

Office of the City Manager



**TO BE DELIVERED
AGENDA MATERIAL**
(Agenda Item #7)



October 17, 2003

To: Honorable Mayor and
Members of the City Council

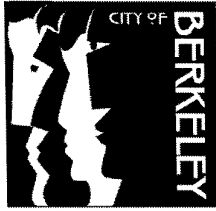
From: ~~Weldon~~ Rucker, City Manager

Subject: FY2004 1st Quarter Budget Status Report

Please add the attached item in your Council packet for the Special Meeting of October 21, 2003. Thank you.

Attachment

cc: City Manager
City Attorney
City Clerk
City Auditor
Library




Office of the City Manager

COUNCIL INFORMATION

October 21, 2003

To: Honorable Mayor Dean and
Members of the City Council

From: Weldon Ruckelshaus  City Manager

Subject: **FY2004 1ST QUARTER BUDGET STATUS REPORT**

SUMMARY:

This report provides a financial update through the 1st Quarter of FY2004, including preliminary revenue and expenditure results for FY2003, and an update to the General Fund Five-Year Forecast. In addition, the report provides a status of the City's efforts to manage the selective hiring freeze instituted as part of the FY2004 Adopted Budget.

- General Fund revenues for FY2003 totaled \$107.4 million, or 99.9% of the revised revenue projection for the year. Current year revenues, through the first quarter of FY2004 appear to be consistent with overall projections. However, better-than-expected results in property-related tax revenues appear to be offsetting lagging results in economic indicator revenues (sales tax and hotel tax), and parking fines.
- General Fund expenditures, including encumbrances, totaled \$110.65 million, or \$4.21 million under the FY2003 Revised Budget of \$114.86 million. However, departments have submitted requests to the City Manager for carry-over of unencumbered savings totaling just under \$3.5 million. Of these requests, it is anticipated that approximately \$3.1 million will be approved, leaving a year-end net savings of \$1.06 million, which is slightly greater than the \$750,000 anticipated and set-aside to address the impacts of the FY2003 State Budget
- Despite successful efforts to balance the FY2004 General Fund budget, the current Five Year forecast points to significant deficits within the General Fund; beginning with \$7.3 million in FY2005, and growing to \$12.1 million by FY2008. Deficits in other funds that are expected to rely on the General Fund for additional subsidies are expected to increase the General Fund deficit to \$8.2 million in FY2005 and grow to \$13.8 million by FY2008.
- Additional budget shortfalls are expected to be experienced by a number of other Special Tax and Enterprise Funds, including the Library, Parks, Paramedic, Workers' Compensation and Building Maintenance funds. Deficits in these funds are expected to add an additional \$1.0 to \$2.5 million to the cumulative deficits to be addressed.

- The selective hiring freeze implemented over the course of the past 6 months has contributed to a total of 119 vacancies across all City departments, with 61 vacancies yielding savings in the General Fund. Through the first quarter of FY2004, these vacancies have resulted in General Fund savings totaling approximately \$500,000, and suggests that the “target” savings from the hiring freeze of \$1 million will more than likely be reached. It is anticipated that departmental salary savings will be recaptured and set-aside in the General Fund reserve, adding to the Council’s flexibility to buffer future program reductions.


Given the current fiscal outlook, combined with the general uncertainty surrounding the State budget situation and the expressed priorities of the Governor-elect, it is imperative that the City continue to develop strategies to address a potentially worsening budget situation. Over the course of the next 6 months, the City must not only develop a plan to address our own FY2005 budget deficit as well as a strategy to eliminate the longer-term structural deficit over the next five years, but it will also be necessary to develop contingency plans in the event of additional adverse impacts from the State budget.

A likely scenario presented in this report balances the budget over five years through a combination of \$10 million in new revenues and \$9.8 million in program reductions – the equivalent of 128 staff positions. A worse case scenario is presented which would require a total of \$21.8 million in program reductions - equal to 272 positions – over the next five years. Either scenario will require the City undertake a rigorous review of current program costs and service levels as well as a review of Council and community priorities. Our challenge is to continue to ensure that priority services are maintained and that impacts – including staff reductions - from eventual program reductions are minimized.

