



# ACHIEVING A STRUCTURALLY BALANCED GENERAL OPERATING FUND BUDGET

Mountain View City Council Study Session  
September 29, 2009

- To provide an update on the budget
- To obtain some preliminary feedback to confirm direction
- To provide results of preliminary research on some specific topics identified previously



## Background

- Many local governments grappling with structural deficits as a result of the recession
- Mountain View entered the economic downturn from a position of relative strength
- FY09-10 Budget adopted using reserves to balance

- To have a structurally balanced budget for FY10-11 and beyond
- “Base touching” with the City Council needed throughout the process



# FINANCIAL STATUS OVERVIEW



## Financial Status Overview

- City noted signs of the weakening economy and slowing of revenue growth in spring 2008
- Economy quickly began unraveling in summer/fall 2008
- Mountain View one of very few Cities to end FY08-09 in positive position
  - Revenues \$88.0 M (\$1.0 M less than adopted)
  - Expenditures \$84.6 M (\$3.8 less than adopted)
  - Operating balance \$2.3 M low in comparison to \$9.1 M average for past 10 years



## Financial Status Overview (cont.)

	2008-09 <u>Adopted</u>	2008-09 <u>Audited</u>	<u>Diff.</u>
Revenues	\$ 88,951	87,963	( 988)
Expenditures	( <u>88,392</u> )	( <u>84,579</u> )	<u>3,813</u>
Operating Balance	559	3,384	2,825
Change in Assets/Liab./Enc.		( <u>1,079</u> )	
Total Operating Balance		\$ 2,305	

(Dollars in thousands)



## Financial Status Overview (cont.)

- Actions taken to bridge budget deficit for FY09-10
  - Unfunding 15.25 City positions
  - Reduction in services and supplies
  - Transfer of \$1.0 M Civic Center debt to the Construction/Conveyance Tax Fund
  - Salary savings for non-safety vacant positions
  - Reduction in new capital equipment funding
  - Assuming budget savings
  - Including a small amount of revenue enhancements
  - Employee group compensation concessions



## Financial Status Overview (cont.)

- Too early to project revenue trends in comparison to the FY09-10 Adopted Budget
- State budget actions adopted subsequent to the City's budget have impact to property taxes
  - \$2.4 M from General Operating Fund
  - Categorized as loan under Prop 1A
- Five-Year Forecast has been updated and included in the FY09-10 Adopted Budget
  - FY10-11 Preliminary budget gap \$4.1 M



## Financial Status Overview (cont.)

	2008-09 <u>Actual</u>	2009-10 <u>Budget</u>	2010-11 <u>Forecast</u>
Revenues	\$ 87,963	86,657	87,008
Expenditures	( <u>84,579</u> )	( <u>88,590</u> )	( <u>91,111</u> )
Operating Balance (Deficit)	3,384 <sup>(1)</sup>	( 1,933) <sup>(2)</sup>	( 4,103) <sup>(2)</sup>

(1) Prior to changes in Assets, Liabilities and Encumbrances

(2) Prior to supplemental expenditures and estimated budget savings

(Dollars in thousands)



# BUDGET BALANCING STRATEGIES



# Budget Balancing Strategies

- Two approaches
  - Expenditure Reductions
  - Revenue Enhancements
- Overview of the “tool kit” of options
- Immediate priority: Balance the FY10-11 budget
- Longer term priority: Begin working on strategies to stabilize the General Operating Fund in the future



# EXPENDITURE REDUCTIONS



## Approach to Expenditure Reductions

- There are many approaches to reducing expenditures
- None are easy; the “low hanging” fruit has been harvested
- Some options are short term; others take time to study and implement



## Approach to Expenditure Reductions (cont.)

- Broad-based incremental reductions vs. targeted reductions
  - Fundamental policy consideration
  - Some programs reduced in recent budgets may not be able to sustain service with additional reductions
- Many specific ideas are being reviewed
  - Refined Tier 2 alternatives
  - Employee suggestions
  - Work is too preliminary to make recommendations regarding any specific ideas



