# City of Grand Island

## Thursday, August 05, 2010
## Special Meeting

# Item X2

## Review and Approval of Proposed FY 2010/2011 City Single Budget (Continued)

***The City Council will continue the discussion and review of the Proposed FY 2010/2011 City Single Budget from the Special Meeting held on Tuesday, August 3, 2010. Additional Budget meetings will be held as needed..***

**Staff Contact: Jeff Pederson**

CITY OF GRAND ISLAND

Working Together for a
Better Tomorrow. Today.

July 13, 2010

Honorable Mayor and City Council

Submitted herewith for your consideration is the City of Grand Island 2010/2011 Proposed City Budget. This document represents the City's financial plan for the upcoming fiscal year beginning October 1, 2010, and it reflects a comprehensive process of allocating resources to programs that have been prioritized as important to the achievement of outcomes associated with Key Result Areas that have been identified by the City Council.

The importance of this "prioritization" process lies with the recognition of the growing annual imbalance between current revenues and annual operating expenses that was first illustrated with the use of the Financial Trend Monitoring System (FTMS) for the years of 1998-2008. FTMS information fulfilled much of the fiscal "diagnostics" that brought to light the weakening of the City's fiscal health over that period, resulting in a realization that new thinking and new strategies were needed to achieve long-term financial sustainability.

Annual increases in operating expenses for General Fund programs have outpaced growth in operating revenues in recent years, and the City became reliant upon reserve appropriations to balance the budget. With the reserves being reduced to a level within the range of acceptability, and with revenue growth slowing due to economic conditions, reductions to program spending are necessary to meet the fiscal reality that requires the City to "spend within our means".

## PRIORITIZATION

Against the backdrop of these revenue constraints, a new process was needed to thoughtfully develop the 2010/2011 Budget. Program Prioritization is intended to be a more progressive strategy in response to budget reductions than traditional "across the board" budget cuts that many governments employ in an effort to treat cuts "equitably" among departments. The logic here is that "core" services and programs should not be cut at the same level as less important programs, any more that one would make a reduction to a household mortgage payment before seeking to trim discretionary expenses such as eating out and entertainment.

Drawing on experience from other communities, the City endorsed Program Prioritization in the broader context of resource management with a special emphasis on

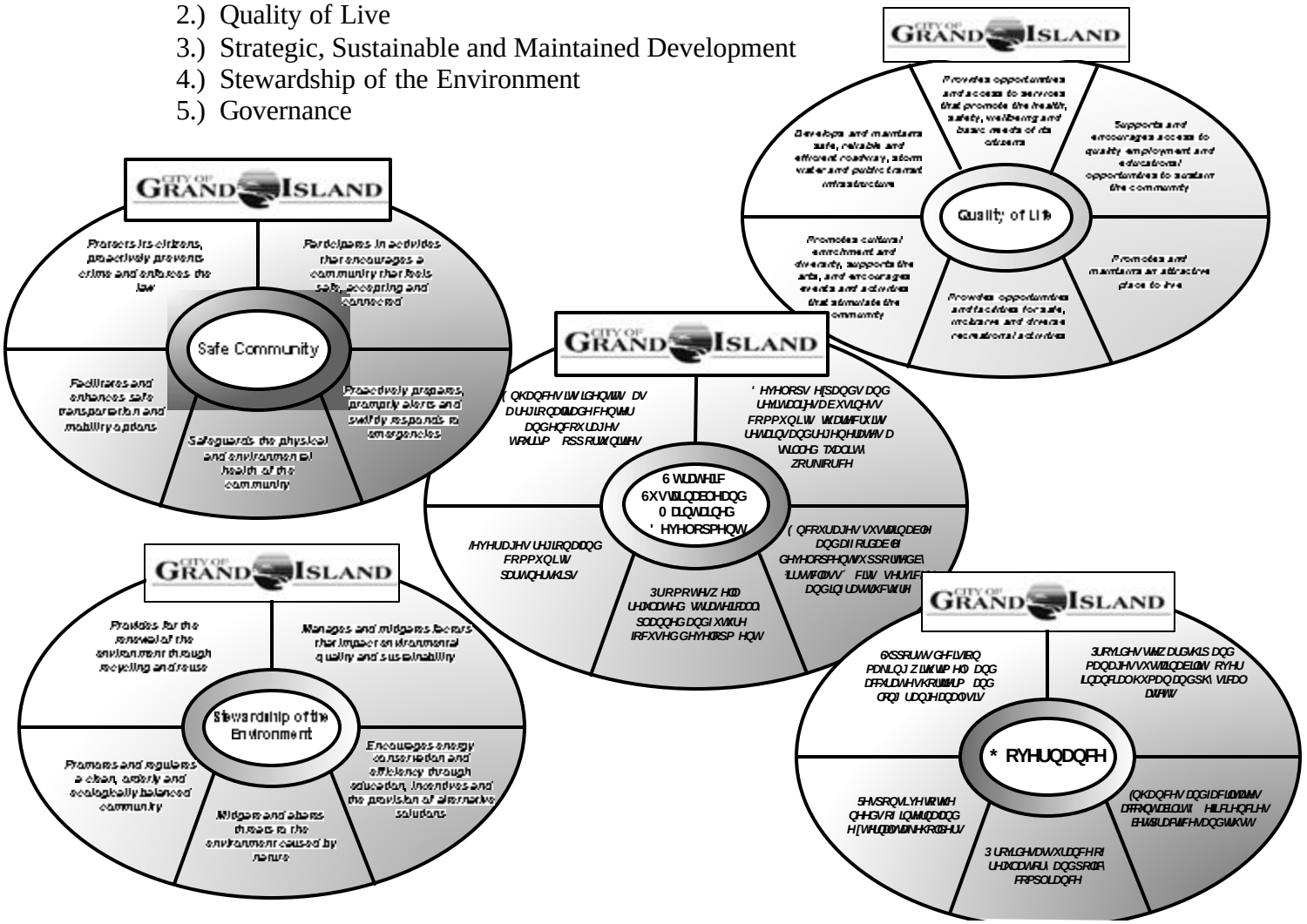
Programs rather than on line items or on entire departmental budgets. This new focus is expected to result in better decisions for resource allocation through careful evaluation of each program and service; understanding those services better within the context of local priorities; providing a higher level of understanding among decision makers, enabling them to rank services based on community priorities and clearly articulating how services are valued and funded.

