

TO: City Council

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

SUBJECT: Fall 2011-2015 General and Enterprise Fund Financial Forecast/Budget Update & Adoption

DATE: January 17, 2012

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NEEDS: For the City Council to consider a General and Enterprise Fund financial forecast/budget update & adoption for the five fiscal years 2011 - 2015.

- Facts:
1. The Great Recession significantly impacted local city revenue, particularly sales and property tax revenues.
  2. National, state and local economic forecasts are showing a slow recovery and current financial results concur with the projection.
  3. The General Fund:
    - Provides for police, fire, library, recreation, and other non-utility public services.
    - Cost reduction initiatives to offset revenue losses began almost four years ago.
    - Cost reductions totaling over \$7,000,000 per year, and totaling nearly \$38,000,000 for FY 2011-2015, have been achieved by:
      - Reducing the workforce by over 35%
      - Freezing wages three (3) years
      - Reducing employee benefits
      - Discontinuing road, landscape, park, janitorial, and other maintenance service contracts.
    - Recovery for the City is projected to be slow, but positive.
    - For the five years ending June 30, 2015, the General Fund is projected to show a small annual positive excess of revenue.
  4. The Enterprise funds are run like a private business - all costs are recovered from users. However, there is no profit margin.
  5. There are four Enterprise funds: Water, Sewer, Transit and Airport. These funds receive no general tax support (from the General Fund).
    - The Water Fund:
      - Water rates were recently adopted and will be phased in over 5 years beginning January 2012.
      - Operating deficits are forecast until FY2015.

- Currently retains approximately \$20 million in reserves, which will have to cover debt payments, operational shortfalls, and if/when possible, repairs & replacements.
  - In order to use the water from the Nacimiento Pipeline project, a water treatment plant must be built. This plant will clean/filter the lake water and mix it with City well water, thus creating a “softer” water for residents.
  - The new treatment plant: Phase I is projected to cost approximately \$11 million for a 2 MGD plant and Phase II (+4 MGD plant) is estimated to start construction in FY2023 and has a projected cost of approximately \$25 million.
- The Sewer Fund:
- Full rehabilitation of the 50+ year old sewer plant is required.
  - Rehabilitation will cost approximately \$50,000,000.
  - Operates with an annual deficit.
  - New User rates and connection fees have been approved and will take effect July 1, 2012 and January 1, 2012, respectively.
  - Even with the successful adoption of new rates, the Fund is projected to show an operating deficit for the next two years.
- The Transit Fund:
- Approximately 80% of the funding is provided by State and Federal Governments.
  - State and Federal funding has been reduced. Service and fare adjustments have been implemented to offset operating deficits.
  - The bus fleet has exhausted its useful life expectancy. Without funding for new buses, serious operational issues may arise.
- The Airport Fund:
- Operates primarily off lease revenue, unsecured property taxes, as well as some fuel flowage and aircraft tie-down fees.
  - Has selected a new Fixed Base Operator (FBO), which should help improve the overall financial condition of the airport.
  - Excluding the non-cash expense of depreciation, forecasts a small surplus.
  - Has a reserve of approximately \$2.0 million.

ANALYSIS &  
CONCLUSION:

**GENERAL FUND**

The City has significantly reduced General Fund (GF) spending by eliminating over 35% of GF jobs, cutting temporary and contract help, trimming contractual services, suspending wage

increases, reducing benefits and eliminating some recurring maintenance services. These reductions total approximately \$38 million for the five years ending June 30, 2015.

This most recent forecast is favorable in that it is projecting small, but positive financial results for the next five years. However, there are risks to the forecast including future State appropriation of local revenues, new program or regulatory (spending) mandates, protracted recovery, and/or a double-dip recession.

### **WATER FUND**

New water rates will be implemented in phases over 5 years beginning January 2012. Regardless, reserves are forecast to decline to approximately \$10.5 million by FY2014.

Per Federal/State water safety guidelines, in order to use the new Nacimiento water, a treatment plant must be constructed.

Due to the long delay in getting water rates approved, construction of the Water Treatment Plant (WTP) is delayed until approximately 2014.

