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## CORNERSTONE

PERFORMANCE AUDITS • STRATEGIC PLANNING • ORGANIZATION DEVELOPMENT • TRAINING

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## You're Running Out of Money and You've Run Out of Ideas?



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You're the City Manager and you know the City is in serious financial trouble. You know no one wants to cut services. You've done all the easy things like:

- Not filling existing vacancies
- Halting all non-emergency travel and conferences
- Eliminating training
- Delaying General Fund Capital Projects
- Finding more internal revenue
- Reviewing your fees
- Selling your services / consolidating with a neighbor
- Reviewing your insurance program

- Allocating your vehicle and heavy equipment costs
- Refinancing your debt.

But things just aren't getting any better. Now what?

I spent some time with a city manager friend of mine who was in this situation. His city, which had a general fund operating budget of roughly \$110 million, closed out the fiscal year with a \$5.4 million deficit. His council adopted the budget in June with a known \$6 million deficit built into it. His finance folks were showing a \$12 million deficit for the next fiscal year! My friend told his city council that if nothing were done about the structural deficit the city would burn through all its reserves within 24 months. In municipal time, that's RIGHT NOW!!

### At Some Point a City CAN Run Out of Cash!!

I speak from experience. That's exactly what happened in the City of Richmond a few years ago. The City Manager asked me, as Deputy City Manager, to take on a temporary assignment as the Acting Finance Director. I'll never forget my first day in charge of the department. I remember the eyes of the City's revenue accountant when she told me someone on the Redevelopment Agency staff had just called to ask that a check be cut the next day for \$6 million so that the Agency could close on a property it was obligated to pur-

chase. I remember thinking to myself "so what?" Then she told me the City only had \$19 million in LAIF, \$5 million in a CD and \$4,400 in a savings account!!

Then she told me the burn rate on payroll and payables was \$15 million a month. It was July. The City had not qualified for a TRANS because its financial statements for the prior fiscal year had not been completed in time to make the deadline. The LAIF-RDA account was dry. All of the City's funds were dry or nearly dry!! I remember the blank stare on the revenue accountant's face when I asked for the 12-month cash flow projections. I was beginning to get the picture. Everybody got real busy.

Over a period of 15 months, in order to avoid bankruptcy, the City laid off or froze over 350 positions out of a workforce of 1100 employees. Many people lost their jobs, including 18 firefighters. Libraries and community centers were closed. Employee compensation was reduced by over 8 percent. Adding insult to injury, the voters got stuck with a new one-half cent sales tax increase even though services were being slashed. It was devastating to the organization and the community. A lot of people got hurt.

Along the way, I learned a few "Must Do's" that could be of benefit to anyone who is concerned about bankruptcy and municipal oblivion:

- You must tell the city council and the community the brutal truth about the city's financial condition.
- You must not let anyone waste time establishing blame.
- You must paint a picture for the city council so that they understand what "bouncing checks on your watch" really means.
- You must reach out to the community and get them involved in the problem solving process.
- You must work closely with the labor groups and get them involved in the problem solving process.
- You must be prepared to lay off sworn public safety personnel, whether you like it or not.
- You must treat all your employees, safety and non-safety, in a consistent manner.

In the early stages of our recovery effort in Richmond the City Council, to their credit, unanimously embraced the simple **Principles of Municipal Wealth Accumulation.**

I got out a drum and repeated the principles publicly everywhere over and over again:

**Principle No. 1:** *Manage your labor costs. Continually invest in and protect your human assets.*

**Principle No. 2:** *Create an operating surplus every year in your General Fund, even if the surplus is a small one, and match one-time revenues with one-time expenses.*

**Principle No. 3:** *Fill your General Fund Reserves off the top, before you spend money on salaries and other operating costs.*

**Principle No. 4:** *Invest heavily in your public infrastructure, particularly job creating infrastructure, using off the top dollars from your General Fund. Continually invest in and protect your fixed assets.*

**Principle No. 5:** *Make economic development your top program priority.*

While these principles may seem obvious to a city management professional, they are not necessarily obvious to elected officials, city employees or community stakeholders.

As was well publicized, things improved in Richmond and bankruptcy was avoided thanks to the hard work of some very dedicated individuals including elected officials, appointed officials, union leaders, employees and consultants. Eventually, as reported in The Bond Buyer: "Moody's Investors Service restored Richmond, California's issuer credit rating to investment grade...citing a financial turnaround for the San Francisco Bay area city a year after it discovered a \$35 million budget deficit."

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Do you have concerns about your organization's financial health? Are other major organizational issues consuming all your time? Citygate can help you. We can make a practical, results oriented financial assessment and Action Plan to help you put these tools and principles in place so there are no unmanageable surprises. Please contact Jay Corey by phone at (510) 303-0327 or via email at [jcorey@citygateassociates.com](mailto:jcorey@citygateassociates.com). If this service is of value to you, we would like to help.



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