



CITY OF LONG BEACH

OFFICE OF THE CITY MANAGER

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GERALD R. MILLER
CITY MANAGER

May 10, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Refer the Three-Year Financial Strategic Plan Business Process Improvement Efforts Update: May 2005 to the Budget Oversight Committee. (Citywide)

DISCUSSION

On March 25, 2003, the City Council endorsed the Three-Year Financial Strategic Plan (Plan), the City's strategy for addressing the structural deficit in a logical and balanced manner. In September 2004, as part of the adoption process for the Fiscal Year 2004-2005 Budget (FY 05 Budget), the City Council endorsed an update to the original Plan. The attached report provides the City Council with an overview of the implementation efforts to date.

Identifying new approaches to delivering City services and improving business operations is a primary goal of the Three-Year Financial Strategic Plan. The City has embarked on a number of efforts aimed at improving efficiencies, reducing and recovering costs, enhancing revenues, and improving the delivery of our services. Over the past two fiscal years, the City has made tremendous progress in remedying the historic General Fund structural deficit. As a result of City staff's ability to work together to optimize service delivery while making significant reductions in resources allocated to provide these services, what was projected to be a \$102 million shortfall has been reduced by approximately \$72 million.

I will continue to keep the City Council and residents of Long Beach abreast of the City's implementation efforts. It is my hope that by providing periodic updates to the City Council and the community, the City can ensure that implementation of these strategies and any potential changes to the Plan reflect an approach that is clearly understood and includes the input of all interested parties. While this experience has been demanding for the organization, I am very confident that we will soon achieve fiscal sustainability.

TIMING CONSIDERATIONS

City Council action on this item is not time critical.

FISCAL IMPACT

The FY 04 and FY 05 General Fund and related funds budget reduces the projected \$102 million, three-year, projected structural deficit by approximately \$72 million, leaving approximately \$30 million left to be solved in FY 06. Successfully following through on the many efforts outlined in the attached report is critical to achieving the fiscal and operational objectives of the Plan.

Suggested Action:

Approve recommendation.

Respectfully submitted,



GERALD R. MILLER
CITY MANAGER

**THREE-YEAR FINANCIAL STRATEGIC PLAN BUSINESS PROCESS
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In the fall of 2002, the City of Long Beach took proactive steps to address an estimated budget shortfall that was projected to grow to over \$100 million in just three years. The resultant Three-Year Financial Strategic Plan (Plan) provided a roadmap for how the City could close the structural deficit in a balanced and gradual way, without severely impacting essential services to the public. The Plan included a number of efforts aimed at not only addressing the structural deficit, but at improving the operational efficiency and effectiveness of the organization. The following report provides an update on the various business process improvement efforts resulting from the Three-Year Financial Strategic Plan.

1. Outside Optimization Reviews

For the past two fiscal years, the City has identified programs or services that would benefit from a comprehensive, independent analysis and review. These studies are large in scope and are intended to reduce or recover costs, enhance revenues, and improve the delivery of services. The following provides a brief update on the status of these studies.

Fiscal Year 2004 Outside Optimization Reviews:

Workers' Compensation, Risk Management, and Occupational Health

This study, completed in 2004, provided a comprehensive assessment of the City's workers' compensation, occupational health, and risk management processes. The report resulted in specific recommendations, along with legislative changes, that could achieve close to \$4.5 million in savings. As a result of a Citywide Workers' Compensation Business Process Improvement effort, most of the study's recommendations have been implemented including: the implementation of a new claims software system, development of policies and procedures, creation of a claims manual, and improvements to the City's employee safety program and medical case management. The implementation efforts are ongoing and will be fully developed during the coming year. Estimated savings total approximately \$500,000 in the FY 05 budget and over \$1 million in FY 06. The implementation committee will continue to review these efforts over the coming year to ensure the desired results are being achieved.

Code Enforcement and Nuisance Abatement Services

This outside optimization study, completed in 2004, was a comprehensive review of the City's code enforcement and nuisance abatement services. Many of the study's recommendations have already been addressed such as reorganizing and consolidating the code enforcement functions in the Department of Community Development, to aid oversight and accountability. Pursuant to the study, City staff is now being deployed in four geographic areas and a new administrative citations and penalties ordinance, related to the City's code enforcement and neighborhood

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nuisance activities, has been adopted by the City Council and is being implemented. An implementation steering committee has been convened to continue analyzing and implementing the recommendations identified in the study. According to the study, the City can expect to save up to \$1.5 million annually after all recommended measures are implemented.

