



**BENICIA CITY COUNCIL
Budget Study Session**

**City Council Chambers
February 01, 2011
6:00 PM**

*Times set forth for the agenda items are estimates.
Items may be heard before or after the times designated.*

I. CALL TO ORDER (6:00 PM):

II. CONVENE OPEN SESSION:

A. ROLL CALL.

B. PLEDGE OF ALLEGIANCE.

C. REFERENCE TO THE FUNDAMENTAL RIGHTS OF THE PUBLIC:

A plaque stating the fundamental rights of each member of the public is posted at the entrance to this meeting room per section 4.04.030 of the City of Benicia's Open Government Ordinance.

III. OPPORTUNITY FOR PUBLIC COMMENT:

This portion of the meeting is reserved for persons wishing to address the Council on any matter not on the agenda that is within the subject matter jurisdiction of the City Council. State law prohibits the City Council from responding to or acting upon matters not listed on the agenda. Each speaker has a maximum of five minutes for public comment. If others have already expressed your position, you may simply indicate that you agree with a previous speaker. If appropriate, a spokesperson may present the views of your entire group. Speakers may not make personal attacks on council members, staff or members of the public, or make comments which are slanderous or which may invade an individual's personal privacy.

A. WRITTEN COMMENT.

B. PUBLIC COMMENT.

IV. BUDGET STUDY SESSION (6:10 PM):

A. REVIEW OF RECENT REVENUE AND EXPENDITURE CHANGES AND THE IMPACT ON THE FY 2010-11 MUNICIPAL BUDGETS. (Finance Director)

The continued decline in the housing market and general economy has resulted in additional revenue losses of \$440,325 in property tax collections and \$460,000 in sales tax collections. In order to achieve a balanced budget, once again, the City Manager has identified a combination of revenue and expenditure adjustments that offset most of the negative impacts but an additional savings requirement of \$405,000 remains to be achieved prior to the end of the fiscal year in order to maintain the City's 20% Fund Balance Reserve.

RECOMMENDATION: Review the recent revenue and expenditure changes impacting the FY 2010-11 Municipal Budgets and the City Manager's recommended process for balancing the budget prior to the end of the fiscal year.

B. 2011-2013 BUDGET PROCESS. (City Manager)

This report outlines the proposed 2011-13 budget process, including an abbreviated update to the City's Strategic Plan. Given the need to react quickly to the current shortfall in this fiscal year, as well as the projected deficit for 2011-13, staff is proposing a streamlined process that will involve the community in addressing the budget gap for the next fiscal period. Additionally, a longer-term strategy is proposed for the broader goal of developing a structurally sustainable budget model for the future.

RECOMMENDATION: Review the proposed process for the 2011-13 Budget Process.

V. ADJOURNMENT (7:00 PM):

Public Participation

The Benicia City Council welcomes public participation.

Pursuant to the Brown Act, each public agency must provide the public with an opportunity to speak on any matter within the subject matter jurisdiction of the agency and which is not on the agency's agenda for that meeting. The City Council allows speakers to speak on non-agendized matters under public comment, and on agendized items at the time the agenda item is addressed at the meeting. Comments are limited to no more than five minutes per speaker. By law, no action may be taken on any item raised during the public comment period although informational answers to questions may be given and matters may be referred to staff for placement on a future agenda of the City Council.

Should you have material you wish to enter into the record, please submit it to the City Manager.

Disabled Access

In compliance with the Americans with Disabilities Act (ADA), if you need special assistance to participate in this meeting, please contact Anne Cardwell, the ADA Coordinator, at (707) 746-4211. Notification 48 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

Meeting Procedures

All items listed on this agenda are for Council discussion and/or action. In accordance with the Brown Act, each item is listed and includes, where appropriate, further description of the item and/or a recommended action. The posting of a recommended action does not limit, or necessarily indicate, what action may be taken by the City Council.

