

Memorandum



Financial Services

Date: September 1, 2008

To: Mayor and Council

Through: Charlie Meyer, City Manager (8884)

From: Jerry Hart, Financial Services Manager (8505)

Subject: Fiscal Year (FY) 2008/09 General Fund Contingency Budget Plan

At the July 22nd Issue Review Session, staff presented to Council a number of potential funding requirements that were not anticipated in the adopted FY 2008/09 budget of the General Fund. Council then directed staff to come back with a plan for financing these unanticipated needs. At the August 14th Issue Review Session, the Council also asked staff to include in the plan for consideration \$115,000 of additional Tempe Community Council (TCC) agency funding. The additional estimated funding needs totaling \$2,757,955 are summarized as follows:

<u>Description</u>	<u>Estimated Amount</u>
Fuel	\$ 650,000
School Resource Officers	165,000
State Reimbursement	557,955
Qwest Settlement	100,000
Employee groups- Memoranda of Understanding	1,000,000
Department of Public Safety Crime Lab Fees	170,000
TCC Agency Funding	<u>115,000</u>
Total	<u>\$2,757,955</u>

- As you are aware, **fuel** prices have declined over the past few weeks; however, given the continuing uncertainty in the market, our estimate of the additional needs remains unchanged.
- The **state reimbursement** (reverse revenue sharing) above includes legal fees. The League of Arizona Cities and Towns is currently challenging the legality of the state-imposed payment obligation. Based on some preliminary research conducted by the legal team that was hired, it is possible that we may not have to pay.
- Our potential reimbursement to the Department of Public Safety for use of their **crime lab** has been reduced as the Governor has agreed to utilize other available funding to reduce the reimbursement obligation of the jurisdictions that utilize the state crime lab.

As was requested, staff has developed a **plan of financing** for these additional known requirements for your consideration. The sources of this financing totaling \$2,757,955 can be summarized as follows:

<u>Description</u>	<u>Estimated Amount</u>
2008/09 General Fund contingency budget	\$1,286,000
Vehicle replacement deferral	468,000
Position “freeze”/line item adjustments	<u>1,003,955</u>
Total	<u>\$2,757,955</u>

- **Contingency Budget** – This budget is set up to pay for exactly these kinds of unanticipated costs so it would be applied first.
- **Vehicle Replacement Deferral** – Staff has re-evaluated all planned vehicle replacements for 2008/09 and concluded that a number of vehicles could either have replacement deferred for at least one year or a few vehicles not replaced at all.
- **Position Freeze/line item adjustments** – Until now we have been operating under a soft freeze meaning that any salary savings resulting from normal staff turnover is removed from departmental budgets to a reserve account. This new proposal would earmark specific positions that are either currently vacant or known to soon become vacant and freeze them for a fixed period of time. In identifying positions, we took great care to minimize any deleterious impacts to service delivery to our citizens. Department budgets will be further trimmed to meet the budget gap target where positions couldn’t be identified to freeze.

Staff is seeking council direction on this plan of financing for these identified needs. This plan only addresses the known impacts as previously identified. Of much greater concern is a potential revenue shortfall from sales tax above and beyond everything in this plan. In the sales tax report provided to the Council dated August 21, 2008, we highlighted a shortfall of 9% in July sales tax revenue collected or about \$650,000. Extended to the full year, that rate of sales tax collection *could* result in as much as a \$7,000,000 shortfall for the year. While we would not project that level of shortfall based on one month’s experience, we do believe it is necessary and prudent to anticipate some significant revenue shortfall.

It is reasonable to assume that the measures needed to offset a several million dollar shortfall will be far more onerous than anything proposed to date. Staff is currently developing a scalable budget plan, dependent on the size of any estimated revenue shortfall, designed to address our potential financial challenges. We will report back to the Council on September 18 with a progress report addressing this issue.