



Memorandum

Date: January 12, 2010

To: John Kovash, Mayor
Members, West Linn City Council

From: Chris Jordan, City Manager 

Subject: Continuing Discussions with Milwaukie Regarding Financial Management

As I mentioned in a previous memorandum to the Council, City staff have been working with the City of Milwaukie on a plan that would have Milwaukie contracting (through an Intergovernmental Agreement) with West Linn for our staff to provide financial management services to that City. These discussions have now resulted in the development of the memorandum that is attached.

This memorandum provides a comprehensive discussion of the need and benefits of this arrangement from the perspective of Milwaukie. From our perspective, I believe it does the following:

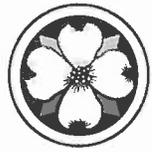
- 1) Provides additional challenges and opportunities for Richard Seals and Casey Camors who have the intellectual capacity to absorb this new role and relish the challenge of doing so. As a manager, I try to keep exploring opportunities to keep our best staff interested in their jobs and provide new, creative opportunities for them to pursue. This arrangement will do just that for Richard and Casey.
- 2) Financially benefits the City. As I've mentioned previously, both Richard and Casey will need to receive salary increases as it is clear they will be taking on more responsibility and, certainly, this new arrangement will require each to work longer hours. However, these additional expenses will be more than offset by a payment from the City of Milwaukie which we expect to be \$100,000 annually. Ultimately, I would anticipate the net financial benefit to the City to be \$60,000-65,000 annually. Given our current budget situation, we need to be looking at every opportunity such as this, to improve our financial status.
- 3) Is a step in the evolution of how cities (and other public agencies) continue to provide services to their constituents within the budget realities we will be facing now and in the future. Leaders in public agencies need to be challenging the status quo and exploring all other options for service delivery. For those services that are not necessarily unique to one public agency, we need to explore alternatives such as sharing services, so that we can save money by taking advantage of economies of scale. If a relationship with Milwaukie is successful in this case, I hope to be able to expand the scope of this

endeavor to include other cities or public agencies. And I believe we need to look at other City services for possible resource sharing opportunities.

Our discussions with Milwaukie, if they continue to progress, will result in the drafting of an Intergovernmental Agreement. Because Tim Ramis is the City Attorney for both agencies, I have informed Tim that we will allow him to represent Milwaukie in this matter and I will find another attorney to review an IGA on our behalf.

If the attached memorandum is well-received by Milwaukie's City Council, I will schedule an opportunity in the near future for the West Linn City Council to have a public discussion about this arrangement.

Attachment



MILWAUKIE

Dogwood City of the West

To: Milwaukie City Council
From: Bill Monahan, Milwaukie City Manager
Cc: Chris Jordan, West Linn City Manager
Andy Parks, CPA Milwaukie Contract Finance Director
Cynthia Trosino, Human Resources Director
Richard Seals, CPA CMA CFM, Finance Director
Casey Camors, CPA, Assistant Finance Director
Subject: Background Memo on Outsourced Finance Director Services
Date: January 5, 2011 for the January 18, 2011 Regular Session

Purpose

To provide background information on the proposed intergovernmental agreement for the City of Milwaukie to contract finance director services with the City of West Linn, through their Finance Director, Richard Seals, and Assistant Finance Director, Casey Camors.

Background

There is a saying that "a manager accepts the status quo; a leader challenges it." After much review, I believe the City is at the point where the financial management status quo needs to be challenged. Attempting to recruit and hire another Finance Director without first addressing the challenges faced by the Finance Department, will only likely give way to the same results. The current state of the City's Finance Department requires that the City acquire and maintain experienced financial leadership that is available on a daily basis to address the existing challenges in a timely manner. During the past eleven months, Andy Parks has provided the City this experienced leadership and addressed a number of critical issues for the City. However, as agreed to at the initiation of Mr. Parks' engagement, he is not available on a full time basis nor does he desire to continue in this role for an extended period of time.

While considering our alternatives, an opportunity to contract with the City of West Linn for the use of their Finance Director and Assistant Finance Director to provide the necessary Finance Director leadership emerged.

