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## The New Normal and the Future City

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## Presentation Overview

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- Introduction Zane
- One City's approach to responding to the "New Normal" Bill
- And another's implementation plan and actions to date (with food for thought for the future) Zane
- Q&A Everyone

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## Responding to Tough Times

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- Good times come and go. How can cities best position themselves in weathering the bad times?
  - Which is the "new normal."
- San Luis Obispo's approach
  - Having a "fiscal health contingency plan" in place so we don't address financial challenges flat-footed.

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## Where did this idea come from?

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- After serving as Assistant City Manager for 9 years, new City Manager identified need for plan to address adverse fiscal times when they occur.
- Not driven by any difficulties we were experiencing at the time
  - In fact, late 1990's and very early 2000's among the best fiscal times in my 32-year career as a city finance officer.
- Came from experiences ten years earlier from 1992 to 1994 with financial downturns compounded by deep State takeaways.
- Ken knew then what we all know now: good times come and go.
- And because of this, it makes sense to plan for the inevitable bad times when they do come (and maybe stay).

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## Our Experience

- Little did we know at the time that almost before the LaserJet ink was dry, we would be implementing it so soon in the wake of the dot.com meltdown, corporate scandals and 9/11.
- And since then, we have had to “pull the trigger” and implement the plan two more times,
- On one hand, it’s not a “good thing” that we’ve had to use the plan several times since its development
  - The best insurance policy is the one you never have to use.
- On the other hand, because we’ve had this plan in place when adverse fiscal times hit, we’ve been able to navigate our way through some very tough fiscal times in ways that just wouldn’t have been possible without it.

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## The Results

- Our adopted two-year budget for 2009-11 shows the power of having clear plans and policies in place that guide decision-making in tough fiscal times:
  - General Fund budget is structurally balanced for the long-term in closing an \$11.3 million gap (about 20% of our General Fund budget had we taken no corrective action).
  - Reserves are maintained at policy levels (20% of operating expenditures).
  - And we were able to achieve this without any regular employee lay-offs or furloughs.

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## Presentation Approach



- General concepts, issues and possible plan strategies
- Samples from San Luis Obispo

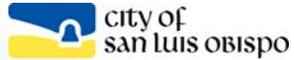
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## First Things First

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|--|--|
| <ul style="list-style-type: none"> <li>■ What’s it for?                             <ul style="list-style-type: none"> <li>● Specific recipe?</li> <li>● General strategy?</li> <li>● Restatement of current policies?</li> </ul> </li> <li>■ When is it for?                             <ul style="list-style-type: none"> <li>● How will you know when to use it? (Triggers)</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>■ Who’s it for?                             <ul style="list-style-type: none"> <li>● City Manager?</li> <li>● Council?</li> <li>● Department Heads?</li> <li>● Organization?</li> <li>● Community?</li> <li>● You?</li> </ul> </li> <li>■ What’s its scope?                             <ul style="list-style-type: none"> <li>● General Fund?</li> <li>● All Funds?</li> </ul> </li> </ul> |
|--|--|

*Answers critical in determining what the plan will look like and cover.*

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■ **Purpose:** Establish framework and general strategy process in responding to adverse fiscal circumstances in both the short and long term that:

- Ensures that employees and the community are meaningfully involved in the process.
- Takes a policy-based approach to decision-making.
- Reflects our organizational values.

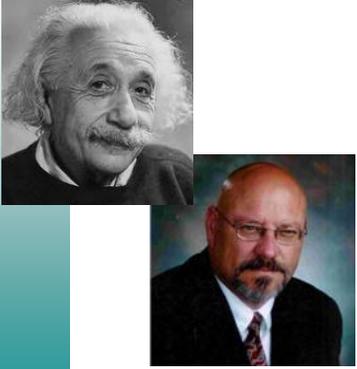
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## What It's Not

- Specific "recipe" for expenditure cuts or revenue increases; this needs to be determined on a case-by-case basis.
- Three problems with preparing detailed reduction or revenue options before they are truly needed:
  - If not taken seriously, quality thought will not be given to them.
  - If taken seriously, 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.
- But it does set forth the foundation of principles and values upon which specific responses will be based.

