



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: January 8, 2009

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Fiscal Year 2010 Budget Work Session

RECOMMENDATION:

That Council hold a work session on the Fiscal Year 2010 budget.

DISCUSSION:

On December 16th staff updated both the Finance Committee and Council on the General Fund fiscal outlook for the current fiscal year. In that update staff pointed out that beginning late in fiscal year 2008, General Fund revenues started showing the effects of what has now become a national and international recession. By the end of fiscal year 2008, a total of \$3.1 million in reserves had been consumed to make up for revenue shortfalls caused by the economic downturn.

Fiscal Year 2009

Staff informed Council that although we had adopted a balanced fiscal year 2009 budget, the General Fund is now facing an estimated \$5.5 million deficit by this fiscal year-end. The strategy for fiscal year 2009 includes the use of budget reductions and one-time measures to avoid the further use of General Fund reserves, which are now well below policy requirements. General Fund departments have been directed to reduce spending by a total of \$3 million. On average, departments routinely generate approximately \$2 million in savings each year. Therefore, in effect, departments are being asked to generate an additional \$1 million of savings in the final 6 months of the year. In most cases, this will be accomplished by keeping positions vacant and trimming costs across all line-item accounts.

The balance of the total fiscal year 2009 \$5.5 million projected deficit will be closed through several one-time measures. These measures include (1) scaling back the capital program to only essential or committed projects; (2) drawing on excess reserves from both the Self-Insurance Fund and Street Sweeping Fund; (3) reducing internal service fund charges to the General Fund by 3%; and (4) utilizing the \$700,000 General Fund contingency reserve included in the adopted budget as a hedge against potential State budget impacts.

Fiscal Year 2010

While the focus of the December 16th budget discussion was on the current fiscal year, Council was told that staff's preliminary estimate of the General Fund gap for fiscal year 2010 is approximately \$9 million. Depending on how severely the economy situation impacts General Fund revenues over the next several months, the preliminary projection could get worse. Given the unprecedented nature of this economic situation, it is nearly impossible to predict at this point how severely the City's General Fund revenues will be affected.

Staff has developed a preliminary strategy to close the projected \$9 million gap for fiscal year 2010. With few one-time measures remaining and the General Fund Budget Reserve below \$1 million, staff's preliminary balancing plan relies primarily on expenditure reductions. Given that personnel costs constitute approximately 75% of the General Fund operating budget, reductions of this magnitude will have to include reductions to staffing and service levels.

Staff will present information on the General Fund fiscal condition including updates on revenue projections, a brief look at trends over the last decade and the fiscal year 2010 balancing strategy developed by staff. Staff will also present various options to increase revenue should Council want to consider doing so to close part of the budget gap thus lowering the amount of the expenditure reductions needed to balance. It should be noted however that most of the options to materially increase revenues would require voter approval.

It is unusual for staff to be presenting Council with a balancing strategy this early in the budget development process. However, given the extraordinary fiscal challenges facing the City's General Fund, staff believes it is important to bring Council into the process as early as possible.

SUBMITTED BY: Robert Peirson, Finance Director

APPROVED BY: City Administrator's Office