

Grading Rubric Continued

Performance Indicators

Criteria	Needs Improvement	Meets Expectations	Exceptional
Research/Collection/Analysis	Poor background research with few to no citations; does not use a questionnaire, structured observation, or structured interview to collect data	Adequate data collection using public sources and databases; cites research	Thoroughly collected data using public sources and databases as well as a questionnaire, structured observation, OR structured interview; accurately cites results in body of case
Application of Concepts	Lack of or improper application of course concepts	Adequately applies and integrates some course concepts within the case	Accurately uses direct application of course concepts throughout the case, demonstrating critical and analytical skills; integrates concepts with organizational information
Reference Page	No reference page or multiple mistakes in referencing sources	References sources with minimal mistakes	Accurately references all sources used in the body of the case; uses correct format on reference page
Grammar and Organization	Poorly organized and written case with numerous errors	Well-written case with minimal errors	Well-written case; free of errors in grammar, punctuation, word choice, spelling and format; paragraphs are organized well
Case Discussion	Poor preparation for discussion; minimal participation or contributions lack depth and understanding	Adequately prepared; makes contributions to discussion; poses questions	Well prepared for discussion; makes meaningful and articulate contributions; poses insightful questions to peers

THE STOUGHTON CITY BUDGET

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OVERVIEW

Abstract

Each year, local elected officials must exercise leadership concerning the allocation of fiscal resources. In this case, the council must decide whether to support or reject the revised budget recommendation, leaving the mayor with the deciding vote. This case study highlights the organizational and political decision-making processes that are involved in weighing the pros and cons of various budgetary options within the context of a local municipality's budget revision and approval process.

Main Topics

Financial management, Bureaucracy and structure

Secondary Topics

Leadership, Strategic management

Teaching Purpose

To examine the complexities involved in the financial planning process in the context of local government politics.

The Organization

The municipality of Stoughton, which includes a four-person city council and a mayor.

Main Characters

- Janice Miller, Mayor
- John Sellers, City Manager
- Pete Smith, Sheila McCullough, Elizabeth Banning, and Tom Richardson: City Council

BACKGROUND

Stoughton is a community of approximately 4,700 people located in a midwestern state. Founded in 1929, the community is a mid-ring suburb for the state's largest city and includes its own shopping district. Most of the housing is ranch style, built after World War II to house returning servicemen and their families. The business and shopping district is along a very busy four-lane road that bisects the community. Along this large street are several strip malls with smaller commercial buildings, many of which are reaching the end of their productive lives.

The community is racially diverse with mostly Caucasian households at with a relatively large proportion of African Americans and a small percentage of other races. The median income last year was \$47,900 with 5 percent of the population living below the poverty level. The city's income level is close to the average for the region. Stoughton provides its citizens with a wide range of public services. The local police and fire departments provide the community with public safety. A Park and Recreation Department maintains the city parks and coordinates community activities such as youth programs and a community day care service. The Public Works Department maintains the city facilities and roads. The Housing Department does occupancy inspections and handles building permits and construction inspections. The court hears cases, assesses fines, and issues warrants in support of the work done by the police and fire departments and the building inspectors.

THE CITY'S ADMINISTRATION

The city has a mayor/council form of government with four council members representing individual districts, also termed wards, and a city manager. The city's administration is organized with a city manager as its head. Janice Miller, a native of Stoughton, is the mayor. She is a social conservative with liberal fiscal tendencies. Her family has long been active in the business and political communities. Janice has been mayor for three years and ran her campaign on a "get it right financially" platform.

Ward 1 Councilman, Pete Smith, owns a small business in Stoughton. He is a self-described libertarian who wants as little governmental interference as possible and thinks government functions should be done as efficiently as possible. He supports cutting services that are not critical to the community's safety to meet budget constraints.

Ward 2 Councilwoman, Sheila McCullough, ideologically similar to Mayor Miller, is a native of the community and has been on the council for twenty years. She is also a retired schoolteacher. The previous mayor lied to Ms. McCullough, which has made her timid about making any major changes to city operations. She fears not getting enough or correct information from

staff members, because the previous mayor controlled them and had them misrepresent information presented to the council.

Ward 3 Councilwoman, Elizabeth Banning, is a working-class resident who is very concerned with how decisions impact the "average" resident and the poor. She is a stay-at-home mother.

Ward 4 Councilman, Tom Richardson, is a young developer/real estate agent who is fiscally conservative. He brings a business perspective to the council as well as information on options for increasing revenue through development.

City Manager John Sellers has a Master's in Public Administration and ten years of experience working in distressed/disadvantaged communities. He has also worked on political campaigns and for the state attorney general's office combating consumer fraud. He is a self-described generalist who works with little staff support and few options for delegating tasks.

