

Q3'09-10



City of Chico Quarterly Financial Report

3rd Quarter (Jan. 1st – Mar. 31st)

May 18, 2010

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



Economic Indicators
(As of May 2010)

CPI-U.....+2.3%
(as of March 2010)

Median Home Price.....\$235,532
(+3.41% over prior year)
(www.realtytrac.com)

Unemployment Rate...15.1%
(Butte County — Mar 2010)

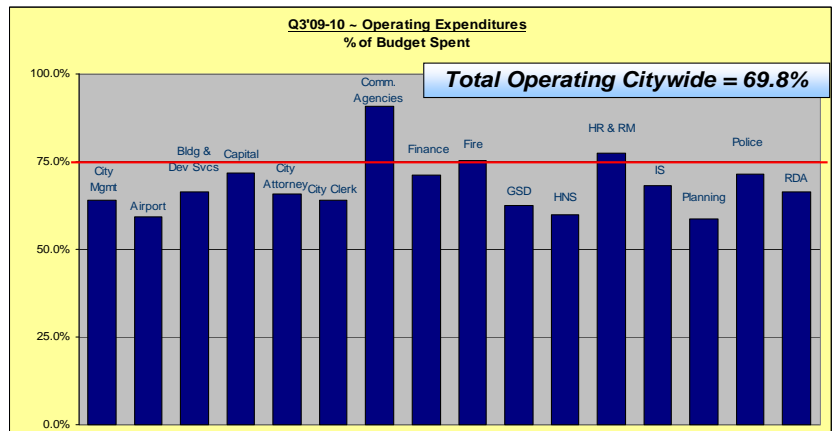
Area Foreclosures.....530
(as of 3-11-10)
(www.realtytrac.com)

Chico Population.....88,228
(as of 1/1/10)

Citywide Expenditures Tracking Below Budget

With the completion of the third quarter, Citywide Operating Expenditures are trending below budget projections with 69.8% of the budget spent versus 75% of the year spent. Two departments are spending over the 75% mark; Community Agencies and Human Resources/Risk Management. Community Agency funding activity (i.e. application review, committee meetings, funding payments, etc.) primarily occur during February–April, so the expenditures for this department are more heavily skewed toward the 3rd quarter and expenditure levels should taper off in the 4th quarter.

Risk Management is experiencing higher than anticipated expenditures in the General Liability Claims account and is processing a Supplemental Appropriation to request additional funds to cover the unanticipated expenditures. All other departments are at or below the 75% mark and are expected to meet their budget targets for FY09-10.



FY2010-11 Proposed Budget Preview

General & Park Funds	PROJECTED 2009-10	PROJECTED 2010-11	PROJECTED 2011-12
Total Tax Revenues	36,153,461	35,843,989	36,747,106
All Other Revenues	2,780,572	2,809,720	2,866,432
Other Financing Sources	4,172,749	3,671,349	3,225,372
TOTAL REVENUE SOURCES	43,106,782	42,325,057	42,838,910
Salaries and Benefits	38,298,223	35,959,127	37,819,019
Materials, Services & Supplies	2,365,233	2,294,276	2,225,448
Purchased Services	972,961	943,772	915,459
Other Expenses	1,895,216	1,378,360	1,337,009
Allocations	4,016,426	3,794,785	3,680,942
Indirect Cost Allocation	(3,493,631)	(3,634,773)	(3,781,618)
Total Operating Expenditures	44,054,428	40,735,547	42,196,258
Capital Improvement Projects	347,376	191,980	53,710
Other Financing Uses	1,180,792	749,958	1,211,426
TOTAL EXPENDITURES	45,582,596	41,677,485	43,461,394
NET REVENUE/(DEFICIT)	(2,475,814)	647,572	(622,484)
BEGINNING FUND BALANCE	2,690,970	215,156	862,728
ENDING FUND BALANCE	215,156	862,728	240,244

Distribution of the FY2010-11 Proposed Annual Budget is scheduled for May 28th.

City staff has identified a number of expenditure reduction measures necessary to balance both FY10-11 and FY11-12, as reflected in the chart to the left. Negotiations with all eight bargaining units will be required to implement many of the reduction measures incorporated into next year's budget.

