



City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: February 17, 2009

SUBJECT: Mid-Year Adjustments for FY 08/09
Operating Budget

Report in Brief

As noted in previous reports to the City Council, the economic impacts related to the collapse of the regional housing market, recent financial crisis, the state's budget impasse and many other factors have generated a national and regional recession. These factors are significantly worse than anticipated during the preparation of the FY 08/09 Operating Budget. As with many jurisdictions throughout the state, the City is realizing significant shortfalls in permit fees, service charges, sales and property taxes, and development fee revenues.

Final analysis of FY 07/08 revenues, as well as analysis of FY 08/09 revenues at the mid year point (period ending December 31, 2008), indicate significantly lower receipts in sales tax, property tax, transient occupancy tax, permit fees and other development related fees. This trend is expected to continue throughout the next fiscal year (beginning July 1, 2009). Based on the review performed by Finance staff in collaboration with other City Departments, County agencies, and independent contractors, it is anticipated that General Fund revenues will fall short of the original adopted budget for FY 08/09 by \$2,727,811.

Staff has reviewed the FY 08/09 budget and identified several strategies, including salary savings due to vacancies, overall discretionary spending cut-backs, staff reorganization and reductions and use of contingency reserves which will address the shortfall without significant service level impacts. It is important to note that these strategies will reduce the General Fund Reserves from \$5.7 million to \$5 million which will still allow the City to maintain a fund balance equal to 11.6% of the operating budget. However, it is also important to note that the strategies do not address the structural problem with City revenues and expenditures and more work will need to be done as part of the FY 09/10 budget and 10-year financial plan. In fact, the level of declining revenues will likely require General Fund expenditures to be reduced by more than the \$2.5 million discussed during the October 28, 2008 Study Session.

In addition to changes with the General Fund, a number of prior-year encumbrance carry-over adjustments are recommended in a variety of other funds as well as several adjustments due to corrections related to the original budget adoption. These changes will not have any adverse impact on the related funds.

Staff recommends that the City Council approve the FY 08/09 operating budget adjustments including General Fund expenditure reductions, use of a contingency reserve and reduction in the reserves as described herein.

Background

On December 4, 2007, the Council was provided an update on the general economy and discussed the fiscal impacts on the City's FY 07/08 operating budget. Based on staff recommendations, Council approved \$2.2 million in reductions in the FY 07/08 General Fund budget.

On December 11, 2007, the Council had further discussions about the economy and the fiscal challenges anticipated in FY 08/09. During this meeting, the Council adopted guiding principles to be used in the planning and preparation of the FY 08/09 budget.

In accordance with Council adopted guiding principles, the FY 07/08 mid-year budget was used as baseline for the FY 08/09 operating budget. Most operational costs in enterprise funds were covered with revenues generated by payment for services. The City's biggest challenge was in balancing the General Fund. After adjusting baseline expenditures (for MOU provisions, externally controlled cost increases, and contractual obligations), and adjusting baseline revenues by further anticipated reductions, staff identified a \$6.4 million shortfall for the General Fund that needed to be addressed as the FY 08/09 budget was prepared.

Given the magnitude of the General Fund shortfall, the development of a balanced General Fund budget was a complex task that required evaluation and analysis of numerous alternatives and significant inter/intra departmental collaboration. The FY 08/09 General Fund budget was balanced through a combination of expenditure reductions and reallocations, organization realignment, revenue enhancements, and use of one-time monies.

The adopted, balanced operating budget for FY 08/09 was consistent with Council's adopted guiding principles, reflecting prioritization of essential City services with minimal reductions, minimal employee impacts, responsible service levels, and a fragile balance of other desired and demanded City services.