Pursuant to Government Code Section 65009, if you challenge a decision of the City Council in court, you may be limited to raising only those issues you or someone else raised at the public hearing described in this notice, or in written correspondence delivered to the City Council at, or prior to, the public hearing. You may also be limited by the ninety (90) day statute of limitations in which to challenge in court certain administrative decisions and orders (Code of Civil Procedure 1094.6) to file and serve a petition for administrative writ of mandate challenging any final City decisions regarding planning or zoning.

The decision of the City Council is final as of the date of its decision unless judicial review is initiated pursuant to California Code of Civil Procedures Section 1094.5. Any such petition for judicial review is subject to the provisions of California Code of Civil Procedure Section 1094.6.

Public Records

The agenda packet for this meeting is available at the City Manager's Office and the Benicia Public Library during regular working hours. To the extent feasible, the packet is

also available on the City's web page at www.ci.benicia.ca.us under the heading "Agendas and Minutes." Public records related to an open session agenda item that are distributed after the agenda packet is prepared are available before the meeting at the City Manager's Office located at 250 East L Street, Benicia, or at the meeting held in the Council Chambers. If you wish to submit written information on an agenda item, please submit to the City Clerk as soon as possible so that it may be distributed to the City Council. A complete proceeding of each meeting is also recorded and available through the City Clerks Office.

AGENDA ITEM
CITY COUNCIL MEETING DATE - FEBRUARY 1, 2011
BUDGET STUDY SESSION

DATE : January 27, 2011

TO : City Manager

FROM : Finance Director

SUBJECT : **REVIEW OF RECENT REVENUE AND EXPENDITURE CHANGES AND THE IMPACT ON THE FY 2010-11 MUNICIPAL BUDGETS**

RECOMMENDATION:

Review the recent revenue and expenditure changes impacting the FY 2010-11 Municipal Budgets and the City Manager's recommended process for balancing the budget prior to the end of the fiscal year.

EXECUTIVE SUMMARY:

The continued decline in the housing market and general economy has resulted in additional revenue losses of \$440,325 in property tax collections and \$460,000 in sales tax collections. In order to achieve a balanced budget, once again, the City Manager has identified a combination of revenue and expenditure adjustments that offset most of the negative impacts but an additional savings requirement of \$405,000 remains to be achieved prior to the end of the fiscal year in order to maintain the City's 20% Fund Balance Reserve.

The City Manager has established a schedule and process to achieve the additional savings target and will return to the City Council on March 1, 2011 with an outline for achieving the goal. In the meantime, staff will continue to reassess current revenue and expenditure budgets to assure they are adequately stated for the balance of the fiscal year.

BUDGET INFORMATION:

There is no budget impact at this time.

GENERAL PLAN:

Relevant General Plan Policies and Programs:

- Goal 2.28: Improve and maintain public facilities and services

STRATEGIC PLAN:

Relevant Strategic Plan Goals and Strategies:

- Goal 8.00: Build Organizational Quality and Capacity
 - Strategy 8.20: Measure and track service (i.e. financial) performance

Background:

On December 7, 2010, staff presented the previously approved budget-realignment adjustments and achieved a balanced General Fund operating budget and a 20% reserve, however, property tax reductions were still unknown at that time. As noted, the County Assessor had warned that further reductions in commercial and industrial property taxes were eminent and would be known in late December. Staff estimated the amounts could reach \$350,000 in lost property tax receipts and would require that additional budget reduction measures be implemented prior to the end of the fiscal year unless property tax additions from the Valero Improvement Project were recorded.

Solano County delivered the first apportionment of property taxes in late December and the receipts indicated a net loss of \$440,330, which exceeded staff's estimate by \$90,000. Not long after that, staff received notice that sales taxes for the 3rd quarter, July to September 2010, had dropped by 11% from the same quarter a year early, resulting in a drop in our budget estimates for the year of \$460,000. There was a small gain in the State's Sales Tax Swap of \$23,940, which left the City with a net revenue drop of \$876,390.

In addition to the above, the City experienced an expenditure increase of \$45,830 as part of a sales tax sharing agreement with Bio-Rad. While many businesses are suffering from declines in sales, Bio-Rad surpassed our estimates and required that a larger amount of their sales tax be shared with them. The budgeted expenditure amount will be increasing from \$120,000 to \$168,530.

