



CITY COUNCIL AGENDA REPORT

MEETING DATE: APRIL 14, 2009

ITEM NUMBER:

SUBJECT: FISCAL YEAR 2009-2010 BUDGET DEVELOPMENT STRATEGIES

DATE: APRIL 7, 2009

FROM: MARC R. PUCKETT, DIRECTOR OF FINANCE

PRESENTATION BY: MARC R. PUCKETT, DIRECTOR OF FINANCE

FOR FURTHER INFORMATION CONTACT: MARC R. PUCKETT (714) 754-5243

RECOMMENDED ACTION:

Adopt management budget development strategies for the Fiscal Year 2009-2010 Operating and Capital Improvement budget as recommended.

BACKGROUND:

During the mid-year review budget review in February, staff reported on several significant economic factors that have impacted the development of the City's financial plan for fiscal year 2009-2010 (FY10). At the conclusion of the presentation, it was apparent at that time that the proposed fiscal year 2009-2010 Operating Budget could not be balanced without some combination of significant spending reductions, concessions by employee associations, increased revenues or use of reserves. This is the case even without new programs and services or additional spending on previously initiated efforts. Based on questions and comments from members of the City Council, the City Manager indicated that staff would bring the subject of Budget Development Strategies for FY10 back to the City Council for further discussion and direction.

REVENUE UPDATE

The recessionary economic environment has significantly affected primary revenue sources for the City. Sales tax revenues, the city's largest single source of revenue, have declined 12.43% from the prior fiscal year. Further, the current year revenue estimate of \$49.1 million was adjusted downward at mid-year to \$44.2 million and it appears at this time that fiscal year 2008-2009 sales tax collections will fall short of that estimate.

Also, Transient Occupancy Taxes (TOT) have declined 10% from the prior fiscal year. Estimated TOT revenues for fiscal year 2008-2009 were also revised downward by \$585,000 at mid-year and it appears that TOT revenues will fall short of the revised mid-year revenue estimate as well.

Property tax revenues have been flat, increasing by only 1.3% from the prior fiscal year. The flattening of property tax revenue collections in the current fiscal year is the first indication of the effects that the stalled housing market is having on the local economy. Due to the lag between establishment of the assessment roll and development of the tax roll, the full effect of the decline in property values on property tax revenues will not be known until the Spring of 2010.

STATE BUDGET UPDATE

Further unknown impacts may affect the City's FY 2009-2010 Operating Budget as a result of the State's budget crisis. Currently, it is not known what those impacts may be and it may not be known until well after the City is scheduled to adopt its budget in June. At this point, no identified measures exist to take additional local revenues. However, the State continues to face a budget deficit due to delayed action/inaction on the part of the state legislature to adopt a budget for its current fiscal year. Further, the State's revenue projections include revenues from ballot measures yet to be decided by the voters. Should these measures fail, the State will need to enact deeper cuts in services or consider alternative means to raise new revenues such as decreasing subventions to local agencies.

EXPENDITURE REDUCTIONS TO THE OPERATING BUDGET

At City Council's November Study Session, staff presented a variety of budget cutting actions that were being taken immediately. These actions were taken as it became clear that the effect of the recession on the City's operating revenues was so severe that immediate action was required. Staff initiated over \$8.5 million dollars in budget reductions by delaying or postponing indefinitely those capital projects for which a contract had not been awarded, suspending all recruiting/hiring activities, postponing or delaying the purchase of large capital assets such as fleet vehicles, and eliminating over \$2.62 million in General Fund expenditures that were non-essential to the maintenance of core service delivery functions. Included in these General Fund expenditure reductions are a total of 18 full-time positions that are either being held vacant or have been eliminated. There are no plans to fill any of these positions in the near-term future

ANALYSIS

The initial revenue projections and non-departmental estimated expenditures for the 2009-2010 fiscal year Operating Budget were developed between January and February of 2009. The FY 2009-10 departmental budget requests were prepared and sent to Finance for compilation during the first half of February.

After compilation of all FY 2009-2010 departmental budget requests, the total departmental appropriation requests exceeded the total estimated revenues for FY 2009-2010 by \$19.9 million dollars, even though the total appropriation requests for FY 2009-2010 were \$4.2 million dollars lower than the total adopted budget appropriations for FY 2008-2009. Although the appropriation requests decreased \$4.2 million dollars (3.5%) from the prior year, the total estimated revenues for FY 2009-2010 decreased \$12.2 million dollars (11.4%) from the prior fiscal year.

Department representatives then met with the City Manager and Finance staff to review their budget proposals. As a result of these meetings, appropriation requests were trimmed by approximately \$1 million dollars. The City Manager then directed each Department Director to prepare cost-cutting plans that would reduce departmental expenditures by an additional 5%, 10% and 15%. Concerted efforts were made on the part of the City Manager and Departmental Staff to prepare responsible cost-cutting plans that would have the least impact on City services and staffing levels.

It should be noted that the delivery of government services requires staff to provide those services to the community. This basic characteristic of the delivery of government services is underscored by the fact that over 73% of the City's General Fund expenditures is composed of personnel costs. Therefore, even those cost-cutting plans developed to reduce the total budgeted expenditures by 5% have a direct impact on staffing levels and the level of service delivery provided to the community. Each of the supplemental budget proposals that have been submitted include proposed cuts in staffing, programs and services.

Simultaneous to this effort the City Manager created a steering committee consisting of representatives from each of the four employee associations, confidential employees and management and two sub-committees to explore additional budget-balancing strategies. The two sub-committees created were a Financial Review committee and a Financial Solutions committee.

