

TO: City Council

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

SUBJECT: FY 2010 - 2013 General Fund Financial Forecast Update

DATE: December 15, 2009

NEEDS: For the City Council to receive a General Fund financial forecast/budget update for the four years FY2010 - 2013.

Facts:

1. The City's sales and property tax revenues fund police, fire, library, recreation, and other public services.
2. The recession has significantly impacted sales and property tax revenues.
3. Cost reduction initiatives to offset the revenue losses began two years ago.
4. Cost reductions total \$23,000,000 FY 2010 - 2013, nearly \$6,000,000 per year.
5. Reductions have been achieved primarily by vacating City staff positions.
6. Staffing has been reduced 22.4% from 180.5 to 140.1 (40.4) positions.
7. National, state and local economic forecasts project a very slow recovery (locally, the recovery may begin after bottoming out in late 2010).
8. Despite significant cost cutting, major annual operating deficits are expected each year for at least the next four years.
9. While General Fund reserves are sufficient to cover expected remaining deficits through Fiscal Year 2013, they will be exhausted by June 30, 2013. A vigorous recovery is needed beginning mid-2011 to prevent further and extraordinary reductions in staff and public services.

ANALYSIS &

CONCLUSION: The City has significantly reduced General Fund (GF) spending by vacating 22.4% of GF jobs, suspending wage increases, cutting temporary and contract help, trimming contractual services, and eliminating recurring maintenance services. These reductions total \$23 million. Unfortunately, even with these reductions, the GF is projected to run a substantial deficit in each of the next four fiscal years.

The four-year projected cumulative deficit, plus estimated risks, is \$12.8 million. The deficit can be managed with the cost-cutting achieved to date plus use of GF savings, but it will leave GF savings exhausted (and then faced with the prospect of continuing deficits post FY 2013).

FISCAL

IMPACT:

The General Fund budget/financial plan can be balanced over the four-year period; however, doing so will exhaust reserves and leave a major annual operating shortfall in FY 2014. If by mid-2011, the economy is not recovering more vigorously than projected, additional major cost-cutting and service reductions will be unavoidable.

A substantial financial risk not yet factored into this forecast is water fund obligations. Should water rate adjustments not be approved within the next four years, the Water Fund will exhaust its reserves to pay Nacimiento Water Project obligations. Once Water Fund reserves are exhausted (in 2014/2015), the General Fund would have to pay the obligation (approximately \$5 million per year).

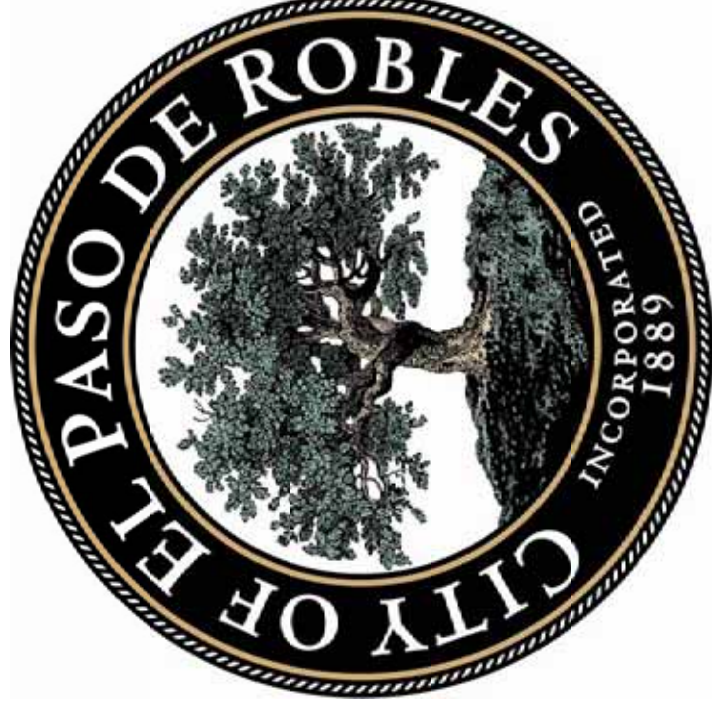
Should this obligation fall to the GF on the heels of 22+% reductions, exhaustion of its reserves, and faced with continuing operating deficits of its own, it will result in drastic wholesale cuts to public services.

Options:

- a. Receive and file December 2009 financial report; or
- b. Amend, modify, or reject the above option