CONTACT PERSON:

Paul Navazio, Budget Manager 981-7000

Approved By:


Phil Kamlarz, Deputy City Manager

Attachments:

- Attachment A: General Fund Revenues
- Attachment B: General Fund Expenditures
- Attachment C: General Fund Five-Year Forecast
- Attachment D: Five-Year Budget Balancing Framework
- Attachment E: Status of General Fund Savings from Selective Hiring Freeze

**Attachment A
General Fund Revenues**

The following table summarizes results for the City’s major General Fund revenue sources for FY2003 along with the FY2004 Adopted Budget and revised projection figures:

REVENUE	FY2003				FY 2004		
	Adopted	Revised	Actual	Variance	Adopted	Projected	Variance
Real Property	23,153,070	23,707,068	23,858,265	(128,093)	25,129,492	25,766,926	
Sales Tax	15,254,912	13,956,694	13,641,888	707,699	14,235,828	13,476,079	
Utility Users	13,520,000	13,197,400	12,554,501	609,649	13,725,296	14,126,529	
Business License	9,212,593	10,605,179	10,477,086	(14,895)	10,425,480	10,778,650	
Prop Trans	6,700,000	8,300,000	9,007,699	70,166	7,200,000	8,800,000	
Parking Fines	6,238,000	6,238,000	6,847,649	(184,896)	10,020,740	8,882,739	
Auto. In-Lieu	5,490,992	6,000,000	5,985,105	310,697	6,120,000	4,900,000	
Service Fees	4,640,889	4,706,983	4,777,149	43,916	4,644,670	4,400,670	
Hotel Tax (TOT)	3,763,081	2,700,000	2,515,104	(102,269)	2,740,500	2,452,000	
Interest	2,500,000	2,700,000	3,010,697	42,134	3,000,000	2,700,000	
Ambulance Fees	2,350,000	2,350,000	2,393,916	(31,765)	2,444,000	1,900,000	
Unsecured Property	2,053,179	2,093,338	1,991,069	515,835	2,171,838	2,046,819	
Supplemental Taxes	1,350,000	1,350,000	1,392,134	(179,184)	1,404,000	1,350,000	
Franchise Fees	1,250,000	1,250,000	1,218,235	336,651	1,284,494	1,225,000	
SUB-TOTAL	97,476,716	99,154,662	99,670,497	1,995,645	104,546,338	102,805,412	
Other Revenues	972,307	687,071	507,887	(179,184)	285,220	527,330	
TOTAL REVENUES	98,449,023	99,841,733	100,178,384	336,651	104,831,558	103,332,742	(1,498,816)
TRANSFERS & IDC	7,741,567	7,673,732	7,242,389		7,303,613	7,303,613	
TOTAL REVENUES, TRANSFERS & IDC	\$ 106,190,590	\$ 107,515,465	\$ 107,420,773		\$ 112,135,171	\$ 110,636,355	\$ (1,498,816)

General Fund Revenues

- FY 2003 General Fund revenues totaled \$107.4 million, which was \$94,000 less than the revised estimate used in the FY2004 budget assumptions.
- Analysis of the top thirteen “indicator” revenues for FY 2004 projects that total General Fund revenues for the year will likely fall approximately \$1.1 million short of the \$104.8 million reflected in the FY 2004 adopted budget, even though reflecting a \$3.5 million increase over FY 2003. These thirteen indicators account for approximately 95% of all General Fund Revenue.
 - Revenues projected for the largest increases over FY 2004 adopted budget are Property Transfer Tax (up \$1.6 million); Secured Property Taxes (up \$.6 million); Business Licenses (up \$.5 million); and Utility Users Tax (up \$.4 million).
 - Revenues projected for the largest shortfalls from the FY 2004 adopted budget are Vehicle-in-Lieu (down \$1.2 million); Parking Fines (down \$1.1 million); Sales Tax (down \$.8 million); Ambulance Fees (down \$.5 million); and Hotel Tax (down \$.3 million).
- The volatility of the revenue picture complicates the FY 2004 picture considerably.
 - Vehicle-in-Lieu taxes are subject to State action and may well be reduced to pre-FY 2004 levels without backfill, or even eliminated.

- Utility Users Tax could be eroded by three actions currently underway: (1) PG&E is making a refund to both their residential and commercial accounts, which will also require a refund of taxes paid; (2) there is a pending lawsuit against a Southern California jurisdiction brought by two of the largest wireless providers, which if it prevails, may force refund of the entire gain projected for this year plus more; and (3) at the Federal level, the House of Representatives has passed legislation, which proposes exempting Internet connections from local taxes. This legislative action is a major threat to this revenue source since the current merging of technology could define any telecommunication (wired or wireless), cable, or satellite service as “providing access to the Internet.”

Given that we have data for only the first quarter of the fiscal year, it is too early to formally revise any projections. However, the uncertainties and volatilities expressed above provide added incentive to complete our scenario planning so that we are not caught off guard by potentially catastrophic events outside of our control.

