

Q3'08-09



City of Chico

Quarterly Financial Report

3rd Quarter (Jan. 1 – Mar. 31)

May 19, 2009

City of Chico

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Impact of Economic Downturn

At the end of the 2nd Quarter (December 2008), General Fund revenues were holding steady with only slight declines in Sales Tax. At that time, it was anticipated that the General Fund would still meet its budget of \$43M. Since

December however, all major tax revenues have felt the impact of the economic downturn. With approximately 90% of General Fund revenue coming from taxes, the FY08-09 Revenue Budget must now be adjusted downward to reflect the recent hit on tax revenues.

The Q3 Supplemental Appropriation will reflect a decrease of \$860k in revenue, as noted in the table above. This variance will be offset with decreases in a variety of Operating Budgets that are running under budget due to unanticipated vacancies and lower spending trends. The FY08-09 Ending Fund Balance for the General Fund is projected to be \$2.6M. This amount will carry forward into the next fiscal year and help absorb further revenue

declines that are expected to occur in all tax categories.

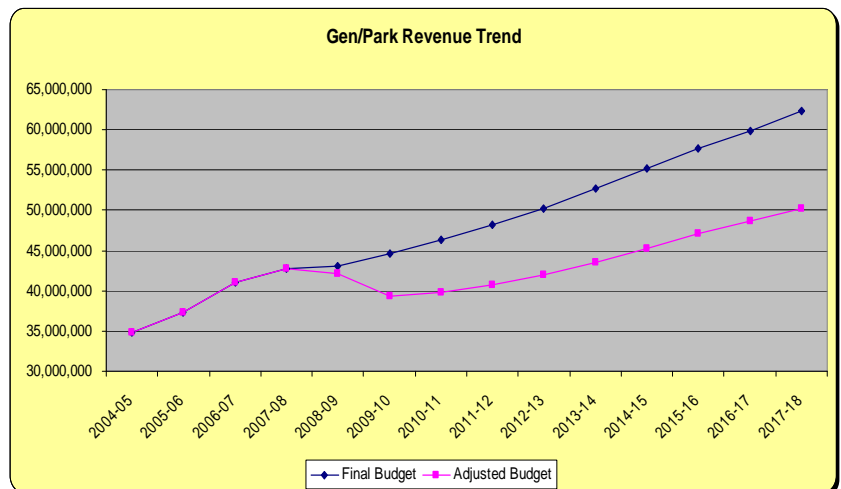
The economic recession is expected to continue into fiscal year 2009-10. The FY09-10 Annual

Budget is currently being developed with an assumed 6.5% decrease in General Fund Revenue. To balance the budget, further reductions in Operating Budgets will occur as well as the continuation of the hiring suspension.

In the event the economy worsens, a contingency plan is being developed to balance a

