

Budget Balancing Strategies

The City's Fiscal Policies guide staff in the management of the City's finances and provide a foundation for budget balancing strategies to ensure the long-term financial sustainability of City operations, regardless of financial condition. In July 2014, the City Council adopted the Fiscal Responsibility Philosophy to ensure a focus on the long-term health of the organization. The components of the Philosophy provide clear guidance for ensuring fiscal responsibility, and the Budget Balancing Strategies serve to operationalize that guidance. These budget balancing strategies are subject to at least bi-annual review and are approved by the City Council with adoption of the two-year Financial Plan every other June.

Consistent with adopted fiscal policies, staff provides quarterly budget updates to the City Council which provides the opportunity to identify budgetary issues and implement corrective measures if needed. These strategies guide both development and management of the budget, both in times of budgetary growth and contraction. One of the overarching objectives of the City's Budget Balancing Strategies is to strike a balance between ensuring fiscal sustainability and continuing to provide programs and services to the community.

This section provides an overview of the City's Budget Balancing Strategies and is divided into two parts outlining the City's preferred strategies and approaches in times of (1) budgetary contraction and (2) budgetary growth.

In Times of Financial Difficulty

When faced with financial difficulty, the City should identify budget balancing strategies that address both short and long-term budget gaps, while also minimizing the impact of budget reductions to the community and employees. It also becomes increasingly important to focus on employee retention as the cost of turnover can outweigh savings produced by vacancies. Focusing on creative and cost neutral or low-cost options to keep turnover at sustainable levels is crucial for maintaining and delivering core services to the public during challenging times.

Depending on the level or type of financial difficulty being experienced, short and long-term budget balancing strategies may be needed over multiple years. An important consideration in developing and implementing budget balancing strategies is identifying the timeframe for fixing the problem and bringing about structural balance. Utilizing reserves and other short-term budget balancing solutions can soften the impact of reductions to programs and services. However, it is imperative that these short-term solutions be used judiciously to maintain the City's overall fiscal health. Relying too heavily on short-term solutions can delay implementation of strategies to address budget deficits and may increase deficits in the long-term.

Following is an outline of the City's preferred budget balancing strategies and approaches in times of financial difficulty:

Long term budget balancing strategies:

1. **Priority Driven-** Development of recommendations to balance the budget should be based upon consideration of legal mandates, community health and safety, basic service needs, Council's identified Major City Goals and other identified priorities. Proposed budget reductions should take into consideration funding requests for

programs that are discretionary and for programs that are mandated by state, federal, or local legal requirements and/or health and safety needs.

2. **All Departments Participate-** While departmental budgets vary significantly due to the services provided, identified priorities, expected levels of service, and departmental revenue sources (amongst many other variables), all departments should participate in the closing of a budget gap. More specifically, no department should be exempt from consideration of budget reductions.
3. **Long-Term Budget Reductions-** At the guidance of the City Manager, the Finance Department should require departments to incorporate a prioritized list of expenditure reductions into their annual budget submittals. Potential reductions submitted by departments should not impact the City's ability to meet legal mandates, and should reflect consideration of basic service needs, community expectations and the Council's identified Major City Goals. If reductions are necessary, targeted reduction amounts should be included as part of the detailed budget instructions provided to departments. If needed, reduction lists will generally be required during development of the two-year Financial Plan or Supplemental Budgets,
4. **Mid-Year Budget Reductions-** Mid-year reductions may be necessary in any given fiscal year depending upon general economic conditions, recently passed legislation, or unanticipated action by other levels of government at any particular point in time. The intent of the mid-year reductions is to help keep the current year budget in balance and to create additional unassigned fund balance at year-end for use as a funding source in the subsequent budget year.
5. **City Share of Cost-** Some City programs are funded wholly or in part by external funding sources including Federal allocations, grants, and user fees. These funding sources may not cover the entirety of program expenditures, requiring a contribution from the City. Staff should carefully monitor external funding sources over time to ensure that they keep pace with the cost of providing the related service to ensure that the City's share of cost does not increase over time. If external funding sources decrease or are eliminated, the associated expenditures should be considered for reduction or elimination as well. If staff believes that continuation of externally funded programs should continue despite a loss of funding, staff should inform the City Council of the loss of external funding sources and request appropriation of identified City dollars and funding sources to continue the program in full or in part.
6. **Engage Employees and Employee Associations-** Labor costs account for the majority of the City's operating budget. City staff and negotiators are obligated to meet and confer in good faith with employee associations to negotiate labor agreements that are fiscally sustainable and aligned with the Council adopted Compensation Philosophy and Labor Relations Objectives.
7. **Revenue Generation-** Addressing budget shortfalls requires an evaluation of both revenues and expenditures. While the City is limited in its ability to generate new

revenue, there is opportunity within existing City processes to ensure that the City is able to maximize existing revenues. In order to do this, the City should:

- Conduct fee studies at least every three years, consistent with Section 2 of the City's Fiscal Policies related to User Fee Cost Recovery Goals to ensure that the cost of services that provide an individual benefit are offset by fees for those services. As a part of the regular fee studies, Council should also consider policies around fee cost recovery and make adjustments if needed.
- Focus on enforcement of requirements in the City's Municipal Code to ensure that the City is recovering its costs for providing services. It should be noted that proactive enforcement of Municipal Code requirements requires a considerable investment of staff time which may limit the City's ability to make significant progress in this area.
- Revisit existing agreements with outside agencies to ensure that the City is maximizing recovery of costs for specific services provided through those agreements.
- Explore opportunities to increase rates for specific taxes, where the tax rate being charged is under the maximum authorized by the City Council.

The City should carefully consider the impact on the community when taking any action to increase revenue, as general economic conditions impacting the City's budget also impact members of the community.

8. **Revisit Capital/Operating Split of Local Revenue Measure Expenditures.** In November 2020, City voters passed a Local Revenue Measure (LRM), authorizing a 1.5% local sales tax to protect and maintain services and public infrastructure. The sales tax that the City collects due to the LRM funds both capital and operating expenses. Historically, the City has allocated 75% of LRM revenues to capital costs and 25% to operating costs. Staff should revisit the capital/operating split to ensure that the City is able to use LRM dollars to fund priority needs and minimize operating budget reductions to the greatest extent possible.

Short-term solutions that do not address a long-term structural budget gap:

1. **Hiring "Chill"**- The purpose of a hiring "chill" is two-fold: to contain costs in the current year by slowing the recruitment of vacant positions or holding certain positions vacant so that additional unassigned fund balance is available for the subsequent budget year and to allow for attrition with respect to the reduction of positions (i.e. reduce or eliminate the need for layoffs). The decision about which positions to hold vacant or slow recruitments for should also be based upon priority and need, which a focus on minimizing impacts to the community to the extent possible. Attrition is a helpful tactic but should not be the driving strategy in reducing costs.
2. **Defer capital improvement and information technology projects that rely on the General Fund**- This option saves money in the near-term but if these types of projects are continuously deferred, City facilities and systems may deteriorate and the cost of repairs may increase over time.

3. **Minimize building and information technology maintenance expenditures-** Similar to deferring capital improvement and automation projects that require General Fund, this option saves General Fund in the near-term. However, over time, if maintenance is deferred, City facilities and automation may deteriorate, leading to higher repair costs.
4. **Early Retirement-** Early retirement programs may be offered on a case-by-case basis. The intent of an early retirement program is to reduce the number of potential layoffs by enticing individuals who are considering retirement to retire sooner rather than later in order to create attrition opportunities. Depending upon the specifics, an early retirement program may or may not provide cost savings. In instances where the program does not provide a cost savings (or is cost neutral), the sole benefit would be to reduce layoffs.
5. **Use of One-Time Reserves-** The City has set aside money in reserves, some of which is not designated for a specific purpose. This money is budgeted every year and has historically been used to help pay for unexpected costs or to help fund one-time projects. Some of these reserves are available to help address a budget gap. However, since reserves are one-time in nature, the use of reserves to fund ongoing operational expenditures should be limited and not considered to be a long-term operational funding source.

Other unlikely strategies:

1. **Furloughs-** This approach has not historically been used by the City because it is challenging to implement without significant impacts to services provided to the community.
2. **Eliminate Training-** Maintaining a skilled workforce is important for every organization, especially one as labor intensive as the City. This approach should not be included in the budget balancing strategies because in times of budget reductions, additional demands are placed upon employees and, during these times, it will be more important than ever to maintain and enhance the performance of the workforce in order to successfully manage an increased workload. While training plans and expenditures may be cut back in times of financial difficulty, they should not be eliminated.

In Times of Financial Recovery and Growth

The goal of the recovery process is to assure that the City remains adaptable to changing conditions. To ensure long-term fiscal stability, the City must prioritize funding existing financial and operating deficits over the addition of new programs and projects.