**Result Maps**

Without formal guideposts to navigate the prioritization process, the City Council and management team spent two evenings identifying the Key Results that the City is in business to achieve. Department Directors then inventoried all programs for the purpose of articulating a cause and effect relationship between programs and the Key Results. A formal scoring process was then used to accurately value all programs relative to their influence on achieving Results. Programs were scored by a multitude of factors including whether the demand for the service was increasing or decreasing, whether program costs were covered through charges or fees, whether a governmental mandate for the program existed, and others.

Five areas deemed most vital for the City of Grand Island Government to impact, called "Result Maps", were developed.

1.) Safe Community
2.) Quality of Live
3.) Strategic, Sustainable and Maintained Development
4.) Stewardship of the Environment
5.) Governance



**Departmental Budget Targets**

The scoring process allowed programs to be ranked within each Department, and the array of program rankings was divided in to four quartiles from which the relative "importance" of all programs could be illustrated. With the need to reduce the General Fund Budget by $1.9m, it became necessary to determine reduction targets for each of the four quartiles. Budget reduction targets for operational departments were established based upon the following schedule: Quartile 1 Programs; (2%) - Quartile 2 Programs; (6.5%) - Quartile 3 Programs; (11%) - Quartile 4 Programs; (16%). Reductions were also made to all four tiers for programs that fell within the "Governance" category, which are by nature support/compliance departments and therefore experienced a maximum tier reduction of 4%.

Overall Departmental targets were established by the cumulative impact of quartile reductions applied to previous budget costs for respective programs, meaning that the actual percentage reductions to Departmental budgets varied depending on the level of program costs that fell within each of the four quartiles. It is important to note that Department Directors were required to absorb expense increases attributable to employee compensation *within* their new budget targets rather than having additional money made available to fund such increases.

## FORMULATION OF DEPARTMENTAL BUDGETS

The ranking of programs within the Program Prioritization process produced a re-allocation of resources between Departments stemming from where respective programs ranked in the four quartiles. The fact that $1.9m had to be cut from the General Fund necessitated the need to include all program quartiles in the funding reduction, meaning that even the highest level programs would have less funding in the new Budget. To "protect" funding for Quartile 1 for example, would have resulted in greater reductions for the other quartiles and also would have lessened the requirement for resourcefulness and efficiency in preserving even the core programs associated with that Quartile.

Once given their respective budget targets, Department Directors were directed to prepare a budget using program rankings as a "guide", but not as an absolute. Many reasons might exist why it might be wise to preserve a Quartile 3 program over a Quartile 4 program, therefore Directors were allowed to use their professional judgment to make final determinations on resource allocations. The fact that the overall array for the General Fund revealed a disproportionate amount of program expense associated with Quartile 1 and Quartile 1 programs made the decision making process more difficult as this was in fact a validation of the fact that previous resource allocation was closely aligned with the new Result Areas.