Financial Forecast

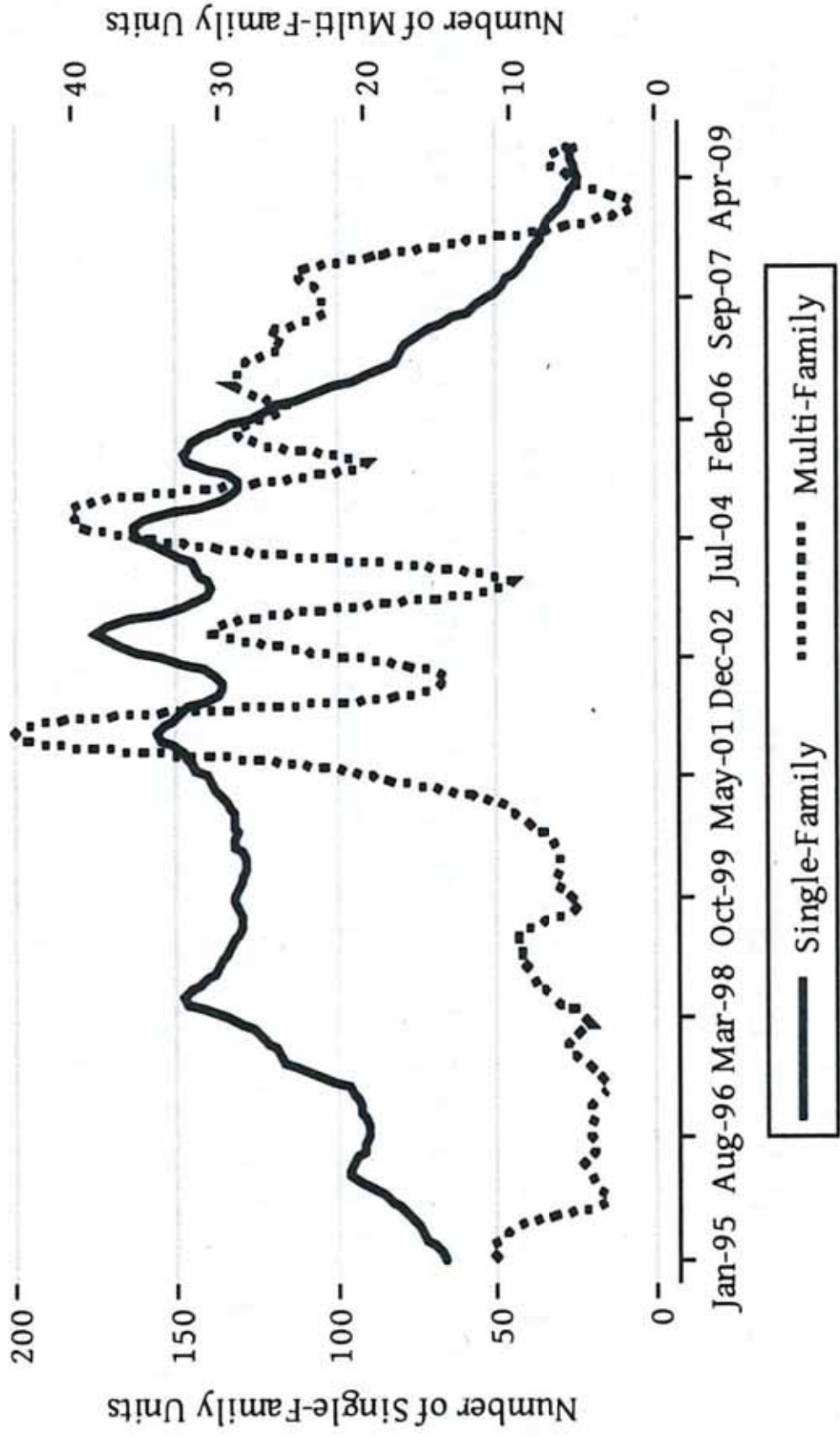
FY2010 – FY2013



December 2009

Residential Permits

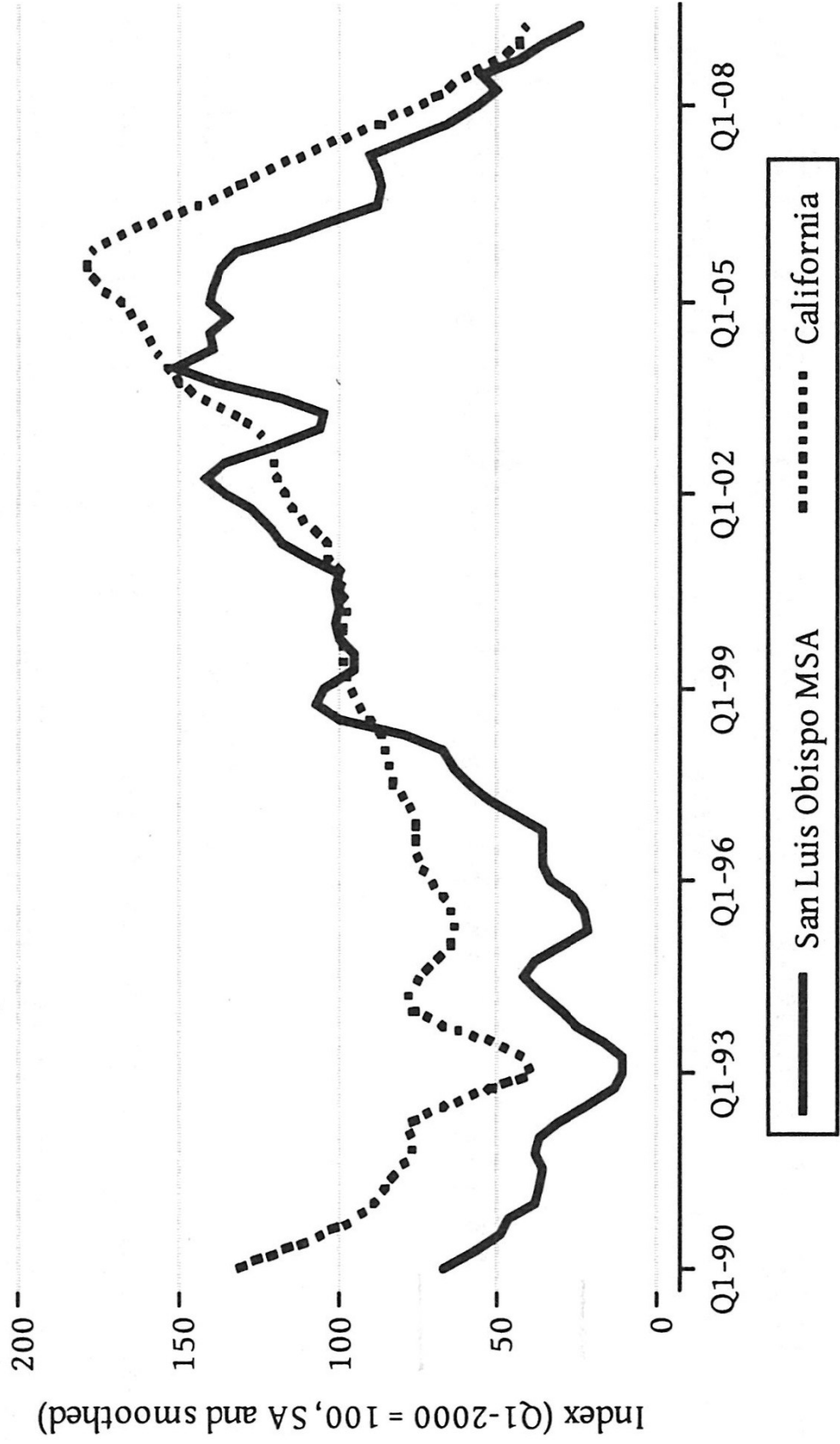
