



July 21, 2017

Linda Lowry  
City Manager  
City of Pomona  
505 S. Garey Avenue  
Pomona, CA 91766

RE: Proposal for Strategic Financial Forecasting and Fiscal Sustainability Services

Dear Ms. Lowry,

Thank you for meeting with our Public Management Group to discuss how Urban Futures, Inc. can help the City of Pomona more clearly understand its current and future financial condition, and develop actionable plans that will improve the City's long-term fiscal health and sustainability. We listened closely to the financial issues and fiscal needs described by you and Onyx Jones, the Finance Director, at our meeting. At your request, we are submitting for your consideration the following proposal and scope of work for how we can help the City achieve its objectives.

#### **ABOUT URBAN FUTURES, INC. (UFI)**

UFI's Public Management Group specializes in helping local government leaders achieve success for their organization and community. We have worked with municipal management professionals to conduct fiscal reviews, prepare strategic financial forecasts, develop fiscal restructuring plans, implement process improvements and performance management techniques, institute changes to organizational structures, review resources and staffing levels to ensure effective service delivery, and perform rigorous organizational and departmental analysis to help make operations more cost-effective and efficient.

Our firm is comprised of former city executive managers and municipal professionals with expertise in general government and specialty areas such as finance, fiscal policies and practices, human resources, labor negotiations, economic development, municipal law and organizational leadership. We have provided similar services to local governments and special districts throughout California, and we are confident our experience will ensure the City of Pomona receives a high quality and useful work product.

Our past assignments demonstrate a well-established track record of helping public sector organizations, and we are excited to bring our extensive experience and first-hand knowledge of local government operations to this project. We are distinguished by the fact that each team we assign is led and staffed by principals who have actual experience in direct public service and in working together as a team. The work we do is not an academic exercise – it is grounded in the real world of municipal service delivery and accomplishment in the public sector.

## UNDERSTANDING OF THE ENGAGEMENT

The City is facing long-term budget deficits. While the City has recovered from the economic downturn, Pomona like other municipalities has identified structural operating deficits that threaten the City's ability to provide basic municipal services and prohibit the City from addressing the community's long-term needs. Over the past number of fiscal years, the City has relied on one-time revenues, service cuts, unspent cash reserves, and extended position vacancies to cash flow its General Fund obligations and finish the fiscal year with a balanced budget despite the structural operating deficit. The City recognizes that balancing budgets with one-time revenues and savings have masked a reality that if the City does not address its structural operating deficits, municipal service levels will continue to rapidly diminish and infrastructure needs will remain unaddressed and continue to deteriorate.

Like other municipalities, the City has also identified significant future financial obligations that if unaddressed will significantly undermine the City's fiscal foundation and sustainability. Although General Fund reserves have grown to over \$15 million, the City faces significant financial obstacles in the coming years from increasing retirement and other post-employment benefits (OPEB) costs, debt service requirements, formula increases provided through contract provisions with the Los Angeles County Fire District, continued shifting of General Fund services to special funds, deferred maintenance of facilities and infrastructure, and uncertain General Fund revenue streams.

City management recognizes that each year the structural operating deficit and future financial obligations remain unaddressed, the City's options for avoiding a financial crisis become more limited, and more immediate and drastic measures will be required as opposed to well-planned strategic initiatives. As such, city management is seeking assistance from Urban Futures, Inc. to achieve two broad objectives:

1. Provide city management the tools and analyses to transparently communicate the City's financial condition and risks to the Mayor and City Council, and to help ensure the City's strategies, policy-making and ultimate implementation of operational decisions are informed by solid fiscal analysis and are made in consideration of the long-term financial impacts.
2. Provide city management recommendations for changes to the City's organization, financial structure and service delivery methods that can help improve the City's long-term fiscal health and financial sustainability.

