Agenda

Bell City Council/Bell Community Housing Authority/Successor Agency to the Bell Community Redevelopment Agency/ and the Surplus Property Authority

Special Meeting

Wednesday, February 22, 2012
6:00 P.M.

Bell Community Center
6250 Pine Avenue

Ali Saleh
Mayor

Danny Harber
Vice Mayor

Violeta Alvarez
Council Member

Ana Maria Quintana
Council Member

Nestor E. Valencia
Council Member

Welcome to the City Council Meeting

The Bell City Council and staff welcome you. This is your City Government. Individual participation is a basic part of American Democracy and all Bell residents are encouraged to attend meetings of the City Council. Regular City Council meetings are held the First and Third Wednesday of the month at 7:00 p.m., Bell Community Center, 6250 Pine Avenue. For more information, you may call City Hall during regular business hours 8:00 a.m. to 4:00 p.m., Monday through Friday at (323) 588-6211 Extension 217.

City Council Organization

There are five City Council members, one of whom serves as Mayor and is the presiding officer of the City Council. These are your elected representatives who act as a Board of Directors for the City of Bell. City Council members are like you, concerned residents of the community who provide guidance in the operation of your City.

Addressing the City Council

If you wish to speak to the City Council on any item which is listed or not listed on the City Council Agenda, please complete a *Request to Speak Card* available in the back of the City Council Chambers. Please submit the completed card to the City Clerk prior to the meeting.

The Mayor will call you to the microphone at the appropriate time if you have filled out a *Request to Speak Card*. At that time, please approach the podium, clearly state your name and address, and proceed to make your comments.

Compliance with Americans with Disabilities Act

The City of Bell, in complying with the Americans with Disabilities Act (ADA), request individuals who require special accommodation(s) to access, attend, and or participate in a City meeting due to disability. Please contact the City Clerk's Office, (323) 588-6211, Ext. 217, at least one business day prior to the scheduled meeting to insure that we may assist you.

Statement Regarding Compensation for Members of the Bell City Council

Compensation for the members of the Bell City Council is $673 a month. In accordance with Government Code Section 54952.3, Council Members will not receive any additional compensation or stipend for the convening of the following regular meetings of the Bell Community Redevelopment Agency, the Bell Community Housing Authority, the Bell Public Finance Authority, the Bell Surplus Property Authority, the Bell Solid Waste Authority and the Planning Commission.

Special Meeting of

Bell City Council/Successor Agency to the Bell Community Redevelopment Agency/Bell Community Housing Authority/Surplus Property Authority

February 22, 2012
6:00 P.M.

Bell Community Center
6250 Pine Avenue

Call to Order

Pledge of Allegiance to the Flag.

Roll Call of the City Council in their capacities as Councilmembers, Members of the Successor Agency to the Bell Community Redevelopment Agency, Community Housing Authority Commissioners, and, Surplus Property Members: Alvarez, Quintana, Valencia, Harber, Saleh

Communications from the Public on Agenda Items

This is the time for members of the public to address the City Council and related Authorities and Agencies only on items that are listed on the Agenda

Agenda

1. **2011/12 Mid-year Budget Review** 1-13

   Recommendation: That the City Council perform the Annual 2011/12 Mid-year Budget Review and adopt Resolution No. 2012-28

   RESOLUTION NO. 2012-28 - A Resolution of the City Council of the City of Bell, California, Approving the Amendments to the Budget Recommended in the 2011-12 Mid-year Budget Review

2. **General Fund Five Year Fiscal Forecast** 14-47

   Recommendation: Review and discuss the results of the recently prepared General Fund five-year fiscal forecast.

3. **Budget Policies** 48-58

   Recommendation: Conceptually approve the Proposed Budget Policies in guiding preparation of the preliminary budget, with final adoption in June 2012 in conjunction with approval of the 2012-13 Budget.

Adjournment

Next Regular Meeting, Wednesday, March 7, 2012.

I, Patricia Healy, CMC, Interim City Clerk of the City of Bell, certify that a true, accurate copy of the foregoing agenda was posted on February 17, 2012 Twenty-four hours prior to the meeting as required by law.

Patricia Healy, CMC Interim City Clerk

Item 1.

2011/12 Mid-year Budget Review

City of Bell
Agenda Report

DATE: February 22, 2012

TO: Honorable Mayor and City Council

FROM: Anita Lawrence, Co-Interim Finance Director

APPROVED BY: _____
Arne Croce, Interim Chief Administrative Officer

SUBJECT: 2011/2012 Midyear Budget Review

RECOMMENDED ACTION:

That the City Council perform the annual 2011/12 Midyear Budget Review and adopt the resolution approving the amendments recommended.

BACKGROUND:

On August 24, 2011, the City Council approved Resolution 2011-37 adopting the 2011/2012 Budget for the City of Bell. It is now the time of year when a thorough review of the budget is performed to measure how revenue and expenditures are tracking with the budget after 50% of the year has passed. As a result of this review, the staff recommends the Council approve amendments to the current year's budget. The Midyear Review is done with the cooperation and assistance of all departments in the City. Overall, very few changes are being recommended. The direction given to the departments was to limit their requests to those of significance. They were also requested to take into consideration that some line items in their divisions may be over and others under, but if the bottom line would be sufficient to cover their costs for the balance of the fiscal year, they should not request an adjustment. A similar approach was taken with revenues, for the most part. If revenues in a fund overall seemed to be tracking okay, no adjustments were requested. This methodology helps us focus on the bigger picture rather than getting too concerned about smaller amounts.

A budget is a dynamic document based on estimates. These estimates experience many changes throughout the year depending on many conditions, including but not limited to changes in the economy, change in the direction of the City, State actions impacting the budget, unforeseen events, and staffing changes. The budget represents the best fund balance, revenue and expenditure estimates available at the time. It is important to keep in mind that the available fund balances reflected in this report are based on audited 2008/09 financials. The balance estimates for 2010/11 have been updated to reflect what has been posted to the General Ledger for that fiscal year. In the budget adopted in August, most of the 2010/11 totals are still based on estimates. Additionally, any post-closing entries made by the auditors for fiscal years 2009/10 or 2010/11 may affect the balances moving forward. Furthermore, staff is currently analyzing the transfers for 2010/11 to make sure those that should have been made, were made. Another comprehensive evaluation of the 2011/12 budget will be performed during the 2012/13 budget development process. During that time, it is likely that audited numbers for 2009/10 and possibly 2010/11 will be available. For this midyear report, nearly all salary and

benefit accounts were maintained as initially budgeted. As the 2012/13 budget recommendations are developed, the 2011/12 budget will be further refined, including the salary and benefit accounts.

It was also recognized, by beginning an analysis of Capital Projects, that further work in this area may be warranted. The City Council may expect another staff report in the future where a detailed discussion of Capital Projects will occur, if needed.

The Bell Redevelopment Agency 2011/12 Midyear Review has been incorporated into this report.

RECOMMENDED AMENDMENTS:

Following is a summary of the recommended amendments to the budget. These are described in more detail in the balance of this memo and in the attached Table 1, Recommended Amendments schedule.

REVENUES/TRANSFERS

- General Fund - Reduce revenue & transfers by $2,732,470 to establish new G.O. Debt Service Fund
- G.O. Debt Fund – Increase revenue & transfers by $2,732,470 to establish new G.O. Debt Service Fund.

EXPENDITURES

- General Fund City Clerk – Increase by $37,250 to cover costs of interim employee.
- General Fund Legal Services – Increase by $200,000 to cover extraordinary legal costs.
- General Fund Non-Departmental – Reduce Debt Service by $2,732,470 to move costs to new G.O. Debt Service Fund.
- General Fund Police Services – Increase by $187,250 to fund approved position.
- G.O. Debt Service Fund – Increase by $2,732,470 to establish new fund.
- Surplus Property Fund – Increase by $40,000 to update telephone system.
- CRA Administration – Increase by $150,000 to cover 2011/12 cost of dismantling redevelopment
- Proposition A Fund – Increase by $24,840 to cover personnel costs associated with Dial-A-Ride and other Proposition A-funded projects.
- COPS Grant Fund – Increase by $302,394 for Police technology costs.
- JAG Grant Fund – Increase by $34,130 for police-related supplies.
- BCHA Administration – Increase by $120,580 to cover legal fees.

ANALYSIS:

The City of Bell 2011/12 Midyear Review consists of the following attached schedules:

TABLE 1 - Recommended Amendments
TABLE 2 - Projected Fund Balance – All Funds
TABLE 3 - Revenues by Category (including transfers in/out) – All Funds
TABLE 4 - Expenditures by Category – All Funds

The **Recommended Amendments** schedule is an account by account description of the changes that are recommended at midyear. The schedule includes a justification for the request based on input from departments. Most amendment requests are in expenditure accounts. The only amendments requested to revenue accounts are to establish a dedicated fund for the General Obligation Bonds, which will be discussed later in this report. The following table provides a summary of the recommended amendments by fund:

FY 2011-2012 Midyear Budget Review
Summary of Recommended Amendments

Fund	2011/12 Budget, as Amended	Requested Midyear Amendment	Recommended Midyear 2011/12 Budget
REVENUE/TRANSFERS			
General Fund	13,037,110	(2,732,470)	10,304,640
New Fund – G.O. Debt	-0-	2,732,470	2,732,470
All Other Funds	16,236,950	-0-	16,236,950
Total Revenue/Transfers	**29,274,060**	**-0-**	**29,274,060**
EXPENDITURES			
General Fund	12,849,170	(2,490,540)	10,390,850
New Fund – G.O. Debt	-0-	2,732,470	2,732,470
Surplus Property Fund	50,000	40,000	90,000
CRA Administration	-0-	150,000	150,000
Proposition A Fund	506,550	24,840	531,390
COPS Grant Fund	-0-	302,314	302,314
Justice Assist Grant Fund	-0-	34,130	34,130
BCHA Operating	1,042,350	90,000	1,132,350
All Other Funds	15,140,522	-0-	15,140,522
Total Expenditures	**29,598,592**	**944,514**	**30,514,106**

Only those funds where changes are recommended are being discussed. All other funds are tracking according to the approved budget. The recommended midyear budget amendments affect only the following funds:

01 – General Fund
New Fund – General Obligation Bonds
19 – Surplus Property Fund
20 – CRA (Redevelopment Administration) Fund
70 – Proposition A Fund
72 – COPS Grant Fund
74 – Justice Assistance Grant Fund
90 – Bell Community Housing Authority (BCHA)

A fund-by-fund discussion of the recommended amendments follows:

01 – General Fund

The General Fund is projected to end the 2011/12 fiscal year with $86,210 less than it started. This is a decline from the earlier estimate where a gain of almost $187,940 was anticipated. The primary reason for this $274,150 reduction in the balance is an increase in expenditures for Legal, City Clerk and Police, with legal being the most significant increase at $200,000. With

these changes, the undesignated fund balance in the General Fund on 6/30/2012 is estimated to be $1,254,978.

Considering the size of the budget for the General Fund, at over $10 million, the increase in expenditures is about 2.7%. These changes will result in an available balance of about 12% of expenditures. While it is not the 25% the City should be striving to attain, given the economy and the extraordinary expenses for the City of Bell during this year and the prior fiscal year, it's not surprising. Having said that, it should also be noted that the 2011/12 Budget includes 1) very little, if any, Capital Outlay in the General Fund, 2) there are no provisions to set aside any funds for future capital replacement needs, and 3) some of the key positions in the City have been left unfilled and unbudgeted. All of these issues will put a greater strain on the balances in the future if and when they are addressed.

The revenues in the General Fund are up in some cases and down in others, but overall seem to be about on target. Expenditures, except for the recommended adjustments, are expected to be approximately where budgeted.

It is also recommended that the Debt Service activities for the General Obligation Bonds be moved to a new Debt Service Fund. This is consistent with the recommendation of the City's auditors and is included as a midyear recommendation.

This new fund will separate the debt service activity for the General Obligation Bonds in their own dedicated fund. Once the Fund is approved by the City Council and set up, all activities related to the General Obligation Bond debt will be transferred into the fund. Because the debt has always been subsidized, we will start with an available fund balance of zero.

19 – Surplus Property Fund

It is recommended that $40,000 from the Surplus Property Fund be appropriated to purchase a new telephone system. The City's phone system is very old and in need of updating. Within the last few years, phones at the outlying locations have been updated and are compatible with the phone system at City Hall. The current phone system provider was contacted and provided an estimate to replace the phone system at City Hall with an updated version similar to and compatible with those in the outlying areas. The company indicated that the City would qualify for CMAS pricing (State of California) which would give the City a deep discount compared to the retail price. Typically, CMAS pricing precludes the need to go out to bid since the State has already taken steps to obtain pricing using its bid procedures and the City would merely "piggy-back" onto that pricing. It is estimated that the phone system upgrade will cost $80,000. There is already some budget in this fund that is not being used, so it is recommended that $40,000 of the existing $50,000 budget plus an additional $40,000 be budgeted to purchase the upgraded phone system before the end of the 2011/12 fiscal year. If approved, this will leave a fund balance of $662,064.

20 – Redevelopment Administration

This fund was anticipated to have a fund balance of $270,101. There is a need, however, to provide funding for the professional and legal services required to dismantle the Bell Redevelopment Agency, as mandated by recent actions of the State legislature. It is recommended that $150,000 be added as an appropriation to accomplish the task. If the

recommendation is approved, the Fund will complete the year with an estimated balance of $120,101.

