

City of Chico

Quarterly Financial Report



Fiscal Year 2010-11 ~ 3rd Quarter (January—March)

May 3, 2011

General & Park Fund Trends

As the third quarter comes to a close, the General & Park Funds are expected to end the year with just \$22,531 in Fund Balance. This represents a reduction of \$333k since the second quarter, due to a combination of increased Operating and Capital expenditures, decreased Transfers In, both offset by higher than anticipated revenues.

Transfers are being adjusted downward to reflect a reduced amount of Gas Tax transferred to the General Fund. The amount in the Adopted Budget assumed that a transfer for prior year street and road expenditures could be made, however it was recently determined that this could not be done.

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Revenue increases are primarily from Sales Tax, but are being offset by decreases in Property Taxes, Utility Users Tax, Fire Reimbursements, DUI Response Fees, Parking Fines and Interest Earnings.

Q3 Supplemental Request	Q3'10-11 Adjustment
Revenue	429,080
Operating	112,698
Capital	10,302
Transfers	(638,737)
Impact to Fund Balance	(332,657)

The increase in Operating Expenditures reflects the additional cost of the Special Election to be held in June 2011.

With these adjustments, the General & Park Funds remain balanced, but with very little in reserves. Any unfavorable deviations from the Budget will likely bring the Funds out of balance. For this reason, all expenditures will be very closely monitored for the remainder of the fiscal year.

Capital expenditures are increasing to cover a required match for grant funds utilized by the Fire Department.

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

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General & Park Fund Revenue

The timing of tax receipts creates a challenging environment for forecasting General Fund revenue. As of March 31st, the City has only received half of its revenue for the fiscal year. The final Sales Tax receipt for FY10-11 will not be received until September. To date, Sales Tax receipts are trending 5.5% above the prior fiscal year.

Property Taxes continue to decline due to the reassessment of homes combined with a sluggish housing market.

Utility Users Tax has not rebounded as originally projected, as apparent conservation efforts have reduced usage.

Transient Occupancy Tax is trending higher than anticipated, with increases seen across most major hotel/motels in Chico.

Other Taxes are declining due to lower Business License tax revenue and Real Property Transfer tax, both indicative of a weak local economy.

Total Other Revenues collectively are showing a decline from the Adopted Budget, mostly due to a lower amount of Fire reimbursements from less wild land deployments, lower DUI Response Fees, lower Parking Fines and reduced Interest Earnings on the City's investment pool.

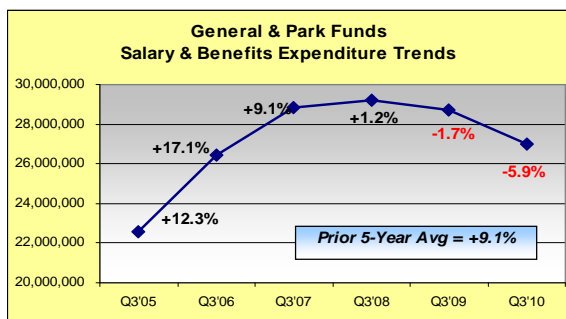
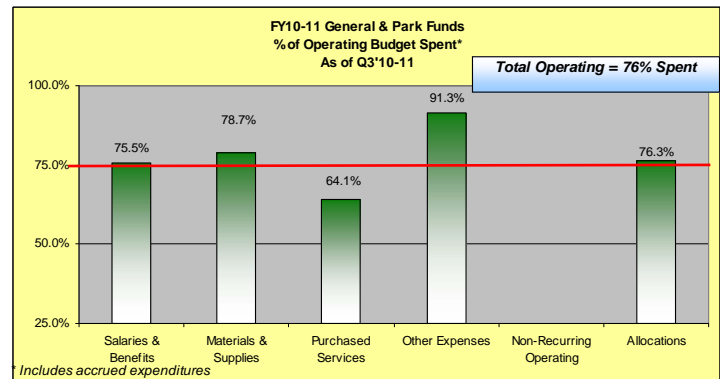
	FY10-11 Adopted Budget	FY10-11 Q3 Update	Variance from Adopted Budget
Sales Tax	14,042,400	15,614,293	1,571,893
Property Tax	4,707,674	4,453,582	(254,093)
Property Tax In Lieu of VLF	6,628,400	6,490,036	(138,364)
Utility Users Tax	6,915,200	6,582,700	(332,500)
Transient Occupancy Tax	1,740,700	1,863,000	122,300
Other Taxes	1,910,100	1,797,600	(112,500)
Total Tax Revenue	35,944,474	36,801,211	856,737
Licenses and Permits	99,500	99,500	0
Motor Vehicle In Lieu (VLF)	761,300	710,000	(51,300)
From Other Agencies	376,800	129,725	(247,075)
Charge for Current Services	255,800	172,671	(83,129)
Fines and Forfeitures	774,300	724,300	(50,000)
Use of Money and Property	200,960	180,330	(20,630)
Other Revenues	240,700	265,177	24,477
Total Other Revenues	2,709,360	2,281,703	(427,657)
Total Gen/Park Revenue	38,653,834	39,082,914	429,080