Revenue projections are inherently dependent on a number of assumptions, which vary from revenue source to revenue source:

Real Property Tax – The State Constitution (Proposition 13) sets the base property tax rate at 1% of assessed value. The City receives approximately 32.5% of the property tax generated in Berkeley, with the majority of the remaining percentage going to the State for the schools. Property tax receipts increased \$1,901,680 or 8.7% in FY 2003. They are projected to grow at a rate of 8% in FY 2004, and thereafter at an annual rate of 6% through FY 2008, reflecting actual and projected increases in assessed valuation. The growth rate for the out-years is below the historical rate of over 7.5% experienced over the past five years, as this rate of growth may not be sustainable.

Personal Property Tax – This is a tax on businesses’ personal property such as office furniture, machinery, equipment, etc. Such purchases have slowed in line with the slowdown in capital expenditures in the economy. The revenues were flat at \$1,991,069 in FY 2003; they are projected to grow at a rate of 2.4% in FY 2004 and 4% in the out-years, in line with actual and projected increases in assessed values.

Real Property Transfer Tax – The City assesses a property transfer tax equal to 1.5% of the sale price of local real property transactions. Of this amount, property owners are eligible to receive a rebate of one third (or .5%) of the tax contingent on compliance with the City’s seismic retrofit ordinance. This revenue source has experienced unprecedented growth in recent years as a result of strong and active real estate market, aided by long-term interest rates that have hovered near historic lows. Transfer tax receipts have grown at an average annual rate of 12% from FY1997 (\$5.1 million) to a projected record high of \$9.0 million in FY 2003. However, due to projections of a moderate economic recovery, higher long-term interest rates and a projected decrease in the volume of real estate transactions, transfer tax revenues are projected to fall slightly to \$8,800,000 in FY 2004 and an average of \$7.2 million between FY 2005 and FY2008.

Sales Tax – Sales tax revenues are derived from the tax imposed on sales of goods and services transacted within the City. The local tax rate is 8.25% comprised of the statewide tax rate of 7.75%, and an additional countywide tax of 0.5%. The City receives 1% of the base 7.75% tax, while the County Tax (Measure B) is dedicated to Transportation improvements. Sales tax revenues declined \$493,102 or

3.5% in FY 2003 and are projected to decline an additional \$165,809 in FY 2004 due to the slow economy, and then grow at a consistent 3.0% growth rate, which is a decrease from the average growth rate of 5% experienced in recent years. The local economy does not have much room for expansion and therefore follows the general Bay Area economy fairly consistently without the wild dips and peaks due to the City's base in a wide variety of small businesses.

It should be pointed out that if the State's budget situation doesn't improve, City sales taxes may be at risk as the State budget includes a provision (called Triple-Flip) that swaps ½ cent of the sales tax for an equal amount of property tax. The State has promised that cities will be kept whole under the provision. However, the State has made such promises before and failed to keep them.

Transient Occupancy Tax – The City imposes a tax of 12% on hotel charges in the City. Of this amount, 1 percentage point is earmarked for the Convention and Visitors' Bureau, allocated through a contract with the City. While this revenue source has experienced average annual growth of over 6% during a five-year period prior to September 11, 2001, the revenues dropped sharply after the terrorist attacks and have still not recovered. FY 2003 revenues declined \$374,366 or 13.0%; Current projections assume a decline of \$63,104 in FY 04 and a small recovery of 2.0% per year in expectation of a slow recovery in the economy.

Business License Tax – This revenue source is derived from a tax imposed on gross receipts of businesses licensed to operate in the City. The tax rate varies depending on the business enterprise. Total revenue in FY 2003 increased by \$808,612 or 8.4%, due primarily to collection of delinquent taxes totaling \$554,778 and increased compliance efforts of the Finance Department's Business License staff and the City Auditor's staff. Revenue for FY 2004 is expected to increase \$345,142, even though the FY 2003 total includes the large aforementioned delinquency collection. The FY 2004 projection includes \$300,000 as a result of the contract with MBIA MuniServices Company and \$350,000 from increased compliance efforts of the Finance and City Auditor Departments. The out-year revenue projections assume an annual growth rate of approximately 2.75% through FY2008, consistent with the general assumption for the rate of local economic growth.

Interest – The City earns interest income on funds held on deposit throughout the year. Interest income declined \$514,009 or 14.6% from FY 2002. It is expected to decline another 10% from \$3.0 million in FY2003 to \$2.7 million in FY 2004, and then move back up to \$3,000,000 through FY 2008. The recent declines are primarily the result of the Federal Reserve Board artificially holding short-term interest rates at historically low levels and increasing the money supply at a significant rate, in order to help provide plenty of capital at a low cost to businesses and consumers and help sustain the national economic recovery. Very large federal budget deficits over the next several years should increase the supply of debt securities and that, plus the economic recovery, should put upward pressure on short, medium and long-term interest rates.

