

Agenda Report

TO: CITY COUNCIL **DATE:** February 23, 2004
THROUGH: Finance Committee

FROM: CITY MANAGER

SUBJECT: Fiscal Year 2004 Operating Budget Amendments

RECOMMENDATION

It is recommended that the City Council approve the series of recommended cost reductions and revenue enhancements outlined in this report in order to achieve a combined annualized total of \$3,764,471 in reductions and revenues, as well as approve a modification to the City's General Fund Reserve Policy and authorize staff to take the actions necessary to implement these recommendations. Specifically:

- 1) Approve a journal voucher reducing the Fiscal Year 2004 operating budget in accordance with the recommended reductions identified in **Attachment 1** under the "**A-Immediate Reductions**" column as soon as practical;
- 2) Approve in concept increases in the Schedule of Taxes, Fees and Charges and the General Fee Schedule as detailed in **Attachment 2**;
- 3) Direct staff to perform a nexus study regarding the overnight parking permit process for the purpose of imposing a fee for single-night overnight parking permits;
- 4) Approve a temporary, four-year suspension on further contributions to the General Fund operating reserve, thereby capping the reserve at approximately \$13.7 million;
- 5) Direct the City Attorney to prepare an Ordinance increasing the General Fund transfer from the Light and Power Fund by 0.85 percentage, an amount equal to the annual cost of electricity for the General Fund, Library Services Fund and Health Fund for the next four years.

BACKGROUND

On January 5, 2004, the City Manager presented a budget update to the City Council. As was discussed, as a result of state actions the City of Pasadena has lost approximately \$1.3 million in vehicle license fee (VLF) revenue and approximately \$900,000 in redevelopment funds in the current fiscal year. Although the state has promised to repay the \$1.3 million in calendar year 2006, based on prior experience

with revenue shifts from Sacramento, staff expects that these funds will be only be returned if the League of California Cities ballot initiative qualifies for the ballot and is ultimately approved by the voters.

The City has also been assessing it's own financial condition irrespective of future state impacts, as the process for developing the fiscal year 2005 operating budget gets underway. On June 30, 2003 the City Council adopted the fiscal year 2004 operating budget. The General Fund five-year financial plan that accompanied the budget at that time projected a rising cumulative operating deficit within the next few years given the trend of revenues vs. expenses. Although a cause for some concern, these projections tend to be on the conservative side and it was reasonable to conclude that by taking measured steps over the next several years, the City could successfully manage its financial resources.

However, recent projections using updated salary and benefit rates for fiscal year 2005 and 2006, the largest category of expenses in the General Fund, indicate that the projected deficit will rise more sharply than previously projected. Consequently, it is necessary and prudent to recommend actions aimed at closing the gap. The recommendations outlined below represent a balanced approach using revenues and reductions to bring the General Fund's five-year financial plan's future projections back in line with those at the time the operating budget was adopted. While the focus of this report is largely the General Fund, with some attention to the Library Services Fund, the Health Fund is also being watched closely as it is at risk of revenue loss as a result of the state budget crisis. Staff will bring forward to the City Council in late March a plan to address budget impacts in the Health Fund.

Proposed Reductions

Listed on Attachment 1 are a series of proposed General Fund and Library Services Fund reductions. The proposed reductions have been divided into two categories: those which are being recommended for implementation immediately and those which are not being recommended at this time, but which may be necessary should it be determined that additional reductions are required, either as a result of further losses to the state or other impacts.

Although virtually all the proposed reductions listed on Attachment 1 represent a loss of resources that in some way will impact the City's ability to provide services, those being recommended for immediate implementation (column A) will have a lesser impact on public services than those designated as possible further reductions (column B). In several cases the immediate reductions represent the benefits of greater efficiency. To the extent that some of the currently proposed reductions involve filled positions, staff will be seeking City Council authorization in March to provide separation incentive packages to avoid involuntary layoffs.

On an annualized basis the proposed reductions total \$2,418,428. Given that only four months remain in the current fiscal year, however, the actual savings available this current fiscal year equals \$582,418. Nevertheless, if approved, these reductions will

carry forward into the fiscal year 2005 operating budget, which is currently being developed and will be presented to the City Council in May.

Proposed Revenues

In addition to proposing cost reductions, staff has developed a series of proposals for revenue enhancement which are detailed in Attachment 2. These potential revenues have also been divided into two categories. The first category are revenue enhancements which staff proposes Council approve as part of the annual adjustments to the Schedule of Taxes, Fees and Charges and the General Fee Schedule, which will occur in May. Staff is also recommending that the City Council direct the preparation of a nexus study to review the City's practice on issuing single-night overnight parking permits. Currently the City issues some 3,000 single-night overnight parking permits per month but does not charge for this service.

