

INTERIM CITY MANAGER'S TRANSMITTAL MEMORANDUM

August 30, 2001

Members of the City Council:

Subject: Final 2001-2002 Budget

INTRODUCTION

Presented is the final budget for the fiscal year beginning July 1, 2001. The city of Davis is a public corporation with a final annual budget of \$97 million for the 2001-2002 fiscal year. This figure represents all expenditures planned by the city, including those of the Redevelopment Agency and all Internal Service charges.

The budget serves as the city's primary financial document and its roadmap to navigate the City Council and staff through the coming fiscal year. It outlines the major priorities and projects that the city will undertake, as well as noting the accomplishments of the past year. It represents approximately 898,000 hours of staff work that will be dedicated to every program and service the city offers. In addition, it reflects contracts for maintenance and major construction projects, as well as the materials and supplies necessary to undertake these responsibilities.

The City Council has outlined six strategic goals, which frame the city's priorities and actions. These goals, shown below, provide the structure and focus for city activities:

- Initiate and conclude a process that identifies and resolves the city's short and long-term financial issues in order to attain a sustainable operating budget that does not rely on new development.
- Complete planned facilities and improve existing facilities, as needed, in order to maintain current standards and to maximize availability and usage by the community.
- Provide policy direction and enhancement to increase environmental awareness, develop a sustainable community and improve the use of our renewable and non-renewable natural resources within the community.
- Review, approve and amend necessary planning, zoning and regulatory guidelines to ensure community values and responsibilities are identified, evaluated and addressed.
- Work cooperatively with other governmental agencies to resolve issues of mutual concern and benefit for the betterment of government.
- Review, update and expand the Campaign Finance Ordinance to include expansion of disclosure obligations and consider public financing for volunteer limits of self-financing.

BUDGET PRINCIPLES

The City Council adopted budget principles specifying certain ideals to be incorporated into future budgets. These principles have guided the development of the city's financial plans for the past several years. The principles direct that a budget be developed that:

- Is sustainable into the future and not a one-time fix.
- Does not rely on development to support existing operating revenues

- Does not erode the capital budget and capital maintenance activities to support operating activities.
- Maintains reasonable compensation strategies for employees.
- Invests in tools and training to increase productivity and maintain a high-quality work force.

BUDGET PREPARATION

Minimizing cost increases while maintaining our city’s current standards of service is always a challenge. As per recommendations from the Citizens’ Budget Committee and the Finance and Economics Commission, this budget was prepared using an expenditure control budgeting (ECB) approach. ECB philosophy begins with a base budget and adds a growth factor based on inflation and increased population. In theory, such base budget adjustments allow city programs to keep pace with increased costs of doing business.

However, the preliminary budget provides additional resources to Departments that are less than what the ECB approach would suggest. Because of budget model projections (see Section 3 for additional detail) that indicate increasing difficulty in maintaining existing service levels, Department augmentations were limited to the following items:

- Human resource cost associated with approved Memoranda of Understanding with employee bargaining groups
- Increases in contractual obligations such as service contracts
- Additional service demands associated with new facilities such as Arroyo community park and the new Police facility

BUDGET INCREASES

While cost increases have been kept to a minimum, this budget does reflect higher expenditures in certain areas than in the past year. The City has little control over many of these increases if it intends to maintain the current levels of service.

Parks and Greenbelts. Beginning in 2001-02, the city will have additional costs associated with the operation and maintenance of Arroyo Park in West Davis. Development impact fees paid for the construction of the park, but the city must now pay for the daily operation and maintenance cost of the park.

The city has also assumed responsibility for 22 acres of “urban landscape”, including several greenbelts in new subdivisions. We plan to assume management of 65 acres of restored native grasses, shrubs and trees in the coming year. Cost increases also include \$100,000 in additional street tree contract costs.

Contractual Obligations. The city makes every effort to provide high quality service at the lowest responsible expenditure. In many cases, the city enters into contractual obligations with service providers where it has been determined that the city cannot provide the same level of service in-house. Street tree care and maintenance, a cost mentioned above, is contracted out. Other examples of contractual obligations include waste removal, maintenance of certain greenbelts, animal control, some computer services and so forth. Although contractors can still provide the services for less money than can the city, such providers build in appropriate cost increases to their contracts with the city. In order to maintain the contract, such cost increases cannot be avoided.

Human Resources. Memoranda of Understanding with all major bargaining units, with the exception of Management, which will be completed during 2001-02, have been completed. These include the Davis Professional Firefighters Association, Davis Police Officers Association, Davis City Employees Association and Program

and Administrative Support Employee Association. These negotiations have resulted in higher human resource costs for several reasons. Police will now be eligible for the 3% at 50 program, which allows officers to retire at age 50 and receive 3% of their salary for every year of service they have. Firefighters are already eligible for this package. Insurance benefits and workers' compensation have also increased the total outlay for human resource costs.

