

City of Chico Quarterly Financial Report



Fiscal Year 2010-11 ~ 1st Quarter (July—September)

December 7, 2010

Fiscal Year 2009-10 Results

As Fiscal Year 2009-10 comes to a close, the financial health of the City's General Fund remains tenuous with only \$41,746 in Fund Balance. The fund closed the year with Expenditures exceeding Revenues by \$2.6 million, depleting the majority of the Beginning Fund Balance, which has declined by nearly \$7.2 million over the past three years due to a structural imbalance and the sharp decline in tax revenues due to the continued economic recession.

The implementation of the Deficit Reduction Strategy was designed to correct the structural deficit in the

General Fund. While actual

expenditures have declined by nearly 4% since 2007, tax revenues have fallen by 6%, creating continued financial challenges for the General Fund.

Sales Tax Revenue, which generates 38% of Total General Fund Revenue, has declined by 15% since 2007.

Transient Occupancy Tax has declined by 13%, while Utility Users' Tax and Property Tax have declined by less than 1%. However, Property Taxes are projected to decline by 3% in FY2010-11, due to the lag time between the assessment of property values and the collection of the taxes on the revised assessments. The large decline in Other Revenues is primarily due to less mutual aid reimbursements for wild land fire deployments.

While Salaries & Benefits appear to have increased since 2007, most of the increase was due to large payouts of vacation and

sick leave for several long-term employees who retired in FY09-10. While this expenditure is a valid use of Emergency Reserve Funds, it was decided to preserve these funds in the event the recession continues beyond the current year or budget reduction targets are not met in a timely manner.

GENERAL & PARK FUNDS FUND SUMMARY	ACTUALS 2007-08	ACTUALS 2008-09	ACTUALS 2009-10
REVENUES			
Sales Tax	17,502,042	15,749,221	14,910,422
Property Tax	4,612,473	4,596,276	4,595,826
Property Tax In Lieu of VLF	5,922,649	6,608,184	6,763,688
Utility Users Tax	6,745,154	6,904,290	6,690,785
Transient Occupancy Tax	2,022,424	1,953,335	1,764,598
Other Taxes	1,945,273	1,843,350	1,800,834
Total Tax Revenues	38,750,015	37,654,656	36,526,152
Change from prior year		-2.8%	
All Other Revenues	3,944,881	4,083,338	2,453,765
Other Financing Sources	2,347,088	2,241,746	4,200,135
TOTAL REVENUE SOURCES	45,041,984	43,979,740	43,180,052
Change from Prior Year		-2.4%	-1.8%
EXPENDITURES			
Salaries and Benefits	38,492,481	38,680,439	38,925,456
Materials, Services & Supplies	2,592,022	2,517,909	2,479,111
Purchased Services	1,263,408	1,168,213	917,525
Other Expenses	2,213,951	2,090,816	1,841,180
Allocations	3,779,161	3,509,756	3,716,569
Indirect Cost Allocation	(3,366,882)	(3,425,128)	(3,493,631)
Total Operating Expenditures	44,974,141	44,542,005	44,386,210
Change from prior year		-1.0%	0.7%
Capital Improvement Projects	136,830	339,090	291,781
Other Financing Uses	2,420,948	1,154,558	1,151,284
TOTAL EXPENDITURES	47,531,919	46,035,653	45,829,275
Change from Prior Year		-3.1%	-0.4%
NET REVENUE (DEFICIT)	(2,489,935)	(2,055,913)	(2,649,224)
BEGINNING FUND BALANCE	7,236,818	4,746,883	2,690,970
ENDING FUND BALANCE	4,746,883	2,690,970	41,746

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Elected Officials

- Ann Schwab ~ Mayor
- Tom Nickell ~ Vice Mayor
- Mary Flynn
- Scott Gruendl
- Andy Holcombe
- Larry Wahl
- Jim Walker

