

City Manager's Office

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July 1, 2010

Honorable Mayor and Members of the City Council:

Introduction -

Presented herein is the final budget for fiscal year 2010/11, formally adopted by the City Council at its meeting of June 29, 2010. This budget represents the third consecutive year where budget-reductions were necessary to address reduced revenues from local taxes and fees, as well as reduced funding levels from state and federal sources supporting transportation and social services programs.

The approved budget includes \$1.66 million in General Fund expenditure reductions in order to both balance the General Fund operating budget, and restore operating reserves. In addition, declining special revenue funding required further scaling-back of expenditure commitments for programs ranging from transportation and transit, planning and building, childcare and community development block grants, as well as capital projects.

The FY2010/11 budget builds upon the actions taken by the Council over the past two years by focusing on city-wide cost-savings, re-organizations, streamlining management and administrative functions, and personnel cost-savings through labor agreements with employee bargaining groups. Our collective goal has been to maintain a fiscally prudent city operation while minimizing impacts on core and essential services. However, our ability to accomplish this is challenging in the current economic environment; and while the City has, arguably, not experienced the same level of recessionary impacts as seen in many other communities, the continued uncertainty over the general economy and prolonged State budget crisis pose significant threats to our ability to sustain the level of services to which our community is accustomed.

Moreover, in crafting this budget, and with our continued focus on long-term fiscal stability, we are mindful not only of the impacts that reductions in City services has on our residents, but recognize that our community is also significantly affected by the cumulative reductions of public services, whether provided by the city, county, state or school district.

Summary

The All Funds Adopted Budget for FY2010/11 totals \$119,393,950 representing a decrease of \$432,450 from the FY2009/10 Adopted Budget. The General Fund budget for FY2010/11 is \$36,201,944 reflecting a decrease of \$1.6 million (4.3%) over the FY2009/10 Adjusted General Fund Budget. The Capital Program budget for FY2010/11 includes funding recommendations totaling \$8.87 million, of which over 79% represents funding for capital projects within our water and wastewater utilities. The Redevelopment Agency Budget totals \$8.22 million in support of capital

projects and programs consistent with the economic development focus of the Agency. The all-funds budget supports an overall staffing level of 504.43 full-time equivalent positions, representing a reduction of 23.20 over the staffing level authorized in the 2009/10 budget. Excluding temporary, part-time positions, a total of 25.0 positions have been deleted in the FY2010/11 budget.

The Adopted Budget includes specific measures to address a projected FY2010/11 General Fund deficit of \$976,000, as well as restore operating reserves to the 15% level prescribed by Council policy. The budget-balancing plan relies heavily on savings generated through a re-structuring of city departments, as well as additional cost-savings, including funding shifts and targeted staffing reductions.

The balancing measures incorporated into this budget result in a balanced General Fund budget without relying on use of reserves or other one-time measures and results in an operating surplus for FY2010/11 which allows for full restoration of operating reserves to \$5.3 million (15.5%), and could provide a modest degree of future budget flexibility in future fiscal years. It also provides a modest cushion should economic conditions retract further.

Current Climate / Fiscal Challenges

The economic recession which first manifested itself in the bursting of the residential housing "bubble", and spread quickly through the banking sector precipitating the collapse of global financial markets, continues to affect all sectors of the economy. Locally, the recession has had a direct impact on local property and sales tax revenues, which represent over 60% of General Fund revenues. The State continues to wrestle with an unprecedented budget crisis, triggered by the recession, exacerbated by poor financial management, and compounded by the failure of the political process. Federal government intervention - primarily through monetary policy, stimulus funding, and most recently Federal employment legislation - has, at best, buffered recessionary pressures, but a strong and full economy remains elusive.

The City's General Fund revenues are projected to fall to \$36.8 million in FY2010/11, reflecting the third consecutive year of declining revenue, from the \$39.0 million peak realized in FY2007/08. Based on the current budget forecast, which assumes a modest and protracted economic recovery, the City will not experience a full-recovery of General Fund revenues until at least FY2013/14.

Last several budgets

While this FY2010/11 budget attempts to minimize impacts on direct services to the community and strives to preserve – to the maximum extent possible – core and essential services, we can not ignore the fact that cumulative staffing reductions over the past three years will impact the ability of the organization to continue to provide the array of high-quality service and responsiveness to our constituents.

With the budget-balancing measures included in this budget, General Fund budget reductions totaling \$6.15 million will have been implemented and General Fund staffing levels reduced by 40.50 positions since FY2008/09. These savings will have been a result of citywide cost-saving measures (\$2.9 million), concessions from employee bargaining groups (\$1.25 million) and \$1.8 million in direct program reductions.

