

 <p><i>Finance Department</i></p>	Policy & Procedure Manual	
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Fiscal Emergency Policy

City of Oak Harbor

Financial Contingency Planning

Purpose:

The primary purpose for this financial contingency plan is to ensure that a sound, logical, and responsible approach is taken to ensure budgetary compliance during times of financial hardship. This approach is guided by the adopted financial policies, and includes such procedures to ensure a basic level of City services and operations are provided to the public. The Plan is divided into sections that respond to environmental changes such as revenue shortfalls, expenditure control including unforeseen emergencies, and fiscal emergencies.

Section 1 - Projected Revenue Shortfalls:

Projected revenue shortfalls may occur when a slowdown in economic conditions impact one or more revenue streams of the City. In addition, revenue shortfalls may occur when revenue streams are eliminated, in whole or part, by legislative act, regulatory mandate, or by citizen initiative. Typically, minor or temporary adjustments in revenue projections may be handled in an administrative manner by reducing or deferring operating costs, rescheduling special projects, or a combination of the two.. However, should a reduction in revenues be significantly material or of a permanent nature, prompt action will be taken to balance the shortfall by either an increase or creation of a new revenue source, or by the reduction of expenditures in equal or greater amount than the projected revenue shortfall.

As a rule, a revenue shortfall is defined as any event or condition where revenues are reduced in an amount greater than 15% of the operating budget of any division, program, or fund. In addition, a revenue shortfall is defined as any reduction in any revenue stream that places the operating capability of a specific operation or program at risk of default, regardless of percentage. A revenue shortfall will be considered of a permanent nature when the reduction, restriction, or elimination of the revenue will effect a period of time greater than one year in duration.

Type I - Minor Revenue Fluctuations or Shortfalls:

The following actions will be taken as a possible response to a minor revenue shortfall:

- Upon notice of a minor revenue shortfall or fluctuation, the Finance Director will notify the City Administrator and the appropriate manager of the affected function of the nature, amount, and duration of the projected shortfall.

- The Finance Director will take the necessary steps to determine if the revenue shortfall can be diverted, deferred, or eliminated.
- The Finance Director, after discussions with the appropriate managerial personnel, will initiate the necessary steps to immediately reduce certain budgeted expenditures, to defer purchases of equipment or other supplies, to reschedule special projects, or to take other appropriate action to ensure that the temporary change in revenue will be met with a corresponding change in expenditures. Any required budget adjustments between line items of a function's budget will be made upon approval of the Mayor, City Administrator, or the appropriate designee.
- The Finance Director will submit the formal recommended action plan to the Mayor, City Administrator, or City Council for review and will immediately implement the outlined procedures.
- While these procedures are in place, the Finance Director will monitor the revenue shortfall to ensure that initial estimates of the amount and duration are matching original projections. Any material adjustments to the original projections will be communicated to the City Administrator and affected management staff.

Type II - Major Revenue Fluctuations or Shortfalls of a non-permanent nature:

A major projected revenue shortfall of a non-permanent nature is when the amount of the shortfall exceeds 15% of the affected functions annual budget, and the duration of the shortfall is expected to last for a period of less than twelve months. Depending upon the materiality of the projected revenue shortfall, the Finance Director will have a number of options available to balance the budget of the affected department, division, fund, or function.

The following actions will be taken as a possible response to a major revenue shortfall that is non-permanent in nature:

- Upon notice of a minor revenue shortfall or fluctuation, the Finance Director will notify the City Administrator and the appropriate manager of the affected function of the nature, amount, and duration of the projected shortfall.
- The Finance Director will take the necessary steps to determine if the revenue shortfall can be diverted, deferred, or eliminated.
- The Finance Director, after discussions with the appropriate managerial personnel, will initiate the necessary steps to immediately reduce certain budgeted expenditures, to defer purchases of equipment or other supplies, to reschedule special projects, or to take other appropriate action to ensure that the temporary

change in revenue will be met with a corresponding change in expenditures. Any required budget adjustments between line items of a function's budget will be made upon approval of the Mayor, City Administrator, or the appropriate designee.

