

City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

1.

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: March 31, 2009

SUBJECT: Discussion of FY 2009-10 General Fund Reductions

Report in Brief

Staff has previously discussed with the City Council the economic impacts related to the collapse of the regional housing market, recent financial crisis, the state's continuing budget problems and many other factors that have generated a national and regional recession. These factors are significantly worse than anticipated during the preparation of the FY 2008-09 Operating Budget and the October 2008 Study Session regarding the preparation for the FY 2009-10 budget. The FY 2009 Mid Year Adjustments required staff to propose the use of a \$1.4 million contingency reserve fund and \$700,000 in General Fund reserves to address most of a \$2.7 million revenue shortfall. Unfortunately, staff is forecasting local revenues to worsen as expenses continue to increase. In recognition of this fact, staff recommended to the City Council that a special Study Session be added to the budget calendar on March 31, 2009 in order to present options to reduce the General Fund expenditures in a manner that will address the shortfall in revenues.

Staff recommends that the City Council review the General Fund reduction options described herein and provide comments and guidance for the preparation of the FY 2009-10 budget scheduled for consideration at the May 12, 2009 budget workshop.

Background

As are all local governments, Woodland is currently facing very challenging fiscal conditions due to the decline of the international, regional and national economies. These conditions have fueled the collapse of the housing market, a crisis in the US and international financial markets and unemployment in Yolo County that has reached incredibly high levels with the February jobless rate reported at 12%. Economic activity has declined with a corresponding impact on local revenue generated by sales tax, property tax, hotel/motel tax and development fees. As a result, the estimates projected for the City's General Fund has fallen to a level that is only slightly higher than the actual revenue collected in FY 2005-06. Unfortunately, the economic conditions facing Woodland and other local governments cannot be controlled and will ultimately correct as confidence in the economy and financial markets improves and capital is made available for investment, development and construction.

When considering the condition of Woodland's General Fund, it is important to review the prior actions approved by the City Council as the fiscal picture began to change in October 2007. These actions included an adjustment to the City's FY 2007-08 operating and capital budgets followed by reductions to the proposed FY 2008-09 budget. Specifically, the City Council:

- Approved Mid-Year FY2008 General Fund operating reductions of \$2.2 million and capital budget reductions of \$12 million to address the revenue shortfalls projected by staff in December 2007
- Approved the FY2009 Budget with an additional \$6.3 million adjustment in the General Fund that was achieved through a combination of expenditure reductions (\$3.1 million), recurring revenue enhancements (\$1.4 million) and one-time revenues (\$1.8 million) in June 2008

While these actions were significant, the expenditure reduction strategies utilized vacant positions, reorganization of various departments and efficiency measures to preserve service levels. The General Fund maintained a relatively healthy reserve of \$5.7 million or 14%. However, the utilization of one-time revenues such as liability insurance reserves or the gain from the sale of City property meant that Woodland remained structurally imbalanced. In fact, staff believes the structural imbalance between revenues and expenditures has been in effect since FY 2006-07 and the actions proposed by staff to the City Council since then have not addressed the problem.

Development of the FY 2009-10 budget began in October 2008 with a City Council Study Session. During that meeting the City Council reaffirmed the Guiding Principles first introduced and discussed in December 2007. These Guiding Principles are summarized briefly for the Council's review:

- Minimize impact on public services
- Minimize impact on employees
- Maintain the previous reductions resulting from budget adjustments in the General Fund
- Provide proposals for an additional \$2.5 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 the OPEB obligation

During the October Study Session, staff estimated the structural imbalance at \$2.5 million. The City Council instructed staff to present options for reductions of up to \$3.5 million. This direction was provided in order to give the Council options to address shortfall and in the event that economic conditions continued to decline. The City Council also expressed the need to develop long term strategies to address the structural imbalance and bring General Fund expenditures in line with actual revenues.

