Meeting Date: 03/18/2008

ACTION	TYPE OF ITEM
☐ Approved Recommendation	☐ Info/Consent
☐ Ord. No(s). _____	☐ Report
☐ Res. No(s). _____	☐ Public Hearing (Info/consent)
☐ Other _____	☑ Other Study Session

Prepared By: Michael More MM Agenda Item No. O-2

Reviewed By: City Manager City Attorney Finance SW Other *(Specify)*

DATE: March 10, 2008

TO: City Council

FROM: Michael More, Financial Services Manager
Finance Department

SUBJECT: **Fiscal Year 2008-09 through Fiscal Year 2012-13 General Fund Financial Forecast**

RECOMMENDATION

That City Council consider the General Fund Financial Forecast for Fiscal Years 2008-09 through 2012-13 and provide direction to the City Manager concerning the preparation of the Fiscal Year 2008-09 operating budget.

DISCUSSION

Macroeconomic Environment

Over the last several months, conditions in the national, state, and local economies have changed considerably. The tightening of credit markets, which began in mid-2007, is magnifying the impact of already declining real estate values nationwide, as many prospective buyers of real estate cannot obtain financing, and current property owners cannot refinance existing mortgages. This 'credit crunch' is further impacting Ventura County's median home values, which have already declined by over 16% in the past twelve months. Foreclosures have also spiked in Ventura County to a record 542 filings in the 4th quarter of 2007. Most economists are projecting that a weak housing market and elevated foreclosure rates will continue for the foreseeable future.

The effects of the real estate slowdown are creating pessimism about general economic conditions and increasing the prospects of a national recession. Consumer confidence has declined nationwide, and retail sales have been slowing as a result. With limited ability to tap into home equity, consumers are likely to forego large purchases (such as automobiles) until general conditions improve.

In Ventura County, concerns also include the two largest private employers, Amgen and Countrywide Home Loans. In August 2007, Amgen laid off approximately 675 workers from its headquarters in Thousand Oaks. The acquisition of Countrywide Home Loans by Bank of America could adversely affect the local economy if some or all of its 6,300 employees in Ventura County are laid off or the jobs

are moved to Bank of America headquarters in Charlotte, North Carolina.

On a positive note, the weak U.S. Dollar will most likely result in strong manufacturing activity and export of goods to other countries. Oxnard is well positioned to benefit from this trend given its strengths in the manufacturing and agricultural sectors and its proximity to the Port of Hueneme. The weak U.S. Dollar will also positively impact tourism from international visitors, resulting in increased sales taxes and transient occupancy taxes (TOT). Finally, the concentration of 'big box' discount retailers in the City, such as Costco, Wal-Mart, and Sam's Club, is a positive as these retailers tend to thrive even in challenging economic times.

The economic aid plan approved on January 29, 2008 by the House of Representatives will help to stimulate the economy by adjusting fiscal policy to provide tax rebates to wage earners. Also, the recent monetary policy actions by the Federal Reserve Bank to lower the Fed Funds Rate will prompt increased business activity. However, both the economic stimulus plan and the reduction in short term interest rates will likely not provide any benefit until mid-2008 at the earliest.

Fiscal Year 2008-09 Forecast

As a result of the foregoing, staff expects modest revenue growth overall totaling 0.7% in upcoming Fiscal Year 2008-09. This nominal increase in general revenues warrants a careful evaluation of expenditure growth in the upcoming fiscal year.

Fiscal Year 2009-10 through Fiscal Year 2012-13 Forecast

For Fiscal Year 2009-10, staff sees the lingering effects of the residential real estate decline affecting General Fund revenues. Overall, expenditure growth will slightly outpace revenue growth. For Fiscal Years 2010-11 through 2012-13, staff sees an improvement in general economic conditions. Both monetary policy and fiscal policy at the federal level will have provided stimulus to improve the national economy. This should improve the City's sales and property tax collections, the City's two largest sources of General Fund revenue. Also enhancing the City's position will be the expected addition of over 800,000 square feet of retail commercial space at the RiverPark development.

The table below summarizes the financial forecast for the upcoming 5-year period.

Description	*FY 2007-08*	*FY 2008-09*	*FY 2009-10*	*FY 2010-11*	*FY 2011-12*	*FY 2012-13*
Projected Revenues	115,366,717	116,184,984	121,937,926	129,106,111	134,867,234	140,576,799
Projected Appropriations	(115,784,006)	(118,116,723)	(121,530,172)	(125,080,158)	(128,772,145)	(132,611,810)
Surplus/(Deficit)	**(417,289)**	**(1,931,739)**	**407,754**	**4,025,952**	**6,095,089**	**7,964,989**

Staff has identified potential one-time revenues that may offset the majority of the projected budget deficit in Fiscal Year 2008-09 and will present these options to City Council for consideration.

FINANCIAL IMPACT

There is no financial impact associated with this report.

MJM