"Restructuring Local Government Finance and Delivery—Best Practices"

2:00 – 3:30 p.m. PT, Thursday, March 19, 2009

Cal-ICMA and CSMFO Coaching Programs have cosponsored this webinar for finance and non-finance professionals.

*** Advance registration required for this no-charge webinar: https://www1.gotomeeting.com/register/513643176

Panel Topics:
1. What does the current economic situation and the State’s long-term structural budget problems mean for local government finance and delivery?
2. How are local governments working creatively to respond to the challenges?
3. What ideas would you contribute to a “Top 10” list of best practices for local governments to follow in assuring that they are delivering excellent value to their constituencies?
4. What resources can agencies tap to learn more?

Panelists:
* Reyna Farrales, Deputy County Manager, San Mateo
* Clay Holstine, City Manager, Brisbane
* Maria Hurtado, Asst. City Manager, Tracy
* Tim O’Donnell, City Manager, Brea

Post-Call Group Discussions

Many agencies are organizing groups to listen to the calls (live or recorded) and discuss the topics among themselves after the calls. Some are summarizing their discussions and distributing them to managers throughout their organizations. Use the Cal-ICMA and CSMFO Coaching Programs as effective ways to enhance professional development in your agency. Here are some discussion starters for this session.

1. What structural budget challenges or other issues are we facing that require new solutions?
2. How can we build understanding with the Council and public to address these issues?
3. Which of the ideas presented appear to be the most useful for our agency?
4. What are immediate steps that we can take to enhance our results?

Panel Call Etiquette

* Please put your phone on mute, except when you are asking a question or making a statement.
* Do not put the call on hold, especially if you have music or a message that plays and will disrupt other callers.
* Kindly disable call waiting or other phone features that will interrupt your participation in (and others listening to) the call.

There is no charge to participate in the webinar, but callers will bear the costs charged by their carriers to reach the conference number. Alternatively, you can listen via live audio on the web [powered by Granicus] at the "Live Audio and Archives" tab of www.cal-icma.org/coaching or www.csmfo.org/coaching

MORE RESOURCES--See the "Coaching Corner" at www.cal-icma.org/coaching or www.csmfo.org/coaching for valuable resources to boost your career.

Enjoy the resources and support to thrive in local government.

Don Maruska, Master Certified Coach  
Director, Cal-ICMA and CSMFO Coaching Programs  
See "Coaching Corner" at www.cal-icma.org/coaching and www.csmfo.org/coaching
Reyna Farrales is the Deputy County Manager for Administrative Services in San Mateo County. She provides leadership and support to the Office of Budget and Performance, Human Resources and Information Services departments, Purchasing, and other shared services. Reyna started with the County in 1994 as a Management Analyst, and was Deputy County Manager-Budget Director from 1997 to 2006, during which she led collaborative efforts to implement the County’s performance management system called Outcome-Based Management (OBM) and to develop the County Reserves Policy, five-year financial forecasts and two-year budget. Go to www.co.sanmateo.ca.us/budget

Before joining San Mateo County, Reyna worked in the private sector implementing budgeting software for local governments. She began her career in Santa Clara County where she was a Program Analyst and student intern in the County Executive’s Office of Budget and Analysis and the Transportation Agency. She received her undergraduate degree in Accounting from Santa Clara University in 1989 and Executive MBA from Pepperdine University in 1999. She completed the Berkeley Executive Seminar in 2006.

Reyna’s current priorities include engaging external and internal stakeholders in implementing the County’s five-year budget balancing plan in alignment with the five community outcomes of Shared Vision 2025, and providing leadership during implementation of key workforce planning and succession management initiatives. She recently joined Cal-ICMA’s Preparing the Next Generation Diversity Subcommittee, and now serves as a coach at www.excellencethroughdiversity.org.

San Mateo County’s budget is $1.8 billion with 5,856 positions. The County received credit ratings of AAA from Standard and Poor’s and Aa1 from Moody’s in 2008, making it the highest rated county in California by both rating agencies. San Mateo County is the 14th largest county in the state with 740,000 residents. Located on 741 square miles of the San Francisco Peninsula and Silicon Valley, it is home to San Francisco International Airport, Oracle, Genentech, Electronic Arts, and the Mavericks Surf Contest in Half Moon Bay.
Bio for Clay Holstine

Clay Holstine received a B.A. from the University of California at Berkeley in 1977 and continued on to Portland State University for a Masters in Public Administration. He began his career in public service in the City’s Manager’s office for the City of Medford, Oregon, working his way up to Assistant to the City Manager. In 1987, Mr. Holstine took the position of Assistant City Manager with the City of Reno, Nevada and was promoted to City Manager in 1991 serving in that capacity until 1996. In 1998, he took his current position as City Manager of Brisbane, California.

Over the past twenty years, much of Mr. Holstine’s efforts have been focused on citizen participation and financial and organizational development. He is currently working with these same issues as the City of Brisbane undergoes organizational restructuring. Along the way there have been some success stories, some failures, and some – that are just too early to tell.

Biography:

Name: Maria A. Hurtado
Title: Assistant City Manager
Organization: City of Tracy, California
Voice: (209) 831-6112 Fax: (209) 831-6120 E-mail: maria.hurtado@ci.tracy.ca.us

Ms. Hurtado is the Assistant City Manager for the City of Tracy, California. In her capacity, she is responsible for the daily operations of city services and functions delivered by 550 employees. While in Tracy, she served as Interim City Manager for 8 months in 2008.

Ms. Hurtado was hired to the City of Tracy as the Director of Parks and Community Services before becoming the Assistant City Manager. Prior to this position, Ms. Hurtado served as Deputy Director of Parks & Neighborhood Services for the City of San Jose and Assistant Director for Parks and Community Services for the City of Watsonville, California.

Ms. Hurtado has a Bachelor’s degree in Sociology from the University of California in Santa Cruz and a Master’s Degree in Social Work from San Jose State University.
BIOGRAPHICAL PROFILE
Tim O’Donnell
City Manager
City of Brea, CA

Tim has been active in municipal government for the past 33 years, serving four different communities. His current assignment is City Manager for the City of Brea, California.

Tim has long been involved in professional city management activities. He is a credentialed City Manager, a professional recognition granted by the International City/County Management Association to fewer than 10% of City Managers nationally.

Tim is the Co-Chair of Cal-ICMA’s Preparing the Next Generation Committee, a program aimed at identifying and preparing the next generation of public managers. He also serves on the Board of Directors of Cal-ICMA and Continuing Education for Public Officials (CEPO), and is incoming President of the Orange County City Manager’s Association.

Prior to becoming City Manager, Tim was Brea’s Assistant City Manager for 10 years. Before that he served in various capacities in three other southern California Cities, Signal Hill, Garden Grove and Bellflower.
Restructuring Local Government
Finance & Delivery

Coaching Programs
March 19, 2009
Coaching Program: 11th year as member benefit
Career Development Committee

Coaching Program: 6th year
Preparing the Next Generation Committee

CA City Mgmt. Foundation
CPS Human Resources
Int’l City/County Mgmt. Assn.
Bob Murray & Associates
County Administrative Officers Assn.
Pacific Gas and Electric Company
Granicus

CA Communities Joint Powers Authority
Municipal Mgmt. Assn. of S. CA
Municipal Mgmt. Assn. of N. CA
Public Agency Retirement Services
California Redevelopment Assn.
Piper Jaffray
Keenan & Associates
Overview of Session

- **Aligning the Budget to Outcomes**
  *Reyna Farrales*, Deputy County Manager, San Mateo

- **Fitting within the Public’s Willingness to Pay**
  *Clay Holstine*, City Manager, Brisbane

- **Benchmarking and Budget Strategies**
  *Maria Hurtado*, Assistant City Manager, Tracy

- **Collaborative Problem Solving**
  *Tim O’Donnell*, City Manager, Brea

…and polls and questions along the way.
BUDGET UPDATE and
ALIGNING THE BUDGET TO OUTCOMES

Reyna Farrales, San Mateo County
March 19, 2009
San Mateo County Facts

- Located on SF Peninsula (MMANC Region 1)
- County Seat – Redwood City
- Population 739,469 (14th most populous in CA)
- Unemployment Rate 7.2% (3rd lowest in CA)
- County Budget $1.8 billion
- Authorized Positions 5,856
Economic Realities

