

FY2003 1st Quarter Budget Update

*City Council Presentation
October 15, 2002*

*City Manager's Office
Budget and Fiscal Management*



Presentation Outline

- *FY2002 Results (Preliminary)*
- *Five-Year General Fund Forecast*
- *Budget Referrals / Recommendations*
- *Upcoming Council ACTIONS*
- *FY2004 & FY2005 Budget Calendar*

FY 2002 Year-End Results

General Fund Revenues

- Actual FY2002 revenues \$104.37 million; While result is \$1.1 million below the original budget, receipts are approx. \$700K higher than revised estimate used in Mid-Biennial update.

- Stronger-than-expected showing:
 - ◆ Business License Tax
 - ◆ Property Transfer
 - ◆ Interest Earnings

- Too early to revise FY2003 projections; however some positive trends likely offset by:
 - ◆ Declining Sales Tax
 - ◆ Lagging Hotel and Utility Users' taxes
 - ◆ Loss of State Mandate reimbursements

FY 2002 Year-End Results

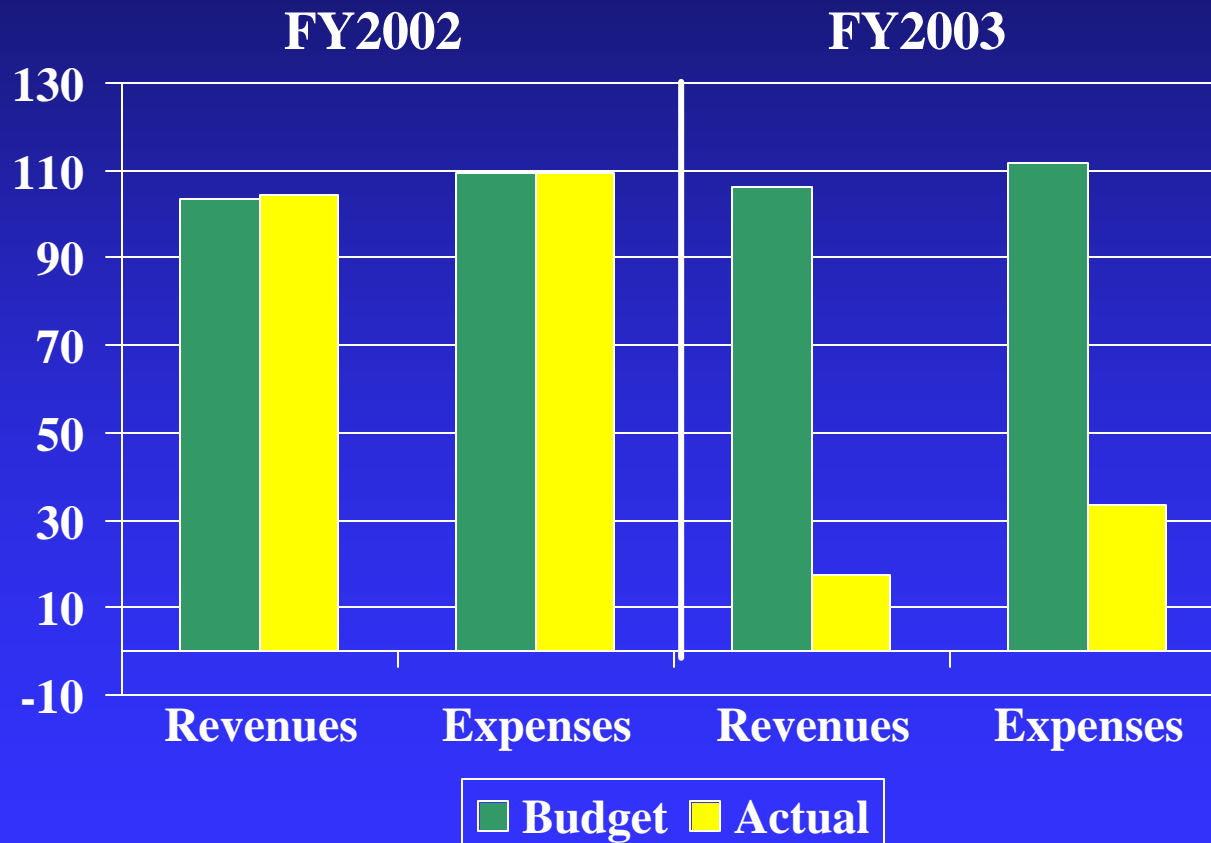
General Fund Expenditures

- Preliminary FY2002 General Fund expenditures appear within budget and are consistent with estimates used at Mid-Biennial Update:
 - ◆ Over budget: Police and Parks, Recreation and Waterfront
 - ◆ Offsetting savings across other departments

