Multnomah County

Final Report

Opportunities for Efficiencies in Administrative Services

January 28, 2010

Submitted by

Rob Fenty and Holly Valkama
Coraggio Group
2240 N. Interstate Avenue Suite 300
Portland, Oregon 97227
(503) 493-1452

coraggio group

Executive Summary:

Multnomah County engaged Coraggio Group to conduct an assessment of administrative services with the intent of identifying specific areas in which the County could save money without having to impact direct community services. The intended output of this work is the identification of tangible opportunities on which the County could act in a near-term timeframe (by FY'12 and FY'13 budget cycles).

As part of this work, Multnomah County Chair Jeff Cogen was clear that he intends to move into planning that engages County expertise around <u>how</u> the County will implement the chosen recommendations. As such, Coraggio was tasked with providing recommendations on areas in which the County could move forward to improve efficiency, and <u>not</u> to provide specific details on how the County would implement the recommendations.

We defined administrative services for the purpose of this analysis as areas of work within the County that support, but do not provide, direct services to the community. As such, functions that were analyzed as part of this work included budget, finance, accounting, human resources, contracting, facilities, fleet, motor pool, records, distribution/mail, and stores/purchasing. Other areas, like IT and benefits, were excluded from this analysis at the direction of County management.

Based on a countywide analysis of administrative functions, Coraggio identified nine potential opportunity areas, in which we conducted financial and feasibility analysis. Coraggio is recommending that the County pursue six specific areas that will result in both savings to the County and a more effective ongoing operating model.

The six recommended areas for action are:

- ✓ Structural improvements to ensure more efficient and accountable management of County administrative functions.
- ✓ Improved budget system and planning process to create more transparency in budgeting and to enable better alignment of spending throughout all departments to stated County priorities.
- ✓ Increased management span of control within administrative functions, resulting in the need for fewer managers and a more efficient organization.
- ✓ Utilization of warehousing and distribution functions already included in vendor pricing (for office supplies, medical supplies and computer equipment) and increased focus on a central strategic sourcing strategy to reduce the total costs associated with the acquisition of goods and professional services.
- ✓ More efficient operating models in the way that the County manages its Fleet and Motor Pool, specifically including reducing the number of fleet vehicles and increasing utilization of each vehicle, utilizing external service relationships for fleet maintenance/repairs and significantly reducing its motor pool operations.

- ✓ Immediate development of a long-term portfolio strategy for the County's buildings, including investigation of real estate actions on marketable buildings and improved utilization of all County buildings, especially those that are not marketable.

> The total estimated savings of implementing the recommendations is $4.2M in the first year of implementation and approximately $24.3M over a five-year period.
>
> In addition, potential real estate actions around specific County buildings could net the County approximately $11.9M in year one of implementation and additional operating savings of over $700K per year (or $3M over five years).

Actual savings to the County will be determined within implementation planning and will depend upon which actions the County chooses to implement and the timing of implementation. We provide specific savings estimates to provide context for the opportunity and to support decision making of County management and the Board of Commissioners.

For each recommended area, we recommend the formation of implementation planning teams that engage relevant County expertise to determine specific implementation plans and timelines in accordance with the intent of the recommendations. The COO should have primary accountability for the implementation of the recommendations.

The recommendations in this report set the stage for a multiple year change management strategy for the County—one that ensures success around necessary structural, leadership, process and cultural changes. These are not simply discrete actions that can provide savings to the County in the way that it manages administrative functions. These actions provide the foundation for a new way of operating. As a result, as part of these actions, County management will need to develop and implement an overall change management plan that ensures success around necessary structural, leadership, process and cultural changes.

County management (COO and Department Directors) and the Board of Commissioners will need to be aligned through this process of change to ensure a successful outcome around the proposed recommendations. Thus, we recommend direct conversations within leadership and the formation of clear agreements on how County management and the Board will communicate with each other and stay aligned during decision making and implementation.

Overview of Process:

Upon commencement of the work, we collectively defined the primary administrative services under consideration as budget, finance, accounting, human resources, clerical, contracting, facilities, fleet, motor pool, records, distribution/mail, and stores/purchasing. The identified administrative services functions were analyzed from a countywide perspective. As a result, we assessed these functions both centrally and within County departments, although the majority of personnel conducting these functions reside currently in the Department of County Management.

To guide this process, we formed a core steering team, consisting of Jana McLellan (COO at the time of work), Mindy Harris (Interim Director of Department of County Management), Marissa Madrigal (Chief of Staff of Chair Cogen), and Guillermo Maciel (Staff, Chair Cogen). We met weekly during the analysis portion of the work to ensure that we had access to the people and data needed to conduct the analysis and that the data we were using reflected County operations. Once specific opportunity areas were defined, we met regularly with the COO and Chair's staff to provide regular updates on the findings and direction of the analysis. We briefed the Chair's office and Commissioners at least once monthly during the process to ensure that the work aligned with their objectives for the project.

The analysis was conducted in three phases over a 90-day period:

1. **Cost Drivers**—We analyzed the County's operating budgets, program offers, job class reports, and organizational structures to identify the total amount spent today on administrative services and the primary cost drivers within administrative services.

2. **Identification of Primary Opportunities**—Based on our analysis of the cost drivers, we engaged with managers and content experts in each department to identify potential opportunities for savings and to build an accurate set of data and assumptions around each potential opportunity. We identified 15 opportunity areas for potential savings as a context for deeper analysis. Based on initial review of potential savings and feasibility, County management guided us to pursue deeper analysis around nine specific areas. Some areas were excluded from this work simply because there are better ways for the County to determine potential improvements. For example, employee benefits are one of the primary cost drivers of the County outside of direct community services. However, any viable recommendations in this area must include collaborative discussions between management and labor unions. Thus, this process was not the most appropriate way to explore potential savings for the County in that area.

3. **Analysis of Opportunities**—We engaged relevant County expertise within each of the identified nine areas to conduct financial and feasibility analysis. The intended outputs were to determine potential savings over both one-year and five-year timeframes, to clarify key actions required to achieve the savings and to identify implications that would need to be addressed during implementation. In each area, we developed a five-year pro-forma analysis of the potential savings and costs required to implement the actions. We determined potential savings in the first year of implementation for each recommendation, as the County may decide to stage the actions and not

implement them all at once. We also determined savings over a five-year period, since many actions require investments or implementation costs in year one.

Upon completion of our analysis, we engaged expertise within the County's Budget Office to review our assumptions and analysis and to ensure a successful transition of the analysis into implementation planning.

Total Administrative Services and Cost Drivers:

The first phase of work focused on estimating the total amount that the County spends each year on administrative functions. The purpose of this analysis was to identify the primary cost drivers of administrative functions and to understand the potential scale of various opportunities for savings within the County. We analyzed department budgets and program offers and engaged expertise within each department to determine an accurate assumption of the costs associated with administrative functions.

Through this process, we found that a significant cost driver for the County is the maintenance and operation of its physical assets, e.g. buildings, fleet, IT, and warehousing. In FY'11, the County spent approximately $48.3M to manage and operate its buildings. In addition, FY'11 budgets for IT and FREDS (which includes fleet, records, electronics, distribution and stores (warehousing) were $53.6M and $16.4M respectively. These amounts include both the operational and personnel costs associated with managing and maintaining the County's physical assets. By aggregating these three numbers, the total County net spend in FY'11 around these physical assets is $118.3M, or approximately 13.4% of the total County budget. The total assumed budget for the County in FY'11 based on estimates from the County Budget Office is $883.5M.

A second cost driver within the County's total spend on administrative functions is personnel. Through analysis of the County's program offers, budgets, organizational charts and direct engagement with County expertise in each department, we estimated the fully loaded cost of personnel who are focused on administrative functions (as defined in this project) to be $66.9M, or 7.5% of the total County budget.

Additional cost drivers in the Department of County Management include the contracting of professional services at $13.6M per year and the purchase of supplies at $5.7M per year.

As a result of this analysis, we concluded that the primary opportunities for the County to operate more efficiently within administrative services would result from reduced expenses associated with personnel, building footprint, management and maintenance of physical assets (like fleet), and sourcing of goods and professional services.

