

# City of Chico Quarterly Financial Report



Fiscal Year 2010-11 ~ 2nd Quarter (October—December)

February 15, 2011

## A message from the City Manager

For over three and a half years, the City has been in a constant mode of cost reduction efforts. In 2008, in an effort to address the General Fund's \$6 million structural deficit, City employees agreed to pay a higher share of their medical insurance premiums and limit future wage increases, department budgets were cut by 7.5%, and a total of 23 positions were lost due to attrition.

With the onset of the economic recession impacting the City's revenues, employees once again agreed to wage and benefit concessions in order to keep the City solvent and avoid massive lay-offs. Combined with additional budget cuts and further reductions in staffing levels from attrition and an early retirement program, the City has been able to reduce its cost base by \$6.7 million and balance its General Fund budget over the next two fiscal years.

I wanted to personally thank all City employees who have been willing to take the reductions necessary to continue to provide the citizens of Chico with the range of services that make this community a great place to live. As the City continues to tackle its financial challenges, we will be refining our abilities to provide core City services in the most cost effective and efficient way, with a leaner organization.

This report provides valuable information on our major revenue sources and expenditure trends that we are carefully tracking. As you

can see, we are experiencing slight increases in sales tax and transient occupancy tax while utility users tax and property tax are declining. As a result of cost reduction efforts our expenditures have reduced significantly since 2008 which has allowed us to produce a balance budget.

Despite the efforts to address our local budget issues we are very concerned about impacts from the State budget. Our greatest concerns are the proposed disestablishment of the Chico Redevelopment Agency and the proposed cuts to the University budget. Both of these would have a dramatic effect on the City's budget and our ability to fund critical infrastructure projects.

In the wake of the greatest economic recession since the Great Depression, our local economy has yet to stabilize. With high unemployment, a sluggish housing and construction market, combined with the looming impact of the State's budget crisis, the coming years will continue to be fiscally challenging for the City. It will be imperative to prioritize the City's core services while maintaining a functional organization.

As we continue to move forward through these tough economic times, I want to assure the citizens of Chico that their City government is effectively monitoring and addressing the impacts of the economy and doing all it can to continue to provide core services to the public.

~ Dave Burkland, City Manager

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### 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

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### Fiscal Impacts Since 2007

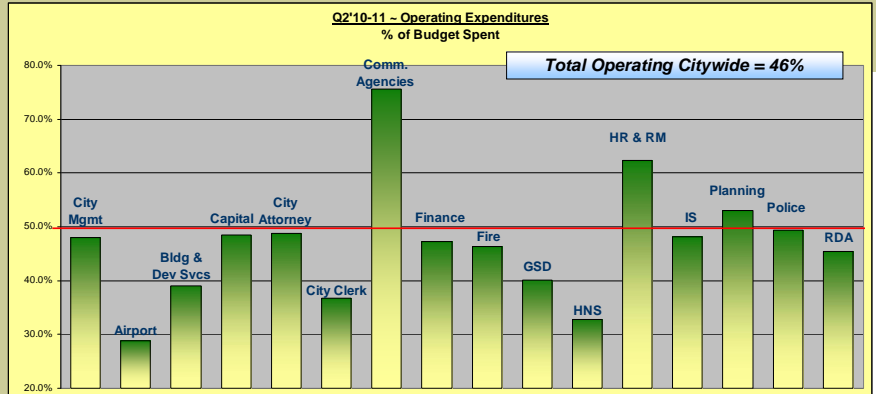
- 14% decline in workforce (63 positions Citywide)
- 13% decline in total General & Park Funds revenue (\$5.8M)
- 15% decline in Sales Tax (\$2.6M)
- 1% increase in Salaries & Benefits (vs. 20% increase between 2005-2007)
- 9% decline in non-salary operating expenditures
- 99% decline in General Fund balance (-\$4.7M)
- 68% decline in City's investment pool (\$22M)
- 56% decline in Development-related revenue (Fund 862)
- \$11.2 million of RDA funding lost in State take



## Citywide Operating Expenditures Tracking Below Budget

Through December 2010, with 50% of the fiscal year spent, departments Citywide have spent 46% of their annual budgets. Both Human Resources and Planning have large payments due in July for contractual services that cover the entire fiscal year. Community Agency spending is trending over budget due to unanticipated staff time spent to support the Arts Commission work plan, however corresponding savings are being realized in both the Redevelopment and Housing and Neighborhood Services Departments due to the shift in staff time.

