

City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: James C. McCann, City Manager and
Bill Mushallo, Administrative Services Director
DATE: June 1, 2010
SUBJECT: Discussion regarding Fiscal Year 2010/2011 General Fund Budget Deficit Reduction Options

ISSUE: To hear a presentation seeking City Council input regarding deficit reduction options to address the 2010/11 General Fund budget shortfall.

RECOMMENDATION: To discuss and provide direction regarding the deficit reduction options.

BACKGROUND: Since the original Fiscal Year 2009/10 Budget was adopted last September, operating expenditures have been cut by nearly \$1,250,000 (or 15%) vs. what was originally projected. In order to achieve those savings, most vacant positions have not been filled, overtime and part time costs were reduced, contract services were greatly reduced or eliminated, travel and training budgets have been held to minimum levels, and General Fund Capital Improvement Program (CIP) contributions were deferred. Employee groups also contributed significantly to the budget deficit reduction efforts. During several meetings with city employee groups we had discussed multiple ways of achieving the budget reductions including furloughs, forgoing of salary increases, increased contributions toward health care costs, etc. We had also emphasized our desire to resolve the 2009/10 deficit as soon as possible, since we had only six months remaining in the fiscal year. During those meetings we reviewed the financial update materials and also solicited ideas on how to close the budget shortfall. We used the goals discussed at our fall financial update and recommended by the City Council to guide us through the budget deficit reduction process. Those goals are as follows:

- Avoid staff layoffs if possible
- Develop and implement efficiencies
- Maintain basic city service levels
- Continue to encourage economic sustainability
- Evaluate revenue enhancement opportunities
- Encourage all city personnel to participate in the solution

- 31 • Welcome constructive thoughts for solving the deficit
- 32 • Fix as much of the current year shortfall in the current year as possible
- 33 • Maintain adequate reserves

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35 A high standard of 8% savings was set for the management and mid-management
36 employees and requested participation equal to 6% of salary costs for other full-time city
37 employees was established. The Management Group includes the City Manager,
38 Department Heads, and Mid Management staff and represents a total 14 employees.
39 This group agreed to forgo annual performance based bonuses, freeze salary and merit
40 increases, and implement a 10 day furlough to be taken by the end of the fiscal year.
41 The furlough will equate to a reduction in employee compensation of approximately 8%
42 over the last six months of fiscal year 2009/10.

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44 Miscellaneous employees also agreed to take a furlough during the current fiscal year.
45 That furlough amounted to 5 days and most employees took the time off between the
46 Christmas and New Year's Day holidays. Employees who were unable to take the
47 furlough at that time were allowed to take the time during the remainder of fiscal year
48 2009/10. The furlough amount for miscellaneous employees equated to approximately
49 4% of salary.

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51 Fire employees agreed to forgo overtime pay during holidays. Instead of working at the
52 station they would remain on call at home on holidays. They also agreed to flex their
53 time during training days, also reducing overtime. The fire concessions equated to
54 about 5.5% of salary.

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56 Police employees agreed to forgo the 1.5% salary increase originally scheduled for
57 January 1 pursuant to their current labor agreement.

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59 As indicated above, you can see that many of our employee groups came forward with
60 significant concessions. These concessions provided approximately \$132,000 in FY
61 2009/10 budget savings. We appreciate the willingness of our employee groups to
62 participate with concessions in order to avoid significant service cuts and/or layoffs.

