

Beaumont: A Case Study for Our Profession

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Key Take-Aways

- You won't have Beaumont's level of problems but you may have some of them
- What happened and why?
- Ignore the basics at your peril!
- City Attorneys & Mayors impact us—what do they want?
- How did we fix things?
- The rewards of taking on challenges & not turning our backs

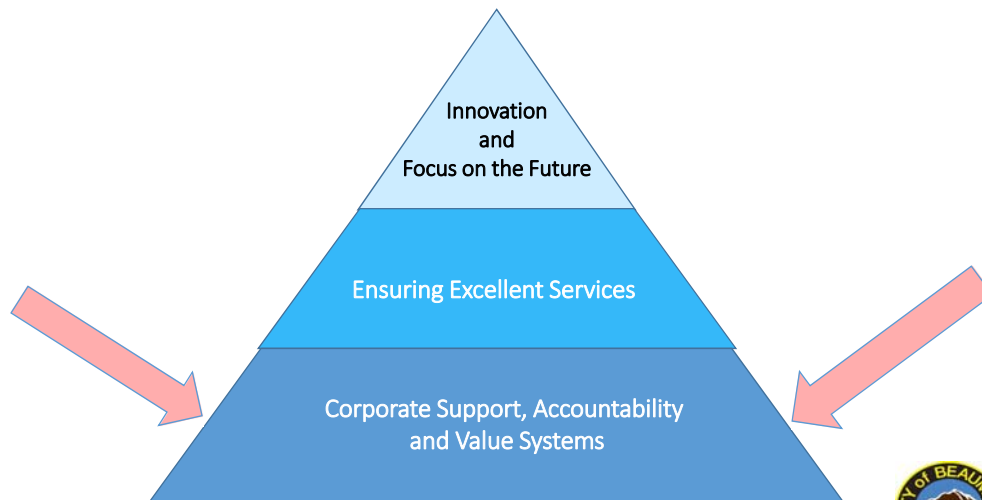


Beaumont's Crisis

- High growth city—needed ways to handle growth impacts
- Got too creative—massive CFD & improperly managed
- Insolvent since FY 07-08—nobody knew it!
- Court judgment of \$67 million—General Fund budget was \$29 M!
- Developer claims of \$20 million plus
- State wants \$4 million back (former RDA)
- Books were bad
- Reform Council comes in—we're off to the races!



Three Critical Building Blocks of Good Government



What Happened?

- Played games with fund balance for general fund
 - Resources available to spend in your budget is: 1) fund balance plus 2) new revenues, right?
 - Do you know what spendable vs. total fund balance means?
 - Do you read your CAFR?
- Fund Balance (from city financial statements 6/30/13)
 - Non-spendable
 - Notes/Loans Receivable \$289,442
 - Advances to RDA \$21,500,000
 - Restricted \$0
 - Unassigned (\$6,866,481)
 - Total Fund Balance \$14,922,961



What Happened (cont.)?

- When can you exceed or change your budget?
- Who knows your books? Reliant on one person?
- CFD's—management, legal and accountability standards violated. Do you have these and how are they managed?
- DIF's—management, legal and accountability standards violated. How are these managed in your city?
- SEC investigation—you don't want to experience this!



What Happened (cont.)?

- Do you know what is the Management Letter?
- Do you know what you pay your employees vs. labor market?
- After issuing bonds, do you know the disclosure requirements? This is what the SEC watches.
- COG lawsuit/judgment \$67 M and developer claims \$20M+
- Contracting is fine but don't include management & implementation with same firm!



What Models To Follow?

How Do You Eat an 800 Lb. Gorilla?

Don't Panic . . .

Not All At Once . . .

One Bite At a Time



How To Repair Beaumont Without Resorting to a Bankruptcy Filing

- Create Your Team & Don't Skimp!
 - City Attorney, City Council, Interim City Manager, consultants and specialized attorneys worked well together (but how?)
 - Created Emergency Operations Center (via phone)
 - Stop the bleeding (cut \$4 million)
 - Start fixing the books (CFD's, DIF's and General Fund rev's/exp's)
 - The bad books probably got us to cut too much

How To Repair Beaumont Without Resorting to a Bankruptcy Filing (cont.)

