

CITY OF MOUNTAIN VIEW,  
CALIFORNIA

FISCAL YEAR  
2010-11

BUDGET WORKSHOP  
JANUARY 26, 2010

This Page Left Intentionally Blank

CITY OF MOUNTAIN VIEW  
MEMORANDUM

4.1

DATE: January 21, 2010

TO: City Council

FROM: Kevin C. Duggan, City Manager

SUBJECT: TRANSMITTAL MEMO FOR JANUARY 26, 2010 BUDGET WORKSHOP

**PURPOSE**

The City faces a substantial challenge as it attempts to remain fiscally stable while facing a significant projected General Operating Fund structural deficit for Fiscal Year 2010-11 (as well as projected deficits for several subsequent fiscal years). Recognizing that all of the "less painful" strategies have already been implemented, the challenge now facing the City will require difficult actions that will negatively impact the public and City staff. However, not addressing this problem runs the significant risk of transforming a current difficult challenge into a future crisis.

The purpose of this budget workshop is for the City Council to continue its work in developing a strategy to achieve a structurally balanced budget. The attached briefing materials present additional information about short- and long-term strategies to structurally balance the General Operating Fund budget in Fiscal Year 2010-11 and into the future. City Council comments and direction on the following broad policy topics will assist staff in developing specific budget recommendations for consideration in February/March.

- Should a structurally balanced budget be achieved next fiscal year or over a longer time frame?
- Proposed budget balancing principles from which to prioritize budget decisions.
- Proposed Fiscal Year 2010-11 budget balancing strategy (reduced operating costs, revenue enhancements, containment of employee costs) as a guide for budget development.
- Identification of service and program priorities and larger budget-reduction strategies the Council may want to pursue.

- Establishment of a fee policy and adjustment of fees to achieve a greater degree of cost recovery.
- Compensation cost containment approaches.
- Preliminary identification of longer-term strategies (e.g., alternative service delivery, potential benefit restructuring, revenue ballot measure) to pursue.
- Community involvement approach.
- Next steps.

## **INTRODUCTION**

As 2010 begins, there are emerging signs of economic recovery at the national level; however, the State of California and Santa Clara County remain in recession with high levels of unemployment. The City of Mountain View and local governments throughout California are projecting substantial General Operating Fund structural budget deficits for Fiscal Year 2010-11 and beyond. It is important for cities to evaluate short-term strategies to balance next fiscal year and, more importantly, longer-term strategies to assure structurally balanced budgets in the future. In terms of many of our General Fund revenues, we believe that recovery will lag behind the overall economy.

Mountain View's financial position is stronger than many communities in California, but will remain so only if current and projected General Operating Fund structural budget deficits are addressed in a prudent and timely way. To that end, the City Council began to discuss approaches to achieving a structurally balanced budget soon after the Fiscal Year 2009-10 budget was adopted last June. In September 2009, the City Council convened a Study Session that reviewed the broad range of budget-strengthening options and confirmed an initial approach to achieving a structurally balanced budget for Fiscal Year 2010-11 and beyond. At that Study Session, a majority of the City Council generally concurred with the following approach:

- Achieve a structurally balanced budget for Fiscal Year 2010-11.
- Continue to review and develop the draft alternatives list.
- Once all incremental service-level reductions have been exhausted, look at more focused and targeted reductions.
- Develop an approach to contain employee compensation and benefit costs, including retirees' health and pension costs.

- Conduct a detailed analysis of creating new fees and/or increasing fees for services that currently are significantly subsidized by the General Operating Fund.
- Conduct public education sessions on the City's finances.
- Define the desired outcome from public participation/engagement.
- That the full Council work with staff through a series of budget-focused Study Sessions.
- Make balancing the Fiscal Year 2010-11 budget the top priority. Once that is accomplished, then begin exploring opportunities for longer-term structural changes that could involve different methods of service delivery (privatize, contract out, JPA, selling services to another agency, etc.).

This Study Session builds upon the broad strategies the City Council discussed in September. This report updates the City's General Operating Fund financial picture and provides more detailed information about City services, compensation costs and cost-containment strategies, recovery of service costs through fees and charges, potential ballot initiatives and longer-term options for alternative service delivery. Background information regarding the "structure and context" of the City's General Operating Fund, reserves and budget components is also provided, as well as additional information about alternative methods to engage the community in the City's budget process.

While specific programmatic reductions and revenue increases will be needed to balance the Fiscal Year 2010-11 budget, this budget workshop focuses on the "budget-balancing" framework and the policy and transformational actions that will be needed to achieve a sustainable budget. This report also recommends a series of "budget principles" and a policy approach to balancing the Fiscal Year 2010-11 budget. Staff will bring back specific options to reduce costs and increase revenues in February/March.

### **ORGANIZATION OF THIS DOCUMENT**

Attached to this transmittal are a series of background briefing reports on topics pertaining to the City's budget. The purpose of the briefing reports is to provide the City Council with information regarding the array of potential approaches that could be incorporated into a comprehensive budget-balancing strategy. While additional work will be needed to implement many of the options outlined in the attachments, it is important for the City Council to identify the priority short- and long-term strategies to

incorporate into the subsequent proposed budget balancing strategy. An overview of the most important sections from a policy perspective is provided below.