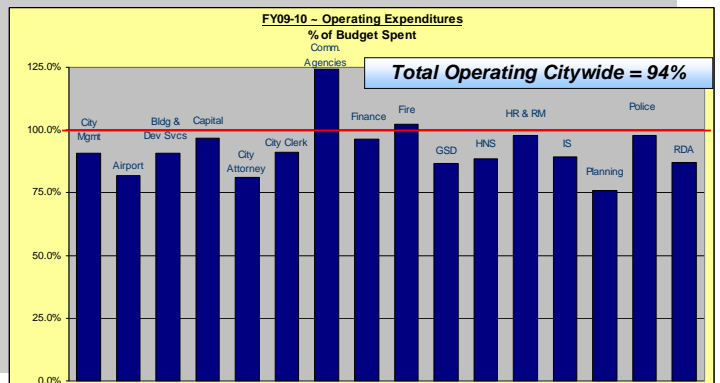
City Management

- Dave Burkland
City Manager
896-7200
- Jennifer Hennessy
Finance Director
879-7300

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FY09-10 Operating Expenditures Below Budget Targets

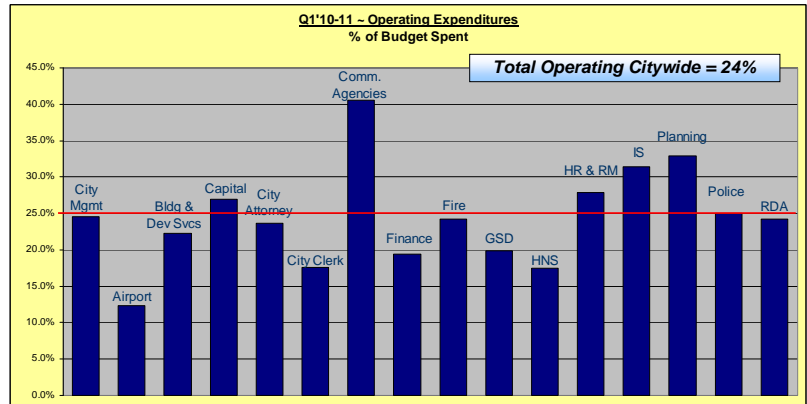
As noted in the chart, total Citywide Operating Expenditures ended the fiscal year at 94% of the Budget for FY09-10.



Citywide Operating Expenditures Through Q1'10-11

Operating Expenditures are tracking to the FY10-11 Budget with 24% of the budget spent through September 30, 2010. The FY10-11 Operating Budgets reflect the Deficit Reduction Strategy cuts as well as the anticipated wage & benefit reductions currently being negotiated. Departments that are spending within their budget are, by default, achieving their budget reduction targets for the current fiscal year. Through Q1, all departments are spending within their budgets, with a few minor exceptions.

Community Agencies are tracking above the 25% mark due to unanticipated staff time spent to support the Arts Commission work plan relating to the draft Public Art Policy Manual. HR&RM, Information Systems (IS) and Planning have spent more than 25% of their budget due to the payment of annual contracts that occur in the beginning of each fiscal year.