It should also be pointed out that interest income will be negatively impacted by the State's Triple-Flip provision since the property taxes used as a replacement for the ½ cent sales taxes taken from cities will only be paid twice a year, while sales taxes are paid monthly. However, the decline in interest income resulting from this plan will be partially offset by interest earned on a larger Tax and Revenue Anticipation Note (TRAN) issue.

Motor Vehicle In-Lieu Tax– This revenue source represents the City's allocated share of statewide vehicle registration fees, apportioned through the County on a per capita basis. This revenue increased \$382,509 or almost 7% in FY 2003 as a result of the passage of the Commercial Vehicle Registration

Act, which required that registration fees for large trucks be based on weight instead of value. The total is expected to decline by \$1.2 million in FY 2004 as a result of the recent passage of the State's budget, which resulted in the termination of the State's motor vehicle back fill on June 19, 2003 and treats the amount the City would have received from June 20, 2003 to the date the increase in motor vehicle fees goes into effect (October 1, 2003) as a loan to the State, repayable in 2006. The projected growth rate per year through FY2008 is 2%.

Parking Fines – This revenue source is comprised of fines and penalties for parking violations as well as moving violations. Parking fine revenues increased \$405,669 or 6.2% in FY 2003. They are expected to show a \$2.0 million increase in FY 2004 due to an average increase of approximately 30% in parking ticket fines, and increased enforcement activities, particularly in Residential Parking Zones. However, ticket writing has declined by 7.6% in the first three months of FY 2004. If this decline continues for the remainder of the FY, parking fines revenue will not come close to meeting the \$10.2 million reflected in the adopted budget.

Ambulance Fees- Revenue from ambulance fees increased \$135,675 or 6.0% in FY 2003. They are expected to decline \$493,916 or 20.6% in FY 2004 due to the six year implementation of a federal Medicare regulation that changes the way Medicare pays ambulances. The regulation limits payments based on geographic areas and prohibits the City from going after the patients for the difference. Ambulance fee revenue will also decline as the City will no longer be responsible for transporting 5150 patients. For the out-year projection, fee revenues are assumed to increase by 4.0% per year.

Utility Users Tax – This revenue is derived from a local tax of 7.5% applied to utility charges, including telephone, cable, cellular phone, and gas and electric bills. UUT revenues declined \$226,258 or 1.8% in FY 2003. Overall, this revenue source is expected to jump about 12% in FY 2004 and increase at a 4% rate thereafter through FY 2008. The revenues for FY 2004 are expected to increase by approximately \$900,000 primarily as the result of City staff's instruction to AT&T Wireless and Verizon Wireless (GTE Mobilnet) to begin collecting Utility Users Taxes in accordance with the City's ordinance and in the same manner that the other wireless companies collect the taxes. One piece of bad news is that this additional revenue may have to be returned as a result of a lawsuit filed by AT&T Wireless and Verizon Wireless on September 22, 2003 against the City of Los Angeles. Another significant potential piece of bad news is an attempt to by lawmakers to add language to the Internet Tax Non-Discrimination Act (S.150) that would expand the coverage of the moratorium by adding "telecommunications services" to the definition of Internet access. It would prohibit a local tax on any "telecommunications service" that is used for Internet access. Nearly all telephone services, including local dial up, wireless, satellite, and broadband (DSL and cable modem) provide Internet access. Soon, major telephone and Internet service providers will offer "packages" that bundle together Internet access and unlimited telephone services. Under the proposed language, such bundled services will likely be considered tax-free.

This proposed legislation, which has already been approved by the House of Representatives, puts the City's \$5,554,857 in UUT revenues from these sources at risk. Also, between September 19th and October 19th, PG&E will issue one-time credits approved by the PUC averaging \$43 for residential customers, \$125 for small businesses, and \$1,500 and \$70,000 for medium commercial and large industrial customers, respectively.

Gas and electricity revenues are projected to increase as much as 2%, based on the Energy Commission's assumption that PG&E will apply for a general rate case application in 2005. Natural gas revenues are expected to increase slightly (1%) due to the continuing unrest in the Middle East. Wired

Telecom is expected to continue to decline at an average rate of 1-2% over the next two years due to increased competition from cellular and internet telephony technology. Wireless telecom revenues, excluding AT&T Wireless and GTE Mobilnet, are expected to increase 6% in FY 2004, and 3% in FY 2005, as new providers enter the market. Cable revenues are expected to increase by 4.5%.

Other Service Fees – Several City programs are funded through fees charged to participants and users. These range from fees for recreation programs to fees for ambulance transport. In general, fees, which are set each year through the budget process, are anticipated to increase consistent with inflation in order that revenues from fee-funded programs can keep pace with cost-of-living increases in program costs. For this five-year projection, fee revenues are assumed to increase by 4.0% per year.

