

**TO:** City Council

**FROM:** James L. App, City Manager  
James Throop, Director of Administrative Services

**SUBJECT:** **Budget/Four Year Financial Plan – Fiscal Year 2009/10 to 2012/13**

**DATE:** June 16, 2009

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**Needs:** For the City Council to consider a four year financial plan.

- Facts:**
1. The recession has significantly and negatively impacted City revenues.
  2. Cost reduction initiatives began nearly two years ago and currently total \$4,000,000 annually.
  3. Recurring cost reductions have been achieved through a variety of means, but principally by vacating City staff positions.
  4. Additional measures are required to offset the revenue decline.
  5. The City Council appointed Mayor Duane Picanco and Councilman John Hamon to serve as their ad hoc budget committee.
  6. The ad hoc committee and staff have reviewed the financial plan.

**Analysis & Conclusion:**

The City has significantly reduced **General Fund** (GF) spending by vacating 17.5% of GF jobs, cutting temporary and contract help, trimming contract services, and deferring wage increases. Disappointingly, these reductions are not sufficient to balance the budget.

The GF is projected to experience a deficit in each of the four planning years. The 4-year cumulative deficit plus estimated risks is \$10.4 million. This deficit will be managed through expanded labor savings and use of savings. NOTE: Savings includes planned Redevelopment Agency partial repayment of historical Library project debt payments.

**The Water Fund (WF)** is at risk. The Financial Plan assumes that voters will approve new water rates (to become effective January 2010). If new rates are not approved, the fund may deplete its financial resources and not have sufficient water (without extraordinary conservation).

The proposed financial plan, assuming passage of new rates, allows the WF to be balanced all four planning years. This includes the installation of the first phase of the water treatment plant for Nacimiento water.

Ending fund balance in year four of the plan is approximately \$4.2 million.

**The Wastewater Fund (WWF)** appears sound; however, the 50+ year old wastewater treatment plant requires complete rehabilitation and upgrade to meet State & Federal discharge standards. The rehabilitation will cost approximately \$55 million; a cost that requires a user rate increase. Consequently, the financial plan anticipates new revenues from an (estimated) user rate adjustment in FY 2011. If new rates are not implemented, the Plant cannot be rehabilitated. Without rehabilitation, the Plant cannot meet discharge standards exposing the City to the risk of substantial fines for discharge violations.

Assuming new rates are approved; the treatment plant will be rehabilitated beginning in FY2012. The increase in rates for the financial plan are calculated using current M&O and proposed CIP costs. Once the WWF rate study is completed, this financial plan may be updated to include the proposed rates.

Ending fund balance in the final year of the plan leaves the WWF with a small balance of \$10,050. Again, the new WWF rate study will take this into account and likely adjust expenses and rates to include a more prudent fund balance.

**The Airport Fund (AF)** may experience aviation-related service, rental and transaction revenue declines during the next two years; spending plans are reduced accordingly. A \$900,000 federally grant-funded aviation infrastructure improvement project will be completed within two years.

The ending fund balance for the AF is favorable until the fourth year, at which time the financial plan is forecasting a negative fund balance of approximately \$(122,000). This projection will be revisited during the course of the four-year plan to take into account potential future rental agreements and spending plans.

**The Transit Fund (TF)** is sound provided that Federal and State subsidies continue at current historic levels (approximately 80% of system costs). Due to a successful grant application the transit system will expand service to include a mid-day shuttle to move riders to/from major retail centers during the busiest parts of the day in FY 2010.

Unfortunately, due to increased costs, but no real increases in revenue, the planned purchase of additional and replacement buses have been put on hold. Bus prices have more than doubled in the last two years, partially due to new emission standards and ADA upgrades. The City's Transit Coordinator has been successful in securing grants from the State and Federal governments to assist in bus stop upgrades and ADA enhancements.

The fund balance, will remain approximately \$200,000.

**The Redevelopment Agency** is an independent public entity that focuses upon redevelopment of, and low-income housing in, a defined area. The (Redevelopment Project) Area is generally the west side of town (with some exceptions).

