

## **White Paper**

### **True Impacts of a 3% Cap on Operations**

This white paper is presented to show the true impacts of a 3% cap on government operations, as experienced by the City of Fort Walton Beach, Florida. These items were realized over the course of six months, so there may be other negative impacts not yet realized. Voters were led to believe the 3% cap would save taxpayer money; however, the exact opposite is what has been experienced- a less effective and efficient form of government.

#### **Strategy of Leadership**

- The ‘use it or lose it’ mentality as it relates to spending is required. Now sections must spend all of their annual budgets or risk the 3% cap decreasing their ability to operate in future level of service budgets.
  - For example- common business practice in the golf industry is to send unneeded staff home on bad weather days where the course is closed. This cannot happen now, as the end of year budget would decrease resulting in a lower cap the following year.
- A self-destructive mindset related to team building becomes reality. When a strong team member leaves for a new opportunity- the mindset is not to try and keep the high performer; the new mindset is how much money can we save with the new hire making less salary. A terrible way to run a successful operation, basically telling the team there is no reason to stay. Every position we lose costs the City approximately \$10k per position- OT to cover the vacancy, advertising, loss of tacit knowledge- just a poor approach to managing a high performing team.
- Special Interest Group Math- the staff has jokingly referred to the 3% concept as Special Interest Group Math, as this special interest group was the main proponent of the cap. The Utilities team elected to outsource a position making less than \$100k, including benefits. Outsourcing the position took the salary cap under the 3%, but the contracted position cost taxpayers a \$200k contracted position, which was not subject to the cap.
- A great deal of staff time is spent managing the 3% restrictions- especially during budget creation meetings. Several calculations are run based on a number of scenarios. Several brainstorming meetings with the leadership team are required. All time and effort that should be invested in a more productive capacity for the City.
  - In addition to budget meetings- unique situations arise from time to time requiring special attention to avoid violating the 3% cap. Two examples- 1) Photo enforcement revenue spending is dictated by statute, with \$5 per violation required to be spent on school crossing guard programs. Navigating this issue took several hours of time from the Chief of Police, Finance, and the City Attorney, as the impact was to operations capped by the 3% rule. 2) The City has over \$100k in tree mitigation funds; however, trees are purchased from operations, so after a few discussions on how to best proceed, that money is sitting until we have a better grasp of end-of-year budget.

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- Grants are staff intensive to manage the impact to the 3% operations. Each grant awarded requires a review by the fiscal team. We are currently being awarded a \$10k grant by FCCMA to host an intern; however, that \$10k salary will come from operations so an analysis is being rendered to see the impact based on salary operating expectations for the remainder of the year.
- Vehicle and property damage is strategically not repaired because it may impact the end of year approach to close out operations. One police vehicle and a few golf carts will not be repaired until later in the fiscal year in order to gauge resources. The vehicles have not been taken out of service, as there is not a safety concern in their use- just the appearance of a poorly run operation.
- We have canceled the annual Fire Outreach program that engages and educates the citizens on fire safety. The program is only \$5k but is funded by operations so we are strategically waiting to see how the fiscal year shapes out in case we need to line-to-line operations funds to stay under the cap for priority issues.

#### **Parks**

- **Program Capacity (70/30 Split):** With the current budget, we are unable to expand programs (senior based programs, community programs, etc.) without exceeding the allowed expenditure ratio. This limits growth and forces a cap on participation, ultimately turning residents away from services value.
- **Youth Sports Leagues:** League participation is capped due to budget restrictions. This results in turning away kids and limits the ability to schedule additional games due to constraints in paying officials, scorekeepers, and purchasing team apparel.

#### **Golf**

- Under new leadership, the golf course has thrived. However, the amount of time, effort, and stress to stay within the 3% cap is taking away from the goal of the operation.
  - Merchandise sales exponentially grew, but being capped at \$100k in goods sold means the pro shop will run out of several items before the midway point of the fiscal year.
  - Vendor fittings have been canceled. These events are held at no cost to the City but typically result in large amounts of revenue. The items cannot be purchased due to the cap, so the events have been canceled. An impact to the operation and the golf community- as the customers enjoy these events.
  - Range balls are expected to be exhausted well before the end of the fiscal year resulting in a loss of \$900-\$1500 per day of lost range revenue.

#### **Growth Management**

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- This section has identified a means to generate approximately \$170k in missing revenues, but the service cannot be procured due to the cap.

**I.T.**

- IT has identified several legacy systems needing to be replaced; however, fitting these large ticket items under the cap is not possible in one lump sum.

On paper a 3% cap sounds like a means to save tax dollars. However, the cap does not save tax dollars, in fact the impact is negative to the bottom-line. An inefficient and ineffective culture is propagated, costing taxpayers more in the end..