As the City implemented the FY 2009 budget, the disturbing trend of declining revenues continued. While housing prices continued to fall, the United States and world economies were shook by the collapse of financial institutions that froze credit and threatened to accelerate the recession into a depression in September/October 2008. Many economic analysts described the financial threat as the worst economic crisis to affect the international and US economies since the 1930's. As a result, staff identified revenue shortfalls for the current fiscal year of \$2.7 million. The following information summarizes the current fiscal year General Fund revenue shortfall:

• 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)
<u>Total General Fund Revenue Shortfall:</u>	<u>(\$ 2,727,811)</u>

On February 17, 2009, staff proposed Mid Year Adjustments to balance this shortfall through a combination of expenditure reductions, use of a contingency fund and a contribution of \$700,000 from the General Fund reserves. The following information summarizes the actions to address the shortfall:

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

The above actions were significant because the use of the General Fund reserves demonstrated that the current fiscal imbalance could erode the City's fiscal condition to the point of financial instability. In the course of explaining and recommending the use of the reserves, staff also stated that the long term recovery of the reserves would be a focus area in the development of the FY 2009-10 budget and updated 10-Year Financial Plan.

During December and January, departments developed their revenue estimates and expenditure requests that were submitted to Finance in early February. Finance staff also developed estimates for personnel costs and General Fund revenues such as taxes, fees and use of money and property. It was critical for departments to be mindful of the revenue and expenditure trends described herein in order to improve the accuracy of the estimates and address the fiscal imbalance. Departments were encouraged to review reorganization alternatives that could save resources and identify revenue opportunities. The need to reduce expenditures wherever possible was also emphasized.

In late February, the City Manager's Office received the first estimates of General Fund expenditures and revenues. Unfortunately, the initial estimates summarized the continued fiscal imbalance as presented below:

Estimated General Fund Expenditures:	\$45,036,278
<u>Estimated General Fund Revenues:</u>	<u>\$38,780,091</u>
Continued Fiscal Imbalance:	\$ 6,256,187

The above summary illustrates the increases in various "uncontrollable" costs such as personnel due to benefits and salary step advancement and liability insurance that increased expenditures from FY 2008-09. The most significant factor associated with the rise in expenditures was an \$887,600 increase in liability insurance. There are two reasons for the significant increase in the cost for liability insurance. The first reason is the use of \$400,000 in liability insurance reserves last year during the FY 2008-09 budget process as part of the strategy to use one-time funds to address the current year shortfall. If these reserves had not been used, all or part could have been applied to mitigate the increase. The second reason is the potential liability claims for pending lawsuits associated with incidents that occurred in Woodland. If the City's Joint Powers Insurance Authority has reason to believe that pending lawsuits could generate an unfavorable financial impact, the Authority will raise rates to cover the potential loss.

It should be noted that departments did examine options to reduce expenditures and submitted excellent strategies as part of their original proposals. The Community Development Department reorganized top management positions and the Building Division in order to reduce over \$600,000 from their current year operations. These strategies reflected Community Development's proactive response to the downturn in development activity. As was discussed during the February 17 Council meeting, these reductions did result in the potential layoff of three employees who have been temporarily reassigned to the Meter Installation project. The Police Department utilized current vacancies and an anticipated retirement to propose over \$300,000 in reductions. Other departments reduced expenditures in the "controllable" categories such as supplies and services to offset the increase in liability insurance.

In addition to the increase in expenditures, the fiscal imbalance was further exacerbated by continuing decline of revenues, especially sales and property tax. Despite the opening of new retail businesses in Woodland Gateway and the County Fair Fashion Mall, the uncertain economic situation and high unemployment are curbing the public's appetite for consumer goods. Property tax reassessments and slow residential building are restraining property tax collection. As a result, Finance staff is projecting a decline of revenue from the Mid Year Adjustment level of \$40,927,246 to \$38,780,091. This reduction of over \$2.1 million leaves Woodland with the same level of General Fund revenue as was generated in FY 2005-06.

Given the City Council's direction to provide reduction options during the October 28 Study Session, staff focused on developing expenditure reductions ranging from approximately \$5.4 million to just under \$7 million. These options would allow for limited use of the General Fund reserves, no use of the General Fund reserves and recovery of the General Fund reserves that were

utilized to address the current year shortfall. To facilitate the significant task of reviewing options for reductions of up to 16% of the General Fund, staff developed the following criteria:

1. **Direct connection to the General Fund**

At this time, the highest priority for expenditure reductions is the General Fund. Therefore, consideration during budget deliberations must focus on strategies that will translate into immediate and continuous General Fund savings.

