

AGENDA REPORT

TO: City Council
FROM: Charles Ahl, Acting City Manager
SUBJECT: Discussion of 2009 Budget – Options for Levy Reduction
DATE: October 30, 2008

INTRODUCTION/SUMMARY

On September 8, 2008, the City Council adopted a resolution setting the maximum levy increase for the 2009 Budget at a 6.0% increase over the 2008 levy amount. In total dollars, this levy increase is:

$$\$15,546,450 \text{ [08 Levy]} \times 6\% = \$935,370$$

A review of previous year's levy amounts shows the following:

<u>YEAR</u>	<u>TOTAL LEVY \$\$\$</u>	<u>% INCREASE</u>	<u>DEBT SERVICE (w/i total levy)</u>
2000	\$ 7,568,830	----	\$1,422,840
2001	\$ 8,824,580	16.59%	\$1,776,580
2002	\$10,348,230	17.27%	\$1,686,910
2003	\$11,927,880	15.26%	\$2,191,930
2004	\$12,831,520	7.58%	\$2,499,200
2005	\$13,434,640	4.70%	\$2,818,000
2006	\$14,106,370	5.00%	\$3,016,800
2007	\$15,546,450	10.21%	\$3,140,800
2008	\$15,546,450	0.00%	\$3,421,925
2009 (max.)	\$16,481,820	6.00%	\$3,779,340

Note: the debt service amount shown is included within the total levy.

Levy Reduction Options

The budget that has been presented to the City Council by the Department Heads over the past month, has been based upon the maximum levy increase of 6.0%. As City Council may recall, we have levy limits that keep our operating levy at a maximum 3.9% increase; however, there are exceptions that allow the City to increase the operating portion to a 4.8% increase and debt service is outside the levy limit. The breakdown of the 6.0% proposed maximum levy increases are as follows:

1) General Fund for operations:	\$507,955
2) Community Center operations:	\$ 70,000
3) Recreation Programs Fund:	\$ 0
4) Capital Improvements Fund:	\$ 0 (to be funded with one-time cash)
5) Debt Service Fund:	<u>\$357,415</u>
TOTAL LEVY	\$935,370

After tabulation of all requests, it was determined that a fund balance percentage of 38.2% would result from the proposed expenditures and revenues. Previous budgeted fund balances, which are used to manage contingency expenses along with operating expenses as revenues are received, have ranged from a low of 35.0% to 37.5%.

Option #1 = 6.0% Levy Increase

This option is the presented budget from the staff. It includes \$18,393,750 in p

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Discussion:

This is the recommended program from the Acting City Manager. The savings from the reorganization within Community Development and Parks has been previously discussed and the elimination of the Additional Insurance Program is recommended, as other options are available for that type of funding, if it becomes necessary, even though at this time, we do not anticipate the needs for those funds in 2009.

A reduction in the Fund Balance to 37.5% is also an analysis of comfort in risk factors. As the 2009 Budget was reviewed and prepared, the staff evaluated a number of factors that could cause budget problems in 2009:

- a. Foreclosures and non-payments could be extensive. We have estimated a collection of 97.5% of the proposed levy, meaning that we anticipate that we will be unable to collect 2.5% of the levied assessments in 2009. This is slightly above our historical collection rate, which approaches between 98-99%. While we see this as a possibility, we believe that having a fund balance which is 1.0—2.0 % higher than the historical Maplewood Budget average of 35 – 36%, should provide a cushion for this item. In addition, it appears that we may end 2008, with more funds than anticipated, which will be carried forward to 2009, which will further support this fund balance.
- b. Building permit revenues could continue to decrease due to the stalled economy. We have reduced the amount of revenue for permit fees to 2007 levels within this budget. Our Building Official is working on a review of fees to offset any shortfall. We are confident in this estimate. Should permit revenues continue to slide below estimates, a mid-year adjustment in staffing levels for our Building Officials and Inspectors may be necessary. This is not anticipated based upon some known projects.
- c. Fuel and utility expenses could again sky-rocket. The budget is prepared based upon a 40% increase in fuel expenses above the actual expenses that occurred in 2007. Again, mid-year adjustments can be made to programs that could offset this amount.
- d. Employee wage increases can also be another use for Fund Balance monies. At this time, negotiations appear to be proceeding well, and funds should be available to meet all union and association settlements.
- e. Departmental Budget Expenditures may exceed estimates. In the past two years, each department has been very diligent on watching expenditures and planning appropriately. Departments have spent between 96 to 99.5% of their budgets. We do not expect this to be a problem in 2009, as our finance staff and department heads watch expenditures and make adjustments accordingly.

The final recommended reduction is to fund the proposed Deputy Police Chief position from internal Police Department savings from the Early Retirement Program. It is anticipated that there will be a couple of retirements and Chief Thomalla is confident that savings can be found through this process to allow this reorganization of his staff to proceed that will not produce an additional expense to the General Fund.

