

REQUEST FOR COUNCIL ACTION

SUBJECT: APPROVAL OF A FINANCIAL MANAGEMENT PLAN AND ORDINANCE NO. 2660 ESTABLISHING A GENERAL FUND RESERVE POLICY

MOTION: 1. I move to approve the Financial Management Plan for May 2007 through June 2008.

Mayor request City Clerk to read title of Ordinance No. 2660

2. I move to waive further reading of Ordinance No. 2660 and to introduce Ordinance No. 2660.

3. I move to appoint the City Treasurer to the Budget Committee.

BACKGROUND

In recent months, the City Council, City Manager and staff have focused on the financial challenges that the City has faced over the last few years and will continue to face if immediate action is not taken to overcome these challenges. Over the last five years the City's audited expenditures and financial uses have exceeded its revenues and financial sources, resulting in a reduction in unreserved fund balance, from a high of \$10.5 million to a low of \$2.9 million at the end of June 2006. Based on the fiscal year 2006-2007 Adjusted Budget, at mid-year, the \$2.9 million beginning unreserved fund balance was expected to be reduced to \$250,040 by June 30, 2007.

Based on preliminary budget submittals by City departments for the Fiscal Year 2007-2008 Proposed Budget, including revised estimates for revenues and expenditures through June 30, 2007, the estimated ending unreserved fund balance at June 30, 2007 was estimated at \$1.3 million as of April 16, 2007 when City staff, department heads and union members met at A.K. Smiley Public Library to discuss the City's financial challenges. A series of meetings with department heads, staff and union members have been held during the two weeks since that initial meeting, to continue the discussion of the City's financial situation and the potential for productivity improvements and cost-cutting ideas. A Budget 101 Workshop for union representatives was also held during this time to help the unions have a better understanding of the budgeting process. One outcome of these meetings has been

that the City Manager discovered that the skill level of the management team, together with staff, was sufficiently strong enough to have the team perform an analysis and review of efficiencies, cost-cutting ideas, and revenue enhancements before hiring a consultant to perform a Management Study. The work by the team could reduce the required scope and cost of the study.

Over the last two weeks the City's fund balance for fiscal year-end and for fiscal year 2007-2008 has been moving up and down as departments have found additional cuts, but at the same time, have added expenditures to account for increases to on-going service contracts. This number will continue to change as the City Manager and staff continue to analyze department budget submissions, department and City needs, and potential revenues.

Although employee furloughs sufficient to provide approximately \$200,000 by June 30, 2007 were considered as a manner to improve the City's fund balance, the City Council and City Manager instructed department heads and staff to identify additional cuts of at least \$300,000 by the end of June 2007, in-lieu of requiring furloughs. However, department heads and staff are looking beyond the \$300,000 in cuts and have been working with the City Manager to find additional cost-cutting recommendations for fiscal year 2007-2008. The goal is for the City to tighten its own belt before considering asking for additional revenue from residents and business owners in the community and to reach the goal of a balanced budget. A financial plan has been developed to address these and other goals for the remainder of fiscal year 2006-2007 and for fiscal year 2007-2008.

DISCUSSION

The Financial Plan recommended by the City Manager includes three phases as outlined below:

PHASE I

- Timeline: Present – June 30, 2007
- Inform the organization, management team and unions that the City is facing a financial challenge and discuss the challenge with them so it is understood
- Gather input from department management and from the unions in order to reduce expenditures, identify productivity improvements and increase revenues
- Formed teams, consisting of management and union members, to address expenditure reductions of \$300,000 or more

