

## STAFF REPORT

**DATE:** March 29, 2011  
**TO:** City Council  
**FROM:** Paul Navazio, Interim City Manger  
Kelly Fletcher, Budget Manager  
**SUBJECT:** FY2011/12 Budget Update

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### **Introduction**

Staff has agendized an informational report to inform development of the City's upcoming FY2011/12 Proposed Budget. This session is intended to provide the City Council with an update on current fiscal year budget, the preliminary FY2011/12 baseline budget and the revised five-year financial forecast.

The presentation will focus on the projected structural budget shortfall for FY2011/12 and as well as the resulting projections for the General Fund reserves. In addition, staff will highlight other areas of the City budget where corrective measures will be required as a result of projected funding shortfalls. The primary focus of the workshop - and the areas where Council feedback is particularly sought - will be a discussion of the overall budget-balancing framework, and the range of specific measures being considered to balance the FY2011/12 operating budget, restore reserve levels consistent with existing City policy, and advance the City Council's goal of ensuring long-term fiscal stability.

### **Fiscal Impact**

While staff continues to refine the revenue and expenditure estimates for the FY2011/12 budget, the General Fund is expected to have an operating deficit in the range of \$700,000 - \$800,000 (representing roughly 2% of the General Fund operating budget) for the upcoming fiscal year. An additional \$300,000 to \$500,000 in may be required – above and beyond this operating deficit – in order to restore the General Fund reserve to the 15% policy level.

In addition, the five-year forecast for the General Fund suggests annual operating deficits in the range of \$900,000 to \$1.2 million, suggesting the need to implement ongoing budget-balancing measures not only for FY2011/12, but also in the out-years of the forecast.

The primary factors contributing to the recurring General Fund budget deficits, as well as funding shortfalls across several other areas of the budget include: 1) lower revenue estimates resulting from the ongoing economic recession (significantly impacting local tax revenues), 2) projected increases in costs associated with employee retirement and retiree medical benefits, and 3) reduced State and Federal funding in support of a wide array of transportation, housing and social services programs.

## **Discussion**

Most public agencies, at all levels of government, continue to face unprecedented challenges in sustaining programs and service levels under current economic conditions. The budget outlook for the City of Davis - while perhaps not as dire as some other cities – nonetheless requires that significant steps be taken to reduce expenditures in the short-run, and effectively manage long-term costs within an environment of declining revenues and continued uncertainties over potential budgetary impacts from the State’s continuing fiscal crisis.

Given the duration of current economic downturn, it is clear that the City can not fully address the budgetary challenges merely through cost-saving measures and budget reductions arrived at through “decremental” budgeting. In order to balanced budgets while minimizing impacts on direct services to the community, past budgets have sought to employ a combination of new revenue, cost-savings measures and targeted service-level reductions. Most recently, the City achieved savings through restructuring of selected City operations, and continues to explore alternative service-delivery models, and increased co-ordination and collaboration with all public agencies at all levels.

Going forward, the City’s long-term fiscal stability will require more fundamental change. Areas of focus will necessarily include a comprehensive review of 1) the cost of city services (primarily employee compensation and benefits), and 2) the breadth and scope of services that the City can sustain. The City Council is engaged in a review of the City’s current structure for employee compensation and benefits, with the goal of discussing a full range of options with employee bargaining groups, in conjunction with the next round of collective bargaining. In addition, as part of tonight’s presentation, staff will provide an update on an internal inventory and prioritization of programs and services, across all City departments. This process is being undertaken by the City Manager’s Office in order to assess the impacts of reallocating existing resources to higher priority needs, consistent with the City Council’s expressed goal of addressing unfunded liabilities and long-term infrastructure funding requirements.

Notwithstanding the budget-balancing framework to be presented as part of the budget workshop, there remains a significant degree of uncertainty over the City’s major sources of revenues. The prolonged economic recession, combined with State budget crisis, suggest the need to build additional contingency measures into the planning for the FY2011/12 budget.

