

City of Fayetteville

Fayetteville Public Works Commission

Functional Alignment Summary of Findings

City of Fayetteville
City Council Work Session
August 5, 2013
5:00pm



Executive Summary Overview

- I. Introduction of DavenportLawrence and Project Team**
- II. Review of Project Scope and Purpose**
- III. Overview of Approach/Methodology**
- IV. Findings Overview**
- V. Existing Cooperative “Agreements”**
- VI. Implementation Strategy Recommendations**

About DavenportLawrence



DavenportLawrence is an advisory firm working exclusively with local governments dedicated to supporting municipal and utility operations across the Southeast. We focus on organizational process, technology applications, operational efficiencies, and change management implementations. Our core belief is that our work should contribute to supporting organizations in ways that are actionable, measurable, and sustainable.

Project Team

- Allen O'Neal, Project Lead
- Andy Honeycutt, Governmental/Utility Operations Consultant
- Jeff Davenport, Technology Consultant
- Brent McCabe, CPA, Finance Consultant
- Lauren Brown, Analyst
- Jean Ann Lopezzi, Oracle Consultant
- Joan Scott, Oracle HR Consultant
- Mark Friedman, Infrastructure Consultant
- Chris Goodwin, Networking and Infrastructure Consultant

Section I

REVIEW OF PROJECT PURPOSE

Request for Proposals: “Phased Implementation”

- 1. Summary of Services Sought:** The City of Fayetteville is seeking professional services to refine and analyze a plan to consolidate the operations of the City and the Fayetteville Public Works Commission (PWC). The objectives of this consolidation include increased efficiency and tighter operational and policy coordination. This will include the development of a phased implementation plan including performance measures and operational memoranda to ensure that expected benefits are achieved and operational expectations are met.

- **Suggested Areas of Analysis-** Internal support functions such as information technology, finance, human resource development, corporate communications and other administrative functions that could be consolidated into centralized departments reporting to the City Manager.
- **Service Departments** - Any department of either entity that performs a service to the residents, businesses or infrastructure of the City of Fayetteville.

Our Commitment to Scope

Phase I: Project Work Plan Development- Infrastructure

- Project Team Development
- Scope and Methodology Acceptance
- Schedule Approval
- Engagement Protocols (Priorities and Limitations)
- Milestones and Expectations Validation
- Project Communication Channels and Controls
- Project Kick-off Meeting - March 5, 2013

Phase II: Organizational Research and Analysis

- Functional Interviews and Data Collection by Department
- Data Validation
- Benchmarking and Peer Comparisons
- Asset and Human Capital Financial Analysis
- Customer Service Delivery Evaluation

Phase III: Implementation Prioritization and Recommendation

- Conduct Analytical Review of Functional Data Assessment Highlighting Operational Consolidation Values
- Perform an Implications Assessment on Priorities Derived from Data Collection
- Development of Prioritized Functional Opportunities Based on Client Objectives
- Develop Findings Report and Present Information to Project Team and Stakeholders

For the pathway to operational improvement we ask...

Do we maintain public trust in the process?

Does the change management process improve organizational cooperation and transparency?

Does our analysis provide neutrality and balance to the process?

Do the recommended actions reduce operational redundancy and associated costs?

Are the recommended changes measurable?

Are the recommended changes sustainable?

Do recommendations provide a roadmap for greater collective organizational stability and cooperation?

Is the methodology/approach expandable for even greater benefits to the citizen/customer?

Consistency with Strategic Planning: Fayetteville PWC and the City

PRINCIPLE B

IMPROVING THE QUALITY OF LIFE

► Means

1. Reliable utility services every minute, every day
2. Top quality utility services to our customers
3. Effective mechanisms for communicating with our customers
4. Supporting the growth of our local economy and community
5. Partnering with the City of Fayetteville, Cumberland County and other organizations to enhance quality of life

Visionary Working Relationship with City and Local Government Bodies

The City of Fayetteville will have unity of purpose in its leadership and sustainable capacity within the organization.

- City Council recognition of employees
- Study PWC efficiencies/consolidation opportunities
- Identify efficiencies through IT to increase effectiveness.

Pathway for True Success in Collaboration and Cooperation

Functional alignment between the City of Fayetteville and the Commission will succeed ONLY after the barriers of cooperation (history and culture) are eliminated and both organizations recognize acting in the best interests of the public must transcend independent organizational interests. As such, any plan for functional alignment must be based as much on changing the culture of autonomy between the City and the Commission as in the elements of the change management process.