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## Why is this "framework" important?

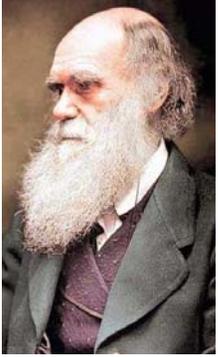


- "Insanity is continuing to do the same things and expecting different results."
- "Very few cities get into fiscal trouble in the bad times; they get into trouble in the good times."

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## The New Normal: Responding to Change

- *It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change.*
  - Charles Darwin



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## Triggers

- Any adverse fiscal circumstances as determined by the City Manager, such as
  - Natural or human-made disasters.
  - State takeaways
  - Large, unexpected costs.
  - Economic downturns.
- Two consecutive quarters of adverse fiscal results in top five revenues
  - Sales tax
  - Property tax
  - TOT
  - Utility users tax
  - VLF-Swap.
- Adverse results are:
  - Actual declines in revenues.
  - Significant variances in projected revenues.

**Clearly defining when “fiscal first aid” needed is key success factor in taking action on timely basis and keeping the problem from getting worse.**

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## Scope: General Fund Focus, But . . .

- This plan is focused on the General Fund but Enterprise Funds (water, sewer, parking, transit and golf) will also participate for two key reasons:
  - One organization: all parts need to participate.
  - 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.

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## Key Plan Elements

- 1 Maintaining minimum fund balance at policy levels.
- 2 Following other key budget and fiscal policies.
- 3 Monitoring city’s fiscal health on an ongoing basis.
- 4 Assessing the challenge: short or long-term problem?
- 5 Identifying options.
- 6 Preparing and implementing action plan.

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## 1 Minimum Fund Balance

- First Line of Defense in Adverse Circumstances
  - Allows continued operations and projects in responding to short-term problems.
  - Provides bridge – “breathing room” – in addressing longer-term problems while comprehensive response plans are developed.
  - Especially important under Proposition 218: limited opportunities to implement new revenues.

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## 2 Other Key Fiscal Policies

- Help prevent problems to begin with.
  - Very few cities get into trouble in the “bad times.”
- Keep them from getting bigger when they do happen.
  - Balanced budget
  - Conservative investment practices
  - Budget authority and financial reporting
  - Diversified revenues
  - User fee cost recovery
  - Enterprise funds
  - New development pays its own way
  - Limited use of debt financing
  - Equipment replacement
  - Contracting for services
  - Productivity improvements

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## 3 Fiscal Health Monitoring



- Ongoing Systems for Reporting Fiscal Condition and Trends
  - Annual
    - ❖ Preparing audited financial statements in accordance with generally accepted accounting principles and highest standards.
  - Interim
    - ❖ Reliable automated financial management systems.
    - ❖ On-line access.
    - ❖ Monthly reports.
    - ❖ Quarterly reports.
    - ❖ Mid-year budget reviews.
    - ❖ Special reports: sales tax, investments, TOT

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## Interim Financial Reporting

- No “guidelines” for this.
  - No “awards.”
- But more important than annual reports.

