BACKGROUND

In July 2010, the Council and the Agency Board adopted a two-year budget covering FY 11 and the current fiscal year (FY 12). The budget was modified in August 2011 to reflect updated revenue and expenditure assumptions for the final year of the two-year cycle. We are now at the mid-point of the second year. The purpose of this report is to provide an update to the City Council regarding expenditures and revenues for all of the major funds. More importantly, this mid-year report will offer the Council the opportunity to review recommendations for dealing with a growing deficit in the General Fund. Additionally, this report will be used to outline a strategy and recommended actions focused on eliminating a structural deficit that now appears evident in the next fiscal year (FY 13).

DISCUSSION

General Fund

Overview FY 12

In June 2010, the FY 10 budget was closed out with an achieved surplus of $376,123. This surplus was used in FY 11 as carryover to avoid the use of additional reserves. In June 2011, the Council and staff were dealing with a projected ($800,000) deficit for FY 12. As the Council is aware, several actions were successfully taken to mitigate the deficit. These steps included:

- Achieving employee concessions estimated at $310,000
- Reducing the contribution to the street program $120,000
- Conversion of the employee health coverage to CalPERS ($80,000)

At the time, the General Fund budget was modified in June and reflected total revenues of $6,787,973 and expenditures of $7,250,512. The remaining deficit was to be mitigated with the use of $200,000 in reserves and with continued controlled expenditure reduction.

During the first six months of the fiscal year, the City has been unable to make any progress in overcoming the existing deficit and it has in fact grown. It is estimated that, unless changes are implemented, the deficit in the General Fund could be greater than ($500,000) by the end of the fiscal year. The inability to make progress on the deficit is the cumulative result from several factors:

APPROVED FOR FORWARDING

ROBERT PERRAULT
CITY MANAGER

Please Review for the Possibility of a Potential Conflict of Interest:

☑ None Identified by Staff ☐ Bright
☐ Shoals ☐ Molnar
☐ Nicolls ☐ Peterson

Meeting Date: March 19, 2012

Agenda Item No. 7
Revenues in general remain flat. (Please see Attachment #1 depicting major revenue line items.) Staff is estimating minor improvements in some revenue line items as follows:

- Property tax secured is expected to increase slightly from $2,771,839 to $2,829,965 for an increase of $58,000. Sales tax is also expected to increase slightly.
- The general sales tax is expected to increase from $711,000 to $730,000, but remains far below the pre-recession level of approximately $850,000 annually.
- Sales tax revenues resulting from the .05% adjustment are also expected to increase from $491,716 to $526,000 for an increase of $34,284.
- Transient Occupancy Taxes are expected to meet budget estimates at $225,000.

The major factor impacting the revenue side of the budget is the inability to sell City property in a timely fashion. Although staff is proceeding per Council direction to place 920 Brighton Avenue on the market, it is unlikely the sale will occur this year, which will result in a reduction of ($250,000) in planned revenue.

Overall the General Fund will experience expenditures of $63,000 less than budgeted, but these savings are not sufficient to offset the deficit. The reduced expenditures are not particular to any single line item and are spread throughout the budget. As the Council is aware, the Improvement Agency ceased to exist as of February 1st. As a result, staff costs formally associated with the Agency will be reallocated to primarily the General Fund and will increase personnel costs by approximately $40,000 for the remainder of the year. Other expenditure items that are of note:

- **Utilities Electricity** is expected to be slightly higher by approximately $1,400. Energy usage is down across the board, but the cost per kilowatt hour (Kwh) used is up.
- **Utilities Water** is also showing an amount of $21,500 largely due to the dry year. The increase in water is the result of keeping the parks and medians green. In order to mitigate the problem, staff has recently reviewed the irrigation schedule of parks and medians throughout the City and trimmed the amounts of watering where feasible.
- **Conversion to the CalPERS Health Plan** was projected to save the General Fund an estimated $80,000, but the actual savings in the General Fund is closer to $50,000.

A complete listing of both year-to-date (through December 31, 2011) expenditures and revenues by line item is available in the City Manager’s Office.

There are steps the City Council could direct be taken to offset a portion of the deficit for the remainder of the year. Internal meetings with the Management team are being held on a weekly basis to deal with the deficit. At present, every purchase over $150 is being scrutinized to ensure the purchase is budgeted and necessary. Additionally, the following recommendations are offered for the remainder of this fiscal year (through June 30, 2012):

- **Counter Consolidation** – Please see accompanying staff report. Counter consolidation will reduce the number of public counters in City Hall from four to one. It is expected that, through a reallocation of staff, the General Fund could realize a savings of $20,000 in the current fiscal year.
• Park Maintenance Reduction – The contract with the City’s landscape maintenance contractor has expired and services are being provided to the City on a month-to-month basis. The landscape maintenance contractor maintains all of the City’s large park facilities. The City could reduce park maintenance in City parks (with the exception of Ramona Garden Park) at a projected savings of $2,000 to $3,000 per month or a total of between $6,000 and $9,000.

