



DATE: January 26, 2011
TO: Honorable Mayor and City Councilmembers
FROM: City Manager's Office
SUBJECT: **UPDATE ON CITY'S FINANCIAL FORECAST AND PRESENTATION
OF FY 2011-12 BUDGET OUTLOOK AND DIRECTION TO STAFF**

SYNOPSIS

Staff recommends the City Council consider the update to the City's Financial Forecast and FY 2011-2012 Budget Outlook and provide direction to staff.

BACKGROUND

Over the past few years, staff has prepared a General Fund Financial Forecast. The financial forecast looks forward at the City's General Fund revenues and expenditures. It is important to stress that the financial forecast is not a budget, nor is it a proposed financial plan for achieving Council objectives. The purpose of the financial plan is to identify financial trends, shortfalls and issues, so the City can proactively address concerns and take corrective measures.

The City has also used the forecast in conjunction with the annual budget process to implement corrective measures to reduce the City's costs. Since the FY 08-09 budget, over 70 General Fund positions have been eliminated and the City has seen a significant reduction in both revenues and expenditures. Even with the prior efforts, the City continues to be in a structural deficit position; costs exceed revenues and additional cost-saving measures will be necessary to address the FY 2011-2012 budget.

ANALYSIS

Financial Forecast

Although economic indicators are showing signs of recovery at the National level, the ongoing impact of the recession to the State and local agencies is continuing. The primary sources of local revenues, property and sales taxes, appear to have stabilized and are showing signs of slowly growing. However, local revenues are not keeping pace with the continuing increase in City expenditures. Even with the cost and staffing reductions over the past few years, the City's costs for health insurance, retirement and similar employee-related benefits continue to increase.

The following table is a summary of the City's General Fund financial forecast for the next three years. A more detailed graph is attached as Exhibit 1:

Table 1

<u>Adopted Budget</u>	<u>FY 10-11</u>	<u>FY 11-12</u>	<u>FY12-13</u>	<u>FY 13-14</u>
Revenues	\$113,275,000	\$112,410,000	\$112,901,000	\$113,900,000
Expenditures	\$113,275,000	\$116,003,000	\$118,499,000	\$121,043,000
Shortfall	N/A	\$3.6m	\$5.6m	\$7.1m

Although the financial forecast continues to show ongoing deficits, the Council's prior actions have dramatically reduced the City's costs and the amount of those deficits. As a result of the financial forecast prepared two years ago, the City systematically addressed and corrected deficits that were projected in FY 11-12 to be well over \$9 million. The City's systematic approach in dealing with these unprecedented economic conditions, although somewhat successful, have clearly not resolved the ongoing structural deficit problem.

The most significant impact to the City's expenditures is a result of updated PERS increases due to PERS investment losses, and the City's costs for employee health insurance. Currently, all employees, depending on bargaining unit, are paying all or a portion of their retirement costs. The Council's stated goal was to have all employees pay the entire employee share of their PERS costs within the next 2 years. This action has and will continue to reduce the City's costs. However, as a result of PERS investment losses, the City's overall pension costs are expected to rise over the next few years.

For FY 10-11, the City's General Fund wage and benefit costs are approximately \$75 million and the financial forecast shows a trending increase in those costs over the next several years. The following table is a summary of the wage and benefit costs for public safety and miscellaneous employee groups:

Table 2

<u>Bargaining Group</u>	<u>Wages</u>	<u>Benefits</u>	<u>FTE</u>	<u>Total</u>
Public Safety	\$28M	\$15M (54%wages)	325	\$43M
Miscellaneous	\$23M	\$ 9M (39% wages)	364	\$32M

A more detailed table of the personnel costs by each Bargaining Unit is attached as Exhibit 2. These charts do not take into account any additional employee PERS contributions that have been recently approved by the Council and the Bargaining Units.

Budget Impact

Based on the financial forecast, the City's FY 11-12 budget is facing a \$3.6 million shortfall. Depending on State budget impacts, actual revenue receipts and potential bargaining unit impacts, the amount may fluctuate as the City begins the budget preparation process. However, it is apparent that additional reductions will be necessary to balance revenues with expenditures.

There are several key revenue sources that are trending below projected levels. Staff is in the process of addressing those sources which may impact the FY 11-12 budget. The revenue shortfall includes the following sources and may amount to approximately \$1 million:

- Golf Course
- Supplemental Law enforcement and POST funding
- Red light and other traffic fines
- Reduction in portfolio earnings
- Development service fees

The Council's prior direction in regards to budget reductions has been to systematically reduce all programs with the goal to not eliminate any program. Those systematic reductions have resulted in reduced services; however, the communitywide impact of those reduced services has been minimal. Over the past several budget cycles, the Council stressed the importance of all the programs and services provided to the community. The direction to staff in addressing the City's deficit and to not completely eliminate any program or service was clear.