San Luis Obispo (MSA), Jan-95 to Sep-09



Source: Construction Industry Research Board

New Home Sales

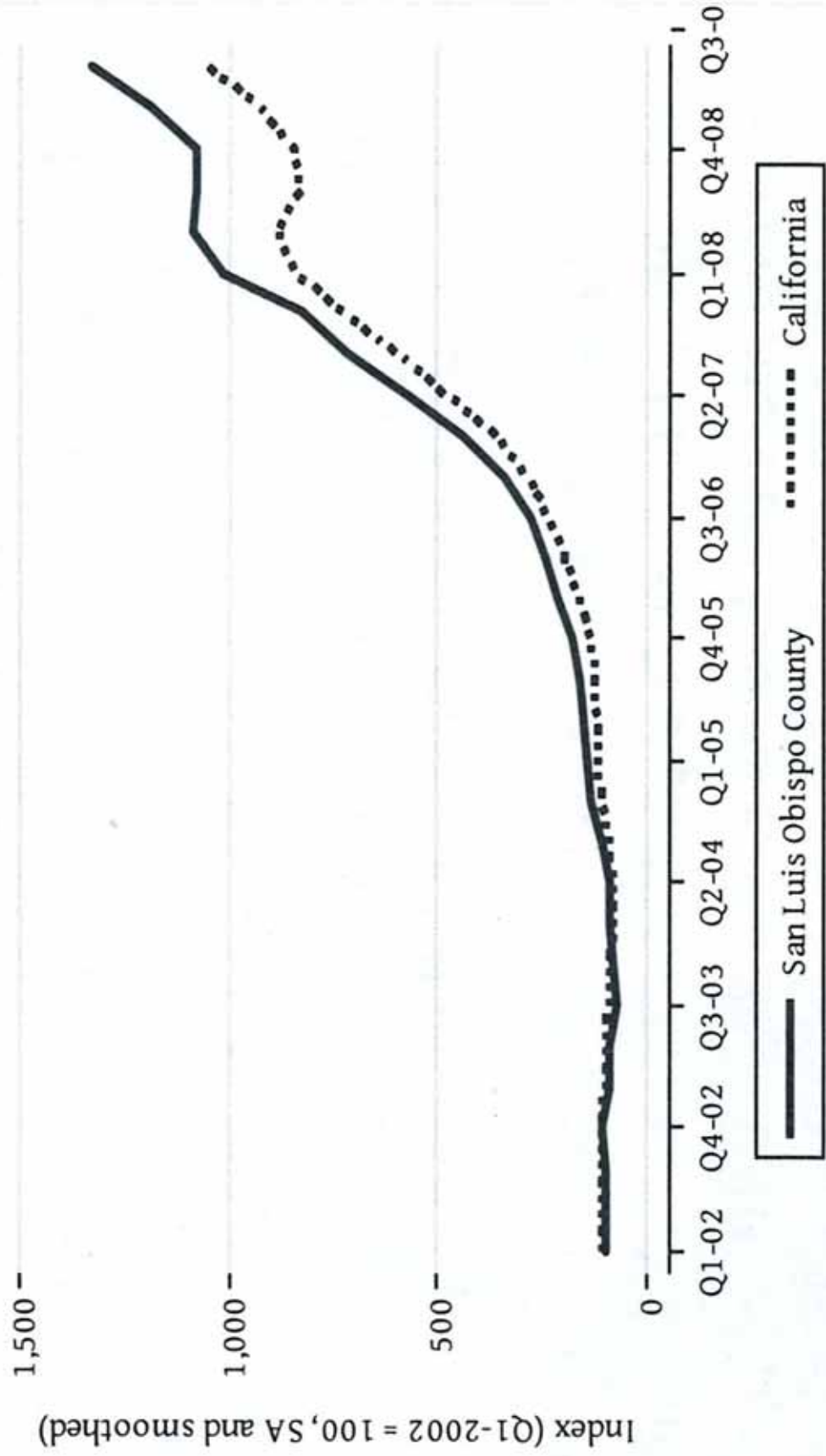
