



# CITY COUNCIL AGENDA REPORT



**DEPARTMENT:** Administration

**MEETING DATE:** December 18, 2007

**PREPARED BY:** Scott Ochoa, City Manager

**AGENDA LOCATION:** CC-6

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**TITLE:** Update of Five Year Strategic Plan

**OBJECTIVE:** To provide the City Council with additional information regarding the recently submitted Strategic Plan document.

**BACKGROUND:** At the November 20<sup>th</sup> City Council meeting, staff presented the Council with the proposed Five-Year Strategic Plan. The purpose of the plan is to examine current trends in a wide variety of areas (economic, demographic, service delivery, etc.) and anticipate potential demands that may arise in the coming years. At the same time departments provided analyses that studied these potential demands and crafted responses in terms additional resources, opportunities for collaboration with other agencies, and other relevant factors that would, if nothing else, ensure that our organization was prepared to deal with change.

Following the presentation of the Strategic Plan, the Council inquired about staff analyses regarding either no change in service levels or even – based on the financial condition of the State – reductions in service levels.

First and foremost, State raids on local revenues would result in little or no growth in the organization's budgets and operations. If revenue losses – whether to the State or to the general condition of the economy – were sustained, then staff would work with the City Council to enact strategic reductions that would generate the most savings while minimizing to the greatest extent possible the negative impacts on our customers.

As a matter of practice, staff periodically models such cuts in the organization. Contained in this report is an overview of how the organization, in its current configuration, would address serious and sustained reductions in revenue.

**ANALYSIS:** Long-term and short-term revenue losses, and organizational responses to each, can be and should be viewed differently.

A common denominator in addressing revenue shortages, however, is to flat-line all spending. The City of Monrovia is a service delivery organization. As such, two-thirds of our costs are the employees who provide services to our customers. Thus, the City must constantly balance the need to maintain quality, top-notch personnel (by paying competitive salaries) with the real-world demands of the market (revenues versus expenditures). All this said, a major shift/loss of revenue would necessitate the freezing – or even reduction – of salary and benefit levels for most or all employees.

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A second area in which to shore up operational revenue is the annual revenue flows to the City's reserve accounts.

If it can be anticipated that a significant loss of General Fund revenue (those revenues that can be spent completely at the discretion of the City Council) is the result of a set of circumstances that would last for only a relatively brief period of time (say, 1 to 2 years), perhaps the most prudent revenue source would be to cut those resources that are set aside each year for General Fund and Facility Replacement reserves. The reasoning here is two-fold.

For the past several years, the City of Monrovia has diligently set-aside \$400,000 in each of these reserve accounts, with the stated goal of maintaining a General Fund Reserve of 20% of appropriations and a Facility Replacement Reserve of \$2,000,000.

The General Fund reserves are designed to be emergency resources to be used as immediate stop gap measures. It is imprudent to count on and utilize these funds as resources from which the organization pays for ongoing day-to-day activities. Like a savings account that consistently covers the losses of an overdrawn checking account, at some point the savings will disappear. Thus, reducing or eliminating the dollars that flow into these reserves potentially sets the stage for the ultimate evaporation of the reserves altogether.

However, if employed judiciously, these annual revenue allocations could be critical in helping the organization navigate through a period of economic trouble without disrupting the delivery of service to Monrovia residents and businesses. The key is to understand whether the economic conditions impacting the organization are finite in their timing or, as in the case the ERAF losses in the early 1990's, ongoing and permanent.

The second reason to consider drawing on the annual reserve allocations in a short-lived economic crisis revolves around the demographics of our organization's workforce. Like many other employers, the City of Monrovia is facing the prospect of a "Gray Wave" exodus of Baby-boomer employees in the next several years. Many of these older employees have "bumping rights" vis-à-vis their seniority in the organization. Thus, any lay-offs necessitated by a major revenue loss would likely revolve around the old adage "Last hired, first fired." While this concept certainly is not new, again – considering the timeframe of the given economic crisis – it could prove pennywise and pound foolish to layoff younger employees knowing that older employees will soon be retiring and the pool for younger talent is exceptionally shallow.

Still, economic downturns and crises are oftentimes not predictable and recent history (specifically, the ERAF example) indicates that futures cuts – despite recently enacted local government revenue safeguards – could be long term. Thus, in the event of significant and lasting shifts in revenues, the City must be prepared to make cuts that are commensurate with such losses.

In examining the staffing levels, maintenance and operations, critical missions and overall budgets of each of the City's administration and line departments, the cuts listed below could be made, but at a severe cost. Such reductions would drastically reduce the service levels of each department to the point of affording only a base level of service to Monrovia's residents and businesses, certainly below that to which our customers have become accustomed.

By comparison, listed alongside the theoretical departmental reductions is a table showing the cost of one percent of the City's General Fund, which would be the likely target of any State revenue raid. The City's General Fund is approximately \$32 million.

Department	General Fund
Administration	1%
	\$320,000
	-\$431,000
Public Works	2%
	\$640,000
	-\$626,000
Human Resources & Risk Management	3%
	\$960,000
	-\$150,000
Police	4%
	\$1,280,000
	-\$306,000
Administrative Services	5%
	\$1,600,000
	-\$279,000
Community Development	6%
	\$1,920,000
	-\$358,000
Community Services	7%
	\$2,240,000
	-\$547,000
Fire	8%
	\$2,560,000
	-\$417,000
	9%
	\$2,880,000
TOTAL	10%
	\$3,200,000
	-\$3,114,000

It is difficult and impractical to simply decree a significant fixed percentage “across the board cut” when both personnel and M&O are being considered. Roughly 2/3 of the General Fund is made up of the Police and Fire Department budgets. Considering that public safety is the service area that residents most often ascribe to local government, it is not foreseeable that these two operations would shoulder excessive cuts. Invariably, the “soft service” program areas take disproportionately larger hits. And, ironically, these cuts often have the more visible impact on the community’s quality of life.

Ultimately, significant and long-term revenue reductions will require an assortment of budget adjustments. Pending the manner in which the State would take funding, the transformation of the City’s budget would revolve around a combination of expenditure freezes, reserve revenue reallocations, and staff downsizing.

**OPTIONS:** This report is for the Council’s information only, and no action is required at this time. Mid-year FY 2007-08 budget adjustments are indeed being recommended under a separate report (AR-2). But until the Governor’s proposed budget is published in January and (more importantly) the May Revise is published next spring, there is little concrete work that can be done by the City other than to study and analyze various options.

By way of historical reference, FY 1993/94 was the worst ERAF year suffered by the City of Monrovia. In that year, and henceforward, the City lost \$800,000 to the State – which at that time equated to roughly 5% of the General Fund.

**FISCAL IMPACT:** There is no fiscal impact associated with the receipt and filing of this report.

**RECOMMENDATION:** Staff recommends that the City Council receive and file this report.

**COUNCIL ACTION REQUIRED:** Receive and file.

Scott Ochoa, City Manager