General & Park Fund Operating Trends

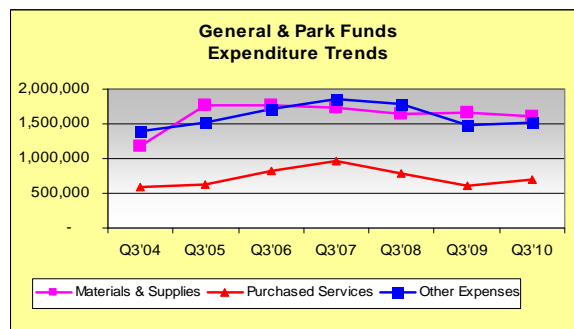
General & Park Fund Operating trends through March 31st (including accrued expenditures) are running slightly over budget with 76% of the budget spent, with only 75% of the year complete. Salaries & Benefits are trending over budget due to a slower than anticipated rate of attrition. Materials and Supplies are running over budget due primarily to higher utility costs (fuel, electric & water). Other Expenses are showing as overspent, however this is a temporary accounting anomaly that exists until the Community Development Block Grant (CDBG) reimburses the General Fund for its portion of the Community Agency Funding program, which occurs at the end of the fiscal year. Allocations are also running slightly over budget through March 31st due to higher Liability Insurance and Vehicle Maintenance costs incurred to date.

With such a small projected General Fund Balance, any overages in the Operating budget will likely cause the fund to be out of balance at the end of the fiscal year unless revenue exceeds current projections. Sales Tax is the largest source of revenue, and is also the most volatile. If Sales Tax receipts for the January—June timeframe exceed a 4.5% growth rate over the same period from 2010, then the General Fund will likely have additional revenue to absorb any over expenditures of Departments' Operating budgets.



As shown in the chart above, the Salaries & Benefit expenditures within the General & Park Funds continue to decline when compared to prior years. Through March 31st, Salaries & Benefits are running nearly 6% below the prior fiscal year, illustrating the success of both the Deficit Reduction Strategy implemented over the past two years, as well as the recently negotiated 5% wage/benefit reductions from all City employees.

Non-Salary expenditures are also trending below the historic spending levels, and have remained relatively flat over the past two fiscal years. While cost containment efforts are proving successful thus far, despite inflationary pressures related to fuel and energy costs, the coming months will be challenging as fuel prices have recently spiked and are not yet reflected in the trends shown below.



Local Economic Indicators

- Butte Co. Unemployment = 14.4% (Mar'11) (above year ago rate of 14.2%)
- Chico Median Home Price = \$223k (Apr'11) (down 13% from year ago) per www.zillow.com
- Area Foreclosures = 483 (Apr'11) (below year ago level of 530) per www.realtytrac.com



State Economic Indicators

- Unemployment Rate = 12.3% (Mar'11)
- California's Average Consumer Price Index = +2.1% (Feb'11)
- Annual Change in Building Valuations (Feb'11)
 - Residential = -15.2%
 - Commercial = -48.6%
 - Industrial = +55.7%
- Annual Change in Auto Sales = +30.3% (Feb'11)
- Median Home Price = \$271,320 (Feb'11)

National Economic Indicators

- US Consumer Confidence = 63.4 (Mar'11) (up from 53.3 in Dec '10) [Index of 100 = normal]
- US Gross Domestic Product = +3.1% Q4 v Q3'2010 (output of goods & services)
- Disposable Personal Income = +0.3% (Feb'11 compared to Jan'11)
- Median Home Price = \$202k (Feb'11) (down 8.9% from Feb'10) per www.census.gov
- Consumer Price Index = +2.7% (Mar'11—above year ago rate of +2.3%)

Private Development—Fund 862

Through March 31, 2011, Private Development Fund Departments have only spent 72% of their Annual Operating Budget, with 75% of the fiscal year passed.