Compensation and Staffing

The findings and recommendations of this study were presented to the City Council in May 2004. Overall, key findings showed that Long Beach's safety classifications and management were below the median in compensation as compared to both surrounding jurisdictions and the private sector in the sample classifications reviewed. While no savings were expected from the study itself, its recommendations provide a well-informed approach for benefit design and future negotiations, which are expected to generate significant savings over the next two fiscal years (FY 05 and FY 06).

Fire Services

This comprehensive review was presented to the City Council in February 2005. The study included the examination of prior incident response patterns and trends; financial, economic, and personnel considerations; and review of the Department's safety programs and non-emergency services. The study identified over 100 recommendations to reduce costs, enhance revenues, and improve service delivery. City staff is currently in the process of providing responses to the City Council's questions on the Fire Services report.

Fleet Services

The findings and recommendations of this study were shared with the City Council in April 2004. The study identified hundreds of vehicles for possible elimination or downsizing, and also made operational recommendations regarding Fleet Services operations. Through the work of an interdepartmental Fleet Review Committee, over 225 vehicles were identified for turn-in from departments in FY 04. During FY 05, the Committee will continue to identify vehicles scheduled for replacement that could be downsized to decrease the overall cost of Fleet operations. They will also work to create a pool of vehicles and equipment for departments to share, reducing the size of the fleet even further. In FY 06, the Committee will work with departments to achieve the optimal vehicle inventory level for the efficient performance of Citywide programs. In total, approximately \$1.6 million has been saved in vehicle parts, maintenance, fuel and capital recovery for General and Related Fund user departments. An additional \$1.4 million has been reduced from the Fleet Fund staffing and operational costs as a result of the Fleet review.

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Fiscal Year 2005 Outside Optimization Reviews:

Youth Services

The goal of this study will be to review the breadth and effectiveness of the City's investment in services to youth, including gang prevention. The study will also look into future strategic and organizational approaches to deliver the most effective services to the city's youth population. A Study Development Team comprised of representatives from the City Manager's Office, City Auditor's Office, Financial Management, Human Resources, Police, Parks, Recreation and Marine, Library Services, Fire, and Health and Human Services has been convened to oversee this study. The Team is currently developing the project's scope and timeline, and is gathering relevant financial and performance data. The Study Development Team is also evaluating other community efforts aimed at improving services for youth to ensure a comprehensive approach.

Information and Technology

This outside study will address the City's use and delivery of information technology services. A project Study Development Team released an RFP in February 2005 to identify an industry expert to conduct the study and make recommendations in a number of service areas, including: organization and management; service delivery approaches; information technology governance; and, the implementation and management of an Integrated Information System. The City received 12 responses to the RFP and expects to select the industry expert in May, with completion of this study scheduled for December 2005.

Employee Healthcare Benefits

An RFP has been released to identify an industry expert that will provide a comprehensive, objective review of the City's healthcare benefits program and will help to develop a healthcare strategy for the City. As experienced by other U.S. municipalities, the City's healthcare costs have continued to grow over the past few years. This review should help the City identify best practices in the industry and opportunities to reduce program costs. The industry expert will be selected in May 2005 and the completion of the study is scheduled for the Fall of 2005.

Parking Management

This study is intended to review the City's parking management system and the revenue generated from these activities. The City's Parking Management optimization study is well underway and is utilizing the independent parking study completed by Carl Walker Incorporated and the City's Auditor's citywide parking audit, presented to the City Council on March 8, 2005, which covers the City's 11 parking garages, 19 surface lots, and approximately 3,650 metered parking spaces (excluding the Airport and other parking operations under contract).

Specifically, the Carl Walker report evaluated the City's existing operations and management structure, and provided recommendations on parking administration, management processes and organization, and the use of technology. The City

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Auditor's report was an independent financial audit of the City's parking operations and related revenue.

The City Manager has convened an internal Parking Facility Steering Committee to review the recommendations from the two reports and to develop an implementation strategy. The first phase of the implementation strategy is to hire a Parking Manager, who will be responsible for improving the City's parking operations. It is anticipated that a Parking Manager will be hired in the next few months.

2. Internal Optimization Reviews

The FY 05 Budget represents the second year of the Plan. The Plan reflects the City's continuing efforts to focus the organization on needed optimization and efficiency efforts, cost reductions, enhanced revenues, increasing fees to recover costs, and a reduced reliance on one-time resources.