Q1-1990 to Q2-2009



Source: DataQuick

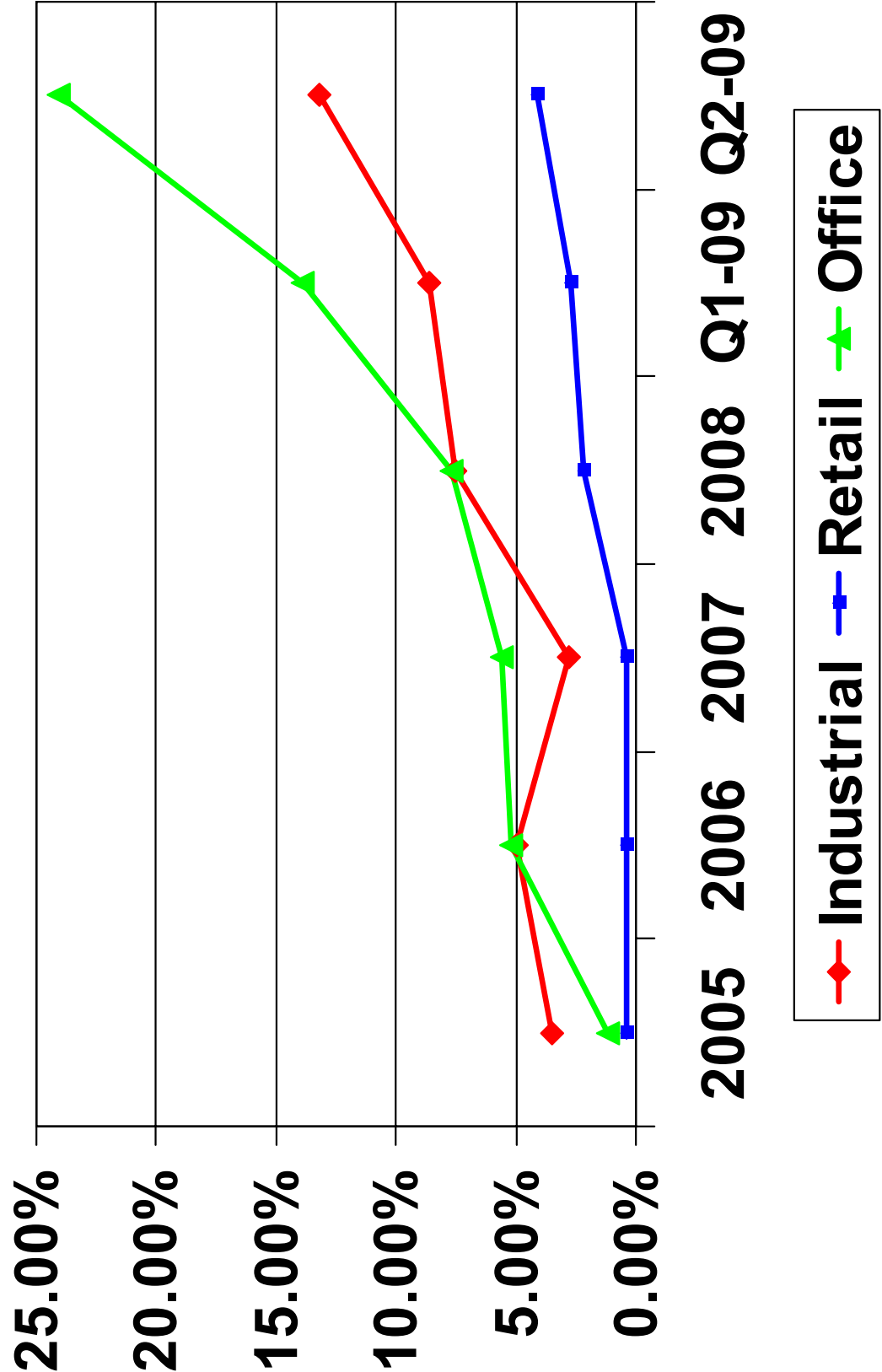
Defaults

Q1-2002 to Q2-2009



