP will also provide flexibility to the City to conduct interviews with the top-ranked firms (Part 2) if desired. The City Manager's Office would bring forward a recommended consultant and contract for approval by the Mayor and City Council, along with funding options.

Should the Council decide to direct Staff to release an RFP, Staff anticipates award of contract can be completed within approximately 8 weeks based on the following schedule:

Solicitation of Proposals:	2-3 weeks
Review of Proposals:	1-2 weeks
Reference Checks/Interviews (optional):	1-2 weeks
Contract Drafting/Negotiation:	1 week
Council Report Drafting/Approval:	1 week

Funding. The cost of a citywide financial and operational review will depend on the scale and focus of the scope of work desired by Council and the approach used in conducting the process. The studies utilizing consultants noted in Attachment 1 of this report have ranged in cost from \$100,000 to \$300,000.

The City's current year adopted budget included funding for the currently vacant City Auditor's position. If the position remains vacant through December 2009, approximately \$100,000 in one-time labor savings will be realized and available to be reprogrammed for other uses if so desired. Should the Council direct Staff to release the RFP, Staff will return with a recommended consultant and funding options based on the specific proposal.

Evaluation Criteria

PART 1. Written Proposal

Proposals shall be evaluated and scored based on the following criteria and weighting:

- 0 to 15 Points: Scope of Work. Is the proposal responsive to the City's proposed scope of work? Will it lead to successful and timely completion of a citywide financial and operational review?
- 0 to 15 Points: Firm Qualifications. Demonstrated knowledge and experience with conducting financial and operational reviews for public agencies with resident populations of at least 300,000.
- 0 to 15 Points: Project Team Experience. Qualifications and experience of proposed project manager and team for the engagement
- 0 to 30 Points: Fee structure. Proposed cost of service.
- 0 to 5 Points: References

SUBTOTAL: 80 Points

PART 2. Interview (at City's option)

- 0 to 5 Points: Presentation Overview. Summary of work plan, qualifications and experience of firm, consistency with scope of work, etc.
- 0 to 15 Points: Response to Interview Questions, including but not limited to capacity of firm/availability of staff, quality control, etc.

SUBTOTAL: 20 Points

TOTAL: 100 Points (add 5 points for Emerging/Small Business Enterprise)