“I never thought it would get this bad this quickly”

- **Local Issues** – FY 2011 worse than FY 2010
  - 45,000 decline reviews/automatic reassessments
  - No commercial properties reviewed yet
  - 30%+ increase in retirement and retiree health

- **State Budget** – bracing for June Revise
  - April property/personal income tax receipts will be lower
  - 3/13 LAO report $3-$8 billion additional FY10 deficit
  - May 19 ballot measures must pass ($6 billion solutions)
  - More payment deferrals if state has low or no cash
Dow Drops from 11,893 to 6,726 in One Year (-45%)

Why our retirement/OPEB contributions will go up by 30+%

as of 3/6/09
January 2009 Unemployment Rate at Highest Level since 1990

Why applications for public assistance and safety net services are up 35%

<table>
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<th>San Mateo</th>
<th>Santa Clara</th>
<th>California</th>
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<tr>
<td>1992</td>
<td>5.1%</td>
<td>6.9%</td>
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<td>4.7%</td>
<td>6.3%</td>
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<td>3.4%</td>
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<tr>
<td>1998</td>
<td>2.5%</td>
<td>3.2%</td>
<td>6.0%</td>
</tr>
<tr>
<td>2000</td>
<td>2.9%</td>
<td>3.1%</td>
<td>4.9%</td>
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<tr>
<td>2002</td>
<td>5.7%</td>
<td>8.4%</td>
<td>6.7%</td>
</tr>
<tr>
<td>2004</td>
<td>4.9%</td>
<td>6.4%</td>
<td>6.2%</td>
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<tr>
<td>2006</td>
<td>3.7%</td>
<td>4.5%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2007</td>
<td>3.8%</td>
<td>4.7%</td>
<td>5.4%</td>
</tr>
<tr>
<td>2008</td>
<td>4.8%</td>
<td>6.1%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Jan 09</td>
<td>7.2%</td>
<td>9.3%</td>
<td>10.6%</td>
</tr>
</tbody>
</table>
Why our property tax growth will fall below 2% or go negative
Actions Taken

- 5% Hiring Freeze (Dec 2007)
- 5-Year Budget Balancing Plan
- Reduced extra help, overtime, travel, contracts
- Deferred major projects and purchases
- Initiated purchasing audit
- Restructured retiree health for new management employees
- Exploring retirement benefit alternatives
- Budget News Intranet Site
- Monthly meetings with labor
- Employee budget suggestions/STARS incentive program
- Employee Budget Workgroups
- Partnering with community groups and stakeholders to coordinate response to urgent needs focusing on food, shelter, health, employment
Long-Term Efforts

- Shared Vision 2025/Community Budget Outreach
- Shared Services
- Nonprofit Partnerships
- Full Cost Recovery
- Multi-Year Budgeting
- Operations Audits/Management Reviews
2007 – Board created steering committee to update Shared Vision 2010

Ten community forums conducted in 2007-2008 including two in Spanish and Youth Town Hall meeting

Online voting on goals - 680 respondents

More than 1,000 participants total

August 2008- Board approved 5 community outcomes to replace 10 commitments and 25 goals of Shared Vision 2010
Shared Vision 2025
Five Community Outcomes

Healthy Community
Prosperous Community
Livable Community
Collaborative Community
Environmentally Conscious Community
From Vision to Action

Outcome-Based Management (OBM)

Shared Vision
Community Outcomes

Planning

Priority-Setting

OUTCOME-BASED MANAGEMENT

Performance Measurement

Resource Allocation

Progress/Goal Achievement
Framework for Resource Allocation

- **HIGH Cost**
  - LOW Alignment
  - **Eliminate**

- **LOW Cost**
  - LOW Alignment
  - **Eliminate or Redesign**

- **HIGH Cost**
  - **Cut Costs**

- **LOW Cost**
  - **DESIGNED RESULT**

PERFORMANCE/ALIGNMENT TO GOALS AND OUTCOMES

Linking Performance Measures to the Budget, University of Vermont
Current Budget Structure

COUNTY

AGENCIES

BUDGET UNITS
Departments/Divisions

PROGRAMS

Performance Plans

Budgets

Employee Plans
Current “Silo” Budget Structure

- Health: 34%
- Criminal Justice: 16%
- Community Services: 14%
- Administration and Fiscal: 5%
- Children, Youth and Families: 12%
- Non-Departmental Services: 19%
Shared Vision 2025
Budget-to-Outcomes Structure

COUNTY

Shared Vision 2025
Community Outcomes

Healthy    Prosperous    Livable
Environmentally Conscious    Collaborative

PROGRAMS

Performance Plans

Budgets
Employee Plans
Shared Vision 2025
Budget-to-Outcomes Structure

- Healthy Community - Healthcare and Safety Net: 45%
- Collaborative Community: 24%
- Livable Community: 3%
- Environmentally Conscious Community: 10%
- Prosperous Community: 1%
- Healthy Community - Safe Neighborhoods: 17%
Shared Vision 2025
Community Outreach

Our Shared Vision
Visit SEE-IT San Mateo County:
http://sanmateocounty.visiblestrategies.com

work in progress
Percent of CalWORKS participants leaving cash aid with employment

**Target Statement**
We aim to support CalWORKS participants so that at least 50% leave cash aid because they have obtained stable employment with livable wages.

**Overview**
The California Work Opportunity and Responsibility to Kids (CalWORKS) welfare-to-work program was established by the State Welfare to Work Act of 1997. The program, which replaced AFDC (Assistance to Families with Dependent Children), makes welfare a temporary source of assistance by putting a five-year lifetime limit on receipt of benefits and mandating work requirements.

CalWORKS clients face complex challenges in obtaining stable employment at livable wages.
Benefits of Outcomes Structure

- Better allocation of resources (funding, FTE) – progress is measured and limited resources directed toward initiatives that improve client and community outcomes.

- Shared resources and improved coordination – approach to service delivery shifts from “silo” to systems.

- Improved stakeholder participation – simple framework makes it easier to inform and educate stakeholders for increased engagement in priority-setting and resource allocation processes.
San Mateo County
Outcome-Based Initiatives

- **Re-Entry Strategy** – Sheriff, Probation, Health System
  - 20% recidivism rate after 180 days vs. 38% non-reentry inmates
  - $1.3 million or 12,000 jail bed days saved over 9 months

- **Healthier Outcomes through Multidisciplinary Engagement (HOME) Team** – Health System, Human Services Agency, Health Plan of San Mateo, Silicon Valley Community Foundation
  - 50% reduction in Emergency Room visits; 67% reduction in costs
  - 59% increase in Medi-Cal enrollment; improved disease mgmt

- **Employee Training Services Consortium** – Human Resources (County and Cities) exploring feasibility
Top 10 Lessons Learned

- Engage your community in creating a shared vision and goals
- Look beyond 1-2 years – prepare 5-year financial forecasts
- Keep track of local economic indicators/local employers
- Look for trends in what others are doing
- Continue evolving your performance management system so employees know how they contribute to shared vision/goals
- Continue investing in employees (20/28-hour training targets, tuition reimbursement, AA/BA/MPA degree programs)
- Continue growing your stars (STARS awards, supervisor and executive leadership academies, presentations to Dept Heads/BOS)
- Establish a standard “full cost” methodology for all departments that charge for services – plan to phase in rate increases over time
- Continue investing in your technology/capital infrastructure
- Try something different – now is the time
Resources

- Alliance for Innovation - Navigating the Fiscal Crisis Wiki [http://www.transformgov.org/]
- Online news clipping service for CA counties [http://www.digitalclippingservice.com/]
- CA State Association of Counties (CSAC) [http://www.csac.counties.org/]
- San Mateo County – Budget Study Session (12/16/08 Board Agenda Item 9)
  [http://www.co.sanmateo.ca.us/bos.dir/BosAgendas/agendas2008/Agenda20081216/Frame.htm]
- San Mateo County – Mid-Year Budget Update (1/27/09 Board Agenda Item 11)
  [http://www.co.sanmateo.ca.us/bos.dir/BosAgendas/agendas2009/Agenda20090127/Frame.htm]
- Re-Entry Program and HOME Team Initiatives - San Mateo County STARS (3/3/09 Board Agenda Item 6)
  [http://www.co.sanmateo.ca.us/bos.dir/BosAgendas/agendas2009/Agenda20090303/Frame.htm]
- San Mateo County Budget website [www.co.sanmateo.ca.us/budget]
- San Mateo County SEE-IT site [http://sanmateocounty.visiblestrategies.com/]

THANK YOU
Cal-ICMA and CSMFO Coaching Programs

Restructuring Local Government Finance and Delivery

March 19, 2009 | 2:00pm – 3:30pm
Clay Holstine, City Manager, City of Brisbane
What does the current economic situation and the State’s long-term structural budget problems mean for local government finance and delivery?

