

City of Glendale
INTERDEPARTMENTAL COMMUNICATION

DATE August 26, 1998
TO Honorable Mayor and Councilmembers
FROM City Manager
SUBJECT Agenda Item: Report on Long-range Financial Strategic Planning Process
(1) Motion to Approve Proposed Process

BACKGROUND

While the City's FY 1998-99 Budget is balanced, several structural issues exist which have not been addressed. These include ongoing expenses that have been recognized but not sufficiently funded, future unfunded operational costs resulting from programmed capital projects, insufficient level of maintenance on components of the City's infrastructure and service levels reduced below that necessary to meet the community's needs. Due to the limited time frame, the primary objective of the budget process this year was to adopt a balanced budget and maintain existing service levels, although some funding adjustments were accomplished. City Council then directed staff to develop a long-range financial strategic planning process, in which these issues would be addressed with input from the community.

This long-range approach will allow Council, the community and staff to step back from the more short-term incremental process of the annual budget, in addition to enabling staff to provide the level of analysis and discussion necessary to address issues of this magnitude. It will also better facilitate implementation of potential efficiency and revenue strategies that require longer than the existing one-year budget cycle to address many of these issues.

The primary objectives of long-range financial planning are to establish policy and processes over a future period in order to:

- Identify long term implications of fiscal decisions;
- Provide effective tools for decision making;
- Provide consistent and uniform service levels;
- Insure minimum standards of service;
- Provide sufficient and consistent resources for services;
- Insure cost effectiveness of services;
- Receive meaningful community participation; and
- Planning over a multi-year period.

Long-range financial planning involves a strategic comparison of expenses, service levels and revenues. Analysis of these variables, called a "Gap Analysis," will reveal the disparity between available funds and anticipated expenses. The information will then be applied to a model that will be updated on an annual basis. If implemented correctly, the majority of discussion each year should focus on long-range objectives, priorities and

recommendations and the budget process will simply be the vehicle for implementing the first year of the plan

It should also be noted that this process does not replace the existing City Strategic Plan. Rather, it is designed to be the next step in the overall strategic planning process. The current strategic plan establishes the long-range vision for the organization. The purpose of the long-range financial strategic plan is to apply financial resources to that vision and begin the tactical planning process of how to accomplish the vision.

WORK PLAN

Due to the magnitude of this effort, it is recommended that this program be accomplished in three phases. Each phase includes a variety of tasks that are presented sequentially, but much of the work is recommended to be accomplished concurrently in order to develop the system within the proposed time frame. The overall program will be managed by the Assistant City Manager, under the direction of the City Manager, and developed by a team of representatives from a number of City divisions, as well as participation by all divisions.

Phase I: Preliminary 10-Year Financial Plan (Based Upon Existing Service Levels)

The objective of Phase I will be to develop a 10-year financial plan that addresses known funding issues necessary to:

- Maintain existing service levels;
- Fund operational costs associated with currently approved projects; and
- Resolve immediately serious deficiencies in infrastructure maintenance identified.

It is proposed to primarily limit the review in Phase I to the General Fund and Capital Improvement Fund. However, other funds will be reviewed as to their impact on the General Fund and Capital Improvement Program. The results and recommendations of each task will be presented to the City Council for review and discussion as they are completed.

Task 1 - Identification of Process and Program Goals

The first step is to develop the process and identify the goals and objectives of the plan. This step is essential in order to ensure all participants are in agreement with what the plan will accomplish. One of the reasons this is so important is that if expectations grow too large or quickly, the work involved in accomplishing each of the steps outlined can become overwhelming. Therefore, addressing issues at the appropriate time is critical. If we try to accomplish everything immediately, the entire process could be at jeopardy.

Task 2 - Identification of Values and Assumptions

The next step is to agree on the values and assumptions that will guide the planning process. These will include the general principles that the City Council and staff will be committed to in development of the plan. In essence, they establish the "rules of the game" by which the plan will be prepared, discussed and implemented. It is important to

note that these values and assumptions are specifically proposed as they relate to the long-range financial planning process.

Since the values and assumptions are closely related to the scope of the planning process, it is recommended they be discussed and agreed upon concurrently with consideration of the overall program. Therefore, recommendations are provided for consideration in Attachment A.

Task 3 - Development of Budget Model

The computer model developed will become the framework for long-range comparisons of projected revenues and expenditures. It will be designed as a spreadsheet application, utilizing the primary categories currently found in the annual budget documentation. The model will also be designed to coordinate with the budget module of the City's new PeopleSoft financial system. The layout of the model will enable the City Council and staff to eventually identify a variety of funding, revenue and service level alternatives and easily see what the long-range budgetary implications will be.