Private Development Fund

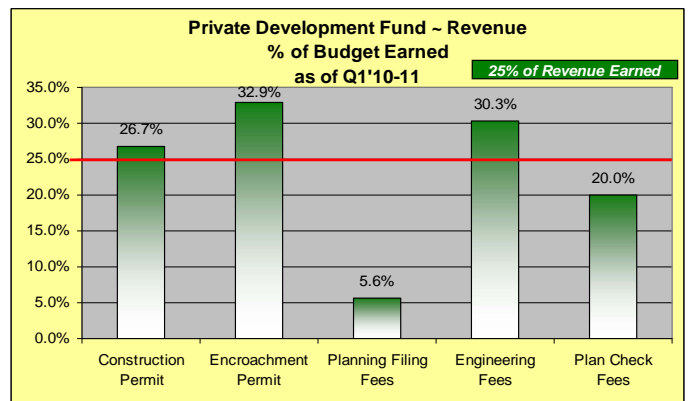
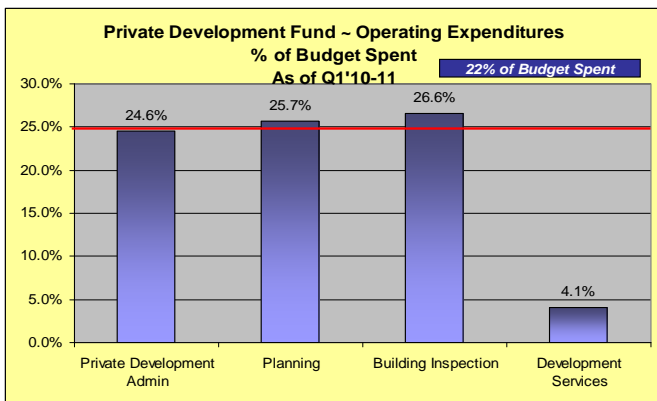
In an effort to mitigate the structural imbalance in the Private Development Fund, management has developed a new methodology for service delivery within this Fund. Expenditures are monitored closely to ensure they align with actual revenue received.

Through September 30th, departments have spent 22% of their budget, as noted in the chart to the right, and revenue received to date totals 25% of the

annual budget. Through the 1st quarter, both revenue and expenditures are on track for the Fund to break-even for the fiscal year.

The existing Fund deficit will be paid off over several years as General Fund revenue becomes available to apply towards the deficit. Private Development fees can only cover the cost of providing the service. Therefore the only source to cover the deficit is the General Fund.

	Allocated Headcount	Less: Early Retirees	Revised Headcount
Administrative Analyst	1	-1	-
Administrative Assistant	3	-1	2
Assistant Engineer	4	-1	3
Associate Engineer	1	0	1
BDS Director	1	0	1
Building Official	1	0	1
Combination Inspector	6	-2	4
Engineering Tech	3	0	3
GIS Analyst	3	0	3
Office Assistant	1	0	1
Senior Civil Engineer	2	0	2
Senior Development Engineer	1	0	1
Senior Plan Check Engineer	1	0	1
Supervising Combination Inspector	1	0	1
Total Allocated Positions	29	(5)	24
Salaries & Benefits	2,343,665	(518,726)	1,824,939



General & Park Fund Revenue

Due to the timing in which the major tax revenues for the City are received, it is too early to determine how revenue is tracking to the FY10-11 budget. To date, General & Park Fund Revenue has received 6% of its budgeted Revenue.

Transient Occupancy Tax

TOT represents the 10% tax assessed on hotel/motel rooms. Through September 2010, TOT receipts are trending 6% higher than the previous year and nearly 4% above budget projections.

Utility Users Tax

UUT represents the 5% tax assessed on utilities. Receipts are coming in 4% lower than this time last year due to lower electric & telecom related revenue.

Property Tax

The majority of Property Taxes are received in January & May. The assessed valuation used to determine the tax revenue, however, is 3.2% below the prior year. It is expected that the City's Property Tax revenue

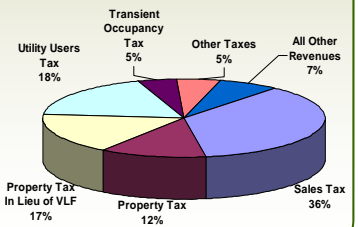
will reflect this decline as well.