### **OVERVIEW OF THE GENERAL OPERATING FUND FINANCIAL UPDATE**

There are signs of the recovering economy; however, many believe the recovery will be slow and long. Also, the General Operating Fund revenues that have been most impacted by the recession will tend to lag the recovery. The current budget deficit projected for Fiscal Year 2010-11 is \$5.0 million and includes the \$1.6 million structural deficit that was filled by the use of reserves for the current fiscal year. This \$5.0 million deficit is the current target to structurally balance the budget. A more detailed analysis is included in Attachment 1.

### **BUDGET PRINCIPLES AND FISCAL YEAR 2010-11 BUDGET-BALANCING FRAMEWORK**

As described, the City is facing a currently projected \$5.0 million deficit for next fiscal year. The magnitude of this challenge is very significant because it follows several rounds of budget reductions since 2000. Many programs have already been reduced to the extent they cannot sustain additional reductions and continue to provide a reasonable level of service.

In the most fundamental of budget-balancing terminology, the gap must be adjusted by reducing expenditures and/or increasing revenues. Reducing expenditures will likely involve unfunding positions, potentially eliminating valued but nonessential services, and containing employee compensation and benefit costs. In the near term, revenue increases will involve higher fees and charges for City services; in the longer term it may involve asking Mountain View voters to approve new revenue streams. The policy challenge is addressing this substantial problem in a manner that protects public health and safety, continues to provide essential services, meets Federal, State or local mandates, maintains the substantial investment in facilities and infrastructure and, to the extent possible, is consistent with community values.

In previous discussions regarding the budget challenge, the Council expressed strong interest in making both short- and long-term budget decisions within a policy framework so that service reductions and revenue increases can be evaluated against a set of agreed-upon principles. One of the items developed during City Council goal setting last year was to: "Balance the budget now and in successive budget years with sustainable practices and budgetary principles going forward."

Attachment 2 contains the recommended budget principles to guide the budget development effort. At the Study Session, Council's comments and proposed

modifications to the proposed principles will be essential to help staff bring forward a series of specific budget reductions and revenue proposals later in the budget process.

After extensive consultation with department heads, a three-pronged framework to balance the Fiscal Year 2010-11 budget is recommended. The proposed approach consists of three interrelated elements: reductions in operating expenditures, revenue enhancement and employee compensation/benefit savings apportioned as follows:

- Operating Expense Reductions      \$3,500,000 to \$4,000,000
- Revenue Enhancements\*              \$ 500,000 to \$1,000,000
- Compensation/Benefit Savings      \$1,000,000

\*Achieved via new fees and fee increases.

The actual deficit is not known at this time and a range of \$5.0 million to \$6.0 million is presented to provide Council with some flexibility to adjust various components of this approach. As budget decisions are made, managing the balance among the three categories will be important. If, for example, the target for generating new revenues is not achieved, additional reductions in operating expenses or compensation will be needed to balance the budget. If employee organizations do not agree to compensation/benefit savings that achieve the suggested \$1.0 million target, additional department expenditure reductions or revenue increases must be implemented.

### **CATEGORIES OF CITY SERVICES**

One of the challenges of difficult budgets is to determine what services are most important to the well-being of the community. This is a challenging and subjective assessment as each community constituency, with the exception of fundamental health and safety programs, will likely define core services differently.

At the September Study Session, the City Council asked staff to see if there is a way to categorize or prioritize City services. Although a work-in-progress, Attachment 3 is an initial draft at categorizing City services. In reviewing the draft matrix, it should be recognized that categorizing services does not tell the whole story. While a service may be mandated, how that service is provided and the level of service provided is discretionary. Categorizing services does not measure how cost-effectively the service is provided. So, while cities provide many similar services, how they are provided and the cost of providing them can vary significantly.

What is most revealing in this preliminary analysis is the third column of the matrix that identifies the services Mountain View provides that other communities do not. While these are programs that make Mountain View a special place, they are not core services provided by the majority of municipalities in California.

City Council comments regarding service priorities and whether or not the information provided is sufficient will help focus additional staff effort.

### **COST RECOVERY/FEES FOR SERVICES**

A way to categorize various types of City services is if they are fully or partially fee supported to accomplish a level of cost recovery or if they are fully funded by general-purpose revenues. Deciding which services are to be funded by a level of cost recovery or not depends if the service provides a general benefit to the community as a whole or to certain beneficiaries. Staff is suggesting that as part of the Fiscal Year 2010-11 budget deliberations, that Council consider adopting a cost recovery/fee for service policy that will guide decisions now and in the future regarding when and how much to recover for various classifications of services. One of the three prongs proposed to balance the budget is to consider increasing the cost-recovery percentage for specific services. A survey of other municipalities has been undertaken to show that in many recreation service areas the City is well below the market in the fees charged. While specific fees are not presented in this report, an order-of-magnitude of what could be achieved if fees are increased is presented. See additional information in Attachment 4.