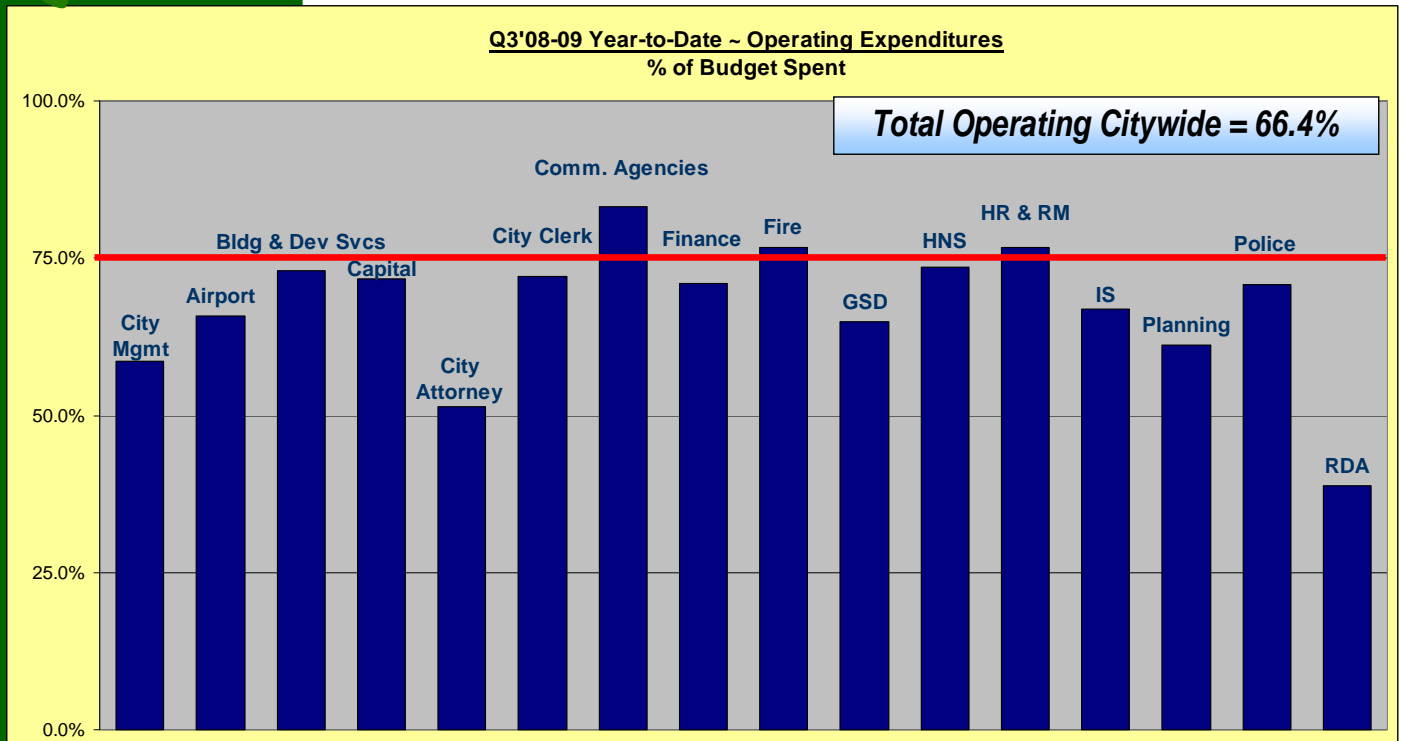
10% decline to the revenue base. Management will continually update the Council as we progress through the coming year, and will make adjustments as necessary to respond to the changing economy.

Gen/Park Revenue	FY08-09 Adopted Budget	FY08-09 Mid-Year Update	Mid-Year Adjustment
Sales Tax	18,087,700	16,347,700	(1,740,000)
Property Tax	4,671,264	4,839,443	168,179
Property Tax In Lieu of VLF	6,070,700	6,608,184	537,484
Utility Users Tax	6,896,100	6,602,900	(293,200)
Transient Occupancy Tax	2,009,000	1,877,000	(132,000)
<u>Other Taxes</u>	<u>1,889,500</u>	<u>1,863,979</u>	<u>(25,521)</u>
Total Tax Revenue	39,624,264	38,139,206	(1,485,058)
Licenses and Permits	85,800	91,230	5,430
Motor Vehicle In Lieu (VLF)	971,200	750,000	(221,200)
From Other Agencies	616,200	1,483,902	867,702
Charge for Current Services	199,100	242,805	43,705
Fines and Forfeitures	897,800	782,200	(115,600)
Use of Money and Property	420,582	312,418	(108,164)
<u>Other Revenues</u>	<u>183,100</u>	<u>335,980</u>	<u>152,880</u>
Total Other Revenues	3,373,782	3,998,535	624,753
Total Gen/Park Revenue	42,998,046	42,137,741	(860,305)



Citywide Expenditures

Through the end of March, Citywide expenditures are trending below budget with 66.4% of the budget spent and 75% of the year spent. The majority of this trend is due to the timing of RDA pass-through payments to a variety of taxing entities, which occur at the end of the fiscal year, as well as a number of unanticipated vacancies in the Police Department, and the City Attorney's Office spending less on litigation than originally planned.



Federal Stimulus Funding

Economic Indicators (March 2009)

CPI-U.....-0.4%
(first decline since 1955)

Median Home Price.....\$238,095
(www.realtytrac.com)

Unemployment Rate...13.3%
(Butte County)

Home Sales v. Feb'09....-4%
(www.chicorealestatevoice.com)

Chico Population.....87,713
(+1% over prior year)

The American Recovery and Reinvestment Act of 2009 (ARRA), signed into law by President Obama on February 17, 2009, could provide the City of Chico a considerable amount of funding to help accelerate a number of Capital projects. The ARRA program will provide funding in the form of both competitive grants as well as formula-based allocations.

While this funding will not directly offset Operating Expenditures, it may provide the City an opportunity to invest in projects that could generate future cost savings, such as the replacement of street lights with LED lights or the installation of solar systems to reduce energy costs.

