



Midpeninsula Regional
Open Space District

R-15-58
Meeting 15-07
March 25, 2015

STUDY SESSION AGENDA ITEM 1

AGENDA ITEM

Financial and Operational Sustainability Model Study Final Recommendations

GENERAL MANAGER'S RECOMMENDATION

Receive a presentation about final recommendations of the Financial and Operational Sustainability Model Study being conducted for the District by Management Partners.

SUMMARY

The Board of Directors authorized a contract with Management Partners on August 28, 2014, to conduct the Financial and Operational Sustainability Model (FOSM) Study, which is identified as a major project in the Fiscal Year (FY) 2014-15 Action Plan and Budget. The purpose of the FOSM study is to evaluate existing District workflow processes, staff capacity, and organizational structure and identify options to accelerate completion of high priority projects while continuing to carry out the daily on-going business of the District in a financially prudent and sustainable manner. At a Study Session on January 28, 2015, the Board was provided a FOSM Study update that focused on the guiding principles to frame organization structure options and the macro-level organization structure recommendation. The purpose of the March 25, 2015 study session is for Management Partners to update the Board about final recommendations for departmental build-out staffing projections and phasing and confirming the short-term and long-term financial sustainability of these recommendations. Several high-priority new positions are included in these recommendations, as well as specific near-term FOSM implementation tasks. Approval of and funding for these positions and tasks are included in the FY2015-16 recommended Action Plan and Budget, which the Board will consider also at the March 25, 2015, meeting. As part of the presentation, Management Partners will receive Board member comments, respond to Board member questions, and inform the Board about the next steps for finalizing the FOSM Study Report, as well as beginning FOSM Study implementation.

DISCUSSION

A FOSM Final Recommendations Memorandum from Management Partners is provided as Attachment 1. The study session presentation will cover Management Partners' study findings and final recommendations, organized according to the following outline:

I. The District's Changing Environment

Review how the organization is changing, the importance of this historical juncture to strategically plan for the future, and the guiding principles, core business lines and systems that shape the recommended organizational structure.

II. Understanding the Fiscal Model

Present key assumptions behind the model, how the model works, its forecast for the future, and its capacity to sustain the FOSM Study recommendations, as well as important risk factors to monitor.

III. Staffing Profile and Projections

Present the shape of the future organization by examining general staffing profiles, short-term staffing projections, criteria and profiles for forecasting long-term staffing projections, and how the organizational structure supports growth and scalability.

IV. Implementing Change and Evaluating Success

Present a sample Implementation Action Plan, an approach to gradual growth, and discussion of success factors and performance indicators.

V. Next Steps

Review of next steps for completing the FOSM Study Report, as well as priority implementation actions.

The scope and schedule for the FOSM Study were extended by Board approval on February 25, 2015 (R-15-34), in order to allow the additional engagement with District staff required to carefully develop the final recommendations. The additional time and resources has allowed more review and input from District management, as well as additional briefings from Management Partners to the Department Managers team, and two meetings for all employees that are scheduled during the day on March 25 before this evening study session with the Board of Directors.

FISCAL IMPACT

The funding for the cost to complete the FOSM study is a not-to-exceed amount of \$128,675, which includes the initial project proposal amount of \$107,900, a ten percent contingency amount of \$10,790, and an amendment of \$9,985 (R-15-34) which was adopted by the Board at its February 25, 2015 regular meeting.

BOARD COMMITTEE REVIEW

This study was included in the FY2014-15 Action Plan and Budget, which was reviewed by the Action Plan and Budget Committee and recommended to the full Board in late February, 2014. Due to the magnitude and importance of this study, the scope of work anticipates full Board input during the study.

PUBLIC NOTICE

Public notice was provided as required by the Brown Act.

CEQA COMPLIANCE

This item is not a project subject to the California Environmental Quality Act.

NEXT STEPS

It is anticipated that the Final FOSM Study Report will be presented to the Board of Directors for acceptance on April 22, 2015.

Attachments

1. FOSM Final Recommendations Memorandum from Management Partners

Responsible Department Head:
Steve Abbors, General Manager

Prepared by:
Kevin S. Woodhouse, Assistant General Manager

Management Partners



To: Steve Abbors, General Manager, Midpeninsula Regional Open Space District

From: Management Partners

Subject: Board of Directors Study Session 3/25/15 –Financial and Operational Sustainability Model (FOSM)

Date: March 17, 2015

Why FOSM?

