



CITY OF SAN CARLOS

MEMORANDUM

DATE: March 5, 2010

TO: Mark Weiss, City Manager

FROM: Jeff Maltbie, Administrative Services Director

SUBJECT: FY 2010/2011 Financial Base Budget Overview.

BACKGROUND:

The City Council adopted the FY 2009-10 Budget on June 8, 2009. A mid-year review of the budget was presented to Council on February 22, 2010. During the past ten months, the City Council has made a number of necessary adjustments to the budget for revenue and expense issues that the City was unaware of at the time the budget was adopted.

The FY 2009-10 budget deficit was \$2.7 million. However, as part of last years' budget options, the City Council elected to use reserves combined with necessary reductions and adjustments, including the elimination of five full-time employees, to adopt a balanced budget. In addition, during the mid-year budget review the Council authorized the use of \$1.5 in one-time funding to address an additional budget shortfall related to declining revenue receipts resulting from the economic downturn.

In developing the base budget for FY 2010-11, a number of revenue and expenditure assumptions were made by City staff. All of these assumptions were based on the projections and economic conditions known to staff between January and February 2010 and reflect the adjustments approved by Council during the mid-year budget process.

Base Budget General Fund Revenue

General Fund Revenue Categories	FY 2010 Amended Mid-Year Revenues	FY 2011 Base Budget Revenues	\$ Change from FY 2010	% Change from FY 2010
Business Registration	603,900	616,000	12,100	2%
Charges for Current Services	2,406,900	2,305,900	(101,000)	-4%
Fines & Forfeitures	354,800	320,200	(34,600)	-10%
From Other Agencies	54,800	37,500	(17,300)	-32%
Licenses & Permits	750,600	765,600	15,000	2%
Other Revenues	329,400	305,800	(23,600)	-7%
Other Tax (Franchise Taxes)	1,324,300	1,256,000	(68,300)	-5%
Property Tax	8,310,000	8,190,000	(120,000)	-1%
ERAF Rebate	1,001,800	-	(1,001,800)	-100%
Sales Tax	4,620,000	4,530,800	(89,200)	-2%
Transient Occupancy Tax	625,000	650,000	25,000	4%
Other Uses of Money & Property	806,500	857,500	51,000	6%
PAMF Target Revenue	250,000	630,000	380,000	152%
Vehicle in Lieu	1,958,800	1,928,000	(30,800)	-2%
TOTAL REVENUES	\$ 23,396,800	\$ 22,393,300	\$ (1,003,500)	-4%

Revenue Assumptions:

- Projected total General Fund revenue of \$22,393,300, a decrease of 4% from the FY 2009-10 Amended mid-year budgeted revenue of \$23,396,800; General Fund revenues are down 10% since FY 2008;
- Projected Charges for Current Services decrease of \$101,000 or 4%. primarily based on the elimination of the Special Needs program effective June 30, 2010 that was approved by Council in December 2009;
- Projected Fines & Forfeitures decrease of \$34,600 or 10% due to continued declines in red light camera fines;
- Property Tax decrease of approximately \$120,000 or 1% based on the general assessment rolls and information provided by our 3rd party consultants;
- Projected Sales Tax Revenue decrease of approximately \$89,200 or 2% based on the economy;
- PAMF Target Revenues based on Development Agreement;

Base Budget General Fund Expenditures

General Fund Expense Categories	FY 2010 Amended Expenditures	FY 2011 Base Budget Expenditures	\$ Change from FY 2010	% Change from FY 2010
Salaries & Benefits	16,394,600	16,156,530	(238,070)	-1.5%
Operating Expenditures	5,902,580	5,735,100	(167,480)	-2.8%
Capital Outlay	94,200	92,600	(1,600)	-1.7%
Fire Services	6,300,000	6,615,000	315,000	5.0%
TOTAL EXPENDITURES	\$ 28,691,380	\$ 28,599,230	\$ (92,150)	-0.3%

Expenditure Assumptions:

- Projected total General Fund expenses of \$28,599,230 (roughly 0.3% under the FY 2009-10 budgeted expenses of \$28,691,380); General Fund Base Budget expenditures have grown by 6% since 2008; 100% of this growth is attributable to Public Safety cost increases;
- Salary and Benefit Projections have been funded at 100% including all current known MOU provisions;
- PERS retirement rate increases for Safety & Miscellaneous employees will remain stable in the next year (38% & 17.5% respectively);
- PERS Medical rates will continue to increase approximately 10% per year (the City's cap in all MOU's);
- Other Post Employment Benefits (OPEB) have been funded at 100% based on information received from the actuarial study completed in March 2009;
- Base operating expenses were increased by 1.5% with certain professional services increasing by 5% for known contract arrangements;
- Equipment Replacement has been fully funded;
- The Fire Department budget was increased 5% over FY 2009-10 budget.

Base Budget Revenue and Expenditure Assumption Summary:

The assumptions used to create a base FY 2010-11 budget result in a budget deficit of \$ 3,440,230.

LOOKING AHEAD TO FY 2012 & BEYOND:**Five-Year Revenue & Expenditure Forecast:**

There are two very different budget reduction strategies being presented to the City Council for consideration this year (contract services & Parking Meters approach vs. standard 20% reduction options). These two approaches have significantly different impacts on long range financial forecasts. As a result, we have attached two separate five year forecasts, one for each approach (Attachments D & E). Both models assume the City has made the necessary changes to balance the FY 2011 Budget and illustrate the long-term financial implications facing San Carlos over the coming years (FY 2012 – 2015).

The City employs two consulting firms that assist City staff in reviewing and preparing the revenue and expenditure data necessary to generate the forecast model. HdL monitors the City Sales Tax and Property Tax data and provides quarterly updates on sales tax revenue trends and projections. This consulting firm also provides bi-annual updates on property tax revenue trends and projections. The City also employs the RSG consulting firm which specializes in economic development strategies and fiscal forecasting. They not only provide valuable economic data specific to San Carlos but also insight into the general economic climate facing cities in the Bay Area and throughout the State. These two firms provide such services to many California cities.

The attached revenue and expenditure forecast models are based on the most current data available to the City and its consultants from the City's financial system, the State and the County. The model includes 5-year forecasting for all of the General Funds major revenue categories, salary and benefit projections, operating budget projections, General Fund transfers and General Fund balances. The models also footnote many of the key assumptions used to generate the models.

Additional Budget Threats:

There are a number of significant issues that will continue to threaten the City's budget and future financial sustainability. The following is a list of several key issues facing the City:

1. Expenditures continue to grow 2 – 3% faster than revenues;
2. Uncertainties with the CALPERS retirement investment assumptions which may drive our PERS rates 6-10% higher per year;
3. The economy continues to remain in recession;
4. Energy and healthcare costs continue to grow at super inflationary rates;
5. The State budget deficit, which is in the \$20 billion range, threatens to reduce City revenues by a minimum of \$200,000 per year in Cops Grant reductions and Proposition 172 sales tax reductions in the coming year. The potential threat to City revenue by the State remains very high.
6. AFSCME and Teamsters contracts will be renegotiated in FY 2010/2011;
7. Management and Confidential contracts will be renegotiated in FY2010/2011;