



CITY COUNCIL AGENDA REPORT

MEETING DATE: MARCH 2, 2010

ITEM NUMBER:

SUBJECT: FISCAL YEAR 2009-2010 MID-YEAR BUDGET REPORT

DATE: FEBRUARY 26, 2010

FROM: CITY MANAGER'S DEPARTMENT, FINANCE DEPARTMENT

PRESENTATION ALLAN L. ROEDER, CITY MANAGER

BY: BOBBY YOUNG, BUDGET & RESEARCH MANAGER

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RECOMMENDATION(S):

Adopt/Amend Proposed Management Recommendations and Strategies

BACKGROUND:

At the regular City Council Study Session of February 9, 2010, staff provided the City Council and the public with a detailed status report on the current condition of the FY 2009-10 Operating Budget (see Exhibit A). As you will recall, the City approached preparation of the FY 2009-10 Operating Budget in the face of arguably one of the nation's worst recessions. Added to the impact of double-digit declines in two of the City's three major revenues (Sales Tax and Transient Occupancy Tax), the City had also become reliant in recent years in utilizing a portion of its Fund Balance for Operating expenses (principally Capital Improvement Projects and Capital Outlay Purchases). The combination of these factors necessitated a very different approach to preparation of the Operating Budget from that used in prior years.

In reaction to the preceding, the City Council acted in April 2009 by approving a 10-Point Budget Management Strategy to align expenses with estimated revenues. As approved, the strategy identified a combination of Operating Budget reductions, salary & benefits cuts and modest revenue increases totaling \$20,092,121. While not all of the strategies were ultimately implemented by the City Council and other strategies did not yield the estimated results, the resulting savings still exceeded original estimates resulting in a savings of \$22,000,000.

Unfortunately, the economy continued its decline as reported at mid-year, resulting in a shortfall of \$9,000,000 for the current fiscal year. As a consequence of the continuing revenue decline, management has presented to the City Council a series of additional recommendations and strategies to address this imbalance. Those strategies are as follows:

1. A freeze on filling all current vacancies (except Police Patrol, as needed, and Sworn Fire to meet minimum manning);
2. A freeze on Capital Outlay Purchases and Capital Improvement Projects using General Fund Revenues;
3. A moratorium on new programs and services, expansion of existing programs and services, and new projects requiring General Fund support;
4. A review of Equipment Replacement Fund reserves;
5. Initiation of discussions with Employee Associations regarding wages and benefits;
6. Preparation of tax schedules with alternatives and supporting resolutions for the Transient Occupancy Tax (TOT) and Business License Tax for the November 2010 ballot; and
7. Submission of all Programs and Services to the City Council for budget prioritization.

At this time, management is seeking City Council confirmation of the above strategies and solicitation of additional approaches to be considered in addressing the continuing financial downturn.

ANALYSIS:

Since presentation of the mid-year financial report, all City Departments have actively participated in preparing an assessment of the impact of the recommended strategies. At this point in time, management has identified potential reductions amounting to \$5,000,000 of the needed \$9,000,000 in budget reductions based on the proposed strategies. The following is an overview of each strategy to date.

1. A freeze on filling all current vacancies (except Police Patrol, as needed, and Sworn Fire to meet minimum manning)

At present, the City has a total of 70 full-time positions that are currently vacant. This represents a combination of vacancies that occurred as a result of the early retirement incentive (except for sworn Fire which will occur at a later date) as well as positions previously vacated due to normal retirement or separation from service. Exhibit B provides a detailed breakdown by Department of each vacancy by position and the impact of leaving each position vacant as recommended under this strategy. The additional savings (above that estimated under the 10-Point Plan) is \$500,000 for the balance of the current fiscal year. This estimate is based on filling a very limited number of the 70 positions vacant as follows:

- Public Services Department - Associate Engineer (CIP Project Manager)
Contract Administrator (Parks)
(3) Senior Maintenance Worker positions
(Signs & Markings, Street sweeping, Parks & Parkways)
- Development Services Department – Plan Checker
- City Managers Department – Administrative Secretary (Clerk’s Office)
- Fire Department – Battalion Chief (Admin/Training)
- Administrative Services Department – (3) Communications Supervisors

The above is based on balancing needed expenditure reductions against service to the public. To the degree the City Council and the public believe that leaving other vacancies will result in an unacceptable level of service, additional on-going budget reductions will have to be accomplished to off-set any decision to fill those proposed vacancies.

2. A freeze on Capital Outlay Purchases and Capital Improvement Projects using General Fund Revenues

Management has thoroughly reviewed all current appropriations utilizing General Fund revenues in the Capital Improvement Funds. A total of \$1,467,000 in appropriations has been identified and are recommended to be de-appropriated and moved back to the General Fund. Please be advised that these are one-time budget reductions. The detailed breakdown is as follows:

- Fire Station Design - \$250,000
- City Entry Sign - Harbor Blvd - \$70,00
- Joanne Bike Street Trail - \$700,000 (will look for alternative funding source to go with existing grant)
- Skateboard Park II - \$420,000
- Other miscellaneous projects - \$27,000

Total - \$1,467,000

3. A moratorium on new programs and services; expansion of existing programs and services; and new projects requiring General Fund support

This proposed strategy does not result in reducing current expenditures, but rather prevents adding expenses and further stretching limited financial/personnel resources beyond current levels.

