



Memo

Date: April 30, 2021
To: Honorable Mayor Armitage; City Council
From: Erin LaPere, City Manager
Re: Expenditure reductions for FY 21-22

Administration has reviewed the departmental budgets within the general fund for potential reductions in expenditures pursuant to Council's direction at various meetings held in April. As has been discussed, the city is facing a number of financial challenges, namely unfunded pension liabilities, loss of general fund reserves, and an operational deficit. The discussion and consideration for cost reductions is the next step in addressing those issues. Given the scope and depth of the financial crisis, this will not be resolved in minor cuts or temporary/delayed purchases alone. This will take long-term changes to operations over a number of years to restore fiscally stability. The proposed changes are impactful to the extent possible within a single fiscal year, but Council will need to be thoughtful about determining where reductions are merely delaying inevitable expenditures. The Council will have to prioritize its limited resources and determine where reductions or changes to services are acceptable. This is not an easy task as all of our city services and programs have value to the community.

I have separated these recommendations into two categories. First is current year, short term modifications. These are reductions that will result in temporary cost savings but will not be feasible as a long-term solution. The second category is current year, long term modifications. These are reductions that Council may consider as a long-term change to city services beginning in the next fiscal year.

Current Year – Short Term

Administration – Net savings: \$91,550 potential reductions to the administrative expenditures include elimination of professional development for the year: conferences, training, etc. \$16,550; delaying hiring code enforcement personnel \$25,000; delaying master plan update \$25,000; and delaying repairs to city hall roof/boilers (applying for grant funding) \$25,000. I did not include reductions to contributions to other entities as those are subject to contracts that require further discussion. These items will eventually require funding out of necessity, if a boiler breaks, or to ensure properly trained staff. The City has not included potential revenues, such as grant funding to offset the Master Plan update or enacting rental licensing program to offset enforcement costs.

DPW – Net savings: \$87,400. Potential reductions include elimination of professional development/conferences \$3k, reducing parking lot loan repayment from \$50k to \$10k; closing park restrooms \$33,900; and postponing park equipment and park master plan updates for \$10,500 reduction. Council could determine to not reopen park bathrooms indefinitely, but I would not recommend that as a long-term solution. Park equipment will eventually

reach the end of its useful life and need to be replaced. A current park master plan is required to be eligible for some state grant funding, but could also be delayed indefinitely although I would recommend that we update the plan eventually to provide the opportunity to apply for grant funding. The parking lot loan is an internal loan that can be repaid as we see fit; however, the current loaned amount is approximately \$590,000. Repayment at \$10k annually would mean a 59-year repayment term.

Police – Net savings: \$53,000. The recommendation to postpone professional development for administrative staff \$3k, and delay purchase of vehicles, \$50k, to only fund one new vehicle in this fiscal year is a temporary solution as the age of our police fleet will necessitate replacement. We are also exploring grant funding for purchase of vehicles, which is also a temporary solution but may provide reprieve for this fiscal year. If we receive grant funding for all the vehicles, we can reduce this expenditure further.

Fire – Net savings: \$29,400. The reductions include delaying any vehicle replacement and reducing the amount set aside for future vehicle purchase to \$50,000 for net reduction of \$57,250; no professional dues/training for administrative staff, \$2k, and delay of parking lot repairs, \$5k, for a net reduction in city expenses of \$86,800. This takes into account the reduction of RFA revenue towards those expenses. These are temporary solutions as capital expenditures for parking lot repairs and vehicles will need to occur eventually. Additionally, any reduction in expenses for fire operations will result in a net reduction in revenues collected by the special assessment. The taxpayers would see a relief in the burden of the assessment by approximately \$57,400 city-wide. The net savings reflects this reduction in revenue. Council could consider solely financing the city's portion of the vehicle expense and eliminate any set-aside; however, savings that is somewhat offset by long term costs for interest payments.

Combined, the short-term reductions would result in a net savings of \$261,350 in the upcoming fiscal year as well as reduce the burden to taxpayers subject to the special assessment by \$57,400 without making cuts to personnel. Given both the reduction in expenses and revenues, we would be able to contribute \$350,000 towards our pension liability and have \$224,298 remaining to rebuild our general fund reserves. Given the limits of these cuts to remain beyond the next fiscal year, I would recommend Council consider these short-term solutions in connection with longer term solutions outlined below.

Current Year – Long Term

Administration – Net savings TBD. Long term reductions in administrative costs will primarily be realized through renegotiation of professional and contractual services or reductions in workforce through consolidation of services. The administrative portion of the budget is primarily personnel and equipment to perform the service.

DPW – Net savings \$39,150. Reduce parking lot striping to every 4 years for estimated savings of \$15,900 and only perform emergency maintenance on trees in public right-of-way for reduction of \$23,250. These would result in long term changes to city services that could be maintained for years.

Police – Net savings TBD. Long term reductions could result from renegotiation of professional and contractual services, or reductions in personnel. Based on prior conversations, Council members indicated they were seeking alternatives that did not involve reductions to police staffing; therefore, that was not considered. Further, given that our police patrol numbers have been reduced from 19 officers to 16 officers, or a 16.67% reduction in force over 10 years, I believe we are at minimum staffing levels to provide the current level of service.

Fire – Net savings \$28,500. Long term reductions could result from partial staffing of one/both stations depending on workflow and personnel availability. Reduced staffing of a station would result in savings due to reduction in personnel expenses as well as reductions in supplies and maintenance costs. Assuming reduction of two full time firefighters, and therefore only staffing one station 1/3 of the days, the net reduction in costs (less reductions in RFA revenue) would be approximately \$190,000. Accordingly, this would also reduce the revenue collected through the special assessment and these reductions would reduce the burden to the taxpayers subject to that special assessment by approximately \$161,500. The net savings takes into account the reduction in special assessment revenues for estimated net of \$28,500.

Combined Savings – Short and Long Term, current fiscal year

Administration	\$91,550
DPW	\$126,550
Police	\$53,000
Fire	\$57,900
<u>Total</u>	<u>\$329,000</u>

Combined, the reductions would result in an additional savings of \$329,000 in the upcoming fiscal year as well as reduce the burden to taxpayers subject to the special assessment by \$218,900. Given both the reduction in expenses and projected revenues, we would be able to contribute \$400,000 towards our pension liability and have \$241,948 remaining to rebuild our general fund reserves. While it would not be viable to continue the short-term reductions beyond this fiscal year, the combination of both would be a significant step towards the city's financial goals.

Additionally, below are some ideas for further cost savings that require additional discussion and research before recommendation or implementation. These are reductions that may not take effect in the next fiscal year and therefore are not included in the other cost reductions, but are worthy of long-term consideration for future year budgets. As mentioned, the fiscal challenges facing the city will not be resolved in one year and some solutions require time to implement but will result in long-term benefits. This is not an exhaustive list, but areas for discussion. The intent is for Council to provide Administration prioritization of these, or other areas, for review and recommendation moving forward.

- Consolidation of services with County or other municipalities
- Review all software/vendors, e.g. timekeeping service
- Contributions to outside entities, e.g. CARC, Courthouse Square, Charlotte Rising, LEAP
- Bidding of professional services, e.g. tree maintenance, IT services, attorney services
- Intergovernmental Transfers, e.g. Hydrant Rental (per Ordinance), MVP charges, rental expense
- Capital Asset Management: review inventory of buildings/equipment/vehicles, review replacement schedules, review depreciation schedules.

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