Based on the guiding principles presented to and approved by Council on December 11, 2007, staff prepared the FY 08/09 operating budget in accordance with the following guidelines:

- Minimize impact on public services
- Minimize impact on employees
- Maintain the \$2 million reductions resulting from the FY 07/08 Mid-Year budget adjustments in the General Fund
- Provide proposals for an additional \$2 million in General Fund operating reductions
- Present operating and capital budgets that are balanced over 10 years
- Include resources required to maintain all capital improvements

- Maintain essential services and facilities
- Commit to future implementation of a Performance Based Budget
- Foster economic development
- Address OPEB obligation

The following is a summary of expenditure reductions, revenue enhancements, and one-time funding used to eliminate the estimated \$6.4 million shortfall in the General Fund and provide for a balanced budget:

- Miscellaneous Expenditure Reductions - \$542,848
- Reduction in Animal Control Services - \$374,000
- Elimination of Various Positions / Departmental Restructuring - \$663,031
- Full Utilization of Proposition 172 Current Year Funds for Staffing - \$278,311
- Additional Allocation of Indirect Costs to Non-General Fund Programs - \$509,593
- General Fund Subsidy of CDBG Deficit – (\$63,277)
- Reduce Storm Water Program to Legal Minimum - \$331,043
- Park Maintenance Privatization - \$122,349
- Elimination of Yolano Housing Maintenance Program - \$113,541
- 4% Vacancy Factor for Non-Public Safety Staff - \$352,977
- Increase Business License and Building Permit Fees - \$418,185
- Implement General City Service Charge for Water and Sewer Enterprise Funds - \$871,145
- Adjust Initial Property and Sales Tax Revenue Estimates – \$87,090
- Transfer of Dubach Park site to the Storm Water Program - \$675,000
- Depletion of Proposition 172 Fund Reserves - \$101,270
- Eliminate General Fund Contribution to Capital Projects - \$90,500
- Depletion of Insurance Fund Reserves - \$397,283
- Defer Scheduled Vehicle and Equipment Replacement - \$508,704

The above actions were taken, in accordance with Council approval to balance the General Fund budget for FY 08/09 on June 10, 2008. With the potential for continued decline in the regional economy and uncertainty associated with the state budget, the City Manager directed departments to refrain from filling any unanticipated vacancies in staff that occurred following July 1, 2008 unless absolutely mandatory. The magnitude of the General Fund revenue shortfall has necessitated the continued scrutiny of vacancies as well as significant reductions in all discretionary spending.

Discussion

The following information summarizes the revenue shortfall affecting the General Fund and the proposed strategies for addressing the issue.

General Fund Revenue Shortfall

The projected General Fund revenue shortfall of \$2,727,811 is summarized as follows:

- Projected Sales/Property/TOT Tax Shortfall: (\$ 1,831,973)
- Projected Fee Revenue Shortfall: (\$ 395,041)
- Projected Fine Revenue Shortfall: (\$ 20,497)
- Projected Vehicle License Fee Reimbursement Shortfall: (\$ 147,469)
- Projected Operating Revenue Shortfall: (\$ 306,921)
- Projected Shortfall in Donations (\$ 25,910)

Total General Fund Revenue Shortfall (\$2,727,811)

General Fund Operational Savings

The magnitude of the projected FY 08/09 General Fund deficit has necessitated continued close scrutiny of all City positions. In anticipation of worsening fiscal conditions, the City Manager directed staff to prioritize and minimize other operational expenditures, including all non-mandatory travel and training. As a result, total operational savings of \$1,017,598 were identified for FY 08/09. Unfortunately, an encumbrance carry-over and unforeseen expenditures totaling \$475,787 were also identified, including \$432,237 in Animal Control costs. Therefore, the **net** operational savings available to address the revenues shortfall is \$541,294 as summarized below:

- Projected Salary/Benefits Savings: \$ 351,778
- Projected Services/Supplies Savings: \$ 605,609
- Projected Conferences/Travel Savings: \$ 60,211
- Prior Year Encumbrance Carryover: (\$ 43,550)
- Additional Animal Control Costs: (\$ 432,237)

Total Net General Fund Expenditure Savings \$ 541,811

General Fund Contingency

In anticipation of significant revenue shortfalls, staff established a contingency fund of \$1.4 million generated from the vehicle equipment reserve, FY 2007-08 savings and better than expected interest earnings. It is recommended that the entire \$1.4 million be used to address the revenue shortfall described above.

