

AGENDA
Blue Ribbon Commission Phase II

November 12, 2009 Meeting

6:00 p.m. to 8:00 p.m.

13th Street Meeting Room

(Free parking is available after 5 p.m. at the Municipal Bldg.)

Food will be provided since several members of the Commission are coming from other meetings or work.

<u>Time</u>	<u>Topic</u>
6:00 to 6:10	- Public Participation
6:10 to 6:40	- Discussion regarding Compensation Presentation from Oct. 22 BRC II Meeting
6:40 to 7:00	- Discuss Follow-up Items Provided from Previous Meetings: 1.) Update from 1994 Comprehensive Fee Study 2.) Other?
7:00 to 7:30	- Overview of Cost Accounting Systems for Municipalities (<i>moved to Dec. 10, 2009 meeting</i>)
7:30 to 8:00	- Review Current Draft of BRC II Final Report

FOLLOW-UP FROM 1994 COMPREHENSIVE FEE STUDY
Response to BRC II - November 12, 2009

Citywide - Findings and Actions

As stated in the April 26, 1994 study session packet to present the findings of the 1994 Comprehensive Fee Study, the primary goal of the study was to identify city policies regarding the recovery of costs related to services provided, including:

- 1.) determining for which service a fee should be charged,
- 2.) establishing methods for costing services and setting fees, and
- 3.) developing a process for routinely updating fees.

As the study progressed, it became evident that the diversity of services provided and the uniqueness of department pricing policies made implementation of very specific citywide pricing policies difficult at best. As an alternative, staff recommended the development of Citywide Pricing Policy Guidelines and a corresponding approach for moving user fees gradually in line with these guidelines. Council supported this approach and the corresponding guidelines for establishing user fees are reflected in section 2.3 of the Citywide Financial and Management Policies and included as Attachment A to this document.

All user fees charged for city services are reviewed and updated annually as part of the annual budget process. The majority of user fees are revised according to the citywide guidelines and established pricing policies specific to each service area. In addition, when additional funding for a new or existing program is proposed, the guidelines are followed to determine whether all or a portion of the program costs should be recovered through a user fee. This has led to a more consistent application of user fees citywide and a growing understanding of who benefits from specific city services.

For the service areas where user fees represent a significant funding source (namely Community Planning & Sustainability, Public Works/Development & Support Services and Parks & Recreation), pricing and cost recovery policies are continually being refined and improved based on best practices and industry norms. The most recent work these areas have done to enhance their approaches to recovering costs are reflected below.

Community Planning & Sustainability and Public Works/Development & Support Services – Findings and Actions

In 2001, the Planning Department and portions of the Public Works Department came together to form Planning and Development Services (P&DS). P&DS is a fund and service area that was formed in recognition of the inter-relationships of responsibilities in these departments.

In 2002, a Fund Management Project was initiated for the P&DS fund to specifically enhance public accountability through improved process and fiscal management. The objectives of the project were to:

- Ensure the integrity of the P&DS Fund through updated fiscal management policies,
- Update pricing policies, cost of services analyses, and fee schedules so revenues and expenditures balance,
- Consider a revised building permit valuation methodology to increase equity and predictability among all building permit applicants,
- Implement further business processes improvements to continue to be efficient and effective in service delivery,
- Coordinate citywide building projections to improve consistency of the data, and
- Develop a system that supports future cost of services evaluations and updates.

As a result of the fund management project and consistent with the Comprehensive Fee Study and the Citywide Pricing Policy Guidelines both described above, the following actions were taken relative to services funded through the P & DS Fund:

Determining when a fee for service should be charged:

The classification of a municipal service is a critical first step in determining when a fee for service should be charged as the classification has important implications for determining the appropriate pricing policy for each service. To aid in the assessment of P&DS pricing policies, staff developed a comprehensive list of services and classified each service into one of three categories: Public Good, Merit Good or Private Good.

Since P&DS services are funded from three primary sources: general tax dollars, user fees, and restricted fund transfers (Public Works restricted funds pay for specific services provided by P&DS on behalf of those funds) it is important to distinguish the services that should appropriately be paid for by each funding source.

A *Public Good* includes those services which benefit the community as a whole and specific beneficiaries are difficult to identify. The pricing policy associated with a Public Good service is *No Cost Recovery*. Since these services benefit the community as a whole and a specific beneficiary is difficult to identify it is appropriate for the General Fund to pay for these services. This is consistent with the Citywide Pricing Policy Guidelines. **No user fees will be assessed for these services.**

A *Merit Good* includes those services that have identifiable consumers, yet the consumption of the good also benefits the general public. The proportion of benefit to each may vary by service. The pricing policy associated with the Merit Good services is *Partial Cost Recovery*. Since these services benefit an identifiable consumer and the general public it is appropriate for the consumer, General Fund, and other Fund transfers to pay for these services. This is consistent with the Citywide Pricing Policy Guidelines. **User fees will be assessed at less than full cost for these services in proportion to the benefit/service received.**

