City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR AND CITY COUNCIL

DATE: June 22, 2010

SUBJECT: Fiscal Year 2011 Preliminary Operating Budget and City Budget and Fiscal Policy

Report in Brief

On March 30 and May 25, staff presented a preliminary operating budget that proposed significant expenditure reductions to the General Fund and related modification and/or elimination of programs and services in order to balance the FY 2011 budget and FY 2011 through FY 2020 10-year Financial Plan. Comments were provided by citizens, employees and the Council that provided direction to staff in order to prepare the FY 2011 budget for the Council's consideration and adoption. In addition, the approval of Measure V and the companion advisory measures requires significant review of revenue assumptions and readjustment of resource allocation to reflect that very positive result.

In order to facilitate the City Council's consideration and adoption of the FY 2011 budget, the following information will be presented in this report: (1) revised revenue assumptions and expenditure savings in order to determine the resources available to add for restoring services; (2) other potential revenues and savings that could have an impact on the FY 2011 General Fund; (3) other potential costs that could have an impact on the FY 2011 General Fund; and (4) a summary of four options for the City Council to consider for allocation of the additional revenue generated by the passage of Measure V and other revised revenue assumptions.

In addition to consideration and adoption of the FY 2011 budget, staff is also asking the City Council to provide specific direction regarding the Chamber of Commerce Budget Task Force Report. This report included several actions that will clearly define Council priorities and reshape the City organization to reflect the new fiscal realities. Some of these actions, such as regionalizing services including wastewater and fire protection, will require significant effort and should not be initiated unless there is City Council direction.

The final action associated with the FY 2011 budget is review and approval of a revision to the Budget and Fiscal Policy that was approved last year. This revision is focused on eliminating the practice of internal borrowing between categorical funds in the capital program.

Staff recommends that the City Council (1) adopt the Preliminary Fiscal Year 2011 Operating Budget based on either Option A or Option B for the allocation of additional resources as described herein and authorize related actions, including the issuing of layoff notices to employees; (2) approve the Chamber of Commerce Budget Task Force Report and direct the City Manager to return to the City Council with an implementation program for future consideration; and (3) approve revisions to the Budget and Fiscal Policy as described herein.

Background

On December 15, 2009, the City Council received a Fiscal Update Report that included information on the forecasted deficit for FY 2011. This discussion generated Council support to consider measures to augment revenue for FY 2011 as an alternative to the significant reductions that would need to be considered in order to balance the General Fund. On February 9, the City Council approved a resolution authorizing the placement of a measure to increase the sales tax by a quarter-cent and three advisory measures that would guide the allocation of the resources generated if the measure was approved. While approving actions that would, if authorized by the electorate, improve General Fund revenues, the Council directed staff to prepare the FY 2011 General Fund budget under the assumption that the sales tax measure would not be successful. Staff implemented the Council's direction in preparing the preliminary FY 2011 General Fund budget for presentation at the first of two workshops.

The March 30 budget workshop presented the worst case financial plan for the City's General Fund. In order to balance the FY 2011 projected deficit, reductions of approximately $5.8 million would be necessary with the loss of 35.25 positions and 28.25 layoffs. The potential strategies included the complete closure of the Woodland Public Library; elimination of a fire engine company; loss of sworn police officer positions and resources dedicated to narcotics enforcement, traffic safety and records; further reductions in parks & recreation, including the loss of all staff support for the senior citizens program and off-season closure of the pool; and elimination of all City support for special events.

Unfortunately, the level of program/service level reductions was significant, far ranging and nearly intolerable to many members of the community and employees. It is important to note that the reductions discussed on March 30 follow two years of difficult City budgets. The FY 2009 budget was adopted in June 2008 with approximately $3 million in expenditure reductions and $3 million in one-time funds to offset a deficit of over $6 million. In February 2009, mid-year adjustments required an additional $2.4 million in expenditure reductions and use of one time money. Last year, the Council's adoption of the current FY 2010 budget required expenditure reductions of over $5 million and concessions from bargaining units of over $1 million to address a $6.3 million deficit. On February 2, an additional mid-year shortfall of $2 million required further expenditure reductions and utilization of one time revenues. The reductions that have been implemented over the last two years have caused the City to reduce its work force by 18% and reduce compensation to employees by approximately 5%.

Following the March 30 meeting, staff focused on the following activities in association with preparing the FY 2011 budget:

- Met with Bargaining Units to determine their interest in further compensation reductions and support for another round of the retirement incentive “Golden Handshake” program;

- Continued to carefully review revenue and expenditure estimates;

- Reviewed options for reallocating resources for the highest priorities identified by the City Council;

- Developed 10-year Financial Plans for the General Fund, combined Transportation Funds, Water Enterprise Fund, Sewer Enterprise Fund and Redevelopment Funds.

The results of the above activities were reported to the City Council and community during the second budget workshop on May 25. In summary, the City’s Bargaining Units expressed support for the “Golden Handshake” program; however, further compensation concessions beyond the concessions included in the three-year agreements with the Police, Police Supervisors and Police Mid Managers were not considered. In fact, the General Employees and Mid Management Association who have one-year agreements that expire on June 30 have not fully committed to continuing the furloughs implemented this year which will have an adverse impact on the General Fund. Review of revenues and expenditures generated some potential for revising the estimates in a positive direction although the information was too preliminary to present on May 25. Staff also presented alternatives for reallocating resources and updated 10-year financial plans for the City’s other four major funds.

Council discussion of the information presented on May 25 generated the concept of providing options for balancing the FY 2011 General Fund budget. The reductions necessary to save $5.8 million were so objectionable that there was no clear consensus as to how best to meet this challenge. Therefore, staff focused on developing option packages for Council consideration on June 22.

On June 8, Woodland voters considered the quarter-cent sales tax measure Council approved for placement on the ballot on February 9. This measure, appearing on the ballot as Measure V, was approved with 55% of the vote. Companion advisory measures S, T and U were also approved by overwhelming margins. These measures are intended to guide the City Council in the allocation of the resources generated by Measure V for the Library, Public Safety and Parks & Recreation. Staff had estimated that an additional $1.5 million would be available to allocate for the activities incorporated within the advisory measures if the sales tax measure was successful.

Following the successful passage of the sales tax measure and the advisory measures, staff prepared the revised FY 2011 General Fund budget. The revised budget will focus on the following items in order to facilitate the Council’s consideration of the final action necessary to adopt the budget: (1) revised revenue assumptions and expenditure savings in order to determine the resources available to add for restoring services; (2) other potential revenues and savings that could have an impact on the FY 2011 General Fund; (3) other potential costs that could have an impact on the FY 2011 General Fund; and (4) a summary of four options for the City Council to consider for allocation of the additional revenue generated by the passage of Measure V and other revised revenue assumptions.

In addition, staff is also asking the City Council to provide specific direction regarding the Chamber of Commerce Budget Task Force Report. This report included several actions that will clearly define Council priorities and reshape the City organization to reflect the new fiscal realities. Some of these actions, such as regionalizing services including wastewater and fire protection, will require significant effort and should not be initiated unless there is City Council direction.

The final action associated with the FY 2011 budget is review and approval of revisions to the Budget and Fiscal Policy that was approved last year. These revisions are focused on eliminating the practice of internal borrowing between categorical funds in the capital program and discontinuing the use of development impact fee income for external debt service payments for capital projects.

Staff has also continued to seek the interest of the Bargaining Units on further compensation reductions in order to avoid all layoffs. Unfortunately, the Bargaining Units continue to express their lack of support for such consideration. Management is continuing to negotiate with the General Employees and Mid Management in order to secure an agreement that will continue furloughs or generate savings equal to the furloughs. Management is also continuing negotiations with the Firefighters that would avoid the extraordinary overtime costs which generated part of the FY 2010 mid-year deficit. These issues have been factored into the options for the allocation of the General Fund revenue generated by Measure V and other revised assumptions.

Discussion

The following section of this report will summarize the changed conditions and options for the City Council's consideration. When considering the options, it is important for the City Council to remember that expenditure reductions associated with the Library, Parks & Recreation, Police and Fire as presented on March 30 totaled approximately $4.9 million. It is obvious that the sales tax measure by itself will not make up the difference. Revised revenue assumptions based on improved sales tax generation in the first and second quarters of 2010 in Woodland will help although not offset the gap.

The City Council will still need to take action that will eliminate, depending on the options selected, 11.5 full time and 7 part time positions with resulting layoffs. However, the number of layoffs will be dependent Council approval of the Golden Handshake program which will be presented on June 29. It is also critical for the Council to remember that restoring General Fund services and their associated expenses need to be balanced against the fact that a structural deficit still exists as documented on May 25 when the 10-year financial plan was reviewed. Based on the $5.8 million reduction, the structural deficit was approximately $1.3 million. Restoring services including those staffed by public safety employees will likely increase the structural deficit unless management and the employees through their Bargaining Units can develop strategies to reduce it.

Nonetheless, staff believes that the most objectionable reductions can be either avoided or reduced through allocation of the additional revenue generated by the sales tax measure and revised revenue assumptions. Explanation of the revised revenue is detailed in the following sub-section.

Revised Revenue Assumptions and Expenditure Savings

Revised revenue estimates have been developed based on voter approval of Measure V and better than expected sales tax generation. As stated previously, the quarter cent sales tax should generate $1.5 million in FY 2011 and $1.75 million to $2 million for the balance of the four-year measure. The reason for the lower estimate in the first year is that it will take the State Board of Equalization approximately three months to implement the process to collect the additional tax increase. Staff has already corresponded with the BOE and begun the process immediately following the June 8 election. Therefore, the estimated impact of the quarter cent sales tax increase in FY 2011 is $1.5 million.

In addition, staff has reviewed the most recent quarterly sales tax report. For the first time in several quarters, Woodland sales tax performance appears to be stabilizing instead of declining. Based on that report, the City's FY 2010 sales tax should come in at about $8.1 million, up slightly from the mid-year estimate of approximately $7.9 million. In addition, the trends are showing that the original FY 2011 sales tax estimate of approximately $7.6 million is too low. Based on this information, staff believes that an additional $650,000 can be added to the original FY 2011 sales tax estimate.

An additional $50,000 was identified for as lease payments involving the use of City property such as parks for wells and other equipment associated with utility enterprises. This helps offset the estimated $250,000 that will be paid from the General Fund to the enterprise fund for City water as City parks and other landscaped sites are metered and pay water bills based on water use.

Finally, the recent bid process conducted by Parks & Recreation staff for the landscape maintenance of parks generated an excellent result. In addition to providing contract landscaping services at the highest level of service specified in the Request for Proposal, the low bidder's price generated an expenditure savings of $125,000. The following components are identified to support a revised revenue estimate for the General Fund:

• Add Sales Tax Measure	$1,500,000
• Add Revised Sales Tax Estimate	650,000
• Add Parks Contract Savings	125,000
• Add Lease of City Property	50,000
• Total – Recurring Revenue	$2,325,000

The $2,325,000 is regarded by staff as *recurring revenue* which is structural and, based on current assumptions, may be factored into future General Fund estimates.

Other Revenue and Savings

Staff has also reviewed the use of potential “one time” revenue that could help meet short-term gaps between General Fund revenues and expenditures. It should be noted that caution must be used when considering the allocation of one time revenue. However, the use of one time revenue could be considered as part of the FY 2011 budget since the quarter cent sales tax income should increase by approximately $250,000 in FY 2012 when a full year collection of the tax occurs.

The most promising source of one time revenue available to the General fund is the income that would be generated by the sale of City property to the Redevelopment Agency and eventually to the State Administrative Office of the Courts for the Woodland Courthouse site. This site includes a City owned parcel that was appraised at $535,000. In addition to offsetting the short term gap caused by the nine-month collection of the quarter cent sales tax in FY 2011, these funds could be used as a source for the “separation” costs for employees who leave the organization during FY 2011 through layoffs and retirements. Separation costs include payments for unused vacation time and similar labor contract obligations.

The City may also realize fiscal savings from the Golden Handshakes if some of the retirements are not used to offset potential layoffs. The decision to offer the program to all eligible employees was intended to generate more movement and the potential for net savings over and above the potential layoffs. As an example, certain high level positions that opt to retire may not be replaced. Instead, the City could review reorganization options such as consolidating departments in order to generate long-term savings. The potential savings from this strategy is unknown at this time although it will become clear as the Council considers actions to implement the latest round of Golden Handshakes beginning on June 29.

Other Potential Costs

The primary potential costs that need to be considered as the FY 2011 budget is finalized include the previously mentioned employee separation costs and the impacts if furloughs are not continued for certain bargaining units. Separation costs could range as high as $300,000 depending on how many employees retire or face layoffs. Again, staff will be able to provide a better estimate of this impact as the cost of the employees who enlisted in the Golden Handshakes is calculated. The potential cost for not continuing furloughs is estimated at $180,000 if the two largest units, the Woodland City Employees Association and Woodland Mid Managers, do not agree to continue the program following the expiration of their respective one year agreements on June 30. If furloughs are not continued, staff will return to the Council to propose additional layoffs from those units that will generate the necessary savings. As mentioned previously, discussions are continuing with these units and a favorable outcome is very possible.

Expenditure Allocation Options

In determining how best to allocate the additional revenue described herein, staff reviewed the allocation percentages and ballot language for each of the advisory measures. Based on this analysis, staff reviewed the cost and impacts of specific reductions. Finally, staff attempted to apply the fiscal realities of the present situation and limit the application of the additional revenue as close as possible to the $2,325,000 in recurring revenue previously identified herein. The intent in limiting the proposed additional allocation to the recurring revenue is to minimize the use of one time revenue and recognize the potential impact of the separation costs associated with employees who retire or are discharged through layoffs.

As noted previously, $4.9 million was identified for reduction from the Library, Police, Fire and Parks & Recreation. Reallocating the additional $2,325,000 still leaves those areas nearly $2.6 million short if the expectation is to make each program whole. Despite this fiscal reality, staff reviewed the following ballot language closely prior to developing the proposed allocation of the additional funds:

Shall any voter approved sales tax in the City of Woodland provide 30% of the sales tax received to the Woodland Public Library to restore educational and literacy programs and maintain library operating hours at 54 hours per week?

Shall any voter approved sales tax in the City of Woodland provide 30% of the sales tax received to the Woodland Parks & Recreation Department to maintain current levels of park and public landscape maintenance and senior citizen programs?

Shall any voter approved sales tax in the City of Woodland provide 40% of the sales tax received to Public Safety services within the Woodland Police Department and Woodland Fire Department to maintain the current number of sworn police officers and firefighters?

