# 2007-2008 Budget Message



## CITY OF SAUSALITO FY 2007-08 Budget Message

#### **RECOMMENDED MOTION:**

Staff recommends that the City Council take public testimony; adopt FY 2007-08 Budget; adopt resolutions 1) to approve budget; 2) establishing appropriation limit for fiscal year 2007-08 pursuant to Article XIII B of the California Constitution; 3) establishing authorized staffing levels and salary ranges for all permanent and temporary positions for FY 2007-08.

#### **BUDGET OVERVIEW:**

We are pleased to present for the City Council's consideration the draft FY 2007-08 Budget. Staff is recommending \$20,007,324 in expenditure in all funds which includes \$12,384,397 in General Fund expenditures and \$2,295,397 in Capital Project funding (excluding Public Safety Buildings).

The City has continued to chart an extended conservative fiscal course over the past several years following successive budget reductions. In 2006-07 the City continued moderate growth in property tax and transient occupancy tax, as well as in business license tax as a result of discovery efforts. Staff anticipates that measured revenue growth will continue in FY 2007-08.

Sales tax is expected to increase by \$85,582 which demonstrates continued recovery from the steep decline in post 9/11, but still below the peak revenues of the late 1990's. The City's sales tax consultant believes that Sausalito's sales tax has stabilized at a new "normative" level and that recovery to the levels of the late 1990's are unlikely to occur.

Property tax continues to be the City's largest and most stable revenue source, averaging 7.24% in annual growth over the last 8 years. Growth for FY 2007-08 is projected at 5% due to the current softening of the real estate market.

General Fund revenues for FY 2007-08 are projected at \$12,572,666, which is \$506,186 higher than the current FY 2006-07 adjusted budget. Most of the increase is due to projected growth of \$220,000 in property tax, a one-time transfer from the Parking Reserve Fund of \$200,000 (in addition to the regular \$700,000 transfer budgeted), and a change in Planning Department revenue of \$186,000. The increase in projected Planning Department revenue is mostly due to the City Council's decision to switch from a full-cost recovery to a flat fees structure for new planning projects. The

expenditures for Planning Department projected for FY 2007-08 also show an increase to reflect the flat fees structure. Under full-cost recovery, the outside consultants fees are directly passed through to applicants and are not recorded in the Planning Department operating expense budget. With the flat fees structure, all expenditures must be budgeted in the department.

The proposed FY 2007-08 General Fund Expenditure Budget of \$12,384,397 is a \$324,851 increase from the adjusted FY 2006-07 Budget. The Police Department's \$3,563,402 budget is the City's largest General Fund expenditure, representing 29% of the total budget.

The Police Department's FY 2007-08 budget represents a .07% increase over prior year spending. It should be noted that FY 2006-07 budget included a one-time \$125,000 workers compensation payment, meaning the adjusted net change in the budget is a 3.7% increase. Significant changes to the budget include a \$43,421 increase in allocated workers compensation costs; \$40,767 increase in PERS costs (due to a 2.71% increase in rates pursuant to the actuarial study); a \$12,731 increase in technical services largely related to support for the new records management system; a \$15,814 increase in contracted dispatch services; and a projected \$8,000 increase in gasoline costs.

The Fire Department Budget of \$2,695,005 is \$88,345 (3.7%) above the FY 2006-07 budget. Overtime expenditures has jumped significantly during FY 2006-07 due to ongoing injuries (both workers compensation and non-work related) and the reduction in staffing levels in the adopted 2006-07 budget. The overtime budget for FY 2007-08 is set at \$150,000. A supplemental request of a \$50,000 increase in overtime budget for FY 2007-08 will be reviewed at mid-year. The City will be relying heavily on Southern Marin Fire Protection District to actively manage the overtime budget and to implement the City Modified Duty/Return to Work Program. The proposed budget anticipates the continued contractual consolidation of the City's fire protection services with the Southern Marin Fire Protection District.

The Department of Public Works budget totals \$1,237,536, an increase of \$23,109 over the prior year. Most of the increase is due to salary and benefit costs. The department proposes a \$5,000 appropriation for energy conservation improvements.

The Planning and Building Divisions of the Community Development Department Budget of \$899,800 have increased 13%, reflecting the change from full-cost recovery to flat fees structure, the hiring of an additional Associate Planner of \$85,000, and an increase of \$20,000 for contract plan check services for Building Division.

The Administration Budget of \$979,259 has decreased 12%. The net change after considering one-time expenses of recruiting a new City Manager and the transfer of legal services from the Administration Department to Non-Department is an increase of 5%. The increase is in salary and benefits due to the hiring of a full-time office aide to replace two part-time positions. The Non-Department costs are \$134,238 (20%) above

the FY2006-07 budget largely due to the transfer of legal services from the Administration Department and the increase of \$30,000 in projected legal services costs.

The Library Department Budget has decreased .5%. In FY 2006-07, the Librarian II position was reinstated. For FY 2007-08 and thereafter, Library Department will no longer receive the \$50,000 funding from Friends of Library to supplement the book budget. To maintain the same spending on books, General Fund will be making the contribution.

