

CITY OF EAST POINT FINANCIAL RECOVERY PLAN

PRESENTED BY:
CRANDALL O. JONES, ICMA-CM
CITY MANAGER



UPDATED MARCH 2010

This page intentionally left blank.

City of East Point, Georgia

Financial Recovery Plan

Updated March 2010

Mayor

Earnastine Pittman

City Council

Ward A, Steve Bennett

Ward A- At Large, Sharonda Hubbard

Ward B, Lance Rhodes

Ward B- At Large, Patricia Langford

Ward C, Myron Cook

Ward C At- Large, Marcel Reed

Ward D, Clyde Mitchell

Ward D- At Large, Jacqueline Slaughter-Gibbons

Prepared By:

Crandall O. Jones ICMA-CM, Interim City Manager

Greg Clay, Special Assistant to the City Manager

Stephen Grier, Executive Liaison to the City Manager

Mission and Vision Statement of the City of East Point

To provide exceptional city services in the most professional, courteous and effective manner to enhance the quality of life in the City of East Point. East Point is a City of excellence in providing housing and business development opportunities, public safety, recreational and cultural activities.

Standards for Public Service Delivery: Five Strategic Principles

Effective Business Management

We pledge to make ethical, cost-effective use of the resources available to us in carrying out our duties.

Advocacy for The City of East Point

We take pride in working for the City of East Point, value our service to the community and seek opportunities to show it.

Focus on Employee and Customer Safety

We pledge to value safe working conditions for ourselves, our co-workers and those we serve in the community.

Excellence In Employee Development

We pledge to continuously pursue professional excellence for ourselves and the City of East Point through fostering service, training, mentoring, coaching, teaming and leadership among all employees.

Exceptional Customer Service

We pledge to deliver exceptional service to all our customers - internal & external – to continually seek ways to improve our service delivery and to foster a “customer first” mind-set in the City of East Point.

I. Introduction

By almost any standard, the City of East Point is facing the most crucial financial challenge in its history:

- A City budget that has been habitually in deficit;
- A multi-million dollar pension debt;
- Over \$100 million in unfunded infrastructure needs;
- The lack of financial audits for at least two fiscal years;
- A lack of financial reserves; and
- Abandonment of internal financial controls.

There is no more significant issue for the City than restoring its fiscal health and rebuilding public trust in the city government. Almost all of the challenges the City faces come with complex financial, legal, political and administrative histories. While there have been stopgap measures implemented in the past to address fiscal challenges in East Point, this plan provides a comprehensive resolution that serves as a guide for the City over the next two to three years. The items documented in this plan address chronic issues that, to varying degrees have gone ignored over the past several years.

This financial recovery plan calls for difficult policy and operations decisions to be made. That tough decision making has already begun. Over the course of the past year, a new management team has taken over the daily operations of the City

and, under the guidance of the City Council, has already begun to address the systemic issues that led to the current financial crisis. The major elements of the Financial Recovery Plan are fundamental changes in the culture and operation of the City Government and are outlined in this document.

II. Structurally Sound, Balanced Budget

For the first time in years, citizens of East Point have a budget that they can understand. This process began with the development and ultimate adoption of the FY 09 budget and includes the following elements:

- **True revenues and expenditures will be reflected in the City budget.** In past years, the adopted budget has underestimated expenses and overstated revenues in order to balance the budget. Those practices have already been stopped. As a result of this occurring in the FY 08 budget, the new City Manager instituted an immediate spending and hiring freeze (except for essential items, positions and public safety personnel) until such time as the true, real-time cash position of the City is determined with the completion of its FY 07 and FY 08 audits;
- **The City Council will implement an increase in the millage rate to match General Fund expenditure requirements.** In the past,



administrations have been reluctant to increase the City's millage rate, even in the face of increasing costs (fuel, supplies, etc.) of doing business. As costs increased and the property tax rate remained flat or decreased, the obvious result was deficit spending. When coupled with the errant reporting of revenues and expenditures mentioned above, the fiscal impact was predictable. During FY 08 the situation was brought to the attention of the City Council and they, ultimately, increased the millage rate to generate over \$2 million of additional General Fund revenue for the City. That millage rate remains in place today;

