



# CITY OF LONG BEACH

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HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

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SUBJECT: Process for Developing Options to Address Budget and Efficiency Issues

## DISCUSSION

Recognizing the serious budget situation faced by the City, members of the City's management team have been working as a committee to develop a framework and strategy to provoke thoughtful review of options for addressing the fiscal challenges before us. Although this group of managers was initially pulled together to further the work process review, the group quickly realized that a unique opportunity for change was before them. To manage that change, they recognized that a methodology was needed for short- and long-term service review to assist in the budget evaluation and prioritization process.

The committee re-examined the information previously obtained from Austin, Indianapolis, Phoenix and Brea, and gathered related information from San Diego, Kansas City and Palo Alto. In addition, they reviewed the Service Assessment Process implemented in the City in 1994 and various models used for development of the City's financial management system.

In consultation with my office, the committee formulated the attached strategy and framework for exploring financial alternatives in the short- and long-term. The attached document provides: 1) a process by which to rationally develop a menu of options that reviews recommendations made by the public, the City Council, City staff, and industry specialists; 2) a process for ongoing service evaluation as part of the Long Beach Plan; and 3) a description of some of the immediate actions we have taken, and will continue to take, to reduce costs.

Additional suggestions from the Mayor and City Council are welcomed for incorporation into the proposed strategy.

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TIMING CONSIDERATIONS

Immediate action is prudent in light of the fiscal challenges faced by the City.

FISCAL IMPACT

City staff will perform the majority of the work outlined in the attached report with some assistance from consultants. Should additional appropriations be needed to fund the work of the consultants, approval will be sought from the City Council.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Refer this matter to the Mayor's Budget Advisory Committee for consideration.

Respectfully submitted,



HENRY TABOADA  
CITY MANAGER 

Attachment

# **City of Long Beach Government Optimization Strategy**

## **Executive Summary**

The following pages represent a strategy for reviewing City operations and the City budget in a comprehensive, methodical manner. The strategy utilizes short-term and long-term tools to provide the City Council with budget options in the near term and into the future. It also provides for involvement by City staff, private sector experts, Long Beach businesses and residents, the City Auditor and the Mayor's Budget Advisory Committee.

### **Short-Term**

In addition to the expenditure controls already in place, the strategy calls for the undertaking of a "Budget Evaluation Process" by all City Manager departments funded through the General Fund, Tidelands Fund or Internal Service Funds. Through this process, departments will carefully evaluate their primary mission, prioritize their services, and provide proposals for reducing expenditures and/or increasing revenues. Additionally, assets will be reviewed for possible sale or lease.

### **Long-Term**

The short-term "Budget Evaluation Process" will identify opportunities for expenditure reduction or revenue enhancement. Some opportunities, such as potential contracting -in, contracting-out or retooling of operations to mirror best practices in the private sector, will require further exploration and development prior to consideration by the City Council. Other long-term efforts will include the coordination and consolidation of information technology resources, instituting new service delivery technologies and using e-government to reduce costs.

### **On-going Evaluation**

Increasing efficiency and effectiveness in a large organization is an on-going process. The Long Beach Plan provides the foundation for continuous service improvement through the provision of departmental business plans with goals and performance indicators; an annual Scorecard, intended to evaluate the quality and efficiency of City services; and a commitment to providing transparent government for the residents of Long Beach.

### **Framework**

Finally, a framework for processing ideas and implementing reforms is suggested. That framework provides for involvement of industry specialists, department employees, the City Manager's Executive Management Team, city residents and businesses, the City Auditor, the Mayor's Budget Advisory Committee and the Mayor and City Council.

# **City of Long Beach Government Optimization Strategy**

## **1 Background**

The City of Long Beach, through its Long Beach Plan activities, has been identifying areas in which the City can optimize its overall operational capacities, to increase both the efficiency and effectiveness of its diverse and complex service delivery system. This incremental process is on-going, and encapsulates continued efforts initiated during past internal service assessments as well as current best practices from around the United States.

The current fiscal situation, specifically the growing gap between available revenues and planned expenditures, will require a more immediate and broad-based approach to optimization. This growing gap is the result of both external cyclical economic factors as well as a long-standing internal structural deficit. The need to reverse the impacts of the national recession as well as the overgrowth in size and scope of City-provided services will require political leaders, City staff and citizens to reevaluate and make substantial changes to the way the City does business in the short- and long-term.