- Significant unexpended balances are anticipated to be almost entirely re-appropriate through FY2003 Carry-over:
 - ◆ Contractual Obligations
 - ◆ Council Priority projects

- Some FY2002 funding may be re-allocated to address priority budget referral items

General Fund Revenues and Expenditures



FY2003 Outlook

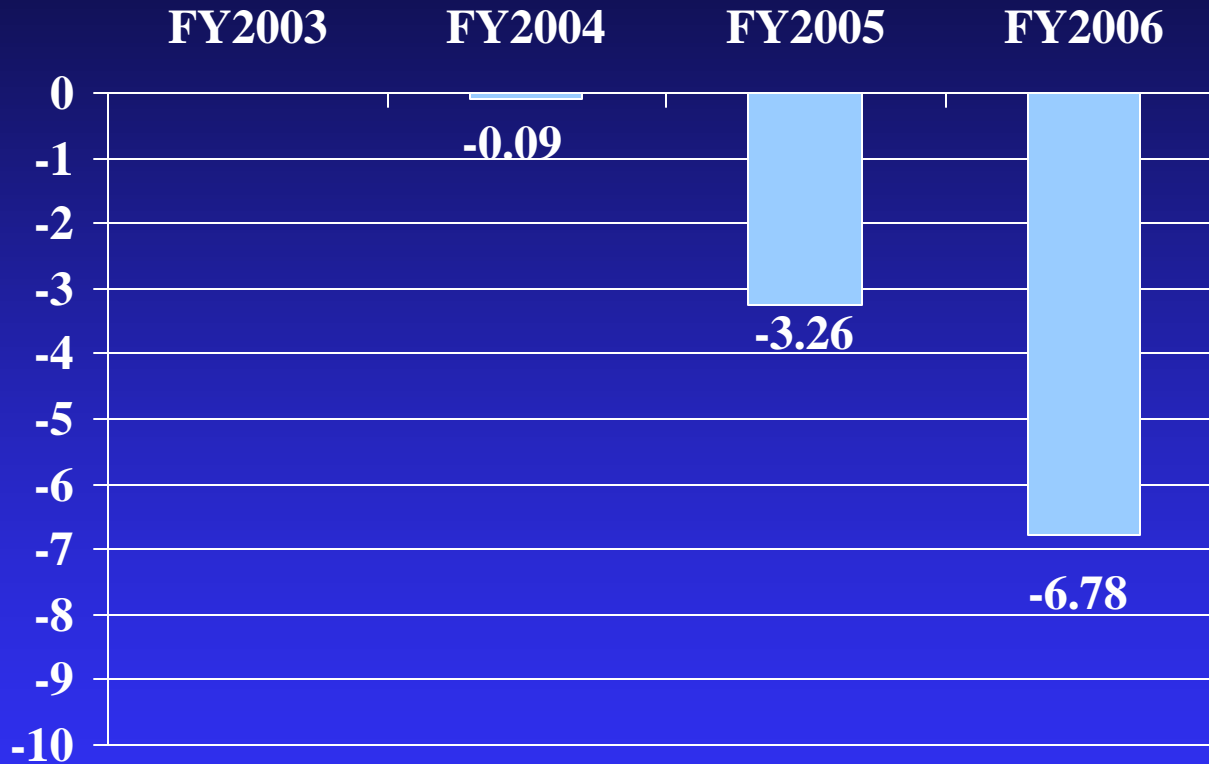
- Too early to update specific revenue and expenditure projections
 - ◆ Factor-in cost of MOU's (\$1.2 million over budget)

- Mixed signs from FY2002 revenues
 - ◆ Year-end results exceed estimate (\$738,000)
 - ◆ Below expected sales tax and hotel tax