As of May 2009, the City has received confirmation of the following funding:

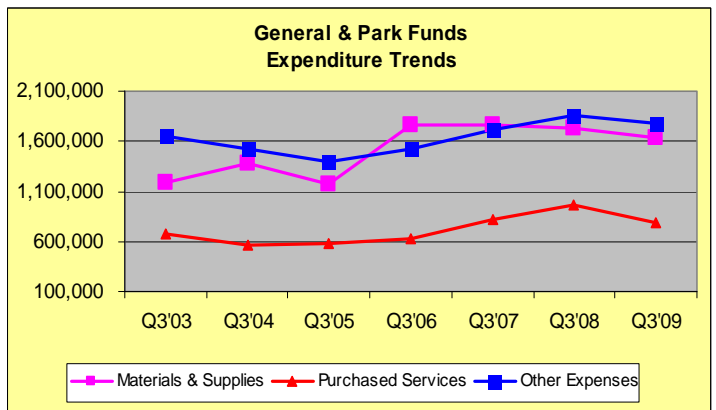
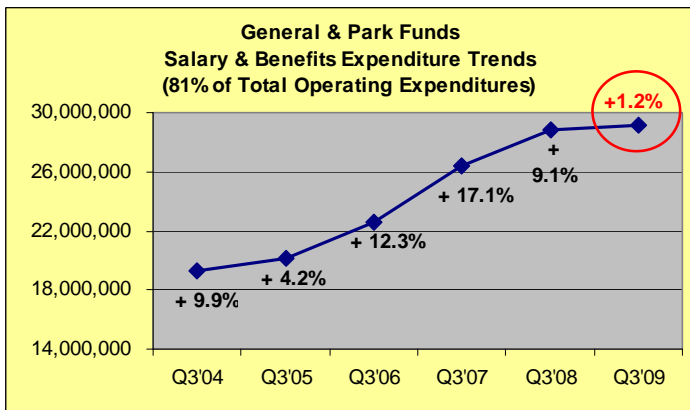
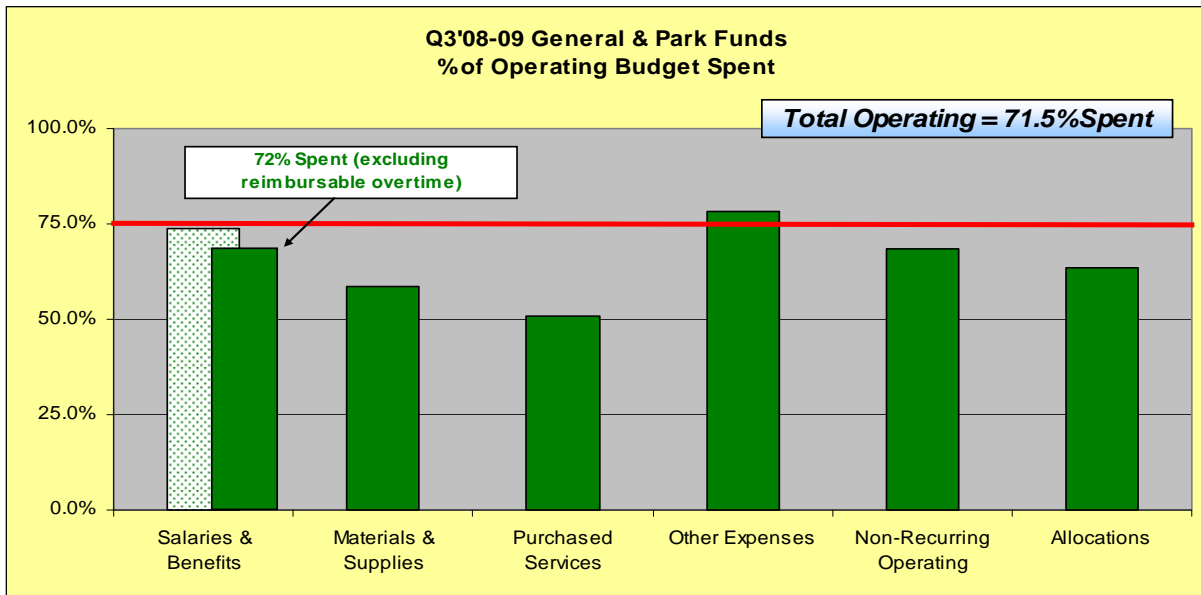
- Surface Transportation Program (\$5.5M)
SHR99/Skyway project
- Community Development Block Grant (\$236k)
Catalyst Women's Shelter Relocation