### **SEWER FUND**

The current wastewater treatment plant was built in 1954 and does not meet current water quality standards set by the State and Federal government. A comprehensive rehabilitation is required. New rates have been approved to fund plant rehabilitation and operation, as well as offset existing operating shortfalls.

Even with new rates (implemented in phases over five years), operating deficits are forecast for at least the next two years. With the new rates, rehabilitation of the Plant will begin in FY2013 and take approximately two years to complete.

### **TRANSIT FUND**

The Transit fund receives 80% of its funding from State and Federal governments. Transit fare revenue is supposed to make up the remaining 20% of revenue requirements. Unfortunately, the costs to operate the system have been increasing yearly. Maintenance costs continue to climb due to the age of the bus fleet. Most of the buses (11 in the fleet) have exhausted useful life-expectancy. Also, the cost of fuel, especially diesel, has remained high for the last year or more. This additional cost has put a burden on the finances of the system.

Due to the financial condition of the Transit Fund service changes were implemented. Dial-A-Ride days and hours have been reduced, fares increased, routes changed and an unfavorable MOU was canceled. It is believed that these changes in service will allow the Transit Fund to operate with a very small surplus.

However, per the forecast, even after five (5) years, there may only be enough to purchase one or two buses. This puts the viability of the system at risk. As the buses continue to age, more and more of them will need to be taken out of service. This could hinder transit service to the City's ridership.

### **AIRPORT FUND**

The Airport Fund receives the majority of its operational funding from leases (buildings, hangars), property tax on aircraft, fuel flowage and aircraft tie-down fees. It also receives grant funding through the State and Federal government for airport improvements.

A new Fixed Base Operator has been selected and may help improve overall performance at the Airport.

POLICY  
REFERENCE: Council goals – “Live within our means”; Fiscal Policy – maintain 15% reserve.

FISCAL  
IMPACT: **GENERAL FUND**

With the recession over and recovery on way this latest forecast projects small, but favorable financial results for each of the next four fiscal years, ending June 30, 2015.

However, the forecast is not certain as there are risks of:

1. Slower than expected recovery, &/or
2. Future State appropriation of local funds, &/or
3. New State and/or Federal program or regulatory (spending) mandates
4. Unforeseen emergencies/natural disasters

### **WATER FUND**

New water rates will be implemented in phases over 5 years beginning January 2012. However, reserves will be drawn down to cover debt and operating obligations. Consequently, major repairs and construction of a required water treatment plant will be deferred until approximately 2014.

Operating deficits are expected for the first four years of the forecast.

### **SEWER FUND**

New rates have been approved and are needed to fund ongoing operating deficits and rehabilitation of the treatment plant. Even with the new rates, the Fund is projected to run an operating deficit for at least two of the next five years of the forecast.

### **TRANSIT FUND**

Excluding depreciation costs, which are a non-cash cost, the Fund is forecast to restore balance within starting with FY2012.

### **AIRPORT FUND**

The Airport Fund has operated with a surplus each year for the past several years (excluding depreciation). Operational costs are covered by current revenues.

The Airport Fund has accumulated approximately \$2.0 million in reserves.

- Options:
- a. Receive and file January 2012 financial forecast report; or
  - b. Determine additional cost-cutting initiatives; or
  - c. Amend, modify, or reject the above option

# Financial Forecast 2011 – 2015 Fall

CITY OF PASO ROBLES



# Where are we now?

- ❖ Economy is in a slow recovery mode.
- ❖ San Luis Obispo County's unemployment rate has dropped below 9.3 percent.
- ❖ Tourism remains a driving force the City and County.
- ❖ Retail sales growth is returning.
- ❖ Housing market remains weak.
- ❖ Over 40% of all residential properties received a Prop. 8 value reduction.
- ❖ Construction will not recover any time soon.