Analysis of Specific Opportunities:

Based on analysis of the identified cost drivers and meetings with Department leadership, we identified nine specific opportunities for savings and efficiencies. We analyzed all nine areas from the perspective of potential savings to the County and feasibility of implementing in the near-term. The following section provides a summary of our analysis and recommendations with respect to each area of analysis.

Structural Improvements Around Administrative Functions

During our analysis of the County, we found three indicators that led us to consider potential structural changes within administrative functions as a way of increasing both efficiency and effectiveness. First, the County currently manages its physical assets within multiple divisions (IT, Facilities, FREDS, Department of Community Services). As a result, the County does not have a long-term strategy or operating discipline of managing its assets from a portfolio perspective. This approach has led to inefficiencies in the management of assets throughout the County. Second, we found an overall low level of accountability within the County, specifically within administrative functions. Administrative functions are simultaneously responsible for providing quality of service to County departments and managing County resources and assets efficiently. However, the current organizational structure does not support accountability around both of these functions simultaneously. Third, within the County, the departments have strong autonomy, meaning that department heads have significant authority in planning, budgeting and operations. Although the County has strong, effective leaders as department heads, this approach has led to inefficiencies in the ability of County leadership (COO and Board) to create transparency in budgeting, to ensure alignment of spending to County priorities and to make trade-offs within and between departments. This autonomy has led to further inefficiencies in the management of administrative services as departments individually place requirements on central administrative functions, like human resources or facilities, without an effective way to reconcile the prioritization of those activities across departments. As a result, two outcomes have been created. Administrative functions have grown both centrally and within departments, creating inefficiencies and duplication of resources in many administrative functions. Further, there is significant evidence of a growing operating tension between departments and central administrative functions that must be reconciled in order for the County to make significant efficiency gains within administrative areas.

Analysis:

The County is currently organized into six operating departments managed by department heads that report into the Chair: Health, Human Services, Community Justice, Library, Community Services, and Community Management. In addition, the Sheriff's Office and the DA's Office have departments led by their respective elected officials. We engaged the management teams of each department and County leadership to determine whether the symptoms of inefficiency were primarily structural issues, leadership issues or process issues (like budgeting or performance management).

Although structure by itself will not resolve any of the stated inefficiencies, we found that minor structural changes will significantly improve financial accountability over the County's assets, Board capability to align County spending to priorities and the ability of the County to implement change. The combination of appropriate structure and effective leadership will be critical for the County to move forward in an overall effort to create and sustain necessary change.

Recommendations:

Based on our analysis, we are making three specific structural recommendations and one supporting process recommendation in order to address the current inefficiencies that are present and to provide a foundation for success around the other recommendations in this report.

- ✓ The County COO should have the authority to manage all departments. Department heads should report directly into the COO and should be accountable to the COO for stated goals and deliverables.
- ✓ The County should integrate its primary physical assets (IT, facilities, fleet, distribution, and records) into one department, reporting directly to the COO, creating the opportunity for financial accountability and efficiency over the County's assets and the implementation of best practices around asset portfolio management.
- ✓ The County can eliminate the existing Department of County Management and have Finance, Human Resources and Budget report directly to the COO.
- ✓ The County should develop greater accountability around the implementation of a consistent performance management system across all County departments. The performance management system should directly link with the County's planning/budgeting process and compensation approach. The performance management system should create consistency in articulating goals and intended outcomes for each employee (based on County and department planning), including annual employee performance reviews, identification and reward of high performers, and action plans for underperformers.

Estimated Savings and Supporting Information:

The primary purpose of these structural recommendations is to create a foundation for overall success within the County. Although there are minor efficiencies or savings that are created, these actions will directly provide the structure necessary to increase accountability within administrative functions of the County, to improve financial management of the County's assets and to increase the likelihood of success around change management.

Based on these recommendations, the County would immediately reduce the need for two senior management positions, including one department head position. We are specifically recommending these structural changes in conjunction with overall reductions in management positions across administrative functions based on increased span of control and reduced management layers. We will describe our recommendations around management span of control in the following section and will therefore integrate estimates for potential savings to the County through structural actions within those reductions.

Additional potential efficiencies are possible through these structural actions as they will improve the County's ability to take advantage of workforce synergies around the County's physical assets. However, we have not assumed any tangible savings within our analysis.

Implementation Considerations:

There are several implementation considerations that will need to be addressed as the County moves forward:

- ✓ A new County department will need to be created around the County's assets and will need to be approved by the Board of Commissioners. The County Chair has the authority to hire Department Directors. The Board must approve the hiring of specific candidates.
- ✓ Department heads should formally report to the COO. The County legal department should recommend the most viable implementation path for this change.
- ✓ The COO should make leadership and/or management changes that are necessary for the ongoing success of the County as part of this restructure effort in order to increase the likelihood of success of department heads.

Increased Management Span of Control

Nationwide, a significant amount of attention is being paid to management span of control as a way of creating both higher efficiency and effectiveness within public sector organizations. The State of Iowa has been on the leading edge of this conversation. The State of Iowa has had stated management span of control objectives around its Executive Branch for several years that have trended upward toward 12. The State of Iowa website states publicly that "a span of control of 1:12 is critical to state government's mission because it optimizes the ratio of supervisors to employees in the workforce. This permits the allocation of resources to more appropriately accomplish the work of the organization." In the past few years, many County and State organizations have conducted span of control analyses in the attempt to understand the current state and to set goals to increase span of control both in the name of efficiency and effectiveness.

As a general trend, public and private sector organizations are increasing span of control in response to the economic environment and the need for greater efficiency. Our analysis of this subject concludes that there is not a magic span of control number that public sector organizations should strive to achieve. However, there are three filters that should be applied to understand the opportunities available by taking span of control actions that increase efficiency and effectiveness without impacting the quality of service of the County to its constituencies.

First, the County should scrutinize all management and supervisory positions with three or less direct reports. These supervisory roles are generally not critical and can be eliminated or merged with other positions. Second, the County should analyze all management and supervisory positions with 4-7 direct reports to understand where those spans of control are appropriate and where spans of control can be increased. Finally, the County should analyze the number of management layers in each organization to ensure that the number of management layers is appropriate to the overall size of the organization.

Based on these three filters, we analyzed the County's management and supervisory roles within administrative functions and determined that the County could reduce the overall number of management positions and gain efficiencies by increasing overall span of control.

Analysis and Supporting Information:

To gain a true picture of the number of managers and supervisors throughout the County in administrative functions, we worked with each department to get updated organizational charts. We counted the number of managers and supervisors in each area and the number of direct reports of each manager. We also counted the number of management layers within each department and division, meaning the number of layers of managers and supervisors with direct reports under them. We compared this data with the County's budgets and job class reports out of the County's HR system. Based on the data, we calculated average spans of control, the number of managers with 3 or less direct reports, the number of managers/supervisors with 4-7 direct reports and the number of management layers.

The data for the Department of County Management is included here as a context for the conclusions.

Department of County Management						
	Total Employees (Budget FY '11)	Total Managers & Supervisors (w/ dir. reports)	Average Span of Control	Managers & Supervisors with ≤3 reports	Managers & Supervisors with 4-7 reports	Total Management Layers
Fin. & Risk	67.4	12	6.1	1	8	3
HR	24.5	7	5.1	1	5	3
Facilities	86.5	7	12.9	1	1	3
Budget	8.0	1	7.0	0	1	1
Bus. Svcs	4.5	2	3.0	1	1	2
DART	137.5	22	6.3	4	10	4
FREDS	50.0	5	9.8	1	1	3
DCM-All	381.3	56	7.1	9	27	5

Although the primary scope of this work was focused on administrative service functions, we conducted a top level analysis of management span of control in the other County departments as context for decision making within administrative service functions. The data is included here.

Other County Departments					
	Total Employees (Budget FY '11)	Total Managers & Supervisors (w/ dir. reports)	Average Span of Control	Managers & Supervisors with ≤7 Reports	Total Management Layers
Community Justice	516.5	52	10.1	19	4
Health	971.7	122	8.5	70	5
Human Services	709.2	74	10.0	26	5
Community Services	204.0	27	7.4	15	5
Library	495.1	55	7.6	24	5

The number of employees included in the tables reflects total employees as of the County's FY'11 budget. Span of control calculations are based on actual existing employees shown on organization charts. For span of control purposes, we considered employees that are half-time or more as "one direct report" as they have largely the same management requirements as full-time employees. We only included managers and supervisors with direct reports in the span of control analysis. Where employees in the County had non-managerial or non-supervisory titles, but had direct reports, we listed them as Managers in the analysis.

