


# City of Calistoga

## Staff Report

**TO:** Honorable Mayor and City Council

**FROM:** James C. McCann, City Manager and   
Bill Mushallo, Administrative Services Director

**DATE:** October 20, 2009

**SUBJECT:** Discussion regarding Fiscal Year 2009/2010 General Fund Budget Update and Forecast

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2 **ISSUE:** To consider a brief fall budget update and discuss the process and timing for  
3 providing the City Council with recommended alternatives to address the revenue  
4 shortfall.

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6 **RECOMMENDATION:** To review and provide feedback regarding the budget update.

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8 **BACKGROUND:** In September, 2008 a preliminary budget projection was presented to  
9 Council for the 2009/10 fiscal year. On June 29, 2009 that budget was revised and an  
10 update was presented to the City Council. At that time Fiscal Year 2009/10 revenues  
11 were projected to be approximately 3% higher than forecasted 2008/09 amounts.  
12 Property tax valuations were expected to grow slightly during 2009/10. Sales taxes  
13 were expected to be lower due to multiple one-time 2008/09 items not recurring in  
14 2009/10. Transient Occupancy Tax revenue was projected to increase slightly during  
15 the upcoming fiscal year. Based on development projects that were currently in the  
16 pipeline at that time, licenses and permits revenue was projected to grow significantly in  
17 2009/10.

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19 In June a revised operating expense budget was also presented to the City Council.  
20 Since the original 2009/10 budget was adopted last September, operating expenditures  
21 have been cut by nearly \$800,000 vs. what was originally projected. In order to achieve  
22 those savings, vacant positions have not been filled, overtime and part time salaries  
23 have been reduced, contract services have been greatly reduced or eliminated, travel  
24 and training budgets are being held to minimum levels, and General Fund CIP  
25 contributions are being deferred. Total 2009/10 operating expenditures were held  
26 virtually flat vs. 2008/09.

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28 **DISCUSSION:** Since the June 29, 2009 budget presentation 2009/10 revenues and  
29 expenditures have been updated through September 30, 2009. We have analyzed the  
30 actual revenues to date and have updated projections for the remainder of the fiscal

31 year. Based on that analysis and those projections estimates of where we will end the  
32 2009/10 fiscal year have been revised.

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34 Transient Occupancy Tax, the City's largest General Fund revenue source, continues to  
35 fall vs. the same periods in 2008/09. You may remember that 2008/09 TOT results  
36 were down 5.9% from the prior fiscal year. The first six months of 2008/09 were  
37 actually up 2% from the prior year and the second six months were down 15%. That  
38 downward trend is continuing into 2009/10. July results were down 12.9% from the  
39 prior year and August was down 20.9%. September, on the other hand, appears to be  
40 stabilizing. Preliminary information received from 25% of the TOT operators indicate  
41 revenues are down only 2% from September 2008. Since this is a small sample actual  
42 September results could vary significantly from the preliminary indications. Based on  
43 these results, along with an updated projection for the remainder of 2009/10, we are  
44 projecting TOT at just under \$3.0 million for 2009/10. This will be approximately a \$0.4  
45 million decline from our original budget projections and a 6% decline from actual  
46 2008/09 results.

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48 Since the June budget presentation we have received our 2009/10 property tax  
49 assessed valuation change estimates from Napa County. Back in June preliminary  
50 information received indicated that the County as a whole would see assessed  
51 valuations increase slightly. It was thought that Calistoga would mirror the county-wide  
52 trend and revenues were projected to increase slightly from fiscal year 2008/09.  
53 Unfortunately 2009/10 assessed valuations decreased 5% from 2008/09. This was due  
54 mainly to both residential and commercial Prop 8 reassessments. Overall property tax  
55 revenue is projected to be down \$0.1 million from the original budget projection back in  
56 June.

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58 Sales tax results have also been received for the first quarter of 2009/10. Unfortunately,  
59 cash receipts for Q1 were down 25% from the same quarter a year ago. Economic  
60 activity was down about 17% and the remainder of the shortfall was due to one time  
61 payments received during the prior quarter that did not recur. During the remainder of  
62 2009/10 we are forecasting two of our main sales tax categories (restaurants and fuel  
63 sales) to be down about 5% from 2008/09. Overall revenue for 2009/10 is expected to  
64 approximate \$728,000 which is down 5% from our forecast in June.