As you might expect, not all budget changes are negative. Recent positive changes of \$10,000 in our Franchise Fee estimates and potential recognition of a likely \$150,000 signing fee for the new Solid Waste Franchise Fee will help to offset the losses in property and sales taxes.

The net impact of the "Non-Discretionary Budget Impacts" is listed in *Table 1*. on the following page. Altogether, the amounts result in a negative impact of \$924,920 in revenue losses and expenditure increases. Each of the "Items" is described in greater detail later in this report.

Table 1.

Non-Discretionary Budget Impacts			
Item	Account Group	Type	Amount
1	Net Property Tax & Related Reductions	Revenue	\$ (440,330)
1	Sales Tax Triple Flip	Revenue	\$ 23,940
2	Sales Tax	Revenue	\$ (460,000)
	Net Revenue Impacts		\$ (876,390)
3	Sales Tax Sharing Agreement	Expense	\$ (48,530)
	Total Non-Discretionary Budget Impacts		\$ (924,920)

1	Combined County-collected property tax and related changes.
2	Reduction in sales tax estimate as a result of 3rd Quarter Actuals.
3	An increase in the Bio-Rad Tax Sharing agreement above the amount

In order to maintain the 20% reserve requirement, the City will need to identify offsetting savings utilizing a combination of operating and non-recurring revenue and expenditure adjustments. The exact amount of savings depends on whether the savings are via operating expenditures or via revenue or non-recurring savings, which relates to the way the Reserve Balance is calculated based upon a ratio of reserves to operating expenses.

Table 2.

Discretionary Budget Adjustments			
Item	Account Group	Type	Amount
4	Franchise Fee - Solid Waste	Revenue	\$ 10,000
5	Franchise Fee - Signing Fee	Revenue	\$ 150,000
	Net Revenue Adjustments		\$ 160,000
6	Reduce Operating Expenditures	Expense	\$ 150,000
7	Reduce Facility Maintenance Set-aside	Expense	\$ 80,000
8	Reduce Pension Obligation Set-aside	Expense	\$ 100,000
9	Non-Recurring Capital Projects	Expense	\$ 95,000
10	Additional Required Savings	Rev/Exp	\$ 405,000
	Net Expenditure Adjustments		\$ 830,000
	Total Discretionary Adjustments		\$ 990,000

4	Increase in Franchise Fee collections above budget estimate.
5	Anticipated Franchise Fee "Signing Fee" - pending approval of agreement on 2/1/11
6	The current budget has \$150,000 set aside for pending increases in operating expenditures that has not been allocated yet.
7	The City recently set-aside an additional \$80,000 for Facility Maintenance but the amount has not been allocated to a project yet.
8	Pension Obligation Bond formula reduction resulting from stabilization of workforce in past 6 months.
9	There is \$95,000 set aside in the Non-Recurring Budget to be used for Capital Improvement Projects but has not been allocated yet.
10	In order to balance the Reserves at 20%, additional savings are required but not yet identified.

The City Manager has identified potential savings in six areas that will achieve \$160,000 in revenue increases and \$425,000 in expenditure savings, leaving a balance of \$405,000 that has yet to be determined. *Table 2.* (above) displays the six savings categories and a brief discussion of each Item follows in the report. The net changes of \$990,000 will balance the budget at the required 20% reserve level.

Item 1. Property Tax Losses. The Solano County Auditor's office completed their Property Tax notifications for FY 2010-11 on December 20, 2010. According to the apportionment information, the City will receive \$440,325 less than we had budgeted for all property taxes this year. During the October budget reviews, we had estimated the additional losses in commercial and industrial property tax would be somewhere in the \$350,000 range. The combined losses exceed that estimate by \$90,000. The amount represents a decline of -2.0% from the previous year, which is better than the -8.0% drop the County had previously estimated in June, but it is -3.6% below what we had included in the budget.