Section II

FINDINGS OVERVIEW

Separate Organizational Cultures: Evolution of Autonomy

- City and Fayetteville PWC have operational autonomy. Existing PWC autonomy extends beyond utility operations.
- PWC culture is tightly controlled and similar to private sector utilities that limit transparency and public oversight. Broad financial flexibility. Internally referenced as “The Company”.
- City culture is typical of municipalities: operates in an environment of openness. Financially constrained in operations from factors both in control and out of control of the City.

Charter and Legal Structure

- City is a “Parent Municipal Corporation” and the Commission is a political “subdivision” of the City for compliance with LGBFCA. (per Levitas memorandum)
- PWC budget is authorized through action of the City Council
- PWC financial reporting is included in City’s consolidated financial report

Charter and Legal Structure

by the chairman thereof, and all orders shall state for what object the same is drawn, and a record shall be kept of all such orders.

Sec. 6.7. Supervision of electric light, water and sewerage plants.

Said commission shall have charge of and control over, and shall supervise the construction, repairing, alteration or enlargement of the electric light plant, the waterworks plant and the sewerage plant with power and authority to make all necessary contracts relating to the same, including the purchase of all necessary sites, machinery, supplies and other property and the employment of necessary labor and other help in said construction, repairing, alteration or enlargement but no appropriation of moneys or expenditures or contracts in excess of ten thousand dollars (\$10,000.00) shall be made by the said commission until the same shall have been approved by the City Council.

<p>Charter Section 6.7</p>	<p>"No appropriations of moneys or expenditures or contracts in excess of \$10,000 shall be made by the said commission until the same shall have been approved by the City Council</p>	<p>'PWC and City Council have indicated that neither entity currently abides by the requirement under section 6.7' (Meeker Report pg. 5); Our understanding is that many such contracts have not been submitted to City Council for approval (Levitas Memo pg. 4). See also: Duke/Progress Energy contract, Ft. Bragg Agreement</p>
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Sec. 6.13. Annual report.

At the end of each fiscal year said commission shall publish a complete report for the year, which shall include all financial operations of said commission during the year, and all items, facts and information required by the provisions of this chapter to be reported monthly to the said city council.

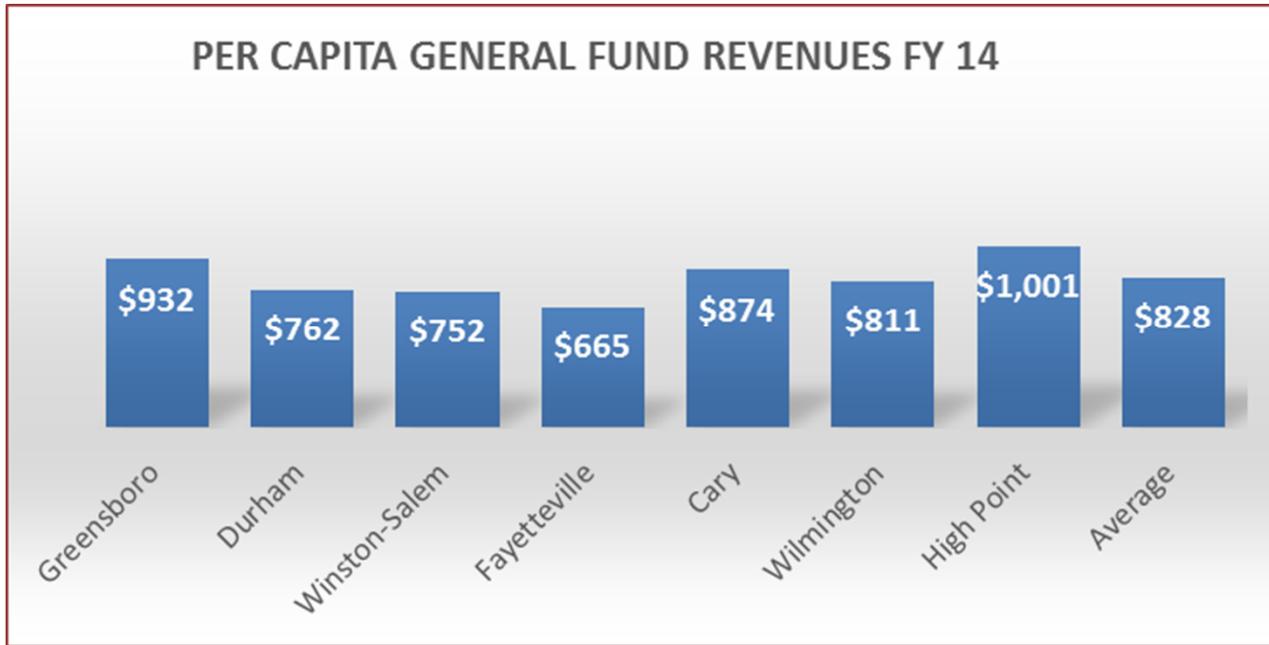
Charter Compliance: Fundamental Elements of Cooperation

