

Memorandum

City Manager's Office

Date: October 31, 2008
To: Mayor and Council
From: Charlie Meyer, City Manager
Subject: **IRS Budget Status Update**

Background:

As presented in previous meetings, we originally identified and began addressing an anticipated FY 2008/2009 budget shortfall of \$3 million to \$7 million in local sales tax. However, after examining the broader economic forecasts, it has become clear that this is not a matter of addressing a one time – one year shortfall, but rather a four to five year budgetary challenge. The State economic forecast shows that the State's revenues of corporate and individual income tax and sales tax have dropped in the current year and will drop again in 2009/2010 before they start to come back in the next couple of years. However, it will still take until 2011/2012 before revenues reach the levels they were in 2007/2008. The City of Tempe derives the majority of its revenue from sales tax and from State shared revenue which is based on the above sources. Therefore, it is reasonable to expect that our revenue picture should mirror the forecast for the State.

Thus, our challenge will exist over a four to five year period. To attack this challenge we have developed a phased process with a key purpose in mind:

Establish a high performing and financially sustainable organization that is providing superior levels of service to ensure that Tempe is the best place to live, work and play.

In addition, we start with the premise of avoiding layoffs by developing plans that allow us to reduce budget through attrition. To achieve an economic sustainable organization in a four or five year period, we will pursue the following:

Phase 1:

Generally, this is already underway. We collected budgetary savings ideas and suggestions from City employees. We have developed a budget balancing worksheet, which allows us to interactively change assumptions about staffing levels, pay and benefit levels, revenues and other budgetary costs, and see the immediate

impact of those changed assumptions. That worksheet has been discussed with Department Managers and the leaders of our employee organizations. The transparency of the model allows all interested parties to give input on assumptions and where we decide to spend, or save money.

We have developed a detailed inventory of pay related and benefit related items. We are currently in the process of creating a worksheet for pay and benefits that, similar to the budget balancing worksheet, allows us to change assumptions about pay and benefit levels and see what the impact is to the various employee groups and the City as a whole.

Finally, we have collected ideas for restructuring, reorganizing, and downsizing and are beginning the process of reviewing those ideas with various stakeholders to determine feasibility.

Both the pay and benefits worksheet and the restructuring plan have to balance back to the budget balancing worksheet. For example, if we were to determine that we wanted to scale back the number of staff reductions through the evaluation of restructuring ideas, we would then put the budget balancing worksheet out of balance and know that we had to go back to other areas for offsets.

Phase 2:

Utilize the “budget balancing worksheet”. Meetings would be held with department managers and with our employee groups to start to develop recommendations on populating the worksheet. This worksheet establishes parameters of expenditures and revenues that, over the next four years, require us to reach and maintain a balanced budget for each of the five years in the plan. The value of this worksheet is that all stakeholders can test and examine different combinations of variables to determine the appropriate cost reduction steps. It provides a transparent process.

Phase 3:

Undertake the process of evaluating reorganization ideas and staff reductions to determine what is feasible. Determine which staff reductions can be accomplished through restructurings that have minimal impact on services. Involve impacted stakeholders to determine the best staff structure for optimizing services while meeting budgetary constraints.

Phase 4:

Begin meeting with our employee groups on the process of allocating wages and benefits. Since it will likely be necessary to change the way we allocate wages and benefits to all employees, and within each bargaining unit, we can start that process that will be the foundation for negotiating our MOU's.

Phase 5:

Present the entire process to City Council at a “to be scheduled” budget workshop probably in early December. We would walk through each of the models so that Council would have sufficient background on how each works. We would then discuss with Council the major assumptions with each model and share the discussions, to date, on what we think it will take to implement the budget balancing model. We would also review the policy proposals that Council will need to consider in order to make the model work. To the extent known at that time, we would share possible service level implications.

Finally and importantly, this phased work plan hinges on a policy decision by City Council. That Council policy would be to require that staff bring forward a five-year financial plan that is balanced in each of the five years. By doing so, it would likely place us in better light with our Bond Counsel, eliminate these peaks and valleys of our economic times, and reduce employee uncertainty and angst.

To conclude, my goal is to share with you the next steps in the process, the value of the budget worksheet, the need to consider a key policy decision and the understanding that whatever cost saving decisions are made to maintain financial sustainability, we must be readily cognizant of the impacts to our community programs and services.