



City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: February 2, 2010

SUBJECT: Fiscal Year 2010 Mid-Year Operating Budget Adjustments

Report in Brief

As presented on December 15, the strategies approved as part of the FY 2010 General Fund budget has fallen short of achieving the structural reductions needed to sustain City operations. The recessionary economy further declined in the second quarter of 2009 which caused City sales tax to fall below the FY 2009 mid-year projections. In addition, the City's sales tax consultant has advised staff that sales tax trends across the region suggests that Woodland's sales tax will fall below the FY 2009 level. This analysis has required staff to revise the FY 2010 sales tax estimates downward by approximately \$990,000. In addition, other City revenues are falling short of projections and overtime in the Fire Department is trending to over-expend by \$400,000. As a result, staff estimates that mid-year adjustments of approximately \$2 million are necessary to maintain the current level of the City's General Fund reserves.

On December 15, staff indicated that the City Council would receive the mid-year adjustments for consideration on February 2, 2010. The recommended actions to adjust the FY 2010 budget and address the estimated \$2 million shortfall are presented herein for the City Council's consideration.

In addition, staff is presenting a list of minor adjustments for other City funds that require Council authorization. These adjustments will have no material impact on the associated enterprise and special funds.

Staff recommends that the City Council approve the mid-year adjustments to address the FY 2010 deficit and the other minor adjustments as described herein.

Background

On June 16, 2009, the City Council adopted the FY 2010 General Fund budget and updated 10-year Financial Plan that included strategies to achieve \$6.8 million in expenditure reductions. In summary, the City Council approved actions that reduced operating expenditures by approximately \$5.5 million to address the loss of General Fund revenues due to the current recessionary economy.

The Council also approved a contingency plan to further reduce the General Fund by approximately \$1.3 million if the City's bargaining units were unable to reach agreement on compensation concessions equal to the contingency plan that were necessary to balance the General Fund. On September 1, the City Council approved labor agreements that reduced compensation by approximately \$1 million based on the City Manager's recommendation that strategies could be developed to meet the remainder of the shortfall. This shortfall was identified as \$296,950.

The City Manager and a team of Finance and Human Resources staff began meeting following the approval of the labor agreements to review the City's financial situation and develop strategies to address the shortfall. Staff believed that a close review of mid-year expenditures and adjustments would resolve the outstanding balance.

In the course of reviewing the City's financial situation, staff looked closely at the final FY 2009 revenues and expenditures. Unfortunately, sales tax which had declined significantly in the last quarter of 2008 and first quarter of 2009 continued the rapid descent to a 20% year over year decrease in the second quarter (April-June) of 2009. As a result, the final FY 2009 sales tax was \$8,827,891, a reduction of nearly \$500,000 from the estimate that was revised when the FY 2009 mid-year adjustments were approved. This would have had a significant negative impact on the City's General Fund reserves if not for the fact that City departments further reduced spending that nearly offset the sales tax reduction.

The FY 2009 reduction in sales tax requires staff to reevaluate the FY 2010 sales tax estimate and revise the projections downward by \$990,000. This revision is based on the sales tax consultant's analysis that the trend of declining sales tax will continue through the end of 2010. In addition, other City revenues staff is closely monitoring are falling short by \$350,000. These sources include the Fire/emergency response recovery fees and Motor Vehicle In-Lieu fees. Finally, Fire Department overtime is trending to over-expand by \$400,000 due to a combination of the impact of furloughs on minimum staffing requirements, vacant positions and staff members on approved extended leaves. The combined impact of the revenue shortfall and Fire overtime is approximately \$1.7 million. When this amount is added to the \$300,000 shortfall staff intended to address at mid-year, the total imbalance is identified as \$2,040,785.