2. **Review (quantify) level of service in all Departments**

As part of the budget review process and the consideration of service level impacts associated with reduction strategies, departments must review and quantify service levels. This quantification may include participation units, service response times, potential for additional future costs (i.e., deferred maintenance), service requests, customer satisfaction ratings and other similar measures. If applicable, the relationship of the level of service to a policy document such as the General Plan, Parks & Recreation Master Plan or Fire Service Master Plan should be referenced. Application of national standards may be appropriate.

3. **Protect life and property**

The relationship of the service or activity to safety and security needs to be established if applicable. While this would certainly include activities and services provided by the Police and Fire Departments, it may also include services provided by other departments responsible for the operation of key infrastructure or in association with certain programs and services.

4. **Maintain existing infrastructure**

Infrastructure such as buildings, parks, streets, curbs, gutters, sidewalks; mobile assets such as vehicles and heavy equipment and other assets such as furnishings and equipment need to be maintained in a manner that insures their availability for safe use and extends their life cycle to prevent or delay total replacement. Public infrastructure needs to hold a high priority unless it can be considered as a candidate for closure without undue impact on services or the closure is impractical.

5. **Decisions made on a cost-benefit analysis**

Review of programs and services needs to include a discussion of the efficiency and effectiveness of each activity. This discussion should not only address whether or not the program/service is effective and efficient; it should also address if the program/service may be accomplished through other, more efficient means such as outsourcing or community collaboration.

6. **Defer all non-essential programs that generate additional expense**

Activities, programs or services that generate additional time and expense without an immediate benefit in terms of core public services, revenue generation or a Council supported policy need to be closely reviewed as candidates for elimination.

7. **Review FY 2005-06 service levels based on FY 2009-10 revenue projections**

FY 2005-06 actual revenues were approximately the same as the revenues estimated for FY 2009-10. Therefore, revenue growth anticipated five years ago has not been realized while expenses have increased. These increases have been generated, in part, by program/service growth. In order to evaluate the proposed FY 2009-10 requests, new programs/services implemented beginning in FY 2005-06 needs to be reviewed.

8. **Get Employees Involved in the process**

Employee participation through their awareness of the situation and their involvement in the solution is critical. Comments and suggestions generated within departments and follow up as the FY 2009-10 budget is implemented needs to occur.

9. **Review business practices**

As departments consider downsized organizations, business practices need to be reviewed and processes revised to eliminate redundant and/or unnecessary steps.

10. **Review total compensation**

Compensation, including salaries, benefits and other related costs need to be reviewed and opportunities identified to revise plans with minimum impact to employees. Bargaining units may be interested in sharing expenses that have been traditionally paid by the City and other “extra” options may no longer be feasible to offer to employees.

The City Manager conducted reviews with all departments the week of March 16. These meetings were tense, challenging and passionate as department heads and key managers discussed the impacts of potential reductions. In the end, staff was able to identify the level of reductions required to provide the City Council with a range of options to consider with the FY 2009-10 budget. However, it is critical to note that the reductions will have significant impacts on services and employees. The reductions include the discontinuation or modification of services offered to youth, families, senior citizens, developers and property owners. There are impacts to employees ranging from reductions in compensation to layoffs. Implementation of these reductions will require a belief in “shared sacrifice” and compassion for those most affected by the actions that must be implemented to protect the City’s financial stability.

The **Discussion** section of the report will discuss the reductions based on the tiered levels of \$5.4 million, \$6.3 million and \$7 million. Impacts associated with each reduction will be defined, including quantification of program/service levels, lost positions and/or layoffs. The **Discussion** section will conclude with actions that staff believes are essential for facilitating the City's return to sustained financial stability, including the involvement of employees in developing cost efficiency proposals, development of a Budget and Fiscal Policy and staff's comments regarding the preferred alternative.

Discussion

The development of tiered reduction options is intended to provide the City Council with the choice between expenditure reductions and the related impacts on the General Fund reserves. Options presented as First Tier reductions are slightly over \$5.4 million and would require a contribution from the General Fund reserves of over \$800,000. The General Fund reserves would be reduced from \$5 million to \$4.2 million, equal to 11% of the operating budget. Staff believes the absolute bare minimum level of General Fund reserves is 10%.