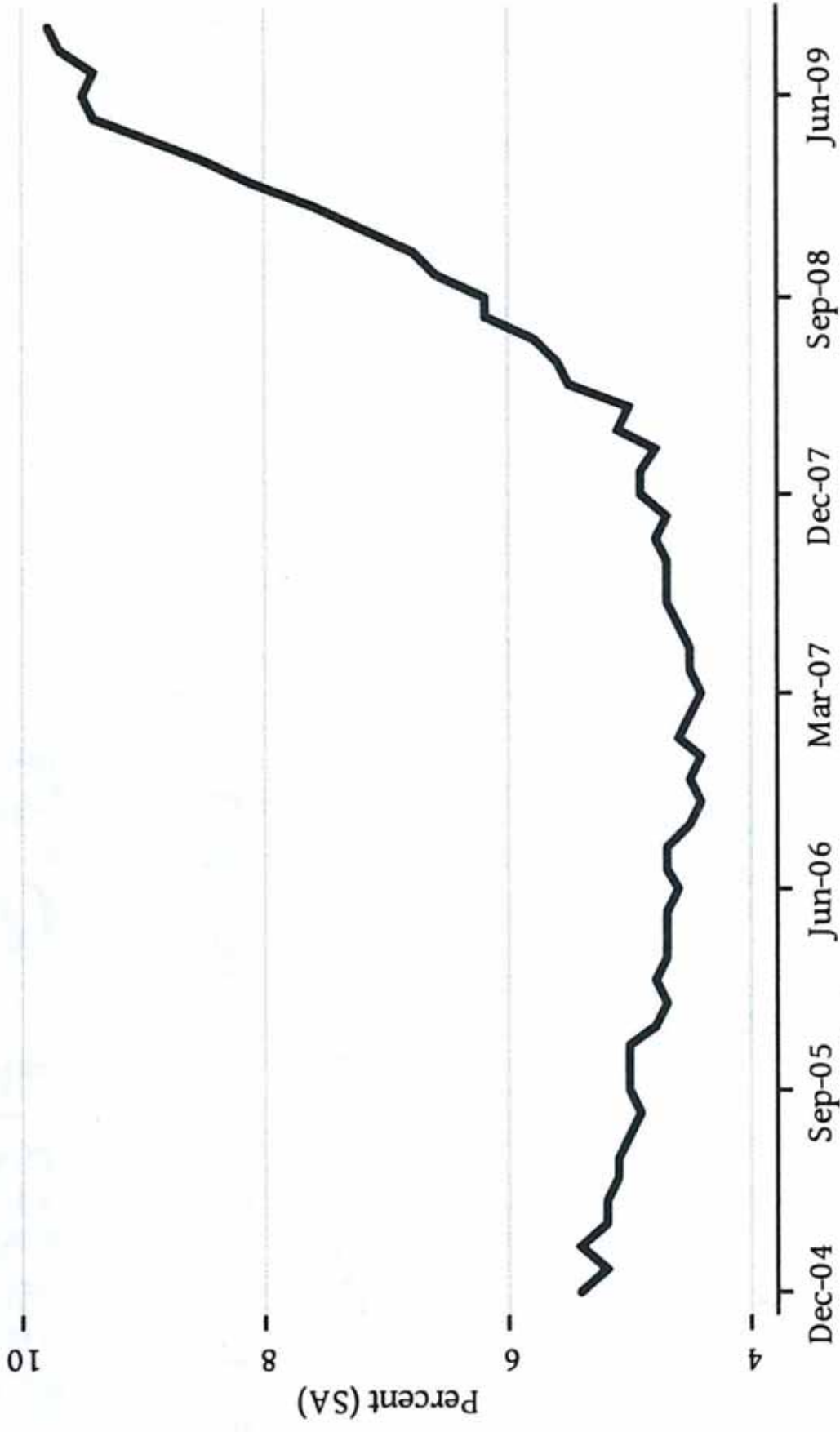
Source: DataQuick

Paso Vacancy Rates



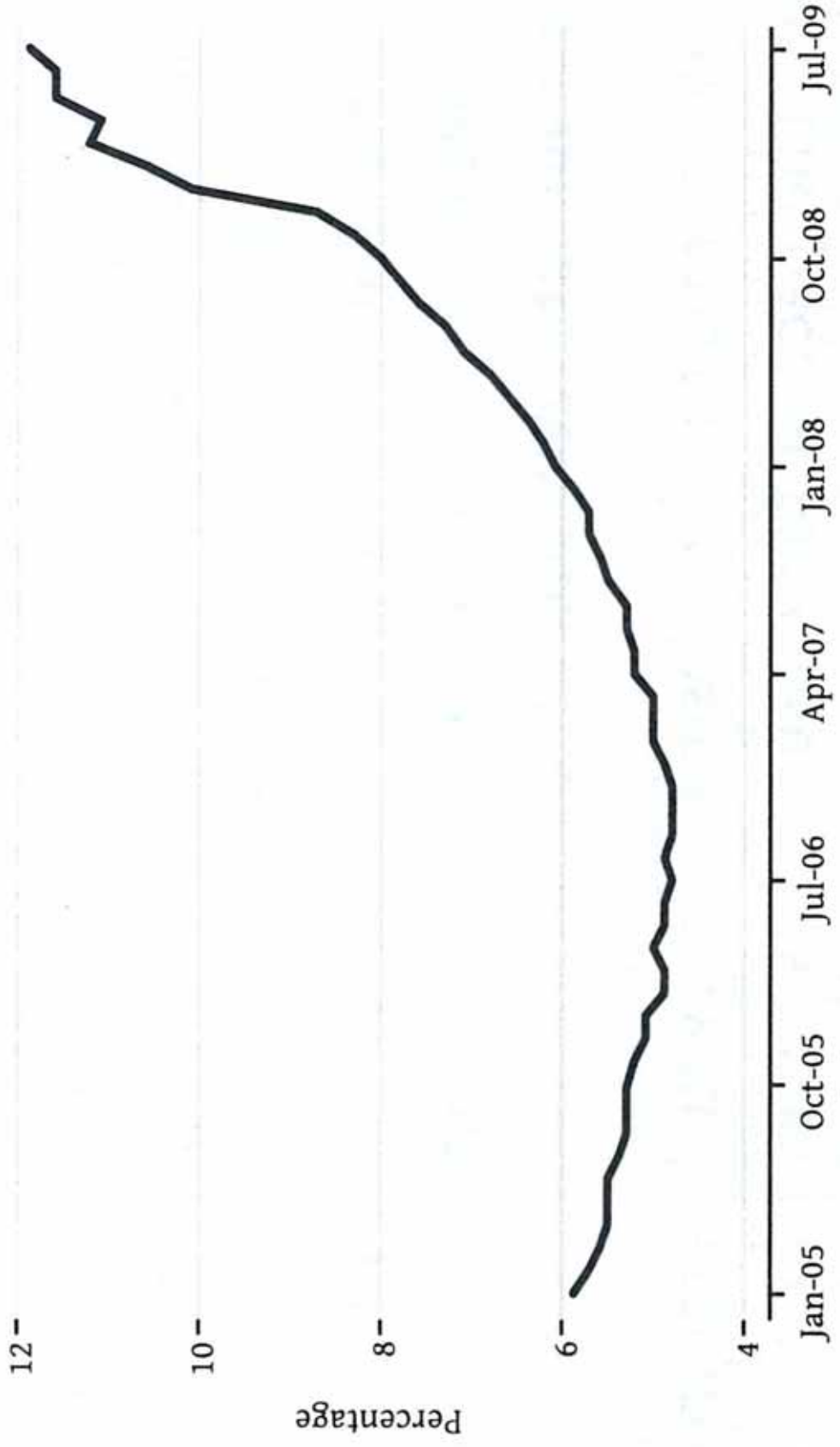
U.S. Unemployment Rate

Dec-04 - Sep-09



