



CITY OF ATLANTA

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SHIRLEY FRANKLIN
MAYOR

May 5, 2008

The Honorable Lisa Borders
Members of City Council
Atlanta City Council
55 Trinity Avenue, S.W.
Atlanta, Ga. 30303

Dear President Borders and Members of City Council:

I am pleased to forward to you our FY2009 Proposed Budget for the City of Atlanta. Included in the budget is an overall assessment of the economic and fiscal health of the City, a review of our performance against our major strategic operating goals, a proposal for several budget and management reforms, and a detail of spending by department.

Four Principles behind the Budget

This Proposed Budget includes significantly more detailed information on City operating performance, finances and spending than in prior years. In particular, you will find departmental spending information at the line item level. Since it may be easy to get lost in the comprehensive presentation, please know that four overarching principles guided our development of this Proposed Budget and serve as its foundation.

- **Transparency.** Open and honest government is the hallmark of my Administration. As applied to the FY2009 budget, open and honest means being transparent in the challenges we face and our response to them. You will find this budget includes rich and unprecedented detail about our spending decisions. In part because of the expanded capabilities of our new ERP reporting system, in this year's budget proposal every dollar of spending is both accounted for and transparent to anyone who takes the time to review the material.
- **Reform.** This budget eliminates the ineffective budgeting practices and procedures of prior years. We have done away with the practice of a "cash carryforward"; no payables are carried over into the next fiscal year (except in the budget submitted to us for City Council operations); all costs (including overtime, fuel and repairs) are fully accounted for and allocated; and there are no unfunded positions in this budget. Moreover, the

budget is consistent with the package of reform legislation currently under consideration by City Council.

- **Public Safety.** The proposed budget recognizes that public safety is the City's top priority. It protects the gains we have made over the past six years in this arena by funding both new investments (in the form of a new public safety headquarters and state of the art E911 Communications Center), as well as a level of police and fire protection consistent with the previous fiscal years. This budget continues our progress toward 2,000 sworn officers.
- **Operational Efficiency.** In recognition of the current budget shortfall and the fundamental change in the City's cost structure due to unprecedented increases in pension and health costs, we propose dramatic spending cuts and a downsizing of our workforce (primarily in non-public safety departments). While large, these cuts have been made strategically. Provided that we consider the move toward increased efficiencies a year round effort, we believe that the resulting workforce can provide the core services residents expect and deserve.

While any budget necessarily involves thousands of individual choices, you will find that one of these four principles underlies every major decision made during the budget process.

Context for the Budget

The financial health of the City is highly dependent on the economic health of the city and region. An understanding of the drivers of economic health is critical for any city as it makes short and medium term budgetary and financial decisions. This Budget includes information to place our operations in the context of these economic drivers.

Many local governments around the nation are facing fiscal challenges this year: New York City is looking to reduce spending by \$500 million; Phoenix just passed a budget that reduces spending by \$90 million and eliminates over 400 city jobs; Kansas City's recent budget calls for cutting spending by \$50 million and nearly 450 positions.

While the nation faces an economic slowdown, and while part of our current deficit is tied to this slowdown, the good news is that the most important factors that drive our fiscal condition – population growth, business activity, commercial real estate development – continue to expand despite the national slowdown. Most notably, the City's commercial tax digest grew by 19% last year and revenues at Hartsfield-Jackson Atlanta International Airport (typically a leading economic indicator for Atlanta) have continued to grow. Both the Aviation Fund and the Water-Sewer Fund - which represent more than 50% of the City's services, costs and revenues - are in sound financial condition.

Operational Overview

A review of the City's major performance indicators shows that the investments we have made in key operating areas have paid off in terms of improved performance and service delivery. As described in the State of the City – Performance Management section of this Proposed Budget,

we have significantly improved our performance in almost every operational category. Since 2002, crime is down 10% overall. The number of reported pot holes is down by almost two-thirds, a reflection in part of the success of our expanded street resurfacing program. Sewer spills are down, by over 60% as we progress with our wastewater infrastructure capital program. Hartsfield-Jackson Atlanta International Airport continues to rank among the top airports with regard to customer satisfaction in the country. Building permits are issued faster and many can be done directly online. We have significantly upgraded our fleet, our information systems, and our facilities. By almost any measure, the City is run more efficiently – and delivers a higher quality of service – than any time in recent memory. Our goal in this year's budget is to protect and advance these gains while finding a more affordable way of delivering our core services.

Challenges for the General Fund

Over the past five years the underlying cost structure of city government has fundamentally changed. The primary causes of this change are pension and health costs. Since 2002 the City has added more than \$100 million in pension and health costs to its General Fund budget, representing a 25% increase in our cost base without a corresponding increase in direct service benefits. This is not a problem unique to Atlanta: guidelines from the Governmental Account Standards Board regarding the financing of pension funds have impacted state and local governments throughout the country; and health care costs have been increasing at double the rate of inflation for over a decade.

