

MEETING DATE: November 9, 2009

AGENDA ITEM: Recommendations from the City Manager/Executive Director Related to the Interim Adopted Budget for Fiscal Year 2009/2010 and Projected Budget for Fiscal Year 2010/2011 and Providing City Council/Agency Direction Thereon

ATTACHMENTS

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1. Budget Recommendations Memorandum	1-9

Culver CITY

INTEROFFICE MEMORANDUM

DATE: 11/04/2009
TO: HONORABLE MAYOR & CITY COUNCILMEMBERS
FROM: Mark Scott, City Manager
SUBJECT: Budget Recommendations

Overview

The City Council will recall that I was directed to return by the November 9 meeting date to recommend any revisions to our Interim budget. We have worked hard to meet that date and have collected many ideas from staff, City Council and community in that regard. In this memo, my purpose is to identify a path forward in establishing a viable City work plan and budget.

As we have discussed frequently, the City's financial status is affected by several factors:

- Challenging economic climate and financial markets.
- Dramatically reduced sales tax with little prospect for immediate recovery (positive benefits from Westfield Culver City notwithstanding).
- Concern over deferred infrastructure maintenance (streets, street lights, parks and recreation centers, etc.).
- Anticipated future increases in CalPERS premiums to pay for generous retirement benefits.
- An almost unfathomable future burden to pay for already-committed retiree medical care.

As the attached chart shows, the City's 5-year General Fund budget projections are daunting. The projections for 2009-10 and 2010-11 can be summarized as follows:

	<u>2009/10</u>	<u>2010/11</u>
Starting Fund Balance	\$33,523,741	29,782,803
Revenues	78,392,938	81,275,000
Net Expenditures	<u>84,328,876</u>	<u>87,166,100</u>
Operating Deficit	\$ (5,935,938)	(5,891,100)
Less One-Time Offsets	<u>2,195,000</u>	<u>750,000</u>
Net Deficit	(3,740,938)	(5,141,100)
Ending Fund Balance	\$29,782,803	24,641,703

(Note: The above summary is before increasing contribution to the City's underfunded OPEB liability.)

If no adjustments were made to the above, the City would spend \$8.9 million of our General Fund Balance ("Reserve") during the 2-year period. And, this negative trend is projected to accelerate over the full 5-year period. In fact, by using "one-time offsets," we are actually understating the systemic budget challenge. When one factors in the future OPEB liability and the increasing retirement premium rates, it is clear that the City's budget situation requires a combination of actions. As City Manager, I recommend we address the following action steps:

- Reducing the overall size of our City operations. With 81% of our General Fund expenditures being personnel-related, we have to look at the costs of staffing. We recommend that we focus first, but not exclusively, on overhead functions, rather than point-of-service activity.
- Reducing future personnel costs by using a combination of position reductions (first by attrition and affordable retirement incentives), tiering of compensation programs for future employees; and reducing cost exposure for active employees.
- Reallocating ("reorganizing") remaining staff resources to adjust to lower staffing levels.
- Aggressively seeking operating efficiencies and perhaps new service delivery models.
- Considering new revenue opportunities, recognizing that residents and businesses already share the challenges of the economic downturn.
- Adopting a more aggressive grants and fundraising effort.
- Conducting more explicit strategic financial planning with the City Council, so that long-term needs and priorities are fully recognized in our year-to-year spending decisions.

November 9 Budget Action

By now the City Council is very familiar with the Finance Department's revised numbers:

- Between July 1 and now, the City's revenue projections fell by \$2.1 million, almost entirely due to downward projections for Sales Tax.
- Expenditure estimates became more favorable by approximately \$600,000 due to lower than expected medical cost increases.
- The projection of normal budget-year salary and other savings was reduced by \$1.1 million due to lower than normal employee departures and the tighter original budget.
- The \$1,000,000 shown as "TBD personnel reductions" had not been realized.

The result is a \$3.6 million gap between the Interim budget and the current situation. Effectively, this would result in a \$3.6 million deficit and consequently a reduction of the

General Fund Reserve during 2009/10. There is an even larger gap in the projection for 2010/11 (as indicated above).