The primary conclusions of the analysis are that the County has opportunity to reduce the overall number of management layers within its administrative functions, to significantly reduce the number of management positions that have 3 or less direct reports and to selectively increase the overall span of control of managers and supervisors.

Recommendations:

As the County implements the structural changes recommended in this report, we recommend that the County reduce a total of 15 management positions within its administrative functions (current Department of County Management) and within the Department of Community Services.

- Within the implementation of the structural recommendations as outlined, there are an estimated two (2) senior management positions that can be eliminated.
- In addition, we recommend that the County eliminate 13 management and supervisory positions by increasing management span of control and reducing the overall number of management layers. Within this action, we recommend the following:
    - Significantly reduce and/or eliminate management and supervisory positions with three (3) or less direct reports unless the position requires specific and unique content expertise not available elsewhere within the County and that the responsibility of the position is unique such that it should not be merged with other functions.
    - Reduce the number of management layers within administrative service functions, thereby reducing the overall requirement for management positions.
    - Analyze on a case-by-case basis management and supervisory positions with 4-7 direct reports with the intent of increasing overall management span of control across administrative functions.

We further recommend that the County analyze management span of control in the remaining County departments in the second half of 2011 once the County has more clarity around potential State actions that may have significant impacts to the scope of responsibilities within specific departments. Based on our current analysis, we see the potential for further management span of control efficiencies within the other County departments that could result in significant additional annual savings.

Estimated Savings:

The estimated savings to the County of these defined actions are $2.2M in the first year of implementation (FY12) and a total savings of approximately $11.7M over five years. The estimates are generated specifically from the savings of fully loaded personnel costs (including benefits and PERS). We utilized an average salary rate among existing DCM managers to calculate the estimated savings. We have not assumed any severance and/or exit costs associated with the personnel reductions.

As part of this financial analysis, we assumed that the County will need to acquire best practices management development content around performance management and managing with higher spans of control. We assumed a year one cost of $80,000 to develop and/or acquire this content. We also assumed that the County has sufficient organizational development resources to support managers in the new environment. We base this assumption on a conclusion (to be discussed later in the report) that the County already has high levels of human resources personnel. If the proposed actions require a skill or competency shift within its human resources personnel, the County will need to manage that transition in order to make this action successful.

Implementation Considerations:

- ✓ The COO will need to lead a process with relevant department and divisional managers to identify the specific management and supervisory positions to be reduced or eliminated. Within that process, the County should integrate best practices within human resources on conducting downsizing and should ensure adherence to County values and legal requirements.

- ✓ Some organizations within the County utilize an approach of working managers and/or supervisors. We took this into consideration as part of our analysis of DCM and DCM. The County will need to look at this specifically within implementation planning around the selection of the specific positions to be reduced.

- ✓ The County will need to ensure greater accountability around the implementation of a consistent performance management system to ensure success going forward. If the County needs to contract out for the development and/or rollout of that system, additional up front costs will need to be incurred and will impact estimated savings in year one.

- ✓ Strong and consistent leadership will be required from department and divisional heads following the managerial reductions. The County should have proactive planning around communications regarding chosen actions and change management support where necessary to divisional leaders.

- ✓ Human Resources should be engaged to develop an overall plan for the professional development of managers within the County to support managerial effectiveness going forward.

Budget Process

The County operates today with strong departmental autonomy. One implication of that autonomy is that departments lead the development of County budgets. The Chair's budget proposal is aggregated on an annual basis without complete transparency into potential trade-offs that exist within departments and between departments. Further, the County does not have an integrated way to align planning, budgeting and day-to-day employee performance with Countywide priorities.

The County currently has 14 different budget systems, many of which have been developed as shadow systems by departments. These systems serve specific purposes for departments, but do not integrate together. As a result, the Board of Commissioners and County management have a limited view into the assumptions and specifics of budget line items as they face decision making around the allocation of the County's money.

We are proposing several actions to provide County leadership with a more effective system of planning, budgeting and holding accountability around County priorities. The opportunity with this set of recommendations is to improve alignment of spending to County priorities and to create more transparency in the planning/budgeting process, which leads to significant yet undetermined ongoing savings within department budgets.

Analysis and Supporting Information:

The County's Budget Director and IT Director have already initiated an effort to scope requirements for a new budget system and to assess potential alternatives. This scoping process should include the involvement of stakeholders in the departments to ensure that the resulting budget system will meet the ongoing requirements of departments and eliminate the need for duplicative systems.

In addition, we believe that the County may require additional expertise to support the implementation of the budget system over the next 12-18 months.

Although there appears to be some existing working capital within the County that could support the purchase and implementation of a new budget system, we recommend that the Board be prepared to allocate up to $1M to support the implementation of this system by the FY13 budget cycle.

Recommendations:

The County should move forward immediately to implement the following recommendations.

- ✓ The County should invest in and implement a common countywide budget system. A planning team, led by the Budget Director, should immediately scope requirements, options and implementation planning. We would recommend a target implementation for the FY13 budget cycle. Since the Budget Office will likely need to implement a second budget process this year in Fall 2011 in response to State actions, we recommend investment in necessary support resources (whether contract or inside) that will support the implementation of the budget system by the FY13 budget cycle.
- ✓ The County should develop and implement an integrated planning and budgeting process that links departmental planning to County priorities. The process should include: countywide planning (aspiration, priorities and budget guidance to departments), departmental planning, budgeting, and performance management system as a single continuum.
- ✓ The County Budget Office should report directly into the COO and should have the authority of the Chair and Board to hold Departments accountable to the planning and budgeting process.

Benefits and/or Estimated Savings:

A common budget system throughout the County will create greater transparency during the budgeting process, which will more effectively support the Board's decision making around allocation of resources and necessary trade-offs in spending. As a result, the Board and department heads will be able to more effectively align County spending to specific County priorities.

In order for the County to make significant improvements in efficiency beyond administrative services, the County must have an integrated process and budget system to analyze and prioritize spending both within departments and between departments based on a Countywide set of priorities.

This is a significant step forward for the County, which will result in significant yet undetermined savings over the next five years.

Implementation Considerations:

- ✓ The Board will be required to take accountability for the setting of County priorities as context to departmental planning and budgeting.
- ✓ As mentioned, a probable "State Rebalance" budget process in Fall 2011 will impact the Budget Office's ability to redesign a budget and planning process. We recommend that the County invest in the support resources necessary to ensure that the new system and process can be implemented for the FY13 budget cycle.
- ✓ The resulting planning and budgeting process should be facilitated centrally by the COO and Budget Office. The Budget Office will need the authority of the COO and Board to hold departments accountable to implement the processes.

Cross Department Administrative Services

The County currently has approximately 110 employees performing finance/budget/accounting functions, 72 personnel performing human resources functions and additional personnel doing contract management. Employees sit both centrally within the Department of County Management and throughout County departments. In multiple instances, administrative service functions of different departments sit within the same buildings and could be shared or leveraged more efficiently. Based on the total size of the Multnomah County organization (budget and headcount), the County has opportunities to be more efficient within these functions. Based on the existing culture, departmental autonomy and recent history around a failed implementation of shared services, a traditional centralized approach to realizing efficiencies is not feasible for the County in the near term. We are proposing to create hubs that serve multiple department needs and create savings for the County.

Analysis and Supporting Information:

Each department within the County has established Business Services and Human Resources organizations to support departmental needs in these areas. Although each department has unique aspects of its service and operating model, the functions within these areas are quite similar. Within the County, there are two separate instances where departments with similar requirements for support services are located in the same buildings. For example, the Business Service and Human Resources teams of the Departments of Health and Human Services are both located in the Lincoln building. The Sheriff's Office and the Director's Office of the Department of Community Justice are both located in the Multnomah building. The County has the opportunity to create integrated Business Service and Human Resource organizations that serve multiple departments. The result could be a higher level of service with overall reduced County resources. There are also additional opportunities that could be investigated within common administrative services across departments, such as a consolidated approach to background checks.