**Attachment B
General Fund Expenditures
(Year ending 6/30/03)**

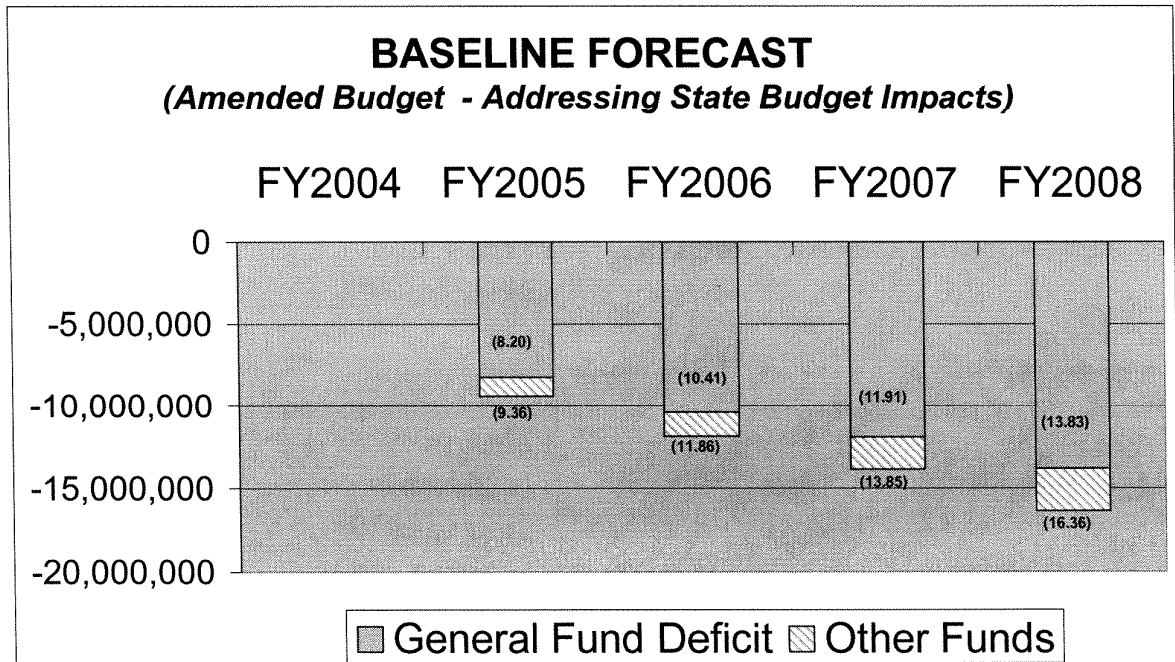
The following table summarizes FY2003 General Fund Expenditures through the 3rd Year-End Close. These represent preliminary, unaudited year-end results and are subject to change:

	Revised Budget	FY2003		FUNDS\$ Avail. Balance	Encumb.	Balance Available	Prelim. Unencumb. Request	Computed Avail. Balance
		3rd Close YTD Actual	Pending Adjustments					
Mayor & Council	1,031,414	1,100,476	(82,354)	13,292		13,292		13,292
Auditor	1,248,088	1,261,168		(13,080)	7,969	(21,049)	3,700	(24,749)
City Manager	4,031,556	3,613,450		418,106	89,980	328,126		328,126
Office of Transportation	961,572	588,198		373,374	30,205	343,169	343,169	0
Police Review Commission	371,690	378,209		(6,519)		(6,519)		(6,519)
City Attorney	1,122,594	1,242,958	(124,621)	4,257	3,897	360		360
City Clerk	1,967,284	1,629,643		337,641	1,260	336,381	336,000	381
Office of Information Systems	2,874,955	2,858,042		16,913	53,110	(36,197)		(36,197)
Finance	5,183,777	4,925,741		258,036	100,991	157,045	19,900	137,145
Human Resources	1,863,872	1,787,577		76,295	1,288	75,007		75,007
Health & Human Svcs	8,584,405	8,655,334	(190,000)	119,071	193,226	(74,155)		(74,155)
Public Works	2,574,678	1,211,156		1,363,522	54,104	1,309,418	1,174,067	135,351
Parks & Waterfront	4,997,868	4,692,466		305,402	23,831	281,571	253,155	28,416
Fire	16,345,187	16,241,931		103,256	120,190	(16,934)		(16,934)
Police	36,194,830	36,374,260	(140,000)	(39,430)	13,536	(52,966)		(52,966)
Housing	5,812,415	5,100,333		712,082	310,939	401,143	264,286	136,857
Planning & Development	939,081	736,803		202,278	6,793	195,485	167,280	28,205
Office of Economic Development	2,309,877	1,698,442		611,435	240,892	370,543	260,000	110,543
Rent Board	-	-		0		0		0
Library	-	84,401	(84,401)	0		0		0
Non-Departmental	16,440,853	15,687,923	112,354	640,576	33,918	606,658	331,000	275,658
	114,855,996	109,868,511	(509,022)	5,496,507	1,286,129	4,210,378	3,152,557	1,057,821