- **The City will undertake a reduction in workforce.** In addition to a spending freeze, the City Manager also took the

unprecedented step of instituting a layoff of 50+ City personnel in order to reduce operating costs. Forty-nine (49) of these workers were firefighters and their layoff was a result of the City Council's approval of a recommendation to close two fire stations in order to reduce operating costs. This initial round of layoffs resulted in a reduction of approximately \$3 million in personnel costs. In addition there were over 40 unfilled positions that were eliminated as well. There are approximately 15 additional personnel cuts scheduled over the next year;

- **The City will implement 10 furlough holidays.** As an immediate cost reduction measure, the City Manager recommended and the City Council approved as part of it's FY 09 budget adoption a 10-day, unpaid holiday furlough for all City staff. This furlough reduces annual operating expense by \$880,000; and
- **The City will increase all utility rates, permit fees and municipal court fines.** Historically, the City of East Point has staunchly held down its utility rates, permit fees and municipal court fines. Most of these revenue sources have not increased in several years, even in the face of

the rising cost of providing these services. In adopting the City Manager's proposed FY 09 budget, the City Council approved an increase in all rates, fees and fines of the City government, with the exception of alcohol licenses. These rate, fee and permit increases are projected to generate sufficient revenue to balance the budget.

The City Council, in its effort to further facilitate financial recovery, approved new rates and staff implemented a rate setting process that was guided by applicable rate setting standards which considered:

1. Cost of service data related to the wholesale and retail utility customer class;
2. Level of service desired by policy makers;
3. Consistency with rate setting for all classes of customers; and
4. Competitive rates within the Metropolitan North Georgia Water Planning District.

The established rates were in keeping with the Metropolitan North Georgia Water Planning District benchmark practices and our fiduciary obligation to serve the interests of our citizens.

The rate components reflect Operations and Maintenance Expense, Existing Debt Service, Projected Debt Service, Utility Infrastructure



R&E, Developmental Design and Planning Services, and future capital costs as follows:

- **Water and Sewer Enterprise** consisting of: 1) water treatment; 2) water transmission; 3) wastewater treatment; 4) wastewater transportation and; 5) customer billing. In addition the City has established a franchise fee of 6.39% for this enterprise during the 2009 fiscal budget year;
- **Solid Waste Services Enterprise** consisting of: 1) residential and commercial collection; 2) residential yard trash; 3) recycling; 4) bulk pick-up; 5) curb sweeping and; 6) customer billing. In addition the City has established a franchise fee of 13% for this enterprise during the 2009 fiscal budget year; and
- **Electrical Services Enterprise** consisting of: 1) electric power transmission; 2) residential and commercial distribution; 3) security

lighting; 4) traffic signal operations and; 5) customer billing. In addition the City has established a franchise fee of 8 % for this enterprise during the 2009 fiscal budget year.

The rates reflect a system wide approach to rate design and cost recovery. This approach is designed to promote equity in the recovery of costs, to incorporate strategic planning that will avoid large shifts from year to year based upon what is happening at a particular enterprise with regards to operations or capital investment, and is consistent with practices used by many other municipalities.

- **Alcohol Ordinance Amendment.** Alcohol license fee increases were subsequently approved in the Council's amendment of the City of East Point's Alcohol Ordinance, resulting in a projected increase in revenue of over \$100,000.
- **The City Council will review its policies on transferring funds between utility operations and the General Fund.** If needed, the Council will strengthen its policies on transferring funds from the utility operations to the general fund. This transfer should represent a formal franchise fee or PILOT (Payment in Lieu of Taxes) and based on a Council approved formula and method. With such a policy in place,

the City is able to properly budget for such an expense in the utility funds and the related revenue in the general funds. This practice was implemented with the development of the FY 09 budget, with the setting of an 8% margin for transfer to the General Fund. Additionally, all required transfers (e.g., transfers from the General Fund to debt service fund to cover debt service payments) will now be included in the budget process.

