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City of Calistoga

Staff Report

TO:	Honorable Mayor and City Council
FROM:	James C. McCann, City Manager AND JCM William Mushallo, Administrative Services Director/City Treasurer
DATE:	April 6, 2010
SUBJECT:	Discussion regarding Fiscal Year 2010/2011 General Fund Budget Forecast

ISSUE: To hear a brief General Fund financial forecast presentation for the upcoming 2010/11 Fiscal Year.

RECOMMENDATION: To discuss and provide direction regarding the forecast.

BACKGROUND: In September 2008 a preliminary budget projection was presented to Council for the 2009/10 Fiscal Year. On June 29, 2009 that budget was revised and an update was presented. At that time a revised Operating Expense Budget was also presented to the City Council. Since the original Fiscal Year 2009/10 Budget was adopted last September, operating expenditures had been cut by nearly $800,000 (or 10%) vs. what was originally projected. In order to achieve those savings, vacant positions had not been filled, overtime and part time costs were reduced, contract services were greatly reduced or eliminated, travel and training budgets were being held to minimum levels, and General Fund Capital Improvements Program (CIP) contributions were deferred. Total 2009/10 operating expenditures were held virtually flat vs. Fiscal Year 2008/09.

When the Fall financial update was presented in December 2009 revenues and expenditures had been updated through September 30, 2009. Actual revenues to date were analyzed and updated, and expenditure projections for the remainder of the fiscal year were evaluated. Based on that analysis and those projections estimates of where we would end the 2009/10 Fiscal Year had been revised. Those revised revenue and expenditure projections were presented to the City Council on December 7, 2009 and a revenue shortfall of $425,000 was anticipated.

When the mid-year financial update was presented in February 2010 the shortfall had grown slightly from $425,000 to $457,000. At that time budget deficit reduction options were identified to address all but approximately $32,000 of the shortfall.

At the Fall financial update in December 2009 we had identified $250,000 of expenditure and project budget reductions to help address the budget shortfall. Employee groups also contributed significantly to the budget deficit reduction efforts. During several meetings with city employee groups we had discussed multiple ways of achieving the budget reductions including furloughs, forgoing of salary increases, increased contributions toward health care costs, etc. We had also emphasized our desire to resolve the 2009/10 Fiscal Year deficit as soon as possible, since we had only six months remaining in the fiscal year. During those meetings we reviewed the financial update materials and also solicited ideas on how to close the budget shortfall. We used the goals discussed and recommended by Council at our Fall financial update to guide us through the budget deficit reduction process. Those goals are as follows:

- Avoid staff layoffs if possible
- Develop and implement efficiencies
- Maintain basic City service levels
- Continue to encourage economic sustainability
- Evaluate revenue enhancement opportunities
- Encourage all City personnel to participate in the solution
- Welcome constructive thoughts for solving the deficit
- Fix as much of the current year shortfall in the current year as possible
- Maintain adequate reserves

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

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

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

Police Department employees agreed to forgo the 1.5% salary increase originally scheduled for January 1, 2010 pursuant to their current labor agreement.

As indicated above, you can see that many of our employee groups came forward with significant concessions. We appreciate the willingness of our employee groups to participate with concessions in order to avoid significant service cuts and/or layoffs.

ANALYSIS: Since the mid-year update in February 2010 we have been evaluating revenue and expenditure projections for the upcoming fiscal year. It is anticipated that revenues will be lower next fiscal year than what is anticipated to be received during Fiscal Year 2009/10. Several factors are driving this assumption. Property taxes will continue to be affected by negative assessed valuation changes, particularly in the non-residential category. Sales tax growth is anticipated to be minimal next fiscal year; up about 2%. Transient Occupancy Tax (TOT) revenues are anticipated to be flat next fiscal year vs. what is anticipated this year. One time revenues received to reimburse costs associated with the Busk abatement will not recur next fiscal year. Interest earnings are anticipated to be about $20,000 lower in Fiscal Year 2010/11 than in 2009/10, and we are anticipating a one time payment of excess Educational Revenue Augmentation Funds (ERAF) of about $140,000 during fiscal year 2010/11. Total revenues are expected to be down about $135,000 or 2% from the current year. The chart on the next page summarizes the projected revenue changes:

Current projected 2009/10 revenues		**$6,750,765**
Revenue forecast adjustments:		
Property tax changes	($65,650)	
Sales tax growth	$14,180	
Manufacturing tax reduction	($6,000)	
Busk reimbursement revenue non recurring	($197,000)	
Interest earnings estimate reduced	($20,000)	
Excess ERAF funds to be received	$140,000	
Total 2010/11 projected revenues		**$6,616,295**

Total Fiscal Year 2010/11 General Fund expenditures are projected to be higher than the updated projection for Fiscal Year 2009/10 amounts. There are Cost of Living Adjustments (COLA's) associated with one of our bargaining units, step increases for employees, and other miscellaneous payroll costs projected next fiscal year that amount to about $71,000. CalPERS retirement rates are projected to go down slightly next fiscal year by about $40,000, but it is anticipated that significant rate increases will be imposed in subsequent years. Insurance costs for workers compensation and health coverage are also projected to increase next fiscal year. The Fire Department needs to replace Self Contained Breathing Apparatus (SCBA) bottles as they have reached their useful life and a provision should be made for legal costs associated with potential litigation. The table below shows line item detail for each of the projected expenditure cost increases:

Current projected 2009/10 Expenditures:		**$7,067,408**
Expenditure forecast adjustments:		
COLA's, step increases, etc.	$71,000	
CalPERS rate changes	($40,000)	
Health care insurance projected increases	$34,290	
Workers compensation projected increases	$24,263	
Fire SCBA bottle replacement	$35,000	
Legal fee cost estimate	$50,000	
Total 2010/11 projected expenditures		**$7,241,961**

In summary, total Fiscal Year 2010/11 revenues are projected to be down $134,000 or 2% from Fiscal Year 2009/10 amounts, and total expenditures are projected to be up $174,000 or 2.5%. This gap, after accounting for transfers into the General Fund, is projected to be about $445,000 next fiscal year. The table below summarizes the shortfall:

Total Fiscal Year 2010/11 projected revenues	**$6,616,295**
Total Fiscal Year 2010/11 projected transfers into the General Fund	**$ 181,000**
Total Fiscal Year 2010/11 projected expenditures	**$7,241,961**
Total 2010/11 projected shortfall to address	**($ 444,666)**

It is important to remember that the above forecast is just that; a preliminary look into anticipated revenue and cost changes for the upcoming fiscal year. It is not meant to be a detailed budget of planned costs and revenues. The forecast has been based on multiple assumptions including the following:

- Conservative revenue projections;
- Known or anticipated expenditure projections;
- No additional full or part time employees;
- Current vacant General Fund positions remain vacant;
- Fiscal Year 2009/10 furloughs not continuing into Fiscal Year 2010/11;
- No additional or enhanced city services;
- No unanticipated State take aways;
- No automatic cost escalators except Memorandum of Understanding (MOU) contract provisions.

There are some risks associated with the forecast for next fiscal year. They are as follows:

- TOT revenues could continue to fall this year below our projection of flat;
- State could take away gas tax or other revenues;
- Sales tax revenues could be impacted by closing businesses;
- Additional property tax assessed valuation reductions could be realized;
- Insurance rates could increase more than anticipated;
- Legal costs could surpass estimates.

There are also some opportunities for addressing the forecasted shortfall. They are as follows:

- Increasing signs of business development on the horizon;
- Proposed TBID, if implemented, should encourage local tourism;
- Economy is (hopefully) at the bottom and stabilizing;
- History in Calistoga of employees pulling together to address budget shortfalls;
- Labor negotiations are pending for some of our bargaining units;

Resolving the above mentioned shortfall for the 2010/11 Fiscal Year will undoubtedly be much more difficult than past budget deficit reduction work. As mentioned earlier in this report, approximately $1.25 million has been reduced from the Fiscal Year 2009/10 budget over the past year. This leaves very little discretionary funding left to reduce.

Over the next two months we will be putting together the Fiscal Year 2010/11 Budget. We will be approaching the deficit from all avenues including expenditure reductions, revenue enhancements, policy change recommendations, and collaborative endeavors with other government agencies.

In May 2010 we will be returning to the City Council with a Spring Financial Update. At that time we will have nine months of Fiscal Year 2009/10 revenues and expenditures. That information will give us a better picture of where we will end the current fiscal year. We will also have updated information on the State budget from the May 2010 revise. We will take that information into consideration when developing the budget for Fiscal Year 2010/11.

Another significant challenge during the upcoming fiscal year will be maintaining sufficient cash flow for operations. Items that can have a major impact on cash flow include:

- Significant costs for legal fees;
- Community Pool and other project settlement costs;
- Timing of project cost funding vs. reimbursements;
- Potential Fire Station Seismic Retrofit and Renovation Project cost overages;

- Potential delays of water and wastewater rate adjustments;
- Debt service payments earmarked from unrealized Public Safety & Quality of Life funds;
- Timing of revenues received;
- Timing of expenditures paid;
- Cash advances ahead of grant reimbursements;
- Unfunded mandates from new State regulations;
- Other miscellaneous unexpected payouts including claims, retirements, etc.

One of the capital projects originally scheduled for construction beginning in the current fiscal year is the Logvy Teen/Art Center Project. Back in 2007 financing was secured to fund several capital improvement projects including this project. Approximately $1.5 million is being held currently to fund the project, but an estimated cost to complete the Center is approximately $2.5 million. Unfortunately there is no budgeted funding available for facility operations once constructed including facility maintenance, custodial maintenance, grounds maintenance and utility costs. Furthermore, debt service payments on the financing will be difficult without Quality of Life fees from new development. With the significant cash flow concerns mentioned above, along with the projected shortfall of funding available for the project, Staff strongly recommends holding off on construction of the facility. The facility building design package will be completed and permitted with minor additional expenditures and then held for construction funding availability. We would like to seek grant funding over the upcoming years to offset the projected construction costs.

As we progress through the remainder of this fiscal year it is important to remember that departments have continued to do a good job maintaining current levels of services after significant budget reductions were integrated over the past year, and will be further challenged by the forecasted shortfall next fiscal year. We are confident that regular financial updates along with proactive revenue/expenditure management will allow us to stay ahead of any additional unforeseen financial or economic developments.

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