

Fiscal Health Contingency Plan

Originally Prepared in October 2001

Plan Purpose

The purpose of this plan is to establish a framework and general approach in responding to adverse fiscal circumstances.

What It's Not: This plan is not intended to be a specific “recipe” for expenditure cuts or revenue increases: this needs to be determined on a case-by-case basis. Preparing detailed reduction options before they are truly needed is not recommended for three reasons:

- If not taken seriously, quality thought will not be given to them.
- If taken seriously, this is likely to result in needless anxiety, and sends a conflicting message if “times are good.”
- And even if these were not constraints, they would have a short shelf-life: needs and priorities change over time.

However, this plan does set forth the foundation of principles and values upon which specific responses will be based.

Triggers

This plan will be “triggered” by any of the following:

- Any adverse fiscal circumstances as determined by the City Manager, such as:
 - Natural or human-made disasters.
 - State budget takeaways.
 - Large, unexpected costs.
 - Economic downturns.

- Whenever there are two consecutive quarters of adverse fiscal results in one or more the City’s top five General Fund revenues:

- Sales tax
- Property tax
- Transient occupancy tax (TOT),
- Utility users tax
- Vehicle license fee (VLF) “swap”

Adverse results include:

- Actual declines in revenues.
- Significant variances from projected revenues.

General Fund Focus

This plan is focused on the General Fund, but Enterprise Funds (water, sewer, parking, transit and golf) will also fully participate for two key reasons:

- We are one organization: all parts need to participate.
- It is strategically important to limit Enterprise Fund rate increases (rate decreases would also be nice) at a time when we may be considering General Fund revenue increases.

Key Plan Elements

There are six key elements to this plan:

- Maintaining minimum fund balance at policy levels.
- Following other key budget and fiscal policies.
- Monitoring the City’s fiscal health on an ongoing basis.
- Assessing the challenge: short or long-term problem?

- Identifying options.
- Preparing and implementing the action plan.

① Minimum Fund Balance

First Line of Defense in Adverse Circumstances

Maintaining minimum fund balances at policy levels:

- Allows continued operations and projects in responding to short-term problems.
- Provides a bridge—“breathing room”—in addressing longer-term problems while comprehensive response plans are developed. This is especially important under Proposition 218, since there are limited opportunities to implement new revenues.

② Other Key Budget and Fiscal Policies

Following our other key budget and fiscal policies will prevent problems to begin with, and keep them from getting bigger when they do happen. These are set forth in Section B of the Financial Plan, and include:

- Balanced budget
- Conservative investment practices
- Diversified revenues
- User fee cost recovery
- Enterprise funds
- New development pays its own way
- Limited use of debt financing
- Fleet replacement
- Contracting for services
- Productivity improvements

③ Fiscal Health Monitoring

In accordance with our budget and fiscal policies, the City will develop and implement effective ongoing systems for reporting and monitoring our fiscal condition. These include:

Interim Reporting

- Reliable automated financial management system
- On-line access organization-wide via the network
- Monthly financial reports
- Quarterly “Newsletter” (provided electronically to all employees)
- Capital Improvement Plan (CIP) project-to-date expenditure report
- Mid-Year Budget Review
- Special Reports: Sales Tax, TOT, Investments

Annual Reporting

Preparing audited financial statements in accordance with generally accepted accounting principles and highest standards.

④ Assess: Short or Long-Term Problem?

Different Strategies for Different Problems

- **Short-Term:** One-time event or downturn that is not likely to continue indefinitely.

“One-time” fixes are an appropriate response for “one-time” problems.
- **Long-Term:** Ongoing downturn in revenues or increases in costs that are systemic.

In this case, “one-time” fixes won’t work: this requires new ongoing revenues or ongoing expenditure reductions.

Assessment: Short-Term Problem

- **Hiring Chill.** City Manager approval will be required to fill vacant regular positions. To fill a vacant position, department heads must demonstrate that it is necessary in meeting public health, safety or other high-priority service needs that cannot be met on an interim basis through contract, overtime or temporary staffing. In implementing the “chill,” the goal is not just short-term savings, but preserving future options if the problem turns-out to be ongoing.

