

City of Delray Beach
Financial Review Board

July 23, 2010

Honorable Mayor McDuffie & City Commissioners:

Attached, please find the Financial Review Board's budget balancing options following the City Manager's format. We are in agreement with a number of the options presented by the City Manager. However, due to the fact that some of the options will require collective bargaining or negotiation, there is uncertainty whether the projected reductions can be achieved. Accordingly, we have provided additional or alternative recommendations. We are in disagreement with some of the options as they are inherently temporary measures and thus do not serve to reduce the spending base for future years or otherwise we believe there are other or better ways to reduce spending. Lastly, we have provided additional opportunities for increasing revenues and / or further reduce spending. We will be happy to discuss our recommendations if you so desire.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Howard Ellingsworth". The signature is fluid and cursive, with a large initial "W" and "H".

W. Howard Ellingsworth
Chairman, Financial Review Board

City of Delray Beach
Financial Review Board

SPECIFIC GAP CLOSING RECOMMENDATIONS

Departmental expenditure requests	\$100,092,050
CM individual line item reductions (1)	1,672,790
Current net total expense	\$ 98,419,260
Revenue estimate at the current millage of 7.19	\$91,146,290
Total Revenue / Expense Budget Gap	\$ 7,272,970
CM July 13 recommendations:	
Reduce the transfer for Capital Improvements (2)	1,500,000
12 unpaid furlough days for all employees (\$ 2,080,000) (3)	
Eliminate City contribution to Retiree Health Trust (VEBA)	703,800
Pension Plan changes	2,000,000
Reallocate Engineering Division costs away from General Fund	445,666
Reduce Fire Department Minimum Manning by two (\$ 500,000) (4)	
Additional line item adjustments (\$ 43,504) (5)	
Total Revenue / Expense Budget Gap after FRB deletions	
	\$2,623,504
FRB July 20 recommendations:	
Reduce Fire Department Spending (4)	500,000
Reduce vehicle rental fees from GF to Garage Fund (6)	181,000
DDA administration fee (7)	87,000
DDA / CRA / private source funding for Commission external spending (8)	127,100
Eliminate Assistant City Manager position (9)	135,836
Reduce by 50 % General Fund spending for Grants and Aids from FY 2010 level of \$ 1.85 million (10)	900,000
Additional permanent departmental spending reductions to be decided by each department head, to meet targets established by CM based on staff's functional prioritization activity. (11)	692,568
Total Revenue / Expense Budget Gap	\$0

City of Delray Beach
Financial Review Board

Discussion

1. Details of this spending reduction not available, resulting in possible double counting.
2. The Board agrees with the use of reserve funds for capital improvements, with two cautions: (1) avoid capital projects that impose additional spending requirements on future years (e.g., for maintenance or additional staffing); (2) recognize that this is a one - time item that does not reduce future spending needs.
3. There are several disadvantages to this approach. By its nature it is temporary and so does not establish a reduced spending base for subsequent years. It is across the board rather than being based on any functional prioritization and therefore risks a reduction in essential services to residents and businesses. Temporary staffing reductions temporarily shift existing work from one employee to another rather than driving any long term productivity or efficiency gains. Operationally, the often random nature of furlough requests makes staff planning more difficult. It misses opportunities to reduce non - staff spending.

The Board believes that these disadvantages are dispositive, and recommends against this item.

4. In responding to a resident's inquiry about what appears to be a similar staffing strategy in effect since late 2009 at Station 2, Chief James said,

"Station 2 is the only Delray Beach fire station staffed using the "peak hour" strategy described previously. I believe the current staffing strategy that included upgrading the fire truck to Advanced Life Support (Paramedic/EMS Medical Rescue) capability does provide adequate temporary protection to residents and visitors. Is the protection equal to our other response areas? No."

"We are requesting the return of full time staffing of Rescue 2 in our FY '10 -'11 budget."

The Board believes that to the extent that this item could result in an expansion of the Station 2 situation, it would not be optimal. Even if this risk is not present, the item is temporary and would not induce productivity or efficiency gains. The Board recommends against it.

The Board believes that there are other, better, opportunities to reduce the Fire budget from the level requested by the department. For example, the Atlantic High School Fire Academy is a non - essential service; line items in the budget appear to be overstated, and there is spending but no revenue from increased collections for the EMT services. Rather than specifying specific operational changes, the Board recommends that a \$ 500,000 saving be achieved by specific cuts selected by the Chief and his senior staff. This would be approximately 2 percent of requested Fire Department spending.