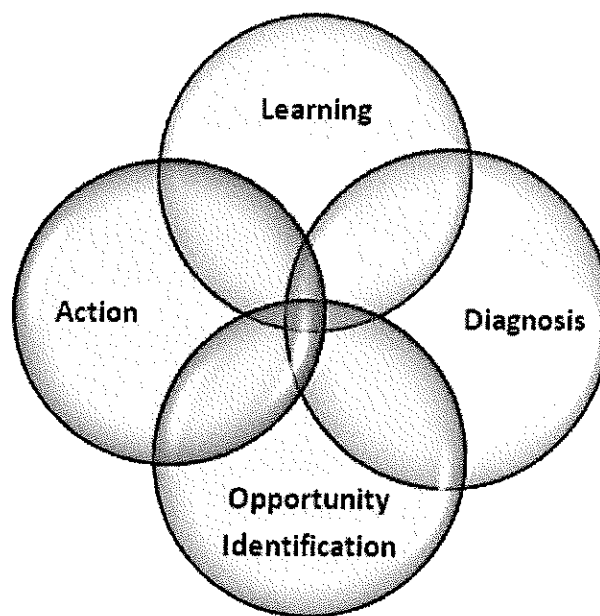
## OUR APPROACH

At Urban Futures, Inc. we believe the success and sustainability of local governments in the 21st century requires policy-making and management that is guided by sound financial policies and rooted in solid fiscal and economic data and analytics. Community goals cannot be set and expectations created without consideration of the city's financial capacity to effectuate them. Alignment of a city's strategic plans to its financial capacity cannot be left to the annual budget process or to fiscal analyses of individual projects or programs. A city's strategic initiatives, budgets and operational decision-making must be continually informed by and aligned with a long-term financial plan and fiscal structure.

For each client, UFI customizes a proprietary methodology we have developed for providing financial forecasting and fiscal sustainability services. The approach is comprised of four discrete but interactive phases: learning, diagnosis, opportunity identification and action.



**Learning.** We will begin the project with a careful learning stage during which we listen and learn about the City's fiscal and organizational structure and environment. Our team recognizes that the people responsible for providing municipal services and operations are busy, however, they are also the individuals best positioned to know what works and what needs improvement. Through interviews with key personnel and a review/analysis of both data and written documentation, UFI will develop a clear understanding of the City's finances, current operations, long-term liabilities, cost accounting and recovery, and its overall fiscal environment and health.



**Diagnosis.** As we listen and learn, we will concentrate on understanding, modeling and explicating the various revenue streams and expenditure drivers for the City's general fund and enterprise operations. We will focus on analyzing the City's fiscal structure and its service delivery models, identifying how these complement or conflict with each other to enhance financial clarity, transparency, performance and accountability. To this end, we will begin mapping how work is planned, managed and executed, analyzing the various cost inputs and components for delivering municipal services (staffing levels, support services, legacy costs, cost allocation/recovery processes and administrative overhead) to ensure full cost-accounting for program service delivery is aligned with financial practices, budgeting and reporting.

**Opportunity Identification.** Concurrent with our diagnosis and modeling process, we will begin identifying and evaluating opportunities areas that can strengthen the City's fiscal foundation and financial sustainability. Our team will use its decades of experience in municipal management, finance and governance to evaluate opportunities that can stabilize and increase city revenue streams, reduce or contain cost drivers identified by our modeling, improve internal and external cost recovery or allocation practices, better ensure long-term integrity of city infrastructure, optimize the use of city assets, and increase efficiency and effectiveness of municipal services through restructuring or changing service delivery models. We will compare the City's current service quality levels with best practices in the industry to help us identify those opportunity areas with significant potential for improvement or cost savings.

**Action.** UFI has a strong bias for implementation. As practitioners, we have an orientation to achieve results. Our financial forecasting and fiscal sustainability services are designed to move from sound analysis to concise, actionable recommendations. The deliverables we provide the City will serve as a roadmap outlining how to implement the recommendations we make to strengthen the City's fiscal foundation and financial sustainability in alignment with the community's long-term goals and objectives. At UFI, we do not view our work as complete when recommendations are delivered. We know this is just the beginning of the hard work. Our Public Management Group stands ready and is dedicated to ensuring the City receives the support and services required to take our recommendations from approval through

implementation, always looking for pragmatic solutions to the hurdles and challenges that arise during this phase.

