



GRASS VALLEY CITY COUNCIL
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Daniel C. Holler, City Administrator

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A CENTENNIAL CITY

To: Mayor Lisa Swarthout
Members of the City Council

From: Daniel C. Holler, City Administrator

Date: June 23, 2008 – Council Budget Hearing

RE: FY09-10 Budget Development

Overview

This report provides an overview and update on the development of the proposed budget for the City and Redevelopment Agency. The budget represents departmental requests as adjusted, an overview of the development of the FY09-10 Budget and recommendations for completing the budget process. The administrative preliminary budget has appropriations of \$28,584,850, and new revenues projected at \$22,368,362. This includes City appropriations of \$24,052,405 and Redevelopment Agency appropriations of \$4,532,445. The final budget will be adjusted to reflect further reductions and cost shifts.

The difference between appropriations and new revenues represents mostly planned use of reserves. The one exception is in the City's General Fund, which going into the Administrative Budget had a projected deficit of \$1,102,044. Additional operational costs have been made reducing the deficit to \$981,402. Staff has continued to review alternatives to balance the General Fund and recommended options are presented below.

City operations include a number of funds with restricted revenue sources and associated restrictions on spending, (i.e. Fire Assessment, Development Services, Water, Sewer and Redevelopment Funds). Following is a discussion on the major funds and related budget for FY09-10.

General Fund - FY09-10 Budget

The City's General Fund is the most difficult to balance, both financially and by level of service. It is the largest fund for the City and represents funding for the majority of our services. To start the budget process Department Heads were requested to prepare a basic "rollover" budget keeping in place a majority of the reductions that were imposed as part of the current year budget balancing process. This resulted in a budget request slightly lower than the amended FY08-09 budget. The personnel budget was reset with the removal of furloughs and the funding of one vacant position in Public Works. The remaining unfunded positions were held unfunded. This provided management with a solid base budget from which to work.

The administrative budget has net revenues of \$9,936,151 (includes transfers) and net expenditures of \$10,917,553. This leaves a budget deficit of \$981,402. This budget deficit already includes a reduction of almost \$450,000 in various expenditures by the departments. The most significant was the elimination of a portion of the City's recreation program (\$135,015) and not funding the vacant position of Finance Director and Maintenance Assistant (\$176,560). Staff has initiated a second step in budget reductions totaling \$120,642. Implementation of these reductions brings the deficit to \$981,402.

Budget actions to date has resulted in service level reductions, cost shifts, deferred purchases, a change in how we provide services, and a reduction in personnel levels. A mix of similar actions were taken to address the budget challenge this past year. Through the negotiation process management and employees has initiated discussions on a number of options to address the deficit projection. A number of steps are being taken. Departments are reviewing a number of positions that may be reduced in hours, transferred to other funding sources or eliminated.

Revenues

Total revenues for the General fund are budgeted at \$9,936,151. This does not include the projected beginning fund balance/reserves. This represents a decline in revenues from the adopted FY08-09 budget of 14.5% or \$1.7 million. The City has little control over the majority of the revenues in the General Fund. Property taxes are fixed by Prop 13. Change in the sales tax rate requires voter approval. In lieu sales tax and motor vehicle license fees are set by state law (result of previous state budget problems). Fees and Charges are set to recover costs. The revenue side of the budget may still change pending the outcome of the State budget and whether or not local revenues will be diverted to the State. The following discusses each major revenue source.

Sales Tax: The single largest revenue source for the General Fund is sales tax, representing 42% of the revenue base. There are three components: 1) general sales tax; 2) Prop 172 sales tax; and 3) In Lieu Sales Tax. The third category was established through a shift in revenues at the state level and represents a replacement of sales tax revenue with property taxes. A portion of this third category may be "borrowed" by the State (\$100,000+/-). The State borrowing of these funds has been incorporated into the current budget projections as a reduction in property tax revenues. The net budget for sales tax is projected at \$5,075,000. Sales tax revenues from annexed areas are also shared with Nevada County. The County share is currently estimated at \$875,000, leaving total net sales tax revenue for the City of \$4,200,000. Of the 8.375% sales tax levied in Grass Valley an amount equal to 1% comes back to the City and a portion of that is shared with Nevada County.