In 2014, the District adopted an ambitious 20-30 year Vision Plan based on extensive constituent engagement and secured broad public support to implement the plan with the passing of Measure AA. The initiative brings \$300 million in bond capacity to implement the plan's elements. To support the District's commitment to connect the public with existing and new preserve land and over 180 new miles of trails and position the agency to develop more access points for the public to enjoy the preserves, the agency chose to evaluate its structure, capacity and financial readiness.

The growth in size, scale and impact of the District is significant. Every dimension of District work must scale up in order to meet Vision Plan goals and the obligations that come with issuance of bonds. Significant change is anticipated with the implementation of the Vision Plan and this requires strategic thinking and thoughtful implementation.

FOSM is a proactive effort to address the changing demands on the organization. It is unprecedented work that requires commitment, careful pacing, and a deliberate change management process. Through FOSM the District is committing to a strategic approach to planning for the future that:

- Anticipates change
- Is Action-oriented
- Is necessarily dynamic and interactive
- Provides a framework that is scalable
- Allows for sustainable staffing in the short and long term

Project Scope and Update

The District engaged Management Partners to develop up to three organization models that will position the agency to successfully implement Measure AA projects and organize itself for long-term sustainability. At the Board's January 28 Study Session, Management Partners presented three options, including a recommended organization model that reflects a carefully crafted set of guiding principles and strategic objectives. The guiding principles and strategic

objectives were based on an environmental scan of the organization, benchmarking activities and extensive engagement with staff and members of the Executive Team. The recommended model was designed to a) enhance business and corporate systems; b) spotlight the project delivery function and responsibility within the organization; and, c) clearly define business lines and group similar functions together to enhance information flow, decision making and accountability.

In developing the preferred organization model, special attention was given to scalability. This concept provides for a sustainable organization structure that can grow, shift and adapt over time and is central to the District's long-term success. Additionally, the organizational model builds on the District's culture of collaboration and teamwork. The recommended strategy to phase the organization changes and system improvements over time will help ensure continued opportunities for employee engagement with implementation.

Since the last presentation, our team has worked with department managers to fine-tune and further define key functions within each department and contemplate department-level organization structure and staffing needs. The discussions are ongoing as the District begins to transition to implementation. The FOSM priority staffing recommendations (being presented during the FY2015-16 Action Plan and Budget staff presentation at the Board's March 25 meeting) and longer-term staffing profile provides a starting point for moving forward.

Fiscal Sustainability at Midpeninsula

The District must grow its capacity to fully achieve the goals outline in the Vision Plan. A key driver for pursuing the FOSM study was to assess the organization's ability to financially meet the workload demands of implementing its ambitious Vision Plan. The District's Controller maintains a 30-year financial model that is continuously updated to address the changing environment of the District and reflect the most currently available information. A recent update to the Board by the Controller provided an overview of the key assumptions built into the model.

Management Partners reviewed the fiscal model and key assumptions to determine the viability of the financial outlook for the District. We compared the long term staffing projections against the Controller's assumptions to assess compatibility by looking at operational expenditures as a percentage of tax revenue (a regular, ongoing source of income) projected over time. We found that the operational expenditures remain below 90% of projected tax revenue over the full 30 year period even with an increase of 40 positions in the next three years and ongoing expenditure increases. We conducted stress testing by applying a "Great Recession" scenario to assess the District's capacity to respond. When we applied one "Great Recession" with no correction to expenditures (**worst-case** scenario), the District reaches 100% of tax revenue approximately ten years following the major event. This provides the District with ample time to adjust expenditures and business activities in response to the economic correction.

Management Partners determined that the financial model applies a series of conservative assumptions that drive the forecast. The model's "Self-correcting" mechanism, which automatically updates capital and operating expenditures based on entered revenue changes is a tool for monitoring and correcting expenditures. As part of the Board's Study Session Management Partners will review risk factors that require monitoring over time, however, we are confident that the organization will have ample time to respond and take corrective action if one or more of the risk-factors materialize.