## **WORK PLAN**

Based on our initial meeting with city management, our understanding of the engagement and the methodology outlined above, we propose the following work plan to meet the City's needs and accomplish its objectives.

### **Phase I – Financial Modeling, Revenue/Cost Analysis and Opportunity Identification**

#### **A. Baseline Financial Forecast Model for the General Fund**

We propose to begin the engagement by developing a customized Baseline Financial Forecast Model for the City's General Fund. The purpose of the Baseline Model is to provide the City the analytic capacity and understanding to assess long-term financial impacts of providing the existing level of services and programs concurrent with any proposed strategies, initiatives and decisions. The model is a politically neutral, fiscal tool intended to create an agreed-upon common ground that can be used by city leadership to develop financially achievable strategies that help the community implement and achieve its long-term goals and objectives.

Working with city staff, we will collect the necessary data required to understand, aggregate and model the various revenue streams and expenditure drivers for the General Fund, including but not limited to: ongoing programs and services; one-time funding requirements (policy or otherwise); cost allocation models used citywide; reserve funding thresholds; revenue streams from local taxes, fees, reimbursements and other collections; impacts from future economic development and community redevelopment; and key transfers in and out the General Fund. To ensure accuracy and capacity for ongoing updates, we will build the model from the general ledger data and chart of accounts.

Using the data gathered, and after thorough analysis and understanding, we will build a baseline annual operating budget for the General Fund that disaggregates one-time expenses and revenues that often distort an accurate picture of the current financial position of the General Fund. The general ledger data will be rolled-up into revenue and expense categories that mirror the City's annual budgeting documents, with expenses presented in both operational expense categories and functional (departmental) expense categories to enhance the model's analytic capacity.

Next, we will develop variables and indices for each revenue and expense category that enable the model to produce a ten-year forecast of the City's financial condition given its current structure, operations, service delivery methods, debt structure, future obligations and fiscal realities. The forecast produced by the model will provide a "baseline" understanding of the City's present and future financial condition. Equally important, through adjusting assumptions, inputs and variables, the model will enable the City to conduct rigorous fiscal analysis and provide immediate feedback on the short- and long-term impact of strategic choices and operational decisions, and to engage stakeholders and decision-makers in quantitatively-supported discussions and consensus-building exercises that help the City address its structural operating deficit and future financial obligations.

Finally, the model will include capacities and basic metrics to help the City understand and forecast certain measurements of its financial solvency: cash flow solvency, budget solvency and service solvency. These metrics and measurements can be refined as the City begins to examine options, ideas and strategies that would enhance its fiscal stability and financial sustainability.

*Deliverables:*

1. *Draft ten-year customized Baseline Financial Forecast Model (in Microsoft Office Excel®) that can be expanded, refined and updated to address the City's current and changing needs, objectives and goals.*
2. *Preliminary key findings from the Baseline Financial Forecast Model and rationale for findings consistent with assumptions.*

**B. Assessment of General Fund Revenue Streams, Including Possible Revenue Restructuring to Enhance Sustainability or Reduce Risk**

City management has identified existing General Fund revenue streams that are important to maintaining various municipal services and the city's fiscal stability. Additionally, management has identified possible new revenue streams that may enable the City to undertake key service or infrastructure initiatives.

Using the Baseline Financial Forecast Model, we propose to help the City assess the identified revenue streams through a series of progressive steps that allow management to iteratively evaluate both existing revenue streams and possible new revenue streams, and determine which opportunities are worth pursuing and discard options that are determined to be of low value. These steps include the following:

1. Document, and if necessary, separately model revenue streams to understand the structure and rationale, including internal and external factors and variables that may impact the amount of revenue collected.
2. Assess the long-term sustainability of revenue streams, including strengths weaknesses and threats, and the likelihood of growth or attrition over the long-term.
3. Develop recommendations for potential restructuring of existing revenue streams, and/or the design and implementation of new revenue streams, including where helpful, a cost-benefit/risk analysis of proposed restructured and new revenue streams.

