


Office of the City Manager

## INFORMATION CALENDAR

October 5, 2004

To: Honorable Mayor and  
Members of the City Council

From:  Phil Kamlarz, City Manager

Subject: FY 2004 Year-end Results and  
Updated FY 2005 and FY 2006 Budget Information

### INTRODUCTION

This report presents to Council a summary of the FY 2004 budget performance, and an update of FY 2005 budget issues and initial fiscal projections for FY 2006; focusing primarily on the General Fund. No specific action is requested at this time.

### CURRENT SITUATION AND ITS EFFECTS

#### **FY 2004 General Fund Summary**

<b>General Fund</b>	<b>Revenue</b>	<b>Expenditures</b>	<b>Surplus</b>
FY 2004 Actual	\$110,615,822	\$109,872,580	+\$743,242

The FY 2004 budget cycle ended on June 30, 2004, with a net General Fund surplus of \$743,242. In November/December 2003, Council implemented a budget crisis recovery strategy that included implementing a hard hiring freeze; a moratorium on all new expenditures; and a number of mid-year reductions in response to the loss of State VLF (Vehicle License Fee) revenue. These efforts effectively mitigated the loss of VLF revenue (\$1.1 million in FY 2004), and were successful in generating General Fund savings and creating a large number of position vacancies. These position vacancies allowed the City to eliminate 87 positions during the FY 2005 budget cycle without layoffs. Although the hiring freeze successfully created vacancies and avoided layoffs, it did not achieve the anticipated level of salary savings. This is partially due to the use of hourly staff and overtime to mitigate the service impacts.

FY 2004 General Fund revenues were most negatively impacted by the reduction in State VLF. A reduction in earned interest (due to the holding of short-term interest rates by the Federal Reserve Board) and parking fines also fell short of expectations. Increases in revenues from Real Property Taxes and the Property Transfer Tax helped offset these losses. The net result of these fluctuations from revised revenue projections was \$100,000 less than anticipated. Attachment A provides a summary of the FY 2004 revenue highlights.

### **FY 2005 Budget Status**

We have ended the first quarter of FY 2005, and plan to present Council with a first quarter update on November 9, 2005. While we entered FY 2005 with a balanced budget, several outstanding issues will affect the current year allocations, and possibly the General Fund reserve.

FY 2005 closed the projected \$10.3 million General Fund deficit through balancing measures that included agreements with the majority of the City's labor unions and all unrepresented employees for one-time salary reductions (i.e., in FY 2005 only). At this point, the Berkeley Fire Fighter's Association has not agreed to any form of salary reduction for FY 2005. Their equivalent portion of the General Fund savings is \$300,000. To achieve this salary savings, a one-time reduction of overtime was included in their FY 2005 Adopted Budget. If this \$300,000 is not taken as part of a salary reduction (as done by the other City employees), the \$300,000 reduction in overtime will result in reduced services effective November 2005. An accompanying Council report on tonight's agenda further details this budgeted reduction and its impacts.

Many unfunded projects are fast becoming emergencies, including infrastructure failures and the new automated Public Safety System. Identifying funding for these critical projects is a challenge. The critically needed Public Safety System is relying on the securing of grant funding. Other unfunded projects (with large price tags) include deferred City infrastructure (streets, sewers, and storm drains) and the need for a new automated financial management system.

### **State Impacts**

We currently do not expect any further revenue reductions from the State for FY 2005 and FY 2006, beyond the \$1.9 million per fiscal year included in the budget. This may all be subject to change pending the outcome of the November 2004 election.

### **General Fund Reserve**

The FY 2005 Adopted Budget included certain assumptions regarding the General Fund Reserve. As mentioned earlier, Council took action in mid-FY 2004 to address the projected FY 2005 deficit, building up the Reserve. Based on revenue performance, and less than anticipated salary savings in FY 2004, the adjusted General Fund Reserve balance is \$600,000 less than the projection included in the FY 2005 Adopted Budget. This reduces the City's flexibility to address emergency funding needs.

### **FY 2006 Budget Update**

The original FY 2006 projected deficit (as included in the FY 2005 Proposed Budget) was \$5.0 million and included the assumption of an on-going employee salary reduction of \$1.2 million. Because the resultant agreement with the labor unions was a *one-time* only reduction, this cost must be added back into the total deficit, bringing the original deficit projection to \$6.2 million.