Projected Staffing Profile

Management Partners developed a series of operating assumptions during the environment scan and other earlier FOSM efforts. These assumptions were based on analysis of workload projections and current operating practices, including gaps and limitations. Specifically we assumed that:

- Planning and project delivery workload will ramp up in the near term and then plateau
- The greatest area of growth over time will be in Visitor and Field Services ("Operations" under the current organization model)
- Finance and Administrative Services must keep pace with the growing organization
- Demand for in-house natural resources expertise will be ongoing with support for both project planning and visitor and field services

In order to provide projections for anticipated staffing, Management Partners established scaling criteria and then compared the results to staffing recommendations developed by departmental managers to validate that the criteria were suitable. The projection methodology establishes ranges of staff increases to compensate for the imprecise nature of long-range staffing forecasts. These projections will need to be reviewed and refined over time, with specific staffing requests occurring primarily during the annual budget process. The projections provide a staffing profile by business line of the future organization.

In total, we project that over the next five years Midpeninsula will need to increase staffing by 42 to 51 positions (we apply a 10% margin to create the range) to fully realize the five-year vision plan objectives and ensure adequate staff support. Changes in the number or type of projects to be completed within this time period could alter the position counts (i.e., fewer projects that result in new trail miles to be maintained or a reduction in the number of overall projects delivered by planning and project delivery teams).

The staffing increases in Project Planning and Delivery, and the Finance and Administrative Services Department are expected to plateau after the five year mark, while in Visitor and Field Services staffing needs will continue to increase as Vision Plan projects come online and require long term operation and maintenance. Specific positions and the timing of the additions will be assessed and recommended to the Board by the General Manager based on justified need. To justify new positions, managers will be equipped to use the criteria applied by Management Partners as well as enhanced workload metrics as real-time workload data becomes available with the development of new information management systems.

Implementing Change – Next Steps:

Through 2015 a number of implementation actions are planned related to the FOSM. They include the following:

- Recruitment of FOSM Priority Positions – Summer/Fall 2015
- Project Planning and Delivery Process Improvement (Project Management Systems Development) – Summer 2015
- IST Strategic Plan – Summer/Fall 2015
- Detailed Implementation Strategy for Visitor and Field Services – Summer 2015
- 5-Year Recruitment Plan – Fall 2015

ATTACHMENTS:

Guiding principles

FOSM functional organization chart



Midpeninsula Regional Open Space District Guiding Principles for Organizational Design

Effective organization structures should:

1. Be designed around desired outcomes, not specialties.
2. Be based on clear outcomes of the organization and how the team is expected to work together to achieve them.
3. Be clear about the chain of command, but expect horizontal teamwork to achieve desired outcomes.
4. Create boundary-crossing partnerships that encourage collaboration.

Guiding Principles

A set of principles to guide decision-making regarding alternative organization structures.

1. The goals outlined in the Vision Plan will drive the work of the organization and it will be structured to be transparent and accountable to the taxpayer.
2. Functions will be structurally aligned in a manner that ensures successful program and project management that clearly delineates roles and responsibilities to build accountability and promotes efficiency and effective operations.
3. The organization will utilize integrated and effective business, administrative and information systems to enable a sustainable and fiscally viable organization.
4. The District's project delivery objectives will be achieved through a disciplined project management approach with clearly defined roles and responsibilities reflecting areas of expertise.
5. Leadership, decision making authority and information flow will encourage organizational effectiveness, performance and accountability.
6. The organization will facilitate employee development and growth including through career-paths that provide opportunities for advancement.
7. The organization will be scalable to ensure sustainable alignment of core functions and meet changing demands for service over time.

Organizational Design Strategic Objectives

The following are intended as strategic objectives related to the District's need for organizational change and increased capacity to meet a demanding work program.

1. *Administrative Systems:* Develop administrative and information systems required for efficient and effective management, accountability and strong customer service.

2. *Program and Project Delivery:* Position the organization to deliver programs and projects efficiently through effective and accountable systems, defined responsibilities and a capable and collaborative workforce.
3. *MAA Program:* Integrate MAA program and project delivery within a defined Capital Improvement Program (CIP) with oversight that ensures accountability and facilitates the delivery of projects within a team-based framework.
4. *Further Develop the Organization's Capacity to Change and Adapt:* Expand capacity and develop the District staff's ability to adapt and scale up over time.