The Second Tier reductions add over \$874,000 for total decreased expenditures of slightly under \$6.3 million. If implemented, the options in this tier would essentially address the current revenue shortfall. The General Fund reserves would be maintained at \$5 million or approximately 13% of the operating budget. Staff believes that reserves of 15% are a much more fiscally responsible level.

Finally, the Third Tier reductions would add over \$722,000 for total decreased expenditures of slightly over \$7 million. This option would recover the level of General Fund reserves contributed to address the current year shortfall with revenues exceeding expenditures by slightly over \$759,000. The General Fund reserves would be returned to approximately \$5.7 million or slightly under 15%.

As stated previously herein, these options will have significant impacts on programs, services and compensation to employees. The options within each tier are presented based on impacts to employee related costs and each specific department.

FIRST TIER OPTIONS

Employee Related Costs

Step Advancement Freeze: Freezes employee wages at the levels effective July 1, 2009 to generate savings of \$324,321. This reduction will require mutual agreement with bargaining units.

Elimination of Medical Cash Back Payment: Discontinues payments to employees who select less expensive medical plans compared to the maximum allowed for medical benefits to generate savings of \$126,862. This reduction will require mutual agreement with bargaining units.

Elimination of Non-Safety Meetings and Conferences: Eliminates funding for all professional meetings and conferences with the exception of mandatory training required for public safety

employees to generate savings of \$99,013.

Implement Furloughs for All Non-Sworn Personnel: Provides ten unpaid days annually to all non-sworn employees. The exact days to be furloughed may be dependent on each operation; however, it is anticipated that many employees will utilize days during the late December/early January holiday period. Sworn personnel would be exempted due to minimum staff requirements. The impact to non-sworn employees is a 3.8% wage reduction to generate savings of \$215,007. This reduction will require mutual agreement with bargaining units.

Total First Tier Employee Related Reductions: \$765,203

Community Development Department

Reallocation of Assistant City Manager Compensation: Reallocates a portion of the Assistant City Manager's compensation to the Redevelopment Agency to reflect the current project related focus in that area and generate savings of \$43,000.

Reduce Planning and Engineering Interns: Reduces one planning and two engineering paid internships to generate savings of \$37,000.

Reallocation of an Associate Engineer to Capital Projects: Assigns an Associate Civil Engineer to capital projects; this reassignment will delay processing of development applications in order to generate savings of \$68,000.

Reduce Professional Services: Reduces expenses for private sector engineers, architects and similar services to generate savings of \$42,000.

Reduce three (3) Administrative Clerk Positions: Reduces administrative support staff responsible for customer service at the CDD public counter and over the telephone. Public hours for the CDD counter would be reduced to three hours per day. This reduction would result in the layoff of three incumbent employees in order to generate savings of \$178,490.

Reduce Part Time Code Enforcement Officer: Reduces the part time code enforcement officer which will effectively eliminate all "proactive" code enforcement activity. This reduction would result in the layoff of a part time employee to generate savings of \$49,647.

Reduce Junior Engineer: Reduces a Junior Engineer responsible for supporting grants applications, the traffic safety program and tort/liability claims associated with public infrastructure. Responsibility for these areas would need to be shifted to other remaining staff which would have impacts on a variety of other projects and initiatives. This reduction would result in the layoff of an incumbent employee to generate savings of \$55,000.

Total First Tier CDD Reductions: \$473,137

Finance

Reallocation of Support Costs: Reallocates Finance related support costs to enterprise and capital funds to reflect changes in operations such as the implementation of monthly utility billing to generate savings of \$150,000.

Total First Tier Finance Reductions: \$150,000

Parks and Recreation

Reduce Park Maintenance Service Levels: Reduces the frequency of various park maintenance tasks such as mowing, edging, litter removal and weed removal. Field preparation service provided to organizations such as Woodland Little League and Woodland High School (Clark Field) would be discontinued and the appearance of all parks would be unfavorably impacted. This reduction would result in the layoff of one incumbent full time Park Maintenance Worker II and 15 part time employees to generate savings of \$243,663.

