

**City of Belmont**

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**FY 2003 BUDGET  
BUDGET CORRECTION PLAN**

**January 31, 2003**

Honorable Mayor and Members of the City Council:

## Executive Summary

Attached for Council's consideration is a Budget Correction Plan that addresses the long-term budget gap of \$1.3 million in the General Fund. Furthermore, staff has developed a proposal that, if enacted, will mitigate the affects of a potential adverse state budget action now estimated at \$1.1 million until adoption of the FY 2004 Budget. In conclusion, Council is asked to take the following actions:

- Review \$1.3 million Budget Correction Plan as submitted;
- Consider alternatives to the \$1.3 million Budget Correction Plan from the \$.62 million in alternative reduction strategies or \$.03 million in alternative revenue strategies;
- Make substitutions, if any, from the alternative strategies;
- Adopt \$1.3 million package;
- Depending on state action, direct the City Manager to bring back some or all of the remaining \$.65 million in unselected strategies for Council authorization; and
- If necessary, instruct the City Manager to develop further strategies in the form of expenditure reductions, revenue enhancements or both for inclusion in the FY 2004 Budget.

## Background and Discussion

### Evolution of \$1.3 Million Gap

With the adoption of the FY 2003 Budget, staff had identified a \$.75 million budget gap in the long term forecast due to the recession. In response, Council directed staff to prepare plans to address the recurring budget gap as part of the FY 2003 Mid-Year Review. Staff subsequently revised the figure included in the long term forecast to \$1.3 million or 9% of operations. Reasons for the revised figures include: a) less carry over funding from the FY 2002, b) protracted economic downturn, c) state budget impacts, and d) increased costs of retirement, health insurance and workers compensation benefits. The forecast is attached as Exhibit 1.

### Systematic & Comprehensive Approach Followed

Since last October, staff has taken a number of steps to address the budget gap. First, interim measures to reduce expenditures were implemented. Second, an inclusive and thorough process for dealing with the corrective action was followed. Third, a set of alternatives, which addresses the budget gap in a sustainable manner, was developed. Fourth, the Budget Correction Plan can be adopted at the FY 2003 Mid-Year Review and implemented immediately thereafter.

1. For the past several months, staff has taken several interim measures to address the budget shortfall. Briefly, those actions included:
  - Holding personnel vacancies open and

- Deferring discretionary spending with the goal of achieving 15% savings in controllable line items.
- 2. Staff followed an inclusive and thorough process for preparing corrective action strategies, which included the following elements:
  - Council's adopted principles guided the Senior Management Team in developing the strategies included in this report. Staff believes the recommended Budget Correction Plan holds true to those principles which were –
    - *Budget correction strategies will be developed in accordance with Council adopted financial policies.*
    - *Consistent with the ranking process, budget correction strategies will be prioritized in the following order:*
      - *Costs reduction strategies that do not diminish present levels of service will be given first priority for implementation;*
      - *Proposals to raise existing revenues or implement new sources of revenues will be given second priority for implementation; and,*
      - *Alternative, reduced or eliminated service levels will be given third priority for implementation.*
    - *Layoffs will be implemented only as a last resort.*
  - Service level reductions were submitted based upon specific targets provided to the departments;
  - Departmental staffs and organized labor was involved throughout the process; and
  - The plan was widely circulated within the organization and is now ready for the Council and Finance Commission review.
- 3. Under the direction of the City Manager, staff has developed a Budget Correction Plan that addresses the \$1.3 million gap. These strategies not only address the budget gap in a sustainable, i.e. permanent, manner, but also are achievable. Staff recommends this strategy be adopted.

Staff has also developed \$.65 million in alternatives, for a total of \$1.95 million in strategies. Should Council find it desirable, by swapping alternatives strategies for proposed strategies, the Plan can be amended to best suit the needs of the community.

Exhibit 2 attached includes a comprehensive list of strategies. Those strategies are grouped into two major categories:

**Category I - Structural Gap**

**Category II - Governor's Budget**

**Category I** strategies include the following components:

Strategy	Schedule	Amount (m)
Budget Correction Plan	A	\$1.30
Alternative Reductions	B	\$0.62
Alternative Revenues	C	\$0.30

Highlights of the **Category I** (\$1.3 million) strategies include:

- All departments have reductions included in the plan;
- Layoffs were avoided by capturing vacant positions;
- Reliance on outside consultants was reduced;
- Public Works Service Division was reorganized;
- Community group and contingency funding was cut by 10% (requires policy change);
- Accelerated depreciation on fleet and equipment replacement is scaled back;
- Franchise fees on refuse were raised from 5% to 10% and imposed on water (2%);
- Cost recovery is improved on police alarms and recreation programs; and
- Legitimate cost transfers to the sewer enterprise for insurance and vehicle costs are implemented.