Remember to ask me who I do this for

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The collage displays several financial reports from the City of San Luis Obispo. Visible reports include:
 

- Quarterly Financial Report** (First Quarter of 2009-10)
- Monthly TOT Report** (August 2009)
- Sales Tax** (First Quarter of 2009-10)
- Quarterly Financial Report** (Second Quarter of 2009-10)
- Monthly Investment Report** (As of September 30, 2009)
- City's Investment Portfolio** (October 31, 2009)

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## Other Reports

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- Quarterly "Budget Review Team" briefings with City Manager
- Year-end expenditure reports by each department
  - Compare budget with actual by program and by type.
  - Identify reasons for any significant budget overages or underages and analyze their impact on future operating budgets
    - ❖ *Are the variances one-time in nature or will they continue into the foreseeable future?*
    - ❖ *If the variances reflect continuing trends, are they reflected in current budgets?*
  - Comparing operating budget versus actual for the department by **program**.
  - Compare operating expenditures budget versus actual for the department by **type**.
  - **Year One Only:** Itemizes multi-year carryover amounts and requested general carryover balances.
  - Finance & IT prepares summary report.

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## ④ Assessment: Short or Long-Term Problem?

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- Different Strategies for Different Problems
  - **Short-Term:** One-time event or downturn that is not likely to continue indefinitely.
    - ❖ "One-time" fixes appropriate response for "one-time" problems.
  - **Long-Term:** Ongoing downturn in revenues or increases in costs that are systemic.
    - ❖ "One-time" fixes won't work.
    - ❖ Requires new ongoing revenues or ongoing expenditure reductions.

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## Assessment: Short-Term Problem

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- **Hiring Chill:** City Manager approval required to fill vacant regular positions.
  - Must meet direct public health/safety need that cannot be met through contract, overtime or temporary staffing.
  - Goal is not just short-term savings, but preserving future options if problem turns-out to be ongoing.
- **Travel Chill:** Limit travel and training; City Manager approval required for TA's.
- **CIP Project Deferrals:** CIP Review Committee identifies candidate projects for possible deferral.
- **"One-Time" Operating Cost Review:** Budget Review Team identifies special projects in the operating budget for possible deferral.
- **Fund Balance:** Consider use of fund balance below policy levels.
- Other short-term expenditure curtailments as appropriate.

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## Assessment: Long-Term Problem

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- Three Basic Steps
  - Implement "short-term" actions until completion of "action plan"
    - ❖ First "rule of holes"
  - Prepare long-term forecast to define the problem.
  - Prepare revenue increase and expenditure reduction options tailored to problem definition via the forecast.
    - ❖ Likely to take 3-6 months to prepare plans; another 3-6 months to implement them.
    - ❖ Underscores importance of strong fund balance and short-term expenditure reductions to create the time needed to prepare and implement reasonable long-term plans.

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## 5 Identify Options



- In the long-term, only two basic options:
  - Increase revenues.
  - Reduce expenditures (and related service levels).
    - ❖ In the short-term, use of fund balance is an option, but not it's not a viable long-term solution.
    - ❖ Exception: Strategic use of fund balance that reduces future year operating costs or increases ongoing revenues.

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## Expenditure Reduction Options

- Tough But Simple Fact
  - Meaningful ongoing expenditure reductions require reductions in regular staff costs, including public safety personnel.
- In San Luis Obispo
  - 850% of General Fund costs are operating.
    - ❖ 5% for debt service.
    - ❖ 10% for CIP: mostly maintenance.
  - 80% of General Fund operating costs are for staffing.
    - ❖ 90% of General Fund staffing costs are for regular staffing.
  - And many of the "non-staffing" costs are difficult to control: utilities, phones, insurance
  - 50% of General Fund staffing costs are for public safety.

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## General Strategy

- Who prepares expenditure reduction options?
- Who prepares revenue options?
- What are the general guidelines?

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## SLO General Strategy

- Departments craft expenditure reduction options that are real, doable and:
  - Reflect 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.

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## Expenditure Reduction Options

- Targets
  - Who? (Any exceptions?)
  - How based?
  - How big?
  - What will you do with them?

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## SLO Option Targets



- Targets for 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 “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.
  - Like making choices at a restaurant, making priority-based decisions depends on having more options on the menu than we plan on ordering.
- 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.