Utilizing the additional income as $1.5 million generated solely by the sales tax measure, the following percentage allocations are noted:

- 30% to the Library or $450,000
- 40% to public safety (Police and Fire) or $600,000
- 30% to Parks & Recreation or $450,000

During the May 25 Budget Workshop, the Council's inability to provide consensus direction to staff regarding the $5.8 million in reductions generated the concept of returning for budget adoption with options for the Council's consideration. Staff applied the same concept in developing the strategies for allocation of the additional sales tax measure revenue and other revenues totaling $2,325,000. Four options have been developed for the Council's consideration. These options vary from allocating resources based on the intent of the advisory measures to allowing for the fact that the advisory measures are, in fact, advisory and the Council has discretion. Nevertheless, there is one consistent allocation in each of the four options: the Woodland Public Library receives the requested FY 2011General Fund allocation of $946,000 which will enable the program to operate at its current level. Staff applied this allocation to all four options in order to reflect the significant public comments that focused on the potential closure of the Library.

The Council may, of course, direct staff to revise the options. Council may also direct staff to allocate more resources than are proposed; however, if Council directs staff to do so, please be advised that such action will likely have an impact on the General Fund reserves. The four options described herein, including those that use one time funds up to $307,000, should be implemented without touching the reserves.

Allocation Option A

Summary

Library	$946,000
Fire (add back 3 firefighters with overtime)	480,000
Police	727,000

- Add 3 back officers ($325,000)
- Animal Services ($313,000)
- YONET ($31,000)
- K-9 ($14,000)
- Graffiti ($44,000)

Parks & Recreation	247,000

- Senior Center Full Time Position ($100,000)
- Off Season Pool ($40,000)
- Administrative Secretary ($87,000)
- Youth Program Support ($20,000)
- Parks Maintenance Contract and Contract Management
  (Other General Fund Contribution)

Total	$2,400,000

Impacts

- Adds back the Library at its current level of service based on the FY 2011 budget request;

- Adds back three of the six firefighters slated for layoff at full costs, including overtime, as additional personnel to support operation of three engine companies although this action would still require reduction of the fourth engine company;

- Adds back three of six officer positions slated for elimination as funded with the balance of the officer positions remaining authorized although unfunded for FY 2011. There would be no sworn police officer layoffs;

- Fully funds the annual cost for Animal Services and provides the new Chief of Police the opportunity to reevaluate that program over the next year;

- Fully funds the Yolo Narcotics Enforcement Team (YONET);

- Fully funds the supplies, services and training costs for the K-9 program

- Fully funds the Graffiti Eradication program

- Provides funds to replace two part time positions at the Senior Center with a full time professional position at the Recreation Coordinator level;

- Continues full year operation of the Brooks Aquatic Center

- Fully funds the Administrative Secretary position that supports the Community & Senior Center

- Provides funds to support youth programs, including the Boxing Club

- Will require an additional allocation of $75,000 in one time funds.

Allocation Option B

<u>Summary</u>

Library	$946,000
Fire (add back 6 firefighters at salary/benefits only)	712,000
Police	727,000

- Add 3 officers ($325,000)
- Animal Services ($313,000)
- YONET ($31,000)
- K-9 ($14,000)
- Graffiti ($44,000)

Parks & Recreation	247,000

- Senior Center Part Time ($100,000)
- Off Season Pool ($40,000)
- Administrative Secretary ($87,000)
- Youth Program Support ($20,000)
- Parks Maintenance Contract and Contract Management
  (Other General Fund Contribution)

Total	$2,632,000

Impacts

All impacts are the same as in the preceding section with the following exceptions:

- Adds back all six firefighters slated for layoff at full salary and benefits and without overtime which would be possible if management and the Firefighters are able to secure an agreement currently under discussion. This concept would enable the fourth engine company to remain operational although periodic brownouts would be required to reduce overtime costs;

- Will require an additional $307,000 in one time funds which is the highest level staff believes is feasible without impacting the General Fund reserves.

Allocation Option C

Summary

Library	$946,000
Fire (add back 6 firefighters with overtime)	960,000
Police	638,000

- Add back 3 officers ($325,000)
- Animal Services ($313,000)

Parks & Recreation

- Parks Maintenance Contract and Contract Management
  (Other General Fund Contribution)

Total	$2,544,000

Impacts

- Library impacts are the same as in Options A and B;

- Adds back all six firefighters slated for layoff at full costs, including overtime to operate four engine companies based on the current Memorandum of Understanding. This assumes that management and the Firefighters are unsuccessful in their current negotiations and continuation of four engine companies is desired;

- Police impacts are reduced to adding back three officer positions and continuation of Animal Services;

- There are no resources available for restoring any Parks & Recreation services beyond landscape maintenance;

- Will require an additional $219,000 in one time funds.

Allocation Option D

Library	$946,000
Fire (add back 3 firefighters)	480,000
Police	963,000

- Add 6 officers ($650,000)
- Animal Services ($313,000)

Parks & Recreation

- Parks Maintenance Contract and Contract Management
  (Other General Fund Contribution)

Total	$2,389,000

<u>Impacts</u>

- Library impacts are the same as in Options A, B and C;

- Fire impacts same as in Option A;

- Adds back and fully funds all six police officer positions slated for elimination;

- Fully funds the annual cost for Animal Services and provides the new Chief of Police the opportunity to reevaluate that program over the next year;

- There are no resources available for restoring additional Parks & Recreation services beyond landscape maintenance;

- Will require an additional $64,000 in one time funds.

Evaluation of Allocation Options

The City's fiscal situation creates very challenging conditions in order to meet the intent of the Advisory measures. Despite the challenging conditions, staff believes that Options A and B come the closest to fulfilling the intent of the advisory measures in terms of allocating the $1.5 million in additional revenue and the ballot language.

Option A restores the Library to its current level of service, allows three of the six firefighters to remain with the City at full costs including overtime, adds back and fully funds three of the six police officer positions and does not lay off any police officers. In addition, Option A provides some service level enhancements to Parks & Recreation for seniors and youth and restores off season use of the pool and a support position for the Community & Senior Center. The most negative impact associated with Option A is that three sworn firefighters would face layoffs and the fourth engine company would be eliminated. The resource allocation for Option A based on the ballot language percentages is as follows:

- Library - $946,000 against a minimum of $450,000
- Public Safety - $1,207,000 against a minimum of $650,000
- Parks & Recreation - $247,000 plus $213,518 for contract landscape maintenance from other General Fund sources for a total of $460,518 against a minimum of $450,000

From a resource allocation perspective, Option A meets the percentage allocations for all three advisory measures. A contribution of $213,518 from other General Fund revenue sources for contract landscape maintenance is necessary to meet the Park & Recreation advisory measure. This option also requires a commitment of $75,000 in one time funds which has a more manageable fiscal impact of the two preferred options.

The analysis of Option B is identical to Option A with two exceptions. First, this option will allow all six of the firefighters slated for layoff to remain employed ***if*** management and the Firefighters can resolve the furlough and overtime issues. The second change is that the fourth engine company will remain in operation although it would be subject to periodic brownouts in order to keep overtime in check. The resource allocation for Option B based on the ballot language percentages are as follows:

- Library - $946,000 against a minimum of $450,000
- Public Safety - $1,439,000 against a minimum of $650,000
- Parks & Recreation - $247,000 plus $213,518 for contract landscape maintenance from other General Fund sources for a total of $460,518 against a minimum of $450,000

Similar to Option A, Option B meets the resource percentage for all three advisory measures with the additional contribution necessary to meet the Parks & Recreation advisory measure. This option requires a higher commitment of one time funds with $307,000 necessary to meet all of the commitments. As stated previously herein, any amount over this level will require the use of General Fund reserves which staff would not recommend. The use of the reserves could also require the Council to temporarily amend the Budget and Fiscal Policy in order to allow the General Fund reserves to drop below 13%.

For the City Council's reference, the March 30 and May 25 staff reports are attached in order to provide information regarding the impacts to the other City departments, programs and services that would still need to be reduced or eliminated in order to balance the General Fund budget. Despite the addition of over $2.3 million to the General Fund and up to $300,000 in one time funds, approximately $3.2 million will need to be reduced, certain positions eliminated and employees involuntarily discharged through layoffs. The following is a summary of the reductions that would be implemented in order to achieve the $3.2 million in required reductions:

City Administration

Administration identified **$246,893** in expenditure reductions. The reductions include the elimination of the Council contingency account, part time work hours and miscellaneous operating accounts. The most significant reduction is the elimination of General Fund support for the Economic Development program which saves $128,926. This reduction will require a reorganization of the Redevelopment program and the involuntary layoff of one employee.

Community Development

Expenditure reductions in Community Development focus on the elimination of a vacant administrative support position, a building inspection position and an associate planner position. In addition, the full time code enforcement position will be funded between the General Fund and utility enterprise fund; the incumbent Code Enforcement Specialist will split time between his current responsibilities and environmental resources. These proposed actions will generate **$330,719** in savings and result in the loss of one vacant position and layoff of two full time staff and one part time staff.

Fire

Depending on the option selected by the City Council, Fire Department reductions will range from the elimination of one fire engine company with three firefighters retained to support the remaining three companies to adding back the salaries and benefits for six firefighters to allow four companies to remain in place although subject to periodic brownouts. This action would also include a reduction of one Battalion Chief which will be implemented through a voluntary Golden Handshake retirement. There is one civilian employee, the Facility Maintenance Worker, who would be discharged through a layoff. With the restoration of up to six firefighters and Golden Handshake retirement of the Battalion Chief, total layoffs estimated on March 30 as eight employees and seven sworn positions could be reduced to one non-sworn position. If the Council selected Option B, reductions in training costs and overtime would still generate **$878,504** in General Fund savings.

Library

The allocation of resources as proposed herein would restore all current Library services and maintain all positions thereby eliminating the need to layoff five full time employees.

Parks & Recreation

The most critical reductions in Parks & Recreation would be avoided if either Option A or B was selected by the City Council. Maintenance of parks and public landscape areas will be provided through a contract with a private firm at the highest level specified through a Request for Proposal released earlier this spring. The contract was awarded to the lowest bidder at a savings of $125,000 that has been used to help support the augmented services described herein. Reductions to the Senior Center and off season use of Brooks Aquatic Center are also avoided under Options A and B. These options also return the administrative support position proposed for layoff on March 30. However, Parks & Recreation will still lose two fulltime positions, including a facility maintenance worker and an aquatics supervisor plus additional part time hours in the parks maintenance program. Net expenditure reductions will be **$412,805**.

Police

If Option A or B was selected, the remaining expenditure reductions for the Police Department would focus on certain administrative and support functions carried out by non-sworn staff. In addition, the Police Department would maintain three currently authorized sworn positions as vacant. The projected savings from these reductions is **$968,768.** A total of five non-sworn positions would be eliminated through layoffs; that impact may be mitigated through the Golden Handshakes. The reduction of civilian staff members will impact the crime analysis unit, records, and patrol. Woodland citizens and businesses as well as other who conduct business with the Police Department will notice the front counter unavailable on weekends and it will take longer to make certain incident reports available to the public. However, the most objectionable reductions such as sworn positions, participation in YONET and the K-9 unit would be avoided. In addition, Option A and B include resources for the full year operation of the Animal Services contract in order to allow the incoming Chief of Police the time necessary to reevaluate the program and determine whether or not there is a viable alternative.

Public Works

The reductions within Public Works focus on General Fund maintenance operations remain focused on services for street trees, curb/gutter/sidewalk and buildings. Specific areas that members of the public would notice include elimination of all downtown area maintenance and special event support; reduction of curb, gutter and sidewalk repair; and reduced frequency of tree trimming. Potential impacts include accelerated deterioration of buildings, parking lots and other infrastructure assets. One potential impact that is worrisome to staff is the liability associated with the reduced street tree maintenance. The total cost reductions are $222,692.

Staff has identified $98,400 in additional revenue based on a 2% franchise fee rate augmentation from the City's solid waste franchise. The combined impact of the cost reductions and revenue augmentation is **$321,092.**

The loss of special event support may be mitigated by the increased assessment for the Visitor Attraction District presented during the June 15 Council meeting. If the City Council approves the actions necessary to implement the increased assessment, the hoteliers who support the assessment will allocate $20,000 in special event support that will replace a similar allocation included in the cost reductions described herein.

Total impact of remaining reductions assuming Council selection of Option B - $3,158,781 in expenditure reductions, 11.5 fulltime and 7.3 part time staff positions eliminated with 8.5 potential layoffs depending on the final outcome of the Golden Handshake

Layoff Process

If the City Council approves the FY 2011 budget as proposed in any of the options presented herein, that action would authorize the layoff process. The City's Personnel Rules define the layoff process. This process requires the City to notify the employee organizations at the time the affected employees are notified. Human Resources staff plans to complete notification of employee organizations and affected employees by June 24. Affected employees must be provided with twenty (20) working days notice in advance of the layoff. During that time, efforts will be made on behalf of the affected employees to place them into positions that are not impacted by the layoffs. Alternate positions will primarily consist of approved and vacant positions within the City's enterprise funds. If alternate positions are not available, the impacted employees would be discharged on approximately July 30.

Layoffs are proposed in the following classifications based on the Council's selection of Option B and successful negotiations between management and the Firefighters as described previously:

1) Economic Development Manager (1 FTE)
2) Associate Planner (1 FTE)
3) Building Inspector II (1 FTE)
4) Code Enforcement Officer I/II (0.5 FTE)
5) Facility Maintenance Worker III (1 FTE)
6) Facility Maintenance Worker II (1 FTE)
7) Aquatics Supervisor (1 FTE)
8) Community Services Officer (3 FTEs)
9) Police Records Specialist (2 FTEs)

It should be noted that of the proposed 11.5 layoffs, three employees have elected to participate in the Golden Handshake program thus resulting in the actual layoff of 8.5 employees.

If the City Council selects Option A or negotiations are not successful with the Firefighters, the above list would be expanded to include three Firefighters.

Chamber of Commerce Budget Task Force Report

On June 1, the Chamber of Commerce presented the Budget Task Force Report. This report provided feedback to staff and the City Council regarding the Chamber's review of the FY 2011 City budget from the business community's perspective with a specific focus on a review of the reduction strategies presented on March 30.

In addition to providing feedback on the FY 2011 reduction strategies, the Chamber Task Force also recommended that the City Council consider actions to clearly define Council priorities and help reshape the City organization. Given the new economic realities, it is clear that the City cannot continue with a "business as usual" approach. The organization must grow smaller, become leaner, increase efficiency and control certain costs if it is to be successful over the long term. Therefore, the Task Force has identified actions within four broad strategic areas which are recommended for the City Council to consider. If these actions are favorably received, the Task Force believes direction to implement the actions should be provided to the City Manager.