- o Overall, General Fund expenditures, including encumbrances, totaled \$110.65 million, or \$4.21 million under the FY2003 Revised Budget of \$114.86 million. However, departments have submitted requests to the City Manager for carry-over of unencumbered savings totaling just under \$3.5 million. Of these requests, it is anticipated that approximately \$3.1 million will be approved, leaving a year-end net savings of \$1.06 million, which is slightly greater than the \$750,000 anticipated and set-aside to address the impacts of the FY2003 State Budget.
- o General Fund expenditures may also be understated as a result of under-recovery of citywide Workers' Compensation costs across all funds. It is anticipated that any General Fund savings accruing in excess of the \$750,000 needed to offset loss of State revenues will be needed to help offset the deficit in the Workers' Compensation Fund, which has grown from \$2.6 to \$2.9 million in FY2003.
- o Most City Departments appear to be within 1%-2% of their revised budgets for FY2003. Departments expected to end the year over-budget include the City Auditor, Police Review Commission, the Office of Information Technology, Fire and Police). Departments with year-end expenditure savings in excess of 3% include the City Manager's Office, Human Resources, Public Works, Housing, Planning, and the Office of Economic Development.

**Attachment C
Five-Year General Fund Forecast**

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



	FY2004	FY2005	FY2006	FY2007	FY2008
General Fund Deficit	0	(7,352,124)	(9,457,995)	(10,558,250)	(12,173,026)
Paramedic		(443,000)	(576,000)	(676,000)	(776,000)
Streetlighting		(130,000)	(110,000)	(210,000)	(310,000)
Parking Meter		(270,000)	(270,000)	(470,000)	(570,000)
Other Funds		(843,000)	(956,000)	(1,356,000)	(1,656,000)
Deficit w/ Selected Other Funds	-	(8,195,124)	(10,413,995)	(11,914,250)	(13,829,026)
Additional Funds					
Library		(1,000,000)	(1,280,000)	(1,708,000)	(2,209,000)
Clean Storm Water		0	0	0	0
Parks Fund		(165,000)	(165,000)	(227,000)	(317,000)
Total		(9,360,124)	(11,858,995)	(13,849,250)	(16,355,026)

Assumptions:

Revenues Based on Adopted Budget Projections; Forecast to be Updated based on FY04 1st Quarter Results (Oct. 14th)

Assumes One-Time Loss of Vehicle License Fee (VLF Backfill in FY2004; Restores revenue in FY2005

Assumes Current Labor Contract Salary and Benefits through FY2008

Uncertainties Continue to Cloud the Five-Year Forecast

While the above forecast is largely consistent with previous presentations, there remain a number of variables, which could worsen the picture.

PERS Rate Volatility

This forecast reflects revised PERS rates for FY2004, which add an additional \$1 million to the City's projected FY2004 retirement costs. 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 an 8.5 percent 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 continues to be bleak. The Adopted FY2004 State Budget fails to address the structural budget shortfalls and has merely delayed reductions needed to balance the State's structural budget deficit. As such, next year's State budget will more than likely pose ever-increasing threats to continued sources of State revenues. In addition, a number of the provisions included in the adopted State budget continue to be the subject of legal and legislative challenge.

Of immediate concern is the threat to the Vehicle License Fee revenues. The Governor-elect has pledged to repeal the increase in the VLF, which could result in a loss of up to \$4 million to the City of Berkeley. While it is unclear whether the Governor has unilateral authority to repeal the tax increase, there are several indications that the tax is likely to be rolled back by FY2005.

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 \$6.0 million per year to the City. This revenue source is widely considered to be at-risk in the next round of State budget deliberations, and possibly subject of a voter-initiative qualifying for the statewide March 2004 ballot.

Attachment D
Five-Year Budget Balancing Framework

Over the next 6 months, the City must continue to refine development of a plan to not only address our own structural budget deficits, but also provide for ongoing contingencies in the event of major reductions in State revenues.

In addressing present deficits, the City Council has implemented balancing measures that “balance” use of new revenues with program reductions. The balancing plan approved with the FY2004 Adopted Budget included \$2.8 million in new revenues, largely through increases in parking fines.

Proposition 13 and Proposition 218 limit the City’s ability to increase revenues other than fees and fines. Any increase in tax and assessment revenues would require voter approval. For this reason, last June the Mayor convened an Advisory Task Force to assess options for a potential ballot measure to raise revenues as a means of assisting in balancing future projected deficits.