Revenues are derived from a share of the incremental growth in property taxes paid within the Project Area. A requirement for 20% of the RDA's income to be set-aside for low-income housing will be met each year. The balance is used to make debt payments for physical improvements in the Project Area, as well as minor staff support costs. The Agency plans to accelerate repayment of debt owed to the City General Fund for construction of the Library, issue new debt (bonds) in FY 2010, effect projects, and/or purchase properties for development that will benefit the Project Area.

**Fiscal**

**Impact:**

The General Fund budget/financial plan can be balanced over the four years FY 10 – FY 13 with continued expense reductions, deferral of maintenance projects, and use of accumulated savings and repayment from the RDA. However, doing so will deplete reserves. Water & Wastewater Funds require user fee increases to cover costs – if rate increases are not implemented, both operations are at risk. The Redevelopment Agency may repay debt owed for Library construction, and issue bonds to stimulate investment/improvements in the Project Area.

The Fiscal Year 2010-2013 budget message and financial plan provides additional detail.

The City's financial policy requires that the budget be balanced for the four-year planning period and that the GF's unappropriated fund balance reserve equal 15% of its operating expenses.

Current financial policy was established to ensure that the City's finances are managed in a manner that will provide for delivery of quality services and products to the community. In order to maintain fundamental services, a temporary suspension of the 15% reserve policy requirement is advised. Formal financial review will be held twice per year so that adjustments may be made to the financial plan.

Once the General Fund has recovered from these extraordinary economic times, financial policy reserve standards can be re-established.

**Options:**

- a. **That the Council, adopt resolution No. 09-XXX approving a two-year budget and four-year financial plan for fiscal year 2010 through FY2013 with a financial review to occur twice annually, or**
- b. **Amend, modify, or reject the above option.**

**RESOLUTION NO. 09-**

**A RESOLUTION OF THE CITY COUNCIL  
OF THE CITY OF EL PASO DE ROBLES  
ADOPTING TWO YEAR MAINTENANCE, OPERATIONS AND CAPITAL IMPROVEMENT  
PROJECTS APPROPRIATIONS FOR FISCAL YEARS 2009/10 – 2012/13**

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**WHEREAS**, the City Council of the City of El Paso de Robles has adopted a Fiscal Policy which calls for a balanced budget within the context of the four year financial plan; and

**WHEREAS**, the Fiscal Policy also provides that fund reserves should be maintained at 15% of operating expenditures; and

**WHEREAS**, the Fiscal Policy also calls for Proprietary Fund user fees to provide full coverage of direct and indirect costs including depreciation; and

**WHEREAS**, the budget document, containing all projected revenues, appropriations and transfers, shall be implemented by the City Manager per this resolution.

**NOW THEREFORE BE IT RESOLVED** by the City Council of the City of El Paso de Robles does hereby approve and/or direct the following budgetary actions:

1. Temporary suspension of the 15% reserve policy due to the dire economic times and the need to provide basic City services; and
2. To use fund balance and repayment from the Redevelopment Agency to assist in balancing the General Fund over the four-year planning cycle; and
3. To hold a minimum of two formal financial updates each fiscal year in order to review and adjust the proposed four-year financial plan; and

**BE IT FURTHER RESOLVED** that the City Manager is hereby directed to invest the resources contained and summarized in the following budget exhibits:

Exhibit "A-1"	Summary Total Budgeted Expenditures by Category and Funding Source
Exhibit "A-2"	Summary Total Budgeted Expenditures by Category and Line Item
Exhibit "B"	Summary Total Budget Expenditures by Department by Fund – FY 2010 & FY 2011
Exhibit "C-1"	Summary Total City Revenues by Fund
Exhibit "C-2"	Detail Total City Revenues by Source
Exhibit "D"	Summary Schedule of Fund Transfers
Exhibit "E"	Detail Schedule of Capital Outlay by Department By Fund
Exhibit "F"	Summary Schedule of Sources & Uses for Major Funds
Exhibit "G"	Summary Schedule of Recommended New/Expanded Services
Exhibit "H"	Summary Schedule of Recommended New Operating Capital
Exhibit "I"	Capital Improvement Projects Budget

**PASSED AND ADOPTED** by the City Council of the City of El Paso de Robles, this 16th day of June 2009 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Duane Picanco, Mayor

ATTEST:

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Cathy David, Deputy City Clerk