For approximately the past sixty days both cities have been performing due diligence on an outsourced finance director relationship between the City of West Linn and City of Milwaukie. Based upon our due diligence, collectively we are confident that contracting these services with the City of West Linn, and their respective Director and Assistant Director provides an exceptional solution to our current financial leadership issue. Additionally, it provides an exceptional

opportunity to West Linn for its staff to develop further professionally. So with your approval, I propose the City enter into an Intergovernmental Agreement with the City of West Linn for its Finance Director Richard Seals and Assistant Finance Director, Casey Camors, to perform the duties of our Finance Director position.

To better understand West Linn's capabilities, I encourage you to review West Linn's web-site for insights into their status: <http://westlinnoregon.gov/finance>. The City of West Linn is very excited and interested in assisting us. They have their finances in order, they have the current capacity with their Finance Director and Assistant Finance Director to aid the City of Milwaukie, and they have the potential and interest in further developing their skills.

Many of the details of this arrangement are being worked out and I suspect I can not address all of them in this informational memo. However, in anticipation of some of the questions you may have surrounding this arrangement, below are topical sections that provide a basic background. Please be assured that we have evaluated the opportunities and challenges in as complete a manner as possible.

History of Finance Directors in Milwaukie

In February 2010, the City of Milwaukie retained a seasoned financial consultant, Andy Parks, CPA with GEL Oregon, Inc., to perform the responsibilities of the finance director position. The City was in need of a professional to lead the budget process after the City Council in early January had decided not to renew the City Manager's contract. The former finance director had resigned in November, 2009 after serving only approximately eighteen months.

The short tenure of the former finance director continued the City's struggles to recruit and retain finance directors since a long-term director retired in 2000. Subsequent to that retirement there have been four directors to hold the position. They have averaged 28 months with the City, with the longest tenure (the initial hire) being forty months and the shortest three months. Additionally, during the past decade the position was vacant and or filled with temporary help for twenty-four months.

Challenges of Recruiting

One has to wonder, why has the City struggled to retain a quality finance leader? This was one of the issues that the City asked Mr. Parks to evaluate and report on. Based upon his twenty plus years of experience serving over twenty-five local governments, including assisting cities in recruiting finance director positions, he isolated the primary reasons why the City's finance director position had been difficult to recruit and maintain to the following areas:

- supply -there are a limited number of qualified individuals in the field that have chosen public sector finance careers; so there is a supply issue;

- compensation - the compensation range for this position is one of the lowest in the area and is placed two levels below the City Manager's; and
- authority - there is limited scope of authority for the position. Authority is primarily focused on accounting functions,
- work environment - including office and technology, and
- the external perception of the City organization.

I have also consulted with others within and outside the organization. The feedback received is similar to that of Mr. Parks. What also came from my discussions with Mr. Parks and others is that the issues associated with department leadership did not happen overnight and will take time to restore. The first key steps have been taken to address the City's financial issues; financial records and audits have been brought current (three audits completed in the past twelve months), the internal audit of the City's utility accounts are nearly completed, we are implementing monthly billing, financial policies have been drafted, reviewed and approved by the Budget Review Board and are before you this evening, and we are initiating a significant change to the financial accounting structure of the organization. All of these steps were critical to help move the City in the right direction. And it is absolutely critical that these efforts continue.

Need for Continuity with the Finance Leadership

The City requires continuity in the leadership of the finance department. Additionally as noted above, the core financial structure has to be sound in order to best meet the City's needs. One question that has to come to light is "When was the last time the credit reporting agencies of Moody's, Standard and Poor's, and Fitch, considered a credit rating for Milwaukie?" Typically, these agencies look into the core financial processes to determine if sound financial management practices are operating and long-term planning is being sufficiently performed.

Below are just a few of the areas in need of improvement that have been identified as neglected due to the lack of continuity with the finance leadership.

Accounting/Fund Structure:

The current accounting structure has been identified by Mr. Parks, Mr. Seals and Ms. Camors to be inefficient and ineffective. While Milwaukie's population is smaller than West Linn's for example, Milwaukie has over twice the number of funds (29 funds compared to West Linn's 13). There are nine Enterprise type funds (requiring full-accrual accounting) and six Internal Service funds (requiring labor-intensive eliminations of activity to complete the financial statements), several reserve funds, and effectively two general funds.

The main General Fund includes Police, Library, Planning and Municipal Court. The typical administrative supporting departments of Human

Resources, Information Technology, Finance, etc., are in a separate fund called Administrative Services Fund.

