

Office of the City Manager

PRESENTATION

October 15, 2002

To: Honorable Mayor Dean and
Members of the City Council

From: Weldon Rucker, City Manager

Subject: **FY2003 1ST QUARTER BUDGET STATUS REPORT**

RECOMMENDATION:

This report provides a financial update through the 1st Quarter of FY2003, including preliminary revenue and expenditure results for FY2002, and a preliminary update to the General Fund 5-year forecast. In addition, the report summarizes a number of unfunded items referred by the City Council and includes recommendations to address those items deemed to be of urgency. Specifically, the following actions are recommended at this time:

- 1) Authorize \$170,000 in one-time FY2002 carry-over funds and FY2003 salary savings for the budget referrals:
 - a. Willard Swimming Pool (Open Nov. – March) \$ 52,000
 - b. Green Building/Green Business Coordinator 48,000
 - c. Strawberry Creek Study 20,000
 - d. Fiscal Impact Study – UC Long-term Development Plan 50,000
- 2) Institute a selective hiring and expenditure freeze and a moratorium on additional new expenditures (unless supported by corresponding revenue offset) until the FY2004 & FY2005 Biennial Budget Cycle;
- 3) Direct the City Manager to develop a list of program reductions to address recurring budget shortfalls projected over the next five years to be presented as part of the Special Worksession on the FY2004 & FY2005 Biennial Budget, scheduled for January 28, 2003.

SUMMARY

This report presents a budgetary update through the 1st Quarter of FY2003, the second year of the FY2002 & FY2003 Biennial Budget. The report provides an update on FY2002 year-end revenues and expenditures, and a preliminary update of the Five-Year General Fund forecast. In addition, the report

provides recommendations to address some of the unbudgeted items referred by the City Council at and subsequent to the Mid-Biennial Budget Update.

At its meeting of June 25th, 2002 the City Council completed its Mid-Biennial Budget Update by approving the FY2003 budget, as amended to address a projected \$3.1 General Fund deficit. In addition, the City Council approved a contingency plan for FY2003 to deal with budgetary uncertainties stemming from the delay in approval of the State budget as well pending contract negotiations.

While FY2002 year-end results may provide limited additional resources to address some of the priority items as yet unbudgeted for FY2003, significant budget pressures have the potential to threaten the balanced budget for this year, and add to the structural budget deficits projected in the General Fund Five-Year forecast.

As a result of mounting budget pressures precipitated by the overall economic outlook, the increased costs of the City's tentative labor agreements, sharply increased PERS retirement rates (due to increased plan benefits and reduced investment returns), it is recommended that the City Council take a cautious approach approving additional expenditures this fiscal year. The looming budget shortfalls projected in the update forecast included in this report may be further impacted as the State struggles to balance a growing State budget deficit, beginning in FY2004.

The same pressures that are negatively impacting the General Fund are also expected to impact a number of other funds, including selected Special Taxes (Parks, Library, Paramedic) and Enterprise Funds (Sewer, Refuse, Storm Drain and Permit Service Center).

In addition, the General Fund reserve, which was planned to be maintained at 6% of revenues, assumes the repayment of the loan provided to the Library. The repayment of the loan is jeopardized as the PERS savings, identified as a source for the repayment, evaporate – effectively reducing the City's General Fund reserve level to 5%.

The following summarizes the information provided in this report:

General Fund Revenues

- FY2002 General Fund revenues totaled \$104.37 million, or \$1.1 million below the adopted budget, but \$0.7 million above the revised estimate used in the Mid-Biennial Budget Update.
- Revenues continued to be buoyed by stronger than expected growth in Business License , Auto-in-lieu, and Property Transfer tax revenues.
- These gains are partially offset by below-target performance in Sales, Hotel, and Utility Users' taxes as well as Parking Fine revenues.
- While it is too early to revise FY2003 revenue projections, FY2002 results suggest that selected revenues may exceed FY2003 budgeted levels; these positive signs, however, are expected to be largely offset by slowing sales tax revenues (partially attributable to retail development in neighboring jurisdictions) and a reduction in state reimbursements for mandates costs.