Source: U.S. Bureau of Labor Statistics

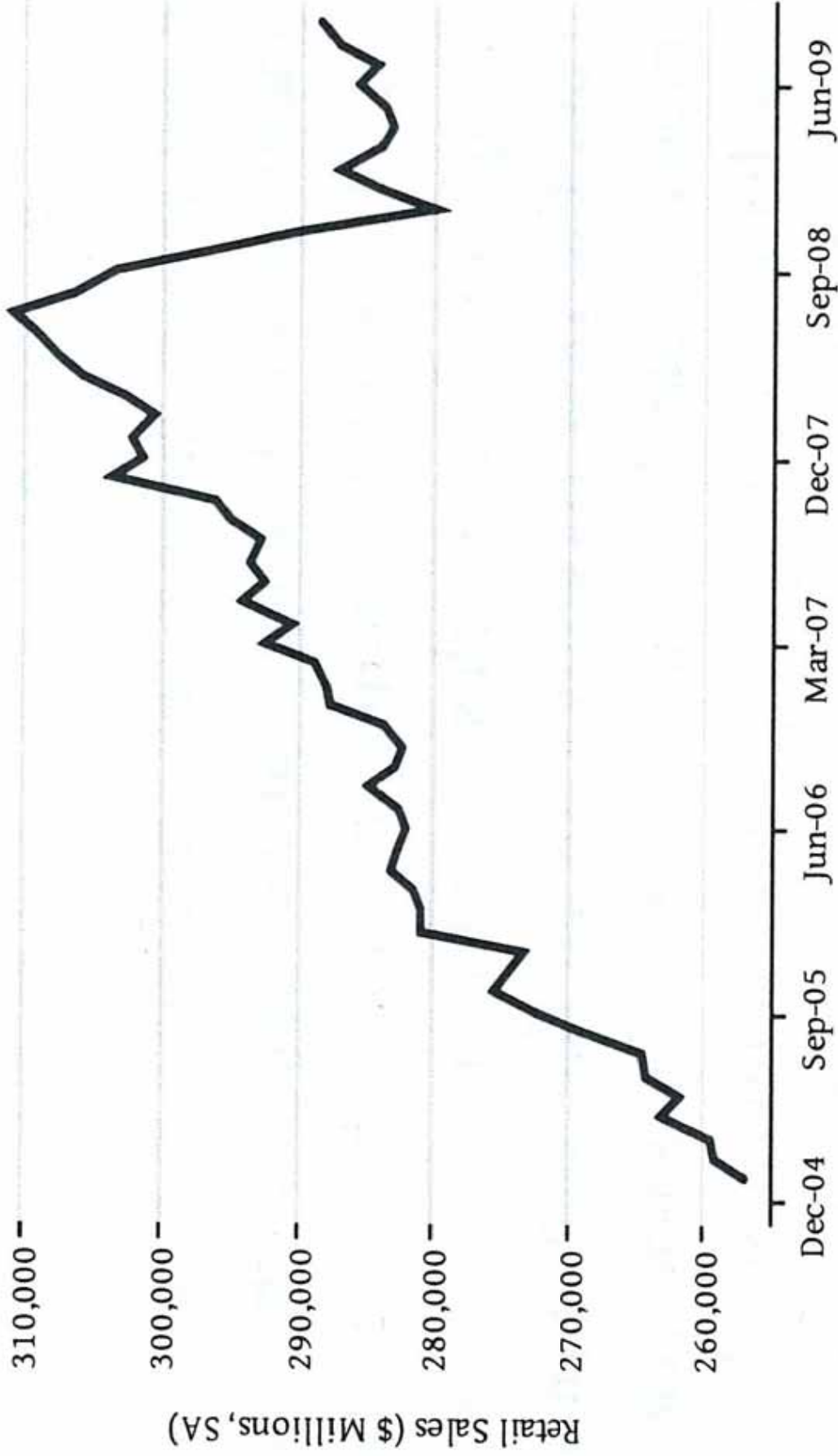
Unemployment Rate California, Jan-2005 to Jul-2009