**Budget Format**

The format of the Proposed Budget document has evolved to reflect the emphasis on programs that is inherent in Program Prioritization. Again, we are confident that this new focus will improve decision making at all stages of the budget including the deliberation that will occur with the City Council.

The Budget book follows a similar sequence as in previous years, with the most noticeable difference being the absence of expenditure line items for the respective Departments and programs. While line item detail disclosed the "expense" of the multitude of cost components of Departments, it did very little to assist in the understanding of the "impact" or "value" of individual programs that are conducted within a given Department. Therein lies the fundamental shift in emphasis in the operational budget away from isolated cost components in favor of program impacts.

Budgets for each Department are presented by Program, with cost identified for personnel expenses as well as for operating expense. Included in the Program information is the Quartile within which the respective Program was scored, as well as the FTE count for the Program. Importantly, included also is an Impact Statement that describes any significant change in Program capacity due to a change in dollar allocation.

## BUDGET OVERVIEW

The 2010/2011 Proposed Budget for the City of Grand Island recommends total combined operating and capital expenditures of $147,176,927, excluding interdepartmental and inter-fund transfers. This represents an 8.27% decrease in expenditures compared with the 2009/2010 Adopted Budget of $160,449,249.

### The General Fund

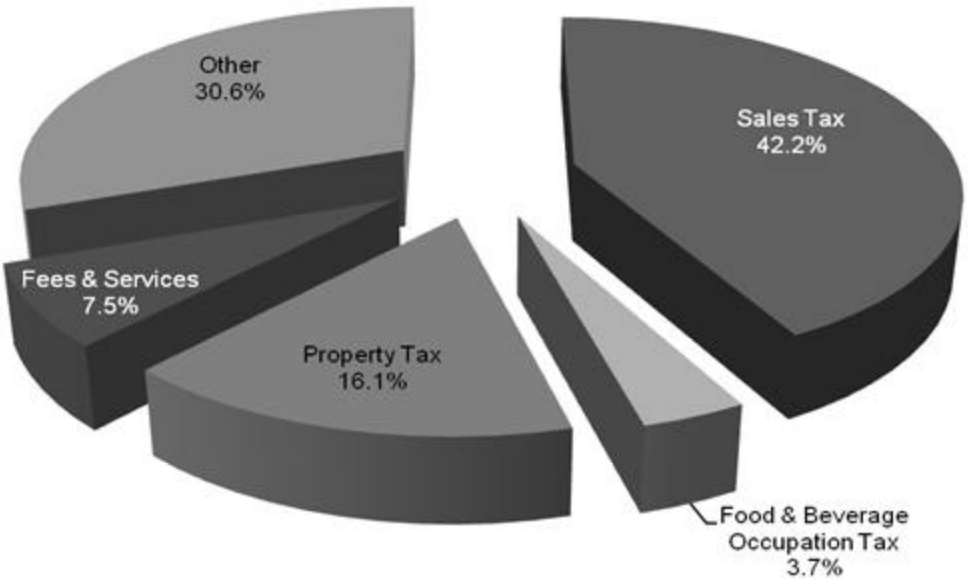
Total proposed spending for the General Fund is $35,652,272, which is a decrease of $1,805,210 from the previous year. Forecasted revenues for the new fiscal year are projected to be $31,892,246, excluding inter-fund transfers. This represents a decrease of 2.04% compared to the amount budgeted for the current year, and an increase of $1,355,787 over the actual amount projected to be received in the current fiscal year.

Sales Taxes is the single largest source of revenue for the General Fund and is estimated at $13,457,800 for 2010/2011. While monthly sales tax collections for the past two months have shown some recovery from the economic downturn, we believe it is prudent to project that a full recovery will not occur in the next budget year and consequently revenue from this source is projected to generate approximately the same amount as it did two years prior. This is significant, as it essentially means that the revenue source that comprises over 40% of the General Fund revenue stream will not have contributed additional resources to meet expense growth.

This Proposed Budget presumes no increase to the mill levy for Property Tax, although the amount of $320,600 in additional revenue from this source is expected to accrue from increase in property valuation. Total revenue from Property Tax is projected to be $5,118,000, which represents a return to a "flat line" for property taxes.

The pie chart that follows provides a comparison of the five major sources of General Fund revenue. Total anticipated revenue for all sources combined is $31,892,246.