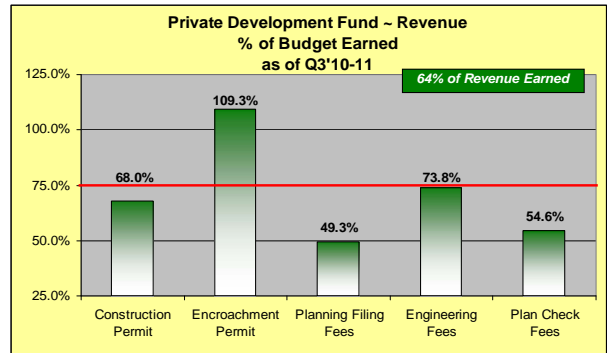
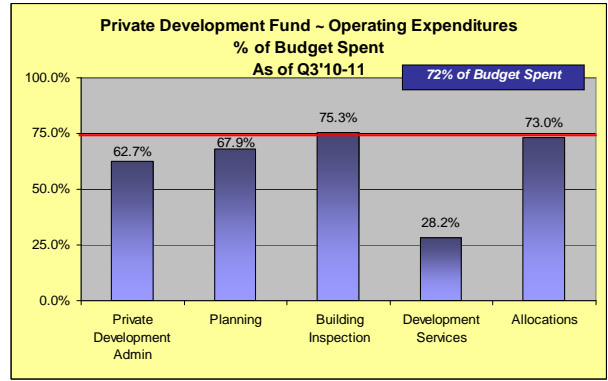
The fiscal work-out plan implemented by the Building & Development, Planning and Capital Services Departments has been very successful in monitoring costs in relation to revenues to ensure that the fund minimizes its annual deficit.

Historically, this fund has operated with a structural deficit ranging between \$1.5 to \$2 million annually, creating a deficit in the fund of \$9 million. As part of the

FY10-11 Annual Budget, the Assistant City Manager, Department Heads associated with Fund 862, and Finance developed a fiscal work-out plan designed to contain costs within the Fund's available revenue.

To achieve these cost reductions, five positions were removed through an early retirement program and another six positions have been reassigned to funded activities/capital projects, thus reducing the cost impact to the Private Development Fund.

- 2 Building Inspectors -> Construction Insp.
- 2 Planners -> Capital Projects
- 1 Planner -> Right-of-Way
- .5 Planner -> Sewer/Storm Drain
- .5 Planner -> Front Counter Support

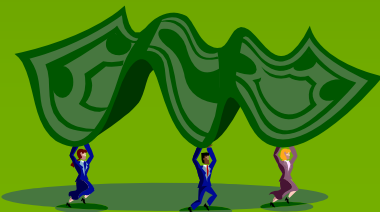


Citywide Operating Expenditures Trending Below Budget

Although expenditures in the General and Park Funds are currently tracking slightly over budget, across all Funds, Departments are collectively trending at 70% spent through the third quarter.

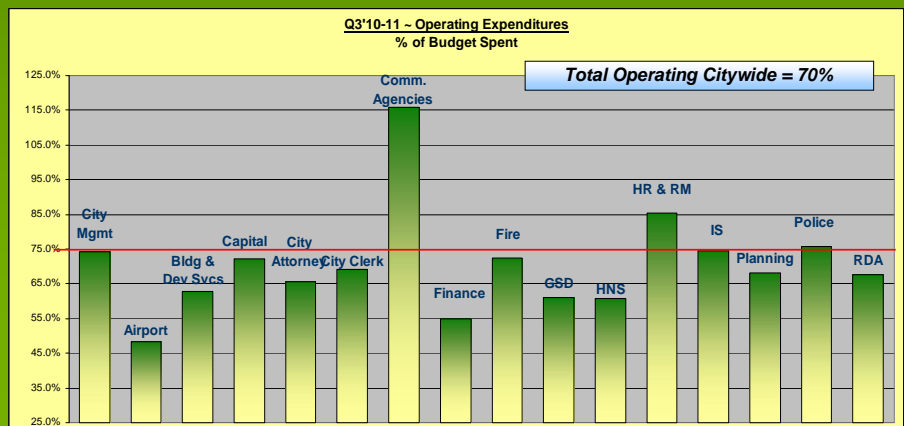
As seen in prior quarters, both Community Agencies and HR & RM are trending to be over budget.

Community Agencies is experiencing higher staffing costs than originally budgeted due to the preparation of the Arts Commission Work Plan causing a shift of staff time from RDA and Housing activities. The corresponding savings are being realized in RDA and HNS budgets.



Human Resources & Risk Management budgets are overrunning their budget due to higher than anticipated claims expenses. The Q3'10-11 Supplemental Appropriation includes a request to add \$300,000 to the General Liability Insurance Fund and another \$325,000 to the Workers' Compensation Insurance Fund. In both requests, the additional funds are requested to come from existing reserves in these two funds. Both funds are required to hold substantial reserves in the event of large claims.

The Police Department is trending higher than the 75% mark due to slower than expected attrition associated with the Deficit Reduction Strategy adopted in 2008. A total of four positions were expected to have been removed this fiscal year through attrition (i.e. retirement or voluntary separation from City service), however only two positions have been removed as of March 31st.