- **Travel Chill.** We will limit travel and training: City Manager approval will be required for all Travel Authorizations.
- **CIP Project Deferrals.** The CIP Review Committee will identify candidate projects for possible deferral or deletion.
- **“One-Time” Operating Cost Review.** The Budget Review Team will identify special projects in the operating budget for possible deferral or deletion.
- **Fund Balance.** The City will consider use of fund balance below policy levels.
- **Other.** The City will consider other short-term expenditure curtailments as appropriate.

Assessment: Long-Term Problem

- Implement “short-term” actions. (This follows the first rule of holes: when you find yourself in one, stop digging.)
- Prepare long-term forecast to define the problem.
- Prepare revenue increase and expenditures reduction options tailored to problem definition via the forecast.
 - It is likely to take 3-6 months to prepare plans; and another 3-6 months to implement them.
 - This underscores the importance of strong fund balance and short-term expenditure reductions to create the time needed to prepare and implement reasonable long-term plans.

5 Identify Options

In the long-term, there are only two basic budget-balancing options:

- Increase revenues.
- Reduce expenditures (and related service levels).

In the short-term, use of fund balance is an option, but not it is not a viable long-term solution: we can only spend reserves once. An exception is the strategic use of fund balance that reduces future year operating costs or increases ongoing revenues.

Expenditure Reduction Options

Tough But Simple Fact: Meaningful ongoing expenditure reductions require reductions in regular staff costs, including public safety personnel:

- 85% of General Fund costs are operating.
- 80% of General Fund operating costs are for staffing.
- 90% of General Fund staffing costs are for regular staffing.
- Over 50% of General Fund staffing costs are for public safety.

General Strategy

Department Heads are responsible for crafting *operating* expenditure reduction *options* that:

- Are real and “doable.”
- Reflect the least service impacts to the community—no game-playing in proposing least-likely reductions and non-starters.
- Are ongoing.
- Describe service impacts.
- Are within the City’s ability to do independently—no speculative reductions contingent upon actions by others.
- Can be implemented within three months after adoption.
- Are net of any related revenues from fees or grants.
- Maintain essential facilities, infrastructure and equipment at reasonable levels—no deferred maintenance posing as genuine cost reductions.

- Reflect participation from throughout their organization.

Option “Targets”

Targets for *surfacing* operating expenditure reduction *options* will generally be:

- Based on percentage reductions from current operating budgets, less significant one-time costs.
- The same for all departments.

Targets are likely to exceed the “gap” identified in forecast in order to surface an array of reasonable policy choices based on priority considerations, and not driven by arbitrary across-the-board decreases. Stated simply, like making choices at a restaurant, making priority-based decisions depends on having more options on the menu than we plan on ordering.

Operating expenditure reductions are not likely to be sole “budget-balancers,” but identifying their service impact is critical to attracting support for new revenues and other mitigation strategies.

Key Principles in Preparing Operating Expenditure Reduction Options

- Any service reductions will be balanced, and ensure that highest priority services are retained.
- Reductions will be based on service priorities, not vacant positions: attrition is a helpful tactic, but will not be the driving strategy in reducing costs. On the other hand, one of the key purposes of the “hiring chill” is to create flexibility in making reductions based on priorities while mitigating the need for lay-offs.
- Our focus will be on retaining “front-line” core services, and reducing services with the least impact on the community at-large.
- On the other hand, we need to preserve “organizational” infrastructure, and ensure that appropriate and necessary internal review functions remain.

CIP Projects

- The CIP Review Committee will be responsible for identifying ongoing reduction opportunities.
- Projects intended to maintain existing infrastructure and facilities will generally have higher priority over “new” facilities. Likely exceptions include:
 - Direct adverse impacts to public health and safety.
 - Outstanding contractual commitments.
 - Significant outside resources or related one-time revenues.

Revenues: Limited Options

The Budget Review Team, working with representatives from the operating departments, will have the lead responsibility for identifying revenue options. However, it is likely that any new significant revenues will require voter approval under Proposition 218; and most likely, this election cannot be held until the next regular municipal election (November of even-numbered years).