Based on our initial meeting with city management, the following revenue streams were identified as needing the above-related assessment and evaluation process (additional revenue streams or opportunities may be identified by city management during our work):

- Property taxes, with a focus on residual property tax revenue arising from dissolution of the redevelopment agency and new property tax growth arising from anticipated new development in former redevelopment areas;
- Sales and transient occupancy taxes arising from anticipated new development;
- Reimbursement transfers into the General Fund from utility operations, and other enterprise funds and operations;



- General sanitation fee (GSF) levied on properties to fund graffiti removal, street sweeping and right-of-way cleanup; and
- Opportunities for recovering costs imposed on the General Fund from other private activities occurring within the City.

**C. Assessment of General Fund Expenditure Categories, Cost Drivers and Program Service Delivery Models**

Using the data and analytics derived from our Baseline Financial Forecast Model, we will conduct an in-depth fiscal analysis of the General Fund expenditures categories. Our first task will be to assess the cost drivers affecting the City's expenditures. Cost drivers are a city's financial and organizational determinants (including linkages and interrelationships) that significantly dictate the expense of inputs required for delivering municipal services. While the Baseline Financial Forecast Model incorporates all cost drivers affecting city expenses, the goal of our in-depth expenditure assessment is to determine what actions help control or mitigate key cost drivers that most influence decision-making today, such as ever-increasing retirement and post-employment benefit costs, labor-related staffing and workforce retention costs, and contracted core services costs.

The second task will be to examine identified service areas where there is opportunity for cost reduction, containment and recovery. Depending on the data, analytics and information received from the City, this process may involve one or more the following subtasks:

1. A full cost accounting of a program's true cost of operations and service provision, including where applicable, incorporation of the City's general and administrative cost allocations, full collection of all program revenues and reimbursements (cost recovery), and recognition of legacy costs associated with program inputs and components.
2. Evaluation of the efficiency and effectiveness of a program's service delivery based on:
  - a. Fiscal accounting of all program costs, inputs, and components; and
  - b. Achievement of program goals, objectives, and outcomes consistent with defined expectations.
3. Identification of additional efficiencies that can be achieved within a program's current service delivery model through organizational changes, cost-containment strategies, technology improvements or options, changes in procedures or policies, or technical adjustments.
4. Benefits/costs of alternative service models that could enhance cost containment and/or recovery, and program efficiencies, while maintaining capacity for effective service delivery and achievement of program outcomes.

During the analytical process, if appropriate and agreed upon by city management, we may conduct benchmarking or use similar analytics to compare one or more of the program areas with similar programs delivered by comparable cities or public agencies. The purpose of benchmarking is to ascertain whether the City's programs are within the typical range for staffing, costs and other program components to provide a useful comparison. If utilized, at the outset of any benchmarking, we will work with management to identify appropriate jurisdictions to be included, as well as the specific factors that are being compared.

#### **D. Report on Findings and Recommendations**

Reports prepared by UFI are rich with detail and provide specific recommendations supported by quality analysis. We ensure that our observations, findings and recommendations are organized in an easy to understand format and presented in a practical and positive manner. Once we have completed the modeling and analytic process outlined above, we will prepare a draft report that contains the following:

- Summary of the modeling and analytical process undertaken during Phase I;
- Summary of our assessment of the General Fund revenue streams with recommendations on restructuring at-risk or under-optimized revenue streams, changes to financial structures or procedures that will enhance current revenue streams, and opportunities for new revenue streams to improve the City's fiscal stability.
- Summary of our assessment of General Fund cost drivers with recommendations for actions and practices that mitigate the impacts and achieve sustained savings, recommendations for restructuring program service delivery models, and practices to realize efficiencies, improve cost recovery and lessen long-term expenses.

We will meet with staff to review the draft report and obtain feedback. Following that meeting, we will make any necessary changes and submit a final report. In addition, UFI will summarize our findings in a PowerPoint presentation and share the details of our report with the Executive Management Team and City Council, if desired.

