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MAYOR'S BUDGET RECOMMENDATIONS FOR FISCAL YEARS 2012-2013

JUNE 17, 2011

OVERVIEW: ADJUSTING TO THE 'NEW NORMAL'

The global economic recession continues to present tremendous challenges to local governments, as it does to families and businesses, in Boise and elsewhere. Any hopes that the downturn would be shallow and brief quickly gave way to a harsher reality, and the recovery that has seemed just around the corner for two years still seems largely elusive.

The City of Boise has been fortunate, at least compared to many of its municipal peers, in its ability to weather the economic storm so far. We have benefitted from our rigorous multi-year strategic and business planning process, which focused our mission on delivering core services; from our biennial Citizen Survey and numerous other public-outreach efforts, which helped us align spending decisions with our residents' priorities; and from the adoption of modern financial planning methods, which brought structural balance to the City's budget and ensured that ongoing fiscal obligations are built into the revenue base.

As the economic crisis has progressed, the City has stepped up with a series of carefully targeted cost-cutting measures designed to minimize their negative impact on direct services to the public: consolidating operations, creating efficiencies and postponing projects. Since 2009, the City of Boise has eliminated the equivalent of more than 40 full-time employee positions citywide through early retirement incentives, elimination of vacant positions and a small number of layoffs, resulting in an annual savings of \$5.4 million. Non-labor reductions added millions of dollars in additional savings.

The severity and longevity of the economic slump, however, have begun to thwart even these prudent actions. Unemployment in Boise remains close to 9%, revenues from sales taxes and development fees are sluggish at best, and even the most optimistic forecasts predict little change in these trends over the next few years.

At the same time, the City's labor costs continue to rise, due in large part to increasing health-care costs. Even assuming a steady but slow economic recovery (see "Key Economic Assumptions," *FY 2012/2013 Budget Executive Summary*), we are obligated to adopt conservative assumptions about our revenue future.

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In short, the City of Boise's finances are showing signs of long-term structural imbalance. We must correct this misalignment and adapt to the "new normal."

FISCAL YEAR 2012/2013 PROCESS AND ASSUMPTIONS

In preparing for the *Fiscal Year 2012/2013 Budget*, the Financial Services Division developed revenue and expenditure projections based on a careful analysis of the general economic environment and projections going forward. Among those assumptions:

- **Non-property-tax revenues** have been relatively stable, present limited future capacity to increase and are relatively small compared to total revenues.
- **Property tax revenues** represent 60% to 63% of total revenues and are the only revenue source that the City can elect to increase (up to 3% per year).
- **Non-personnel expenditures** are relatively stable, are small compared to total expenditures and present limited opportunity for further reductions.
- **Personnel expenditures** represent 70% to 75% of total expenditures and represent the key controllable cost category.

Our most recent biennial Citizen Survey also informed my approach. It found that despite the economy, seven in ten (70%) of our residents feel that the City should strive to maintain its current levels of services and taxes. This suggests a phased and careful process as we evaluate potential budget changes.

Thus, my proposed budget achieves balance in revenues and expenditures during the first fiscal year, FY 2012, through a combination of targeted department reductions (including elimination of vacant positions) as well as cuts in citywide operational expenditures – steps that will result in no significant negative impact on current service levels.

Moreover, I am recommending no compensation increases for general (non-union) employees for the coming year. I have engaged the leadership of the Fire and Police collective-bargaining units in hopes they might defer or forgo some or all of their contracted wage increases to assist us in achieving this goal. (In addition, the unions have offered to defer for up to two years, until January 2014, the final \$1.4 million payment from the City to establish its independent health care trust fund.)

Even without union wage and trust fund adjustments, these measures represent a General Fund decrease of about \$2.3 million, or 1.4%, for FY 2012 compared to the *FY 2011 Adopted Budget*. They will allow us to balance the budget while also providing taxpayers some relief: I am recommending that the City accept only half of the allowable 3% increase in the property tax portion of the General Fund budget.

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This would be offset somewhat by a 0.25% increase in the electric utility franchise fee, which, given the recent decrease in Idaho Power rates, will still result in lower electricity bills for most customers. As the General Fund continues to be limited in its resources, its ability to fund essential capital needs, particularly repair and maintenance, is reduced. By policy, revenues from this franchise fee are dedicated to capital improvements, so this revenue will help the City maintain its critical public assets.