This Recession has a different feel – Seemingly everything that can go wrong, has gone wrong;

Question is what will we look like when we come out from this;

Price of Government – according to this research citizens are willing to pay 35 cents to 37 cents for government services
What does the current economic situation and the State’s long-term structural budget problems mean for local government finance and delivery? (cont.)

- However, research and experience tells us that citizens demand more from govt., but at a relatively fixed price.
- As the federal govt. uses more of the 37 cents, and the state govts. use more (which is happening), local govts. will have less resources.
- Local govts., then, will have to learn to live within smaller budgets as they address community needs.
How is Brisbane working creatively to respond to the challenges?

- Flattening the Organization – reductions of staff through attrition across the organizational chart – reducing managers, mid-level positions, analyst as well as line personnel – create opportunity for advancement
- Partnered with Daly City & Pacifica for shared Fire management services
- Fire Marshall Services
- Part-time Police Chief shared with Millbrae
- Parks & Recreation Director
- Formed a cross-departmental Transition Planning Committee which helps mgmt in developing new ways for depts to work together and offer streamlined services
- Two-tiered contracts for benefits and retiree health
- New PERS retirement package for newly-hired employees
- Local Business Enterprise (LBE) Ordinance currently being worked on to help with dollars being spent locally
- Sales Tax Offset Tax passed last Nov. – encourage local situs
- Public/private partnerships for facility construction and renewable energy generation
Two-tiered Contracts for Retirement and Retiree Health Benefits

- Went from a defined benefit plan to a defined contribution plan for retiree health
- New retirement benefit formula of 2.0% at 60 for new hires went into effect July 2008 (2.7% at 55 previously).
Public/Private Partnerships

- Biotech developer at Sierra Point agreed to fund solar energy off-site
- Housing developer agreed to fund endowment for Habitat Conservation Plan
  - Also agreed to fund recreational facilities (ball field, pool, and community center)
What ideas would you contribute to a “Top 10” list of best practices for local governments to follow in ensuring they are delivering the best value to their constituencies?

- Share services – to provide public service with fewer people
  - Fire Management
  - Parks & Rec
  - Fire Marshall
  - Police Mgt
- Develop talent (Management Talent Exchange Program)
- Find new ways to communicate (i.e. blog)
- “University of Brisbane” – community workshops to engage with the public on an important issue, public space planning
- Surveying your constituents, and utilizing that data for performance measurement standards/baselines
- Keep City Hall open late one day/wk, so those working 8-5 have greater accessibility to the staff person(s) they need
- Apply jointly for grants with other municipalities
What resources can agencies tap to learn more?

- [League of California Cities](#)
- [ICMA](#)
- [MMANC](#)
- Books from Brisbane’s Book Club – *The Tipping Point, Freakonomics, & The Wisdom of Crowds*
- [www.hellomynameisscott.com](http://www.hellomynameisscott.com)
  - sign up for access to articles that foster out-of-the-box thinking
Benchmarking and Budget Strategies

Presented by: Maria A. Hurtado, Assistant City Manager
City of Tracy
About Tracy

- Long History of Financial Stability
- Property & Sales Tax = 95% of GF
- 183% population growth over past 20 years (from 28,762 to 81,548)
- Measure A – Slow Growth Measure
- Healthy Reserves (37 million)
- Rebound will take longer
- In FY 07/08, 1st Time Budget Adopted – Structural Budget Deficit
THE PROBLEM
THE SOLUTION

- Economic Landscape Changed;
- Cannot Rely on Reserves Only
- Need Deliberate & Strategic Approach;
- Need both a Short Term & Long Term Solution;
DEVELOPMENT OF BUDGET SOLUTIONS STRATEGY

- **Document Review**
  - 10 Year Historical trends for Revenues & Expenditures
  - Consultant Studies

- **Interviews**
  - Senior Staff
  - Focus Group with 6 bargaining unit representatives
  - 12 additional Employee Focus Groups
  - Online Employee Survey

- **Peer City Benchmarking**
  - Population Size
  - Minimum of 10% growth between 2000 & 2006;
  - Median Household Income
  - Population Density
# Peer City Benchmarking

<table>
<thead>
<tr>
<th>City</th>
<th>County</th>
<th>2006 Population</th>
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<tbody>
<tr>
<td>Antioch</td>
<td>Contra Costa</td>
<td>100,586</td>
</tr>
<tr>
<td>Brentwood</td>
<td>Contra Costa</td>
<td>47,547</td>
</tr>
<tr>
<td>Fairfield</td>
<td>Solano</td>
<td>104,897</td>
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<tr>
<td>Folsom</td>
<td>Sacramento</td>
<td>66,123</td>
</tr>
<tr>
<td>Livermore</td>
<td>Alameda</td>
<td>79,438</td>
</tr>
<tr>
<td>Manteca</td>
<td>San Joaquin</td>
<td>63,709</td>
</tr>
<tr>
<td>Pittsburg</td>
<td>Contra Costa</td>
<td>63,017</td>
</tr>
<tr>
<td><strong>Tracy</strong></td>
<td><strong>San Joaquin</strong></td>
<td><strong>80,308</strong></td>
</tr>
<tr>
<td>San Leandro</td>
<td>Alameda</td>
<td>78,030</td>
</tr>
</tbody>
</table>
Peer City Benchmarking
General Fund Revenue per Capita

- Pittsburg
- Manteca
- Lodi
- Fairfield
- Median
- Tracy
- Folsom
- Brentwood
- Livermore
Evaluation Criteria

Qualification Criteria

1. Preliminary benchmarking information shows that Tracy is below market (revenues) or above market (expenditures).
2. Strategy is being used in a best practice jurisdiction or another of the peer jurisdictions.
3. Prior work by budget office or other City departments have made a convincing argument for change.
4. Practice is out of alignment with current City objectives or planning.

Disqualification Criteria

1. Strategy cannot be effectively implemented in five year time frame.
2. Strategy would not reduce deficit or if it does would have greater long run costs.
3. Strategy would have a limited impact, and cannot be logically aggregated with similar strategies.
4. Strategy must produce a three year return on investment
Prioritization Process

- Over 45 strategies initially qualified for some level of further analysis
- Some strategies are longer-term and cannot be implemented in the next five years
- Strategies were prioritized based on value to City and implementation potential
RESULTS

- Expenditure Controls or Shifts
- Service Delivery Model Changes
- Service Level Reductions
- Revenue Enhancement
Breakdown of Budget Solutions Strategies

- Revenue Enhancements: 61%
- Expenditure Control Shifts: 31%
- Service Reductions: 3%
- Service Delivery Model Changes: 5%
# Expenditure Control/Shifts