- Budget Cuts: If it is determined that incidental reductions in budgeted expenditures, deferring costs, or canceling projects or special purchases will not provide sufficient reductions in costs to balance the revenue shortfall, the Finance Director is authorized to take further immediate action. A review of the impacted function will be made with the appropriate managerial staff to ascertain which material reductions in costs will be made. The Finance Director will take the necessary action to cancel further spending within the impacted function. This action may involve the cancellation of capital asset acquisitions, such as equipment, vehicles, furniture and fixtures, the freezing of the hiring process to fill vacated positions, and the elimination of certain travel related expenditures, and similar cuts designed to balance the projected shortfall. The mixture of budgetary cuts and other changes will be prioritized based on the ability of the function to remain a going concern. Expenditures that pertain to those technological, training, and other expenditures that will allow the function to continue operating in a "work smarter" mode with reduced staffing levels will be maintained as long as possible.
- While these procedures are in place, the Finance Director will monitor the revenue shortfall to ensure that initial estimates of the amount and duration are matching original projections. Any material adjustments to the original projections will be communicated to the City Council, Administration, and affected management staff.

Type III – Major Revenue Fluctuations or Shortfalls of a non-permanent nature:

In addition, the following options will be considered by the Finance Director as the appropriate response to a major revenue shortfall that is permanent in nature (expected duration of one year or greater):

Immediate Action Procedures:

- Upon notice of a major revenue shortfall or fluctuation of a non-permanent nature, the Finance Director will notify, in writing, the City Administrator and the appropriate manager of the affected function of the nature, amount, and duration of the projected shortfall.
- The Finance Director will take the necessary steps to determine if the revenue shortfall can be diverted, deferred, or eliminated.

- The Finance Director, after discussions with the appropriate managerial personnel, will initiate the necessary steps to immediately reduce certain budgeted expenditures, to defer purchases of equipment or other supplies, to reschedule special projects, or to take other appropriate action to ensure that the temporary change in revenue will be met with a corresponding change in expenditures. Any required budget adjustments between line items of a function's budget will be made upon approval of the Mayor, City Administrator, or the appropriate designee.
- Budget Cuts: If it is determined that incidental reductions in budgeted expenditures, deferring costs, or canceling projects or special purchases will not provide sufficient reductions in costs to balance the revenue shortfall, the Finance Director is authorized to take further immediate action. A review of the impacted function will be made with the appropriate managerial staff to ascertain which material reductions in costs will be made. The Finance Director will take the necessary action to cancel further spending within the impacted function. This action may involve the cancellation of capital asset acquisitions, such as equipment, vehicles, furniture and fixtures, the freezing of the hiring process to fill vacated positions, and the elimination of certain travel related expenditures, and similar cuts designed to balance the projected shortfall. The mixture of budgetary cuts and other changes will be prioritized based on the ability of the function to remain a going concern. It will be recognized that expenditures pertaining to technology and training will be maintained as long as possible to ensure that staff will have the appropriate tools to provide an appropriate level of service.
- While these procedures are in place, the Finance Director will monitor the revenue shortfall to ensure that initial estimates of the amount and duration are matching original projections. Any material adjustments to the original projections will be communicated to the City Council, Administration, and affected management staff.
- Budgetary or programmatic cuts: Upon consultation with managerial staff and the administration, the Finance Director will recommend and make reductions that will achieve costs eliminations by improving efficiency factors or by eliminating or replacing the function or by dramatically reducing a specific level of service. Any reductions involving the elimination of staff positions, the reduction of service, or the outright elimination of a program or operational function will be followed up by an advisory memo to City Council informing them of the reasons for the changes, and the expected impact the change will have on our ability to meet the public's expectation of service. The Finance Director will base these reduction decisions on advice from the impacted managerial staff, on evidence from a comparison with operations from similar departments, funds, or even cities, or on the reports of a performance audit or management study. The primary goal is to match reductions to a reduced level of service. The Finance Director may recommend across-the-board cuts, which although simple and fair,

should be used with caution as unintended consequences may result. Depending upon economies of scale, some operations may be large enough to absorb across the board cuts without a major impact to the operational capabilities. Smaller functions not be able to implement across the board cuts as certain reductions may call for dramatic changes (ie., how does one cut 8% of one FTE in a particular function). Using this method, the most efficient operations have already experienced deep cuts because of their existing emphasis on operating efficiency.

