



January 10, 2017

Mr. Dustin Claussen  
Interim Finance Director  
City of Hayward  
777 B Street  
Hayward, CA 94541

Dear Mr. Claussen:

Thank you for the opportunity to provide this proposal to construct a multi-year financial forecast model for the City of Hayward. We understand the City is interested in a model that focuses on the General Fund, and builds in special revenue funds, capital, debt and internal service funds as necessary to provide managers and policy makers with a clear vision of the fiscal landscape and a means for seeing how expenditure and operational decisions will impact long-term fiscal status. Once our fiscal model is completed and shared with the City we will develop a set of recommended budget strategies to address any structural deficit identified.

We have developed special expertise in the area of long-range forecasting models to help our clients with budget and financial management and would be pleased to assist the City. This proposal explains in detail the process Management Partners will use to construct a fiscal model suited to the City's needs. Before describing the details of how we approach fiscal modeling, as well as the development of budget strategies for addressing structural deficit situations, we would like to share some information about our firm's background and experience.

### **About Management Partners**

Management Partners was founded in 1994 with a specific mission to help local government leaders improve their service to the public. Since then we have worked with hundreds of cities, counties, towns, and special districts of all sizes across the United States to help them work more effectively and run more efficiently.

We offer a balance of perspectives with a practitioner's bias and a proven track record of successful consulting engagements. This experience gives us a sensitivity that produces positive outcomes. We are proud to say that as a result of our quality work, many of our clients ask us to complete subsequent assignments. Ask our clients and they'll tell you:

- » *We Know Local Government.* Our associates have served in local governments, so we have a deep understanding of the operating and political environments in which you work.

- » *We Take a Collaborative Approach.* We consider ourselves part of your team and strive to ensure our work supports your overall corporate strategy and goals.
- » *We Have Extensive Experience.* Each of our more than 80 associates is an expert in one or more service areas, and our firm has assisted hundreds of jurisdictions in 41 states.
- » *We Have Developed Proven Methodologies.* We understand the importance of a holistic approach to improving organizations, using field-tested techniques for each aspect of the work.
- » *Our Work Plan is Tailored to Your Needs.* Each of our projects is individually tailored to our client's unique needs, starting with a careful learning process.
- » *We Take Pride in the Quality of Our Work.* Our internal processes ensure first-rate, complete staff work and adherence to the highest of ethical standards in public service.
- » *We are Focused on Implementation.* As practitioners, our recommendations make practical sense and are able to be implemented.
- » *We Provide a Full Suite of Services.* Management Partners' services include everything required to support local government leaders, including organization assessments, performance management, process improvement, strategic planning, and financial modeling, planning, budgeting and analysis.

Financial and business planning is an important part of our work, and helping local governments address the effects of the recent recession has been an area of major emphasis. Working with cooperating local governments to identify and implement shared service delivery has also been an area of particular competence, especially in the current economic environment. We have extensive experience in developing long-term financial forecast models such as the City of Hayward is considering. As explained below, we have a process that is customized, but informed by extensive experience and best practices, that can be handed to City staff to use and modify going forward.

## **Understanding of the Engagement**

Hayward is a full-service city located in Alameda County. It is the third largest City in the County in the heart of the Bay Area metropolitan area. The City has a current population of approximately 149,000. Given Hayward's location at the middle of the greater Bay Area, additional economic development and growth can be anticipated as the tech economy continues to create jobs.

The City of Hayward is a complex multi-service organization providing a full range of services that includes police, fire, public works, water and wastewater utilities, community development, library services and maintenance. It operates under the council/manager form of government. Currently the City employs approximately 824 full-time employees with a total annual budget of about \$286 million. Of this, approximately \$149 million reflects General Fund spending. Despite significant reductions in employee count the City still faces a long term structural deficit.



Development of a long-term fiscal model is an important step in taking a long-range view of financial sustainability, which was a supporting goal of the City Council's most recent set of priorities. A model such as this can serve as a fundamental resource in long-term service planning. Management Partners can complete a fiscal model to meet the needs of the City, designed to City specifications, in three to four months. It can then be used to model different scenarios involving expenditure and revenue variables.