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<thead>
<tr>
<th>Identified Strategy</th>
<th>Annual Cost Savings or Revenues (in millions)</th>
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<tbody>
<tr>
<td>Reduce City Staffing</td>
<td>$4.5 M</td>
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<tr>
<td>Request an Employee Contribution for PERS Costs</td>
<td>$1.63 M</td>
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<tr>
<td>Reduce Non-Personal Services Budget</td>
<td>$1.3 M</td>
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<td>Reduce Grand Theatre Subsidy</td>
<td>$.6 M</td>
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<tr>
<td>Implement a 10-Day Employee Furlough</td>
<td>$.5 M</td>
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<tr>
<td>Health and Safety Insurance Cost Sharing and Design Changes</td>
<td>$.7 M</td>
</tr>
<tr>
<td>Slow the Rate of Pay Step Increases for New and Existing Staff</td>
<td>$.04 M</td>
</tr>
<tr>
<td>Eliminate Tracy Municipal Airport General Fund Subsidy</td>
<td>$.08 M</td>
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<tr>
<td>Conduct a Fleet Utilization Study</td>
<td>$.07 M</td>
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<tr>
<td>Shift General Fund Expenses to CDBG Funding</td>
<td>$.04 M</td>
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<tr>
<td>Reduce the Subsidy for Community Events</td>
<td>$.04 M</td>
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<tr>
<td><strong>TOTAL POTENTIAL IMPACT:</strong></td>
<td><strong>$9.50 M</strong></td>
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# Service Delivery Model Changes

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<tr>
<th>Identified Strategy</th>
<th>Annual Cost Savings or Revenues (in millions)</th>
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<tbody>
<tr>
<td>Implement Competitive Sourcing</td>
<td>$1.4 M</td>
</tr>
<tr>
<td>Revise Cost Allocation Plan</td>
<td>$.15 M</td>
</tr>
<tr>
<td>Combine Positions</td>
<td>$.05 M</td>
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<tr>
<td>Replace Three Sworn Police Positions with Non-Sworn Positions</td>
<td>$.04 M</td>
</tr>
<tr>
<td>Relocate Building Inspector Offices to an Office Trailer</td>
<td>$.04 M</td>
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<tr>
<td><strong>TOTAL POTENTIAL IMPACT:</strong></td>
<td><strong>$1.68 M</strong></td>
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## Service Reductions

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<th>Identified Strategy</th>
<th>Annual Cost Savings or Revenues (in millions)</th>
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<tbody>
<tr>
<td>Reduce Tree Maintenance</td>
<td>$.55 M</td>
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<tr>
<td>Reduce Parks Maintenance</td>
<td>$.14 M</td>
</tr>
<tr>
<td>Close Joe Wilson Pool</td>
<td>$.1 M</td>
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<tr>
<td>Reduce Library Service Hours</td>
<td>$.07 M</td>
</tr>
<tr>
<td><strong>TOTAL POTENTIAL IMPACT:</strong></td>
<td><strong>$0.86 M</strong></td>
</tr>
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## Revenue Enhancements

<table>
<thead>
<tr>
<th>Identified Strategy</th>
<th>Annual Cost Savings or Revenues (in millions)</th>
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<tbody>
<tr>
<td>Increase the Sales Tax</td>
<td>$6.2 M</td>
</tr>
<tr>
<td>Adopt a Utility User Tax</td>
<td>$5.5 M</td>
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<tr>
<td>Levy a Parcel Tax for Public Safety</td>
<td>$3.0 M</td>
</tr>
<tr>
<td>Ensure Full Cost Recovery for User Fees and Establish New Fees</td>
<td>$2.13 M</td>
</tr>
<tr>
<td>Create a City-wide Landscaping and Maintenance District</td>
<td>$0.7 M</td>
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<tr>
<td>Increase and/or Restructure the Business License Tax</td>
<td>$0.8 M</td>
</tr>
<tr>
<td>Increase the Transit Occupancy Tax</td>
<td>$.16 M</td>
</tr>
<tr>
<td>Implement Corporate Sponsorship and Advertising Program</td>
<td>$.15 M</td>
</tr>
<tr>
<td><strong>TOTAL POTENTIAL IMPACT:</strong></td>
<td><strong>$18.64 M</strong></td>
</tr>
<tr>
<td>Strategy/Action</td>
<td>2009/10 Budget Savings</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Continue Non-Personnel Services Budget Savings</td>
<td>1.30</td>
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<tr>
<td>Eliminate Vacant Positions</td>
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<tr>
<td>Reduce Personnel Services Costs</td>
<td>1.20</td>
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<tr>
<td>Implement Fleet Utilization Study</td>
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<tr>
<td>Eliminate Airport GF Subsidy</td>
<td>.08</td>
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<tr>
<td>Reduce Grand Theatre GF Subsidy</td>
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<tr>
<td>Reduce Subsidy for Community Events</td>
<td>.04</td>
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<tr>
<td>Shift GF Expenses to CDBG Funding</td>
<td>.04</td>
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<tr>
<td>Implement Competitive Sourcing</td>
<td>.37</td>
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<tr>
<td>Combine Positions</td>
<td>.05</td>
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<table>
<thead>
<tr>
<th>Strategy/Action</th>
<th>2009/10 Budget Savings</th>
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<tbody>
<tr>
<td>Relocate Building Inspectors</td>
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</tr>
<tr>
<td>Cost Allocation Plan</td>
<td>N/A</td>
</tr>
<tr>
<td>Close Joe Wilson Pool</td>
<td>.10</td>
</tr>
<tr>
<td>Reduction in Library Service Hours</td>
<td>.07</td>
</tr>
<tr>
<td>Establish a General Fund Subsidy Limit for Recreation programs</td>
<td>.70</td>
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<tr>
<td>Ensure Full Cost Recovery for Fees</td>
<td>.20</td>
</tr>
<tr>
<td>Implement New Fire/EMS Fees</td>
<td>.70</td>
</tr>
<tr>
<td>Evaluate Early Retirement Option</td>
<td>TBD</td>
</tr>
<tr>
<td>Economic Development Plan</td>
<td>TBD</td>
</tr>
<tr>
<td>Utility Accounts in Owners Name</td>
<td>TBD</td>
</tr>
</tbody>
</table>
Council Adopted
One Year Short-Term Action Plan

- **Expenditure Control Shifts**: 60% ($3.35M)
- **Service Delivery Model Changes**: 29% ($1.6M)
- **Service Reductions**: 8% ($0.456M)
- **Revenue Enhancements**: 3% ($0.17M)
Lessons Learned

- Continuously Evaluate Service Delivery
- Consider Direct Service vs. Contracting Out
- Consider Cost Sharing (i.e. Health Benefits)
- Consider Two-Tiered Retirement
- Consider Slowing Rate of Salary Increases
- Explore Flatter Organizations
- Defining Key Service Delivery Areas and Use Performance Indicators to Measure Results
The Future City Government

- Limit General Fund Support where possible
- Private Sector Offerings vs. Government Services
- Focused Police Services
- Fewer “Regulators” & “Processors”
- Outsourcing
- Increase Use of Technology
- Examine Compensation, Benefits & Organization of Future City Workforce
ADDITIONAL INFORMATION

To view a full copy of Tracy’s Budget Solutions Report go to:

http://www.ci.tracy.ca.us/departments/finance/

Thank You!
Crisis or Opportunity?

You can choose which!

Chinese Idiom for Crisis

Crisis = Danger and Opportunity
The Black Box
The Death of Engagement
“Negotiated Budgeting”
“Negotiated Budgeting”
Collaborative Problem Solving - Concepts

- Begins with identification of values
- Open to all employees (and extends to other stakeholders; Council, Community)
- No positional authority—relationships are Influence-based
Collaborative Concepts, continued

- Parties intend real change
- Ideas are free from reprisal or rejection
- Process requires asking “real” questions
- Goal is consensus
How it Works

- **Budget Strategic Planning group (BSP)**
  - City Manager does not control budget process
  - All departments are represented in regular meetings
  - Committee members brief departments and unions on status of budget development
  - Committee members report progress to Council
How it Works

- Two Council members attend BSP (periodically)
- BSP recommends budget to Council
- Sharepoint (Intranet) keeps others informed
- Group develops consensus on issues
Facilitated Small Groups
Group Develops Consensus
Why Do This?

- 18th Century structures don’t work well
- Technology allows high level sharing
- Given all the information, affected group will make good decisions
Why Do This?