70 – Proposition A Fund
In Fund 70, Proposition A, there is inadequate budget to cover the cost of implementing the Dial-A-Ride program and other Proposition A-related projects. It is recommended that an expenditure adjustment, in personnel services, be approved in the amount of $24,840. This adjustment, if approved, will reduce the projected available fund balance from an earlier estimate of $550,507 to $525,667.

72 – COPS Grant Fund
There are no expenditures budgeted in this fund, yet it is incurring costs, such as purchase of the crime reporting system. Since these funds are grant funds, often carrying a requirement to spend within a certain period of time, it is recommended that the entire fund balance of $302,394 be appropriated to make it available for spending on technology-related improvements for the Police Department. The Police Chief will bring a recommendation to the Council for the expenditure of these funds. Whatever remains unspent 6/30/12 will be carried over to 2012/13.

74 – Justice Assistance Grant Fund
This fund has a situation similar to the COPS Grant Fund in that it has no appropriation yet it is incurring costs for police-related supplies. It is also a fund that whose revenue source is grant funds. It is therefore recommended that an appropriation equal to the fund balance of $34,130 be approved in this fund to make it available for police-related expenditures. Whatever remains unspent 6/30/12 will be carried over to 2012/13.

90 – Bell Community Housing Authority (BCHA)
The legal expenses incurred by BCHA are up significantly from what is in the adopted budget, requiring an increase in the appropriation of $90,000. Prior to November 2010, the property management and administration of the City's mobile home parks were performed by a contracted property management firm. In the current fiscal year, these services are performed by in-house staff with the advice and counsel from the City Attorney. Additionally, in FY 2011-12, the Housing Authority staff was assigned the management of the 64 units of rental property. During the current fiscal year, the City Attorney's firm has been assisting staff in addressing the various issues involved in the operating of this enterprise. Specifically, during this year, the City Attorney's Office has initiated legal action against the tenants that are delinquent in the payment of rent, assisted in establishing appropriate policies and procedures for enforcing rent payments or evictions, and provided advice and assistance to staff by defining the legal issues on other nuisances or operating matters. As the approved budget for the Housing Authority is insufficient to cover the current and anticipated expenditures for legal fees, it is recommended that the appropriation for these services be adjusted to reflect an estimated expenditure of nearly $121,000 for the fiscal year leaving an estimated balance in the fund of $896,870. The staff is working with the City Attorney's Office to reduce legal expenses for BCHA.

The **Projected Fund Balance – All Funds** report, Table 2, includes a fund by fund view of where the City started when the budget was adopted in August and where it is expected to end up at 6/30/12. The latest fund balance audited numbers are from 6/30/2009. We used the 6/30/2009 balances to roll forward since the 6/30/2010 and 6/30/2011 audits are not yet complete.

To get to the available balances, we add revenue and subtract expenditures from the prior available balance. This should generally be the amount available for appropriation since it does not include fund balance amounts that are restricted for other purposes. The following table shows the projected 6/30/11 available balances compared to the projected 6/30/12 available balances and the change in balances.

FY 2011-2012 Midyear Budget Review
Projected Change in Available Balance 6/30/11 to 6/30/12

	General Fund	Other Funds	Total
Project Available 6/30/11	1,341,188	25,220,073	26,561,261
Recommended Revenue	10,304,640	18,969,420	29,2740,60
Recommended Expense	10,390,850	20,123,256	30,214,106
Projects Available 6/30/12	1,254,978	24,066,237	25,321,215
Change in Available Balance	(86,210)	(1,153,836)	(1,240,046)

The **Revenues by Category (including transfers in/out) – All Funds** schedule, Table 3, summarizes revenues by category. While overall revenue recorded as of 12/31/11 is only at about 30% of budgeted revenue, there is often a lag between the time that revenue is earned and the time it is received. Standardized accounting procedures require that we record revenue in the year it was earned as long as it is available for spending within 60 days of the close of the fiscal year, so the City will be recording 2011/12 revenue through the end of August 2012. For many of the larger revenue sources, a review was completed to compare where we were at this time last fiscal year to where we are this fiscal year. While some revenues were up and some were down, overall, they appear to be on track. As with the expenditure accounts, 2011/12 revenue will again be reviewed as the 2012/13 Budget is developed.

FY 2011-2012 Midyear Budget Review
Summary of Revenues - All Funds

	FY 2010-11 ACTUAL	FY 2011-12 BUDGET	ACTUAL AS OF 12/31/2011	FY 2011-12 AMENDED
General Fund	14,306,652	13,037,110	3,516,182	10,304,640
All Other Funds	16,265,610	16,236,950	5,323,389	18,969,420
Total All Funds	**30,572,262**	**29,274,060**	**8,839,571**	**29,274,060**

The **Expenditures by Category – All Funds** attachment, Table 4, shows all major expenditure categories within the city budget structure. Overall, expenditures are at 36% of the current budget. The following table provides a summary:

FY 2011-2012 Midyear Budget Review
Summary of Expenditures - All Funds

	FY 2010-11 ACTUAL	FY 2011-12 BUDGET	ACTUAL AT 12/31/2011	FY 2011-12 AMENDED
General Fund	18,314,576	12,849,170	6,175,754	10,390,850
All Other Funds	14,272,312	16,749,422	4,495,800	20,123,256
Total All Funds	**32,586,888**	**29,598,592**	**10,671,554**	**30,514,106**
Personnel Services	8,334,769	6,716,700	3,287,874	6,815,690
Retirement	2,265,393	2,367,090	902,062	2,367,090
Operations	13,444,675	9,395,360	3,784,704	9,829,490
Capital Outlay	1,249,184	3,469,592	403,291	3,851,986
Debt Service	7,292,867	7,649,850	2,293,623	7,649,850
Total All Funds	**32,586,888**	**29,598,592**	**10,671,554**	**30,514,106**

FISCAL IMPACT:
It is important to understand the bottom line impact of decisions that are made in regards to amending the budget. To accomplish that objective, the following table shows the impact of the Midyear Budget Recommendations on the Fund Balances for all funds:

FY 2011-12 Midyear Budget Review
Impact on Fund Balances

	Beginning Available 6/30/11 Balance	Recommended 2011/12 Budget As Adjusted At Midyear		Projected 6/30/2012 Balance
		Revenue & Transfers	Expenditures	
All Funds				
Current Budget	26,561,261	29,274,060	29,598,592	27,905,541
Recommended Amendments		-0-	915,514	(915,514)
Amended Budget	**26,561,261**	**29,274,060**	**30,514,106**	**25,321,215**

Attachments:

1. City of Bell Resolution
2. Table 1 - Recommended Amendments
3. Table 2 - Projected Fund Balance – All Funds
4. Table 3 - Revenues by Category (including transfers in/out) – All Funds
5. Table 4 - Expenditures by Category – All Funds

RESOLUTION NO. 2012 – 28

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELL, CALIFORNIA, APPROVING THE AMENDMENTS TO THE BUDGET RECOMMENDED IN THE 2011-12 MIDYEAR BUDGET REVIEW.

WHEREAS, the City Council Adopted the 2011/12 Budget on August 24, 2011; and

WHEREAS, on February 22, 2012, the Interim Chief Administrative Officer presented a 2011-12 Midyear Budget Analysis for City Council review and consideration

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF BELL, CALIFORNIA, DOES RESOLVE that the recommended changes to the 2011-12 Budget are approved as outlined in the 2011-12 Midyear Budget Review, Table 1 - Recommended Adjustments.

ADOPTED AND APPROVED this 22nd day of February 2012.

_____
Ali Saleh, Mayor

AYES:

NOES:

ABSENT:

ABSTAIN:

CERTIFICATE OF ATTESTATION AND ORIGINALITY

I, Patricia Healy, Interim City Clerk of the City of Bell, hereby attest to and certify that the foregoing resolution is the original resolution adopted by the Bell City Council at its regular meeting held on the 15th day of February 2012, by the following vote:

_____
Patricia Healy, Interim City Clerk

Attachment: Table 1 - 2011-12 Midyear Review Recommended Adjustments (2 pages)

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TABLE 1
City of Bell
FY 2011-2012 Midyear Budget Review
Recommended Adjustments

Fund/Division/Account	2011/12 Budget	As of 12/31/2011	Recommended 2011/12 Budget	Explanation/Justification
REVENUES				
01 - General Fund				
Debt Svc Assessment 01-421-30	2,100,000	10,828	0	All of the Adjustments in the Revenue Recommendations are associated with establishing a dedicated fund for tracking and recording the General Obligation Bonds. There are also related expenditure amendments in the General Fund and the new G.O. Debt Fund. Additionally, the transfer required to cover the debt service is less than originally thought when the budget was adopted. The new transfer amount is based on what is needed after receipt of the Assessment funds. The level of which was set in August 2011, on the same night the budget was adopted and is significantly more than was shown in the budget.
Transfer In (Out) 01-429-30	632,470	859,125	0	
New Fund - G.O. Debt				
Debt Svc Assessment Acct to be determined	0	0	2,100,000	
Transfer In Acct to be determined	0	0	632,470	
EXPENDITURES				
01 - General Fund				
City Clerk				
Regular Employees 01-521-0300-0110	15,100	4,818	53,500	With permanent employee on maternity leave, City has hired a temporary employee to assume City Clerk and other duties in the interim, increasing the cost of salaries and FICA.
FICA/Medicare 01-521-0300-0184	220	316	3,750	
Legal				With the level of activity being experienced in legal fees, it is unlikely that the current budget will be able to cover the fees for the fiscal year. Requesting an increase of $200,000.
Professional Services 01-521-0600-0235	800,000	462,324	1,000,000	
Non-Departmental				
Principal 01-521-0900-3005	365,000	0	0	Move Principal and Interest payments on the General Obligation Bonds to the new dedicated General Obligation Bond Fund.
Interest Payments 01-521-0900-3006	2,367,470	1,552,385	0	
Police Services - Records Bureau				
Regular Employees 01-523-2107-0110	128,990	72,642	146,000	When the bridge budget was done, funding for an approved office assistant position was not included. It was an oversite. The position for the entire year will cost about $40,000 plus benefits. Due to cost savings year-to-date, we will not be over by the entire amount. Further, FICA was under-budgeted in this division overall.
Health Insurance 01-523-2107-0182	22,960	9,299	29,000	
FICA/Medicare 01-523-2107-0184	3,080	7,183	12,250	
New Fund - General Obligation Bonds				
Principal Acct to be determined	0	0	365,000	Move Principal and Interest payments on the General Obligation Bonds from the General Fund.
Interest Payments Acct to be determined	0	0	2,367,470	
19 - Surplus Property Fund				The City's telephone system is in need of updating. The current company provided this estimate, which is based on a bidding process through the State of California. It includes a deep discount that the City would get and would keep the phones in outlying areas compatible with those at City Hall. This leaves $10,000 in professional services to start the process of replacing the City's financial software.
Professional Services 19-525-0100-0235	50,000	0	10,000	
Equipment 19-525-0100-0911	0	0	80,000	

TABLE 1
City of Bell
FY 2011-2012 Midyear Budget Review
Recommended Adjustments

Fund/Division/Account	2011/12 Budget	As of 12/31/2011	Recommended 2011/12 Budget	Explanation/Justification
20 - CRA Administration				
Administration				
Professional Services				
20-525-0100-0235	0	75,481	150,000	Costs to close down redevelopment were unanticipated.
70 - Proposition A Fund				
Administration				
Regular Employees				
70-521-0700-0110	0	458	3,000	Costs associated with preparing the Request for Proposal, analyzing the Bids received and awarding the Dial-A-Ride
Part Time/Temp Emp.				
70-521-0700-0120	0	3,120	20,000	Contract and costs associated with Department Director's oversight of the Dial-A-Ride program and other Proposition A
FICA/Medicare				
70-521-0700-0184	0	234	1,840	funded projects.
72 - COPS Grant Fund				
Technology				
Equipment				
72-523-2100-9011	0	16,372	302,394	These two Police-related grant funds receive their funding from other agencies. By appropriating the balances available, the City is able to fully expend these funds if the opportunity arises. Most of these grant funds have a deadline by which the funds need to be spent, so it is best to fully appropriate the funds each year to prevent losing them.
74 - Justice Assistance Grants				
Police Operations				
Special Dept Supplies				
74-523-2101-0320	0	862	34,130	
90 - BCHA				With the level of activity being experienced in legal fees, it is unlikely that the current budget will be able to cover the fees for the fiscal year. Requesting an increase of $90,000. Note that balances from other unused budget from other accounts will make up the difference of what is needed.
Administration				
Professional Services				
90-521-0100-0235	30,580	76,629	120,580	

TABLE 2
City of Bell
Projected Fund Balance - All Funds
FY 2011-2012 Midyear Budget Review