We will produce a ten-year forecast for the City that includes all major costs and anticipated revenue. It will include costs related to employees, including obligations from the California Public Employees Retirement System (CalPERS), other post-employment benefits (OPEB), salaries, and other compensation. The model will focus on the General Fund, and to the extent necessary, will include special revenue funds, capital, debt and internal service funds to fully support the General Fund forecast model.

The model will have an easy to use dashboard so assumptions can be easily changed with respect to revenue growth, pension obligations, expenditure assumptions by line item and other factors. We will coordinate closely with City staff to obtain data necessary for a solid financial forecast. Once we complete the model, it will be available for use by staff in the future. We will provide training and a user's guide so City staff can update the forecast themselves as needed.

## **Proposed Plan of Work**

Based on our experience with financial modeling and our understanding of the needs of the City of Hayward, we have prepared a plan of work to create a state of the art fiscal model. This framework is amenable to refinements, based on your input.

### ***Activity 1 – Start Project***

Management Partners will begin this project with a careful learning phase, starting with a planning meeting with City managers to ensure we have a clear understanding of your objectives for the long-term forecast model. The purpose of the meeting is to finalize our proposed scope of work and the business concerns giving rise to the project so the plan of work and schedule can be precisely tailored to your needs. We will keep you informed of our progress throughout the project.

The project start-up activity forms the foundation of the relationship between Management Partners' team and the City. During this initial meeting we will confirm project deliverables and due dates to ensure the project is completed on time and on budget. We will also review the work plan and schedule to confirm that the scope of work is aligned precisely to meet the goals of the City, and to give you confidence that we fully understand the background and concerns. We know that the work associated with this project is in addition to the normal work of the organization. Our goal is to integrate our activities in a manner that is thoughtful, and minimizes disruption to the City operations. However, the cooperation of staff in providing requested data and giving meaningful feedback is crucial to a successful project.



### ***Activity 2 – Prepare Draft Long-Term Financial Forecast***

During this activity, we will prepare a long-term forecast using City data. The financial forecast includes the following components.

- » **Identify baseline cost assumptions.** We include assumptions related to remaining competitive in the labor marketplace, meeting funding requirements for pension commitments, sustaining internal service fund levels that lead to timely replacement, reserves, and other major factors. The expenditure forecast will include trend data for these baseline costs.
- » **Identify baseline revenue assumptions.** This will include assumptions for all major existing revenue sources along with the identification of risk factors pertaining to any of those sources. The revenue forecast will include trend data.
- » **Create model scenarios.** The forecast will have model scenarios, including a baseline and scenarios with different sets of assumptions. Scenarios above the baseline will include unmet needs that have been quantified by the City, such as capital, maintenance, internal support and service level increases.

Typically, we develop a draft forecast and then review it in person with management staff to refine and validate our assumptions. We are careful to tie back all model data to City source documents and to fully explain the assumptions underlying the model. After reviewing the model with City managers we will make refinements and develop a final model suitable for presentation.

### ***Activity 3 – Report Results and Develop Options and Budget Strategies Analysis***

We will prepare a final draft forecast and a memorandum describing the results of the forecast. We will meet with City staff to review the forecast in detail. We will then prepare a final version of the memorandum and forecast.

Assuming the fiscal forecast still shows the likelihood of a structural deficit, our project team will meet with the City's project team to discuss strategies for addressing the deficit situation. During this activity, we will review strategies already considered by the City and develop potential strategies based on comparisons with other cities and our overall knowledge of expenditure and revenue strategies used in California.

Typically, we look at new revenue options based on taxes in comparable cities, examine service delivery approaches for opportunities to deliver services at less cost, examine programs that may not be mission-critical or mandated, and look for service sharing options that can reduce costs. In addition, we typically examine collective bargaining group memoranda of understanding (MOUs) for costs or work rules that can potentially be modified for greater efficiency/effectiveness. Having completed this type of analysis for numerous cities, we are very conversant about emerging trends and what is workable in the California setting.



Based on our analysis, we will develop preliminary recommended budget solution strategies that will address any structural deficit issues. Several alternative approaches will be presented. We try to present both revenue-oriented and expenditure reduction/control options. Of course, we will test the feasibility of these budget solution strategies with both City managers and identified stakeholders.

The culmination of this activity will be to hold a workshop-style meeting with the City Council to review both the fiscal model and potential budget strategies based on the anticipated fiscal forecast situation. We will use a PowerPoint presentation during the workshop. Based on the input received, the budget solution strategies will be revised as necessary.