- Process identifies and develops up-and-coming employees
- Problem solving capacity of organization is enhanced
- People tend to support that which they help create
- Changes organizational culture to actively manage constant change
Learnings

- Preparing the Council is challenging

- It’s not a program with a checklist; it’s a different way of behaving

- Does not eliminate management
Learnings

- Much slower than you think it will be, but “trust the process”
- Expect and be okay with ambiguity
- We are learners/practitioners
21st Century Leadership

Leadership is an *influence* relationship among *collaborators* who intend *real changes* that reflect their *mutual purposes*. (Rost, 1995)

This is a change model that promotes engagement and involvement
Resources

- Tim O’Donnell, City Manager, Brea
  - Timo@cityofbrea.net

- Dr. Dan Israel, Consultant
  - Delmardan@mac.com

- Mike Messina, Former Brea Police Chief
  - Mikem@rdisrael.com
Questions and Answers

- Go to web sites for recordings of this webinar and other professional development resources.

www.cal-icma.org/coaching

www.csmfo.org/coaching

- Please complete the follow up survey.
Contacts for Today’s Session

- Reyna Farrales, Deputy County Manager, San Mateo, RFarrales@co.sanmateo.ca.us
- Clay Holstine, City Manager, Brisbane, citymanager@ci.brisbane.ca.us
- Maria Hurtado, Assistant City Manager, Tracy, Maria.Hurtado@ci.tracy.ca.us
- Tim O’Donnell, City Manager, Brea, timo@ci.brea.ca.us
- Don Maruska, Director, Cal-ICMA and CSMFO Coaching Programs, don@donmaruska.com
**Upcoming Webinar – May 13**

"Using Your Management Style Effectively"

2:00 – 3:30 p.m. PT, Wednesday, May 13, 2009

This special one and a half hour CSMFO and Cal-ICMA interactive webinar will help you and your team:

- Identify your management style and how to use it
- Help you work with people who have different styles
- Guide you in developing your success strategy.

For MMANC, MMASC, and CSMFO members: submit your questionnaire by May 1 to receive a complimentary 24-page Management Style Analysis report, while supplies last.
BUDGET BALANCING IN TOUGH FISCAL TIMES

The Budget Reduction Paradox

What's Easy. For most anyone with a working knowledge of spreadsheets, balancing the budget and closing the “forecast gap” from a numbers perspective is easy. (As Gilbert and Sullivan’s Mikado once observed: I’ve got a list … so does everyone else.) It’s just a case of increasing revenues (where possible), cutting costs and maybe using some reserves until the total equals the gap. The numbers part is easy.

What’s Hard. Reducing service levels, capital programs and staffing (including the possibility of lay-offs of regular and temporary staffing), and then emerging from the process as just as high (if not higher) morale, high productivity organization is hard.

The Budget Reduction Paradox. At a time when the organization is at its nadir with downsizing, the resulting smaller organization needs its employees to be even more energized, fired-up and motivated to perform.

Beating the Paradox

Beating the paradox lies in believing that the process matters: how we go about making budget reduction decisions is as important (if not more so) than the actual decisions we make. Did we meaningfully involve the community in this process? And did we meaningfully involve the organization, which is one of our major stakeholders in this process? Because at the end of the day, we achieve community goals through our employees. And we will need to rely upon an even smaller organization to do just that after the budget-balancing process is over.

As Steven Covey might view it, how we go about this process is an opportunity to make deposits in our credibility bank, not withdrawals from it. It’s an opportunity to both show organizational character and to build it.

How One City in the Central California Coast Approaches This

Attached are three documents that show how the City of San Luis Obispo approaches budget-balancing in tough fiscal times from an organizational perspective (we have a similarly transparent process for involving the community in this process ..., but that, as the gatekeeper the Wizard of Oz observed, is a horse of a different color and the topic of a separate white paper.)

1. Budget Balancing Strategy: Gumbo II. We prepared this outline of the budget-balancing challenges and conceptual approach to meeting them early in the process (shortly after we prepared a five-year fiscal forecast defining the problem) and shared it with the whole organization after reviewing it in-depth with department heads (and making improvements based on this). It reflects several key principles:

   - Ensuring transparency in all we do – and communicating clearly and often with employees in a variety of ways: email, newsletters, “Q&A” on our intranet, frequent department huddles and perhaps most importantly, face-to-face meetings by the City Manager many times at different dates, times and locations (City Hall, Police Station, Corporation Yard, Fire Station), providing an opportunity to answer tough questions from City employees at various stages in the process. We also made special efforts to ensure that the union leadership was aware of what was going on. Based on our past experience with prior tough budgets and our experience to-date this year, it is impossible to over-communicate. Our goal here was not necessarily to achieve consensus (it would be nice of course, but we live in the real world)
BUDGET BALANCING IN TOUGH FISCAL TIMES

but to avoid surprises. We are also realistic that despite our efforts, there will be accusations of “how come we weren’t informed?” This will happen: we just don’t want the accusation to be true …

• Aligning senior management: department heads need to cheerleaders for the process. So make sure you’ve created meaningfully opportunities for them to shape the process.

• Meaningfully involving employees in the process – and valuing the results. We received about 700 budget-balancing ideas from the organization – and virtually all of them will be reflected in our budget-balancing strategy.

• Treating our employees with respect, honesty, integrity and trust in developing and implementing the budget-balancing strategy. As noted above, this means meaningfully involving them in the process and genuinely soliciting their input. It also means sharing the hard facts (and consequences) in a straightforward and timely way, even if this is painful at times for the organization. Because ultimately, respect and trust means believing (contrary to Jack Nicholson’s Marine Colonel Jessup in A Few Good Men) that they can handle the truth.

• Using appropriate humor and metaphors for the process. We went through a similar process in 2003-05 and used making Gumbo as a metaphor for effective budget-balancing. We decided this was helpful in communicating the process then, so we brought it back in 2009-11 as “Gumbo II.” (You’ll see what I mean when you read the attached.)

2. Fiscal Health Contingency Plan. We did not start this process flat-footed. We have in place a Fiscal Health Contingency Plan that we developed in 2001 (before 9/11) that provides us with an excellent starting point when times get tough. We began implementing this in July 2008.

3. Sample City Manager Briefing. Attached is one of the many presentations made by the City Manager (with assistance from the Human Resources Director and Finance & IT Information Technology Director). We presented this at different times and places throughout the organization. It took about 25 minutes to present; and in most cases, it was followed by an hour of “Q&A.”

NO GUARANTEE OF SUCCESS

In past tough budget seasons, this process has resulted in success: we emerged from the process a high-performing organization with a fresh appreciation and deeper commitment to our organizational values. In fact, in 2003 we celebrated with a “Hot Dog! The budget’s over!” barbeque (of you guessed it: hot dogs) at the Corporation Yard that was attended by over 200 employees. It’s become a well-attended ritual ever since. There are no guarantees we will see a similar result this year. But that doesn’t stop from us hoping for a similar result – and preparing plans (as Captain Picard would say) to “make it so.”

Bill Statler, Director of Finance & Information Technology
City of San Luis Obispo
2009-11 Financial Plan

BUDGET BALANCING STRATEGY: GUMBO II

December 20, 2009

GENERAL CONCEPT

Start working on budget-balancing strategies now by meaningfully involving all employees in the organization.

But no operating reduction options to Administration until after we know the specific goal.

We will begin working on all of the key budget-balancing strategies (“Gumbo II”) available to us concurrently, both “non-departmental” options—such as capital improvement plan (CIP) reductions, use of fund balance, new revenues and across-the-board reductions (such as unpaid time-off)—as well as “departmental” operating program reductions.

Accordingly, departments should begin brainstorming operating program reduction ideas right away, with the goal of initially identifying as many ideas as possible in closing the projected annual General Fund budget in 2009-11 of $10.4 million.

However, these operating budget reduction ideas do not need to be finalized or shared with the City Manager until the operating budget reduction option targets are issued. This will not happen until later in the process, after we have identified the likely mix of the other budget-balancers. In this way, we can better scope the role that operating program reductions will need to play in crafting a balanced budget for 2009-11 before focusing on detailed options.

Importance of Assessing Community Priorities.

Additionally, we will have a better idea of community and Council priorities after the Community Forum on January 15 and Council goal-setting on January 31. As such, it makes sense to wait until after this to finalize our overall budget-balancing strategy and before asking departments to submit specific operating program reduction options.

In short, given the significant fiscal challenges facing us, there is no way we can avoid making tough decisions. On the other hand, there is no reason to needlessly raise anxiety over things that might happen: we will be better served by first refining our options other than operating program reductions; and being informed in doing so by the community priorities that will emerge from our goal-setting process.

