



Date: January 27, 2015

To: Patrick H. West, City Manager *[Signature]*

From: John Gross, Director of Financial Management *[Signature]*

For: Members of the Budget Oversight Committee

Subject: **Innovation & Efficiency Initiatives Revolving Fund**

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At the October 21, 2014 meeting of the Budget Oversight Committee (BOC), staff was asked to develop a policy that grants Departments access to year-end General Fund savings in order to invest in projects that create new operational efficiencies. The concept of an efficiencies revolving fund was first introduced in the FY 14 City Manager Proposed Budget, but funding for the proposal was reallocated to other City Council priorities through the FY 14 Budget Adoption process. Staff recommends using a portion of the FY 14 year-end surplus to create an Innovation & Efficiency Initiatives Revolving Fund (Innovation & Efficiency Fund). The Fund will allow Departments to finance one-time projects that produce innovation and efficiency. This memo outlines how an Innovation & Efficiency Fund would work, the types of projects it can fund, and the benefits it will provide to the City.

#### Innovation & Efficiency Initiatives Revolving Fund Background

The Innovation & Efficiency Fund will finance projects that create future operational savings, as well as innovative approaches to improve service delivery and address problem areas. Budget savings by a department will be used to replenish the fund as those savings are realized. Initially, the Fund will require a one-time capital outlay of \$2 million, using a portion of the FY 14 year-end General Fund department surplus, but is intended to be self-sustaining over time as the savings from completed projects are directed back to the Fund. The Innovation & Efficiency Fund encourages departments to consider the one-time and ongoing costs of projects, and to propose those projects that achieve the greatest return on investment from an efficiency, cost savings and revenue standpoint. The Innovation & Efficiency Fund will provide an ongoing source of financing for Department projects. In addition, the Bloomberg grant-funded innovation team (i-team) will also work with departments to propose projects that create efficiencies and innovative approaches to improve service delivery and address problem areas.

#### Examples of Innovation & Efficiency Fund Uses

- Funding the installation of energy efficient systems; solar panels, traffic and street lighting improvements, upgraded HVAC systems and other green projects often create enough savings over the life of the asset to cover their initial installation costs.
- Funding for machinery, equipment or new technologies that reduce staffing or other operational costs. For instance, the Public Works Department recently purchased the Asphalt Zipper, a piece of equipment that assists in the replacement

of sections of asphalt suffering from tree root intrusion. Using this equipment, Public Works is able to replace asphalt in a fraction of the time and with a much smaller crew than with the older equipment, freeing up the crew to do other road improvement projects.

- Funding for energy efficient vehicles, which can lead to reduced gas consumption. Savings would be passed on to Departments through lower Fleet MOU charges for fuel.
- Funding for revenue generating proposals. Projects with a revenue component can use the new revenue stream to replenish the Innovation & Efficiency Fund for the project cost.
- Funding for innovative solutions that improve service delivery and grow the City's tax base through improved economic opportunity for residents and businesses.

#### How the Innovation & Efficiency Fund Would Work

Seed funding for the Innovation & Efficiency Fund will come from the FY 14 General Fund year-end surplus. It is recommended that \$2 million of the FY 14 department savings be set aside for the Fund to ensure that resources are available to fund projects over multiple fiscal years. Once the Fund has been created, departments, along with the i-team, can submit project proposals that will be evaluated by an interdepartmental committee. Proposals will be ranked according to their potential for ongoing savings, estimated payback period, likelihood of success and innovative approach. Recommended projects will be presented to the full City Council for final review and approval.

Departments with a selected project will be required to repay the revolving loan through their year-end surplus if available. If a department's operating surplus is greater than the annual savings resulting from the project, the Department will be permitted to pay back more of the loan from the surplus. If a department's operating surplus is not sufficient to pay back the loan, the loan repayment will be extended and/or other budget surpluses will be used to replenish the Fund. As the Fund is replenished, more projects can be financed to create additional operational savings and innovations for the City. After a Department has repaid its loan, there will be continued savings that accrue as a result of the project. These savings can be a source for future year budget cuts or a source to fund other pressing department needs that would otherwise be unfunded.

Funding of the Innovation & Efficiency Fund is included as a potential action item in the General Fund FY 14 year-end report to City Council and presented for appropriation in the first FY 15 Budget Adjustment report. If approved, the mechanics of the Fund will be brought back to the Budget Oversight Committee for review and recommendations.

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CC: MAYOR AND MEMBERS OF THE CITY COUNCIL  
TOM MODICA, ASSISTANT CITY MANAGER  
JYL MARDEN, ASSISTANT TO THE CITY MANAGER  
CHARLES PARKIN, CITY ATTORNEY  
LAURA L. DOUD, CITY AUDITOR  
LEA ERIKSEN, BUDGET MANAGER