



Office of the City Manager

PRESENTATION
December 7, 2004

To: Honorable Mayor and
Members of the City Council

From: Phil Kamlarz, City Manager *PK*

Subject: FY 2005 First Quarter Budget Update

INTRODUCTION

This report presents to Council a summary of the first quarter (July 1, 2004 – September 30, 2004) FY 2005 budget performance, and an update of FY 2005 budget issues and initial fiscal projections for FY 2006. Council will be presented with specific recommendations in February 2005 in the Mid-Year Budget Update regarding issues such as establishing policy on the use of one-time revenues and approving mid-year reductions in certain operating funds. No specific action is requested at this time.

CURRENT SITUATION AND ITS EFFECTS

Before reviewing the FY 2005 first quarter performance and budget issues, it is helpful to reflect on the development of the FY 2005 Adopted Budget. The FY 2005 budget process began with the City facing a \$10.3 million dollar General Fund deficit. Through a collaborative process involving the City Council, City staff, labor unions, and the community, the deficit was closed through a number of balancing measures that included \$7.6 million in recurring expenditure reductions, \$1.4 million in one-time employee salary give backs and \$1.3 million in the one-time use of the reserve.

As part of the one-time employee salary giveback, all but one of City's labor unions took a salary reduction; the Berkeley Fire Fighters' Association that did not agree to any form of salary reduction for FY 2005. Their equivalent portion of the General Fund savings is about \$300,000. To achieve this salary savings, a one-time reduction of overtime was included in the FY 2005 Adopted Budget. This has now resulted in the temporary, part-time closure of one truck company (no fire station closures).

In addition to the General Fund, a number of non-General Fund operating funds faced deficits in FY 2005 totaling \$3.9 million. As with the General Fund, these deficits were balanced through expenditure reductions – including the one-time employee salary give back, as well as some fee increases.

FY 2005 First Quarter Expenditures

General Fund

The FY 2005 first quarter ended on September 30, 2005. The chart below shows General Fund expenditures by department at the end of the first quarter and the percentage of budget spent against the Adjusted Budget. The Adjusted Budget represents the inclusion of “encumbered carryover” from FY 2004 into FY 2005 and is the budget to which actual expenditures are measured. As explained in another report on this evening’s agenda (First Amendment to the Appropriations Ordinance), these funds represent contract obligations that were authorized but not spent in FY 2004 that will be expended in FY 2005.

FY 2005 1st Quarter General Fund Expenditures				
Department	Adopted Budget	Adjusted Budget	YTD Actual	% of Budget Spent
Mayor & Council	1,190,258	1,190,258	246,336	21%
Auditor	1,491,522	1,491,573	290,289	19%
City Manager	4,328,191	4,245,158	797,839	19%
Office of Transportation	436,548	417,615	82,961	20%
Police Review Commission	424,566	436,082	89,030	20%
City Attorney	1,431,601	1,433,608	284,412	20%
City Clerk	1,817,572	1,999,268	313,255	16%
Information Technology	2,764,373	2,838,246	670,848	24%
Finance	5,351,114	5,566,083	920,325	17%
Human Resources	1,703,976	1,703,976	328,297	19%
Health & Human Svcs	8,873,354	9,091,392	1,871,283	21%
Public Works	798,439	1,038,600	232,926	22%
Parks & Waterfront	4,630,304	4,786,927	1,299,179	27%
Fire	19,816,949	19,935,412	4,191,495	21%
Police	38,704,825	38,720,836	7,540,283	19%
Housing	4,912,511	5,434,022	1,175,428	22%
Planning & Development	765,091	772,106	119,742	16%
Economic Development	1,482,365	1,348,243	234,371	17%
Non-Departmental*	14,190,447	14,280,744	4,659,515	33%
Totals	115,114,006	116,730,449	25,347,814	22%

*General Fund Non-Departmental primarily consists of approved transfers from the General Fund to other operating funds (e.g., debt service, capital improvement projects, liability fund) and reflects a higher percentage spent due to the method and timing of transferring these funds.

By September 30, 2004, approximately 23 percent of the budget was expended (differs from the straight-line 25% due the number of pay periods as of September 30, 2004). The chart above shows that expenditures are tracking at an average of 22 percent of the Adjusted Budget.

Parks Recreation & Waterfront is slightly higher in its spending due to the seasonality of departmental programs, specifically summer recreation during the first three months of the fiscal year; and expenditures will now level out. The trend for slight under-spending is primarily within the personnel budget and indicates salary and benefit savings achieved through the hiring freeze. We will closely monitor this during the year, and report back to Council with a detailed status in the Mid-Year Budget Update in February.

