

City of Culver City, California
City Council Agenda Item Report

Meeting Date: 02/12/07		Item Number: <u>A-7</u>											
AGENDA ITEM: A Report from the City Manager on Implementation of Right-Sizing by Zero Based Staffing including Authorization of the Creation of and Recruitment for the Position of Chief Financial Officer.													
Contact Person/Dept.: Jerry B. Fulwood, City Manager		Phone Number: (310) 253-6000											
Fiscal Impact: Yes ☒ No ☐		General Fund: Yes ☒ No ☐											
Public Hearing: ☐		Action Item: ☒ Attachments: ☒											
Public Notification: Master Notification List (02/09/2007)													
Department Approval: Jerry B. Fulwood (02/09/2007)		City Attorney Approval: Carol Schwab (by H. Iker) (02/09/2007)											
City Controller Approval: Marlee Chang (02/09/2007)		City Manager Approval: Jerry B. Fulwood (02/09/2007)											
RECOMMENDATION Staff recommends the City Council receive a report by the City Manager on the topic of Right-Sizing by Zero Based Staffing and approve the creation of and recruitment for the position of Chief Financial Officer. BACKGROUND The City of Culver City is a vibrant, cosmopolitan city. It continues to prosper by reinventing itself. Culver City is a City that is recognized regionally, statewide, and nationwide for its enviable quality of life for its residents, the renaissance of its industrial and commercial districts, and the high level of services provided by the City organization. The myriad of services provided to our community by our City government is second to none. As noted in the following table, when we compare the cost of City services per capita to other west-end cities, it becomes evident that Culver City is committed to providing excellent public services at a comparatively low cost to the Citizens. Based upon FY 2005/2006 Data <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="padding: 2px 10px;">Beverly Hills</td> <td style="padding: 2px 10px; text-align: right;">\$3,811</td> </tr> <tr> <td style="padding: 2px 10px;">El Segundo</td> <td style="padding: 2px 10px; text-align: right;">\$2,914</td> </tr> <tr> <td style="padding: 2px 10px;">Santa Monica</td> <td style="padding: 2px 10px; text-align: right;">\$2,407</td> </tr> <tr> <td style="padding: 2px 10px;">Culver City</td> <td style="padding: 2px 10px; text-align: right;">\$1,805</td> </tr> <tr> <td style="padding: 2px 10px;">West Hollywood</td> <td style="padding: 2px 10px; text-align: right;">\$1,228</td> </tr> </table>				Beverly Hills	\$3,811	El Segundo	\$2,914	Santa Monica	\$2,407	Culver City	\$1,805	West Hollywood	\$1,228
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23													

City of Culver City, California
City Council Agenda Item Report

Faced with certain costs increasing at a rate higher than overall growth in revenues, State and Federal take away, and with decreased levels of Federal and State support over the last ten years; Culver City has been challenged to maintain this high level of service.

Over the last five years, the City Council has taken a number of major steps to provide a solid financial foundation to ensure Culver City's continued prosperity, including:

- a) Directed the City Council's Budget and Finance Committee to work with staff at providing options for consideration in addressing the City's fiscal challenging issues.
- b) Implementing Staff reductions
- c) Reducing Workers Compensation cost
- d) Directed a Comprehensive Study of the City's Fees and Charges
- e) Directed a Facility Assessment Study to evaluate and provide recommendations on how to address deferred maintenance issues of the Public Works, Parks, Recreation & Community Social Services and Information Technology Departments
- f) Negotiated a 5% medical premium cost sharing with employees
- g) Streamlined Police Department's operations
- h) Approved fee increases to better recoup costs
- i) Improved City's accounts receivable collections
- j) Improved City's grant draw downs and cost reimbursement
- k) Vehicle maintenance centralization
- l) Established new capital reserve funds to help address deferred maintenance issues
- m) Develop a Comprehensive Financial Master Plan
- n) Redrafting the City's financial policy
- o) Redrafting the City's purchasing policy
- p) Implementing a two-year budget process
- q) Utilizing Information Technology to develop software programs to enhance City's effectiveness and efficiency
- r) Global rather than piece meal approach to address City issues
- s) Identify funding sources for all new programs and services

Even though the City Council has adopted many measures to reduce costs (including reduction in staffing levels), the City's financial model continues to have a structural deficit. The proposals contained in this report provide other major components of the overall solution to this structural deficit.