After working with staff at all levels over the past 3 months, I have the following thoughts about how we can proceed on November 9:

1. For FY 2009/10 – As I have indicated during the recent public discussions, I conclude that it is unrealistic to close the entire 2009/10 budget gap so late in the year. I think it is hopeful and realistic to obtain a good portion of the personnel savings thru consultation with our bargaining groups.
2. Human Resources recently negotiated a reduced cost of supplemental benefits that should save us approximately \$75,000 this fiscal year (and \$128,000 each year for the next two years).

I also think we can expect to save as much as \$200,000 in other cost savings this fiscal year. And, my instinct is that some of our Revenue projections will exceed projections.

Therefore, my “target,” reluctantly, would be to end the fiscal year with approximately a \$2.5 million deficit, rather than the \$3.6 million that is currently projected. I think we could conceivably do better than this, but it will be very difficult for all the reasons we have discussed. Please note that as of June 30, we still anticipate being above the “30% of General Fund” reserve target because our base number (adjusted General Fund revenues) is also getting smaller.

3. For 2010/11 – While it is late for 2009/10, we are on a good schedule to adopt strong measures to offset at least most of the projected deficit in 2010/11. To do so, we will need to pursue all of the 7 “action steps” I referred to at the top of page 2 of this memo. Those action steps are, essentially, the overview of the financial work plan for the next 8 months and beyond.

More specifically, please see the attached “Work Plan Items for the 2009/10 and 2010/11 Budget Periods.” This very long list of possible changes needs to be prioritized, researched, planned, discussed with stakeholders, and implemented. It is a significant task, but obviously it is not simple to close a \$5 million budget gap without significant effort.

Recommendations:

On November 9, I recommend the following City Council actions:

- 1) Receive and file staff's reports concerning the 2009/10 fiscal year and 5-year projections.

- 2) Defer any action on the Interim FY 2009/10 budget until January, pending conclusion of discussions with employee bargaining groups and other ongoing budget reviews. (There would seem to be little purpose served in adopting a budget revision until we can more accurately project future costs.)
- 3) Direct staff to bring back a work plan schedule for developing the 2010/11 budget, including work plan items shown on the attached list. (By first meeting in December)
- 4) Direct staff to bring back a specific recommendation concerning the Capital Improvement Plan, including potential allocation of funds from the General Fund reserve and, possibly, from eligible Transportation/Roadway funding sources.

We look forward to discussing the above with the City Council on November 9.

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Current Year and Five-Year Forecast						
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Beginning Appropriable Fund Balance	33,523,741	29,782,803	24,641,703	18,455,497	12,645,197	6,157,897
Total GF Revenues	78,392,938	81,275,000	83,900,000	86,883,000	90,224,000	93,757,000
Total GF Expenditures Before Adjustments	86,840,325	88,945,000	90,157,048	91,424,401	93,859,012	96,376,539
Add PERS Increase Projection	-	-	1,767,652	3,160,599	4,826,988	5,226,461
Total Projected Savings*	(2,511,449)	(1,778,900)	(1,838,494)	(1,891,700)	(1,973,700)	(2,032,060)
Net GF Expenditures	84,328,876	87,166,100	90,086,206	92,693,300	96,711,300	99,570,940
Operating Surplus/Deficit	(5,935,938)	(5,891,100)	(6,186,206)	(5,810,300)	(6,487,300)	(5,813,940)
One-time - ERF	1,250,000	750,000				
One-time - Innovation Fund	550,000					
One-time - Metro Spur Sale	395,000					
Total One-time	2,195,000	750,000	-	-	-	-
Gross Surplus/Deficit	(3,740,938)	(5,141,100)	(6,186,206)	(5,810,300)	(6,487,300)	(5,813,940)
Ending Appropriable Fund Balance	29,782,803	24,641,703	18,455,497	12,645,197	6,157,897	343,957
	35.32%	28.27%	20.49%	13.64%	6.37%	0.35%
ARC for OPEB	6,137,000	6,137,000	6,137,000	6,137,000	6,137,000	6,137,000
Gross Surplus/Deficit with OPEB	(9,877,938)	(11,278,100)	(12,323,206)	(11,947,300)	(12,624,300)	(11,950,940)

* For fiscal 2009-10, includes \$3.05 million in salary savings, \$1.095 million in back-fill of vacant positions, and 5% O & M savings.
Fiscal 2010-11 and subsequent years include a 2% Excess Appropriation amount.

