



Meeting Date: March 6, 2012

| 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"/> Study Session      |

Prepared By: James Cameron *J.C.*

Agenda Item No. **R-2**

Reviewed By: City Manager *J.C.*

City Attorney *[Signature]*

Finance *J.C.*

Other (Specify) \_\_\_\_\_

**DATE:** February 27, 2012

**TO:** City Council

**FROM:** James Cameron *James Cameron*  
Chief Financial Officer

**SUBJECT:** Fiscal Year 2011-12 General Fund Financial Status

**RECOMMENDATION**

That City Council receive an update of the Fiscal Year 2011-12 General Fund financial status.

**DISCUSSION**

On June 14, 2011, the City Council received the Fiscal Years 2011-12 & 2012-13 Two-Year Budget. The Fiscal Year 2011-12 budget included a \$107.1 million General Fund revenue projection and expenditure appropriation. At the meeting of July 12, 2011, staff presented a revised revenue projection based on updated information of \$107.0 million, including revised property and sales tax estimates. At that time, due to continued uncertainty regarding State funding issues, including the taking of \$0.7 million in vehicle license fees, staff recommended and Council concurred with keeping the revenue budget as originally submitted, with an update in a few months once additional information was available. On January 10, 2012, staff provided an update of the projected General Fund revenues, which had been revised down to \$106.0 million.

The economy continues to recover; however, the inability of the Federal government to address various budgetary issues, including a rating downgrade by Standards and Poor, had a negative impact on the national economic recovery in the first half of the fiscal year. In particular, the unemployment rate remained stubbornly high and businesses were not investing significant amounts of cash sitting on their balance sheets. The European financial crisis was also a hindrance to a stronger recovery. More recently, the employment picture has shown signs of improvement as weekly unemployment claims have fallen and job creation in the private sector has picked up. On the negative side, the sharp jump in fuel costs will likely have a negative impact. And while there have been some positive developments in Europe, many European countries are experiencing another recession.

Overall, general fund revenues are still projected to be \$1 million under budget. Property and sales taxes are in line with both the July and January projections. This latest projection assumes transfers

back to the general fund from internal service funds of \$1.6 million to partially offset economic growth capacity built into the original projections. The \$1 million revenue shortfall can be largely explained as a \$0.3 million reduction due to economic conditions net of available City sources, and \$0.7 million in State take away from vehicle license fees. While there had been discussion of restoring vehicle license fees, continuing budgetary problems at the State make this unlikely now.

At the January 10 General Fund update, staff reported that they were in the process of confirming General Fund expenditure projections. That work has been completed and based on trends for the first six months of the fiscal year a \$2.3 million deficit is projected. The major drivers are Police and Fire overtime, fuel and utility costs, and the use of temporary employees. An example of the over expenditure for temporary employees is demand for recreational services, which continued to grow as the youth in this community do not have the same recreational alternatives they may have had in the past. Several programs will have fully expended their budgets this month as services have been enhanced the first eight months of the fiscal year due to demand.

In summary, General Fund expenditures are projected to exceed revenues by \$3.3 million based on the first half of the fiscal year. As a result, staff is evaluating planned expenditures through the remainder of the fiscal year, including existing contracts to determine where savings can be identified. Internal controls will be expanded such that only the most critical expenditures to meet community needs will be made.

## **FINANCIAL IMPACT**

The recommended action to receive Fiscal Year 2011-12 General Fund financial update have no direct financial impact; however, it is hoped that through Council discussion, staff will receive guidance on moving forward to address the projected deficit.

JC:tr

Attachment 1 - FY 2011-12 General Fund Potential Budget Deficit

FY 2011-12  
General Fund  
Potential Budget Deficit

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**Revenues**

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|                   |                     |
|-------------------|---------------------|
| Original Budget   | \$ 107,066,000      |
| Revised Estimated | 106,109,000         |
| Change            | <u>\$ (957,000)</u> |

Explanation of Revenue Change

Economic Impacts

|                          |                  |           |
|--------------------------|------------------|-----------|
| Property and Sales Taxes | (93,000)         |           |
| Other Charges and Fees   | 915,000          |           |
| Economic Growth Capacity | (2,544,000)      |           |
| Interfund Transfers      | 1,630,000        |           |
| Other                    | <u>(156,000)</u> |           |
| Total Economic Impacts   |                  | (248,000) |

State Budget Balancing

|                               |                  |
|-------------------------------|------------------|
| Vehicle License Fee Take Away | <u>(709,000)</u> |
|-------------------------------|------------------|

|                      |                     |
|----------------------|---------------------|
| Total Revenue Change | <u>\$ (957,000)</u> |
|----------------------|---------------------|

**Expenditures**

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Projected Budget Variance

|                              |                |  |
|------------------------------|----------------|--|
| Overtime                     | \$ (1,079,000) |  |
| Temporary Employees          | (641,000)      |  |
| Public Safety WC Salary      | (725,000)      |  |
| Fuel & Equipment Maintenance | (787,000)      |  |
| Animal Shelter               | (158,000)      |  |
| Adjustments to ISF Rates     | 790,000        |  |
| Other                        | <u>295,000</u> |  |

|                                  |                       |
|----------------------------------|-----------------------|
| <b>Total Expenditure Deficit</b> | <u>\$ (2,305,000)</u> |
|----------------------------------|-----------------------|

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|                      |                              |
|----------------------|------------------------------|
| <b>Total Deficit</b> | <u><u>\$ (3,262,000)</u></u> |
|----------------------|------------------------------|

