



Memorandum

TO: Mayor and City Council
FROM: John Walsh, City Administrator
Date: April 1, 2026

SUBJECT: General Fund Service Reduction Options and Budget Balancing Strategy

BACKGROUND

The City is experiencing a structural imbalance in the General Fund. Of the \$12.2 million in General Fund revenue, approximately \$2.2 million is derived from property taxes, while the remaining \$10 million comes from other sources, including state-shared revenues, franchise fees, licenses and permits, transfers, and other revenues.

Property tax growth is limited to approximately 3 percent annually, while personnel costs and inflation continue to rise at a higher rate. As a result, revenues are not keeping pace with expenditures, creating an ongoing deficit.

The General Fund supports essential City services, including Police, Finance, Library, Parks, Administration, Municipal Court, Planning, Building, and other core functions. Unlike enterprise funds (Water, Sewer, and Storm), the General Fund does not have the ability to adjust rates to meet service demands.

The City has already implemented cost-saving measures, including holding vacant positions open, freezing pay increases, and reducing operational expenses. Staffing has been reduced from 85 employees in FY2022 to 73 currently (approximately 20 percent reduction), and departments are operating at near-minimum service levels.

CURRENT SITUATION

On March 3, staff were notified of the City's intent to implement furloughs and potential layoffs to maintain General Fund solvency. The initial proposal included reducing non-sworn General Fund employees from 40 hours per week to 32 hours per week (a 20 percent reduction in pay). Both bargaining units have requested to bargain these impacts.

The Council has referred a General Services Fee to the May 19, 2026 ballot. While approval of the proposed \$24 fee would provide additional revenue and improve financial stability, it will not fully eliminate the need for service reductions.

ISSUE

The City must adopt a strategy to balance the General Fund budget while maintaining critical services. Without action, the City will be unable to sustain current service levels.

OPTIONS

All options begin with reductions in non-essential spending (materials, supplies, and discretionary expenses). The primary policy decision is how to prioritize personnel and program reductions.

Option 1: Furloughs First (Maintain Services)

- Furlough all non-sworn General Fund employees (up to 20% reduction in pay)
- Use layoffs only if necessary

Option 2: Layoffs First (Maintain Core Services)

- Implement layoffs prior to furloughs
- Reduce staffing consistent with collective bargaining agreements

Option 3: Program Reductions

- Suspend or significantly reduce non-essential programs
- Potential impacts to Library, Recreation, and Parks services

Each option results in varying levels of service reduction and organizational impact.

RECOMMENDATION AND STAFF CONSIDERATIONS

Staff recommends a balanced, phased approach to addressing the General Fund deficit that maintains core services while distributing impacts more equitably across the organization. The City's most important asset is its employees. A full 20 percent pay reduction through furloughs places a significant burden on staff and does not reflect the value of their contributions. The current financial situation is not the result of staff performance; most departments are operating at or below budget, and many cost pressures including legal expenses, operational transitions, and external factors are outside of staff control. This is fundamentally a revenue issue.

To balance fiscal responsibility with workforce impacts, staff recommend a blended strategy that:

- Implements reduced furloughs (approximately 10 percent reduction in pay)
- Achieves remaining savings through targeted layoffs, consistent with bargaining agreements
- Continues reductions in non-essential spending

This approach allows the City to meet its legal obligation to adopt a balanced budget while preserving core services, maintaining institutional knowledge, and reducing long-term impacts to morale and retention.

This strategy should remain adaptive. If the May 19 General Services Fee is approved, impacts to both staffing and compensation can be reduced. If revenues fall short, additional reductions—including further layoffs or program changes may be necessary.

Staff request Council direction on this recommended approach and the preferred balance between furloughs, layoffs, and service reductions.

FINANCIAL IMPACT

The City is legally required to adopt a balanced budget. The recommended approach provides a pathway to achieve necessary cost savings while maintaining essential services. Approval of the General Services Fee would reduce, but not eliminate, the need for service reductions.

PROPOSED MOTION

“I move that the City Council direct staff to implement a balanced approach to General Fund reductions, including reduced furloughs of approximately 10 percent, targeted layoffs consistent with collective bargaining agreements, and continued reductions in non-essential spending, in order to achieve a balanced budget.”