Our budget amount anticipated that the County also updated the Sales Tax Triple Flip Offset, which added \$23,942, leaving a net budget adjustment for the City of \$416,390. *Table 3.* shows the detail for each property tax category and the collection history since 2008. We do not have the County Assessor's updated *Assessed Valuation Database* yet but anticipate receiving it in February. Staff will be working with our Property Tax Auditor, HdL Companies, to determine where the greatest reductions occurred and how the recent changes will impact future revenues.

**Table 3.
Property Tax Collection History**

Property Tax Type	Actual 2008	Actual 2009	Actual 2010	Amended 2011	December Actuals	Budget Adjust
Secured	11,068,585	11,789,345	11,476,255	11,600,685	11,207,280	(393,405)
Unsecured	428,705	472,730	679,250	700,115	616,470	(83,645)
Unitary	180,560	191,640	215,760	215,760	225,480	9,720
Homeowners Exemption	124,235	127,680	136,450	134,535	137,150	2,615
Supplemental	421,990	15,670	-1,450	50,000	74,390	24,390
Total	12,224,075	12,597,065	12,506,265	12,701,095	12,260,770	(440,325)
<u>Growth Rate</u>					Prior Year	Budget
Secured	5.4%	6.5%	-2.7%	1.1%	-2.3%	-3.4%
Unsecured	-8.1%	10.3%	43.7%	3.1%	-9.2%	-11.9%
Unitary	21.4%	6.1%	12.6%	0.0%	4.5%	4.5%
Homeowners Exemption	-6.6%	2.8%	6.9%	-1.4%	0.5%	1.9%
Supplemental	-45.5%	-96.3%	-109.3%	100.0%	100.0%	48.8%
Average Growth	1.6%	3.1%	-0.7%	1.6%	-2.0%	-3.6%

One of the areas of concern this year rests in the Valero Improvement Project and the lack of improvements hitting the property tax roll. Staff had projected a \$160,000 increase in property taxes from Valero but has fallen short of that goal. There are two possible explanations. The first is that most of the Valero Improvement Project has been excluded from property taxes due to State Regulatory Laws. The second possibility is that most of the recent improvements are held as "construction-in-progress" and have not yet been added to the Assessment Roll.

Staff has requested information from the Solano County Assessor but has not yet received any assistance in answering the question about the Valero Improvement Project. As of the writing of this report, there is no information available about how much of the multi-million project has been excluded or how much was added.

If the reason for the lack of improvements hitting the property tax roll is due to their being held as "construction-in-progress," there could be a sizeable increase in property tax receipts during the next fiscal year. The amount is not predictable at this time but should be known in late June 2011, when the Solano County Auditor distributes the estimates for FY 2011-12.

Item 2. Sales Tax Losses. We recently received Sales Tax information from the Board of Equalization indicating that our July thru September Sales Tax receipts, referred to as 3rd Quarter results, were below expectations. The shortfall can be attributed to 3 businesses in town that delivered \$260,000 less sales tax than in the same quarter last year, indicating a negative trend in the Petrochemical Industry and Electrical Equipment fields.

During past budget cycles, staff has held back on recommending budget adjustments for sales tax when the mid-year amounts were within \$200,000 of the annual budget. The amount of the shortfall has now reached \$460,000 and staff recommends taking a conservative approach and recognizing the entire amount for two reasons.

First, we are told the petrochemical industry has retrenched due to market conditions and capital expenditure plans are on hold throughout the area. This points to further declines in the Petrochemical Industry, which was expected to have better results due to the VIP.

Second, one of our major sales tax producers has lost a major client. Due to confidential restrictions, we cannot share the name of the company but the amount of the loss could reach \$400,000 this fiscal year. We have seen this happen before with this company and are hoping they secure another major client.

The 3rd Quarter results are also disappointing in light of recent Valero Improvement Project activity. Staff was hoping for continued “spin-off” sales tax due to the major construction that occurred during the time period but it did not show up in the receipts. The City’s Sales Tax Auditor, HdL Companies, will be translating the State’s database and reporting on each individual company towards the end of January. Staff hopes to refine the fiscal year-end budget estimate at that time and could alter the \$460,000 budget adjustment again sometime in March. *Table 4.* lists the budget adjustments required at this time, along with the history of sales tax collections since 2008.