		Projected Available (Unassigned) Fund Balance 6/30/2011 **	Budgeted FY 2011-12			Recommended Amended Budget FY 2011-12			Budgeted Available (Unassigned) Fund Balance 6/30/2012
			Revenues	Expenditures	Rev vs. Exp	Revenues	Expenditures	Rev vs. Exp	
01	General	1,341,188	13,037,110	12,849,170	187,940	10,304,640	10,390,850	(86,210)	1,254,978
New	General Obligation Bonds	0	0	0	0	2,732,470	2,732,470	0	0
03	AQMD	166,869	45,100	3,400	41,700	45,100	3,400	41,700	208,569
04	Gas Tax	2,568,959	1,011,570	1,382,100	(370,530)	1,011,570	1,382,100	(370,530)	2,198,429
06	Retirement	(3,338,697)	2,371,090	2,371,090	0	2,371,090	2,371,090	0	(3,338,697)
08	Sanitation	1,298,626	1,523,710	1,218,220	305,490	1,523,710	1,218,220	305,490	1,604,116
09	Sewer	560,163	317,020	245,630	71,390	317,020	245,630	71,390	631,553
10	Recycling	436,123	437,670	224,500	213,170	437,670	224,500	213,170	649,293
14	Bikeway	(1,619)	18,730	0	18,730	18,730	0	18,730	17,111
17	Solid Waste & Recycle Auth.	0	0	0	0	0	0	0	0
18	Public Financing Authority	(4,234,406)	1,132,300	1,132,300	0	1,132,300	1,132,300	0	(4,234,406)
19	Surplus Property Authority	882,064	(130,000)	50,000	(180,000)	(130,000)	90,000	(220,000)	662,064
20	CRA Capital Projects	270,101	0	0	0	0	150,000	(150,000)	120,101
21	CRA Tax Increment	(2,490,679)	0	0	0	0	0	0	(2,490,679)
22	CRA Low & Mod Housing	4,987,049	0	0	0	0	0	0	4,987,049
23	CRA Debt Service	(2,329,037)	2,486,380	2,486,380	0	2,486,380	2,486,380	0	(2,329,037)
30	Comm. Develop.Block Grant	112	892,850	894,170	(1,320)	892,850	894,170	(1,320)	(1,208)
32	Grants Fund	25,396	754,000	754,000	0	754,000	754,000	0	25,396
45	Lighting & Landscaping	514,634	489,500	486,000	3,500	489,500	486,000	3,500	518,134
50	Capital Projects	21,076,928	(632,470)	57,482	(689,952)	(632,470)	57,482	(689,952)	20,386,976
55	Cable TV / JPA	38,539	0	0	0	0	0	0	38,539
67	Measure R	508,738	332,800	324,000	8,800	332,800	324,000	8,800	517,538
68	Proposition C	1,355,950	443,740	877,500	(433,760)	443,740	877,500	(433,760)	922,190
70	Proposition A	477,097	579,960	506,550	73,410	579,960	531,390	48,570	525,667
71	Asset Forfeiture	270,195	0	110,050	(110,050)	0	110,050	(110,050)	160,145
72	COPS	202,394	100,000	0	100,000	100,000	302,394	(202,394)	0
74	Justice Assistance Grant	34,130	0	0	0	0	34,130	(34,130)	0
85	Risk Management	71	1,285,000	1,285,000	0	1,285,000	1,285,000	0	71
90	BCHA Operating	549,920	1,479,300	1,042,350	436,950	1,479,300	1,132,350	346,950	896,870
91	BCHA Capital Projects	795,082	0	0	0	0	0	0	795,082
92	BCHA Debt Service	595,371	1,298,700	1,298,700	0	1,298,700	1,298,700	0	595,371
	Total	26,561,261	29,274,060	29,598,592	(324,532)	29,274,060	30,514,106	(1,240,046)	25,321,215

* General Fund balance reduced by "Taxes Receivable - Current" as that represents the amount that could be collected for prior years GO debt service payments
** Balances are adjusted to reflect updated 2009/10 & 2010/11 revenue and expenditure information that became available after adoption of the 2011/12 budget.

TABLE 3
City of Bell
Revenues by Category - All Funds
FY 2011-2012 Midyear Budget Review

	FY 2010-11	FY 2011-12		
GENERAL FUND	Actual	Budget	At 12/31	Projected
Property Taxes	2,064,949	2,707,030	1,016,832	607,030
Other Taxes	5,698,269	5,600,110	1,725,235	5,600,110
Licenses & Permits	470,796	482,840	139,209	482,840
Fines, Forfeitures & Pen	722,718	732,100	278,070	732,100
Money & Property Use	133,097	137,100	72,043	137,100
Revenue from other Agencies	3,082,468	3,011,400	160,524	3,011,400
Charge for Current Service	413,602	270,900	124,160	270,900
Parks & Recreation	257,024	248,840	110,872	248,840
Other Revenues	652,950	4,000	30,597	4,000
Transfers In/Out	810,779	(157,210)	(141,359)	(789,680)
Total GENERAL	14,306,652	13,037,110	3,516,182	10,304,640
NON-GENERAL FUNDS				
Property Taxes	9,910,697	8,153,430	2,194,721	10,253,430
Other Taxes	48,384	0	0	0
Money & Property Use	15,503	739,940	369,667	739,940
Revenue from other Agencies	3,309,856	4,343,370	1,103,691	4,343,370
Charge for Current Service	2,887,593	2,823,000	1,505,685	2,823,000
Other Revenues	904,356	20,000	8,266	20,000
Transfers In/Out	(810,779)	157,210	141,359	789,680
Total NON-GENERAL	16,265,610	16,236,950	5,323,389	18,969,420
ALL FUNDS				
Property Taxes	11,975,646	10,860,460	3,211,553	10,860,460
Other Taxes	5,746,653	5,600,110	1,725,235	5,600,110
Licenses & Permits	470,796	482,840	139,209	482,840
Fines, Forfeitures & Pen	722,718	732,100	278,070	732,100
Money & Property Use	148,600	877,040	441,710	877,040
Revenue from other Agencies	6,392,324	7,354,770	1,264,215	7,354,770
Charge for Current Service	3,301,195	3,093,900	1,629,845	3,093,900
Parks & Recreation	257,024	248,840	110,872	248,840
Other Revenues	1,557,306	24,000	38,863	24,000
Transfers In/Out	0	0	0	0
Total ALL FUNDS	30,572,262	29,274,060	8,839,572	29,274,060

TABLE 4
City of Bell
Summary of Expenditures by Category
FY 2011-2012 Midyear Budget Review

	FY 2010-11	Fiscal Year 2011-12		
	Actual	Budget	At 12/31	Projected
GENERAL FUND				
Personnel Services	7,665,219	6,228,500	3,119,338	6,302,650
Operations	7,911,488	3,888,200	1,502,017	4,088,200
Capital Outlay	0	0	2,014	0
Debt Service	2,737,869	2,732,470	1,552,385	0
	18,314,576	12,849,170	6,175,754	10,390,850
OTHER FUNDS				
Personnel Services	669,550	488,200	168,536	513,040
Retirement	2,265,393	2,367,090	902,062	2,367,090
Operations	5,533,187	5,507,160	2,282,687	5,741,290
Capital Outlay	1,249,184	3,469,592	401,277	3,851,986
Debt Service	4,554,998	4,917,380	741,238	7,649,850
	14,272,312	16,749,422	4,495,800	20,123,256
ALL FUNDS				
Personnel Services	8,334,769	6,716,700	3,287,874	6,815,690
Retirement	2,265,393	2,367,090	902,062	2,367,090
Operations	13,444,675	9,395,360	3,784,704	9,829,490
Capital Outlay	1,249,184	3,469,592	403,291	3,851,986
Debt Service	7,292,867	7,649,850	2,293,623	7,649,850
	32,586,888	29,598,592	10,671,554	30,514,106

Item 2.

General Fund Five Year Forecast

Council Agenda Report

February 22, 2012

TO: City Council

FROM: Arne Croce, Interim City Administrative Officer

SUBJECT: GENERAL FUND FIVE YEAR FISCAL FORECAST

RECOMMENDATION

Review and discuss the results of the recently prepared General Fund five-year fiscal forecast.

DISCUSSION

Background

Like virtually all other local governments in California, the City of Bell has been faced with major fiscal challenges over the past several years in the wake of the worst recession since the Great Depression. On top of this, the City is experiencing other deep fiscal challenges due to its own unique circumstances.

Just as the City's current financial situation developed over several years, emerging from this condition is likely to take several years as well. For this reason, the budget process for 2012-13 approved by the Council on November 9, 2011 included the preparation of a five-year fiscal forecast for the General Fund, which allows the City to take a longer look at its fiscal outlook.

Stated simply, making good resource decisions for 2012-13 requires taking into account their impact on the City's fiscal condition down the road. Developing good solutions requires knowing the size of the problem we are trying to solve: in short, the City cannot fix a problem it hasn't defined. And in this economic and fiscal environment, looking only one year ahead is almost certain to misstate the size and nature of the fiscal challenges ahead of us.

For those cities that have prepared longer-term forecasts and follow-on financial plans, this did not magically make their fiscal problems disappear: they still had tough decisions to make. However, it allowed them to better assess their longer term outlook, more closely define the size and duration of the fiscal challenges facing them, and then make better decisions accordingly for both the short and long run. We believe that this will be true for the City of Bell as well.

Forecast Purpose

The purpose of the forecast is to identify the General Fund's ability over the next five years – on an "order of magnitude" basis – to continue current service levels in light of the worst recession since the Great Depression as well as the City's unique fiscal circumstances. The forecast does

this by projecting ongoing revenues and subtracting from them costs to maintain current service levels. If positive, the balance remaining is available to fund "new initiatives" or service restorations; if negative, it shows the likely "forecast gap" if all the City does is continue current service levels, which have already been significantly reduced over the past several years.

It is important to stress that this forecast is not the budget. It doesn't make expenditure decisions; it doesn't make revenue decisions. As noted above, its sole purpose is to provide an "order of magnitude" feel for the General Fund's ability to continue current service levels. Stated simply, it does not set funding priorities: that is the purpose of the budget. However, by identifying and analyzing key factors affecting the City's long-term fiscal heath, the forecast frames the challenges facing the City in balancing the budget in the longer term and helps assess how difficult making these priority decisions will be.

Summary of Forecast Findings

Challenging Fiscal Outlook. The forecast shows that the City's General Fund is facing significant fiscal challenges next fiscal year. Without corrective action, the "forecast gap" facing the City's General Fund in 2012-13 is $1.8 million.

Tough Outlook, But Some Positives. While the forecast results present a challenging fiscal outlook next fiscal year, there are some positives:

- Key revenues appear to have hit bottom and on the road to recovery, albeit modestly.
- The City begins with a structurally balanced budget in 2011-12 and $1.5 million in reserves. (While this is less than the recommended minimum of 25% of operating expenditures, the City is nonetheless fortunate to have some reserves to fall back on if needed.)
- While there is a significant "forecast gap" next fiscal year, it improves in the "out-years." This means that means that by closing the gap in the coming year, the City is likely to achieve structural balance in future years.
- The City has a Council and staff that are deeply committed to a responsible and transparent process that meaningfully engages the community and results in a balanced budget.

Key Forecast Drivers

Assumptions drive the forecast results, which are detailed on pages 13 to 15 of the forecast. The key drivers behind the forecast results include:

Revenues. The forecast generally assumes key revenues have hit bottom, with modest recovery projected over the next five years.

Expenditures. There are five key expenditure assumptions reflected in the forecast:

1. As revised in the Mid-Year Budget Review, the 2011-12 Budget is the "baseline" for the forecast. From this, no increases in staffing costs are assumed resulting from across-the-

board compensation increases or "step" salary increases. Non-staffing costs are assumed to increase by inflation (projected at 2% annually), with selected adjustments as discussed below.

2. Staffing costs are adjusted from the mid-year budget "baseline" as follows:

   - Eight of the nine vacant regular positions in 2012-13 Budget are assumed to be filled in meeting current service levels (and in the case of the senior management positions, providing essential leadership, management and oversight to the organization): City Manager, Police Chief, Community Development Director, Community Services Director, Community Services Senior Management Analyst, Community Services Technician, Deputy City Engineer and Accounting Manager.

   - No funding is provided for the General Services Director: this position has been eliminated as part of the recent reorganization.

3. Non-staffing costs are adjusted from the baseline as follows:

   - Audit costs are reduced from $300,000 in 2011-12 (reflects two-years of fees) to $80,000 in 2012-13, based on the current multi-year audit agreement; and to $60,000 annually thereafter.

   - Projected legal costs are $1,000,000 in 2012-13. The forecast assumes that similar costs will be incurred next fiscal year. However, as the City's litigation issues are resolved, the forecast lowers these costs in the next two fiscal years (2013-15) by $200,000 (to $800,000 annually); and by another $200,000 (to $600,000 annually) in the last two years of the forecast (2015-17).

   - Transition support costs are reduced from $350,000 in 2011-12 to $200,000 in 2012-13 and thereafter (reflecting a modest 2% contingency).

   - Council member election costs are added in the amount of $40,000 in 2012-13 and every other year thereafter.

4. A modest replacement reserve to maintain or replace existing facility components (such as roofs, heating and air conditioning systems), vehicles, technology systems and other equipment at 5% of General Fund revenues. As discussed previously with the Council, while eliminating funding for this can serve as a short-term budget-balancing solution, as it has in the current fiscal year, in the long run it will compromise the City's ability to maintain current services.

5. No General Fund contribution for major infrastructure maintenance such as streets or community improvement projects.

Forecast Gap vs Budget Deficit

This forecast does not project a "budget deficit." The projected "forecast gap" is not the same as a "budget deficit." The City will have a budget deficit only if it does nothing to take corrective action. However, by looking ahead and making the tough choices necessary *"today"* to close projected *future* gaps, the City will avoid incurring real deficits.

Forecast Organization and Contents

The forecast is organized into four major sections:

1. ***Introduction.*** This section presents the forecast findings, general fiscal outlook, forecast framework and conclusions.