General Fund Expenditures

- General Fund year-end expenditures for FY2002 appear to be largely in line with budgeted/projected levels. Actual expenditures, encumbrances and requests for carry-over appropriations totaled \$109.4 million, or \$175,000 below the adjusted budget. Departmental requests for carry-over of unexpended balances actually exceed available funds, but requests related to contractual obligations and City Council-priority workplan projects are expected to consume nearly all of FY2002 unexpended balances.
- As projected earlier in the year, the Police and Parks, Recreation and Waterfront departments ended the year significantly over budget; Police expenditures reflect a variance of \$650,000 – largely attributable to higher staff costs related to the department’s efforts to aggressively hire and backfill for anticipated retirements, and costs of settlements which were, in turn, delayed due to the timing of the effective date of the enhanced retirement benefit for sworn police personnel; the variance in the Parks, Recreation and Waterfront department was \$400,000 – which is \$150,000 more than expected – and is due exclusively to over-expenditures in the Recreation Program.
- Through the first quarter of FY2003, expenditures appear to be consistent with budgeted levels with the possible exception, again, of Police and Parks. As part of the Mid-Biennial budget balancing plan, Police overtime was reduced by \$200,000, resulting in an expectation of reduced coverage for Special Events and planned demonstrations. To date, the department has had difficulty in deploying staff for such events without the use of overtime as the pressure has been to fully deploy officers for these events. Funds were added to the Recreation Program budget to address the projected shortfall of \$250,000 per year. The year-end results for FY2002, however, suggest that the expenditure gap is significantly larger, and that corrections would need to be made to program budgets in order to prevent the program from again exceeding budgeted levels in FY2003.

FY2003 Budget Referrals

- A limited amount of the FY2002 unexpended appropriations may be available for re-appropriation in FY2003 to provide one-time, non-recurring funding for selected unfunded items referred by the City Council.
- This report recommends that a total of \$170,000 in unexpended funds from FY2002 be re-appropriated to address the following items:
 - a. Willard Swimming Pool (Nov. – March) \$ 52,000
 - b. Green Building/Green Business Coordinator 48,000
 - c. Strawberry Creek Study 20,000
 - d. Fiscal Impact Study – UC Long-term Development Plan 50,000

Five-Year Forecasts

- The Five-Year General Fund forecast has been updated to reflect the impacts of tentative labor contracts as well as new information from PERS related to growth in retirement benefit costs. The current forecast reflects a General Fund deficit of \$2.1 million and \$6.4 million for FY2004 and FY2005, respectively – growing to just under \$9.5 million by FY2006.
- The current forecast will continue to be updated and monitored throughout the FY2004 & FY2005 budget development cycle. Issues expected to further impact the deficit include: a) continuation of funding selected items funded in FY2003 through one-time funding sources, b) outcome of ongoing need to balance a growing deficit at the State level, and c) ever-increasing PERS retirement plan costs largely affected by the current downward trend in the stock market.

Other Funds

- Staff is in the process of updating forecasts for selected other funds, anticipating that several of the factors negatively impacting the General Fund are likely to put significant pressures on other funds as well.
- Programs funded via Special Taxes (i.e. Library, Parks and Paramedic) are expected to be significantly impacted by the fact that revenue growth (tied to the rate of inflation) will not keep pace with increasing costs of current services (largely driven by rising labor costs and, in the case of the Library, costs of the expanded Central Library). For these funds, budget balancing measures are anticipated for the FY2004 & FY2005 biennial budget.
- Several enterprise funds are also of concern. Programs funded through fees (i.e. Sewers, Refuse, Permit Service Center) are also expected to experience sharp increases in the costs of current services. While these programs have the ability to increase fees in order to generate offsetting revenue increases, the City will need to assess the extent to which fee increases are relied upon to balance future budgets. It remains the goal of the City to maintain cumulative impacts of increased fees and taxes to within the rate(s) of inflation. It is not clear that adhering to this policy will result in sufficient revenue increases to fully offset rising costs.