Work Plan Items for 2009/10 and 2010/11 Budget Period

City Manager's Office

- Evaluate reorganizational opportunities, such as those that might involve parking functions, asset management, project administration, public information, "ombuds" role, and others.
- Establish film permit and/or special event coordination function
- Work with the CFO to consider hiring a Grants Manager and/or an Internal Auditor
- Aggressively pursue "round two" ARRA funding
- Consider doing State-level legislative representation without consultant
- Seek creative, cost effective ways to produce local cable television programming. Possibly move technical functions to IT.
- Consider more efficient service call/complaint process
- Simplify the 72-Hour Report
- Meet with City Attorney and City Council litigation subcommittee regularly to establish early strategies on claims and lawsuits
- Continue working with employees and with bargaining groups to look for additional cost savings.

City Clerk's Office

- Agenda management
 - Consolidate City Council and Agency packets
 - Reduce meetings and thereby packet production costs
 - Develop more concise report formats
 - Electronic packet production
 - Evaluate election processes, including possible vote by mail
- Contract for records management/retention, or use volunteers
- Reduce public notification costs (e.g., smaller postcard, fewer newspaper ads, etc.)
- Seek trained volunteer to handle meeting minutes
- Seek trained volunteer to handle proclamations and commendations
- Eliminate most hard copy Municipal Codes; use online version
- Consider reducing time spent on minutes (Council or commissions) given that meetings are taped.

City Attorney's Office

- Consider pooling of office staff
- Reduce staffing of commissions and committees where appropriate
- Possibly limit direct involvement in some intergovernmental projects
- Consider doing more prosecutions using in-house staff

Information Technology

- Review all IT maintenance contracts for possible savings
- Virtualize desktops where possible
- Review graphics needs of all departments and consolidate production

- Co-develop applications with other cities, such as Permit systems.
- Reduce power usage by adjusting temperature set point in Data Center, and turning off all computers at night.
- Develop a combined database (AR/AP) for Finance
- Reduce the numbers of cell phones.

Human Resources

- Consider contracting out some payroll functions in the future
- Complete the study of Risk Management reorganizational efficiencies
- Seek employee benefit cost/fee/premium reductions where possible. Look for more aggressive benefit broker services.
- Evaluate alternate EAP service options
- Simplify reclassification and compensation approval processes
- Look at broad-banding compensation chart
- Evaluate two-tier salary and benefit levels for new employees. Consider retiree medical vesting schedules for new employees. Study the cost Medicare Supplement, rather than full coverage after Medicare age.
- Perform more labor relations work in-house
- Consider expanding wellness programs to support attendance, safety and medical cost control
- Consider viability of selling City merchandise ("City store")

Finance

- Consider centralized "general services" among Westside cities
- Look for savings by investing in a more modern financial software system
- Consider contract for portfolio management
- Increase online customer payment options
- More aggressively use of collection agency services for long overdue accounts
- Contract out lockbox payment processing for higher volume payments to reduce staffing needs.
- Consider payroll function options (automated time reporting, mandating direct deposit, contracting out to payroll vendor, self-service for stubs/W-2, etc.)
- Share administrative support across divisions
- Evaluate several Purchasing options that have been identified by Purchasing staff and the departments.
- Staff business license function for seasonal fluctuations
- Evaluate simplifying the Committee on Permits and Licenses function

Community Development

- Seek efficiency in administrative support staffing by using "administrative float"
- Consider enhanced Building Dept. reports for fee
- Consider rental of City facilities such as City Hall Courtyard, Parcel B (for parking), City Hall parking garage, etc.
- Evaluate methods of code enforcement to seek efficiencies
- Reduce Park Patrol hours

- Consolidate Council, Agency and Commission packet preparation for efficiency
- Consolidate parking management functions
- Maximize revenue options in parking structures, including use of monthly passes and variable rates for time of entry.