Community Development Reorganization and Staff Reduction

In response to the significant reduction in development activity, staff has no choice other than to propose personnel reduction in the Community Development Department. The positions proposed for reduction at this time are Building Inspector I or II positions and the Tech position. While the current year impact will be minimal (estimated at approximately \$46,000), this is an important step in addressing the structural imbalance for FY 09/10. Additionally, it is recommended that the existing Senior Planner be transferred from the General Fund to the Redevelopment Agency Fund which will represent approximately \$40,000 in savings for the remainder of the year.

The staff reduction proposed above is primarily associated with the reduced workload for building inspectors. Staffing levels for building inspectors are currently based on the projected growth of residential housing that was assumed for the Spring Lake Specific Plan. With residential housing progressing at a much slower pace, the number of building inspections has declined to 2002 levels. The staffing reductions proposed reflect this decline. Every effort will be made to find alternate opportunities for the employees affected by the reductions in non-General Fund operations.

Use of General Fund Reserves

By implementing these adjustments, it is anticipated that the final deficit will be approximately \$700,000. It is recommended that this amount be absorbed by the fund balance of the General Fund which is \$5.7 million. This proposed reduction in the General Fund reserves will still provide a fund balance of \$5 million for the \$43 million General Fund operating budget which is a relatively healthy 11.6%. However, recovery of the reserves will need to be addressed during the FY 09/10 budget process and the Council can expect a proposed budget presentation that includes structural reductions that balance current revenues with current expenditures and establishes a course of action to increase the reserves as a priority of the 10-Year Financial Plan.

Summary of Recommended Strategies to Address the General Fund Revenue Shortfall

Net Operational Savings:	\$ 541,811
Contingency Fund	\$1,400,000
CDD Staff Reductions	\$ 86,000
<u>Use of General Fund Reserves</u>	<u>\$ 700,000</u>
Total	\$2,727,811

Recommended Mid-Year Budget Adjustments – all other Funds

A few corrections are required to several non-General Fund programs resulting from oversight during the original budget preparation process and/or programmatic changes that have occurred throughout the year. These changes will not have an adverse impact on the fund and are necessary to meet service level demands or implement Council/RDA Board direction. The following is a summary by fund of the modifications:

Water Enterprise Fund (210) – Toilet Rebate Program - \$30,000.00
Sewer Enterprise Fund (220) – Cargo Trailers (2) and LETS Camera - \$55,091.00
Literacy Fund (301) – Donations, Revenue Increases, Program Changes - \$24,832.11
Redevelopment Fund (520) – Increased Consultant Costs for Downtown RDA Project - \$140,000.00

Lastly, two additional positions were requested during the original budget process for the Public Works Department. These positions were recommended by the City Manager at the time of the budget meetings, but were inadvertently not included in the final budget. These positions are recommended for addition at this time and are detailed below:

Electronics Tech – 50% Sewer Enterprise, 10% Water Enterprise, 40% Spring Lake Landscape and Lighting District

Utilities Maintenance Worker III* - 90% Sewer Enterprise, 10% Storm Water

*This position must be filled with an existing General Fund employee

Fiscal Impact

The information presented herein is focused on the anticipated \$2.7 million shortfall in revenues projected for the FY 08/09 General Fund Operating Budget. The mid-year adjustments proposed are intended to only address the immediate fiscal challenge. As stated previously, these one-year strategies do not address the ongoing structural deficit in the General Fund.

Specific impacts to the City's General Fund include the application of net savings totaling \$541,294; use of contingency reserves of \$1,400,000, reorganization and staffing reductions totaling approximately \$86,000 and reduction of the General Fund reserves by \$700,000.

As staff prepares the FY 09/10 Operating Budget and updates the 10-year Plan, it is highly likely that significant service and program reductions will be proposed. Consideration of these issues will be necessary to correct the structural deficit as described herein and prevent future need for significant mid year adjustments.

Public Contact

Posting of the City Council agenda.

Alternative Courses of Action

1. Approve the FY 08/09 operating budget adjustments including General Fund expenditure reductions, use of a contingency reserve and reduction in the reserves as described herein.
2. Direct staff to develop alternative budget adjustments for operating programs.

Recommendation for Action

Staff recommends that the City Council approve Alternative No. 1.

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