The Annual Budget includes reduction measures from the Deficit Reduction Strategy implemented in 2008 as well as budget cuts resulting from the national economic downturn. Departments that are spending within their annual budgets are therefore meeting their budget reduction targets.



## Private Development Fund

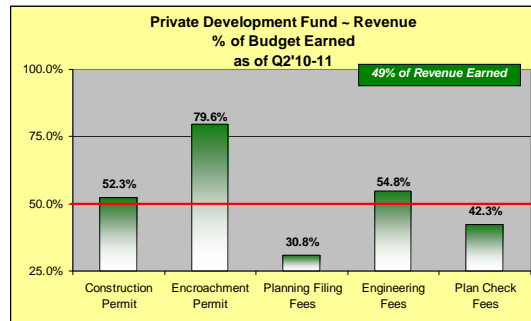
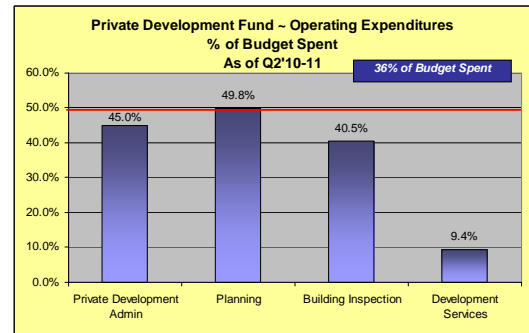
Through December 31st, the Private Development Fund's Expenditures are tracking well below budget, with 44% of the annual budget spent. In an effort to control costs within this Fund, staffing levels are being actively monitored, and where appropriate, are being reassigned to funded activities/projects. Below is a list of current positions that have been shifted to other activities:

- 2 Planners -> Capital
- 1/2 Planner -> Front Counter
- 1/2 Planner -> Sewer/Storm Drain
- 2 Building Inspectors -> Capital

In addition to shifting positions, Planning has also implemented cost reduction measures

including, the suspension of the Development Review Committee process. The number of commission and board meetings were reduced from two per month to just one, which has saved in overhead and staff support costs. Additionally, the number of profession staff performing the Development Review function has been reduced from eight (in 2007) down to 2.5 employees today.

The Private Development Fund has received 49% of its revenue budget through December 31st, and is on track to reach its revenue target for the year, as noted in the chart to the right.



	# of Permits Issued	# of Dwelling Units	Total Valuation	% Change from Prior Year	% Change from 2004
2004	2,744	905	\$172,005,070		
2005	2,441	601	\$153,066,334	-11.0%	-11.0%
2006	2,125	556	\$127,560,169	-16.7%	-25.8%
2007	2,130	463	\$129,615,954	1.6%	-24.6%
2008	2,083	246	\$83,397,051	-35.7%	-51.5%
2009	1,742	181	\$55,626,285	-33.3%	-67.7%
2010	1,730	446	\$69,760,849	25.4%	-59.4%

2004 marked the peak of development-related activity within the City of Chico, with 2,744 permits issued for a total valuation of \$172 million. The economic recession has heavily impacted the housing and development sectors, as evidenced by the near 60% drop in valuation since 2004.

Revenue related to development activity has also declined dramatically, with a 56% drop since 2005. The Building & Development Services department has reduced staffing by 33%, or 12 positions, in response to the economic downturn. The Planning Services department has reduced staffing by 3 positions, or 20%, since 2007.