The FY 2006 General Fund deficit projection is now \$7.5 million. This is an increase of \$1.3 million over the original deficit projection of \$6.2 million as reflected in the FY 2005 Adopted Budget and FY 2006 Reduction Plan. The primary reason the deficit has grown is due to recently updated PERS (Public Employee Retirement System) rates provided by the State. These new, preliminary rates reflect a change in the State's actuarial assumptions for the first time since 1994. If these rates are finalized as currently set, it will result in another big jump in costs for the City of Berkeley, with a General Fund impact of \$1 million. This deficit will be reduced if the voters approve any tax measures in November.

**FY 2006 Deficit Projection**

\$5.0 million	Original Deficit (included ongoing \$1.2 million employee savings)
\$1.2 million	Employee Savings (add back in due to one-time measure)
<b>\$6.2 million</b>	<b>FY 2006 Original Deficit</b>
\$1.0 million	PERS <i>preliminary</i> rate increases
\$0.3 million	Other Cost Increases
<b>\$7.5 million</b>	<b>FY 2006 Revised Projected Deficit</b>

**Current Budget Actions**

Given the difficult FY 2006 & FY 2007 biennial budget cycle we face, I am implementing a number of measures to help achieve savings now. I recently re-established a hard hiring freeze to assist in avoiding future layoffs and to increase the Reserve. It should be noted that some position hiring (upon extensive review) will occur based on the criteria of the freeze policy. Additionally, staff is seriously exploring Voluntary Time Off (VTO) as an option during slow holiday periods. We hope to realize savings and reduce our unfunded vacation payout liability and mandatory vacation payouts for those employees with accrued balances beyond 320 hours. I have instructed Department Directors to work with their staff to manage time off in an effort to further reduce this liability.

The resulting staff decreases from the hiring freeze will possibly result in service reductions in some City operations. I am asking Council to review program priorities in October at two Priority Setting Workshops, with a follow-up session in January 2005. As we move into this difficult budget cycle, the Council faces hard choices regarding budget reductions and their service impacts to the public. These workshops will provide Council time to consider the difficult budget reduction choices we face in the upcoming months.

In an effort to best identify levels of service provided by the City compared with like cities, staff is currently conducting a Benchmarking of Services Study that compares services provided by the City of Berkeley to eight other California cities with similar characteristics. Data examples include:

- o The City has a total of three senior centers compared to the eight city average of 1.5 senior centers per city;
- o The City has more fire stations per square mile than any of the other cities compared.

Preliminary results from the benchmarking data survey indicate that Berkeley provides a very high level of service in most areas, including Police, Fire, and recreation. The challenge in the upcoming year is to agree on the appropriate service level the City should provide.

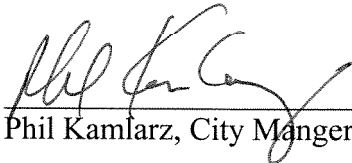
Attachment B is a draft of the raw data that has currently been compiled. This data will be refined and improved over the next couple of months to best provide this critical information.

There are a number of unknowns pending the outcome of the November election. I will provide Council with a revised budget update following the election as well as a follow-up priority setting session.

CONTACT PERSON

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Approved By:



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Phil Kamlarz, City Manger

Attachment A: FY 2004 Revenue Highlights

Attachment B: Benchmarking Data Matrix

## FY 2004 General Fund Revenue Highlights

Real Property Tax – Real Property Tax receipts increased \$1,634,298 or 6.9% in FY 2004 over FY 2003, as a result of a 6.7 % increase in assessed values. Total revenue was \$363,071 greater than the adopted budget amount, which anticipated a slowing of the housing market.

Property Transfer Tax – This volatile 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 continued to grow by \$1,450,636 or 16.1% in FY 2004.

Motor Vehicle In-Lieu – This revenue source represents the City's allocated share of statewide vehicle sales, apportioned through the County on a per capita basis. The total revenue declined by \$1.3 million or 22.8% in FY 2004 as a result of the passage of the State's budget. The State's budget resulted in the termination of the State's motor vehicle back fill on June 19, 2003 and treats the amounts 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 FY 2007.

Parking Fines – This revenue source is comprised of fines and penalties for parking violations as well as moving violations. Despite an increase of over 30% in parking ticket fines, revenues only increased \$1,351,858 or 19.6% in FY 2004 – not the \$2.2 million increase reflected in the adopted budget. This lower-than-expected increase was due to (1) a lower than projected average ticket price in FY 2004; and (2) a lower than expected increase in tickets written (i.e., 241,055 in FY 2004 versus 240,215 in FY 2003, or 3% less.) Total revenue was \$1,972,631 less than the adopted budget amount.