Continued on page 3...



Citywide Headcount

Positions Reduced Since FY06-07	Positions Reduced	% of Dept Reduced
Bldg & Devel Svcs	-7	-19%
Capital Project Svcs	-5	-28%
City Attorney	-1	-17%
City Clerk	0	0%
City Manager	-1.88	-17%
Finance Office	-2.37	-14%
Fire Department	-2.5	-3%
General Services	-6.06	-7%
Hsng & Neigh Svcs	1	9%
HR & RM	-1	-14%
Info Systems	0	0%
Planning Services	-3	-20%
Police Department		
City-Funded	-8.5	-6%
Grant-Funded	3	150%
Total	-34.31	-8%

Total Headcount as of 7/1/10 418.98



City Investment Portfolio

(as of March 2010)

Summary of Investments

Local Agency Inv Fund	\$46.1M
Money Market Fund	\$2.4M
Federal Agency Securities	\$8.0M
Total Pooled Investments	\$56.5M

Investments Held In Trust \$14.4M

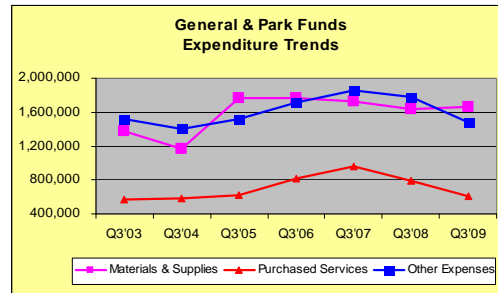
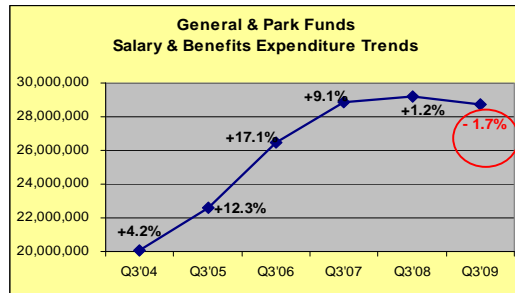
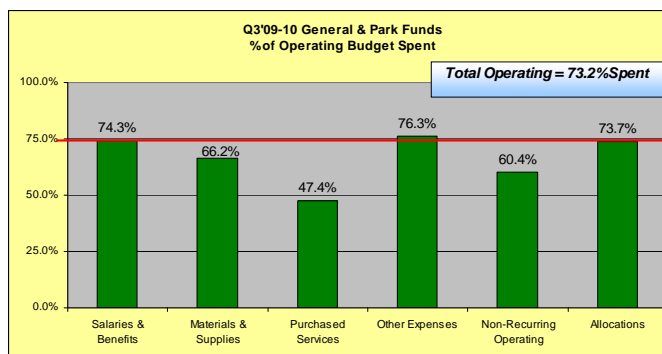
Weighted Annual Yield

Current Month = 0.87%
 Prior Month = 0.85%
 Avg Days to Maturity = 263

General & Park Fund Operating Expenditures

The charts below depict the spending patterns within the General & Park Funds through March 31, 2010. With 75% of the year spent, total General & Park Fund departments have spent 73.2% of their budget. Year-to-Date Salaries & Benefit expenditures have decreased by 1.7% from the prior year, and are substantially lower than the prior 5-year average growth rate of 8.7%. Purchased Services are running under budget due to a large credit balance in litigation expenses which includes reimbursements received from insurance companies.

Current Fund Balance projections for FY09-10 for the General and Park Funds equals \$215k. Historically, 4th quarter spending levels exceed those of the prior three. To ensure the ending Fund Balance target is met, Departments funded with the General and Park Funds have been asked to estimate their 4th quarter expenditure levels to provide a more accurate projection.



General & Park Fund Revenue

Through March, 2010, the General & Park Fund revenues are falling short of the original budget projection by \$480k, as noted below. The majority of this shortfall is from Sales Tax, along with lower reimbursements for fire deployments. Projected Revenue for FY2010-11 shows a continued decline due to the anticipated impact of the State Budget crisis, which could negatively impact our local economy if further cuts to education and local governments continue.

