



# City of Chico Quarterly Financial Report

Fiscal Year 2011-12 ~ 1st Quarter (July—September) Oct. 18, 2011

## Continued Fiscal Challenges

Throughout this past fiscal year, the City continued to feel the impacts of a struggling economy across the majority of City funds.

### GENERAL FUND

While many economic indicators nationwide are showing signs of slight improvement, the City's tax revenue base remained flat compared to the prior fiscal year. Gains in major revenue categories, were offset by losses in others:

- ▲ Sales Tax (+4.9% or \$724k)
- ▲ TOT (+6.5% or \$115k)
- ▼ Property Tax (-5% or -\$565k)
- ▼ UUT (-1% or -\$58k)
- ▼ VLF (-38% or -\$267k)

Although Sales Tax and TOT show positive gains, indicating a stronger local economy than in the prior year, the Sales Tax base is still 11% below the 2007 levels.

Property Tax revenue is still lagging due to the high quantity of home devaluations, as a result of the weak housing market. Utility Users' Tax declined mostly in the telecom category due to reductions from two major cell phone carriers, one of which overcharged UUT in prior years and another who discontinued collecting UUT from its customers.

Vehicle License Fees are down considerably due to the

State's inability to pay approximately \$450k in VLF per capita for annexed properties. The City is filing a claim with the State to request a review of their payment practices in hopes of recovering this lost revenue. Fortunately, the City received \$180k in unanticipated VLF revenues for incorrect payments made by the State in prior years.

### DEVELOPMENT FUNDS

The majority of Development Impact Fee revenue increased over the prior year due to a few select development projects occurring this fiscal year.

Private Development Fund (Fund 862) revenue remained steady compared to the prior fiscal year, however the Fund's expenditures declined by \$661k (or 26%) due to the efforts of the managers and staff to bring this fund back into solvency.

### AIRPORT FUND

Fiscal Year 2010-11 Airport revenue remained steady compared to the prior year, however due to the loss of Aero Union, the largest source of revenue for this fund (Rental & Lease Income) will see declines in the coming fiscal year.

Economic Development efforts are underway to replace this revenue stream

as quickly as possible, as discussed in the article on Page 4 of this newsletter.

### SEWER FUND

Sewer Service Fee revenue also experienced a decline from the prior year. Fee revenue is \$418k lower than 2009-10 due to an accounting adjustment and continued conservation efforts. The City Council recently approved a rate increase that will help bolster this fund in order to retain solvency.

### REDEVELOPMENT FUNDS

In addition to the State-imposed challenges the RDA faces, its primary revenue source continues to decline. Tax Increment fell by \$1.7M (or 5.4%) from the prior year due to declining property values.

The future of the RDA is uncertain at this time, as the California Supreme Court deliberates the merits of the legislation put into place by the State to eliminate RDAs. A ruling is expected by mid-January. At that time, staff will bring forward a Supplemental Appropriation to adjust the FY11-12 RDA Budget to reflect the changes determined by the Supreme Court.

### Elected Officials

Ann Schwab, Mayor  
Jim Walker, Vice Mayor  
Bob Evans  
Mary Flynn  
Scott Gruendl  
Andy Holcombe  
Mark Sorensen

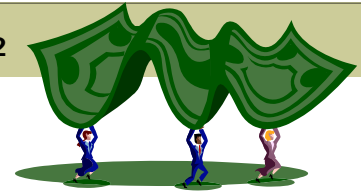
### City Management

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



Additional City  
Financial Information available on the  
Web:

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



## City Triggers Budget Contingency Plan

With FY10-11 General Fund revenues below budget projections and expenditures higher than anticipated, it was necessary for the City to implement its Budget Contingency Plan in order to balance FY10-11. Expenditures outpaced revenue by \$632k, triggering the need to rely on transfers from other funds.

Operating expenditures exceeded the Budget by \$383k due to higher than expected costs in fuel, electric, and personnel due to overtime and delayed attrition. As part of the Deficit Reduction Strategy, the Budget factored in the attrition of four police officers, however only two of the four materialized during the fiscal year.

