

January 4, 2005

TO: Mayor and City Council Members

FROM: James L. Walton, City Manager

SUBJECT: **Breakthrough Change Initiatives “Giving the Future a Voice”
City Manager’s 2005 Priorities**

We have just concluded, with the adoption of the 2005-2006 biennial budget on December 14, 2004, one of the most difficult, challenging and time-consuming budget development processes since we started developing a two-year budget in 1990 for the 1991-1992 biennial budget.

The 2005-2006 biennial budget represents our best collective efforts to craft a financial plan that will put us on a course to achieve our preferred future as outlined in our “Tacoma Tomorrow” Strategic Plan 2005-2010. Our citizens’ need for quality municipal services continues to grow at a time when our resources are somewhat limited, especially in the General Fund. Our fiscal environment called for a new budgeting approach.

This past year we created a new budget development process that is significantly different from previous processes. The City Council and the public were kept informed of budget issues and the budget process through a series of budget workshops beginning early in the budget development. The process focused on identifying all of the services provided by the City rather than using a traditional departmental focus. A set of criteria was developed to classify existing services as either “Essential” (a core activity which the City must do at some minimal service level) or “Desirable” (an activity or higher service level that has strong community support but could be reduced or eliminated if revenues are unavailable for funding). Each service was “priced” and its cost to the General Fund was determined. This information was then used to decide which services were funded, partially funded, or not funded in the Preliminary Budget.

Through that process, we have set the stage for our future success in achieving our stated mission: **We provide high-quality, innovative and cost-effective municipal services that enhance the lives of our citizens and the vitality of our neighborhoods and business districts through teamwork, integrity and continuous improvement.**

Though we made considerable progress in re-aligning our services with strategic priorities while developing a budget for 2005-2006, the long-term fiscal challenges facing the City are far from over.

The 2005 Breakthrough Change Initiatives detailed in the following pages, seek to continue the work begun during the 2005-2006 biennial budget process to re-align services with available revenues.

Background:

The City is continuing to deal with the effects of several citizen initiatives, particularly I-747 and I-776. The first of these, I-747, limits the City's property tax collections. This has created a structural problem in the City's budget because it limits property tax collection to a growth rate of 1% per year, which is below the historic rate of inflation. In addition, I-776 significantly reduced funding for our City's vital transportation infrastructure needs by limiting vehicle license fees. As a result, the City is faced with an ever widening gap between the costs of current services and the revenues available to pay for them.

Because these are long-term structural problems, they require long-term responses in the form of permanent service level reductions, that both reduce the funding requirements in the current budget and also carry forward as permanent service level adjustments in future budgets. Without permanent service level reductions, the funding gap between the costs of current service levels with inflationary growth and the revenues available to pay for them will expand in each succeeding budget period.

The 2003-2004 Biennial Budget process began with a \$19 million gap between the projected costs of existing services and the revenues available to fund them. The budget was balanced, but relied on a number of one-time adjustments that did not permanently reduce service levels to mitigate future deficits.

In preparation of the 2005-2006 biennium budget, the budget deficit was projected to be \$29.6 million in the General Fund. The budget deficit grew beyond the impacts of revenue—limiting initiatives for several reasons:

- Spiraling costs of employee compensation and health care benefits
- Additional debt service obligation for a public works trust fund loan
- Increased funding for self-insurance
- Additional funding for Thea Foss clean up

Absent long-term sustainable adjustments to either revenues or service costs, the projected deficits through 2010 are as follows:

- 2007/2008 (\$15.9 million)
- 2009/2010 (\$26,5 million)

Over the span of eight years (2003-2010), the City will need to make approximately \$91 million in adjustments to its costs of providing municipal services.

The 2005-2006 biennial budget has been balanced by using a combination of ongoing revenue increases and services reductions and one-time solutions such as: usage of beginning fund balances, sale of surplus real property, reappropriation of existing unspent fund balances, new revenues, and the funding of certain public safety programs (Police Community Liaison Program and Fire Station #13 staffing) for one year only - 2005.

City of Tacoma Financial and Budget Policies:

The current City of Tacoma Financial and Budget policies, in relevant parts, provide for the following:

Operating Policies

To assure that financial stability is maintained, a budget showing that revenues and other financing resources meet or exceed expenditures/expenses will be prepared and adopted by the City Council. A fiscally sound budget will include the following:

- **An adopted budget that will fund recurring operating expenditures/expenses with recurring operating revenues.**
- Expenditures/expenses will be controlled and shall stay within budgeted fund levels.
- The Contingency Fund will be funded at the beginning of each biennium in an amount not to exceed \$3 million, but not less than \$1 million.
- The City-operated utilities should show positive net operating results.