Why This Recovery Is So Different

an excerpt from the California Department of Finance "California Economic Indicators" publication, dated February 2011

Every economic cycle is unique. Each has its own cause, timing, and characteristics. It should come as no surprise that the recovery from the 2007-2009 recession has been unusually weak compared to its immediate predecessors. Several factors set the current recovery apart from the two preceding ones. Its severity was fundamentally worse than the others. California lost over 1.1 million jobs during the recession itself versus 122,000 during the 1990-91 recession and 247,600 in the 2001 downturn. This meant that the recovery began with a much deeper hole to dig out of. The causes of the recession—the bursting of the housing bubble and subsequent financial crisis—by destroying so much equity wealth also meant that a weak recovery was inevitable.

The most noted shortcoming of the current recovery for California and the nation has been disappointing employment growth. Even though the recession officially ended in July 2009, sustained job growth didn't begin until near the end of 2010—fully 18 months after the official end of the recession. California industry employment was still down nearly 1.3 million jobs from the start of the recession.

This is, however, not the first "jobless recovery." The official end of the 1990-91 downturn in March 1991 was followed by 26 months of ongoing job losses, during which the state lost an additional 379,000 jobs. This was principally a consequence of significant federal defense budget cuts following the end of the Cold War and the traumatic effects of base closures and the restructuring of the aerospace industry that affected California more dramatically than most other states. Sustained job growth following the 2001 recession did not begin until 21 months after its official end.

A DIFFERENT MIX THIS TIME

The unique nature of the current recession and recovery is evident in the employment trends in the construction sector and the closely related retail trade and financial activities sectors. Government employment trends were also different this time around.



Housing and related activity typically make a substantial contribution to economic growth during a recovery. Even though residential investment is a much smaller component of national output than consumer spending, it "typically contributes at least 50 basis points to GDP growth within two years following a recession" according to the Federal Reserve Board of St. Louis. Additionally, consumption-driven growth is also indirectly affected by home building. As of the end of 2010, moribund housing activity was viewed as the most important factor holding back the economy.

This was exacerbated by unprecedented weakness in federal, state, and local government employment. The public sector is normally a source of stability during and after a recession. It tends to grow slower than the private sector in a recovery, but usually isn't hit as hard during recessions and jobless recoveries. Broad-based fiscal problems at national, state, and local levels nullified this source of stability during the immediate post-recession period. Public sector job losses during and after the recession were unprecedented. This sector was still losing jobs at the close of 2010.

HOME BUILDING WEIGHS HEAVY ON RECOVERY

In all three recessions, California lost jobs in construction and related industries. The losses were miniscule during the 2001 recession, though, compared to the other two cases. These losses, however, were significantly worse in the 2007-09 recession. Construction and related employment dropped 14.6 percent during the latest downturn versus falling only 4.4 percent during the 1990-91 recession and dropping less than 1 percent in the 2001 episode.



The fallout from the bursting of the housing bubble and the financial crisis severely impacted home building and construction activity in general. The pace of new home construction permitting dropped precipitously during 2006, 2007, and 2008. While it appeared to bottom out in 2009, there has been no significant resurgence. New home building permitting during the 18 months following the end of the 2007-09 recession was down nearly 64 percent from the 12 months leading up to the recession's start. The pace set during the last quarter of 2010 was still off 60 percent from the start of the recession.

Nonresidential construction followed a similar pattern; slowing dramatically in 2008 and stabilizing in mid-2009. It still hasn't recovered. The pace of nonresidential construction permits issued in the last quarter of 2010 was less than half the pace set during the final quarter of 2007.

LESS SUPPORT FROM THE PUBLIC SECTOR

In addition to outsized job losses in housing and related industries, public sector employment was also abnormally weak in the most recent recession and recovery. Federal, state and local government employment fell 5,600 during the 2007-09 recession, significantly worse than the 2,300 jobs lost in 1990-91 and the 68,100 gain in the 2001 recession. More significantly, during the 18 months following the official end of the last recession (July 2009 - December 2010), California's public sector dropped an additional 53,100 jobs (2.1 percent). During the same period after the 2001 recession, this sector added 13,200 jobs (0.5 percent). After the 1990-91 recession, it grew by 5,800 (0.3 percent). In contrast, private sector employment not directly related to residential construction performed noticeably better during the post-recession phase of the latest cycle. In the 18 months since the official end of the 2007-09 recession, private employment unrelated to housing grew by 5,300 jobs, or 0.1 percent. During the eighteen months after the end of the 1990 and 2001 recessions, employment declined 145,500 (1.9 percent) and 165,500 (1.9 percent) respectively.



The state's current disappointing economic performance largely stems from troubles in the home building and real estate sectors and fiscal troubles in the public sector. A robust recovery in employment will likely depend on improvements in both of these areas.