

## City Manager's Office

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Presented for your reference is the final budget for the 2009-2010 fiscal year. In the development of this spending plan the City has been forced to address severe economic conditions that have affected both state and local governments around the country. As a result the City's Adopted budget includes balancing measures totaling over \$3.3 million and results in the elimination of funding for 14.25 positions. These balancing measures are largely confined to the General Fund and the budget contains a variety of contingency measures to guard against the potential future deterioration of the City's revenues resulting from continued weakening in local economic conditions or potential funding reductions as a result of actions by the State of California.

The All Funds Adopted Budget for FY2009/10 totals \$119,826,400. This total is \$14.2 million (10.6%) lower than the FY2008/09 Adopted Budget. Two major factors in this decrease are a reduction in capital improvement project funding of \$12.7 million and budget-balancing measures totaling \$3.9 million across all funds.

This year's budget has been prepared under some of the most challenging economic conditions we have experienced in many decades. Last year's budget was not without its challenges and budget reductions (nearly \$900,000 in General Fund and \$405,000 in the Building Permit Fund as well as the elimination of 6.5 positions), but those pale in comparison to this year's budget framework. In a relatively short period, many of the underpinnings of core revenues for local government (property and sales taxes) have been seriously eroded by the economic downturn.

The Adopted General Fund budget for FY2009/10 is \$36,683,832 reflecting a decrease of \$3.5 million (8.7%) from the FY2008/09 Adopted General Fund Budget. The proposed budget includes expenditure reductions across most all program areas, with resulting service-level reductions, and detrimental impacts on the City's ability to advance many of the City Council's goals and objectives for the coming year.

The budget reflects budget-balancing plan measures that address the previously projected General Fund deficit of \$3.4 million. The balancing plan maintains the year-end General Fund reserve at a projected level of \$5 million or 15% of General Fund operating revenues. Within the balancing plan are tiered expenditure reductions, implemented for FY 2009/10. In addition there are various revenue and cost-savings assumptions requiring additional actions by the Council in order to be fully-realized. Staff will be monitoring each of these issues and will provide periodic status reports and recommendations for corrective actions, as necessary, should any of the balancing measures not materialize to the extent planned. A number of contingencies have been included in the Adopted Budget should additional budget reductions be required as a result of further deterioration of the City's major revenues or another set of State actions that could redirect further local revenues to balance the State budget.

The State budget agreement reached by the Governor and legislative leaders relies heavily on raids of local government revenues, totaling over \$4.05 billion, in two specific areas:

- 1) Proposition 1A borrowing of local property tax revenues (\$2.00 billion)
- 2) Raid of Redevelopment Agency Tax Increment revenues (\$2.05 billion)

The City is directly impacted with respect to expected borrowing of property tax revenues and a more significant shift of Redevelopment Agency tax increment revenues, with a combined loss for the City of Davis of roughly \$4.5 million. One positive development was the rejection, by the Legislature, of the proposed shift of local HUTA funds that would have resulted in an additional \$1.1 million reduction in funding supporting the City's transportation programs.

The measures adopted by the Legislature to balance the State budget do not fully address the state's structural budget problems, implying that significant budget deficits continue to loom. While it is anticipated that the State will face an additional budget deficit in excess of \$10-15 billion in FY2010/11, it is very possible that the current year budget will develop a sizeable shortfall before the end of the fiscal year. If this occurs, the State may be forced to take additional budget-balancing steps in the current fiscal year.

In light of the unprecedented economic conditions, the City remains committed to an ongoing review of revenue sources and expenditure levels. To ensure the success of the balancing plan revenues will be reported to Council within the quarterly budget updates. Revenue sources that are to be closely followed include:

- Property Tax Revenues*
- Sales Tax Revenues*
- Business License Tax*
- Other Supplemental Grants*

Both property and sales tax were adjusted to a 0.0% growth factor. In late July, staff received preliminary information from the County Assessor indicating the total "Citywide" assessed property values for FY 2009/10 have grown by 2.8%. This is above the assumption of 0% that was built into the final budget and could yield an additional \$200,000 to \$300,000 in General Fund revenues.

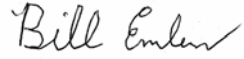
The balancing plan includes a number of specific cost savings measures as well as areas where additional savings could be realized pending further staff analysis and Council consideration including:

- Personnel Cost Savings / Pending Labor Contracts*
- Re-organizations and Citywide Savings*
- General Fund Personnel Savings Factor*

Current fiscal conditions, combined with concerns over the general economic outlook, will require vigilant and consistent monitoring of city revenues and expenditures as well as a degree of flexibility in adjusting City spending plans and commitments. The City, like most local government jurisdictions, will continue to face significant budgetary challenges for the foreseeable future, and while our current situation may not be as severe as some other communities, it is nonetheless

significant and we have little choice but to prudently reduce spending while, at the same time, ensuring adequate funding for our core and essential services. As we move forward, the community will need to continue to make difficult spending choices related to program priorities and service levels. It will be our responsibility to adjust our budget process to better link revenue and expenditure information to program goals, objectives and outcomes in order to provide the Council and public with the data necessary to inform this ongoing effort.

Respectfully submitted,



Bill Emlen  
City Manager

