

CITY MANAGER'S MESSAGE

(As presented in the FY 2007-2008 Proposed Budget Document)

Honorable Members of the City Council:

Introduction

This is my fourth budget proposal presented for your review and consideration. In sorting out the possibilities of what might be discussed, I have been reminded that the City's 25th year of Incorporation is fast approaching. I paused to reflect not only on the issues discussed in each of the previous transmittal messages but the clarity and continuity of decisions that the City Council has made in providing the necessary guidance to the city organization to effectively address them. Over the ensuing years since my first budget message transmittal, the Council has: worked tirelessly and passionately to define a vision that would bring about change in the City so that it achieves the milestones necessary to become the place everyone wants it to be. It has demonstrated remarkable effectiveness in defining a policy roadmap that has served as a reliable compass to the city administration and organization in its collective effort to better serve the needs of East Palo Alto residents. That compass has been of invaluable assistance in helping the City to effectively pursue pathways through the continuing climate of fiscal uncertainty --- in all of its manifested forms --- that continually challenges the City as it tries to maintain the highest level of service delivery possible for its citizens.

In Fiscal Year 2003-04, at the height of fiscal uncertainty magnified by budget difficulties at the state level, the Council firmly encouraged staff to continue to follow through implementing previously defined Community Policing-oriented public safety recommendations. That policy direction continues to bear fruit as measurable progress is being made --- evidenced by downward trends in various statistics defining serious crime categories.

The challenges of Fiscal Year 2005 – 2006 were decidedly more local but of equal magnitude as the City continued to struggle with a long-term significant structural operating deficit. East Palo Alto is not unlike other local jurisdictions in having to grapple with finding ways to close the gap between available revenues and projected operating expenses. It is unique in that it has had to consistently make the tough choices and endure an inordinately high level of near-term sacrifice of public services through debt commitment and management, in order to establish the promise of optimal service benefits in the long run. It has also distinguished itself in being particularly resourceful in creating partnerships, with community-based organizations, governmental entities, and others in order to provide the services required to address the needs of community residents.

Fiscal Year 2006 - 2007 In Retrospect

Consistent with previous years, Fiscal Year 2006 – 2007 began with significant challenges and tough choices. The City Council, however, focused on the structural nature of the historical deficit and the major components that have defined it: Excise Tax fund, Increased Labor Cost, and Public Safety. Aggressive steps taken by the Council to contain the deficit and begin to bring it under control included: making the final \$200,000 refund payment on the Excise Tax in Fiscal Year 2006 – 2007, reducing the workforce by 15 positions, including one filled position, instituting a mandatory 12 day work furlough program and, ratifying a 20 percent targeted reduction in overtime. The Council also actively pursued several initiatives to identify new revenues, including promoting the successful passage of the Measure C 10-year parcel tax, and negotiating an earlier partial payment schedule for Transient Occupancy Tax (TOT) proceeds from the Four Seasons Hotel. As the current Fiscal Year (2006 – 2007) draws to a close, it is

CITY MANAGER'S MESSAGE

(As presented in the FY 2007-2008 Proposed Budget Document)

important to emphasize the importance of these measures to overcoming the projected remaining deficit of -\$147,382, which was to be covered by Redevelopment Agency (RDA) loan obligation, and the currently projected positive fund balance of \$197,540 for the fiscal year. It also positioned the City to project receipts of TOT offset from the Redevelopment Agency which will have the dual benefit of reducing reliance on the RDA loan obligation while providing a new revenue alternative for balancing the proposed Fiscal Year 2007 – 2008 budget. Other notable accomplishments for Fiscal Year 2006 – 2007 include: completion of the 141 Demeter facility and relocation of the Police Department into it, delivery of the remaining 6 police vehicles bringing the total to 24 vehicles that have been replaced for either the police or other city departments. The new vehicles, together with a new forklift for the City Corporation Yard, contribute significantly to enhancing the collective capacity of the city organization to serve residents. The City was also able to complete urgent repairs on the San Francisquito Creek Levee, as well as complete remaining tasks that allowed it to take responsibility from San Mateo County for the Lighting and Drainage Districts, including the O'Connor Street Pump Station. Much has been accomplished; much remains to be done.

Factors Influencing the Year Ahead

Increased Labor Cost

As indicated earlier, final repayment has been made regarding the Excise Tax. However, the other two major elements of General Fund expenditure: Increased Labor Cost and Public Safety (notably Police Department Overtime) continue to challenge the City in its continuing quest to not only avoid deficits, but to build a reasonable reserve to provide a buffer against future fiscal uncertainty. Staff remains mindful of the Council's historical commitment to achieve and maintain parity for its employees with similarly situated governmental jurisdictions in order to maintain competitiveness in attracting quality employees to serve East Palo Alto residents. But we are equally aware that our task continues to be focused on bringing the City's available revenues and projected expenditures into balance and closing gaps that avoid deficit spending.

Overtime

Potential overtime expenditures continue to rank among the most unpredictable challenges that threaten the long-term fiscal viability of the municipal organization. Over 80 percent of such expenditures are related to public safety. The current year expenditure profile of more than \$800,000 may or may not be indicative of expected future cost in this area since it reflects the first full year of operation of the Police Department's Investigations Division which logged fully one-third of the entire overtime expenditure. The overall investment in this category related to public safety has proven to be worthwhile, as indicated by a downward statistical trend in crime activity. However, it remains a category of concern --- particularly given the Police Department's plan to end its' reliance on the Sheriff's contract starting July 1, 2007.