FY2004 & FY2005 Budget Balancing Strategies

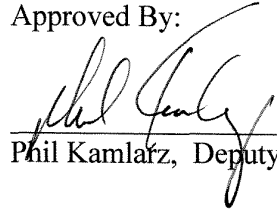
- In anticipation of the looming budget difficulties represented by the updated forecasts, staff has begun evaluating alternative budget balancing strategies to be employed in order to balance the upcoming FY2004 & FY2005 Biennial Budget. Alternatives to consider include:
 - Across-the-board budget reduction targets (based on % 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
 - Treatment of funding for community agencies versus City services
 - Targeting positions/classifications where large number of retirements are expected in order to reduce City staffing levels through attrition.

- A discussion of possible balancing strategies as well as a review of current City Council policies is scheduled as part of the Special Worksession on the Budget, on January 28, 2003.

CONTACT PERSON:

Paul Navazio, Budget Manager 981-7000

Approved By:



Phil Kamlarz, Deputy City Manager

Attachments:

Attachment A: General Fund Revenues

Attachment B: Preliminary Update of General Fund 5-Year Forecast

Attachment C: Unfunded Needs / Budget Referral List

Attachment D: Budget Balancing Strategies

Attachment E: Timetable for FY2004 & FY2005 Biennial Budget Adoption

**Attachment A
General Fund Revenues**

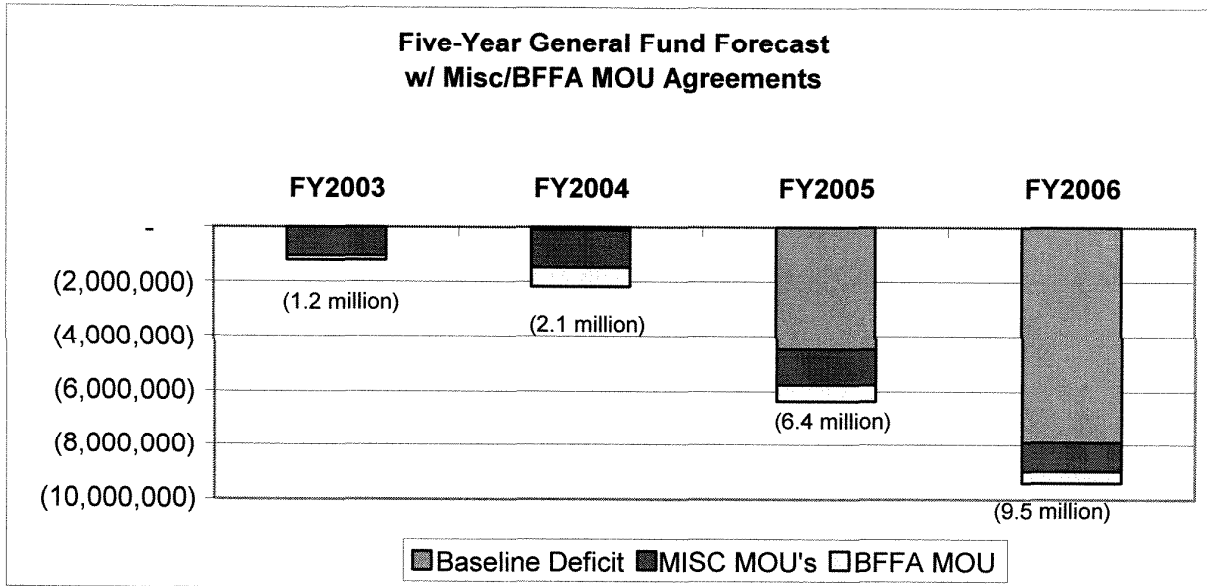
The following table summarizes results for the City’s major General Fund revenue sources through the 1st Quarter of FY2003 along with a comparison of FY2002 results to the FY2003 budget figures:

REVENUE	FY2002				FY 2003
	Adopted	Revised	Actual	Variance	Adopted
Business License	\$ 9,022,905	\$ 8,700,000	\$ 9,539,164	\$ 839,164	\$ 9,014,160
Auto. In-Lieu	5,331,061	5,400,000	5,602,596	202,596	5,490,992
Parking Fines	7,408,740	6,807,038	6,472,032	(335,006)	6,738,000
Prop Trans	7,000,000	7,000,000	7,615,982	615,982	6,700,000
Real Property	22,163,913	22,163,913	21,956,585	(207,328)	23,153,070
Sales Tax	14,810,595	14,810,595	14,134,990	(675,605)	15,254,912
Unsecured Property	1,998,228	1,998,228	1,994,110	(4,118)	2,053,179
Utility Users	13,750,000	13,000,000	12,780,759	(219,241)	13,520,000
Hotel Tax (TOT)	3,707,469	3,000,000	2,889,518	(110,482)	3,763,081
Interest	2,500,000	3,000,000	3,523,297	523,297	2,500,000
Service Fees	4,465,044	4,465,044	4,470,828	5,784	4,641,646
SUB-TOTAL	\$ 92,157,955	\$ 90,344,818	\$ 92,157,955	\$ 635,043	\$ 92,829,040
Other Revenues	13,284,373	13,284,373	12,209,508	(1,074,865)	13,361,934
TOTAL	\$ 105,442,328	\$ 103,629,191	\$ 104,367,463	\$ 738,272	\$ 106,190,974

- General Fund revenue results reflect better than expected showing in the areas of Business License Tax, Property Transfer and Interest Earnings.
- While it is too early to update revenue projections for the entirety of FY2002, several revenue categories performed below revised estimates in FY2002 and warrant close monitoring through FY2003. These include:
 - Sales Tax
 - Property Tax
 - Transient Occupancy (Hotel) tax
 - Parking Fines
 - Utility Users’ Tax
- It is estimated that in the upcoming revision to the General Fund Revenue projections, it is possible that additional revenues may be projected, ranging from zero to up to \$500,000 per year.

Attachment B Five-Year General Fund Forecast

The following chart reflects the result of the preliminary update to the General Fund Five-Year forecast:



- Cumulative costs of labor contracts as well as the loss of reimbursement revenue for State mandates results in a current-year budget shortfall of \$1.2 million; however, this budget gap is proposed to be absorbed by savings set-aside based on the City's superfunded status in the PERS Retirement Plan through the end of this year.
- A total of \$6.4 million in balancing measures will be needed to balance the FY2004 & FY2005 Biennial Budget. Assuming the balancing measures are implemented in the upcoming two-year budget, an additional \$3.1 million in reductions will be need to be considered as part of the FY2006 & FY2007 Biennial Budget.
- Additional adjustments to the forecast will be made throughout the budget development cycle to reflect updated revenue projections as well as consideration for continued funding for initiatives provided for on a one-time basis in FY2002 & FY2003.

Uncertainties Continue to Cloud the Five-Year Forecast

While the above forecast paints a sobering picture for the City's fiscal outlook, there are a number of variables which could worsen the picture.

PERS Rate Volatility

Recent experience in tracking retirement rates provided by PERS suggests a greater degree of rate volatility than previously witnessed. While the most recent projections for future PERS rates are cause for alarm, even these higher-than-expected rates assume that PERS will return to a 8.5% investment return by FY2004, and thereafter. Given the uncertainty exhibited in the financial markets, and the cloudy forecast for a return to more "normal" investment returns, it is unclear when the PERS investment assumption will be reached.

State Budget Threats

The fiscal outlook for State is unchanged in that the approved State Budget failed to address the structural budget shortfalls and has merely delayed reductions needed to balance the budget. As such, next year's State budget will more than likely pose ever-increasing threats to continued sources of State revenues.

Historically, efforts to balance the State budget have had detrimental impact on revenues to local governments. The City of Berkeley has been deprived of an estimated \$5 million per year in property tax revenues resulting from the ERAF property tax shift. Presently, the Motor Vehicle In-Lieu Tax, which has been used to backfill ERAF losses, generates \$5.3 million per year to the City. This revenue source is widely considered to be at-risk in the next round of State budget deliberations.