Recommendations:

The County should create administrative services hubs (i.e. groups that serve multiple departments) around the following areas:

- ✓ Business Services and Human Resources hubs for Health and Human Services
- ✓ Contracts and Purchasing hubs for Public Works and Human/Professional Services
- ✓ Background Investigations—Utilize existing Department of Community Justice resources and process as the foundation for a hub around background investigations.
- ✓ Continue to investigate the potential of Business Service and HR hubs to support the Sheriff and DCJ, plus potential efficiencies with centralizing specific accounting functions (AR/AP).

In order to achieve efficiencies in these areas, the COO should set a top down target to save >$1M per year through natural attrition & headcount reductions by FY13. During implementation planning, the COO should choose appropriate leadership for each hub and direct the leads to develop plans to achieve the savings.

Since many of these personnel exist within departments that could be affected by State actions later in the year, the County may choose to move forward around this recommendation beginning Fall 2011. As a result, we have estimated a delayed implementation timeline when estimating potential savings.

Benefits and/or Estimated Savings:

The County has significant capability to reduce the number of administrative employees performing business services, human resources and contracting functions throughout the County. Although specific savings will be determined during implementation planning and will be based on the number of personnel saved and the timing of specific actions, we estimate that the County could conservatively save $388K in FY12 (based on Fall planning and early 2012 implementation) and savings of $1M in FY13. Potential savings are a result of reducing fully-loaded personnel costs (including benefits).

Implementation Considerations:

- ✓ Many of the impacted personnel would be represented employees.
- ✓ Success requires effective leadership of hubs and clear role definition and management accountability. Reporting relationships will need to be clarified during implementation planning.
- ✓ Implementation planning will need to clarify an approach to establish clear service level expectations with departments and review cycles to ensure ongoing quality of service.
- ✓ Reductions will need to be driven by top-down targets, rather than bottoms-up analysis.

Electronic Records

With the evolution of technology, the County should investigate potential efficiencies and productivity benefits associated with scanning and storing existing records in electronic formats (where legally acceptable). The County District Attorney's (DA's) office has begun an effort to scan archived files into electronic format. As a result, they have experienced significant productivity benefits by being able to access necessary files without having to retrieve them from County storage. We looked at implementing this effort more broadly in order to reduce the amount of storage space being used to maintain files and to increase employee productivity by improving access to archived files and records.

Analysis and Supporting Information:

We engaged directly with relevant expertise within the DA's office based on the results of the pilot project. We analyzed the actual costs of scanning records and additional expenses that would need to be incurred to expand the pilot to other County departments. We also engaged with the County's expertise around records storage to analyze the requirements associated with the maintenance of records and the potential savings associated with moving stored files into electronic formats. The FY'11 budget for Records Management is $849K.

The bottom line conclusion of the analysis is that the County will NOT gain economic efficiencies through a broader implementation of electronic records at this time. The analysis assumes a significant effort in year one to scan available files into electronic format and subsequent efforts to scan additional files as they are available. Savings estimates are calculated from the elimination of file storage space and reduced personnel required to manage the storage of records. A summary of the economic case in this analysis is included here.

Year	1	2	3	4	5
Savings Elements					
Personnel	$ 144,785	$ 144,785	$ 144,785	$ 144,785	$ 144,785
Square Footage	$ 188,100	$ 188,100	$ 188,100	$ 188,100	$ 188,100
Total Savings	**$ 332,885**	**$ 332,885**	**$ 332,885**	**$ 332,885**	**$ 332,885**
Cost Elements					
Consultant	$ 134,668	$ -	$ -	$ -	$ -
Hardware	$ 82,211	$ 9,216	$ 9,216	$ 9,216	$ 9,216
Software	$ 302,768	$ 52,952	$ 52,952	$ 52,952	$ 52,952
Labor	$ 1,452,575	$ 187,153	$ 187,153	$ 187,153	$ 187,153
Total Costs	**$ 1,972,222**	**$ 249,321**	**$ 249,321**	**$ 249,321**	**$ 249,321**
Net Savings	**$ (1,639,337)**	**$ 83,565**	**$ 83,565**	**$ 83,565**	**$ 83,565**
Sum of Savings	**$ (1,305,078)**				
NPV @ 4%	**$ (1,284,621)**				

One unique aspect of the DA's implementation is the utilization of a simple "tagging" structure of files. "Tagging" can be simply defined as keywords that are associated with each file and that can be searched electronically in order to access the file. Within the DA's office, files are electronically scanned and "tagged" according to a case number. When specific files need to be retrieved electronically, employees within the DA's office can simply search for the files by the case number. This simple architecture has allowed the DA's office to move forward quickly and inexpensively in the electronic scanning of files, while gaining the productivity benefits associated with being able to access the files. In other applications, the "tagging" scheme associated with each file will need to be much more sophisticated.

Recommendations:

The County should NOT pursue a full-scale implementation of electronic records in order to gain efficiencies. However, the County should support ongoing work within the DA's office around electronic records, where an initial pilot has experienced success and ongoing productivity gains are possible.

The County should also continue to study the potential effectiveness benefits of electronic records within the Departments of Community Justice, Health and Human Services over the next few years. Relevant County Departments (Health and DCHS) should monitor industry evolution and adoption of electronic medical records as context for future consideration.

The County should consider moving Records under the IT organization to ensure better organizational linkage between Records and IT going forward. There are potential economic benefits to the County regarding increased electronic generation and utilization of records, reducing the overall paper flow in the County and overall office expenses. Integrating Records Management and IT will allow the County to think more strategically around how to gradually evolve the behavioral patterns of the County regarding the use of electronic and paper-based files.

Benefits and/or Estimated Savings:

Our analysis of electronic records does not indicate that the County would experience economic savings or large scale benefits of implementing electronic records across the County at this time.

Purchasing and Strategic Sourcing

As part of our analysis, we looked at the way in which the County sources goods and professional services to determine potential efficiencies in this area.

The County procures goods (such as office supplies, medical supplies, and computer equipment) centrally within its Central Stores organization, warehouses these goods, then distributes them throughout the County. These operations are housed in a 34,000 square foot building and makes 3-4 distribution runs daily, utilizing a fleet of seven vans. A significant portion of these goods are sourced through suppliers that already offer warehousing and direct shipping as a standard part of their pricing. As a result, the Central Stores, Warehousing and Distribution functions are outmoded operations and unnecessary costs for the County.

The sourcing of professional services also appears to be a significant opportunity for the County. Approximately two years ago, a cross-departmental team led by the County Central Purchasing organization (CPCA) began a review of the central contracting function and processes. This team has begun implementation in a number of areas; therefore, this area was excluded from analysis, and we limited our review to Central Stores and Distribution.

Analysis:

Central Stores sells $11 million per year in office supplies and equipment, medical and dental supplies and computer supplies and equipment. Of these sales, $2.6 million are sold to non-County entities at a 10% mark-up. Although the County utilizes spot buys to take advantage of low pricing, most purchases are made via consortium type contracts that are available to the County (e.g., Western States Contract Alliance). The distributors in these contracts follow a standard business model of including warehousing and distribution as part of unit pricing, meaning that there is generally no additional cost for these services. The County spends $1.8 million annually to maintain its warehouse operation and staff that sources these goods.

The analysis of Central Stores included a review of both unit pricing and warehouse costs. In general, the County has favorable unit pricing, based on a high-level review (e.g., big box retailers, reverse auction providers). We analyzed the potential of using known sourcing best practices to seek reduced unit pricing for the County. In one area, computer equipment, a reverse auction provider stated that it would guarantee the County a 5% savings and estimated the potential of 10% savings. This highlighted the opportunity for the County to develop a Countywide sourcing strategy based on known best practices as a way of achieving further savings. For the purposes of this analysis, we estimated a conservative view of savings based only on the guarantee by the reverse auction provider around computer equipment purchases (total estimated savings of $75K per year).