## **2 Comprehensive Optimization Strategy**

Generating ideas, formulating short- and long-term strategies, and implementing these reforms can only be achieved through an inclusive, transparent process involving all sectors of the community – government, business and citizens. A comprehensive Government Optimization (GO) Process, led by the City Manager's GO Team and in cooperation with the Mayor's Budget Advisory Committee (BAC), the Director of Financial Management and the City Auditor, will marshal the necessary professional and community resources to assess the City's current program levels, service delivery mechanisms, and overall efficiency and effectiveness in terms of meeting the community's highest priority needs through core service delivery.

The optimization process must not just be a "one-time fix" that will wane once the current revenue and expenditure gap is closed. While immediate cost-cutting strategies may be one-time solutions to right size the organization, long-term, continual reengineering and process improvements must be adopted in tandem to avoid the reemergence of structural fiscal liabilities. The following short-term and long-term activities, when applied as a comprehensive approach, will allow the City of Long Beach to achieve its immediate cost reduction and long-term performance management objectives.

## **3 Short-Term Activities**

The following short-term activities are either on-going or should be implemented immediately to reverse the growth in the gap between revenues and expenditures for Fiscal Year (FY) 03 and FY04.

### **3.1 Current Expenditure Controls**

The City Manager, through the annual Resource Allocation Process, has implemented various cost-cutting strategies to maintain a balance between expenditures and available revenues. Included in the across-the-board percentage budget reduction for all City Manager departments are work force management strategies and a spending "chill". It is recommended that these strategies remain in place, or be accelerated as needed.

The City Manager recommended a 2% budget reduction citywide to all general fund departments and is reflected in his proposed FY03 Resource Allocation Plan. This strategy is the simplest way to address potential budget deficits, allowing knowledgeable department directors to deliberately select expenditure priorities. The City must also be careful not to rely too heavily on this across-the-board approach, as it may adversely impact the service delivery capacities of the leanest and most efficient departments without room to accommodate the percentage reduction.

#### **3.1.1 Workforce management**

There are two primary means of exacting cost savings and increased effectiveness through workforce management: hiring freeze/attrition and employee retention.

##### *Hiring Freeze/Attrition*

The City Manager's current hiring freeze restricts the hiring of non-critical employees, and maintains vacancies created through retirement. Although this approach leaves little room for departments to adjust their organization to function with a smaller workforce, it is effective in creating cost-savings in the short-term.

##### *Employee Retention*

Employee retention is also a major consideration in both tight labor markets and tough economic times. Retaining key contributors and maintaining commitment by all employees is key to the organization's on-going success. Retaining talent is more than managing turnover; rather, it is a strategic approach to maximizing the organizations "human capital" to achieve the City's organizational goals. Therefore, despite the need to reduce costs, the City must maintain programs that promote opportunities for learning and career development, provide a work/life balance for employees and create a positive work environment. Otherwise, the City faces the possibility of losing its most gifted and valued employees when they are needed most.

#### **3.1.2 Spending "chill"**

To further accelerate the achievement of the budget reduction goal, the City Manager has implemented restrictive cost controls through purchasing deferments and prioritizing

essential expenditures, disallowing most travel and other non-critical spending. This prudent review of all expenditures for necessity and urgency should continue throughout FY03.

### **3.2 Budget Evaluation Process**

As part of the Long Beach Plan, each City Manager department has defined its goals. Previous optimization efforts have defined the City's primary service clusters, identifying core services. The goals define the primary mission of each department, whereas the services and corresponding programs provide the means through which they carry out their mission. Some of these services are core to the department's mission, while others may be more loosely related.

Based on departmental goals, each department will undergo the following internal evaluation process within the next 45 to 90 days for General Fund, Tidelands and Internal Service Fund operations:

1. Organize services/programs by goal (i.e., each goal will have a list of supporting services/programs).
2. Prioritize the services/programs under each goal (i.e., in descending order), to determine the relative importance of each toward supporting the goal.
3. Provide the following information for each service/program:
  - Priority number
  - Description of service
  - Why service/program was created (e.g., legal mandate, Council mandate, City Manager mandate or discretionary)
  - Fund(s) supporting service/program
  - Actual Expense
    - i. Personnel
    - ii. Other
  - Actual Revenue
  - Net Expense/Revenue
  - Impact if service/program is reduced or eliminated
    - i. Fiscal
    - ii. Service delivery
  - Key customers – description and number (weekly, monthly & annually)
  - Cost per user
  - FTE per user (if applicable)
  - Alternative service delivery methods in Long Beach as well as other jurisdictions/private sector
  - Is the service/program new or has it been enhanced in the last three years

Based on the information outlined above, each department will provide proposals that will result in net savings of 5%, 10%, 15% and 20% of department budgets, by fund,

classifying them in terms of short- or medium-term possibilities, using alternatives such as:

1. Reductions that can take place fairly quickly (e.g., eliminating programs that are budgeted but have not yet been implemented, equipment that is not being used and non-critical vacancies).
2. Restructuring of service delivery. The idea is to search for best practices that reduce costs through rightsizing of the organization, increase efficiency and productivity through streamlining processes and promoting entrepreneurship. Staff reductions via attrition, innovative work schedules and alternate facility operation schedules are potential restructuring mechanisms.
3. Opportunities for increasing revenues related to services.
4. Elimination of budget enhancements (from fiscal year 01 and on).
5. Potential for consolidation to reduce overlap.
6. Phase-out/"sunset" programs that no longer provide value to the community.