## General & Park Fund Revenue Trends

### Sales Tax



Sales Tax contributes 36% of total General Fund revenue. Through September, modest gains in New Auto Sales and Fuel Prices are generating higher than anticipated Sales Tax receipts.

### Transient Occupancy Tax



TOT represents 4.5% of total General Fund revenue. Receipts through November are coming in 6% higher than last fiscal year, with all major hotels showing positive growth.

### Utility Users Tax



UUT generates 18% of total General Fund revenue. Through October, tax receipts are averaging 5% below the prior year. However, with large rebates provided to rate payers in November 2009, the year-to-date variance is flat.

### Property Tax



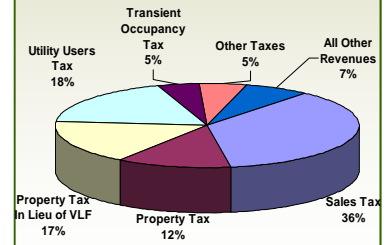
Property Taxes contribute 29% of total General Fund revenue. This tax is based on fluctuations in properties'

assessed valuation (AV), as determined by the Butte County Assessor's Office. AV for the 2010 tax year came in 3% below the prior year, due to the continued decline in the housing market. Currently, there are approximately 550 properties in foreclosure and home values have declined 27% from the market's high point in September 2005.

While fluctuations are occurring among the major tax categories, overall General Fund Revenue for FY10-11 is expected to meet its budget of \$38.7 million.

### 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
<b>Total Revenue</b>	<b>38,653,834</b>



## General & Park Funds Operating Expenditures

General & Park Funds' Operating expenditures through December 31st are trending favorably with 48.5% of the annual budget spent.

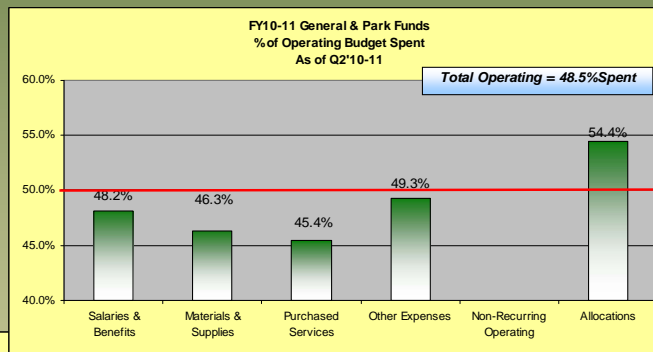
Allocations are over the 50% mark due to annual payments for insurance contracts occurring in July for coverage for the entire fiscal year.

The Non-Recurring Operating (NRO) category is showing 0% spent because the budgeted NRO items have not yet been purchased.

Salaries & Benefits have been steadily declining since 2008, when the City implemented the Deficit Reduction Strategy.

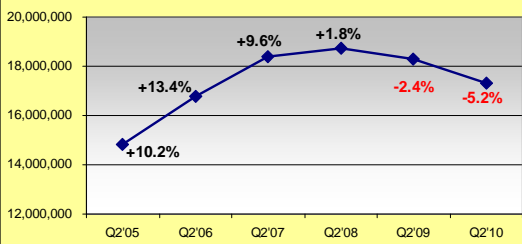
The City has lost 63 positions, or 14% of the workforce, since 2007. A total of 43 positions have been lost through attrition, another 17 positions from the early retirement program and 3 positions from lay-offs. Salaries & Benefits are 5.2% below the prior fiscal year, and 7.6% below 2008-09 levels.

Non-salary expenditures are holding flat compared to the prior fiscal year. Depending on the timing of major purchases and expenditures, these categories may not be spent equally throughout the fiscal year, so comparisons to prior years may fluctuate each quarter.

