

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 201

Subject: Environmental Services Department Business Process Reengineering

OVERVIEW

On Monday, January 22 the City Council will be asked to approve the Business Process Reengineering Study for the Environmental Services Department (ESD). Beginning in April 2002, ESD began a comprehensive assessment of the Department's operations and core-services in order to identify operational efficiencies, streamline business processes, and reduce the cost of providing services to citizens. The Environmental Services BPR has resulted in seven recommended modifications to current business practices, including significant departmental reorganization. Pursuant to Ordinance O-19523 ("BPR Ordinance"), these recommendations have been brought forward for Council consideration.

To date, three other BPRs have been brought forward and approved by the City Council. These BPRs – Information Technology, Purchasing and Contracts and Human Resources – were largely administrative in nature. Environmental Services represents the first BPR of a major service providing department to be considered by the Council. It should be noted, however, that this item essentially represents the first phase of implementation of the Environmental Services BPR. While the Collection Services Division has gone through the BPR process, it has not yet been through Meet and Confer. As a result, BPR recommendations for this Division will be brought forward at a later time.

FISCAL/POLICY DISCUSSION

The Environmental Services Department (ESD) consists of six operating divisions across four different funds. Several divisions are funded by more than one fund, resulting in a complex matrix of budgetary components. Generally speaking, the divisions represent different service types, while the funds represent different funding sources. The FY 2007 budget for ESD is shown in such a matrix format below, with divisions on the left and funds across the top.

	General Fund	Refuse Disposal Fund	Recycling Fund	Energy Conserv. Fund	TOTAL BY DIVISION
Collection Services	36,942,515	2,380,927	17,146,508	0	56,469,950
Environmental Protection	659,037	2,658,021	1,458,249	0	4,775,307
Refuse Disposal	0	22,120,992	0	0	22,120,992
Resource Management	621,129	3,684,505	2,454,303	0	6,759,937
Waste Reduction & Enforcement	0	5,622,435	3,393,717	0	9,016,152
Energy Conservation & Mgmt.	0	0	0	2,010,985	2,010,985
TOTAL BY FUND	38,222,681	36,466,880	24,452,777	2,010,985	101,153,323

Viewed in this way, we can see that various service types are provided across different funds, or conversely, that there are multiple funding sources for certain services.

The Environmental Services BPR has culminated in seven recommendations that, if approved, will make significant modifications to the Department's organizational structure and business processes. These recommended modifications, which are listed in Appendix A to the staff report, are intended to reduce costs and enhance operational efficiency by eliminating obsolete or unnecessary business processes, consolidating operations along functional lines, and streamlining the management functions.

Of the seven recommendations, three are the most significant in terms of changes to the Department's organizational structure. They are as follows:

1. Consolidate the Energy Conservation & Management and the Environmental Protection & Sustainability Divisions into a single Division;
2. Consolidate the Waste Reduction & Enforcement and Refuse Disposal Divisions into a single Division; and
3. Centralize administrative functions by moving the Resource Management Division under the Office of the Director.

These recommendations would reduce the Department's six current divisions to three, and generate savings by consolidating activities, reducing administrative staff and reducing management and supervisory overhead. In addition, these recommendations help to maximize efficiency through the functional consolidation of similar service types. For instance, both the Refuse Disposal and Waste Reduction and Enforcement Divisions focus on the Miramar Landfill. Merging these Divisions creates a single division that is responsible for all aspects of the landfill, and focuses on maximizing the landfill's useful life. Another example is the centralization of Resource Management Division. Currently administrative functions such as budget development, accounting, payroll and contract management are performed independently within each division. Consolidating these

administrative functions into a centralized Business Office will allow for more efficient use of the Department's administrative resources.

Overall, the proposed Environmental Services BPR would result in elimination of 31.00 Full-Time Equivalent (FTE) positions in FY 2007, and the elimination of an additional 3.00 FTE over the next three fiscal years. The reductions in FY 2007 are estimated to result in a full-year saving of approximately \$3.066 million. However, since a portion of the Fiscal Year has already elapsed, the actual savings for FY 2007 are estimated to be \$2.5 million. This level of savings is still possible in FY 2007 because 17.50 of the FTE positions targeted for elimination were vacant at the time the staff report was written, and another 2.00 have become vacant since. It should be noted that these vacancies would result in budgetary savings even if the BPR recommendations are not adopted.

The full-year savings are reflected in the table below, by Division and fund.

	General Fund	Refuse Disposal Fund	Recycling Fund	Energy Conserv. Fund	TOTAL BY DIVISION
Collection Services	0	(4,989)	(46,163)	0	(51,152)
Environmental Protection	0	(552,969)	(307,978)	0	(860,947)
Refuse Disposal	0	(579,326)	0	0	(579,326)
Resource Management	0	(618,351)	(54,423)	0	(672,774)
Waste Reduction & Enforcement	0	(647,823)	(279,032)	0	(926,855)
Energy Conservation & Mgmt.	0	0	0	24,753	24,753
TOTAL BY FUND	0	(2,403,458)	(687,596)	24,753	(3,066,301)

As the table above shows, all of the identified savings are in the non-General Funds. This is because the General Fund portion of the ESD's budget is primarily attributable to the Collection Services Division. While all divisions have gone through the BPR process, the operational changes that have been identified for the Collection Services Division are not presented in the current proposal. The staff report states that the Collection Services Division has not gone through Meet and Confer, but then also suggests that details on the Division's BPR have not been brought forward due to the possibility of Managed Competition. The report indicates that full details on the Department's "Most Efficient Organization" (MEO) are not currently disclosed, and that the Department will produce a bid reflective of a comprehensive MEO should it participate in Managed Competition. However, it is the IBA's understanding that a department's MEO is not equivalent to its competitive bid per Managed Competition. Further explanation is necessary regarding the timeline for when the Collection Services BPR will come forward for Council consideration, and how it relates to Managed Competition and the department's MEO.

Another aspect of the current BPR worth noting is that it proposes to eliminate certain current services that have been determined by the Department to be non-core. These

services include the Binational Recycling Program, the Environmental Library, Mulch Delivery, and the Special Events Program. The staff report contains additional information on these services and the rationale for eliminating them. It should be mentioned, however, that the Environmental Library will be relocated from ESD's Ridgehaven facility to the downtown library. The current Service Level Agreement between Library and ESD will be terminated, resulting in a net-zero impact to the General Fund. However, this action is estimated to result in the elimination of 1.00 FTE in the Library Department.

CONCLUSION

The Environmental Services BPR has culminated in seven recommended modifications to the Department's current business practices. These recommendations, if implemented, will result in the reduction of 34.00 FTE positions over the next three fiscal years, 31.00 of which will be reduced in FY 2007. In addition, the BPR recommendations would implement significant departmental reorganization.

The full-year savings that would result from the implementation of these BPR recommendations is estimated to be slightly over \$3 million, while the actual savings in FY 2007 is estimated to be \$2.5 million. It should be noted that a certain amount of budgetary savings would be realized anyway due to vacant positions. Nonetheless, based on the information available, the functional reorganization and other recommendations by this BPR appear likely to enhance efficiency and streamline operations.

The recommendations currently being considered by the City Council should be regarded as the first phase of the Environmental Services BPR, as the organizational changes that have been identified for the Collection Services Division have not yet been brought forward. Further explanation is needed regarding the timeline for when the Collection Services BPR will come forward for Council consideration, and how this related to the Managed Competition process.

[SIGNED]

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