III. Pension Restructuring Plan

For many years the City of East Point has operated a pension plan based on a defined benefits methodology. Several years ago the City abandoned the funding of the program and, as a result, fell behind in the vesting of the pension plan. The City was, ultimately, charged with having to establish a payment plan to stabilize the pension fund. As with many other governmental entities around the nation, the cost



of maintaining a defined benefit program has become a costly proposition that challenges the sustainability of the City government. At a current \$7 million impact, maintaining the current defined benefit program is costing the City over 30% of its payroll expenditures. Over \$4 million (57%) is paying into the plan to cover retired employee benefits, not future benefits for current employees. A fundamental change in the methodology of the program from defined benefits to defined contribution must be considered—at the very least for new employees and/or those who are not yet vested—in order to significantly reduce annual operating costs and avoid the costs associated with funding a plan that increasingly threatens the sustainability of the City. In 2007 the City Council requested that staff investigate the costs of a defined benefit versus defined contribution program. That investigation never occurred. Within the next six (6) months, staff, with the approval of the City Council, will issue an RFP for alternative approaches for both pension plan design and administration. Ultimately, both the City's true pension obligation—including the actuarially required contribution—should be determined by a firm that works for the City Council, since the City has ultimate responsibility for the figures that appear in its financial statements.

IV. Active Employee and Retiree Healthcare

For years the City of East Point has carried a very generous employee and retiree health program that provided for health care for active

single employees and employees with spouses and/or families at minimal cost to the employee. Additionally, the City's healthcare plan also covered retirees, their spouses and their families at 60%. This plan cost the City in excess of \$2.3 million per year. As with many other public and private sector organizations nationwide, the City had to address this issue due to the continuing rise in the cost of healthcare. The City Council responded to this challenge in May 2008 by approving a new, still very competitive, healthcare program, in which active and retired employees contributed a greater match and City contributions to retiree spouse and family coverage were reduced from 60% to 30%. The net annual cost reduction to the City was in excess of \$650,000. Additionally, the City is conducting its first-ever audit of healthcare services dependent benefits to identify any ineligible dependents. Analyses such as these typically result in a five to ten percent (5% - 10%) reduction in healthcare costs.

In FY 2010 for the City of East Point, a new accounting standard on other postemployment benefits will go into effect (GASB 50) which will require the City to recognize an actuarial-determined annual contribution to cover postretirement benefits for active and current retired employees. This is contrary to the "pay-as-you-go" method currently used by the City. The criteria is similar to actuarial computations for pension benefits and the annual funding of that expense by the City. This is likely to be a multi-million dollar annual impact

on the City. It requires having actuaries to begin soon looking at this liability in relation to the City's current benefit plans for retirees. As with the City's current pension plan, it may necessitate further modification of health plan plans to manage to the cost.

V. Establishing/Restoring a New Set of Internal Financial Controls

This plan will institute significant reforms to the manner in which the City of East Point manages its internal financial controls—both from the policy and operational levels. The City Manager has directed the Finance Director/CFO and all department heads to examine all inter-and intra-departmental controls and to focus on identifying and implementing cost-effective “best practices” in redesigning the City's financial management procedures. Additionally, the City Council will establish new and/or strengthen existing fiscal oversight policies of the Council. Implementation of these actions has already begun and will continue over the next two years. Actions planned and underway include:

- **Re-establishment of the City's financial accounting system.** Over the past few years, the administration of the City government had essentially abandoned its computerized accounting system, HTE. Those employees who were initially trained on using the system are no longer employed by the City and no formal

training of their replacements was ever initiated. The newly hired CFO was formerly the City of East Point's Deputy Finance Director and was employed by the City when the financial accounting system was implemented. Having significant knowledge of the operation of the system, he re-established the HTE system as the basis for the City's financial management and has begun the process of training Accounting personnel, as well as business management personnel in other departments, on using the system;