2. ***Key Assumptions.*** As noted above, assumptions drive the forecast: stated simply, changing the assumptions will change the results. This section details key forecast assumptions,

3. ***Forecast Summary.*** Revenue and expenditure detail underlying each of the forecast are presented in this section, including actual results for the three prior completed fiscal years and estimated results for the current year.

4. ***Historical Trends.*** The past doesn't determine the future. However, if the future won't look like the past, we need to ask ourselves: why not? How will the future be different than the past, and how will that affect the City's fiscal outlook? Accordingly, one of the first steps in preparing the forecast was to take a detailed look at long-term trends for key demographic, economic and fiscal factors, which are provided in this section.

CONCLUSION

The forecast shows that the General Fund is facing a serious "forecast gap" in 2012-13 of $1.8 million, based on continuing already very lean service levels. Placed in perspective, this about 15% of projected operating expenditures next fiscal year. This gap will only grow larger if new initiatives are added to it or the General Fund is asked to subsidize the general obligation bond, assessment district or pension obligation funds.

On the other hand, the gap improves in the out-years. This means that by closing the gap in the coming year, the City is likely to achieve structural balance in future years.

The Challenge Ahead

Very few options are available to the City in closing this gap and adopting a balanced budget that responds to Council goal-setting. In retaining the City's ability to respond to further fiscal difficulties that may lie ahead, use of the City's limited reserves is not recommended. In fact, as shown in the forecast, without corrective action the City would use all of its reserves by the end of next year – plus an additional $575,000. And given the City's recent past experience, any significant new revenues are not a viable budget-balancing approach any time soon.

At this point, unless the Bell economy performs much better than projected, significantly reducing the City's expenditures is the only budget-balancing option available to the City. And there are only four ways of doing this:

- Further reducing service levels and related costs. Given that 60% of General Fund expenditures are for staffing, this means further staffing reductions.

- Cutting back on CIP expenditures. As noted above, while possible in the short-term, it is not sustainable in the long-run.

- Finding alternative service delivery methods that will retain service levels but reduce costs.

- Reducing compensation levels. For example, with General Fund staffing costs of about $7.5 million, each 1% reduction in compensation generates $75,000 in savings.

In summary, balancing the City's budget for the long term requires meaningful expenditure reductions through either lower employee costs or even further reductions in day-to-day services (or some combination of the two).

Next Steps

Along with considering approaches in responding to the Major City Goals set by the Council in January, staff will present recommended strategies in closing the gap identified in this forecast at the "Strategic Budget Direction" workshop scheduled for March 31, 2012.

ATTACHMENT

General Fund Five-Year Fiscal Forecast

City of Bell

General Fund
Five Year Fiscal Forecast: 2012-17

February 2012

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Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

General Fund Five Year Fiscal Forecast: 2012-17

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OVERVIEW

Background

The preparation of this forecast has its roots in the budget and goal-setting process for 2012-13 approved by the Council on November 9, 2011. As noted at that time, like virtually all other local governments in California, the City of Bell has been faced with major fiscal challenges over the past several years in the wake of the worst recession since the Great Depression. On top of this, the City has experienced other deep fiscal challenges due to its own unique circumstances.

Just as the City's current financial situation developed over several years, emerging from this condition is likely to take several years as well. For this reason, the Council approved taking a longer look at its fiscal outlook as part of the 2012-13 Budget process by preparing a five-year fiscal forecast for the General Fund.

The reasoning behind this is straightforward: making good resource decisions for 2012-13 requires taking into account their impact on the City's fiscal condition down the road. Developing good solutions requires knowing the size of the problem: in short, the City cannot fix a problem it hasn't defined. And in this economic and fiscal environment, looking only one year ahead is almost certain to misstate the size and nature of the fiscal challenges ahead of the City.

For those cities that have prepared longer-term forecasts and follow-on financial plans, this did not magically make their fiscal problems disappear: they still had tough decisions to make. However, it allowed them to better assess their longer term outlook, more closely define the size and duration of the fiscal challenges facing them, and then make better decisions accordingly for both the short and long run. This will be true for the City of Bell as well.

In December 2011, the City contracted with William C. Statler to prepare the five-year fiscal forecast for the General Fund as part of the 2012-13 Budget process. (An overview of consultant qualifications is provided in the Appendix.)

Forecast Purpose and Approach

The purpose of the forecast is to identify the General Fund's ability over the next five years – on an "order of magnitude" basis – to continue current services in light of the worst recession since the Great Depression and the reversal of inappropriate revenues and overly-aggressive enforcement policies.

The forecast does this by projecting ongoing revenues and subtracting from them likely operating and capital costs in continuing current service levels. If positive, the balance remaining is available to fund "new initiatives" or service restorations; if negative, it shows the likely "forecast gap" if all the City does is continue current service levels, which have already been significantly reduced over the past several years.

It is important to stress that this forecast is not the budget.

It doesn't make expenditure decisions; it doesn't make revenue decisions. As noted above, its sole purpose is to provide an "order of magnitude" feel for the General Fund's ability to continue current service levels, which have already been significantly reduced over the past years.

Ultimately, this forecast cannot answer the question: "Can Bell afford new initiatives or restore service cuts?" This is a basic question of priorities, not of financial capacity per se. However, making trade-offs is what the budget process is all about: determining the highest priority uses of the City's limited resources. And by identifying and analyzing key factors affecting the City's long-term fiscal heath, the forecast can help assess how difficult making these priority decisions will be.

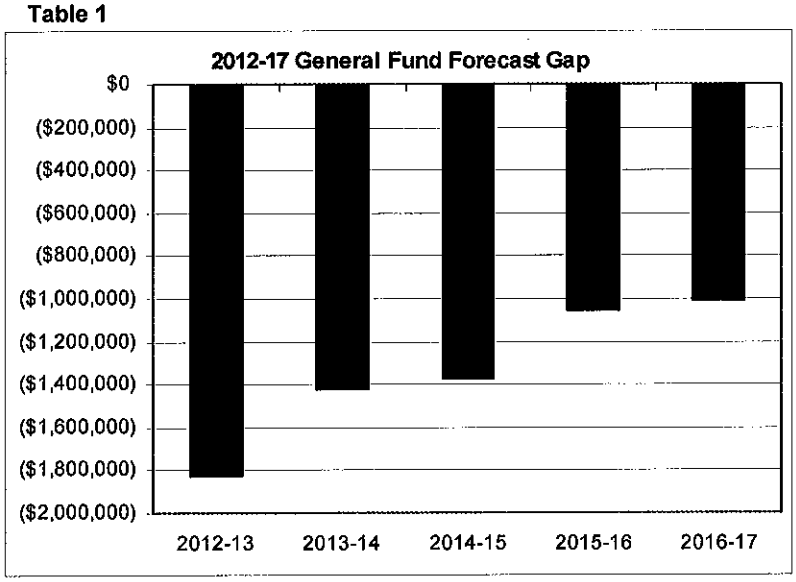
Stated simply, the forecast is not the budget. Rather, it sets forth the challenges ahead of the City in taking the corrective action needed to adopt a balanced budget.

SUMMARY OF FORECAST FINDINGS

Challenging Fiscal Outlook

The City's General Fund is facing significant challenges over the next five years – and especially next fiscal year. ***As shown in Table 1, without corrective action, the City is facing an annual gap of about $1.8 million in 2012-13.*** While the forecast shows the gap improving in the out-years, this is based on four key expenditure assumptions:

Table 1



- No increases in staffing costs, which account for about 60% of total General Fund expenditures.
- Reduced service levels continue. However, the forecast assumes funding for eight of the unfilled positions authorized in the 2011-12 Budget. (No funding is included for the General Services Director, as this position has been eliminated as part the recent reorganization.)
- A modest replacement reserve to maintain or replace existing facility components (such as roofs, heating and air conditioning systems), vehicles, technology systems and other equipment at 5% of General Fund revenues. As discussed previously with the Council, while eliminating funding for this can serve as a short-term budget-

balancing solution, as it has in the current fiscal year, in the long run it will compromise the City's ability to maintain current services.

- No General Fund contribution for major infrastructure maintenance such as streets or community improvement projects.

Key assumptions are discussed in greater detail below. Although the out-years show improvement, significant gaps remain throughout the forecast period; and this worsens by making only modest changes in these assumptions. And the fact is that while the City's fiscal situation may improve in the future, the City must close the $1.8 million gap facing it next fiscal year. Lastly, the projected $1.8 million gap in 2012-13 will only grow larger if new initiatives are added to it or the General Fund is asked to subsidize the general obligation bond, assessment district or pension obligation funds.

Key Forecast Drivers

Assumptions drive the forecast results, which are detailed on pages 13 to 15. Stated simply, if the assumptions change, the results will change. The key drivers underlying the forecast results include:

Revenues. The forecast generally assumes key revenues have hit bottom, with modest recovery projected over the next five years.

Expenditures. There are four key expenditure assumptions reflected in the forecast:

1. As revised in the Mid-Year Budget Review, the 2011-12 Budget is the "baseline" for the forecast. From this, no increases in staffing costs are assumed resulting from across-the-board compensation increases or "step" salary increases. Non-staffing costs are assumed to increase by inflation (projected at 2% annually), with selected adjustments as discussed below.

2. Staffing costs are adjusted from the mid-year budget "baseline" as follows:

    - Eight of the nine vacant regular positions in 2012-13 Budget are assumed to be filled in meeting current service levels (and in the case of the senior management positions, providing essential leadership, management and oversight to the organization): City Manager, Police Chief, Community Development Director, Community Services Director, Community Services Senior Management Analyst, Community Services Technician, Maintenance Manager (formerly Deputy City Engineer) and Accounting Manager. The added annual cost for these positions, including salaries and benefits, is $1.2 million.

    - No funding is provided for the General Services Director: this position has been eliminated as part of the recent reorganization. Deleting this position saves an estimated $203,000 annually.

3. Non-staffing costs are adjusted from the baseline as follows:

   - Audit costs are reduced from $300,000 in 2011-12 (reflects two-years of fees) to $80,000 in 2012-13, based on the current multi-year audit agreement; and to $60,000 annually thereafter.

   - Projected legal costs are $1,000,000 in 2012-13. The forecast assumes that similar costs will be incurred next fiscal year. However, as the City's litigation issues are resolved, the forecast lowers these costs in the next two fiscal years (2013-15) by $200,000 (to $800,000 annually); and by another $200,000 (to $600,000 annually) in the last two years of the forecast (2015-17).

   - Transition support costs are reduced from $350,000 in 2011-12 to $200,000 in 2012-13 and thereafter (reflecting a modest 2% contingency).

   - Council member election costs are added in the amount of $40,000 in 2012-13 and every other year thereafter.

4. As noted above, funding is included for a modest replacement reserve to maintain or replace existing facility components, vehicles, technology systems and other equipment at 5% of General Fund revenues.

Forecast Gap vs Budget Deficit

This forecast does not project a "budget deficit." The projected "forecast gap" is not the same as a "budget deficit." The City will have a budget deficit only if it does nothing to take corrective action. However, by looking ahead and making the tough choices necessary *"today"* to close projected *future* gaps, the City will avoid incurring real deficits.

GENERAL FISCAL OUTLOOK

The Short Story

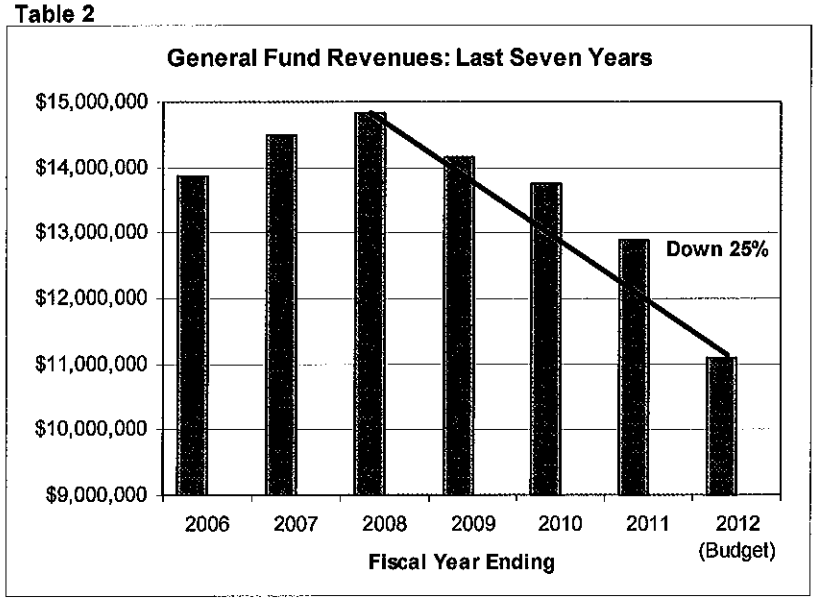
The nation and the State are recovering slowly from the worst recession since the Great Depression. Bell is not immune to these economic forces. For example, as shown in Table 2 below, following two years of growth in overall General Fund revenues, these dropped have dropped by 25% since 2008.

Economic Overview

Positives

- The economy is no longer in recession: Gross Domestic Product (GDP) has been growing since June 2009 (albeit tepidly).
- Productivity is up.
- Corporate earnings are up. In fact, they are at record highs nationally.
- Private sector lay-offs are ending: the public sector now leads in lay-offs.
- The banking system is healthier.
- Interest rates continue to be low by historic standards.
- Housing is more affordable (both purchase prices and interest rates).

