City of Alameda California

Resource Allocation Plan
Fiscal Year 2009-2010 Annual Budget
Fiscal Year 2010-2011 Budget Forecast

CITY OF ALAMEDA

CITY COUNCIL

Mayor, Beverly Johnson
Vice Mayor, Doug deHaan
Councilmember, Marie Gilmore
Councilmember, Frank Matarrese
Councilmember, Lena Tam

ELECTED OFFICIALS

City Auditor, Kevin R. Kearney
City Treasurer, Kevin Kennedy

CHARTER OFFICERS

Interim City Manager, Ann Marie Gallant
City Attorney, Teresa L. Highsmith
City Clerk, Lara Weisiger

EXECUTIVE MANAGEMENT TEAM

Assistant City Manager, Community and Economic Development, David Brandt
Deputy City Manager, Administration, Lisa K. Goldman

Economic Development Director, Leslie Little
Interim Finance Director, Glenda D. Jay
Fire Chief, David Kapler
Human Resources Director, Karen Willis
Library Director, Jane Chisaki
Police Chief, Walter Tibbet
Public Works Director, Matthew T. Naclerio
Recreation and Parks Director, Dale Lillard

Executive Director, Housing Authority, Michael T. Pucci
General Manager, Alameda Municipal Power, Girish Balachandran

August 3, 2009

Honorable Mayor and Members of the City Council:

Transmitted herein is the recommended Annual Budget for Fiscal Year 2009/10 and the Budget Forecast for Fiscal Year 2010/11.

As discussed throughout this past fiscal year, the national and regional economies have experienced unprecedented market declines in investment earnings; corporate capital and debt; retail sales and consumer confidence in our production centers; and, most importantly for local government, a major and critical decline in the residential home market. These economic factors have significantly affected revenues at all levels of government, and none more serious than that experienced by city government which is dependent upon property tax growth, sales and related consumer taxes to provide basic municipal services.

At this writing, cities continue to battle with the State of California to retain property taxes, gas taxes and redevelopment tax increment which the Governor and legislature propose as budget balancing solutions for the massive State deficit accumulated these past years. As previously discussed with the City Council, the City's present financial position can address the one-time borrowing of $2.2 million in property tax through a 'cash' transfer from the Equipment Replacement Reserve to the General Fund, to be repaid in FY12-13 with interest, once repaid by the State. The two year 'take' of $2.4 million in Highway User's (Gas) Tax and $5.3 million in Redevelopment Agency tax increment cannot be addressed without significant reductions in staffing, projects and programs. Should either of these two State budget balancing 'takes' occur, then this recommended annual budget and forecast will require major amendment in the immediate future.

Budget Strategies

The aforementioned economic realities have required City management to work diligently this past fiscal year to re-tool department organizational structures, implement strategic reductions in force, and reduce targeted expenditures without impacting community service levels. The results of these FY08-09 budget strategies resulted in a projected June 30, 2009 available (cash) fund balance in the General Fund stabilized at $8.8 million, approximately $200,000 more than projected at third quarter. Projected available (cash) fund balances in all funds, detailed by fund and fund group within the Financial Summaries of this document, total $156.5 million at June 30, 2009.

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The FY09-10 Annual Budget and FY10-11 Budget Forecast were successfully developed and balanced as a result of this prior year financial foundation. Revenues projected in all funds are based upon conservative growth assumptions in Bay Area economic forecasts for Alameda – averaging .5% - 2%. Expenditures were initially based upon the prior year 10% requisite reduction; during budget preparation, other cost containment measures and expenditure shifts to other funds as appropriate were also required. These revenue and expenditure strategies have resulted in a solid financial foundation for fiscal recovery in all City funds during the ensuing 24 months.

Budget and Financial Policies

A City Council Financial Workshop was held February 7, 2009 during which staff presented draft *Financial Policies and Guiding Principles.* Due to various organizational changes, this document has not been finalized; however, the recommended City budget complies with City Council policy direction provided at that session. Specifically, this fiscal year, annual budget appropriations maintain prudent cash reserves and working capital; streamline systems and procedures for efficient and effective government operations; provide first line core municipal services such as police patrol, fire suppression and public works maintenance with City staffing; develop sufficient contingency reserves for asset replacement and operational risks; eliminate one time revenues as resources to balance the budget.

Further, during the City Council Financial Workshop, staff presented a fiscal forecast of the City's General Fund and its dependent Internal Service Funds (ISFs). At that time, such internal service funds as worker's compensation, information technology and risk management were projected at a negative available (cash) fund balance of $3.4 million by June 30, 2010, with a prior *existing* negative cash balance of $2.7 million anticipated by June 30, 2009 – absent any action to address cost containment or cost-recovery from General Fund departments. The City Council provided policy direction supporting immediate cost-recovery – as financially feasible for FY08-09 and as comprehensively as possible in FY09-10.

With adoption of the FY09-10 annual budget, the internal service fund negative cash balances from prior years have been recovered 100%; the projected negative cash balance at June 30, 2010 has been isolated exclusively to the worker's compensation fund and reduced to approximately $860,000, and to $208,500 forecasted by June 30, 2011. However, it is important to note that these are *projections* based upon liberal claims. It is highly likely that this fund can be reduced by 50% less negative cash this fiscal year, and, virtually eliminate all negative cash fund balance by close of FY10-11 with continued, proactive claims management and aggressive safety management at the department level.

