



City of Sacramento City Council

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Meeting Date: 1/18/2011

Report Type: Staff/Discussion

Title: Update: Department of Utilities (DOU) Operational and Efficiency Audit

Report ID: 2011-00099

Location: Citywide

Recommendation: Update and discussion of Utilities Department operational/efficiency audit.

Contact: John Dangberg; Patti Bisharat

Presenter: John Dangberg; Patti Bisharat

Department: City Manager

Division: Executive Office

Dept ID: 02001011

Attachments:

- 1-Description/Analysis
- 2-Background
- 3-Audit Strategy
- 4-Scope of Services
- 5-Workplan

City Attorney Review

Approved as to Form
Joe Robinson
1/13/2011 11:33:26 AM

City Treasurer Review

Prior Council Financial Policy Approval or
Outside City Treasurer Scope
Janelle Gray
1/12/2011 1:21:40 PM

Approvals/Acknowledgements

Department Director or Designee: Patti Bisharat - 1/13/2011 11:05:05 AM

Assistant City Manager: Patti Bisharat - 1/13/2011 11:10:49 AM



Description/Analysis

Issue: This report previews several key Utilities Department policy issues that will be brought forward to the City Council in 2011. Additionally, the Mayor and several Council Members have requested an audit of the city's Utilities Department to ensure the department operates as efficiently and effectively as possible. To this end, the City Manager and City Auditor have developed a multi-pronged audit strategy involving three separate tracks.

Policy Considerations: The proposed studies and 2011 workplan are consistent with city strategies to identify cost savings and operational efficiencies.

Environmental Considerations: The recommendation does not constitute a "project" and therefore is exempt from the California Environmental Quality Act (CEQA) according to Sections 15061(b)(3) and 15378(b)(2) of the CEQA Guidelines.

Sustainability: Not applicable

Commission/Committee Action: Not applicable

Rationale for Recommendation: This report provides the City Council with an overview of the audits and 2011 policy issues workplan of the Utilities Department.

Financial Considerations: Staff anticipates the proposed Operational/Efficiency Audit will cost approximately \$80,000 to \$120,000 for a robust macro-level review of the department depending on the specific scope of services and proposal selected.

Emerging Small Business Development (ESBD): Not applicable



Background

The city's Utilities Department provides water, sewer conveyance, storm drainage, garbage, recycling and yard waste collection/disposal and street sweeping services. The department's Fiscal Year (FY) 2010/2011 approved budget is \$163 million, the largest enterprise fund department of the city. The department's operations are funded by rates charged for providing service; the Department does not receive General Fund revenues. As such, identifying opportunities for cost savings through efficiencies and cost containment as well as effective service delivery can result in keeping rates as low as possible for city residents.

At the request of the Mayor and several Council members, the City Manager's Office has been working closely with the City Auditor to develop an approach to reviewing and auditing the Department of Utilities. Jointly, a multi-pronged audit strategy involving three tracks has been developed (see Attachment 2).

A brief summary of each track is provided below:

Operational/Efficiency Focus. The City Manager's Office will coordinate an independent operational efficiency and cost savings audit. This objective examination of the Utilities Department will seek to identify best opportunities for immediate cost saving and operational efficiencies for the department as a whole. The study will include a review of levels of service, administrative and operational procedures, staffing levels, organizational structure and consideration of industry best practices. Recommendations from the audit will be brought forward for Council consideration during the budget process and Utilities Department rate hearings.

City Auditor's Focus. The City Auditor will assess and prioritize areas of concern within the Utilities Department. Program(s) and/or function(s) warranting a narrow focused review will be incorporated into the City Auditor's workplan for FY 2011/2012. The City Auditor's evaluation is underway.

On-Going Studies. The City Manager and City Auditor will integrate and coordinate the following ongoing studies/discussions into each respective effort. Ongoing studies include:

- Cost of Service (Rate) Study – FCS Group
- Capital Improvement Program (CIP) Programming Guide – FCS Group
- Infrastructure Financing – Treasurer's Office/Banking Community

Operational/Efficiency Audit

Given the size and complexity of the Utilities Department and the desire to incorporate cost savings and efficiencies into future rate adjustments, the operational/efficiency audit will first focus on identifying the 3 to 5 best opportunities that may result in immediate cost savings, efficiencies and operational improvement. There will then be a follow-up on a secondary tier of opportunities that require more evaluation or time to implement. This phased approach will maximize the city's investment in the audit and facilitate

consideration of possible cost-saving strategies prior to adoption of the FY 2011/2012 budget. This approach also allows for the further study, if necessary, of specific department functions/programs appearing to present opportunities for cost savings and/or operational efficiencies. A draft scope of work is included in this report.