- ❌ *No appropriation of moneys or expenditures or contracts in excess of ten thousand dollars (\$10,000.00) shall be made by the said commission until the same shall have been approved by the city council provided no such appropriation, expenditure or contract shall be approved on the date on which it is submitted except by an affirmative vote equal to or greater than two-thirds of the members of the council. (Section 6.7 of Charter)*
- ❌ *Said commission shall render a full report to the city council of the City of Fayetteville, not later than the second Monday of each month (Section 6.12 of Charter)*
- ❌ *PWC is obligated to pay over to the Treasurer of the City all balances in excess of necessary expenses and disbursements to said date (Section 6.12 of City Charter)*

Governance “Silos”

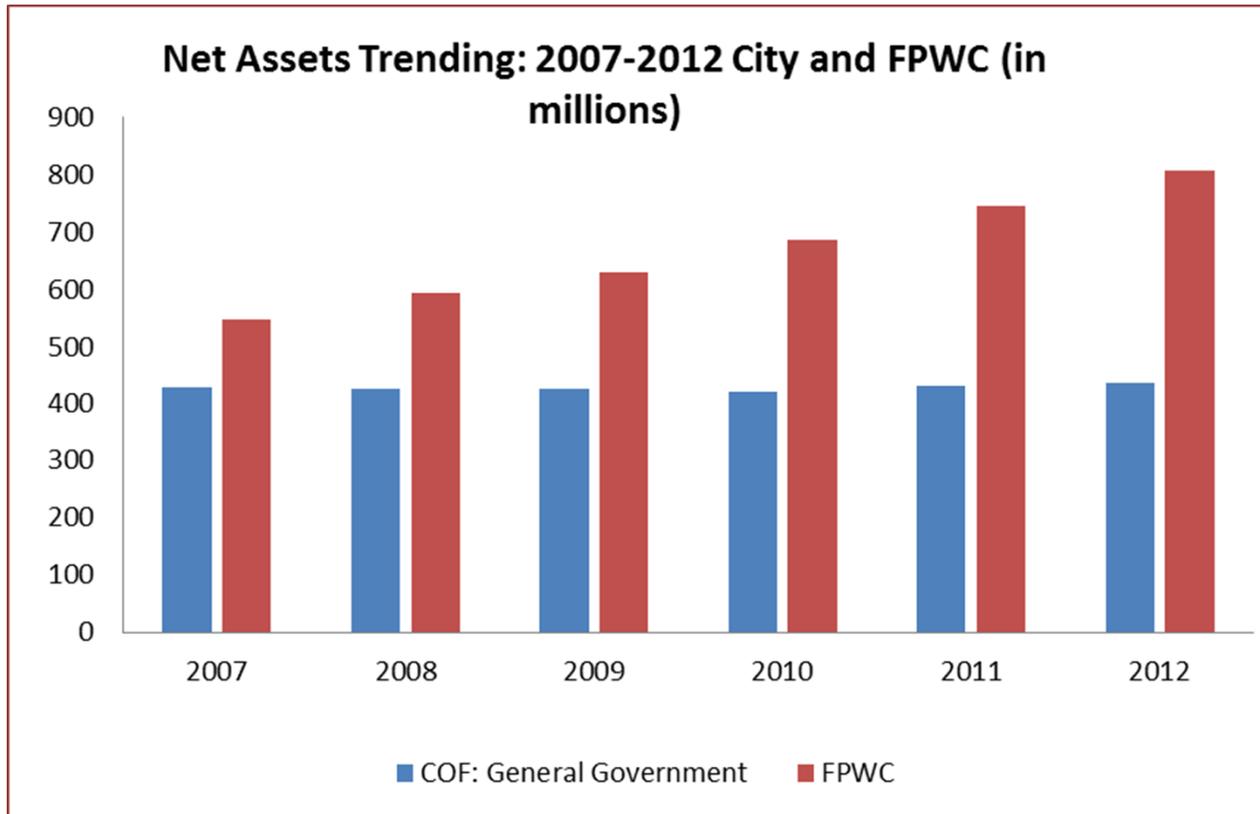
- Separate compensation plans and evaluations
- Ineffective coordination within capital planning
- Separate strategic planning goals and processes
- “Us and them” culture within City and Commission
- Budget process often conciliatory