The Distribution function of the County costs $800K per year—excluding $1 million spent annually on postage. This division includes a central mail processing facility, consultation and procurement for large mail-type jobs, and the physical movement of mail, lab specimens and Central Stores items. If the County eliminates the Central Stores function as recommended, the demand for distribution services diminishes. The County does currently route approximately 1M pieces of interoffice mail per year, which will still be required. Although we expect this to decline year over year as the County continues to promote sustainability, the need for a mail room will continue to exist in the near term horizon.

Recommendations:

Based on our analysis, we are making three recommendations that will provide over $4.4 million in savings over the next five years.

- ✓ The County should create a strategic sourcing team with two seasoned sourcing managers and a data analyst as support. With this team, they will be able to drive unit price and support services savings on the three primary product categories. Additionally, this team will be able to work with all county departments to leverage the County's buying power across the various outside service contracts, whether client-facing or support in nature.

- ✓ The County should take advantage of the warehousing and delivery services already offered with the purchase of office, medical and computer supplies through existing distributors. This will eliminate the need for a County Central Stores and warehouse operation.

- ✓ Since the requirements for a County distribution system will decrease dramatically with the elimination of Central Stores, we recommend that the remaining distribution services be contracted to an external service provider.
- ✓ The County should maintain a mail processing room, and relocate it to the Multnomah Building. This will reduce the overall demand for distribution services by being located in the highest volume building, while maintaining the savings related to internal processing of U.S. mail.

Estimated Savings and Supporting Information:

By eliminating Central Stores, the estimated annual savings to the County are $775K on an annual basis ($500K in Year One due to various implementation costs). Projected savings over a five-year period are are $3.6 million based on FY'10 actuals. In our savings estimates, we assumed costs associated with the addition of two strategic sourcing employees and a data analyst in order to bring the necessary expertise into the County.

The County would then fulfill remaining distribution requirements (such as inter-office mail delivery, courier services, transportation of lab specimens, etc.) through external service relationships. The estimated savings to the County are $170K annually ($150K in Year One) and $830K over a five-year period. The County could also sell the related vehicles (of which potential savings were not included in our analysis).

If these recommendations are followed, the County could also liquidate the Distribution/Mail fund as part of these actions. The balance of this fund is presently $1.9M. The County needs to further investigate the amount that could be returned to the General Fund vs. repayment of grants. As a result, we have not included any estimate of savings to the County related to the liquidation of this fund.

Implementation Considerations:

There are several implementation considerations that will need to be addressed as the County moves forward:

- ✓ RFP's will need to be initiated by Product Category (consider reverse auctions) to determine unit price savings opportunities and the full range of additional services (warehousing, distribution, online ordering and purchase control and reporting).
- ✓ The County will need to issue an RFP for Distribution services. Several local options are available.
- ✓ The County's purchasing group (CPCA) will need to confirm that the RFP is clear under PCRB 47-0250 guidelines. County Human Resources will also need to take into account and manage any union contract considerations.
- ✓ As part our analysis, we concluded that the County can maintain its regional role within emergency preparedness. With a reduction in warehousing, implementation planning will need to clearly define ongoing plans on how to store materials and fulfill this role.

- ✓ Implementation planning should address alternatives around the County's role with respect to regional family planning supplies.

- ✓ Strategic Sourcing competencies of existing staff will need to be evaluated. The County will need to hire additional expertise where needed.

Mobile Workforce – DCJ Pilot

The Department of Community Justice (DCJ) has been investigating the potential of mobile workforce in order to increase the presence of Parole and Probation Officers (PPO's) in the communities they serve and to create economic benefits to the County. In Summer 2010, DCJ began a small pilot of nine PPO's. As part of this analysis, we investigated the potential benefits associated with expanding this pilot within DCJ. Within the County, several populations of workers could become field-based in providing services in the communities, thereby reducing the amount of office space required and the related costs of ownership/lease and maintenance. Therefore, we viewed this analysis as a discrete way for the County to investigate the potential benefits associated with mobile workforce. A mobile workforce provides both economic and mission-related benefits to the County. However, it is important to note that our analysis focused only on an economic analysis of mobile workforce, simply because the scope of this work was designed to identify potential near-term efficiencies for the County.

Analysis:

Specifically, we analyzed an expanded pilot of mobile workforce within DCJ that would include 38 PPO's and their associated 26 support staff. These DCJ employees are currently located in six small buildings that could be vacated as part of this pilot. Vacating the identified buildings would save approximately $250K of annual operating expenses, in addition to sale proceeds where a building is owned by the County. Of the six affected buildings, three are currently owned by the County and three are leased.

A key to the financial viability of this idea is the timing of building sales and lease expirations. For this analysis we did not assume that a building could be sold in year one, which caused first year cash flow to be negative. If an early building sale could be staged, then the County could realize positive cash flows throughout the five-year time horizon. For any buildings under lease, because there is not financial justification to exit early and incur a buyout penalty, the staging of going mobile was delayed until the lease expired. This stretches the full implementation until mid-2013.

Under a mobile workforce situation, the office space required by the PPOs would be 40% less than current space requirements due to time in the field and to different office configurations. In conducting this analysis, we made the assumption that new construction was not an option in order to meet the intent of finding Countywide efficiencies. To identify new locations, we reviewed the geographic presence of existing offender populations and determined that two existing County buildings in those areas had sufficient vacant space to accommodate the 64 DCJ employees. One of those locations requires tenant improvements and thus we included estimates of those costs in year one of implementation. Additionally, we worked with IT to estimate the type of mobile equipment PPO's would need to be productive and to stay connected to their teams. This equipment included not only laptops and smartphones, but also video capability.

Recommendations:

Based on our assumptions and analysis, mobile workforce will not produce significant short-term savings to the County. Thus, for the strict purposes of this analysis to identify significant near-term efficiencies within administrative services, implementing mobile workforce is not on the short list of our recommendations.

However, we think there are multiple reasons that justify moving forward—even if the County can't sell buildings early. A mobile workforce improves delivery of services by being closer to the clients and reduces the risk of owning fixed assets as the County population migrates East in coming years. Experience of other organizations also shows that mobile workforces reduce environmental impact with less commuting and a smaller footprint and generally increase employee attraction and retention. Our analysis also shows that a mobile workforce pilot within DCJ does have an economic return over five years. The pilot also allows the County to further investigate potential benefits, both economic and mission-related, by moving "field centric" employees out into the communities they serve.

We recommend that the County move forward into a pilot of mobile workforce around the 38 identified parole and probation officers and 26 associated support staff. A working team, including expertise from DCJ, IT, Facilities, and Human Resources, should be tasked to develop an implementation plan around the proposed pilot and longer term planning around potential additional mobile workforce initiatives.

Estimated Savings and Supporting Information:

Based on our estimates, the proposed mobile workforce pilot would generate cumulative savings to the County of $1.2M-$1.8M over a five-year period.

In our analysis, we assumed that buildings do not begin selling until Year Two and that Year One investment costs include tenant improvements and technology investments. Because of Year One tenant improvements and technology costs, Year One is estimated to be a net cost to the County of $100K-$600K. Once buildings sell and leased facilities are exited starting in Year Two, the County will experience modest annual savings that will cumulate to a total amount of $1.2 million - $1.8 million over five years.

Implementation Considerations:

Mobile workforce structures are still emerging. Early evidence shows that the implementation of ongoing changes to the manager-employee relationship and evolution of team dynamics are the most challenging aspects of mobile workforce environments. We recommend the formation of an implementation planning team and an ongoing steering team that monitors and addresses issues that arise during implementation. As a result, the organization will learn from this first pilot and apply those learnings to any future mobile workforce projects.

Based on our analysis, the County should consider the following during implementation planning:

- ✓ Review vacant building space that may require less in tenant improvements than the assumptions in this analysis.
- ✓ Review County work rules to ensure they cover mobility issues.
- ✓ Supervisor and Employee training will be required to ensure success in this different working paradigm (no longer "brick and mortar").
- ✓ "Drop-in" locations will be required for affected PPO's and their client populations.
- ✓ County Human Resources will also need to take into account and manage any union contract considerations.
- ✓ Determine best fleet practices and required fleet size and configuration (e.g., cage cars).
- ✓ Evaluate opportunities for consolidation of support staff given the move into two locations from six.