### *Economically Sensitive Revenues:*

- Sales Taxes fell \$370,952 from \$13,641,888 in FY 2003 to \$13,270,936 in FY 2004, as a result of a slowing economy. Total revenue was \$964,892 less than the adopted budget amount.
- Transient Occupancy Taxes declined \$167,266 from \$ 2,538,377 in FY 2003 to \$2,371,111 in FY 2004, as a result of lower hotel room occupancy rates and lower average room prices. Total revenue was \$333,389 less than the adopted budget amount.
- Interest income declined \$1,256,412, primarily due to the Federal Reserve Board artificially holding short-term interest rates (i.e., Federal Funds Rate) at a historically low rate of 1% for the entire fiscal year. Total revenue was \$1,084,103 less than the adopted budget amount.
- Business License Tax 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 2004 increased by \$208,939 or 2.0% to \$10,686,025, even though the total for FY 2003 included the collection of delinquent taxes totaling \$554,778.

**City of Berkeley - Benchmarking of Services: Adjusted FTE Data**

	Berkeley	Concord	Fremont	Hayward	Oakland	Palo Alto	Pasadena	Richmond	Santa Monica
Number of City Residents	102,743	121,780	203,413	140,030	399,484	58,598	133,936	99,216	84,084
Square Miles	10	31	89	61	57	26	23	56	8
General Fund Budget	\$ 116,576,417	\$ 60,336,793	\$ 115,024,000	\$ 93,903,000	\$ 484,345,043	\$ 120,710,000	\$ 179,281,101	\$ 94,236,279	\$ 179,746,845
General Fund budget per resident	\$ 1,135	\$ 495	\$ 565	\$ 671	\$ 1,212	\$ 2,060	\$ 1,339	\$ 950	\$ 2,138
City Employees (General Func only)	730	629	736	690	2682	676	1064	591	1134
# of Residents per GF Employee	141	194	276	203	149	87	126	168	74
# of GF FTE per 1000 residents	7	5	4	5	7	12	8	6	13
Total Fund Budget	\$ 301,186,220	\$ 141,754,429	\$ 252,981,000	\$ 165,837,000	\$ 890,509,193	\$ 428,420,461	\$ 539,579,684	\$ 175,756,416	\$ 414,896,648
Total Fund Budget per resident	\$ 2,931	\$ 1,164	\$ 1,244	\$ 1,184	\$ 2,229	\$ 7,311	\$ 4,029	\$ 1,771	\$ 4,934
Total City Employees	1,630	652	892	938	4,243	1,094	2,284	835	2,068
# of residents per gross FTE	63	187	228	149	94	54	59	119	41
<b>Equalizing of FTE for Services:</b>									
Airport FTE				(11)					(11.30)
Camps FTE	(12)	(10)				(27.06)			
Health Services FTE	(187)	(2)	(41)				(90.63)		(84.50)
Housing related FTE	(50)	(6)	(6)	(2)	(308.92)	(5.03)	(90.63)		(84.50)
Marina FTE	(25)							N/A	
Library FTE	(126)			(50)	(216)	(54)	(122)	(31)	(85)
Police Review Commission FTE	(4)				(8.00)			(2.00)	
Port FTE					(31.00)			(7.10)	
Refuse FTE	(81)				(11.00)		(41.00)		(58.50)
Rent Stabilization Services / Boards FTE	(21)								
Bus System FTE									
Utilities FTE (water, gas, electricity)									
<b>Total FTE Adjustments</b>	<b>(506)</b>	<b>(18)</b>	<b>(47)</b>	<b>(50.50)</b>	<b>(575)</b>	<b>(206.43)</b>	<b>(344)</b>	<b>(40)</b>	<b>(1,114)</b>
Subtotal FTE after deductions	1,124	635	845	836	3,673	768	1,940	795	954
# of residents per deducted FTE	91	192	241	168	109	76	69	125	88
# of FTE per 1000 residents	10.94	5.21	4.16	5.97	9.20	13.11	14.48	8.01	11.35

