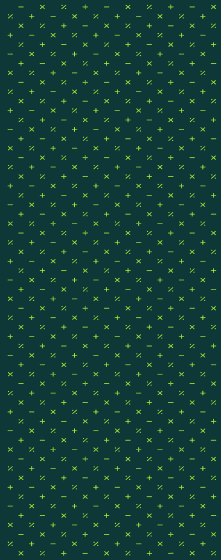




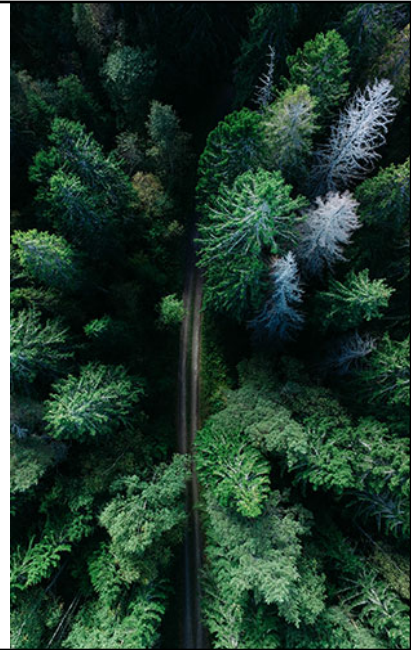
Financial Scenario Analysis Phase 1: Internal Service Benchmarking

City of Salem Finance Committee
November 21, 2022



Objectives

1. Examine the background, process, and results of the internal services benchmarking analysis
2. Understand the implications of the benchmarking analysis
3. Review next steps



Background

- 2022 Budget Committee asked City to provide staffing needs to meet current demand
 - Resulting analysis illustrated internal services staffing needs
 - City staff sought confirmation from benchmarking of similar cities
- Anticipation of the need for additional revenue to meet current service levels
 - Seeking ideas for how similar service arrays are offered in peer cities
 - Beginning to examine financial scenarios
- Confirming forecast tools so that the ask is accurate



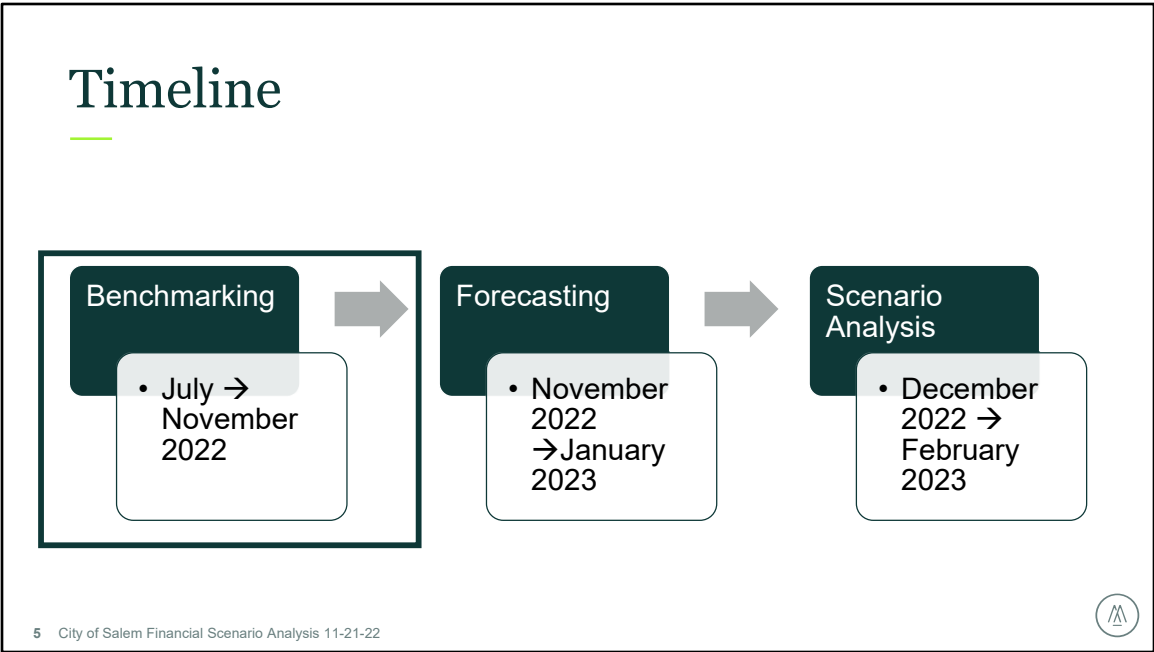
Scope of Work

Support the City's strategic and long-term planning by providing independent, third-party analysis of financial forecasts, revenues, and expenditure scenarios.