Fiscal Hurdle: Per Capita Revenue



The most significant concern resulting from our analysis of fiscal health is whether the City has operating revenues sufficient to address service needs. The City of Fayetteville, in comparison to its peers across North Carolina, has the lowest per capita general fund revenue at \$665 versus the comparison average of \$828 per citizen revenue.

Financial Disparity



Communication and “Branding”



- City and Commission have extraordinarily limited interaction on communication processes and messaging
- Commission has exercised practically “full” independent “rights” to issue external messaging through its Communications group
- Commission Call Center effectively utilizes technology and operational processes for solid customer service
- City Call Center grossly under-equipped. Staff performs almost all data management through manual processes
- Organizational separation noted in branding of buildings and vehicles

Section III

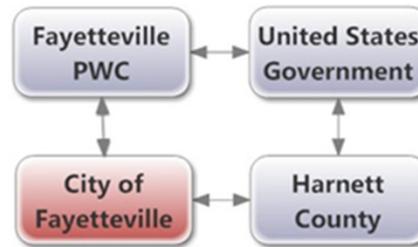
EXISTING COOPERATION AND IMPACTS

Fort Bragg Water Supply Agreement

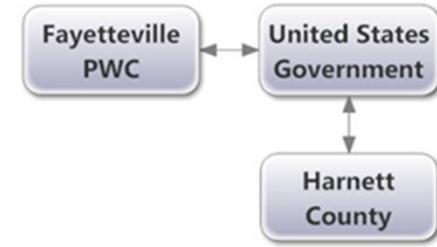
The City of Fayetteville was not a party to the agreement modifications of 2008 and has been required to maintain the original term and rates of the agreement, even though it is customary, as an affected party in a contractual relationship (2006 contract), to be included when changes are made.

Fort Bragg Water Supply Agreement

2006 Original Agreement: Parties



2008 Revised Agreement: Parties



Fort Bragg Water Supply Agreement

<i>Agreement</i>	<i>Applied Interest Rate</i>	<i>Term</i>	<i>Annual Payment</i>	<i>Total Principal</i>	<i>Interest</i>	<i>Total P&I</i>
<i>2005 (Original)</i>	<i>6.50%</i>	<i>25 years</i>	<i>\$638,544</i>	<i>\$7.88 million</i>	<i>\$8.08 million</i>	<i>\$15.96 million</i>
<i>2008 (Modification) Implications to City</i>	<i>7.14%</i>	<i>25 years</i>	<i>\$679,138</i>	<i>\$7.91 million</i>	<i>\$9.07 million</i>	<i>\$16.98 million</i>
<i>Actual City Payments</i>	<i>10.09%</i>	<i>16 years</i>	<i>\$984,000*</i>	<i>\$7.88 million</i>	<i>\$8.08 million</i>	<i>\$15.96 million</i>
<i>Modification of Rate and Allowance for Pre-payment-Effective with Applied Amortization January, 2010</i>	<i>4.04% (Same rate as PWCs 2008 tax exempt issue)</i>	<i>9 years**</i>	<i>Varied**</i>	<i>\$7.88 million</i>	<i>\$1.4 million</i>	<i>\$9.19 million</i>

- ✓ Revise interest rate based on actual cost of borrowed funds
- ✓ Apply historical “pre-payments” made by City beginning in 2010 to principal balance
- ✓ Modify agreement with the City to be consistent with allowances extended to the U. S. Government for pre-payment of full balance. This would give the City the option of using available funds or a borrowing mechanism to pay off the loan, with PWC repaid for the construction cost and interest cost to date.