Table 2



Negatives

- Consumer spending is tepid at best.
- New construction is not rebounding.
- Access to credit is tougher.
- Housing prices continue to be depressed (which is why housing is more affordable).
- Job creation is weak – which is why it still feels like a recession.

These factors lead to projections for key revenues that reflect recovery, but at very slow rates compared with past recessions.

BASIC FORECAST FRAMEWORK

Background

There are two basic approaches that can be used in preparing and presenting forecasts: developing one forecast based on one set of assumptions about what is believed to be the most likely outcome; or preparing various "scenarios" based on a combination of possible assumptions for revenues, expenditures and State budget actions. This forecast uses the "one set of assumptions" approach as being the most useful for policy-making purposes. However, the financial model used in preparing this forecast can easily accommodate a broad range of "what if" scenarios.

Demographic and Financial Trends

The past doesn't determine the future. However, if the future won't look like the past, we need to ask ourselves: why not? How will the future be different than the past, and how will that affect the City's fiscal outlook? Accordingly, one of the first steps in preparing the forecast was to take a detailed look at key demographic, economic and fiscal trends over the past seven to ten years.

A summary of key indicators is provided in the Trends section of this report beginning on page 18. Areas of particular focus included:

- ***Demographic and Economic Trends.*** Population, housing and inflation as measured by changes in the consumer price index (CPI).

- ***Revenues Trends.*** Focused on the City's top five General Fund revenues – utility users tax, property tax/vehicle license fee (VLF) swap (both are driven by changes in assessed valuation), sales tax, fines/forfeitures and franchise fees – which together account for about 90% of total General Fund revenues.

- ***Expenditure Trends.*** Overall trends in expenditures and police protection costs (which account for about half of total General Fund expenditures).

Summary of Key Forecast Assumptions

As noted above, assumptions drive the forecast results. Sources used in developing forecast projections include:

- Long and short-term trends in key City revenues and expenditures.

- Economic trends as reported in the national media.

- Statewide and regional economic forecasts prepared by the University of California, Los Angeles, University of California, Santa Barbara, California Lutheran University, California Economic Forecast and Beacon Economics.

- Economic and fiscal information developed by the State Legislative Analyst, State Department of Finance and State Controller.

- Fiscal and legislative analysis by the League of California Cities.

- Outcome of Proposition 22.

- Analysis by the City's sales and property tax advisor (Hinderliter de Llamas).

- Five-year employer contribution rate projections prepared by CalPERS.

Ultimately, the forecast projections reflect our best judgment about the State budget process and the performance of the local economy during the next five years, and

how these will affect General Fund revenues and expenditures. A detailed discussion of the assumptions used in the forecast begins on page 13. The following summarizes key forecast factors:

State Budget Actions

The forecast assumes no restoration of past cuts to cities (but based largely on Proposition 22 safeguards, no further cuts, either). And while the phase-out of redevelopment agencies effective February 1, 2012 does not directly affect the General Fund (for example, there are no support service transfers from the City's redevelopment agency in 2011-12), it is likely to have an indirect adverse fiscal impact on the City by eliminating a key source of funding for economic development efforts and related capital improvement projects.

Economic Outlook: Recovery But at Very Modest Levels.

The revenue forecast generally assumes very modest growth in the General Fund's revenue sources, which are directly tied to the performance of the local economy.

Operating Expenditures

As noted above, one of the key factors underlying the expenditure projections includes using the adopted 2011-12 Bridge Budget, as revised at the Mid-Year Budget Review, as the "baseline" for the forecast; and from this, assuming no increases in staffing costs due to across-the-board compensation increases or "step" salary increases. Since staffing costs account for about 60% of total expenditures, holding this cost constant for five years is a significant assumption. On the other hand, given the City's fiscal challenges, it is reasonable that the City would try to achieve this goal.

Service Maintenance Reserves

The forecast assumes modest funding of 5% of General Fund revenues to maintain or replace existing facility components, vehicles, technology systems and other equipment at 5% of General Fund revenues. As noted above, while eliminating funding for this can serve as a short-term budget-balancing solution, as it has in the current fiscal year, it is not sustainable in the long run: as they age, facilities and equipment will need major repair or replacement. There is no General Fund support assumed in the forecast for major infrastructure maintenance or community improvement projects.

CalPERS Retirement Costs

Significant increases in employer contributions to the California Public Employees Retirement System (CalPERS), has been a major cost factor in recent years for many local agencies in California, and the City has not been an exception to this. Fortunately, based on projections provided by CalPERS, no significant increases in employer contribution rates are projected for the next five years.

Table 5

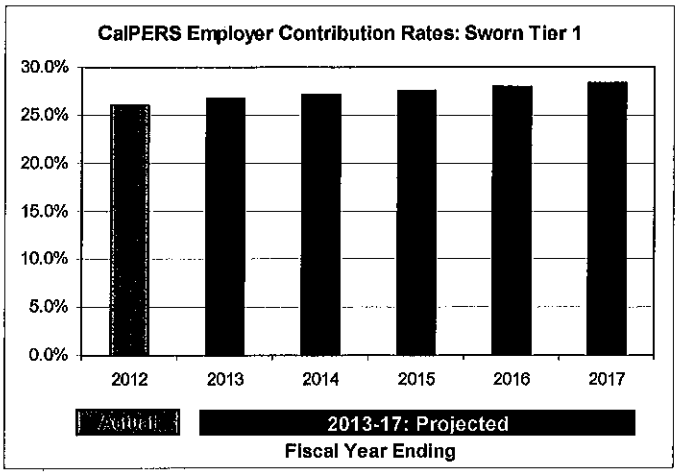


Table 6

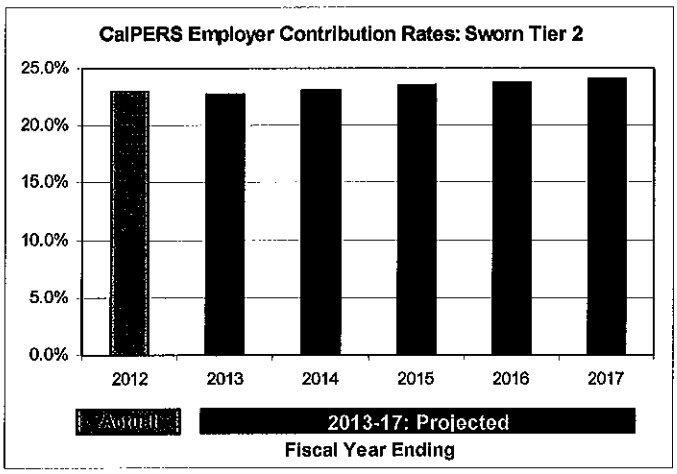
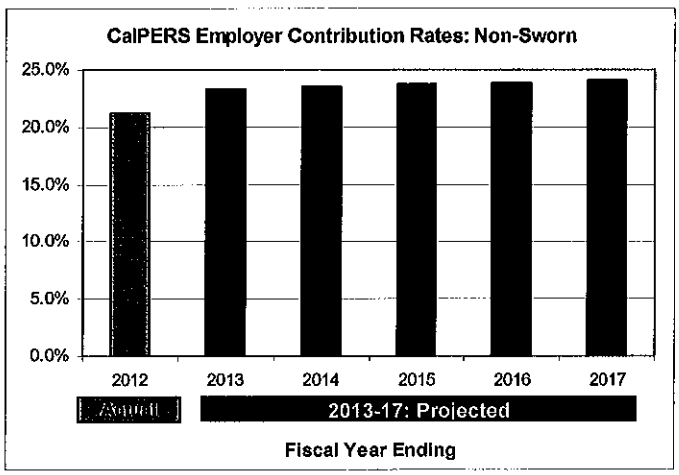


Table 7



Program Summary

The City has three separate programs with CalPERS: employees; two programs for sworn police employees and one for non-sworn ("miscellaneous") employees:

- *Sworn Tier 1*: In response to increasing rates, the City issued pension obligation bonds in 2006. While this significantly lowered rates, resulting annual debt service costs are about $900.000.

- *Sworn Tier 2:* The City adopted lower pension benefits for sworn police employees in 2007: rates are set separately for this sub-group.

- *Non-Sworn:* Classified as "miscellaneous" employees by CalPERS, this includes all non-sworn employees, including civilians in the Police Department.

As reflected in Tables 5 6 and 7, employer contribution rates for all three of these programs are projected to be relatively stable for the next five years compared with rates currently in place,.

Funding Source

Based on voter approval in 1944, the City has the authority to levy a special property tax rates to cover retirement costs. However, under Proposition 13, the amount that the city can levy is limited to the proportionate amount in place in 1978.

In 2011-12, this results in a maximum levy of $2.6 million. However, total retirement-related costs are about $3.3 million. The difference of about $700,000 is funded by the General Fund.

In summary, while there is an independent funding source for CalPERS and other related retirement costs, it is not large enough to fully cover all costs; and such, the General Fund is impacted by any annual increases that are more than increases in assessed valuation (which under Proposition 13 are limited to 2%, except when ownership

changes or improvements are made). Given this, it is a positive finding that General Fund transfers to the retirement fund are projected to remain relatively constant in the five-year forecast.

Supplemental Retirement Contribution

In 2003, the City established a supplemental retirement plan for its non-sworn employees. This program was closed to new enrollees in 2010. Eliminating this plan or reducing its benefits is a current Council objective. However, as discussed with the Council at the January 28 goal-setting workshop, this is a complicated plan with many legal considerations, and is under review by the City Attorney. Accordingly, consistent with the expenditure assumption of using the adopted 2011-12 Budget as the "baseline" for the forecast, an annual contribution of $300,000 is assumed in the forecast.

Retiree Health Care Obligations

The City currently funds retiree health care on a "pay-as-you-go" basis, with costs budgeted at $483,000 in 2011-12. Fully funding this obligation on an actuarial basis would cost $2.5 million. While this is significantly greater than the current pay-as-you go cost, it will result in higher future costs in the future: in about 15 years, pay-as-you-go will become a more expensive approach. That said, consistent with the expenditure assumption of using the adopted 2011-12 Budget as the "baseline" for the forecast, continuing the "pay-as-you-go" approach is assumed in the forecast.

Other Interfund Transfers

For all other interfund transfers, the forecast uses the 2011-12 Budget as the baseline, generally growing by inflation (2% annually).

General Fund Reserves

The General Fund is projected to end 2011-12 with reserves at 12% of operating expenditures. Concurrently with this forecast, the Council will also consider proposed Budget Policies. These recommend setting the General Fund minimum reserve target at 25% of operating expenditures. Based on projected operating expenditures of $11.3 million in 2012-13, reserves (unassigned fund balance) should be about $3.3 million. Achieving this goal by next fiscal year would increase the gap for 2012-13 by $3.9 million to $5.1 million. No restoration of reserves to this level is assumed in forecast. Stated simply, this is an unrealistic short-term goal.

That said, adequate reserves are important in responding to economic uncertainties such as local disasters; downturns in the economy; external revenue hits like State takeaways; contingencies for unforeseen operating or capital needs; and cash flow.

The "right amount" of reserves depends on each city's unique fiscal circumstances and its capacity for risk. Ultimately, minimum reserve levels are a risk management tool: How much can things go differently than you thought they would before you

have to take corrective action? And by providing time to develop and implement thoughtful solutions, they are a bridge to the future in tough fiscal times.

Accordingly, while restoration of reserves is not assumed in the forecast, it is should be a long-term goal for the City. For this reason, the proposed reserve policy recommends that whenever the City's General Fund reserves fall below the 25% reserve target, the City will strive to restore reserves to this level within five years. As revenues versus expenditures improve, the City should allocate about half to reserve restoration with the balance available to fund outstanding liabilities, asset replacements, service level restorations, new operating programs or CIP projects.

No General Fund Subsidies to Reduce Allowable Special Tax or Assessment Levies

It understandable that the Council is interested in reducing special tax and assessment levies. However, no subsidies from the General Fund are reflected in the forecast for the following reasons:

- This approach is consistent with the general assumption of using the adopted 2011-12 Budget as the "baseline" for the forecast,
- Any such action is a discretionary policy decision for the Council to make as part of the budget process
- As a practical matter, it would make the "forecast gap" that much larger, depending on the size of the subsidy.

What's Not in the Forecast

Grant Revenues. The forecast does not reflect the receipt of any "competitive" grant revenues over the next five years. However, based on past experience, it is likely that the City will be successful in obtaining grants for either operating or capital purposes. However, these are for restricted purposes that meet the priorities of the granting agency, which are not necessarily the same as the City's. Other "formula grant" programs like the Community Development Block Grant (CDBG) help the City in achieving its goals. Again, however, their use is highly restricted by the granting agency; and in many cases, like CDBG and the gas tax funds, are already reflected in the City's "baseline" budget. Moreover, experience shows given federal and state budget challenges, the amount of grant funding is more likely to decline over the next five years than increase.

Grant Refunds. The forecast also does not reflect the potential need to make significant refunds back to grantor agencies.

Capital Improvements. The asset replacement assumptions in the forecast are based on a modest investment of 5% of General Fund revenues. It is important to stress that this amount is not based on an analysis of the City's facility, infrastructure and equipment replacement needs (doing so would be beyond the scope of this forecast). Preparing this type of analysis is planned for the coming fiscal year. There is the

strong possibility that the results of this analysis will show a greater need than the forecast assumption, which is focused on taking care of the City's current assets rather than building or acquiring new ones that might also be needed; or major improvements to existing ones. In the past, the City has been able to respond to these types of needs (like building Little Bear Park) by using the proceeds from the 2004 and 2007 general obligation bonds. However, these were "one-time" funds; and the remaining balance from the bond proceeds will be used to reduce future special tax obligations.