City of Berkeley - Benchmarking of Services: Demographic Data

	Berkeley	Concord	Fremont	Hayward	Oakland	Palo Alto	Pasadena	Richmond	Santa Monica
Number of city residents	102,743	121,780	203,413	140,030	399,484	58,598	133,936	99,216	84,084
Square Miles	10	31	89	61	57	26	23	56	8
Total City Employees (FTE)	1,630	652	892	932	4,230	1,091	2,284	675	2,068
Residents per employee	63	187	228	150	94	54	59	147	41
Size of General Fund Budget (expenditures)	\$ 116,576,417	\$ 60,336,793	\$ 115,024,000	\$ 71,388,000	\$ 403,966,248	\$ 126,309,000	\$ 179,281,101	\$ 99,820,740	\$ 186,131,371
Amount of General Fund per resident	\$ 1,135	\$ 495	\$ 565	\$ 510	\$ 1,011	\$ 2,156	\$ 1,339	\$ 1,006	\$ 2,214
Size of Total Budget (expenditures)	\$ 301,186,220	\$ 141,754,429	\$ 252,981,000	\$ 165,800,000	\$ 900,981,657	\$ 431,635,341	\$ 539,579,684	\$ 196,368,720	\$ 388,172,225
Total Budget per resident	\$ 2,931	\$ 1,164	\$ 1,244	\$ 1,184	\$ 2,255	\$ 7,366	\$ 4,029	\$ 1,979	\$ 4,616
Number of Libraries	5	1	4	2	16	5	10	1	4
Total weekly library hours	267	52	85	96	583	183	484	24	199
Average weekly hours per branch	53	52	21	48	36	37	48	24	50
Number of residents per library	20,549	121,780	50,853	70,015	24,968	11,720	13,394	99,216	21,021
Square miles per library	2	31	22	31	4	5	2	56	2
Number of Firestations	7	N/A	10	9	25	8	9	11	5
Number of sworn firefighters	125	N/A	122	131	506	120	161	103	90
Total number personnel in fire dept. (FTE)	137	N/A	153	147	587	129	177	107	131
Number of residents per firestation	14,678	N/A	20,341	15,559	15,979	7,325	14,882	9,020	16,817
Number of fire stations per square mile	0.700	N/A	0.112	0.148	0.439	0.308	0.391	0.196	0.525
Number of sworn police officers	193	161	184	209	736	92	241	188	220
Number of personnel in police dept. (FTE)	313	254	293	333	1,181	171	378	303	477
Number of residents per sworn police officer	532	756	1,106	670	543	637	556	528	382
Number of senior centers	3	1	1	2	5	0	0	2	1
Number of residents per senior center	34,248	121,780	203,413	70,015	79,897	-	-	49,608	84,084
Homeless shelter beds (emergency & transition)	200	105	66	104	486	0	230	N/A	110
City recreation centers	4	4	8	2	22	3	4	10	4
Number of residents per recreation center	25,686	30,445	25,427	70,015	18,158	19,533	33,484	9,922	21,021
City operated swimming pools	4	2	0	5	7	3	4	2	2
Number of residents per city swimming pool	25,686	60,890	-	28,006	57,069	19,533	33,484	49,608	42,042
Total acres of parkland	243	1736	16500	1630	2500	162	635	291	420
Total number of parks	52	27	38	46	106	34	18	46	24
Number of residents per park	1976	4510	5353	3044	3769	1723	7441	2157	3504
Number of residents per acre of parkland	423	70	12	86	160	362	211	341	200
Number of parks per square mile	5	1	0	1	2	1	1	1	3
Airport	NO	NO	NO	YES	NO	NO	NO	NO	YES
Camps	YES	YES	NO	NO	NO	YES	NO	NO	NO
Disability Commission	YES	NO	NO	NO	NO	NO	YES	NO	NO
Health Services	YES	NO	NO	NO	NO	NO	YES	NO	YES
Marnas	YES	NO	NO	NO	NO	NO	NO	NO	NO
Refuse Service	YES	NO	NO	NO	NO	YES	NO	YES	NO
Rent Stabilization Services / Boards	YES	NO	NO	YES	YES	NO	NO	NO	YES
Sea Port	NO	NO	NO	NO	NO	NO	NO	NO	NO
Own Utility (Gas, Water, Electric) - 1 or all 3	NO	NO	NO	YES (water)	YES	YES (all 3)	YES	YES	YES (water)
Own Transportation system	NO	NO	NO	NO	NO	NO	NO	NO	YES