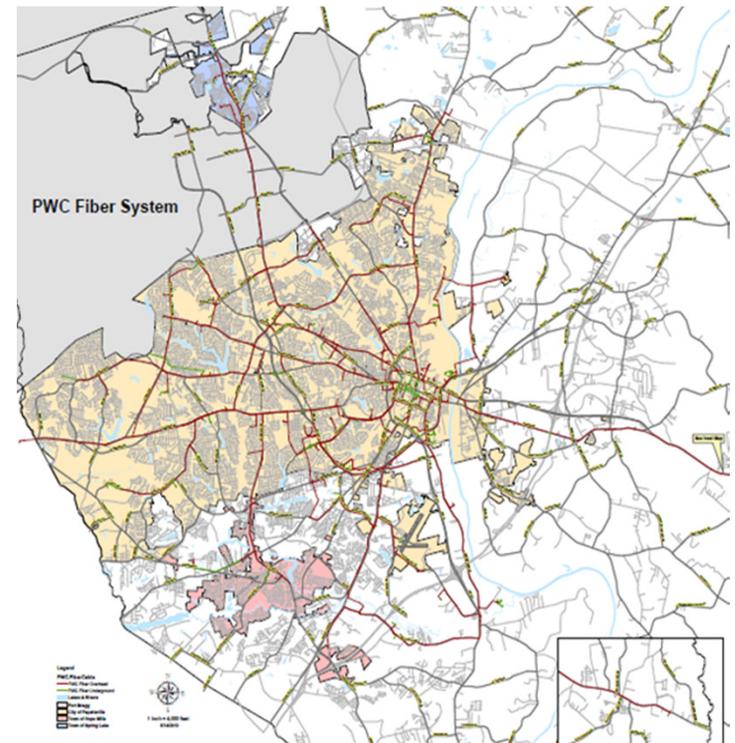
Annexation Phase V

The Phase V Annexation agreement **committed the City of Fayetteville to fund an estimated \$90.3 million** for the remaining areas of the 2005 annexation beginning in 2010 to be completed over a 14-year period. The City had contributed \$3.1 million for the first phase of the 2005 annexation that was completed in 2011. The total Phase V project cost was estimated at \$244 million, with City and Fayetteville PWC contributing equal amounts with the balance from assessments to property owners for connection to the utility system. **The City's annual obligation reduces the annual operating transfer from Fayetteville PWC to the City in the amount of \$3.8 million in FY 14.**

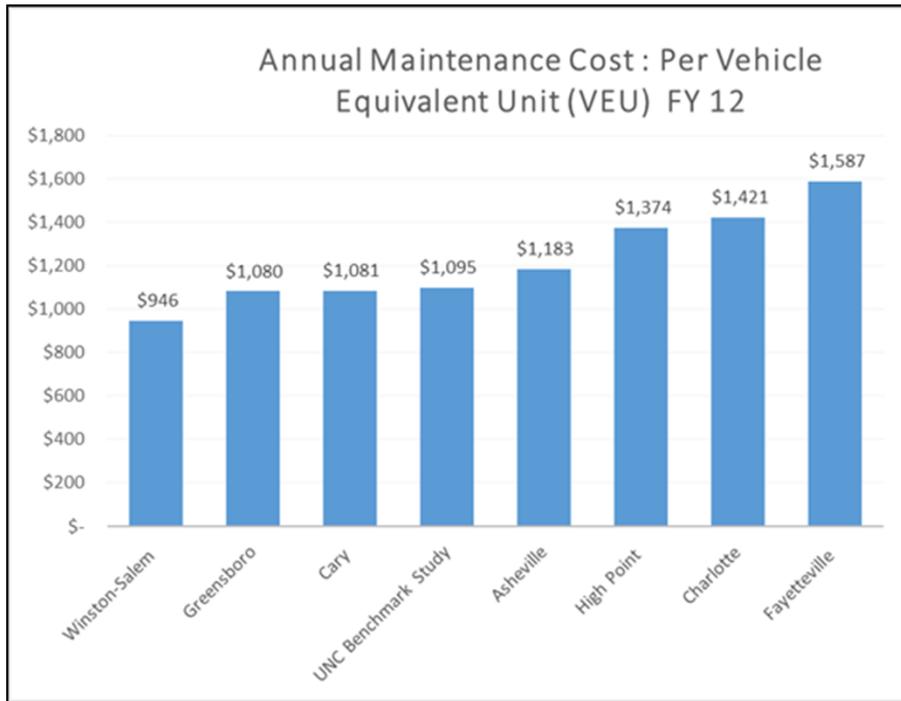
This is not a typical arrangement for the state of North Carolina. No other City in North Carolina pays from their General Fund the level of financial support for utility extensions. This investment equals almost 3 cents of the City's property tax rate. The unique nature of the City and Commission Phase V Annexation agreement is indicative of the lack of symbiosis that exists between the two organizations, resulting in an agreement that negatively impacts the position of the parent municipal corporation.