#### ***Activity 4 – Support Implementation***

Management Partners has a strong bias for action. Our reports and resulting recommendations become tools for setting priorities, and for developing work plans. When developing a fiscal model our plan is to train staff on all the capabilities of the model with the expectation that the staff will “own” and begin using the model as a daily tool. After the presentation we will plan several hours to train staff. We will also provide full documentation in a user’s manual.

### **Project Team**

Management Partners has a strong project team that is well qualified to complete this work for the City of Hayward. This project will be a top priority for Management Partners and our team members will be available in whatever capacity and with whatever availability will contribute to the success of the project.

Our team of professionals includes individuals who have direct experience with the management and operations of City governments and special districts, as well as public finance and economic analysis. They also have extensive experience with the financial analysis of municipal service delivery, and real world experience developing budget balancing strategies. In addition, we are very familiar with the range of service delivery parameters and commonly utilized benchmarks and performance measurements.

I will serve as project director, overseeing the substantive work of the project with responsibility for reviewing and approving all deliverables. Robert Leland will serve as project manager and will be responsible for execution of the project. Larry Lisenbee, Brittany Gable, and Heain Lee will also provide assistance. Brief qualifications for each team member are summarized below.

#### **Andrew Belknap, Regional Vice President**

Andrew is responsible for Management Partners’ western operations, based in San Jose and Costa Mesa, California. He has more than 20 years of local government experience, including service as a city manager, public works director, and consultant to California municipalities, counties and special districts. His areas of expertise include fiscal and budget analysis, municipal restructuring, governance models and developing service delivery partnerships and



functional consolidations to take advantage of economies of scale in public sector service delivery. With Management Partners, Belknap has served well over 100 California local governments, many on multiple occasions, including 17 of the largest 20 cities. A trained economist, Andy brings a special expertise to fiscal analysis and public finance issues. His blend of quantitative skills, coupled with a practitioner's understanding of public services and management systems, adds value to all types of organizational and policy analysis.

### **Robert Leland, Senior Advisor**

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Bob joined Management Partners in 2012, after 37 years of experience in state and local government finance. He was director of finance for 26 years for the City of Fairfield, California; a city known for its entrepreneurial management and long-term financial planning. He has been preparing long-range forecasts and budget models since the early 1980s. He previously served as assistant finance director for the City of Sacramento, where he managed the city budget, and as a staff consultant to the Assembly Revenue and Taxation Committee, where he drafted and analyzed legislation and worked on the team implementing Proposition 13 in 1978. Since 2010 Bob has consulted in his area of special expertise—municipal budgeting and long-range forecasting. He is a leader in his profession, having been elected by his peers as president of both the California Society of Municipal Finance Officers and the League of California Cities' Fiscal Officers Department. Bob was the recipient of the 2010 Award of Excellence in Public Finance from the California Public Securities Association, which recognizes exceptional work, creativity, service and leadership by a municipal finance professional.

### **Larry Lisenbee, Special Advisor**

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Larry joined Management Partners after serving for over 21 years as budget director for the City of San Jose, the tenth largest city in the country. During that time, Larry led the Budget Office which reported directly to the city manager. He was responsible for developing the annual budget proposal, monitoring the budgets of all City funds during the fiscal year, and producing and presenting budget reports to the City Council throughout the entire year. Previously, Larry served as a budget analyst, senior budget analyst and supervising budget analyst for Santa Clara County. During his career, Larry has had extensive experience managing public budgeting efforts in large urban California agencies. He is particularly skilled in developing budget strategies in deficit financial conditions. He has had lead roles in organizational and process review efforts and led numerous problem solving efforts involving organizational development, team building, strategic planning, enterprise fund management, rate/fee studies, personnel and labor relations, information systems, public information and outreach to diverse populations.

### **Brittany Gabel, Senior Management Advisor**

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Brittany has supported a range of projects, including the management system review work, strategic planning, organizational assessments, process improvement studies, service consolidation studies, and budget stabilization studies. She is skilled in the design and



administration of online surveys and has supported many local governments and nonprofits in their efforts to develop strategic plans, confirm their mission and vision statements, and develop goals and strategies that resonate with their constituents. Brittany brings expertise in quantitative and qualitative research methods, program evaluation, human resource management, strategic planning, public policy analysis, and budgeting. Prior to joining Management Partners she worked with the City of Oakland Public Works Agency. There she developed and implemented an online, interactive database used to streamline the administration of safety compliance.