#### *Deliverables:*

1. *Written report to City Manager, with option to present to City Council, containing a summary of the modeling and analytical process, our assessment of General Fund revenue streams and cost drivers, and our recommendations to address the City's structural operating deficit and future financial obligations.*
2. *Final Baseline Financial Forecast Model (in Microsoft Office Excel®).*

#### **Phase II – Action Plans to Secure City's Long-Term Fiscal Health and Financial Sustainability**

As discussed above, UFI has a strong bias for action and implementation. After we complete our work and report in Phase I, our UFI team is prepared to work closely with city management to move swiftly from recommendations to action and implementation. At the option and request of the City, we will take the understandings, analyses and recommendations developed during Phase I, and we will create and help implement specific actions plans designed to achieve the long-term fiscal health and financial sustainability goals of the City.

While the specific scope of work and deliverables involved in Phase II will be best defined at the completion of Phase I based on the City's needs, desires and capacities, we anticipate the work during Phase II would include one or more the following types of services:

- Development of new, revised or updated financial policies and procedures, including cash management and reserves;
- Restructuring of city departments or municipal service delivery models, including privatization, shared services or multi-jurisdictional service structures;



- Ballot measures to reauthorize, consolidate, revise or adopt new revenue streams;
- Strategic use of reserves to improve financial security and reduce long-term liabilities/risks;
- Optimization and monetization of city assets and opportunity areas;
- Renegotiation of labor agreements to create more sustainable compensation and benefits packages;
- Budgeting processes to improve understanding, transparency and decision-making;
- Updated infrastructure and capital improvement plans aligned with the City's financial forecast model; and
- Strategies and options to help mitigate impacts of long-term PERS costs and unfunded liabilities, and costs associated with other post-employment benefits (OPEB) liabilities.

## PROJECT TEAM

Based on the strategic financial forecasting and fiscal sustainability services described in this proposal, our team is uniquely qualified to meet the City's needs. The program services proposed are similar to recent projects in which UFI assisted cities with financial workout and recovery plans and municipal service evaluations in cities such as San Bernardino, Beaumont, Desert Hot Springs, Pasadena and Santa Ana.

Below are the biographical summaries of our key team members.

**Michael P. Busch, President & CEO.** Michael will have overall responsibility for delivery of all our services to the City, including project oversight and coordination of services to the City. Michael Busch is the firm owner and serves as the Chief Executive Officer managing day-to-day operations. Michael's background consists primarily of Assistant and Deputy City Manager, Chief Financial Officer and Project Manager positions with various cities throughout California. He is a registered financial advisor with over \$1 billion in tax-exempt debt transactions for municipalities and local governments. Michael utilizes his experience in the areas of municipal finance and management to assist client agencies with the successful development and implementation of capital planning, debt management, fiscal restructuring and forecasting, as well as capital project implementation. Michael earned a Bachelor of Arts Degree from California State Polytechnic University Pomona in Urban and Regional Planning. In addition, he holds a Master of Arts Degree in Public Administration from California State University Long Beach with an emphasis in public finance and public works.

**James P. Morris, Managing Principal.** Jim will have primary responsibility for the performance of our Public Management Group team, ensuring comprehensive data collection, thorough analytics, and actionable recommendations. He will work closely with city management and staff to ensure effective working relationships and the timely delivery of our work product. Jim has twenty years of experience working in the fields of public policy, financial analysis, municipal law and public agency governance and leadership. His recent engagements include program evaluation services in Pasadena, general fund reimbursement modeling in Azusa, and advising San Bernardino's bankruptcy team on various municipal restructuring matters including the dissolution of its redevelopment agency, one of the most complex in the State of California. Jim began his professional career as a public law attorney with the County of San Bernardino and Best Best & Krieger LLP, where for over a decade he helped government agencies successfully navigate legal complexities affecting their organizations and operations. He is a graduate of Dartmouth College, and received both his Juris Doctorate and master's in Urban Planning from UCLA.