Employee Involvement. As detailed below, employees throughout the organization will be meaningfully involved in crafting budget-balancing solutions.

“GUMBO II”

This is not the first time that the City has faced tough times. From a “percentage” perspective, 2003-05 was a larger gap.

At that time, the City Manager compared the budget balancing challenge ahead of us as being like making Gumbo.

Gumbo can be prepared in a variety of ways, with hundreds of possible ingredients and spices. However, a chef that wants to make gumbo that is well received and digestible certainly won’t use them all. Instead, a wise chef will be selective about what goes into the final recipe—because if too much goes in, the gumbo will become bogged down, imbalanced, indigestible and basically undesirable.

To select which “ingredients” to put into the “first batch” of stew, the City Manager will consider the following “gumbo criteria:”

1. Ready by the Dinner Bell? Can the ingredient actually be cooked in time for our dinner deadline? (July 1, 2009)

2. Presentation/Aroma. Will the gumbo "look right/pass the smell-test" for the multi-faceted customers that we serve? (Looking/smelling
good to only one customer group won’t be good enough).

3. **Balance.** Is the gumbo balanced, or is it overloaded with one ingredient or another? Has the chef, for example, added only the things that were the easiest for him to find and dump into the pot?

4. **Shared Dieting (Equality of Sacrifice).** Will it appear that the chef has put everyone in the community on a diet except himself? Or, has the chef (and his employees) noticeably tightened their belts, too?

5. **Affordability.** Related to the above, will the gumbo be affordable to the customers that must buy it? Are we sensitive to cost?

6. **Service.** The gumbo might be great, but if the service is bad, no one will buy it. What are the service impacts of the recipe?

7. **Aftertaste.** Will there be a clean after-taste, or a bitter one? Will the chefs be trusted by customers to serve gumbo again?

8. **Anything Left in the Pantry?** In case an unexpected "rush-order" of gumbo comes in after serving up the first big helping, will we have any ingredients left to make more gumbo?

**“TWO-STEP” PROCESS**

As reflected below, budget-balancing submissions to the City Manager will be a two-step process, with both “steps” following the results of Council goal-setting:

1. First, submittal of “non-departmental” budget-balancing ideas that will help mitigate the level of operating budget reductions that will be needed, such as CIP reductions, fund balance, new revenues and across-the-board organizational reductions.

2. And then “departmental” operating budget reduction options once we have better assessed the role that they will need to play.

### Schedule

<table>
<thead>
<tr>
<th>What</th>
<th>When</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Departments begin brainstorming budget-balancing ideas.</td>
<td>12/19/08</td>
</tr>
<tr>
<td>2. City Manager hold department briefings on “State of the City.”</td>
<td>1/14 to 1/22/09</td>
</tr>
<tr>
<td>3. Council holds Community Forum.</td>
<td>1/15/09</td>
</tr>
<tr>
<td>4. Finance issues Budget Instructions.</td>
<td>1/20/09</td>
</tr>
<tr>
<td>5. Council holds goal-setting workshop and provides direction to staff.</td>
<td>1/31/09</td>
</tr>
<tr>
<td>6. Departments submit “non-departmental” budget-balancing ideas and CIP budget requests.</td>
<td>2/2/09</td>
</tr>
<tr>
<td>7. CIP Review Committee evaluates budget requests and recommends “lowest reasonable General Fund CIP.”</td>
<td>2/11 and 2/12/09</td>
</tr>
<tr>
<td>8. City Manager develops mix of likely “non-departmental” operating budget balancers and issues resulting operating program reduction option amounts.</td>
<td>2/26/09</td>
</tr>
<tr>
<td>9. City Manager holds departmental briefings to discuss budget-balancing strategy and the role of operating budget reductions.</td>
<td>3/4 to 3/9/09</td>
</tr>
<tr>
<td>10. Departments submit “departmental” operating program reduction options.</td>
<td>3/16/09</td>
</tr>
<tr>
<td>11. City Manager develops “Strategic Budget Direction” for Council consideration in balancing the 2005-07 budget.</td>
<td>4/1/09</td>
</tr>
<tr>
<td>12. Council considers “Strategic Budget Direction.”</td>
<td>4/14/09</td>
</tr>
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</table>

### DEPARTMENT REDUCTION OPTIONS

As reflected above, formal department recommendations will not be required until after the need for operating reductions has been better defined, based on the likely “Gumbo” mix of other
budget-balancers. However, once this has been developed (tentatively scheduled for February 23, 2009), the following “ground rules” will apply:

1. Departments will be asked to identify, in priority order, expenditure reduction options on a percentage basis of their approved 2008-09 General Fund operating budget, less any one-time costs, encumbrances or carryovers.

2. While this will be based on the City Manager’s best assessment of the remaining gap facing us after applying other likely budget-balancers, it may not be enough because of adverse receptivity to the other mitigation strategies and revisions in forecast estimates – and we may have to go back for more options.

3. All departments will be assigned the same percentage reduction option. In aggregate, this will be more than the “net” amount needed from operating program reductions in order to surface an array of policy choices, and avoid being driven by arbitrary across-the-board decreases.

4. Other than the “general guidelines and principles” below, there are no “a priori” restrictions on the kinds of cost reductions that departments can propose.

5. As noted above, operating expenditure reduction options will be due on March 9, 2009 along with all other budget submittals. (Other budget-balancing suggestions are due on February 2, 2009).

**General Guidelines**

Department heads are responsible for crafting expenditure reduction options for the City Manager’s consideration that are real, doable and:

1. Reflect the least service impacts to the community: no game-playing in proposing least-likely reductions and non-starters.

2. Describe service impacts.

3. Are ongoing.

4. Are within the City’s ability to do independently: no speculative reductions contingent upon actions by others.

5. Can be implemented by July 1, 2009 for non-staffing options; and by January 1, 2010 for staffing options (and depending on the circumstances, perhaps even beyond this.)

6. Are net of any related revenues from fees or grants.

7. Maintain essential facilities, infrastructure and equipment at reasonable levels.

8. Reflect participation from throughout the organization.

**Key Principles in Preparing Options**

1. Any service reductions will be balanced, and ensure that highest priority services are retained.

2. Reductions will be based on service priorities, not vacant positions: attrition is a helpful tactic, but it will not be the driving strategy in reducing costs. On the other hand, one of the key purposes of the current “hiring freeze” is to create flexibility in making reductions based on priorities while mitigating the need for lay-offs.

3. Focus will be on retaining “front-line” core services and reducing services with least impact on community at-large.

4. On the other hand, we need to preserve “organizational” infrastructure.

**EMPLOYEE INVOLVEMENT**

**Core Principles**

The overarching principle is to treat our employees with respect, honesty, integrity and trust in preparing a budget-balancing strategy. This means meaningfully involving them in the process and genuinely soliciting their input.

It also means sharing the hard facts (and consequences) in a straightforward and timely way, even if this is painful at times for the organization. Because ultimately, respect and trust means believing (contrary to Jack Nicholson’s Marine Colonel Jessup in *A Few Good Men*) that they can handle the truth.
Lastly, it is important for employees to recognize that while we want their participation and genuinely value their ideas, ultimately proposing expenditure reductions to the City Manager is the Department Head’s responsibility; and that balancing these with other mitigation strategies in recommending an overall budget-balancing plan to the Council is the City Manager’s responsibility.

**Employee Involvement Plan Concepts**

Department Heads are responsible for including the following elements in meaningfully involving their employees in preparing expenditure reduction options.

*Initial Brainstorming*

1. Ensure that all employees in the department are aware of the problem facing the City.

2. Solicit budget-balancing suggestions from all employees: “non-departmental” (CIP reductions, fund balance, organization-wide cost reductions and new revenues) and “departmental” operating cost reductions.

3. “Non-departmental” budget-balancers will be due to the City Manager first; “departmental” options at this stage are for departmental use only, and should be prepared with the simple goal of identifying as many options as possible in closing the estimated $10.4 million gap.

4. Compile the results and share them with all employees in the department.

*Operating Program Reduction Options*

1. Ensure that all employees are aware of the specific budget reduction options amount assigned to the department, and the “ground rules” on how to prepare them.