## Approach to Expenditure Reductions (cont.)

- Organizational Restructuring
  - Opportunities to establish broader spans of control (over past decade over 21 management and supervisory positions eliminated)
  - Potential for consolidation of programs to achieve staffing and service efficiencies



## Approach to Expenditure Reductions (cont.)

- Alternative Service Delivery
  - Almost every municipal service can be provided differently
- History of alternative delivery approaches in Santa Clara County
- Alternative Delivery Models (Longer Term)
  - Privatization (non profit or for profit)
  - Contracting with other public agencies (Library, Police, Fire and others)
  - Joint Powers Authorities, Special Districts and other partnerships for regional service delivery



## Approach to Expenditure Reductions (cont.)

- Alternative Service Delivery Considerations
  - Need clear expectations regarding desired service levels
  - Short and long term cost considerations
  - Implications to existing employees and service infrastructure
  - Difficult and expensive to reassume service delivery in the future



## Approach to Expenditure Reductions (cont.)

- Cities are service driven organizations. High quality services require high quality and skilled employees to provide them
- Personnel costs are 80% of General Operating Fund budget and we will need to find ways to contain the rate of future increases
- Contain employee benefit costs: Look at alternative benefits and benefit structures
  - Pensions: Two-tier
  - Benefit packages: Health insurance approaches
- Contain employee compensation costs



# REVENUE ENHANCEMENTS



## Revenue Enhancements

- California cities have limited control over ability to increase revenue without voter approval.
- Three potential approaches:
  - Establish new fees or increase the level of cost recovery for existing fees
  - Economic development
  - Establishing specific purpose assessment districts



## Revenue Enhancements (cont.)

- Fee for Services
  - Most General Operating Fund services are provided without a fee
  - Fees are usually charged for services provided for specific group of beneficiaries
  - Look at higher cost recovery and new fees



## Revenue Enhancements (cont.)

- Economic development
  - Staff implementing the updated Economic Development Strategy adopted early 2009
  - Several projects that will potentially produce an increase in revenue
    - Cannot be assumed at this time
    - Can position the City well once the economy recovers
  - City land leases have done well producing \$8.2 M in rents annually



## Revenue Enhancements (cont.)

- Establishing specific purpose benefit assessment districts
  - To pay for lighting, landscaping and other improvements and services in public areas
  - Based on assessing only those properties that benefit from services or improvements
  - A majority vote of affected property owners through a balloting procedure is required
  - Future increases subject to voter approval



# COMMUNITY ENGAGEMENT



# Community Engagement

- Approach selected will depend on the purpose of the engagement
  - Education on how City is financed and structural challenges (recommended as a first step)
  - Provide sense of community's priorities
  - Define what the community considers core and/or essential services
  - Help identify areas for reductions
  - Receiving reaction to recommended expenditure reductions/revenue increases



## Preliminary Schedule

- September 29, 2009 – Study session
- November 2009 (tentative) – A second study session if needed
- January 2010 – Review Staff recommendations
- January through June 2010 – City Council refinement and community engagement process (if desired)
- June 2010 Adoption of FY10-11 budget



## Summary of Direction Needed from Council

- Staff recommends:
  - Confirm agreement to achieve a structurally balanced budget for FY10-11
  - Continue to review/develop a balanced budget strategy with alternatives
  - Once all incremental service levels exhausted, look at more focused/targeted reductions
  - Develop approach to contain employee compensation/benefit costs including retirees' health and pension costs



## Summary of Direction Needed from Council (cont.)

- Staff recommends (cont.):
  - Conduct analysis of creating new fees and/or increasing fees for services
  - Conduct public education sessions on City's financial structure
  - Define nature and desired outcome from public participation/engagement
  - Prioritize balancing the FY10-11 budget and once accomplished, begin exploring opportunities for longer-term structural budget changes