- Expenditure Concerns
 - ◆ Parks – Recreation Programs (\$150,000)
 - ◆ Police - Overtime, Courthouse Move
 - ◆ Loan Repayments (Library)

Five-Year Forecast

Deficit Projections at Mid-Biennial Update



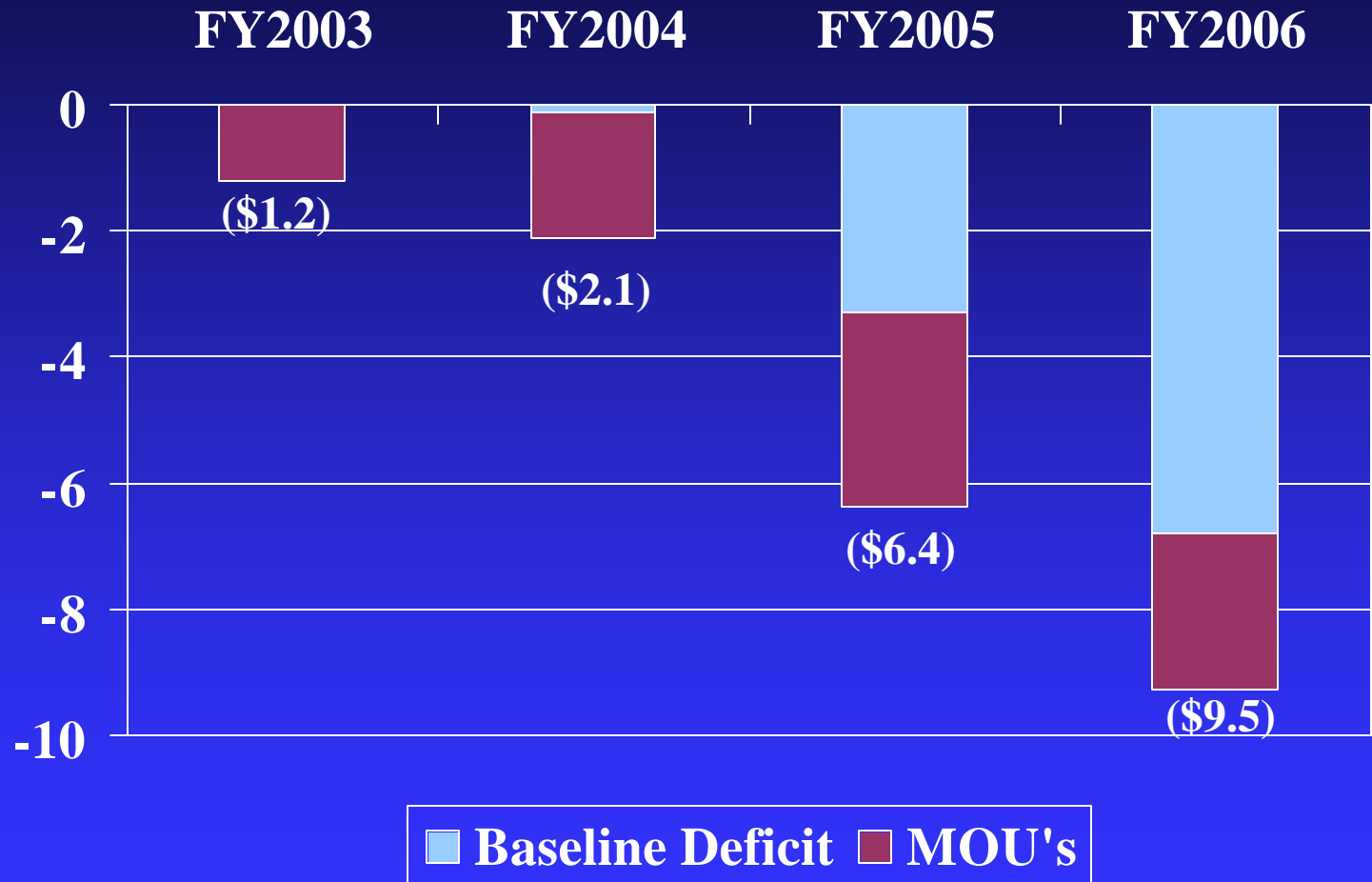
Five-Year General Fund Forecast

Revised Assumptions

- Labor Contracts
 - ◆ Civilian
 - ◆ Berkeley Firefighters' Association
- PERS Rates
 - ◆ Police
 - ◆ Fire
 - ◆ Civilian
- Additional adjustments
 - ◆ Update payroll/staffing
 - ◆ Continuation of selected initiatives with one-time funding