By contrast, the Fiscal Year 2013 Budget presents us with two more difficult challenges – the first short-term, the second long-term:

- *Correcting the Course:* Lowering the cost curve in the General Fund by \$2.5 million to \$3.5 million in base spending per year. This amount will become definitive as the Council affirms policy assumptions for FY 2013 and beyond.
- *Staying the Course:* Constraining the growth in base costs going forward to correspond to the decreased growth in the revenue line, which is projected to rise just 2.75% per year. By contrast, 8% to 12% increases in General Fund revenues were not uncommon during the mid-2000s.

Because labor costs are a sizable portion of the budget, reducing those costs will necessitate changes to City operations and services to citizens. It will also result in a reduction in personnel; as has been our practice, we would strive to achieve this decrease through early-retirement incentives and/or elimination of vacancies, but some layoffs may be unavoidable.

It is tempting to achieve this financial balance via blunt, across-the-board expenditure cuts throughout all 12 City departments. But such an approach would fly in the face of our years of commitment to align our spending decisions with citizen priorities. The same strategic planning tools we have used in past years to expand services based on those priorities should be the basis for the service reductions we now face.

To develop this targeted strategy, I am proposing a two-stage process for considering and adopting this two-year budget.

Unlike previous biennial budgets, this document proposes specific program details and expenditure targets only for the first fiscal year, FY 2012. Determining the systemic changes necessary to recalibrate the budget long-term beginning in Fiscal Year 2013 will require substantive policy decisions by the City Council. You will receive a facilitation package specifying the critical decision points prior to the Annual Budget Workshop, June 27 through 29, 2011. On the second day of the workshop, I will ask the Council to affirm my recommendations for strategic service reductions that the City should pursue to allow us to achieve balance in FY 2013 and beyond.

Departments will develop detailed plans based on that direction over the fall and early winter, with all necessary service changes ready to be fully implemented by the *Fiscal Year 2013 Budget Update*.

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PRIORITIES FOR FISCAL YEAR 2011 END-OF-YEAR (ONE-TIME) FUNDS

Given the precarious state of the City's revenue sources and the unlikelihood that they will produce a windfall in the closing months of the current fiscal year, any end-of-year (EOY) balance is likely to be limited and its potential uses even more so. I propose that such fund balance be prioritized as follows:

1. **Maintaining the cash-flow reserve.** For several years, the City has worked toward a General Fund cash flow reserve of 8% of annual budgeted base revenues. I am recommending that we access a portion of this reserve in Fiscal Year 2012 to fund the unanticipated City Hall code upgrade; EOY funds would decrease the utilization of the reserve for this purpose.
2. **Funding of high-priority deferred equipment purchases.** As part of their cost-containment efforts during the past year, some departments opted to delay purchase of needed equipment. In an effort to avoid an equipment expenditure "bubble," I recommend that remaining FY 2011 monies be used to purchase the deferred equipment items if deemed appropriate.
3. **Funding a portion of the Fire/Police health-care trust payment.** In October 2010, the police and fire unions opted out of City-funded premium contributions and formed their own health trust, which greatly assisted the City in reducing future financial liabilities. As noted, the unions have offered to defer the final \$1.4 million payment from the City to establish its independent trust. Although we have up to two additional years to make this payment, I feel it would be prudent, if EOY funds are available, to set aside a portion of the payment now.
4. **Funding one-time goal-achievement compensation.** As noted previously, I am proposing no compensation increases for general (non-union) employees during the coming year. Providing one-time resources for employees who have performed in an exemplary fashion during the current year is part of our commitment to performance-based pay.

HIGHLIGHTS OF FISCAL YEAR 2012/2013 INITIATIVES

Despite the myriad economic hurdles we face, the City must continue to offer high-quality services to our citizens. Although my proposed budget recommends no additional personnel and in fact calls for elimination of vacant positions, City departments are poised to push forward with several important new initiatives to enhance services using existing – and in some cases, even reduced – resources. These initiatives, ranging from public safety to recreation programs, are detailed in each department's draft goals section of this budget.

Some capital projects should move forward, even in a climate of restricted resources, due to safety concerns, contractual obligations, the need to preserve and protect public assets, opportunities to see a favorable return on investment, or the chance to address strategic deficiencies that have minimal impacts on ongoing operating costs.

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Likewise, neglecting essential repair and maintenance is a false bargain; it simply increases costs down the road. The City learned that lesson the hard way in the early 2000s, when it neglected maintenance of important public assets for years – a backlog that took many more years and millions of dollars to eliminate.

