



Staff Report

TO: Mayor and City Council Members
FROM: Jeff Mohlenkamp, Finance Director
DATE May 5, 2020
SUBJECT: FY 2020-21 Budget Discussion

Background and Analysis:

On April 21, 2020, the City Council reviewed the initial estimates of the General Fund and Wastewater Fund budgets for FY 2020-21. City Council affirmed basic assumptions regarding the negative impacts of the COVID-19 pandemic that should be incorporated into the revenue projections and directed that appropriate budgeting adjustments be made to achieve a balanced budget. City Council also affirmed that existing unobligated revenue balances remain untouched due to the fact that the full effects of the COVID-19 pandemic are unknown.

Attached to this report is a draft balanced budget which provides the City Council an initial review of reductions and their impacts.

General Fund Budget Adjustments

The projected General Fund deficit presented to City Council on April 21, 2020, for FY 2020-21 was \$2.8 million. Since that time, staff refined budget assumptions and cost recovery estimates and have revised that projected deficit to \$2.6 million. Management has developed a package of both personnel cost reductions and operating cost reductions that eliminate the \$2.6 million projected deficit as follows:

- Personnel Cost reductions - \$ 1.6 million
- Operating Cost reductions - \$ 1.0 million
- Total Reductions \$ 2.6 million

Personnel Cost Reductions

Management's overall objective was to maintain existing service levels to the greatest extent possible at the maximum level possible while minimizing the need to implement significant furloughs and lay-offs. In order to achieve this objective, the following strategies are recommended:

- Hold position vacancies:
 - Full Time (6 FTE):
 - Police Officers (4),
 - Maintenance Workers (2), and
 - Part Time (7.5 PTE):
 - Lifeguards (all part-time/seasonal).

These vacancies provide estimated annual savings of approximately **\$934,000**. It should be noted that sustaining vacancies in the Police Department where 4 of 29 officer positions are vacant, is a short-term solution designed to keep costs low while the City evaluates the breadth and depth of this economic recession.

- Reduce wage increases – this entails reducing or freezing cost of living increases for staff – resulting in estimated savings of **\$239,000**,
- Build in a health cost savings factor. Typically, the health cost budget assumes that each employee uses the maximum possible allocation (including spouse and children). This adjustment budgets at the actual estimated cost based upon true usage of health care plus 10%. The budgeted cost adjustment from this change is approximately **\$416,000**. Note this does not produce any actual savings, but instead is a budget balancing tool, and
- Staff is currently eligible for a reimbursement of \$50 per month for health related costs (gym memberships, etc.). Similar to the health insurance costs above, Staff has determined the savings resulting from the percentage of staff that do not use this benefit. While not a true cost savings, this lowers this portion of the budget by **\$50,000**.

Total budgeted expense reductions from personnel cost adjustments is **\$1,639,000**. This provides for essentially a flat personnel budget for the General Fund.

Operating Cost Reductions

Each department reviewed its operating budget to identify reductions that could be completed with the least impact on service delivery. The City Manager placed an

emphasis on reductions that would not immediately degrade the ability to perform the existing duties and responsibilities. Reductions vary by department as each department head evaluated options carefully and made specific recommendations based upon their individual service delivery model.

Overall operating cost reductions are approximately 6.5% of the initial budget submission. The reductions total **\$923,000**.

While care has been taken to recommend reductions that will have the least impact on service delivery, it is impossible to make expense reductions at this level without incurring service reductions or delays. A high-level summary of the budget that demonstrates the impacts of expense reductions on the General Fund is included as Attachment A.

Operating cost reductions focus primarily on 4 major areas:

- **Reduction in use of contractual services** – this involves having staff perform some functions currently performed by outside contractors and the reduction of some service levels.
- **Reduction in plan check and inspection costs** – this represents a reduction in the need for outside parties to assist the City in performing inspections and plan checks related to development activity. Part of this reduction results from projected reduction in development activity. The other part of this is the City's intention to complete more of this work internally and rely less on outside vendors.
- **Reduction in utilities** – staff is projecting lower utility costs. This is driven by lower usage of facilities in the first quarter of FY 2021 and in estimated decreases in fuel costs.
- **Travel/ training** – staff has reduced training and travel and will rely almost exclusively on training that is provided online and cheaper alternatives.

A summary schedule for each department demonstrating the operating cost reductions is included as Attachment B.

The reductions made to personnel and operating costs are sufficient to address the projected budget deficit. If these reductions are completed, General Fund reserves will not be required to balance the budget.

Wastewater Fund Budget Adjustments

After further evaluation, Staff has adjusted expected sewer rate fees up from \$10.2 million to \$10.8 million. This is due to growth incurred during the second half of FY 2020 and growth (residential and commercial) expected during FY 2021. Due to this adjustment, staff has added in capital costs estimated at \$200,000 that had been deleted from the initial budget submission. This will allow for completion of the first phase of the Inflow and Infiltration Rehabilitation Project that has become necessary and is included as a project within the proposed capital improvement project budget.

The estimated transfer from development impact fees to support debt service payments has been reduced from \$700,000 to \$280,000. This is a positive development as programmed use of DIF for debt service has been significantly reduced.

A revised budget summary for the Wastewater Fund is included as Attachment C.

Fiscal Impact:

There is no fiscal impact associated with this item.

Recommended Action:

Review the revised budgets for the General Fund and the Wastewater Fund
Provide guidance to Staff regarding proposed budget reductions
Identify any changes required in the General Fund and Wastewater Fund budget prior to finalization.

Attachments:

- A. FY 2020-21 General Fund Summary – reflecting cost reductions
- B. FY 2020-21 General Fund – Department Summaries – reflecting cost reductions
- C. FY 2020-21 Wastewater Fund Summary - Adjusted