The City is now at the point where we can no longer reduce expenses incrementally across the board without severely jeopardizing service delivery. Consequently, the Council will need to consider the option of full-scale elimination of nonessential programs and services.

The City's adopted General Fund Budget for FY 2010-11 is approximately \$113 million which includes \$94 million in Personnel and Maintenance and Operations costs. The Personnel and Maintenance and Operations costs are projected to increase to \$98.1 million for FY 2011-12. A comprehensive listing of the City's various General Fund programs, and the FY 2010-11 cost and revenue associated with each of those programs is attached as Exhibit 3. The Program Costs and Revenues are meant to be a reference for the Council to use as a basis for consideration and for the Council to provide direction to staff in regards to whether the Council will support the elimination, or potential outsourcing of City programs and services.

As part of the January 26, 2011, Council agenda, staff is recommending initiating an independent management review of City services, similar to the Matrix study that was completed for Development Services, to determine if there are additional opportunities for efficiencies, consolidations and/or potential outsourcing of programs and services.

The goal is to complete the review by April 2011 in order for the Council to review, consider and potentially implement any cost-saving measures as part of the budget process.

FISCAL IMPACT

This item is for Council consideration and direction in order to address the fiscal impact associated with the preparation of the FY 2011-2012 budget.

COMMISSION OR COMMITTEE REPORT

Does not apply.

CITY ATTORNEY'S ANALYSIS

Does not apply.

RECOMMENDATION

Staff recommends the City Council consider the update to the City's Financial Forecast and FY 2011-2012 Budget Outlook and provide direction to staff.

PREPARED AND SUBMITTED BY:



Peter A. Weiss
City Manager

REVIEWED BY:

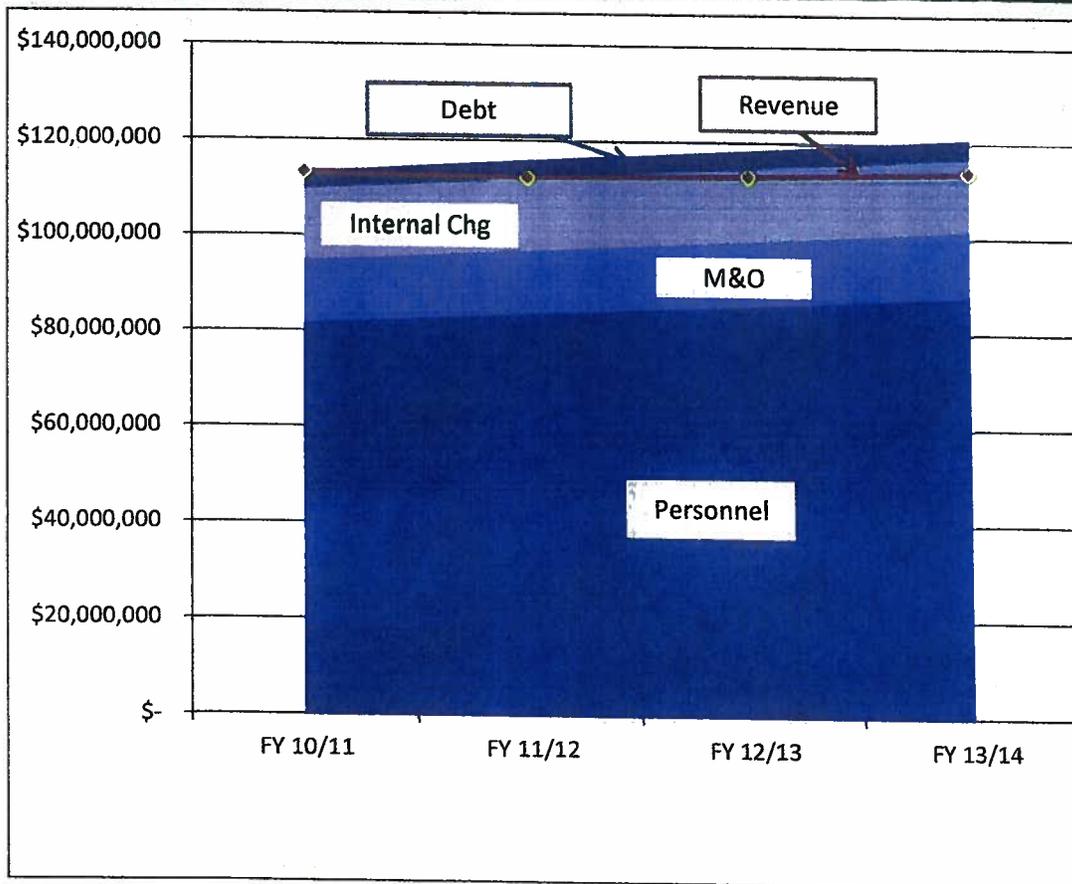
Michelle Skaggs Lawrence, Deputy City Manager