Fleet and Fleet Maintenance

The County owns and maintains it own fleet of vehicles, charging the costs to departments based on usage or a fixed monthly fee. The fleet consists of approximately 600 vehicles in rolling stock, ranging from small sedans to road maintenance vehicles to Sheriff patrol cars equipped for canines. The County offers its maintenance services to outside entities as a way of defraying overhead. The number of such arrangements has been decreasing in recent years based on more favorable market pricing. The County charges external entities at a lower rate than internal departments, resulting in $777K of revenues (17% of FY10 revenue for the Fleet Services program offer).

Fleet ownership and maintenance, which has a total FY11 budget of $8.7 million, is comprised of two primary elements: Fleet Services, which includes the annual operating expenses associated with ownership, management, maintenance, and operation (fuel) of the fleet, and Vehicle Replacement. The FY'11 budgets for Fleet Services and Vehicle Replacement are $4.8M and $3.9M respectively. Based on our analysis of the cost drivers within these budgets, we focused our financial analysis on Fleet Services, specifically on fleet maintenance and fleet utilization, in order to uncover potential efficiencies for the County.

Analysis:

Fleet Maintenance. Fleet maintenance costs a net $2.1 million/year (considers the cost after subtracting outside revenue). Outside agencies are charged an $82/hour shop rate, 25% mark-up on parts and no mark-up on fuel. Internal departments are charged an $86/hour shop rate, a monthly charge of $68 (to recover the costs that the shop rate does not), 25% mark-up on parts, and 7% mark-up on fuel. Fleet maintenance time spent on these external contracts represents 28% of its total, while external revenues are only 17% of total Fleet Services.

To compare the cost of the County's fleet maintenance operations to other alternatives, we converted the County's costs to a model that was comparable. The model used, which is typical in the private sector, is an hourly shop rate plus a 10% mark-up on parts. Multiple alternative repair and maintenance options were reviewed, and for comparison purposes, we chose one organization's price model that could service a full range of County vehicles (though there could be unique-type vehicle requirements would require specialized services).

Using this approach, the County's effective shop rate is $157/hour, which compares to an average alternative rate of $95/hour on the market ($60 - $102 range based on type of service provided). In other words, the County true shop rate is approximately 65% higher than the market alternative. The apparent drivers of this price difference are overhead infrastructure, administration and labor utilization/productivity.

Calculation of Shop Rate	
Personnel related	$1,159,157
Building Management	$495,752
FREDS Admin	$255,783
Distribution	$170,607
All Other Expenses	$154,420
Subtotal Expenses	$2,235,719
Income on Parts and Fuel sales	-$82,906
Net Expenses	$2,152,813
2010 Billable Shop Hours	13,672
Shop Rate per Hour	$157.46

<u>Fleet Utilization and its impact on Fleet Ownership.</u> The County tracks vehicles by 50 different classes. When buses and law enforcement vehicles are removed given their non-traditional usage, the remaining fleet of 518 vehicles has an average utilization of 5,263 miles annually. Looking just at sedans, which are used for day-to-day purposes by County employees, these 228 vehicles have an average annual mileage use of 5,795.

General industry practices for fleet utilization generally range between 7,000 – 8,000 miles annually per vehicle, in order to gain the economic efficiencies associated with owning a fleet. Also, based on existing low utilization rates, the County established in 2000 a minimum utilization standard of 6,000 miles per fleet vehicle annually. Our analysis shows that the County is operating below its own standard and well below industry standards around fleet utilization.

Based on our analysis, the County would not benefit from looking at a different model of fleet ownership, because its utilization levels are currently too low to benefit from industry pricing and since current fleet are generally operated today beyond their intended life. The chart below shows a sample analysis by vehicle. In the green, we have indicated the current County pricing model. In the Orange, we have reflected an external lease pricing model. The column to the far right shows potential savings by utilizing an external lease provider. As you can see, vehicles that are either at low utilization levels or that are operated beyond the replacement life show negative savings from a lease arrangement. Overall savings across this sample do not justify a broad look at a leased approach to the County fleet.

CLASS	Make, Model, Year	Annual Miles	Odometer Reading	Mileage Charges	Overhead Charges	Replacement Charges	Total Charges	Mileage Charges	Flat Monthly Charges	Total Charges	Lease Savings
1226	Chev, G1500 AWD, 2005	16,808	96,227	$8,236	$ 816	$2,200	**$11,252**	$1,496	$ 5,094	**$6,590**	$4,662
1226	Chev, G20, 2002	2,141	76,614	$2,940	$ 816	$2,200	**$5,956**	$191	$ 5,094	**$5,284**	$672
1226	Ford, E250, 1991	1,323	85,644	$2,940	$ 816	$0	**$3,756**	$118	$ 5,094	**$5,212**	-$1,456
1226	Ford, E250, 2006	2,343	14,625	$2,940	$ 816	$2,200	**$5,956**	$209	$ 5,094	**$5,302**	$654
1226	Ford, E250, 2006	6,964	26,722	$3,412	$ 816	$2,200	**$6,428**	$620	$ 5,094	**$5,714**	$715
1226	Ford, Econoline, 2000	3,220	118,992	$2,940	$ 816	$0	**$3,756**	$287	$ 5,094	**$5,380**	-$1,624
1226	GMC, Van, 1993	6,368	103,865	$3,120	$ 816	$0	**$3,936**	$567	$ 5,094	**$5,661**	-$1,724
				$26,529	$5,712	$8,800	**$41,041**	$3,486	$35,656	**$39,142**	**$1,898**

However, the County would benefit significantly from looking at how to improve utilization within its existing fleet. Thus, the County should analyze the potential benefits of reducing the number of existing fleet vehicles and increasing utilization of remaining vehicles. Once that is done, the County can more accurately look at alternative ownership models with better efficiency.

Recommendations:

We recommend three specific actions for the County to improve the overall efficiency of its operations around fleet maintenance and ownership:

- ✓ The County should eliminate the County vehicle maintenance and repair operations and replace it with external service contracts. We understand that this is recommending the utilization of external service relationships for services that are currently provided within the County. Since this will result in the reduction of represented personnel, the County must follow its procedures and agreements to take this action. However, based on our analysis, the economics are significantly in favor of utilizing external service relationships around its fleet. Thus, we believe the County should move in this direction.

- ✓ The County's Fleet division should establish an overall plan to increase the utilization of its fleet vehicles. Specifically, the division should establish immediate actions to increase the minimum annual fleet mileage to 6,000 miles per vehicle, in conformance with County policy FLT-1. Meeting this minimum will likely increase average fleet utilization to 7,000 – 8,000 miles/year, which more closely resembles industry practice. As a result, the County will likely reduce its overall fleet size, resulting in both proceeds from the disposition of vehicles and reduced annual operating expenses associated with a smaller fleet. We have not estimated the savings associated with a smaller fleet size into our analysis. Thus, the County is likely to achieve greater savings in this area than we have proposed. Higher fleet utilization will also open the door for consideration of other forms of fleet ownership that may be economically advantageous to the County.

- ✓ Once outside fleet maintenance is established and fleet utilization improved, the County should enter a next phase of analysis, exploring alternative ownership options for the fleet.

Estimated Savings and Supporting Information:

We have estimated savings that would directly result from annual operational savings associated with using an alternative maintenance and repair provider. Since these services would need to be contracted via an RFP, the exact savings would be determined by the proposed terms of the service agreements. However, based on our analysis the County would save between $524K-$715K annually.

Additionally, in the first year of implementation, existing shop equipment could be liquidated (unknown value) and existing parts inventory could be sold. With a present book value of $380K, we estimated that at least $190K could be realized through the disposition of parts.

As a result, the County would generate approximately $714K-$905K in Year One of implementation and a total savings over a five-year period of $2.8 - $3.7 million.

Implementation Considerations:

Given the myriad types of vehicles in the fleet, implementation planning will be complex and important to ensure a smooth transition. The following are issues that should be addressed during implementation planning:

- ✓ The County should create a working team to develop the plan for outsourcing fleet maintenance, preferably in its entirety (economics permitting). This would include an RFP process to identify vendors specializing in specific vehicle classes, as well as one-stop shops. We recommend that this team include cross-functional representation of experience, including fleet, finance and contracting/sourcing expertise.