- Review and validate the City's financial forecast
- Evaluate existing revenue and expenditure/service scenarios, and identify potential future scenarios based on current operations, policy agenda, and strategic goals
- Review and validate the City's internal service staffing level analysis, and provide benchmarking data, with relevant context for peer/full-service cities
- Present results to City Council and relevant stakeholders



Enclosed portion of Scope represents where we are at this time



Enclosed section of timeline represents where we are at the time of this presentation



Now I'll be going over the process we used for benchmarking and the results we obtained.

Benchmarking: Peer Identification Priorities

1. Full-service cities
2. City functions closely match Salem
3. Similarly sized
4. In the west



The first task in benchmarking analyses is the identification of appropriate peers. Before you can do so, you have to set your priorities and parameters. For this analysis, we wanted to make sure that we compared Salem to other full-service cities that provide—as close as possible—the same services and functions performed by the City of Salem. Now, every city is going to be unique—no two cities are going to match exactly. However, we wanted the functions that Salem performs to closely match the functions performed by the peers chosen. We also prioritized similarly-sized cities, and restricted our analysis to the Western continental US.

Peer Identification: Initial Cities

1. Cities in the western Continental US	5,778 cities
2. Cities within approximately +/- 25% of Salem's population	40 cities



Our peer identification process starts from a large list of initial cities, and then systematically narrows this list down to a usable, small group. First we started with all fifty-seven-hundred cities in the states pictured. We then filtered this list by population, selecting only cities within approximately 25% of Salem's population, which got us a list of 40.

Peer Identification: Department and Community Analysis

For all 40 cities:

1. Determined if there is a department that performs similar functions as each Salem department
2. Identified and compared notable community characteristics

Analysis yielded 16 peer finalists



Using these 40 potential peer cities, we narrowed this list further through concurrent department and community analyses. We analyzed the organizational structure of each city to determine if each of Salem's departments has a corresponding department in that city. Although we are interested in functions performed, rather than how a government is organized, this department analysis allowed us to efficiently narrow down the list of peer cities—For example, if the City did not have a parks or a library department, we could often easily identify if these functions were instead performed by a county or a special district, helping us narrow the list down.

We also compared each city's community characteristics to Salem's. Although our priority was on identifying peers by the functions they performed, we also weighed community characteristics in our decisions. For example, even if a city perfectly matched each of Salem's functions, but the median income and educational attainment were 2 or 3 times higher or lower, it may not be the best comparator.

Peer Identification: Department and Community Analysis

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We examined:

- Population
- Household income
- Percent of population under the federal poverty line
- Educational and demographic characteristics
- And total Land Area

These analyses allowed us to identify the 16 cities that most closely matched Salem.

Peer Identification: Function Analysis

For 16 peer finalists:

1. Determined if each city performs every function performed by Salem
2. Determined if each city provides significantly more services than Salem

Analysis yielded a ranking for each city, quantifying similarity to Salem



We then took these 16 finalists and performed in-depth analyses for each of the services and functions they perform. We determined if each city performs every function performed by Salem. We also determined if each city provides significantly more services than Salem, because we wanted the functions performed by peer cities to match Salem's as much as possible.

This analysis yielded a ranking for each of the 16 cities, quantifying how similar that City is to Salem.

Benchmarking: Peer Selection

In consultation with the City of Salem team,
8 peer cities were selected:

- Corona, CA
- Eugene, OR
- Glendale, CA
- Modesto, CA
- Oceanside, CA
- Salt Lake City, UT
- Spokane, WA
- Tempe, AZ

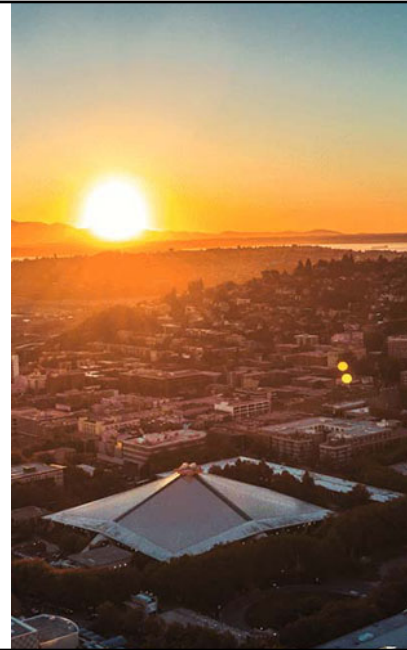


We then brought this list to our partners at the City, and in consultation with the City team, 8 final peer cities were chosen.