**Table 4.
Sales Tax Collection History**

Sales Tax Type	Actual 2008	Actual 2009	Actual 2010	Amended 2011	December Actuals	Budget Adjust
Sales and Use Tax	4,761,260	5,140,500	4,249,620	4,725,000	4,265,000	(460,000)
State Triple Flip Offset	1,695,180	1,608,435	1,516,780	1,593,370	1,617,310	23,940
Total	6,456,440	6,748,935	5,766,400	6,318,370	5,882,310	-436,060
Triple Flip Ratio	0.28	0.25	0.22	0.28	0.26	
Growth Rate					Prior Year	Budget
Sales and Use Tax	6%	8%	-17%	11%	0%	-10%
State Triple Flip Offset	8%	-5%	-6%	5%	7%	2%
Average Growth	7%	5%	-15%	10%	2%	-7%

Note: This does not include the VIP Non-Recurring Receipts

Item 3. Bio-Rad Sales Tax Sharing Agreement. The City is in the seventh year of a ten-year agreement with Bio-Rad to share a portion of the sales tax generated by their operations. The agreement was arranged in 2004 to assist them in expanding their operations in Benicia. The company generated \$337,000 in sales tax for the city between September 2008 and 2009, of which the agreement calls for returning \$168,530 to them. The budget estimate was only \$120,000 and requires an adjustment of \$45,830.

Item 4. Franchise Fee Increase. The current Solid Waste Franchise agreement calls for payments of \$140,000 in FY 2010-11, an increase of \$5,000 each year. The budget model is listed at \$130,000 and requires a positive \$10,000 adjustment.

Item 5. Franchise Signing Fee. The Solid Waste Franchise Fee negotiations are drawing to an end and there is a tentative agreement that will result in an additional \$150,000 signing fee to be received in the current fiscal year. This additional amount is included in current estimates of revenue adjustments, although it should be noted that receipt of the signing fee is linked to the

agreement, which has not yet been approved. The agreement is on the Council's agenda for February 1, 2011.

Item 6. Reduced Operating Expenditures. When the Council approved the budget realignment in September, there was a recognition that operating expenditures had been reduced to minimal levels in all General Fund divisions. In order to assist those division experiencing increases in commodity costs, \$150,000 was set aside. As of January, no department has requested use of the funding and it is available to help offset the drop in revenues.

Item 7. Reduced Facility Maintenance Set-aside. While the Council was reviewing the City's infrastructure needs in September, three of the City's Internal Service Fund's were examined, the Facility Maintenance Fund, Vehicle Replacement Fund and Equipment Replacement Fund. Each of the funds had been reduced substantially in order to balance the budget and the prospect of the funds not having adequate reserves to sponsor necessary replacements and rehabilitations was eminent.

To assist in stabilizing the funds, the City Council authorized that each fund should receive at least 40% of the required funding for the current fiscal year. This left the Facility Maintenance Fund with an additional allocation of \$116,000. Of that amount, approximately \$80,000 has not been allocated to a project and can be returned to the General Fund.

Item 8. Reduced Pension Obligation Bond Set-aside. In the beginning of FY 2005-06, the City created several Internal Service Funds, including the Retirement Stabilization Fund (RSF). In order to establish a reasonable balance, the RSF received an opening transfer of \$920,000. The idea was to access the fund to offset increases in PERS retirement rates at no more than 20% per year. Following its creation, the fund began allocating reserves in excess of 20% to cover increases in PERS rates and a worsening budget. By the end of FY 2007-08, the RSF had allocated the full \$920,000.

During the FY 2005-06, the City also issued Pension Obligation Bonds (POB's) to reduce the Unfunded Liability in its PERS accounts. This greatly reduced actual PERS rates but required the City set-aside money to make annual Debt Service Payments each August 1st. The Finance Department collects the debt service money each payroll period and charges each employee's costs a surcharge that goes into the RSF.