A brief description, responsible department and amount are provided for each strategy. Furthermore, departments have prepared supplemental explanations that indicate the service impact assuming the strategy is implemented.

To enhance Council's understanding of the impacts beyond the written report, staff will be available to answer questions either in advance or at the February 25<sup>th</sup> meeting on this matter.

**Category II** strategies are explained in a later section.

4. As indicated above, the Budget Correction Plan, with alternatives, is released now so there is sufficient time to consider the proposals and adopt a strategy by the FY 2003 Mid-Year Review scheduled for February 25<sup>th</sup>.

Leading up to the February 25<sup>th</sup> meeting, various commissions will be reviewing the plan and have an opportunity to provide comment to the Council.

Lastly, the Plan will be widely distributed to the employees of the organization, as well as the interested public.

#### Governor's Budget

On January 10th, the Governor proposed a budget, which included significant cuts in discretionary revenues to the City. If enacted, the proposed cuts would amount to nearly \$2 million for the FY 2003 & FY 2004 Budgets, with \$1.1 million in recurring reductions to the General Fund.

The Governor proposed implementation of reductions as early as February 2003, pending approval from Legislature or issuance of executive order. As of the writing of this report, only a small portion of the Governor's Budget that impacts the City had been approved by the Legislature.

Nonetheless, should the Governor succeed and obtain the Legislature's approval on some or all of his proposals, additional reduction strategies will need to be implemented.

**Category II** strategies include the following components:

Strategy	Schedule	Amount (m)
Unselected Strategies from Structural Gap	A-C	\$0.65
Utility Users Tax	D	\$0.45

Highlights of the **Category II** (\$.65 million) alternative strategies include:

- Service reductions are significant and noticeable;
- Requires closure of City Hall, public safety excluded, for period between Christmas and New Year's without pay, however, accrued leave may be used;
- Staffing reductions are unavoidable;
- Contingency funding reduced an additional 15%; and
- Maintenance is curtailed.

The strategies include the remainder of proposals not previously selected by Council in the \$1.3 million package. It also includes a proposal for 3% utility users' tax, generating approximately \$0.45 million, which requires a majority vote for passage. As part of the FY 2004 Budget preparation, staff will develop non-utility users' tax alternative, which almost certainly will include layoffs.

**Fiscal Impact**

In accordance with fiscal policy, staff has prepared a long term projection of the General Fund balance which identifies a \$1.3 million structural gap towards achieving the reserve fund balance target of 20% of operations. Without corrective action, the General Fund balance of \$2.8 million as of June 30, 2002 is estimated to erode to \$(1.9) million deficit by June 30, 2007.

Adoption of the Budget Correction Plan, as proposed, should result in a combined General Fund correction of \$1.3 million on an annual basis and set the City on a course to met the reserve target.

Staff advises that the budget dynamics for the remainder of FY 2003 and beyond are very fluid. Economic events, including the potential for war, could worsen and place additional

pressure on the City forcing additional reductions. Conversely, the situation could turn for the better.

While staff believes the Plan addresses the economic impacts to the City's revenues and the major costs pressures facing the City's future expenditures, it is very difficult to predict the impact of an adverse state action beyond the \$1.1 million discussed previously.

### Recommendation

The February 25<sup>th</sup> Mid-year Review is structured as a Joint Meeting with the Finance Commission.

Staff recommends the following actions be taken at the meeting:

1. Request a staff report on the matter;
2. Hear any testimony from the public on the topic;
3. Open discussion on the Budget Correction Plan and alternative strategies amongst Council Members and Commissioners;
4. Accept a motion for adopting the Budget Correction Plan;
5. Before voting on adopting the Budget Correction Plan as a whole, entertain any specific substitutions to individual strategies;
6. Vote on the amendment(s), if any; and
7. Vote on the original motion.

Depending on action from the Legislature or an executive order issued by the Governor, Council may be asked to adopt some or all of the remaining unselected strategies on February 25<sup>th</sup>. In the event adverse state action is taken subsequent to the Mid-Year Review, it is recommended the City Manager be directed to seek Council authorization to immediately implement the remaining strategies as appropriate.

### Alternatives

Staff has spent considerable time and effort in the development of the proposal. Staff believes that viable alternative strategies have been developed, however, if Council has additional suggestions, staff will be pleased to take direction on the matter.

### Acknowledgements

Staff would like to acknowledge the organized labor groups, mid managers, line staff, Commissioners and others who participated in this process, cooperated with the Senior Management Team and provided valuable input on the strategies and structure of the proposal.

#### **Attachment:**

1. Exhibit 1 - Long Term Forecast
2. Exhibit 2 - Budget Correction Plan with Alternatives (Schedules A-D)
3. Exhibit 3 – Details on Budget Correction Plan Elements (Council Only)

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