**FY2011/12 CITY COUNCIL BUDGET UPDATE**  
**March 29, 2011**

OUTLINE

- Baseline FY2011/12 Budget Update – *Issues to be addressed in FY2010/11 Budget*
- City’s Long-Range Forecast – *Issues to plan for re Long-Term Fiscal Stability*
- FY2011/12 Budget-Balancing Framework
  - Balancing the FY2011/12 Operating Budget
  - Restoring General Fund Reserves
  - Contingency Planning
- Next Steps – Budget Calendar
- City Council Feedback



# **City Council FY2011/12 Budget Update**

**March 29<sup>th</sup> , 2011**

**City Council Chambers**

## Workshop Outline

- **Baseline Budget Projections – FY2010/11 and Five-Year Forecast**
  - A. **FY2011/12 Budget Model / Five-Year Forecast**
  - B. **FY2011/12 Budget Framework:**
    - A. **Additional General Fund Expenditure Reductions**
    - B. **Other Funds Budget Reductions**
    - C. **Budget Framework / Timeline**
  
- **Parks Tax Considerations**
  
- **Supplemental Information**

# FY2011/12 General Fund Baseline Budget

(\$ millions)

	FY2010/11	FY2011/12
<b>Begin Fund Balance</b>	4.01	4.90
<b>Revenues</b>	37.02	37.63
<b>Expenditures</b>	36.13	38.36
<b>Ending Fund Balance</b>	4.90	4.18
<b>Reserve Policy</b>	5.25	5.27
<b>Surplus/Deficit</b>	0.89	(0.72)
<b>Available Fund Balance</b>	(0.34)	(1.09)

Reflects Revised Revenue Projections  
 Reflects FY2011/12 CalPERS Contributions / Supplemental OPEB Contribution (11.80%)  
 Personnel Costs Per Existing Labor Contracts