Momentum for looking at different ways to conduct business is definitely growing among local government elected leaders and executive managers. On June 14, Mayor Davies, Council member Marble and the City Manager attended a meeting of Yolo County leaders who discussed various collaborations focused on public agencies that are reducing their costs through resource sharing. During this meeting, initiatives such as the Woodland-Davis Surface Water Project and the potential merger of the Davis and UC Davis Fire Departments were discussed as examples of innovation, collaboration and cost saving. The Chamber report also focuses on these and other areas.

Because of its significance and the effort required to thoroughly review and consider actions for implementation, staff is seeking direction from the City Council that approves the Chamber of Commerce Budget Task Force Report and directs the City Manager to return to the City Council with an implementation program for future consideration. The report is attached for the Council's reference.

Budget and Fiscal Policy

The FY 2010 budget adoption on June 16, 2009 included the approval of the Budget and Fiscal Policy. As the proposed policy was being considered by the City Council, Council member Marble asked for specific language that discontinued the practice of internal borrowing between categorical funds within the capital program. This practice has led to significant internal debt that will take years to correct within the City's capital program. It was suggested at that time that staff insert the language when the Budget and Fiscal Policy is next reviewed by the City Council as part of the adoption of the FY 2011 budget.

This Policy is now presented for the City Council's review and reaffirmation. The revision addressing the past practice of internal borrowing is shown under section 4.0, Capital Program, Item 4.9, with the following statement:

> ***Discontinue the practice of internal borrowing between enterprise and categorical funds; funding for capital projects must be determined based on the available resources within each fund to meet its cash payment or debt service requirements and strategies to balance each fund and implement fund integrity should be continued.***

In addition, the Chamber of Commerce report listed as one of several Fiscal Initiatives discontinuing the practice of using projected development impact fees to secure long term debt issued to finance capital projects. As has been demonstrated by the current economic conditions, development impact fees have been an uncertain and unstable source of revenue. Therefore, staff proposes to add the following statement as Item 4.10 to the Budget and Fiscal Policy:

> ***Discontinue the practice of issuing bonds for desired capital improvements based on projected development and the collection of impact fees associated with development. This source of revenue is dependent on the level of economic activity within the region and is uncertain and unstable.***

Staff believes the above statements addresses Council member Marble's request and the concerns expressed by the Chamber. Staff agrees with the addition of both statements and, if acceptable to the City Council, submits the revised Budget and Fiscal Policy to the City Council for approval as part of the FY 2011 budget adoption.

Fiscal Impact

The Preliminary Fiscal Year 2011 Operating Budget, being presented for adoption reflects the current economic conditions, the Budget and Fiscal Policy and balances services desired by Woodland's residents, business and the City Council. The General Fund budget includes approximately $3.2 million in expenditure reductions, $1.5 million in estimated new revenue due to the approval of Measure V, $825,000 in revised revenue estimates and identified expenditure savings and up to $307,000 in one time revenue to balance a $5.8 million gap as discussed in the March 30 and May 25 budget workshops. Depending on the option selected, up to 11.5 positions are proposed for elimination with a lesser number of layoffs expected based on the results of the Golden Handshake program. Additional layoffs could occur depending on the results of labor negotiations currently in progress at this time.

The following appropriations associated with the Preliminary FY 2011 Budget are presented for adoption:

General Fund - $36,399,765 (Based on selection of Option B; subject to adjustment if another option is selected by Council)

Water Enterprise Fund - $15,931,925

Sewer Enterprise Fund - $17,669,699

Transportation Program - $2,817,711

Redevelopment Agency – $1,322,377

Public Contact

Posting of the City Council Agenda. The information presented herein regarding the General Fund was extensively discussed through the "*Your City, Your Voice*" public engagement process, four City-wide employee meetings and meetings with Association Leaders.

There was also extensive discussion of the FY 2011 budget on March 30 and May 25. A copy of the May 25 and March 30 reports are provided as an attachment for the Council and community's reference.

Recommendation for Action

Staff recommends that the City Council (1) adopt the Preliminary Fiscal Year 2011 Operating Budget based on either Option A or Option B for the allocation of additional resources as described herein and authorize related actions, including the issuing of layoff notices to employees; (2) approve the Chamber of Commerce Budget Task Force Report and direct the City Manager to return to the City Council with an implementation program for future consideration; and (3) approve revisions to the Budget and Fiscal Policy as described herein.

Mark G. Deven
City Manager

Attachments: March 30 and May 25 Council Reports
Chamber of Commerce Budget Task Force Report
Revised Budget and Fiscal Policy

City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: March 30, 2010

SUBJECT: Discussion of Strategies to Balance the FY 2011 General Fund

Report in Brief

Staff has completed the initial development of the FY 2011 General Fund budget. Unfortunately, the City's General Fund revenues will continue to decline over the next year while expenditures in certain areas will increase slightly. As a result of the decline in revenues, the City's General Fund deficit at this time is projected at $5,639,637.

In response to this deficit, the City Manager's budget review team has met with all departments and developed strategies to address the deficit primarily through significant reductions in expenditures. These reductions need to correct the City's continuous fiscal imbalance by reducing employees, programs and service levels in a manner that will be sustainable over the next ten years. All departments have cooperated by providing detailed, reasoned and prioritized expenditure reduction options for the City Council and the community to consider. The information and alternatives presented on March 30 will begin the consideration process.

Staff recommends that the City Council receive the presentation on alternatives to balance the FY 2011 General Fund and provide direction that will reduce expenditures to balance the approximate $5.7 million deficit 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 address a $6.8 million deficit. This action culminated three months of intense review that included workshops, presentations at community meetings and internal meetings between the City Manager's Office and City departments in order to balance the General Fund budget. In summary, the City Council approved actions that primarily focused on expenditure reductions generating approximately $5.5 million in savings 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, 2009, the City Council approved labor agreements that reduced compensation by nearly $1 million based on the City Manager's recommendation that strategies could be developed to meet the remainder of the shortfall. The concessions agreed to by the bargaining units included furloughs that reduced salaries by approximately 4.6% and employee cost sharing for medical insurance that maintained the cost to the City at 2009 levels. The combined impact of these concessions was compensation reductions of approximately 5%.

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 FY 2010 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 most of the reduction.

The FY 2009 reduction in sales tax required staff to revaluate 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 were falling short by $350,000. Operating expenses were also trending higher in certain areas and, when added to the shortfall projected for FY 2010 after the labor agreements were approved, the current year General Fund budget required $2,040,785 in adjustments. As a result of these revised estimates, staff presented a list of actions necessary to balance the FY 2010 budget which included the use of one time revenues and expenditure reductions totaling $2,182,747. These actions included the reassignment of staff to enterprise and non-General Fund programs, maintaining vacant positions, using additional one time revenue and layoff of three positions. The City Council approved all of the recommended actions except for the layoff of the three staff yet directed the City Manager to achieve the nearly $2.2 million in mid-year adjustments.

While the current year General Fund budget should remain balanced, it became very clear that revenue estimates for FY 2011 would be significantly lower that the estimates projected in May/June 2009 as part of the updated 10-year Plan. These estimates were updated by Finance staff in February based on all available information. In addition, the operating departments presented their FY 2011 expenditure requests. The following information provides a summary of the General Fund revenue and expenditure estimates for FY 2011.

Revenue Estimates

Finance staff completed the first round of revenue projections for FY 2011 in February and early March. As stated previously, the projections are not favorable. Total General Fund revenues are estimated at $33,837,675 which includes all property and sales tax projections as well as all fees generated by service charges, franchise agreements and operating revenues. With one exception, all revenue accounts are estimated to be down by an average of 12% from the FY 2011 estimates that staff developed in May/June 2009. The major losses were in sales tax which is estimated to be down by $1,915,076 and property tax which is down by $1,029,418 compared to the May/June 2009 projections. The combined impact of the revised sales and property tax estimates is a loss of just under $3 million in anticipated revenue. When combined with the projected reduction target for FY 2011 of $2,250,000 staff forecasted in May/June 2009 for FY 2011, it is easy to understand why the General Fund would face a significant deficit.

The reduction in sales and property taxes are directly related to the poor economy and require some additional explanation. As expressed in the December 15, 2009 and February 2, 2010 Council reports, the City's sales tax consultant continues to show trend information that Woodland's sales tax will decline from the final FY 2009 amount of $8.8 million. Updated information provided in late January from the City's sales tax consultant indicates that the FY 2010 sales tax amount will be $7.9 million and the amount for FY 2011 will be flat. However, the FY 2010 amount includes some one-time adjustments that will generate about $300,000; as these are one-time adjustments, a flat sales tax projection needs to subtract the $300,000 for FY 2011. Therefore, the estimate for FY 2011 is $7,604,184. This estimate is over $1.9 million below the $9.5 million estimated for FY 2011 in the updated 10-year Financial Plan.

The FY 2011 property tax projection is affected by declining property values and reassessments that will reduce payments by 5%-10%. Current 2010 property tax income is estimated to be 5% lower than original estimates at $9.4 million. Based on information provided by the County Assessor's Office, staff projects the FY 2011 property tax income at $8.7 million which is over $1 million lower than the original FY 2011 estimate. This is a 7.5% decline. It is interesting to note that 2011 will be the first year that Proposition 13 properties will actually decline despite the fact the value of the properties is below the market.

The estimated reductions in sales and property taxes are unprecedented in Woodland. Nearly all local governments are facing similar conditions and most will need to implement significant structural reductions in order to bring their organizations into fiscal balance.

Other revenues that are down include operating income which is derived from fees for City services and Vehicle In Lieu Fees (VLF). VLF estimates are also impacted by declining property taxes because the State allocates these fees based on the assessed valuation of properties in each jurisdiction. Overall, the General Fund revenues are currently estimated at $33,837,675 which is $4,733,838 lower than the amount estimated in May/June of 2009.

Expenditure Estimates

Expenditure requests from departments were generally consistent with anticipated estimates and actually came in slightly lower than expected. Staff anticipated expenditure requests of approximately $40.8 million which would have required $2.25 million in reductions to balance the FY 2011 budget. Actual expenditure requests were $39,477,372; approximately $1.3 million less than anticipated. **Unfortunately, the expenditure requests still exceed the available revenue by $5,639,697 which is therefore the current deficit reduction target.**

As stated above, departments made a good effort to reduce their costs. The FY 2010 mid-year reductions, especially the transfer of employees from the General Fund to the enterprise/non-General Fund programs certainly helped to contain costs. Departments tightened all discretionary expenses such as supplies and services and even found ways to offset increases in non-discretionary expenses such as utilities. Despite these efforts, personnel costs continued to increase because of employees who are eligible to receive step level increases. Personnel costs also show an increase as staff has included the estimated expense for the use of vacation buy outs. **It should be noted that the personnel cost estimates assume that the present level of employee compensation concessions remain in place for FY 2011.**

Immediate Actions

The City Management Budget Review Team met with all departments to review revenue and expenditure estimates during the week of March 8-12. Departments were asked to review revenues and expenditures to make sure all projections were accurately stated. There was a special emphasis on revenues in order to make sure all opportunities to recover costs or maximize income are realized.

Departments were also asked to develop 15% and 20% expenditure reduction options. Development of these options is intended to help identify strategies to meet the reduction target. It is important to note that all departments did an excellent job of identifying options to reduce their expenditures despite the fact that there are few, if any, good options available. During the meetings, department heads, management analysts and key managers summarized the options and provided impact statements that will help the City Manager and City Council evaluate the options. It bears restating that there are no easy decisions at this time.

Following the departmental budget meetings, the City Manager and Department Heads met on March 17 to further discuss the options in order to prepare the report that will be presented on March 30 for the first of two Council budget workshops. On March 19, the City Manager met with all employee association representatives to brief these leaders on the fiscal challenges faced by the General Fund. During that meeting, the City Manager asked the Association leaders for their support and assistance in order to address the fiscal challenges. Finally, Citywide Employee Meetings were held on March 25. In all of these meetings, the message of all employees working together to meet the General Fund fiscal challenges was emphasized.

Your City, Your Voice Draft Report

The draft Your City, Your Voice report is attached and provided for the City Council and the public to review. There are two sections that summarize information. These sections include the Public Opinion Research Findings Report and Summary of Ranked City Services. The following are comments regarding each section.

<u>Public Opinion Research Findings Report</u>

This section summarizes the results of the web based survey, stakeholder interviews and focus groups. The section begins with an overview that summarizes the number of responses and the characteristics of the people who participated in the survey. A list of stakeholders who were interviewed and the characteristics of the focus groups is also included. Finally, a statistical summary of the responses to each question on the web based survey is included.

The information provided in this report is very useful and worthy of study and consideration. In response to questions regarding their assessment of City services, the results are mixed as only a slight majority (52%) felt that the City provides "good services for my money" and 53% felt that the City does not manage growth responsibly. Another key response is the assessment of residents and business owners regarding the City's support of business and job development. A total of 52% of the respondents felt that the City does not support business and job development.

The survey also assessed strategies to address the City's fiscal issues including the generation of additional revenue and strategies to reduce costs. Increasing the sales tax received slightly over 50% percent support; in comparison, implementing new property taxes was opposed by over 70% of the respondents. Increasing fees for services received solid support as did combining City departments. It was also interesting to note that nearly 53% of the respondents opposed reducing benefits and salaries for City staff and over 57% disagreed with layoffs.

The menu of options for reducing City services provided some clear preferences although very few of the options actually rated a majority response. For example, approximately 48% of the respondents favored reducing Library hours; however, 41% opposed this idea. One option that generated majority support with 55% of respondents stating their agreement was a reduction in Community Center hours. Staff's review of the mixed results suggests that most respondents believe there are few excellent options available.

<u>Summary of Ranked City Services</u>

The web based survey asked respondents to review ten City services and assign a ranking of 1-10 to each. This information was reviewed by the consultant who worked with staff on this project, Kim Floyd. Kim ranked the services by using a weighting system that assigned a point value based on the selected priority. The point system assigned 10 points for a #1 priority response, 9 points for a #2 priority response, 8 points for a #3 priority response, 7 points for a #4 priority response, 6 points for a #5 priority response, 5 points for a #6 priority response, 4 points for a #7 priority response, 3 points for a #8 priority response, 2 points for a #9 priority response and 1 point for a #10 priority response.