In FY 2007-08 and FY 2008-09, the RSF depleted the original allocation, began "mixing in" the POB surcharge, and then experienced a set-back as the City began implementing "frozen positions" to balance the budget. By the end of FY 2008-09, the RSF recognized a deficit of (\$212,899) due to the shortfall in POB

surcharge collections. In order to compensate, the POB surcharge was increased and, by the end of FY 2009-10, the full deficit had been recovered and the RSF held an ending balance of \$78,304.

Due to the continuation and expansion of the frozen position policy, Finance Staff held the POB surcharge at the same level for FY 2010-11 but, fortunately, it looks like the amount may exceed our forecasts by around \$168,000 by the end of the year in June. *Table 5.* below displays the inflow and outflow from the RSF since FY 2006-07. It is recommended that \$100,000 of the expected balance be returned to the General Fund for the current Fiscal Year. This will leave a balance of \$68,000 to stabilize the fund's debt service requirements.

**Table 5.
Retirement Stabilization Fund History**

Fiscal Year	Contributions Thru June	Balance as of June 30	Debt Service Paid Following July	Balance on July 30
FY 2006-07	\$ 1,257,844	\$ 890,533	\$ (884,667)	\$ 615,572
FY 2007-08	\$ 1,215,675	\$ 930,497	\$ (1,124,729)	\$ (87,687)
FY 2008-09	\$ 1,109,430	\$ 935,290	\$ (1,263,778)	\$ (212,899)
FY 2009-10	\$ 1,506,894	\$ 1,202,270	\$ (1,303,648)	\$ 78,304
FY 2010-11*	\$ 1,529,648	\$ 1,413,377	\$ (1,344,915)	\$ 168,462
* Estimated				

Item 9. Capital Improvement Project Set-aside. As mentioned above, the budget realignment sessions focused on setting aside adequate funding for infrastructure needs. \$200,000 was reserve for this purpose, of which \$105,000 was removed in order to achieve a balanced budget in December. Given the amount of the property and sales tax losses, it is recommended the remaining \$95,000 be returned to General Fund Reserves in order to maintain the 20% reserve balance.

Item 10. Additional Required Savings. The Council has established two policies to strengthen the City's fiscal condition. The Balanced Operating Budget Policy requires the Operating Revenues and Expenditures be balanced on an annual basis in order to preserve the long-term sustainability of the General Fund. The Fund Balance Reserve Policy requires that at least 20% of the City's estimated expenditures be held in a special reserve to guard against changing economic conditions, liability exposure, and natural or man-made disasters.

The recent drop in revenues will make it very difficult to achieve a balanced operating budget in the middle of the fiscal year. If additional reductions of

\$405,000 are achieved to comply with the 20% Fund Balance Reserve requirement, it will still leave an operating deficit of \$169,685. If additional reductions in operational costs are sought, there will be a corresponding increase in the Fund Balance Reserve. For this reason, staff is requesting that \$830,000 be established as the target budget adjustment amount, leaving \$405,000 as the additional required savings target.

Part of the savings that will be applied toward the \$405,000 target will come from salary savings with the recent appointment of the Police Chief. There will be a cost savings of approximately \$121,000 by holding the Deputy Chief position vacant for the remainder of this fiscal year. Due to timing of the appointment and preparation of this report, this estimated savings has not yet included the above-noted discretionary adjustments, but will be incorporated when the final budget adjustments come back to Council in March.

General Fund Summary. If all of the above adjustments are input into the General Fund Budget Model, the results yield a 20% Fund Balance Reserve of \$6.1 million, as shown in *Table 6.* below. The results are based on current budget conditions and will be continue to be reviewed over the next several weeks to assure they are adequately stated. Specific areas of review will be within the property tax and sales tax areas, as mentioned earlier in the report.