Reduce Recreation Supervisor – Senior Center: Reduces the Recreation Supervisor position for the Senior Center. This position supported the coordination of outside resources at the Senior Center; these activities will either be eliminated or significantly reduced. This reduction involves a currently vacant position to generate a savings of \$74,468.

Reduce Management Analyst: Reduces the Management Analyst position (formerly Administrative Secretary) responsible for providing management support. This reduction involves a currently vacant position to generate savings of \$71,834.

Reduce Deputy Director: Reduces a Deputy Director position proposed in the original budget submission as part of a departmental reorganization. This reduction involves a currently vacant position to generate savings of \$171,376.

Reduce Administrative Clerk III: Reduces a support staff position primarily assigned to support the Senior Center program. This reduction would result in the layoff of an incumbent employee to generate savings of \$67,825.

Discontinue the Yolano Recreation Program: Discontinues the programmed recreation activities within the Yolano housing area, including the boxing program and ballet folklórico to generate savings of \$82,900.

Reduce Special Events: Discontinues the spring “Egg Extravaganza” event and will likely modify or reduce some of the activities programmed in association with the July 4th celebration; does not impact the fireworks display at Woodland High School. This reduction would generate a savings of \$4,500.

General Recreation: Reduces miscellaneous recreation administration support costs to generate savings of \$32,025.

Fitness Center Program: Modifies the implementation of the Fitness Center program by utilizing recreation class contract instructors to provide programs on a fee basis. This alternative will eliminate the need to staffing the facility under the membership based format. The Parks and Recreation Department's attempt to engage a local fitness business to operate the Fitness Center under a lease agreement was unsuccessful. This reduction would generate savings of \$60,000.

Contract Operation of the Youth Center Program: Modifies operation of the Youth Center through a contract with the Yolo County Office of Education (YCOE) that would be funded by a fixed term grant. After completion of the grant, the City and YCOE may not have funds available to restore the operation and the program would not be able to continue. This reduction would result in the elimination of a vacant Recreation Coordinator position to generate savings of \$91,587.

Discontinue the Hiddleson Pool Program: Closes the Hiddleson Pool facility, including aquatics programs and maintenance; reduces four part time positions and a vacant Aquatics Coordinator position to generate savings of \$162,319.

Eliminate Turf Maintenance Contract Costs: Reduces the projected costs for a turf maintenance contract that was never implemented and is no longer necessary following reorganization of the Parks Division led by the three Park Supervisors to generate savings of \$283,290.

Miscellaneous Reductions and Transfers: Identifies savings of \$150,000 associated with reductions to various supplies/services accounts and transfer of the Sports Park operation to the Communities Facilities District.

Total First Tier Parks and Recreation Reductions: \$1,496,394

Police

Discontinue the DARE Program: Discontinues the Drug Abuse Resistance Education program provided to nearly 1,000 Woodland 5th graders. This program has been well supported by students, parents and teachers and studies support its favorable impact on students. The incumbent officer assigned to the program would be reassigned to one of four current officer vacancies to generate savings of \$151,871.

Discontinue Youth Diversion: Discontinues the Youth Diversion program staffed by a licensed marriage and family therapist who counsels pre-delinquent youth and their families. In 2008, the diversion counselor opened 229 cases, conducted 404 counseling sessions and worked with 719 total clients. This reduction would result in the layoff of the diversion counselor to generate savings of \$118,505.

Discontinue Graffiti Abatement: Discontinues the contract removal of graffiti the Police Department oversees in order to facilitate prompt and consistent graffiti cleanup on City owned property as a community crime prevention strategy. This reduction saves \$43,777.

Discontinue Crime Prevention Services: Discontinues community outreach and crime prevention education that facilitated 42 neighborhood watch meetings, distributed 1,200 crime prevention publications and participated in 139 meetings and events last year. This program also assists development services staff with review of development applications, including evaluation of safety/security issues. The reduction will include the layoff of two Community Service Officers to generate most of the \$204,847 savings.

Discontinue Strategic Operations: This program provides the equipment, supplies and training for Police specialty units such as Special Weapons and Tactics (SWAT), Crisis Negotiations Team (CNT), Honor Guard and the K-9 Unit. Supplies, services and equipment such as vehicles necessary to maintain SWAT and CNT in a state of readiness would not be included in the budget and the units would no longer be operable. Services necessary to train and re-certify K-9s would not be included and the dogs would be removed from service. This reduction would generate \$104,670 in savings.