A *Private Good* includes those services that have easily identifiable consumers and more directly benefit those customers who receive the service. The pricing policy associated with Private Good services is *Full Cost Recovery*. Since these services benefit an identifiable consumer it is appropriate for the consumer to pay the full cost for these services. This is consistent with the Citywide Pricing Policy Guidelines. **User fees will be assessed at the full cost for these services.**

Establishing methods for costing services and setting fees:

In 2002, a timekeeping system was implemented in P&DS. Staff track their time in 15 minute increments for services provided on specific projects and work activities. An extensive cost of services exercise was completed utilizing this time tracked data to more accurately assess the work effort and associated costs of services as compared to actual revenues collected. Proposed fee schedules were developed in conjunction with feedback received from our Community Stakeholder Team. The proposed fee schedules were based on total costs (direct and indirect), work effort assessments and cost recovery policies. An hourly billing methodology was recommended by the Community Stakeholder Team in the development review area in order for customers to more directly understand and manage project costs.

As mentioned above, total costs include all the direct and indirect costs associated with providing a service. In the P&DS fund, direct costs include all the specific, identifiable expenses associated with the actual provision of a service. Indirect costs include department and citywide overhead. Department overhead includes the administrative costs of the department and earmarked operating reserve accounts, fund debt service (when part of the cost of providing a service), and contractual payments as appropriate. Citywide overhead includes the costs of all the City's general support services (e.g. Finance, Human Resources, City Attorney's Office) as well as citywide equipment replacement costs. For the annual P&DS costing, the most recent version of the Cost Allocation Plan is used to identify these costs and then they are distributed to the appropriate service accordingly.

Developing a process for routinely updating fees:

An updated costing of services is completed annually as part of the budget process. This information is used to compare costs to revenues to determine whether or not the current cost recovery objectives are being met. If the analysis demonstrates that we are not consistently recovering costs, proposed fee changes are developed and brought forward through the annual budget process. Additionally, as part of the fund management project, we committed to our stakeholders that we would routinely examine cost recovery policies and fee structures. The last major fee changes were implemented in 2009.

Parks and Recreation – Findings and Actions

Determining when a fee for service should be charged:

The Parks and Recreation Department provides public services that bring quality of life benefit to the community as a whole, and to individual users and community groups. Historically, no fees or charges have been assessed for services that provide the broadest spectrum of community benefit, (e.g. the provision of parks for the community). Fees and charges have been assessed on individual users or groups that receive a benefit from specific recreation services (e.g., recreation center use, reservoir use, golf, outdoor pool use or recreation programs). These areas of the department have been assigned partial, full or enterprise cost recovery expectations. Additionally, the current pricing method for recreation services was set using market-based, historical precedence to match fees of other agencies in the region, or set at a point that was considered fair, reasonable and equitable for users.

Establishing methods for costing services and setting fees:

Currently, the department is developing a Recreation Program and Facilities Plan, with an anticipated completion in early 2010. The goal of the plan is to develop a framework that will help guide future decision-making and assist in determining how and where to allocate resources that will ensure sustainability for the city's recreation programs and facilities. With limited resources, and especially considering the current economic climate, the department is working to shift the pricing method to cost of service-based pricing for recreation services. Fees will be set based on the defined cost to provide the service and market, when appropriate.

To ensure a consistent pricing method is utilized by all program areas, the service-based pricing process will include the following:

- Establish a baseline for direct costs, which include materials and instructor costs to provide a recreation program.
- Apply overhead costs by calculating the following cost types and determining which expenses each fee type includes and which of the following costs should be passed on to users through fees:
 - + All Recreation Activity Fund costs, including program indirect and recreation indirect costs.
 - + All recreation facility costs for operations and maintenance.
 - + All Department-related indirect costs.
 - + All cost-allocated costs (e.g.,: City Manager's office, City Attorney's office, Finance office, Information Technology, Human Resources).
 - + All capital-related costs, including major maintenance, replacement of existing recreation facilities, and development of new facilities.

Utilizing this standard method will help to ensure that all programs and services are priced consistently, and ensure that fees are set at the point that the service will recover the required/appropriate cost associated with the service and as based on defined cost recovery goals.

Developing a process for routinely updating fees:

After all costs are calculated, fees are established and adjusted accordingly. Fees will be evaluated and adjusted annually depending on the costs to provide services as part of the budget process.

ATTACHMENT A

User Fee Guidelines - The general guidelines of the City of Boulder regarding user fees are based upon the following considerations:

A. Full Cost Recovery

1. The individual or group using the service is the primary beneficiary.
2. The level of service use attributed to a user is known.
3. Administrative cost of imposing and collecting the fee is not excessive.
4. Imposing a full cost fee would not place the City at a competitive disadvantage.
5. The service is usually provided by the private sector, but may also be provided by the public sector.

B. Partial Cost Recovery

1. Services benefit those who participate but the community at large also benefits.
2. The level of service use attributed to a user is known.
3. Administrative costs of imposing and collecting the fee are not excessive.
4. Imposing a full cost fee would place the City at a competitive disadvantage.
5. The service is usually provided by the public sector, but may also be provided by the private sector.