Option #4 = 2.0% Levy Increase

This option proposes that the levy increase be set at a 2.0% levy increase or \$310,930 over the 2008 levy. The allocation would be:

1) General Fund for operations:	(\$ 46,485)
2) Community Center operations:	\$ 0
3) Recreation Programs Fund:	\$ 0
4) Capital Improvements Fund:	\$ 0 (to be funded with one-time cash)
5) Debt Service Fund:	<u>\$357,415</u>
TOTAL LEVY	<u>\$310,930</u>

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The following reductions would be necessary to implement this option:

a) Savings from the Community Dev – Parks Re-org -	\$ 23,220
b) Reduce the Additional Insurance Program by 100%:	\$250,000
c) Reduce the Fund Balance to 37.0%	\$206,400
d) Fund the Deputy Police Chief position from Early Retire Savings:	\$ 25,000
e) Cut the new Building Maintenance Technician from budget:	\$ 45,900
f) Reduce the MCC operations subsidy to 2008 level:	\$ 27,425
g) Increase Recreation Program Fees by 8%	\$ 16,495
h) Plan for savings from the Early Retirement Program:	<u>\$ 30,000</u>
 Total Reduction for Option #3	 \$624,440

Discussion:

Items a), b) and d) have previously been discussed. Item c) has previously been discussed at the 37.5% level. Management is not recommending reducing below this level, as we anticipate that having a safe operation level at 37.5% is prudent given the uncertainties. Certainly, there are funds for emergencies within the budget; however, some point needs to be established as a comfort level based upon risk factors listed above. A reduction increases the likelihood that mid-year budget adjustments may be needed, including staff reductions to meet unexpected expenditures.

Item e) is a new position planned within the budget to supplement our building maintenance staff. The position was originally within the budget in 2006, but was eliminated in cost savings measures when an employee left. Our building maintenance is in need of improvements, especially missing has been the City's efforts at recycling and green initiatives. Our investment in facilities has suffered slightly due to the lack of preventive maintenance and cleaning. We do not recommend this position be cut.

Item f) would mean further reductions in expenses at MCC. One option would be to explore the use of one-time money to erase the "loan" that is recommended at MCC. This would allow this to proceed, but would reduce the future allocations to Capital Improvement Projects.

Item g) would involve raising fees for our recreation programs. Our staff feels that our fees are competitive and that raising the fees could result in reduced participation. It is not recommended but could be implemented.

Item h) is a possibility for 2009, but there is no certainty that any employees will sign up for this program. Savings could be realized from the program; however, these are not sustainable, unless of course, positions are eliminated. That is not proposed, so this option is not more than a single year fix.

Option #5 = 0.0% Levy Increase

This option proposes that the levy increase be set at a 2.0% levy increase or \$310,930 over the 2008 levy. The allocation would be:

1) General Fund for operations:	(\$229,485)
2) Community Center operations:	\$ 0
3) Recreation Programs Fund:	\$ 0
4) Capital Improvements Fund:	\$ 0 (to be funded with one-time cash)
5) Debt Service Fund:	<u>\$127,930</u>
 TOTAL LEVY	 \$ 0

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The following reductions would be necessary to implement this option:

a) Savings from the Community Dev – Parks Re-org -	\$ 23,220
b) Reduce the Additional Insurance Program by 100%:	\$250,000
c) Reduce the Fund Balance to 37.0%	\$206,400
d) Fund the Deputy Police Chief position from Early Retire Savings:	\$ 25,000
e) Cut the new Building Maintenance Technician from budget:	\$ 45,900
f) Reduce the MCC operations subsidy to 2008 level:	\$ 27,425
g) Increase Recreation Program Fees by 8%	\$ 16,495
h) Plan for savings from the Early Retirement Program:	\$ 30,000
i) Cut temporary staff from Community Development	\$ 19,100
j) Cut the 0.75 FTE Info Technician from IT Dept	\$ 30,000
k) Cut Part-time staff at Nature Center	\$ 20,000
l) Cut Maintenance Materials and Overtime from Public Works	\$ 36,000
m) Cut Overtime-Part-time in City Clerk and Deputy Registrar	\$ 9,500
n) Cut Overtime in Fire Department Budget	\$ 17,400
o) Cut Overtime in Police Department Budget	\$ 51,000
p) Use one-time cash for Debt Service Fund	<u>\$127,930</u>
 Total Reduction for Option #3	 \$935,370

Discussion:

Items a) through h) have previously been discussed. Item i) would be a reduction of temporary staff within our Community Development department that provide us service in providing minutes to Commissions and Committees. If eliminated, these tasks would need to be assigned to existing personnel and would result in delays with minute processing and reductions in service in other areas.

Item j) is a major priority for our staff. We had four persons in our IT Department until 2005, when a departure was left vacant. Our electronic needs have increased dramatically and the addition of this staff person would improve overall operations.

Item k) would involve further reductions in programs, service and oper66 297.5193 Tm (m) Tj ET 0 4 Tm (66 2

Item p) is not a sustainable reduction and may impact our bond rating. The Moody's rating service on our most recent bond issue acknowledged that the city's 0% levy increase did not impact our sustained funding of debt service. One-time money would mean that the proposed increase in 2010 would need to be covered by a near doubling of funds. While many of the reductions are not recommended, this option should be the last considered by the City Council.

Recommendation

As noted, the final budget will include a recommendation for Option #3 from the City Management. The Council should review this information. No action is necessary at this time. We will be finalizing our budget based upon this information. Staff will be available to answer questions on all the options.