- ✓ The County will need to implement change management planning with respect to the Fleet division to support it in its transition. The County should also ensure that effective leadership is in place and supported to implement these changes.

- ✓ The County's purchasing group (CPCA) will need to confirm that the RFP is clear under PCRB 47-0250 guidelines. County Human Resources will also need to take into account and manage any union contract considerations.

Motor Pool

The County owns and maintains its own motor pool for use by employees. The motor pool is comprised of 72 – 95 vehicles, depending on how many are active at any one time. Whereas fleet vehicles are dedicated to departments and/or individuals, motor pool cars are generally available for use by County employees. Today, motor pool vehicles are located at various locations, including Multnomah Building, downtown, Blanchard Building and Yeon Complex.

Compared to outside agencies, the average County motor pool vehicle is considerably older, with 53% of vehicles being driven beyond their established replacement life. The County policy is that upon request, a car will be available within two hours. Based on our analysis, we have found that the County motor pool cars are currently underutilized and other more economically favorable approaches exist.

Analysis:

The motor pool fills the need of employees to travel to conduct County business when a permanent fleet car is not required or justified for the employee or department. In practice, employees both use County motor pool vehicles for this type of travel and get reimbursed for use of their own personal vehicles. In fact, employees are currently utilizing personal mileage reimbursement 1.77 times more than the motor pool, bringing into question the value placed on the County's motor pool service. In FY10, personal mileage reimbursement totaled $515K, representing approximately 760K miles. Motor pool vehicles logged 430K miles for a total approximate cost of $585K.

The average utilization of motor pool vehicles is on average only 31%. Utilization rates vary significantly by location, showing that significant opportunities exist to significantly reduce the number of motor pool cars or even eliminate the service entirely.

Of the 90 vehicles reviewed in the above data set, only 14 had utilization rates greater than 70%.

Annual Per Vehicle Usage (8 hour/day max; no min)		
Vehicles	Total Hrs Used	Utilization %
Blanchard Subtotal	1,164	11.6%
Multnomah Building Subtotal	6,457	24.8%
Downtown Subtotal	49,918	39.0%
Yeon Subtotal	1,525	5.9%
Total All Motor Pools	59,064	31.0%

There are a number of alternatives to an owned and internally managed motor pool. In addition to mileage reimbursement, there are rideshare programs and traditional rental car agencies. A number of those programs were reviewed, and for purposes of this analysis a ZipCar service was used to quantify the potential economic benefits to the County of an external service.

The following tables show the assumed costs of a ZipCar service, the additive costs of rental cars when necessary and the assumed County use. Based on our analysis, the total annual costs to the County would be $430.5K, resulting in average annual savings of approximately $135K.

ZipCar Fixed Costs	
Acct Setup	$ 75.00
Per driver on account (# of unique drivers)	$ 25.00

ZipCar Variable Costs	
Hourly Rate (1 hour min., half hour increments)	$ 7.00
7am to 7pm Rental	$ 56.00
All Day Rental	$ 66.00
Mileage Rate (180 Free miles Included per reservation)	$ 0.45

Costs if ZipCar and Rental Car Combination Are Used	
Account Setup	$ 75
Year 1 New Driver Setup Costs	$ 19,650
Annual New Driver Setup Costs	$ 1,250
Annual Chargeable Hours Costs	$ 309,624
Annual "7am to 7pm" Costs	$ 21,392
Annual "All Day" Costs	$ 3,168
Annual Cost of Miles Over 180 Free per ZipCar Rental	$ 1,031
Annual non-ZipCar "Car Rental" Costs	$ 94,120
Year 1 Costs	**$ 449,060**
Annual Costs After Year 1	**$ 430,585**

County Motorpool Use Under ZipCar Assumptions	
# of New Unique Drivers Year 1	786
Annual # of New Unique Drivers Added	50
Total Chargeable Hours	44,232
# of "7am to 7pm" Charges	382
# of "All Day" Charges	48
Annual Miles Over 180 Free per ZipCar Rental	2,292
# of non-ZipCar "Car Rental" Days	2,353
Non-County Agency Hours Chargeable	742

Non ZipCar Alternative Cost Assumptions	
Daily Car Rental Rate (Total Cost)	$ 40.00

NOTES

1. Analysis assumes all motorpools will have access to ZipCar

Since personal mileage reimbursement is already a widespread practice within the County, the County may also look at simply reimbursing employees for miles. This approach would generate potential annual savings of $250K/year, but may have more implementation considerations around managing and auditing the process.

Recommendations:

Our analysis shows that the Motor Pool does not have the utilization or the economic case for the County to maintain internal ownership and maintenance. We recommend that the County eliminate the County-owned motor pool and replace this service with a combination of rideshare and rental car services and personal vehicle reimbursements, where appropriate.

Estimated Savings and Supporting Information:

Depending on the combination of the options selected, Year One savings will range between $135K - $250K with total cumulative savings over a five-year period of $685K - $1.3 million.

The County could accrue additional savings through the liquidation of the existing motor pool vehicles. The County also has the capability to sell parking lot properties and/or exit property leases associated with the County's Motor Pool. We have not included these savings in our analysis. The implementation planning team should finalize the specific approach, timing of actions and estimates of potential savings.

Implementation Considerations:

- ✓ New rideshare models are emerging, so we recommend that the County quickly explore all those that could meet the employees' needs. With sustainability being a focus of the County, it could showcase innovative options here that would show both economic and environmental benefits. A couple examples include Car2Go and Relay Rides.
- ✓ There may be justification for a small number of motor pool cars to remain, given high utilization in specific locations and within specific populations of the County.
- ✓ The County should evaluate mileage reimbursement policies to understand best practices and potential challenges associated with scaling this practice.
- ✓ The County should consider collective agreements for rideshare that include other municipalities in the Portland metropolitan area.
- ✓ The County's purchasing group (CPCA) should ensure that RFP actions conform to PCRB 47-0250 guidelines. County Human Resources will also need to take into account and manage any union contract considerations.

Building Disposition and Long-Term Building Planning

The most significant administrative cost driver within the County is building infrastructure. Based on current book value, the County has over $500 million of building assets. The County spends $48 million/year on the operation of these facilities (5% of the total net County budget). Additionally, the County has a growing deferred maintenance situation estimated in May 2010 at $21.3 million (excluding seismic risk) and outstanding building debt of $52 million.

Currently, County departments have high autonomy and have the authority to make facility decisions based on their own needs and preferences, rather than from a Countywide perspective. In addition, the County does not have a long-term portfolio strategy for its buildings that guides decision making. The result is an operating mode in which the County's most desirable buildings are being utilized and the least desirable buildings have excess capacity. In 2004, the County developed a Building Disposition Plan designed to improve overall utilization of the County's facilities. Although the County made progress in successfully removing 160,000 square feet of space, the plan was never fully implemented. As of today, existing building space that is vacant within the County is 5% of the total County square footage, excluding the Wapato Jail. In addition, this figure does not include space that is occupied but underutilized. As a result, we expect the true excess capacity of the County to be higher. This excess capacity is both a significant annual cost to the County and a significant opportunity for annual savings.

In order to gain efficiencies around the County's building infrastructure within this current economic cycle, the County must adopt a different perspective in managing its building portfolio. Rather than filling the most desirable buildings, the County should understand which of its buildings are most marketable. Marketable buildings provide opportunities for the County to take real estate actions, either through sale or sale/leaseback, resulting in immediate cash to the County and potential reductions in operating expenses.

Our conclusion is that with proper planning and the right expertise the County could achieve significant savings through both improved utilization of existing buildings and through potential real estate actions to dispose of marketable buildings. To do so, the County should immediately develop a long-term portfolio strategy for its buildings that balances the needs of the departments in delivering County services and potential economic gains to the County.

Analysis:

As part of this analysis, we looked at two discrete ways to provide efficiencies and/or savings to the County. First, we looked for ways to reduce the County's footprint and therefore increase the existing utilization of County properties. There are several opportunities within the County to reduce its footprint by exiting buildings and/or consolidating groups into existing buildings. Second, we analyzed the economics of sale and sale/leaseback scenarios with existing marketable buildings of the County. Since this analysis required real estate expertise, we enlisted the support of CB Richard Ellis (CBRE), given their considerable experience with these types of transactions with government entities.