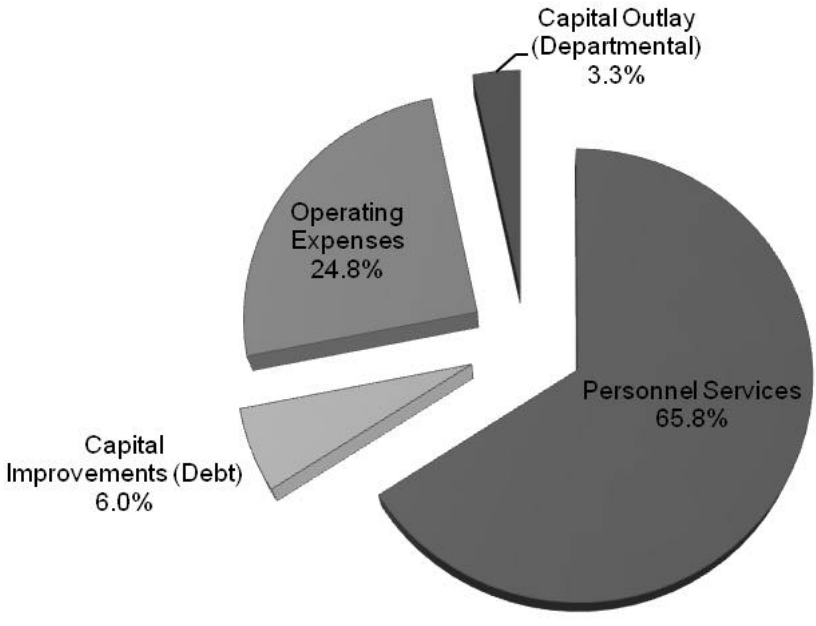
SUMMARY OF GENERAL FUND REVENUES BY SOURCE




The pie chart that follows shows the major expenditure categories for programs in the General Fund, with personnel services being the largest slice at 65.8%. This category of expenditure is especially noteworthy in the Proposed Budget, as a reduction in spending of 2.54% or $611,190 is accomplished while still absorbing compensation increases associated with annual wage adjustments for some employee groups and the continuation of the merit-pay plan for all employee groups. A net reduction of 29.8 full-time equivalent positions within General Fund Departments was necessary in order to meet respective Department budget targets.

Of equal significance is the planned reduction of 10.31% or $1,016,620 in spending for operating expenses compared to the prior-year budget. This reduction is attributable to a combination of program reduction and increased operational efficiency.

GENERAL FUND EXPENDITURES



**Enterprises**

The Enterprise operations of the City include Electricity, Water, Wastewater Treatment, Solid Waste, and Golf Course. The combined appropriation for these operations is $85,715,535, compared to $96,413,317 budgeted for the prior year.

Each of these operations participated in the program prioritization process, including development of program inventories and associated cost determinations. The enterprises each operate on a "charge for service" basis that is intended to sustain all costs of operations. While budget reduction "targets" were not deemed necessary for the enterprises, the Program Prioritization process was nonetheless used to assess funding priorities within these operations.

**Capital Improvements Plan**

The Capital Improvements Plan is included with the Proposed Budget, and it is intended to address the necessary capital needs of the City. The proposed expenditure for CIP projects is $4,217,081, which includes $1,100,000 for a major renovation of Lincoln Park Pool that would necessitate a public referendum for bonding authorization. Other major projects include continuation of the Northwest Drainage Project, the CCC to Wood River Diversion Project, a roundabout on Capital and North Road, and completion of the Veterans Athletic Complex.

Revenue to complete the 2010/2011 CIP is comprised of $1,193,066 from current operating revenue (including State Gas Tax), $555,400 from Special Assessment re-payments and Keno, and $2.468.615 from the issuance of bonds. The use of debt-financing is projected to be necessary over the next five years as a "bridge" to 2016 when debt payments on the Library and the Police Building will be completed and revenue currently dedicated to those will become available for CIP funding.

## Summary & Acknowledgements

In spite of employee expense increases and the non-availability of reserve appropriation, the City is able to present a balanced budget for the General Fund for next year through a combination of measures, including:

* Reducing levels of services for various programs, with corresponding recommended staffing reductions (including conversion to outsourcing)
* Increased efficiency/effectiveness through position realignment
* Increased operational efficiencies through reduction to operating expenditures
* Increased charges for services to more nearly reflect actual costs

The declining financial health of the City, exacerbated by the effects of the economic downturn on City revenues, necessitated a shift in direction and approach to budget development. I wish to commend the City Council, Department Directors, Division Heads, and budget staff for responding to this challenge through the implementation of the Program Prioritization process as a primary means to pursue fiscal health and wellness for the City.

The conversion has been a major undertaking, and countless hours were spent at each stage in the process. There are some reductions to programs, and the process of reducing nearly $2m from the General Fund has brought about the painful reality of some position cutbacks. This Proposed Budget does represent a continued commitment to quality programs and services while also committing to investment and reinvestment in quality facilities and infrastructure.

Jeff Pederson

City Administrator