C. No-cost Recovery:

(a service does not have to meet every criterion)

1. The service is equally available to everyone in the community and should benefit everyone.
2. Because the service is basic, it is difficult to determine benefits received by one user.
3. The level of service attributable to a user is not known.
4. Administrative costs of imposing and collecting a fee exceed revenue expected from the fee.
5. Imposing the fee would place the City at a serious competitive disadvantage.
6. The service is primarily provided by the public sector.
7. Charging a fee would result in undesirable behavior.

D. "Enterprise or Profit" Center

(a service does not have to meet every criterion)

1. Individuals or groups benefit from the service and there is little community benefit.
2. The level of service use attributable to a user is known.
3. There is excess demand for the service; therefore, allocation of limited services is required.
4. Administrative cost of imposing and collecting the fee is not excessive.
5. The service is provided at market price by the private sector.

E. Other Considerations

- a. Nonresidents do not pay the full level of City taxes. Therefore, nonresidents will usually pay a premium of 25% above the standard fee for the service.
- b. The City currently defines "Direct Costs" as costs that are all the specific, identifiable expenses associated with the actual provision of a service.
- c. "Indirect Costs" can include departmental overhead costs such as administrative costs and operating reserve account as well as city overhead costs. City overhead costs include the costs of all the City's general support services.
- d. Departments when establishing fees should identify whether a fee recovers the full cost, (sum of direct and indirect costs), partial cost or is a market rate fee.



Memorandum

To: Bob Eiche, Acting Executive Director of Administrative Services
From: Don Ingle, Director of Information Technology
Date: October 27, 2009
Re: **Information Technology Strategic Planning and Efficiency/Effectiveness Analysis**

At the July 14, 2009 meeting of the Blue Ribbon Commission II, the consultants' preliminary, high-level recommendations were included as an element of the Information Technology overview presentation. As a means of providing the Commission with additional information on the study's background, activities since the July presentation and proposed next implementation steps, we have developed the attached "Frequently Asked Questions" (FAQ) document which was initially shared with city staff at the time of the document's release earlier this month. Also, please note that Chapter 1 of the study serves as an executive summary of the study's key findings and recommendations.

It is noteworthy that the assessment results played a role in the decision to consolidate internal IT department functions resulting in the elimination of two regular, full-time positions (specifically, the Assistant Director of Applications and IT Project Manager) at an ongoing annual savings of approximately \$215k. Additionally, the study results support an already-executed project to consolidate distributed data centers (e.g. central server and network facilities) resulting in an ongoing operating expense reduction of approximately \$30k per year.

As further discussed in the study document and attached FAQs, the study recommendations support the maintenance of overall citywide technology-related staffing levels over the four-year planning horizon. However, the results do identify additional opportunities for further staff cost savings through the centralization of currently distributed IT infrastructure functions (e.g. network, server and PC support).

I look forward to providing any additional information or clarification on the project and the study results, associated processes and anticipated near-term activities related to its implementation.

Attachments

IT Strategic Planning and Efficiency/Effectiveness Analysis "FAQs"
City of Boulder Information Technology Strategic Plan (October 2009)

IT Strategic Planning and Efficiency/Effectiveness Analysis “FAQs”

STUDY BACKGROUND	
1. Why was the study conducted?	<p>Two factors have driven the “IT Strategic Planning and Efficiency/Effectiveness Analysis”:</p> <ul style="list-style-type: none"> ○ The lack of an actionable IT strategic plan since 2004, and; ○ The 2007 Blue Ribbon Commission (BRC1) recommendation that efficiency and effectiveness studies be carried out on city functions to justify increased revenues for continuing services. <p>Given the importance of automation to the effectiveness of the organization, it has been important to integrate these “efficiency/effectiveness” and “strategic planning” themes in order to emphasize that visioning technology-based improvements is not a “point in time” proposition.</p>
2. What is the scope of the study?	<p>The study’s scope is framed by the need for a “blueprint” to guide future operating and capital investments in automation, creating a framework for future management decision-making. Specific scope elements of the project can be classified into the “efficiency/effectiveness” and “strategic planning” categories noted above:</p> <ul style="list-style-type: none"> ○ BRC Foundation: Resource and staffing levels, organizational structures, best practices. ○ Strategic Imperatives: Unaddressed automation needs, funding strategies, project planning, sourcing, technical standards, governance. <p>Because technology changes rapidly, the plan has a roughly four-year outlook (Q4 2009-2013) and will serve as a foundation for annual updates.</p>
3. How and why was Pacific Technologies, Inc. (PTI) hired?	<p>A formal RFP was developed and advertised nationally in August of 2008. The selection panel was composed of Bob Eichem, Paul Fetherston, Jan Geden, Eileen Gomez, Don Ingle and Terry Stonich. Nine proposals were received from which five finalists were selected for interviews. PTI of Bellevue, Washington was selected as a result of their experience performing similar work with cities, counties and states across the country, their methodologies, extensive benchmark data for assessing efficiency, and their comparative consulting costs.</p>
4. How was the study guided?	<p>The new IT Governance Executive Advisory Board (EAB) has served as the project steering committee and is composed of: Larry Donner, Bob Eichem, Paul Fetherston (Project Sponsor), Eileen Gomez, Dave Hayes, Don Ingle (Project Manager), Mike Patton, Maureen Rait and Tony Tallent. The EAB has worked directly with the consultants at key points in the project to review the data resulting from their analysis and provide feedback on their findings and recommendations. Beth Lemur from IT has provided support in the review of the consultants’ data.</p>