**Attachment C
FY2003 Budget Referrals**

A limited amount of the FY2002 unexpended appropriations may be available for re-appropriation in FY2003 to provide one-time, non-recurring funding for selected unfunded items referred by the budget review process. These include actions taken by the City Council since July 1, 2001, items referred to the budget process by the City Council as well as items submitted by staff.

The following is a listing of budget referrals for which no funding is provided in the FY2003 Budget, as well as recommendations for FY2003 supplemental appropriations:

FY2003 UNFUNDED BUDGET REFERRALS

	Request (Est.)	Recommendation FY2003	FY2004
<i>From FY2002 & FY2003 Mid-Biennial Budget Update</i>			
Green Building / Green Business / Sustainable Development			
Green Building Coordinator	\$ 75,000	\$ 40,000	\$ 75,000
Green Government	15,000	8,000	15,000
Shop Berkeley / Shop Local			
Animal Services	(administrative roll-over)		
Traffic Enforcement / Increase Enforcement staffing	?????		
Conversion of City Fleet to Bio-Diesel	300,000		
Pedestrian Safety Coordinator	90,000		
Habitot	<u>25,000</u>		
	\$ 505,000		
<i>City Council Referrals Since July 1st</i>			
Rebuilding Together	15,000		
CARShare	54,500		
Feasibility Study - Strawberry Creek (EcoCity)	20,000	20,000	
Willard Pool (open in Winter months)	<u>52,000</u>	52,000	Fee revenues
	\$ 141,500		
<i>Other</i>			
Fiscal Impact Study - U.C. Long-Range Development Plan	50,000	50,000	
<i>Total FY2003 Budget Referrals (through October 15, 2002)</i>	<u>\$ 696,500</u>	<u>\$ 170,000</u>	

Willard Pool - At its meeting on September 17th, the Council postponed the decision on closing Willard pool for 22 weeks during the winter, as contemplated in the budget balancing plan approved as part of Mid-Biennial Budget Update. On October 2nd, staff met with about 20 pool users to discuss their concerns, hear their ideas, and identify possible strategies for increasing public use and revenues for this and future winter seasons at Willard pool. Based on the feedback received, we are pleased to report that there is a very energized effort among the pool users to keep Willard pool open year-round and to work with staff to immediately increase use of the pool this winter season. In addition, over the next several months, staff will meet with a core working group from the community to examine several components

of a long range plan: outreach and marketing; physical plant conditions; programming; fee schedules; an analysis of costs and revenues; and staffing. The results of this winter's use and a new plan for using Willard pool will be presented to the Council by May 6, 2003 for its consideration during the FY2004 & FY2005 Biennial Budget process.

Recommendation – A one-time allocation of \$52,000 is recommended in order to maintain the Willard Pool open from November through March. Ongoing support for continued year-round operation of the pool will be re-evaluated in the FY2004 & FY2005 budget, and is contingent upon successful efforts to increase usage of the facility during the winter months.

Green Building / Green Business – Funding has been requested to provide staff support to the City's emerging Green Building/Business and Green Government programs. Funding was originally allocated in FY2002 from anticipated growth in Utility Users' Tax revenues. With the normalization of utility rates (and tax revenues), alternative funding sources are needed.

Recommendation – In light of past Council action identifying these initiatives as priority projects, staff continues to assess alternative funding sources (including establishment of new fees in both the Building Permit and Refuse charges) for FY2004 & FY2005. In the interim, one-time General Fund allocation of \$48,000 is recommended (from FY2002 carry-over funds) to provide transitional funding until the program funding issues can be addressed in the next budget process.

Shop Berkeley / Shop Local – Staff is working with the various merchant groups to develop a plan to fund increased marketing efforts through existing Business Improvement Districts and/or direct contributions from the business community.

Recommendation – no additional funding provided at this time. Re-visit status of business community investment as part of FY2004 & FY2005 budget process.

Animal Services – The City Council has requested that all unexpended and unencumbered funds within the Animal Services budget be re-appropriated to the FY2003 Animal Services budget. This is being processed administratively.