Police Department. In June of 2001, the Police Department moved to their new headquarters on Fifth Street. This facility provides the Police Department with much needed space and allows them to upgrade their technology to provide better public safety services. Although more energy efficient, the new 33,000 square foot facility costs \$120,000 more to operate than the former 11,000 square foot police facility located at Historic City Hall on 3rd and F Streets.

Further budget implications will stem from the implementation of recommendations outlined in the Arroyo Management Report of the Police Department. This has been budgeted for \$200,000. As the Department looks at ways to structure itself to serve the public and promote public safety better, cost structures attributed to the Police Department are likely to change.

Utility Costs. As we have all seen over the past year, California's utility situation has been nothing short of volatile. With rolling blackouts, an uncertain future for Pacific Gas and Electric, rate increases and turmoil at the state level, it comes as no surprise that utility costs for the city's facilities will increase for 2001-02. These costs are passed on to departments and programs through building maintenance costs. We estimate that gas and electric charges will increase by at least \$45,000. In addition, Public Works pays directly for the electric power to water wells, the wastewater treatment plant, and street lighting. All are expected to cost significantly more to operate than in previous years.

BUDGET DECREASES

The failure of Measure S, the Park Preservation Tax, in June translated to a \$1.28 million shortfall in the preliminary budget. To produce a balanced final budget, the City proposed money-saving tactics, as well as reducing certain activities.

Departmental Savings. In order to promote more cost-effective allocation of funding and to augment departments for wise spending, the City Council decided in 2000 that departments would be able to carryover any savings from the 2000-01 fiscal year and use them for projects in subsequent years. In order to balance the budget the City retained a portion of savings from departments and reallocated them for 2001-02. As a result, \$900,000 of unexpended departmental funds reverted to the General Fund for 2001-02.

Freezing Vacant Positions. By freezing certain vacant positions indefinitely, the City can shave approximately \$280,000 from the 2001-02 budget. Filling such positions throughout the year will be at the discretion of the City Manager, as needed.

Parks. The failure of Measure S required the City to reassess the continued construction and opening of three community parks: Arroyo Park in West Davis, Walnut Park in South Davis and Mace District Park in the Mace Ranch area of Davis. While the City has funding from developers to build the parks, it will have to pay for daily operational costs out of the general fund. The City Council determined that the nearly completed Arroyo Park, including the pool, would open on a limited basis during the late summer/early fall of 2001. To offset some of these costs, the older and less efficient Emerson Pool will close. This will save approximately \$40,000 for the General Fund.

■ **Other Cost Savings.** The City made several other cuts to the final budget, including the reduction of the public education program in the Fire Department (\$12,700), delaying the implementation of optical storage (\$50,000) and cutting back on landscaping replacements (\$20,000).

■ **CURRENT FINANCIAL CHALLENGES/SITUATION**

■ The preliminary 2001-2002 budget was prepared with the expectation that Measure S, the Park Preservation Tax, would pass. As it did not pass, the final budget reflects significant cuts made for the short term to balance our budget for the 2001-2002 year.

■ While we were able to maintain a balanced budget for the coming fiscal year without compromising service levels or dipping drastically into reserves, the city faces several long-term fiscal challenges. New development, which has in past years provided funds primarily for one-time, capital expenses, will slow as the city reaches full build out of its required regional allocation of growth. While this meets the community's goals of slowing growth in the city, it also translates to fewer revenue dollars for capital projects and general fund expenditures. With limited opportunities for commercial growth, new sources of sales tax and business license tax may be limited. Finally, the existing parks tax is set to expire in June 2002, leaving the city facing an additional \$1.3 million gap each year in the revenues for services it currently provides.

■ **Budget Realignment Process.** Had Measure S passed, it would have replaced the existing park tax, but it would have also increased the amount dedicated to parks and extended the time period for which there would be funds to pay for park services. This would allow the full implementation of three additional community parks: Arroyo, Walnut and Mace Ranch District Parks. The failure of this tax measure, along with the decrease in funds expected to come to the city over the next several years, requires that the city take a step back and revisit the budget as a whole. What services do residents of Davis value most? At what levels do they wish those services to be? In what ways does the community think it would be appropriate to fund such services? Are there additional revenue sources that the community would support?

■ Through a public input process, we are asking the community to assist us with these decisions, to identify priorities and to work together to ensure that the future of Davis is bright. Budget Realignment Public Meetings will take place in September and October of 2001. As a result of these meetings, the city will be able to more clearly define the course of action it should take in the coming years to provide the necessary and desired services to the citizens of Davis through responsible fiscal practices.

■ Respectfully submitted,

■ Jeanie Hippler
■ Interim City Manager