In addition to the above, department directors will be asked to supply a minimum of three ideas for budget savings or revenue enhancements outside of their department. These ideas should encompass the full range of innovation, including sure-fire, potential and unorthodox savings approaches. The source of these suggestions will remain confidential.

As a result of the Budget Evaluation Process, City staff, the Mayor's BAC and the City Council will have a full menu of service and program options, classified in terms of short- or medium-term implementation potential.

### **3.3 Asset Review and Disposition**

By selling or leasing City enterprises to private entities, governments can turn dormant physical capital into financial capital, which can be used for more pressing needs such as rebuilding infrastructure, reducing debt or funding other one-time expenses. Governments can also benefit financially by putting these assets on the tax rolls.

#### **3.3.1 Privatization of under utilized assets**

A committee should be established within the City staff to identify privatization opportunities for appropriate City enterprises, assets or real estate. This committee, including key financial and city management staff, will be tasked with identifying opportunities and then making the transactions a reality (with prior City Council approval).

### 3.3.2 Rent or lease underutilized equipment, property and facilities

The same committee will look at similar assets and holdings available for rental or lease by private interests or other agencies.

## 4 Long-Term Activities

### 4.1 Competition and Contracting-Out

#### 4.1.1 Identify program/services suited for out-sourcing

Through previous service assessment exercises, the City had identified possible services/programs where competitive opportunities exist. Such opportunities should be revisited and augmented through the Budget Evaluation Process. Once the City has an inventory of services with alternate private-sector delivery options, efforts should be made to "co-produce" or contract-out services as needed.

#### 4.1.2 Further expand "Prop L" contracting-out opportunities

Based upon the success of past and current "Prop L" contracts for selected services, efforts should be undertaken to further utilize these alternate service delivery options.

#### 4.1.3 Initiate an internal "Bid to Goal" process

"Bid to Goal" is a service retention and optimization process, which targets municipal services that are strong candidates for privatization or contracting-out. "Bid to Goal" uses a private sector bid (generated by a consultant) to establish a competitive cost and performance target for the service's delivery. Through labor-management cooperation, the target operation agrees to meet or exceed its new targets within a fixed timeframe through various efficiency mechanisms, or else face the possibility of being contracted-out to the private sector. As an incentive to drive entrepreneurship, the employees, through gain sharing, may retain a portion of the costs saved through the optimization of the service.

#### 4.1.4 Contracting-In

Selling technical expertise and services to other communities is a strategy already in use by the City of Long Beach. Revenues earned through this process, after recovering the cost of providing the additional service can be used to cover existing costs. Further opportunities to utilize these resources should be explored.

#### 4.1.5 Employee incentive programs

Ideas generated and implemented by line employees and managers are the most valuable and effective to the organization. Therefore, current programs that provide



monetary and non-financial incentives for entrepreneurial ideas, and exceeding budget and performance objectives (e.g., VIP, performance bonuses, etc.) should be maximized throughout the organization. Other opportunities such as gain-sharing and other performance-based compensation should also receive consideration.

## **4.2 Continued Investment in Technological Advancements**

### **4.2.1 Coordination and consolidation of IT function throughout City**

The City is continuing to save resources by centralizing and coordinating its IT service delivery and support function. Without continued coordination of IT service and spending, each department would procure its own hardware and software systems. This not only can be a source of financial waste, but also typically results in islands of incompatible systems that cannot communicate. Improvement in this area should be continual.

### **4.2.2 Non-IT technology investments**

The City will continue to look for evolving service delivery technologies (e.g., solid waste collection vehicles) to shape the way in which it delivers services. Technology allows for the redeployment of human and other capital to maximize cost and performance efficiencies.

### **4.2.3 E-government initiatives**

There are many ways in which e-government initiatives can provide further cost savings for the City. These include but are not limited to: reduced workforce costs, higher employee productivity, reduced paper costs, reduced processing costs, better supply chain management, better prices on goods and services (procurement), reduced travel and training costs, and reduced fraud and abuse.