- **Returning departmental budget oversight to department heads.** Due, at least in part, to the abandonment of the City's accounting system, department heads were not provided with their annual budgets and were not managing them. Instead, all budget management was handled solely by the former CFO. Through such centralization, there were no checks and balances nor departmental knowledge and accountability for their respective financial operations. Effective with the adoption of the FY 09 budget, departmental budget management responsibility was returned to department heads. They

now receive monthly financial reports from the Finance Department and coordinate with both the Finance Department and, where necessary, the Contracts and Procurement Department (C&P) on budgetary and purchasing issues, respectively;

- **Establishment of spending controls and a contract management function within the former Purchasing Department.** In recent years there was little coordination between the former Purchasing Department, the Finance Department and the customer departments they served. This resulted in departments ignoring the City's procurement procedures, purchases being made without the knowledge and/or participation of Finance and/or Procurement and, in some cases no budgetary



reconciliation of spending. As a consequence, there was both unaccounted for and overspending. There also existed no centralized oversight for monitoring contracting. In early 2008, the City Manager centralized contracting in the C&P Department and directed the CFO and C&P Director to strengthen oversight, coordination and checks and balances procedures between the two departments for both procurement and contracting. New procurement and contracting procedures have been developed and mandatory training has been conducted with all departments to provide greater accountability and compliance. Staff has started the process of identifying and analyzing all present contracts to seek potential savings. By seeking greater competition and compliance of contract terms and conditions, the City will realize cost avoidance and savings on existing and future acquisitions;

- **Improving Warehouse Operations and Streamlining Inventory.** It has been several years since the City analyzed its' warehouse-inventory stock items. There are several items that have not been used / requisitioned for years and are now

obsolete. Current efforts are underway with all user departments to insure only frequently used and emergency items are being stocked. Staff will also adjust minimum and maximum ordering points to minimize out-of-stocks and improve customer service levels and staff productivity. All items that have been identified as obsolete, non-emergency, or slow moving will be discontinued and sold off through auctions for revenue. This action will help improve efficiency and cash flow. These items are currently being evaluated for recommendation to the City Council for disposal; and

- **Improving City Council fiscal oversight through the development of Designated/ Undesignated Fund Balance Reserves and Investment Policies.** The City previously had no formal policies in place to handle management or investment of reserve funds. In the past investments have been handled at the discretion of the CFO. In July 2008 the City Council adopted a Designated and Undesignated Fund Balance Reserve Policy which increases Council oversight of any reserve funds, requiring recommendations for placement or

removal of funds by the Budget Committee (working with the City Manager and CFO) and authorization by a majority of City Council. A proposed Investment Policy has been presented to the Finance Committee and is awaiting presentation to the City Council, which will give investment oversight to the Finance Committee (working with the City Manager and CFO) and requiring authorization by a majority of City Council.

VI. Business Process Re-engineering



Over the course of the next three years, all City processes and departments will be comprehensively examined with the objective of reducing cost and improving operational efficiency. This process is already underway and the following has been accomplished thus far:

- **Establishment of a “one-stop” City Annex operation.** In September 2008, the City Council approved the relocation of multiple outlying City government operations to one centralized location. This move not only improves customer service delivery and efficiency (most City services at one location), it reduces annual rental, maintenance and operations costs by approximately \$300,000.