• Skate Park – The City could close the Skate Park on weekends for the remainder of the fiscal year (though stay open for Spring Break). Expected savings would be $3,000 to $4,000 total.

• Street Sweeping – The contract with the current firm has expired and the City is proceeding on a month-to-month basis. Frequency of street sweeping could be reduced to achieve savings of up to $3,000 a month for a total savings of approximately $9,000.

General Fund Outlook for FY 13

As a part of this mid-year report, staff is providing an outlook for FY 13 and a recommended strategy for dealing with a projected structural deficit that could exceed ($800,000). Looking back at FY 10, the General Fund revenues were at $7,636,691 and have decreased to an estimated $6,758,000 in FY 12 for a decrease of slightly more than 12%.

The good news is that, in staff’s opinion, we are at the bottom of the trough; however, in the coming years, General Fund revenues are expected to remain relatively flat. Property tax, which comprises nearly 50% of the General Fund revenues at slightly more than $3,000,000, is not expected to increase in FY 13. Sales tax will see a very slight increase in FY 13 in the neighborhood of 2% to 3% overall. As noted, total revenues for the year are projected at $6,758,544. This revenue level is expected to grow slowly in the coming years as the local real estate market improves.

During the last two-year budget cycle, expenditures in the General Fund have been between $7.2 million and $7.4 million. Complicating the financial picture in FY 13 is the dissolution of the Redevelopment Agency which could add ($150,000). Additionally, staff is recommending that the Community Development Fund be dissolved and expenditures transferred to the General Fund adding an additional ($250,000) to the General Fund.

Proposed Strategy Framework for FY 13

In approaching the strategy for FY 13, staff is recommending the development of a framework with the goal of adopting and implementing a budget that will curtail the City’s expenditures consistent with anticipated revenues of $6.7 million. Taking this approach will be difficult, but in its accomplishment the City will overcome a critical structural deficit and, more importantly, avoid the use of reserve funds. This proposed framework recognizes the need to maintain the critical municipal services of public safety, public works, basic building and planning, recreation, and administrative services.

The following is the proposed strategy framework:
• **Complete Consolidation of City Hall Services** – Staff anticipates the Council will authorize the implementation of the front counter consolidation this fiscal year. It is likely that the consolidation will present new opportunities to improve efficiencies within City Hall during the new fiscal year. This consolidation may include a number of organizational efficiencies, such as establishing public counter hours, reduced hours that City Hall is open to the public, and the possible variation in public meeting schedules for a savings of $20,000 - $30,000.

• **Reduction in Force** – Current staffing for the City of Grover Beach is 55 full-time and 10 part-time staff members. It is unlikely that the City will be able to achieve the goal of reaching a $6.7 million dollar expenditure level without a reduction in personnel. Staff estimates that this reduction may impact four to six full-time and part-time employees. The first step will be to complete a survey of eligible employees who might be interested in making use of the retirement incentive programs the City has in place. Once a list of potential retirees is identified, a list of remaining full-time employees will be identified for lay-off purposes. The goal would be to achieve between $350,000 and $400,000 in savings. Staff will return to the Council with final recommendations regarding the elimination of positions and restructuring recommendations. The City will need to meet and confer with labor representatives regarding the impacts that may result from a reduction in force. Every effort will be made to provide personnel with early notification regarding pending layoffs. Estimated savings at $350,000 - $450,000.

• **Continuation of Employee Concessions** – Staff is recommending that the City seek the continuation of existing concessions from all employee groups. The continuation of concessions is expected to save the General Fund approximately $250,000.

• **Reduction in Fire Service Costs** – Staff is recommending that the Council authorize proceeding with discussions with the Fire Authority regarding reduction in the City’s contribution to the Authority. Currently this contribution amounts to $1.2 million. Staff is recommending a reduction of $100,000 to $150,000.

• **Continue to Evaluate the Benefits of Law Enforcement Consolidation** – Staff is recommending that the City continue discussions with the City of Arroyo Grande and evaluate this and all other alternatives for consolidation that may be practical and cost-efficient for a reduction of $75,000 to $150,000.