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64 **ANALYSIS:** In April a preliminary forecast for 2010/11 was presented to the City
65 Council. It is anticipated that revenues will be lower next fiscal year than what is
66 anticipated to be received during 2009/10. Several factors are driving this assumption.
67 Property taxes will continue to be affected by negative assessed valuation changes,
68 particularly in the non-residential category. Sales tax growth is anticipated to be
69 minimal next fiscal year; up about 2%. TOT revenues are anticipated to be flat next
70 fiscal year vs. what is anticipated this year. One time revenues received to reimburse
71 costs associated with the Busk abatement will not recur next fiscal year. Interest
72 earnings are anticipated to be about \$20,000 lower in fiscal year 2010/11 than in
73 2009/10, and we are anticipating a one time payment of excess ERAF funds of about

74 \$140,000 during fiscal year 2010/11. Total revenues are expected to be down about
 75 \$135,000 or 2% from the current year. The chart below summarizes the projected
 76 revenue changes:
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Current projected 2009/10 revenues		\$6,750,765
Revenue forecast adjustments:		
Property tax changes	(\$65,650)	
Sales tax growth	\$14,180	
Manufacturing tax reduction	(\$6,000)	
Busk reimbursement revenue non recurring	(\$197,000)	
Interest earnings estimate reduced	(\$20,000)	
Excess ERAF funds to be received	\$140,000	
Total 2010/11 projected revenues		\$6,616,295

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 79 Total 2010/11 General Fund expenditures are projected to be higher than the updated
 80 projection for 2009/10 amounts. There are COLA's associated with one of our
 81 bargaining units, step increases for employees, and other miscellaneous payroll costs
 82 projected next fiscal year that amount to an increase in labor costs of about \$71,000.
 83 CALPERS retirement rates are projected to go down slightly next fiscal year by about
 84 \$40,000, but it is anticipated that significant rate increases will be imposed in
 85 subsequent years. Insurance costs for workers compensation and health coverage are
 86 also projected to increase next fiscal year. The Fire Department replaced SCBA bottles
 87 as they have reached their useful life and a provision should be made for legal costs
 88 associated with potential litigation. The table below shows line item detail for each of
 89 the projected expenditure cost increases:
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Current projected 2009/10 Expenditures:		\$7,067,408
Expenditure forecast adjustments:		
COLA's, step increases, etc.	\$71,000	
PERS rate changes	(\$40,000)	
Health care insurance projected increases	\$34,290	
Workers compensation projected increases	\$24,263	
Fire SCBA bottle replacement	\$35,000	
Legal fee cost estimate	\$50,000	
Total 2010/11 projected expenditures		\$7,241,961

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92 In summary, total 2010/11 revenues are projected to be down \$134,000 or 2% from
 93 fiscal year 2009/10 amounts and total expenditures are projected to be up\$174,000 or
 94 2.5%. This gap, after accounting for transfers into the General Fund, is projected to be
 95 about \$445,000 next fiscal year. The table below summarizes the shortfall:
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Total 2010/11 projected revenues		\$6,616,295
Total 2010/11 projected transfers into the General Fund		\$181,000
Total 2010/11 projected expenditures		\$7,241,961
Total 2010/11 projected shortfall to address		(\$444,666)

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 98 It is important to remember that the above forecast is just that; a preliminary look into
 99 anticipated revenue and cost changes for the upcoming fiscal year. It is not meant to be
 100 a detailed budget of planned costs and revenues. The forecast has been based on
 101 multiple assumptions including the following:

- 102
- 103 - Conservative revenue projections
- 104 - Known or anticipated expenditure projections
- 105 - No additional full or part time employees
- 106 - Current vacant General Fund positions remain vacant
- 107 - 2009/10 furloughs not continuing into 2010/11
- 108 - No additional or enhanced city services
- 109 - No unanticipated state take aways
- 110 - No automatic cost escalators except MOU contract provisions

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 112 There are some risks associated with the forecast for next fiscal year. They are as
 113 follows:

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- 115 - TOT revenues could continue to fall this year below our flat projection
- 116 - The state could take away gas tax or other revenues
- 117 - Sales tax revenues could be impacted by closing businesses
- 118 - Additional property tax assessed valuation reductions could be realized
- 119 - Insurance rates could increase more than anticipated
- 120 - Legal costs could surpass estimates
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122 There are also some opportunities out there for addressing the forecasted shortfall.
 123 They are as follows:

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- 125 - There are increasing signs of business development on the horizon
- 126 - The recently adopted TBID should encourage local tourism
- 127 - The economy is (hopefully) at the bottom and stabilizing
- 128 - There is a history here in Calistoga of employees pulling together to address
- 129 budget shortfalls
- 130 - Labor negotiations are in process for some of our bargaining units

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132 Resolving the above mentioned shortfall for the 2010/11 fiscal year has been much
 133 more difficult than past budget deficit reduction work has been. As mentioned earlier in
 134 this report, approximately \$1.25 million has been reduced from the 2009/10 budget over
 135 the past year. This leaves very little discretionary funding left to work with.

