

Office of the City Manager

ACTION CALENDAR
November 12, 2002

To: Honorable Mayor and
Members of the City Council
From: Weldon Rucker, City Manager
Subject: FY2003 1st Quarter Budget Update – Follow-up Discussion

SUMMARY

A series of reports has been prepared as follow-up actions to the FY2003 1st Quarter Budget Update, presented at the City Council meeting of October 15, 2003. Included as components of this agenda item are recommendations related to four funding items on which the Council deferred action, pending a review of additional analysis and justification. These items include:

- a) Ecocity Builders – Heart-of-the City Project – Feasibility Study
- b) UC Long-Range Development Plan – Fiscal Impact Study
- c) Animal Services Funding
- d) Holiday Marketing

In addition to specific recommendations related to these funding requests, this report summarizes the budgetary overview presented at the October 15th meeting, and informs the Council of efforts being undertaken to coordinate the development and review of future funding requests consistent with the need to develop a budget balancing strategy for the FY2004 and FY2005 Budget.

FISCAL IMPACTS OF RECOMMENDATION

The recommendations contained in this (and component) report(s) would authorize the re-appropriation of up to \$70,000 from FY2002 General Fund departmental savings for one-time use to cover costs associated with the Ecocity Proposal (\$20,000) and the UC Long-Range Development Plan study (\$50,000).

CURRENT SITUATION AND ITS EFFECTS

At the meeting of October 15, 2002, the Council was presented with the FY2003 1st Quarter Budget Update which included a review revenue expenditure results through the first three months of the current fiscal year as well as a preliminary update to the General Fund Five-Year Forecast. The presentation also included several recommendations related to unfunded items referred by the City Council since adoption of the FY2003 budget.

The report highlighted the fact that while the current fiscal year budget is projected to remain balanced, the outlook for future years provides cause for concern. Overall, General Fund expenditures, paced by increased payroll costs – and significant increases in projected costs of retirement plan benefits – are expected to outpace revenue growth, resulting in projected deficits of \$2.1 million in FY2004 and \$6.4 million in FY2005. The deficit could grow to as much as \$9.5 million by FY2006.

Despite this sobering forecast, staff has identified up to \$170,000 in FY2002 General Fund savings that could be available to provide one-time, non-recurring funding for selected unfunded items deemed to be Council and/or operational priorities. This funding could be re-appropriated to address one-time cost items *without further impacting the General Fund deficit projections*.

After extensive discussion – including clarification as to the nature of and justification for selected staff recommendations – the Council took action approving supplemental budget allocations for the Willard Swim Center (\$52,000) and the Green Building/Green Business Program (\$48,000). Action on two remaining funding recommendations, the Ecocity Heart-of-the-City Project and the U.C. Long-Range Development Plan fiscal impact study was deferred to the meeting of November 12th, along with consideration of a request from the Humane Commission to allocate additional funding in support of the Animal Shelter. Tonight's agenda also includes an additional time-sensitive budget referral relating to funding of a Holiday Marketing Campaign promoting Berkeley's commercial districts.

Based on staff's recommendation contained in the October 15th report, the Council approved instituting a selective hiring freeze and moratorium on new, unbudgeted expenditures, pending development of a budget balancing plan to address the deficits projected in the next biennial budget.

RATIONALE FOR RECOMMENDATION

The recommendation to re-appropriate up to \$170,000 in FY2002 savings for priority needs as yet unfunded in FY2003 was based on several factors, and presented in the context of a series of recommendations including the instituting of a selective hiring freeze and moratorium on new expenditures.

Specifically, two of the recommendations (Willard Swim Center and Green Business/Green Building Coordinator) were specifically identified by the Council as FY2003 program reductions that would be among the top priority for restoration, should additional resources become available. In other words, had the FY2002 General Fund savings been identified at the time that the Council considered a balancing plan to reduce the budget by \$3.1 million, it is likely that these two programs would not have been cut from the budget. Therefore, the staff recommendation was based on a sense that the Council would support supplemental funding for these programs at this time.

The remaining two funding recommendations, Ecocity's Heart-of-the-City Project (\$20,000) and UC Long-Range Development Plan fiscal impact study (\$50,000) were recommended for supplemental funding based on 1) the one-time nature of the funding need, 2) the potential long-

term return of the City’s current investment, and 3) (in the case of the Ecocity Project) the ability to leverage City resources with other funding sources to produce a study with potential long-term benefits to the City.

All of the budget referral items that remain on the unfunded list, with no funding recommended at this time, represent requests with undetermined benefits and involve potential ongoing commitment of funds that can not be supported at this time. These items will remain on the unfunded budget referral list pending the Mid-Year Budget updated (February, 2003) and the FY2004 & FY2005 Budget development cycle (Spring 2003).

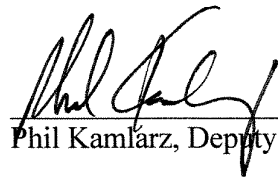
ALTERNATIVE ACTIONS CONSIDERED

In developing the recommendation to re-appropriate up to \$170,000 in FY2002 savings for priority needs as yet unfunded in the FY2003 budget, staff weighed alternative actions, particularly in light of the deficits projected in the General Fund Five-Year Forecast. Specifically, strong consideration was given to recommending that no additional funding be allocated to any of the unfunded budget items, and that any savings from FY2002 be carried-over to help address projected deficits in FY2004. However, given the Council’s previously-stated intent to rescind the Willard Pool closure should funds (albeit one-time) become available, staff felt it appropriate to consider the other unfunded items against the above referenced funding criteria.

CONTACT PERSON

Paul Navazio, Budget Manager 981-7000

Approved:



Phil Kamlarz, Deputy City Manager

Attachments:

- Item 25 (A) – Ecocity Builders – Heart-of-the-City Project
- Item 25 (B) – U.C. Berkeley Long-Range Development Plan / Fiscal Impact Study
- Item 25 (C) – Animal Services Funding
 - Item C.1 - from the City Manager
 - Item C.2. – from Mayor Dean, Councilmembers, Spring, Olds) – To Be Delivered
 - Item C.3. – from Human Commission
- Item 25 (D) – Holiday Marketing