



04'08-09

City of Chico

**Ann Schwab
Mayor**

**Tom Nickell
Vice Mayor**

Mary Flynn

Scott Gruendl

Andy Holcombe

Larry Wahl

Jim Walker

**Dave Burkland
City Manager
896-7200**

**Jennifer Hennessy
Finance Director
879-7300**

City of Chico Quarterly Financial Report

4th Quarter (Apr. 1 - Jun. 30)

October 6, 2009

FY2008-09 Preliminary Results

With the closing of Fiscal Year 2008-09, the General & Park Funds are expected to end the year with a \$2.7 million Fund Balance. Tax Revenues are coming in lower than anticipated due to declining Sales Tax and Property Tax revenue. The City is heavily dependent on Sales Tax from the retail industry, contributing 38% of General Fund revenue. Sales Tax has been hit hardest by the economic recession and has declined to FY04-05 levels, and we have yet to see the impact of the 200,000 square feet of inactive regional retail space caused by the closure of several national chains. Auto Sales have steadily declined since 2006, and Fuel Sales are continuing to retract from the historic highs of last year to double-digit declines in 2009. Only two sectors

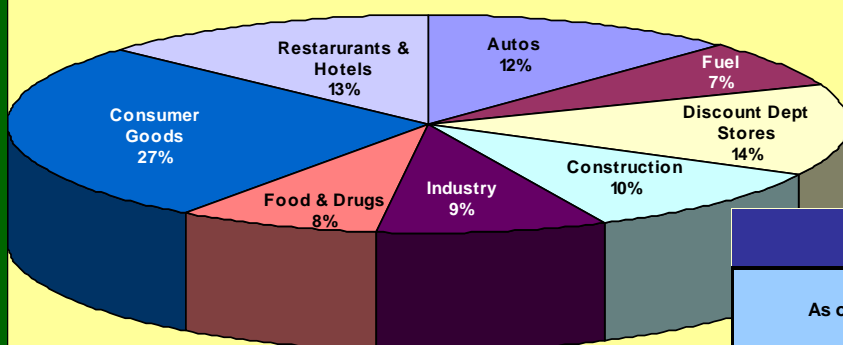
(Discount Department Stores and Food/Drug stores) are showing growth through the current recession, due to the price-sensitivity of consumers. For Chico, these two sectors alone make up 22% of the City's Sales Tax base and are currently helping to mitigate the large declines in autos and fuel. Sales Tax revenue from transactions occurring between April-June came in 18.6% lower than the prior year. The details behind this decline will not be available until late October.

Lower Property Taxes reflect the start of many home re-assessments, both due to the declining home values as well as for those who lost homes in the summer fires last year.

Helping to offset the decline in revenues are substantial savings in Operating Expenditures achieved by City management and staff. An additional \$1.3 million has been saved over the target reductions that reflected the re-negotiated employee contracts plus the 7.5% departmental reductions.

The Deficit Reduction Strategy implemented this year has successfully reduced expenditures and has kept the City's budget balanced.

Jan-Mar 2009 Sales Tax



The City's Emergency Reserve Fund Balance totals \$6.8 million at the end of FY08-09. It is critical to preserve these funds, in the event of further declines in the economy.