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137 Over the past few months we have been putting together deficit reduction options.
 138 There are multiple ways to deal with budget deficits and we have approached the deficit
 139 from all avenues including expenditure reductions, revenue enhancements, policy
 140 change recommendations, and collaborative endeavors with other government
 141 agencies. Any changes in forecasted revenues also would have a direct impact on the
 142 budget shortfall. During the deficit reduction process we have tried to adhere to the
 143 goals mentioned earlier in this report but when this level of reductions is required, after
 144 the significant reductions made in the current fiscal year, staffing and service levels
 145 most surely will be impacted.

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147 Below is a table that includes identified deficit reduction options. As you can see, there
 148 are multiple service level impacts. Each of the Department Heads will discuss these
 149 reduction recommendations and their impact on service delivery at Tuesday's Council
 150 Meeting.

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Deficit Reduction Description	2010/11 Savings	Total Savings	2009/10 Budget	% Savings
City Manager				
Increase travel, training for new City Manager	-175			
Add secretary's position (moved from Recreation)	-42,000	-42,175	115,700	-36.5%
Economic Vitality				
Reduce budget from \$329,950 to 269,590. This would impact Chamber marketing and promotional and Visitor's Bureau funding, and other economic development contract funding	60,360	60,360	329,950	18.3%

Deficit Reduction Description	2010/11 Savings	Total Savings	2009/10 Budget	% Savings
Finance				
Hold Administrative Services Technician position vacant and backfill with part time office assistant	38,932	38,932	263,150	14.8%
City Clerk				
Reduce contract services, supplies, postage, etc.	1,642			
Reduce City Clerk to 32 hours/wk	17,700	19,342	56,435	34.3%
Non Departmental				
Reduce contract services, staff celebration, etc.	1,477	1,477	105,376	1.4%
Community Promotions & Enrichment Grants				
Reduce budget from \$37,500 to \$20,000. Funding to be evaluated on community items including the Community Enrichment Grant Program, Family Center, various parades and festivals, projects, civic organizations, clinics, youth related programs, etc.	17,500	17,500	37,500	46.7%
City Council				
Reduce advertising and travel/training	652	652	56,435	1.2%
Elections				
\$7,000 in election costs less savings in supplies, training and advertising	-6,497	-6,497	10,400	-62.5%
Police				
Net benefit from suspending parking enforcement	4,450			
Suspend Community Service Officers program	32,000			
Suspend funding of juvenile diversion program	25,000			
Discontinue payment for school crossing guards	8,000			
Reduce expenditures for uniforms and training	7,050			
Increase vehicle release fees	3,650			
Increase livescan fees	14,190			
Increase parking citations	3,000	97,340	1,755,950	5.5%

Deficit Reduction Description	2010/11 Savings	Total Savings	2009/10 Budget	% Savings
Planning and Building				
Reduce Planning Commission budget by suspending stipends and reducing training/meetings budget	9,200			
Reduce planning budget contract services, training, dues, etc,	14,000			
Reduce Bicycle Advisory Committee budget by 50%	400			
Leave Building Official position vacant and contract for services	26,000			
Eliminate full time Administrative Secretary position and backfill with clerical part time help	54,000			
Reduce Building Standards Advisory and Appeals Board Design Review Panel budgets by 40%	400	104,000	681,625	15.3%
City Attorney Services				
Reduce costs for City Attorney Services		15,000	75,000	20.0%
Total of Identified Deficit Reductions		504,022		