Fiber Services

- The City pays in excess of \$240,000 per year for their access to the system beginning with the first installations in 2002
- The City is treated as a retail customer for fiber service although this service is not a core service under the Charter (water, sewer, electric)
- City should pay their share of ongoing maintenance costs on the system but should not be billed as a profit-making enterprise of PWC



Fleet Services



- The City's fleet maintenance cost is the highest among the 14 city comparison performed by SOG.
- Predominant cause of the higher maintenance cost per VEU in this shared services environment is the high cost labor rate and overhead applied by Fayetteville PWC.
- City bears almost 70% of total fleet maintenance cost with little input on budget or establishing performance goals.

Fleet Services: Labor and Mark-up Comparisons

City	Hourly Labor Rate	% Markup Parts	% Markup Sublet	Other Fees
Asheville - Light vehicles	\$ 50.00	30%		
Asheville - Vehicles > 1 Ton	\$ 60.00	30%	5%	
Cary	\$ 60.00	19%	0%	\$19 flat rate on sublet
Greensboro	\$ 52.00	25%	5%	
High Point	\$ 60.00	0%	0%	
Charlotte	\$ 50.55	22%	14%	
Winston Salem	\$ 50.00	26%	13%	
Fayetteville/FPWC	\$ 73.39	20%	20%	

Note: PWC's billed labor rate is \$61.16 but is subject to a 20% administrative fee. It was added to the stated labor rate for comparability to the other cities which do not have labor markup.

Purchasing Services

- City and PWC entered into an agreement in 2005 for a joint purchasing function managed by PWC.
- Comments received on purchasing indicated general satisfaction with services provided.
- Several elements of agreement remain incomplete (customer satisfaction surveys and the development of a service level agreement between PWC and City)
- Costs to date for the City's purchasing fall within range of comparable cities in NC – proposed adjustment would put them at top of range.

Section IV

**PATHWAY TO SUCCESS: SERVING CITIZENS
THROUGH EFFICIENCIES AND EFFECTIVENESS**

“Support Services”

- IT
- Treasury Functions
- Communications/GIS
- Legal
- Fleet
- Purchasing
- HR
- Audit

Information Technology: Infrastructure

City of Fayetteville

- Varies in technologies although closely aligned to the Commission's enterprise framework
- No clear vision on the City's future state infrastructure design
- Resource constraints often resulting in reactionary decision making
- Inability to leverage synergies with Fayetteville PWC through effective collaboration

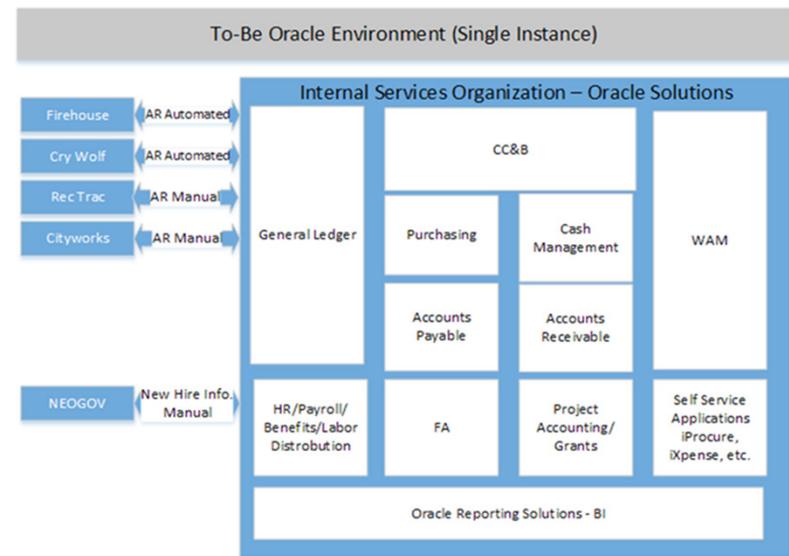
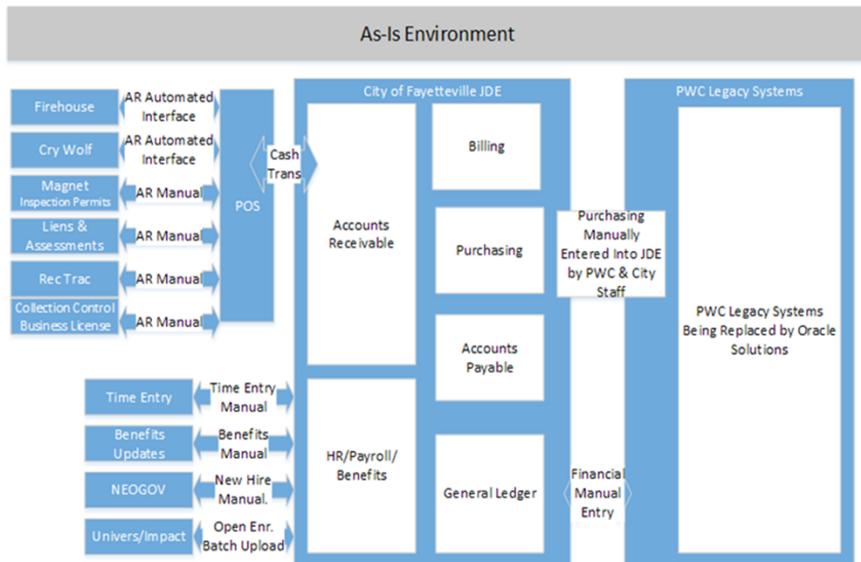
Fayetteville PWC