In addition to the proposed revenue enhancements outlined in Attachment 3, staff is recommending that the City Council approve a temporary, four-year increase of 0.85% in the General Fund transfer from the Light and Power Fund. The proposed 0.85% translates to approximately \$935,000 annually, an amount equal to the cost of electricity for the General Fund, Library Services Fund and Health Fund.

The General Fund, Library Services Fund and Health Fund have all lost revenues as a result of the state's fiscal crisis. Each of these funds has made reductions to adjust for these losses and brace for further reductions. In examining how other funds and City operations can assist the organization as a whole in dealing with the impacts in these particular funds, it was determined that one way the Light and Power Fund can assist is to, on a temporary basis, provide additional transfers to the General Fund, which in turn will be prorated to the Library Services Fund and Health Fund, in an amount sufficient to offset the cost of electricity consumption for these three funds. The proposed additional transfer would total approximately \$935,000 with \$78,500 going to the Health Fund, \$212,700 going to the Library Services Fund and the balance remaining with the General Fund. Most importantly, it is anticipated that this proposal can be accomplished without impacts on utility rates. Further, a number of municipal utilities provide service free of charge to their parent municipal organizations. And, prior to the implementation of utility de-regulation in California, the General Fund assisted the Light and Power Fund by reducing the transfer down to 5%. It is in this same spirit of cooperation that the current proposal is being made.

Reserve Policy

The City currently has a General Fund reserve policy which requires that an amount equal to 8% of General Fund budgetary appropriations be set aside in a reserve. Currently this reserves equals approximately \$13.7 million. As the City's expenses rise through the normal course of doing business, the amount required to be place in the reserve also increases. Basically, for every dollar the City appropriates, it puts aside another eight cents. Staff is recommending that the reserve be capped at its present amount of \$13.7 million for the next four years while the City deals with the impact of state cuts and the City's own projected deficit. Based upon the attached five year

financial plan, by fiscal year 2008, a \$13.7 million reserve would lower the effect reserve rate to 6.99%. Once it is determined that the City's financial situation has stabilized funds will again be set-aside each year, bringing the reserve amount back to the 8% level.

Potential Additional Risks

The recommendations contained in this report are aimed at addressing known fiscal challenges facing the City. Given continued uncertainty in Sacramento, there remains a considerable number of unknowns which, if they should come to pass, will trigger the need for additional reductions.

In his proposed budget for next fiscal year, the Governor is asking the legislature to permanently impose the shift of redevelopment funds and to permanently reduce the percentage of property tax revenue cities receive. For Pasadena, the proposed property tax loss is \$1.5 million next fiscal year.

Unfortunately, the Governor's proposals may mark only the lesser extent to which local governments may be further impacted as the state seeks to address its unprecedented fiscal crisis. The state legislature need not accept the Governor's budget proposals and is judged by many to be less deferential to local governments, having voted previously to discontinue the VLF backfill of \$4 billion dollars to local governments; of which Pasadena's share is approximately \$6 million.

Moreover, the Governor's proposed budget is predicated on the successful passage of Propositions 57 and 58 in next month's election. Should these propositions fail at the polls the Governor has indicated that it would trigger substantially greater budget reductions. In such a scenario it is hard to imagine that local government would not be put upon further to provide additional resources to the state, starting with the Vehicle License Fee backfill.

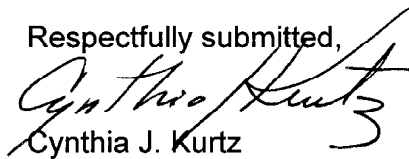
Employee Participation in the Process

As was the case last year, employees and their union representatives were involved in developing and reviewing the current set of reduction proposals and revenue enhancement proposals discussed below. Further, employees have responded thoughtfully and enthusiastically to the request for additional cost-saving suggestions. **Attachment 3** represents the current list of employee suggestions, along with related correspondence received from Bargaining Groups. And while time has not permitted every suggestion to be fully costed-out as of yet, each will be reviewed carefully and where appropriate and necessary will be brought back to the City Council for consideration.

FISCAL IMPACT


If approved, these reductions will result in annualized savings of \$2,418,428 beginning in fiscal year 2005. In addition, revenues would be increase by \$1,346,043. The impact of these actions are reflected in the updated version of five year financial plan for the General Fund (**Attachment 4**). For reference January 5, 2004 and June 30, 2003 versions have also been included as **Attachments 5 and 6** respectively.

Respectfully submitted,



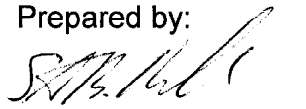
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