- Negotiated new labor agreements (huge concessions)
- Changed mindset (what is it that we have of value?)
 - \$3 million infusion from renewed developer agreement
 - Started negotiating developer settlement of claims considering what they needed from us in their business plans
- Can't be afraid to spend money to save a lot more!
 - Reviewed past transactions and all bond covenants, etc. (found \$5 million)
 - Engaged COG in complex negotiations to settle \$67 million judgment
 - Sometimes a weakness is a strength



The Mayor and City Council Perspective

- Why I ran for City Council
 - I'm "staff" in my "day job" at Riverside County
 - I collected DIF's & know what they are for—was aghast at Beaumont's practice
 - I was embarrassed for my hometown
 - The budget documents, the explanations, etc.—just sounded opaque & dishonest
- Now that I'm elected, what are my initial thoughts and actions?
 - I'm sorry, but the orchestra leader had to go (we needed reliable info.)
 - Need trust and competence
 - Need team that demonstrates it
 - Need diagnostics and quick!
 - We were victimized, similar to a burglary



What does the Council Need in Times Like This?

- Provide same information to all Council members
 - It is natural to like some and others not all—but you must over ride that!
 - If you have a high-powered team—they'll see that you play favorites
- Do not impose your will on the Council
 - It may work in the short run, but it might “bite you” later
- City Manager must have a team and ultimately a plan
 - After a few closed sessions, a game plan has to come forward (above the chaos)
 - How do we get out of this mess—provides hope
- Council needs to be rowing in the same direction
 - Remind them how each decision fits into the big game plan



Closed Session & Council Informal Communication

- Ensure Council both understands & buys into the game plan
 - It will be hard—game plan may differ from political agendas
 - Accept the difficulty and work through it
- Lots of moving parts that compete with regular business
 - Don't be afraid to work with Mayor and call for special meetings
 - Be in tune with how fast you are going—sometimes slow down & check in!
 - Silence does NOT mean—I understand and I'm with you!
 - We have to explain things to our citizens on a daily basis
- Sometimes long closed sessions
- Understand and work with differing personalities
- Have to provide a chance for everyone to speak, even if you disagree



Sometimes You Have to Trust Your Gut!

- When searching for a suit, for the upcoming State of the City, I heard from DA—they just arrested 7 former City officials!
- We were hit with an SEC investigation—you think an audit is tough!
- What about the State of the City speech?
 - Attorneys want you to say nothing—they're trying to protect you
 - Be careful with “winning the battle but losing the war”
 - Democracy cannot stop, besides silence suggests you are guilty too!
 - State of the City continues! What we said had to be different
 - Got many kudos for doing it—was very transparent & honest



COG Negotiations—A \$67,000,000 Nut to Crack!

- If this isn't addressed, a Chapter 9 filing is in our future
- This weakness was converted to a strength i.e. no general fund cash available and we'll dispose of this liability in BK court—it set the parameters--key team members were experts on BK
- It was difficult to get every City principal on the same page with this—one interim CM and one CC member didn't want to negotiate—can't look divided to opposing parties
- Recommended using a mediator (retired BK judge)
- Had elected officials at the table to assist in buy-in with their Board
- Then Todd, new CM came and negotiations picked up
- Deal was amazing and complex—will explain later



Summary Points from Mayor/Council Member Perspective

- A crisis of trust weighs heavily when picking the next City Manager, City Attorney and consultants
- City Manager has to be an expert on group dynamics
- Everyone deals with stress differently and the City Manager has to accept and work with that
- Eventually the City Manager has to be above it all & develop a well-thought plan to get us to the “promised land”
- Don’t be afraid to negotiate, because the alternative could be worse!
- Don’t be afraid of asking for help



City Attorney's Perspective

- A big roller coaster ride with lots of passengers!
 - April 2015—FBI and DA raided City Hall, homes/offices of City Manager & long time City staff (consultants)
 - May-June 2015—I was hired as City Attorney
 - Long time City Manager—Gone!
 - Long time City Attorney—Gone!
 - Long time Planning Dir., CFO, Econ. Dev. Dir., Pub. Works/City Engr.—Gone!
 - Police Chief retires
 - 3 new Council members and no experienced City Manager or Department Heads
 - Council appoints Resources Director to Interim City Manger post
 - Started uncovering other challenges that Bob listed



City Attorney Perspective (cont.)