## **4.3 On-going Evaluation and Optimization/Long Beach Plan**

The Long Beach Plan is a multi-layered approach that aims to integrate the City's various performance management initiatives to promote greater transparency and accountability throughout the organization. Corporate and department business plans will provide a set of coherent goals and performance indicators by which citizens can measure the effectiveness of the services delivered by City government. The City will further promote accountability through the annual Report to the Community as it evolves into a Scorecard utilizing comparable benchmarks to evaluate the quality and efficiency of City services. Accordingly, the government will become more accountable to the policy makers and citizens it serves.

The Long Beach Plan will assist policy makers with the very difficult trade-offs that occur during the democratic process by blending citizen input and staff expertise into the prioritization and optimization process. Continual process reengineering of city

operations and deliberatively achieved performance-based resource allocations will enable the City to address critical service needs while reversing the historical structural deficit burdening the City.

#### 4.3.1 City Manager's GO Team

The GO team, led by the City Manager's Office, is a key unit of the Long Beach Plan Implementation Team. The GO Team will coordinate and provide support as needed during all phases of the government optimization process with each department and the public. The team members also serve as the primary liaison between the BAC, elected officials and the City Manager's departments.

#### 4.3.2 Process reengineering

One-shot performance reviews are helpful for identifying some cost savings and opportunities for improvement, but without follow-up they will do little to change the culture of the organization over the long-term. The City through its GO Team will develop its on-going capacity to drive continuous improvement, innovation and cost savings for its citizens.

#### 4.3.3 Performance measures/National Civic League (NCL)

The City's on-going efforts to define indicators with the NCL citizen's group will provide an analytical framework to identify and track the efficiency and effectiveness of the City's service delivery outcomes. The data produced through these outcome and process indicators will provide a results-based means to determine if resources invested in programs are producing the expected maximum value for citizens.

#### 4.3.4 Annual budget process (Program and Performance Budgeting)

By looking at resource allocations by program (rather than organizationally or by line items only) and relating performance measures to future allocations, the City Council and City staff can annually prioritize services and establish a linkage between funding and results.

#### 4.3.5 Report to the Community/Scorecard

The current Report to the Community provides a direct record of the City's achievements as they relate to our strategic objectives, providing both a qualitative and quantitative measure of the value the City is providing to its citizens. As performance measures and benchmarks are identified and institutionalized through the Long Beach Plan, the Report will become a Scorecard for our services, using benchmarking with other communities to provide comparable measures for our performance.

## 5 GO Framework

As mentioned previously, generating ideas, formulating short- and long-term strategies, and implementing recommended reforms can only be achieved through an inclusive, transparent process involving all sectors of the community – government, business and citizens. The City staff have developed a comprehensive framework by which ideas from the public, City staff, industry specialists, and elected leaders can be collected and considered in a coherent and deliberative manner during the next few months as well as in the long-term. Please see the attached chart representing the GO Framework.

The GO Framework begins with the formation of groups of citizen industry specialists and department employees within each department. The work groups, composed of line-employees and their supervisors, are well suited to examine the department's operations, identify problem areas and hindrances to efficiency, and outline ideas for improvement across a department's functions. The citizen industry specialists are chosen for their expertise, to provide an outside analysis of a department's operations and bring information to the Department Management Team regarding best practices, benchmarks and performance measures in comparable U.S. cities and in the private sector.

The Department Management Teams will develop recommendations and proposals for service and program improvements, for consideration by the Executive Management Team (EMT). Further community and employee input will be sought (through employee suggestion boxes, intranet and Internet feedback resources) and considered by the EMT as they review department proposals. The City Manager will review all EMT approved proposals with the GO Team, before forwarding the proposals to the BAC for their consideration and further community comment.

The Director of Financial Management and the City Auditor will serve as resources to the BAC, to ensure members are fully informed and educated on the complexities of the City's financial and service delivery systems. This education process will enhance the BAC's ability to deliberatively review the City Manager's optimization proposals.

Questions and recommendations that arise as a result of BAC review will be referred to the City Manager for consideration and inclusion. The BAC will be given a final opportunity to approve the revised proposals before forwarding them to the City Council for final consideration and approval.

Beyond the significant input that citizens will provide into the optimization process through the citizen industry specialists and the work of the BAC, opportunities for direct community input and interaction will likely be required at different stages of the optimization process. Depending on the nature of the problem, broader opportunities for citizen input will be requested, either through workshops, public meetings, or town hall meetings. Such interventions would likely occur during the Department Management Team phase of proposal development.

# City of Long Beach Government Optimization Framework