City of Culver City, California
City Council Agenda Item Report

Charter Amendment

The community approved a number of Charter changes in April 2006. The implementation of these Charter changes commenced in July 2006 and continues. Pursuant to the amended City Charter, the formal transitioning of the City Treasurer and City Clerk offices will occur in April 2008.

The City has been utilizing the expertise of Andrea Daroca, Former Finance Director of Santa Clarita, to assist with a number of critical fiscal related issues. Ms. Daroca has over 20 years of experience as a municipal finance professional, including serving several California cities as Finance Director and City Treasurer. In her role as a consultant, Ms. Daroca has applied her considerable experience to help cities with financial organizational challenges to implement best management practices and improved, modern processes. The review and auditing of current operations and resulting recommendations from Ms. Daroca are critical in helping to address the City's financial challenges and maximizing cost reduction, and improving the efficiency and effectiveness of City operations. Her efforts have saved the City hundreds of thousands of dollars. For the short term we plan to continue to use her services. Her resume is provided as an attachment.

City Clerk's Office and City Treasurer's Office

In accordance with the new City Charter, the transitioning of both the City Clerk's Office and the City Treasurer's Office will occur in April, 2008 (14 months from now). To ensure a smooth transition and continuity of the critical functions performed under the current structure, it is important to take certain actions in advance of the April, 2008 implementation date so that a proper foundation will be in place at the time of transition.

The restructuring of the City Clerk's Office and the City Treasurer's Office provides a unique opportunity to evaluate the operations at all levels and departments within the City organization. By implementing Right Sizing by Zero Based Staffing (RSZBS), we capitalize on cost savings through economies of scale and efficiencies generated by a sharing of resources amongst divisions and on a departmental basis.

Right Sizing by Zero Based Staffing

RSZBS is a concept that retains all current employees. Through attrition and thorough analysis of vacant positions, savings are realized by resource sharing and elimination of redundancy. Every operational component of each department is reviewed with the following concepts in mind:

City of Culver City, California
City Council Agenda Item Report

- 1) Sharing resources
- 2) Streamlining operations
- 3) Maximizing technology
- 4) Succession planning
- 5) Rewarding hard work
- 6) Internal advancement
- 7) Eliminate bureaucracy
- 8) Enhance communications
- 9) Cross-training
- 10) Enhance inter-departmental coordination and cooperation
- 11) Opportunity for employee growth
- 12) Reduce operational costs
- 13) Redundancy elimination
- 14) Improve service levels
- 15) Organization effectiveness & efficiency
- 16) Long and short-term impact on organization

Analysis of how best to implement RSZBS begins in one department; however, it quickly touches any number of departments. It is a dynamic concept that gradually benefits the whole organization. It can take upwards of five years to fully implement. The savings of RSZBS grows on an annual basis as positions that are vacated over time are fully analyzed to see if the position can be combined with another existing position or eliminated while maintaining or improving service levels. This is consistent with the city-wide department restructure proposed herein.