To date, the City has applied for the following competitive grants, and will be applying for more as they become available:

- Police—COPS Hiring Grant (\$500k)
Hiring of 5 Police Officers for Community Policing
- GSD— Bureau of Reclamation (\$877k)
Iron Canyon Fish Passage project
- Police—Justice Assistance Grant (\$155k)
Replacement of Communications Systems

General & Park Fund Expenditures

General and Park Fund expenditures through March 31st, are running under budget, with 71.5% spent compared to 75% of the year spent. Salaries & Benefits are running 73.6% of budget, however after adjusting for the reimbursable overtime costs, this category is running 72% (or 3% under budget) due to vacant positions. Materials & Supplies are under budget due to lower expenditures on Fuel and Electric costs. Purchased Services are under budget due to decreased litigation expenditures. Other Expenses are temporarily over the 75% mark due to Community Agency funding that will be reimbursed by the Community Development Block Grant Fund at year-end.



Q3'08-09 Tax Revenue Activity

SALES TAX

For sales occurring between October-December 2008, Sales Tax revenue decreased by 7.9% (or \$307k) compared to the same quarter of 2007. The majority of the decline was due to weak fuel & auto sales, combined with declining sales in general consumer goods.

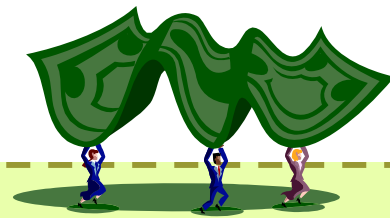
UTILITY USERS' TAX

Year-to-Date, UUT is 2.6% higher than 2007, however January declined by 11.3% and February by 7.4%. The majority of this decline is due to lower usage over the prior year, both from energy conservation as well as from a higher vacancy rate of commercial buildings.

TRANSIENT OCCUPANCY TAX

TOT revenue has experienced a drastic decline since December 2008. Both January and February fell by more than 20% each month. Despite these declines, Year-to-Date TOT revenue is up 1% over the prior year, due to the summer fire activity causing higher than average hotel usage.

Economic Development



Economic development is about job and wealth creation, and is measured by the level of investment occurring within a community. There are two primary ways in which government can stimulate economic development for its community:

- > Enacting policies that encourage investment which lead to job and wealth creation
- > Investing public dollars to spur investment that leads to job and wealth creation.

During this month and next, three policy level efforts will come before the Council that relate to economic development policy and public investment:

1. Contracting for annual economic development and tourism services and events

This month, the Economic Development Committee will consider the City Manager's recommendations for the contracting of 2009-10 annual economic development services and events that are intended to strengthen the economic base of Chico. Revisions in the contracting process have been implemented this year to ensure alignment with the City's adopted Economic Strategy. Given the high unemployment rate in Chico and issues facing Chico businesses, the recommendations coming forward will give priority to activities with the potential for a more immediate, near term impact. EDC recommendations will be included in the FY09-10 Final Budget.

2. Update of the Five Year Implementation Plan for the Redevelopment Agency

The Five Year Implementation Plan of the Redevelopment Agency (2009-10 to 2013-14) will come before Council in June. Redevelopment is one of the most effective ways for the public and the private sector to work together to breathe new life into deteriorated areas that act as a barrier to new investment by the private sector. This plan will include criteria to evaluate projects for financial support that accomplish both programmatic and financial objectives for the Agency in strengthening the economy of Chico. The plan will address multiple areas including: critical public infrastructure and facility needs; emerging General Plan directions; and implementation of the City's Economic Strategy.

3. General Plan polices related to economic development

The General Plan policy discussions taking place now include a focus on economic development. Issues related to land (amount and location), readiness, connectivity and circulation related to infrastructure, and the regulatory process affect both the short- and long-term investment- and opportunity-potential in Chico. These topics, which were highlighted in the City's Economic Strategy, are being addressed in the General Plan discussions to ensure consistency between the General Plan and the Economic Strategy, and more importantly to ensure the investment potential of the General Plan for Chico into the future.



Business Recruitments...

The City is currently working on several recruitments including an information technology call center, an international cosmetics manufacturer, two green technology companies, and an international frozen sushi manufacturer.

For questions related to Economic Development, please contact Martha Wescoat-Andes at (530) 896-7203.