



# INTER-OFFICE MEMO

City Manager's Office

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**To:** Mayor Hopewell, Vice Mayor McKinney, and City Commissioners

**From:** Kenneth P. Collard, City Manager, ICMA-CM, P.E.

**Date:** October 26, 2009

**Subject:** 2009 Budget Third Quarter Report – Budget Balancing Process

Described below is a summary of the problem solving process and flow of information associated with the budget balancing recommendations being presented to you tonight for your consideration.

## **BUDGET BALANCING PROCESS**

### **The Problem:**

- A gap of \$1.5 million, approximately 3%, has developed in the adopted 2009 General Fund (GF) Budget revenues due to declining receipts from the state and from local property taxes. Projected gaps totaling \$5.8 million or almost 11% have also been identified in the projected 2010 GF Budget. Additionally, initial estimates for the 2011 and 2012 GF Budgets indicate that real revenue growth will likely continue to decline but certainly will not close the gaps.

### **Recommendation:**

- I'm recommending the City Commission eliminate 32 funded positions from the 2009 GF Budget to effectively closeout the 2009 GF Budget and secure recurring savings in future budgets. I'm also asking the City Commission to reaffirm the strategies of additional non-operating budget reductions and the use of reserves to balance the proposed 2010 GF Budget.

### **Implications:**

- The recommendations if implemented would change the 2009 and proposed 2010 GF Budgets by lowering annualized expenditures for personnel by \$2.5 million and for non-departmental, transfers and initiatives by \$850,000, maintain expenditures for street repair and use \$300,000 in reserves to partially offset lost state and property tax revenues.

**Timing:**

- The recommendation is to eliminate the positions no later than December 31, 2009 and incorporate the additional reductions and reserve allocations in the proposed 2010 GF Budget for approval no later than January 31, 2010.

**Rationale:**

- In order to continue to adequately address our responsibilities relative to protecting the public's health, safety and welfare, the gap must be managed (i.e. to provide our residents a safe and clean community with reliable infrastructure).
- With no timeline for a significant economic recovery identified for Michigan, we must take action to wisely allocate our limited revenues and reserves over the next several years.
- We can only stretch our resources by limiting their rate of depletion or in other words, cutting expenditures. With personnel costs absorbing 74 cents of every GF dollar, the gaps can not be closed without position eliminations.
- As a result of the quarterly review process, the need for position eliminations was identified earlier this year and four positions were eliminated as part of the mid-year GF Budget adjustment.
- Utilizing a combination of reserves, ARRA funding, and a partial hiring freeze, the impact on the workforce from layoffs has been limited by our department heads to twelve of thirty six positions.
- The quarterly review process has also enabled us to identify unencumbered reserves in several funds which can be allocated over the next several years to offset declining revenues. Without these funds, the cuts to basic services and position eliminations would be more severe.

**Strategy:**

- A reasonable and timely combination of expenditure cuts and use of reserves has balanced the 2009 General Fund Budget and can stabilize the City's GF budgets for 2010 and 2011.
- Employees affected by layoffs must be treated with dignity and respect. Assistance should be offered to help them manage this career transition.

**Tactics:**

- GF personnel costs would be lowered by eliminating a total of 32 full time positions. Ten of the positions are vacant; ten of the positions will be “refunded” with ARRA grant funds; and twelve of the positions, because they are occupied, will result in the lay offs.
  
- Non-departmental, transfer and initiative allocations would be lowered \$850 thousand primarily by instituting a wage freeze, utilizing ARRA grant monies to provide funding for the summer youth employment program, eliminating the City Commission’s initiative allocation and reducing the Capital Improvement fund balance.
  
- \$3.6 million in reserves would be used during 2010 leaving \$3.9 million to address the challenge of balancing future budgets.
  
- Human resources staff shall be available to advise transitioning employees of their contractual and policy rights and associated options. All contractual and policy obligations shall be met and career and personal counseling services will be made available to those transitioning employees.

I appreciate your thoughtful consideration of this matter budget challenge and its inherent personnel implications.