In short, there is likely to be even greater pressure in meeting City expenditure needs for facilities, infrastructure or equipment than reflected in the forecast.

Responding to Council Goal-Setting. The forecast does not reflect any added resources in responding to the results of Council goal-setting. Staff is in the process of developing work programs for these, which will be presented to the Council as part of the "Strategic Budget Direction" workshop scheduled for March 31, 2012. Along with considering approaches in responding to the Major City Goals set by the Council, this workshop will present recommended strategies in closing the gap identified in this forecast.

What's Most Likely to Change?

By necessity, this plan is based on a number of assumptions. The following summarizes key areas where changes from forecast assumptions are most likely over the next five years:

Property Tax. This is the City's second largest General Fund revenue source. While the forecast assumes modest recovery, two key questions remain: have property values in fact hit the bottom? And if so, how strong will the recovery be?

Sales Tax. This is City's third most significant General Fund revenue source – and it is subject to large swings depending on the performance of the state and regional economy. The forecast is "cautiously optimistic" in assuming that the retail sales have hit bottom and that modest recovery will follow. Given the volatility of this revenue source and its significant downturn by 42% since its peak in 2007, this recovery is not a sure thing.

Insurance and Litigation Costs. Consistent with the general forecast assumption of using the 2011-12 Budget (as revised at mid-year) as the "baseline," the forecast assumes that general liability, workers compensation and property insurance costs will grow by inflation (2% annually). However, higher costs might be incurred given the litigation facing the City.

Results of Negotiations. The City is currently negotiating with the Bell Police Officers Association and conducting a classification and compensation study for other employees. There is the potential for significant changes in the projected gap – either upwards or downwards – depending on the results of these negotiations and the study.

Audit Results. The City has not completed independent audits for the past two years. Staff believes that the unaudited results reflected in the forecast are a reliable basis for making forecast projections. However, until the audits are complete, there is the potential for material misstatements that might affect forecast results.

CONCLUSION

The forecast shows that the City is facing a serious gap of about $1.8 million in 2012-13, based on already very lean service levels. Placed in perspective, this about 15% of projected operating expenditures next fiscal year. This gap will only grow larger if new initiatives are added to it or the General Fund is asked to subsidize the general obligation bond, assessment district or pension obligation funds.

On the other hand, the gap improves in the out-years. This means that by closing the gap in the coming year, the City is likely to achieve structural balance in future years.

The Challenge Ahead: Very few options are available to the City in closing this gap and adopting a balanced budget that responds to Council goal-setting. In retaining the City's ability to respond to further fiscal difficulties that may lie ahead, use of the City's limited reserves is not recommended. In fact, as shown in the forecast, without corrective action the City would use all of its reserves by the end of next year – plus an additional $575,000. And given the City's recent past experience, any significant new revenues are not a viable budget-balancing approach any time soon.

At this point, unless the Bell economy performs much better than projected, significantly reducing the City's expenditures is the only budget-balancing option available to the City. And there are only four ways of doing this:

- Further reducing service levels and related costs. Given that 60% of General Fund expenditures are for staffing, this means further staffing reductions.

- Not setting aside funds to maintain and replace the facilities, vehicles, technology systems and other equipment that are essential in providing services. As noted above, while possible in the short-term, it is not sustainable in the long-run.

- Finding alternative service delivery methods that will retain service levels but reduce costs.

- Reducing compensation levels. For example, with General Fund staffing costs of about $7.5 million, each 1% reduction in compensation generates $75,000 in savings.

In summary, balancing the City's budget for the long term requires meaningful expenditure reductions through either lower employee costs or even further reductions in day-to-day services (or some combination of the two).

KEY ASSUMPTIONS

DEMOGRAPHIC TRENDS

Population. Based on trends over the last ten years, no change in population (either up or down) is projected.

Inflation. Based on long-term trends and projections in recent statewide and regional forecasts, inflation grows by 2% annually throughout the forecast period.

EXPENDITURES

The adopted 2011-12 Budget, including proposed Mid-Year Budget Review revisions, is the "baseline" for the forecast. From this, no increases in staffing are assumed resulting from across-the-board compensation increases or "step" salary increases. Non-staffing costs are assumed to increase by inflation (projected at 2% annually), with selected adjustments as discussed below.

Staffing costs are adjusted from the "baseline" as follows:

- Eight of the nine vacant regular positions in 2012-13 Budget are assumed to be filled in meeting current service levels (and in the case of the senior management positions, providing essential leadership, management and oversight to the organization): City Manager, Police Chief, Community Development Director, Community Services Director, Community Services Senior Management Analyst, Community Services Technician, Deputy City Engineer and Accounting Manager. The added annual cost for these positions, including salaries and benefits, is $1.2 million.

- No funding is provided for the General Services Director: this position has been eliminated as part of the recent reorganization. Deleting this position saves an estimated $203,000 annually.

Non-staffing costs are adjusted from the baseline as follows:

- Audit costs are reduced from $300,000 in 2011-12 (reflects two-years of fees) to $80,000 in 2012-13, based on the current multi-year audit agreement; and to $60,000 annually thereafter.
- Projected legal costs are $1,000,000 in 2012-13. The forecast assumes that similar costs will be incurred next fiscal year. However, as the City's litigation issues are resolved, the forecast lowers these costs in the next two fiscal years (2013-15) by $200,000 (to $800,000 annually); and by another $200,000 (to $600,000 annually) in the last two years of the forecast (2015-17).
- Transition support costs are reduced from $350,000 in 2011-12 to $200,000 in 2012-13 and thereafter (reflects a modest 2% contingency).

INTERFUND TRANSFERS

Transfers Out

Service Maintenance Fund. The forecast assumes a modest investment of 5% of General Fund revenues.

Retirement Fund. General Fund transfers to the Retirement Fund are projected to remain stable based on the following factors:

- Based on five-year projections for employer contribution rates from CalPERS, no significant increase in retirement costs are assumed in the forecast.

- The forecast assumes that retiree health care costs will continue to be funded on a pay-as-you-go basis.
- Supplemental retirement plan contributions are projected to remain at current levels ($300,000 annually).

Risk Management Fund. Similar to operating expenditures, the forecast assumes that transfers for general liability, workers compensation and property insurance costs will grow by inflation (2% annually).

Transfers In

Assessment District Administration. The forecast assumes that these will grow by inflation (2% annually).

Surplus Property Authority. The forecast assumes that lease revenues will remain flat and transferred in full to the General Fund.

No Subsidies to Reduce Allowable Special Tax or Assessment Levies

No reductions in allowable levies in the General Obligation Bond Fund, Retirement Fund or Assessment Districts are reflected in the forecast.

STATE BUDGET ACTIONS

The forecast assumes no added cuts nor restoration of past cuts to cities. It also assumes that there will no direct impacts to the General Fund resulting from the phase-out of redevelopment agencies.

RESERVES

The forecast does not assume any restoration of reserves.

REVENUES

Sources used in developing revenue projections for the forecast include:

- Long and short-term trends in key City revenues.
- Economic trends as reported in the national media,
- State and regional economic forecasts prepared by the University of California, Los Angeles; University of California, Santa Barbara; California Lutheran University; California Economic Forecast; and Beacon Economics.
- Economic and fiscal information developed by the State Legislative Analyst, State Department of Finance and State Controller.
- Fiscal and legislative analysis by the League of California Cities.
- Outcome of Proposition 22.
- Analysis by the City's sales and property tax advisor (Hinderliter de Llamas).

Ultimately, however, the forecast projections reflect our best judgment about the State budget process and the performance of the local economy during the next five years and how these will affect General Fund revenues.

Top Five Revenues

The following describes the assumptions for the "Top Five" revenues in the forecast, which account for about 90% of total projected General Fund revenues.

Utility Users Tax. Based on long-term trends, grows by inflation (2% annually).

Property Tax/VLF Swap. Both of these revenue sources are driven by changes in assessed value. The forecast assumes that declines in assessed valuations have hit bottom and will modestly increase thereafter as follows:

2012-13	1.0%
2013-14	1.5%
2014-15	2.0%
2015-16	2.0%
2016-17	2.0%

Sales Tax. The forecast assumes that sales tax revenues have hit bottom and will modestly increase as follows:

2012-13:	6.7%*
2013-14:	3.9%
2014-15:	2.1%
2015-16:	2.1%
2016-17:	2.1%

* Reflects one-time adjustment for reporting errors

Fines & Forfeitures. Remains flat during the forecast period: any increase would require either an increase in rates or change in regulatory approach; and this would be a discretionary policy decision to be made by the Council.

Franchise Fees. Based on long-term trends, grows by inflation (2% annually).

Other Revenues

Except for business license taxes (which are projected to grow by inflation at 2% annually), other revenues in the forecast generally remain flat, since increases will generally require an increase in rates. This is a discretionary policy decision for the Council to make as part of the budget process.

GENERAL FUND FIVE YEAR FISCAL FORECAST: 2012-17

	2008-09 Actual	2009-10 Actual*	2010-11 Actual*	2011-12 Budget**	FORECAST 2012-13	2013-14	2014-15	2015-16	2016-17
REVENUES									
Taxes & Franchise Fees									
Utility Users Tax	3,301,600	3,123,400	3,244,000	3,341,500	3,408,300	3,476,500	3,546,000	3,616,900	3,689,200
Property Tax - VLF Swap	2,948,400	2,972,900	2,942,600	2,971,700	3,001,400	3,046,400	3,107,300	3,169,400	3,232,800
Property Tax	599,100	539,000	567,900	573,000	578,700	587,400	599,100	611,100	623,300
Sales Tax	2,571,200	1,922,400	1,986,000	1,689,000	1,801,300	1,871,600	1,910,900	1,951,000	1,992,000
Franchise Fees	551,900	490,000	461,600	471,800	481,200	490,800	500,600	510,600	520,800
Business License Tax	723,500	547,200	273,800	282,000	287,600	293,400	299,300	305,300	311,400
Other Taxes	362,200	347,900	216,000	132,000	134,600	137,300	140,000	142,800	145,700
Total Taxes and Franchise Fees	11,057,900	9,942,800	9,691,900	9,461,000	9,693,100	9,903,400	10,103,200	10,307,100	10,515,200
Fines & Forfeitures	1,251,700	992,000	710,800	732,100	732,100	732,100	732,100	732,100	732,100
Permits & Service Charges									
Permits	339,400	271,900	195,000	200,800	200,800	200,800	200,800	200,800	200,800
Park & Recreation Fees	488,200	262,800	241,600	248,800	248,800	248,800	248,800	248,800	248,800
Other Services Charges	1,223,900	960,700	392,600	270,900	270,900	270,900	270,900	270,900	270,900
Subventions & Grants									
Vehicle License In-Lieu Fees (VLF)	171,700	102,900	103,300	-	-	-	-	-	-
Other Subventions & Grants	11,400	115,300	55,100	39,500	39,500	39,500	39,500	39,500	39,500
Use of Money & Property	320,900	130,600	136,300	137,100	137,100	137,100	137,100	137,100	137,100
Other Revenues	9,100	132,000	573,500	4,000	4,000	4,000	4,000	4,000	4,000
Total Revenues	14,874,200	12,911,000	12,100,100	11,094,200	11,326,300	11,536,600	11,736,400	11,940,300	12,148,400
EXPENDITURES & USES									
Expenditures	11,773,900	11,329,900	15,486,500	10,390,800	11,346,600	11,170,000	11,295,100	11,141,900	11,270,400
Interfund Transfers In (Out)									
Transfers In									
Assessment District Administration				304,600	310,700	316,900	323,200	329,700	336,300
Surplus Property Authority		500,000		869,300	739,400	739,400	739,400	739,400	739,400
Capital Projects Fund		307,100	349,700		-	-	-	-	-
Other Funds		413,100	273,200		39,500	39,500	39,500	39,500	39,500
Transfers Out									
Capital Project Fund	(949,400)								
Service Maintenance Reserve Fund					(566,300)	(576,800)	(586,800)	(597,000)	(607,400)
Solid Waste and Recycling Authority	(98,600)	(127,000)			-	-	-	-	-
Public Financing Authority	(249,400)	(438,800)	(438,800)	(8,700)	(8,700)	(8,700)	(8,700)	(8,700)	(8,700)
Risk Management Fund	(1,395,300)	(2,270,700)	(1,179,900)	(1,285,000)	(1,310,700)	(1,336,900)	(1,363,600)	(1,390,900)	(1,418,700)
Retirement Fund				(669,900)	(703,400)	(648,200)	(632,600)	(632,000)	(632,000)
Net Transfers In (Out)	(2,692,700)	(1,616,300)	(995,800)	(789,700)	(1,810,200)	(1,791,700)	(1,812,800)	(1,849,700)	(1,887,900)
Total Expenditures & Uses	14,466,600	12,946,200	16,482,300	11,180,500	13,156,800	12,961,700	13,107,900	12,991,600	13,158,300
Revenues Over (Under) Expenditures & Uses	407,600	(35,200)	(4,382,200)	(86,300)	(1,830,500)	(1,425,100)	(1,371,500)	(1,051,300)	(1,009,900)
AVAILABLE BALANCE, BEGINNING OF YEAR	5,351,000	5,758,600	5,723,400	1,341,200	1,254,900	(575,600)	(2,000,700)	(3,372,200)	(4,423,500)
AVAILABLE BALANCE, END OF YEAR	5,758,600	5,723,400	1,341,200	1,254,900	(575,600)	(2,000,700)	(3,372,200)	(4,423,500)	(5,433,400)

