

Q1'09-10

Elected Officials

Ann Schwab  
Mayor

Tom Nickell  
Vice Mayor

Mary Flynn

Scott Gruendl

Andy Holcombe

Larry Wahl

Jim Walker

City Management

Dave Burkland  
City Manager  
896-7200

Jennifer Hennessy  
Finance Director  
879-7300

# City of Chico Quarterly Financial Report

1st Quarter (Jul.1-Sept.30)

December 15, 2009



## General Fund Revenue Update

This report summarizes the financial results of the City of Chico from July 1, 2009 through September 30, 2009. In analyzing General Fund revenue, a variety of trends are emerging that differ from the original budget projections. Annual General Fund revenue is now projected to fall below budget by \$665k.

To offset this revenue shortfall, Operating budget adjustments are being proposed, including a \$120k reduction in Fire Department overtime and another \$125k reduction in Litigation Expenses. The first quarter expenditure trends have yielded savings in excess of the budget reduction targets that will offset the reduced revenue and help keep the General Fund balanced. These trends will be monitored throughout the fiscal year to ensure that the General Fund remains balanced. In the event the fund becomes out of balance, the City's Budget Contingency Plan will be activated to implement further budget reductions.

### Sales Tax

As the recession continues, it is anticipated that Sales Tax revenue for Q1 (July-September) will be approximately 20% below Q1 of the prior year, mostly due to abnormally high gasoline prices in 2008 combined with the impact of a number of store closures that have occurred over the past year. Actual Sales Tax results will be available for this quarter in early January.

### Transient Occupancy Tax (TOT)

Year-to-date TOT revenue is running 24% below the prior year, which was higher than average due to the fire activity last summer. Recent months are tracking 10% below the prior year, versus the 15% predicted in the budget.

### All Other Revenue

The Revised Projection includes an adjustment of -\$400k to reflect the lower than expected Fire Reimbursements. A corresponding reduction in overtime expenses will also be realized.

### Property Tax

This revenue source is based on the Net Taxable Value (NTV) of parcels as determined by the Butte County Assessor's Office in July 2009. The NTV is flat compared to the prior year.

### Utility Users Tax (UUT)

Through September 2009, the actual trend in UUT shows a decrease of 1.5% from the prior year. While this variance is more favorable than the decline of 3.3% used to build the Budget, recent months are tracking -4% compared to last year.

	Adopted Budget 2009-10	Revised Projection 2009-10	% chg from Budget
Sales Tax	15,038,300	14,174,298	-5.7%
Property Tax	11,231,829	11,431,829	1.8%
Utility Users Tax	6,385,300	6,685,000	4.7%
Transient Occupancy Tax	1,595,500	1,695,000	6.2%
Other Taxes	<u>1,842,400</u>	<u>1,842,400</u>	0.0%
<b>Total Tax Revenues</b>	<b>36,093,329</b>	<b>35,828,527</b>	-0.7%
All Other Revenues	3,320,010	2,920,010	-12.0%
<b>TOTAL REVENUE</b>	<b>39,413,339</b>	<b>38,748,537</b>	<b>-1.7%</b>
<b>Surplus/(Shortfall)</b>		<b>(664,802)</b>	

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### Revenue Trends

- Sales Tax ↓
- Property Tax ↔
- UUT ↑
- TOT ↑
- Other Taxes ↔
- Other Revenues ↓



### Economic Indicators (As of Sept. 2009)

CPI-U.....-1.3%  
(7th month of decline)

Median Home Price.....\$244,622  
(~13% over prior year)  
(www.realtytrac.com)

Unemployment Rate...12.8%  
(Butte County — Oct 2009)

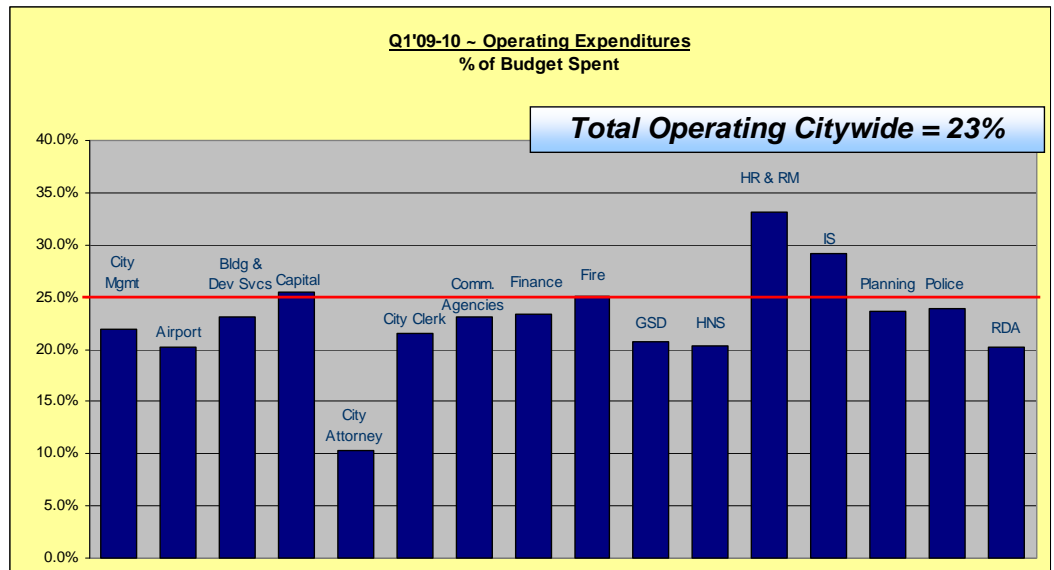
Area Foreclosures.....472  
(www.realtytrac.com)