5. The Board recommends the revenue / expense gap be closed completely now by explicitly identified cuts. This unallocated amount has been included in item 11.
6. The requested vehicle rental fees of \$ 1.81 million would result in a year end project reserve of \$ 224,300. The Board recommends a one time ten percent reduction in rental fees of

City of Delray Beach
Financial Review Board

\$ 181,000, which would fully cover expected Garage expenses while resulting in a lower but positive reserve.

7. The DDA was established as a special taxing district in 1971. The original City resolution (Resolution No. 9-71) stated the primary purpose of the special taxing district was to address the lack of parking in the downtown area. The resolution provided ad valorem taxing powers of up to one mill. The DDA has assessed the full one mill since inception. That resolution along with the related House Bill was modified in 2003 to broaden the purpose and powers of the DDA to include promotion and marketing responsibilities for the downtown area. The DDA district was expanded and now includes the area from A1A to I-95 and approximately 2 blocks north and south of Atlantic Avenue. The DDA's annual ad valorem tax revenue has been in excess of \$500,000. For the fiscal year 2010/2011, the DDA's ad valorem tax revenue is expected to be approximately \$435,000.

The DDA has done an exemplary job at putting on events and bringing people to the downtown and has been a valuable resource for the downtown businesses. The DDA has been involved with a number of initiatives which have contributed to the success of the downtown area including the "Clean and Safe" program, downtown banners and decorative lighting on Atlantic Avenue. However the costs for these programs are primarily, if not entirely, funded by the City and the CRA. Additionally, parking in the downtown area is still a concern and with the addition of the Old School Square parking garage has become a significant financial burden to the City. Adequate and convenient parking is a critical component for the long-term success of the downtown. The original purpose of the DDA was to address parking in the downtown area.

Based on the above it is appropriate and equitable that the DDA contribute towards these costs as this is directly within its mission and purpose. Its contribution could be in the form of a City administrative fee for events and parking. The administrative fee could be based as a percentage of the DDA's revenue. In view of the significant investment and costs the City and CRA, and thus taxpayers, contribute towards the above mentioned programs and facilities, we suggest that the assessment be 20% of DDA revenue. For this fee, the City could consider providing additional administrative services and perhaps office space to DDA. This would generate approximately \$87,000 in additional revenues for the City.

8. The functions and amounts are:
Contractual Function: National Citizen Survey (\$11K), Goal Setting facilitator (\$12),
Langton & Associates (\$60K), ECIVIS grant programs (\$18K).
Special Events Function: Sister Cities Committee (\$1.8K), AVDA (\$1K), MLK
Celebration (\$0.5K), and DMC Christmas Tree (\$22.5K).

The Board suggests that these functions be evaluated and, if deemed essential, that funding be sought from private sources and from DDA and / or CRA.

9. This second of the City's two Assistant City Managers is budgeted in the City Manager's office, with responsibility to oversee the Public Information Office, to provide support and assistance to the City Manager, to support and participate in the City's state and federal lobbying efforts, to provide progress reports to the City Commission, to oversee the City's grant research program, to serve on the Police and Firefighters Board of Trustees, to serve as ADA Coordinator for the City, and to attend meetings. The position also oversees the Clerks Office and reviews and monitors City Commission agenda items on behalf of the City Manager.

City of Delray Beach
Financial Review Board

The conceptual basis for the ACM position is to perform highly visible functions that otherwise would fall to the City Manager, to provide cross departmental coordination when required, and to provide management continuity and to fulfill an informal "succession planning" requirement. We believe that each of these roles is important; but, that taken together then do not justify this position. We recommend that the ACM position be eliminated and that the City Clerk report directly to the City Manager, with the Public Information Office reporting to the City Clerk. Neither the incumbent ACM nor the City Manager agrees with this recommendation.

10. This information is not yet available for FY 2011. The items and funding levels shown below are based on the current year's budget:

Economic Environment: Economic Development \$22,500, Joint Venture \$38,000, American Legion \$25,000. Evaluate and replace if deemed essential with funds from CRA and private sources.

Human Services: American Legion \$25,000, Mae Volen Senior Center \$12,000, Community Child Care Center \$23,750, Boys and Girls Club \$28,500. Evaluate and replace if deemed essential with funds from CRA and private sources.

Culture Recreation: Expanding and Preserving Our Cultural Heritage \$33,250, Friends of Sandoway House \$22,800. Evaluate and replace if deemed essential with funds from CRA and private sources.