Vacant Position Review

Whenever a position becomes vacant a committee comprised of three executive managers will review the justification of the need for that position. The committee will review the long and short-term impact on service levels, and ways to enhance the efficiency of the City's operations. Some of the options available to the committee include:

- a) Recruit to fill position
- b) Internal recruitment to fill position
- c) Leave vacant
- d) Eliminate position
- e) Shared resources

Through implementation of RSZBS, the City will potentially realize an operational savings of four to seven million dollars over the next five to seven years. This is especially true since Culver City is projected to have twenty percent of its work force

City of Culver City, California
City Council Agenda Item Report

retire or seek other career opportunities over the next 5 years. RSZBS also gives the organization an opportunity to focus on succession planning to ensure that the legacy of Culver City is passed on. The transitioning will occur in three phases as explained below:

PHASE ONE – CITY CONTROLLER’S OFFICE/CITY TREASURER’S OFFICE

RECOMMENDATION

That the City Council consider a recommendation from the City Manager to reorganize, consolidate, and improve efficiency of the financial operations of the City under the direction of a new position called Chief Financial Officer; and further recommends, the authorization for the recruitment of the Chief Financial Officer immediately upon approval of the classification specification by the City Council. The projected salary for this position is in the approximate range of \$130,000 to \$160,000 annually.

BACKGROUND

On April 11, 2006, the voters of Culver City approved Measure V. Measure V, which became effective on July 1, 2006, enacted an updated City Charter which approved the City Council/City Manager form of local government, along with a number of other changes.

Tonight, the City Council is requested to consider a recommendation to consolidate the operations of the City Controller and the City Treasurer departments under the direction of a Chief Financial Officer. This will begin the implementation of a reorganization plan of the City’s financial operations in anticipation of the full implementation of the New Charter in April, 2008.

DISCUSSION

Since April of 2006, in anticipation of full implementation of the new Charter in April 2008, I have been considering how best to address ongoing issues identified by the City Council and staff related to the City’s financial operations. Recently, part of that evaluation included the hiring of an advisor with over 20 years of municipal finance experience to assess the financial operations of the City and make recommendations on how to improve those operations.

After several months of intense examination of the City’s financial operations, we have identified several areas of significant concern – areas where meaningful and lasting

City of Culver City, California
City Council Agenda Item Report

improvement can be realized only through a comprehensive reorganization of the City's financial operations and the assignment of responsibility for the combined accounting, treasury, financial, budgeting/forecasting, and purchasing functions under the direction of a Chief Financial Officer.

Areas Needing Attention

Based upon this comprehensive review, several areas have been identified that require attention and improvement. They include:

- **Consolidation and Coordination of the Accounting, Treasury, Finance, Budgeting, Forecasting, and Purchasing Operations:** In Culver City, the separation of the Accounting, Purchasing, Budget and Financial forecasting operations, has resulted in significant challenges, inefficiencies, and ineffectiveness in managing the City's financial resources. These inefficiencies are manifested in increased time, resources and costs in managing these areas. Improvements in these areas would allow staff to end the reactionary mode to handling financial issues and reduce operational costs, and share the resources as a team in the betterment of the entire organization. This would also include more meaningful and timely reports allowing executive management, the City Manager, and the City Council to better manage the City's assets.
- **Process Inefficiencies:** The evaluation confirmed that all City employees remain dedicated to a high level of customer service and performance. However, the current organization of the City's financial operations is inefficient and significant improvement can be realized. Improved efficiency will result in improved services to the citizens at a lower cost. Processes which can be automated and coordinated (through improved application of technology) will allow employees to focus on analysis and improvement rather than duplication of effort. Some examples where improvement is needed include: (1) collection of amounts due the City (accounts receivable); (2) streamlining and consistency of cash collection operations in all City Departments; and (3) ineffective and the inefficient use of human resource by operation redundancy, and the lack of sharing the talent and expertise of human resources.
- **Financial Reporting:** The City has been facing a significant challenge in producing timely, meaningful, and user-friendly financial reports. This has a direct impact on the ability of executive management, the City Manager and the City Council to effectively manage the financial resources of the City.
- **Improve morale and team spirit within the respective departments:** On-going friction has resulted in a decline in employee morale which has made

City of Culver City, California
City Council Agenda Item Report

recruiting for positions more difficult. Additionally, territorial issues applicable to the respective areas have negatively impacted the department heads' confidence in the financial operations.

Implementation of this restructuring plan will result in significant savings as there will no longer be a need for departments to allocate staff resources for the purposes of tracking accounting transactions.