Teri Ferro, Financial Services Director


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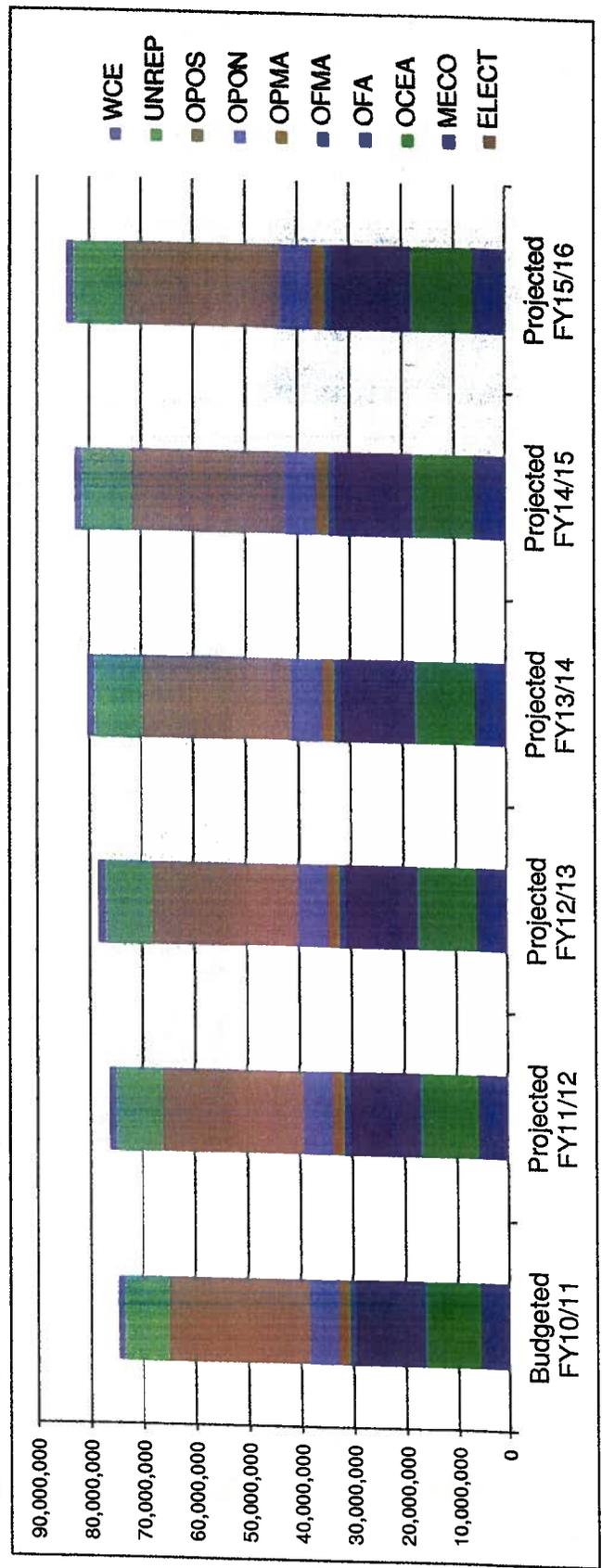
City of Oceanside General Fund Financial Forecast Revenue & Expenditure Comparison Graph

	Adopted Budget FY 10/11	PROJECTED Year 1 FY 11/12	PROJECTED Year 2 FY 12/13	PROJECTED Year 3 FY 13/14
A) Revenues	113,274,911	112,409,800	112,900,900	113,851,200
B) Personnel	81,609,605	83,591,600	85,719,500	87,889,400
C) M & O	13,269,055	13,481,400	13,697,100	13,916,300
F) Internal Chg/Trnsf	14,987,812	15,137,700	15,289,999	15,444,700
E) Debt	3,408,485	3,792,100	3,792,100	3,792,100
Expenses (total)	113,274,957	116,002,800	118,498,700	121,042,500
Deficit	(46)	(3,593,000)	(5,597,800)	(7,191,300)