The Financial Review committee was tasked with providing information to members of the committee to explain the City's financial position as of June 30, 2008 and the continued erosion of the City's financial condition since that date. Through presentations and Question & Answer sessions, the committee developed a thorough understanding of the City's current financial condition along with current practices as they pertain to the establishment of restricted and unrestricted reserves and fund balance. Based upon the most recent meeting of the steering committee on March 31, 2009, all parties were in agreement with the financial facts as presented by the Finance Department.

The Financial Solutions committee was tasked with compiling budget balancing strategies that could assist in reducing the estimated budget deficit for FY 2009-2010. The Committee compiled lists of budget-balancing strategies that could be implemented in the short term, near term and long term. Some of the strategies can be implemented immediately, while others may require a ballot measure, Council action, or renegotiation of the MOUs with Employee Associations. Summaries of these proposed financial solutions are attached (Attachments 3 & 4). In addition, members of the City Council also submitted budget balancing strategies for consideration (Attachment 5). It should be noted that the items listed in these attachments are "snap shots" of the suggested strategies and should not be construed as a comprehensive analysis sufficient for final action. If there are financial solutions listed on any of these attachments which a majority of the City Council is interested in pursuing, direction should be given to staff to come back with a completed analysis and action items.

The management budget strategy recommended for City Council's consideration includes ten elements. It is a mix of operating budget reductions, revenue increases, reductions in employee compensation and benefits and a limited use of reserves. This "ten point" strategy is briefly outlined below with the estimated favorable budgetary impact due to implementation of the strategy. Several of the strategies listed below would require concurrence with the employee associations in opening their respective Memorandums of Understanding (MOU). If agreement cannot be reached with employee associations on implementation of those strategies, the burden of balancing the FY 09-10 Operating budget will fall to the other identified strategies.

It is important to note that these proposals are presented and recommended for adoption as a "package of interrelated recommendations." If one strategy is not approved, offsetting adjustments will need to be made to other strategies. Also, it should be recognized that while most of the strategies can be implemented immediately upon adoption, others may require a longer implementation period.

1. Reduce department operating budgets by an additional 5.0% (resulting in an average reduction of 10% from the prior fiscal year which will require elimination of approximately 23 full-time positions). **Est. \$6,318,134.**
2. Negotiated reduction in employee compensation equating to approximately 5.0% of salary. **Est. \$3,623,663.**
3. Reduction of \$1 million dollars in non-reimbursable overtime for Police and Fire departments. **Est. \$1,000,000.**
4. Negotiated suspension of minimum manning requirements in the Fire department in order to accomplish the aforementioned reduction in overtime.
5. Seek Federal Stimulus funding for ten police officer positions to be eliminated due to Police department budget reductions. **Est. 1,052,010.**
6. Offer PERS Retirement Incentive to create vacancies to (a) reduce the number of personnel that may be laid off as a result of reductions in departmental operating budgets and (b) create additional vacancies needed for budgetary purposes (assumes total of 50 employees opting to retire of which 25 positions would be eliminated). **Est. \$3,485,000.**
7. Suspension or termination of the Retiree Health Savings Plan (Contributions are comprised of 1% by Employer and 1% by Employee). **Est. \$508,764.**
8. Implement various cost recovery programs including resident EMS fees, inspection fees, and Police and Fire Cost Reimbursement Fees. **Est. \$959,700.**
9. Renegotiate/extend the Golf Course Operator's agreement for a greater share of revenues and institute formula adjustments to the greens fees. **Est. \$244,850.**
10. Utilization of undesignated unreserved General Fund fund balance. **Est. \$2,900,000.**

Total estimated budgetary reductions and new revenues amount to \$20,092,121.

Clearly, there is much detail remaining to be determined for some of the strategies listed here. However, the focus of this overall budget development strategy is that it is not recommended that the total burden of balancing next year's budget come from any one source, be it expenditure reductions in employee compensation or revenue increases.

Staff has prepared this list of proposed “budget balancing” strategies for discussion with City Council in consideration of the need to formalize the City’s budget development strategies and approach to developing the FY 2009-2010 Operating Budget. Adopting a formal budget development strategy will ensure that the City is able to adopt a FY 2009-2010 Operating Budget that is as responsible as is possible in light of current resource limitations.

CONCLUSION:

As noted at the February Mid-Year Budget Review, it was apparent at that time that the proposed FY2009-2010 Operating Budget could not be balanced without some combination of significant spending reductions, concessions by employee associations, significant increased revenues and/or use of reserves. This is the case even without new programs and services or additional spending on previously initiated efforts. That is not to say that new programs and services or the furtherance of previously initiated efforts cannot be accomplished – **simply that financial resources are not sufficient to support even existing operations.** Consequently, City Council direction is needed at this meeting so that staff can complete preparation of the preliminary FY2009-2010 Operating Budget.

Marc R. Puckett
Director of Finance

Allan Roeder
City Manager

Bobby Young
Budget and Research Officer

ATTACHMENTS: [Attachment 1 – Summary of FY09-10 Proposed Budget](#)
[Attachment 2 – Program/Service Impacts due to 5% Reduction](#)
[Attachment 3 – Fin. Sol. Comm. High Priority Recommendations](#)
[Attachment 4 – Fin. Sol. Comm. Low Priority Recommendations](#)
[Attachment 5 – Fin. Sol. Comm. Council Recommendations](#)
[Attachment 6 – Tax Initiative Process](#)

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Employee Association Representatives