Police

- Increase parking enforcement staffing and, likely, resulting revenues
- Audit building maintenance/custodial services to determine best approach to servicing existing building and building systems
- Possible cut of Juvenile Diversion program to one class per year, or seek grants
- School Resources – possible cut of one position. (Grant funding expired)
- Crossing Guards – seek cost sharing or turn over to CCUSD.
- Forensics – seek inter-agency programs to share cost
- Custody – further evaluate options to reduce or share cost
- Meter Collection/Money Handling – look for efficiencies between Police, Public Works and Transportation
- Animal Services – Seek revenue options thru use of Veterinary offices for licensing. Evaluate service delivery options during 2-year pilot program.
- Communications/Dispatch – Evaluate inter-agency consolidation
- Film Permits – Consolidate with other City Hall functions.

Fire Services

- Possible assessment district or parcel tax to add additional paramedic unit and/or add staffing to engine companies. Additional service with our increasing call volumes, longer transport times, longer wall times and assist in keeping our ISO Class 1 rating. Possible to add coverage for operating cost within the measure.
- Streamline workers compensation administration to allow/incentivize both safety and earlier return to work.
- Investigate the Ambulance Operator (AO) program for possible revenue increases and keeping our ISO Class 1 rating.
- Seek additional trained volunteer support on certain functions
- Increase number of CNG vehicles
- Consider providing services to other agencies, for fee, where practical
- Seek higher cost recovery for certain EMS, fire prevention, emergency response and non-emergency response situations

Parks, Recreation & Community Services

- Reduce hours of operation at certain facilities (e.g., Mondays at Vets Auditorium and/or City Plunge, winters at City Plunge, etc.)
- Increase eligibility age for “new” seniors from 50 to a higher age.
- Develop a Junior Ranger program for ages 14-17, to combine training, education and grounds maintenance.
- Expand the contracting out of certain repetitive functions, including mowing and edging.
- Possible use of “quasi-coops” for certain afterschool, sports or day camp programs, with higher fees charged to those unable to provide in-kind services.

- Consider options to janitorial contract at parks and recreation centers. Consider rebuilding public restrooms for better health, safety and maintenance burden.
- Evaluate tree trimming options to lengthen life of trees and reduce maintenance costs/liability

Public Works

- Evaluate possible outsourcing opportunities for various PW functions.
- Seek to consolidate parking permit districts to simplify administration and resident convenience.
- Evaluate commercial parking permits, for fee, where practical
- Contract out banner installation workload and charge fees to cover costs
- Consider less than 7-day Graffiti removal staffing
- Develop long-term strategy for aging street light system, including possible citywide assessment or parcel tax. Would be opportunity to upgrade and make more cost efficient.
- Possibly contract for transportation of refuse to landfill
- Consider possible use of Transportation funding (Prop. A, Prop. C or Measure R) for CIP street projects, offset by new revenue options available to the bus system

Transportation

- Establish a less costly Coach Cleaner job classification
- Consolidate automotive purchasing into Transportation
- Use more "fleet pooling" for vehicles with low usage
- In-source facility janitorial services
- Look into apprenticeships for vehicle maintenance
- Consider efficiencies in scheduling vehicle maintenance shifts
- Evaluate bus stop maintenance program for possible efficiencies
- Evaluate possible installation of solar power option on the Transportation buildings
- Evaluate viability of lower-producing lines (bus routes)
- Evaluate runs to reduce overtime
- Consider attendance incentives for bus operators
- Wellness facility improvements for employee health and safety
- Consolidate money room operation with other department or outside contractor
- Evaluate Day Pass option
- Sell Culver CityBus merchandise