Property Tax: The second largest revenue source is property taxes at \$2,186,300. This represents approximately 22% of the revenue base. The initial property tax projections included a 3.5% increase in the Secured and Unsecured property related taxes. Supplemental taxes will see a significant drop. The current projections were reduced by

\$400,000 to reflect the potential “borrowing” from the State. The maximum that can be borrowed is 8% of the prior year’s property tax. Property tax revenues are shared with other taxing entities. In Nevada County property taxes from each dollar collected are allocated approximately* as follows:

School Districts	57%
Special Districts	19%
Nevada County	14%
Incorporated Cities	10%

*Data is at least one year old.

Vehicle In-Lieu License Fee: The next single largest source of revenue comes from the Motor Vehicle In-Lieu License Fee (VLF). Revenues are estimated at \$1,185,125. As this is a revenue source that represents the replacement of past VLF revenue with property tax it is part of the calculation in the State’s proposal to borrow funds. A reduction due to the potential “borrowed” property tax by the State (\$100,000+/-) is reflected in the reduction in property tax revenues.

Other Taxes: Tax revenues from (TOT) Transient Occupancy Tax (\$600,000); Business Licenses (201,100) and Franchise Fees (\$300,000) represent the next largest block of revenues. TOT revenues are uncertain and may drop below the current estimate, which is \$33,000 less than the FY07-08 actual.

Fees and Charges: Revenues from permit fees and charges or other revenue total \$508,629. Fees are reviewed each year and updated as part of the City’s fee schedule. Fees are generally increased by CPI or other appropriate indexes. Charges to other funds total \$526,260. There were no increases in the charges to other funds. Historically this has increased based on CPI, but with a flat CPI rate (.3%) no adjustments were recommended.

Other: Miscellaneous revenues total \$56,580. Interest income is projected at \$50,000. Transfers are included in this category.

The total operating revenues are \$9,813,994, and with a transfer in of \$122,157 from other funds, General Fund revenues equal \$9,936,151.

The status of the General Fund revenue projection is as follows:

Sales Tax	\$4,200,000	42.3%
Property Tax	2,186,300	22.0%
VLF	1,185,125	11.9%
Misc. Taxes	1,101,100	11.1%
Fees and Charges	1,034,889	10.4%
<u>Other</u>	<u>228,737</u>	0.02%
Total	\$9,936,151	

Expenditures

Total appropriations for the General Fund are \$10,917,553. This does not include the projected ending fund balance/reserves. Personnel expense represents the majority of the expenses for the General Fund. The City has been operating with a soft hiring freeze in place and there are a number of vacant, unfunded positions.

As a service providing organization the most significant cost is our employees, which accounts for approximately 76% of expenditures. The total number of employees has declined significantly over the past few years dropping from 133.28 in FY06-07 to a preliminary number of 111.40 for FY09-10. This represents a 16.4% drop in total City personnel. Pending final budget actions personnel for FY09-10 may be further reduced.

Department	Adopted FY06-07	Adopted FY07-8	Adopted FY08-9	Preliminary FY09-10
City Administration*	2.50	2.50	2.50	2.50
Community Development	10.50	10.00	7.94	8.00
Engineering	6.23	7.00	6.00	6.00
Public Works	26.95	26.95	20.67	19.00
Water and Wastewater	15.00	15.00	15.00	14.00
Finance	7.00	7.00	6.45	6.00
Fire	16.20	16.20	14.80	13.70
Police	43.90	43.65	40.00	37.70
Animal Control	3.00	3.00	2.00	2.00
Human Resources	2.00	2.00	1.97	2.00
Total	133.28	132.30	117.34	111.40

*Includes City Administrator, City Clerk & City Attorney. Count does not include City Councilmembers.

Council is aware of the financial challenge within the General fund and recognizes the impact that a reduction in staff will have on service levels. There will be additional impacts to service levels will result from the reduction in staff and the shifting of staff from one area of responsibility to another. However, as we work to balance the General Fund budget these impacts can not be avoided. A substantial amount of work has been done, with great cooperation across departments.

Budget Balancing Recommendations

To balance the remaining \$980,902 deficit in the General Fund staff is recommending a number of actions. First, with the recent announcement from our health insurance provider that we will see only minimal rate increases a saving will be realized. An initial estimate is \$50,000, with the final number dependent on health plan choices made by employees. The new rates are effective January 1, 2010. Second, we are reviewing a potential modification in our facility debt service payment that may save \$28,000.

