

Memorandum



City Manager's Office

Date: November 20, 2008

To: Mayor and Council

From: Charlie Meyer, City Manager

Subject: Budget Process

This memorandum provides the information needed for City Council to consider for your December 1, 2008 Budget Workshop. Information included:

- Budget Workshop Agenda ([attachment a](#))
- General Fund: Projected Revenue and Expenditures ([attachment b](#))
- Balanced Budget Worksheet ([attachment c](#))
- Balance Sheet Government Funds ([attachment d](#))
- Fund Balance/Net Assets Reservations and Designations ([attachment e](#))
- General Fund Salary and Benefits Worksheet ([attachment f](#))
- Reorganization Concepts ([attachment g](#))
- Other City Approaches ([attachment h](#))

This information is meant to assist City Council in making two key decisions.

The first decision involves a policy question. Staff is seeking City Council direction on a fiscal policy, which would require City staff to bring forward a five-year financial plan that is balanced in each of the five years. Presently, staff brings forward a one year balanced budget for only the upcoming fiscal year. By moving to a five-year period, it would likely place us in better standing with bond rating agencies, reduce unpredictable economic impacts to the city budget, and reduce employee angst due to economic uncertainty.

The second decision involves the reorganization concepts ([attachment g](#)). During the Budget Workshop, these concepts will be reviewed and discussed as a starting point for reorganization. Staff is seeking direction from City Council as to which concepts are worthy of further pursuit. Before commenting on the presented reorganization concepts, it is important to understand the history of what has occurred to make this process necessary. Here is a brief review of steps that have gotten us to this point in the process.

Background

In July, City Council approved the FY 2008/09 Annual Budget. The approved \$186.3 million General Fund operating budget included accounting for a projected \$12 million shortfall.

In August, staff presented to Council a number of unanticipated funding requirements totaling \$2.7 million. Council approved a funding plan for these unanticipated costs using contingency funds, vehicle replacement deferrals and instituting a “soft” hiring freeze.

In September, it became clear that shortfalls in FY 2008/09 revenue projections would result. July and August sales tax revenues were down by approximately 9%, creating a likely \$3-\$7 million budget deficit for FY2008/09. This equates to a reduction of 75 – 100 positions. Staff shared an action plan, including examining benefits, reorganizations and fiscal policy with Council to address this financial challenge. Two points emphasized: investigate a policy that would link city operating costs and workforce size with economic factors such as sales tax; and layoffs would be considered a last resort option.

In October, the nearly 800 cost savings ideas from employees were shared and discussed. Due to the continued economic downturn, a “hard” hiring freeze was instituted to save money and to start reducing staffing through natural attrition. Three Department Managers were tasked with developing ideas, using the 800 employee suggestions and other research. Two points emphasized: Council directed an open and transparent process and sought to strive for a “soft landing” in achieving fiscal sustainability.

In late October, it became increasingly clear that the city budget challenges due to the economic downturn would be a four to five year issue rather than a one year problem. It also became clearer that establishing a sustainable organization and workforce to provide superior city services and programs as efficiently as possible was necessary. Simply stated, the pressing budget challenges cannot be effectively addressed without a reduction in staffing and a reorganization to effectively provide services to our Tempe community.

Tasks at hand

Fiscal Policy:

A key question for the City Council at the Budget Workshop ([agenda - attachment a](#)) is direction on a change in fiscal policy that would require City staff to bring forward a five-year financial plan that is balanced in each of the five years.

General Fund: Projected Revenue and Expenditures ([attachment b](#)), page 106 of the approved Annual Budget, illustrates the challenge at hand. While Council approved a FY 2008/09 balanced budget, future year projections indicate significant shortfalls. Changing policy would allow staff to balance budgets over time.

To determine the impacts of balancing future budgets, the balanced budget worksheet would be used. The balanced budget worksheet ([attachment c](#)) now contains real numbers – our preliminary analysis of the five year forecast based on present economic conditions.

Preliminary analysis of an updated five year forecast indicates an even tighter and more difficult budget year for 2009-10. Analysis indicates a continued period of significantly lower revenues which will directly impact our ability to provide city services and programs. We are experiencing unprecedented financial conditions.

To begin the Budget Workshop discussion, the real numbers contained in the balanced budget worksheet, [attachment c](#), include the 104 positions identified for elimination in the reorganization concepts, an additional 75 eliminated positions, a continued hiring freeze, a three year pay and salary freeze in FY 2009/10, a possible reduction in pay beginning in FY 2009/10, significant individual department cost and expenditure reductions, a low estimate of an OPEB contribution and the use of \$24 million in reserve funds. These dramatic steps will balance the City's budget barring any further unforeseen economic occurrences.