General & Park Funds	COUNCIL ADOPTED 2009-10	REVISED PROJECTION 2009-10	Variance	PROJECTED 2010-11	Variance from Prior Year	Projection Assumptions
REVENUES						
Sales Tax	15,038,300	14,308,598	(729,702)	14,026,600	-2.0%	Local economic impacts of CSUC enrollment, State budget and unemployment rate
Property Tax	4,788,829	4,782,155	(6,674)	4,695,389	-1.8%	Decrease due to number of home de-valuations
Property Tax In Lieu of VLF	6,443,000	6,763,688	320,688	6,628,400	-2.0%	Based on Assessed Valuation projection
Utility Users Tax	6,385,300	6,713,621	328,321	6,854,900	2.1%	Projected growth based on CPI + 1%
Transient Occupancy Tax	1,595,500	1,715,000	119,500	1,732,200	1.0%	Projected growth based on CPI
Other Taxes	1,842,400	1,870,399	27,999	1,906,500	1.9%	Projected growth in franchise fees, based on CPI + 1%
Total Tax Revenues	36,093,329	36,153,461	60,132	35,843,989	-0.9%	
All Other Revenues	3,320,010	2,780,572	(539,438)	2,809,720	1.0%	Small increase in Parking Fines, Licenses/Permits
Other Financing Sources	4,172,749	4,172,749	-	3,671,349	-12.0%	Reduced amount of one-time available funding
TOTAL REVENUE SOURCES	43,586,088	43,106,782	(479,306)	42,325,057	-1.8%	

FY2010-11 Proposed Budget Preview, continued

The initial FY2010-11 Budget projection for the General & Park Funds revealed a \$3.5–\$4.0 million revenue shortfall, due to the lagging economy. Shortly thereafter, the City received unfavorable news on its health insurance premiums for the ensuing fiscal year, which increased the budget deficit to \$4.5 million. City Management has developed a number of budget reduction measures to address this deficit and preserve as many City services and positions as possible. The reduction measures are predominately structural in nature, meaning they permanently reduce the City’s cost base, as opposed to “one-time” fixes. The measures that have been factored into the FY2010-11 Proposed Budget include:

◆ **Staffing Reductions**

An additional 19 positions will be removed from the list of allocated/budgeted positions. These positions are currently vacant.

◆ **Wage/Benefit Concessions**

All eight bargaining units within the City will be asked to take a pay reduction or reduce an equivalent benefit in order to achieve the reduction targets provided for each bargaining unit. Additionally, changes to the City’s health insurance program are proposed to help reduce City and employee costs.

◆ **Overtime Reductions**

Both Police and Fire departments will be reducing their overtime budget.

◆ **Early Retirement Program**

The City has offered a total of 34 employees the option to retire early and receive a 2-year service credit benefit through CalPERS retirement system. To date, a total of 13 employees have expressed interest in the City’s offer.

◆ **Operating Budget Cuts**

In addition to a 3% reduction to non-salary operating budgets, the City also reduced its funding levels to Community Agencies for the ensuing fiscal year.

◆ **Adjustments to Inter-fund Transfers**

Additional funding for street and road maintenance will be transferred in to the General Fund from the Gas Tax and Transportation funds to help close the budget gap. Additionally, reserve set-asides for fleet and facilities will be suspended.

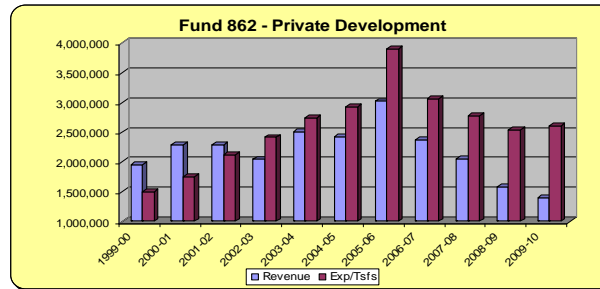
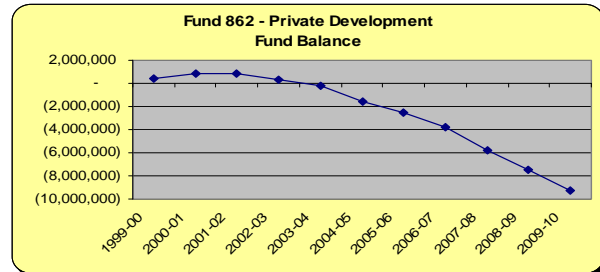
General & Park Fund Proposed Budget Reductions