Any potential actions of the County will require in depth analysis with real estate expertise and approval by the Board to proceed. To illustrate the potential benefit to the County, we examined a sale/leaseback of the Multnomah Building. Despite the present downturn in commercial real estate, CBRE's experience with this type of sale/leaseback has found that there is presently a window of opportunity in the real estate investment community for sale/leaseback transactions that are for marketable properties with creditworthy owner-tenants willing to sign long-term leases.

Sale/leaseback terms are very flexible and can be structured to meet the needs of the Seller. For example, the lease term, operating and capital expense sharing, and eventual ownership can all be stipulated as part of the terms. For purposes of this example, we asked CBRE to run the economics for a 20-year gross lease scenario, where the Buyer would pay all operating and capital expenses. Since this scenario includes all costs, it provides the County with the greatest assurance of cost during the term of the lease.

Sale/Leaseback - Multnomah Building		
Assumptions:		
Square Feet	201,114	
Sale Value	$38,833,000	
Sale expenses	$1,500	(per $1M in building sales value)
Broker fee	2%	
Annual Lease	$20.70	(per sq ft)
Annual rent increase	2.5%	
Outstanding Debt	$26,800,000	
Present County Occupancy cost:	$24.23	(per sq ft)

Sale/Leaseback - Multnomah Building		
in $millions	Year 1	Years 2 - 20
Sale Price	$38.8	
Transaction Fees	-$0.8	
Debt Retirement	-$26.8	
Net Sales Proceeds	$11.2	
Net Rent difference:		
Existing Rent	$4.9	
Sale Leaseback Rent	$4.2	
	$0.7	$13.5
Net Cashflow	**$11.9**	**$13.5**

The conclusions of the analysis are that the County could net approximately $11M in proceeds through the sale of the building (after paying off the outstanding debt and transaction expenses). Further, since the current market rates for leases are below the County's facilities cost structure for maintaining the building, the County would save an additional $700K annually in operating expenses.

Recommendations:

Based on our analysis, there are significant opportunities for the County through the better utilization of the County's building portfolio, by vacating existing building space, and through potential real estate actions around marketable buildings. We recommend that the County immediately take action to develop a long-term building portfolio strategy.

In doing so, the County should utilize a two-pronged Strategic Portfolio Review approach that considers the needs of department programs (and the location of their served populations) and the viability of property disposition. Where a property is not marketable, the County must fully utilize those buildings without undue compromise to programs, so other buildings may be sold or leases terminated. For example, the Yeon complex is an existing County building located in East Multnomah County with significant excess capacity. The building, according to the analysis of CB Richard Ellis, is not currently marketable. Thus, the County should look at how to better occupy and utilize that building and to therefore vacate other leased or owned buildings as a way of gaining efficiencies in this economic environment.

We believe the County needs additional real estate expertise within the County Facilities division to implement these recommendations. We recommend the hiring of additional real estate expertise and the engagement of outside commercial real estate support to guide the County through market alternatives.

Estimated Savings and Supporting Information:

Although the opportunities far exceed just the Multnomah Building, we have only included estimated benefits to the County through the sale/leaseback of that building. The sale/leaseback of the Multnomah Building would realize net proceeds of $11.9 million in Year One and ongoing annual savings of

$700K/year in operating expenses, resulting in $13.5 million in operating savings over the life of a 20-year lease.

Implementation Considerations:

- ✓ Create a working team whose composition is cross-departmental to give weight to department-specific and countywide considerations. Full department participation and adherence will be critical to full success.
- ✓ The long-term portfolio strategy should be reviewed with the Board as context to future potential actions. The Board will need to approve any sale or disposition of County buildings.
- ✓ The County will require leadership within its Facilities division to organize and implement this portfolio view of building assets.

Conclusions:

Based on a countywide analysis of administrative functions, Coraggio is recommending that the County pursue six specific areas that will result in both savings to the County and a more effective ongoing operating model.

The six recommended areas for action are:

- ✓ Structural improvements to ensure more efficient and accountable management of County administrative functions
- ✓ Improved budget system and planning process to create more transparency in budgeting and to enable better alignment of spending throughout all departments to stated County priorities
- ✓ Increased management span of control within administrative functions, resulting in the need for fewer managers and a more efficient organization
- ✓ Elimination of the County's Central Stores, warehousing and distribution functions, with the exception of a central mail room. Utilize the warehousing and direct ship capabilities of vendors that are already priced into the purchase of goods. Increase focus on a central strategic sourcing strategy to reduce the total costs associated with the acquisition of goods and professional services
- ✓ More efficient operating models in the way that the County manages its Fleet and Motor Pool, specifically including reducing the number of fleet vehicles and increasing utilization of each vehicle, utilizing external service relationships for fleet maintenance/repairs and significantly reducing its motor pool operations
- ✓ Immediate development of a long-term portfolio strategy for the County's buildings, including investigation of real estate actions on marketable buildings and improved utilization of all County buildings, especially those that are not marketable

The total estimated savings of implementing the recommendations is $4.2M in the first year of implementation and approximately $24.3M over a five-year period.

In addition, potential real estate actions around specific County buildings could net the County approximately $11.9M in year one of implementation and additional operating savings of over $700K per year (or $3M over five years).

For each recommended area, we recommend the formation of implementation planning teams that engage relevant County expertise to determine specific implementation plans and timelines in accordance with the intent of the recommendations. The COO should have primary accountability for the implementation of the recommendations. Actual savings to the County will be determined within implementation planning and will depend upon which actions the County chooses to implement and the timing of implementation.

The recommendations in this report set the stage for a multiple year change management strategy for the County—one that ensures success around necessary structural, leadership, process and cultural changes. These are not simply discrete actions that can provide savings to the County in the way that it manages administrative functions. These actions provide the foundation for a new way of operating. As a result, as part of these actions, County management will need to develop and implement an overall change management plan that ensures success around necessary structural, leadership, process and cultural changes. Effective leadership will also be critical to the success of these changes. The County should ensure that effective leadership is in place now over the affected areas of change.

County management (COO and department directors) and the Board of Commissioners will need to be aligned through this process of change to ensure a successful outcome around the proposed recommendations. Thus, we recommend direct conversations within leadership and the formation of clear agreements on how County management and the Board will communicate with each other and stay aligned during decision making and implementation.

Acknowledgements:

We would like to thank the many County personnel with whom we worked during this process. We truly believe in the opportunity for the County to be a more effective and more efficient organization within the context of a changing economic environment. We found a great depth of commitment and expertise within the County to steward the recommendations that we have offered in this report.

We would also like to call special attention to the support provided by the Sacramento and Portland offices of CB Richard Ellis as part of this work. With a vast knowledge of real estate transactions in other municipal environments, we found their work to be exceptional. We also appreciate the speed and responsiveness with which they acted in the course of this analysis.

Finally, we recognize that we are asking the County to change in some significant ways. And change is not easy. For Multnomah County, we can not expect a 100-year culture to change overnight. In the same breath, we want to remind County leaders, managers and employees that change at its root is simply a choice. It's the core belief that there is a better way. It's the point of view that in order to fulfill our core mission we must evolve in terms of what we believe, how we interact and what we strive to accomplish.

When our environment changes, we are forced to renegotiate our assumptions and the choices that we have made to get to this point. It's the old adage: what got us to this point may be the same as what causes our failure when our environment changes. That's the current challenge of Multnomah County and other municipalities around the country. The environment is changing at a rapid pace. And the paradigm of operating is changing with it. Every employee in the County has an important role to play in terms of looking at challenges in a new way, ensuring that the County is focusing its resources on the highest priorities and evolving the culture into a highly engaged and fulfilling place to work.

We encourage the leaders of Multnomah County to engage together in the real conversations that stand in front of the County. Our hope is that this report is the beginning of significant and transformational change within the County, not through the identification of solutions, but through the opening of a leadership dialogue that clarifies how the County will be different over the years to come.

Thank you for the opportunity to be part of this important work.

Sincerely,

Rob Fenty and Holly Valkama, Coraggio Group