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

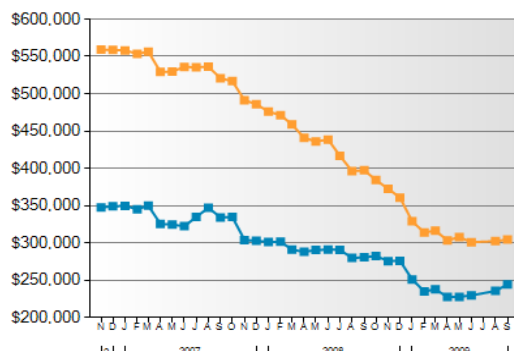
## Expenditure Trends Holding Steady

This first quarter of Fiscal Year 2009-10 has yielded favorable trends in Citywide Operating expenditures. With 25% of the year passed, only 23% of the Operating Budget has been spent. The chart below summarizes expenditure trends by department. The Operating Budgets include the full implementation of the Deficit Reduction Strategy adopted in 2008, as well as an additional 3% reduction to General Fund departments, necessary to balance this fund. Therefore, departments that track to their Operating Budgets are meeting their designated reduction targets.

Human Resources & Risk Management (HR&RM) and Information Systems (IS) have spent more than 25% of their budgets due to annual payments for insurance premiums and software maintenance contracts which are due during the first quarter, but cover the entire fiscal year. The City Attorney's Office includes a credit received for prior year litigation costs, which offset first quarter expenditures. The remainder of the departments are tracking near or below the 25% mark, indicating they are meeting their department's reduction targets. The Deficit Reduction Strategy implemented over a year ago has been successful in curtailing expenditures and helping to offset the declines in revenue due to the recession.



## Median Home Price Trends (November '06—September '09)



California (-45.4%)  
Chico (-28.5%)

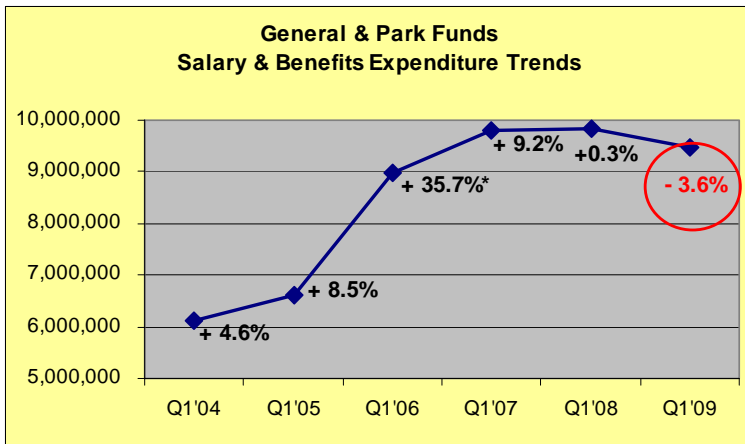
Source: www.realtytrac.com

## General & Park Fund Expenditure Trends

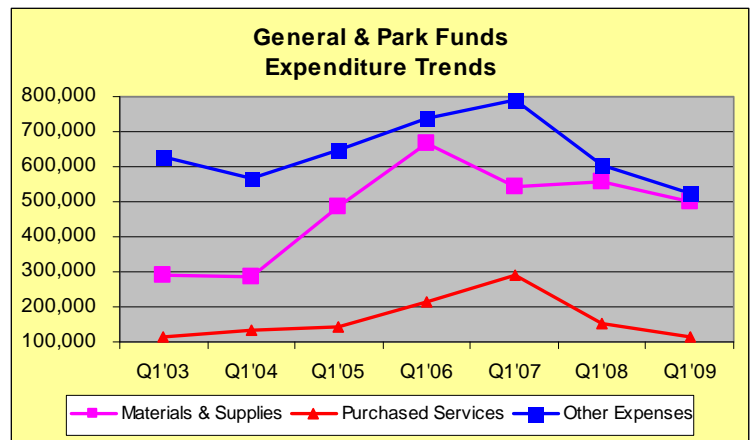
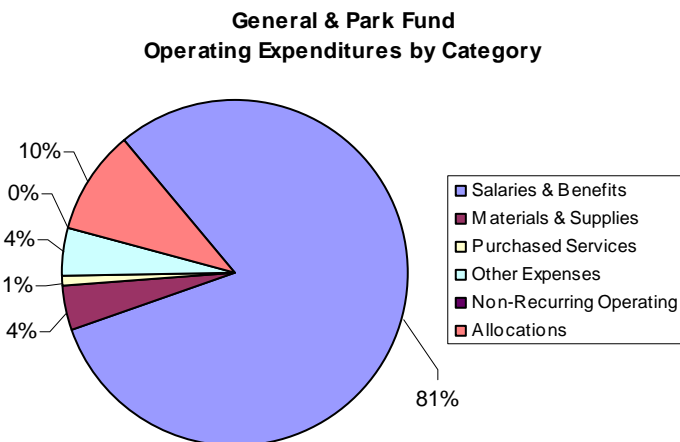
The charts below illustrate the effect of the Deficit Reduction Strategy implemented over the past year. The expenditure trends for all categories have decreased from the prior year. Most notable is the 3.6% decline in Salaries & Benefits, which accounts for 81% of the General Fund's Operating Expenditures.

