



City of Chico Budget Contingency Plan

The purpose of the Budget Contingency Plan is to establish a guideline and general approach to respond to adverse financial and economic conditions that could negatively impact the City of Chico's fiscal health. The plan establishes a foundation of principles and goals upon which budgetary decisions will be based. The plan will create a systematic response to adverse fiscal conditions, as opposed to reactionary decision-making that could have long-term negative impacts to the organization.

While the plan is primarily focused on the General and Park Funds, it also applies to all City and Redevelopment Agency Funds as fiscal constraints are presented in these funds as well.

PRINCIPLES & GOALS

The guiding principles behind the plan include the continued ability to achieve the City's mission to protect and enhance our community's quality of life for present and future generations, achieved through careful planning, fiscal responsibility and continuous improvement. In addition, the City will strive to continue providing a balance of services within its fiscal ability.

The primary goals of the plan are as follows:

- Maintain a balanced budget – primarily the General & Park Funds
- Preserve the City's core services
- Retain the City's organizational infrastructure and ensure that appropriate internal review functions remain

PLAN TRIGGERS

Implementation of this plan will be predicated on one or more of the "triggers" outlined below:

- Any adverse fiscal circumstances as determined by the City Manager, such as:
 - Natural or human-made disasters
 - State takes and/or borrowing
 - Large, unexpected costs
 - Economic downturns

- Whenever there are two consecutive quarters of adverse fiscal results in top five revenues. Adverse results may include actual declines in revenues and/or significant variances from projected revenues. The top five revenues include:
 - Sales Tax
 - Property Tax
 - Property Tax in Lieu of Vehicle License Fees
 - Utility Users' Tax (UUT)
 - Transient Occupancy Tax (TOT)

Declines in revenues will be analyzed in conjunction with expenditure trends, in order to consider the net impact to fund balance. To the extent that expenditure savings offset declines in revenue, reduction measures will not be implemented.

KEY ELEMENTS

There are six key elements to this plan:

1) Maintain Minimum Fund Balances at Policy Levels

Budget Policy E.4.a.(1) establishes the desired minimum balance in the General Fund at 7.5% of General and Park Fund operating expenditures. This balance is referred to as the "Desired Operating Reserve." Maintaining this minimum fund balance provides the first line of defense in absorbing adverse fiscal conditions and allows for continued operations. It also provides a bridge in addressing longer-term problems while comprehensive response plans are developed.

2) Utilize Reserve Funds

Depending on the type of fiscal constraint, it may be more prudent to utilize a portion of reserve funds, rather than affect the operations of the City. In the following examples, reserve funds would be utilized up to the level of availability:

- State-imposed borrowings
- One-time State takes
- Natural or human-made disasters

In the event Emergency Reserves are utilized, the City will strive to maintain the Desired Operating Reserve, as noted above in element number one.

3) Provide Ongoing Monitoring of City's Fiscal Health

In an effort to keep Council, employees and the community apprised of the City's fiscal situation, the Finance Office will provide ongoing analysis, reporting and monitoring on a quarterly basis, or more frequently if the need arises. In addition, the Council will be presented with the City's audited financial statements in accordance with generally accepted accounting principles on an annual basis.

4) Assess the Type of Fiscal Challenge

Different challenges call for different strategies. The type and duration of the fiscal impact will determine how best to respond to the situation.

- **One-Time Events:** One-time event that is not likely to continue indefinitely
 - "One-time" fixes are an appropriate response for "one-time" problems. Examples of "one-time" fixes could include the use of inter-fund transfer or borrowing of funds, deferred funding of replacement equipment or delays in capital projects
- **Ongoing Challenges:** Ongoing downturn in revenues or ongoing increases in costs (e.g. structural deficit)
 - In the case of ongoing challenges, "one-time" fixes will not be sustainable. A structural imbalance requires new ongoing revenues or ongoing expenditure reductions

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 it is not a viable long-term solution. An exception is the strategic use of fund balance that reduces future year operating costs or increases ongoing revenues.

General Strategy

Department Heads are responsible for crafting expenditure reduction options that:

- Are realistic and ongoing
- Reflect the least service impacts to the community
- Are within the City's ability to do independently—no speculative reductions contingent upon actions by others

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- 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
- Reflect participation from throughout the organization

Key Principles in Preparing Operating Expenditure Reduction Measures

- Reduction measures will be based on service priorities
 - Reallocate existing staff resources, when possible, to provide flexibility in meeting service demands while mitigating the need for lay-offs
- Any service reductions will be balanced, and ensure that highest priority services are retained
 - Focus will be on retaining core services, and reducing services with the least impact on the community
- Preserve organizational infrastructure, and ensure that appropriate and necessary internal review functions remain
- Ensuring the City's ability to respond to an economic rebound by maintaining core staffing levels across all functions

Capital Improvement Plan Projects

- Projects intended to maintain existing infrastructure and facilities will generally have higher priority over new projects. Likely exceptions include:
 - Projects with a secured funding source (e.g. grants, bond proceeds, etc.)
 - Projects that mitigate adverse impacts to public health and safety
 - Outstanding contractual commitments
 - Significant outside resources or related one-time revenues

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.

Employee Involvement

- Department Heads will encourage employee participation and involvement in preparing expenditure reduction options
- The City will strive to identify potential position reductions resulting from this plan as soon as practical before implementation in order to:

- Communicate with affected employees regarding their employment outlook
- Provide transfer opportunities
- Allow affected employees a reasonable amount of time to make other plans

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.

6) Finalize and Implement Action Plan

- With advice from Department Heads, 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

This plan was adapted from the City of San Luis Obispo's "Fiscal Health Contingency Plan," dated October 2001.

City of Chico
General Fund Contingency Plan
FY2009-10 Annual Budget

EXHIBIT B