** Unaudited*

*** As revised in the Mid-Year Budget Review*

ASSUMPTIONS SUMMARY

	2012-13	2013-14	2014-15	2015-16	2016-17
Population	0.0%	0.0%	0.0%	0.0%	0.0%
Consumer Price Index (CPI)	2.0%	2.0%	2.0%	2.0%	2.0%
REVENUES					
Utility Users Tax: Based on long-term trends, grows by CPI	2.0%	2.0%	2.0%	2.0%	2.0%
Property Tax: Modest recovery in 2013-17, increasing to Proposition 13 limits by 2014-15	1.0%	1.5%	2.0%	2.0%	2.0%
Sales Tax: Modest recovery after adjusitng for reporting errors and "Triple Flip True-Ups"	6.7%	3.9%	2.1%	2.1%	2.1%
Franchise Fees: Based on long-term trends, grows by CPI	2.0%	2.0%	2.0%	2.0%	2.0%
Business License Tax: Grows by CPI	2.0%	2.0%	2.0%	2.0%	2.0%
Other Taxes: Grow by CPI	2.0%	2.0%	2.0%	2.0%	2.0%
Fines & Forfeitures: Without policy action by Council to increase rates, remain flat for forecast period	-	-	-	-	-
Permits & Service Charges: Without policy action by Council to increase rates, remain flat for forecast period	-	-	-	-	-
Vehicle License In-Lieu Fees (VLF): Assumes no restoration of this funding source by the State	-	-	-	-	-
Other Subventions & Grants: Remain flat for forecast period	-	-	-	-	-
Use of Money & Property: Remain flat for forecast period	-	-	-	-	-
Other Revenues: Remain flat for forecast period	-	-	-	-	-
EXPENDITURES					
Expenditures					
Budget for 2011-12 as revised at Mid-Year: Baseline for 2012-13 to 2016-17, with following adjustments					
Staffing Costs 6,302,600					
Non-Staffing Costs 4,088,200					
Non-Staffing Costs grow by CPI for 2013-17 with following adjustments	4,170,000	4,253,400	4,338,500	4,425,300	4,513,800
Reduced audit costs	(220,000)	(240,000)	(240,000)	(240,000)	(240,000)
Reduced legal costs		(200,000)	(200,000)	(400,000)	(400,000)
Reduced transition support costs	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)
Election costs (every other year, assuming no ballot measures (Council election only)	40,000		40,000		40,000
Staffing Costs					
No compensation changes	6,302,600	6,302,600	6,302,600	6,302,600	6,302,600
Plus filling of all vacant positions in 2011-12 Budget except deleted General Services Director	1,204,000	1,204,000	1,204,000	1,204,000	1,204,000
Total Expenditures	11,346,600	11,170,000	11,295,100	11,141,900	11,270,400
INTERFUND TRANSFERS IN (OUT)					
Transfers In					
Assessment District Administration: Grows by CPI	2.0%	2.0%	2.0%	2.0%	2.0%
Surplus Property Authority: Current lease revenues	739,400	739,400	739,400	739,400	739,400
Transfers Out					
Service Maintenance Reserve Fund: Modest contribution at 5% of revenues	(566,300)	(576,800)	(586,800)	(597,000)	(607,400)
Public Financing Authority: Remains flat	-	-	-	-	-
Risk Management Fund: Grows by CPI	2.0%	2.0%	2.0%	2.0%	2.0%
Retirement Fund: Increases by projected CalPERS employer contribution rates for 2013-17, less proejcted increases in assessed valuation and related tax levy					
Sworn: Police, Tier 1 Current 26.0%	26.7%	27.2%	27.6%	28.0%	28.4%
Sworn: Police. Tier 2 Current 23.0%	22.7%	23.1%	23.5%	23.8%	24.1%
Non-Sworn ("Miscellaneous") Current 21.3%	23.3%	23.5%	23.7%	23.9%	24.1%

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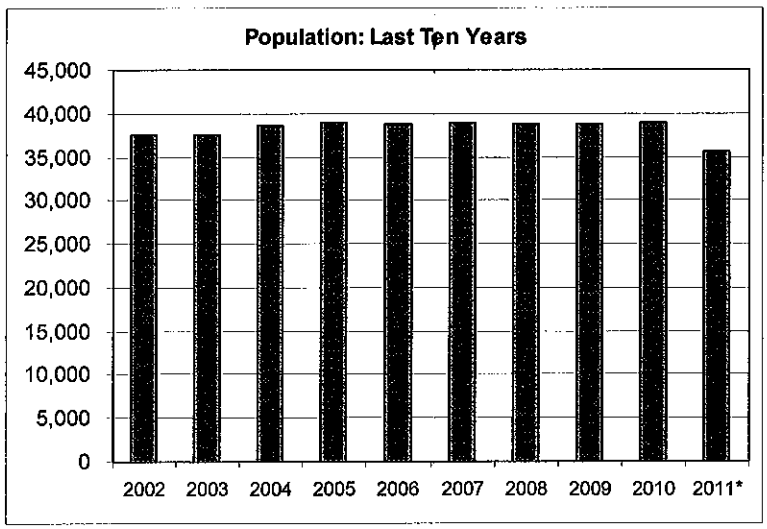
DEMOGRAPHIC AND ECONOMIC TRENDS

Population		
Fiscal Year Ending	Amount	% Change
2001	36,664	
2002	37,581	2.5%
2003	37,549	-0.1%
2004	38,656	2.9%
2005	38,961	0.8%
2006	38,821	-0.4%
2007	38,982	0.4%
2008	38,762	-0.6%
2009	38,759	0.0%
2010	38,867	0.3%
2011*	35,577	-8.5%
Average Annual % Change		
Last 2 Years		-4.1%
Last 5 Years		-1.7%
Last 10 Years		-0.3%

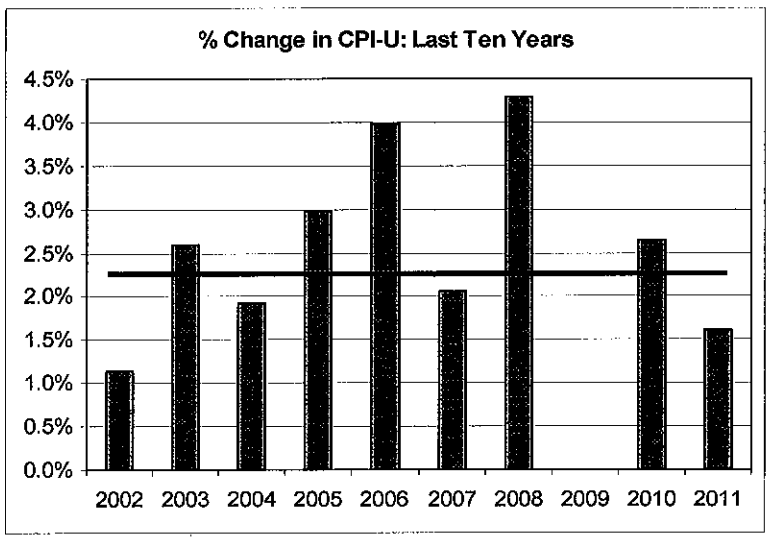
State of California, January 1 of Each Year



The City's population has remained virtually unchanged for the past ten years. The minor decline in 2011 most is likely an adjustment per the 2010 Census.

Consumer Price Index: All Urban Consumers (CPI-U)		
Fiscal Year Ending	Amount	% Change
2001	175.1	
2002	177.1	1.1%
2003	181.7	2.6%
2004	185.2	1.9%
2005	190.7	3.0%
2006	198.3	4.0%
2007	202.4	2.1%
2008	211.1	4.3%
2009	211.1	0.0%
2010	216.7	2.7%
2011	220.2	1.6%
Average Annual % Change		
Last 2 Years		2.1%
Last 5 Years		2.1%
Last 10 Years		2.3%

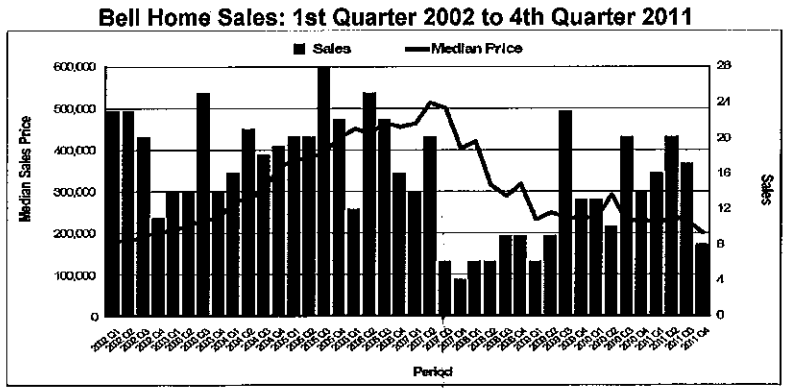
All Urban Consumers, January of Each Year



CPI increases have averaged about 2% annually for the last two, five and ten year intervals.

Housing Sales and Median Prices. These reflect Statewide trends, with steady growth until their peak in 2007, with rapid declines through 2009. Prices appear to have stabilized since then.

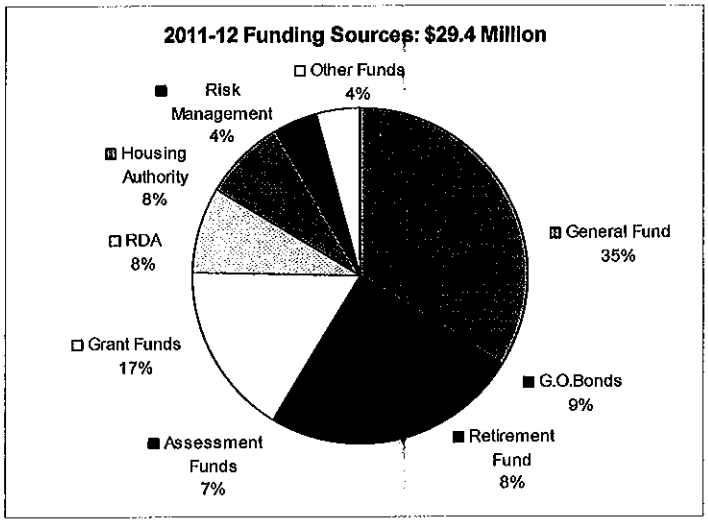
Source: HdL Companies



REVENUES AND EXPENDITURES SUMMARY: 2011-12 BUDGET

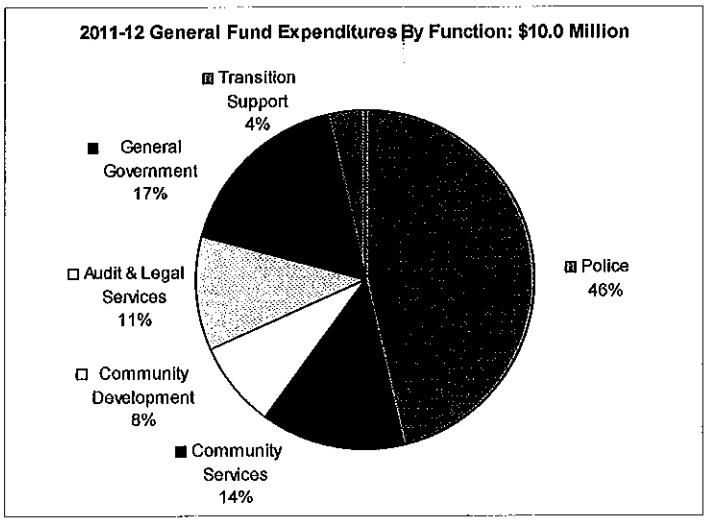
Funding Sources: 2011-12 Budget		
Source	Amount	% Total
General Fund	9,971,800	34%
Special Property Taxes		
G.O.Bonds	2,732,500	9%
Retirement Fund	2,371,100	8%
Assessment Funds	2,174,300	7%
Grant Funds	4,848,300	16%
RDA	2,486,400	8%
Housing Authority	2,340,900	8%
Risk Management	1,285,000	4%
Other Funds	1,185,700	4%
Total	**$29,396,000**	**100%**

The General Fund – which is the focus of this forecast – accounts for about 35% of total City expenditures, which is similar to statewide averages.



