


City of Calistoga

Staff Report

TO: Honorable Mayor and City Council

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

DATE: February 2, 2010

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

1
2 **ISSUE:** To hear a brief financial update and to discuss staff's recommendations for
3 addressing the 2009/10 budget shortfall.

4
5 **RECOMMENDATION:** To review proposed changes to the 2009/10 General Fund
6 budget and adopt a resolution making said changes.

7
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.

18
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 (or 10%) vs. what was originally projected. In order
22 to achieve those savings, vacant positions have not been filled, overtime and part time
23 costs have been reduced, contract services have been greatly reduced or eliminated,
24 travel 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 When the fall financial update was presented in December revenues and expenditures
29 had been updated through September 30, 2009. Actual revenues to date were
30 analyzed and updated and expenditure projections for the remainder of the fiscal year
31 were evaluated. Based on that analysis and those projections estimates of where we
32 would end the 2009/10 fiscal year had been revised. Those revised revenue and
33 expenditure projections were presented to the City Council on December 7, 2009 and a
34 revenue shortfall of \$425,000 was anticipated. That equated to approximately a 5.9%
35 reduction in revenues. Total 2009/10 General Fund operating revenues were projected
36 to approximate \$6.8 million vs. the \$7.2 million originally anticipated back in June. The
37 chart below illustrates the revenue changes by category that were projected in
38 December.
39

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

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

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41 Since the fall update we have continued to monitor revenues and now have results
42 through December. The good news is that things have not changed dramatically since
43 then and our estimates have proven to be quite accurate.

44 Our first installment of property taxes has been received and the projection remains the
45 same for fiscal year 2009/10.

46 Sales taxes have been received through December and have fallen short of our original
47 projection. We are reducing our revenue estimate for the current year by \$19,000 or
48 2.6%.

49 Transient Occupancy Tax was down about 9% in November and we are anticipating a
50 bit of a shortfall for December. We are anticipating that TOT revenues will be flat for the
51 remainder of 2009/10 vs. what was received last fiscal year. January through June TOT

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52 revenues last fiscal year were down significantly from the prior year. The bottom line is
53 that we are reducing our TOT projection for 2009/10 by \$35,000 or 1.2%.

54 Other taxes are projected to be down \$11,000 from December's projection due mainly
55 to less manufacturing tax anticipated because of the closing of Cal-Min.

56 Building activity continues to be very slow so we are reducing our projection of building
57 permits by \$20,000.

58 Fines, forfeits and other revenues are also projected to be down slightly due to less than
59 anticipated Prop 172 revenues and lower than expected interest earnings. Prop 172
60 was a voter approved ½ cent sales tax measure for public safety adopted to help offset
61 the ERAF (property tax) shift to schools in the early '90s.

62 Charges for services revenue is projected to be \$62,000 higher than December's
63 projection because of charge outs to the fire station for project management costs. It is
64 common practice for municipalities to charge project administration costs to projects as
65 opposed to bearing the costs in the general fund. Time spent for project management,
66 inspections, and other project efforts are charged directly to the project.

67 Total revenues as of the mid-year update are projected to be \$32,600 less than what
68 was anticipated at mid year. That equates to a 0.5% reduction. The table below shows
69 updated revenue projections through December.

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June Estimate FY 09-10	Fall Estimate FY 09-10	Mid-Year Estimate FY 09-10	Dollar Change Vs Fall	% Chg.
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General Fund Operating Revenues:

Property Taxes	1,601,500	1,480,000	1,480,000	0	0.0%
Sales Taxes	764,000	728,000	709,000	-19,000	-2.6%
TOT	3,359,558	2,992,000	2,957,000	-35,000	-1.2%
Other Taxes	318,000	301,250	290,250	-11,000	-3.7%
Licenses & Permits	184,000	109,000	89,000	-20,000	-18.3%
Fines, Forfeits & Other	233,100	237,100	227,500	-9,600	-4.0%
Charges for Services	747,900	936,015	998,015	62,000	+6.6%

Total Operating Revenues: 7,208,058 6,783,365 6,750,765 -32,600 -0.5%

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74 At the fall financial update in December we had identified \$250,000 of budget reductions
75 to help address the budget shortfall. A list of those proposed reductions are as follows:
76