As the Council is aware, long range financial planning is a critical component of the City's effort to achieve fiscal sustainability in this challenging economic climate. Maintaining healthy reserves is an important element in developing long range financial plans which is embedded in the City's Budget and Fiscal Policy. Staff believes that the current situation requires actions that will preserve the General Fund reserves at their current level of approximately \$4.7 million.

Therefore, the City Manager has worked with Finance and Human Resources staff as well as with operating departments to develop a set of actions that, if approved by the City Council, will offset the entire FY 2010 deficit of \$2,040,785. These actions include the use of one time revenues, reallocation of personnel expenses in association with revised job assignments and maintaining vacant positions. There are three layoff actions proposed herein, including two situations wherein the employees will be involuntarily discharged. If all of the actions are approved, adjustments of

\$2,182,747 will be implemented to offset the shortfall and provide an additional \$141,962 to offset any additional revenue loss that could occur between now and June 30.

Staff attempted to develop mid-year adjustments that would be “structural” and would carry into FY 2011, thereby reducing the estimated \$3 million deficit currently projected. Some of the General Fund reductions described herein could be structural if the personnel actions were implemented and reductions of operating expenses were maintained. Staff estimates that \$400,000 to \$600,000 of the expenditure reductions could be structural which would reduce the challenge for FY 2011.

The following section of the report will review the mid-year adjustments for the General Fund. In addition, there are several adjustments to enterprise funds that require Council action. These actions are minor adjustments in comparison to the General Fund and will have no material impact on the fund balance for each fund.

Discussion

General Fund Mid-Year Adjustments

Consideration of strategies to address the FY 2010 deficit was somewhat limited due to labor agreement conditions and the fact that over half of the fiscal year has been completed. However, the availability of vacant positions in utility and special fund programs, identification of one time revenue and savings in the supplies and services accounts were reviewed and, in some cases, implemented on January 1. The flexibility and initiative exhibited by certain employees and the leadership of the Woodland City Employees Association helped to ease some of the burden. The following actions are summarized for the Council’s consideration:

One Time Revenue

Staff identified two sources of one time revenue to address the General Fund deficit. The first source was previously identified and approved by the City Council although it has not been implemented. This source is the proceeds from the transfer of Dubach Park from the General Fund to the Storm Drain program following the closure of the facility. Dubach is now part of the City’s Storm Water Master Plan. The proceeds are generated by Development Impact Fees since the need for the additional storm water facility was generated by prior development.

The second source is the initial payment for the sale of City property located east of County Road 102 between Beamer and Kentucky. Staff has been negotiating with the buyer and the terms and conditions are nearly finalized. A purchase and sale agreement should be presented to the City Council in the next 2-3 months. The majority of the proceeds from the sale of the property will be received in future years and are pledged to fund other long term financial obligations such as the City’s Other Post Employment Benefits (OPEB).

The summary of the use of one time revenue is outlined as follows:

- Dubach Transfer \$750,000
- Sale of Surplus Property \$232,000
- **Total One Time Revenues \$982,000**

Personnel Adjustments and Reductions

Reallocation of staff. Revised staff assignments have allowed some costs currently allocated to the General Fund to be reallocated to the water enterprise fund, the transportation fund and the Information Systems capital project. The former City Engineer was reassigned last year to the Public Works Department as a Deputy Director with management responsibilities that include the Surface Water Project. This reassignment was necessary to provide additional leadership and support for this critical project and allows the compensation costs to be allocated to the water enterprise fund. Similar reassignment and reallocation is also proposed for a portion of the compensation associated with the new City Engineer and Associate Civil Engineer. Finally, additional work hours are needed by Information Services staff to support the implementation of the new financial management and land use management systems that will justify a portion of each IS Division employee's time to be allocated to the project. The total General Fund savings associated with this proposed action is \$219,436.