The Budget Contingency Plan outlines the measures available to offset the sudden loss of VLF revenues, which for FY10-11 is a one-time loss, to be offset with one-time transfers. Fund transfers from Gas Tax, General Liability Insurance Reserve and Private Activity Bond Administration Funds were added at year-end to balance the fund.

Gas Tax funds in the amount of \$500k were transferred to reimburse the General Fund for prior year street maintenance activities, as allowed by the State Controller's Office.

The \$48k transfer from the Private Activity Bond Administration Fund represented the amount of available fund balance in excess of the desired reserve for this fund.

Historically, the desired balance in the General Liability Insurance Reserve Fund was \$2M, which represents three times the self-insured retention amount of \$500k, as required by the California Joint Powers Risk Management Authority, plus an additional \$500k per Budget Policy. The JPA no longer has this requirement, so we recommend that the reserve be reduced to \$1M, allowing us to utilize \$250k of this excess reserve to help balance the General Fund.

By triggering the Contingency Plan and utilizing one-time fund transfers, the City is able to preserve the \$5.9M balance in its Emergency Reserve Fund and be better positioned to react to future financial challenges.

GENERAL & PARK FUNDS	MODIFIED ADOPTED 2010-11	ACTUALS (Preliminary)	YEAR-END ADJUSTMENTS	ACTUALS (Final)	VARIANCE
<b>REVENUES</b>					
Sales Tax	15,614,093	15,634,139		15,634,139	20,046
Property Tax	4,464,195	4,304,973		4,304,973	(159,222)
Property Tax In Lieu of VLF	6,490,036	6,490,036		6,490,036	0
Utility Users Tax	6,582,700	6,632,404		6,632,404	49,704
Transient Occupancy Tax	1,863,000	1,879,991		1,879,991	16,991
Other Taxes	<u>1,797,600</u>	<u>1,770,458</u>		<u>1,770,458</u>	<u>(27,142)</u>
<b>Total Tax Revenues</b>	<b>36,811,624</b>	<b>36,712,001</b>		<b>36,712,001</b>	<b>(99,623)</b>
All Other Revenues	2,318,224	2,024,015		2,024,015	(294,209)
Other Financing Sources	5,287,436	5,270,374	798,000	6,068,374	780,938
<b>TOTAL REVENUE SOURCES</b>	<b>44,417,284</b>	<b>44,006,390</b>	<b>798,000</b>	<b>44,804,390</b>	<b>387,106</b>
<b>EXPENDITURES</b>					
Salaries & Benefits	36,430,572	36,475,088		36,475,088	44,516
Materials & Supplies	2,192,085	2,445,709		2,445,709	253,624
Purchased Services	1,096,341	1,123,002		1,123,002	26,661
Other Expenses	1,831,039	1,984,199		1,984,199	153,160
Allocations	64,980	(29,607)		(29,607)	(94,587)
<b>Total Operating Expenditures</b>	<b>41,615,017</b>	<b>41,998,392</b>		<b>41,998,392</b>	<b>383,375</b>
Capital Improvement Projects	232,319	185,518		185,518	(46,801)
Other Financing Uses	796,793	787,518		787,518	(9,275)
<b>TOTAL EXPENDITURES</b>	<b>42,644,129</b>	<b>42,971,428</b>	<b>0</b>	<b>42,971,428</b>	<b>327,299</b>
<b>NET REVENUE/(DEFICIT)</b>	<b>1,773,155</b>	<b>1,034,962</b>	<b>798,000</b>	<b>1,832,962</b>	<b>59,807</b>
BEGINNING FUND BALANCE	41,746	41,746		41,746	
<b>ENDING FUND BALANCE</b>	<b>1,814,901</b>	<b>1,076,708</b>		<b>1,874,708</b>	<b>59,807</b>
Adjustment for Loans	(1,735,436)	(1,709,304)		(1,709,304)	26,132
<b>Available Funds</b>	<b>79,465</b>	<b>(632,596)</b>		<b>165,404</b>	<b>85,939</b>



# FY2011-12 Fiscal Work Out Plan

In the final hours of passing the State Budget, the legislature voted to divert Vehicle License Fees from cities and counties to fund local law enforcement grants. The impact to the City of Chico is a loss of \$720k in General Fund revenue, offset by the receipt of \$60k in Booking Fees and \$100k in State COPs grant funding, creating a funding gap of \$560k for FY2011-12.