VIII. Privatization

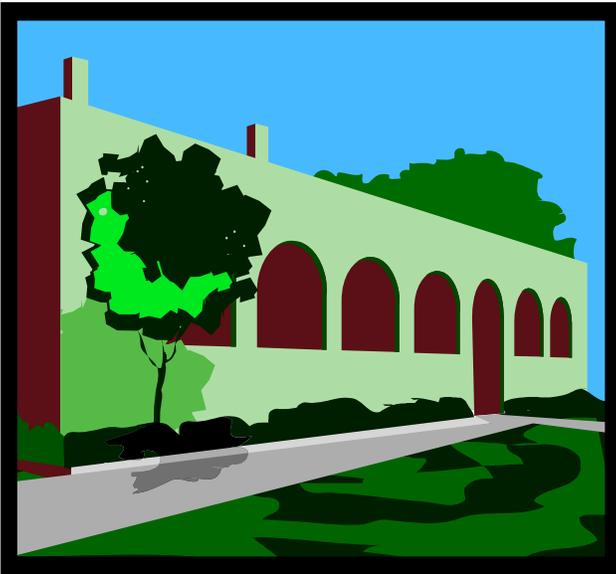
Due to the increasing costs associated with doing business, it is practical for the City to consider privatization of certain government functions as a means of cost reduction. Services already outsourced or considered for privatization include:

- **Privatization of Municipal Court probation operations.** The City Council has approved this recommendation from the Municipal Court Judge. This allowed for the elimination of four staff positions (over \$100,000 cost reduction) and increased revenue for the City via offender fee increases and fees associated with an increased capacity to place offenders on probation. Additionally, this has reduced the number of offenders requiring incarceration, thereby reducing City Jail overhead costs;

- **Delinquent Collections.** In November 2008, the City Manager presented an RFP request for the hiring of a firm to collect delinquent utility, property tax, permit and municipal court fees and fines. This move addresses an on-going, yearly carryover of delinquent receivables some of which, ultimately, end up being written off rather than collected; and
- **Privatization of solid waste collection and fleet maintenance operations.** By February 2009 the City Council will consider a proposal to establish a solid waste franchise operation and outsource solid waste collection. This move will eliminate over \$2 million in operating costs, avoid required expenditures of approximately \$3 million in capital equipment needs and create at least \$250,000 in annual franchise revenue via a revenue sharing agreement with the selected franchisee. Additionally, staff is investigating the costs versus benefits associated with outsourcing heavy vehicle maintenance.

IX. Sale of Surplus City Property

Staff is currently identifying all unneeded City property to post it for sale. The City has begun disposing of surplus equipment via on-line



property auctions through the Govdeals.com auction service in early 2008.

X. Implement Asset Management Program

Currently, there is a disconnect between the City's HTE asset management database and the manual process inventory list that exists on excel spread sheets. A physical inventory of the City's fixed assets must be conducted with detail item bar-coding for accuracy and accountability. Once the inventory process is complete, the upgrade of the HTE software fixed assets module must be integrated to accurately track fixed assets over \$5,000, including all computers, servers, printers, furniture and fixtures. This asset management program will allow the Finance Department to bridge the gap between purchase orders and work order-assets and ensure compliance with accounting and

audits standards.

XI. Access to Previous Restricted MEAG Trust Funds

Beginning in January 2009, the City of East Point will begin having access to approximately \$34 million in a currently restricted trust account established for MEAG participants. The payout of the funds will be over a ten (10) year period, with the City receiving approximately \$4 million in 2009 via monthly payments of \$350,000. The City Council will designate these funds to a fund balance reserve account to use as a stopgap in the event other measures being implemented do not sufficiently address any immediate cash shortfall.



City of East Point Financial Recovery Plan Timeline

The major elements of this plan are fundamental changes in the culture of the City Government. The actions are to be taken by the City Manager and per adoption of the plan and direction by the City Council.