In order to implement these reductions while still providing a “soft landing” it will be necessary to use all available fund balances. The Balance Sheet Government Funds ([attachment d](#)) is the preliminary balance sheet for June 30, 2008 which shows a General Fund unreserved balance at \$44,611,435. In line with our 25% policy, the \$47,821,044 in designated uses of fund balance is listed in Fund Balance/Net Assets Reservations and Designations ([attachment e](#)). We have planned to use all available funds from rainy day, compensated absences and retiree healthcare (OPEB) and apply them this budget balancing effort. Replenishing these funds will be very difficult.

The General Fund Salary and Benefit Worksheet ([attachment f](#)) appears simple on the surface and does operate simply. Salary and benefits values are inserted into the Balanced Budget worksheet that meet the General Fund reduction target. This salary and benefits value is then distributed among the four categories of the salaries and benefits listed on [attachment d](#). Some of those categories are determined by outside entities such as retirement and health insurance and those would be funded first. We then would work with our employee groups to distribute the balance.

During the Workshop, City Council, employee group representatives and department managers will examine some scenarios.

Reorganization Concepts:

Secondly, staff is seeking direction from City Council on the reorganization concepts worthy of further pursuit.

Approximately 80% of the City's General Fund budget is personal services (employees and associated benefits). To address current and predicted budget deficits, personal services must be considered.

The Reorganization Concepts document ([attachment g](#)) presents 87 concepts for consideration. In total, these concepts propose to eliminate 104 positions, reclassify 64 positions and move 89 positions from one department to another. Eliminating, reclassifying and/or moving positions would result in an \$8.9 million annual savings to the general fund budget. This equates to an approximate 4.8% reduction in personal services costs within the overall General Fund operating budget.

The purpose of the concepts is to achieve fiscal sustainability over a projected four to five year period. These concepts attempt to rely on natural attrition over time to achieve necessary reductions. If implemented, the concepts will allow us to achieve sustainability by reducing our workforce and realigning operations to best serve the Tempe community with available resources.

Two fundamental principles were used to develop these concepts:

1. Maintain and/or improve efficient public service delivery.
2. Respect for individuals, organizational cultures and missions of departments.

It is critically important to recognize that the meaning and intent of the reorganization concepts:

- Are based on many of the nearly 800 employee suggestions, discussion with Department Managers and analysis of our operations.
- Create a scenario of how our organization could be reorganized with significant operational reductions.
- Are intended to provide a platform for further discourse and a lead-in to further analysis that will eventually comprise a plan for reorganization that will yield long-term cost savings.
- Are intended to be refined through discussion with Department Managers, employee group representatives and ultimately the City Council.

While these concepts are a starting point, it is recognized that they do indeed identify some critical services, work groups and individuals. It is important to reiterate that layoffs remain the last resort. By balancing the budget over a four to five year period and implementing the reductions over approximately 24

months we minimize the risk of layoffs. However, work groups and individuals may be reassigned resulting in operational savings and efficiencies.

The intent of these concepts is to continue to provide superior city services and programs while accounting for a reduction in workforce. Department managers have reviewed these concepts and made comments about the impacts to city service delivery and work functions. This review resulted in asking difficult questions, examining the impacts of staffing reductions, and examining if city services could more efficiently and effectively be provided by a multi-departmental approach.

As you will read, a variety of concepts are under consideration. Department managers have commented on how these concepts would impact providing city services and programs. In the spirit of an open and forthright process, the comments are unedited, communicating positive and negative impacts to city services. Certainly, concepts that result in savings and have positive or minimal negative impacts would suggest further pursuit. Conversely, concepts that offer no savings and result in a negative impact would not suggest further pursuit. Again, these concepts are a starting point for reorganization discussions. Future discussions shall include employee groups, department managers and ultimately City Council. City Council direction is sought on these concepts.

We currently have 110 vacant positions comprised of 63 in the General Fund and 47 in enterprise funds. These positions are already reducing expenditures and are beginning to provide a pool of vacant positions for employees whose positions are identified for elimination, and who may relocate through a placement process.

Next Steps

These trying budget challenges will result in very difficult decisions and creates fear of the unknown. The approach described allows us to address the challenges openly and effectively with consideration of the employees affected. For your information are the cities of Mesa, Phoenix and Scottsdale budget approaches respectively ([attachment h](#)).

Our next step, based on Council direction, is to move forward on refining reorganization concepts. Through this refining effort, a reorganization plan would be developed and brought forward to Council for consideration in February. Subsequently and based on Council direction, the budgetary impacts of any reorganization would be incorporated in the FY 2009/10 budget process.

Summary

It is our intent to address the long-term financial stability and health of the City of Tempe organization, while preserving superior service delivery to our Tempe community.

As such, City staff seeks Council direction on the financial policy question and the reorganization concepts.