**Table 6.
General Fund Summary**

		Adopted 2010-11	Adjustments	Amended 2010-11
Operating Revenues	\$	32,498,090	(1,872,720)	30,625,370
Operating Expenditures	\$	32,185,200	(1,390,145)	30,795,055
Operating Surplus/(Deficit)		312,890	(482,575)	(169,685)
Non-Recurring Revenues		479,165	395,230	874,395
Non-Recurring Expenditures		893,510	2,607,975	3,501,485
Non-Recurring Surplus(Deficit)		(414,345)	(2,212,745)	(2,627,090)
Combined Surplus/(Deficit)		(101,455)	(2,695,320)	(2,796,775)
Transfers to B.S. Loans Receivable		(200,545)	(2,204,770)	(2,405,315)
Misc Adj to Fund Balance			348,386	348,386
Fund Balance	\$	6,516,260		6,159,550
Reserve Percentage		20.2%		20.0%
Over/(Short) of 20% Requirement		79,220		539

Expenditure Trends Impacting the Next Budget Cycle. The loss of property and sales taxes this fiscal year could extend to the next fiscal year unless there is a change in the economy or there is an increase in the property tax roll from the Valero Improvement Project. At the present time, staff has assumed the losses will continue, which has increased the preliminary estimate of the deficit for next year by approximately \$900,000.

The deficit has also been exacerbated by a large increase in our projected retirement rates for the upcoming fiscal year. In a recent memo, staff indicated that CalPERS had notified the City that rates would be going up next year by 3.59% for the Miscellaneous Group and 4.94% for the Safety Group. This will result in an increase in retirement costs in the General Fund of \$593,000, which is about \$300,000 more than staff had predicted in the Long Range Budget Model. The actuarial report indicates the reason for the increase is due to employees retiring earlier and living longer.

The three budget changes mentioned here will increase the deficit for the fiscal year by about \$1,200,000 unless there is a dramatic turnaround in the economy or in property tax values. On a positive note, budget reductions achieved during the current fiscal year will likely carryover into the following fiscal year. The full list of adjustments will be presented on March 1, 2011 as part of the City Manager's budget realignment recommendations.

Next Steps for Balancing the FY 2010-11 Budget. The City Manager is currently meeting with Senior Managers to assess opportunities for further budget reductions this year. These meetings are focusing on the need to react quickly to the recent losses of property and sales taxes. Should any of the resulting areas of review lead to recognizable reductions in service levels to the community, additional reviews with the affected individuals or groups will be conducted. The City Manager has indicated the budget balancing measures will be available for Council review on March 1, 2011.

AGENDA ITEM
SPECIAL CITY COUNCIL MEETING: FEBRUARY 1, 2011
BUDGET STUDY SESSION

DATE : January 25, 2011
TO : City Council
FROM : City Manager
SUBJECT : **2011-2013 BUDGET PROCESS**

RECOMMENDATION:

Review the proposed process for the 2011-13 Budget Process.

EXECUTIVE SUMMARY:

This report outlines the proposed 2011-13 budget process, including an abbreviated update to the City's Strategic Plan. Given the need to react quickly to the current shortfall in this fiscal year, as well as the projected deficit for 2011-13, staff is proposing a streamlined process that will involve the community in addressing the budget gap for the next fiscal period. Additionally, a longer-term strategy is proposed for the broader goal of developing a structurally sustainable budget model for the future.

STRATEGIC PLAN:

Relevant Strategic Plan Goals and Strategies:

- Strategic Issue 3: Strengthening Economic and Fiscal Conditions

BACKGROUND:

As noted in the preceding staff report, the City faces a substantial challenge as it begins the process for the 2011-13 Budget. The deficit for the 2011-12 fiscal year is estimated at about \$1,200,000 unless there is a dramatic turnaround in the economy or in property tax values. The City's long-range budget model forecasts a similar deficit for 2012-13 and beyond. As the City heads into the 2011-13 Budget Process, it will be important to develop a strategy to achieve a structurally balanced budget.

Key issues that will need to be addressed with the Council during this process include:

- ❑ Should a structurally balanced budget be achieved next fiscal year, or is it more feasible to pursue this goal over a longer time frame via a long-term strategy?
- ❑ Identifying proposed budget balancing principles from which to prioritize budget decisions (e.g., maintain a 20% reserve)
- ❑ Proposed budget balancing strategies:
 - Reduced operating costs
 - Revenue enhancements
 - Containment of employee costs
- ❑ Revisiting service and program priorities and identifying possible larger budget reduction strategies
- ❑ Exploring longer-term budget-reduction strategies

Given the need to react quickly and effectively to the current fiscal challenges, staff will be focusing on initiating the budget process as quickly as possible. Part of this process will include an abbreviated update of the City's Strategic Plan, specifically focusing on a review and update of the Strategic Actions in the Plan in light of the City's current fiscal challenges.