- Re-structure: The Finance Director will perform an analysis of the affected functions to determine if it may be possible to reduce supervisory positions and overhead expenditures by consolidating functions or flattening the organizational structure to cut costs. The Finance Director will carefully study the impacts before restructuring to be certain that employees are given sufficient training and support to make more decisions themselves. Monitoring procedures will be put in place to avoid the overstretching of staff which may cause decreases in productivity, which in turn may wipe out potential savings. Recommendations will be made to the Administration and to City Council for any restructuring proposals that will materially impact staffing levels or levels of service.
- Elimination: The Finance Director will initiate a review of critical, mandated, or vital services that are matched against community needs and desires. A determination will be made if there are services that are non-critical, or that may be performed by other private sector entities. These types of programs may be as follows:
 - Specific programs that may be provided by the private sector,
 - Specific programs or functions that may be consolidated with other governmental agencies.
 - Specific programs or functions that are elective in nature.

Long-term Action Procedures:

- Explore Service Delivery Options: The Finance Director shall review the consideration of privatizing services or contracting for the service with a neighboring county or political sub-division. Efficiencies may be gained through scale advantages, as well as through lower costs available only to private firms that are not subject to public sector regulations. Recommended actions will be made upon approval of the Administration and/or City Council.
- Seek additional revenues: If a revenue gap still exists after reviewing previous methods, the Finance Director will consider methods of garnering additional revenues. In addition to seeking grants, a review of those services that could be 100% user fee supported will be made as well as an analysis of existing fees to see if any increases are warranted. The Finance Director will review existing taxes and unused taxing authority. If one or more priority community needs will be under-

served without a tax increase, the Finance Director will make a recommendation that might consider presenting a package for electoral support.

- While these procedures are in place, the Finance Director will monitor the revenue shortfall to ensure that initial estimates of the amount and duration are matching original projections. Any material adjustments to the original projections will be communicated to the City Council, Administration, and affected management staff.
- The Finance Director will submit the formal recommended action plan to the Mayor, City Administrator, and City Council for review and will immediately implement the outlined procedures.

Section 2: Expenditure Management:

State law requires that budget appropriations be set for authorized expenditures. The authority for budgeted appropriation lies at the "fund level" – meaning that City's are required to ensure that actual expenditures do not exceed the appropriate expenditure authorization for the total fund. Within a fund, variances may occur on specific line items of the budget, however these variances would not require a City to amend its preciously adopted budget. However, prudent financial practices require that attention be given to these variances.

Budget Adjustment and Amendment Processes

Under the provisions of State law and the City's operating procedures, the operating budget may be adjusted or amended in two different ways. Adjustment of the budget involves a reallocation of existing appropriations and does not change the budget "bottom line." Amendment of the budget involves an addition to or reduction of existing appropriations.

A. Adjustment

Under the first method, departmental expenditures and requirements are monitored throughout the year. Typically, variances requiring a movement of appropriation between line items of the same fund/department require a budget adjustment. Certain departments may develop the need for additional expenditure authority to cover unanticipated costs that cannot be absorbed within the budget, while budget, while other departments will not require their full budget authorizations. The Finance Department reviews and analyzes all department and/or fund budgets to determine what adjustments are necessary and whether the adjustments can be made within existing appropriation limits. These changes are then reviewed with the affected department and/or fund managers. When an adjustment is needed, Finance staff will look first to savings within the department; then transfers between departments; and finally, the Mayor, City Administrator, or designee reviews and decides if the requested adjustments need

to be made. No City Council action is needed as State law allows budget adjustments to be done administratively.