2. Shortly after the expenditure reduction option guidelines are issued, hold individual department briefings with the City Manager. This is an opportunity for the City Manager to present the budget-balancing strategy, respond to employee concerns about what we’re doing and why.

3. Solicit any additional suggestions from all employees on operating expenditure reductions: what would they propose if they were the department head? These suggestions can be anonymous and provided to the department head in any format.

4. Compile the results from Step 3 and share them with all department employees.

5. After receiving comments, craft whatever internal decision-making process makes the most sense for the department.

6. Share the Department Head’s recommendations to the City Manager with all employees in the department, explain why these were picked and not others, and provide an opportunity for department employees to discuss them with the Department Head.

**Communication Methods**

This can be through emails, memos, division/section/shift meetings or department-wide meetings. (All of these in combination is probably the best approach.) Staff from Administration and Finance & IT are available to assist in presenting the problem and explaining the department’s tasks.

**MORE INFORMATION WITH BUDGET INSTRUCTIONS**

More information about how to prepare this information will be provided in the *Budget Instructions*, which will be distributed on January 20, 2009. The schedule for the entire budget process (all the way through adoption on June 16, 2009) are available on-line and will also be included in the instructions and State-of-the City presentations in January.
Fiscal Health Contingency Plan

October 2001

PLAN PURPOSE

The purpose of this plan is to establish a framework and general approach in responding to adverse fiscal circumstances.

What It’s Not: This plan is not intended to be a specific “recipe” for expenditure cuts or revenue increases: this needs to be determined on a case-by-case basis. Preparing detailed reduction options before they are truly needed is not recommended for three reasons:

- If not taken seriously, quality thought will not be given to them.
- If taken seriously, this is likely to result in needless anxiety, and sends a conflicting message if “times are good.”
- And even if these were not constraints, they would have a short shelf-life: needs and priorities change over time.

However, this plan does set forth the foundation of principles and values upon which specific responses will be based.

TRIGGERS

This plan will be “triggered” by any of the following:

- Any adverse fiscal circumstances as determined by the City Administrative Officer (CAO), such as:
  - Natural or human-made disasters.
  - State takeaways.
  - Large, unexpected costs.
  - Economic downturns.
- Whenever there are two consecutive quarters of adverse fiscal results in top five revenues: sales tax, property tax, transient occupancy tax (TOT), utility users tax and vehicle license fees (VLF).

Adverse results include:

- Actual declines in revenues.
- Significant variances from projected revenues.

GENERAL FUND FOCUS

This plan is focused on the General Fund, but Enterprise Funds (water, sewer, parking, transit and golf) will also fully participate for two key reasons:

- We are one organization: all parts need to participate.
- It is strategically important to limit Enterprise Fund rate increases (rate decreases would also be nice) at a time when we may be considering General Fund revenue increases.

KEY PLAN ELEMENTS

There are six key elements to this plan:

- Maintaining minimum fund balance at policy levels.
- Following other key budget and fiscal policies.
- Monitoring the City’s fiscal health on an ongoing basis.
- Assessing the challenge: short or long-term problem?
- Identifying options.
- Preparing and implementing the action plan.
Minimum Fund Balance

**First Line of Defense in Adverse Circumstances**

Maintaining minimum fund balances at policy levels:

- Allows continued operations and projects in responding to short-term problems.
- Provides a bridge—“breathing room”—in addressing longer-term problems while comprehensive response plans are developed. This is especially important under Proposition 218, since there are limited opportunities to implement new revenues.

Other Key Budget and Fiscal Policies

Following our other key budget and fiscal policies will prevent problems to begin with, and keep them from getting bigger when they do happen. These are set forth in Section B of the Financial Plan, and include:

- Balanced budget
- Conservative investment practices
- Diversified revenues
- User fee cost recovery
- Enterprise funds
- New development pays its own way
- Limited use of debt financing
- Fleet replacement
- Contracting for services
- Productivity improvements

Fiscal Health Monitoring

In accordance with our budget and fiscal policies, the City will develop and implement effective ongoing systems for reporting and monitoring our fiscal condition. These include:

### Interim Reporting

- Reliable automated financial management system
- On-line access organization-wide via the network
- Monthly financial reports
- Quarterly “Newsletter” (provided electronically to all employees)
- CIP project-to-date expenditure report
- Mid-Year Budget Review
- Special Reports: Sales Tax, TOT, Investments

### Annual Reporting

Preparing audited financial statements in accordance with generally accepted accounting principles and highest standards.

### Assess: Short or Long-Term Problem?

#### Different Strategies for Different Problems

- **Short-Term**: One-time event or downturn that is not likely to continue indefinitely.
  
  “One-time” fixes are an appropriate response for “one-time” problems.

- **Long-Term**: Ongoing downturn in revenues or increases in costs that are systemic.

  In this case, “one-time” fixes won’t work: this requires new ongoing revenues or ongoing expenditure reductions.

### Assessment: Short-Term Problem

- **Hiring Chill.** CAO approval will be required to fill vacant regular positions. To fill a vacant position, department heads must demonstrate that it is necessary in meeting public health, safety or other high-priority service needs that cannot be met on an interim basis through contract, overtime or temporary staffing. In implementing the “chill,” the goal is not just short-term savings, but preserving future options if the problem turns-out to be ongoing.
Travel Chill. We will limit travel and training: CAO approval will be required for all Travel Authorizations.

CIP Project Deferrals. The CIP Review Committee will identify candidate projects for possible deferral or deletion.

“One-Time” Operating Cost Review. The Budget Review Team will identify special projects in the operating budget for possible deferral or deletion.

Fund Balance. The City will consider use of fund balance below policy levels.

Other. The City will consider other short-term expenditure curtailments as appropriate.

Assessment: Long-Term Problem

- Implement “short-term” actions.
- Prepare long-term forecast to define the problem.
- Prepare revenue increase and expenditures reduction options tailored to problem definition via the forecast.
  - It is likely to take 3-6 months to prepare plans; and another 3-6 months to implement them.
  - This underscores the importance of strong fund balance and short-term expenditure reductions to create the time needed to prepare and implement reasonable long-term plans.

Identify Options

In the long-term, there are only two basic budget-balancing options:

- Increase revenues.
- Reduce expenditures (and related service levels).

In the short-term, use of fund balance is an option, but not it is not a viable long-term solution. An exception is the strategic use of fund balance that reduces future year operating costs or increases ongoing revenues.

Expenditure Reduction Options

Tough But Simple Fact: Meaningful ongoing expenditure reductions require reductions in regular staff costs, including public safety personnel:

- 90% of General Fund costs are operating.
- 80% of General Fund operating costs are for staffing.
- 90% of General Fund staffing costs are for regular staffing.
- Over 50% of General Fund staffing costs are for public safety.

General Strategy

Department Heads are responsible for crafting operating expenditure reduction options that:

- Are real and “doable.”
- Reflect the least service impacts to the community—no game-playing in proposing least-likely reductions and non-starters.
- Are ongoing.
- Describe service impacts.
- Are within the City’s ability to do independently—no speculative reductions contingent upon actions by others.
- Can be implemented within three months after adoption.
- Are net of any related revenues from fees or grants.
- Maintain essential facilities, infrastructure and equipment at reasonable levels—no deferred maintenance posing as genuine cost reductions.
- Reflect participation from throughout their organization.
**Option “Targets”**

Targets for *surfacing* operating expenditure reduction *options* will generally be:

- Based on percentage reductions from current operating budgets, less significant one-time costs.
- The same for all departments.

Targets are likely to exceed the “gap” identified in forecast in order to surface an array of reasonable policy choices based on priority considerations, and not driven by arbitrary across-the-board decreases. Operating expenditure reductions are not likely to be sole “budget-balancers,” but identifying their service impact is critical to attracting support for new revenues and other mitigation strategies.