**Andy Heath, Principal.** Andy has over twenty-five years in city finance and management with expertise in the areas of municipal budgeting, fiscal forecasting, labor relations and internal service operations. He has developed financial strategies, plans and policies for both cities and counties, most recently as the Assistant County Executive for Placer County. Andy's work with cities spans more than twenty years and includes overseeing all aspects of municipal finances, investments, human resources, risk management, information technology and other administrative services. He spent much of his municipal career in the City of San Jose and more recently in the cities of Grass Valley and Auburn, where he now resides with his family. Andy is a graduate of San Jose State University, with a Bachelor of Science Degree in Business Administration - Accounting, and a Master of Arts Degree in Economics.

**David Siris, Principal.** David will assist the UFI team in the cost accounting, cost containment and recovery, and other fiscal evaluation components of the work. David is a Certified Public Accountant licensed in the State of California. He spent over eight years with both national and local public accounting firms as an audit supervisor on projects for government agencies including counties, cities, and special districts. He has experience and knowledge of government auditing/accounting and single audits including compliance with Yellow Book and OMB-A133 standards. During his time as an auditor he helped lead a team to perform and complete past due audits for the City of Stockton, a critical component for the city's bankruptcy/AB 506 process. David is a graduate of California State University Fullerton, with a Bachelor of Arts Degree in Business Administration - Finance.

#### **RATES AND FEE ESTIMATES**

Due to variables identified in the proposed work plan, and to ensure the City has flexibility to tailor the work to fit within the City's time and fiscal constraints, UFI proposes to carry out the project on an actual time and materials basis with the overall costs of such services being governed by the financial limits defined by the City, utilizing the following professional service rate schedule:

<u><b>UFI Professional Staff</b></u>	<u><b>Hourly Rates</b></u>
President & CEO	\$260
Managing Principal	\$240
Principals	\$180 to \$220

These rates will remain constant through June 30, 2018 and are subject to change thereafter. Costs for telephone, e-mail and facsimile expenses, postage and incidental photocopying are included within the above noted rate schedule. The rate schedule does not include out-of-pocket expenses that may be incurred during work for the City. Out of pocket expenses include, but are not limited to, necessary materials, supplies, services, printing, electronic data files, out of area travel, etc. All out-of-pocket expenses will be charged on an actual cost basis, plus 10%.

UFI estimates the work plan described in Phase I can be accomplished for an amount not to exceed \$75,000. This amount can be divided among the four major tasks as follows:

- Task 1 Baseline Financial Forecast Model for the General Fund \$35,000
- Task 2 Assessment of General Fund Revenue Streams,  
Including Possible Revenue Restructuring to Enhance  
Sustainability or Reduce Risk \$15,000
- Task 3 Assessment of General Fund Expenditure Categories,



Cost Drivers and Program Service Delivery Models	\$15,000
• Task 4 Report on Findings and Recommendations	\$10,000
TOTAL ESTIMATE – PHASE I	\$75,000

After completion of Phase I, we propose to engage city management in discussions to define the specific scope of work and deliverables UFI would provide during Phase II. Based on these discussions, UFI will provide a total cost estimate for the Phase II work requested by the City, in accordance with rate schedule set forth above.

UFI is always willing and prepared to work with the City to refine the specific services and tasks required to achieve the City's objectives within the financial parameters and timeline defined by the City. Given the nature of the engagement, we expect this will be an ongoing discussion with revised cost estimates and not-to-exceed pricing based on such discussions.

#### CONCLUSION

Urban Futures, Inc. is well-equipped to provide the City of Pomona with the highest level of service at the lowest possible cost. Two of our firm's most important values are: a COMMITMENT to serving our clients with integrity, honesty, and mindfulness of the public interest; and a dedication to RESULTS – delivery of service that is on time, within budget, and at a level that exceeds the expectations of the client.

We are enthusiastic about the opportunity to work with you and the city staff. If you have any questions, please do not hesitate to contact me at (909) 648-3176 or [jamesm@urbanfuturesinc.com](mailto:jamesm@urbanfuturesinc.com).

Sincerely,

URBAN FUTURES, INC.



James P. Morris, Managing Principal  
for Urban Futures, Inc.

cc: Michael Busch, Owner and CEO, Urban Futures, Inc.