STUDY FINDINGS AND RECOMMENDATIONS

5. What are the consultants’ key findings and recommendations?

The following table summarizes the consultants’ major findings, recommendations and the benefits they believe will be realized through the study’s implementation. The full document provides additional details behind these and several other recommendations:

Summary Findings	Key Recommendations	Major Benefits
1. Boulder does not employ a consistent, citywide IT decision making process	Create a formal IT governance process – including roles, responsibilities, tools, timelines and criteria – to support IT investment decisions	<ul style="list-style-type: none"> • Ensures IT investments align with City strategic priorities and fit within budget constraints • Offers a citywide view of IT spending and use • Provides an efficient, transparent, and informed method for making critical IT decisions
2. The City does not utilize capital funding for major IT investments	Create a capital improvement project (CIP) fund for IT investments	<ul style="list-style-type: none"> • Improves availability of funding for large IT projects • Encourages long-term solutions where appropriate • Eliminates the use of operating funds and labor for capital projects
3. The City’s distributed approach to IT staffing is inefficient and not consistent with best practices	Consolidate citywide network, server, PC and enterprise software support functions and reallocate IT labor effort to increase business application support	<ul style="list-style-type: none"> • Enables central IT to provide improved, cost-effective IT support to business users • Facilitates business unit productivity by improving the use of the City’s applications
4. Several major software solutions are at the end of their useful lives	Invest in key applications areas – including maintenance management, financial/human resources management, and permit management	<ul style="list-style-type: none"> • Increases operational efficiency and effectiveness through the use of workflow and best practices capabilities inherent in modern software packages • Reduces dependence on institutional knowledge and custom applications
5. Boulder’s server environment is geographically dispersed and not utilized to capacity	Optimize servers; consolidate hardware into no more than two data centers	<ul style="list-style-type: none"> • Minimizes data center operations and support costs • Improves server performance

6. What overarching vision and associated goals frame the study results?

As part of the study process, the IT Governance Executive Advisory Board members worked with the consultants to frame the new citywide IT vision/mission statement and attendant goals noted below. The goal statements are used to categorize the various study recommendations and will be used to guide future citywide IT planning and performance measurement into the future.

Vision: IT strives to create an environment of seamless integration between people and technology.

Goals: Technology improves access to city information services and the quality of our customer's experience.

Technology services and decision making align with citywide priorities, customer needs and support sustainability.

Technology maximizes the efficiency and effectiveness of city operations.

Technology is used as a catalyst for innovation.

Technology is a key element of citywide infrastructure and is current, secure and reliable – ensuring customer confidence.

NEXT STEPS	
7. Which of these major recommendations will be implemented and when?	<ol style="list-style-type: none"> 1. <u>IT Decision Making</u>: It is agreed that this recommendation is critical to the effective implementation of a new citywide IT strategic plan. The existing IT Governance EAB will be working with city management over the remainder of the year to finalize a new IT governance structure and associated processes. The goal is to have this program in place by the first quarter of 2010. 2. <u>Capital Funding</u>: This recommendation was already identified by BRC1 as an important deficiency and – supplemented by knowledge of this study finding – a proposal has been made to council to use \$250k in recently de-Bruiced revenues to begin establishing a capital fund for future software investments beginning in 2010. The new governance structure will play a pivotal role in the management of these shared funds moving forward. 3. <u>Citywide IT Staffing</u>: The consultants’ recommendations cover technology-related staffing in both the central IT department and across the organization. <ol style="list-style-type: none"> a. The central IT department will be using the study’s organizational recommendations (e.g. reorganizing to create a separate Client Services Division) to restructure its operations beginning in late-October. Additional information will be communicated in the coming weeks about the initial stages of the IT reorganization, which will be accomplished in phases into 2010. b. Study recommendations with inter-departmental impacts (e.g. centralizing in IT all support for networks, servers, PCs, and any enterprise software that serves all city departments) will be reviewed in greater detail by the IT governance team and city management into mid-2010. It is expected that the 2011 budget process will lend important context to these discussions. (This is further discussed in the response to Question 9 below.) 4. <u>Software Investment</u>: The study has identified several critical software reinvestment needs. Many have already been in various stages of pre-planning (e.g. LandLink and BFS replacements). Working within the city’s budget processes, IT and the new IT governance team will be working to analyze and prioritize future technology investment strategies using the plan’s recommendations as a guide. 5. <u>Optimize Server Environment</u>: A couple of important activities are currently underway in this area. First, central IT staff has begun consolidating servers at the new county/city data center near the Boulder airport. This project is projected to be completed by the first quarter of next year and will result in two primary data centers, including the Public Safety building. And, a formal analysis is underway (called the “IT Green Study”) to evaluate and design a new server architecture using “virtualization” technology to reduce the number of servers required to run city applications without degrading performance, while enhancing disaster preparedness. The analysis will be completed during the fourth quarter of 2009 with full implementation planned by mid-2010.
8. Are there other study recommendations?	<p>Yes. While the consultants feel the five major recommendations above are the most critical and strategic to the long-term “health” of automation and related support activities in the city, the study also includes a number of sub-projects in support of these and other initiatives. Each of these twenty-one (21) “projects” is grouped into the new, overarching goals identified by the IT governance EAB (see Question 6). The projects are also costed and scheduled in an overall project plan recommendation. Examples of these additional recommendations include:</p> <ul style="list-style-type: none"> ○ Redesigning the city’s website ○ Aligning IT cost allocation with services ○ Conducting a financial management/HR/payroll system needs assessment ○ Conducting more frequent outside security assessments