Source: Bureau of Labor Statistics

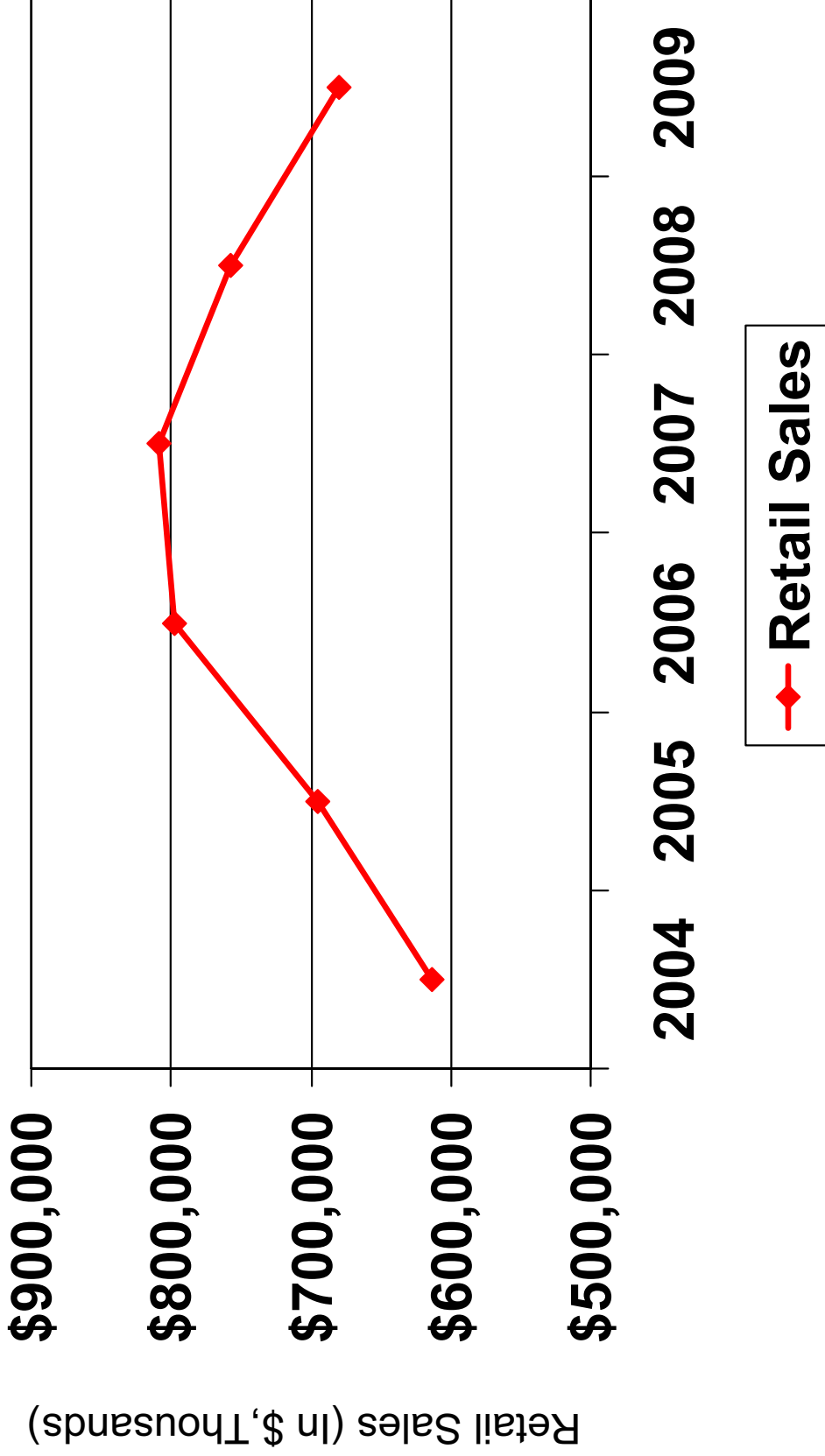
U.S. Retail Sales

Jan-05 - Sep-09



Source: U.S. Bureau of Economic Analysis

Paso Robles Retail Sales



Savings/Reductions

<u>DESCRIPTION</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>TOTAL</u>
SAVINGS:					
Employee Costs					
Vacant Positions	\$3,440,000	\$3,619,650	\$3,677,500	\$3,738,400	\$14,475,550
Wage Deferral	\$909,000	\$909,000	\$0	\$0	\$1,818,000
Retirements (future)	\$50,000	\$107,350	\$109,500	\$111,600	\$378,450
Fire Deployment Adjustment	\$125,000	\$250,000	\$250,000	\$250,000	\$875,000
Temp/Contract Help Eliminated	<u>\$298,000</u>	<u>\$298,000</u>	<u>\$298,000</u>	<u>\$298,000</u>	<u>\$1,192,000</u>
Sub-Total	\$4,822,000	\$5,184,000	\$4,335,000	\$4,398,000	\$18,739,000
Service Contract Costs					
Janitorial Service Eliminated	\$200,000	\$200,000	\$200,000	\$200,000	\$800,000
BSP Security Eliminated	\$40,000	\$40,000	\$40,000	\$40,000	\$160,000
Summer Swim Reduced	\$30,000	\$30,000	\$30,000	\$30,000	\$120,000
Sub-Total	\$270,000	\$270,000	\$270,000	\$270,000	\$1,080,000
Fund Transfers Eliminated					
City Hall Development Fund	\$340,000	\$490,000	\$490,000	\$490,000	\$1,810,000
Street Maintenance Fund	\$150,000	\$250,000	\$250,000	\$250,000	\$900,000
Facility Maintenance Fund	\$100,000	\$100,000	\$100,000	\$100,000	\$400,000
Facility Repair Fund	\$31,500	\$31,500	\$31,500	\$31,500	\$126,000
Sub-Total	\$621,500	\$871,500	\$871,500	\$871,500	\$3,236,000
SAVINGS TOTAL	\$5,713,500	\$6,325,500	\$5,476,500	\$5,539,500	\$23,055,000

Current Staff Profile vs Budget (General Fund, Benefit Eligible)