- May 2016--November 2017
 - Former City Manager & CFO arrested by DA
 - Since pled guilty to felonies, are under house arrest and paid \$1.1 million
 - Former Police Chief arrested due to illegal loans
 - Pled guilty and paid restitution
 - Former Planning Director arrested
 - Pled guilty and paid \$3 million in restitution
 - Former Economic Development Director arrested
 - Pled guilty and paid \$4 million in restitution
 - Former City Attorney arrested & has not pled, yet
- Main issue was diversion of COG's DIF's, among others



Why Should Professionals Step Into a Crisis & Help?

- Because the City of Beaumont's 45,000 people were victimized by members of our profession(s)!
- Must restore the image of our profession
- Assignments like this are the most rewarding of your career
- And yes, they are difficult as well
- How often can you truly say, "I made a difference"?



Role of City Attorney—Might Change In a Crisis

- Was asked by the new City Council to form a team
- Was asked to begin assessing the damage
 - 30 Day Plan
 - Assess financial, legal and ethical issues facing the City
- We were in a “foxhole” trying to save the City!
 - Who do you want sharing that foxhole?
 - Experienced, hardworking, ethical people
- Council could not be passive—had to be in the trenches
 - Day-to-day issues as part of this crisis required constant Council engagement



City Attorney—Organizing the Team

- It's the team that ultimately determines success or failure
- Brought in Bob Deis to quarterback
 - Weekly team huddle—discussed strategy, objectives, responsibilities & deadlines
- Brought in Mike Busch, Urban Futures as Financial Advisor to City
- Hired Orrick, Stockton's BK attorney—very expensive but the eventual costs avoided were many times that
 - Helped with debt restructuring, helped find \$5 million and (with Bob) provided that BK perspective at COG \$67 million negotiations



Road to Recovery—Gaining Trust With All Interests

- All participants agreed to do “the right thing” even if it hurt and was more difficult
- Zero tolerance for improper activities—referred uncovered facts to the DA on a sitting Council member
 - Very painful to the sitting Council—potential setback
- Full cooperation with the DA
 - Lots more work but was mutually beneficial--\$11 million in restitution
- Overly transparent in all activities—you pay for the sins of your predecessors!



Road to Recovery—Gaining Trust With All Interests (cont.)

- Approving separation agreement with former City Manager was done in open session rather than closed
 - Community deserved to know and weigh in
- Revised City ordinance to required all consulting agreements to be reviewed & renewed annually (absent emergencies)
 - It was a pain, but its about what Mike said, “trust & transparency”
 - Remember, most of the City’s problems were related to contracts—they were treated like City employees but had a conflict of interest



Road to Recovery--Selecting the New City Manager

- City Council worked with 2 Interim City Managers
 - Wanted to take their time and do it right
- On October 31, 2016, they hired Todd Parton as their next City Manager
 - Jumped in “head first”, worked well with the existing team and took us to the “finish line”.



Road to Recovery--Settling High-Stakes \$67,000,000 Court Judgment

- Need patience, mature ability to compromise, flexibility and creativity
- Can't negotiate from a perspective of fear
- Identify strengths, weaknesses and strategy to use both
- Negotiating team has to work out differences before going to the table
- Took a year, started small and then went all-in
- Mistrust was high, sometimes it was very frustrating but we continued talking



Road to Recovery--Settling High-Stakes \$67,000,000 Court Judgment

- Was very transparent and hid nothing
- Insisted 2 elected representatives at table—to communicate to their Board
- Had to convince them that we're victims too—built trust
- Settlement met their interests too—positive for both
 - Without cash, we were creative in identifying value to trade
 - Restitution and insurance from various bad actors—to be forwarded to COG
 - Rejoining COG's DIF program was going to provide monies to their program
 - Offering City DIF monies to assist projects that benefit our neighbors
 - Not filing BK, which would have eliminated most of their judgment



Road to Recovery (cont.)

- After spending more than \$1 million, SEC investigation concluded without City fines. They did fine the former CM
- Addressed internal control deficiencies identified in SCO audit
- Completed BOE audit
- Refinanced bonds
- Out of crisis mode and focused on providing essential city services



City Attorney—Lessons Learned

- Can't operate in a crisis based on fear—stalls recovery
- We provide loads of information, strategy, facts and leadership but we don't make policy
- City Manager and City Attorney are both watchdogs
 - We never look the other way
- We may not agree but we always have to listen to each other
- We both have to stand up to anyone that wants to start us down that "slippery slope"



City Attorney—Lessons Learned (cont.)