This increase in our cost base has not been offset by new revenues. Revenue growth since 2002 has been relatively modest – averaging less than 4% per year. In real terms our revenues have increased by only 1% per year. This has occurred at a time when our population (and thus demand for services) has increased at more than 3% annually.

Our policy of rolling back property tax millage rates – while obviously providing tax relief to the City's property owners – has limited the revenues that would otherwise be available to offset increasing costs and service demands. Sales tax receipts since 2002 have grown at a slow pace, and many of our more minor revenue streams have been flat or are in decline.

These challenges in our fiscal condition have been masked by certain budget practices and policies. For example the City has used its reserves to pay for expenses that should have been budgeted as planned expenditures. We also relied on a system of budgeting estimated "carryover" funds – projected surpluses, in other words – that often did not materialize when the books were closed and audited. Our pledge has been to eliminate these practices, and, indeed, the current budget proposal was developed using improved budget practices.

Nonetheless, the collective impact of these issues - the underlying changes in our cost structure; slow revenue growth due in part due to rolling back millage rates; and poor budgeting practices in the past - have combined to produce a \$140 million shortfall as the starting point for the FY 2009 budget.

Eliminating the Budget Shortfall

There are only four ways to eliminate this \$140 million budget shortfall: we can reduce expenditures from projected levels; we can adopt budget policies that will allow for higher revenue anticipations; we can increase revenues through adjustments in existing fees; or we can increase property tax revenues through changes in our millage rate. The Administration's budget proposes that we use all four methods – to varying degrees – to bridge this \$140 million gap. The emphasis is on reducing costs, but as I will explain in more detail later, it is not possible to solve the problem solely through spending cuts unless you are willing to make significant cuts in public safety. Since I am not willing to turn back the clock on the gains we have made in public safety, our FY2009 budget proposes the following initiatives:

- Reduce recurring expenditures by \$54 million.
- Increase fees and other revenues by \$28 million.
- Reform our revenue anticipation policies, yielding \$15 million
- Increase property tax revenues by \$43 million.

Reduce Expenditures

The budget proposes \$54 million in spending cuts. To put these cuts in context, this expenditure reduction is nearly 50% higher than the reductions included within the City's FY2002 budget. The overwhelming majority of these cuts occur in departments that do not directly impact public safety.

Since around 70% of the City's costs are related to personnel, the spending cuts translate into a significant downsizing of the City's workforce. The budget proposal eliminates 788 positions and transfers another 616 positions out of the General Fund (primarily consisting of 383 Solid Waste Service positions and 166 positions in the newly-created E911 Fund). Of the 788 eliminated positions, 441 are currently filled and 347 are currently vacant. Importantly, the present budget proposal includes only funded positions.

The FY08-09 downsizing initiative is quite similar to the workforce reduction that occurred in 2002, when the City cut over 1,100 jobs to balance the budget. We project our General Fund workforce in FY2009 to be 4,772 employees, which is comparable to 2003, when the City had 4,577 authorized positions. At this employee base, our per capita workforce stands at 936 per 100,000 city residents. This is the lowest per capita workforce we have had in the last six years, and it moves the City to the average of our peer cities. We have achieved this improvement in our employee efficiency despite the fact that we have purposefully added over 200 public safety positions during this period.

While the FY2009 budget strives to maintain service quality, we have identified savings by eliminating some non-core functions and increasing the efficiency at which we operate our support functions. Our goal is to limit reductions in service delivery to the extent possible. Some of our initiatives include:

- Reduction of 135 personnel in support departments.
- Reduce the number of operating courtrooms in the Municipal Court from nine to seven; consolidate the Office of the Solicitor with the Department of Law.

- Elimination of 59 positions in Solid Waste Services that includes a shift to bi-weekly collection of recyclables and yard trimmings.
- Close 11 recreational centers for repairs and permanently close another two recreational centers.
- Eliminate the City shuttle service.
- Reduce the City contribution to employee health care plans from 77% to 70%.

Going forward, the identification and implementation of operational efficiencies will be a central and ongoing function of our government. We must be open to any and all ways to deliver the same level of service with fewer resources. In that regard, this budget includes several small, but strategic outsourcing initiatives (notably in parking enforcement and certain jail services).

Revenue Initiatives

To improve the City's revenue prospects, we have included several revenue initiatives in this year's budget proposal. These are targeted fees for specific services and have little or no impact on most taxpayers. The new initiatives include:

- Restructure new construction and subdivision plan review fees (+\$2.3M)
- Increase fines for municipal code and traffic violations by 20% (+\$2.6M)
- Increase the number of beds in the detention center available for leasing by 200 (+\$4.6M)

Collectively these fee adjustments and other revenue initiatives will increase our revenues by \$28 million. Many of these initiatives require changes in the City Code of Ordinances. Accompanying this budget is a legislative package that includes the legislation that supports these changes. We request that City Council consider this legislation in conjunction with the passage of the budget.