Sales Tax

The receipt of Sales Tax occurs approximately 45 days after the sales transaction occurs. The City will not receive its full Q1 Sales Tax revenue until December. The last full quarter of Sales Tax receipts received by the City (April-June sales) indicated positive growth over the prior year, at 6%, however Statewide Sales Tax projections for FY10-11 are in the 1-2% growth range, which exceeds the City's

FY10-11 General Fund Revenue Sources

Sales Tax	14,042,400
Property Tax	4,707,674
Property Tax In Lieu of VLF	6,628,400
Utility Users Tax	6,915,200
Transient Occupancy Tax	1,740,700
Other Taxes	1,910,100
All Other Revenues	2,709,360
Total Revenue	38,653,834

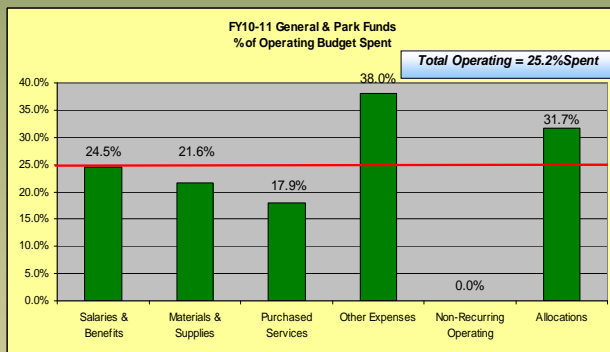


General & Park Funds Operating Expenditures

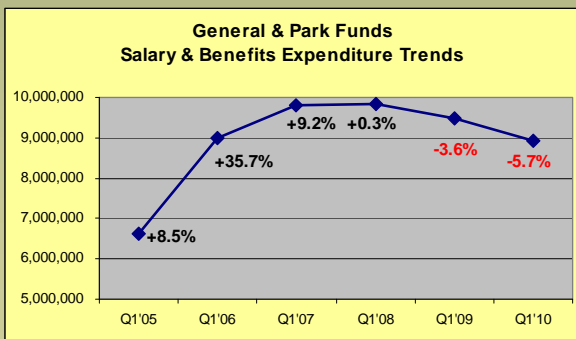
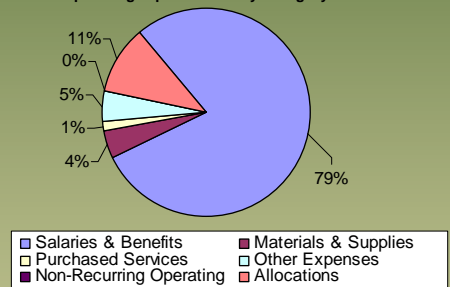
Operating Expenditures within the General & Park Funds are tracking along with budget projections, with 25.2% of the budget spent and 25% of the year spent. Other Expenses are tracking above the 25% mark due to the semi-annual payment of community agency grants. Allocations are above the 25% mark due to the payment of annual contracts for insurance and software maintenance agreements.

Most notable is the trend in Salary & Benefit expenditures. Through Q1'10-11, the General & Park Funds have experienced a 9.3% decline since 2008. This trend is due to the implementation of the two-year Deficit Reduction Strategy that has been successful in reducing the City's Salary & Benefits. The previous 5-Year average growth in Salaries & Benefits was 10%.

Total General & Park Fund Operating Expenditures are down 3.7% compared to the same period last year. Comparably, the previous 5-Year average growth rate for this period was 11.6%, illustrating a successful reduction in spending trends.



General & Park Fund Operating Expenditures by Category



Eyes on the Economy

Local Economic Indicators

(as of Sept'10)

- **Butte Co. Unemployment = 13.1%**
(above year ago rate of 12%)
- **Chico Median Home Price = \$253.6k**
(up 2.6% from Sept. 2009)
per www.zillow.com
- **Area Foreclosures = 569**
(above year ago level of 472)
per www.realtytrac.com

National Economic Indicators

(as of Oct'10)

- **US Consumer Confidence = 50.2**
(compared to 100 = normal)
- **US Gross Domestic Product = +2.5%**
(output of goods & services)
- **Disposable Personal Income = +0.4%**
- **Median Home Price = \$194.9k**
(down 9.3% from Oct. 2009)
per www.census.gov
- **Consumer Price Index = +1.1%**
(Sept'10—above year ago rate of -1.3%)

According to the National Bureau of Economic Research, the group that officially determines when a recession begins and ends, the national recession officially ended in June 2009. The country has experienced a very slow and moderate growth rate, averaging about 2%. Historically, the nation has grown at 5% in post-recessionary times, however because this recession was the result of the most catastrophic banking and financial crisis since the Great Depression, the recovery is expected to be much slower and weaker than other recoveries. During the recession, the nation lost over 7 million jobs and household net worth declined by \$13.7 trillion.