### **EMPLOYEE COMPENSATION AND BENEFIT POTENTIAL COST CONTAINMENT**

Mountain View is a service organization providing many direct services to the community. The cost of employees providing those services is the single largest component of the General Operating Fund budget. The Fiscal Year 2009-10 General Fund budget allocates over \$72.4 million for employee compensation and benefits, and those costs are projected to increase next fiscal year as a result of compensation adjustments and, more dramatically, continuing increases in medical premiums, PERS and other benefits.

A preliminary analysis of the components of the City's compensation and benefit costs has been done and some potential approaches to containing future increases have been developed. The preliminary analysis seems to indicate that Mountain View appears to provide a relatively high level of benefits compared to other cities surveyed. Examples include that the City pays on average 92.0 percent of total medical benefit premium costs and subsidizes life insurance coverage to a greater extent than other cities.

While there are potential strategies for containing compensation and benefit costs, it is important to emphasize that most changes require cooperation with the City's employee organizations for any short-term savings and/or meet and confer for longer-term strategies. If the City initiates a process with its employee organizations to develop an agreed-upon compensation cost-containment strategy for the short term, it is likely that the City's employees will propose other viable approaches worthy of Council consideration.

In deciding how to address compensation and benefits in the context of achieving a structurally balanced budget, the City Council could set a preliminary target (either as a percent savings or monetary target) to set the parameters for meeting with employee groups.

### **LONGER-TERM STRATEGIC INITIATIVES**

The nature of the City's structural budget forecast requires meeting the challenge of the next fiscal year, but also initiating actions to achieve a sustainable future by transforming the way services are financed and provided. Attachment 6 sets forth the potential elements of a longer-term transformational strategy. Major elements include alternative service-delivery approaches, structural compensation changes and asking Mountain View voters to approve new revenue streams. Given the long lead time on many of these concepts, preliminary policy discussion regarding these concepts will help develop a long-term implantation plan.

### **COMMUNITY INVOLVEMENT**

The City is actively providing information on the City's finances and budget using several outreach venues. In addition to providing information, staff needs direction from Council on what additional community involvement efforts are desired. These efforts can take the form of surveys (informal or scientific), focus groups, neighborhood meetings or more elaborate undertakings. Determining which mechanisms to employ depends on the goal for community involvement. Specifically, Council may wish to consider the following questions:

- What is the intended outcome to be achieved from a community involvement process?
- Does the Council wish to undertake a community consultation process within this budget cycle?
- What approach should be implemented?

See Attachment 7 for additional information.

### **EMPLOYEE SUGGESTIONS**

Last year, as part of the Fiscal Year 2009-10 budget development effort, all City employees were asked to submit their ideas to save money. Over 400 suggestions were submitted and many were implemented during the current fiscal year. Attachment 8 is an overview of those suggestions, highlighting ideas that could generate at least \$10,000 in revenue or reduce operating costs by the same amount. The wide-ranging suggestions include charging fees to rent City Hall and other facilities, new fees, compensation and benefit changes, equipment and departmental operational changes. In addition to ideas that are continuing to be considered for Fiscal Year 2010-11, there are others that while they have merit will take longer to either analyze and/or implement. Still other ideas did not present cost savings or potential for revenue increase.

### **NEXT STEPS (PROCESS/SCHEDULE)**

The next steps and process/schedule will be determined based on the directions provided by Council at this budget workshop. Staff requests direction on the following topics:

- Proposed principles.
- Three-pronged approach.
- Community involvement input.
- Service priority list.
- Compensation containment.
- Cost-recovery level.
- Longer-term initiatives.

Once staff receives this direction, staff will return to Council in February with a proposed process and schedule for a discussion of specific recommendations.

### **CONCLUSION**

The City is facing significant financial challenges in the years to come and this budget workshop is the continuation of the work to develop a structurally balanced budget for

Fiscal Year 2010-11 and maintain the fiscal health of the City for the years beyond. The structural deficit for next fiscal year is currently projected at \$5.0 million. This includes the \$1.6 million deficit that is being carried forward even after having reduced expenditures by \$4.0 million from the current fiscal year budget.

Staff is proposing guiding principles to be used for developing the Fiscal Year 2010-11 budget and an approach as to implementation strategy, as well as revenue and expenditure targets.

Many staff members have contributed to the development of the materials for this budget workshop but, in particular, I would like to thank the budget team of Nadine Levin, Assistant City Manager; Patty Kong, Finance and Administrative Services Director; and Cathy Lazarus, Public Works Director (retired) who developed many of the strategies, principles and philosophies as well as the document itself. They were assisted by other staff that contributed and include Jerry Burgess, Administrative Analyst; Regina Adams, Senior Planner; Duncan McKenzie, Senior Administrative Analyst; Suzy Niederhofer, Assistant Finance and Administrative Services Director; Helen Ansted, Principal Financial Analyst; and Kimberly Thomas, Assistant to the City Manager.

Staff and I look forward to reviewing this material with you and receiving your comments on January 26.

Prepared by:



Kevin C. Duggan  
City Manager

KCD/CRL/7/CAM  
950-01-26-10M-E^

Attachments

This Page Left Intentionally Blank