Old School Square \$194,750: From 2000 through 2009 the City provided \$ 2 million to OSS. In its FY 2008 (most recent year for which information is publicly available) OSS reported an operating loss, but at September 2008 had cash and publicly traded securities of approximately \$3.3 million. Eliminate GF funding.

Library \$1,453,500: From 2000 through 2009 the City provided \$12.6 million to the library. The library ended its FY 2008 (September 2008) with approximately \$1.8 million in cash and publicly traded securities (most recent year for which information is publicly available). If this strong financial position has continued, this cash cushion should provide sufficient time for the Library Association Board to develop a plan to achieve self funding status or to transfer control of the library to the City or another entity such as Old School Square. Reduce GF funding by \$ 1/2 million. The decision on this item should be made after review of the Library's most recent financial statements.

11. Gap closing by its nature involves time - constrained, arbitrary, decisions with the objective of minimizing harm rather than maximizing benefit. Nevertheless, to the extent possible sound budgeting practices should be employed. To close the final approximately \$700,000 spending gap we are recommending a two step process: (1) City Manager establishes departmental spending targets (2) department heads and their management teams make the final line item decisions to reach their departmental targets. This supports the City Manager's strategic role while insuring that the most knowledgeable, ground level, members of management make the implementation decisions.

The simplest approach to departmental target setting is to apply an additional across the board percentage reduction to departmental budget totals that results from all preceding steps. For example, total available spending for FY 2011 is \$ 75 million (\$ 92.6 million less approximately \$17.1 million in various transfer payments). The final unallocated spending gap of \$ 692,568 is approximately 0.92 percent, which can be applied evenly to each department. As an example,

City of Delray Beach
Financial Review Board

the Fire Department has requested a total of \$ 20.9 million (net of Highland Beach), less the reduction of \$ 0.5 million specified in Item 4. Applying the final gap closing percentage of 0.92% would require an additional reduction of \$ 188,000.

A more complicated but more beneficial to the City approach involves the percentage reduction in spending to be set in inverse proportion to the department's ranking on the "essential services" scale. Implementation can be by rule of thumb or by application of a simple formula. The result is that a relatively smaller responsibility for the final, most arbitrary, portion of the gap is borne by the "most essential" departments; and a relatively greater responsibility is borne by departments that are at the "non - essential" end of the ranking table.

As an example of the process, the most recent document available to the Board (City Staff 2009 function ranking criteria 20090818144858614.pdf, received in January, 2010) established four priority categories:

1. A Core business "no choice"
2. B Core business "choice"
3. C Quality of life
4. D Community "add on's".

Again using the FY 2010 preliminary budget as an example, and assigning a simple A = 1, B = 2, C = 3, D = 4, convention and applying inverse ratio distribution formula yields:

Function	FY 2010 spending less transfers	Percentage of spending to be reduced
A Core business "no choice"	\$ 6.9 million	0.7572 %
B Core business "choice"	\$ 49.7 million	1.5144 %
C Quality of life	\$ 19.6 million	2.2715 %
D Community "add on's"	\$ 6.9 million	3.0287 %

In our FY 2011 Fire Department example, we would apply the final gap closing percentage of 0.7572 % resulting in an additional reduction of \$ 155,000. Remember that these are examples. Actual percentages can be calculated once all FY 2011 information is available.

Additional opportunities to be considered by department heads include:

- a. Increase CRA contribution to International Tennis Tournament by \$ 750,000
- b. Explore CRA acquisition of city buildings
- c. City garage consider vehicle leasing rather than purchase
- d. Increase parking *in lieu* fees
- e. Increase general meter fees City - wide

The Board believes that the implicit "no - layoffs" policy causes pervasive inequities in pay and benefits with resulting negative effects on staff morale, and impedes management's ability to meet City service requirements economically and efficiently. Staff reductions must be considered among other cost reduction options.

City of Delray Beach
Financial Review Board

NEXT STEPS

City Commission:

1. Confirm "no millage increase" objective
2. Confirm gap closing recommendations as presented or modified

City Manager:

1. Set overall schedule to comply with City statutes.
2. Resolve contingent recommendations (e.g., pension savings)
3. Establish procedure for functional prioritization including assignment of weights.
Calculate total final gap and pre - final gap \$ amounts and percentage reductions to be applied in each priority category.
4. Implement

Department Heads and Teams:

1. Review / revise / refine operational plans to accomplish mission with reduced funding