The total number of priority responses was multiplied by the weighted factor for each service. As an example, 397 respondents rated public safety as their #1 priority; the weighting system multiplied 397 by 10 to generate 3,970 points of the total points generated by responses to public safety.

The attached excel spread sheet provides the detailed responses and weighting. Based on this system, the priorities identified in the survey are as follows.

1. Public Safety (police and fire)
2. Street Maintenance
3. Economic Development
4. Traffic Management
5. Planning, Zoning and Permitting
6. Communication with Residents
7. Code Enforcement
8. Library Services
9. Parks and Athletic Fields
10. Community Recreation Facilities and Programs

Staff believes this information is very valuable and should be considered as options are identified to balance the General Fund budget. While valuable, it is important to note that the ranking was not intended to be used as a public mandate for the allocation of the General Fund resources. The ranking, as well as all other information generated by the Your City, Your Voice process, is one of several tools available for the City Manager and City Council to consider throughout the budget process.

The work described herein led to the development of options that will be presented in the following section of this report. This discussion will begin by summarizing the level of reductions necessary to achieve 15% and 20% reductions in each department. The next discussion will present two options for the City Council to consider. These options recognize the high priority of services such as public safety and street maintenance yet also attempt to provide the best balance of other services that the reduced resources will allow. The final reductions will likely be developed through a combination of factors that will be influenced by the City Council's consideration and public discussion.

Finally, it is important for the City Council to note that staff is presenting options that do not assume the passage of the sales tax measure and will achieve the level of expenditure reductions necessary to address the nearly $5.7 million imbalance. In fact, every effort should be made to achieve reductions over the identified imbalance since revenues are expected to increase at a much slower pace than expenditures during the next five years as the Sacramento region, California and United States recovers from the current recession. If this imbalance is not addressed, the City will continue with a structural imbalance that will require constant adjustment. **Staff believes that the programmed use of reserves and one time funds to maintain a fiscal imbalance is not an appropriate strategy.**

Discussion

As stated previously herein, the departments presented reduction options of 15% and 20% for discussion purposes. This exercise allowed the departments to generate a prioritized list of reductions which were discussed during the departmental budget meetings. Despite the fact that there are few, if any, acceptable reduction options available, the departments did a good job of providing well reasoned and objective information.

The following table summarizes the 15% and 20% expenditure reduction targets that were initially discussed during the department budget meetings:

	15% Reduction	20% Reduction
Administration	$296,958	$395,945
Community Development	$285,931	$381,242
Fire	$1,327,478	$1,769,970
Library	$162,812	$217,082
Parks & Recreation	$457,788	$610,384
Police	$2,261,188	$3,014,917
Public Works	$168,714	$224,952
Total	$4,960,869	$6,614,492

Consideration of the 15% and 20% reduction targets generated two conclusions. First, across the board reductions of 15% and 20% is not a sound strategy. While 20% may be an appropriate target for certain services, such a level for all services would not be appropriate, especially considering the priority ranking and other information generated by the Your City, Your Voice process. In addition, the level of reductions necessary to achieve fiscal balance will need to be greater than 15% although not as high as 20%.

Therefore, staff has developed two alternatives for the City Council to discuss and consider. These options attempt to keep reductions to public safety to less than 20% in recognition of the high priority these services hold for most citizens. In addition, the options still maintain a commitment to the medium priority services such as Planning, Zoning and Permitting and Code Enforcement. Finally, the options do force a choice between the lower priority services of Library services and Parks & Recreation. While very important to the quality of life in Woodland, the current level of resources within the General Fund will not permit both services to be offered. The following information provides a summary of the reduction options listed by each City department.

Alternative #1

<u>Administration</u>

The Administration office includes the City Manager's Office, City Council, City Clerk, Human Resources, Finance and Information Technology. A significant amount of the expenditures in this area are contract services for activities such as the City Attorney, Risk Management, Local Agency Formation Commission, required annual audits and elections.

Review of Administration has identified **$246,893** in expenditure reductions. The reductions include the elimination of the Council contingency account, part time work hours and miscellaneous operating accounts. The most significant reduction is the elimination of General Fund support for the Economic Development program which saves $128,926. This reduction will require a reorganization of the Redevelopment program and the involuntary layoff of one position.

Staff will be reviewing Administration for additional reductions in personnel and operating expenses. There may also be some movement in Administration if Golden Handshakes are offered to eligible employees.

<u>Community Development</u>

Expenditure reductions in Community Development focus on the elimination of a vacant administrative support position, a building inspection position and an associate planner position. In addition, the full time code enforcement position will be funded between the General Fund and utility enterprise fund; the incumbent Code Enforcement Specialist will split time between his current responsibilities and environmental resources. These proposed actions will generate **$330,719** in savings and result in the loss of one vacant position and layoff of two full time staff and one part time staff.

The impacts of the proposed actions include additional time necessary to process development applications, especially those applications that require discretionary approval by the Planning Commission and City Council. Planning Commission meetings will be reduced to once per month and staff support will no longer be available to support the Historical Preservation Commission. Without staff support, the HPC will either operate as an informal advisory group or need to be suspended until staffing levels can support the operation.

<u>Fire</u>

The proposed reduction for the Fire Department is the elimination of one Fire Engine Company, usually referred to as the Fourth Engine Company. This action would also include a reduction of one Battalion Chief, reduction of one Facility Maintenance Worker as well as nine professional firefighter positions. Due to the three vacant firefighter positions, the total layoffs would be eight employees, including seven sworn positions. A total of **$1,590,504** would be generated through these actions.

There are several impacts associated with this proposed reduction. The current four minute response time adopted in the City's General Plan could no longer be met which would require the fire service element to be amended. National minimum staffing standards that have been recognized for urban fire departments serving Woodland's population base of 13 firefighters plus two chief officers would be reduced to nine firefighters. It will become more difficult for the Fire Department to handle the same or separate alarms and simultaneous calls which would likely generate more mutual aid requests from Davis and other neighboring agencies. Conversely, the reduced staffing will make it more difficult for Woodland units to respond to mutual aid requests from the same agencies that respond to assist Woodland.

Other impacts will be felt, including reduced training, proactive company inspections and maintenance of equipment. It is possible that business and homeowner insurance rates may increase based on the evaluation of the ISO, a national organization that assesses liability and causality insurance risk. In 2008, the ISO rated Woodland favorably based, in part, on the level of fire resources maintained by the City. When the ISO returns to Woodland in the future, reduced fire staffing could have an unfavorable impact on the ISO's rating. An unfavorable rating could in turn generate higher insurance premiums for Woodland residents and business owners over time. This reduction could also serve to constrain further growth in Woodland as the fire resources necessary to support residential, commercial and industrial development would be limited.

<u>Library</u>

Alternative #1 includes the proposed elimination of all General Fund support for the Library. This proposed action would eliminate the current 30-40 hours per week of services. The following well documented performance measures generated by the community's use of Library services would be no longer provided until funding is restored:

- Over 263,000 visits were documented at the Library last year, an average of 22,000 per month
- Circulation of the collection grew for the fifth consecutive year to 349,138
- 304 special programs attracted 11,573 participants
- Literacy program participation served 418 adult learners with 90 tutors
- Volunteer hours increased from 318 to 517

These measures are only a sample of the outstanding activities provided at the Library each year. It is important to note that despite the reduction in Library funding each year, participation continues to increase which appears to be directly associated with the downturn in the economy.

If all General Fund support for the Library was eliminated, a total of **$946,766** of net savings would be generated. This potential action would result in the layoff of five full time positions.

<u>Parks & Recreation</u>

Alternative #1 proposes to implement reductions to Parks & Recreation at the 20% level which would further reduce park maintenance by reducing supplies and services, eliminating seasonal part time park maintenance staff, eliminating a facility maintenance worker, aquatics supervisor and administrative support position. These proposed reductions would delay services provided at the Community & Senior Center counter, delay "turn around" of events at the Center, reduce the quality of maintenance for play areas, restrooms, picnic areas and the general appearance of parks, especially due to trash/debris accumulation, equipment repairs and landscaped areas. In addition, there would be slower repairs to the Brooks Swim Center, cemetery maintenance and tree trimming.

Recreation program reductions would include no longer providing winter (approximately November – February) operation of the Brooks Swim Center which would have a significant impact on the Woodland Swim Team. This specific reduction is proposed due to the high cost to operate the pool in the winter months. The loss of administrative support will have an adverse impact on the Parks & Recreation Commission and require Recreation Supervisors to spend more time supporting office operations and less time overseeing programs. In addition, the potential reductions would eliminate operation of the Woodland Senior Center programs and services.

The total savings projected by the proposed Alternative #1 expenditure reductions to Parks & Recreation is **$659,805.** A total of three full time staff members would be discharged through lay offs and part time work hours equivalent to 7.3 positions would be eliminated.

<u>Police</u>

The proposed expenditure reductions for the Police Department would eliminate certain administrative, support and special operations that would impact both civilian and sworn staff. The projected savings from these reductions is **$1,695,768.** A total of six sworn and five non-sworn positions would be eliminated. Because of the three vacant sworn positions, actual layoffs would total eight, including three sworn officers.

The reductions include a 5% decrease in the Yolo Emergency Communications Agency (YECA) contract and elimination of graffiti removal, the K-9 unit, court liaison service and Woodland's participation in the Yolo Narcotics Enforcement Team (YONET). In addition, the Police Department is projecting a renegotiated agreement with the Yolo County Sheriff's Animal Services program that is projected to save approximately $400,000. As the Council will recall, an effort to reach an agreement with Animal Services in 2008 that would have achieved similar savings was not successful.

Potential additional savings were identified with the reduction of civilian staff members in the crime analysis unit, records, and patrol. These positions support investigations, patrol and traffic operations which will also be impacted. Sworn officer positions were also identified for reductions, including DUI enforcement, a traffic sergeant, YONET officer, professional standards and the School Resource Officers. The total positions impacted by the reductions are six sworn and five non-sworn positions.

The 5% YECA contract reduction was generated by savings the Agency was able to identify and pass through to their members. However, there are significant impacts associated with the balance of the reductions. Eliminating graffiti removal will delay eradication as City crews and others adjust to develop another method to remove the unsightly vandalism. While loss of the K-9 unit will not affect the officer assigned to this detail, resources will no longer be available to support training and care of the dog. The court liaison service provides scheduling notification to prevent officers from reporting to court if their appearance has been delayed or the case is settled which saves overtime.

YONET is the regional narcotics unit which would no longer be available to the Woodland Police Department, thus leaving narcotics enforcement to local resources.

Support services such as records and crime analysis are very important to the Police Department. Records, as discussed on February 2, processes information necessary to keep police officers across the nation informed regarding arrest warrants and other critical information. This function went to a 24/7/365 operation in 2005 in order to meet law enforcement needs. In addition, the potential reduction will reduce the availability of staff to operate the front counter in the Police Department which will impact service to the public. Crime analysis supports detectives and other officers actively investigating incidents; this potential reduction will impact the efficiency and effectiveness of investigations. Finally, the loss of two field Community Service Officers will impact patrol activities because these CSO's often take reports for non-emergency calls. In 2009, the CSO's took 630 reports which freed up patrol officers for other activities.

The proposed reduction of sworn officers assigned to special enforcement programs will impact several areas. Elimination of the DUI enforcement officer will remove the special enforcement efforts in a very important area; last year, this program generated 55 DUI arrests and supported saturation patrols, sobriety checkpoints and other general enforcement activities. The professional standards sergeant conducts internal affairs investigations and supports training and recruitment; these duties would be reassigned to remaining command staff and would certainly take longer to complete. Elimination of a traffic sergeant will reduce supervision of the traffic unit, reduce proactive traffic enforcement and delay review of vehicle accident reports which help determine where traffic officers are assigned. Finally, the potential loss of two School Resource Officers will have a major impact on school campus safety. In 2009, the SRO's were responsible for 11,991 contacts and 112 arrests. These officers worked 36 special events and are a visible deterrent to inappropriate behavior and criminal activity on middle and high school campuses.

<u>Public Works</u>

The potential reductions within Public Works focus on General Fund maintenance operations which represents about $1.1 million of the Department's $25 million annual budget. In order to achieve a 20% expenditure reduction, services for street trees, curb/gutter/sidewalk and buildings would be affected. Specific area that members of the public would notice includes elimination of all downtown area maintenance and special event support; reduction of curb, gutter and sidewalk repair; reduced frequency of tree trimming. Potential impacts include accelerated deterioration of buildings, parking lots and other infrastructure assets. One potential impact that is worrisome to staff is the liability associated with the reduced street tree maintenance. The total cost reductions are $222,692.

Staff has identified $98,400 in additional revenue based on a 2% franchise fee rate augmentation from the City's solid waste franchise. The combined impact of the cost reductions and revenue augmentation is **$321,092.**

Total Impact - $5,791,547, elimination of 11 full time positions, 7.3 FTE and X potential layoffs depending on the final results of the Golden Handshake program

Alternative #2

Staff is currently working on an Alternative #2 that would increase reductions in Parks & Recreation as well as other areas in order to fund the Library at the 20% reduction level projected at 20 hours per week. The Library Services Director estimated that approximately $868,000 would be needed to operate the Library at 20 hours per week. Staff has identified an additional $500,000 in potential reductions in Parks & Recreation that will further impact maintenance and programs. These impacts will include the following:

- Youth or adult recreation leagues
- Cemetery maintenance
- Aquatics maintenance
- Elimination of all aquatics programs

In order to fund the Library at the 20% level, staff will need to identify an additional $360,000 from other General Fund activities. Given the level of reductions discussed thus far that will certainly not be easy.

Sales Tax Impact

The City Council's decision to place a quarter-cent sales tax measure on the June 8 ballot does provide options for Woodland citizens to consider in lieu of the expenditure and service reductions discussed herein. This measure has a four-year term and is expected to generate $1.5 million in the first year and $1.75 to $2 million in the three succeeding years. The lower first year estimate is based on the time required for the state to establish the procedures for collecting the higher amount. In addition to the sales tax measure, the June ballot includes three advisory measures. These measures were presented on the February 2 and are summarized below:

Shall any voter approved sales tax in the City of Woodland provide 30% of the sales tax received to the Woodland Public Library to restore educational and literacy programs and maintain library operating hours at 54 hours per week?

Shall any voter approved sales tax in the City of Woodland provide 30% of the sales tax received to the Woodland Parks & Recreation Department to maintain current levels of park and public landscape maintenance and senior citizen programs?

Shall any voter approved sales tax in the City of Woodland provide 40% of the sales tax received to Public Safety services within the Woodland Police Department and Woodland Fire Department to maintain the current number of sworn police officers and firefighters?