	Adopted FY2008/09		Adopted FY2009/10		Proposed FY2010/11		TOTALS	
	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars
Revenue Enhancements		131,160		55,258		-		186,418
Citywide Cost Saving Measures		444,142	6.00	808,068	16.75	1,475,945		2,728,155
Personnel Costs (Labor Contracts)				1,250,000		Incl.		1,250,000
Program Reductions		332,674	8.25	1,467,281	3.00	183,994		1,799,955
	6.50	\$ 907,976	14.25	\$ 3,580,607	19.75	\$ 1,659,939	40.50	\$ 6,148,522

This year's General Fund budget recommendations, resulting in \$1.66 million in annual recurring savings, add to the \$3.6 million implemented to balance the FY2009/10 budget and \$907,000 in reductions implemented to balance the FY2008/09 budget.

Focus of this year's budget-balancing plan

Prior years' budget reductions were largely derived from city-wide cost savings (initial re-organization efforts, reductions in overtime, etc.), targeted savings resulting from labor agreements with our employee bargaining groups, as well as budget reductions arrived at through a "decremental" budgeting process. Last year, departments were requested to develop General Fund reduction scenarios ranging from 3% to 5% for public safety departments, and 7% to 10% for all other departments. This exercise yielded in excess of \$2.0 million in reduction proposals, many of which represented cuts to essential programs, prompting the City Council to seek alternative means of achieving budgetary savings.

This year, the City Manager's Office re-focused its budget-balancing efforts on potential savings through further restructuring of city departments. This effort was greatly facilitated by the recent retirement of several department head and management-level positions as well as the significant number of vacancies which resulted from selective hiring freezes implemented over the past two fiscal years. The following were the primary objectives in evaluating possible re-structuring opportunities:

- 1) Consolidation of complementary services
- 2) Improved efficiency of management and administrative functions
- 3) Evaluate current structure of executive management positions and span-of-control for management and supervision of City operations
- 4) Achieve on-going budgetary savings
- 5) Manage impacts of workforce reductions by mitigating impacts on priority services, efficiency of City operations and staff reductions/layoffs.

A preview of emerging re-organization proposal was presented to the City Council at the March budget workshop, with feedback also provided by the Finance and Budget Commission.

FY2010/11 Budget-Balancing Measures

The Adopted Budget includes a series of measures resulting in an annual all-funds savings of over \$2.08 million, including recurring General Fund savings of \$1.66 million. The budget addresses a revised General Fund operating deficit of \$976,000, and provides over \$600,000 in additional savings to restore the operating reserves to \$5.3 million, or 15.3%, by June 30, 2011. In addition, the budget supplements available one-time funds in support of needed street and roadway rehabilitation programs; a new annual allocation of roughly \$400,000 in Roadway Development Impact Fees.

Moreover, under the assumptions used to update the General Fund five-year forecast, a modest degree of budget flexibility could materialize over the five-year planning horizon— assuming a modest economic recovery over the near-term. However, the City's longer-term budget outlook continues to hinge on the future of property and sales tax revenues, as well as the impact of anticipated increases in costs associated with employee retirement and medical benefits.

FY 2010/11 Budget Balancing			
	General Fund	Transportation	Other Funds
FY10/11 Revenues	37,003,742	1,922,740	
FY10/11 Expenditures	(37,990,341)	(3,542,926)	
	(986,599)	(1,620,186)	
Baseline Adjustments			
Revenue Estimates	(167,900)		
Expenditure Adjustments	177,915		
	(976,584)	(1,620,186)	
Proposed Balancing Measures			
Funding Transfers	(147,071)	(407,132)	624,203
Citywide Vehicle Take-Home Policy	(5,000)		
Re-organizations	(1,323,874)		(327,599)
Personnel Cost Savings (Baseline)	incl.		
Program Reductions			
City Manager's Office	(183,994)		(90,735)
Sub-Total Balancing Measures	(1,659,939)	(407,132)	205,869
Revised Oper Deficit	683,355	(1,213,054)	n/a
Supplemental Additions / Changes			
	-	-	-
	-	-	-
	-	-	-
Revised Oper Deficit	683,355	(1,213,054)	-
LESS USE OF Fund Balances (Fund 210 - Fed/State Transp.)	-	1,213,054	-
Revised Oper Deficit	683,355	-	-

The General Fund balancing plan incorporated into this budget provides \$1,659,939 in ongoing savings achieved through a series of recommendations including funding transfers (\$147,071), re-organization of city departments (\$1,323,874), targeted staffing reductions (\$183,994), and savings

anticipated through an update to the City's Vehicle Take-Home policy (\$5,000). These recommendations are summarized as follows:

Funding Transfers (\$147,071) -

- Enhanced Police services / Downtown - the budget transfers \$123,000 in General Fund costs for enhanced police services to the downtown to the Redevelopment Agency. As part of this proposal, \$190,000 in available Redevelopment Agency funds will support police staffing costs, including one additional police officer being re-allocated to the Patrol division to provide increased staffing for the downtown core commercial area.
- Staffing support to the Woodland-Davis Clean Water Agency (JPA) - the budget includes a transfer of 30% of a Building Planning Technician to dedicated administrative support to the WDCWA JPA at an annual General Fund savings of \$23,620.