Animal Services Contract Reductions: Changes to the Yolo County Sheriff's Department Animal Services contract negotiated by Woodland and other member cities generated \$67,095 in savings.

Total First Tier Police Reductions: \$690,765

Fire

Reduce Current Vacant Firefighter Positions: Reduces up to nine (9) vacant or anticipated to be vacant firefighter positions. This reduction would cause the Fire Department to be staffed at the minimum level for a low hazard structure fire of 12 firefighters and a Chief Officer that was set by the National Fire Protection Association (NFPA) in 2005. In the event of a high hazard structure fire or simultaneous calls, outside resources would be necessary or off duty firefighters would need to be called in. In 2009, the NFPA set new minimum levels of 17 firefighters and a Chief Officer; therefore, the Fire Department would be operating below the standard recognized by a national association. In addition, the lower staffing level would be inconsistent with the General Plan and Fire Service Master Plan. Maintaining minimum staffing could generate more overtime to cover for training, vacation and sick leave. The reduction would generate \$965,176 in savings.

Implement Fire Cost Recovery Program: This strategy would engage an outside agency to bill insurance companies for the Fire Department's response to incidents such as motor vehicle accidents, structure fires, hazardous material spills and similar emergency calls. In most cases, the emergency call is due to an incident wherein a party is at fault. Based on the incident report, the outside agency will bill the insurance company of the at fault party based on rates that cover a small percentage of the total cost. This strategy would generate an estimated \$167,000.

Discontinue Weed Abatement: Discontinues proactive enforcement of weed abatement and would save \$1,200.

Discontinue Firefighter Reserve Program: Discontinues the compensation paid to reserve firefighters; participants would remain covered under workers compensation while participating in Fire Department activities. This reduction would generate \$2,819 in savings.

Reduce Heavy Rescue Equipment Costs: Reduces by 10% the annual equipment cost for the Heavy Rescue Team to generate \$6,000 in savings.

Reduce Emergency Management Costs: Reduces annual supply cost for the Emergency Operations Center to generate \$7,500 in savings.

Discontinue Public Education: Discontinues the education program for first grade students and the Fire Prevention Open House. This reduction would save the annual supply costs for stickers, posters, educational materials and similar items and the funds to pay for the Honor Guard's participation at formal events to save \$6,250.

Reduce Safety Equipment Costs: Reduces the funds required to purchase new Personal Protective Equipment. This reduction is based on the current inventory of equipment which the Fire Department believes will be adequate through FY 2009-10. Total savings of \$25,000 will be generated.

Reduce an Administrative Clerk: Reduces a support staff member responsible for customer contact in the Fire Administration Office, assistance to Fire management staff, processing of invoices and similar duties. The reduction of this position would likely require the periodic closure of the Fire Administration office. This reduction would result in a layoff of an incumbent and generate a savings of \$66,250.

Total First Tier Fire Reductions: \$1,247,195

Library

Modify Library Services: Modifies the Library hours of operation from 54 hours per week to 20-25 hours per week. The Library Services Director, City Manager and Finance are developing the program for implementing this significant service level reduction. However, educational programs and special events would be either eliminated or significantly reduced and operating hours would be limited to afternoons and early evenings five days per week. It is anticipated that this reduction would save \$450,000. This reduction could impact up to four staff positions with layoffs.

Total First Tier Library Reductions: \$450,000

Public Works

Redirect Waste Management Recycling Fee to General Fund: Redirects 1% of the Waste Management Franchise Fee from the Recycling Fund to the General Fund. The 1% contribution to the recycling program was per Council direction. If implemented, this action would redirect the entire 10% Waste Management Franchise Fee to the General Fund to generate additional revenue of \$102,224.

Delay Replacement of Linoleum Floor: Delays replacement of flooring in the Engineering Division offices to save \$15,000.

Reallocate Management Analyst Compensation: Reallocates 5% of the Department’s Management Analyst time to the Spring Lake Lighting and Landscape District to accurately reflect responsibilities to manage District finances. This reallocation saves \$5,528.