At the Council meeting of October 14, the Task Force presented a report recommending that the Council consider placing a \$10 million Special Tax measure on the March 2004 ballot. In formulating this recommendation, the Task Force considered not only the projected FY2005 deficit of \$8-\$10 million, but the cumulative deficit projected over the five year forecast. In addition, the Task Force recognized the need to plan for the likelihood of the additional loss of State revenues, beginning in FY2005. It is in the context of considering the following scenarios that the Task Force arrived at its recommendation to develop a “balanced” approach to addressing the cumulative deficits over the next five years, through a combination of \$10 million in new revenues and roughly an equivalent amount of program reductions through FY2008.

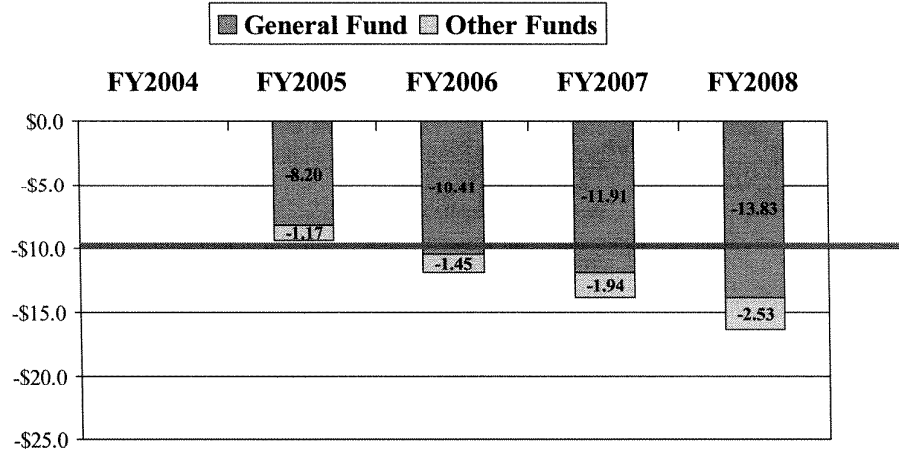
Consideration of a ballot measure to generate new revenues adds another level of uncertainty in developing a budget-balancing plan. While the prospect of a significant revenue measure would greatly facilitate the balancing of upcoming budgets, passage of such a measure is far from a certainty. As such, the balancing plans developed over the next six months must necessarily include recommendation to balance the budget in the event that a ballot measure is not successful. Major budget reduction proposals need to be developed and evaluated on the basis of service and staffing impacts, so that the City is prepared to implement program reductions, to the extent dictated by the results of an eventual City ballot measure, statewide voter initiatives, and future actions by the State legislature.

The charts on the following pages summarize the level of program reductions that can be anticipated under a number of alternative scenarios, specifically:

- Scenario #1 - “Best” Case: \$10M in New Revenues with No loss in State Revenues
- Scenario #2 - “Likely” Case: \$10M in New Revenues with Loss of \$4 M in State VLF Revenues
- Scenario #3 - “Worst” Case – No new revenues with Loss of \$6M in State VLF Revenues

Five-Year Balancing Plan

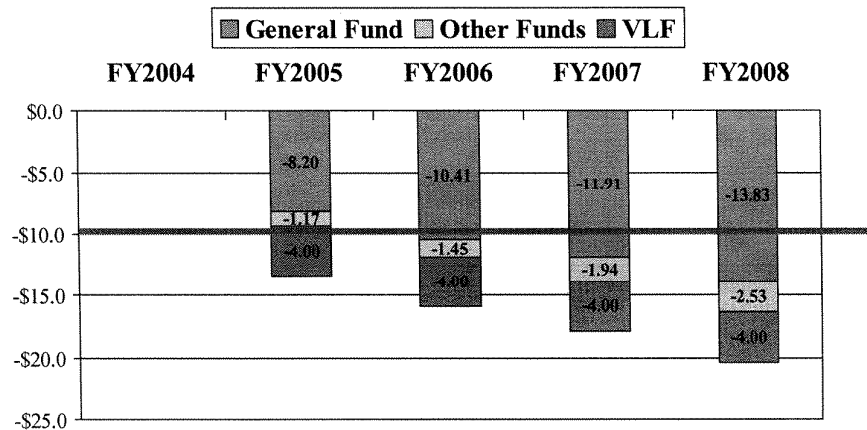
Best Case: New \$10M Revenue Measure



	FY04	FY05	FY06	FY07	FY08	TOT
Cuts (\$M)			\$ 1.9	\$ 2.0	\$ 2.5	\$ 6.4
FTE (est.)			24	25	31	86