General Fund

- **Unreserved fund balance should be maintained between 5% and 15% of projected annual expenditures. Ideally the City should have a total unencumbered reserve equal to 10% of projected annual expenditures.** Any proposed use of the reserves below 5% of projected annual expenditures will require super-majority (majority plus one of voting members) approval by the City Council.

Sustainable Adjustments

In order to continue the City's efforts to make sustainable adjustments in the costs of providing municipal services, meet some of the expenditure reduction targets included in the 2005-2006 biennial budget, and to adhere to the City's Financial and Budget policies, the City Manager has developed a targeted list of four 2005-2006 "breakthrough changes initiatives" to fulfill savings targets and other efficiency expectations.

Breakthrough Change Initiatives for 2005-2006

Definition: “breakthrough initiatives” are focused on structural issues and service areas that have the greatest potential to offer significant long-term, recurring savings and efficiencies to the City’s General Fund expenditures starting in 2005.

The initiatives should allow the City to quickly achieve significant reduction in operating expenses, and enhance organizational performance at a higher level.

Proposed Savings Target:

\$3 million - \$5 million in permanent, sustainable cost reductions in the City’s General Fund expenditures for 2005-2006, with projected savings through 2010.

Strategic Direction:

The proposed Breakthrough Change Initiatives are aligned with the adopted strategic plan for the City of Tacoma - “Tacoma Tomorrow,” which includes the following priority initiatives:

- Review service delivery to reduce City costs through efficiency, consolidation, collaboration, and alternative service deliveries.
- Prioritize programs and services to ensure the delivery of strategic and essential programs and services.
- Institute a system that prioritizes services, manages the performance of the City and measures results.

The Breakthrough Initiatives and Teams:

INITIATIVE

Employee Compensation and Benefit

Develop policy for long-term compensation and benefit changes

- Review City employee health benefits changes
- Review/establish “cost control” strategies/programs associated with health benefits
- Eliminate/phase out longevity pay
- Study options related to creating a TERS II plan for new employees
- Review policies and practices associated with application of additional rates (management discretion or “other factors” 1.12.640)
- Review unrepresented employee compensation policy (PMP 330)
- Establish standardized performance assessment system
- Review compensation policy for “subject matter experts” in the organization
- Review “best practices” for municipal organizations related to total compensation

TEAM

Chair:

Steve Marcotte, Finance Director

Members:

Beth Brooks, Public Works
Chief Eileen Lewis, Fire
Randy Lewis, Government Relations
Rich McCrea, Police
Donna Stenger, Tacoma Economic Development
Carol Mathewson, General Services
Vicki Sullivan, Municipal Court
Jane Evancho, Tacoma Public Utilities
Dana Toulson, Tacoma Public Utilities
Pat McElligott, Joint Labor Committee
Bob Burton, Business Information Systems

Resource Group:

Content Expert/Internal	– Mary Brown, Human Resources
Organizational Development/Facilitator	– Mary Morrison, Human Resources
Private Sector Credible Source	– Bev Losey, Brown and Brown

INITIATIVE

Organizational Restructuring/Consolidation

Design new City organizational structure (General Government)

- Eliminate unnecessary layers of management, reduce management positions as necessary
- Examine ways we assign responsibility for work, decision making, communications/information sharing, work processes, and cross departmental collaborations towards eliminating “silos”
- Look for permanent program and services elimination options
- Review allocation of costs of internal services to departments
- Look for opportunities for service consolidation and other service delivery methodologies:
 - Review/determine feasibility/advisability of combining electrical staff
 - Review Fire suppression/EMS staffing methodology for efficiencies and savings
 - Assess feasibility of consolidating business units’ Information Technology staff within Business Information Systems structure
- Review “best practices” for municipal organizations related to organizational structure and allocation of costs

TEAM

Chair:

Rod Kerslake, Hearing Examiner

Members:

Lilly Aguilar, Human Resources
John Briehl, Human Rights and Human Services
Leslie Rowen, General Services
Mike Fitzgerald, Fire
Karen Jones, Business Information Systems
Gwen Kopetzky, City Manager’s Office
Chief Donald Ramsdell, Police
Pam Richards, Finance
Craig Sivley, Public Works
Alice Phillips, Joint Labor Committee

Resource Group:

Organization Development/Facilitator	- Mary Morrison, Human Resources
Professional Consultation/Content Expert	- Outside Consultant
Content Expert/Internal	- Jon Lendosky, Fire

INITIATIVE

Vehicle and Equipment

Improve the efficiency and cost effectiveness of providing fleet maintenance services and purchase of City's equipment and vehicles

