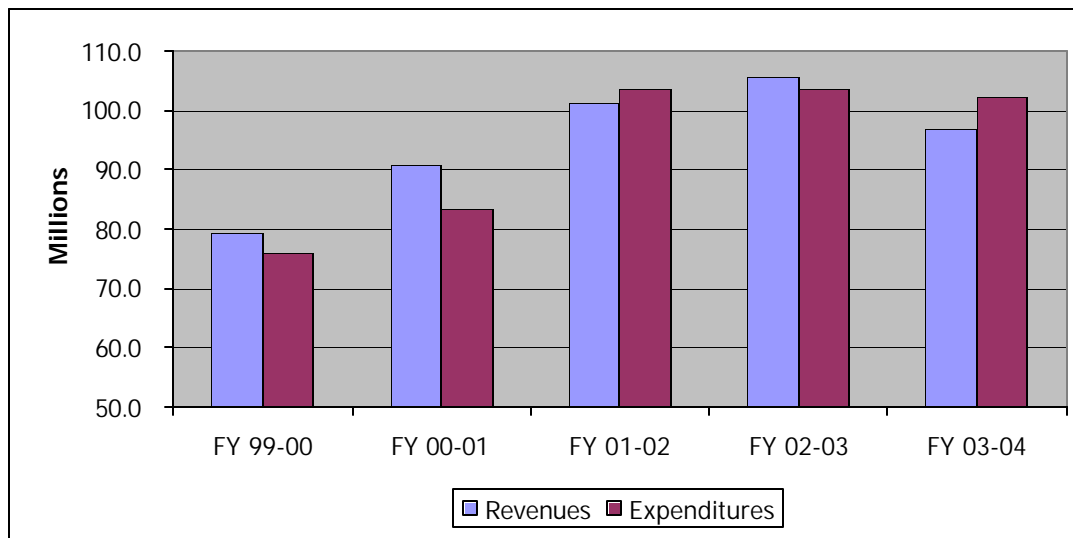


Issue: General Fund Imbalance Between Revenues and Expenditures

There is a structural imbalance in the City's General Fund operating budget, meaning that General Fund operating expenditures exceed operating revenues.

Background:

In two of the last three fiscal years, the City has spent more General Fund dollars than it has realized in revenues. This trend is illustrated in the chart below. Were this trend to continue, staff estimates that over the next five years, the City would annually spend \$8 - \$10 million more each year than it recognizes in revenue.



In FY 2004-05 this trend continued with the City adopting a General Fund budget with \$107.6 million in expenditures and \$103.2 million in anticipated revenues. The gap between these amounts was to be closed through the use of reserves estimated at \$4.4 million. This trend, however, cannot continue as the City will gradually erode the General Fund reserve eliminating any flexibility the City has to manage cash flow, make internal loans, and deal with various emergencies. While State takeaways have impacted the City's ability to deliver services, this imbalance is deeper than that one issue. In today's environment, the City's long-term economic health is dependent on achieving a truly balanced budget.

During the second quarter of FY 2004-05, City Council took steps to reduce the General Fund burden by:

1. Implementing a hiring "chill" for both full and part-time staff for any positions with General Fund impact with exceptions for mission-critical positions, and
2. Deferring programs and/or projects such as the \$1.1 million previously set-aside for the FMC property.

The City Manager reduced General Fund expenditures by an annualized three-percent (3%). As a result of these actions, staff projects a fund balance at the end of FY 2004-05 of approximately \$18 million. Once this amount is reduced to account for restricted funds (encumbrances, trust accounts, and other legal obligations) there remains a projected undesignated reserve of \$15.5 million.

While this amount is significantly more than the Council's 8% reserve policy, the projections include \$6.2 million in one-time money: \$3.2 million from the VLF Gap Loan and nearly \$3 million in General Fund expenditure savings. As anticipated at the beginning of FY 2004-05, reserves will be required to balance the budget (estimated at \$4.8 million).

Recommendations:

Council has committed to a two-year effort in which expenditures are brought in line with revenues. This effort, though difficult, is critical for the City's long-term financial health. This effort will include:

1. Evaluation of revenue opportunities that result in more fully capturing the full cost of providing a service.
2. Budget expenditure reductions to achieve a balanced budget by FY 2006-07. If achieved, the Council may at that time consider returning to a 5% reserve level for the General Fund. At the same time, Council recognizes that reserves within the General Fund (above the 8% level) will need to be utilized to balance the budget in FY 2005-06.
3. Establishment of a policy whereby grant-funded positions will not be retained beyond the life of the grant unless specifically and separately approved by Council.

Further, staff recommends that the City Council adopt the following financial policies:

- **Beginning in FY 2007-08, a structurally balanced General Fund budget, in which recurring revenues meet or exceed recurring expenditures, will be submitted to the City Council each year.**
- **General Fund surpluses will be used for capital projects, increasing fund balance or debt reduction rather than new or enhanced operating programs.**
- **Enhancements to existing operating programs or the development of new operating programs will be funded from ongoing funding sources.**