In times of financial recovery and growth, the City aims to strike a balance in the following areas:

- Financial security
- Programs and services
- Employee compensation and workforce investment

Following is an outline of the City's approach:

Financial Security

In times when the City has funds available to support expansion of the budget, there should be a balance between the restoration of programs and services and the funding of the reserves, contingencies and designations that have been reduced to balance the budget in prior years. The City aims to maintain healthy reserves and low debt levels in order to allow for future organizational stability and continuity of services. Consideration of financial security includes a review of the following:

- **Ratio of reserves to the City's General Fund operating budget-** The City's goal is to maintain a prudent level of savings that allows the City to plan for future needs and "weather" economic downturns. The industry standard target is to have a 20% reserve as a percent of the operating budget.
- **Debt Ratios-** The City's Debt Management policy is to generally keep the ratio of general fund debt service costs below 10% of General Fund revenue and never exceed 15%. A ratio under 5% is considered to be favorable by credit rating agencies.
- **Asset Maintenance and Replacement:** These costs are often first to be cut in hard times and, if left unfunded, will create significant liabilities. The City should ensure deferred maintenance is prioritized by setting aside funding for asset replacement as funds become available.

Programs and Services

Development and delivery of new programs and services or modification to existing programs and services provided to the community are based on an evaluation of need through an annual process that invites submittal of Significant Operating Budget Changes (SOBC's) by Department Heads to the City Manager. The SOBC provides the City Manager with a written proposal for adding resources to a department's budget. The written proposal must include:

- A summary of the current situation and need that the SOBC will address and any relevant background to support the request.
- A description of how the requested resources will address the identified need.
- Identification of intended results in terms of efficiency, quality of service, outcomes, and key performance indicators.
- A description of how additional resources will address a high priority City service need or Major City Goal.
- An analysis of alternative solutions to address the identified problem.
- The expected timeline for implementing the request, including major milestones along the way.

SOBCs that are recommended by the City Manager are dependent upon Council priorities, existing service needs, the availability of funding, consistency with existing policies and

budget balancing strategies, and the anticipated results or outcomes that will be achieved by adding the resources.

Requests for new capital projects are evaluated bi-annually by the CIP Review Committee as part of the development of the two-year Financial Plan. Proposals for new projects require submittal of a Project Initiation Form which must include:

- Proposed project title.
- Project function (community and neighborhood livability, community safety, culture and recreation, environmental health and open space, fiscal health and governance, or infrastructure and transportation).
- Identification of project as being annual asset maintenance, asset replacement, a new asset or a non-asset project.
- Identification of project alignment with related City priorities (Local Revenue Measure, Major City Goal, adopted planning documents, or other important objective,).
- A description of the project purpose and need, including a detailed scope of work.
- Identification of project consistency with the Climate Action Plan or Diversity, Equity and Inclusion considerations.
- Information about project schedule and delivery, including planning or design phase services and any expected permit needs, advisory body reviews, or anticipated public outreach.
- Project cost estimates and identified funding sources. As a part of this, departments should also identify ongoing costs to maintain assets, including staffing and needs.

Employee Compensation and Workforce Investment

The City is committed to providing competitive compensation as part of an overall strategy to attract and retain highly qualified employees. City staff and negotiators work to develop and maintain positive employee relations while also ensuring that negotiated labor agreements are fiscally sustainable and acceptable to the community. The City Council-adopted Compensation Philosophy and Labor Relations Objectives establish the intent of and guide the City's approach to labor relations.

The City Council adopted a Compensation Philosophy in 2011 which indicates that the City should require the following in evaluating competitive compensation:

- Financial sustainability
- Community acceptability
- The relevant labor market
- Internal relationships
- Other relevant factors, including changes in economic condition, natural disasters, states of emergency, changes in City services, and changes in regulatory or legal requirements

The City Council also adopted the following Labor Relations Objectives in 2014, which were revised in 2018 to operationalize the Compensation Philosophy and guide labor negotiations with employee groups:

- Maintain fiscal responsibility by ensuring that fair and responsible employee compensation expenditures are supported by on-going revenues. (Theme – Fiscal Responsibility)
- Continue to make progress in the area of long-term systemic pension cost containment and reduction, including reversing the unfunded pension liability trend and other actions consistent with State law. (Theme – Cost Containment/Reduction)
- Continue to effectively manage escalating health benefit costs through balanced cost sharing and other means while maintaining comprehensive health care coverage for all eligible employees. (Theme – Cost Containment)
- As necessary to attract and retain well qualified employees at all levels of the organization, provide competitive compensation as articulated in the City's Compensation Philosophy, including relevant local, statewide or national labor markets. (Theme – Recruitment and Retention)
- Employee labor agreements will be negotiated in good faith, in a timely manner that avoids retroactivity provisions unless there is a compelling need. (Theme – Cost Containment)
- Contract provisions shall take into consideration the City's ability to effectively and efficiently implement and administer them using the City's financial and human resources systems to ensure accuracy and compliance with federal, state, and local laws. (Theme – Best Practices and Compliance)

The City recognizes that improvements to and success of programs and services for the community is dependent upon recruiting and maintaining a talented and skilled workforce.