# WHAT DO THE NEXT FIVE YEARS LOOK LIKE?



# Financial Plan/Forecast 2011-2015 - Spring

## General Fund

	<u>FY 10/11</u>	<u>FY 11/12</u>	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>5 Yr Total</u>
Revenue	\$ 24,331,828	\$ 24,561,000	\$ 25,224,000	\$ 25,990,000	\$ 26,313,000	\$127,130,828
Expense	<u>\$ 24,641,790</u>	<u>\$ 24,415,000</u>	<u>\$ 24,902,000</u>	<u>\$ 25,542,000</u>	<u>\$ 26,313,000</u>	<u>\$125,813,789</u>
Projected Shortfall	<u>\$ (309,902)</u>	<u>\$ 146,000</u>	<u>\$ 322,000</u>	<u>\$ 448,000</u>	<u>\$ 711,000</u>	<u>\$ 1,317,038</u>



**General Fund  
Summary of Revenue & Expense  
5 Year Summary**

<u>GENERAL FUND REVENUE</u>	<u>PROJECTED</u>					<u>Total 5 Years</u>
	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>FY13/14</u>	<u>FY14/15</u>	
Property Tax	8,290,960	8,128,000	8,206,000	8,370,000	8,620,000	41,614,960
Sales Tax	7,072,495	7,583,000	7,905,000	8,241,000	8,612,000	39,413,495
Transient Occupancy Tax	2,998,494	3,293,000	3,425,000	3,562,000	3,705,000	16,983,494
Other Taxes	2,039,606	2,092,000	2,239,000	2,348,000	2,444,000	11,162,606
Licenses/Fees	843,369	812,000	821,000	830,000	926,000	4,232,369
Fines/Interest/Other Agency	1,104,715	851,000	817,000	817,000	822,000	4,665,000
Charges for Current Services	949,547	814,000	823,000	834,000	907,000	4,327,547
Transfers In/Miscellaneous	1,032,642	988,000	988,000	988,000	988,000	4,984,642
<b>Total Revenue</b>	<b><u>24,331,828</u></b>	<b><u>24,561,000</u></b>	<b><u>25,224,000</u></b>	<b><u>25,990,000</u></b>	<b><u>27,024,000</u></b>	<b><u>127,130,828</u></b>
 <u>GENERAL FUND EXPENSE</u>						
	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>FY13/14</u>	<u>FY14/15</u>	<u>Total 5 Years</u>
Salaries/Wages/Benefits	16,718,623	16,433,000	16,650,000	17,091,000	17,523,000	84,415,623
Maintenance & Operations	10,718,469	10,950,000	11,331,000	11,530,000	11,869,000	56,398,469
Transfers/Debt Service/Equip.	846,975	555,000	581,000	581,000	581,000	3,144,975
Allocations To/From Others	<u>(3,642,277)</u>	<u>(3,523,000)</u>	<u>(3,660,000)</u>	<u>(3,660,000)</u>	<u>(3,660,000)</u>	<u>(18,145,277)</u>
<b>Total Expense</b>	<b><u>24,641,790</u></b>	<b><u>24,415,000</u></b>	<b><u>24,902,000</u></b>	<b><u>25,542,000</u></b>	<b><u>26,313,000</u></b>	<b><u>125,813,790</u></b>
<b>Projected Revenue vs Expense</b>	<b><u>(309,962)</u></b>	<b><u>146,000</u></b>	<b><u>322,000</u></b>	<b><u>448,000</u></b>	<b><u>711,000</u></b>	<b><u>1,317,038</u></b>
<b>Fund Balance</b>	10,145,000	10,291,000	10,613,000	11,061,000	11,772,000	

NOTE: Assumes no new contractual wage increase after July 2012.  
NOTE: Assumes program changes thru FY2015

