City of Calistoga

Staff Report

5

TO: Honorable Mayor and City Council

FROM: Bill Mushallo, Administrative Services Director

DATE: November 16, 2010

SUBJECT: Discussion regarding Fiscal Year 2010/11 General Fund Budget Update and Forecast

APPROVAL FOR FORWARDING:

William C Norton (Signed by SShallon)

William C. Norton, Interim City Manager

ISSUE: To hear a brief financial update regarding the 2010/11 budget.

RECOMMENDATION: To review and provide feedback regarding the Fall Financial Update.

BACKGROUND: In June 2010 the fiscal year 2010/11 budget was presented to and adopted by the City Council. Since the June 29 budget presentation 2010/11 revenues and expenditures have been updated through October 31, 2010. We have analyzed the actual revenues to date and have updated projections for the remainder of the fiscal year. Based on that analysis and those projections estimates of where we will end the 2010/11 fiscal year have been revised. A summary of changes in the major revenue categories is presented below.

Transient Occupancy Tax, the City's largest General Fund revenue source, continues to rebound vs. the same periods in 2009/10. You may remember that 2009/10 TOT results were down 5% from the prior fiscal year but began to rebound late in the fiscal year. That upward trend is continuing into 2010/11. July results were up 13% from the prior year and August was up 10%. September was also up, posting a 6% gain over September of 2009. Based on these results, along with an updated projection for the remainder of 2010/11, we are projecting TOT at $3,141,000 for 2010/11. This will be approximately a 6% increase from our original budget projection in June.

Since the June budget presentation we have received our 2010/11 assessed valuation change estimates from Napa County. Back in June preliminary information received indicated that the County as a whole would see assessed valuations decrease slightly overall. It was projected that Calistoga would see assessed valuations decrease about 7% vs. the prior fiscal year. Actual assessed valuations were down about 6% which was very close to what was projected. Overall property tax revenue is projected to be up about $17,000 or 1% from the original budget projection back in June.

Sales tax results have been received for the first quarter of 2010/11. Cash receipts for Q1 were up 5% from the same quarter a year ago. Unfortunately the triple flip true up was revised down during the first quarter. The state annually estimates the triple flip backfill amount and since their actual revenues fell dramatically short of their projections last fiscal year our true up amount has been reduced. The impact on our fiscal year 2010/11 budget will be a reduction of 3% or $23,000 less than our June estimate.

During our budget development process in the spring we worked together with the Planning and Building Department to develop projections for building and planning related revenues. At that time it was anticipated that several new businesses and some expansions would come on line in 2010/11. While we have seen some rebound over the past few months some of those projections have not yet materialized. We remain confident that future activity will pick up and our projections will be attained by the end of the current fiscal year.

On the positive side, the State fire season was much quieter than prior years. Last year the Fire Department participated in several strike teams and had accumulated over $100,000 in outstanding revenues from the State. While we had anticipated similar activity this year, it has not yet materialized. We are reducing our anticipated revenue from strike team reimbursements in our charges for services category accordingly. Other charges for services and reimbursements are also down including reimbursements for filing fees, POST reimbursements, staff time reimbursements, and other reimbursements.

The bottom line is that we are anticipating 2010/11 revenues to be about $47,000 more than what was anticipated back in June. This equates to almost a 1% increase in revenues. Total 2010/11 General Fund operating revenues are now projected to be approximate $6.7 million this fiscal year. The chart on the next page illustrates the revenue changes by category.

	June Budget FY 10-11	**Fall Estimate FY 10-11**	**Dollar Change**	**% Chg**
General Fund Operating Revenues:				
Property Taxes	1,484,350	1,501,129	16,779	+1%
Sales Taxes	701,146	677,465	-23,681	-3%
TOT	2,972,000	3,141,740	169,740	+6%
Other Taxes	284,250	277,100	-7,150	-2%
Licenses & Permits	59,000	59,200	200	0%
Fines, Forfeits & Other	201,000	201,000	0	0%
Charges for Services	924,165	815,150	-109,015	-12%
Total Operating Revenues:	***6,625,911***	***6,672,784***	***46,873***	***+1%***

We have also analyzed actual expenditures incurred during the first four months of 2010/11. Departments have done a good job at managing their budgets and have spent approximately 30% of their annual budgets to date. This leaves about 70% of budgeted funds available for the remaining 8 months of the year (67%). This is very tight and will continue to require strict expenditure management of departmental budgets that were reduced significantly from the budgets of years prior.

Based on the analysis of revenues and expenditures to date it is not anticipated at this time that we will need to implement any additional budget deficit reduction measures in the current fiscal year. It is, however, early in the fiscal year and a lot can happen between now and June 30. We will continue to closely monitor our budget situation over the next few months and will we will be bringing back a mid–year budget update to the City Council in January or February. Here is a list of some of the items that will be included in the mid-year review:

- Six months of actual FY 2010/11 revenue results through December
- Six months of expenditure results also through December
- Any budget adjustments needed in the current fiscal year
- Updated forecast for the remainder of the current fiscal year
- Preliminary forecast for 2011/12

As we work through the analysis associated with our mid-year update we will be evaluating economic trends, revenue opportunities, expenditure pressures, and risks associated with the remainder of the fiscal year. One significant upcoming risk is the release of retirement rates for 2011/12. We expect to have that information by the end of November. We are also concerned about health insurance rates for the upcoming fiscal years. This year rates increased between 12 and 15 percent depending on the plan and that trend could continue or even worsen. This upcoming information could have a significant impact on our forecast for 2011/12 and beyond.

We will continue to update our forecasts using fair, realistic revenue assumptions. Expenditures will also be projected conservatively and should reasonably reflect what will occur over the remainder of 2010/11. Departments have continued to do a good job maintaining current levels of services after significant budget reductions were integrated in June and will be further challenged during the remainder of the fiscal year. We are confident that regular financial updates along with proactive revenue/expenditure management will keep us 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 acknowledge the support of our employee groups in coming forward with concessions that have helped to solve our budget deficit. We would also like to voice our appreciation to the City Council for their leadership and guidance during these difficult financial times.