Internal Service Benchmarks

1. Staffing
2. Operational expenses
3. Operational capacity, including both in-house staff and outsourced services

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After full-service peer cities were identified, we performed the actual internal services benchmarking. And for this we primarily looked at 3 benchmarks:

1. First, we looked at staffing levels for each internal service
2. We then examined operational expenses for each internal service function
3. Finally, we examined the capacity of these functions—which is a measure we developed that combined both the staffing of internal services with how much these services outsource.

Benchmarking Results: Staffing

Internal Service Functions	Peer City Average Percent Greater (+) or Less (-) Than Salem
City Manager	+105%
Facilities	+14%
Finance	
Budget	+11%
Purchasing	+156%
Finance	+107%
Fleet	+118%
Human Resources	
Personnel Administration	+42%
Benefits	-29%
Payroll	-28%
Information Technology	-16%
Legal	+84%
Risk	
Workers Comp.	+36%
Liability & Casualty	-68%



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14 City of Salem Financial Scenario Analysis 11-21-22



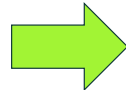
First, here are the summarized results from the staffing benchmarking analysis. For each of these internal service functions, we examined how much the staffing at these peer cities varied from Salem's staffing. The difference between peer cities' average staffing levels and Salem's staffing levels is presented here. Higher numbers, highlighted in red, indicate areas where peers had staffing levels greater than Salem's. Negative numbers, highlighted in green, indicate areas where peers have lower staffing levels than Salem.

All but four of Salem's internal service functions show relative understaffing compared to peers, and this understaffing is greatest at the City Manager's office, Purchasing, Finance, Fleet, Legal, and Human Resources.

I will highlight, however, that...

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The results of this benchmarking metric for Information Technology are a bit deceiving. As we'll discuss later on, Salem has invested more in its in-house application development rather than outsourcing more. While IT does indeed have more staff compared to peer cities, it actually has fewer resources devoted to it than other cities—which the other two benchmarks we discuss will show.

Benchmarking Results: Operational Expenses

Internal Service Functions	Operational Expenses Peer City Average	
	Difference	% Difference
City Manager	+\$2.4 Million	+126%
Facilities	+\$5.2 Million	+99%
Finance*	+\$6.0 Million	+162%
Human Resources	+\$650,000	+25%
Information Technology	+\$3.9 Million	+35%
Legal	+\$2.2 Million	+74%
Internal Services Average		+87%



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Next, we examined the operational expenses for internal service functions. You'll immediately notice that there are fewer functions listed here. For internal service expenses, there was much less detailed information available. Although many cities publish employee-level information on how internal service functions are staffed, the financial information that was publicly available, and that cities shared with us, was organized by department. So, unlike in the staffing analysis where we were able to break some of these internal services down into more specific functions, we had to analyze functions more generally.

Despite the limitations on how granular the operational expense analysis could be, it yielded important results. Internal services in Salem are funded 87% lower compared to peers. In dollar terms, this difference is between six hundred and fifty thousand (\$650,000) and \$5 or 6 million, depending on function.

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One important thing to note with this analysis, however, is the results for the Finance department. This expense analysis cannot not account for how centralized or decentralized peer cities' finance functions are. If peer cities' finance functions are more centralized than Salem, this figure may be a modest overestimate of the difference in funding. However, because the gap between Salem and peer cities is so large—even if this is an overestimate, it still signifies that Salem's finance department is under-resourced compared to peers.

Benchmarking Results: Capacity

Internal Service Functions	Capacity: Staffing + Outsourcing Adjustment			
	Salem	Peer Citites		
	Capacity (FTEs)	Capacity (FTEs)	Difference	% Difference
City Manager	9.0	20.2	+11.2	+125%
Facilities	37.2	71.3	+34.1	+92%
Finance	23.9	44.3	+20.4	+85%
Human Resources	22.0	25.5	+3.6	+16%
Information Technology	71.3	83.3	+12.0	+17%
Legal	14.5	33.3	+18.8	+130%
Internal Services Average				+78%



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Internal Services Average				+78%



We then examined Capacity. Capacity is a measure that combines internal employees with the money that cities spend on outsourcing services—it gives us a rough estimate of how much capacity—or manpower—each city’s internal service functions have available.

We calculate this figure for each function in each city by finding the per-employee spend on operational expenses, we then use this with outsourcing expenses to get an estimate of how many employees outsourcing effectively replaces. By combining existing employees with the employees that outsourcing replaces, we get an estimate of capacity—or manpower—available for each internal service.

Like operational expenses, this benchmark shows understaffing in every function where data was available. On average, internal services in Salem have 78% less capacity than in peer cities, especially in the City Manager’s office and in the Legal function.