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153 The above range of initial options for budget reduction clearly would present a change
154 and in many cases degradation in the level of services provided to the community.
155 Reduced response to neighborhood complaints and diminished code enforcement
156 efforts as well as an increased cost for livescan services would result from the
157 suspension of the Community Service Officer program (police officers would pick up
158 these duties as time permits); a reduced level of parking enforcement will occur with the
159 suspension of our part-time parking enforcement personnel (again police officers would
160 assume this enforcement duty as time permits); suspended funding for the very
161 successful Youth Diversion program through the Junior/Senior High School would
162 clearly diminish our efforts to engage and assist Calistoga's youth; a reduced level of
163 funding for marketing and promotional efforts by the Chamber of Commerce would have
164 direct impact on our marketing efforts during these challenging times; reduced level of
165 hours available for Planning and Building secretarial staffing will reduce the
166 responsiveness of the department to inquiries and requests for services (Building
167 Permits and Planning approvals); moving from full-time building inspection services to
168 part-time operations will have an obvious reduction in the availability of these services;
169 suspended or reduced frequency of street sweeping or Downtown sidewalk cleaning will
170 have obvious effects on the appearance (and function—drainage abilities, longevity of
171 pavement, etc.) of our streets and sidewalks; a reduction in the hours of operation of the

172 Community Pool will clearly reduce the recreation opportunities available to
173 Calistogans; a reduction in the funding available to our contractor (the Calistoga/St.
174 Helena Boys and Girls Club) for the operation of our Teen Center by 1/3 will clearly
175 reduce our services to Calistoga's youth; similarly, a reduction in Recreation Division
176 staffing levels would be have direct effect of programming; reduced funding to the
177 Calistoga Family Center (the City has provided \$10,000 each year for the past several
178 years to support the operations) would be a significant reduction to the Center; and
179 reduced funding for the Community Enrichment Grants will have direct impact upon the
180 many programs and events which receive modest funding through this successful
181 program.

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183 The above listing of potential budget adjustments is not exhaustive or exclusive.
184 Certainly a number of options exist to address the budget challenges including program
185 and service reductions, operating cost reductions through labor cost savings, or
186 reduction in labor force as well as revenue increases. Staff seeks Council input and
187 direction so that we may proceed in the preparation of the budget for adoption at the
188 June 15, 2010 Council meeting. Council may concur with some of the above options
189 and/or may direct that effort be initiated to identity additional revenue sources or
190 discussions with our labor groups to reduce labor costs. Council may also direct staff to
191 explore consolidation or alternate staffing and labor opportunities. Many of these
192 options will directly impact our staff and discussion with the staff and the appropriate
193 labor groups will be beneficial and necessary to seek input and suggestions.

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195 As we progress into next fiscal year it is important to remember that departments have
196 continued to do a good job maintaining current levels of services after significant budget
197 reductions were integrated over the past year. This will become increasingly difficult by
198 the implementation of the above mentioned budget deficit reduction options. Still, as we
199 move into Fiscal Year 2010/11 we are confident that regular financial updates along
200 with proactive revenue/expenditure management will allow us to stay ahead of any
201 additional unforeseen financial or economic developments.

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203 In conclusion, it is important to note that while the current economic situation presents
204 challenges for us, we are in relatively good financial condition and have tremendous
205 resources and opportunities for recovery and growth. The future for our community is
206 indeed very bright, the City Council is well-versed in the City's financial position and is
207 focused in its desires for the future of Calistoga, and our staff is extremely dedicated
208 and resourceful. We are very fortunate. We simply must address our present
209 challenges to allow us to emerge strong with improving economic times. We would like
210 to thank all of our dedicated employees for continuing to provide excellent service to the
211 Citizens of Calistoga. We would also like to voice our appreciation to the City Council
212 for their clear and consistent leadership and guidance during these difficult financial
213 times.

