

City Manager's Office

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June 12, 2012

Honorable Mayor and Members of the City Council:

Introduction

Tonight, I present for your consideration the City's proposed budget for fiscal year 2012/2013. This represents the fifth consecutive year where budget reduction measures are necessitated in order to maintain the City's General Fund operating budget, as well as address further reductions in funding levels from state and federal sources supporting transportation and social services programs. As we enter the new fiscal year, the continued uncertainty over the general economy, as well as State and Federal budgets suggest the need for contingency plans across selected areas of the City budget.

The FY2012/13 budget builds upon the actions taken by the Council over the past few 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.

Budget Summary

The FY2012/13 All Funds Budget totals \$144,705,550 and includes formal spending authority for the City's operating and CIP budgets. The FY2012/13 General Fund budget totals \$40,032,131, and includes several personnel adjustments aimed at addressing some of the current unfunded liabilities in the city. The budget reflects a full funding of the Other Post Employment Benefits (OPEB-Retiree Medical) annual requirement of 20% totaling an additional \$1,740,000 on an all funds basis and an increase in Public Employee Retirement System (PERS pension) funding of \$678,359. Another major component of the FY2012/13 budget is an increase in the Street & Bike Maintenance budget in the amount of \$1,942,000. General Fund Revenues total \$39,076,219 which is \$955,912 less than expenditures and reduces the General Fund Reserve to 9.5%. While this is below the 15% reserve

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requirement the preliminary budget does not rely on any one-time funding sources for ongoing operating costs and does include one-time expenditures including a Public Employment Relations Board (PERB) Personnel liability of \$1,040,000 all funds.

The number of full time equivalent (FTE) positions in the city is at a point not seen in over 15 years. The FY 2012/13 budget contains a total of 376 FTE's which is 29 less than FY 11/12, 40 less than FY 10/11 and 69 less than FY 09/10. Other costs saving measures incorporated into the FY 12/13 budget include a savings of \$3,076,000 in restructuring/reorganizing city programs and services, as well as \$4,060,000 in proposed human resources total compensation reductions, subject to on-going contract negotiations.

Current Climate / Fiscal Challenges

The economy continues to be fighting headwinds as it moves towards recovery from the severe economic downturn of the past few years. Precipitated by the bursting of the residential housing "bubble" and quickly spreading through the banking sector it continues to affect global financial markets, most recently in the European Union. 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. This year will be the first year following the California Supreme Court's ruling upholding AB1X26 which dissolved Redevelopment Agency's across the state.

The City's General Fund revenues are projected to increase slightly for the second year in a row to \$39.1 million. Based on the current budget forecast, General Fund revenues are projected to grow at an average annual rate of 2.5% a year resulting in total revenue growth of \$5.1 million through FY 17/18.

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. Three years ago, 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.

Two years ago, 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. This process is continuing in the FY12/13 proposed budget and includes additional re-structuring opportunities:

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- 1) Reorganization of City departments
- 2) Consolidation of complementary services
- 3) Improved efficiency and structure of management and administrative functions
- 4) Manage impacts of workforce reductions by mitigating impacts on priority services, efficiency of City operations and staff reductions/layoffs.

A major component of the FY2012/13 Budget budget-balancing plan is the anticipated savings derived through anticipated human resource total compensation savings of \$4 million, subject to on-going contract negotiations.

Long-Term Challenges Persist

This budget begins to address some of the long term unfunded liabilities accrued over the past decades by proactively addressing changes to the PERS investment assumptions and funding the full 20% of salaries for retiree medical as indicated by actuaries. In the short-term, we must also continue to address the ongoing costs of maintaining city infrastructure including maintenance and repair of streets, bike paths, sidewalks; and 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.

Respectfully submitted,



Steven J. Pinkerton
City Manager