Increased Revenue Sources

Action	Begin	Completion
a. Increase property tax revenue by increasing millage rate to match General Fund expenditure requirements. Property tax revenues have remained flat due to an unchanged millage rate as costs continue to rise for City operations.	10/07	Completed
b. Increase revenue generation by increasing utility rates, permit fees, and municipal court fines. These rate, fee and permit increases are projected to generate sufficient revenue to balance the budget. These fines have not increased for several years as costs continue to rise for the City.	7/08	Completed
c. Increase revenue from the sale of surplus city property, items, and equipment. City staff has begun to generate revenue from the sale of surplus items through on-line auctions with Govdeals.com.		On-going
d. Collect payments from a trust account established for MEAG participants. The City will receive a total of \$34 million over a 10 year period beginning in 2009.	1/09	On-going

Operation Expenditures Reduction

Action	Begin	Completion
a. Institute immediate spending freeze (except for essential items) until such time as revenue streams become stable	10/07	On-going
b. Institute hiring freeze (except for essential positions and public safety personnel) until such time as revenue streams become stable	10/07	On-going
c. Institute a reduction in the workforce that results in a +\$3 million personnel reduction. For FY09, the City Manager proposed and the Council approved layoffs for identified filled positions, the elimination of some vacant positions, and the freezing of others.	7/08	Completed
d. Implement furloughs for 10 holidays recognized by the City. This will result in an \$880,000 reduction in annual operating expense	7/08	Completed
e. Enhance and improve the way the City does business through business process re-engineering. Processes and departments will be comprehensively examined with the objective of reducing cost and improving operational efficiency. Facility consolidation has already occurred with the City's transition to the Jefferson Station Building.	10/07	On-going

Organizational Adjustments

Action	Begin	Completion
a. Privatization of Municipal Court parole operations, delinquent collections, solid waste collection, and fleet maintenance. Due to the increasing cost of doing business, it is practical for the City to consider privatization of certain government functions as a means of cost reduction and revenue generation. These measures will result in a cost savings of over \$5 million over time.	9/08	Completed
b. Significant reform to internal financial controls. City leadership will examine all inter-and intra-departmental controls and focus on identifying cost-effective practices. This action will include the re-establishment of the City's financial accounting system; return of departmental budget oversight by the department head; establishment of spending controls and a contract management function.	10/07	On-going
c. Improve City Council fiscal oversight through the development of Council adopted fiscal policies (Designated/ Undesignated Fund Balance Policy, Investment Policy)	9/08	Completed
d. Analyzing alternative approaches for pension plan design and administration. Currently, the City operates a pension based on a defined benefits methodology. With a \$7 million impact, maintaining the current defined benefit program is costing the City over 30% of its payroll expenditures.	12/08	On-going 6/10
e. Increase contribution amounts that active and retired employees pay for health care. The health care plan that covers current employees, retired employees, their spouses and their families at 30%, is currently costing the City \$2.3 million per year. The City will conduct its first audit of health services dependent benefits to identify any ineligible dependents, resulting in a possible 5% - 10% reduction in health care costs overall.	5/08	Completed but continuing to evaluate as needed
f. Improving Warehouse Operations and Streamline Inventory	6/08	Completed
g. Improve City Council fiscal oversight through the development of Designated/Undesignated Fund Balance Reserves and Investment Policies.	9/08	Completed
h. Establish a "one-stop" City Annex operation.	10/07	Completed
i. Privatize Municipal Court parole operations	5/08	Completed
j. Delinquent Collections	7/08	On-going
k. Consider possible privatization of solid waste collection and fleet maintenance operations	6/08	On-going
l. Immediate online auction of surplus City property for revenue enhancement	5/08	On-going
m. Implement an Asset Management Program to bridge the gap between purchase orders and work order-assets; and, insure compliance with accounting and audits standards.	2/09	On-going
n. Access to Previous Restricted MEAG Trust Funds to establish fund balance reserves	1/09	Council Directed Staff to Access Accounts

This page intentionally left blank.

For more information about this document
please contact the East Point
City Manager's Office at
(404) 270– 7017.

2777 East Point Street
East Point, Georgia 30344



The city of
EAST POINT
Georgia

CITY OF EAST POINT
FINANCIAL RECOVERY PLAN
2008