<u>2-Year Total Reductions</u> 4,223,210 Operational Reductions	+	<u>2-Year Total Reductions</u> 430,000 Voluntary Position Reductions	+	<u>2-Year Total Reductions</u> 2,073,844 Wage/Benefit Concessions	=	<u>2-Year Total Reductions</u> 6,727,053
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Through a combination of operational reductions, position reductions and employee concessions, the General & Park Funds will have a balanced budget for the next two fiscal years.

As was promised to Council in last year's budget message, the Planning, Building and Development Service departments have worked with the Finance Department and City Manager's Office to develop a budget solution for the Private Development Fund (Fund 862). Over the last several years, expenditures have exceeded revenues in the Fund which has created a serious internal deficit. After studying the multiple causes of the deficit, the departments have created an innovative, revenue based budget solution. By reducing staff positions through retirements and attrition and then reassigning other positions to work on fully funded capital projects.

Staff analyzed the actual workload of the Planning, Building and Development Services departments this year and found that a significant amount of ongoing workload is related to both unfunded development and unfunded non-development activity. As this activity has now been quantified, a proportional amount of additional funding from the General Fund should be programmed into these departments when economic conditions permit. Until that time, the prioritization of workload in relationship to the Planning and Building's departments limited capacities will be essential to managing these funds and departments. As economic conditions improve and if internal allocations adjust downward, a portion of the subsequent additional revenue will be programmed into the long term repayment of the internal fund deficit.



Department Managers are taking advantage of these difficult economic times and are combining and reorganizing the functions of all the Planning, Building and Development Services departments into a single, organized "team approach" to service delivery. It is thought that the economic necessity of reduced staffing levels is leading to the development of a new and improved organizational structure. Our Managers have worked together and developed a new revenue based management tool that sets spending limits within funds in proportion to the complex array of actual fund revenues. Department managers will be expected to operate their departments based on the ongoing monitoring of these projected fund revenues and expenses versus actuals throughout the year.

State Raid of Redevelopment Agency Funds

California Redevelopment Association (CRA) Litigation - On Tuesday, May 4, 2010, Sacramento Superior Court Judge Lloyd Connelly ruled on the California Redevelopment Association et al v. Genest et al litigation upholding AB X4 26, the state budget bill passed as part of the 2009-10 state budget that requires redevelopment agencies statewide to transfer \$2.05 billion in local redevelopment funds into county Supplemental Educational Revenue Augmentation Funds (SERAF) over the next two years. He also denied CRA's request for a stay on the transfer of funds to SERAF to be made on May 10, 2010. The impact to the Chico Redevelopment Agency is \$9,248,048 in 2009-10 and \$1,902,195 in 2010-11. Each Agency's SERAF obligation is based its tax increment revenue received during fiscal year 2006-07.

On Friday, May 7, 2010, the Third District Court of Appeal denied CRA's request for a temporary stay on making SERAF payments pending appeal. Therefore, the Agency made the required payment to the Butte County Auditor on Monday, May 10, 2010. CRA will continue to pursue an appeal.

As a result of the actions taken by the Agency at its meeting of October 6, 2009, to delay certain capital projects and reserve tax increment revenue in order to prepare for this worse case scenario, the Agency is in a position to meet all of its legal obligations including, but not limited to, debt service payments on outstanding bonds, pass through payments to other taxing entities, annual payments to the Chico Urban Area Joint Powers Financing Authority for the Nitrate Compliance Plan, Butte County Administration charges, and the Low and Moderate Income Housing Fund set aside.