To help absorb the permanent loss of this revenue source, the City is proposing to offer an early retirement program to eligible employees in order to lower the City's cost base. This program will be offered to 24 employees, with a savings target of \$500k per year.

In addition to the early retirement program, the City is also considering options to increase the following

revenues:

- Lease Revenue
- Parking Enforcement

Department Heads are being asked to identify additional budget reductions in order to absorb this loss of VLF revenue.

Because the City will only realize half of the annualized savings from the early retirements and revenue measures, the temporary funding gap will be filled with additional Gas Tax funds as reimbursement for prior year street maintenance expenditures, as allowed by the State Controller's Office. Once these measures are fully implemented, the fund will no longer have to rely on one-time fund transfers in order to balance.

## Economic Indicators

- **Unemployment = 13.8%**  
(Aug.'11— Butte County)  
above Aug.'10 rate of 13.7%
- **Median Home Price = \$220k**  
(Oct.'11—Chico)  
down 12.4% from Oct.'10  
per www.zillow.com
- **Area Foreclosures = 390**  
below year ago level of 569  
per www.realtytrac.com

## Q1'2011-12 Operating Results

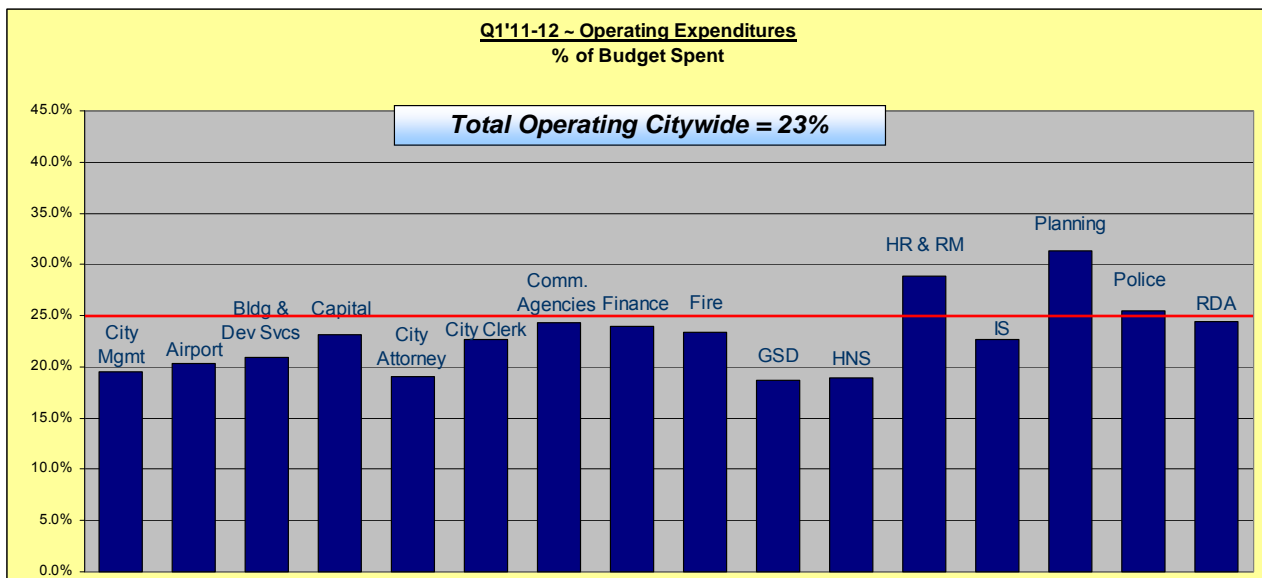
Through September 30, 2011, total Operating budgets were 23% spent across all funds. HR & RM and Planning exceeded the 25% mark due to large annual payments made in the beginning of the Fiscal Year. Police is running slightly over the 25%

mark due to overtime expenditures related to Labor Day.