<p>9. How will employees' positions be impacted by the study results?</p>	<p>There are three general study proposals that may impact technology-related positions over time. One is currently under active review and the remaining two proposals will be addressed through management discussions into 2010:</p> <p><u>Proposal currently underway</u></p> <ol style="list-style-type: none"> 1. Structural and staff distribution changes in the central IT department: The IT department is beginning a restructuring process tied to several of the study's recommendations. This process will be conducted in phases, with "Phase 1" focused on creating a new IT division structure and selecting leaders for these teams. During "Phase 2", the new IT management team will be designing a "divisional" restructuring plan based both on IT department-specific study proposals (e.g. IT should develop more competency with business analysis) and the results of the 2010 review of the consultants' inter-departmental restructuring recommendations (e.g. consolidation of infrastructure support). These changes are likely to take place incrementally during 2010 with impacted employees informed via the project communication plan. <p><u>Proposals for consideration into 2010</u></p> <ol style="list-style-type: none"> 2. Recommended changes in roles, responsibilities and the distribution of technology staff across departments – transferring some functions to central IT (e.g. consolidating support for networks, servers, PCs, and enterprise software that serves all city departments). 3. A recommendation that enterprise Geographic Information System (GIS) functions be provided through a "shared services" arrangement with other area agencies such as Boulder County. <p>As noted in the response to Question 7, the recommendations dealing with cross-departmental relationships (e.g. centralizing some functions internally or with other jurisdictions) will undergo detailed review by the IT governance team and city management between now and the middle of 2010. A communication plan will be developed by the team in order to keep staff informed of the progress of the review and the impact on positions.</p>
<p>10. The study states that the city should maintain and even marginally enhance IT staffing levels over time. Will the city follow that philosophy?</p>	<p>The city's continued efforts to address the impacts of the economic downturn and structural deficits make it critical for all departments to pursue efficiency opportunities. As the study states, continued investment in automation and associated support will play a critical role in the city's ability to accomplish this goal. Nonetheless, the study notes several areas where efficiencies can be gained through restructuring and "right-sizing" key functions – which may include future expenditure reductions in these areas. The study results will be used as a resource for future budget decision-making.</p>

**BLUE RIBBON COMMISSION
ON REVENUE STABILIZATION
PHASE II**

**Report to City Council
March 30, 2010**

Draft as of 11/10/09

**BLUE RIBBON COMMISSION (BRC)
ON REVENUE STABILIZATION – PHASE II**

**Report to City Council
March 30, 2010**

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DRAFT

The Problem

1

Overview

On January 15, 2008, the Blue Ribbon Commission on Revenue Stabilization (BRC I) presented a report to Council that focused on stabilizing revenue sources. The Commission's primary finding is that growth in city revenues will not keep pace with anticipated inflationary costs for city services. As a result, the city will be faced with a "structural gap" resulting in an estimated \$90 million shortfall by 2030, even if the current sales taxes set to expire are extended. The BRC I's stabilization effort focused on diversifying and extending current revenue streams, evaluating new revenues, implementing financial policies and ensuring efficient and effective use of public funds.

Even though the scope of BRC I was focused on revenue stability and the identification of the structural gap, the Commission noted that fiscal stability would be achieved through a combination of both increased revenue sources and expenditure management. To support a more detailed review of city expenditures, the City Manager's Office convened a second Blue Ribbon Commission (BRC II) in September of 2008. In addition to reviewing expenditures, it was anticipated that BRC II would also consider revenue stabilization and any necessary steps to implement the suggestions of the first BRC. However, BRC II is primarily focusing *on a review of city expenditures to ensure that public funds are being used effectively and efficiently*. City management believes this work is necessary before new revenue initiatives can be placed before Boulder voters.

Since September 2008, the BRC II's work has been focused on understanding city finances and reviewing city expenditures to identify opportunities for potential efficiencies and cost savings. The Commission's recommendations outlined within this report are based on the identification of overarching policies that support maximizing organizational efficiency and ensuring the responsible use of taxpayer dollars.

