



Brandi Allen
Conferences & Education Director
Alliance for Innovation
ballen@transformgov.org
602- 496-1097

COVER PAGE

Innovation Study Title City of Arlington Challenge Grant: Consider the Possibilities

Category Sustainability

Jurisdiction Name City of Arlington

City/County Manager Jim Holgersson

Population 365,438 (U.S. Census Bureau, 2010 Census)

Submit Innovation Study for an Alliance Innovation Award Yes No

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Project Leader/Primary Contact

Name Mike Finley

Title Assistant Director of Financial and Management Resources

Phone Number 817-459-6453

Email mike.finley@arlingtontx.gov

Mailing Address 101 W. Abram Street, Arlington, TX 76101

Presentation Team Member #1

Name Mike Finley

Title Assistant Director of Financial and Management Resources

Phone Number 817-459-6453

Email mike.finley@arlingtontx.gov

Mailing Address 101 W. Abram Street, Arlington, TX 76101

Presentation Team Member #2

Name _____

Title _____

Phone Number _____

Email _____

Mailing Address _____

Presentation Team Member #3

Name _____

Title _____

Phone Number _____

Email _____

Mailing Address _____

Presentation Team Member #4

Name _____

Title _____

Phone Number _____

Email _____

Mailing Address _____

City of Arlington, Texas
Office of Management and Budget
August 24, 2011

Balancing the Budget - Challenge Grant Case Study
(Sustainability Category)

One of the defining characteristics of a State or City budget is that it must be balanced. The City of Arlington is firmly committed to this practice, and yet it does have drawbacks. For example, a City often cuts popular but not critical programs in lean years, only to turn around and restore funding in better years. This has an unquantifiable yet substantial cost.

Due to the economic crisis affecting many local governments, the City of Arlington was facing a projected deficit in the general fund of \$10.3 million for fiscal year 2011. This was due to the loss of \$7.4 million in AV revenue, recurring expenses for when the COPS grant expired, and increase in pension cost. The long range forecast over the next three fiscal years included a growing deficit up to \$15.4 million by FY 2014.

Adding to the complexity of this issue is the City's position on top of the Barnett Shale, a large natural gas field. This has resulted in substantial revenues, from leases and extraction payments from the Natural Gas companies. Unfortunately, this revenue is of limited duration, and volatile (excuse the pun.) It is unwise to rely on a revenue source of this nature for salaries and other ongoing expenses.

The City of Arlington faced a dilemma: recurring revenues decreased while a substantial surplus due to the gas lease and extraction payments abounded. A proposal was developed to meet the City's deficit challenge by using several tactics. One tactic is known as the Challenge Grant and is administered through the policies established in our Business Continuity Program (Attachment A). The structure of the Program is detailed in the attached document with one of its policies authorizing use of one-time dollars held in reserve for continuing operations on a conditional basis. Funds are provided for specific positions and programs for a limited period of time. These funds were derived from the natural gas revenues, as well as surpluses in other funds.

The Challenge Grant process provided fair evaluation of positions and programs through review with Departments and the City Manager's Office. Each Department Director had the opportunity to defend their Challenge Grant requests. Once decisions were made on programs and positions to place on the Challenge Grant, Departments had one fiscal year to identify savings or revenue in their budgets to maintain positions or programs for the following year.

In FY 2011, the City funded \$4.8 million in Challenge Grants for 49 positions and 18 programs in various departments throughout the City, thereby allowing us to continue services for our residents. The expectation was established that funds would be found elsewhere through revenues or expenditure cuts for the following year. Long-term, the City planned to use a reduced Challenge Grant for fiscal years 2012 and 2013 to help fund positions or programs identified as necessary to continue services. Due to cost reductions in various areas, process improvements, and revenue enhancements, the City was able to balance the FY2012 budget without utilizing the Challenge Grant process.

Attachment A

Business Continuity Reserve

Introduction:

The Business Continuity Reserve is a new reserve that will be utilized to continue desired City operations in times of economic down turn. It is established due to the following circumstances:

- A balanced budget must be produced on a fiscal year basis;
- Service requirements are continuous;
- Short term economic slowdowns can cause disruptions of service that are reinstated in better years;
- The City has significant one-time and unpredictable revenues;
- It is desired the City utilize these sources to best serve the Citizens of Arlington.

Establishment:

As part of the budget development process, the City Manager's Office (CMO) and Financial and Management Resources department (FMR) will review one time revenue sources. These sources will include, but not be limited to:

- General use gas funds;
- Park gas funds;
- General Fund undesignated/unreserved fund balance;
- Health Insurance fund;
- Worker's Comp reserve;
- Special Revenue Fund balances with General Fund contributions (Street Maintenance Fund, Park Performance Fund, Convention and Event Services Fund).

The validity and suitability of the amounts from these sources will be determined by the OMB division of FMR (taking into account reserve requirements) and presented to CMO. Upon concurrence from CMO, the funding level of the Business Continuity Reserve will be established, and designated by the accounting division of FMR.

Eligibility:

City Policies require a budget that is balanced, and does not include one-time revenues for ongoing expenditures. Therefore, accessing the Business Continuity Reserve is subject to stringent guidelines. The reserve should not be used for:

- Recurring employee pay/benefit increases;
- Increases in unit costs for supplies;
- Maintenance/contract/license cost increases;
- Utility increases;
- Any other recurring increases.

Items the reserve may be used for:

- Continuing operations on a conditional basis
- Contributions to other fund balances
- Emergency expenditures
- One-time pay increases.

Accessing:

The reserves will be accessed in the following manner.

- Recurring revenues will be determined during the budget development process.
- Recurring expenditures will be determined, including pay/benefit increases
- Recurring transfers among funds will be determined
- If the calculation of these three items results in a deficit, the Business Continuity reserve may be accessed.

Upon the completion of the calculation, departments will be asked to submit program reductions to be funded from the reserve. It should be understood that absent improving revenues, and upon exhaustion of the fund, these programs will be eliminated.

Removal and Reinstatement:

Once program expenditures have been designated as funded from the Business Continuity Reserve, the expenditures will be removed from the base budget calculation for the following fiscal year. Reinstatement of funding may be requested by the department in the budget process. There are three possible results of these requests:

- Request denied, the expenditure, and all associated personnel, will be eliminated;
- Approval, expenditures reinstated to be funded with recurring revenues;
- Continuation, expenditures reinstated with additional reserve funds.