Many of the City's special revenue funds do not have legally restricted and/or dedicated revenue streams. With next year's required adoption of GASB 54 many of these funds will be required to be consolidated.

Each systems development charge (SDC) type received by the City has its own fund, of which many are accounted for as enterprise funds. However, the Street SDC Fund seems to be a special revenue fund. This is unusual, and considering the different accounting treatments for these types of funds, this could easily cause significant confusion and difficulty in properly preparing financial reports. If the finance staff is confused and has difficulty preparing financial reports, it doesn't take much imagination to see that management and others using the reports may be much more confused causing significant challenges when making decisions.

The sheer number of Internal Service funds for a City of Milwaukie's size is a significant challenge. Where most finance officers consolidated these funds into their General Fund when GASB 34 became effective (more than a decade ago), Milwaukie instead committed to this complex structure. Instead of reorganizing, and in turn simplifying the fund structure (generally, internal service funds further complicate accounting), the City did not take advantage of this opportunity and continued to utilize this complex structure.

Additionally, the City has several reserve funds, some are Special Revenue funds, some are Internal Service funds, however, these funds likely do not meet the requirements of a "Reserve" Fund.

Budget Excesses:

As has been noted previously, in the notes to the two most recent audited financial statements (fiscal years 2008 and 2009), thirteen areas are noted where the appropriated budget was exceeded. As discussed previously, the confusing and extensive accounting/fund structure that the City currently uses can easily be the cause of these budget issues.

▪ **Debt, Refinancing Plans:**

Milwaukie has a relatively small amount of debt. The City has several significant aging capital infrastructure systems that may require the use of debt. It is critical that debt-financing plans, currently non-existent, be incorporated into the capital improvement plans. Additionally, there may be opportunities to refinance and or restructure the existing debt to take advantage of current low interest rates.

Recent GASB Pronouncements:

GASB 45 must be implemented by the City in fiscal year 2010 and an Actuarial Valuation should be currently underway to ensure proper implementation of this pronouncement. GASB 51 also requires implementation which may require significant adjustments if intangible assets, such as easements, were not already capitalized under GASB 34 a few years ago.

Strategic Planning Functions to be Gained

Strategic financial planning has not been provided for several years. This is a key function of the finance director position and particularly given the current financial horizon a capability the City must have. Mr. Seals has considerable experience with strategic financial planning and the development of this capability with the two assistant directors will be a key element of the work plan.

Providing Financial Support to Other Departments

Typically, a Finance Director is considered one of the key members of a public entity as budgetary considerations, particularly long-range financial planning, are one of the driving factors in the operational planning of such organizations. A Finance Director is the point person for financial decision-making and strategy. The position ensures that financial controls are in place and operations are sustainable going forward.

In leading by example, a Finance Director's door is always open to the entire organization and the public in an effort to manage and satisfy questions and concerns. A Finance Director coordinates, consolidates and analyses plans, forecasts, and projections across the entire organization. Development of standardized financial reports, quarterly and annually, for distribution to management and elected officials is also a key function of the position. Submission of these reports entity-wide ensures integrity in the interpretation and commentary provided to support the submission. Overall, a Finance Director is the guardian of the organization's financial strategy and planning process who ensures entity-wide communication as well as the provision of project specific assistance.

Benefits of Mentoring an In-House Assistant Finance Director

Succession planning and mentoring a Director's ultimate replacement is critical to consistency at the Finance Director level. In this spirit, it is key to have an Assistant Finance Director on board, five days a week to oversee and manage all of the "internal control" type activities including transaction posting, transaction approval, transaction monitoring, staff and customer questions and assistance, project assignment, and on-demand departmental reporting and questions. In supporting this position from the beginning the Assistant Finance Director fulfilling this role will develop the in-depth knowledge of the City of Milwaukie, its history,

staff, and citizens. This knowledge will be invaluable in fulfilling a Finance Director position in the future.

Utilizing two seasoned Finance Directors, Richard Seals and Casey Camors, to fulfill the finance director role and provide mentorship to the Assistant Finance Director is a key aspect of this arrangement. The arrangement provides what many public entities are challenged with; securing and retaining highly capable individuals and providing them the opportunity to develop into highly knowledgeable municipal finance officials, including general department management, service and program evaluation, preparation of financial reports, budgets, financial analysis, departmental coordination, strategic planning, and the support of the City Manager and management team.