Recommendation - No additional Council Action is needed

Traffic Enforcement – At the Mid-Biennial Budget Update, it was suggested that the City continue to look at increasing staffing for traffic enforcement (moving violations). In theory, the costs of increased enforcement staff can be shown to be fully-offset through increased citation revenues. In practice, however, traffic enforcement personnel are often called upon to staff other, higher priority functions throughout the year, and rarely generate the level of citation revenue needed to pay for the positions, thereby resulting in a net increase cost to the City.

Recommendation – Issue to be re-evaluated with a recommendation to be brought to the City Council as part of the FY2004 & FY2005 Proposed Budget.

Conversion of City Fleet / Alternative Fuels – Several commissions have taken action to recommend to the City Council that the City’s diesel fleet be converted to Bio-Diesel fuel, These recommendations stem from presentations made by the Ecology Center regarding the successful conversion of its fleet to bio-diesel.

Recommendation – Staff is currently undertaking a full analysis of alternative fuel options for the City’s diesel fleet. A report and recommendation is scheduled for the Council meeting of December 17, 2002. The City Council should defer action until the staff report is presented and could evaluate funding needs as part of the Mid-Year Budget update (February) or the FY2004 & FY2005 Budget process (May-June).

Pedestrian Safety Coordinator - This new position represents one component of recommendations included in the Bicycle and Pedestrian Safety Task Force Report, presented to the City Council two years ago. While partial funding was provided to begin addressing some of the recommendations included in this report, many recommendations remain unfunded. In response to recommendations from several commissions, staff is presently working on a report to evaluate the specific recommendations and funding needs to more fully implement the report recommendations. This report is scheduled to be presented to the Council this winter.

Recommendation – No funding at this time. Defer action until staff completes its evaluation of priority needs (including staffing levels) and funding requirements.

Habitot – The organization is requesting a one-time emergency grant of \$25,000, due to reduced membership and declining outside revenues. At this time it is unclear whether this organization remains viable in the absence of an ongoing City subsidy. Inquiries as to the organization’s willingness to receive a short-term loan from the City were not met favorably by the Board, citing their own concerns over the long-term viability of the program.

Recommendation – No additional funding at this time.

Rebuilding Together - A request for a grant in the amount of \$15,000 was referred for funding consideration at the Council meeting of September 10, 2002. Funds are being requested to assist in the purchase of a computer system and a staff person to assist in the processing of registrations.

Recommendation – No additional funding at this time.

CARShare – The organization is requesting continued City support in the amount of \$54,500, equal to the City’s contribution in the current calendar year. In FY2002 CARShare was allocated a one-time grant in the amount of \$54,500 representing one-half of the initial start-up capital needed to establish CARShare in Berkeley. Originally, this amount was expected to be matched by an equal contribution by the University. Subsequently, the University opted not to support this venture, and the business plan was pared back accordingly. While the original contribution was intended to be a one-time start-up subsidy, CARShare is now requesting that an additional \$54,500 allocation be provided for the second year of operation.

Recommendation – No additional funding at this time. Refer request for consideration at the FY2003 Mid-Year Update in February.

Strawberry Creek / Feasibility Study - Funding has been requested in the amount of \$20,000, representing the City's share (25%) of a joint feasibility study concerning the "daylighting" of Strawberry Creek as part of a Downtown Plaza.

Recommendation – A one-time allocation of \$20,000 is recommended from available balances left over from the \$40,000 provided in FY2002 to complete a study of the UC Theater.

UC Long-Range Development Plan / Fiscal Impact Study – In preparation for the City's upcoming negotiations with the University related to Long-Term Development and City services in support of the University, a Fiscal Impact Study is needed. This study is expected to assess the City's current agreements with the University and identify areas where the City may legally claim additional reimbursement and mitigation costs,

Recommendation – One-time funding of \$50,000 is recommended from available FY2002 balances in the City Manager's Office to undertake a study in support of the City's upcoming negotiations with the University.

