

Financial Strategy Development Proposal



The continued devaluation of the city's revenue position, coinciding with inflationary price pressures, has accelerated a structural imbalance that jeopardizes the productive capabilities of the city workforce, and requires an imminent financial intervention action.

It's time to fix the city's cash flow problem.

CITY OF KENT FINANCIAL STRATEGY PROPOSAL

For several years the City of Kent’s revenues have failed to keep pace with expenditures. The City has deployed a number of stabilization measures to offset the revenue shortfalls, e.g., hiring freeze, position reductions, new stormwater fee, operational cuts, and service modifications (brush pick-up). Despite these efforts reserve funds have been required to bridge-over what was hoped to be a temporary downward cycle in revenues but the gap has continued to widen and shows no indication of self-correction. As a result, City Council committed to a year-long, community-wide effort to develop a Financial Strategy to re-balance the budget and ensure the long term viability of city services.

Financial Strategy WorkTeam

The Administration has assembled a panel of community representatives to join Council in a series of financial workshops. The panelists were invited based on their expertise, perspective and talent. The list of prospective panelists will be distributed for discussion at the January 11th Committee meeting.

As a starting point for Council discussions, the City Clerk scheduled eight (8) workshops in conjunction with regular Committee meetings from January – August 2006 (see dates below). The Administration is seeking more guidance from Council on desired format for the meeting. We could use the dates listed below and use the conventional Committee format (tape recorded minutes, Robert’s Rules of Order, etc.) in Council Chambers or we could use less formal work-session style meetings to support more free-flow dialogue in an alternative location such as the Fire Station. With a mix of elected and non-elected team members, the Administration would recommend the Worksession format but it will require finding suitable dates.

Expense Focus			Revenue Focus			Strategy Focus	
Discretionary	Non-Discretionary	Scenarios	Fees	Taxes	Growth	Worksheets	Alternatives
<i>Jan 25</i>	<i>Feb 22</i>	<i>March 29</i>	<i>April 26</i>	<i>May 31</i>	<i>June 14</i>	<i>July 12</i>	<i>August 9</i>
Overtime Professional Services Capital One-Time Purchases	Staffing Levels Health Care Retirement Efficiency Productivity Performance	Expense Forecasts Service Level Analysis Reduction Scenarios	Fee Market Comparisons One-Time Cash Sources, e.g., surplus city properties New Revenue Sources	Tax Rate Comparisons Tax Impacts (pro’s and con’s) New Tax Sources	Economic Development Revenue Development Forecast Growth Strategy	Expense Worksheet Revenue Worksheet Levy Schedule State Tax Impacts	Strategy Alternatives Alternatives Prioritization
Trends Analysis Evaluate OT and Prof. Services use Define relationship of OT and Prof. Services with staffing levels Review of large Capital purchase decisions Compare staffing levels and staff performance measures with peer cities Define service levels and evaluate service reduction options and impacts Discuss methodology for prioritizing service cuts			Trends Analysis Compare city fees with peer cities Review one-time cash sources and evaluate earnings potential Discuss alternative revenue sources Compare effective tax burden with peer cities Review tax impacts by tax type Evaluate one-time and recurring benefits of economic development Discuss prospective growth impacts and long term city growth strategy			Define range of expense reduction options Define range of revenue growth options Combine expense options with revenue options into strategy alternatives Review levy schedule Review state tax changes Prioritize alternatives	

January 11th 2006 Council Committee Meeting

At the January 11th Committee Meeting Council will be asked to adopt a schedule, authorize the panel members, and agree to a format for the WorkTeam sessions. Staff would also recommend that Council, either on its own or in consultation with new panel members, establish ground-rules to guide the WorkTeam deliberations. Ideally, the WorkTeam should start by creating a mission, defining the problem, setting objectives and establishing criteria to measure success. Staff has provided text addressing these issues in the paragraphs that follow to facilitate consideration of these items. These could either be discussed by Council at the January 11th meeting or it could be done with the full panel at the first WorkTeam meeting.

WorkTeam Ground Rules GETTING OFF TO A GOOD START

Establishing ground rules at the start of the process helps set common expectations and should help manage the process more constructively. As a new group consisting of a mix of elected officials, staff and citizen volunteers it will be important to establish parameters for comments, debate and decision making at the onset. Issues that need attention include:

1. Voting Rights
2. Attendance and Participation
3. Micro Management vs. Policy Direction
4. Mutual Respect and Leadership Behavior
5. Decision Making
6. Administrative Rules of Conduct
7. Staying in the Solution
8. Public Comment Opportunities
9. Meeting Location
10. Other?

Strategy Perspective BALANCING PRICE AND VALUE

The City's finances create the means by which the City delivers services and achieves the community's goals. In that context, the financial element and the service element are functionally linked and represent opposite sides of the same coin. At any point in time the coin is a certain size, and while there's always room to make improvements to the service element – innovating and optimizing around the edges – the size of that coin fundamentally sets the level of services available in the community.

When the coin is too small, something has to give; choices have to be made about what to do less of or what not to do at all. Or we must go find a bigger coin that is large enough to support all the things that need to be done. The size of the coin will vary but the financial "heads" and service "tails" will always be linked. Failing to pay attention to both sides of the coin raises the risk of knowing the price of everything but the value of nothing. Obviously, it takes money to make services possible but a community is more than the calculated sum of the dollars and cents spent within it.