**WATER FUND  
Summary of Revenue & Expense  
5 Year Summary**

<u>WATER FUND REVENUE</u>	<u>PROJECTED</u>					<u>Total 5 Years</u>
	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>FY13/14</u>	<u>FY14/15</u>	
Fixed Monthly Service Charge	\$2,200,363	\$1,113,000	\$0	\$0	\$0	\$3,313,363
Consumption Charge	\$3,577,134	\$4,988,000	\$7,473,000	\$9,084,000	\$10,333,000	\$35,455,134
Connection Fees	\$551,986	\$888,000	\$1,031,000	\$1,175,000	\$1,763,000	\$5,408,986
Interest/Misc	\$240,003	\$621,000	\$354,000	\$257,000	\$236,000	\$1,708,003
<b>Total Revenue</b>	<b><u>\$6,569,486</u></b>	<b><u>\$7,610,000</u></b>	<b><u>\$8,858,000</u></b>	<b><u>\$10,516,000</u></b>	<b><u>\$12,332,000</u></b>	<b><u>\$45,885,486</u></b>
<u>WATER FUND EXPENSE</u>	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>FY13/14</u>	<u>FY14/15</u>	<u>Total 5 Years</u>
Utility Billing/Administration	\$587,881	\$604,000	\$623,000	\$641,000	\$660,000	\$3,115,881
Water Production/Distribution	\$4,857,649	\$4,132,000	\$4,274,000	\$4,424,000	\$4,574,000	\$22,261,649
Regional Naci O&M	\$1,146,706	\$1,092,000	\$1,174,000	\$1,232,000	\$1,269,000	\$5,913,706
Naci Pipeline Debt Service	\$1,173,700	\$3,810,000	\$4,200,000	\$4,200,000	\$4,200,000	\$17,583,700
Misc/Reserve Requirements	\$1,467,000	\$3,296,000	\$487,000	\$0	(\$5,250,000)	\$0
Capital Expenditures	<u>\$735,014</u>	<u>\$985,000</u>	<u>\$1,327,000</u>	<u>\$708,000</u>	<u>\$2,430,000</u>	<u>\$6,185,014</u>
<b>Total Expense</b>	<b><u>\$9,967,950</u></b>	<b><u>\$13,919,000</u></b>	<b><u>\$12,085,000</u></b>	<b><u>\$11,205,000</u></b>	<b><u>\$7,883,000</u></b>	<b><u>\$55,059,950</u></b>
<b>Projected Revenue vs Expense</b>	<b><u>(\$3,398,464)</u></b>	<b><u>(\$6,309,000)</u></b>	<b><u>(\$3,227,000)</u></b>	<b><u>(\$689,000)</u></b>	<b><u>\$4,449,000</u></b>	<b><u>(\$9,174,464)</u></b>
<b>Projected Water Fund Reserves</b>	\$20,717,000	\$14,408,000	\$11,181,000	\$10,492,000	\$14,941,000	

NOTE: Water Fund Reserves are sufficient to cover all annual deficits.  
NOTE: Assumes water treatment plant construction begins in FY2015.