Five-Year Forecast

Revised for Labor Contracts



Five-Year General Forecast

- Current Year and portion of FY2004 deficit to be absorbed through savings realized from PERS super-funded status.
- Projected General Fund deficit of \$2.1 million and \$6.4 million for FY2004 and FY2005, respectively.
- Deficit grows to just under \$9.5 million by FY2006
- Uncertainties suggest worsening of forecast
 - ◆ General economy
 - ◆ Looming State fiscal crisis
 - ◆ Extremely Volatile PERS rates
- Need to re-visit viability of Loans made from General Fund

Impact of Loan Receivables on Reserve Levels

<i>General Fund Reserve Policy (FY2003)</i>	<i>\$ 6.635 M</i>	<i>6.0 %</i>
Loan Receivables incl. in Fund Balance	\$ 1.813 M	
Library Loan (Central Library Project)	<u>- 1.200 M</u>	
Receivables Net of Library Loan	0.613 M	
<i>Revised General Fund Reserve Level</i>	<i>\$ 5.435 M</i>	<i>4.9 %</i>

Change in Projected PERS Retirement Plan Costs (All Funds)

\$ millions



Five-Year General Forecast

- Need for aggressive budget balancing measure for next Biennial Budget
 - ◆ Review of Council Policies
 - ◆ Review of Program Priorities
 - ◆ Development and Evaluation of Budget Reduction Scenarios and other Balancing Strategies

- Policy Considerations
 - ◆ Minimize Lay-offs (maximize reductions through attrition)
 - ◆ Minimize impact on Direct Services
 - ◆ Maintain overall increases in fees and taxes to within rates of inflation

Budget Balancing Strategies

- Across-the-board budget reduction targets
(% of General Fund budget)
- Variable reduction targets for different areas of the budget -
(i.e. Public Safety versus Support Departments)
- Targeted reductions in Management and Administration
(versus direct services, across all program areas)
- Review Programs delivered via Community Agencies and City
Departments
- Targeting positions/classifications where retirements are expected –
(minimize layoffs / staff reductions through attrition)

FY2003 Budget Referrals

- Limited funding from FY2002 savings may be available for re-appropriation to address urgency referrals
- Funding is One-Time and should not be used to provide for recurring funding

FY2003 Budget Referrals

Recommended for Supplemental FY2003 Funding

- *Green Building/Green Government - \$48,000*
 - ◆ Provide seed funding for FY2003 start-up; recurring cost to be built into FY2004 & FY2005 baseline; evaluating possible fee-based program

- *Strawberry Creek Study - \$20,000*
 - ◆ Provide for City's contribution (25%) toward joint study of Downtown Plaza (incl. day-lighting creek)

- *Willard Pool (Winter 2002/03) - \$52,000*
 - ◆ Provide for retaining winter hours at pool through FY2003; future plans contingent on increased pool attendance

- *UC Long-Range Development Plan - \$50,000*
 - ◆ Funds are recommended to undertake fiscal impact study of mitigation and direct service costs related to University of California

FY2003 Budget Recommendations

- Restrict new expenditures to limited one-time urgency items
- Institute:
 - ◆ Selective Hiring freeze
 - ◆ Moratorium on additional new expenditures
(unless supported by corresponding revenue offset)
- Defer funding decisions until the FY2004 & FY2005 Biennial Budget Cycle

Upcoming Council ACTIONS

- *1st Quarter Budget Referrals* *October 15*

- *1st Amendment to Appropriations Ordinance* *November 19*
 - ◆ Labor MOU's
 - ◆ 1st Quarter Adjustments
 - ◆ FY2002 Carryovers

- *Review Citywide Workplan Priorities* *January Workshop*
- *Review Council Policies*
- *Discussion of Budget Balancing Strategies*
 - ◆ Funds Needing Balancing Measures
 - ◆ Two-Year Budget Strategies