**City of Oceanside
Budgeted and Projected Personnel Costs
GENERAL FUND**

Barg Unit	Budgeted FY10/11	Projected FY11/12	Projected FY12/13	Projected FY13/14	Projected FY14/15	Projected FY15/16
ELECT	407,000	400,100	410,200	419,700	430,900	441,500
MECO	5,161,900	5,323,500	5,445,200	5,533,900	5,640,100	5,710,200
OCEA	10,772,400	11,219,700	11,503,600	11,737,900	12,011,800	12,200,400
OFA	13,077,300	13,352,400	13,611,800	14,051,600	14,580,200	14,989,700
OFMA	1,288,800	1,223,900	1,242,200	1,298,300	1,363,300	1,374,700
OPMA	2,153,000	2,228,200	2,264,300	2,365,800	2,483,300	2,586,000
OPON	5,497,700	5,617,200	5,764,500	5,876,700	6,008,900	6,107,400
OPOS	26,501,300	26,630,900	27,595,800	28,344,500	29,273,100	29,855,500
UNREP	8,759,300	9,029,400	9,186,000	9,431,100	9,710,000	9,951,000
WCE	1,212,100	1,252,800	1,272,400	1,286,400	1,304,000	1,317,700
Grand Total	74,830,800	76,278,100	78,296,000	80,345,900	82,805,600	84,534,100



2010-2011 General Fund Program Costs

Department/Program	Direct Revenue	Expenditures
<u>City Council</u>		<u>664,000</u>
Council		294,000
Council Aides		370,000
<u>City Treasurer</u>	<u>73,000</u>	<u>280,000</u>
<u>City Clerk</u>	<u>6,400</u>	<u>921,000</u>
Document Imaging		79,000
Elections		139,000
Leg. Services		516,000
Records Mgmt		187,000
<u>City Manager</u>		<u>5,173,000</u>
Management Services		510,000
I.T.		3,471,000
KOCT		350,000
Chamber of Commerce		54,000
Humane Society		788,000
<u>City Attorney</u>		<u>1,400,000</u>
<u>Development Services</u>	<u>2,154,000</u>	<u>4,242,000</u>
Building Inspections	700,000	844,000
Engineering Inspections	352,000	478,000
Engineering Subdivision	315,000	740,000
Plan Check/Counter	319,000	728,000
Planning	468,000	1,070,000
Transportation		570,000
<u>Library</u>		<u>3,201,000</u>
Book Mobile		46,000
Computer Center		16,000
Support Services		932,000
Administration		808,000
Literacy		51,000
Mission Branch		497,000
Adult Services		487,000
Youth Services		364,000
<u>Economic Development</u>		<u>328,000</u>
<u>Property Management</u>		<u>765,000</u>
<u>Human Resources</u>		<u>738,000</u>

2010-2011 General Fund Program Costs

<u>Fire Department</u>	<u>609,000</u>	<u>21,412,000</u>
Fire Prevention	122,000	835,000
Fire Suppression	266,000	16,008,000
Fire Training		436,000
Lifeguard	17,000	1,154,000
Jr. Lifeguard	204,000	309,000
Administration		1,836,000
Dispatch		834,000
<u>Police Department</u>	<u>3,492,000</u>	<u>44,261,000</u>
Field Ops	978,000	24,806,000
Harbor PD	1,649,000	1,644,000
Investigations		8,722,000
Administration		5,541,000
Communications		2,683,000
Traffic Services	865,000	865,000
<u>Public Works</u>	<u>4,400,900</u>	<u>12,157,000</u>
Anti-graffiti		215,000
Beach Maintenance		525,000
Building Maintenance		2,131,000
Flood Control	900,900	900,900
Harbor and Beaches Administration	1,400,000	1,400,000
Harbor and Beaches Maintenance	2,100,000	2,100,000
Park Maintenance		1,920,000
Parking lot Maintenance		881,000
Pier Maintenance		238,000
Administration		226,000
Street Light		445,000
Street Tree		145,000
Traffic Control		1,030,000
<u>Finance</u>		<u>4,108,000</u>
Accounting		1,138,000
Business Services		1,506,000
Administration		310,000
Revenue		1,154,000
<u>Neighborhood Services</u>	<u>1,003,000</u>	<u>4,526,000</u>
Senior Taxi		54,000
P&R Administration		827,000
Special Events		109,000
Recreation Centers		544,000
Country Club Senior Center		229,000
El Corazon Senior Center		283,000
Brooks/Marshall Pool	150,000	720,000
Recreation Programs	277,000	277,000
Resource Centers		356,000
Code Enforcement	576,000	1,127,000