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Internal Services Average				+78%



Importantly, as I previously mentioned, this analysis shows that, because information technology invests in in-house application development, when we measure capacity rather than staffing—Salem’s IT is under-resourced compared peer cities.

Benchmarking Results: Summary

Internal Service Functions	<u>Overall:</u> Is function under-resourced?	Unadjusted Staffing	Capacity (Staffing + Outsourcing)	Operational Expenses
City Manager	Yes	Understaffed	Under-resourced	Under-resourced
Facilities	Yes	Understaffed	Under-resourced	Under-resourced
Finance	Yes	Understaffed	Under-resourced	Under-resourced*
Budget	Yes	Understaffed		
Purchasing	Yes	Understaffed		
Finance	Yes	Understaffed		
Fleet	Yes	Understaffed		
Human Resources	Yes	Similar staffing	Under-resourced	Under-resourced
Personnel Admin.	Yes	Understaffed		
Benefits	No	More staffing		
Payroll	No	More staffing		
Information Technology	Yes	Slightly more staffing*	Under-resourced	Under-resourced
Legal	Yes	Understaffed	Under-resourced	Under-resourced
Risk	Unclear	Similar staffing		
Workers Comp.	Yes	Understaffed		
Liability & Casualty	No	More staffing		



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Payroll	No	More staffing		
Information Technology	Yes	Slightly more staffing*	Under-resourced	Under-resourced
Legal	Yes	Understaffed	Under-resourced	Under-resourced
Risk	Unclear	Similar staffing		
Workers Comp.	Yes	Understaffed		
Liability & Casualty	No	More staffing		



Finally, we must examine the results of these 3 benchmarks alongside one another. On the right of this grid, you will see a summary of each of the benchmark analyses that I just reviewed, on the left you'll see our answer to the question—Overall: is this function under-resourced in Salem?

In nearly every case, Salem has less staffing, less capacity, and fewer dollars devoted to operations.

Benchmarking Results: Conclusions

- Compared to full-service peer cities, almost all internal service functions in Salem are understaffed and under-resourced.
- This reaffirms the findings of internal services understaffing from the City's deferred needs analysis

21 Implementation Planning

In conclusion—compared to full-service peer cities, almost all internal service functions in Salem are understaffed and under-resourced. Our analysis independently reaffirms the findings of internal services understaffing that the City's has examined through its deferred needs analysis.



Implications of Current State

- Ability to support desired or required resident level of service
- Some critical policy and service areas have a single responsible party
 - Not managing strategic initiatives with the capacity of most peer cities
 - At risk of not being able to identify and address new strategic and enterprise issues and initiatives
- Lack analytical capacity to support data-driven decision making
- Capacity to recruit and retain high performers is limited
- Capacity for organizational best practices including training and development, internal communications, and data governance is decreasing
- Clarity of roles, responsibilities, and functions

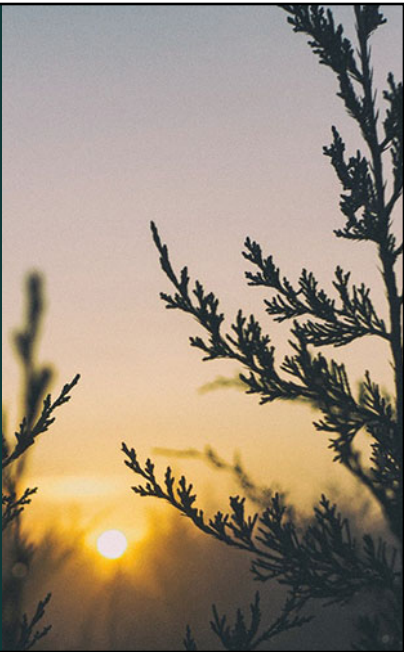


Risks

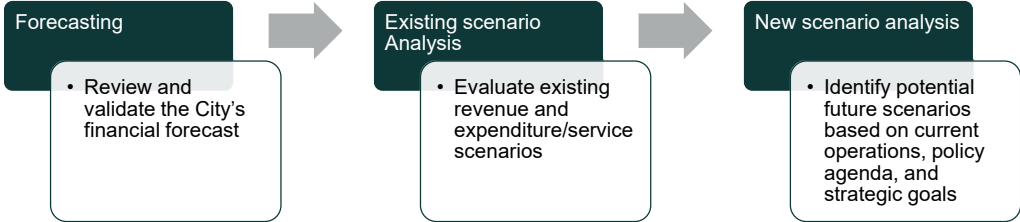
- HR and Legal Compliance
- HR Risks with Union Relations
- IT Security
- Procurement ethics
- Succession and institutional knowledge



Questions & Discussion



Next Steps



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