If the sales tax measure and advisory measures are approved, the 30% allocation of the $1.5 million would be $450,000 for the Library and Parks & Recreation. The 40% allocation for public safety would be $600,000.

As stated herein, the proposed reductions listed in Alternative #1 for the Library, Parks & Recreation, Police and Fire Departments are nearly $4.9 million. This level of reduction cannot be entirely offset by an additional $1.5 million. However, staff believes that the additional sales tax proceeds can be used in a manner that accomplishes the following:

- Provides an allocation to the Library that will keep the facility open at the current level of service

- Provides an allocation to Parks & Recreation that will keep the Senior Center program in operation and allow acceptable levels of park and public landscape maintenance

- Reduce the public safety impacts to the point that there would be no layoff of sworn personnel although there would be reductions in non-sworn positions

It is important to note that the advisory measures were developed by staff in late January and presented to the City Council initially on February 2 and again on February 9. At that time not all of the General Fund revenue estimates were completed. The major "game-changer" was the final estimate developed for property tax. As the Council will recall, staff revised the property tax estimates for FY 2010 significantly downward in May/June 2009 in response to declining property values and reassessments. Estimates for FY 2011 were developed based on the revised projection which staff believed at the time was appropriately conservative. As the collections results from the County were reported to staff in late January/early February and fully evaluated for the FY 2011 revenue estimates, the revised property tax estimate of over $1 million less than originally anticipated became clear. Unfortunately, the language for the sales tax and advisory measures was already finalized.

Meet and Confer Issues

Despite this situation, staff believes there may be other opportunities for identifying resources that could be reallocated to meet the intent of the advisory measures. On Friday, March 19, the City Manager met with representatives of the City's employee associations to discuss the City's financial situation. It was made clear during that meeting that significant expenditure reductions for the General Fund would be necessary. The City Manager asked for the employee associations' ***support*** and ***help*** for the City and the community during this time of severe fiscal challenges. Further discussions will occur as the City conducts meet and confer sessions to discuss layoffs and negotiates with associations which had one year agreements that expire on June 30. Staff believes that the employee associations accepted the message and fully understand the potential impacts to the community and City organization if the reductions described herein are fully implemented.

Employee Cost Saving Committee

In addition, the employee cost saving committee working on a study of cost saving strategies completed their work earlier this year. The committee reviewed 237 suggestions; 77 of the suggestions were evaluated as duplicates, 44 have already been implemented seven would have an impact on non-General Fund programs. A total of 115 suggestions were reviewed in greater detail for feasibility. It is important to note that several of the recommended suggestions evaluated as potentially valuable from a cost saving standpoint are meet and confer items that have an impact on compensation.

Conclusion

As was the case last year, there is much work to do in order to prepare the FY 2011 budget and updated 10-Year Financial Plan. The economy remains uncertain and resources will likely be scarce in the near future. Despite the uncertainty, the information generated by the Your City, Your Voice community engagement process provides some level of understanding regarding how citizens view City government. Staff believes that the potential actions summarized within this report address the highest priority needs of Woodland residents and business owners ***within the available General Fund resources.***

Nevertheless, many citizens will find that the proposed actions such as the complete closure of the Library are unacceptable. The Council's decision to place the sales tax and advisory measures on the June ballot will provide further opportunity for citizens to express their priorities for resource allocation. Voter approval to increase the sales tax by a quarter-cent and diligent work with employee associations may yet identify additional resources to meet the intent of the advisory measures.

Given the situation, there is no other alternative than to grapple with the problem and work the issue until it is resolved to the best of our abilities. Success will be dependent on the entire community working together to avoid the most objectionable program and service reductions.

Fiscal Impact

The potential actions described herein provide the City Council with options that will reduce the City's General Fund budget in order to offset the current shortfall identified as $5,639,637. If the four-year sales tax measure is approved, an additional $1.5 million in FY 2011 and $1.75 - $2 million will be generated that will allow certain library, parks & recreation and public safety services to be funded.

It is imperative that the City Council consider reductions and ultimately approve reductions that will address the current fiscal imbalance. **Staff believes that the programmed use of reserves and one time funds to maintain a fiscal imbalance is not an appropriate strategy.**

Public Contact

Posting of the City Council agenda. The City Manager also met with the leadership of the City's employee associations on March 19 and conducted City wide employee meetings on March 25. In addition, the City Manager has also been meeting with a Chamber of Commerce task force that has been formed to review the City's General Fund budget.

Recommendation for Action

Staff recommends that the City Council receive the presentation on alternatives to balance the FY 2011 General Fund and provide direction that will reduce expenditures to balance the approximate $5.7 million deficit as described herein.

____
Mark G. Deven
City Manager

Attachments

City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR AND CITY COUNCIL

DATE: May 25, 2010

SUBJECT: Fiscal Year 2011 Proposed Operating Budget Update and 10-Year Financial Plan

<u>Report in Brief</u>

On March 30, 2010 staff presented strategies to reduce the General Fund budget in order to address a projected $5.8 million deficit. The objective of the presentation was to discuss the strategies and receive direction from the City Council.

Staff presented the strategies and there was significant discussion from employees and citizens who expressed concerns regarding the reductions and the associated impact on jobs, programs and services. The City Council made several comments regarding specific reductions. However, there was no substantive direction provided by the City Council as a group. Therefore, staff has proceeded to list the reductions strategies discussed on March 30 as the most viable options for addressing the $5.8 million General Fund deficit although other options may be considered depending on Council direction and priorities.

There have been other activities associated with the FY 2011 budget since the March 30 workshop. Management staff has held meetings with most of the City's bargaining units and some progress has been made to collaboratively reduce expenses. Revenue and expenditure estimates in all funds are being refined. The City Manager had had several meetings with a Task Force formed by the Chamber of Commerce who are looking at the City's fiscal issues from the perspective of the business community. Other options for resource allocation have been reviewed and will be presented herein as alternatives. Finally, staff has developed 10-year Financial Plans for all City funds which will facilitate the City Council's and community's review of the City's fiscal condition from a long range perspective. The significant issues associated with these activities will be reviewed during the May 25 budget workshop.

Staff recommends that the City Council review and comment on the proposed Fiscal Year 2011 operating budget and FY 2011 through FY 2020 10-year Financial Plan and provide direction for changes, if any. The Council's direction will be incorporated into the preliminary FY 2011 operating budget that will be presented for adoption at the June 15, 2010 City Council meeting or as soon as possible thereafter so that a budget is in place beginning July 1, 2010.

Background

The March 30 budget workshop presented the worst case financial plan for the City's General Fund. In order to balance the FY 2011 projected deficit, reductions of approximately $5.8 million are necessary with the loss of 35.25 positions and 28.25 layoffs. Please note that the change in the position loss and layoff numbers from the March 30 report are due to the loss of the Library's literacy program because the funding authority requires the activity to be associated with a public library and cannot be transferred to another location. The potential strategies included the complete closure of the Woodland Public Library; elimination of a fire engine company; loss of sworn police officer positions and resources dedicated to narcotics enforcement, traffic safety and records; further reductions in parks & recreation, including the loss of all staff support for the senior citizens program and off-season closure of the pool; and elimination of all City support for special events.

Unfortunately, the level of program/service level reductions was significant, far ranging and nearly intolerable to many members of the community and employees. It is important to note that the reductions discussed on March 30 follow two years of difficult City budgets. The FY 2009 budget was adopted in June 2008 with approximately $3 million in expenditure reductions and $3 million in one-time funds to offset a deficit of over $6 million. In February 2009, mid-year adjustments required an additional $2.4 million in expenditure reductions and use of one time money. Last year, the Council's adoption of the current FY 2010 budget required expenditure reductions of over $5 million and concessions from bargaining units of over $1 million to address a $6.3 million deficit. On February 2, an additional mid-year shortfall of $2 million required further expenditure reductions and utilization of one time revenues. The reductions that have been implemented over the last two years have caused the City to reduce its work force by 18% and reduce compensation to employees by approximately 5%.

While many of the program/service level reductions implemented over the last two years have been significant and noticeable, the City has found ways to maintain the highest priority activities at a tolerable level. As an example, the Library has continued to operate, albeit at approximately 30-40 hours per week down from 54 hours per week two years ago. Despite the loss of 33% of its resources, 22 positions and all management staff, Parks & Recreation continues to offer an acceptable and commendable level of service through the leadership of the remaining supervisory employees led by the Chief of Police who is currently serving as that Department's interim director. Both the Library and Parks & Recreation benefit from community support generated by volunteers who assist daily operations in a variety of ways.

Therefore, the General Fund reductions presented on March 30 had major impacts to the remaining programs and services. There are simply few options available given the level of previous reductions and the decline in General Fund revenue. To illustrate further, the City's estimated General Fund revenue ***less Measure E*** is $30,346,583; this level of revenue is approximately equal to the City's General Fund revenue generated seven years ago in FY 2004.

Using FY 2004 as a baseline for comparison purposes, staff reviewed the allocation of General Fund resources between all departments. This allocation was based on the amount of the General Fund

less charge backs to other funds and departmental revenues generated by fees and charges. This amount is primarily generated through taxes collected from property, sales and hotels and is commonly referred to the "discretionary" General Fund revenue. In FY 2004, the discretionary General Fund revenue was $21,828,255. The amount available for FY 2011 is $22,861,644. The following table summarizes the percentage allocation:

Department	2004 Budget	2011 Request
Administration	0.4%	0.4%
Community Development	(-) 2.0%*	2.3%
Finance	1%	0.2%
Parks & Recreation	15.3%	11.6%
Police	43.3%	62.6%
Fire	22.6%	36.6%
Library	4.7%	4.7%
Public Works	10.8%	4.5%
Transfers**	0.9%	1.7%
Total	97%	125%

Notes: * Community Development generated fees that offset its entire operation in FY 2004.
** Transfers primarily include funds that are collected for expenses such as debt service and General Fund subsidies to the cemetery and storm drain operations.

The above table illustrates the challenge associated with balancing the FY 2011 General Fund budget with revenues that are approximately equal to FY 2004. Over the last several years, Public Works and Parks & Recreation have seen their share of the General Fund significantly reduced. Most of the remaining departments are flat with the exception of Police and Fire. In FY 2004, Police and Fire accounted for 65.9% of discretionary General Fund revenues. The requested expenditures for Police and Fire in FY 2011 are 99.2% of this same factor.

It is important to note that the above table and comments are not intended to be critical of the Police and Fire departments' budget requests or previous resource allocation decisions. The community and the City Council expect that these critical public safety functions be well funded and that the men and women who staff these departments have the resources available to serve and protect the public. The primary point that is illustrated in the above table is that it is virtually impossible to address the projected FY 2011 General Fund deficit without impacting service levels in all departments, including public safety. That is because the reductions that have been implemented the previous two years have primarily impacted other departments in order to reflect the high priority held by public safety. As a result, it was the City Manager's sad and unfortunate responsibility to present FY 2011 reduction strategies that included the elimination of all General Fund support for the Library, loss of a fire engine company, reduction of sworn police officers and civilian support positions and elimination of part time positions at the Senior Center.

Following the March 30 meeting, staff has focused on the following activities in association with preparing the FY 2011 budget:

- Met with Bargaining Units to determine their interest in further compensation reductions and support for another round of the retirement incentive “Golden Handshake” program;
- Continued to carefully review revenue and expenditure estimates;
- Reviewed options for reallocating resources for the highest priorities identified by the City Council;
- Developed 10-year Financial Plans for the General Fund, combined Transportation Funds, Water Enterprise Fund, Sewer Enterprise Fund and Redevelopment Funds.

The balance of this report will focus on the progress made on the above items.

Discussion

Meetings with Bargaining Units

Following the March 30 Council Budget Workshop, the City’s Designated Representatives have communicated with or held meetings with all employee organizations regarding the Golden Handshake program. General negotiation meetings are in progress with those associations with agreements that expire on June 30, 2010 (general employees, mid-management, and fire mid-management). It is important to note that the firefighters, police officers and police mid-management all have three-year agreements which include a second year of furloughs in FY 2011.

Each employee association expressed their support for participating in the Golden Handshake program should it be offered. Following the supportive response from the associations, the City Manager authorized a citywide email advising all employees of the potential availability of the program and a follow up email sent to only those employees who are eligible to participate. To be eligible, an employee must be age 50 years or over and vested in CalPERS with five or more years of service.

As the Council will recall, the Golden Handshake program has been a very effective tool for reducing the City’s staffing during this severe economic downturn. Two previous rounds of Golden Handshakes have facilitated the early retirement of 19 employees. It is certain that without this program there would have been an equal or greater number of layoffs. One concern associated with the Golden Handshake is the cost of the program. The two rounds offered in 2009 and earlier this year increased the City’s future retirement burden by $805,470. However, under the terms set by CalPERS, this amount is amortized over 20 years and the payments do not begin until two years after the program is implemented. Therefore, the City’s annual payment from these two rounds is $72,791 annually beginning in 2012 in comparison to approximately $1.8 million of total annual compensation that would have been paid in lieu of early retirements. Staff believes that the Golden Handshake is an effective way to reduce the City's staffing and is certainly more acceptable to employees than layoffs.

If the City Council remains supportive of this program which could help offset the need to layoff up to 28.25 employees depending in the results of the June 8 election, two actions will need to occur. The first action is Council approval of the cost and program information which needs to be scheduled on June 29, 2010. The second action is final approval of the program scheduled for July 20, 2010. If the Council approves the actions described herein, the "window" for the Golden Handshake would open on July 22 and close on around mid-January 2011. The final date will be decided based on the employees who express interest. Since announcing the potential availability of the program, nearly 30 employees have expressed interest, some of which are on the proposed layoff list. Based on previous experience, about half of the employees who show interest will actually sign up for the program if approved and that number will depend on the Council's approval of layoffs.

The City's Designated Representatives have held productive and positive meetings with the Woodland Professional Firefighters Association and Fire Mid-Management Association.

Finally, City Representatives have also held meetings with employee organizations representing general employees and mid-management. Based on the discussions, it is possible that negotiations with the general employees and mid-management will not be completed before the start of the fiscal year as it appears that these units are waiting to engage in substantive dialog. The hesitancy seems to be associated with waiting for the result of the discussions with the firefighters, voter consideration of the sales tax measure and Council action on the FY 2011 budget. A major concern to City management is that a delay in concluding negotiations until after the start of FY 2011 could delay implementation of a second year of furloughs for the general employees and mid-management.