THE CITY'S FINANCES

Stoughton's revenue stream has been flat to declining over the past decade. The operating expenses, however, have increased by 4 to 6 percent per year for the past five years. The operating deficit began to erode Stoughton's cash reserves five years ago. The remainder of the cash reserve was used to purchase five buildings to be used as a new location for a city hall as well as three additional properties that were to be part of a redevelopment project.

Shortly after the cash reserves were depleted, the illegal activities of the previous mayor, Lance Nosworthy, were discovered. Nosworthy had staff withhold information from city council members so that new retirement contracts and expensive purchases could be made despite the fact that funds were not available to support the actions. Nosworthy, meanwhile, received kickbacks on the retirement contract and was subsequently impeached and arrested. The council was left to put the city's finances back on track. The first order of business was to secure a loan for \$500,000 to cover expenses for which there was no current revenue. Stoughton was able to secure the loan using the property purchased for the new city hall site.

To address the operating shortfall, the city's budget was slashed 15 percent for the current year. The cuts meant several open staff positions went unfilled. To save funds, the city filled the open positions of police and fire chief by promoting from within the departments. This means the chiefs have less leadership experience, but their salaries were affordable within the constrained city budget. In addition, several city staff members were discharged for cause. The firings arose from the incompetence of the previous city manager and human resources director, which resulted from their collaborations with the impeached mayor.

TABLE 2 Five-Year Forecast Budget

Activity	Current Year	Budget Projection				
		Year 1	Year 2	Year 3	Year 4	Year 5
Normal Ongoing						
Revenue	\$3,652,918	\$3,026,850	\$3,087,387	\$3,149,135	\$3,212,118	\$3,276,360
Operating						
Capital improvements	\$698,150	\$712,113	\$726,355	\$740,882	\$755,700	
Operating Expenses						
Administration	\$716,782	\$608,300	\$632,632	\$657,937	\$684,255	\$711,625
Court	\$145,969	\$153,550	\$158,132	\$164,457	\$171,063	\$177,877
Fire	\$770,479	\$690,600	\$704,122	\$732,286	\$761,578	\$792,041
Housing	\$71,100	\$55,850	\$57,626	\$59,931	\$62,329	\$64,822
Park & Recreation	\$169,398	\$146,300	\$152,152	\$158,238	\$164,568	\$171,150
Police	\$1,064,598	\$924,950	\$961,948	\$1,000,426	\$1,040,443	\$1,082,061
Public Works	\$730,204	\$593,400	\$502,944	\$523,062	\$543,984	\$565,744
Total	\$3,668,530	\$3,172,950	\$3,169,556	\$3,296,337	\$3,428,220	\$3,565,320
Percentage Change	7.07%	-1-3.51%	-0.11%	4.00%	4.00%	4.00%
Net Operating						
Capital Expenses						
Road Project Match		\$698,150	\$712,113	\$726,355	\$740,882	\$368,884
Net Capital		\$552,050	\$629,944	\$579,153	\$524,780	\$97,856
Net Ongoing Activity	(\$15,612)					
One-Time Activities						
Revenues	\$299,266		\$5,000	\$226,000	\$299,000	\$311,000
Development Phase 1					\$192,137	\$197,901
Development Phase 2						
Expenses		\$50,000				
Administration	\$107,300		\$6,000	\$6,000	\$6,000	\$6,000
File	\$186,096		\$16,049	\$15,000	\$35,000	\$45,000
Police	\$45,555		\$85,000	\$90,000	\$1,500	\$1,600
Public Works			\$4,500	\$1,500	\$35,000	\$20,000
Court			\$12,000	\$35,000	\$40,000	\$20,000
Park and Recreation			\$408,345	\$518,345	\$518,340	\$517,705
Street Bond (5MM, 20Yr)			\$50,000		\$25,000	\$50,000
Police Car			\$77,879		\$77,879	\$77,879
Fire House (mortgage)				\$65,860	\$65,860	\$65,860
Fire Truck (loan)			\$79,836		\$79,836	\$79,836
City Hall (mortgage)				\$663,420	\$358,278	\$354,979
Net One Time Activities	(\$39,685)	(\$50,000)	(\$656,730)	(\$663,420)	(\$358,278)	(\$354,979)
Bottom Line Net	(\$55,297)	\$502,050	(\$26,786)	(\$84,267)	\$166,503	(\$257,123)

not in balance. Therefore, the years in the red serve as a warning to the council that something will have to be done to prevent a deficit from occurring. The budget was then presented to the council. During the meeting with department heads, council members were particularly concerned with the large number of expensive items on the capital lists. Each department presented the council with a list of action items. The lists of items, for example, were clarified to include priority ratings as follows:

Public Works

- 2-Ton Dump Truck
- Backhoe
- Pick-up Truck
- Wood Chipper

Park and Recreation

- Comprehensive Plan—critical for Community Development Block Grant funds
- New roof on office building
- Road assessment study
- New copier and computer
- Park shelter
- Office renovations
- Develop existing property into park area

The council inquired as to whether the Public Works Department could enter into leasing agreements with nearby municipalities that would allow them to “borrow” trucks and other heavy equipment. Council members also questioned whether a new park shelter and office renovations were necessary when the city was in a belt-tightening mode.