In proposing this reorganization, it is my intent to take advantage of the expertise and experience of the existing staff, including the current City Controller, City Treasurer, and their respective staff, while moving forward with this sorely needed restructuring.

Restructuring Plan for City Financial Functions

I am proposing a restructuring plan which will consolidate the financial operations of the City. These operations, which are now apportioned between the City Controller's Office and the City Treasurer's Office, are proposed to be unified under the direction of a Chief Financial Officer. Further, staff which is currently housed on separate floors of City Hall would be combined (space permitting) to integrate both functions and improve coordination and communication. Purchasing will become a separate division taking on a much stronger role in safe guarding the spending of City resources. This division will be relocated to City Hall.

Additionally, the restructuring would involve regrouping of positions to improve operational efficiency and functionality. Certain positions would be reassigned, combined, and/or eliminated. It should be noted, that this proposal does not lay-off employees. An organization chart showing the proposed structure is attached.

Creation of the Position of Chief Financial Officer

A critical component of this Restructuring Plan is the creation of a new position, Chief Financial Officer. The justification for this position is direct: a unified financial function (as can be seen in the majority of California cities) will improve operations by unifying functions, reducing costs, increasing customer service levels, and creating clear and direct responsibility for the overall financial functions of the City. Under the direction of the City Manager, the Chief Financial Officer will have an opportunity to address the critical issues identified by the City Council and staff and to implement solutions to the three major challenges identified above.

This position will be mandated to protect and manage hundreds of millions of the City's financial resources under the direction of the City Manager. This will

City of Culver City, California
City Council Agenda Item Report

significantly improve the ability of the City Council to discharge its fiduciary responsibilities.

Timing

The voters provided for a two year transition period for full implementation of the New Charter. Because of the significant critical issues identified by the recent evaluation of operations, it is important to begin the recruitment process for the position of Chief Financial Officer immediately. This would result in an appointment in July or August of 2007. This will provide the new Chief Financial Officer approximately eight months to be a part of current operations, thereby allowing the Chief Financial Officer to be in the best possible position to rapidly and fully implement the reorganization plan culminating in full implementation of the Plan in April, 2008.

FISCAL IMPACT

The Restructuring Plan provides for the hiring of a Chief Financial Officer. Certain vacant positions are proposed to be reassigned or reduced through attrition. Therefore, the long term positive fiscal impact is estimated to be a half million dollars annually. However, with the consolidation and streamlining of operations city-wide it is expected the City would ultimately realize a net savings of between four and seven million dollars annually over the next five to seven years.

Additionally, staff recommends the City continue to utilize the services of Andrea Daroca to assist with Finance Department issues. Once job specifications are approved, I would recommend that Ms. Daroca's services be continued in the role of Consulting Interim Chief Financial Officer until the recruitment has been concluded.

We will fund the costs of Ms. Daroca's short term role with one-time dollars. Currently, she continues to save the City money in many ways and her services are critical to the long-term health of the City.

PHASE TWO – CITY CLERK'S OFFICE/CITY MANAGER'S OFFICE

These other areas are conceptual organizational plans that I will be discussing in greater detail with the Budget and Finance Committee. These concepts are provided here for the City Council's general information. I am not requesting City Council to take action on these items at this time.

A) City Clerk's Office

City of Culver City, California
City Council Agenda Item Report

The City Clerk's office would be consolidated with the City Manager's office. The Clerk's role with agenda preparation, records management, and City Council Chamber preparation will be expanded. The consolidated department will share resources.

B) City Manager's Office

The City Manager's Office will reduce its staff by at least two positions. The City Manager's Office will share resources with the Redevelopment Agency, Community Development Department, and City Clerk's office as part of RSZBS. Additionally, the City Manager's Office will have two Assistant City Managers and one Assistant to the City Manager. I believe that these actions will create cost savings for the City and focus on addressing critical operational issues from a more global perspective. One Assistant City Manager will assist with operational departments; the other will work with Administrative Departments. The Assistant to the City Manager will assume Public Information Officer responsibilities, among other duties.