**Key Principles in Preparing Operating Expenditure Reduction Options**

- Any service reductions will be balanced, and ensure that highest priority services are retained.
- Reductions will be based on service priorities, not vacant positions: attrition is a helpful tactic, but will not be the driving strategy in reducing costs. On the other hand, one of the key purposes of the “hiring chill” is to create flexibility in making reductions based on priorities while mitigating the need for lay-offs.
- Our focus will be on retaining “front-line” core services, and reducing services with the least impact on the community-at-large.
- On the other hand, we need to preserve “organizational” infrastructure, and ensure that appropriate and necessary internal review functions remain.

**CIP Projects**

- The CIP Review Committee will be responsible for identifying ongoing reduction opportunities.
- Projects intended to maintain existing infrastructure and facilities will generally have higher priority over “new” facilities. Likely exceptions include:
  - Direct adverse impacts to public health and safety.
  - Outstanding contractual commitments.
  - Significant outside resources or related one-time revenues.

**Revenues: Limited Options**

The Budget Review Team, working with representatives from the operating departments, will have the lead responsibility for identifying revenue options. However, it is likely that any new significant revenues will require voter approval under Proposition 218; and most likely, this election cannot be held until the next regular municipal election (November of even-numbered years). There are two exceptions when revenue elections can be held at any time:

- Emergency declared by unanimous vote of the Council.
- Two-thirds voter approval for “earmarked” revenues.

**Significant New Revenues: Voter Support Required**

- Voter approval will require time for effective preparation before a measure is placed on the ballot.
- Critical Success Factor: An effective, community-based group that will work hard to pass measure.

**Legislative Advocacy**

Depending on the reason for the adverse circumstances (and especially if they are driven by state or federal budget actions), the City will work closely with its elected representatives and others (such as the League of California Cities) in mitigating service (and related cost) reductions.

**Unlikely Long-Term Budget Balancers**

- **Fund balance below policy levels.** Using fund balance is a one-time course of action; it cannot fix a structural imbalance.
- **Significant reductions in training.** With fewer employees, it will be even more important to
ensure that we have a highly-skilled, well-trained work force.

**Involvement and Participation**

The City will actively solicit and encourage participation by key stakeholders in the budget-balancing process including:

- Organization as a whole.
- Employee associations.
- Community groups.

This will require effective and ongoing communication with them.

**Employee Involvement**

- Department heads will encourage employee participation and involvement in preparing expenditure reduction options.

- The City will strive to identify likely position reductions resulting from this plan six months before implementation in order to:
  - Be straightforward with affected employees about their employment outlook.
  - Provide transfer opportunities.
  - Allow affected employees a reasonable amount of time to make other plans.

**Key Value: Respect.** There are downsides to this approach, and many organizations consciously keep force-reduction actions under wraps as long as possible because of them. However, treating employees with respect means informing them about City plans that affect them as soon as possible.

**Communication Strategies**

The following identifies possible communication strategies with employees and the community.

**Employees**

- Ongoing employee briefings with CAO, Finance & IT Director and Department Heads.
- Ongoing updates via voice mail or email.

- Periodic “newsletters.”
- Ongoing briefings with employee association representatives.
- Special organization-wide briefings as appropriate.

**Community**

- Viewpoint articles in The Tribune.
- New releases.
- Presentations to interested community groups.
- Periodic “newsletters” via direct mail or utility billing inserts.
- Web site updates.
- Community forums and workshops.

**Possible Formation of Community Advisory Group**

We may form an “ad hoc” advisory group depending on the circumstances, with careful consideration of:

- When should they become involved in the process?
- Who should be on it?
- What’s their role?

**Finalize and Implement Action Plan**

- With advice from Department Heads and the Budget Review Team, the CAO is responsible for preparing the recommended action plan.

- Council approval is required for implementation.

- Finance will closely monitor results of the action plan in achieving its goal, and will quickly report any significant deviations to the CAO and Council.
Budget Update: Employee Briefings

March 2009

What I plan to cover . . . .

- Fiscal Status Update
- Operating Budget Reduction Options
  - How we developed them
  - What they mean
- Lay-Off Prevention Strategies
  - Retirement Incentives
- Questions (hopefully some answers)

Forecast Summary

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<th>Budget Gap</th>
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<tr>
<td>2011-12</td>
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<td>2013-14</td>
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Forecast Summary: Without Measure Y

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Forecast Caveat

- It is more likely to be worse than better in May 2009 than we’re projecting now.

Fiscal Status Update

- Mid-Year Budget Review: 2/24
  - Largely consistent with the forecast. Key changes:
    - Development review fees: down by 67% vs forecast estimate of 75% (down by $800,000 from budget; and $250,000 from forecast)
    - TOT revenues down
    - “Downs” largely offset by increases in other areas
    - Project ending 2008-09 at policy level: 20% of operating expenditures

One Bright Spot … So Far

- State budget adoption did not have significant impacts on the City.
  - Cuts could have been up to $2.7 million
- But that can easily change.

Two-Step Process

- First identify likely non-operating budget balancers” (NOBB’s) such as:
  - CIP reductions
  - Strategic use of reserves
  - Enterprise fund assistance
  - New revenues
  - Across-the-board organization-wide savings
  - Other “non-departmental” ideas
- And then identify target for operating budget reductions based on balance remaining to close the gap.

Goal: Refine our other options before defining how much we have to reduce operating budgets.

Note: Options will be requested that are more than the “target” in order to surface alternatives and avoid arbitrary “across-the-board” reductions.
Key Principles

- Meaningfully involve all employees in this process and communicate what’s happening.
- Ensure service reductions are balanced and retain highest priority services.
- Make reductions based on service priorities, not vacant positions.
  - Although purpose of hiring freeze and retirement incentives is to create flexibility here.

Conceptual Gap Closing Strategy

<table>
<thead>
<tr>
<th>Conceptual Gap Closing Strategy</th>
<th>One-Time</th>
<th>Annualized</th>
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<tbody>
<tr>
<td>Projected Annual Gap: Fiscal Forecast</td>
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<td>Preliminary Gap Closers</td>
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<td>New Revenues</td>
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<td>Total NOBB's</td>
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<td>Total Budget-Balancers</td>
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<table>
<thead>
<tr>
<th>Operating Budget Reduction Options: Target Allocation</th>
<th>Target Allocation</th>
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<td>City Clerk</td>
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<td>Parks &amp; Recreation</td>
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<td>Fire</td>
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<tr>
<td>Total</td>
<td>$6,000,000</td>
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*Retains at 20% policy but on lower operating expenditures

Based on 2008-09 General Fund operating budget.
What about the enterprise funds?

- They are going through a similar process.

Reasons Not to Take the Reserve Below 20% (or to be very, very cautious in doing so)

- The reserve’s primary purpose is to address unexpected “one time” costs. Our problem is an ongoing gap between revenues and expenditures.
- One failed bridge (like Foothill Bridge) or one natural disaster could require a significant use of reserve funds.
- The State budget adoption in 2008-09 does not guarantee there won’t be State takeaways later in 2009-11.
- We haven’t lost an auto dealer – but that’s possible.
- If the stock market doesn’t rally in the next year or so, our PERS rates will increase – maybe significantly.
- We are now living through the most uncertain economic time since the great depression – and no one really knows where the bottom is. An adequate reserve will be our first line of defense if things get even worse than we are already projecting – which isn’t hard to foresee.
- This doesn’t mean there aren’t opportunities for strategic use of reserves in helping us transition to lower costs of operation in the future – but we need to be very cautious about this.

Lay-Off Prevention Strategies

- Options
  - Filling vacancies (freeze in place)
  - Voluntary reductions: incentive options
  - Mandatory reductions (subject to meet and confer)
  - Reduce temporary work force
  - Waiver of future wage increase (subject to meet and confer)
  - Wage reductions (subject to meet and confer)
  - Reduce full-time work force
  - Additional ideas

Retirement Incentives

- If notification by March 31:
  - $20,000 if retire by 8-31-09
  - $15,000 if retire by 12-31-09
  - $10,000 if retire by 7-1-10
- CalPERS staff on-site March 13
Next Steps

- Meet and confer with employee groups: March/April
  Lay-off prevention strategies
- Departments submit “base budgets”: 3/9
- Departments submit reduction options: 3/16
- Employees submit retirement incentives: 3/31
- Council considers “strategic budget direction”: 4/14
- City Manager issues Preliminary Budget: 5/28

Questions?