Given the pace and results of the negotiations, City management has no choice other than to continue to prepare for the layoffs presented in the March 30 report and additional layoffs if furloughs are not extended for the general employees and mid-management into FY 2011. If furloughs do not continue for the members of these associations, management will need to propose additional layoffs because the $5.8 million in reductions discussed on March 30 assumed that furloughs would continue for all units.

Review of Revenue and Expenditures

The City Manager and the Budget Review Team have continued to look closely at revenues and expenditures in order to refine projections and examine all alternatives to offset the reductions discussed on March 30.

On May 12, staff met with the City's sales tax consultant who provided detailed information on the fourth quarter 2009 results and an updated forecast for the balance of FY 2010 and FY 2011. There are indications that the economy is beginning to emerge from the most significant downturn since the Great Depression. Staff is reviewing this information to evaluate whether or not estimates can be favorably revised. Given the currently weak economy, any favorable revision needs to be carefully considered.

Staff remains confident that the cost reductions discussed on March 30 can be achieved if furloughs for all employees continue and the firefighter overtime issue is resolved. If either of these issues is not resolved than staff would need to look for additional reductions that would require layoffs.

One area of concern associated with the cost reductions is the Animal Services contract with the Sheriff's Department. As the Council will recall, the Police Department has proposed a nearly $400,000 reduction based on a revised model of service. The revised model would shift from sheltering animals to returning strays to their owners. Use of the shelter facility would be minimized and the City would need to hire, train and equip an Animal Services officer. Fees and services associated with services to Woodland residents would be used to offset the City's share of the costs to the point that the net General Fund impact has been estimated to be $105,000.

As the Council is aware, modification of the Animal Services agreement was attempted in 2008 in response to similar fiscal issues. At that time the Police Department attempted to negotiate the modification with Animal Services and while some progress was made to reduce operating costs, the effort fell short of the savings envisioned when proposed. In July 2008, the City Council approved the Animal Services agreement and the FY 2009 budget required an augmentation of $446,000.

On May 12, city managers from three of the four Yolo cities and the County Administrative Officer (CAO) met to review Animal Services and discuss potential cost savings. During the meeting, the CAO stated that the FY 2011 Animal Service budget was reduced by $410,000 in the patrol and shelter operation areas. The CAO will provide additional information very soon regarding the potential impact of these reductions on the cities. In addition, the CAO will discuss the need for the Animal Services to consider changes to the program that will reduce costs to the cities. However, the CAO noted that he holds little, if any, leverage on the Sheriff's Department to force a change. While staff certainly remains interested in achieving the level of reductions proposed by the Police Department, a contingency plan needs to be developed in case a result similar to July 2008 occurs this year.

Reallocation of Resources to Meet Council and Community Priorities

During the March 30 meeting, the Council and members of the community raised objections to certain reductions, especially the closure of the Library and loss of sworn public safety officers. At this point, staff believes the best alternative is the passage of the sales tax measure and the advisory measures that will provide enough additional resources offset the reductions in these areas.

One other alternative that the Council could consider is to reallocate Measure E funds currently allocated to local streets and roads for either the Library or public safety. This alternative would require 4/5 Council approval as stipulated by the Measure E resolution adopted in 2006.

Serious consideration of this action requires a review of the current use of these funds and the impact on Woodland's local streets and roads. In October 2007, the City Council approved the annual allocation of $750,000 to the Public Works Department's road crew. This is a priority use of the funding as it allows crews to perform preparatory work for road rehabilitation such as slurry seal and reconstruction projects at a cost significantly less than the cost of paying a contractor. In addition, the current allocation of Measure E for roads will fund the Kentucky Avenue Reconstruction Project in 2016 per the current capital budget. This project was identified as a high priority by the public when Measure E was approved.

If Council directed reallocation of the $750,000 annual Measure E funding for the remaining life of the measure a reduction of $3.3 million in road preparatory work and a reduction of $2.3M of road reconstruction will occur over the life of the program. The impacts of these reductions will be significant increases in future road project costs as the infrastructure deteriorates. Simply stated, road preparatory work becomes a rehabilitation project and road rehabilitation becomes a road reconstruction project.

To illustrate further, given an average cost for preparatory work of $0.40 per square foot, this correlates to approximately 65 miles (45%) of local and collector roadways that will not receive surface maintenance through the life of Measure E. The current local and collector roadway system has an overall Pavement Condition Index (PCI) rating of 66 (ranked out of 100). The PCI is a numerical index, ranging from 0 for failed pavement to 100 for pavement in perfect condition, used to indicate the condition of a roadway. The PCI method was developed by the U.S. Army Corp of Engineers and is based upon the results of a visual condition survey which identifies distress type, severity and quantity. Applying the roadway degradation that has historically been tracked on local and collector roadways and the funding remaining after the reallocation, it is estimated that the local and collector roadway system PCI would deteriorate to a range between 50 and 55.

Additionally, at an average cost of $8.00 per square foot, the reduction of $2.3M in road rehabilitation will leave only enough funding to rehabilitate 1.5 miles of arterial roadways (in addition to the Kentucky project) rather than the 3.2 miles currently programmed in the capital budget. The City has approximately 9 miles of arterial roadways in need of rehabilitation. The current capital budget accounts for rehabilitating over 30% of these roadways; if the Measure E funds were reallocated, less than 16% of this need would be addressed. The current arterial roadway system has an overall PCI of 68 (ranked out of 100). Applying the roadway degradation that has historically been tracked for arterial roadways and this funding level, it is estimated that the arterial roadway system PCI would deteriorate to a range between 48 and 54.

Allowing this level of degradation on the City's roadway system has long term financial impacts. Roadways that may have been maintained at an average cost of $0.40 per square foot will escalate in their maintenance needs to upward of $5.00 per square foot and some will fall into the rehabilitation category at $8.00 per square foot. This means that the 65 miles of roadway that could be maintained for $3.3M within the life of Measure E will cost nearly $50M (assuming 10% falling into the rehabilitation category at a cost over $6.5M) when completed after the expiration of Measure E.

For these reasons, staff believes the reallocation of Measure E from local streets and roads to an operational program such as the Library or public safety is an unfavorable business decision and cannot be recommended. In addition, the discussion of the 10-year Financial Plan for the combined transportation funds later in this report includes acknowledgement that regional transportation funding will be significantly reduced in 2012 to the point that ***additional*** Measure E funds will be needed to maintain the current level of service.

The only remaining alternative for resource reallocation would be to reduce the remaining General Fund support for Parks & Recreation. Staff looked at several scenarios that would generate significant net savings. One of the challenges with Parks & Recreation is that many of the activities generate all or part of their operating expenses from fees or assessments. For example, the Sports Park has significant annual operating costs of over $1,000,000; however, all of the costs to operate the Sports Park are offset by the Spring Lake Maintenance Communities Facilities District and user fees collected from sports organizations. Closing the Sports Park will not generate any General Fund savings.

One scenario identified by staff that could generate approximately $550,000 in General Fund savings involves the complete closure of the Community & Senior Center and Brooks Pool and elimination of nearly all general recreation programs. Closing the Community & Senior Center would generate approximately $340,000 and would require the senior program to relocate to another community facility, close the YMCA fitness center and cancel events and meetings such as high school proms and public policy meetings. On March 30, staff listed the off season closure of the Brooks Pool to save utility costs from November through February. Complete closure of the pool would eliminate all aquatics activities and save approximately $100,000. Eliminating all general recreation programs would allow the City to layoff one Recreation Supervisor for about $100,000 in savings. These reductions would limit all recreation programming to fees based activities such as adult sports leagues and operation of the Sports Park.

10-Year Financial Plans

As part of the budget process, staff has developed 10-year financial plans for major funds. Development of 10-year plans with appropriate assumptions provides a foundation for making decisions that have future impacts. Given the fiscal challenges described herein for the General Fund, the 10-year plan is an essential tool for outlining how the City should move forward under the current economic conditions. As will be noted in the following section, other major funds face significant challenges ranging for projected decreases in revenue to costly future capital projects.

General Fund. Exhibit #1 is the 10-year Plan for the General Fund. The plan includes all General Fund revenue sources. The General Fund projections are balanced for each year; however, the projections are based on resolution of the current and future structural fiscal imbalance and assumptions that reflect the current economic downturn. These assumptions include:

- Expenditure reductions of approximately $5.8 million are included in the adopted FY 2011 budget to maintain the 13% minimum reserve fund balance;

- Additional reductions of nearly $1.3 million in FY 2012 and varying amounts up $827,000 for every year through 2020 to fully correct the structural imbalance and maintain the reserve fund balance;

- Following the 7.5% drop in FY 2011, property tax is projected to increase by 2% in FY 2012, 5% in 2013, 6% in 2014 – 2016 and 3% in 2017 for the balance of the plan based on modest recovery and growth in the Spring Lake Specific Plan Area;

- Following the decline in FY 2011, sales tax is projected to increase by 2% in 2012 and 2013, 3% in 2014 – 2018 and 5% in 2019 and 2020;

- Fee increases proportionate to projected slower growth in development are forecasted through FY 2012 and 3% for the balance of the plan;

- Annual increases of 5.6% for overhead and cost recovery are forecasted;

- FY 2012 salaries will increase by over $835,000 as furloughs end and a 4% cost of living adjustment is implemented with 5.6% annual increases assumed for the balance of the plan based on historical averages;

- Annual benefits increase of 5% ranging up to 6.5% are projected throughout the plan to reflect escalation of pension and health insurance costs;

- Modest annual escalation of approximately 2% for discretionary operating expenditures are projected beginning in FY 2012;

- Annual non-discretionary expenditures for items such as utilities were increased by 3% – 5% through the balance of the plan;

- The plan assumes that a storm drain increase is approved and becomes effective in FY 2012 which will relieve the General Fund of a $242,000 annual subsidy;

- City share of Gateway development fees is deferred until FY 2013;

- The plan assumes that Other Post Employment Benefit (OPEB) costs beyond the annual premiums will be met through alternative strategies, such as the sale of surplus City property

The General Fund 10-year Plan assumes no growth in City services and the need to maintain the reduced work force and expenditures that will be achieved through the strategies described herein beginning in FY 2011. In addition, the plan assumes “full correction” of the structural imbalance primarily through expenditure reductions of approximately $1.3 million in FY 2012 and annual savings up to $827,000 each year through FY 2020 will be necessary.

Given the level of program and service reduction that have been implemented over the last two years and proposed in FY 2011, City management believes that further cost reduction needs to be focused on structural changes to employee compensation and implementation of more efficient and effective means for conducting the City's business. The structural changes to employee compensation should focus on more equitable sharing of benefit costs such as annual pension payments and health insurance. The more efficient and effective means for conducting the City's business would begin with implementing Performance Based Budgeting and could include, if feasible, more regional collaboration in the delivery of services ranging from wastewater to fire protection.

It is very clear that the City of Woodland cannot be successful as a local government organization by conducting business as usual and believing that economic growth will provide the sales and property tax income to support expanded services and increases in employee compensation. The rampant consumerism and accelerated development experienced in 2004 - 2006 has been replaced by a "new normal" that reflects the reduced income of residents and businesses. Recovery from the "Great Recession" will be gradual and modest and this reality is reflected in the updated 10-year Plan. In plain and simple terms, the City organization has to change or face certain failure.

While the focus needs to be on reducing costs, the City must also dedicate itself to economic development and redevelopment. Use of redevelopment funds to generate private sector investment in the downtown core is critical. In addition to the Woodland Courthouse, staff and the Agency Board need to stay focused on other redevelopment projects, such as the downtown theatre, that will generate visitors to Historic Downtown Woodland who will support dining and specialty retail. The City needs to maintain the commitment to mitigate the flood threat so that the payments of residents and business owners on flood insurance can be reinvested in property improvements and business expansion.

Staff and the Council need to focus on the northeast area and actively facilitate the retention and expansion of existing businesses as well as future businesses within the planned Woodland Park area. These efforts will generate sales and property taxes and create employment opportunities. Finally, projects such as Gateway II need to be carefully evaluated and fully discussed with the community and decisions made with the full understanding of the potential fiscal and community impacts.

It is important for the Council to note that the 10-year Plan does not include the resources to recover the services that were lost in the FY 2009 and 2010 budgets. For example, there are no funds projected to return Hiddelson Pool as a summer swim facility. Crime Prevention and juvenile diversion programs that were eliminated last year from the Police Department budget are not projected to return at any time over the next ten years. If these programs are important to the community and the City Council, then management must work with the bargaining units to share compensation costs and the organization must dedicate itself to becoming more efficient and effective in order to identify the resources necessary to restore services that have been lost.

Previous Guiding Principles approved by the City Council included a commitment to address OPEB costs. In addition, staff presented options for meeting the future retiree costs during a Council Study Session on February 25, 2008. Staff believes that the best option is to establish an irrevocable trust fund with a qualified investment organization and contribute cash payments that, over time, would generate the income necessary to meet the City's future obligation. This obligation is estimated at approximately $56 million.

Unfortunately, the proposed General Fund 10-year Plan does not include the resources to fund the OPEB obligation in this manner. However, the City does have other assets that may help address the obligation. These assets include the 126 acre site in the Woodland Park Specific Plan area and the 157 acre Regional Park property east of County Road 102 near the Spring Lake Specific Plan area. Under favorable economic conditions, staff believes both sites would be valuable depending on the type of land use envisioned for each location. Therefore, staff believes it is appropriate to consider options for each site that could generate income for funding OPEB costs as soon as possible. As an example, the 126 acre parcel in the Woodland Park area could be a possible site for commercial development. Staff is currently engaged in negotiations for the sale of the 126 acre parcel with the proceeds dedicated to starting the irrevocable trust for the OPEB obligation.

Council members have asked for more detail on General Fund revenues and expenditures following the March 30 meeting. Exhibit #2 is additional detail provided at the revenue and expenditure level by department. In addition, staff has provided three other scenarios associated with the General Fund that clearly show any action that fails to reduce the budget by $5.8 million will maintain an unacceptable structural deficit that will be nearly impossible to correct.

Water Fund. Exhibit #3 is the Water Enterprise Fund 10-year Plan. The plan has sufficient funding to meet Council approved operational and capital needs with healthy reserves consistent with the Budget and Fiscal policy. There are significant changes occurring in the Water Enterprise Fund over the course of the plan. The balance of the previously approved bond financing will be issued in FY 2011and the plan assumes that further debt financing for necessary capital improvements, primarily for the Surface Water Project. Through 2013, nearly $30 million in bond proceeds will have been issued for capital projects. The debt service payments and other assumptions associated with the capital projects were factored into the rate study completed in 2009 and the water rates approved by the City Council on November 3, 2009. As Council is aware, the action last November increased the fees by 20% effective January 1, 2010, 20% on July 1, 2010 and 20% annually on July 1 for the next two years. The plan assumes 6% annual increases for the remaining seven years; however, if the City remains committed to the Surface Water Project, more aggressive rate increases will be necessary.