Program-Performance-Based Budget

During the February financial workshop, staff outlined and recommended a comprehensive revision to the City's budget formation and development. A program-performance-based budget was proposed which would eliminate department or division

wide budget allocations, and result in budget allocations to an individual *program* - a group of related activities performed by organization units for the purpose of accomplishing a function for which the City is responsible. Identifying and allocating resources – personnel, supplies, equipment etc. – to programs, creates transparency in budget reporting and clearly communicates cost of services to policy makers and community constituencies.

Conversion to a program-performance-based budget and financial reporting system requires a two fiscal year budget cycle to mature in data collection and documentation. Management began this process in August 2008 by focusing on past defined department missions (purpose statements), refining these and formulating from this purpose statement, departmental programs which were being delivered in conformance with its mission. Program descriptions were prepared; key program objectives were defined; and measurements of program performance were developed. The results of this effort are included in the department programs contained within this text.

Continued refinement to programs, objectives and performance measurements will occur this fiscal year in conjunction with defining department and program goals. This iterative process will result in programs and performance measurements for FY10-11 that will enable policy-makers to prioritize programs (activities, services, projects) as core, auxiliary or ancillary – in order to balance programs with available, yet diminishing revenue resources.

Executive Summary

A City Manager executive summary has been included in the budget document. An organization chart of various policy and advisory groups has been included, to illustrate the numerous components providing input into decision making within the organization. In FY09-10, executive management will focus on realigning these policy-driven components with the organization's major functions in order to streamline government processes, reduce redundant systems, and develop more integrated, holistic policy discussion and recommendations among advisory groups.

A citywide organizational chart identifies functional workgroups in key areas such as Administrative Services; Community Services; Development Services; Public Safety Services; and Public Services. The budget document itself has also been organized into these major functional categories, with department program budgets included within these functions.

A statement, articulating executive management philosophy when utilizing program-performance-based-budgeting, is presented in *Managing for Results.* A preliminary vision and operational standard for the organization in this climate of change is outlined in *Organizational Focus. Budget Highlights* will outline and summarize major workplan initiatives; changes in financial policy direction; major fiscal issues and financial management concerns resulting from the City Council discussion of the budget staff

reports scheduled for the August 3, 2009 joint meeting agenda. This summary will be completed before final production of the *adopted* budget document.

Financial Summaries

Financial data for all funds is included in this section of the text. These tables, charts, graphs and forecasts should be familiar in format, as all are similar – if not identical – to those staff has used in its year-end and quarterly report summaries to the City Council since September 2008. It is important to note, however, that this is a *budget* not a *financial report;* the latter reports total fund balance which includes cash, due to's and due from's, assets and liabilities; the former reports *available fund balance* which is cash only. Thus, when balancing annual budget expenditures against budget revenues, should available fund balance be required in certain funds for budget purposes, City Council can be assured that number reflects available *cash* balance not *fund* balance.

The recommended annual operating and capital expenditure budget - all funds - for Fiscal Year 2009/10 totals approximately $199.5 million. This proposed budget includes approximately $192.9 million in revenues and utilization of $6.4 million in available (cash) fund balance in certain funds – specifically special revenue, capital project, debt service and redevelopment agency funds. This draw-down of cash balances in these types of funds is quite standard, as capital projects are completed, grant funds are utilized, and bond proceeds are expended for designated uses.

The recommended General Fund budget in FY09-10 totals $68.7 million; it does *not* utilize any available cash balance. The various budget balancing strategies adopted to date have resulted in a fiscal plan that preserves 100% of the General Fund's cash balance and ensures prudent fiscal reserves in this uncertain national and regional economic period in government finance. The available cash General Fund balance at June 30, 2010 is projected at $8.8 million.

The budget *forecast* for the General Fund in FY10-11 anticipates a draw-down of this cash balance unless expenditures are reduced further, due to the planned loss of sales tax revenues as a result of the State Board of Equalization appeal now pending. The available cash balance at June 30, 2011 is projected at approximately $7.9 million. However, the second year of this program-performance-based-budget is only a forecast rather than an appropriation. It is anticipated that further evolution of management organizational initiatives, evolution of program performance reporting, and a nominal recovery in the housing and consumer markets could improve this revenue forecast by January 2010.

More detailed information on all funds - revenues and expenditures - is provided within the Financial Summaries section of this budget document. A detailed description of key revenue impacts and expenditure issues will be outlined in the budget adoption staff report for the August 3, 2009 City Council meeting.

Conclusion

At the completion of this two year fiscal cycle, the city organization will have matured in its budget and financial reporting systems to a more transparent and cost-center approach to providing municipal services. Further, the program-performance-based budget will ensure through its quarterly reporting that departments are utilizing resources effectively and efficiently in program service delivery.

Consistent with the standards of sound budget reporting established by the Government Finance Officer's Association (GFOA), the goal of this program-performance-based budget is to serve as:

- *a policy document* - one which reflects coherent, entity-wide budget and financial policies, strategies, missions, goals and objectives of organizational units, programs and services;

- *a financial plan* – one which includes and describes all operating, capital and debt service funds subject to appropriation, including revenues, expenditures and available cash balances of the total resources budgeted by the organization;

- *an operations guide* - one which describes activities, services or functions of each organization unit, including organization charts, performance measurements and personnel summaries;

- *a communications device* - one which is clear and transparent to the public by defining terms, summarizing complex financial information in tables, graphs or charts to ensure full disclosure of the City's resources to the general reader.

I am proud to present this proposed two-year resource allocation plan that not only meets the financial challenges facing the City at present, but continues to provide quality programs and service levels that Alameda residents have come to expect from their City government. As we plan for the future in these difficult financial times, management staff is committed to working with the City Council to implement an ambitious vision for this unique community.

Respectfully submitted,

Ann Marie Gallant
Interim City Manager

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