C) Creation of Management Services Division in the Department of Finance

A Management Services Division will be created. This division will assume the responsibility for purchasing, graphics services, mail and stores. This division will develop a new purchasing policy that will be presented to the City Council for consideration. This new purchasing policy will address many of the spending controls the City is currently considering implementing. This division will be under the direction of the Chief Financial Officer. Purchasing will take a more aggressive role in managing the spending of City dollars.

D. City Attorney's Office

The City Attorney's Office is called upon to provide excellent legal opinions and advice on a broad range of topics. The City is fortunate to have one of the best and most dedicated in-house City Attorney's in the State of California. To allow the City Attorney's Office to focus on critical legal issues, I recommend Code Enforcement duties be transferred from the City Attorney's Office to another department. A study group is reviewing the possibility of creating a Division of Community Enforcement Services, which would bring together employees with enforcement/inspection responsibilities under "one roof." It is also a goal to train the individuals reassigned to this new division in a wide variety of enforcement skills. This will allow an increased level of enforcement and provide cross-training and career advancement opportunities for City staff. This may include providing services for park patrol, fire inspections, business license inspections, sanitation, planning, building and safety, animal control complaints, etc.

City of Culver City, California
City Council Agenda Item Report

E. Risk Management

Risk management would become part of Personnel. We have a number of Risk Manager candidates that we are interviewing. We hope to fill that vacancy in the near future. This consolidation will improve communications and sharing of resources.

PHASE THREE – ALL OTHER CITY DEPARTMENTS

All other City departments and divisions will be reviewed and further recommendations for consideration will be presented for discussion by the Budget and Finance Committee prior to its presentation to the City Council.

We believe these organizational changes will result in millions of dollars in operational savings, improve upon the already high levels of service provided to Culver City residents and businesses, and enhance the efficiency and effectiveness of the entire City organization.

We recommend that we thoroughly discuss the Phase Two and Phase Three items with the Budget & Finance Committee and present a more detailed report for consideration by City Council within 45 days.

Change is Challenging, Necessary, and Achievable

It is important to understand change, especially change of this significance, can pose a challenge. Therefore, as part of the implementation of the Restructuring Plan, I will meet and confer with the City's bargaining groups to discuss this Restructuring Plan in detail. Further, I will schedule a number of workshops where all interested employees will be welcome. These workshops will be designed to address employees' questions and provide a forum for additional dialogue. The Culver City Family, under the direction of the City Council, has always successfully addressed challenging times by working together. Successful, collaborative implementation of the Reorganization Plan will involve the expertise of all current City employees. Further, it will allow the City organization to become more efficient and continue to provide Culver City residents and businesses with the high level of services the Community deserves.

ATTACHMENTS

City of Culver City, California
City Council Agenda Item Report

1. Resume of Andrea Daroca
2. Conceptual Organizational Chart – Department of Finance
3. Classification Specifications from Other Cities – Chief Financial Officer (Finance Director)

MOTION

That the City Council:

1. Receive and file this report on Rightsizing by Zero Based Staffing from the City Manager;
2. Authorize the Creation of the Position of Chief Financial Officer, direct staff to create a proposed Classification Specification, and remand said Classification Specification to the Civil Service Commission for action at their meeting in March, 2007;
3. Direct the City Manager to initiate recruitment for the position of Chief Financial Officer immediately upon approval of the Classification Specification by the City Council (expected on March 26, 2007);
4. Direct the Budget and Finance Committee to consider the items indicated as Phase Two and Phase Three herein and return within 45 days to the City Council with recommendations.
5. Authorize the City Manager to execute an amendment to Ms. Daroca's contract to continue to utilize the services of Andrea Daroca as Consulting Interim Chief Financial Officer; authorize the City Manager to request that PERS grant additional time to allow Ms. Daroca to continue to provide services to the City, and direct the City Attorney to prepare said amendment.