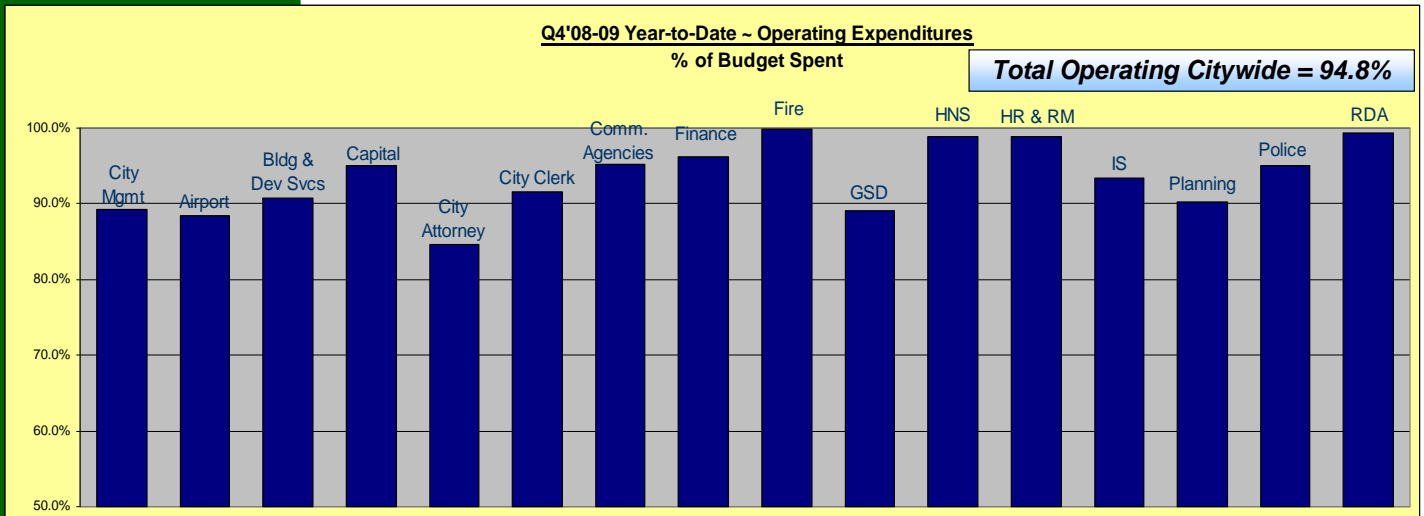
**General & Park Funds
FY2009-10 Adopted Budget**

As of 9/22/09	Preliminary Actuals 2008-09	Modified Adopted Budget 2008-09	Variance From Budget
Tax Revenues	37,654,655	38,139,206	-484,551
Other Revenues	4,083,338	3,998,535	84,803
Transfers In	5,666,874	6,650,482	-983,608
Total Sources	47,404,867	48,788,223	-1,383,356
Salaries & Benefits	38,680,439	38,912,804	-232,365
Other Expenses	9,286,696	10,398,151	-1,111,455
Total Operating Expense	47,967,135	49,310,955	-1,343,820
Capital Improvements	339,089	379,138	-40,049
Transfers Out	1,154,558	1,163,499	-8,941
Total Uses	49,460,782	50,853,592	-1,392,810
Beginning Fund Balance	4,746,890	4,746,890	0
Ending Fund Balance	2,690,975	2,681,521	9,454

Prior to FY08-09, the 5-year average growth rate in Operating was +8.8% per year. Due to the Deficit Reduction Strategy, the current growth rate Operating was -0.7%.

Deficit Reduction Strategy

As shown in the chart below, Citywide expenditures are expected to finish Fiscal Year 2008-09 5.2% (or \$5.4 million) below budget. Savings identified through the Deficit Reduction Strategy exceeded expectations, indicating the Strategy has been successful and each department spent at or below their reduced budget target.



Summary of Changes in Positions

Since FY2007-08, Citywide staffing levels have decreased by 21.75 positions. The number of permanently reduced positions totaled 23.4, however due to a variety of adjustments a total of 1.6 positions were added and/or shifted departments during this same time period.

Department	2007-08 Actual	2009-10 Adopted	Permanent Reductions	Additions
BDS	36.0	32.0	-4.0	0.0
CPS	17.0	14.0	-3.0	0.0
City Attorney	6.0	5.0	-1.0	0.0
City Clerk	3.0	3.0	0.0	0.0
City Manager	10.9	10.0	-1.0	0.1
Finance Office	17.0	15.6	-1.4	0.0
Fire	74.0	74.5	0.0	0.5
GSD	91.1	87.1	-4.0	0.0
HNS	11.0	12.0	0.0	1.0
HR/RM	7.0	6.0	-1.0	0.0
Info Systems	9.0	9.0	0.0	0.0
Planning	15.0	14.0	-1.0	0.0
Police	157.5	150.5	-7.0	0.0
Total City	453.3	432.7	-23.4	1.6

In addition to the permanently reduced positions, Fire has converted a position to a act as a "floater" to reduce overtime, and the recruitments for 8 of the 16 current vacant positions have been put "on hold" until funding has been secured.