We do not want to find ourselves in that situation again. We also find ourselves in a favorable bid environment; materials costs are only going to increase in years to come, and our maintenance projects help keep private companies open and their workers employed. Therefore, I am proposing \$3.3 million in General Fund repair and maintenance projects, ranging from parks repairs to fire hydrant replacement, in Fiscal Year 2012, and \$3.7 million in Fiscal Year 2013.

It is also important to ensure that our existing information-technology infrastructure is maintained and operates successfully. This budget includes several new IT initiatives to help us work more efficiently with fewer personnel while still providing excellent customer service, totaling \$1.8 million in Fiscal Year 2012 and \$902,000 in Fiscal Year 2013.

All proposed capital projects for Fiscal Years 2012 and 2013 have been subjected to a prioritization process based on these factors. Among the highlights of these initiatives, recommended funding amounts and sources of funds:

- **Airport Parking Garage Expansion** (*FY 2012 \$1,700,000, FY 2013 \$15,627,000, Airport Fund operating cash flow and bonded debt*). The Airport has experienced a shortage of close parking stalls in the parking facilities the past several years at peak periods. This project is to expand the garage by an estimated 920 parking stalls for public parking on the north side of the existing garage. The favorable bid environment and rising costs of steel and concrete makes this an opportune time to move forward on this project.
- **City Hall Code Updates** (*FY 2012 \$1,320,000, FY 2013 \$1,760,000, cash flow reserve*). This project will bring the City Hall facilities up to current seismic and fire building codes and improve customer service accommodations on the first floor. Work is being concluded in three phases over six years.
- **Julia Davis Park Partnership** (*FY 2012 \$1,279,999, public-private partnership*). The Davis family is spearheading a major capital campaign to fund park renovations and upgrades. Planned projects include adding a parking lot adjacent to the band shell, removal and revegetation of the south river road, constructing a central plaza, two picnic shelters, restroom facilities on the east end of the park, adding security lighting and park-wide informational signs.
- **Marianne Williams Park** (*FY 2012 \$1,043,000, FY 2013 \$1,600,000, impact fees*). In 2006, the Williams family donated this 71.5-acre park site in the Harris Ranch area. The site will

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include natural open space, manicured open space, recreational trails, fishing and wildlife viewing. Other park amenities will include a restroom, group shelter, gazebo, fishing pier and dock.

- **Stewart Gulch Park** (*FY 2012 \$650,000, impact fee*). This phase of the project will provide for continued green-up, restroom installation, a picnic shelter, walking paths and a basketball court.
- **Dixie Drain Compliance Alternative** (*FY 2012 \$500,000, FY 2013 \$500,000, Sewer Fund retained earnings*). The City expects to partially meet its wastewater discharge permit compliance requirements for phosphorus removal through a treatment process at the Dixie Drain, a 49-acre tract of land adjacent in Parma, Idaho. This innovative project is contingent upon approval from the federal government and holds significant environmental benefits as well as saving ratepayer dollars.
- **Neighborhood Reinvestment Grants** (*FY 2012 \$400,000, FY 2013 \$400,000, tax support*). The program allows neighborhood associations to request grant funding for capital improvements in their neighborhoods.
- **Terry Day Park** (*FY 2012 \$400,000, tax support*). This project provides funding for park green-up and will include other park facilities in an area of the city that is significantly underserved by parks. The project is also expected to aid redevelopment in the area.
- **Peppermint Park** (*FY 2012 \$345,000, impact fee*). Projects include adding amenities such as two tennis courts and a basketball court. These projects will complete the build-out of the master plan.
- **Somerset Park** (*FY 2012 \$250,000, impact fee*). Funds will provide for a playground, tennis courts, basketball courts, shelter, restrooms and open play fields.

CONCLUSION AND NEXT STEPS

Because of the difficult decisions that confront us in preparing this biennial budget, we will need to rely more than ever on the ideas and guidance of our citizens. Commencing immediately and continuing until the budget is approved, my office and the Financial Services Division will conduct an extensive public outreach process, including:

- A pre-Budget Workshop public comment opportunity at the City Council's June 21 meeting.
- A special Mayor's "Saturday Office Hours" on July 16, with an invitation for residents to bring budget questions and concerns.
- A July 19 public hearing on proposed increases in City fees.

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- Use of social media, including the Mayor's eMemo, Facebook and Twitter.
- The annual Budget Hearing on August 16.

As always, we will provide live TVCTV and Internet streaming of the June budget workshop, the July 19 fees hearing and the August 16 Budget Hearing. Throughout this process, I welcome additional public comment via:

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Sincerely,



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