The Recreation Department Budget has decreased \$4% due to salary savings. The revenue for FY 2007-08 is projected to be \$800 less than FY 2006-07.

#### **FUTURE BUDGET OUTLOOK**

The City's future budget outlook is stable but continues to require fiscal prudence. Fixed employee costs for health care are expected to continue to rise in excess of inflation rates. An initial actuarial study to determine the City's unfunded liabilities for retiree health benefits pursuant to the new GASB 45 requirements has identified a need for the City to budget \$150,000 additionally each year for the next 45 years, in addition to pay-as-you-go, to pay off a \$3.2 million unfunded liabilities as of July 1, 2006. The results of this study will be presented to the City's various bargaining groups for dialogue on cost containment strategies.

The proposed budget does not include any adjustments to the compensation levels for employees which are pending the conclusion of labor negotiations for FY 2007-08. Those adjustments will, as is typical, be made after the conclusion of labor negotiations as part of the mid-year budget review. The City is committed to remain competitive within our primary labor market (Marin County) and, thus, retain and attract qualified personnel.

The City's workforce remains the key cost center for the budget. It will remain necessary for the foreseeable future to control the number of staff positions. The City should continue to explore productivity enhancements---including automation solutions and, as necessary, use of contracted services, to maintain desired service levels to the public.

While progress has been made in building reserves and setting aside capital improvement dollars in the past three years, the table below demonstrates that a sustained effort will be required over an extended number of years to build reserves to the desired levels. The table shows the additional needed reserves for capital and operational purposes as compared to the actual reserve balances as of March 31, 2007. The last column identifies contributions to these funds proposed in the FY 2007-08 budget. It is prudent that the City follows the adopted policy of placing one-time revenue into capital improvements.

#### **RESERVE FUND SHORTFALLS**

#### In 2007 Dollars

	Projected Costs @ 6/30/2007	Reserve Bal. @ <u>3/31/2007</u>	% <u>Funded</u>	Balance <u>Reguired</u>	Proposed FY 2007-08 Contribution
Storm Drains	7,850,550	54,000	0.7%	7,796,550	21,500
Non-Safety Building & Waterfront	32,469,180	2,200,000	6.8%	30,269,180	452,321
Parks & Recreation Facilities	6,576,840	290,000	4.4%	6,286,840	-
Total General CIP	46,896,570	2,544,000	5.4%	44,352,570	473,821
Employee Leave Benefits	700,000	278,000	39.7%	422,000	54,000
GASB 45 Retiree Health Benefits	3,200,000	50,000	1.6%	3,150,000	150,000
Unfunded Pension Liabilities Undesig. General Fund Reserve (5% of GF Exp.)	5,000,000		0.0%	5,000,000	-
	614,729	100,000	16.3%	514,729	-
Accrued Salaries & Benefits (1 pay period)	255,000	-	0.0%	255,000	-
Total Operations	9,769,729	428,000	4.4%	9,341,729	150,000
Total Shortfall	56,666,299	2,972,000	5.2%	53,694,299	623,821

#### **ACCOMPLISHMENTS IN FY 2006-07**

The past year has been one of both significant challenges and accomplishment for the City of Sausalito. Consistent progress has been made in addressing the City Council's strategic plan objectives.

## GOAL: Enhance the economic base and improve the City's revenue

- ✓ Implemented two Pay-Per-Space equipment at Parking Lot to optimize revenues and reduce staff costs
- ✓ Entered into two collection agreements to improve delinquent accounts collection
- ✓ Improved business license compliance in the City

- ✓ Entered into a new lease with Dell Computer through the County program for computer replacement
- ✓ Sponsored with the Sausalito Chamber of Commerce the 2007 Amgen Tour of California Stage I to promote City
- ✓ Implemented Modified Duty/Return to Work Program for work-related injuries
- ✓ Implemented an expedited plan check process
- ✓ Adopted a flat fees structure for planning review
- ✓ Continued the business vision process for future of the community
- ✓ Implemented finance charge for late payments of City invoices

## GOAL: Improve the City's infrastructure with emphasis on public safety facilities

- ✓ Hired new architect to complete the design and LEED certification for the public safety buildings
- ✓ Issued \$15.5 million General Obligation bonds to fund the construction of public safety buildings
- ✓ Prepared a 10-year Capital Improvements Program
- ✓ Completed the construction of the MLK field house with financial support from the Sausalito Rotary Club

### GOAL: Enhance Communication and community outreach

- ✓ Redesign of City's website
- ✓ Continued to expand the use of "In the Loop", the City's email-based notification system for informing citizens

## GOAL: Attract, develop and retain talented, energetic and visionary staff

- ✓ Brought management team salary to Marin County median
- ✓ Started the succession planning for city department

#### **GOAL:** Enhance customer service

- ✓ Started the establishment of the customer service team
- ✓ Recommended a full-time Administrative Aide at the Administration Department

#### **SUMMARY**

The City's Operating and Capital Improvements budget that has been developed for FY 2007-08 will provide for high quality services and programs within available resources. Staff recommends the adoption of the proposed budget as submitted.

Respectfully submitted,

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Finance Director/Treasurer

Scott Paulin

City Manager/Pro Tem