4. A review of Equipment Replacement Fund reserves

Management has taken a very detailed look at the Equipment Replacement Fund (ERF) to ascertain whether additional reductions from those previously made can be accomplished without seriously jeopardizing maintenance and replacement of equipment. By no longer charging the City's General Fund for equipment maintenance charges, \$1,450,000 in savings can safely be accomplished. As with the proposed reductions from the Capital Outlay and Capital Improvement Funds, these are one-time budget reductions.

In addition to reviewing the ERF, management also undertook a detailed review of the Self-Insurance Fund to determine whether a reduction in the current appropriation level would be prudent. By no longer charging the City's General Fund for general liability, worker's compensation and unemployment for the remainder of the fiscal year, an additional \$1,700,000 in savings can safely be accomplished. It is important to note that this reduction does not mean that the City is not funding its general liability, worker's compensation and unemployment insurance obligations but is reducing the amounts set aside for these purposes. As with the ERF recommendation and certain other strategies, this is a one-time de-appropriation.

5. Initiation of discussions with Employee Associations regarding wages and benefits

Pending City Council direction, management has not initiated discussions with employee associations regarding wages & benefits. All four associations were advised of the report prepared for the mid-year budget review and encouraged to view the video of the Study Session presentation that is available on the City's Website. As noted at the Study Session, management does not believe that sufficient time exists to reopen labor agreements and negotiate salary/benefits adjustments to have an impact in the current fiscal year. The City is scheduled to Meet & Confer with three of the four existing labor units beginning next Spring. However, we do believe it imperative to bring employee associations into the general discussion of the current budget shortfall due to its potential for impacting upcoming negotiations. Further, employee associations can be a valuable source of ideas for further cost-saving ideas.

6. Preparation of tax schedules with alternatives and supporting resolutions for the Transient Occupancy Tax (TOT) and Business License Tax for the November 2010 ballot

As with the preceding strategy, management has not initiated any discussions on these subjects pending City Council direction. Additionally, these items cannot be implemented during the current fiscal year for purposes of budget reductions. However – much like initiating discussions with employee associations – management believes that beginning discussions with the local business community and hotel interests now to explore options for possible November 2010 ballot measures is important. Taking into account the fact that virtually all of the steps taken to date to maintain basic municipal services have all come by way of budget reductions and the fact that no local taxes have been increased in over 20 years, this is a necessary step at this time. It does not mean that ballot measures will be submitted for the 2010 General Election – strictly that options will be developed, discussed with the business community and presented to the City council for consideration.

7. Submission of all Programs and Services to the City Council for budget prioritization

This strategy is designed to assist with decision-making in addressing the current budget shortfall as well as the anticipated, very difficult budget discussions upcoming for FY 2010-11. To date, the City has largely absorbed necessary budget reductions through operating budget cuts, reductions in salaries & benefits and holding positions vacant. The City is at a point where further budget reductions – whether in staffing, materials, supplies or other operating expenses – will result in a lowered level of service. This is occurring at present, but generally not where it directly impacts services to the public. Absent a substantial improvement in the current economy or an infusion of additional revenue by way of a rate increase or new tax source, further budget reductions will be needed for the foreseeable future. This will leave the City with one of two options – (a) reduce/eliminate programs and services or (b) reduce the cost of providing those programs and services. Generally speaking, the later will be a function of labor negotiations which the City is legally obligated to follow. The former – reduce/eliminate programs and services – is largely within the discretion of the City Council in consultation with the public.

Management believes it is timely to begin the process of identifying service and program priorities so that if the economy does not improve and if reductions in salaries & benefits are not achievable, action can be taken promptly to reduce expenditures.

ALTERNATIVES CONSIDERED:

This report includes the range of alternatives developed by management to address the current FY 2009-10 budget shortfall. Taking “no action” is not an option given the level to which the City has had to reduce its Fund Balance to date. Management would very much welcome any specific suggestions to be pursued that members of the City Council have to offer.

FISCAL REVIEW:

The recommendations in this report have been reviewed by the Finance Department and developed with the direct participation of all City Departments.

LEGAL REVIEW:

There is no legal review required for this item.

CONCLUSION:

As with municipal agencies across the county, the City of Costa Mesa must address the impact of reduced revenues. This is no different than what private sector firms have done and households throughout our community. The recommended strategies were developed to be realistic; to limit the direct impact on the public as much as possible; to result in tangible budget savings and to position the City for the likelihood of continued revenue reductions.

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Attachments: Exhibit A [City Council Study Session Staff Report – February 9, 2010](#)
 Exhibit B [Service Impacts](#)