Attachment D
FY2004 & FY2005 Budget Balancing Strategies

In anticipation of the looming budget difficulties represented by the updated forecasts, the City Council should begin evaluating alternative budget balancing strategies to be employed in order to balance the upcoming FY2004 & FY2005 Biennial Budget. Alternatives to consider include:

- Across-the-board budget reduction targets (based on % 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
- Treatment of funding for community agencies versus City services
- Targeting positions/classifications where large number of retirements are expected in order to reduce City staffing levels through attrition.

Attachment E
FY2004 & FY2005 Biennial Budget Development Calendar

- September 17, 2002 *Adopt FY2004 & FY2005 Budget Development Calendar*
- October 15, 2002 *FY2003 1st Quarter Budget Update*
 - FY2003 Revenues and Expenditures
 - Updated Five-Year Forecasts
 - Direction on Budget Policies to be included in City Manger's Instructions to Departments
- January 28, 2003 *Special Budget Workshop #1 (5:30 pm)*
- February 11, 2003 *FY2003 Mid-Year Budget Update*
 - FY2003 Revenues and Expenditures
 - Updated Five-Year Forecasts
- March 25, 2003 *Special Budget Workshop #2 (5:30 pm)*
- May 6, 2003 *Presentation - City Manager's Proposed FY2004&FY2005 Budget (Special Meeting to begin at 5:30 pm for Presentation)*
- May 13 *Public Hearing #1*
 - Proposed FY2004 Fee increases
 - FY2004 & FY2005 Budget Proposals
- June 3 *Presentation of City Council Amendments to Proposed Budget*
- June 10 *Public Hearing #2*
 - FY2004 & FY2005 Budget Proposals
- June 17, 2003 **BUDGET ADOPTION**

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*

RECEIVED AT
COUNCIL MEETING OF:
OCT 15 2002
OFFICE OF THE CITY CLERK
CITY OF BERKELEY

FY 2002 Year-End Results

General Fund Revenues

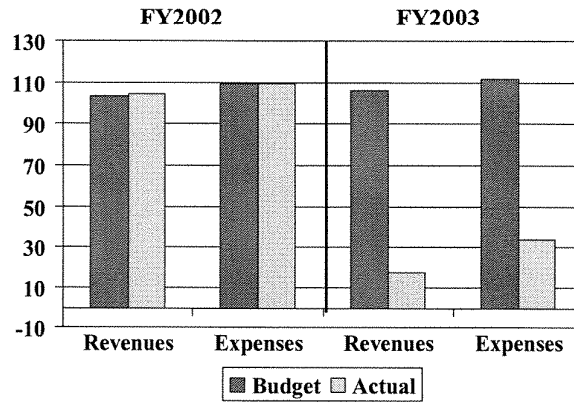
- Actual FY2002 revenues \$104.37 million; While result is \$1.1 million below the original budget, receipts are approx. \$700K higher than revised estimate used in Mid-Biennial update.
- Stronger-than-expected showing:
 - ◆ Business License Tax
 - ◆ Property Transfer
 - ◆ Interest Earnings
- Too early 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