- Varies in technologies although closely aligned to City enterprise framework
- Extensive inventory of technologies and resources but without any business model to disperse to other organizations
- Staff turnover impacts stability of operation and impacts infrastructure planning
- The few technologies shared with the City have met useful life, is being upgraded, and does not coincide with the City, thereby not leveraging economies of scale
- Extensive Fiber & Disaster Recovery platforms without a central management to oversee and direct operations and future strategy for use of the platform

Information Technology: Benefits of Converging Infrastructure

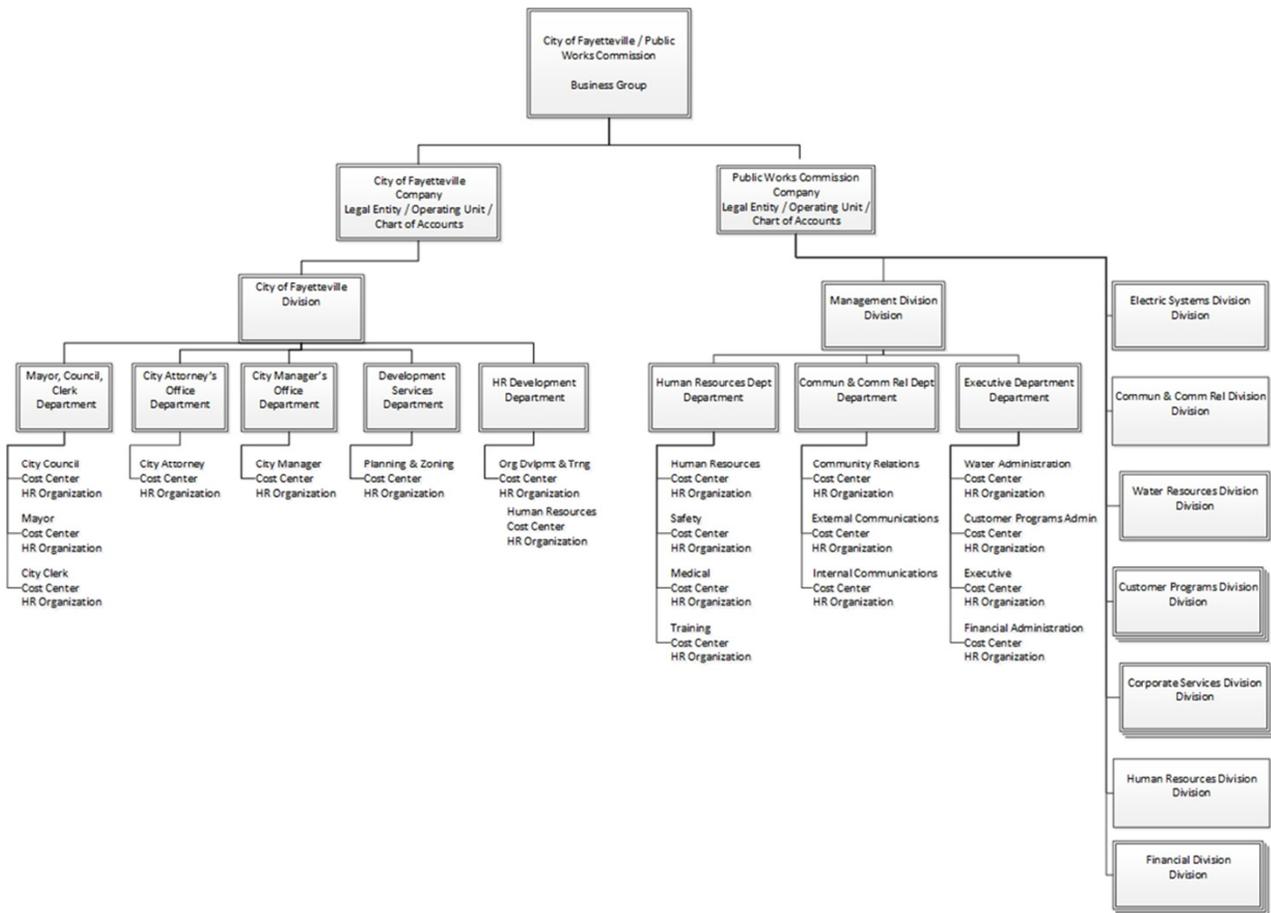
- Cost reductions between the organization through consolidation of duplicities hardware, people and processes
- Ability to align appropriate cloud strategy, including business and IT operational and technical impacts
- Improved “time to market” for the City and FPWC technology customers with effective infrastructure products
- Leveraging “best of breed” infrastructure support to increase agility, scalability and elasticity with all technology decision-making.
- Reduction in risk with effective off-site disaster recovery
- Ability to move from a capital intensive environment (CAPEX) to an operational environment (OPEX) that is predictable in cost and supports continuous IT improvement
- Ability to set clear Internal Service Standards that drive high performance and reliability standards for external customers “Users” of IT Solutions for the City and FPWC
- Ability to better adjust to short term capacity demands without intensive capital investment through third party of shared resource leverage