There are two exceptions when revenue elections can be held at any time:

- Emergency declared by unanimous vote of the Council.
- Two-thirds voter approval for “earmarked” revenues.

Nonetheless, there may be options for increased user fees, fines or use of property. (On the other hand, if these were easy to do, we would probably have already done them!) Employees throughout the organization will be encouraged to surface revenue-raising options, with the recognition that expenditure reductions are likely to play the leading role in balancing the budget.

Significant New Revenues: Voter Support Required

- Voter approval will require time for effective preparation before a measure is placed on the ballot.

- **Critical Success Factor:** An effective, community-based group that will work hard to pass measure.

Legislative Advocacy

Depending on the reason for the adverse circumstances (and especially if they are driven by state or federal budget actions), the City will work closely with its elected representatives and others (such as the League of California Cities) in mitigating service (and related cost) reductions.

Unlikely Long-Term Budget Balancers

- **Fund balance below policy levels.** Using fund is balance is a one-time course of action; it cannot fix a structural imbalance.
- **Significant reductions in training.** With fewer employees, it will be even more important to ensure that we have a highly-skilled, well-trained work force.

Involvement and Participation

The City will actively solicit and encourage participation by key stakeholders in the budget-balancing process including:

- Organization as a whole.
- Employee associations.
- Community groups.

This will require effective and ongoing communication with them.

The Budget-Balancing Paradox. Balancing the budget and closing the “forecast gap” from a strictly numbers perspective is easy. However, after cutting CIP projects, reducing staff, and negotiating and implementing employee concessions, emerging from the process with a vibrant, high-morale, high-productivity organization is hard. Which leads to the budget-balancing paradox: at a time when the organization is at its nadir with downsizing, the resulting smaller organization needs its employees to be even more energized, fired-up and motivated to perform.

In our experience, there is only one way to beat this paradox: believing that the process used in communicating with employees and meaningfully engaging them in finding solutions matters. To use Steven Coven’s metaphor, how we go about this process is an opportunity to make deposits in our credibility bank, not just withdrawals. It’s an opportunity to both show our organizational character and values, and to build them.

Employee Involvement

- Department heads will encourage employee participation and involvement in preparing expenditure reduction options.
- The City will strive to identify likely position reductions resulting from this plan six months before implementation in order to:
 - Be straight forward with affected employees about their employment outlook.
 - Provide transfer opportunities.
 - Allow affected employees a reasonable amount of time to make other plans.

Key Value: Respect. There are downsides to this approach, and many organizations consciously keep force-reduction actions under wraps as long as possible because of them. However, treating employees with respect means informing them about City plans that affect them as soon as possible.

It also means sharing the hard facts (and consequences) in a straightforward and timely way, even if this is painful at times for the organization. Because ultimately, respect means believing (contrary to Jack Nicholson's Marine Colonel Jessup in *A Few Good Men*) that employees *can* handle the truth.

Communication Strategies

The following identifies possible communication strategies with employees and the community.

Employees

- Ongoing employee briefings with City Manager, Finance & IT Director and Department Heads.

- Ongoing updates via voice mail or email.
- Periodic “newsletters” and “rumor control corner” on the Intranet
- Ongoing briefings with employee association representatives.
- Special organization-wide briefings as appropriate.

Community

- Viewpoint articles in The Tribune and editorial board briefings.
- New releases.
- Presentations to interested community groups.
- Periodic “newsletters” via direct mail or utility billing inserts.
- Web site updates.
- Community forums and workshops.

Possible Formation of Community Advisory Group

We may form an “ad hoc” advisory group depending on the circumstances, with careful consideration of:

- When should they become involved in the process?
- Who should be on it?
- What’s their role?

⑥ Finalize and Implement Action Plan

- With advice from Department Heads and the Budget Review Team, the City Manager is responsible for preparing the recommended action plan.
- Council approval is required for implementation.
- Finance will closely monitor results of the action plan in achieving its goal, and will quickly report any significant deviations to the City Manager and Council.

SUMMARY

While the specifics of both the process will change based on the circumstances, having a clear strategy in place as the foundation for decision-making in tough fiscal times that reflects our organizational values has been a key factor in the City’s success in preserving our long-term fiscal and our organizational vitality.