Fire Department

One critical expenditure variance is the Fire Department Overtime budget. At the end of the first quarter, the overtime budget was at 42 percent spent, more than double where it should be. The Fire Department anticipates exhausting the entire year's overtime budget by the end of December 2004 (only 50% into the fiscal year). While the previous table indicates that the Fire Department budget is on target – current salary and benefit savings are temporarily compensating for the overtime overage. These salary savings will not continue to balance this overage beyond the first quarter. Current projections show a net salary and benefit over expenditure by year-end of \$400,000 - \$600,000. This takes into account a \$300,000 in overtime savings from the temporary truck closure that was part of the FY 2005 Adopted Budget.

The need to fill an unusual number of vacancies resulting from employees out on workers' compensation, family medical leave, parental leave, and long-term sick leave is causing this overage. Due to mandatory staffing requirements, the only way to accommodate the employees who are out is through overtime for existing staff. Staff is carefully monitoring this situation and implementing steps to help correct the problem. We will bring an update on this issue to Council in our Mid-Year Budget Update.

All Funds

The All Funds expenditures by department includes both General Fund and all other operating funds (e.g., Refuse, Sewer, Parks, Library, etc.).

FY 2005 1st Quarter All Funds Expenditures (7/1/04 - 9/30/04)				
Department	Adopted Budget	Adjusted Budget	YTD Actual	% of Budget Spent
Mayor & Council	1,190,258	1,190,263	246,336	21%
Auditor	1,582,964	1,583,015	305,800	19%
City Manager	4,620,824	4,526,291	854,974	19%
Office of Transportation	5,859,161	6,251,658	909,997	15%
Police Review Commission	424,566	436,082	89,030	20%
City Attorney	3,410,360	3,632,556	521,267	14%
City Clerk	1,817,572	2,001,980	313,255	16%
Information Technology	2,931,873	3,377,984	774,723	23%
Finance	7,123,437	7,430,697	1,336,911	18%
Human Resources	2,522,187	2,572,801	479,362	19%
Health & Human Svcs	23,517,386	24,084,458	4,550,411	19%
Public Works	77,026,427	88,741,494	14,713,837	17%
Parks & Waterfront	20,183,840	21,879,379	5,290,629	24%
Fire	23,197,253	23,437,232	4,964,401	21%
Police	42,209,828	42,256,645	8,399,524	20%
Housing	14,980,032	18,882,388	3,805,905	20%
Planning & Development	10,776,152	11,201,208	1,683,762	15%
Economic Development	2,511,236	2,539,591	317,218	12%
Rent Board	3,029,403	3,082,625	645,050	21%
Library	12,157,463	12,392,916	2,560,674	21%
Non-Departmental*	37,675,698	37,914,597	7,432,343	20%
Total	298,747,920	319,415,860	60,195,409	19%

*All Funds Non-Departmental includes General Fund transfers as well as budgets for internal service funds (such as fleet and facilities) and benefit funds.

All Funds expenditures through the first quarter are at about 19 percent of budget spent, which like the General Fund, is below where we should be at the end of the first three months. This

budget snapshot includes a large percentage of unspent non-personnel funding, such as that for capital improvement projects, which skews this number down.

It should be noted that while this expenditure chart shows overall department expenditures to be tracking well, it does not illustrate those revenue funds that are experiencing or facing fund balance deficits. We recently updated 5-year forecasts for many of the special revenue operating funds and found two specific funds in need of immediate action:

Measure B and Central Services Funds

Measure B, a fund supported by sales tax revenue, is currently in deficit and requires a mid-year reduction of expenditures by \$2 million. This deficit resulted from ramping up expenditures on one-time projects to spend a healthy fund balance. Now that the fund balance is depleted and the fund can no longer support the current level of authorized expenditures, we must reduce expenditures. The departments that operate from this fund, Office of Transportation and Public Works, are working with the Budget Office to identify critical expenditure reductions. Further discussion of this issue will be presented in the Mid-Year Report. In addition to Measure B, the Central Services Fund is also facing a significant budget deficit.

On tonight's Council Agenda, staff is presenting the First Amendment to the Appropriations Ordinance, which includes a request to reduce the expenditure authority in these funds to balance expenditures with revenues and available fund balance.

General Fund First Quarter of FY 2005 Revenue Highlights

It is too early to tell how such major General Fund revenue sources like Real Property Taxes and Supplemental Taxes will fare compared to projections and whether the current revenue trends will continue throughout the fiscal year. However, total revenues in the first quarter of FY 2005 are tracking fairly well. The chart below provides year-to-date information on revenues received compared to the Adopted Budget, as well as a year-end projection of actual revenue based on year-to-date trends.