Discontinue Concrete Replacement Program: Discontinues replacement of failed and cracked sidewalk concrete. Safety issues would still be addressed through asphalt patches. This reduction would save \$47,000.

Total First Tier Public Works Reductions: \$145,752

TOTAL ALL FIRST TIER REDUCTIONS: \$5,418,446

IMPACT ON GENERAL FUND RESERVES: (\$838,000)

POTENTIAL LAYOFFS (INCLUDES FEBRUARY 17 ACTION): 17

SECOND TIER OPTIONS

Employee Related Costs

Reduce all Salaries 1.5%: Reduces all salaries 1.5% effective July 1, 2009 to generate \$310,103 in savings. For all non-sworn staff, the total salary reduction, counting the 3.8% reduction associated with the furloughs, would be 5.3%. This reduction will require mutual agreement with bargaining units.

Community Development

Reduce an additional Building Inspector: Reduces an additional Building Inspector which will further curtail staff availability at the CDD front counter and will likely require job inspections to be scheduled and completed within five days or more instead of the current standard of 24 hours. This reduction would generate \$102,000 in savings.

Police

Reduce three Vacant Police Officers: Reduces the number of patrol officers on shifts from the target of six officers plus two K-9 officers to five on certain shifts. In addition, this reduction further reduces “unobligated” patrol time to the point that the two officer response to Priority One calls would be adversely impacted. Finally this reduction would likely generate additional response time to calls for service, including Priority One calls reporting major incidents. Maintaining the current vacancies would generate \$257,103 in savings.

Reduce Police Facility Costs: Reduces facility related costs by \$25,000.

Fire

Reduce Fire Inspection Service or Generate Additional Revenue: Reduces one Fire Inspector or establishes a course of action to generate the entire cost of the position. The Fire Department has initiated a study to develop strategies regarding how the revenue generation may be implemented. This reduction or revenue enhancement would generate \$100,000.

Public Works

Discontinue Custodial Services at City Hall, Library and Municipal Service Center: Discontinues the custodial contract at three City facilities/complexes to generate \$55,000.

TOTAL SECOND TIER REDUCTIONS:	\$849,206
CUMULATIVE TOTAL OF REDUCTIONS:	\$6,267,652
IMPACT ON GENERAL FUND RESERVES:	+\$ 11,465
POTENTIAL LAYOFFS:	2
TOTAL POTENTIAL LAYOFFS:	19

THIRD TIER OPTIONS

Employee Related Costs

Reduce Salaries an Additional 3%: Reduces salaries an additional 3% to generate \$620,207 in savings. For all non-sworn staff, the total salary reduction, counting the 3.8% reduction associated with the furloughs and the 1.5% in the Second Tier, would be 8.3%. This reduction will require mutual agreement with bargaining units.

Discontinue Code Enforcement: Reduces the full time Code Enforcement officer and eliminates all civilian code enforcement activity. Code enforcement duties would need to be handled by other departments, most likely the Police Department. This reduction would save \$100,000.

TOTAL THIRD TIER REDUCTIONS:	\$720,207
CUMULATIVE TOTAL OF REDUCTIONS:	\$6,987,859
IMPACT ON GENERAL FUND RESERVES:	+\$731,672
POTENTIAL LAYOFFS:	1
TOTAL POTENTIAL LAYOFFS:	20

Comments Regarding the Level of General Fund Reserves

One of the key issues that the City Council may wish to discuss is the prudent level of General Fund reserves necessary to support the City operation. It is important to recognize the value of reserves and why a local government operation should maintain a sufficient level. The following comments are presented as the most important reasons for maintaining adequate reserves:

Natural or Man-made Disasters: One of the lessons that local officials should have learned from events such as Hurricane Katrina is that a city or county impacted by a natural or man-made disaster must rely on its own resources. Reserves provide the insurance that the local government will have the resources necessary to compensate the “first responders” including Police, Fire, Public Works and Building Division staff who will be working around the clock to help local citizens survive the event and eventually return to their homes or businesses. In addition, reserves will mitigate the extended loss of local revenues, such as sales and property taxes, if the event has a significant and long term impact on a wide residential or business area.