# FY2011/12 General Fund Five-year Forecast

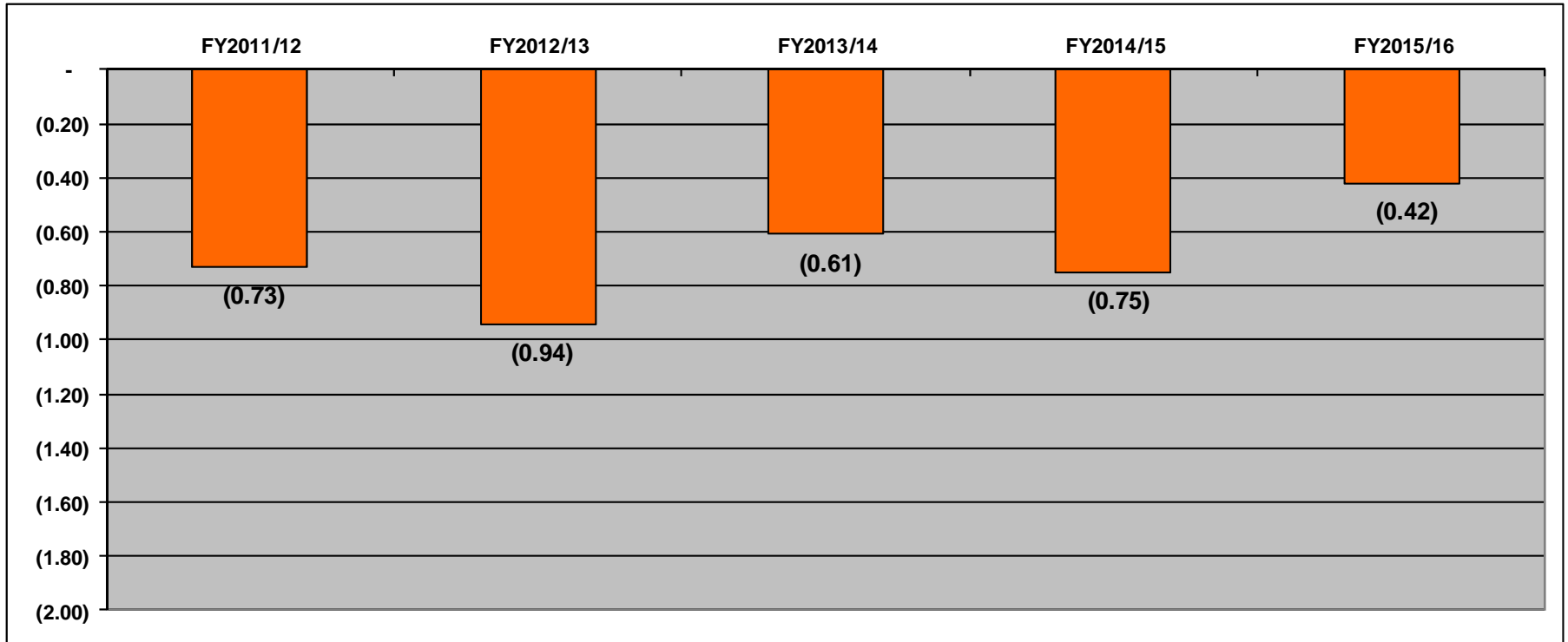
*(\$ millions)*

	FY2010/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Begin Fund Balance	4.01	4.90	4.18	3.24	2.63	1.88
Revenues	37.02	37.63	38.51	39.45	40.45	41.47
Expenditures	36.13	38.36	39.45	40.06	41.20	41.89
Ending Fund Balance	4.90	4.18	3.24	2.63	1.88	1.46
Reserve Policy	5.25	5.27	5.39	5.52	5.66	5.80
Surplus / Deficit	0.89	(0.73)	(0.94)	(0.61)	(0.75)	(0.42)
Available Fund Balance	(0.34)	(1.09)	(2.15)	(2.89)	(3.78)	(4.34)

Reflects Revised Revenue Projections  
 Personnel Costs through EXISTING Labor Contracts  
*Includes Increased Annual Funding Toward Unfunded OPEB Liability AND Projected PERS rate increases*

# FY2011/12 General Fund Five-year Forecast

(\$ millions)



# Additional Budget Shortfalls to Be Addressed

- **REDEVELOPMENT PROGRAM FUNDS – (State)**
  - Elimination of RDA cuts funding for Program/Admin support
  - Includes Economic Development, Housing, Public Safety
  - RDA currently funds 8.0 FTE
  
- **TRANSPORTATION DIVISION FUNDING (State / Federal)**
  - Baseline Funding levels EXCLUDES Street/Bike Path Contracts
  
- **CHILDCARE FUNDING – (State / Federal)**
  - Baseline Budget reflects FY2010/11 Funding Reductions
  - Potential for additional reductions in state support
  
- **CDBG Funding - (Federal)**
  - Additional funding reductions contingent on Federal Budget

# Unfunded Budget Priorities

- **CalPERS / OPEB Unfunded Liabilities (January)**
  - Funding included in Baseline Budget Forecast per
  - CalPERS Contribution Rate projections (at 7.75% investment rate)
  - OPEB – Forecast reflects increased funding to full ARC (2016)
  
- **Transportation Infrastructure**
  - Annual funding requirement (Street Maintenance) = \$2.0M - \$3.0M
  - Possible contributions from Road Impact Fees (selected projects)
  
- **Parks / City Facilities**
  - Capital Replacement needs estimated +/- 500,000 - \$600,000 / yr.
  - Impact of Water rate increase
  
- **Other Funding Priorities**

# Historical Budget-Balancing Framework

	FY08/09	FY09/10	FY10/11	TOTALS	FY11/12
Revenue Enhancements	\$ 0.131	\$ 0.055		\$ 0.186	TBD
Citywide Measures (Recurring)					
Indirect Cost Recovery		0.050		0.050	
Overtime Reductions		0.150		0.150	
Re-Organizations		0.608	1.475	2.083	TBD
Personnel Costs (MOU's)		1.250		1.250	TBD
Program Reductions	0.332	1.467	0.183	1.98	0.722
One-Time Sources					0.344
Total Balancing Measures	\$ 0.908	\$ 3.580	\$ 1.660	\$ 6.148	\$ 1.066
<i>FTE</i>	6.5	14.25	19.75	40.5	8.0 - 12.0

# Budget Balancing Scenarios

	<i>FY2011/12 GF Baseline</i>				
	<i>(Net of Revenue)</i>	Across-The-Board		Public Safety Subsidy	
Council	\$ 178,321	\$ 5,350	3.0%	\$ 10,699	6.0%
Attorney	325,712	9,771	3.0%	19,543	6.0%
City Manager	3,861,858	115,856	3.0%	231,711	6.0%
CDSO	875,124	26,254	3.0%	52,507	6.0%
Comm Svcs	7,819,979	234,599	3.0%	469,199	6.0%
Fire	7,664,415	229,932	3.0%	76,644	1.0%
Police	13,377,899	401,337	3.0%	133,779	1.0%
Public Works	441,083	13,232	3.0%	26,465	6.0%
RDA / ED	56,554	-		-	
Debt	205,658	-		-	
	\$ 34,806,603	\$ 1,036,332		\$ 1,020,548	