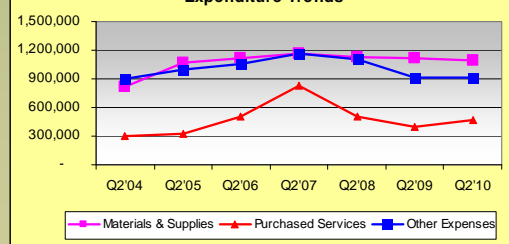


Expenditures during the second half of FY10-11 will reflect reduced Salaries & Benefits due to the recently completed employee negotiations in which 7 of the 8 bargaining units agreed to wage and benefit concessions.

### General & Park Funds Salary & Benefits Expenditure Trends



### General & Park Funds Expenditure Trends



## Impact of Governor's Proposed State Budget

### Local Economic Indicators

- **Butte Co. Unemployment = 13.8%** (Dec'10)  
(above year ago rate of 13.3%)
- **Chico Median Home Price = \$245k** (Nov'10)  
(down 1.1% from Nov. 2009)  
per www.zillow.com
- **Area Foreclosures = 548** (Jan'11)  
(above year ago level of 509)  
per www.realtytrac.com

### National Economic Indicators

- **US Consumer Confidence = 60.6** (Jan '11)  
(up from 53.3 in Dec '10)  
[Index of 100 = normal]
- **US Gross Domestic Product = +3.2%**  
(output of goods & services)
- **Disposable Personal Income = +0.4%**  
(Dec'10 compared to Nov'10)
- **Median Home Price = \$241.5k**  
(up 8.5% from Dec'09)  
per www.census.gov
- **Consumer Price Index = +2.2%**  
(Dec'10—above year ago rate of +2.0%)

On January 10, 2011, Governor Jerry Brown released his FY2011-12 State Budget proposal. The proposed budget includes measures to address the State's looming structural deficit of \$25.4 billion and create a \$1 billion reserve.

With top priority going to K-12 schools and public safety, the budget proposes to realign several governmental functions to increase efficiency and restore decision making authority to local governments. The proposal is heavily focused on multi-year and ongoing solutions necessary to bring the State back into fiscal solvency.

In order to fund the re-alignment of services, the Governor is proposing to extend the temporary increases in Sales Tax, Vehicle License Fees, and Personal Income Tax for an additional five years. This will take a vote of the people at a special election in June 2011, assuming the legislature adopts the various budget measures by March 2011.

With public safety being a top priority of this Proposed Budget, the City would continue to receive funding for the COPS grant, which provides enough funding for one police officer position. Additionally, the City would continue to be subsidized for booking fees.

A major part of the Governor's re-alignment proposal is to eliminate Redevelopment and shift property tax revenues back to schools, counties and cities. This includes the elimination of the Low & Moderate Income Housing program and a large portion of the City's Art program.

While this proposal will likely have a positive effect on the City of Chico's General Fund, the loss of Redevelopment funding for the City of Chico will be profound. The Chico Redevelopment Agency (RDA) generates \$31 million in tax increment revenue annually. Approximately \$18 million is dedicated to paying debt service on the outstanding RDA bonds as well as contractual and statutory pass through payments. The remaining revenue is spent on Low & Moderate Income Housing, Capital Projects and Administration. Under the Governor's proposal, this remaining revenue would be redistributed to schools, counties, special districts and the City.

Approximately 25 City jobs would be affected with the loss of Redevelopment as well as hundreds of jobs across the community that support the various construction projects funded with Redevelopment dollars.

## Snapshot of Chico Redevelopment Agency Dollars at Work



Since 1980, the use of Redevelopment funds to build local infrastructure and affordable housing projects in Chico has created numerous jobs, and allowed for the development of many affordable housing units and public infrastructure improvements, as well as rehabilitation of historic buildings in the Downtown area.



Chico Courtyards



Downtown City Plaza



E. 8th Street Reconstruction



Senator Theater Tower



Transit Center



Old Municipal Building



Boys & Girls Club Art Mural



Murphy Commons



Children's Park



Manzanita Ave. Round-About