The Economy

The City's efforts to maintain fiscal viability during the 12 months starting July 1st will be further challenged by the near-term projection of a less than robust performance by the national, state, and regional economy.

CITY MANAGER'S MESSAGE

(As presented in the FY 2007-2008 Proposed Budget Document)

According to recent economic trends, the economy is expected to remain sluggish most of this calendar year as businesses and consumers cope with fallout from the housing slump. With regard to the housing picture, recent reports indicate that in the fourth quarter alone, investment in home building was slashed by 19.8 percent, on an annualized basis, the most in 15 years. Pain is expected to continue from the housing slump that started to grip the economy last year, ending a five year housing boom. Housing economists forecast that, due to persistent high interest rates, the housing industry is experiencing sluggishness foretelling an anticipated continuation of lower new construction activity. The City's development-related permit revenues are projected to end the fiscal year less than the conservative forecast originally adopted by the City Council as part of the fiscal year 2006 – 2007 budget, which appears to track with the national downturn for the industry.

Economists predict that the nation's unemployment rate, now at a relatively low 4.5 percent, is likely to climb higher --- perhaps closer to 5 percent by the end of this year --- as businesses become more cautious in hiring in response to slower economic activity. According to the U.S. Department of Labor, A surge in gasoline costs helped drive overall U.S. consumer prices up at the sharpest rate in nearly a year during March, though so-called core prices that exclude food and energy items rose at a smaller pace. Bay Area unemployment trends have continued to decrease. However, the fresh national employment picture recently provided by the Labor Department, showed that payrolls grew somewhat anemically suggesting that job losses may ultimately begin to spread beyond the struggling manufacturing and construction sectors and into the retailing and financial services sectors which are significant components of the Bay Area economy. Taken together, the figures suggest, overall, the employment situation may be weakening a bit as the nation's economy makes its way through a soft patch.

Priorities and Strategic Choices

The previously discussed factors are important considerations. However, they are not, and indeed should not be, the defining influence on the vision embraced by the City Council in terms of service goals and objectives for the city organization. The Council recently received an overview presentation regarding parameters important to establishing a multi-year Financial Plan. It directed staff to return with ideas and recommendations for initial implementation to be considered within the context of the Fiscal Year 2007 – 2008 budget proposal. In so doing, the Council appears to have acknowledged the value of at least considering prioritizing and discussing strategic budget-related choices within the context of a longer-term financial strategy.

Fiscal Year 2007 – 2008: The Budget Proposal

The Fiscal Year 2007 – 2008 budget proposal attempts to balance a number of objectives. It recognizes the need to find resourceful ways to address expanded service delivery needs of community residents within the context of continually declining fiscal resource availability. It is structured to facilitate proactive management of recently acquired city vehicles, equipment, and other assets to ensure timely maintenance while continuing to build reserves for timely future replacement. The proposal also attempts to balance departmental requests for expanded resources while being sensitive to financial limitations and the need to respond to competing community-based demand for direct assistance. It attempts to optimize the use of General Fund dollars for service delivery by ensuring that it minimizes indirect subsidy of costs appropriately assigned to non-General Fund sources. It continues to identify and creatively

CITY MANAGER'S MESSAGE

(As presented in the FY 2007-2008 Proposed Budget Document)

employ new funding sources to accomplish Council-mandated goals and objectives. Finally, it asks the Council to continue the furlough program while trying to accommodate a very modest Cost of Living adjustment.

Conclusion

As always, I want to acknowledge and extend my sincere appreciation to the entire staff, including Department Directors and Division Managers, who have continued to demonstrate their commitment, as well as contribute their professional talents and technical expertise, to serving the East Palo Alto community. The contributions of some, such as the maintenance crews, are rarely expressly acknowledged --- yet their fine work is often the first and only basis that many have in forming an impression of our community. Increasingly, I receive expressions of favorable impressions or gratitude regarding courteous, responsive treatment related to their work. So, I wanted to take this opportunity to publicly praise their efforts and express my appreciation for their service.

I also want to acknowledge the often unheralded contribution of office based workers that provide support services to managers and first line employee service providers. Without their essential contribution, services that we far too often take fore granted, could not be successfully delivered.

Finally, I want to close by acknowledging the hard work of Stephanie Osaze, Finance Director, in bringing together the tremendous amount of information required to formulate the budget proposal, the assistance of her staff, Zina Shamoon, who has been instrumental in the preparation of the financial sections, the excellent presentation of the information by Emily Jackson, and of course, the critical assistance and capable oversight of ML Gordon, Assistant City Manager. Compliments are rightly theirs; criticisms belong to me.

Last of all, I am grateful to the City Council for its leadership and willingness to partner with staff in addressing the various often complex issues and challenges confronting the City. With your adoption of the Fiscal Year 2007 – 2008 budget, we will be well positioned to move the City forward in its efforts to effectively serve the citizens of this great community.

Respectfully Submitted,

Alvin D. James
City Manager