



San Rafael

Agenda Item No: 11

Meeting Date: April 18, 2011

SAN RAFAEL CITY COUNCIL AGENDA REPORT

Department: Finance

**Prepared by: Cindy Mosser, /s/ CM
Finance Director**

City Manager Approval: /s/ NM

SUBJECT: DISCUSSION UPDATE OF THE PRELIMINARY CITY BUDGET FOR FISCAL YEAR 2011-2012

RECOMMENDATION: ACCEPT REPORT

BACKGROUND:

As has been the tradition in San Rafael for many years, the City Council is asked to begin the review of the major elements contained in the 2011-12 preliminary budget. Integrated into the budget development are the City's Financial Management Policies. Fifteen prudent practices related to managing the City's human, financial and infrastructure assets are in place to ensure long-term, sound fiscal management for San Rafael.

As our fiscal sustainability journey continues, we are facing a long-term structural budget gap between revenues and expenditures for the foreseeable future unless corrective action is taken. Simply put, the primary reason for the budget gap is that revenue available to operate the City has dropped significantly, while expenditures have continued to increase. The national and state economies have experienced their greatest downturn since the Great Depression. While the "Great Recession" has been officially declared over, there is much uncertainty about when the recovery will begin. Unemployment remains high and economists are predicting that the recovery will be long and slow.

On March 21, we presented the City Council a very preliminary budget update which contained gaps due to the timing of information received. This report will provide the City Council and community with update on our budget progress for fiscal year 2011-2012 since the March 21st report. All departments have reviewed and updated their preliminary revenues and expenditures budgets.

The numbers contained in this report represent a high level view of the City's preliminary expenses and financial condition.

Below is an analysis of the preliminary 2011-2012 budget.

FOR CITY CLERK ONLY

File No.: _____

Council Meeting: _____

Disposition: _____

ANALYSIS:

REVENUE ASSUMPTIONS:

Our preliminary revenue estimates do not include most of the rumored “take-aways” from the State’s budget woes. The Governor’s office is expected to present a revised budget for the next fiscal year on May 13. Governor Brown has indicated that he will unveil an “all cuts” budget that will slash billions. Since my crystal ball is broken, we will bring adjustments back to the Council, if the State’s budget eliminates or reduces Literacy funds, Public Library funds, and Child Care funds. The elimination of Redevelopment Agencies would not only impact Redevelopment staffing but also City staffing covered by Redevelopment funds for project administration and Code Enforcement. There are other proposals such as “realigning” State programs to local governments with the impact as yet unknown. It is too early to tell how the State’s deficit will impact our budget, but it will become clearer in the coming months as the City’s budget is assembled.

Revenues for services also have not been adjusted. Currently, a cost study is in process and will be brought to the Council within the next month. The study will allow the City to fully recover certain cost borne by the staff for development services and inspections.

Fourth quarter 2010 results of our sales tax revenue appears on target. Therefore, our 6.3 percent sales tax projection increase of \$700,000 keeps our sales tax component from the State Board of Equalization projection at \$11.7 million. The estimated backfill amount is projected to be \$3.7 million for total sales tax projection of \$15.4 million.

Notable revenues changes since March 21 are presented below:

- ✓ Paramedic Tax: In November of 2010, the citizens of San Rafael passed Measure I which raised the tax rate cap to \$108 per residential living units and \$0.14 per non-residential building square footage. To cover the proposed costs of Emergency Medical Services for fiscal year 2011-12, we are proposing to raise the rates to \$89 per residential living unit and to \$.12 per square foot for non-residential buildings. We will bring to this action to the Council at a later date. This action results in a \$4 per year increase per household in the areas served by our Paramedics. Similar measures for CSA #13, CSA #19, and Marinwood did not pass in November 2010. Their rates have to remain at the tax rate cap of \$85 per residential living unit and \$0.11 per non-residential building square footage for fiscal year 2011-12 and beyond until a measure is passed to increase the tax rate caps. For fiscal year 2011-12, we have included \$20,500 interagency revenue to be invoiced to the County to cover the shortfall.
- ✓ We have adjusted departmental revenues such as Fire Prevention fees-decrease (\$122,000); business license revenues-decrease (\$43,000) and garage revenue-increase \$65,000 for our Parking Fund.

EXPENDITURES ASSUMPTIONS:

Several key elements have been included in building the “expense” side of the budget for the next year. Since the last report dated March 21, 2011, the following items have been adjusted or incorporated into the preliminary appropriations:

- The breakdown for the pension rates for the various bargaining groups (Miscellaneous, Safety-Police, and Safety-Fire) were approved on April 13 by the Marin County Employees’ Retirement Association Board. Each group has been adjusted accordingly.

The overall blended rate for the City is 50.01%. The rates for the Miscellaneous bargaining group had the largest increase of 16.8% to a contribution rate of 40.78%. The contribution rate for Police Safety increased 2.05% to a contribution rate of 53.76%. The Fire Safety group had a slight decrease of 0.2% to a contribution rate of 68.77%. The overall change decreased our retirement calculations by approximately \$75,000.

- The internal service funds for Workers Compensation, Liability, Equipment, and Telephone have been adjusted for an approximate increase of \$580,000. The majority of that increase was for the Equipment Replacement Fund which has been deferred for the last two years.

With these updated revenues and expenditure projections, our updated preliminary estimate for fiscal year 2011-12 continues to indicate a deficit of \$4.4 million in the General Fund. Currently, every department is tasked with a budget cutting or revenue enhancing exercise to look at ways to reduce the deficit. The City Manager, Assistant City Manager, and Finance Director will be meeting each department in the next two weeks to review and present the suggestions to the Council at a May 2 study session. In addition, staff is engaged in labor negotiations with all bargaining units. All labor contracts (except Childcare) will expire on June 30, 2011. Cost savings that can be achieved through the negotiation process, such as reductions to pension or other costs, would have a direct positive impact on the General Fund.

The table presented below represents the City’s Appropriations without one-time reductions like furloughs or transfers like pension transfers to the General fund.

CITY OF SAN RAFAEL
FISCAL YEAR 2011-2012

PRELIMINARY BUDGET FIGURES	FY 2011-2012 Preliminary Budget
Total City Budget	\$82,042,620
Less: Capital and Special Project	(190,270)
Total Operating Budget	81,852,350
Less: Restricted Funds (Gas Tax, etc.)	(25,987,440)
General Fund Operating Budget	55,864,910
Add: General Fund Program Support	2,003,720
Add: General Fund Projects	0
Total General Fund Appropriation	\$57,868,630

Unfortunately, this preliminary budget would topple over since overall revenues netted with transfers to reserves for the General Fund totals \$53.4 million. The General Fund reserve is estimated to be 3.3% or approximately \$1.83 million at the end of fiscal year 2011-2012. This amount continues to be well below the 10 percent goal in our approved financial policies.

FISCAL IMPACT:

There is no fiscal impact of accepting this informational report.

ACTION REQUIRED:

Staff recommends Council accept this informational report and provide any direction regarding the preliminary budget projections.