Budget Reforms

In developing the FY2009 budget the City is adopting new policies and procedures to increase the transparency of our budget and to eliminate practices that obscured our true financial position. We no longer "underfund" key expenses items such as fuel and motor equipment repair. All positions that are included in the departmental budgets are funded, contrary to the past practice of leaving positions in budgets despite the absence of a direct source of a funding. Pension and health care costs are now uniformly and accurately budgeted across all departments.

Moreover, as I promised when I first spoke to City Council in January about the City's financial situation, we are following through on the independent review of the Finance Department and its operations. We expect to complete that review by the end of the first quarter in FY2009 and to implement any recommendations by the end of FY2009.

In addition to these changes in budgeting practices that we are adopting administratively, we support the City Council initiatives to codify several new financial and budget policies aimed at improving the fiscal management of the City, as noted here:

- Eliminate the practice of using projected surpluses to fund recurring expenses and create a mid-year budgeting process to account for results of previous year close-out.
- Create a restricted reserve that can only be used with City Council action.
- Adopt the City Auditor's recommendation to move toward a revenue projection method for developing the budget's revenue basis.

The cumulative result of these reforms will be to place the City's budgeting process on a sounder footing and increase the confidence we have in our budgets as we enter the fiscal year. The elimination of our practice of budgeting projected surpluses – combined with the heightened restriction on the use of our reserves – will result in a substantially more conservative budget. With these reforms in place, we feel it is prudent to adopt the recommendation of the City Auditor to move to a process of basing budgets on revenue projections (as opposed to basing them on estimates of current year actual revenue collections). For the purposes of the FY2009 budget, we recommend moving in that direction by increasing the anticipations rate to 99%. This proposed change in the anticipations rate for FY2009 produces an additional \$15 million in revenue. If the City Council enacts the proposed legislation, the FY2010 budget will be based on an independent projection of the following year's revenues.

Property Tax Revenues

The collective impact of the expense reductions, fee and revenue adjustments, and new budget policies is \$97 million. Even with all these measures, we are \$43 million short of filling the \$140 million gap. As mentioned earlier, the City has – as a practice – consistently rolled back property tax millage since 2003 despite the increase in our population and the changes we outlined earlier in our cost structure. We are proposing that these rollbacks be reversed (to the extent required) as means to close this remaining budget gap.

Unlike many major cities in the country, City of Atlanta receives no direct state support for its operations. The City constitutes only 10% of the region, yet we are responsible for maintaining the core urban infrastructure that supports the entire metro area. As we have argued for many years, although the region and the state are highly dependent on the health of the urban core, the City alone is responsible for bearing the burden of its maintenance and expansion. With no immediate change in the prospects for external support, we have no choice but to ask the residents of the City to contribute additional resources to finance our core services.

Because the proposed budget already cuts our General Fund workforce to just 4,772 positions – about the level we had in 2003 – the only realistic alternative to a property tax increase is to reduce our public safety operations. During the development of this budget, we did develop a budget scenario that excluded a property tax increase and considered it quite seriously. *Although we are not recommending it*, that path would require the following:

- Elimination of 205 sworn police positions (\$23 million savings)
- Decommissioning of six fire stations and elimination of 90 sworn firefighter positions (\$7 million savings)
- Reduction of APD support services – which would require cutting approximately 50 additional sworn personnel and 50 civilian personnel (\$10 million savings)

Can you balance the FY09 budget without a property tax increase? Yes. What would it take? Going back to 2002 service levels in public safety. I believe it is poor public policy to erode the progress we have made in public safety by making the kind of cuts contemplated above. The tax increase proposed here is narrowly tailored so that its sole purpose is to protect our six year investment in public safety. I propose this tax increase only as a last resort and only as a direct investment in public safety. While others may choose smaller tax increases in exchange for lower levels of public safety, that is a choice I refuse to make.

It is import to note that we do believe that there are opportunities for operational efficiencies within APD, and I have asked my staff – working in conjunction with APD leadership and the Atlanta Police Foundation – to initiate a 3-4 month organization and business process review of the department to identify opportunities for improvement and budget savings. One of our goals is to identify 50 sworn positions that currently provide administrative support that can be transferred to direct crime fighting functions. I believe we can accomplish this objective before the end of this calendar year, effectively putting 50 more police officers on the street without adding additional cost to the City.

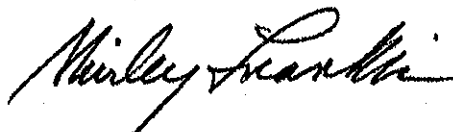
Moving Forward

Earlier this year the City Council passed a resolution describing your priorities for the FY2009 budget. I believe we have addressed those items to the extent possible given the budget challenges we are facing this year.

This budget represents an important next step in meeting our long-term challenges. A key goal of my administration is to leave the City in a strong financial condition. With the reforms included with this budget we are taking an important step towards attaining that goal.

I am looking forward to working with you as we face these important challenges.

Sincerely,



Shirley Franklin