- Develop Performance Measures for the Fiscal Year 2007-2008 Budget
- Develop a reserve policy that requires the City to annually fund a minimum level of reserves and to adopt a balanced budget based on recurring revenues
- Develop a policy to limit the waiving of fees for City events
- Develop a policy for annual goal setting by the City Council
- Tasks and assignments must be presented by the majority of the City Council through the City Manager to the departments
- Recommend consolidation of commissions
- Recommend formation of a budget committee
- Hold Council workshops to discuss the Fiscal Year 2007-2008 Budget
- Hold community meetings to brief the public and business community on the City's budget and reserves
- Increase the Fiscal Year 2007-2008 General Fund Public Works Department Street Division budget to provide for street infrastructure maintenance
- Develop a Request for Proposal for a Management Study consultant
- Meet and confer with unions to open employee contracts to negotiate for the fiscal year beginning July 1, 2007

PHASE II

- Timeline: July – October, 2007
- Management study begins with selection of consultant to perform the study
- Teams established in Phase I continue to address productivity improvements, cost reduction alternatives and enhanced revenue options
- Vacancies remain open to provide for a balanced budget except that upon review and recommendation by a management team ad-hoc committee and upon recommendation of the City Manager, a position may be filled
- Develop a Vehicle Replacement Policy
- Develop an Information Technology Management Plan that provides for coordination and compatibility of information technology resources
- Develop a Deferred Maintenance Plan for Buildings/Structures/Facilities
- Develop a Street Infrastructure Maintenance Plan

- Develop a policy that takes maintenance and staffing into consideration prior to the City accepting new buildings or parks
- Submit proposal to establish business license tax for warehouses based on square footage and take to voters for approval in November 2007 Submit proposal to establish increase in Transient Occupancy Tax (TOT) and take to voters for approval in November 2007

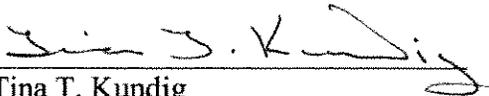
PHASE III

- Timeline: November, 2007 – June, 2008
- Implement results of management study which may include:
 - a. Reorganization
 - b. Additional expenditure reductions
 - c. Enhanced revenue options
 - d. Other
- Teams established in Phase I continue to address productivity improvements, expenditure reductions and enhanced revenue options
- Include Management Study findings in the planning of the Fiscal Year 2008-2009 Budget
- Preliminary funding for Vehicle Replacement Policy
- Preliminary funding for an Information Technology Management Plan that provides coordination and compatibility of information technology resources
- Preliminary funding for a Deferred Maintenance Plan for Buildings/Structures/Facilities
- Preliminary funding for a Street Infrastructure Maintenance Plan
- Submit proposal to establish Citywide street lighting and landscape assessment districts and submit to electorate for mail ballot vote Spring of 2008
- Recommend establishing an exploratory resident committee to explore the feasibility of bond sales for:
 - a. Police/Public Safety Facility
 - b. Street/Infrastructure Maintenance and Improvements

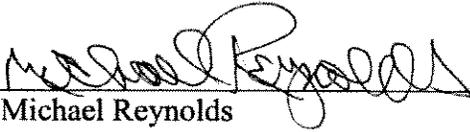
FISCAL IMPACT

Approval and implementation of the Financial Plan through June 2008 sets the course for the City to take actions as necessary to be in a position to establish the reserves and balanced budget recommended in Ordinance No. 2660. Ordinance No. 2660 will take effect prior to July 1, but after the City Councils budget for fiscal year 2007-2008 is printed.

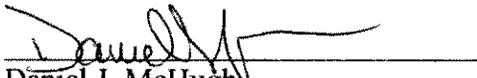
Prepared by:


Tina T. Kundig
Finance Director

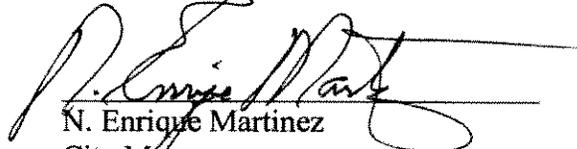
Reviewed by:


Michael Reynolds
City Treasurer

Reviewed by:


Daniel J. McHugh
City Attorney

Recommended by:


N. Enrique Martinez
City Manager