The draft model is currently under development. Excerpts of what have been prepared thus far are presented for review in Attachment B.

Task 4 - Community Involvement

The community involvement component during Phase I will focus primarily on public education and feedback on proposals. Therefore, it will be designed in two segments. The first segment will be to develop a program that will inform the public about the long-range planning process, the City's budget structure and process and existing financial challenges. The second segment will then consist of sharing the results of the process and obtaining feedback on the initial recommendations. This will be accomplished through use of press releases, City Views articles, distribution of other informational materials, and public hearings and meetings. Development and implementation of the program will be directed by the Public Information Officer and will be assisted by staff from the Community Development & Housing Division.

Task 5 - Cost Effectiveness

Before staff can appropriately review revenue or expenditure alternatives, we must establish how effectively services are currently being provided and how effectively resources are utilized. It is also necessary in order to establish credibility with the public for support of any changes that may be considered.

It is proposed that this become an ongoing process. Detailed work management analysis is very labor intensive and will take some time to complete on all operations. Therefore, for the first step, it is recommended that a variety of overall benchmarks be established and reviewed to provide some level of understanding of the City's efficiency on an organization-wide basis. This would include factors such as number of employees per capita, expenditures per capita, expenditures on particular functional areas per capita, basic performance factors and other criteria that would be compared to a number of cities of similar population and characteristics.

The next step will be to begin targeting specific areas for more detailed analysis. However, it is still recommended that some basic performance benchmarks be established for review in most cases rather than developing specific time on task standards. Developing tracking systems to produce detailed time management data can become very expensive and focuses too heavily on inputs rather than outputs, which are our ultimate concern. This will then become an ongoing effort and will not conclude at the end of Phase I implementation.

Task 6 - Revenue Projections

The Finance & Administrative Services Division will prepare 10-year projections for primary City revenue sources. Models utilized by other organizations will be analyzed in establishing the projections. A detailed review will then be conducted by division staff and the City Council since the assumptions utilized will have a significant impact on the overall plan. The initial projections will consist primarily of reviewing long-range trends and factoring in economic development impacts that are currently planned or anticipated. Therefore, it is important to emphasize that the later years of the initial plan will not have a high level of accuracy. During the upcoming year, it will be refined as the model becomes more sophisticated and more data is incorporated into the overall projections. For example, a number of economic indicators will be utilized in addition to known projected changes. As a result, the goal is to enable the model to produce relatively reliable long-range projections on an ongoing basis.

Task 7 - Expenditure Projections

Impacts on the costs of providing existing service levels will be identified for the 10- year period. This will include any impacts on operational costs from currently programmed capital projects. Any deficiencies in ongoing maintenance that may have serious short or long-range impacts if not addressed immediately will also be identified and costed separately and included as a part of the gap analysis. The cost estimates for the 10-year period will then be compared to revenue projections and estimated deficits or surpluses will be identified.

Task 8 - Gap Analysis and Recommended Strategies

Following the identification of revenue and expenditures, while it is possible that the gap may result in a positive fund balance, it is more likely that a negative gap will initially be encountered. This being the case, several steps will be taken to address the gap. Options will be identified, which will most likely include the following categories:

- 1) Cost effectiveness and efficiency measures;
- 2) Evaluation of service delivery options;
- 3) Evaluation of service level priorities, including program reductions;
- 4) Enhancement of economic development efforts; and
- 5) New or increased revenues.

The study team is currently identifying the programmatic groupings of the General Fund for the purpose of cost effectiveness comparisons and gathering information on other service needs that will have a serious impact if not immediately addressed.

In September, all management staff is meeting to identify and share more ideas to be reviewed and studied. The team will then analyze a variety of options, and recommendations will be developed based upon the results. Concurrently, the community will be requested to provide input on alternatives.

Following review and direction by the City Council, the results will be developed into a final plan for consideration and approval. The plan will then become the basis for development of the annual budget.

Phase II : Expanded 10-Year Financial Plan (Including Service Level Adjustments)

The objective of Phase II will be to analyze and prioritize service levels and develop recommendations for future changes. This data will be refined and enhanced to provide more accurate long-range projections. In addition, the Expanded 10-year Plan will also include a more in-depth analysis of all funds.