B. Amendment

Amending the City's budget occurs whenever the requested changes from department and/or fund managers will cause the existing appropriation level for the fund to change. Variances requiring an increase or decrease to the total appropriation of a particular fund require a budget amendment. An amendment is made effective through an ordinance approved by Council. The amendment does not reflect specific line item changes. Instead, it shows only the change required to adjust the previously set appropriation to the new project amount. Per OHMC 001.04.202, budget amendments do not require an introduction to Council prior to presentation for approval

Per City financial policies, expenditures are to be conservative, and realistically represent the costs of operating. When conditions change that would cause expenditures to exceed budgeted projections, the following actions should be taken:

Line Item Variances

Line item variances occur when individual budget line items exceed appropriated authority. To ensure adequate monitoring of line item variances, the Finance Director will perform a monthly review of citywide expenditures for appropriateness, and to ensure that line item authorizations are not exceeded. Should a variance occur, the following steps shall be taken:

- Notification in Writing to responsible manager – a written memo will be issued to the responsible manager notifying them of the variance. The manager will be required to respond in writing the reasons for the variance, and what plan of action will be taken to correct the variance.
- Authorize budget adjustment – this course of action will be taken with consultation of the manager, to move other excess funds to cover the expenditure variance. The budget adjustment must be approved by the Mayor, City Administrator, or designee.
- Authorize budget amendment – this course of action will be taken with consultation of the manager, to increase budget authorization to cover the expenditure variance. The increase in authorization must include a funding source that is non-dedicated, and that will match the timing of the expenditure. Budget amendments must have the approval of the Mayor, City Administrator, or designee, and will only be effective through presentation of an ordinance to Council

Fund Appropriation Variances

Fund Appropriation Variances occur when total expenditures at the Fund level exceed total fund appropriation authority. No variances in fund appropriates will be allowed without prior approval. To ensure adequate monitoring of Fund Appropriation variances, the Finance Director will perform a monthly review of citywide expenditures for appropriateness, and to ensure that fund appropriation authorizations are not exceeded. Should a variance occur, the following steps shall be taken:

- Notification in Writing to responsible manager – a written memo will be issued to the responsible manager notifying them of the variance. The manager will be required to respond in writing the reasons for the variance, and what plan of action will be taken to correct the variance. A copy will be sent to the City Administrator.
- Authorize budget amendment – this course of action will be taken with consultation of the manager, to increase budget authorization to cover the expenditure variance. The increase in authorization must include a funding source that is non-dedicated, and that will match the timing of the expenditure. Budget amendments must have the approval of the Mayor, City Administrator, or designee, and will only be effective through presentation of an ordinance to Council

Fund Balance Deficiencies

The City has established a policy of maintaining a minimum fund balance reserve for the purpose of ensuring the City's ability to pay liabilities as they become due. Accordingly, minimum fund balances must be monitored to ensure that the City's cash reserves do not fall below cash flow requirements. The Finance Director shall perform a review of the status of all fund reserve balances to ensure that established levels are maintained. Should reserves fall below minimum standards, the following actions may be taken upon approval of the Mayor or City Administrator:

- A hiring freeze will be implemented until such reserves are at adequate levels
- Equipment Replacement Funding Payments may be deferred.
- A freeze on the implementation of new programs will be made until reserves levels are adequate.
- A freeze may be placed on Capital Outlay Spending
- A freeze may be placed on other areas of expenditure that will ensure a long-term return to financial stability through the maintenance of adequate reserve funds.