The major tax buoying the City's revenue budget is the Real Property Transfer Tax. If Real Property Transfer Taxes continue at the current pace – currently projected at 33.7% over the Adopted Budget – we project unanticipated total General Fund revenue of approximately \$2 million by the end of the fiscal year. While this is a positive thing, we cannot count on the surges in Property Transfer Tax revenue beyond the budgeted baseline to address the General Fund recurring deficit since this is such a volatile revenue source.

Other revenues to note include:

- *Transient Occupancy Taxes* show first quarter revenues right on target, but the year-end projection shows a 2.9% decline from the Adopted Budget (-\$73,696). It should be noted that the Adopted Budget represents an increase of 6% over FY 2004 actuals.
- *Interest Income* shows a first quarter increase over the same time period last year, but the year-end projection indicates a 10% decrease over the Adopted Budget (-\$300,000).
- *Business License Tax* shows a low first quarter return – but increased compliance efforts promise revenues to meet the Adopted Budget, which is a 3.3% increase over FY 2004 actuals.

- *Utility Users Taxes* The first quarter returns appear on target, through the year-end projection indicates a 1.4% drop from the Adopted Budget (\$200,000) due to decreases in the gas/electricity and telephone revenue categories. UUT revenue in FY 2005 is expected to take an additional hit of about \$200,000 as BUSD officials have informed the City that BUSD is exempt from paying UUT and will no longer pay the taxes.
- *Parking Fines* – While the table below shows an above-target receipt of parking fine revenue to date, these numbers are skewed up due to the posting of certain one-time revenues early in the fiscal year (e.g., \$206,080 in collections on delinquent accounts). Of concern is the fact that parking citations reflect a 2% decline in the number of tickets written over this same time period last year and the year-end projections for parking fines show a 6.3% drop from the Adopted Budget revenue projection (\$585,000 less than budgeted).

Staff is collaborating to develop a comprehensive plan to improve these revenues. Some of the program improvement ideas include:

- Improving Parking Enforcement Officer (PEO) training
- Developing an employee recognition program to improve morale and performance
- Possibly adding additional field supervision
- Reviewing the hours of Parking Enforcement operations to determine if the current schedule can be expanded
- Developing PEO improvement plan for employees not meeting performance goals
- Developing alternative plans for parking meters

A more detailed report on parking fine revenue will be included in the Mid-Year report.

FY 2005 1st Quarter General Fund Revenues (7/1/04 - 9/30/04)						
Revenue Categories	Adopted	Actual	% Received	Projected	Change over Adopted	
	FY 2005	7/1/04-9/30/04	To Date	FY 2005	%	\$
Secured Property	\$27,612,280	\$ 336,558	1.22%	\$27,404,505	-0.8%	-\$207,775
Unsecured Property taxes	2,253,282	1,595,621	70.81%	2,012,553	-10.7%	-\$240,729
Transfer tax	8,600,000	4,241,827	49.32%	11,500,000	33.7%	\$2,900,000
Sales taxes	13,596,000	3,367,744	24.77%	13,596,000	0.0%	\$0
Utility users taxes	14,260,480	3,332,819	23.37%	14,060,480	-1.4%	-\$200,000
Transient occupancy taxes	2,515,940	616,002	24.48%	2,442,244	-2.9%	-\$73,696
Business license	11,037,000	271,163	2.46%	11,037,000	0.0%	\$0
Vehicle in lieu taxes	4,238,675	751,780	17.74%	4,765,467	12.4%	\$526,792
Parking fines	9,300,000	2,360,666	25.38%	8,715,000	-6.3%	-\$585,000
Interest income	3,000,000	648,911	21.63%	2,700,000	-10.0%	-\$300,000
Ambulance fees	2,402,000	554,971	23.10%	2,402,000	0.0%	\$0
Supplemental taxes	1,404,000	173,519	12.36%	1,404,000	0.0%	\$0
Franchise fees	1,421,374	165,141	11.62%	1,421,374	0.0%	\$0
Other revenue	6,230,583	1,529,578	24.55%	6,480,583	4.0%	\$250,000
Transfers	6,672,794	1,570,770	23.54%	6,672,794	0.0%	\$0
Total revenue:	\$114,544,408	\$21,517,070	18.78%	\$116,614,000		\$2,069,592

Unfunded Projects

Many unfunded projects are fast becoming emergencies, including infrastructure failures and the need for a new automated Public Safety System. Identifying funding for these critical projects is a challenge. In February's Mid-Year Report, I plan to recommend policy that guides the use of unanticipated revenue toward one-time infrastructure needs. For example, the current projection of approximately \$2 million in FY 2005 unanticipated revenue could be allocated toward the purchase of the critically needed Public Safety System (computer dispatch system).