**SEWER FUND**  
**Summary of Revenue & Expense**  
**5 Year Summary**

<u>SEWER FUND REVENUE</u>	<u>PROJECTED</u>					<u>Total 5 Years</u>
	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>FY13/14</u>	<u>FY14/15</u>	
Fixed Monthly Service Charge	\$4,498,386	\$4,105,000	\$2,059,000	\$0	\$0	\$10,662,386
Consumption Charge	\$0	\$312,000	\$3,177,000	\$7,275,000	\$8,531,000	\$19,295,000
Connection Fees	\$563,920	\$286,000	\$334,000	\$383,000	\$617,000	\$2,183,920
TCSD WW O&M Charges	\$148,132	\$191,000	\$208,000	\$221,000	\$242,000	\$1,010,132
Bond Revenue	\$0	\$0	\$10,476,000	\$14,783,000	\$14,783,000	\$40,042,000
Interest/Misc	\$150,007	\$244,000	\$211,000	\$309,000	\$345,000	\$1,259,007
<b>Total Revenue</b>	<b><u>\$5,360,445</u></b>	<b><u>\$5,138,000</u></b>	<b><u>\$16,465,000</u></b>	<b><u>\$22,971,000</u></b>	<b><u>\$24,518,000</u></b>	<b><u>\$74,452,445</u></b>
<u>SEWER FUND EXPENSE</u>	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>FY13/14</u>	<u>FY14/15</u>	<u>Total 5 Years</u>
WW Collection System	\$1,087,131	\$1,230,000	\$1,265,000	\$1,426,000	\$1,507,000	\$6,515,131
WW Treatment	\$1,654,959	\$1,963,000	\$2,199,000	\$2,329,000	\$2,558,000	\$10,703,959
Industrial Waste/Stormwater	\$274,544	\$356,000	\$373,000	\$387,000	\$401,000	\$1,791,544
Utility Billing/Administration	\$373,200	\$614,000	\$638,000	\$664,000	\$690,000	\$2,979,200
Depreciation	\$0	\$0	\$0	\$1,232,000	\$1,242,000	\$2,474,000
Debt Service	\$343,779	\$526,000	\$523,000	\$525,000	\$527,000	\$2,444,779
New Debt Service	\$0	\$0	\$0	\$0	\$0	(\$3,523,800)
Capital Expenditures	<u>\$3,472,654</u>	<u>\$1,280,000</u>	<u>\$9,834,000</u>	<u>\$15,529,000</u>	<u>\$15,830,000</u>	\$45,945,654
<b>Total Expense</b>	<b><u>\$7,206,267</u></b>	<b><u>\$5,969,000</u></b>	<b><u>\$14,832,000</u></b>	<b><u>\$22,092,000</u></b>	<b><u>\$22,755,000</u></b>	<b><u>\$72,854,267</u></b>
<b>Projected Revenue vs Expense</b>	<b><u>(\$1,845,822)</u></b>	<b><u>(\$831,000)</u></b>	<b><u>\$1,633,000</u></b>	<b><u>\$879,000</u></b>	<b><u>\$1,763,000</u></b>	<b><u>\$1,598,178</u></b>
<b>Projected Sewer Fund Reserves</b>	\$3,110,000	\$2,279,000	\$3,912,000	\$4,791,000	\$6,554,000	

NOTE: Projections include sewer rate increases

NOTE: Reserves to be used to fund necessary capital expenditures in FY11 and FY12

NOTE: Debt service payments on bond issue start in FY15/16

**TRANSIT FUND  
Summary of Revenue & Expense  
5 Year Summary**

<u>TRANSIT FUND REVENUE</u>	<u>PROJECTED</u>					<u>Total 5 Years</u>
	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>FY13/14</u>	<u>FY14/15</u>	
Fares	\$321,066	\$168,000	\$174,000	\$177,000	\$180,000	\$1,020,066
Federal/State Funding	\$1,274,295	\$1,375,000	\$1,400,000	\$1,450,000	\$1,475,000	\$6,974,295
Interest/Misc	\$532	\$5,000	\$20,000	\$25,000	\$25,000	\$75,532
<b>Total Revenue</b>	<b><u>\$1,595,893</u></b>	<b><u>\$1,548,000</u></b>	<b><u>\$1,594,000</u></b>	<b><u>\$1,652,000</u></b>	<b><u>\$1,680,000</u></b>	<b><u>\$8,069,893</u></b>
<u>TRANSIT FUND EXPENSE</u>	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>FY13/14</u>	<u>FY14/15</u>	<u>Total 5 Years</u>
Salaries/Benefits	\$149,463	\$155,000	\$155,000	\$155,000	\$155,000	\$769,463
Professional Services	\$1,011,419	\$800,000	\$800,000	\$850,000	\$850,000	\$4,311,419
Maintenance/Fuel	\$406,473	\$375,000	\$375,000	\$375,000	\$375,000	\$1,906,473
Depreciation	\$143,486	\$151,000	\$160,000	\$175,000	\$180,000	\$809,486
Capital Expenditures	\$33,895	\$159,000	\$200,000	\$210,000	\$220,000	\$822,895
Misc Expense	\$0	\$20,000	\$20,000	\$20,000	\$20,000	\$80,000
<b>Total Expense</b>	<b><u>\$1,744,736</u></b>	<b><u>\$1,660,000</u></b>	<b><u>\$1,710,000</u></b>	<b><u>\$1,785,000</u></b>	<b><u>\$1,800,000</u></b>	<b><u>\$8,699,736</u></b>
<b>Projected Revenue vs Expense</b>	<b><u>(\$148,843)</u></b>	<b><u>(\$112,000)</u></b>	<b><u>(\$116,000)</u></b>	<b><u>(\$133,000)</u></b>	<b><u>(\$120,000)</u></b>	<b><u>(\$629,843)</u></b>
<b>Projected Surplus w/o Depreciation</b>	<b><u>(\$5,357)</u></b>	<b><u>\$39,000</u></b>	<b><u>\$44,000</u></b>	<b><u>\$42,000</u></b>	<b><u>\$60,000</u></b>	<b><u>\$179,643</u></b>
<b>Projected Transit Fund Reserves excluding Depreciation</b>	<b><u>(\$5,357)</u></b>	<b><u>\$33,643</u></b>	<b><u>\$77,643</u></b>	<b><u>\$119,643</u></b>	<b><u>\$179,643</u></b>	

