

**City Manager's Office**

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July 1, 2011

Honorable Mayor and Members of the City Council:

Introduction -

Presented herein is the adopted budget for fiscal year 2011/12, formally adopted by the City Council at its meeting of June 28, 2011. This budget represents the fourth 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 \$961,000 in General Fund expenditure reductions in order to balance the General Fund operating budget, and an additional \$509,000 in General Fund reductions (Tier 2) used to re-program existing resources to priority needs in the areas of public safety, transportation and park and facilities replacement needs. The FY2011/12 Adopted Budget also includes an additional \$2.5 million in personnel cost savings targeted in support of unfunded liabilities for pensions and other post-employment benefits, as well as to augment the funding available this fiscal year for street maintenance contracts.

The FY2011/12 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 FY2011/12 All Funds Budget totals \$168,845,644 and includes formal spending authority for the City's operating, CIP and RDA budgets. The FY2011/12 General Fund budget totals \$37,739,237, and includes balancing measures being implemented to address a projected \$879,800 baseline General Fund deficit for FY2011/12. Additional measures are being implemented to re-direct General Fund

resources for specified priority needs not provided for in the baseline budget, while maintaining General Fund reserves at the 15% level required by City Council policy. A major component of the FY2011/12 Budget is the budget-balancing plan proposed to bridge the General Fund deficit (Tier 1), as well as provide supplemental funding for priority needs (Tier 2). In addition, the City Council's direction to aggressively address additional unfunded liabilities resulted in the inclusion in the FY2011/12 budget of an additional \$2.5 million in General Fund personnel cost savings. Staff will be returning to the City Council with specific recommendations on achieving this level of additional savings.

### 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 increase slightly to \$37.9 million in FY2011/12 after three consecutive years of declining revenue. 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.

While this FY2011/12 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 several 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 \$6.92 million will have been implemented and General Fund staffing levels reduced by 57.50 positions since FY2008/09.

### 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. Two 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.

Last 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 major component of the FY2011/12 Budget is the budget-balancing plan proposed to bridge the General Fund deficit (Tier 1), as well as provide supplemental funding for priority needs (Tier 2). The following summarizes the specific recommendations to be included in the Adopted FY2011/12 annual budget:

	<b>Proposed</b>		<b>Revised City Manager</b>	
	<b>Budget</b>		<b>Recommendations</b>	
	<b>5/14/2011</b>	<b>6/21/2011</b>	<b>6/28/2011</b>	<b>6/28/2011</b>
Baseline Operating Deficit	\$ (709,000)	\$ (674,000)	\$ (674,000)	\$ (674,000)
Loss of COPS Grant Funding	(90,000)	(90,000)	(90,000)	(90,000)
Combined Operating Deficit	\$ (799,000)	\$ (764,000)	\$ (764,000)	\$ (764,000)
Incremental Booking Fee Appropriations	100,000	100,000	100,000	100,000
	\$ (899,000)	\$ (864,000)	\$ (864,000)	\$ (864,000)
Adjustment to Salary Savings	(15,801)	(15,800)	(15,800)	(15,800)
	\$ (914,801)	\$ (879,800)	\$ (879,800)	\$ (879,800)
<b>Proposed Tier 1 Balancing Measures</b>				
Revenue Increases	\$ 94,802	\$ 94,802	\$ 94,802	\$ 94,802
Expenditure Reductions	824,718	865,306	866,679	866,679
Total Tier 1 Balancing Measures	\$ 919,520	\$ 960,108	\$ 961,481	\$ 961,481
Over / (Under)	\$ 4,719	\$ 80,308	\$ 81,681	\$ 81,681
<b>Proposed Tier 2 Budget Recommendations</b>				
Budget Reductions	\$ (485,350)	\$ (489,627)	\$ (509,254)	\$ (509,254)
<b>Proposed Funding Augmentations</b>				
County Office of Emergency Svcs.	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000
Transportation Division / Streets	150,000	150,000	150,000	150,000
Facility Replacement Fund	100,000	100,000	100,000	100,000
Parks /Irrigation	200,000	200,000	200,000	200,000
Total Tier 2 Funding Recommendations	\$ 485,000	\$ 485,000	\$ 485,000	\$ 485,000
Over / (Under)	\$ 350	\$ 4,627	\$ 24,254	\$ 24,254
<b>Combined Over/Under - Unallocated</b>	<b>\$ 5,069</b>	<b>\$ 84,935</b>	<b>\$ 105,935</b>	<b>\$ 105,935</b>

Additional \$2.5 Million in General Fund Personnel Savings

The FY2011/12 Adopted Budget also reflects the City Council’s direction to achieve an additional \$2.5 million in General Fund personnel savings, and included appropriations within the adopted budget supported by these savings:

Sources:

General Fund Personnel Savings	\$2,500,000
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Uses:

Transportation	\$ 850,000
Unfunded Liabilities Trust	\$1,500,000 (OPEB/PERS)
Unallocated	\$ 150,000

The City Council directed the City Manager to develop options and recommendations for implementing an additional \$2.5 million in General Fund personnel savings for fiscal year 2011/12, to be presented for City Council consideration and implementation no later than September 30<sup>th</sup> (end of First Quarter FY2011/12). Future City Council action will be needed to ratify expenditure of funds assumed from additional personnel cost savings.

Long-Term Challenges Persist

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.

Respectfully submitted,



Paul Navazio  
Interim City Manager