• **Charter City Concept** – Staff recommends the City pursue the concept of becoming a Charter City and the potential benefits/disadvantages this conversion might bring. Potential savings are unknown at this time, but would be organization-wide.

• **Business Tax Certificate** – Staff recommends the City continue to pursue the placement of an item on a future ballot to revise the current Business Tax Certificate Program. Estimated revenue of $40,000 to $50,000.

• **Establishment of an Hotelier Business Improvement District** – Similar to the County’s Tourism Improvement District, this could provide a source of funding for continued participation in the San Luis Obispo County’s Visitors & Conference Bureau and Economic Vitality Corporation. Estimated revenue of $44,000.

Staff is recommending the Council endorse the recommended strategy outlined above for approaching the FY 13 Budget.
Status Report on Remaining Funds:

Wastewater Enterprise Funds

The Wastewater Fund is expected to receive revenues as budgeted. The expenditures are expected to be slightly higher due to costs associated with the South San Luis Obispo County Sanitation District pass-through payment. These payments are expected to be $60,000 higher than budgeted. Overall revenues in this fund are expected to exceed expenditures by $190,000 in this fiscal year.

Water Enterprise Fund

The Water Fund as adopted has revenues of $2,825,661 and expenditures of $3,051,847, for a projected deficit of ($196,186). As the Council is aware, staff is recommending a 10% adjustment in the rates effective April 1, 2012. Should the rate adjustment be authorized, staff is anticipating that an additional $100,000 would be received in this fiscal year. An additional $100,000 will assist in covering the existing deficit and place the enterprise on the path to re-establishing necessary reserves in FY 13.

Storm Water Fund

At the present time, there is no revenue source for the Storm Water Fund. Current expenditures for the Storm Water Fund are budgeted at $53,470. This amount is expected to increase to approximately $150,000 in FY 13. In the past, this fund has received loans to operate from both the General Fund and Wastewater Fund. Staff is recommending the establishment of a Storm Water Fee in the amount of $4.55 per month per utility customer. Funds received from this fee will be used to cover operational costs and prior loans.

Building and Planning Fund

During the FY 12 budget process, staff anticipated a deficit in the Building and Planning Fund of approximately ($283,000). After reviewing year-to-date revenues and expenditures, staff is projecting this deficit will grow to approximate ($310,000). With the limited amount of development occurring in this community and the demonstrated inability of the fund to cover costs, staff will be recommending this fund be folded back into the General Fund.

Improvement Agency

As the Council is aware, the Improvement Agency was dissolved by state law effective February 1, 2012. The dissolution of the Agency has eliminated revenues of approximately $1,000,000 per year that had been available to this organization. These funds had been used to carry out a number of projects focused on improving the economic well-being of the City. The City Council has identified the City as the Successor Agency for the Improvement Agency. Staff is now involved in supporting the activities to wind down the programs of the Improvement Agency as outlined in state law.

Special Event Fund

The Special event Funds was established as a means of tracking revenues and expenditures associated with Special Events managed largely by the Parks and Recreation Department. The intent was to emphasize opportunities as it relates to cost recovery of these events. The cost recovery is improving through the efforts of Department Staff and the Parks and Recreation Commission. Although cost recovery is improving the accumulated deficit in this fund is
approximately $33,000. At the next Council meeting staff will be requesting the Council authorize a transfer in the amount of $33,000 to cover this deficit.

**ALTERNATIVES**

The City Council has the following alternatives to consider:

1. The Council could authorize staff to carry out the recommendations for mitigating the FY 12 budget deficit and endorse the framework strategy for developing the FY 13 budget;

2. The Council could determine not to authorize staff to carry out the recommendations for mitigating the FY 12 budget deficit or endorse the Framework Strategy for developing the FY 13 budget; or

3. Provide staff with additional direction.

**RECOMMENDED ACTION**

It is recommended that the City Council authorize staff to carry out the recommendations for mitigating the FY 12 budget deficit and endorse the framework strategy for developing the FY 13 Budget.

**FISCAL IMPACT**

The mid-year report identifies a growing deficit in the General Fund for FY 12 and a structural deficit that could exceed $800,000 in FY 13. Implementing the recommended measures will assist in mitigating the deficit in the current budget year and will eliminate the deficit in FY 13.

**PUBLIC NOTIFICATION**

The agenda was posted in accordance with the Brown Act.

**Attachment**

1. General Fund Revenue Line Items.

(Note: A complete listing of both year-to-date (through 12-31-11) expenditures and revenues by line item is available in the City Manager’s Office.)