The third area includes changes in staffing levels and includes 4 levels of action. First, is the elimination of two to three positions and/or not filling pending vacancies. The savings is projected at \$210,000 to \$225,000 for the General Fund. Second, funding for part-time

positions is proposed to be reduced by \$31,000. Third, staff is proposing 2 to 3 positions for a reduction in hours, for an estimated savings of \$40,000. Fourth, the reallocation of a portion of 3-4 positions to other funds will result in General Fund savings of \$30,000. Total savings are estimated at \$310,000 to \$350,000. The above actions will result in a minimum of \$390,000 in cost reductions in the City's General Fund.

As noted above the City is currently in negotiations with the employees. While this process is not complete, a reduction in cost is anticipated. The final amount is still undetermined, but should account for the majority, if not all of the remaining deficit. In conjunction with the final personnel savings the General Fund is anticipated to be balanced.

While there are still some unknowns, including the final impacts from the State budget process, it is recommended that the administrative tentative budget be approved. A budget amendment will be brought forward upon the conclusion of negotiations to implement the final budget adjustments.

Fire Assessment Fund

The Fire Assessment Fund receives revenues from the Special Emergency medical and Fire Response Tax as levied per the 1997 voter approved assessment. No change in the assessment is recommended this year. The fund and special assessment was designed to fund 3 firefighter positions. This is no longer the case as the increases in the assessments (based on CPI) no longer provide enough revenue. The City's General Fund provides for all of the operational costs and historically provided an additional operating subsidy. The transition with FY08-09 is to budget and charge personnel costs at a level less than the projected revenues, which for FY09-10 equates to approximately 2.75 positions. Due to the timing of tax collections and payments, the fund will still receive a cash flow subsidy from the General Fund. The Fund is slowly building its own reserve to eliminate future subsidies.

The estimated revenue from the tax assessment for FY09-11 is estimated at \$230,000. The personnel cost for the three firefighter positions, plus tax collection assessment is projected to be \$206,801. The fund is balanced, with a slight surplus projected as part of the strategy to build the reserve to meet cash flow requirements.

Redevelopment Agency

The Redevelopment Agency (RDA) is broken into two major functional areas: 1) housing and 2) construction. This follows the historic use and required use of RDA funds. The housing side receives 20% of the funding. The RDA housing efforts are leveraged with CDBG / HOME and other funding sources to the City in providing assistance in creating low to moderate income housing opportunities. The current budget reflects the historical work effort in this area. The Housing set aside revenues for the RDA equal 371,875, with a projected ending fund balance of \$344,965. The housing budget totals \$542,981, with \$300,000 committed to the Springhill Garden Apartments' loan. There are still opportunities to leverage remaining funds for expanded affordable housing in the City.

This year the RDA will continue to move towards being used in a more proactive approach in securing projects and new investment. The RDA has great potential to help reinvestment in a number of core areas within the Agency's area. To achieve this more staff time and support costs have been allocated to the Agency. The current project/administrative budget's projected revenue is \$1,487,500. The projected ending fund balance is \$464,741. Administrative costs and debt service/pass through expense is \$214,892 and \$858,372. Debt service is higher this year due to last year's \$5 million bond issue. The project related budget is \$2,705,072.

Projects include the following:

- Feasibility analysis for RDA to expansion
- Work with The Center for the Arts
- Downtown Streetscape program implementation
- Sidewalk improvements
- Intersection evaluation (S. Auburn at Hwy 49)
- Roundabout Center Piece
- East Main Street widening
- Richardson Street Park
- E. Main / Scandling Way Improvements
- Property Purchase
- Property Improvements
- Facility Improvements

A number of the projects noted above are smaller pay as you go projects and it is anticipated that these will continue. There are also a number of smaller one-time actions that the RDA may take to improve the area. Projects funded by the Agency's \$5 million in capital bond proceeds will be tracked separately. This includes property purchases, parking improvements and park/open space improvements. The majority of the bond proceeds are anticipated to be targeted for public-private projects that result in additional investment in the community. The number of potential opportunities will require a larger commitment of staff time and potential consultant support, which is reflected in the proposed budget.