# Budget Balancing Scenarios / Options

## ■ Personnel Costs

- MOU Re-opener - Up to 3 Addt'l. Furlough Days = \$100,000 GF  
\$ 250,000 AF
- Other Bargaining Groups TBD

## ■ Program Reductions

Tiered Reduction Options (FY2009/10 & FY2010/11) = \$500,000 -  
\$700,000

## ■ Program Priorities (New Proposals) (same)

## ■ Functional Re-organization proposals (TBD)

- Fire Consolidation study
- Public Works Organizational Review
- Housing/Transportation/Sustainability

# Long-Range Budget Framework

(\$ millions)

Baseline					
Deficits	(730,000)	(940,000)	(610,000)	(750,000)	(420,000)
FY11/12 Balancing	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
	270,000	60,000	390,000	250,000	580,000
Unfunded Needs					
- Parks/Facilities	-	(200,000)	(300,000)	(400,000)	(600,000)
- Transportation	-	(250,000)	(500,000)	(750,000)	(1,000,000)
Surplus/Deficit	-	(390,000)	(410,000)	(900,000)	(1,020,000)



# Expiration of Parks Maintenance Tax

Options Previously Offered  
Timelines / Considerations

# Parks Tax Background

- In 1991, the City first levied the Landscape and Lighting Assessment district (LLAD) generating approximately \$2.3 million/yr.
- 1998 the LLAD was converted to a voter approved \$49/parcel Park Maintenance Tax with a 4 year sunset ( ½ of previous LLAD)
- 2002 Park Maintenance tax was renewed by Measure D for 4 more years.
- 2006 Measure G was approved to extend the \$49 Park Maintenance Tax an additional 6 years.

# Parks Tax Options

- Do Nothing and allow to Expire
  - Would require \$1.36 million in offsetting General Fund Reductions
  
- Simple Renewal
  - Current rate of \$49/year
  - Sunset provision
  
- Restructure Current Park Tax
  - Alternative Structures
    - Current \$49 per year, plus increase to offset additional portion of current costs
    - Fixed rate OR fixed rate, plus parcel size component
    - Inflation factor
    - Sunset provision
  
- Replace Current Park Tax
  - Convert to a “General Tax”
    - Replace with a proposed increase to an existing tax (ie: Sales Tax)
  
  - Convert to a “Special Benefit Assessment” similar to pre-existing Landscape and Lighting Assessment District

# Timing Considerations

## LONG-RANGE ELECTION CALENDAR

	FEBRUARY	MARCH	APRIL	MAY	JUNE	NOVEMBER
<b>2011</b>		Mail-Ballot		Mail-Ballot	PRECINCT ELECTION	PRECINCT ELECTION
<b>2012</b>		Mail-Ballot	PRECINCT ELECTION		GENERAL PURPOSE (Council Election)	PRECINCT ELECTION

## ELECTION CALENDAR

ODD-NUMBERED YEAR

			November '11	June '12
			Special Tax	Special Tax
Preliminary Options/Rec			Winter '10	Winter '11
Community Outreach			Aug - May	March - Dec
<i>Public Info - Issues / Approaches</i>	3-7 mos		<i>Aug - Jan</i>	<i>March - Aug</i>
<i>Community Workshops</i>	2 mos.		<i>Nov - Dec</i>	<i>June - July</i>
<i>Community Survey</i>	3 mos		<i>Jan - March</i>	<i>Aug - Oct</i>
<i>Emerging Proposals</i>	2 mos.		<i>April - May</i> ↓	<i>Nov - Dec</i> ↓
Staff Recommendation			May '11	December '11
<b>Council Direction to Draft</b>			<b>Early June '11</b>	<b>Early Jan '12</b>
1st Reading of Ordinance			End June '11	End Jan '12
Council Adopts Ordinance			1st Week July '11	1st Week Feb '12
Calls Election				
<b>Election Date</b>			<b>November '11</b>	<b>June '12</b>

## Council Discussion

- **Baseline Budget Projections – FY2010/11 and Five-Year Forecast**
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