The City's Financial Strategy must address the short-term budget deficit but it must not do so at the expense of long-term community value. There are abundant examples in the private sector where downsizing had a short-term benefit for quarterly earnings but poorly planned cuts ended-up cannibalizing the company's assets and capabilities for future economic value. With that in mind, the City's Financial Strategy must correct past problems but it must do so with attention on positioning Kent for strong future performance as well.

Strategy Guidance RULES TO LIVE BY

Sound strategies are built around common-sense principles that guide financial decision making, including:

1. Sensible spending and wise investing

We must understand how we spend our money. Our budget is our checkbook and from it we can prioritize spending and identify areas of potential saving. Our budget represents an annual re-investment in Kent and like all investments some of our budget decisions come with risks. Understanding the risks, price fluctuations and impacts of inflation are necessary when creating a sound investment strategy. Diversification, asset allocation and investment opportunity costs should all be considered in building and preserving our community equity.

2. Prudent borrowing

Borrowing can enable us to obtain things that are otherwise beyond our current reach, but borrowing costs money. Loans for things that provide lasting and ongoing value at a one-time cost (e.g., capital infrastructure) are smarter than borrowing for short term, recurring cash needs (e.g., payroll). Prudent borrowing includes making sure the rates and terms of our loans are as attractive as we can get.

3. Consistent savings and adequate security

In the same way that utilizing a payroll deduction or other automatic savings programs helps individuals build adequate savings, cities must have savings plans that provide consistent deposits and maintain minimum balances. These savings provide protection during hard times and are great as temporary measures but they should not be confused with permanent fixes.

4. Sustainable Revenue Growth

Time has a way of turning assets into liabilities, and while the rate of inflation may vary, it pushes prices in only one direction – up. So we must have adequate revenue growth to be able to re-invest in our assets and keep pace with the cost of business over time. Revenues enable us to protect our asset value, preserve our equity, and take advantage of emerging business opportunities. Without any direct means of revenue production, cities rely on the economic activity within the community to generate secondary taxes and fees. When the local economy is strong the city's revenue position will be strong. The challenge for cities is avoiding the highs and lows of economic cycles and to translate uneven cash flows into sustainable revenue growth.

Strategy Objectives PURPOSE, GOALS AND MEASURES

In simplified terms the Financial Strategy WorkTeam will seek to do the following:

1. Measure current financial and service positions;
2. Define financial and service goals;
3. Identify the financial and service steps it will take to get there;
4. Make financial and service decisions with distinct targets;
5. Align policies and practices to support targets; and
6. Outline a means to monitor and measure progress.

PROCESS: The WorkTeam is working with staff to frame the city's financial challenges in a way that expands the community's understanding of the problem, encourages informed discussion and promotes collaborative problem solving. How well we achieve this goal will depend upon the following factors:

1. Availability and quality of information
"Did we get what we needed, when we needed it, to understand the problem and recommend solutions?"
2. Community access and input opportunities
"Did Kent residents and businesses have a chance to learn the problem and contribute to solutions?"

3. Maintaining a solution orientation
"Did we spend more time limiting or expanding possibilities?"
4. Commit to a future focus
"Did we demonstrate leadership conviction and commit to a path forward that outlines a vital future for Kent?"
5. Working towards collaboration and consensus
"Did we seek to find the right answers based on the data or argue for our own preconceptions?"
6. Clarity of decision and action
"Have we explained the choices we made and why we made them so there is no confusion?"

OUTCOMES: The immediate objective is to develop a financial strategy that ensures the economic sustainability of core city services and achievement of city strategic goals. The success of this effort has a number of factors and measures of success:

1. Factor: Ensure the long term viability of core City operations
Measure: Plan in-place to restore revenue and expense balance before reserve funds are exhausted in 2008
2. Factor: Maintain funding levels to meet current community needs
Measure: Match of resource levels to service needs and community support for plan
3. Factor: Progress Plan demonstrates a vital future for Kent
Measure: Alignment and adequacy of resources to fulfill city goals
4. Factor: Progress Plan that is feasible, practical and effective
Measure: Percent of problem solved by the plan; timing of plan; risk of failure
5. Factor: Financial Plan is followed and adhered to
Measure: Percent of decisions made according to plan

Next Step Checklist

City staff is preparing a 3-ring binder that WorkTeam members can use to store hand-outs and relevant information. The binder will include a copy of the 2006 Budget and the 2005 Financial Report. It will be finalized after the January 11th Committee meeting and distributed prior to the first WorkTeam meeting.

In the meantime,

- _____ Submit any specific budget questions you have in advance so we can make sure to cover them.
- _____ Look through the attached Worksheets that suggest some language for defining our purpose so that we stay on track during the course of our busy schedule. It's important for this to be "our" process so I hope you'll make sure that you agree with where we're heading.
- _____ Think about the format so we can make a decision: Committee (formal) vs. Worksession (informal).
- _____ Rest up over the holidays, we're going to be busy in 2006.

As always, feel free to call me if you have any questions or suggestions.