

# **Frequently Asked Questions about the City of Redding Budget**

## **1. How much is the City's overall budget – and what is the General Fund?**

The City of Redding's overall budget for Fiscal Year 2010-11 is approximately \$351 million. This amount encompasses various types of funds that make up the City's annual budget, including Enterprise Funds (utilities such as Water, Wastewater and the Redding Electric Utility); Internal Service Funds (in-house services such as Information Technology or Fleet Maintenance); Special Revenue Funds (targeted revenue such as gas tax or federal block grants) and the General Fund. Each of the funds is managed separately with revenues and expenditures unique to each.

The General Fund, as its name implies, pays for most general government services, including police and fire protection, streets and park maintenance, recreation programs, development services and City facilities. Expenditures total \$62.7 million for Fiscal Year 2010-11.

## **2. Where does the General Fund money come from?**

More than half of the money comprising the General Fund comes from sales tax (30 percent) and property tax (25 percent) revenue. Another 13 percent comes from payments from other agencies. Additional amounts come from charges to internal city departments (16 percent); service charges (3 percent); transient occupancy (hotel) taxes (6 percent); other taxes (3 percent); licenses and permits (2 percent); and other miscellaneous revenue (2 percent).

## **3. What is the Redevelopment Agency and how does it fit into the budget picture?**

The Redding Redevelopment Agency is governed by the Redding City Council, which acts as the Agency's Board of Directors. However, it is a distinctly separate entity from the City. Its revenue is derived from property tax "increment" collected within four project areas. Money for improvements within the project area comes from increased property tax revenue resulting from the increased property values within the newly redeveloped area. Those funds are not part of the overall City of Redding budget and must be kept separate.

## **4. Why has the City had to cut its budget in the last three years?**

The housing market collapse and the global recession have resulted in reduced revenues in several areas that affect the General Fund. A dramatic decline in new construction has meant less fee and permit revenue and the recession has brought a marked decrease in spending for many goods, especially larger items like vehicles and furnishings associated with new homes. As a result, the City of Redding, like many cities in California, has seen its sales tax revenue decline significantly over the

past three years. The City has witnessed a 25 percent decline in sales tax revenue from calendar year 2006 through calendar year 2009.

Yet another source of General Fund revenue – transient occupancy taxes – also has declined due to reduced travel. As a result, the City of Redding has revised its revenue projections and cut spending to maintain a balanced budget and responsible reserve fund.

**5. What is the General Fund Reserve?**

The City has, for many years, ensured that a portion of its General Fund budget was allocated to a reserve, available in times of emergency. That reserve stands at about \$3.0 million for Fiscal Year 2010-11, or 5.0 percent of the budget. Although the reserve was \$4.8 million for Fiscal Year 2009-10, the City has been forced to dip into it because of the declining revenues. The Redding City Council has adopted a policy of maintaining the reserve at no less than 5 percent. So, as revenue continues to decline, cuts to the General Fund are required.

**6. Why not reduce the reserve further and avoid painful cuts?**

As the City's General Fund revenues have decreased, the reserve has decreased in both overall dollars and as a percentage of the budget. It stands at 5.0 percent for Fiscal Years 2010-11 and 2011-12. However, the City Council has agreed that it is imperative to retain a minimum reserve of 5 percent. That amount is set in accordance with City Council Policy 412 and exceptions must be approved by the Council.

**7. What has the City Council done to date?**

A selective hiring freeze was implemented in October 2007. Since that time, the City Council has made adjustments to the budget a number of times, reducing it by approximately \$17 million. This year (2010), the City Council reduced the budget by \$2.7 million in February and an additional \$2.3 million in May.

**8. How does the City Council decide what (or whom) to cut?**

The budget cuts were considered during open City Council meetings, at which the public was encouraged to comment. They have been wide-ranging and have included elimination of cost-of-living adjustments and mandatory furloughs for unrepresented (non-union) employees; layoffs and reduced working hours; reductions in funds for supplies, equipment and new vehicles; and cuts to non-profit organizations that receive City funds. Privatization of some City functions (such as dog licensing and tourism promotion), as well as a significant reorganization of some City departments, also resulted in efficiencies and reductions in costs. Concessions on the part of some of the City's employee unions also helped reduce General Fund expenditures. The City Council considered the staff recommendations for reductions, along with public

comment in public sessions, and agreed on a final list of budget cuts that it felt best reflected its priorities.

**9. What's next in the budget process? Will there be more cuts?**

The City operates under a two-year budget and utilizes a 10-year budget plan, designed to provide long-term financial guidance and stability. The 10-year plan is updated regularly to reflect economic changes, and as City needs dictate. The 2011-2013 biennial budget process will begin in early 2011, with City departments preparing their budget requests followed by extensive review by the Finance Department and the City Manager's Budget Committee. That committee consists of the City Manager and two citizen volunteers. The City Manager's proposed budget is the subject of City Council budget workshops and approval in June.

The City does not yet have a complete picture of its expected revenue for Fiscal Years 2011-13 but it is likely that any improvement in the economy will be modest for the foreseeable future. There have been some bright spots during the early part of 2010, such as sales tax and TOT revenues exceeding projections, however, it is difficult to predict if this will be sustained. In addition, the City will experience higher costs for such things as retirement benefits because of the recession's impact on investments. In light of that, the City Council has indicated its intention to reduce those costs as it undergoes contract negotiations with employee bargaining units.

**10. What is the value of a 10-year budget plan in such uncertain times?**

Certainly, no one can predict exactly what will happen with respect to the economy – locally or worldwide. However, there are many things that can be predicted and calculated with some degree of accuracy several years ahead, allowing the City to better plan its financial future. They include such items as negotiated employee wages and benefits, capital projects and workforce needs, all of which must be accounted for in the City budget. In addition, by closely watching economic trends and updating the 10-year plan accordingly, the City can avoid dramatic or unexpected year-to-year adjustments.