Task 9 - Public Involvement

Since Phase II will focus more on prioritization, public involvement will become particularly critical. Therefore, a much more comprehensive public input process is proposed for Phase II. It includes three primary goals and components. The first component includes public information and to encourage the public to attend public hearings in order to provide everyone sufficient opportunity to provide input.

The second component involves activities designed to gain active involvement, discussion and input from different sectors of the community. For example, the activities will be designed to obtain participation from residents of different geographical areas, cultural and economic backgrounds, and community and interest groups.

Third, it is recommended to conduct a scientifically valid telephone survey of Glendale residents on opinions regarding City services, priorities and potential alternative measures. This will provide the most accurate representation of City-wide views.

It is recommended to contract for professional services to assist with both the community participation process and survey. Experience on past projects has shown that this is effective in ensuring that the process is designed to ensure the information obtained is useful and reflective of the community.

Task 10 - Prioritization Process

A series of meetings with staff, the City Council and the community will be conducted in order to review information, identify alternatives and prioritize services. It may be desirable to utilize a professional facilitator for some of the key meetings.

Task 11 - Gap Analysis and Recommended Strategies

Based upon the priorities established, staff will develop recommended service levels and funding alternatives. Following City Council direction, the agreed upon recommendations will again be compiled into a long-range plan document and presented to the Council for review and approval.

Task 12 - Ongoing Process

The results of Phase II will be incorporated into the Long-range Plan model and a system will be put in place to annually review the model, revise projections and priorities, and extend the recommendations. Much of this work will be concurrently accomplished throughout Phases I and II.

SCHEDULE

<u>Phase I: Preliminary Plan</u>	<u>Begin</u>	<u>Complete</u>	<u>Status</u>
Task 1 - Identification of Process and Program Goals	June 1998	September 1998	Recommendations completed
Task 2 - Identification of Values and Assumptions	July 1998	September 1998	Recommendations completed
Task 3 - Development of Budget Model	August 1998	September 1998	Draft completed
Task 4 - Community Involvement	September 1998	February 1999	Planning under way
Task 5 - Cost Effectiveness Analysis	September 1998	October 1998; Ongoing	Benchmarks are being developed
Task 6 - Revenue Projections	September 1998	October 1998	Process identified
Task 7 - Expenditure Projections	September 1998	November 1998	Process identified
Task 8 - Gap Analysis and Recommended Strategies	September 1998	February 1999	Group discussions scheduled for the Sept. 11 Management Team meeting
<u>Phase II: Expanded Plan</u>	<u>Begin</u>	<u>Complete</u>	<u>Status</u>
Task 9 - Public Involvement	March 1999	February 2000	Planning under way

Task 10 - Prioritization Process	July 1999	November 1999
Task 11 - Gap Analysis and Recommended Strategies	November 1999	February 2000
Task 12 - Ongoing Process	August 1999	July 2000

COSTS

The proposed budget is as follows. We believe expenses for FY 1998-99 can be funded from budget savings and will not require a special appropriation.

Phase I: Preliminary Plan

Community involvement	\$10,000
Development of computer model	<u>\$ 5,000</u>
Subtotal	\$15,000

Phase II: Expanded Plan

Community involvement	\$25,000
Survey	\$25,000
Implementation of model & revised budget process	<u>10,000</u>
Subtotal	\$60,000
Total	\$75,000

IMPLEMENTATION

A motion to approve the recommended process is attached for City Council consideration. Approval is respectfully recommended. We are also very interested in hearing discussion by the City Council on the process, answering questions you may have and making any changes you feel are appropriate.

Specific direction is requested on each of the following:

- Overall objectives and work plan
- Proposed budget
- Schedule
- Values

Please let us know if you have any questions.

Thank you.

James E. Starbird
City Manager

Attachment A

LONG-RANGE FINANCIAL PLANNING PROCESS

PROPOSED VALUES

The following are proposed values for discussion. These are for the purpose of the long-range financial strategic planning process only, although they may apply and be expanded to overall operations. The draft values are as follows:

- **No sacred cows** - All programs, services and projects will be evaluated in determining priorities and efficiency.
- **Open book** - Everyone will have access to all the information involved in the process.
- **Public involvement** - There will be a commitment to involving and incorporating public input.
- **Creativity** - There will be an emphasis on creative solutions.
- **Efficiency and effectiveness** - Priority will be placed on determining the most efficient and effective way to provide all City services, programs and projects.
- **Long-range focus** - Priority will be placed on strategies with long-range benefit.
- **Commitment to the community** - The overriding objective of any decisions will be to determine how to best serve the community.