The majority of the decline in this category is due to less overtime spent on fire deployments to assist other agencies. Excluding this line item, Total Salaries & Benefits increased 0.4% over the prior year, significantly below the prior five-year average annual growth rate of 12%.

Similarly, the non-salary expenditures have decreased by 13% from the prior year, and have steadily declined since Fiscal Year 2007-08.



\* The 35.7% increase in Q1'06 reflects the addition of 29 employees and significant formula-based salary increases.



## Transparency in Financial Reporting

Did you know that a number of City financial reports are available on the City's website? Below is a list of financial-related information that can be found via the Finance Homepage.

[www.ci.chico.ca.us/finance/FinancialReports.asp](http://www.ci.chico.ca.us/finance/FinancialReports.asp):

- ~ Quarterly Financial Reports & Presentations
- ~ Quarterly Sales Tax Newsletters
- ~ Monthly Payment Reports
- ~ Monthly Investment Portfolio Reports
- ~ Finance Committee Questions & Answers
- ~ Various Presentations
- ~ Annual Property Tax Summary
- ~ Budget Contingency Plan

[www.ci.chico.ca.us/finance](http://www.ci.chico.ca.us/finance):

- ~ FY09-10 Annual Budget
- ~ Supplemental Appropriations
- ~ Capital Improvement Program
- ~ Budget Glossary
- ~ Audited Financial Statements
- ~ Various Forms & Applications
- ~ Finance Office Fee Schedule

# Building a Financially Resilient Government through Long-Term Financial Planning

In light of the current economic times, many professional finance organizations are recommending new strategies to help agencies sustain the impacts of the global recession. Many of these strategies have already been adopted by the Chico City Council, such as long-range financial planning and contingency planning. Below is a summary of an article published by the Government Finance Officers Association (GFOA) discussing the concept of “financial sustainability.” The article explores the eight guiding principles of creating a financially resilient government and the central role that long-term financial planning plays in financial resiliency. The City has implemented many of the “best practices” listed below as part of its Deficit Reduction Strategy.

**DIVERSITY:** *Avoiding a single point of failure or reliance on a single solution.*

Do not limit the focus to only revenues and expenditures. Land-use patterns, demographic trends and long-term liabilities must all be carefully monitored.

**REDUNDANCY:** *Have more than one path of escape.*

Fund balance, or reserves, are the key to redundancy. Focusing on reserve levels across multiple funds ensures each fund has appropriate backup. Fund balances should not be used for recurring expenditures.

**DECENTRALIZATION:** *Centralized systems look strong, but when they fail, the failure is catastrophic.*

Decentralization is about engaging operating departments in financial planning so that all departments think more strategically about finance and are responsible for their own budgets.

**TRANSPARENCY:** *Don't hide your systems.*

Transparency implies openness, communication and accountability. Promote transparency in key areas like goals and objectives, forecast assumptions, and reserve standards.

**COLLABORATION:** *Work together to become stronger.*

Resilient governments foster close collaboration between elected officials and staff to help both groups become more savvy financial decision makers, better recognize problems, and enact appropriate solutions.

**FAIL GRACEFULLY:** *Failure happens. Make sure a failure state won't make things worse.*

Recognize changing conditions to make a soft landing and promote credibility and open dialogue. A projected imbalance isn't cause for blame—it is an opportunity to take preventative action to avoid crisis. Long-range financial planning is a tool to recognize longer-term issues that require a strategic approach and establish parameters within which service strategies must operate.

**FLEXIBILITY:** *Be ready to change when plans aren't working. Don't count on stability.*

Constantly monitor the financial condition and environment to see if financial strategies are working and to learn of conditions that might call for a change in approach.

**FORESIGHT:** *You can't predict the future, but you can hear its footsteps approaching.*

Use long-term financial forecasts to identify parameters within which to develop and execute strategies, rather than try to “predict” the future.

The full article can be accessed via the web at:  
[http://gfoa.org/downloads/financiallyresilientgovernment\\_whitepaper.pdf](http://gfoa.org/downloads/financiallyresilientgovernment_whitepaper.pdf)