The Internal Optimization Reviews are one opportunity for employees to participate in the continuous improvement efforts of our organization. The goal of the optimization review process is to continuously identify opportunities to improve the efficiency and effectiveness of our municipal services and reduce the costs of providing those services.

The optimization efforts include annual evaluations of many of our City programs, operations, and work practices. It involves studying the service areas under review, evaluating how other agencies provide the same service and researching and identifying the industry's "best practices" for possible implementation in the City.

Based on input from the City Council and City employees, a process was developed to assist with the design and implementation of the internal optimization reviews. While each service review may be different in its objective, this process provides a consistent approach across all reviews. The process provides for this requisite structure, while maintaining some level of flexibility for departments to tailor the studies to best meet the objectives of the review.

The internal optimization reviews are employee-driven. The success of these reviews is dependent upon the employees. Their input and expertise will ensure the best possible outcome for the City and the Long Beach community. Only through the participation of City employees will the organization be able to improve upon the quality services already being provided on a daily basis.

Reprographics and Mail/Messenger Services

In 2004, the City retained the services of Nonprofit Management Solutions (NMS) to conduct a comprehensive review of the City's reprographics and mail/messenger services. The report identified a number of opportunities to

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reduce reprographics costs, such as the standardization of paper and copier purchases and the consolidation of management oversight over the service. This year, an employee workgroup has been seated to, not only review the reprographics recommendations made by NMS, but to also identify additional opportunities for improvement.

This Operations Workgroup has been meeting since December 2004 and includes employees from across the organization who are directly involved in providing reprographics services. A second employee workgroup, the Customer Workgroup, was seated to provide insight into current and desired services from the customer's point of view. A draft report is currently being developed. This component of the internal optimization review is scheduled to be completed by June 2005. The Mail/Messenger Services review will commence shortly thereafter, and will look at the City's internal mail delivery services.

Custodial Services

As part of this optimization study, department custodial services employees have participated in facilitated workgroup meetings to provide their input and ideas on how the City can reduce costs and/or improve the delivery of custodial services in their departments. These employees were also asked if they'd like to volunteer to serve on a Citywide Custodial Services Optimization Team. This Citywide team will be seated in May 2005 and will include representatives from throughout the organization. The team will work with an industry expert to identify new or refined service delivery approaches that could improve the efficiency and effectiveness of this service and reduce costs to the General Fund. It is anticipated that the study will be completed by August 2005.

Towing/Lien Sales Operations

Since January 2005, all employees in the City's Towing and Lien Sales operations have been serving on employee workgroups to identify ways to reduce or recover costs, enhance revenues, and improve the efficiency of these operations. Four employee workgroups were convened and have been conducting weekly, facilitated meetings to develop ideas for operational improvements. To date, seven topic-specific workgroup meetings have been completed, resulting in over 200 ideas to improve cost containment, revenue generation, and delivery of service. Simultaneously, an independent review of alternative service delivery approaches has produced a number of recommendations for further analysis. Currently, staff is working with the employees to craft a final report.

Crossing Guards

An Employee Optimization Team comprised of existing School Crossing Guards was seated in September 2004. The Employee Optimization Team has met since that time to review and evaluate the current program and service delivery alternatives, and to develop recommendations for operational improvements. The Employee Optimization Team finalized recommendations and provided a report to the Police Department for review. Upon review of the report, the Police

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Department met with the Employee Optimization Team to discuss the final recommendations and has since provided a management response to the recommendations. It is important to note that many of the Employee Optimization Team's recommendations have either been an existing practice of the Police Department or are under review for implementation. Other issues related to the Crossing Guard program, such as the work of the Pedestrian Safety Advisory Committee and Long Beach Unified School District, in addition to the Optimization Review, will be discussed under a separate City Council agenda item at the May 10, 2005 meeting.

Ambulance Billing

The City is also conducting an optimization review of our ambulance billing functions. The purpose of this review is to identify a service delivery process that will achieve the highest collection rate possible from the City's client base. An industry consultant was selected to determine the appropriate collection rate, review internal billing procedures and policies, and review best practices of other municipalities. The report is scheduled for release by the end of June. An employee workgroup has been convened with representatives who work in ambulance billing from the Financial Management and Fire Departments. This employee workgroup will review current operating procedures and billing and collection processes, and will identify opportunities for improvement. This portion of the report is scheduled to be released by the end of the current fiscal year.

3. Community Outreach Efforts

To tackle such a complex issue affecting the entire community, the City realized the need for an extensive community outreach process that both transparently communicated the scope of the City's budget challenges and generated direct input from the community on service priorities and possible solutions. As a result, extensive outreach has taken place since the inception of the Three-Year Financial Strategic Plan. The FY 05 budget development process demonstrated the City's continued effort to stimulate and incorporate direct community input and feedback.