Information Technology: Application Operational Foundation (As-Is and To-Be)

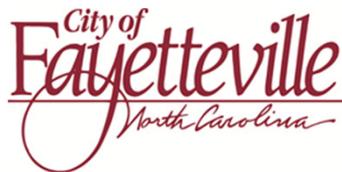


Single Instance Design: It can be done...

The organizational architecture depicts both organizations (CoF & FPWC) as they would be configured on the same Oracle instance. Both groups enter labor & non-labor transactions at the cost center level, which is shown beneath the departments. This picture does not include every cost center because of space issues only.



Departments & Divisions represent the reporting level groups only



Information Technology: Operational Foundation Benefits

- ✓ Single instance can support multiple organizations
- ✓ Single point of maintenance
- ✓ Ability to support multiple Charts of Accounts by organization
- ✓ Ability to support multiple Legal Entities/Tax IDs and Bank Accounts
- ✓ Ability to transact in one, or all, organizations
- ✓ Ability to secure data by responsibilities at the user level
- ✓ Supports a Support Service business model with security controls
- ✓ Ability to support business growth
- ✓ Ability to consolidate financial reports by the use of consolidated ledger

Section V

IMPLEMENTATION STRATEGY RECOMMENDATION

Functional Alignment Strategy Summary



Implementation Prioritization Plan

Task	2013		2014				2015			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Initiative Plan Recommendation: City of Fayetteville and Fayetteville PWC Functional Alignment Implementation	[Gantt bar spanning all quarters from Q3 2013 to Q4 2015]									
Charter Compliance Coordination: Contract Threshold Approval; Treasury Function Requirements; Reporting	[Gantt bar]									
Communication Protocols developed and implemented by City	[Gantt bar]									
Implement and Execute Fort Bragg Water Agreement Modification	[Gantt bar]									
Establishment of Functional Alignment City and Commission Planning Team	[Gantt bar]									
Consolidate Legal Under City Accountability	[Gantt bar]									
Call Center and Technology Leverage: Customer Communications	[Gantt bar]									
Develop and Implement Functional Alignment of Technology Infrastructure: Support, Network, Resource Allocation, Leveraged Capital Spend	[Gantt bar]									
GIS Alignment Planning and Implementation			[Gantt bar]							
Establish Internal Service Standards for Fleet and Purchasing			[Gantt bar]							
Customer Pay Channel Integration			[Gantt bar]							
Develop and Implement Consolidated Fiber Optic Internal Operational Plan			[Gantt bar]							
Development of Support Services Division, Internal Service Standards, Financial Management, and Accountabilities for Implementation			[Gantt bar]							
Implement Phased Integration to Single Platform: Oracle					[Gantt bar]					
Establish Operational Model (Performance Measuring) for Sustainability and Benefits Oversight					[Gantt bar]					

Q & A