It is important for the Council to note that Water Enterprise Fund 10-year Plan assumes three (3) years of both financing and expenditures related to the Surface Water Project; future costs associated with this project will need to be addressed through rate increases and additional financing and are therefore not included in this plan.

The 10-year Plan shows a line of "unfunded' capital projects that totals $112,563,383. This line is intended to illustrate the challenge for the Water Enterprise Fund in meeting capital and operational needs while keeping rates as low as possible. Most of the unfunded capital project cost is the second phase of the Surface Water Project which is $103,058,383. However, there is over $9 million of water system infrastructure such as wells and pipes that need to be replaced and new tanks that need to be installed in various areas to increase storage capacity and improve water pressure. There is insufficient income to fund these projects at the current rates. A future water rate study will need to account for the second phase of the Surface Water Project, its related operating impacts and the forecasted capital projects.

Finally, staff is working on alternatives to mitigate the rate increases such as seeking grants and using development impact fees to reduce the impact to existing rate payers. As an example, the water meter project received $14.8 million in American Recovery and Reinvest Act funds, approximately half as a straight forward grant and half as a low interest loan. Staff will identify similar opportunities for the unfunded capital projects.

Sewer Fund. Exhibit #4 is the Sewer Enterprise Fund 10-year Plan. This forecast assumes rates currently adopted by Council, adjusted annually by a CPI factor, and stable operating expenses. The financial plan also assumes capital expenses that will replace main trunk lines, lateral lines and elements of the Wastewater Treatment Plant at various times. The forecast does not assume any debt financing to cover the cost of the approved capital projects. The unexpended portion of the $11 million in bond funds issued in FY 2010 is included in beginning working capital for FY 2011. The Ending Working Capital is maintained at a prudent level throughout the entire 10-year Plan.

The 10-year Plan also shows $13,475,000 in unfunded capital projects. These projects include Odor Abatement and Phase II of the Water Pollution Asset Replacement. All of the work required to estimate the cost for these projects has not been completed. As the work necessary to consider these projects is completed, inclusion in the 10-year Plan will be reconsidered.

There is another looming issue that staff is working on from a long term financial planning perspective that could have a significant impact on the Sewer Enterprise Fund and future rates. Staff believes that wastewater regulations and standards will require new conditions for the management and removal of sludge. Preliminary review of the options thus far suggests that the new conditions could require capital expenditures of $20 - $90 million and also require additional operating costs that will vary depending upon the option selected. The costs for sludge management are not contemplated in the currently adopted sewer rates.

One option for addressing these conditions and future state and federal clean water requirements that promise to become more stringent and costly is to regionalize wastewater treatment. City management, public works and finance staff from Woodland and Davis are currently engaged in wastewater consolidation discussions that could help identify part of the resources to address this issue and the future regulatory environment. The two staff groups have already established an excellent model with the Surface Water Project that can be duplicated for wastewater. If this is successful, it may be possible to meet the future capital needs without significant rate increases.

Combined Transportation Funds. Exhibit #5 is the 10-year Plan for the funds that support the maintenance of Woodland's local streets and roads. Staff developed this projection in order to address the diminishing level of Transportation Development Act (TDA) funds. The first priority for the use of TDA funds is transit activities. As Yolo County's population continues to grow, a larger share of these funds will be used for transit purposes, such as expanding bus routes. Based on projections reviewed with YCTD staff, Woodland's share of TDA funds is expected to diminish from the 2011 projected amount of $724,022 to $84,625 by 2020.

In order to maintain the present level of road maintenance funding, the City would need to backfill with another source. The 10-year Plan shows one of the sources of the backfill as Measure E funds which Council approved utilizing a maximum of $750,000 annually through FY 2014 and then utilizing $800,000 annually beginning in FY 2015. However, additional backfill funds will be needed beginning in FY 2012 and for the remainder of the 10-year Plan which is three years earlier than was projected last year.

The accelerated loss of transportation funding has required staff to provide a list of strategies to address the impacts. Therefore, the following reductions are listed in priority order and provided to give the Council and the community a sense of the potential impacts if TDA funding was reduced and there was no backfill available to offset the loss. The impacts are listed in the order which reductions could be made based upon their regulatory requirements and the potential liability to the City.

1. ***General Budget –*** Reduce training budgets to minimum required to maintain certifications, reduce contract services where possible, reduce small tools budgets and reduce traffic engineering support/response to public requests during the summer months. (Savings – $45,000)

2. ***Sign Maintenance –*** Eliminate all maintenance and repair of green street name signs, brown and blue guide signs, no parking signs, red curb, bike lane lines, bike legends and fog lines. This includes graffiti cleaning and replacement of signs that are in disrepair or are missing. Knockdowns of signs in these categories will be removed and will not be repaired or replaced. All public requests for curb painting, sign installation and other non-regulatory requests will be denied. (Savings - $175,000)

   Potential Consequences **–** Faded, missing and damaged signage will not be repaired or replaced. There may be an increase in potential liability due to faded street name signs and Fire and Police responses. Additionally there are implications regarding parking enforcement revenues if parking restriction signs are not maintained.

3. ***Local Road Street Lights –*** Approximately 2,000 non L&L funded street lights located on collector and local streets (83% of the lights) will be turned off. Only emergency response to knockdowns or critical situations will be supported on these roadways. This reduction is proposed because street lighting is considered a convenience and not a requirement. (Savings – $300,000)

   Potential Consequences **–** Crime, vandalism, nighttime vehicle accidents and pedestrian injuries may increase.

4. ***Signal Maintenance –*** Reduced maintenance at traffic signals. Eliminate all non-essential maintenance, system upgrades, training and supplies, postpone the planned traffic signal maintenance management program (QuicNet) upgrade, denial of all special requests from the

public that are not deemed life/safety issues, eliminate crucial training, reduced stocking of essential supplies and eliminate the loop replacement program. (Savings – $110,000)

Potential Consequences – Basic required maintenance will be performed; however, special projects/requests, upgrades and unplanned work would be unfunded. Some maintenance projects may be delayed due to the lack of staff and supplies. As essential supplies will no longer be stocked, signals may be placed in, and left on, all red flash for extended periods while materials are acquired. Engineering response to and support of public requests will be reduced.

It should be noted that this means all operational/non-safety requests would be unfunded. An example of this would be when a traffic detection loop is broken and the signal timing is set to fixed timing, staff would not be able to address the issue.

5. ***Arterial Road Street Lights –*** Approximately 400 non L&L funded street lights located on arterial streets (17% of the lights) will be turned off (except for street lights at signalized intersections). Only emergency response to knockdowns or critical situations will be supported on these roadways. This reduction is proposed because street lighting is considered a convenience and not a requirement. (Savings – $64,000)

   Potential Consequences – Crime and vandalism may increase. Residents may feel less comfortable out at night which may affect revenue to businesses. There is a potential increase in nighttime vehicle accidents and pedestrian injuries.

6. ***Traffic Engineering Support for Enforcement–*** Reduced support for Police Department traffic and enforcement. Eliminate speed zone surveying, engineering support for challenged tickets and special information requests. (Savings - $5,000)

   Potential Consequences – Streets with invalid/outdated speed zone surveys would be classified as speed traps and would become unenforceable. Engineering regularly supplies code information and completes research in support of officers defending tickets that are challenged; this service would be reduced or eliminated.

If Measure E funds are unavailable, staff will need to find an alternative funding source in order to maintain local streets and roads at the current level. Increasing Measure E to the allocation required to avoid all or some of the reductions described herein will have impacts to the capital program. Staff believes this issue should be considered when the City Council reviews the Measure E Implementation Plan or considers the reallocation of the current Measure E share to transportation discussed previously herein.

Finally, it is important to remember that the State of California briefly considered the seizure of Gas Tax last year and already has implemented delayed remittance of Gas Tax money due to the City. With the state budget deficit at over $19 billion, the unpleasant options described herein could be under consideration as soon as this summer depending on the actions of the Legislature and Governor.

Redevelopment Agency. The Redevelopment Agency (RDA) is included as Exhibit #6. This plan is presented with a summary of projected Tax Increment that will add to the current base amount. The projected Tax Increment is based on various projects that staff expects will be completed over the next ten years. Redevelopment is planning on contributing a combination of tax increment and redevelopment bond proceeds to several City capital improvement projects which are included in the CIP. These projects include the Downtown Specific Plan, the East Street Specific Plan, Main Street Streetscape Improvements, and pre-engineering and planning for other redevelopment projects which total slightly more than $1 million.

The priority project is the Woodland Courthouse Project. The Agency is assisting in acquiring land needed to support the facility. Based on the joint Agency Board and City Council action on May 18, the Agency will expend about $3.1 million in bond funds to acquire the parcels bounded by Lincoln, Main, Fifth and Sixth. The State Administrative Office of the Courts through dedicated revenue generated by separate legislation will repay the Agency approximately $2.7 million. This repayment will be credited as Agency revenue and may be used for any redevelopment related purpose although staff is focused on using most, if not all, for other projects that will re-energize and revitalize downtown. One example of such a project is the development of a downtown theatre which the Agency Board has encouraged by the recent authorization to solicit competitive proposals. Staff has not included the $2.7 million repayment from the state in the RDA fund balance.

The state's seizure of RDA funds has been factored into the 10-year Plan. The current year seizure of $676,000 reduced the fund balance significantly; the projected FY 2011seizure of $141,390 is included in the projected expenditures. While the state seizure has not seriously impacted Agency programs at the present time, the potential for more state seizures is generating caution among staff and Agency Board members when considering potential use of RDA funds. As an example, staff and the Agency Board will need to carefully evaluate how much RDA funds can be utilized to support development of a downtown theatre.

Fiscal Impact

The information described herein summarizes the proposed operating expenditures for the City's General Fund, Water Enterprise Fund, Sewer Enterprise Fund, Transportation Program and Redevelopment Agency. The FY 2011 proposed expenditures for each of the financial plans described herein are summarized as follows:

General Fund - $33,767,765

Water Enterprise Fund - $15,931,925

Sewer Enterprise Fund - $17,669,699

Transportation Program - $2,817,711

Redevelopment Agency – $1,322,377

Public Contact

Posting of the City Council Agenda. The information presented herein regarding the General Fund was extensively discussed through the "*Your City, Your Voice*" public engagement process, four City-wide employee meetings and meetings with Association Leaders.

There was also extensive discussion of the FY 2011 budget on March 30. A copy of the March 30 report is provided as Exhibit #7 for the Council and community's reference.

Recommendation for Action

Staff recommends that the City Council review and comment on the proposed Fiscal Year 2011 operating budget and FY 2011 through FY 2020 10-year Financial Plan and provide direction for changes, if any. The Council's direction will be incorporated into the preliminary FY 2011 operating budget that will be presented for adoption at the June 15, 2010 City Council meeting or as soon as possible thereafter so that a budget is in place beginning July 1, 2010.

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Mark G. Deven
City Manager

Exhibit One:	General Fund 10-Year Plan
Exhibit Two:	FY 2011General Fund Revenue and Expenditure Detail
Exhibit Three:	Water Enterprise Fund 10-Year Plan
Exhibit Four:	Sewer Enterprise Fund 10-Year Plan
Exhibit Five:	Transportation Program 10-Year Plan
Exhibit Six:	Redevelopment Agency 10-Year Plan
Exhibit Seven:	March 30 Council Report

Chamber of Commerce City Budget Review Task Force Report

INTRODUCTION

With the encouragement of the City Council members who form the City/Chamber 2x2 Committee, the Chamber of Commerce formed a Task Force to review the City's FY 2011 General Fund budget. This review was undertaken to provide a business perspective to the challenging fiscal issues faced by the City.

The review was conducted during nine meetings held over the past two months. The City Manager provided background information regarding the fiscal issues faced by the City since 2007 and the strategies under consideration to reduce the General Fund by $5.8 million for FY 2011. Task Force members also met with each department head to review programs and services, discuss the potential reductions presented on March 30 and consider short and long term strategies to mitigate the reductions. Information provided by all City staff was responsive and straight forward.

At the conclusion of the process, the Chamber Task Force recommends that the City Council approve the level of reductions necessary to balance the FY 2011 General Fund as presented during the March 30 Council workshop. Any reduction less than the amount recommended by the City Manager will maintain a structural deficit that will become worse in the future. In addition, the strategies presented by the City Manager will significantly reduce services yet are necessary given the General Fund revenue available.

In addition to providing feedback on the FY 2011 reduction strategies, the Chamber Task Force strongly recommends that the City Council consider actions that will clearly define Council priorities and help reshape the City organization. Given the new economic realities, it is clear that the City cannot continue with a "business as usual" approach. The organization must grow smaller, become leaner, increase efficiency and control certain costs if it is to be successful over the long term. Therefore, the Task Force has identified actions within four broad strategic areas which are recommended for the City Council to consider. If these actions are favorably received, the Task Force believes direction to implement the actions should be provided to the City Manager.

The following information summarizes the strategic initiatives and the actions.

ORGANIZATIONAL INITIATIVES

<u>Identify the Highest Priority City and Community Goals:</u> With diminished resources that will likely continue for the next 5-8 years, the City must identify the most significant and desired community goals, take action that affirm the goals and direct staff to focus on meeting the goals. The Chamber believes that the highest priority goals should include:

- Maintain City finances so that all funds are balanced and healthy reserves are available
- Maintain Public Safety
- Support and facilitate economic development and redevelopment
- Maintain City infrastructure, including water, wastewater and roads
- Support neighborhoods and quality of life

Clearly identifying goals is essential for providing the City Manager, department heads and staff with direction and expressing to citizens the highest priorities for the City.

Implement Outcome/Performance Management: As with all businesses, the City must implement an approach that focuses on the outcomes desired for a program and service and the principle that managers and all employees will be held accountable for achieving the outcomes. Stated simply, outcome management asks the question: "What are the **results** we are trying to achieve?" These results need to be stated in measurable terms.

Implement Performance Based Budgeting: The community's highest priority goals and outcomes need to be linked to the allocation of resources. This can be accomplished by implementing a Performance Based Budget. A Performance Based Budget states in measurable terms the results that will be achieved and the service levels. In summary, a Performance Based Budget will help Woodland to become a data driven, results oriented, customer focused and responsive local government organization.