Since the fall of 2002, the City has intensely solicited community input through the Voice Your Choice Survey and two Community Budget Summits. The City has also continued extensive presentations and outreach to dozens of neighborhood associations and City boards, commissions and committees. As part of the FY 05 budget development process, the City attended 38 community meetings, held 12 Budget Oversight Committee (BOC) meetings, and conducted 20 Budget workshops and hearings, for a total of 67 community input opportunities on the budget.

Various community events and budget workshops will be scheduled throughout the FY 06 budget development process. The City Council's Budget Oversight Committee is scheduled to meet on the third Tuesday of every month from January

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through August 2005. In May and June, City staff will communicate updated information about the City's financial situation and the Budget Evaluation Process through presentations delivered at neighborhood association and City commission, committee and board meetings. A Third Annual Budget Summit is tentatively scheduled for July 9, 2005 to discuss the FY 06 Proposed Budget. City staff will revisit the neighborhood association and City commission, committee and board meetings during the month of August to share information and collect further input on the FY 06 Proposed Budget.

4. Revenue and Resource Development

User Fee Study

Pursuant to City Council direction, in 2004 the City initiated a multi-phased effort to improve revenue generation from user fees and charges, and to enhance cost recovery. A user fee or charge is payment for direct receipt of a public service by the party benefiting from the service. This comprehensive study is intended, through benchmarking and comparative analysis, to show where the City is currently undercharging for its services and where it might achieve greater cost recovery.

Phase One of the project focused on identifying gaps between revenues and expenses in the City's planning, fire prevention, and environmental health services. Recommendations resulting from this phase are currently under review by City staff. Phase Two of the project commenced in September 2004 and will look at the remaining General Fund fee-for-service areas. It is anticipated that Phase Two will be completed by Summer 2005.

Contracting-In Opportunities

In addition to the full complement of municipal services provided to Long Beach residents on a daily basis, the City also provides a number of services to surrounding jurisdictions. The City contracts-in approximately \$20 million annually by providing a wide-array of services to other organizations such as animal control, public safety, traffic signal maintenance, street sweeping, radio tower service and radio equipment maintenance, and water services, just to a name a few.

The Three-Year Financial Strategic Plan identifies contracting-in as an area of great potential with respect to enhancing City revenue streams. As a result, the City Manager's Office will take the lead in a citywide effort to identify additional opportunities to contract-in services.

Arts Funding

In January 2004, the City seated a Community Arts Funding Strategy Task Force to develop a long-term funding strategy for the arts and culture in Long Beach. After 4 months and a series of Task Force and community meetings, the Task Force presented its report to the City Council in May 2004. The primary recommendations included an increase to the City's Transient Occupancy Tax,

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establishment of an admissions tax, ongoing General Fund support, and maintaining the current level of arts funding until alternative sources of funding are realized. An Ad-Hoc City Council Committee on Arts Funding was established to further analyze and discuss the Task Force's recommendations. In November 2004, the ad-hoc committee met to review the Task Force's recommendations and discuss the impacts that the Plan has had on the arts and culture in Long Beach.

New Revenue Options

At the request of the City's Budget Oversight Committee, City staff has been actively researching new revenue options, such as new or increased taxes. City staff has compiled information on current tax rates and tax measure results from other California municipalities. The Budget Oversight Committee will continue to review this information and may recommend to the City Council that formal research of a potential tax measure be undertaken.

5. Performance Management

Key objectives of the Three-Year Financial Strategic Plan include restoring the public's trust, enhancing transparency, being responsive to the community's priorities, and creating and maintaining a fiscally sustainable community. To meet this end, the City is in the process of developing and implementing a comprehensive performance management system that will better align City operations around the City Council and community's priorities. The goals of this effort, which we are calling "*Focus on Results (F.O.R.) Long Beach*," are to improve the efficiency and effectiveness of City operations and to increase accountability throughout the organization by developing an integrated performance management system focused on achieving the City Council and community's desired results.

This effort will incorporate a number of the City's existing performance management initiatives, such as the continued development of departmental strategic business plans, development of a performance-based program budget, and ongoing tracking and reporting of performance information to the City Council, staff, and the community. This is an important process, which will help to inform policy and operational decisions by providing timely, accurate, and meaningful performance data. It is clear that as the City moves toward becoming a high-performing, accountable organization, these initiatives must be fully implemented and integrated throughout the City organization.