\*NOTE: Federal/State Funding excludes regional funds that pass through to SLOCOG/SLORTA

\*NOTE: Federal/State Funding sources are unpredictable and may change rapidly

**AIRPORT FUND  
Summary of Revenue & Expense  
5 Year Summary**

<u>AIRPORT FUND REVENUE</u>	<u>PROJECTED</u>					<u>Total 5 Years</u>
	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>FY13/14</u>	<u>FY14/15</u>	
Property Taxes - Aircraft	\$44,905	\$45,000	\$45,000	\$45,000	\$45,000	\$224,905
Rental - Airport Property	\$375,315	\$375,000	\$375,000	\$375,000	\$375,000	\$1,875,315
Rental - Farm	\$20,972	\$15,000	\$15,000	\$15,000	\$15,000	\$80,972
Federal Airport Aid	\$399,886	\$500,000	\$0	\$0	\$500,000	\$1,399,886
Flowage Fees	\$22,525	\$25,000	\$26,000	\$27,000	\$28,000	\$128,525
Landing/Tie Down Fees	\$27,281	\$20,000	\$20,000	\$20,000	\$20,000	\$107,281
Day Receipts	\$3,365	\$1,000	\$1,000	\$1,000	\$1,000	\$7,365
Interest/Misc	\$19,480	\$30,000	\$20,000	\$15,000	\$15,000	\$99,480
<b>Total Revenue</b>	<b><u>\$913,729</u></b>	<b><u>\$1,011,000</u></b>	<b><u>\$502,000</u></b>	<b><u>\$498,000</u></b>	<b><u>\$999,000</u></b>	<b><u>\$3,923,729</u></b>
 <u>AIRPORT FUND EXPENSE</u>						
	<u>FY10/11</u>	<u>FY11/12</u>	<u>FY12/13</u>	<u>FY13/14</u>	<u>FY14/15</u>	<u>Total 5 Years</u>
Salaries/Benefits	\$188,407	\$200,000	\$200,000	\$200,000	\$200,000	\$988,407
Operating & Maintenance	\$155,289	\$220,000	\$220,000	\$220,000	\$220,000	\$1,035,289
Depreciation	\$332,340	\$342,000	\$342,000	\$342,000	\$342,000	\$1,700,340
Capital Expenditures	<u>\$88,065</u>	<u>\$500,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$500,000</u>	<u>\$1,088,065</u>
<b>Total Expense</b>	<b><u>\$764,101</u></b>	<b><u>\$1,262,000</u></b>	<b><u>\$762,000</u></b>	<b><u>\$762,000</u></b>	<b><u>\$1,262,000</u></b>	<b><u>\$4,812,101</u></b>
<b>Projected Revenue vs Expense</b>	<b><u>\$149,628</u></b>	<b><u>(\$251,000)</u></b>	<b><u>(\$260,000)</u></b>	<b><u>(\$264,000)</u></b>	<b><u>(\$263,000)</u></b>	<b><u>(\$888,372)</u></b>
<b>Projected Annual Surplus w/o Depreciation</b>	\$481,968	\$91,000	\$82,000	\$78,000	\$79,000	\$811,968
<b>Projected Airport Fund Reserves</b>	\$1,977,968	\$2,068,968	\$2,150,968	\$2,228,968	\$2,307,968	

NOTE: Operating deficit due to depreciation expense. Removing this non-cash expense reveals annual surplus.