Cash flow shortages

While most of the City's expenditures occur evenly throughout the year, revenues are received on a variety of schedules. The majority of City revenues are receipted on a monthly, quarterly, semi-annual, or annual basis. The Finance Director performs a review of cash flow balances continually to ensure that adequate cash is on hand to clear

expenditures. When it appears that cash flow will not allow for the ongoing payment of invoices, the following steps or actions may be taken:

- The Finance Director will immediately notify the Mayor and City Administrator in writing of the projected shortfall. This notification will include the nature of the short fall, the events that lead to its existence, and a projected timeline showing when the deficiency will be resolved.
- Cash expenditures over \$1,000 in amount will be approved by the City Administrator prior to disbursement being made.
- The Finance Director will place a freeze on cash disbursements until such a time that cash flow permits expenditure. At no time will city checks be issued when there is not adequate cash funding on hand to sufficiently cover any check issued. The Finance Director will meet with the Administration and Department heads to determine a priority listing of which invoices will be paid first when adequate funding is available.
- A prudent approach will be taken in the use of short-term debt financing to cover temporary periods of cash flow tightness. Any interfund loans or issuance of short-term debt for these purposes will be brought forward to Council.

Section 3: Fiscal Emergency Declaration:

In times of severe financial duress, the City may institute a fiscal emergency. A fiscal emergency is appropriate when an event or series of events impacts the financial stability of the City to such a magnitude that a serious disruption of operations or a dramatic reduction in levels of service will result. The declaration of a fiscal emergency empowers the Mayor to initiate such changes that are necessary to immediately position the City to respond to the fiscal crisis. A suggested draft of the resolution is as follows:

RESOLUTION NO. _____

RESOLUTION CONCERNING BUDGET ADMINISTRATION FOR 2XXX

WHEREAS, the Council recognizes that the responsibility for administering the City is reposed with the Mayor by law; and

WHEREAS, the City Council's responsibility is to set policy through the City's ordinances and budget and that the Mayor and Council need to work together to develop a coherent strategy for solving the long term problems of the City; and

WHEREAS, the City Council recognizes the efforts of the Mayor and City employees to keep the City functioning and solvent, but also recognizes the changes wrought in financing of City government require changes in City operation; and

WHEREAS, the Council needs to keep involved in monitoring the budget implementation process so that it can participate with the Mayor in developing strategies to solve Oak Harbor's needs for police and fire protection services; now, therefore,

BE IT RESOLVED by the City Council of the City of Oak Harbor as follows:

The City Council directs and requests that the following measures are put in place:

1. Except in an emergency situation as declared by the Mayor or successor, no department budget appropriation may be exceeded without authorization of the City Council even if the fund budget is not exceeded by such expenditure.
2. Except in an emergency situation as declared by the Mayor or successor, no line item in a department budget may be exceeded without authorization of the Mayor or other person designated by the Mayor even if the department budget is not exceeded by such expenditure.
3. If a budget or line item of budget is exceeded by emergency condition, the City Council shall be advised, in writing, within five days of such an occurrence.
4. No salary or pay grade for any position shall be increased without prior Council approval.
5. No new position shall be created and filled except upon prior Council approval; provided, temporary positions not exceeding six months may be approved by the Mayor so long as activity is budgeted and other provisions of this resolution are complied with.
6. Any change in a job description shall be forwarded to Council within five days of its occurring.
7. Except for emergency conditions and authorized by the Mayor, contracts in excess of \$10,000.00 shall not be let without specific prior Council approval even if mentioned directly in the budget or notes thereto and even if funds are authorized therefore.
8. Administration shall monitor revenues and expenditures on a monthly basis to determine if the City is meeting budgeted expectations. If revenues are failing to keep up with expenditures, administration is directed to do the following:
 - a. Stop the hiring of new replacement employees without Council approval.
 - b. Stop all purchases except those deemed absolutely necessary and approved by the Finance Director or other person(s) appointed by the Mayor.

- c. Prioritize expenditures.
 - d. Reduce overtime expenditures.
 - e. Implement a hiring freeze.
 - f. Cut general governmental department budgets by percentage amounts.
9. The Mayor is requested to direct preparation of an emergency plan for cost reduction in addition to above measures to be completed and presented to the City Council by June 1, 2XXX.

“Emergency” is defined to cover both unexpected events which require immediate action such as wind storm, earthquake or equipment failure and financial emergencies which are those events where circumstances require immediate action in order to avoid greater loss by waiting.

Nothing herein shall be construed as attempting to negate obligations currently existing under contract.