Line item description	Orig budget	Revised	Savings
City Hall Improvements	30,000	4,928	25,072
Police Department Improvements	21,000	0	21,000
Access, Facility & Sidewalk Improvements	50,000	10,000	40,000
Urban Design Plan	9,000	5,160	3,840
Community Enhancement/Beautification	25,000	2,000	23,000
Services & Development Fee Update	32,500	20,000	12,500
Green Initiatives	20,500	5,112	15,388
Sharpsteen Museum Repairs	5,000	0	5,000
Handyvan Services	15,000	12,600	2,400
Senior Activities	4,150	2,000	2,150
Pool Costs	79,100	31,100	48,000
Public Works Costs	104,850	83,000	21,850
Police Contract Services	60,700	52,000	8,700
Economic Vitality	25,000	3,000	22,000
Total Budget Savings	481,800	230,900	250,900

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78
79 As Departments have continued their efforts to resolve the budget shortfall they have
80 been directed to spend funds for critical items only during the remainder of the current
81 fiscal year. Any expenditure reductions realized will help close the gap. Any current
82 General Fund vacant positions will continue to remain un-filled. Contract services and
83 project expenditures should be closely evaluated and expended for only critical, must do
84 items.
85

86 Over the past several months we have been working to address the budget shortfall
87 from all fronts. This process has been extremely difficult since we had already reduced
88 the 2009/10 budgets by \$800,000 for the update in June.
89

90 We have had several meetings with city employee groups over the past few months.
91 We have discussed multiple ways of achieving the budget reductions including
92 furloughs, forgoing of salary increases, increased contributions toward health care
93 costs, etc. We have also emphasized our desire to resolve the current year deficit as
94 soon as possible, since we have only six months remaining in the fiscal year. During
95 those meetings we have reviewed the financial update materials and have also solicited
96 ideas on how to close the budget shortfall. We have used the goals discussed at our

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97 fall financial update to guide us through the budget deficit reduction process. Those
98 goals are as follows:

99

- 100 • Avoid staff layoffs if possible
- 101 • Develop and implement efficiencies
- 102 • Maintain basic city service levels
- 103 • Continue to encourage economic sustainability
- 104 • Evaluate revenue enhancement opportunities
- 105 • Encourage all city personnel to participate in the solution
- 106 • Welcome constructive thoughts for solving the deficit
- 107 • Fix as much of the current year shortfall in the current year as possible
- 108 • Maintain adequate reserves

109

110 A high standard of 8% savings was set for the management and mid-management
111 employees and requested participation equal to 6% of salary costs for other full-time city
112 employees was established. The Management Group includes the City Manager,
113 Department Heads, and Mid Management staff and represents a total 14 employees.
114 This group has agreed to forgo annual performance based bonuses, freeze salary and
115 merit increases, and implement a 10 day furlough to be taken by the end of the fiscal
116 year. The furlough will equate to a reduction in employee compensation of
117 approximately 8% over the last six months of fiscal year 2009/10.

118 Miscellaneous employees also agreed to take a furlough during the current fiscal year.
119 That furlough amounted to 5 days and most employees took the time off between the
120 Christmas and New Year's Day holidays. Employees who were unable to take the
121 furlough at that time will be allowed to take the time during the remainder of fiscal year
122 2009/10. The furlough amount for miscellaneous employees equated to approximately
123 4% of salary.

124 Fire employees agreed to forgo overtime pay during holidays. Instead of working at the
125 station they would remain on call at home on holidays. They also agreed to flex their
126 time during training days, also reducing overtime. The fire concessions equated to
127 about 5.5% of salary.

128 Police employees agreed to forgo the 1.5% salary increase originally scheduled for
129 January 1 pursuant to their current labor agreement.

130 Our goal for employee concessions was \$175,000. As you can see from the chart on
131 the next page, many of our employee groups came forward with significant
132 concessions. We appreciate the willingness of our employee groups to participate with
133 concessions in order to avoid significant service cuts and/or layoffs.

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Employee Group	\$ Concessions	% of Salary
Management Employees	74,799	8%*
Miscellaneous Employees	32,732	4%*
Fire Employees	10,476	5.5%
Police Employees	14,250	1.5%
Total Employee Concessions	132,257	

*Additional General Fund savings are realized by virtue of corresponding reductions in proportional staff General Fund cost allocations to Water and Wastewater Enterprise Funds.

A summary including the results of our most recent revenue update, employee concessions, etc. is provided below.

Fall Update Budget Shortfall Amount	424,693	
Mid-Year Update Additional Shortfall	32,600	
Total Budget Shortfall to Address		457,293
Expenditure Line Item Reductions	250,900	
Employee Concessions	132,257	
Additional Recreation Budget Reductions	42,467**	
Total Budget Reductions		425,624
Remaining Shortfall to Address		31,669

**Additional recreation budget reductions were achieved during a thorough review of program budgets, costs, revenues and the implementation of efficiencies along with cost reductions. The completion of a full pool season also provided data used to reduce costs and create efficiencies.