Five Year Balancing Plan

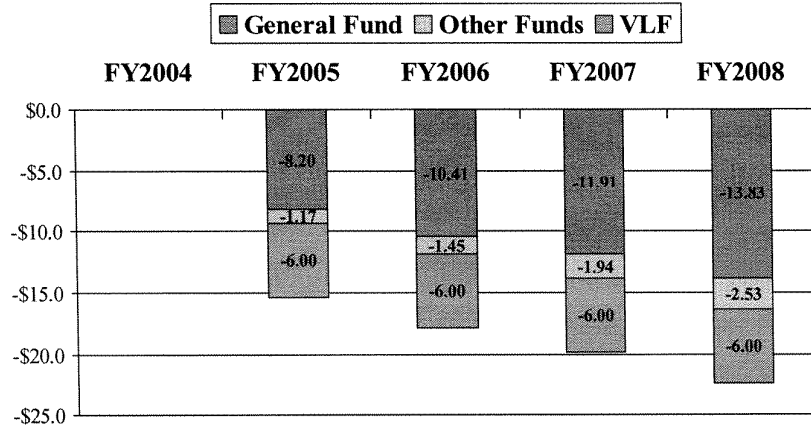
Likely Case: New Revenue Measure / Lose VLF Backfill



	FY04	FY05	FY06	FY07	FY08	TOT
Cuts (\$M)		\$ 3.4	\$ 1.9	\$ 2.0	\$ 2.5	\$ 9.8
FTE (est.)		42	24	25	31	128

Five Year Balancing Plan

Worst Case: No New Revenue Measure / Loss of 100% VLF



	FY04	FY05	FY06	FY07	FY08	TOT
Cuts (\$M)		\$15.4	\$1.9	\$2.0	\$2.5	\$21.8
FTE (est.)		192	24	25	31	272

Attachment E
Status of Savings from Selective Hiring Freeze
(Through 1st Quarter FY2004 – 9/30/03)

The following table summarizes the estimated savings in the General Fund resulting from vacancies across City departments. A major element of the City’s current expenditure reduction plan is a selective hiring freeze, begun in the Spring of 2003. The hiring freeze has been instituted in order to curtail personnel expenditures as well minimize future staff lay-offs by creating vacancies in classifications most likely to be subject to reduction through budget cuts.

Department	Adjusted Budget	YTD Budget	YTD Actual	% of Budget Spent	Savings	Vacancies	
						General Fund	All Funds
Auditor	\$ 1,257,633	\$ 265,989	\$ 242,129	19%	\$ 23,860	1.0	1.0
City Manager	3,304,554	698,913	645,556	20%	53,357	4.0	5.0
Transportation	229,575	48,555	52,696	23%	(4,141)	3.0	7.0
PRC	313,944	66,399	68,396	22%	(1,997)		
City Attorney	1,276,571	269,995	269,248	21%	747		
City Clerk	1,118,431	236,548	213,819	19%	22,729	1.0	1.0
Information Technology	1,870,289	395,566	436,835	23%	(41,269)		
Finance	4,021,308	850,507	855,015	21%	(4,508)	6.0	11.0
Human Resource	1,532,908	324,210	289,224	19%	34,986	1.0	1.0
HHS	7,187,794	1,520,218	1,487,922	21%	32,296	11.0	24.0
Public Works	273,413	57,827	57,439	21%	388	6.0	23.0
Parks Recreation & Waterfront	3,357,613	1,074,436	1,061,430	32%	13,006	4.0	11.8
Fire	14,795,063	3,129,156	3,048,062	21%	81,094	5.0	5.0
Police	32,185,439	6,807,220	6,535,243	20%	271,977	16.0	17.0
Housing	741,157	156,755	142,637	19%	14,118	1.0	4.0
Planning & Development	681,087	144,050	124,035	18%	20,015	2.0	4.6
OED	743,557	157,262	160,205	22%	(2,943)		
Library	-	-	-	0%	-	-	3.6
	\$ 74,890,336	\$ 16,203,607	\$ 15,689,891	21%	\$ 513,716	61	119

As of September 30, 2003, the end of the 1st Quarter of FY2004, a total of 119 positions, 61 of which represent General Fund positions. In addition, through the 1st Quarter, General Fund savings in personnel costs is approximately \$500,000, indicating that the City appears to be on track to meet its target of \$1 million in General Fund salary savings as a result of the hiring freeze.

Many of the vacancies throughout City departments are subject to backfill through use of overtime, temporary personnel and provisional (or “acting”) appointments. As such the savings realized to date reflects salary savings “net” of costs associated with backfill activities. For this reason many departments with vacant positions are realizing savings below the levels that would be expected from the vacant positions.

The City Manager’s Office will be evaluating the savings in each department, relative to the number of vacancies to assess the appropriateness of backfill costs. Following discussion with departments, it is anticipated that savings attributable to the hiring freeze will be re-captured and set aside within the General Fund reserve.