- Explore alternative cost-effective ways to provide vehicle and equipment services, i.e., outsourcing and competitive contracting
- Seek opportunities to contract with other agencies for vehicle/equipment maintenance services
- Review possibility of consolidating City fleet service garages
- Review allocation of costs of fleet maintenance and vehicle and equipment purchase services to internal customers
- Review "best practices" for municipal organizations related to fleet operations

TEAM

Chair:

Ryan Petty, Tacoma Economic Development Director

Members:

Bill Pugh, Public Works

David Otto, Business Information Systems

Catherine Mitchell, General Services

Gary Steinhoff, Fire

Sherri Crawford, Office of Management, Budget and Analysis

Jim Howatson, Police

_____, TPU, Fleet Services

Dan Morgan, Joint Labor Committee

Resource Group:

Content Experts/Internal

- Steve Hennessey, General Services

- Rich Stearns, Fire

Organization Development/Facilitator

- Joe Hagala

Private Sector Credible Source

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Professional Consultation/Content Expert

- Outside Consultant

INITIATIVES

Risk Management

Reduce overall liability costs and workers' compensation claims and their average cost to improve risk management outcomes

- Design a comprehensive, proactive risk management plan to control/reduce City's liability costs
- Study risk management control options related to the City's regulatory compliance responsibilities

TEAM

Chair:

Woodrow Jones, Jr., Human Resources Director

Members:

Mike Combs, Public Assembly Facilities

Elizabeth Pauli, Legal

Rick Brush, General Services

Pat Pabst, Retirement

Joe Delaney, Finance

Tom Strickland, Police

Al Tebaldi, Public Works

Jon Chaffey, Fire

Mary Ann Brennan, Joint Labor Committee

Resource Group:

Content Expert/Internal

- Debbie Dahlstrom, Human Resources

Organization Development/Facilitator

- Carol Wolfe, TEDD

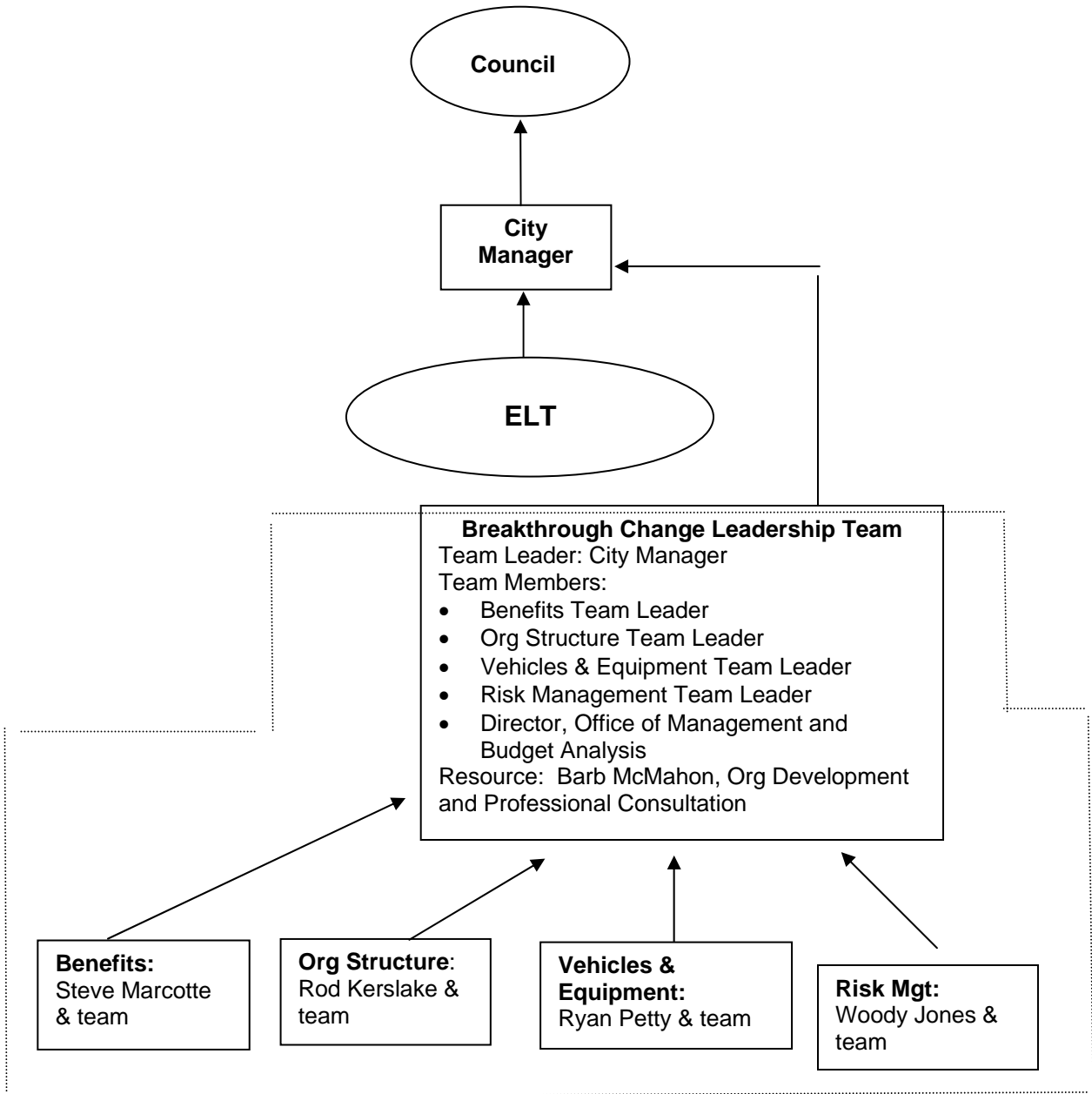
Private Sector Credible Source

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City Council's Proposed Role

1. Set policy direction and take appropriate actions to implement recommendations.
2. Hold City Manager responsible for achieving project outcomes within the identified timetable.
3. Serve as key communicators to the public on the breakthrough change recommendations and their benefits to the strategic direction of the City.

Breakthrough Change Initiative Structure



**BREAKTHROUGH CHANGE INITIATIVES
MILESTONES**

January 4, 2005	<p>Overview/discussion of Breakthrough Change Initiatives</p> <p>Resolution supporting Breakthrough Change Initiatives</p>	<p>- Council Study Session</p> <p>- Regularly scheduled Council Meeting</p>
January 7, 2005	Executive Leadership Team roll out of Initiatives/Project scope, outcomes, boundaries, and reporting structure	- Executive Leadership Team (ELT) meeting
January 7 to March 8, 2005	<p>Phase I – Teams formed, undertake research:</p> <ul style="list-style-type: none"> • Best practices research and development • Develop RFP/select consultants for organizational restructuring/consolidation and vehicle & equipment initiatives • Clarify scope, roles and responsibilities • Establish saving target for 2005-2006 	- Status report to ELT (February 4 and March 4, 2005)
February 8 and March 8, 2005	<p>City Council status update</p> <p><i>Status report shared with citizens, employees and stakeholders</i></p>	- Council Study Session

March 9 – 21, 2005 to April 15, 2005	Phase II: Teams formulate options and recommendations with analysis-benefits, risks, mitigations, cost savings, etc.	<ul style="list-style-type: none"> - Preliminary review for further development City Manager (April 8, 2005) - Status report to ELT (April 15, 2005)
April 26, 2005	City Council status report update <i>Status report shared with citizens, employees & stakeholders</i>	<ul style="list-style-type: none"> - Council Study Session (April 26, 2005)
April 18 to May 20, 2005	Phase III: Teams develop action plans with detailed implementation strategies/structure and timeline	<ul style="list-style-type: none"> - Preliminary review for further development City Manager (May 6, 2005) - Status report to ELT (May 20, 2005)
June 4 & 11, 2005 (Saturdays)	City Manager/Teams present final report to City Council <i>Final report shared with citizens, employees & stakeholders</i>	<ul style="list-style-type: none"> - Special four hour workshop <u>(June 4, 2005)</u> *Employee Compensation & Benefits *Risk Management <u>(June 11, 2005)</u> *Organizational Restructuring *Vehicles & Equipment
June 13 to November 4, 2005	Phase IV: Teams start implementing action plans, including developing changes to TMC, rules, policies, etc.	<ul style="list-style-type: none"> - Status reports to ELT (July 8, August 5, September 9, and October 7, 2005) - Status reports to appropriate Council standing committees <ul style="list-style-type: none"> - Ordinance(s) presented to Council for policy changes - Council Study Session status report (October 18, 2005)

November 7 to November 22, 2005	City manager presents to Council final cost savings; organizational and policy changes to be reflected in amendments to 2005-2006 budget	- Study Sessions (November 8 & 29, 2005)
December 6 & 13, 2005	Council adoption of 2005-2006 mid-biennial adjustments, including changes identified through Breakthrough Change Initiative process	- City Council regularly scheduled meetings
January to March, 2006	Teams work with appropriate departments & staff to continue implementation of recommended changes/monitor progress and recommend adjustments as needed	- Report to City Manager and ELT - Monthly status reports to Council/citizens/employees