The sudden economic downturn that became apparent in late 2008 added a sense of urgency to the BRC II's work and recommendations. As a result of the economic recession, city sales tax collections began to decline in September 2008. This trend continued into 2009 and city sales and use tax revenues were revised downward from original projections. In order to maintain a balanced budget, the city began to identify a budget stabilization plan. The plan consisted of identifying one-time budget savings for

2009 and implementing ongoing and sustainable budget reductions for 2010. Although the BRC II's work was progressing concurrent to the city's efforts to balance the budget, the Commission's work influenced the budget stabilization plan.

Another concern is that all governmental entities need to re-examine their services based on limited resources. The role of local government is changing at all levels of government based on unbridled demands for services, reduced revenues and changing expectations. As a result, governments will need to focus available resources to ensure that essential services are provided at an adequate service level.

In general terms, report recommendations reflect high level policies rather than specific individual program or service changes. The Commission stressed that the detailed management of program expenditures or individual line items (e.g., training, employee medical insurance) should continue to be a high priority of city management.

Background

The Blue Ribbon Commission I (BRC I) projected revenue and expenditures for nine City of Boulder funds from 2006 through 2030 as a starting point for its revenue stabilization endeavor. The scope of this analysis did not include every city fund. Although most city programs and services are reflected in the analysis, a few high profile programs were not included due to the time constraints associated with development of detailed projections for smaller funding sources and the inherent difficulty of projecting external funding sources. This modeling exercise revealed that Boulder's revenue would grow approximately three percent a year over the planning horizon while expenditures are anticipated to grow at approximately four percent per year. This one percent difference each year projected over 24 years results in a \$90 million shortfall in the expanded General Fund in the year 2030 assuming all expanded General Fund sales taxes are renewed through the period. The expanded General Fund provides funding for services and programs typically considered basic city services (e.g., police, fire, library, parks, etc.).

The principle reasons for the growth differential is the decreasing productivity of sales tax revenue and the above average inflation rate of government inputs. Specifically, the BRC found that sales tax productivity will continue to decrease due to a flat inflation rate associated with durable goods, durable goods diminishing as a percentage of personal consumption, changing demographics leading to fewer purchases of sales tax eligible products, and continuing increases in e-commerce. Conversely, the cost of municipal inputs will outpace revenue growth due to inflation rates associated with energy (to operate offices, recreation centers, libraries and fleets), building materials (oil for streets, cement for sidewalks), and personnel (salaries, pensions, health care). These diverging trend lines create an ever-expanding gap.

This gap is compounded by the fact that 41% of Boulder's expanded General Fund sales tax rate is set to expire during this same planning horizon. Factoring this into the model

expanded the gap for the General Fund to \$135 million a year in 2030 (in 2030 dollars). This means, it will cost \$135 million more than Boulder's revenue system will generate to provide the same bundle of services at the same service standard in 2030 as it did in 2006. Even if these expiring sales taxes are continued, the gap in 2030 will be \$90 million. Furthermore, simply increasing sales tax rates, as has traditionally been the revenue tool relied upon by municipalities in years past, can only solve the problem in the short term, and continues the trend of over-reliance on a volatile revenue source.

Therefore, the BRC I recommended a three-prong approach to stabilizing revenues and obtaining funding for implementing portions of Council-adopted Master Plans, creating a solution framework comprising policies, revenue structure changes and increased revenue amounts. The BRC I identified thirty policies to improve Boulder's fiscal climate towards a more stable, efficient, flexible and strategic environment. Boulder should also make meaningful changes to its revenue structure such that it decreases dependence upon sales taxes and shifts towards revenue streams that are more stable and are more likely to grow at a pace equal to expenditure inflation. Those revenue tools most likely to achieve these criteria without further legislative changes on the state or national level are property taxes and user fees. Specifically, the BRC I called for the full de-Brucing of the Boulder property tax, an increase in the development excise tax to a level at least competitive with surrounding municipalities and ideally set at a rate that fully recovers costs, and the exploration of a sales tax on selected services. Unfortunately, these changes will not eliminate the gap entirely and increasing the total amount of revenue generated must also be considered.

The BRC I identified the renewal of existing sales taxes as the top priority for revenue stabilization in Boulder. At the conclusion of BRC I, six sales taxes were set to expire during the planning horizon that account for 41% of the city's sales tax rate. Of most pressing concern was the expiration of the 0.38% General Fund sales tax in 2011 and a second General Fund sales tax in the amount of 0.15% in 2012. The General Fund pays for core services such as public safety and administration, but also provides very significant transfers to Parks & Recreation, Library, Housing & Human Services, Code Enforcement, and more. Renewing these sales taxes was deemed to be critical by the Commission

The Commission suggested that the BRC work would serve as the inaugural Comprehensive Financial Plan for the City of Boulder. This document would be similar to, and perhaps eventually part of, the Boulder Valley Comprehensive Plan. A comprehensive financial plan looks at the fiscal big picture for this municipal corporation, is reviewed annually to reflect changing economic and budgetary conditions, and provides multiple tools to guide the community in sustaining its unique quality of life. In addition, the Commission recommended that a comprehensive update be completed every five years to determine if the gap has increased, decreased or is consistent with original projections and assumptions.