Reassignment of staff. Following the employee meetings during the week of December 7 and the December 15 Council meeting, the leadership of the Woodland City Employees Association, key managers within Public Works, Parks & Recreation, Fire, Finance and the Human Resources Manager worked collaboratively to facilitate the transfer of six employees from General Fund positions to vacant positions funded by enterprise and special funds. Five Parks employees and one Fire Administration employee were reassigned to similar positions in Public Works and Finance without loss of compensation and seniority. These employees accepted their reassignment and were supported by their employee association during the process. The total General Fund savings associated with this action is \$163,171.

Maintaining vacant positions. There are currently five vacant positions in the Police and Fire Departments. These positions include two police officers and three firefighters. Maintaining these positions as vacant for the remainder of FY 2010 (June 30) will generate General Fund savings of \$352,974.

It should be noted that this proposed action is not to eliminate these positions. The proposed action is to maintain the current vacancy so that the identified savings can be generated for FY 2010.

Revised retirement costs. The retirement of several employees required Finance and Human Resources to develop estimates for separation payouts such as unused vacation and compensatory time. These estimates were reviewed based on actual costs and the result showed a General Fund savings of \$26,081.

Police overtime reduction. Overtime in the Police Department is currently trending to under-expend by \$150,000. The Chief of Police believes that, absent any significant increase in criminal activity or

an incident that would require overtime to conduct a timely investigation, the trend will continue. Therefore, this savings will be utilized to close the identified gap.

Battalion chief layoff/reassignment. As stated previously, there are currently three firefighter vacancies. These vacancies are a contributory factor in the Fire Department projected over-expenditure of overtime. While filling the vacancies would help address the over-expenditure, such action would also reduce the nearly \$200,000 in savings that are necessary to close the gap. One way of filling at least one vacancy would be to layoff and reassign one of the five battalion chiefs to the position of fire captain. This action would cause the least senior staff holding the fire captain and fire engineer positions to fill the next lower level positions until one of the currently vacant firefighter positions is filled. Staff estimates savings of \$53,000 would be achieved if the proposed layoff action was implemented.

The battalion chief position that would be affected by this action is the Training Battalion Chief. This position plans, coordinates and schedules training to meet legal mandates, professional standards, safety and preparation for advancement. All of these duties are critical with safety the top priority for first responders who operate in emergency environments. The Training Battalion Chief keeps the Fire Department updated regarding new equipment and technology that changes the work environment for firefighters such as the hazards of new lightweight building construction that causes roof systems to fail early and collapse when subjected to fire conditions. Firefighter safety is the goal in training so that each firefighter has the knowledge, skills and abilities to function at any emergency scene. The duties and responsibilities associated with this position would need to be reassigned to the remaining battalion chiefs as was the case up until 2004 when three new chief officer positions were authorized.

Given the importance of this position, it should be noted that this action is proposed at this time for the remainder of FY 2010 only. The Training Battalion Chief position would remain as an authorized position for the balance of this year and as preparation begins for the proposed FY 2011 budget. The "layoff" terminology is necessary in order to provide re-employment rights to the Training Battalion Chief incumbent affected by the proposed action.

Records specialist layoff. The final proposed action associated with Personnel Readjustments is the layoff of two records specialists. This action would affect two incumbent employees who would be discharged with re-employment rights as part of the layoff process. The estimated General Fund savings from this action is \$22,525 for the remainder of FY 2010 and \$123,484 in structural savings for FY 2011.

Police Records Specialists (PRS) provide critical support to front line police officers. This support includes validating and uploading incident reports into the Records Management System; timely processing of police incident reports as required by law and to ensure efficient operation of the regional criminal justice system; maintenance of arrest warrants held by the Department; citation processing; and entering and updating data in local, state and national criminal justice databases. Current Police Department staffing includes six (6) PRS and four (4) Senior PRS. This unit is staffed 24 hours a day/365 days a year. The loss of two Police Records Specialists will require a reduction of evening and weekend business office hours, creating hardship for residents who work during the

day to access business office services. Double coverage in the morning is needed to ensure reports are processed and forwarded to the District Attorney's office in the morning. If approved, this reduction will slow routine processing of records requests, and report processing thus impacting other areas of the Department such as Investigations and Crime Analysis. Lastly the reduction will require a change in work schedules, necessitated at minimum a discussion with the employee association and could increase overtime to maintain 24/365 coverage.