FY 2006 Deficit Projection

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 that resulted from a change in the State's actuarial assumptions for the first time since 1994.

The FY 2006 Reduction Plan (copy attached) identifies \$4 million in planned reductions. The plan also assumed \$1.4 million in savings attributed to a one-day closure or similar action. We must now re-evaluate this reduction plan and identify additional cost reductions. Separate from these reductions is the plan to reduce management positions and save \$1 million over FY 2006 & FY 2007. We will begin making these reductions now.

Current Budget Actions

Given the difficult FY 2006 & FY 2007 biennial budget cycle we face and the need to realize savings in this current fiscal year, I have implemented a hiring freeze, commenced implementation of reorganization efforts, and implemented the Voluntary Time Off (VTO) program.

In conclusion, I will provide Council with a Mid-Year Budget Update in early February 2005, which will provide a clearer picture of FY 2005 budget performance and present a plan to address deficits and meet unfunded needs. Tonight's presentation begins the discussion regarding the FY 2006 & FY 2007 Biennial Budget. On tonight's agenda is a report that discusses the results of the two priority-setting workshops held by Council in October 2004. As part of the continued priority setting process, we will be meeting with the Council again in January 2005 to further discuss refine program priorities.

CONTACT PERSON

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Approved By:



Phil Kamlarz, City Manger

Attachment A: FY 2006 Reduction Plan

FY 2006 Reduction Plan

Attachment A

DEPARTMENT	ADOPTED BALANCING OPTIONS	FTE	Filled/ Vacant	Impacts	FY 2006 Reduction Plan
GENERAL FUND					
Auditor					\$ -
Attorney					\$ -
City Clerk					\$ -
	Eliminate 1 Office Specialist II	1.0	F	Hinder the records management program; reduce service for agenda management, commission support, research assistance and support for elections.	\$ 52,099
City Manager					
	Delete NewsScan Service			Will need to find alternative ways to keeping track of how City is being portrayed in media and how we respond to stories about Berkeley.	\$ 24,900
	Reduce funding for Berkeley Alliance			City will be unable to participate in joint partnership with BUSD and UC; Community and youth and education initiatives will be weakened.	\$ 64,000
	Delete reception position on the 5th Floor (OSII)			Existing administrative staff will have to handle workload and answering phone calls.	\$ 65,000
	Delete one support position in City Center (OSII)			Fewer staff to answer phone calls, assist the public and provide support to Neighborhood Services.	\$ 67,000
	Reduce funding for rescue programs and spay/neuter programs			Fewer animals will be rescued and spayed and neutered.	\$ 30,000
	Department Total:				\$ 250,900
Economic Development					
	Reduce Civic Arts Grants 45% in FY 2006			Impact of reduction greater on smaller arts groups and individual artists. FY2005 10% reduction leaves arts grants balance of \$226,484.	\$ 83,301
	Reduce Telegraph Area Association funding 10% in FY 2005 and eliminate total funding in FY 2006			Reduced services to Telegraph area business community. Funds be supplemented by the Telegraph Property and Business Improvement District, an organization supported by a property assessment.	\$ 48,600
	Department Total:				\$ 131,901
Finance					
	Delete field representative	1.00	F	No outreach or maintenance of Website and City ordinance. Limited identification and collection of revenue for unlicensed businesses. Slower processing of new BL payments and taxi/street vendors permits, which will also delay revenue.	\$ 72,442
	Delete OSII	1.00	V	Could affect the processing of annual taxes on time and the number of parcels not billed for taxes. Reduced billing frequency to bi-monthly or quarterly; results in increased number of delinquent accounts & delays incoming revenue. Delays processing & receipt of payments on Business Licenses and Res Pref Parking. Phone wait time increasing from 60 to 90 seconds.	\$ 56,824
	Department Total:				\$ 129,266
Fire					
	Close (1) truck company 24 hours/day	10.5	F (or OT)		\$ 1,300,000
HHS					
	Unspecified Reduction in Senior Center Programs	3	F	Pending reorganization efforts.	\$ 191,000
Housing					
	Reduce Berkeley Paratransit Program	0.5	F	Will focus limited resources on services for greatest need and reduce Associate Mgmt. Analyst by .50 from .80 to .30.	\$ 95,000