- Review all outside contracts on a regular basis
- Begin the decision making in a crisis with, "what is the right thing to do"
- Its all consuming—team members need their down time
- Need to schedule vacations—otherwise your fatigue affects your contribution
- Never, never, did I say never give up on a worthy cause!



What Did I Know When Applying for City Manager Job?

- 7 staff/consultants arrested
- Severe fiscal distress
- Major legal problems
- Wastewater system in disarray
- Reliable financial information non-existent
- Crisis of public confidence
- Major project commitments under consideration
- Interim CM was pursuing direction where I disagreed
- New Council wanted to fix things
- What is it that I didn't know?!



If I Knew All This, Why Did I Apply?

- I wanted a new challenge in my career
- Majority of the Council was rock solid—half the battle!
- Wanted to move family to CA—even though you don't have great barbeque like Texas!
- Investigated the team that John formed—couldn't go wrong
- Sorry for the cliché—but I wanted to make a difference
- I'm comfortable making decisions and not having all the answers—it's the team around you that's important



What Had to Be Done?

- The City “assembly line” doesn’t stop in a crisis or for a new City Manager
- You need to prioritize and be realistic
 - Choosing items to STOP—not ready to go forward
 - Choosing items to SLOW DOWN—need more understanding
 - Choosing items that are a FAST MOVING FREIGHT TRAIN—jump on & hang on!!
- COG \$67 million judgment—a freight train
- SEC Investigation—a freight train



What Had to Be Done (cont.)?

- Other key pieces of the puzzle
 - Developer claims—slow down (complex and long-term impacts)
 - Developer wants new development agreement—slow down
 - Park and Recreation District claim—slow down (lots of history to research)
- Major interchange project—slow down & maybe stop
- Wastewater capacity—slow down with long-term impacts
- Financial statements & audits—freight train!
- FY 17-18 Budget—freight train (remember books were bad)



What Had to Be Done (cont.)?

- Fix complex CFD program—freight train (source for most resident anger)
- Fee adjustments & compliance with Prop. 218—slow down
- State \$4 million RDA—slow down (need to research history before committing to a resolution)
- Negotiate employment agreements with department heads—freight train (need to form my team)
- Reach out to stakeholders to repair the City image—freight train



What Made Stability Possible

- City Council courage
 - Assembled world-class consulting team
 - Actually heeded the team's advice
 - Did not shy away from the truth—makes it easier to tell them what they NEED to hear, rather than what they WANT to hear
 - Provided clear direction
 - Did not allow negativity to slow them down
- Took advantage of unique opportunities
- Conservative fiscal planning
- City staff assistance—new MOU's and concessions



The World Doesn't Stop in a Crisis!

- Citizen demands
 - Reconciliation and transparency of funds
 - Concerns over services and a high tax rate (CFD's)
 - Concerns over amenities (dining and recreation options)
 - Financial stability of City
 - Economic Development
 - CFD (Mello-Roos) transparency
- Growth Pressures
 - Shift in attitude about it
 - New emerging developments and handling the impacts



The World Doesn't Stop in a Crisis!

- Evolving statutory environment that you are all facing
- New MOU's with employee groups
- Increases in utility rates to deal with Wastewater capacity
- Ongoing crisis of confidence in their City
 - Citizens, neighbors, regional, state and federal



What Have I Learned?

- Gratitude from citizens
 - You must withstand anger and frustration
 - You must be willing dedicate energy & time
 - You must be willing trust the right staff
 - Good people will stand up when needed
 - Do not accept failure
 - Do not be afraid to take risks
- Damage is direct and indirect
 - Direct damage is obvious
 - Indirect damage—negativity even creeps into new resident's psyche
 - Recruiting top talent is a challenge
 - You must retain a sense of humility—amongst skepticism & unfair criticism



What Have I Learned (cont.)?

- Be ready and confident to negotiate
 - Sometimes you have to give something to get something in return
 - It won't go away & not negotiating will make it worse
 - On the other hand, you can't be taken advantage of—must be willing to walk
- If you are willing to accept the truth, you will develop strategy for success



Looking Back, Would I Still Apply?

- Absolutely!
- I may never have a chance to make this kind of impact, again.
- Never a dull moment
- Boredom is not an option
- The Council is great—you can move mountains with that!
- The City Attorney is a great fearless partner
- Many citizens appreciate what you do
- Some can't be pleased, they don't want to!



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QUESTIONS ?