### Heain Lee, Management Analyst

Heain is a trained public policy analyst who is adept at analyzing and framing issues, both quantitatively and qualitatively. She has an in-depth understanding of economics and experience with data collection and analysis, measuring outcomes in various sectors. Her analytic training includes multivariate economic analysis, cost-benefit analysis, financial modeling and operations research, public financial management and budgeting, and strategic planning for the public sector. She is experienced using these tools with data, whether readily available or not, to produce tangible recommendations in team settings.

### Experience and References

We have provided several references for projects that have involved fiscal modeling, and the development of budget strategies. Our basic approach was developed in Stockton, California, during the City's bankruptcy in FY 2012-13. Because the City was negotiating with several very large creditors with highly sophisticated financial advisors, we developed a detailed approach that could withstand scrutiny and challenge. In addition to the references below, our website, [managementpartners.com](http://managementpartners.com), has information about our past clients, which includes hundreds of jurisdictions in 41 states. You are welcome to contact any of them about our performance.

Morro Bay, California	
Mr. David Buckingham City Manager 595 Harbor Street Morro Bay, CA 93442 (805) 772-6205	<b>Financial and Operational Studies</b> Management Partners was engaged to provide an update to a project completed for the City in 2008. Recently we completed a comprehensive assessment of the City's finances, current operations and service delivery alternatives. A ten-year financial forecast was prepared along with a financial model that staff could use in the future. In addition, we studied each function in the City to identify operational improvements or potential changes in service delivery.



<b>Stockton, California</b>	
<p>Mr. Kurt Wilson City Manager 425 N. El Dorado St., 2<sup>nd</sup> floor Stockton, CA 95202 (209) 937-8212</p> <p>Ms. Kimberly Trammell Budget Officer 425 N. El Dorado St., 3<sup>rd</sup> floor Stockton, CA 95202 (209) 937-5088</p>	<p><b>Long Range Financial Plan</b> Management Partners was engaged to coordinate the City's bankruptcy process in early 2012, following a financial assessment in late 2011. A major element of this work was the preparation of a 30-year Long Range Financial Plan (LRFP) that demonstrated the city's ongoing financial viability under their Chapter 9 plan of adjustment. The LRFP withstood repeated court challenges as the city emerged from bankruptcy, and is still used today to set guidelines for the annual budget and labor negotiations.</p>
<b>Oxnard, California</b>	
<p>Ms. Maria Hurtado (formerly Assistant City Manager in Oxnard) Assistant City Manager City of Hayward 777 B Street, 4<sup>th</sup> Floor Hayward, CA 94541 (510) 583-4305</p>	<p><b>Long Range Financial Plan and Financial Consulting Services</b> Management Partners was engaged to provide a financial assessment in fall 2014 which identified numerous operating deficits and financial management issues. As a follow-up we prepared a long range financial plan that linked 131 city funds and modeled the impact of corrective budgetary actions. The city used the model to generate the tables for their 2015-16 budget document, and identify the impact of labor MOUs negotiated in 2016.</p>
<b>Yuma County, Arizona</b>	
<p>Ms. Susan Thorpe County Administrator 198 South Main Street Yuma, AZ 85364 (928) 373-1010</p>	<p><b>Long Range Fiscal Model</b> Management Partners is currently in the final stages of preparing a fiscal model for this county in southern Arizona. With some 99 separate funds, the model is exceptionally complex. The model uses appropriate custom assumptions for expenditure and revenue drivers for each fund and enables staff to use the model as assumptions change.</p>



### Hours, Cost and Schedule

As mentioned previously, completing this project is likely to take three to four months, depending on the sense of urgency and other City commitments. Based on the work plan described above, the project will require about 381 hours of consulting staff time at a cost of \$57,900, plus an expense allowance of \$2,000, for a total of \$59,900.

### Conclusion

We appreciate the opportunity to provide this proposal for your consideration. I would be happy to answer any questions you may have about the scope of work or about Management Partners.

Sincerely,



Gerald E. Newfarmer  
President and CEO

Accepted for the City of Hayward by:

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