Re-organization of city departments (\$1,323,874) -

The majority of FY2010/11 General Fund savings were realized through a re-organization of City departments, whose primary component is the elimination of the Parks and General Services Department, with responsibility for all existing services being re-assigned to other departments, as follows

- Parks Maintenance, Facilities Maintenance and Urban Forestry were being transferred to the Community Services Department;
- Fleet Operations were transferred to the Public Works Department;
- Sustainability and Property Management were transferred to the newly re-constituted Department of Community Development and Sustainability;
- Information Systems, Grants Administration and Media Services were transferred to the City Manager's Office.

This re-organization results in annual General Fund expenditure reductions totaling \$1,332,873 and a net reduction of 17.25 full-time equivalent positions. The staffing reductions include elimination of 9.0 management, supervisory and administrative positions, plus one public works maintenance crew and one parks maintenance crew. The latter are partially offset by back-filling with \$200,000 in temporary, part-time, or contract works to minimize service impacts during peak periods.

Targeted staffing reductions (\$183,994) -

Three vacant positions have been deleted in the FY2010/11 budget, for an annual General Fund savings of \$183,994. These include:

- Financial Associate - (City Manager's Office / Finance)
- Human Resources Assistant - (City Manager's Office / Human Resources)
- MIS Senior Systems Analyst - (CMO/PGS - Information Systems)

On-Going review of Citywide Operations

In addition to the re-organization implemented with this budget, a number of areas of City operations will continue to be evaluated for possible organizational changes. These include not only internal assessments of current work processes, staffing assignments and management structures, but also include evaluation of opportunities for efficiencies and service enhancements through greater collaboration with our public agencies. Areas where ongoing evaluations are anticipated include:

- Fire Department - ongoing evaluation of consolidating management and/or operations functions with UC Davis Fire Department;
- Organizational alignment of City engineering, transportation planning, and development functions;
- Ongoing review of Police Department staffing priorities and coverage models.

Consistent with specific City Council direction, we will also be pursuing additional areas for potential collaborations with other public agencies, with the goal of identifying opportunities for cost-savings, sharing of resources, and elimination of duplication of services. To this end, discussions are taking place with UC Davis, the Davis Joint Unified School District, Yolo County, and the cities of Woodland and West Sacramento.

Local Sales Tax Measure Renewed – Strong Community Support

The FY2010/11 budget reflects the successful renewal of the City's local ½ cent sales tax, which was passed on the June 8th ballot by an overwhelming 74% of voters. The ½ cent sales tax provides roughly \$2.9 million in annual General Fund revenues, or just under 8.0% of the General Fund.

Given the level of cost-savings and reductions implemented to-date, it is clear that the ½ cent sales tax remains critical to the City's ability to sustain our core and essential services. It would have been impossible to support the current levels of public safety services, maintenance of infrastructure (including facilities, parks, greenbelts and open space), and advance the City's overall goals related to environmental sustainability, economic development and programming for youth and seniors without the resources provided by the ½ cent sales tax. In essence, the loss of revenues represented by the ½ cent sales tax would have forced us to re-evaluate core services and reduce programs to levels not seen in many years.

The City Manager's Office and department heads are currently engaged in an evaluation of all city programs and services and development of criteria to guide recommendations for future program reductions, should these become necessary. This exercise is also anticipated to inform upcoming Council direction related to the renewal of the Parks Maintenance Tax, expiring in June 2012.

Long-Term Challenges Persist

Beyond the immediate challenges addressed within the FY2010/11 fiscal year budget, the City, like all communities, also faces continued threats stemming from the continuing sluggish economy and prolonged State budget crisis. Recent state budgets have included proposals to borrow local property tax revenues, re-direct local transportation funding for State purposes, and questionable raids on Redevelopment Agency tax-increment revenues. While we anticipate these threats to persist, we are

hopeful that a statewide initiative being placed on the November ballot by a coalition led by the League of California Cities will provide local government with additional protections in this regard.

In the short-term, we must also continue to plan for projected increases in employee pension costs, anticipated for FY2012/13, as well as aggressively address a variety of unfunded liabilities accrued over the past decades. These range from commitments tied to the city's retiree medical benefits, to funding requirements for maintenance and repair of streets, bike paths, and sidewalks, to deferred maintenance and replacement costs for city facilities.

It is clear that regardless of the extent of any pending economic recovery, local governments - including the City of Davis - must adapt to a new reality, be it to secure and strengthen a reliable base of revenues in support of public services, advance efforts to regain local control of the state-fiscal relationship, improve management of program and personnel expenditures, and look for new ways to provide for basic, core services. At the same time, communities and governments are facing new challenges and emerging priorities, most notably in the area of environmental stewardship and management of natural resources.

I firmly believe that the history, traditions and values of the Davis community, together with the combined energy, resources and creativity of its residents and institutions place the City in a better position to meet these challenges.

Respectfully submitted,



Bill Emlen
City Manager