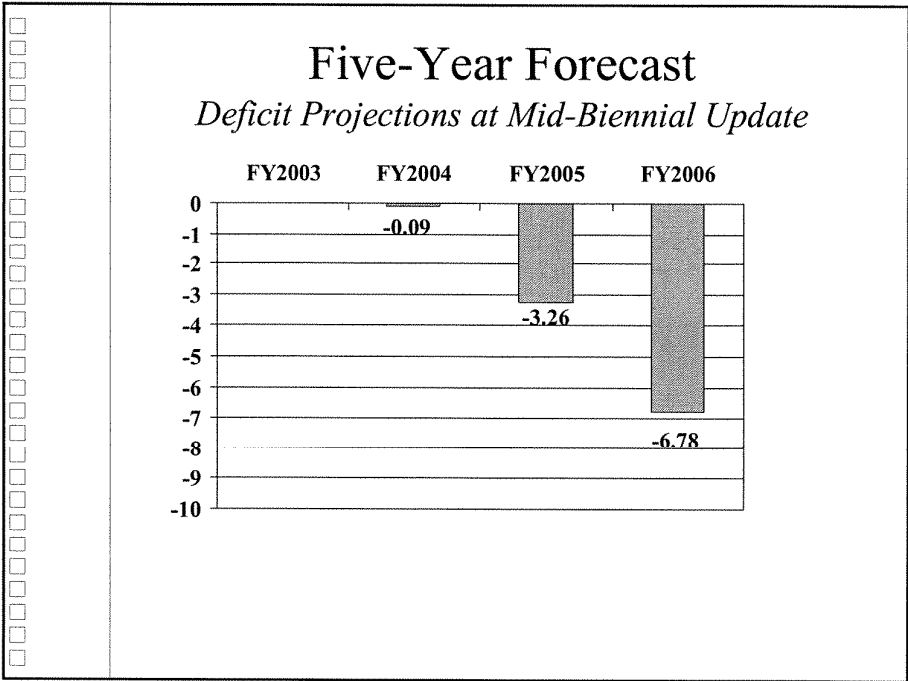


FY2003 Outlook

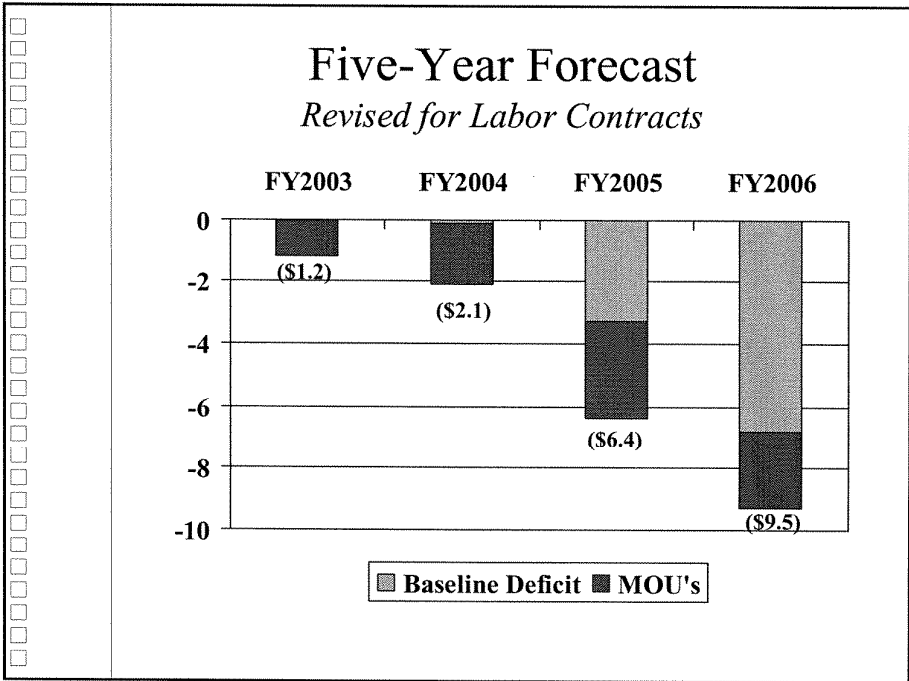
- Too early to update specific revenue and expenditure projections
 - ◆ Factor-in cost of MOU's (\$1.2 million over budget)

- 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 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 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

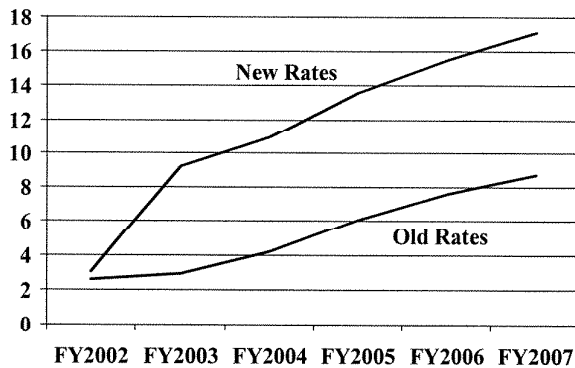
Impact of Loan Receivables on Reserve Levels

General Fund Reserve Policy (FY2003)	\$ 6.635 M	6.0 %
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	
Revised General Fund Reserve Level	\$ 5.435 M	4.9 %

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