The public input portion of the strategic plan/budget process is proposed to begin later this month with a meeting with the Chairs and/or Vice Chairs of the various City boards and commissions to solicit input on updating the City's Strategic Plan, as well as on the City Budget. It is suggested that this be structured as an interactive workshop and coordinated with the involvement of the Finance Audit and Budget Committee. A key component of this meeting will be a review of the current financial challenges facing the City, as well as a primer in City budgets. While this meeting will be designed to encourage input from board and commission members, it will also be open to the community.

In March/April, there will be two community workshops, which will be directly focused on gathering input from the community on balancing the budget. Council sessions devoted to review of the budget document will begin in late May and continue through June, as needed, with budget approval scheduled for late June.

Please see the following page for the proposed timeline:

February:

- Kick off meeting with Council on 2/1 to present Strategic Plan/Budget process
- Information to public on process via press and website – provide online method to provide input
- City employee input via departmental presentations/meetings
- Initiate 4th Tuesday Budget Council Workshops on 2/22/11 – Review of Strategic Plan and Budget
- Late February – FAB meeting with Boards & Commissions on Strategic Plan and Budget

March/April:

- Public Workshops (2) – Budget – dates to be determined
- 4th Tuesday Budget Council Workshop – 3/22/11 – Finalize Strategic Plan
- 4th Tuesday Budget Council Workshop – 4/26/11

May:

- 4th Tuesday Budget Council Workshop – 5/24/11

June:

- 2011-13 Budget Workshops continue in early June
- 2011-13 Budget approval by Council in late June

Community Outreach:

Every effort will be made to solicit community participation throughout this process. Public workshop information will be available the City's website, Channel 27, and agenda subscriber emails. Additionally, as noted above in the proposed timeline, the City's website will provide a method for providing input for those that may not be able to participate in the various workshops.

Longer Term Budget Balancing Strategies:

The nature of the City's structural budget forecast requires meeting the challenge of the next fiscal year, but also initiating actions to achieve a sustainable future by transforming the way services are financed and provided. Given the longer lead-time required for many concepts that would achieve these types of transformations, it is suggested that Council consider initiating a longer-term process focused on achieving a Structurally Sustainable Budget.

One suggestion that the Council may wish to consider is utilizing representatives from the FAB Committee, along with representatives from Boards and Commissions and other local organizations to develop a Sustainable Budget Task Force. This task force could begin working on longer term strategies that may not be realistic to implement for this coming budget, but the Council may still wish to consider in the interest of the larger goal of achieving a structurally sustainable budget. Once a list of such strategies is developed, the task force could present recommendations to Council for consideration for either mid-year budget adjustments or the following budget cycle. This effort would be in recognition that the City's multi-year financial forecast demonstrates that maintaining a balanced budget, even when one is achieved, will continue to be very challenging.

Attachment:

- 2011-2013 Budget Timeline

**2011 - 2013
Budget Timeline**

	February	March	April	May	June
Kickoff meeting with Council to present Strategic Plan/Budget Process on 02/01/11					
Information to public on process via press/website - provide online method for input					
City employee input on Plan via departmental presentations/meetings and continue to receive input					
Initiate 4th Tuesday Budget Council Workshops (02/22/11) - Review Strategic Plan					
FAB meeting with Boards and Commissions/Public - Strategic Plan/ Budget - date TBD					
Interactive Public Workshops (2) - Budget Dates TBD					
4th Tuesday Budget Council Workshop (03/22/11) - Finalize Strategic Plan					
4th Tuesday Budget Council Workshop (04/26/11)					
4th Tuesday Budget Council Workshop (05/24/11)					
2011-13 Budget Workshops continue					
2011-13 Budget approval by Council					