General & Park Fund Operating budgets were 24.2% spent through the end of the first quarter of FY2011-12.

## National Indicators:

- **Consumer Price Index = 3.8%**  
(Aug. '11) up from 1.1% in Aug.'10
- **Consumer Confidence = 54.4**  
(Sep.'11) up from 50.2 in Sep.'10
- **Median Home Price = \$209,100**  
(Aug.'11) down 8% from Aug.'10





## Economic Development Update

Since April 2011, the City Manager's office has responded to nine prospective economic development opportunities representing nearly 500 potential new jobs to Chico and two retention/expansion opportunities representing approximately 250 jobs. The industries involved include commercial food production, solar manufacturing, printing/packaging, aircraft manufacturing and aviation services.

Staff is working closely with regional economic development partners as these important prospective opportunities evolve. Also, staff continues to focus on building strong partnerships with CEPSCO, NoRTEC, 3CORE, Alliance for Workforce Development, Butte County Butte College and CSU, Chico. The goal of these partnerships is to create an integrated business assistance network which leads to investment in Chico and the regional economy.

Connecting with and celebrating our existing business community is an essential economic development activity. The City Manager and the Chico Chamber President meet on a bi-weekly basis to pay informal visits to Chico businesses and the Mayor and one or two Council members conduct monthly scheduled site visits to Chico businesses as part of the Mayor's Business Advisory Council. On a monthly basis, the City

Council has highlighted a local business at a Council meeting. City and County staff also conduct other joint business visits.

The Economic Development Committee recently considered the topic of incentives that support the creation of base-level jobs through business expansion and development. Staff is planning to propose incentive tools to the Committee at its November 2011 meeting. Potential incentives may include expedited permit processing, fee credits or deferrals, and direct financial assistance based on job creation such as tax rebates, loans and grants.

Finally, the City Manager is engaging with the Chico Chamber President as the Chamber pursues its priorities to spur economic recovery and growth in Chico. Current priorities are in the areas of local purchasing, pursuing a community meeting/events/sports center, spotlighting local businesses, enhancing public/private partnerships, weekend public safety, the 2030 General Plan, and enhancing the City's economic development assistance. Action steps that can be taken on the City's and Chambers' mutual priorities list will be identified. As authority from the City Council with respect to any particular action items are required, the City Manager will bring those items before the Council.

## Airport Fund Spotlight



Aero Union Corporation was found in default of their leases for nonpayment of rent for the months of August and September. Rent from these leases accounts for approximately 46% of the Airport Fund's operating revenue.

Staff received information that Aero Union may be filing for bankruptcy. If bankruptcy was filed the leased properties would become part of the proceedings and prevent the airport from leasing them to new tenants. Staff took immediate action on Aero Union's default in order to retain control of the properties. Notices of Default and Intent to Terminate were issued to Aero Union on 9/7/11.



Airport property is limited to aviation use. Although the economy has had a negative effect on the aviation industry staff has made progress in re-leasing some of the properties.

The Airport Commission approved Aero Union's sublease of 100 Lockheed to Digital Path, Inc., subject to Digital Path meeting certain conditions. The Commission was to review whether the conditions were met at the end of the first year. Termination of Aero Union's leases voided that sublease. Staff is preparing a short term lease that will allow Digital Path to complete its first year of conditional use and allow the Commission to review and consider approval of their continued use of the hangar.

A short term lease has been entered into with Aircraft Deconstructors International, LLC, for the 77 Piper Avenue hangar at the same rental rate that was being paid by Aero Union. Aircraft Deconstructors has hired former Aero Union employees to complete their current project and is interested in entering into a long term lease in the future in order to continue operations at the airport.

Selken Enterprises, Inc., dba Sel-Tech, has been identified as a new long term tenant for the 108 Boeing Avenue hangar. Sel-Tech is a FAA Certified Repair Station currently located in the Airport Industrial Park. Sel-Tech employs 15 people and hopes to add five new employees by this time next year.