Although revenue stabilization was the focus of BRC I, the financial analysis included a long-range forecast of both revenues and expenditures. This analysis concluded that the

city's financial challenges were structural in nature and would have long-term impacts due to demographic changes and decreased productivity of sales tax. The BRC I review of expenditures was based on projected inflation rates and economic trends for the types of services provided by city government. As a result, the expenditure analysis incorporated trend forecasts for costs associated with city services from 2006 through 2030.

Even though the scope of BRC I was focused on revenue stability and the identification of the funding structural gap, the Commission noted that fiscal stability would be achieved through a combination of both increased revenue sources and expenditure management. To support a more detailed review of city expenditures, the City Manager's Office convened a second Blue Ribbon Commission (BRC II) in September of 2008. BRC II will still consider revenue stabilization and any necessary steps to implement the suggestions of the first BRC. However, BRC II is primarily focusing on a review of city expenditures to ensure that public funds are being used effectively and efficiently. The Commission has also been asked to identify opportunities to enhance organizational efficiency. City management believes these to be necessary preparation before putting future revenue initiatives before Boulder voters.

Process

September – October, 2008

The BRC II held its first meeting on Sept. 23, 2009 and continued to meet twice a month through the end of 2009. The initial meetings of the commission focused on providing the group with a basic understanding of local government finance and an overview of the city's financial structure, both in terms of revenues and expenditures. This information provided the commission with a sound framework for beginning to tackle the work of reviewing city expenditures to ensure that public funds are being used effectively and efficiently.

November – December, 2008

After the group was given a base of knowledge regarding local government finance, they began to grapple with their purpose or goal in more detail. Given the size and complexity of the city organization, the commission's charge proved to be quite daunting and required several discussions and continued refinement of the vision for the outcome of their work. For instance, in order to determine if city services are being provided effectively and efficiently, the commission would need to understand what services are being provided and why. These early discussions greatly helped the group and staff identify what was needed in terms of additional information and analysis to achieve their desired outcomes. The additional materials provided to the group during this period included:

- a "basket of goods/services" provided by each department and how they are funded
- highlights and issues from recently approved department master plans

- an overview of the performance measures and benchmarking used to evaluate city services

January – August, 2009

The issue of “which businesses the city should be in” was a frequent topic of discussion during this period since the type and variety of programs offered impacts which method of service delivery is most efficient. It was agreed that community values have shaped the services provided but a more defined understanding of how services are actually prioritized was needed. In other words, what services are considered core or essential for a local government to offer while others are more optional and may be provided more effectively by another segment of the community. Staff explained the business plan approach used by the organization to evaluate city services and determine if they are essential, desirable or discretionary. The group agreed that more information about this approach and how it is used across the organization would be useful in completing their work.

The group determined that its efforts should also include a consideration of alternative options for providing services to the community. For example, does the city need to offer a full range of recreational services since there are so many options being offered in the private sector. Also, the commission wanted to know how often departments are able to partner with other public or private entities to avoid duplicating efforts. The commission also asked how services are evaluated and assessed in each area to make sure they are meeting performance goals. These discussions led to agreement that it would be beneficial for each department to present a standard set of information to the commission addressing these items. The presentations included:

- Overview of funding sources and uses
- Business plan categorization for services (i.e., essential, desirable, discretionary)
- Any atypical services provided compared to other municipalities
- Legal service requirements
- Identification of other service providers and regional partnerships
- Performance measures

September – December, 2009

Based on departmental presentations, the Commission received additional information on issues that impact multiple departments. This information included:

- Purpose of General Fund transfers to other funds
- Identification of earmarked revenues
- Fee subsidies
- How to recognize full costs to provide services

During this time frame, the BRC II also began refining their findings and recommendations, which were incorporated into this final report.

2

Solution Framework

In order to determine whether taxpayer dollars are being used efficiently and effectively, the Commission developed a solution framework which reflects the complex nature of local government. The first component of this framework focuses on determining if the city is providing the services needed to meet citywide goals. This addresses the issue of whether the organization is effective, or in other words, providing the right combination of services to meet citywide goals. Second, if it is determined that the correct basket of services is being provided, are the services being delivered as economically or cost efficiently as possible? The cost to provide city services is impacted by both the organization's structure and the policies that inform how city funds are allocated.

Below is a detailed description of each of the components of the solution framework and action steps that the city should undertake in order to identify potential cost savings and organizational efficiencies. The Commission is not providing specific recommendations regarding which services could be provided more efficiently or eliminated. Instead the Commission proposes that the city view the solution framework as a tool to help move the organization forward in this endeavor.

What Services Should the City Provide?

As stated in Chapter 1, the BRC II is primarily focusing on a review of city expenditures to ensure that public funds are being used effectively and efficiently. For the purposes of the Commission's work, effectiveness is defined as doing the "right" things to achieve a desired result or overall goal. Efficiency, on the hand, is based on doing "things" in the most economical manner (good input to output ratio).