FISCAL INITIATIVES

Continue Implementation of Long Range Financial Planning: Direct the City Manager to continue development of long range financial plans with a minimum forecast of ten years that clearly define assumptions and show all funds with healthy reserves of 15% to 30%.

Establish Internal Service Funds: Similar to businesses with a large inventory of highly valued assets, the City needs to set aside an annual allocation to insure that funds will be available in the future to replace building components, vehicles, capital equipment, furnishings, computer hardware/software and similar obligations. In addition, internal services such as liability insurance, workers comp insurance and fleet maintenance should be accurately forecasted, allocated to appropriate activities and managed to control costs.

Delay or Delete Capital Projects Unless Operational Funding is Available: The City has considered and in some cases approved and constructed capital projects that have required additional operational funds without such funds being fully identified in program budgets. Any project that requires an allocation of annual operating funds should not be constructed unless such funds are identified within the 10-year Financial Plan.

Address Long Term Internal Debt: The City has had a history of using internal funds to finance capital projects. This practice is referred to as "internal borrowing" and often involves certain categorical funds being used to internally finance capital projects. While the need for the projects is justified and repayment plans are established, the practice of internal financing creates long term debt in the capital program and should be discontinued. In addition, a strategy needs to be implemented that addresses the existing accumulated internal debt.

Cease the Use of Development Impact Fees to Finance Capital Projects: The City has issued bonds for desired capital improvements based on projected development and the collection of impact fees associated with that development. The recent recessionary economy has shown this practice to be ill advised and too risky. As development has declined, the City has had to rely on more internal borrowing to pay the debt service because the expected level of impact fee payments has not been received. This practice should immediately stop.

Insure The Long Term Viability of Revenue Prior to Implementing Program/Service Expansion: The expansion of programs and services, no matter how necessary or desired, must have a clearly defined and sustainable long term source of funding prior to implementation. To illustrate further, the expansion of the fire service funded through the limited term contributions of Spring Lake developers has proven to be ill advised. The expected income which would have sustained the expanded fire service through residential growth within Spring Lake has not been generated due to the recessionary economy. Instead, the revenue necessary to sustain the expanded fire service should have been generated or an alternative strategy to reduce funding in other programs should have been identified ***prior*** to implementing of the expansion.

SERVICE DELIVERY INITIATIVES

Review Options for Delivering Public Services to Achieve Maximum Effectiveness and Efficiency: Given the fiscal issues faced by the City, the City Council should direct the City Manager to review all options for delivering public services. Regional collaboration, contract services and shared services should be reviewed to determine if the reduction in service levels that will occur next year can be mitigated in the long term. During the Task Force meetings with the City Manager and department heads, the following examples of service delivery options were discussed:

- Regional Surface Water Project/Water Treatment (Woodland, Davis and UC Davis)
- Wastewater Treatment (Woodland and Davis)
- Regionalized Fire Service (Woodland, Davis and UC Davis)
- Shared Services with Yolo County (Planning, Fleet Maintenance, Facilities Maintenance and Signs/Markings)

These options should be fully and objectively explored with the potential partners and the results reviewed with the City Council during a public meeting. As has been accomplished so far with the Surface Water Project, regional collaboration can be a resource multiplier while reducing costs.

Consolidate/Reorganize Departments: The mission of each department should be reviewed and consideration for elimination or consolidation within a larger and/or similar work unit should be considered. Consolidating or reorganizing departments could reduce administrative costs by eliminating the need for department heads, support staff, equipment and furnishings while allowing similar services to achieve improved efficiencies. The Council should direct the City Manager to review the organizational structure after reductions for next year are implemented and return with a long term organizational plan that focuses on consolidation.

Address Concerns Associated with the Development Process: Members of the business community continue to express concerns with the development process. These concerns include the costs for filing applications, time necessary to process and issue permits, extraordinary development impact fees and outdated land use regulations. The City should have the current process reviewed by an outside consultant familiar with the best practices in the planning and building professions and known obstacles such as the outdated zoning code and General Plan should be addressed as soon as possible.

Facilitate Economic Development and Redevelopment: While reducing costs and promoting more efficient operations is critical, the Chamber Task Force believes that the City must also dedicate itself to economic development and redevelopment. Economic development and redevelopment will generate sales and property taxes and create employment opportunities; these outcomes will help the City to generate the revenue which will sustain essential services and provide an improved quality of life for all residents. The City should collaborate with the Chamber in order to actively retain existing businesses and attract new businesses that compliment the City's economy. Strategic use of redevelopment funds to generate private sector investment in the downtown core will revitalize the area as projects such as the Woodland Courthouse and the downtown theatre are initiated and completed. Eliminating or reducing the flood threat will help large and small businesses.

EMPLOYEE COMPENSATION INITIATIVES

Address the City's Long Term Retiree Health Liability: City staff has reported that Woodland's long term retiree health liability of $56 million is due and payable over the next 30 years. The City needs to develop a sound financial strategy to address this liability and discuss the strategy publicly so that citizens are aware of the matter.

Implement Public Employee Pension Reform: The City needs to address the rising cost of public employee pensions by taking steps to modify the existing defined benefit program or transition to a defined contribution program such as a 401(k). At minimum, the City should modify the existing defined benefit formulas to recognize the fact that people are generally living and working longer. It may not be legally feasible to implement pension reform for existing employees as the current system may be recognized as a vested right; however, new employees can and should be subject to a reduced program.

Negotiate Structural Changes to Employee Compensation: The City needs to review the cost of benefit programs such as health insurance and retirement and negotiate the sharing of these costs with employees. In 2009, the City negotiated a freezing of health insurance costs with its employees wherein any increase in health insurance over the 2009 rates would be picked up by the employee. This change should be a long term commitment. A similar condition should be negotiated for the employee share of retirement contributions which the City has been paying. This cost represents a $1,100,000 expense to the General Fund and $1,750,000 citywide that employees can and should pay.

FUTURE ACTIONS

The Chamber of Commerce Budget Review Task Force appreciates the opportunity to review the City's budget with the City Manager and the Department Heads. As the Council is aware, the Chamber has developed a positive working relationship with the City Council through the 2x2 meetings and with City staff through business retention meetings, the Business Walk and the review of the City budget. This level of business and local government collaboration should be further encouraged.

The Chamber believes that the strategic initiatives and actions described in this report will place the City on a better path to addressing the fiscal challenges that lie ahead over the next 5-8 years. Therefore, the Chamber believes that these measures should be implemented immediately.

In recognition of the importance of the strategic initiatives and actions, the Chamber would be interested in supporting City management in the implementation of the actions. This support could be accomplished through periodic meetings with the City Manager and department heads as strategic initiatives and actions are implemented. Feedback to the City Council could be accomplished through the monthly 2x2 meetings or other acceptable means.

City of Woodland

POLICY AND PROCEDURE

Policy No:	**15-102**	**Effective Date:**	**June 16, 2009**
Division:	**City Manager**	**Distribution:**	**All Departments**
Related Policy:		**Last Revision:**	

SUBJECT **Budget and Fiscal Policy**

POLICY This Policy will guide City budget decisions toward maintaining long-term financial stability, ensure that basic City services are delivered, and protect past and future investments in the City's infrastructure and facilities.

APPLICABILITY This Policy applies to all City of Woodland elected and appointed officials and all employees. Budget and Fiscal Policy are intended to establish a more comprehensive approach to achieving financial stability presently and into the future. This policy is intended to formalize the application of the Guiding Principles introduced in December 2007 for all City funds, including the General Fund, Enterprise Funds, Redevelopment Agency, Capital Improvement Funds and Internal Service Funds. Each year at the time the City budget is considered, the City Council shall review the Budget and Fiscal Policy and conduct a review of the proposed budget for consistency with this Budget and Fiscal Policy. As noted, specific procedures will require a long term commitment in order to become fully implemented.

APPROVALS			
Name	**Date**	**Name**	**Date**
Associations			
Director			

PROCEDURES

1.0 Reserve Funds

1.1 Reserve funds will be designated in the following terms:

1.1.1 ***Committed Operational Reserve:*** Established to maintain self imposed limitations to facilitate financial stability of each operating fund and the City organization;

1.1.2 ***Assigned Operational Reserve:*** Established to reflect the intended use of resources primarily associated with unforeseen events that have a financial impact on the City organization;

1.1.3 ***Unassigned Operational Reserve:*** The working capital that can be utilized to offset the year to year fluctuations between operating revenues and expenses within a specific fund.

1.2 The ***Committed Operational Reserve*** shall be established **as part of the FY 2009-10 budget** in an amount equal to 10% of the specific fund operating expenses. This fund balance shall be maintained at all times and may only be utilized if specifically approved by the City Council. If the use of any or all of the ***Committed Operational Reserve*** is approved by the City Council during any fiscal year, than in the following Fiscal Year budget adoption the ***Committed Operational Reserve*** must be restored to an amount equal to 10% of the operating expenses in accordance with this policy. The City Council may establish a ***Committed Operational Reserve*** at an amount that is less or more than 10% of operating expenses by approving a specific change to the Budget and Fiscal Policy during a regular City Council meeting. The ***Committed Operational Reserve*** must be maintained at the level adopted by City Council for each year of the 10-Year Plan for each fund.

1.3 The ***Assigned Operational Reserve*** shall be established in an amount equal to 3% of the specific fund operating expenses in order to address unanticipated financial impacts. These impacts may include state borrowing or possession of local revenues, economic contingencies and natural or man-made disasters. Use of the ***Assigned Operational Reserve*** requires the specific approval of the City Council. If the use is approved, the City Council has the option, based on the availability of revenues to support such action, to replenish the ***Assigned Operational Reserve*** at any amount as described herein.

1.4 The ***Unassigned Operational Reserve*** is the amount within each fund that is in excess of designated operating funds, Committed Operational

Reserve and Assigned Operational Reserve. The ***Unassigned Operational Reserve*** is essentially surplus funds that can be utilized as working capital to offset the year to year fluctuations within each fund.

2.0 10-Year Financial Planning

2.1 The City Manager will present a budget (Capital and Operating) that is balanced over the 10-year planning period for all funds.

2.2 Utilize the 10-Year Plan as the basis for making long-range financial planning decisions.

2.3 Develop and maintain a revenue monitoring and forecasting system to assist in trend analysis and revenue forecasting for the 10-year planning period.

2.4 Document all assumptions for revenue and expenditure forecasts each year.

2.5 Establish a financial plan for the Redevelopment Agency that ensures a positive cash balance at the end of the life of the Agency.

2.6 Seek reimbursement for State and Federal mandated programs and projects.

2.7 Produce fee schedules that recapture the cost of providing programs and/or services at a level consistent with Council Policy.

2.8 Conduct periodic audits for sales tax (point-of-sale), franchises and concessions, and transient occupancy tax (TOT).

2.9 Pursue grants that can be sustained or where reliable replacement funding may become available.

3.0 Performance Based Budgeting (PBB)

3.1 **Effective with the FY 2013-14 budget,** establish the PBB as the City Council's service delivery policy document.

3.2 Establish a PBB that measures service levels, efficiency and effectiveness.

3.3 Follow the principles of outcome management in utilizing the PBB.

3.4 Ensure all costs (direct and indirect) are charged against each program budget.

3.5 Measure work efficiency and effectiveness to ensure an optimal allocation of human and fiscal resources to budget approved services and programs.

3.6 Ensure all operating programs have measurable performance objectives which identify the service and level of service, and the resources required to accomplish the objectives.

3.7 Complete year-end reports and audits to measure the work accomplished against what was planned at the beginning of the fiscal year and evaluate future service levels.

4.0 Capital Improvement Program

4.1 Develop a 10-year plan for CIP.

4.2 Seek grants for needed capital projects which can offset use of other City funds; these funds can then be utilized for other needed projects.

4.3 Develop the capacity to maintain capital improvements to the level required to adequately protect the City's capital investment and to minimize future maintenance and replacement costs.

4.4 Include resources required to maintain and operate new capital improvements commencing the year the project is completed and continuing through the balance of the 10-Year Plan.

4.5 Ensure capital budgets contain all costs to complete the project (design, right-of-way, construction, inspection, contract management and contingency).

4.6 Ensure all proposed projects in the 10-Year Plan have a viable source of funding for both construction and maintenance.

4.7 Fund projects proposed for Enterprise programs by revenues derived from user fees.

4.8 Fully evaluate the financing of capital improvements to determine the most economical means to complete the work.

4.9 ***Discontinue the practice of internal borrowing between enterprise and categorical funds; funding for capital projects must be determined***

based on the available resources within each fund to meet its cash payment or debt service requirements and strategies to balance each fund and implement fund integrity should be continued.

4.10 ***Discontinue the practice of issuing bonds for desired capital improvements based on projected development and the collection of impact fees associated with development. This source of revenue is dependent on the level of economic activity within the region and is uncertain and unstable.***

5.0 Internal Service Funds

5.1 **Effective with the FY 2013-14 budget,** develop Internal Service Funds for Workers' Compensation, Risk Management, Storm Water, Fleet Maintenance and Replacement, Technology Maintenance and Replacement (including all computer/software and communications equipment), Building Maintenance and Replacement, and Miscellaneous/Office Equipment Maintenance and Replacement.

5.2 Develop a 10-year financial plan for all Internal Service Funds.

5.3 Develop projections that include cost of operation, maintenance and replacement in the 10-year financial plans.

5.4 Develop the capacity to charge all costs (operation, maintenance and replacement) associated with each Internal Service Fund to the appropriate user department.

5.5 Develop the capacity to maintain equipment and facilities to the level required to adequately protect the City's investment and to minimize future maintenance and replacement costs.

6.0 Enterprise Funds

6.1 Maintain a 10-year financial plan for all Enterprise Funds.

6.2 All costs associated with providing administrative support (finance, personnel, legal, etc.) shall be charged to the appropriate Enterprise Fund.

6.3 The cost of each enterprise shall be completely offset by user charges and fees derived from the enterprise activity. Costs shall include operating, maintenance, capital, debt service, contingency and administrative costs.

6.4 Periodically review and adjust user fees in order to avoid large one-time fee increases.

6.5 Periodically review concession agreements, lease agreements and all other revenue generating agreements in order to determine if the City is receiving a return that reflects the market for similar agreements.

7.0 Review and Adopt a Performance Based Budget

7.1 The budget will be adopted as shown in the operating and Performance Based Budget document annually.

7.2 Full review of revenue assumptions and preparation of the Capital Improvement Program and Ten-Year Plans on all funds will be done annually.

7.3 The City Council will hold public hearings and formally approve a budget for the City annually.