



March 4, 2005

TO: General Government Departments

FROM: James L. Walton, City Manager

SUBJECT: Breakthrough Change Initiatives Update

I met with the Breakthrough Change Initiative Team leaders on February 23, 2005. I'd like to share the latest information from that meeting, as well as provide some new direction to all General Government departments that will aid the teams' work in addressing our mounting fiscal challenge.

Breakthrough Teams Receive 2005-2006 Savings Targets

The February 23rd progress reports from each of the four Breakthrough Change Initiative Team leaders were very, very encouraging. The Teams continue to clarify scope, gather input and insights from team members, analyze the current situation and mold the groups into high performance teams. The teams will present updates on their efforts to the Tacoma City Council at the March 8 study session.

I recently provided the teams with more direction to guide their good work. If you'll recall, when the Breakthrough Change Initiatives were initially developed we expected the projected savings to be realized beginning in the 2007-2008 biennium. However, the adopted 2005-2006 budget left some key public safety program services unfunded for 2006. In addition, adjustments in expenditures by the City Council included some prospective reductions in overhead costs for 2005-2006. We need to address those gaps and expectations. Therefore, a savings target for the current biennium needed to be established.

At the February 23 Breakthrough Change Initiative Leadership Team meeting, I outlined savings targets for each team to achieve for 2005-2006. The overall proposed savings target for the Breakthrough Change Initiatives Project for 2005-2006 is in the range of \$3-\$5 million in permanent, sustainable cost reductions in the City's General Fund expenditures.

The proposed 2005-2006 savings targets for each of the Initiative Teams are as follows:

- Employee Compensation and Benefits - \$ 500,000
- Organizational Restructuring/Consolidation - \$1,166,000
- Vehicles & Equipment - \$ 950,000
- Risk Management - \$ 800,000

Each Initiative Team is also expected to outline projected savings for their recommended options through 2010.

Questions Answered and Concerns Addressed

Some Breakthrough Change Initiative Team members and other City employees have raised key questions for discussion and asked for guidance on other concerns. The issues and my responses to them follow.

Why are we doing this? Is this serious business or just more meetings in search of a problem?

I want to reiterate the definition of “breakthrough initiatives” contained in my January 4, 2005, memorandum to the Mayor and City Council Members. I believe the definition clearly stated the need for and purpose of the initiatives:

“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 reductions in operating expenses, and enhance organizational performance at a higher level.”

The January 2005 memorandum makes it clear that the Breakthrough Change Initiative effort is an outgrowth of our 2005-2006 budget development process. As indicated in the memorandum, the City will need to make approximately \$91 million in adjustments to either revenues and/or service levels between 2003 and 2010. The initiatives are intended to address the reality of our current and future fiscal challenges.

That’s the problem. Solving that problem is serious business for the leadership of this City.

The Breakthrough Change Initiatives effort seeks to find ways to bring about structural—not one-time—changes in our expense patterns that are sustainable over time. Justifying the status quo is not what this effort is about. A “do nothing” strategy to maintain the status quo is not an option.

We need to find viable, sustainable, cost-reduction options that will maintain service quality while enhancing our efficiency. The sooner we get started changing our expense paradigms, the better. The problem will only compound over time. Less radical changes will be needed if we start now and give ourselves a larger window in which to make strategic adjustments. As we look for savings which can be realized in 2005-2006 and beyond, the miracle of compounding will work for us rather than against us.

Are the initiatives only supposed to affect the General Fund and not other funds?

Some of our Executive Leadership Team members and employees have asked if the Teams should consider cost reductions and efficiencies that might apply to the General Government Enterprise Fund operations. The short answer is: Absolutely.

In the eyes of our citizens, customers and elected officials, we are one city and one enterprise. The owners of the enterprise—the citizens—hold us accountable for results. The citizens want and deserve good value for their tax and rate dollars. Therefore, it makes no sense for us to be looking for ways to control or reduce costs and improve our efficiency in just one area of our enterprise. In fact, the areas of focus for the Breakthrough Initiatives cross all funds—General Fund and Enterprise.

So, I have directed each Team to look for savings and efficiency improvements in the Enterprise areas as well as the General Fund. The qualified exception to that request applies to the Vehicles & Equipment Team. We are not looking at the operations of the Tacoma Public Utilities fleet services. However, if some of the recommendations developed by the Team would improve operations for both General Government’s and TPU’s fleet operations, that would be acceptable to note for consideration. The City Council has asked that if there is a second phase of Breakthrough Change Initiative reviews, that TPU fleet be included. This would be consistent with the City Charter provisions, Section 4.17.