Projections include a gradual increase in the speed of recovery, although it is still

expected to be long and drawn-out. Neither consumers nor businesses are in a position to grow, federal stimulus is winding down and local governments are cutting budgets—so there's no sector of the economy that is waiting to surge ahead and drive a strong recovery.

Economic growth is projected to increase from 2.5% this year, to 3.5% next year, up to 4.5% in 2012. Unemployment is expected to continue to hover around 9% for the next year with it reaching normal levels between 5-6% in about four more years.

~ Information extracted from "The Economic Outlook," published 11/15/10 by the Federal Reserve Bank of San Francisco.

Consumer Confidence

The Consumer Confidence Index rose slightly in October, but remains historically low due to concerns relating to high unemployment and unfavorable business conditions. The current index stands at 50.2, compared to an index of 90, which indicates a stable economy.

The consumer confidence index is based on a survey of 5,000 US households and is closely monitored because consumer spending drives two-thirds of the nation's economic activity. A reading of 100 or greater would indicate strong growth, and the index has not reached that level since mid 2007.

~ Information extracted from "Consumer Confidence Ticks Up in October," published 10/26/10 by CNNMoney.com



City of Chico ~ Headcount Reduction Summary

Since the inception of the City's Deficit Reduction Strategy, a number of positions have been eliminated from the City's Budget through attrition, the elimination of vacant positions and the early retirement program. Since 2007, the City has reduced its allocated headcount by 13%, or 60 positions Citywide.

Department	Actual	FY08-09 Deficit		FY10-11 Proposed	Early	Projected	Total	Total
	Headcount	Reduction Strategy		Reductions	Retirement	Headcount		
	FY07-08	FY08-09	FY09-10	FY10-11	FY10-11	FY10-11	Reduction	% Reduction
Building & Development Svcs	36.0	(1.0)	(2.0)	(4.0)	(5.0)	24.0	(12)	-33%
Capital Project Svcs	17.0	(2.0)	(1.0)	(1.0)	(1.0)	12.0	(5)	-29%
City Attorney	6.0	(1.0)	0.0	0.0	(1.0)	4.0	(2)	-33%
City Clerk	3.0	0.0	0.0	0.0	0.0	3.0	0	0%
City Manager	11.0	(1.0)	0.0	(2.0)	(1.0)	7.0	(4)	-36%
Finance	17.0	(0.4)	(1.0)	(1.0)	0.0	14.6	(2)	-14%
Fire	74.0	0.5	0.0	(3.0)	0.0	71.5	(3)	-3%
General Services	90.4	(1.3)	(1.0)	(2.7)	(4.0)	81.4	(9)	-10%
Housing & Neighborhood Svcs	11.0	1.0	0.0	0.0	(1.0)	11.0	0	0%
Human Resources & Risk Mgmt	7.0	0.0	(1.0)	0.0	(1.0)	5.0	(2)	-29%
Information Systems	9.0	0.0	0.0	0.0	(1.0)	8.0	(1)	-11%
Planning Services	15.0	(1.0)	0.0	(2.0)	0.0	12.0	(3)	-20%
Police**								
City-Funded	155.0	(7.5)	(4.0)*	(4.0)	(2.0)	137.5	(18)	-11%
Total Citywide Positions	451.4	(13.7)	(10.0)	(19.7)	(17.0)	391.0	(60)	-13%

* only 1 position has attrited as of 6/30/10

** Total Police Dept headcount, including grant-funded positions = 148.5 (89 City-funded Sworn, 5 grant-funded Sworn & 54.5 Non-Sworn Personnel)