Economic Indicators

(As of July 2009)

CPI-U.....-2.1%
(5th month of decline)

Median Home Price.....\$229,878
(www.realtytrac.com)

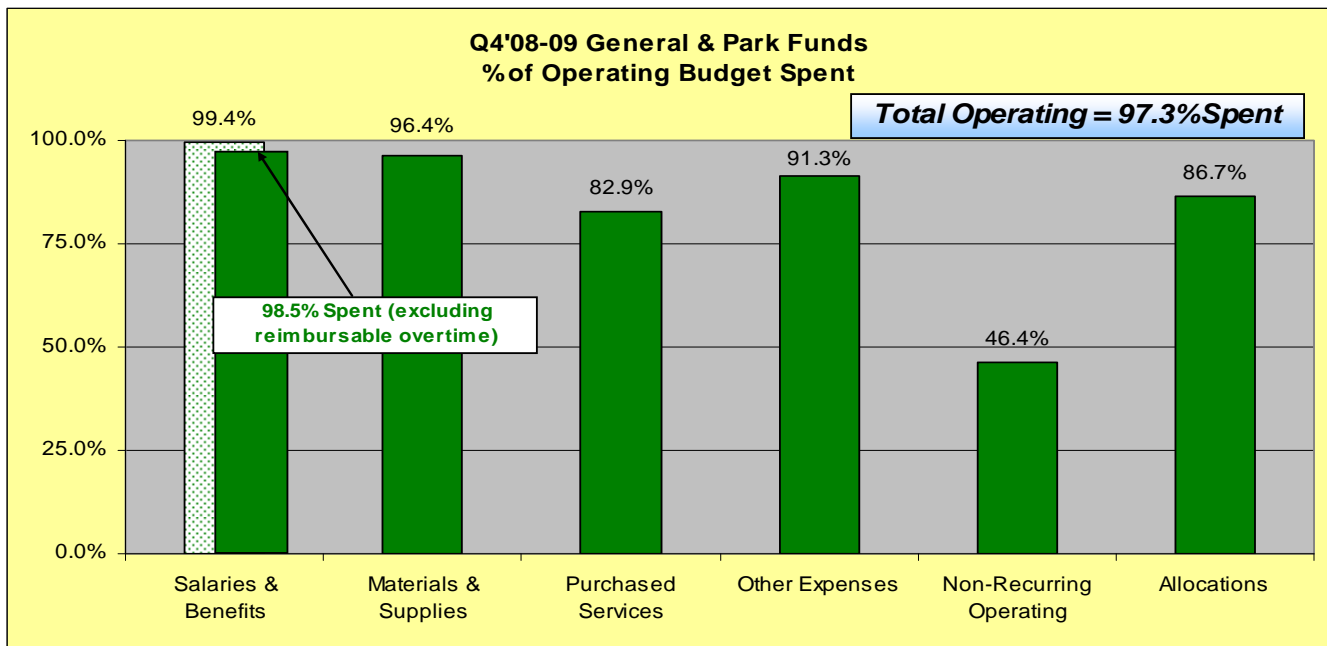
Unemployment Rate...13.2%
(Butte County)

Home Sales v. Q2'08....-5%
(www.chicorealestatevoice.com)