Why are we making efforts to reduce/control our discretionary expenses through the Breakthrough Change Initiatives and at the same time some business units are allowed to continue business as usual spending?

I have relied on the members of the Executive Leadership Team to understand and internalize the fiscal crisis the City is facing now and will continue to face in the future. The behavior change I had expected was that Department Directors would look for creative ways to contain or reduce their costs where possible. Some have plans to do so. Many directors outlined their intentions to continue to reduce their costs in their 2005 Departmental Goals and Priorities. That's breakthrough leadership!

However, I find it necessary to put in place some additional directives that will assist us all in containing/reducing our discretionary costs, especially in the areas where our Breakthrough Change Initiative Teams are focusing. The measures will help begin the cuts and reduce the amount of savings we will have to find in 2006.

Interim Cost Control Measures Effective Immediately

Pending the completion of the Breakthrough Change Initiatives Teams' work, the following provisions will be effective immediately:

Vehicles and Equipment:

- A. All requests for vehicle/equipment purchases submitted to General Services/Transportation Services Division must first be personally reviewed and approved by the Department Director of the requesting department. No division level approval will be acceptable.
- B. All requests for vehicle/equipment purchases must be accompanied by a compelling business necessity rationale for the purchase. Business as usual rationale will not suffice (e.g., we have funds in the budget, this is a normal replacement schedule, etc.).
- C. Replacement vehicle purchases that represent an upgrade in vehicle model from the vehicle being replaced must provide a compelling business necessity rationale for the upgrade.

- D. The Director of the Office of Management, Budget and Analysis will act as the approval agent for the City Manager for all requests for vehicle and equipment purchases. Any questions regarding compliance with these interim purchasing provisions will be discussed with City Manager prior to OMBA approval.

Management Level Positions:

Note: Management positions are as defined by the Human Resources Director.

- A. All requests to fill management positions must have prior approval of the City Manager before circulating a Personnel Requisition Form 505 for approval.
- B. All requests to fill management level positions must include a compelling business necessity rationale before approval will be granted. Examples of rationales include that the position is: 1) mission critical to achieving our strategic plan measures; 2) essential to the requesting department's 2005 Departmental Goals and Priorities; and/or 3) otherwise critical to a definitive program or service of significant importance to citizens or customers.

Application of Additional Pay Rates:

- A. All requests to use management discretion or "other factors" to grant an additional pay rate, as provided for in our compensation plan, must have prior approval of the City Manager before promises are made to employees. The exception is that those application of rate provisions included in current collective bargaining agreements do not require approval.
- B. All non-represented employees who have been "temporarily" assigned to a higher classification for more than thirty (30) day shall be reviewed by the appropriate department director in consultation with the Human Resources Director. The continuation of such temporary assignments can only occur if a compelling business necessity case can be made, and is concurred with by the Human Resources Director.
- C. All non-represented temporary appointments to a higher classification shall be made by utilizing a P-100 approved by the appointing authority (Department Directors).

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The Human Resources Director shall make periodical reports to the City Manager regarding these provisions.

Step Increases:

Effective immediately, all Department Directors are to discontinue the practice of granting automatic step increases. This provision applies to all employees. All step increases should be granted based on documented achievements in job performance. Each Department Director is to provide a report to the City Manager at our regular status discussion meeting regarding the granting of performance-based step increases.

Positioned for Success

In conclusion, the Breakthrough Change Initiative project offers the best opportunity for us to deal in a very serious, focused, and collaborative way with one of the major challenges facing this City in the last eight years—making sustainable, structural changes in our costs of providing municipal services. We have a unique opportunity to be a part of something grand, wonderful and rewarding. We have a chance to transform how we are organized, positioned and resourced to achieve the City of Tacoma's preferred future as outlined in our 2005-2010 Strategic Plan.

I am convinced now, more than ever before, that we have all of the key transformation elements in place to achieve the goals and results as outlined for the Breakthrough Change Initiatives. The key elements include:

- A compelling need for change
- Workable processes to make changes occur
- Clear mission and purposes
- Outcome/results-based goals
- Support of the City Council
- Leadership
- The right people enrolled in the effort

The most important element of all is the last one—the people. When organizations face a transformational challenge, problem solving must shift to its people. Solutions to transformation challenges reside not in the executive office, but in the collective intelligence of employees at all levels. Those employees need to seek each other out as resources across organizational units to learn their way to creative, innovative solutions.

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As I previously stated, we have the capacity to turn challenges into creative opportunities, shortfalls into successes and frustration into fulfillment.

Your collective efforts and good work on this project of great importance to our citizens and our organization are commendable. I thank you!

cc: City Council

Mark Crisson