We will continue to work on addressing the remaining deficit of \$31,669 over the upcoming months by further reducing expenditures in city departments. We will also be coming forward with additional budget updates in the near future. Here is a list of upcoming budget items that will be presented during the next several months:

- Preliminary 2010/11 budget forecast
- Spring financial update with nine months of actual FY 2009/10 revenue results through March and updated 2010/11 forecast
- 2010/11 budget and 2011/12 forecast brought to Council for adoption

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156 As we work through the analysis associated with our financial updates we will be
157 evaluating economic trends, revenue opportunities, expenditure pressures, and risks
158 associated with the remainder of the fiscal year. We will continue to update our
159 forecasts using fair, realistic revenue assumptions. Expenditures will also be projected
160 conservatively and should reasonably reflect what will occur over the remainder of
161 2009/10.

162
163 Another area that has required close attention recently is cash flow management. We
164 have prepared a cash flow forecast and will be monitoring receipts and expenditures to
165 insure that sufficient funds are available for disbursements. We will also be looking at
166 creative ways to increase and stabilize available cash resources in the future.

167
168 We will also continue to closely monitor the State budget process. The Governor's
169 initial budget proposal appears to have minimal impact on Calistoga but it is anticipated
170 that many changes will be made to the proposal before final adoption later this year.

171
172 Departments have continued to do a good job maintaining current levels of services
173 after significant budget reductions were integrated in June and will be further challenged
174 by the additional reductions mentioned earlier in this report. We are confident that
175 regular financial updates along with proactive revenue/expenditure management will
176 keep us ahead of any additional unforeseen financial or economic developments.

177
178 In conclusion, we would like to thank all of our dedicated employees for continuing to
179 provide excellent service to the Citizens of Calistoga. We would also like to voice our
180 appreciation to the City Council for their leadership and guidance during these difficult
181 financial times.

182
183 Attachment:

184
185 1. Budget update Resolution

Exhibit A
Budget Update Resolution No. 2010-_____

Account	Description	Orig Budget	Mid-Year Budget
3201	Secured Prop Tax	1,081,500	1,007,000
3202	Unsecured Prop Tax	41,000	24,000
3213	Prior Years	24,000	30,000
3218	Prop Tax In Lieu of VLF	455,000	419,000
3203	Sales Tax	556,200	537,637
3217	Prop Tax In Lieu of S Tax	203,614	171,363
3204	TOT	3,359,558	2,957,000
3205	Franchise Taxes	150,000	160,000
3206	Real Prop Transfer Tax	22,500	5,000
3209	Manufacturing Tax	30,000	20,000
3211	Bus License Tax	115,000	105,000
3220	Excise Tax	500	250
3212	Building Permits	175,000	80,000
3219	Other Lic & Permits	3,000	4,000
3219	Use Permits	1,000	0
3226	Vehicle Code Fines	25,000	26,000
3227	Misdemeanor Fines	600	1,000
3229	Parking Fines	15,000	16,000
3221	Delinquent Penalties	6,000	4,000
3260	Rents – Property & Facilities	15,000	20,000
3222	Prop 172	50,000	45,000
3232	Motor Vehicle In Lieu Fees	20,000	14,000
3256	Police Services	28,000	30,000
3243	Fire Services	125,000	202,715
3244	Planning Services	75,000	100,000
3245	Public Works Services	30,000	65,000
3246	Community Res Services	14,600	7,500
3261	Other Filing Fees	3,500	6,000
3263	Plan Check Fees	125,000	50,000
3282	Reimbursements	50,000	240,000

Exhibit A
Budget Update Resolution No. 2010-_____

Account	Line item description	Orig budget	Revised
5501	City Hall Improvements	30,000	4,928
5507	Police Department Improvements	21,000	0
5502	Access, Facility & Sidewalk Improvements	50,000	7,000
4602	Urban Design Plan	9,000	5,160
4402	Community Enhancement/Beautification	25,000	2,000
4607	Services & Development Fee Update	32,500	20,000
4608	Green Initiatives	20,500	5,112
4173-4402	Sharpsteen Museum Repairs	5,000	0
4405-4402	Handyvan Services	15,000	12,600
4154-4402	Senior Activities	4,150	2,000
4126-4403	Pool Utilities	60,000	26,100
4126-4402	Pool Contract Services	7,900	3,000
4126-4404	Pool Repairs & Maintenance	11,200	2,000
4123-4402	Parks Maint Contract Services	30,850	22,000
4122-4402	Streets Contract Services	57,300	53,000
4121-4402	PW Admin Contract Services	16,700	8,000
4116-4402	Police Contract Services	60,700	52,000
4176-4402	Economic Vitality	25,000	6,000