The development of a performance-based program budget is an integral component of the performance management system. The City Manager has committed to the City Council that the FY 06 budget will reflect a program structure, not the traditional organizational structure. Most City Manager-directed departments have already participated in facilitated workshops to develop their program structure and basic workload performance measures.

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Two departments, Parks, Recreation and Marine, and Community Development, have already initiated the full strategic business planning process, the remaining departments will begin this process during the remainder of 2005 and 2006. This strategic planning process includes identifying issues confronting the department over the coming 2 to 5 years, developing strategic goals to address those issues, organizing programs within the department around those stated goals, and finally developing performance measures that report on the success of achieving the stated goals.

6. Workforce Partnering Efforts

The City workforce continues to play an integral role in developing the future of this organization. Their thoughts and ideas have served this organization well throughout both the development and implementation of the Plan. The City Manager remains committed to keeping employees abreast of- and engaged in- all activities related to the Plan. Only by working together will the City be able to achieve the objective of becoming a high-performing, accountable, and transparent organization.

City Manager Communications

The City Manager continued efforts to provide regular updates to all employees in the organization. The updates are intended to keep the lines of communication open and to keep all employees informed of the various activities related to the implementation of the Plan. These communication efforts are critical to the success of achieving the Plan's objectives.

Employee Involvement Intranet Site

In addition to providing direct and regular City Manager letters to all City employees, an Employee Involvement and Communication Program Intranet site was recently launched to enhance City Manager communication efforts. The Intranet site is designed to provide City employees information on the status of employee initiatives such as optimization reviews, Volunteer Ideas Program submittals, and the implementation of ideas submitted by the Innovation Team. In addition, the site enables City employees to submit anonymous suggestions for consideration by the City Manager and to submit questions to obtain answers about ongoing changes in the City organization. Finally, the site contains useful links for employees to obtain information on the budget process, Three-Year Financial Strategic Plan, and employee transfer and employment opportunities.

Employee Budget Input

As has been past practice, departments have been asked to include employees at all levels of the organization in generating the departments' proposed scenarios to achieve deficit reduction targets. The City Manager continues to look directly to employees for assistance in identifying additional options to address the City's budgetary challenges. In a recent communication to all City employees, the City Manager released a Budget Idea Form intended to give all employees the

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opportunity to anonymously share any thoughts or ideas that they have to further reduce costs, enhance revenues or improve operations. Employees were also able to complete and submit the form from a City computer at the City's intranet site. The employee suggestions will be provided to departments for review and possible inclusion in their FY 06 budget packages.

Voluntary Idea Program

During the development of the Three-Year Financial Strategic Plan, City employees were asked to submit ideas for ways to reduce costs or increase revenues. As a result, 360 creative ideas were submitted from throughout the organization. The ideas varied from straightforward suggestions to complex ideas that required detailed operational reviews as to their feasibility. The Volunteer Ideas Program submittals have served as an excellent foundation for building the plan. As ideas are implemented or the disposition of an idea has been concluded, we are notifying individuals and providing awards and recognitions to those employees whose idea has been implemented. To date, 39 employees have received thank you gift certificates from the City Manager's Office. Response letters have also been sent to employees who submitted ideas that were either negotiated items, not feasible, or already a current practice. A total of 67 ideas have been implemented. There were 134 ideas identified as not feasible, 47 ideas identified as already a current practice, and 26 ideas that were negotiated items. A number of ideas are still being researched by departments for potential implementation.

Innovation Team

In October 2003, the City Manager convened a 15-member Innovation Team tasked with developing ideas to improve City operations that would enhance organizational efficiency, service to the public, and employee morale. The Innovation Team was comprised of members from throughout the organization and spanned all levels of the workforce. The team met through much of FY 04 and generated 30 recommendations that could positively impact core City services, improve efficiency and eliminate duplication of efforts, improve employee morale, and, reduce costs or increase revenues. Employee work groups will soon develop implementation strategies for many of these ideas. A list of recommended Implementation Team members, a recommended process for the implementation meetings and a kickoff meeting has been planned. A Kickoff meeting with employees is scheduled for mid-May.

Employee Transition

On September 7, 2004, the City Council approved the City's budget for Fiscal Year 2005. Included in the budget was the elimination of approximately 200 positions in accordance with the Three-Year Financial Strategic Plan. The Department of Human Resources identified 34 impacted positions filled with City employees. Of the original 34 impacted positions, all have either been placed in new positions or have been retained in their current classification somewhere else in the organization.