Present Functions Performed and Future Opportunities

The present functions performed by our finance staff include:

- Utility billing
- Accounts payable
- Payroll
- Accounts receivable
- Risk management
- Financial reporting
- Budgeting
- Cash management

Opportunities include further automation of the functions above and as staffing changes result from attrition and or consolidation of functions the finance department can expand its capacity in the following functional areas:

Strategic financial planning

Debt management

Investment management

Centralized purchasing

Needed Improvements already Identified

Several improvements to our finance operations have been made with Mr. Parks' leadership. Among them are the communication of the City's financial status and capabilities to management and elected officials, completion of the audits, addressing internal control issues, addressing a number of issues within the utility billing area, including but not limited to a full audit of all 7,000 plus accounts and implementation of monthly billing, implementation of quarterly financial reports, initiating the reformatting of the budget document, completing the financial policies, initiating the restructure of the financial accounting system, initiating strategic financial planning, i.e., five-year and longer financial planning and analysis, and initiating an assessment of the City's Information Technology.

Areas of focus for immediate improvement include the strategic financial planning, including but not limited to integrating capital improvement plans with operational budgets and determining various gaps and alternatives to address those gaps. The other key immediate area of focus will be assembling a finance department team. Due to retirements and other staffing changes that are in process, the department will have only one member as of July 1, 2011 that will have any tenure with the City. This presents challenges and opportunities for the City, but is yet another significant reason to take action now and enlist the experience and depth of capabilities of Mr. Seals and Ms. Camors, as well as recruit an Assistant Finance Director.

Cost of Arrangement and Potential Savings

At the time we are considering this arrangement it is not anticipated that savings will result. There are many applicable factors to this analysis. If proceeding with a regular recruitment of a Finance Director, using the City of Milwaukie's current pay scale, a Finance Director's salary tops out at approximately \$94,000. After including the cost of benefits and other employee-related expenses such as membership dues which can add an approximate 50%, the total expense related to this position is closer to \$141,000 per year. The proposed arrangement is a contract costing \$8,333 per month (i.e. \$100,000 per year), providing \$41,000 in savings. We need to recognize that there will be additional costs of hiring an Assistant Finance Director, approximately \$20,000. But, there are other changes that are anticipated over the coming year that may absorb the remaining \$20,000. However, the City will obtain the expertise of two seasoned and professional municipal CPA's working as one shared full-time Finance Director, an Assistant Finance Director position, resulting in significant additional capacity for the organization.

Possible Efficiencies Gained

With this arrangement, the City of Milwaukie will experience many efficiencies in working with the City of West Linn. Most notably, Milwaukie will receive the benefit of two seasoned and professional Finance Directors, Richard Seals and Casey Camors, to manage their Finance Department. When discussing efficiencies in personnel services, the learning curve is the strongest indicator. Seeing as Mr. Seals has twenty-four years experience working in the financial arena and Mrs. Camors has over seven years experience, both professionals are close to the top of their learning curves and have experience performing these functions needed by the City of Milwaukie. The management of the Finance Department will include simplification of the City's fund structure to allow for efficient accounting processes, development of a strong budget and budgeting process to strengthen transparency, short- and long-term strategic forecasting, issuance of award winning financial reports, heightened staff moral and team building, streamlining of day-to-day operations, and heightened interdepartmental support and communication.

Summary

I propose that the City enters into an Intergovernmental Agreement with the City of West Linn to perform the Finance Director position. This informational background memo provides observations, helpful insights, and basic background as to how this arrangement would work. Value-added Finance Departments include professional financial services that every organization and its constituents require especially in times of financial distress and budgetary pressure. Clearly, special attention and a fresh approach need to be given to the Finance Department and I am confident that this arrangement will benefit the City of Milwaukie immensely.

I must add that I feel that the position of Finance Director, and in fact, the entire Finance department, is critical to the success of our organization as we address the immediate as well as long term challenges. Significant decisions are before us as we deal with reductions in revenues while demands for service increase. Coupled with the fact the City has deferred making decisions on certain infrastructure and facility improvements over the past years, we must work to identify funding sources to address our needs. We need the assistance and input of qualified financial professionals who are knowledgeable of our past as well as our future needs. While we cannot address our lack of continuity of the past, we can take corrective action to prevent further issues. By approving the draft IGA, the City Council will change our course and set us in the right direction and enable us to make sound financial decisions.