Development Services Fund

The Development Services Fund is designed to track revenues and expenses related to development activities. Similar to the Fire Assessment Fund, this fund is in transition to be self funding. The fund no longer includes costs that have no associated fee which has made balancing of the fund impossible in past years. This year the activity in the fund is based on fee supported activity only.

The Fund accounts for the operations of the Building Division and Fire Plan Review Division (revenues and expenditures) and for the processing of Planning and Engineering Departmental applications that are tied to a specific financial deposit (i.e. EIRs). The Fund has tentative revenues of \$600,950 and operating expenses of \$543,130, with a projected ending fund balance of \$217,733. The fund balance allows for cash flow needs.

Enterprise Funds (Water and Sewer)

The City's Water and Wastewater budgets are accounted for in separate funds as enterprise (business type) operations. These two areas also represent a significant portion of the City's overall budget. Both funds are seeing fiscal impacts from the slow down in the economy. The initial focus on these two funds is operations. Each fund also has a capital construction and impact fee fund.

Water

The Water operation has projected operating revenues of \$1,837,200 and \$1 million in loan proceeds. The final loan amount will depend on the level of work that is completed and expenses incurred by June 30, 2009. Expenditures total \$2,554,531. Expenditures include a transfer out to construction of \$1,055,000. The current capital project includes a carryover of expenditures related to the current construction project.

The current year operating revenues are projected to come in below budget and overall projections have dropped below projections developed as part of the revenue study completed in 2007. This is reflective of the slow economy. However, on an operational basis the budget is balanced with a slight positive ending fund balance.

Staff has requested State funding through the Federal Stimulus package to convert the current loan to a grant. This action combined with current work program and operating budget may allow the planned increase to be deferred for 6 to 12 months. Staff is requesting Council direction regarding the planned rate increase with three options.

- 1) Implement the rate increase as planned;
- 2) Defer the final decision until October to review first quarter revenues and determine if grant funding request is successful; or
- 3) Provide direction at this time to defer the rate increase for 6 to 12 months.

Staff's recommendation is option 2.

Wastewater (Sewer)

The Sewer operation has projected revenues of \$4,255,000, and has transferred in of \$543,697. Expenditures total \$4,321,678. This includes \$1,159,660 in debt service. User fees are projected to come in below budget this year, resulting in a lowering of revenue estimates lower than last year's budget estimates.

Due to other savings and cost reduction actions taken by the Department, overall the Sewer Fund is in better financial position than previously projected. The most significant challenge is the timing of State payments on loans and grants for capital projects. The delay in payments may place a strain on fund reserves.

The settlement of the Newmont Litigation will have a positive impact on the Sewer Fund. A portion of the capital project reserves has been replaced and a portion of the operating costs will be recovered. The sewer fund has a small operating positive cash flow that overtime will improve the financial position of this fund.

However, revenue projections do include a 6.3% rate increase. The same options outlined above for the water fund may be considered or the sewer fund. The one difference being the status of State payments, should these be delayed the rate increase will be necessary.

Capital Projects Fund

The Capital Projects Fund is used to account for a variety of capital projects throughout the City. Funding is mostly derived from operating transfers from other funds. Some direct grant funding or reimbursement funds are accounted for directly in the Fund. Projects totaling \$3,855,304 are identified. A portion of these will most likely not be completed due to staff limitations, additional funding needs and timing of projects that extend over a couple of fiscal years. The major projects for the FY09-10 include the following:

- 1) East Main Street Widening;
- 2) Sidewalk improvement program;
- 3) Street Rehabilitation and Slurry Seal projects;
- 4) Fire Station #1 Remodel;
- 5) Storm Drainage Master Plan; and
- 6) 2008 Flood Damage Repair project.

A number of smaller projects and completion of plans for future projects will be undertaken.

Other Funds

The Tentative Budget includes a number of other funds. This includes a number of smaller special revenue funds (i.e. gas tax, landscape and lighting districts); grant funds (i.e. CDBG); and various Trust and Agency Funds. There have not been any major changes to these funds.

The Department Heads and a number of their key staff, especially those in the Finance Department have contributed heavily in the preparation of the preliminary budget and the preparation of this information.