Economic Contingency: The current economic storm that Woodland and all other local governments are currently riding out is a second reason why adequate reserves are critical. As stated previously herein, local governments have no control over regional, national and international economic conditions. However, all local governments are impacted by these conditions, especially within the context of the “global economy”. In recognition of this fact, many cities have established separate economic contingency reserve funds wherein contributions are made annually in order to deal with the economic downturns on at least a short term basis without significant impact to services. These reserves are also maintained in case the California legislature and/or Governor forget the promise of Proposition 1A and raid local revenues.

Cash Flow: Maintaining adequate reserves also helps the local government meet cash flow requirements without compromising investments. Woodland investment strategy relies on low risk and liquidity and adequate reserves are part of the strategy.

Financial Stability: The final comment is associated with the relationship between the level of reserves and the local government’s financial stability. Adequate reserves and a policy that mandates annual contributions to the reserves transmits that the local government is financially stable. This is an important issue for bond issuance and other entities that evaluate the local government’s fiscal performance.

A recent survey obtained by Finance staff showed that cities had a wide range of formal and informal policies regarding the level of reserves. Smaller cities tended to have a larger percentage of

their General Fund held in reserves because of their relatively small operating budgets. Larger cities held a smaller percentage although the level from a cash standpoint was significant. Most cities maintained reserves of 10-15% and many established an additional economic contingency reserve. The combined value of both reserves was approximately 30% of the annual operating budget.

Staff believes Woodland needs a budget and fiscal policy that establishes direction on the purpose of reserve funds and level of reserves that should be maintained. Combined with 10-Year Financial Planning, a budget and fiscal policy will help establish a course of action that will improve Woodland's financial stability.

Comments Regarding the Tiered Options

The purpose of the March 31 Study Session is to facilitate the Council's discussion of the difficult options associated with current level of General Fund revenue. Staff has provided three options for the City Council's review. There are no easy choices associated with these options. However, staff does believe that the most appropriate course of action is presented as reduction options summarized in the First and Second Tiers. The selection of these tiers will save any additional use of the General Fund reserves and allow the level held in reserve to be maintained at 13%. Under the current economic conditions, maintaining a 13% reserve is prudent and reasonable. The reductions are significant enough to address the structural imbalance. As revenues return to normal, the City could consider the return of some of the programs and services that have been reduced under the guidance of a budget and fiscal policy that also maintains adequate reserve funds.

In addition to implementing the First and Second Tier Options, staff also believes that the engagement of Woodland employees is an essential next step in improving the City's financial stability. Woodland employees submitted over 200 suggestions for reducing costs. A few of these suggestions, such as furloughs, have been incorporated into the First and Second Tier options. Most of the other suggestions require additional study. It would be appropriate to form a task force similar to the group that put together the Vision Values Mission statement to review, refine and evaluate the employee generated ideas for cost reductions. It is quite possible that the ideas generated by the employees could result in cost savings and/or efficiency strategies that could save Woodland over \$500,000 annually.

Next Steps

The discussion during the March 31 Study Session is intended to guide staff in the development of the budget that would be presented on May 12. The Council may desire to receive more information on the options described herein which could include additional Study Sessions. In any case, staff stands ready to provide the City Council with the necessary information to further evaluate the options described herein.

Fiscal Impact

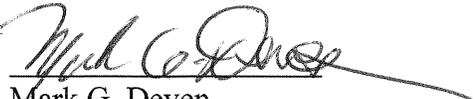
The options described within this report present expenditure reductions ranging from \$5.4 million to nearly \$7 million. These options impact the General Fund by utilizing up to \$838,000 of the remaining reserves, none of the remaining reserves and adding approximately \$700,000 back to the reserves. Staff has expressed the belief that the most appropriate course of action is the First and Second Tier Options and the formation of an employee task force that will study the employee suggestions for evaluation of additional savings and efficiency measures.

Public Contact

Posting of the City Council agenda. Copies of this report were provided to the leadership of all employee associations.

Recommendation for Action

Staff recommends that the City Council review the General Fund reduction options described herein and provide comments and guidance for the preparation of the FY 2009-10 budget scheduled for consideration at the May 12, 2009 budget workshop.



Mark G. Deven
City Manager