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*Summer 2003***Got Financial Crisis?***What do you do when you think the city is broke, or at the very least, the cliff is near and the rocks below are sharp?*

BY DWANE N. MILNES, DPA

What do you do when you're the City Manager and you think you can't balance the budget without cutting services; and no one wants to cut services? Furthermore, the State is cutting local government revenue.

Some of us went through local government fiscal turmoil in the early 70's, the early 80's, and again in the recession of the 90's.

I honestly can't remember managing a city that had plenty of money. We were usually on the brink of raising taxes, cutting police or closing swimming pools. Somehow, we never went over the cliff.

After several fiscal alarms, my own "bag of strategies" to hold off making the ugly choices became familiar to me: open the drawer and pull out the list.

Over 25 years ago, David Koester, former City Manager of Santa Cruz, California, gave me a list of things to remember as a City Manager. And so I thought I would pass on my own list of things to do when facing fiscal

crisis. I hope this is as useful to you as it has been to me.

1. Don't Fill Existing Personnel Vacancies

This is only a temporary strategy that allows you to assess whether reorganizing will save money. It has the "human" benefit of providing vacancies into which you can transfer people if reorganization or service reductions eliminate positions. As a short-term strategy, freezing vacancies often reduces services in the area where the vacancy occurs; and this may not be your best "long-term" choice. Finally, freezing vacancies citywide only results in some of the savings accruing to the General Fund; but a citywide freeze can give a sense of shared pain and more positions into which you can transfer employees from areas where services are cut or reorganization occurs.

2. Delay General Fund Capital Projects

You probably didn't budget the capital project unless you badly needed it. Most General Fund projects seem to be for facility repair/replacement or a community-serving facility. Again, this is a short-term strategy that preserves cash while you develop a long-term solution. Postponing repair and replacement too long

is often "penny wise and pound foolish."

3. Find More Internal Revenue

Many cities think they already charge an appropriate amount to enterprise funds, special revenue accounts, and the Redevelopment Agency to recover the cost of General Fund services to these activities. But every time I encounter a fiscal crisis, I discover that: 1) the indirect overhead charge has not been updated recently; 2) the direct charges are either the same percentage, or worse yet, the same dollar amount the City had been charging for several years, which no longer reflects the services to "other funds;" and/or 3) the City has not been charging General Fund service costs to all possible places, such as capital projects, assessment districts, or AB1600 fee accounts. It's always interesting to see how much General Fund subsidy has crept into "other funds" because we were too busy to review and update. Best of all, this is usually recurring revenue.

4. Review Your Fees

Every time I started a new job as City Manager, and now in most of the cities where I have assisted as a consultant these past two years, the fee schedule seems not to have been updated recently.

Tying building fees to the Building Code, indexing fees to inflation, identifying services that are unique to individuals, such as fire permits and inspection services, can bring in added revenue. A few dollars soon adds up.

5. Have You Had an Energy Audit Lately?

This source of savings is off the radar screen for most cities. The light fixtures have been changed, variable speed pumps installed and timers activated. But a few years ago, my Assistant City Manager badgered me into another energy audit. This one focused on whether our utility was charging us on the proper schedule for each use. They weren't. There is also new technology out there that wasn't available five years ago.

6. Sell Your Services / Consolidate With a Neighbor

In cities, as in stocks and real estate, timing seems to be everything. Last year your neighbors did not want to talk about a shared animal control operation, contracting to buy fire services, or consolidating dispatch. Today they may be interested. Fiscal crises often present the timing that makes cooperation possible for savings that is like new revenue.

7. Review Your Insurance

Insurance rates go up and down like a yo-yo. Whenever they go up sharply, we often get aggressive in seeking new sources and reviewing our self-insured retention levels. The current mood seems to be that the insurance market is bad and you can't do much about it. When was the last time you reviewed your retention levels and the

adequacy of your insurance reserves? Can these be adjusted to save money? Are you absorbing most of the cost of insurance in the General Fund, or are you spreading the cost to the other funds, reflecting the risk they should absorb?

8. Where Are Vehicle and Heavy Equipment Costs Being Charged?

I remember the concept of the equipment replacement fund from the 60's. It was one of my first jobs as an analyst to calculate the amount each department should be charged for use of city vehicles. The City was in financial trouble and wanted to make sure that the utilities were paying their share of maintenance and replacement costs. Rate calculations are not an exciting job and so it does not get done very often. The rates then drift and the General Fund ends up subsidizing the "other funds." I have used a fiscal crisis as an opportunity to update the rates. It has helped pull the General Fund back from the edge of the fiscal cliff.

Sometimes you are up to your neck in alligators and don't have time to drain the swamp to find the savings and revenue. Sometimes you don't have enough staff. If you are wondering whether Citygate can help you in any of these areas, please call us. If we can be of value to you, we would like to help.



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