Staff has developed the following schedule to conduct the audit:

January 2011	RFP Released
February 2011	RFP Proposals Due
	Contract Approval by City Council
April/ May 2011	Consultant - Phase 1 Findings and Recommendations
May/June 2011	Report to Council



Department of Utilities Audit Strategy

Multi-pronged approach involving three separate tracks:

CITY MANAGER

Focus: Operational Efficiencies/Cost Savings/Accountability

- Solicit independent firm via RFP to conduct operational/efficiency audit of the Utilities Department
- Audit findings and recommendations may yield additional areas of review for the City and/or City Auditor
- Issue RFP (January 2011)
- Select Consultant (February 2011)
- Preliminary Findings (April – May 2011)
- Receive Study Recommendations (Summer 2011)

CITY AUDITOR

Focus: Audit of Specific Service Area of Utilities Operations

- Engage City Council on areas of concern (underway)
- Assess and prioritize areas of risk (January/February 2011)
- Determine audit scope based on Utilities Department risk assessment
- Propose in FY12 workplan an audit of a specific service area
- Perform audit

OTHER STUDIES

Focus: Integrate and coordinate the following ongoing studies/discussions:

- Cost of Service (Rate) Study – FCS Group (Ongoing)
- CIP Programming Guide – FCS Group (Ongoing)
- Infrastructure financing – Treasurer’s Office/Banking Community (Ongoing)



Operational Efficiencies and Cost Savings Audit DRAFT Scope of Services

The audit shall be an objective examination of the Utilities Department to evaluate whether the department is managing and/or utilizing resources in a responsive, economical and efficient manner.

Phase 1. Through a thorough a review of levels of service, administrative and operational procedures, staffing levels, organizational structure and consideration of industry best practices, consultant shall provide:

- An overall written assessment of the department;
- An identification and prioritization of the top 3-5 opportunities for efficiencies/cost savings to facilitate development of the city's Fiscal Year 2011/2012 budget; and

The Phase 1 study shall at a minimum include the following components:

- Developing an inventory of recently implemented and planned department efficiencies and cost savings achieved
- Comparison of operations with other cities and identification of "best practices" in other cities including:
 - Staffing levels in relation to existing workload
 - Efficiency of work schedules, deployment of staff, processes, and organizational structure
 - Review and evaluation of the department's levels of service to determine if they are appropriate and consistent with industry best practices for a large urban city
 - Identification of alternative service level options to minimize future rate increases
- Identification of potential services that can be reduced or eliminated
- Analysis of potential gaps or overlaps in programs or services
- Adequacy of technologies used to deliver, monitor and report on services.
- Identification and recommendations for operational, statutory or regulatory changes to improve service and/or reduce costs
- Identification of budget or cost implications, anticipated timeline to achieve savings, and challenges/issues relating to implementing each significant recommendation or initiative.

The consultant shall provide a "Phase 1 Finding and Recommendation Report" to the City Manager's Office by April 22, 2011 outlining findings, best practices, recommendations, and opportunities for cost savings and other efficiencies, and be available to present findings to the City Council in May.

Phase 2. At the discretion of the city, the consultant may be directed to proceed with detailed a review(s) and analysis of a secondary tier of potential cost savings/efficiency opportunities identified by the Phase 1 review.

There are a number of key policy issues the Utilities Department plans to bring forward to the City Council during 2011. Policy direction from the City Council on these issues will be critical in developing a future rate structure for city utility services and will be integrated with the operational/efficiency audit results. The following workplan provides a summary of the issues:

Issue	Policy Considerations
Containerized Green Waste Collection	Discussion regarding levels of service, non-containerized rates and a possible ballot measure (as requested by City Council)
Recycling & Lawn and Garden Levels of Service	Evaluate reducing levels of service to every other week collection to mitigate cost increases.
Commercial Waste Disposal	Evaluate options to increase the flow of commercial waste to the county landfill to obtain lower dumping fees for the city.
Sacramento Regional County Sanitation District (SRCSD)	Evaluate options to reduce city exposure to uncollectible debts on SRCSD accounts and alternatives to the city acting as the administrator for billings on behalf of SRCSD.
Drainage Rate Study	Evaluate the drainage rate structure to ensure it reflects the current costs of service, adequately funds investment in drainage infrastructure, and sets aside prudent reserves for the fund.
Four-Year Rate Plan	Direction to staff to develop and bring back in late summer a four-year rate plan that includes cost savings, operational efficiencies, identifies levels of service and incorporates policy direction received from the City Council.