



Meeting Date: 06/15/10

ACTION	TYPE OF ITEM
<input type="checkbox"/> Approved Recommendation	<input type="checkbox"/> Info/Consent
<input type="checkbox"/> Ord. No(s). _____	<input type="checkbox"/> Report
<input type="checkbox"/> Res. No(s). _____	<input type="checkbox"/> Public Hearing (Info/consent)
<input type="checkbox"/> Other _____	<input checked="" type="checkbox"/> Other Study Session

Prepared By: James Cameron *JAC* Agenda Item No. R-1
 Reviewed By: City Manager *JML* City Attorney *HVA* Finance *JAC* Other (Specify) _____

DATE: June 7, 2010

TO: City Council

FROM: James Cameron, Chief Financial Officer
Finance Department *James Cameron*

SUBJECT: Fiscal Year 2010-2011 Budget Study Session

RECOMMENDATION

That City Council receive for discussion the fiscal year (FY) 2010-2011 budget update presentation.

DISCUSSION

Staff is in the process of developing the update to the FY 2010-2011 budget approved as part of the FYs 2009-2010 and 2010-2011 Two-Year Budget. The total general fund budget was approved at \$111.8 million for FY 2010-2011. General fund revenues are now projected to be \$106.7 million, a decrease of \$5.1 million.

The revenue shortfall is driven in large part by the FY 2009-2010 economic situation, which resulted in a \$4.9 million deficit. Staff has reviewed expenditure trends for contracts, supplies, and other expenses and identified \$2.6 million in savings due to the continuing efforts of City staff to hold the line on spending. In addition, through a review of certain agreements and uses of funds, such as the Carmen Override, it has been determined that certain charges related to Public Safety retirement costs had not been charged to that fund and will be corrected for both this fiscal year and adjusted for last year. This change will offset a continuing deficit in Police overtime of \$0.9 million for a net savings of \$2.3 million. The FY 2009-2010 budget is projected to be in balance.

The revenue shortfall is projected to grow to \$5.1 million in FY 2010-2011, primarily due to the impact on property taxes of declining assessed valuations. Property tax collections are now projected to be \$1.9 million lower than FY 2009-2010 collections. Sales tax revenues are anticipated to benefit from adjustments to the Triple-Flip distributions based on actual collections. The net effect is a \$1.1 million increase in sales tax revenues from the current fiscal year. These amounts do not include Measure O Sales Tax revenues.

While more review and discussion is required, there are several basic options of a technical nature that staff is evaluating. First is to continue the savings trends and adjustments identified this fiscal year into next fiscal year to provide \$3.3 million. The retirement incentive program is being evaluated to determine if it can provide savings to balance the remaining \$1.8 million FY 2010-2011 deficit, should the Council approve those results.

An important effort staff has begun based on Council direction, not only for next fiscal year but also more critically in future years, to evaluate City services to make sure the City is providing resources appropriate to the demands for those services and that the benefits are consistent with Council and community priorities.

Staff anticipates holding the budget public hearing on July 20, 2010 with the option to adopt that same day. The budgets will be distributed to Council and available to the public in early July.

FINANCIAL IMPACT

The attached overview summarizes the updated information for the FY 2010-2011 budget.

Attachment #1: Fiscal Year 2010-2011 Budget Overview General Funds

Fiscal Year 2010-2011 Budget Overview General Funds*

Fiscal Year (FY) 2010-2011 is the 2nd year of the two year budget approved for FYs 2009-2010 and 2010-2011.

- The total general fund budget was approved at **\$111.8 million** for FY 2010-2011.
- The revised revenue projection is **\$106.7 million**, a shortfall of **\$5.1 million**

Change from FY 2009-2010

Economic conditions continue to impact the budget situation in both FY 2009-2010 and FY 2010-11. Beginning with the **\$4.9 million** shortfall in FY 2009-2010, the largest single reduction in FY 2010-2011 is in property taxes where falling assessed valuations begin to have a significant impact on revenues. The following summarizes the **\$5.1 million** shortfall for FY 2010-2011:

- Shortfall from FY 2009-2010 - \$4.9 million
- Property Taxes (assessed values) - \$1.9 million
- Sales Tax (Triple-Flip) +\$1.1 million
- Franchise Fees (The Gas Co.) +\$1.2 million
- One-time Land Sale (FY 2009-2010) - \$0.7 million
- Other net changes +\$0.1 million

Even though some FY 2010-2011 revenues such as Sales Tax and Franchise Fees are projected to increase from anticipated revenues in FY 2009-2010, virtually all FY 2010-2011 revenues are projected to be lower than the approved budget. For example Sales Tax is projected **\$2.7 million** lower than the approved budget for FY 2010-2011.

Balancing the FY 2010-2011 Budget

Options evaluated by staff for Council discussion and review provide a net **\$3.3 million** savings as follows

- Continue FY 2009-2010 Savings +\$2.6 million
- Correct for Carmen Override Charges +\$1.6 million
- Cover Police Overtime Costs - \$0.9 million

Additional options under review

- Retirement Incentive Savings
- Service Reviews – allocating resources to priority services

* Does not include Measure O ½ cent sales tax.