Specific questions were also asked about why the police department needs so many vehicles. There are only four officers on duty at any time and the chief needs a vehicle at all times. The new vehicles requested would put the department at nine vehicles. Councilman Smith commented that a more reasonable number would be six so each on-duty officer and the chief has a vehicle and there is one spare for when a vehicle is being repaired. Councilwoman McCullough disagreed, saying that there have been emergencies where all cars were used and keeping police services a priority will “maintain community confidence.”

The council had a long discussion about the need for a fire station. Everyone was in agreement that the fire station cannot stay where it is for long. The rented building is not designed for permanent use and the site is part of Phase 2 of the redevelopment plan, which is a critical piece of the city’s future revenues. However, the council was split on what should be done. Council members Richardson and Smith expressed that the department is not meeting the needs of the community because it is too small. They proposed merging the

partment with another community nearby to get better service and save on capital expenses for new equipment. A building may still need to be constructed, but only after an agreement is reached with an adjoining community so that the average issue can be addressed. Council members McCullough and Banning agreed.

Councilwoman McCullough suggested that having a fire department that is accountable directly to the city manager and mayor is critical to meeting citizens' desires for prompt and appropriate service. Councilwoman Banning was concerned that a merger could leave firefighters who have been in the force for a short time out of a job. This would impact two firefighters with young families who live in the community.

At the next meeting, City Manager Sellers presented the full budget forecast. Sellers's presentation included materials from other communities to show comparative expenses and information on the overall economy. City Manager Sellers had some structural recommendations for the budget. The city must get operating expenses down to within the revenue stream (currently the city spends capital revenues on operations). This will require additional department reductions as well as splitting the public works expenses between capital maintenance (a capital expense) and regular operations. Also, the city needs to work toward having a 30 percent cash reserve. This will cushion operations for cash flow since revenue is unevenly received as well as provide funds in case of emergencies.

City Manager Sellers's other budget recommendations included contracting out Public Works and Park and Recreation departments to adjoining communities within the next year. Sellers has already broached the topic with two communities and they are willing to discuss it. This would save operating expenses and split capital expenses for large items with another community. In addition, Sellers recommended contracting out fire services delivery to a nearby municipality. This change will take longer to negotiate and will likely generate more public opposition. He conveyed that it is important because the fire department is expensive and small and cannot meet the expanding needs in the community for ambulance service because it lacks training and equipment. These deficits cannot be addressed within the current finance situation.

Finally, Sellers recommended that the land purchased for a new city hall be converted to private ownership. The revenue would be sufficient to pay back the \$500,000 in debt as well as leave some funds for use as a cash reserve. City hall is currently being run out of a retail storefront. It is not fancy, but it is working. Sellers suggested that within the next year, the city could move administrative operations to the Park and Recreation building since that department would be consolidated with an adjoining city that has additional office space. This would save the city from paying rent and would keep operations going. This would not be the long-term solution, but it would allow the city to wait until its fiscal situation improves with the opening of the new development project. At that time, the city can make a

decision about building a city hall. This will leave the court, fire, and police operations in rented facilities, but it has been working for the past year and can continue for a while longer.

TIME FOR A VOTE

Council members Richardson and Smith are fully in support of City Manager Sellers recommendations. They think the dire fiscal circumstances warrant this change in city operations to meet the long-term needs of citizens. Councilwoman McCullough thinks this plan is drastic and decides to vote against it unless additional information regarding options is gained from outside sources to verify what staff is recommending. Councilwoman Banning is against it because firefighters, Public Works employees, and Park and Recreation Department employees could lose their jobs.

The Clarion and the Citizens for Fiscal Reform wholeheartedly support the city manager's recommendations, in particular the aggressive use of contracting out.

Mayor Miller calls the vote because this is the last council meeting before the end of the fiscal year. A no vote on the budget will force staff to scramble to revise the budget and present it again. Roll call is taken:

Councilwoman Banning:	No
Councilwoman McCullough:	No
Councilman Richardson:	Yes
Councilman Smith:	Yes

The tie vote means Mayor Miller must cast her vote. The mayor hesitates but in the end she knows that she must exercise the leadership the city looks to her to provide.

Discussion Questions

1. Which requested capital expenses from the lists would you cut and why?
2. Would you contract services out to another community? How would you convince the council to support a change that might affect constituents negatively?
3. Would you vote to raise taxes? Explain.
4. Would you build a new city hall or continue to use existing facilities? If so, how would you raise the money to pay for it?
5. If you were Mayor Miller how would you vote? Explain.