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66 During our budget revisions in the spring we worked together with the Planning and  
67 Building Department to develop projections for building and planning related revenues.  
68 At that time it was anticipated that several new businesses and some expansions would  
69 come on line in 2009/10. Those projections have not yet materialized so far this fiscal  
70 year. With that in mind we have reduced our revenue projections for building permits  
71 and plan check fees to more closely approximate results realized during 2008/09.

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73 On the positive side the City should receive some one time revenues this fiscal year to  
74 help offset some of the revenue erosion mentioned above. The Fire Department has

75 participated in several strike teams and has accumulated over \$100,000 in outstanding  
 76 revenues from the State. We also expect to be reimbursed for costs associated with  
 77 mitigation efforts on the Busk property (we have already received reimbursement for the  
 78 Karpuk nuisance abatement effort).

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 80 The bottom line is that we are anticipating 2009/10 revenues to be about \$0.4 million  
 81 less than what was anticipated in June. This equates to a 5.9% reduction in revenues.  
 82 Total 2009/10 General Fund operating revenues are now projected to approximate \$6.8  
 83 million vs. the \$7.2 million originally anticipated in June. The chart below illustrates the  
 84 revenue changes by category.

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June Estimate FY 09-10	Fall Estimate FY 09-10	Dollar Change	% Chg
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**General Fund Operating Revenues:**

<b>Property Taxes</b>	1,601,500	1,480,000	-121,500	-7.6%
<b>Sales Taxes</b>	764,000	728,000	-36,000	-4.7%
<b>TOT</b>	3,359,558	2,992,000	-367,558	-10.9%
<b>Other Taxes</b>	318,000	301,250	-16,750	-5.3%
<b>Licenses &amp; Permits</b>	184,000	109,000	-75,000	-40.8%
<b>Fines, Forfeits &amp; Other</b>	233,100	237,100	4,000	1.7%
<b>Charges for Services</b>	747,900	936,015	188,115	25.2%
<b>Total Operating Revenues:</b>	<b>7,208,058</b>	<b>6,783,365</b>	<b>-424,693</b>	<b>-5.9%</b>

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 89 We have also analyzed actual expenditures incurred during the first quarter of 2009/10.  
 90 Departments have done a good job at managing their budgets and have spent  
 91 approximately 24% of their annual budgets to date. They will be tasked with continuing  
 92 to manage to budgets that were reduced significantly from the original 2009/10  
 93 projections made in September of last year. Since that time those expenditure budgets  
 94 were reduced approximately \$0.8 million.

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 96 During the next month we will be developing options to address the \$0.4 million dollar  
 97 revenue shortfall mentioned above. Departments will be evaluating current 2009/10  
 98 budgets and looking for ways to cut wherever possible. We will also be looking at  
 99 project budgets to see where they may be reduced or deferred to subsequent years.  
 100 Cost recovery will be also evaluated and recommendations for changes will be  
 101 considered.

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103 As Departments work on updates of their expenditure budgets for 2009/10 they have  
104 been directed to spend funds for critical items only during the remainder of the current  
105 fiscal year. Expenditure reductions will help bridge the \$425,000 revenue shortfall  
106 mentioned above. Any current vacant positions will continue to remain un-filled.  
107 Contract services and project expenditures should be closely evaluated and expended  
108 for only critical, must do items.

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110 Over the next several months we will be bringing multiple budget updates to the City  
111 Council. Here is a list of some of those planned updates:

- 112 • November – First quarter 2009/10 TOT and other major revenues update &  
113 Chamber marketing report
- 114 • November – Recommendations for closing the revenue gap mentioned above
- 115 • February – Second quarter 2009/10 TOT and other major revenues update &  
116 Chamber marketing report
- 117 • February/March – Mid-Year 2009/10 budget update and preliminary 2010/11  
118 budget
- 119 • April – Spring third quarter 2009/10 revenue update
- 120 • May – Third quarter 2009/10 TOT and other major revenues update & Chamber  
121 marketing report

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123 We will continue to update our forecasts over the remainder of the fiscal year using fair,  
124 realistic revenue assumptions. Expenditures have also been projected conservatively  
125 and reasonably reflect what should occur over the remainder of 2009/10. Departments  
126 have continued to do a good job maintaining current levels of services after significant  
127 budget reductions were integrated in June. We are confident that regular financial  
128 updates along with proactive revenue/expenditure management will keep us ahead of  
129 any additional unforeseen financial or economic developments.