To address the issue of whether the city is providing the best mix of services to meet overall city goals, the commission first reviewed services provided by each city department. As part of the review, the commission agreed that the following questions needed to be addressed in order to determine whether the city is effective its use of public funds:

- What services does the city currently provide and how do they help achieve city goals?
- What services are core or essential for the city to provide?
- Can another entity adequately provide the service?
- Should the city provide services simply because they pay for themselves?

- How does the city determine if a service should be paid by general taxes versus user fees?

Below are the commission's findings related to each question and the recommended action steps necessary to adequately address the question.

What services does the city currently provide and how do they help achieve city goals?

The city should review what services it provides to the community to ensure the services are adding to the achievement of city goals. This is because the city will continue to need to make tough choices about which services are provided since the growth in expenditures is outpacing the growth in revenues.

In addition, the city should carefully evaluate new services before implementing them. Once residents begin receiving a city service, it is difficult to eliminate the service even if it does not provide significant community benefit or is only provided to a limited number of residents.

The city of Boulder's basket of services differs from other communities based on community values and expectations. Although the Commission does not propose to change the current mix of services, it would like to note that economic conditions (the structural gap) may require that the city prioritize services in order to maximize progress toward city goals.

(Additional commission findings will be added before the Action Steps.....)

Action Step:

- 1.) Each department should have a clear statement about how each service helps achieve city goals.
- 2.) The city should complete a systematic review of new programs before they are implemented. The review should define the scope of the program and clarify how it helps to achieve city goals.

What services are core or essential for the city to provide? (basically reflects prioritization of services)

(Commission findings will be added before the Action Steps.....)

Action Step:

- 3.) There should be a consistent, citywide process for prioritizing services, from those that are core or essential to those that are more discretionary.

Can another entity adequately provide the service? (what services should the city avoid providing?)

The city should identify where it competes with the private sector. Although overlapping services may be appropriate, it merits further review to understand the rationale for providing similar or duplicative services. If the service is adequately provided by the private sector, both in terms of public access and affordability, the city should strive to get out of providing that business. A number of criteria should be reviewed to evaluate whether the city should be in a specific business.

The city should work with non-profits to determine if they can provide some services rather than the city. It may be more efficient to provide some financial support to non-profits to facilitate out-sourcing of some services. Ultimately the city should work to be a partner with outside agencies instead of the provider of the service.

(Additional Commission findings will be added before the Action Steps.....)

Action Step:

- 4.) If a service is adequately provided by the private sector, the city should not provide the service.

Should the city provide services simply because they pay for themselves?

(Commission findings will be added before the Action Steps.....)

Action Step:

- 5.) It is acceptable for the city to provide self-funded programs as long as they support the achievement of city goals and the private sector does not adequately provide the service.

How does the city determine if a service should be paid by general taxes versus user fees?

(Commission findings will be added before the Action Steps.....)

Action Step:

- 6.) The city should routinely evaluate which services are taxpayer supported, fully-funded by user fees or a combination of the two.
- 7.) The full cost for each city service/program should be calculated on a regular basis. The full cost should include the direct program costs, departmental overhead, citywide overhead and reasonable capital/facility costs.
- 8.) The full cost for subsidized programs should be clearly identified and reviewed periodically to verify that the level of subsidization is still appropriate.

How Should the Services be Provided?

(This will follow the same format as the section above)

Organizational Policies that Influence Costs

(This will follow the same format as the section above)

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What Services Should the City Provide?

Action Steps:

- 1.) Each department should have a clear statement about how each service helps achieve city goals.
- 2.) The city should complete a systematic review of new programs before they are implemented. The review should define the scope of the program and clarify how it helps to achieve city goals.
- 3.) If a service is adequately provided by the private sector, the city should not provide the service.
- 4.) The city should routinely evaluate which services are taxpayer supported, fully-funded by user fees or a combination of the two.
- 5.) There should be a consistent, citywide process for prioritizing services, from those that are core or essential to those that are more discretionary.
- 6.) It is acceptable for the city to provide self-funded programs as long as they support the achievement of city goals and the private sector does not adequately provide the service.
- 7.) The full cost for each city service/program should be calculated on a regular basis. The full cost should include the direct program costs, departmental overhead, citywide overhead and reasonable capital/facility costs.
- 8.) The full cost for subsidized programs should be clearly identified and reviewed periodically to verify that the level of subsidization is still appropriate.

How Should the Services be Provided?

Action Steps:

- 1.) The city should complete an analysis to determine if it would be more efficient to centralize all or some of the administrative services.
- 2.) Although the commission agreed that this is a complex issue, the city should commit sufficient time to identify service duplication across the city organization.
- 3.) The city should consider how many departments are necessary to provide services to Boulder residents since there are inherent overhead costs associated with each separate department.
- 4.) The city should continually pursue opportunities to share services with other governmental or non-profit providers.

Organizational Policies that Influence Costs

Action Steps:

- 1.) The city should review its compensation policies on a regular basis to make sure they are still achieving the desired goals (e.g., recruitment, retention, cost efficiency, etc.)
- 2.) Maintenance and renovation of city facilities should not be deferred.
- 3.) *Review BRC I to determine where there is agreement on policies that should be implemented and/or updated.*