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## SLO Principles in Preparing 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 not the driving factor 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.
- Focus will be on retaining “front-line” core services, and reducing services with least impact on community at-large.
  - *But we also need to preserve “organizational” infrastructure, and ensure appropriate internal review functions remain.*

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## CIP Projects

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

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## Revenues: Limited Options

- 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).
- Exceptions:
  - Emergency declared by unanimous vote of the Council.
  - Two-thirds voter approval.

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## Revenues: Voter Support Required

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



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## Engaging the Organization in Revenue Ideas

- On the other hand, there may be options for increased user fees, fines or use of property.
  - But if these were easy to do, we would probably have already done them!
- Employees throughout the organization will be encouraged to surface revenue-raising options, with the recognition that expenditure reductions are likely to play the leading role in balancing the budget.

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## Legislative Advocacy



- What's its role?
- City of San Luis Obispo
  - 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) in mitigating service (and related cost) reductions.

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## 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.
- Training
  - With fewer employees, it will be even more important to ensure that we have a highly-skilled, well-trained work force.

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## Involvement and Participation

- Organization
- Unions
- Community Groups
- Communication
  - With these stakeholders
  - With affected employees



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## Budget-Balancing Paradox

- Balancing the budget and closing the “forecast gap” from a strictly numbers perspective is easy.
- However, after cutting capital projects, reducing staff, and negotiating and implementing employee concessions, emerging from the process with a vibrant, high-morale, high-productivity organization is hard.
- Which leads to the budget-balancing 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.

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## Beating the Paradox

- In our experience, there is only one way to beat this paradox: believing that the process used in communicating with employees and meaningfully engaging them in finding solutions matters.
  - How we go about this process an opportunity to make deposits in our credibility bank, not just withdrawals.
  - Opportunity to both show our organizational character and values, and to build them.

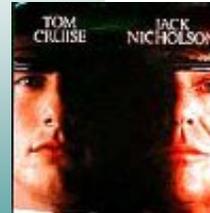
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## Employee Involvement

- Department heads will encourage employee participation and involvement in preparing expenditure reduction options.
- City will strive to identify likely position reductions resulting from this plan six months before implementation in order to:
  - Be straight forward with affected employees about their employment outlook.
  - Provide transfer opportunities.
  - Allow affected employees a reasonable amount of time to make other plans.

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## 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.
- But treating employees with respect means informing them about City plans that affect them as soon as possible.
- 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 means believing (contrary to Jack Nicholson's Marine Colonel Jessup in *A Few Good Men*) that employees can handle the truth.

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## Communication: SLO Sample

- Whenever the Fiscal Health Contingency Plan is placed in effect, the City will strive to effectively communicate with the community and employees about its status.



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## Approaches



- Employees
  - Ongoing face-to-face employee briefings by City Manager/Finance & IT Director.
  - Ongoing updates via voice mail or email.
  - Periodic "newsletters" and "rumor control corner" on the Intranet
  - Ongoing briefings with employee association leadership.
  - Special organization-wide briefings as appropriate
- Community
  - Viewpoint articles in The Tribune and editorial board briefings
  - New releases.
  - Presentations to interested community groups.
  - Periodic "newsletters" via direct mail or utility billing inserts.
  - Web site updates.
  - Community forums and workshops.

*The goal is not necessarily "consensus," but "no surprises" when any specific action plans are adopted by the Council.*

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## Community Advisory Group

- Should you use one?
- If so, when in the process?
- Who should be on it?
- What's their role?



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## 6 Finalize and Implement Action Plan

- With advice from Department Heads and Budget Review Team, City Manager is responsible for preparing recommended action plan.
- Council approval required for implementation.
- Finance will closely monitor results of action plan in achieving its goal, and will quickly report any significant deviations to the City Manager and Council.

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## Summary

- Planning—not a plan (Verb, not a noun)
  - Risks
    - ❖ Just the act of preparing the guidelines will cause a lot of anxiety.
    - ❖ Consider this in deciding what to do with this and when to do it .
  - Benefits
    - ❖ Clarifying your own thinking.
    - ❖ Early start.
    - ❖ General direction on destination, with specific route to follow.

