

**CITY OF MONTEREY
CITY MANAGER'S OFFICE**

TO: Executive Management

FROM: City Manager

DATE: November 18, 2008

SUBJECT: Council's Recommendations for 1st Quarter Financial Review

As all of you know, the financial realities at the National and State level continue to pose enormous challenges, with no real positive indicators on the horizon. The emerging information we are getting for the City of Monterey is also quite concerning. While we are in the midst of preparing a First Quarter Financial Review for the City Council, I wanted to let all of you know how serious I believe our budget issues to be, how seriously I am taking them, and what I am thinking about in terms of specific recommendations to the City Council.

What keeps me up at night is what I don't know. I really don't know how to predict the length and depth of the current recession. As a result, I am contemplating recommendations to the City Council that some may view as being very conservative as, in the future, I'd much rather be criticized for being too conservative than criticized for not taking action early enough.

The most fundamental recommendation that I will be making to the City Council is for us to protect our fund balance. A dollar spent today on a non-essential expense is a dollar we can't spend tomorrow or next year to maintain an essential service. At the upcoming First Quarter Financial Review I will be suggesting to the City Council that they direct staff to implement the following action items:

1. As part of our planning for the '09 –'10 budget - direct that staff develop scenarios for 5%, 10% and 15% in net budget reductions. This is a dollar cut of between 2.5 million and 7.5 million. These targets can be met through recommending service cuts or creation of new revenue. Obviously, new revenues cannot be new taxes in the short term. I anticipate that we would not apply these scenarios across the board for each department. Instead, my ultimate recommendations to Council will reflect my best judgment of the service mix we can deploy to best meet the needs of our community given available resources.
2. Review all currently vacant positions and require written justification for recruitment of each position. This should include a description of service impacts should the position not be filled and opportunities to alter our approach to service delivery in ways that make us more efficient and effective. We will also use vacancies, where possible, to shift staff from low priority work to the essential service needs of the City. In this way we can realize the cost savings of service reductions and retain valuable employees.
3. Evaluate the CIP and NIP that has been previously approved, to identify essential vs. non-essential projects for further Council evaluation and with NIP input, consideration of freezing for the time being. I would define essential as those projects that are necessary for public health and safety or critical renewal of current facilities as opposed to projects for new capacity or capabilities that are not essential.

4. Request that the NIP consider funding only essential maintenance and public safety projects in the next fiscal year.
5. Direct staff to explore other service consolidation opportunities with other organizations and within our own organization
6. Direct staff to work with labor organizations to consider financial strategies that would allow us to minimize or eliminate potential layoffs so we can preserve services.
7. Direct staff to continue making investments that will enhance the long-term capacity of our organization. This will be particularly important if we find ourselves with a substantially smaller staff at some future point.
8. Direct staff to be prepared to absorb and execute economic stimulus projects that may come from the State or Federal governments.
9. Direct staff to develop and execute a public information strategy that informs the general community, all Boards and Commissions, Neighborhood Associations, Business Associations, City employees, and other groups of interest as to the serious nature of the financial situation and the approaches we are taking to deal with the situation. This will help ensure the community's expectations are realistic and that they fully understand the scope of what we are attempting to accomplish.

I realize that this memo will cause concern throughout our organization, but I want everyone to understand how important and serious this situation is. While we remain a nearly \$100 million/per year enterprise, and are in a better financial posture than most of our neighbors because of difficult decisions made in the past, this situation will require our complete and focused attention. While we may have to cut some programs and services, we will have to set new expectations of ourselves and the public. To that end, the meetings with Boards and Commissions, Neighborhood and Business Associations and the public will help re-calibrate their expectations for services in the next 12-24 months.

Make no mistake, we face new challenges ahead. Now, more than ever, we need to pull together as a team to find new solutions. Let's unleash the creativity of this organization, right-size expectations, and create a new "Monterey model" that serves us into the future. I look forward to working with you on this new challenge and welcome your input.

Fred Meurer

c: City Council
All Boards and Commissions
Presidents of Labor Associations