While acknowledging these concerns, the City Manager believes this program would be able to meet its highest priorities with more efficient utilization of the eight remaining staff members given the resource challenges faced by the City at this time.

Total savings from Personnel Adjustments and Reductions: \$987,187

Supplies and Services Reductions

The City Manager asked each department to review their operating supplies and services accounts and identify reductions approximately equal to 10% of their unexpended and unencumbered balances for the remainder of FY 2010. This request generated General Fund savings of **\$213,559**.

The total General Fund Savings associated with the proposed actions described herein are **\$2,182,746**. These proposed reductions exceed the shortfall of **\$2,040,785** by **\$141,961** which provides a margin to offset any additional revenue loss that could occur between now and June 30.

Other Mid-Year Adjustments

The following section summarizes other non-General Fund changes. These adjustments are minor in comparison to the General Fund adjustments yet still require City Council approval.

Revenue Adjustment

The Equipment/Vehicle Replacement Fund should be increased by \$29,927 due to needed allocations for two police department vehicles scheduled for replacement. The Cemetery Fund is proposed for a decrease of \$44,728 due to the transfer of employees at mid-year to non-General Fund positions. This transfer reduced the level of subsidy from the General Fund to the Cemetery Fund from \$200,000 to \$155,272 which also corresponds with a decrease in expenditures. **The total revenue adjustment is a decrease of \$14,802.**

Expenditure Adjustments

Vehicle Equipment Replacement Fund: This action authorizes the expenditure of \$32,927 for the replacement of the two police vehicles discussed in the preceding revenue adjustment. A total of \$29,927 would be authorized to purchase the vehicles and an additional \$3,000 for preparing the vehicles for service. This action has no budgetary impact on the General Fund since the Police Department identified the resources from within the approved FY 2010 budget.

Water Enterprise Fund. A collection of minor adjustments in this fund primarily associated with purchase order changes and corrections result in an **expenditure decrease of \$46,216.**

Sewer Enterprise Fund. Changes to several purchase orders and the need for a special piece of equipment for a diesel vehicle that was omitted during the FY 2010 budget generated a proposed **expenditure increase of \$38,619.**

Storm Water Enterprise Fund. A minor change to a purchase order generated a proposed **expenditure increase of \$700.**

Recycling Enterprise and Construction Demolition Enterprise Funds: Overtime was omitted during the FY 2010 budget process **requiring an appropriation of \$500 for each fund; total appropriation is \$1,000.**

Transportation Development and Gas Tax Funds. Purchase orders to install emissions equipment on City vehicles in compliance with air quality standards require **an increase of 14,428 in each fund for a total \$28,856.**

Used Oil Recycling Grant Fund. Operational changes will generate a **decrease of \$5,807.**

Library Trust Fund. This fund has accepted additional costs not covered by the General Fund requiring **an increase of \$7,899.**

Fiscal Impact

The proposed actions described herein will address the identified General Fund shortfall of \$2,040,785 through expenditure reductions of \$2,182,746. An additional margin of \$141,961 would be generated which could offset any additional revenue shortfalls between now and June 30. The adjustments for the enterprise and special funds described herein will have no material impact on those funds.

Public Contact

Posting of the City Council agenda. Meetings with employee associations to discuss the proposed mid-year adjustments and related fiscal issues are in progress.

Alternative Courses of Action

1. Approve the mid-year adjustments to address the FY 2010 General Fund deficit and the other minor adjustments as described herein.
2. Provide specific alternative direction to staff regarding one or more of the proposed mid-year adjustments.

Recommendation for Action

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

Mark G. Deven
City Manager