FY 2006 Reduction Plan

Attachment A

DEPARTMENT	ADOPTED BALANCING OPTIONS	FTE	Filled/ Vacant	Impacts	FY 2006 Reduction Plan
Human Resources Information Technology	Delete IT staff position TBD			Impact depends on position cut	\$ -
	Shift 25% Echo Lake costs to Camps			Increase in camping fees to offset additional burden.	\$ 30,532
Parks	Eliminate Asst. Aquatics Coordinator	1.00	F	Swim Center Supervisors will provide on-site management of assigned pools. Phased-in staffing change in conjunction with items #10 & #11 below.	\$ 31,365
	Reclass Lifeguard/Swim Instructor to Swim Center Supervisor		F	Improved oversight of pool functions	\$ (10,826)
	Reclass Sr Lifeguard/Instructor to Swim Center Supervisor		F	Improved oversight of pool functions	\$ (2,795)
	Reduce Summer Programs by 2 weeks			Reduced to 8 weeks from 10 (affects approx. 1,120 youths)	\$ 56,000
	Department Total:				\$ 104,276
Planning	Reduce staff	0.75	F	No complaint response; reduced staff support to CEAC and internal environmental consultation. Staff support to the permit review process, and stormwater, soils and ground remediation, used oil, and CUPA programs would not be affected.	\$ 75,000
PRC	Cut Office Specialist Position	1.00	F	Impact ability to complete transcripts on time. Would undermine ability to comply with the Caloca process.	\$ 58,400
Police	Eliminate Berkeley Guides Contract			FY 05 cuts will reduce approx. 50 hours patrol to a total of approx. 380 hours per month, impacting safety and downtown. FY 06 program elimination will negatively impact long term efforts to abate problematic conditions in the downtown business district. The 2 Bike Officers and Beat Officer would continue to provide current downtown coverage with less Guides coverage in 2005, and with elimination of program in 2006.	\$ 156,085
	Eliminate School Crossing Guards	7.50	F	Elimination of 25 part-time Adult Crossing guards will negatively impact the safety of youth going to and from school. There are no other resources to fill these cross-walk traffic posts.	\$ 253,376
	Eliminate Police Officer-Sex Crimes	1.00	V	Unit has reduced from 4 officers to 2 investigators. Reducing to 1 investigator will impede future investigations and the monitoring of sexual offenders.	\$ 142,500
	Eliminate Police Officer-Homicide	1.00	V	Major impact on future investigations of homicides, shootings, stabbings, hate crimes, missing persons, etc. Reduction of staff will result in less follow-up of cases, which will be absorbed by existing staff.	\$ 142,500
	Eliminate Police Officer-Property Crimes	2.00	V	Property Crimes Unit monitors several thousand cases. Reduction of 2 investigators would be absorbed by current investigative staff, but raises workload from approx. 580 cases to nearly 1,000 cases per investigator. Work will be absorbed within unit.	\$ 285,000
	Eliminate Police Officer-School Resource	1.00	V	Potential for future increase in school campus violence. Beat Officers will assume as much of these responsibilities as service calls allow.	\$ 142,500

FY 2006 Reduction Plan

Attachment A

DEPARTMENT	ADOPTED BALANCING OPTIONS	FTE	Filled/ Vacant	Impacts	FY 2006 Reduction Plan
	Eliminate Police Officer-Special Enforcement Unit	2.00	V	Elimination of these two positions will continue to erode the future effectiveness of the unit. No other staff can be assigned due to labor intensive work required, although Beat Officer coverage remains the same.	\$ 285,000
	Department Total:				\$ 1,406,961
Public Works	Reduce Disability Services Specialist	1.00	F	Reduce internal ADA compliance evaluations and training to pre 2002 level. 1 FTE continue to serve as technical adviser to Commission on Disability.	\$ 90,000
Transportation					\$ -
Total General Fund Reductions		35.3			\$ 3,994,803
OTHER FUNDS					
Library	Library Fund				
	Additional positions to be reduced	5.0		Impact on services to be determined once positions are identified.	\$ 363,000
Parks	Parks Tax Fund				
	Reduce Landscape Operator	1.0	F	Reduced frequency of mowing at all parks and medians	\$ 68,660
	Camps Fund				
	Shift 25% Echo Lake cost from General Fund to Camps Fund			Represents an increase to the budget but reduces GF burden	\$ (30,532)
	Marina Fund				
	Eliminate Special Events			No 4th of July for 7/4/05, Bay Festival, or other events that cost the Marina Fund to staff. This is a two year reduction because events cross fiscal years.	\$ 34,000
Total Other Funds Reductions		6.0			\$ 435,128