<u>Department</u>	<u>Budget</u>	<u>Current</u>	<u>Variance</u>	
			<u>Amount</u>	<u>Percent</u>
City Manager's Office	14.5	11.0	(3.50)	-24.1%
Administrative Services	6.0	5.0	(1.00)	-16.7%
Community Development	9.0	7.0	(2.00)	-22.2%
Emergency Services	31.5	25.0	(6.50)	-20.6%
Library & Recreation Services	16.5	13.1	(3.40)	-20.6%
Police	58.0	47.0	(11.00)	-19.0%
Public Works	45.0	32.0	(13.00)	-28.9%
Total	180.5	140.1	(40.40)	-22.4%

* Includes scheduled retirements through 2009

**City of El Paso de Robles
Revenue & Expense Comparison
7 Year Summary**

	<u>ACTUALS</u>							<u>PROJECTED</u>				
	<u>FY06/07</u>	<u>FY07/08</u>	<u>FY08/09</u>	<u>FY09/10</u>	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>Total</u>				
<u>GENERAL FUND REVENUE</u>												
Property Tax	7,584,685	8,638,732	8,845,815	8,559,884	8,700,200	8,811,200	9,143,200	35,214,484				
Other Taxes	13,209,218	12,874,064	11,729,477	11,270,188	11,623,900	12,119,200	12,492,800	47,506,088				
Licenses/Fees	924,967	853,515	770,006	584,000	653,000	819,600	946,300	3,002,900				
Fines & Forfeitures	321,533	375,740	331,260	331,289	342,000	351,300	356,600	1,381,189				
Use of Money & Property	1,250,178	469,519	999,217	450,453	420,324	426,624	432,924	1,730,325				
Revenue From Other Agencies	797,674	2,103,391	1,391,011	2,686,013	500,600	521,100	525,600	4,233,313				
Charges for Current Services	1,660,150	1,729,128	1,405,733	1,164,488	1,207,612	1,238,700	1,255,000	4,865,800				
Transfers In	255,204	856,789	1,494,699	1,045,704	860,700	860,700	860,700	3,627,804				
Miscellaneous	<u>153,241</u>	<u>480,685</u>	<u>164,451</u>	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>	<u>360,000</u>				
Total Revenue	26,156,850	28,381,562	27,131,669	26,182,019	24,398,336	25,238,424	26,103,124	101,921,903				
<u>GENERAL FUND EXPENSE</u>												
Salaries/Wages/Benefits	17,337,348	18,303,879	18,661,997	18,035,993	19,353,430	20,856,192	21,189,462	79,435,077				
Maintenance & Operations	11,353,948	10,743,465	10,533,502	10,580,509	10,486,071	10,372,995	10,375,284	41,814,859				
Debt Service	352,408	295,368	259,250	225,800	151,000	142,000	139,000	657,800				
Operating Capital	148,037	1,503,132	1,567,068	2,205,951	120,000	120,000	120,000	2,565,951				
Transfers Out	273,192	818,449	246,153	390,804	391,092	391,092	391,092	1,564,080				
Allocations To/From Others	<u>(3,457,861)</u>	<u>(3,283,593)</u>	<u>(3,761,467)</u>	<u>(3,632,400)</u>	<u>(3,600,000)</u>	<u>(3,600,000)</u>	<u>(3,600,000)</u>	<u>(14,432,400)</u>				
Total Expense	26,007,071	28,380,701	27,506,503	27,806,657	26,901,593	28,282,279	28,614,838	111,605,367				
Projected Revenue vs Expense	149,779	861	(374,834)	(1,624,638)	(2,503,257)	(3,043,855)	(2,511,714)	(9,683,464)				

New Expenses/Risks

<u>DESCRIPTION</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>TOTAL</u>
NEW EXPENSES/RISKS:					
Animal Control	(\$26,000)	(\$100,600)	(\$115,600)	(\$131,600)	(\$373,800)
Water Costs	\$0	(\$90,000)	(\$180,000)	(\$180,000)	(\$450,000)
Facility Maintenance Repair	(\$400,000)	(\$400,000)	(\$400,000)	(\$400,000)	(\$1,600,000)
State Raid - Gas Tax	(\$500,000)	\$0	\$0	\$0	(\$500,000)
Ashwood Culvert Repair	(\$250,000)	\$0	\$0	\$0	(\$250,000)
TOTAL EXPENSES/RISKS	(\$1,176,000)	(\$590,600)	(\$695,600)	(\$711,600)	(\$3,173,800)

Note: Without new water rates the General Fund will need to contribute \$3.5M to \$5.5M annually to the water fund starting in FY 2014

Resources for Balancing

<u>DESCRIPTION</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>TOTAL</u>
<u>Projected Deficit</u>					
Projected Revenue Shortfall	(\$1,624,638)	(\$2,503,257)	(\$3,043,855)	(\$2,511,714)	(\$9,683,464)
New Expenses/Risks	(\$1,176,000)	(\$590,600)	(\$695,600)	(\$711,600)	(\$3,173,800)
Total Projected Deficit	(\$2,800,638)	(\$3,093,857)	(\$3,739,455)	(\$3,223,314)	(\$12,857,264)
<u>Resources for Balancing</u>					
G.F. Emerg/Contingency Fund	\$200,000	\$200,000	\$200,000	\$200,000	\$800,000
Equipment Replacement Fund	\$800,000	\$0	\$0	\$0	\$800,000
CCCSIF Over-Deposit	\$454,000	\$0	\$0	\$0	\$454,000
General Fund Savings	\$8,026,000	\$0	\$0	\$0	\$8,026,000
RDA Partial Repayment	\$2,550,000	\$0	\$0	\$0	\$2,550,000
Total Resources for Balancing	\$12,030,000	\$200,000	\$200,000	\$200,000	\$12,630,000