“Plans are nothing; planning is everything.”

*Dwight D. Eisenhower*

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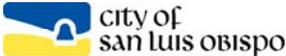
## Key to Long-Term Success

- While the specifics of both the process and outcomes have changed with the circumstances, having a clear strategy in place as the foundation for decision-making in tough fiscal times that reflects our organizational values has been a key factor in the City's success in preserving our long-term fiscal and our organizational vitality.

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## For More Information

- Western City Magazine Article: November 2009
  - “Municipal Fiscal-Health Contingency Planning”
  - [www.westerncity.com/Western-City/November-2009](http://www.westerncity.com/Western-City/November-2009)
- Copies of Plan
  - [bstatler@slocity.org](mailto:bstatler@slocity.org)



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## The New Normal & the Future City

Zane Johnston  
Finance & Administrative Services  
Director, City of Tracy

50 Think Inside the Triangle™

## How Tracy Started Building a Future Financially Sustainable City



- Began with Essay
- Purpose was to look to future without regard to present
- Led to formation of “Future City” group consisting of City Manager, ACM, HR Director and Finance Director
- Met weekly to begin moving organization to “Future City”
- We are not there yet but always moving toward the “Future City”

51 Think Inside the Triangle™

## Largest Single Expense is Personnel



- Pay & Compensation is for bargaining table
- # of City Employees is controllable
- Have to tackle size of organization
- Don’t just clear the deck of “X” number of employees
- Need a future organization that can effectively and efficiently deliver services

52 Think Inside the Triangle™

## Goals of Tracy's Future City

- Consolidate Functions (example building and fire permits)
- Delayer Management (Public Safety especially)
- Automate and Use Technology (make investment in GIS, Website, IVR)
- Contract Out (example custodial, tree trimming)

53 Think Inside the Triangle™ 

## How We Implemented Future Organization

- Requested each Department Head to put on paper a new organization
- Gave reduction goal to each department
- Dept. Head could not consultant managers within department
- Dept. Head plans reviewed by Future City Group
- Some accepted, some sent back
- Final Result 70 FTE eliminated out of 535 FTE

54 Think Inside the Triangle™ 

## Your Challenge for the Future

- Examine all services and how they are delivered
- Stop doing something and see if anyone notices
- Examine subsidized areas – get bang for the buck – be careful of subsidized hobbies
- Don't replace what the "community" should be doing for itself

55 Think Inside the Triangle™ 

## Focus Service Delivery – Even Public Safety

- Can't have a cop on every corner
- Victimless crime enforcement
- Cyberspace activity – Is that your City's responsibility?
- Be in sync with other limited resources of the criminal justice system
- Can't train for every possible scenario

56 Think Inside the Triangle™ 

### Fewer Regulators & Processors

- You don't have to enforce every code
- Building permits for minor residential remodeling – General Contractor
- Passionate People sometimes get trapped by their passion – passion or bureaucratic?
- Cost of processors (city staff) is often hidden or not identified

57 Think Inside the Triangle™ 

### Take Advantage of Private Sector – Outsource

- Day of well paid highly benefited unskilled city labor position is over
- Contract Manage instead of supervise
- Way to still provide good service but less expensively

58 Think Inside the Triangle™ 

### Mandate Use of Technology by Customers and Citizens

- City should “Operate more like a business”
- Electronic relationship for bill paying – no cash
- Fill out minor crime reports on line
- Use new methods (Facebook, etc.) to communicate
- Target Audience

59 Think Inside the Triangle™ 

### Need Class & Comp System to be more Flexible

- Work in teams instead of by position
- No such thing as “working out of class”
- Need broad classifications
- Pay levels determined by what your city can pay – not what others pay
- Sustainable retirement formulas

60 Think Inside the Triangle™ 



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61 Think Inside the Triangle™

## Questions?



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