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CITY COUNCIL
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PRELIMINARY BUDGET MESSAGE

TO: Honorable Mayor and Members of the City Council

FROM: Art de Werk, Acting City Manager/Chief of Police/Director of Public Safety

PREPARED BY: Sheila Cumberland, Interim Deputy City Manager/Director of Finance

DATE: May 26, 2011

SUBJECT: Preliminary Municipal Budget for Fiscal Year 2011-2012

INTRODUCTION

Submitted for your consideration is the preliminary Municipal Budget for Fiscal Year 2011-12. The budget is utilized as both a financial plan and a communication instrument. As a financial plan, the budget contains both fund summaries and line item detail.

The fund summaries provide the reader with an understanding of the financial condition of the many funds that comprise the overall budget, while the line detail explains how each City Department is funded. As a communication instrument, the budget includes organizational charts, workload statistics and narratives to better explain the structure, function and goals of each department.

BACKGROUND

City Council conducted a budget study session on November 8, 2010. At that time the projected deficit was estimated to be \$2.1 million. Staff gave several options for closing the budget gap. Those recommendations included department reductions, transfers from other funds, employee salary concessions, ad hoc committee operations reductions, and grant funding.

The budget study session introduced the budget development framework, with general assumptions about revenues, spending and the impact of past and future events on the City's current and future resources and reserves.

BUDGET HIGHLIGHTS

The total of all funds for the City's proposed operating budget is below. The proposed budget does not include the Capital Improvement Projects (CIP) for the coming year.

Functionally the City's proposed operating budget of \$47.9 million is proportioned as follows:

Public Safety/Recreation/HR:\$16.4 million...35%
Public Works/Engineering:\$12.2 million...25%
Administration/Planning/Building/RDA\$19.3 million...40%

Funding for these services comes from the following sources:

General Fund:\$14.4 million...32%
Special Revenue & Internal Service Funds: \$10.3 million...23%
Enterprise Funds:\$12.5 million...28%
Redevelopment Funds:\$ 7.8 million...17%

General Fund Overview

The General Fund operating budget is out of balance by \$540,000. If the Council approves the use of \$340,000 of General Fund Reserves balance, the General Fund cash balance at June 30, 2012 is estimated to be \$4,026,000. This is 25.97% of operating expenditures and reflects Council's previously established minimum 25% General Fund Reserves balance.

Personnel Actions

Proposed FY 2011-12 budget organization and classification changes:

- Position Changes
 - Hire additional police officer position per Measure H spending plan
 - Change title of Budget & Accounting Manager to Deputy Finance Director

- Other Personnel Budget Actions
 - Continue to freeze step increases
 - Continue hiring freeze of non-critical positions as determined by the Acting City Manager
 - Freeze City Manager position
 - Freeze Landscape Maintenance Supervisor position
 - Continue to freeze two vacant Police Officer positions
 - Continue to freeze one vacant Battalion Chief/Fire Marshal position
 - Continue to freeze one vacant IT System Analyst position
 - Continue to freeze two vacant Streets Maintenance Worker II positions
 - Continue to freeze one vacant Fleet Mechanic I position

POLICY ISSUES

- The proposed General Fund out of balance \$540,000. Use of General Fund Reserves balance will retain the 25% reserve level desired by the Council. The General Fund Reserve will be reduced to 25.97%. The use of reserves is not a permanent, long-term funding solution. It should be viewed as a stop gap measure and services funded by reserves will, over the next couple of years, need to be funded by ongoing, predictable revenue sources.
- The budget contains funding for the first payment of the Animal Shelter construction. The County has given the City the option of paying the entire loan balance in exchange for a reduction in interest. This policy decision has not been made at this time.
- We do not know if the State will take or borrow Redevelopment funds from the City. We may be required to amend the budget in the near future to address any revenue losses as a result of State budget actions.
- We do not know what actions StanCERA Retirement Board will take in FY 12/13 regarding the pension fund's Unfunded Accrued Liability (UAL). Ceres' portion of the UAL was estimated to be a \$1.3 million increase over the FY 09/10 payment. Because of the significant fiscal burden this would have caused on their agency members, the Board decided to pay down the FY 10/11 and FY 11/12 UAL with available reserves. While there have been measurable improvements in the fund's investment returns, it is expected that the City will again be facing a significant increase in our retirement contribution rate next year. This increase will need to be addressed, either by adoption of a phase in plan by the City or through reduction in City funds.
- The Streets department, funded by Highway Users Tax, is out of balance by \$191K. Expenditures exceed revenue. We are still working on balancing these funds and are examining the following options: using General Fund Balance, shutting off street lights, LED technology, and not filling positions as they become vacant.
- Landscape & Lighting District is out of balance by \$75K. Expenditures exceed revenue so we may need to raise rates in this District.
- Community Center is out of balance by \$185K. Expenditures exceed revenue and this is a planned deficit as shown in the attached spreadsheet. When the Community Center was built, the deficit was estimated to run through FY13-14.

CONCLUSION

This budget plan represents a reasonable response to the City's financial position given the current economic environment. Due to the economic conditions, some risk and uncertainty resides within this budget. Hopefully, this budget helps to clarify the fiscal challenges the City faces over the next 12 months, and shows the measures we have already taken to address these issues.

The Council has authorized the use of one-time resources to bridge the budget gap, but we still estimate a 25% reserve at the end of Fiscal Year 2011-12. As this year continues, if the

economy further deteriorates and tax revenues significantly decline, or the State creates a reduction in the revenue stream by borrowing or taking City funds, we will need to address these conditions and return to the City Council with alternatives.

Preparation of a budget of this magnitude would not be possible without the assistance and cooperation all City departments. We would like to express our appreciation to the Ad-Hoc Employee Budget Committee and management staff for their hard work and involvement in preparation of the Fiscal Year 2011-12 Budget. We would like to acknowledge and thank all City of Ceres employees for their partnership with the City to reduce the budget deficit through their efforts to reduce operational costs and their salary contributions. Their partnership demonstrates their degree of commitment and dedication to this organization.

We would also like to thank the members of the City Council for their leadership and support in planning and conducting the financial operations of the City in a responsible and progressive manner.