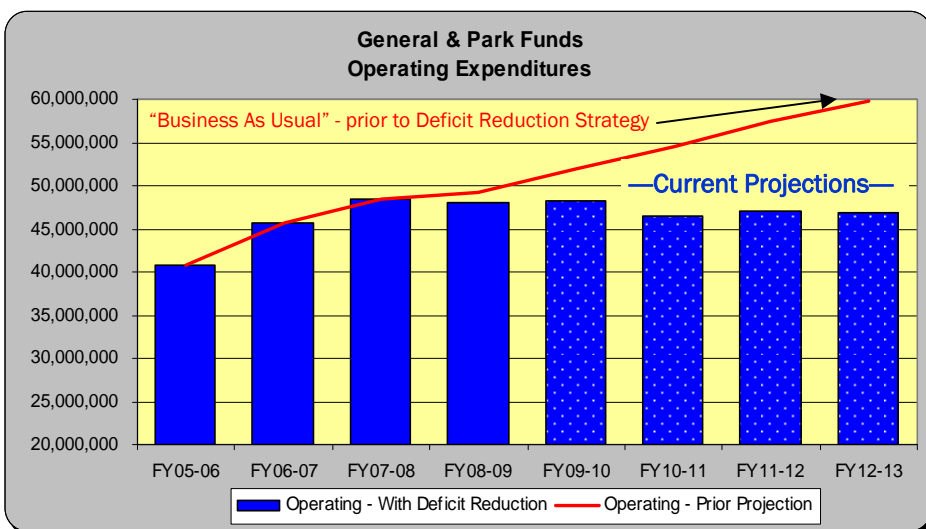
Chico Population.....87,713
(+1% over prior year)

General & Park Fund Expenditures

The charts below indicate that the General & Park Fund Operating Expenditures finished the year 2.7% below budget, for a savings of \$1.3 million. Most notably is the change in FY08-09 Salaries & Benefits of 0.5%, compared to the previous 5-year average of 9.8%. The change in this trend reflects a number of position reductions and reduced COLA/Merit increases offered in FY08-09. Non-Salary expenditure trends also show declines from the prior years, reflecting the successful implementation of the deficit reduction strategy. These expenditure reductions have helped the City absorb the economic downturn this past year, and have better positioned the City to withstand potential further declines in FY09-10 revenue.



Operating Trends . . . Before & After



As shown in the chart to the left, the implementation of the Deficit Reduction Strategy has drastically changed the level of expenditures in both the current and future fiscal years. By FY2012-13, expenditures are projected to be \$12.9 million lower than if the strategy had not been implemented last year. The decline in expenditures is due primarily to the reduction in employee positions, the re-negotiation of union contracts and lower non-salary spending.

Looking Forward...



With the combination of uncertain economic times coupled with State raids of local coffers, the financial future of the City is vulnerable to further declines in its revenue base and subject to additional budget reductions. To position the City so that it can withstand potential fiscal impacts, the Council has approved a Budget Contingency Plan that outlines a course of action that will balance the budget as well as preserve City services.

State Takes

In July, the State of California passed its annual budget for fiscal year 2009-10. To close its \$24 billion budget gap, the legislature passed a number of bills that adversely impact local government revenues. The impact to the City of Chico includes a mandatory loan of \$1.2 million in Property Taxes to the State. While this is substantial, fortunately, a financing mechanism may be available that will provide local agencies access to these funds in the current fiscal year, negating the impact.

The hit to Redevelopment funds is a substantial \$11.1 million over the next two years. These funds are used predominantly on capital projects. Therefore, a number of projects will be put on hold until further funding becomes available. Projects that may be impacted include the following:

- Fire Station #6
- SHR32 Widening
- East Ave. Median
- Airport Infrastructure
- Art Projects
- Neighborhood Improvement Projects
- Traffic Signals
- Economic Development Loan Program

The California Redevelopment Association is preparing to litigate this State-imposed take on a variety of constitutional grounds, however the project delays will be in effect until the outcome of this lawsuit is determined.

Economic Outlook

All eyes are on the economy now that the impacts from the State budget are known. Recent Sales Tax figures have indicated the recession may be deeper than originally thought.

Sales transactions occurring between January–March 2009 was 15.5% lower than the same period in 2008. Sales activity from April–June came in 18.6% lower than 2008, due in part to the abnormally high fuel prices experienced in 2008. As the year progresses, and more economic information becomes available, the City’s Contingency Plan will be utilized if necessary to balance the budget. The diagram below outlines the Contingency Plan, as it relates to the current economic crisis.

