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**[CMO]: FAAC review of FY 2018 City Budget**

1 message

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Cc: michele.nix@como.gov, Kris Bloom &lt;sokrb2@cs.com&gt;, lisa.evans@landmarkbank.com, "John G. Clark" &lt;jgclark@socket.net&gt;, "Diane R. Suhler" &lt;drsuhler@ccis.edu&gt;, cmo@como.gov, lynn.cannon@como.gov

To Mayor Treece and City Council Members,

The Finance and Audit Committee (FAAC) offers the following observations and recommendations on the FY 2018 City Budget.

At its July 30 and August 11 meetings the FAAC focused on four highlighted areas of the City Manager's Budget Letter by taking the 10,000 foot view.

#### No Fleet Replacement

Ms. Nix explained the city's practice of replacing fleet. She noted this budget recommendation of "no fleet replacement" simply pushes back the systematic replacement of vehicles. Ms. Nix noted that the Fleet Optimization Committee looks at the rolling stock on an annual basis and make recommendations.

Further, Ms. Nix explained that even without budgeting for new fleet, departments are able to use their savings for needed replacements. FAAC noted that this option must be limited as it is not sustainable. Providing staff with adequate equipment saves time, lives and money in the long run. Departments needing to buy equipment during a time of "no fleet replacement" are using savings, often resulting from the previous year's Incentive Based Budgeting. When used to replace needed equipment, this practice of using savings does not offer a true picture of the cost of doing business, and may cause departments to make difficult choices when equipment should be replaced. In addition, this practice may result in a 'de facto' redistribution of funds from salary, personnel, and programs to capital expenditures. This is not a recommended practice.

#### Continuing the 45-day Hiring Freeze Policy

FAAC noted this policy is a concern on a few different levels.

1) Morale is directly affected as current staff is tasked with more work and no recompense for additional duties.

- 2) According to the City Manager's letter, this practice has saved the City \$174,000. However a broader view of this practice may suggest that this decrease in personnel expenditures actually exacerbates recession because employee re-spending impacts the city's revenues, and actually helps the local economy.
- 3) Actual delays in hiring goes beyond the 45-day freeze when a position becomes vacant as the process between posting the job and a person sitting in the seat can take an additional two to three weeks beyond the 45 days leaving departments short staffed for months rather than weeks.
- 4) A related concern arose about how the delay of hiring policy impacts the budget process when it results in departmental savings in order to meet the Incentive Based Budgeting guideline. Each department budgets for 100% of its authorized staff positions. The intent, presumably, is to fill each slot, therefore needing the full budget to do so. However, actual practice has shown that departments are not being fully staffed, and thereby realizing a 'savings' at year's end. This practice acts as a redistribution plan on the backs of current employees, and does little to help identify the full costs of basic city services.

Ms. Nix did state that the practice of budgeting for 100% but not actively hiring is discouraged. But could not assure the committee that it wasn't being done.

FAAC recommends that City rethink the 45-day delay in hiring and move towards eliminating this policy.

FAAC also recommends that the City rethink the Incentive Based Budgeting policy (IBB). The benefits of IBB should lead to measurable changes in outcomes and modifications in management. Instead of simply meeting overall budget savings, the savings should be tied to specific operational outcomes where there are clear paths to stated solutions. After six years (IBB was introduced in the City in 2012) of creating savings tied to personnel costs only cause departments to focus on the bottom line. IBB may have become an on-going patch to fix the budget but is not real, nor sustainable; and is not a constructive way to address the real problem which is revenue shortfall.

### Departmental Budget Spending Reductions

Three departments, Information Technology, Building Maintenance/Custodial, and Community Relations, offered cuts totaling \$1.1M. The spending reduction in the Custodial department deleted three vacant positions as well as decreased services. While the committee agreed that a less rigorous cleaning schedule was in line with commercial

and private businesses, the elimination of the three positions saves the city \$67,400 in salaries. Ms. Nix told the committee that the IT department plans to delay the systematic replacement of equipment. Overall, these cuts seem short sighted and should be only one-time efforts to help balance the budget.

### Revenue, Revenue, Revenue

Overall, the FAAC is in agreement that the problem with balancing the annual budget is lack of revenue. The city can no longer continue to curtail services, or ask employees to do more with less, further task employees with more work, and decrease funding departments. The city must turn its sights to increase revenue. The Committee is ready to work with City Council to explore opportunities.

FAAC recommends a thorough review of current revenue sourced (including tax rates) along with an exploration of additional methods to generate revenue.

Resources relied on for our discussions include:

Finance Department staff lead by Michele Nix and Lynn Cannon,  
and the following documents:

City Council Retreat PowerPoint presentation, May 19, 2017

City Manager Letter to Council, July 18, 2017

City Manager Budget Press Conference Presentation, July 21, 2017

**Budgeted City Funds Cash Above (Below) Cash Reserves Targets Actual  
FY 2016 spreadsheet**

**The Utility Cash Position Analysis Memo**

**The CAFR**

**The Ten Year Trend Manual**

**The Proposed FY 2018 City Budget**

The Committee is set to meet again on September 7 and members were encouraged to attend the Budget Public Hearings.

Respectfully submitted,

FAAC members

Kristopher Bloom

John G Clark

Lisa Evans

Diane Suhler

Maria Oropallo, chair