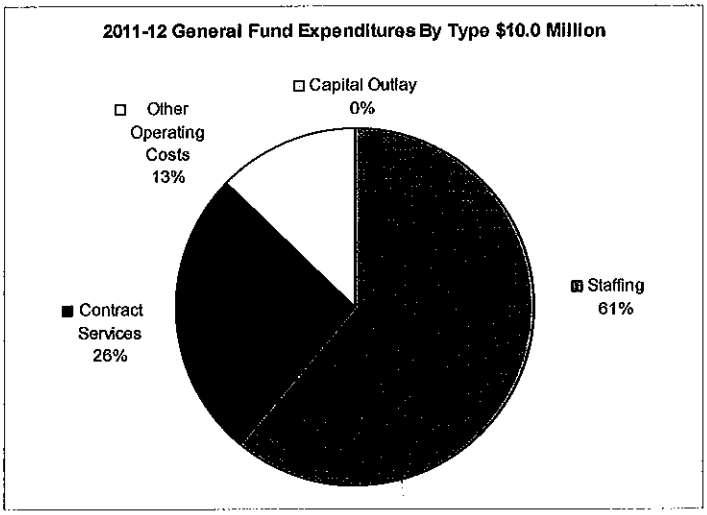
General Fund Expenditures: 2011-12 Budget		
By Function	Amount	% Total
Police	4,621,200	46%
Community Services	1,372,400	14%
Community Development	808,500	8%
Audit & Legal Services	1,100,000	11%
General Government	1,719,700	17%
Transition Support	350,000	4%
Total	**$9,971,800**	**100%**

Police services account for about half of all General Fund expenditures. This is also in line with statewide averages



General Fund Expenditures: 2011-12 Budget		
By Type	Amount	% Total
Staffing	6,083,700	61%
Contract Services	2,602,800	26%
Other Operating Costs	1,285,300	13%
Capital Outlay	0	0%
Total	**$9,971,800**	**100%**

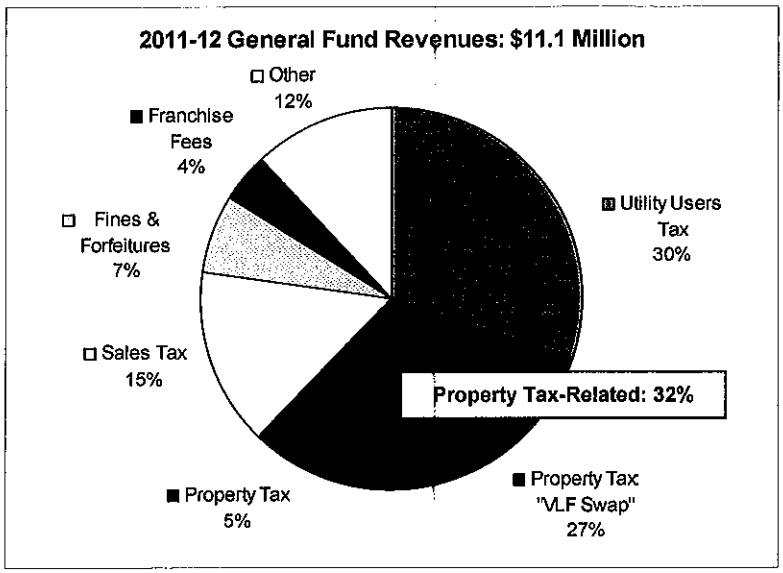
Staffing accounts for about 60% of total expenditures. This is lower than statewide averages due to two factors: the City makes extensive use of private sector contracts; and the funding of pension and retiree health care costs in the pension obligation fund.



HISTORICAL TRENDS

General Fund Revenues: 2011-12 Budget		
Source	Amount	% Total
Utility Users Tax	3,341,500	30%
Property Tax: "VLF Swap"	2,971,900	27%
Property Tax	573,000	5%
Sales Tax	1,689,000	15%
Fines & Forfeitures	732,100	7%
Franchise Fees	471,800	4%
Other	1,311,100	12%
Total	**11,090,400**	**100%**

Utility users tax revenues are the General Fund's largest funding source, accounting for 30% of total revenues. However, when property taxes and the "VLF Swap" (which is also property tax related) are combined, together they account for 32% of total revenues.



GENERAL FUND REVENUE TRENDS

The following tables and charts show long and short term trends in General Fund revenues, both in total as well as for the "Top Five" revenue sources, which account for about 90% of total General Fund revenues:

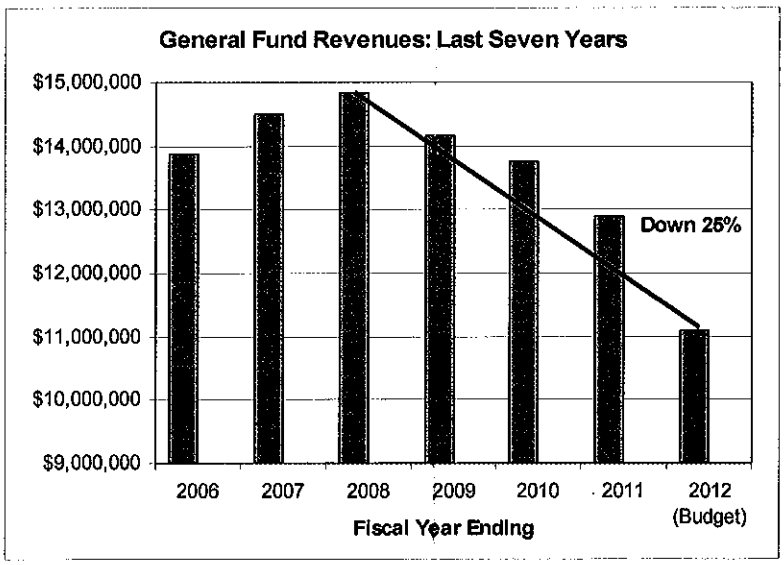
Top Five General Fund Revenue Sources

- Utility Users Tax: 30%
- Property Tax and Vehicle License Fee (VLF) Swap: 32% *
- Sales Tax: 15%
- Fines & Forfeitures: 7%
- Franchise Fees: 4%

** In 2005, the State "swapped" the backfill of lost VLF revenues to cities with a comparable amount of revenue from a shift in property tax allocations. Both of these revenue sources are determined by the same tax base: assessed valuation.*

General Fund Revenues		
Fiscal Year Ending	Amount	% Change
2006	13,864,100	
2007	14,500,000	4.6%
2008	14,837,600	2.3%
2009	14,151,100	-4.6%
2010	13,756,700	-2.8%
2011	12,895,900	-6.3%
2012 (Budget)	11,090,400	-14.0%
Average Annual % Change		
Last 2 Years		-10.1%
Last 5 Years		-5.1%

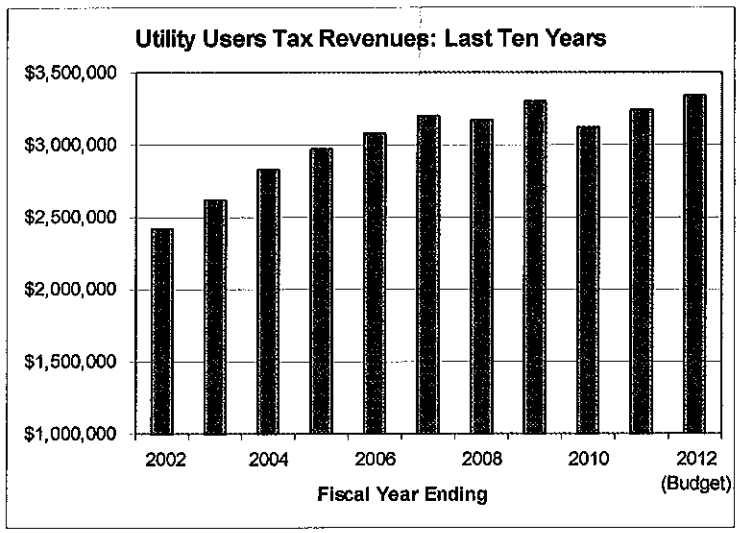
Overall, General Fund revenues are down by 25% since their peak in 2008.



HISTORICAL TRENDS

Utility User Taxes		
Fiscal Year Ending	Amount	% Change
2002	2,424,700	
2003	2,623,100	8.2%
2004	2,831,000	7.9%
2005	2,974,000	5.1%
2006	3,084,000	3.7%
2007	3,199,000	3.7%
2008	3,175,000	-0.8%
2009	3,302,000	4.0%
2010	3,123,400	-5.4%
2011	3,244,000	3.9%
2012 (Budget)	3,341,500	3.0%
Average Annual % Change		
Last 2 Years		3.4%
Last 5 Years		0.9%
Last 10 Years		3.3%

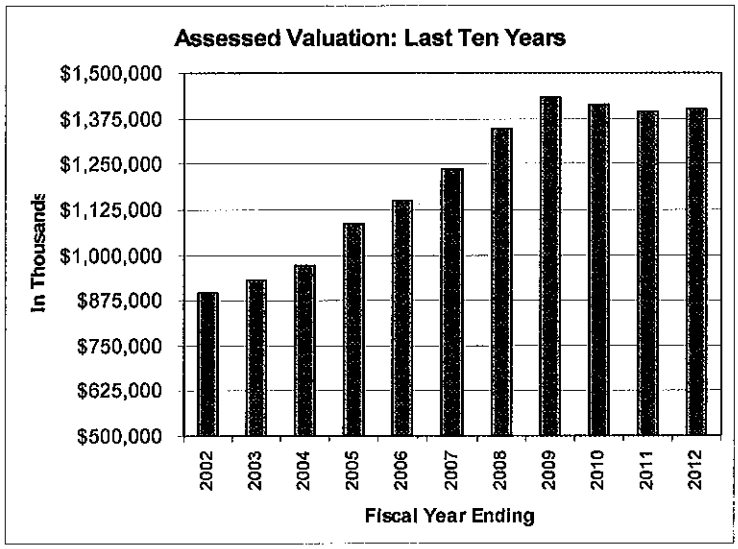
Utility users taxes have been relatively stable during the economic downturn.



Assessed Valuation		
Fiscal Year Ending	Amount	% Change
2002	$895,471	
2003	929,549	3.8%
2004	971,644	4.5%
2005	1,086,506	11.8%
2006	1,148,015	5.7%
2007	1,236,235	7.7%
2008	1,346,554	8.9%
2009	1,431,537	6.3%
2010	1,411,815	-1.4%
2011	1,391,927	-1.4%
2012	1,400,051	0.6%
Average Annual % Change		
Last 2 Years		-0.4%
Last 5 Years		2.6%
Last 10 Years		4.7%

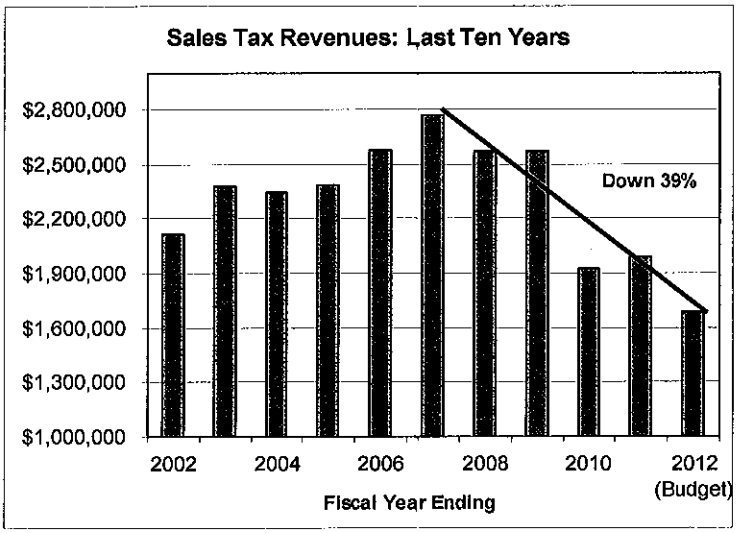
In thousands

Property tax and the VLF swap are determined by changes in assessed valuation, which have also been relatively stable during the economic downturn.



Sales Taxes		
Fiscal Year Ending	Amount	% Change
2002	2,111,800	
2003	2,382,400	12.8%
2004	2,346,000	-1.5%
2005	2,388,000	1.8%
2006	2,581,000	8.1%
2007	2,771,000	7.4%
2008	2,570,000	-7.3%
2009	2,571,200	0.0%
2010	1,922,400	-25.2%
2011	1,986,000	3.3%
2012 (Budget)	1,689,000	-15.0%
Average Annual % Change		
Last 2 Years		-5.8%
Last 5 Years		-8.8%
Last 10 Years		-1.6%

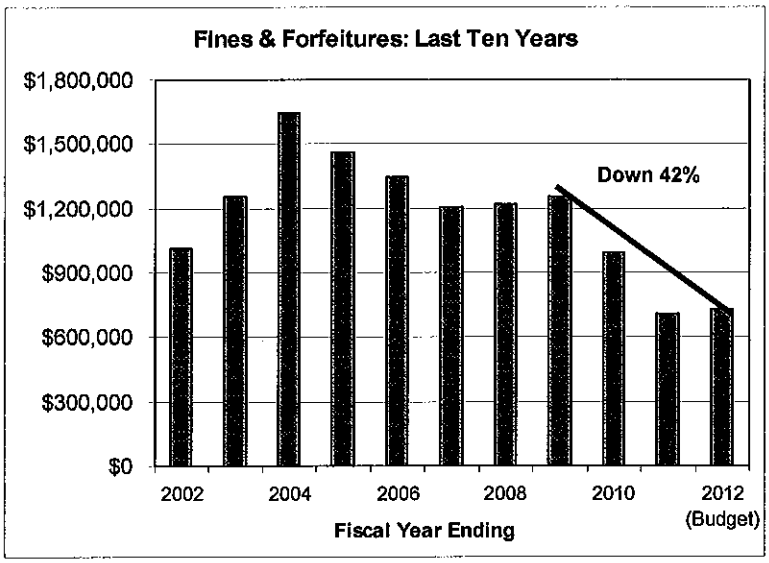
Sales tax revenues, on the other hand, are down by almost 40% since their peak in 2007.



HISTORICAL TRENDS

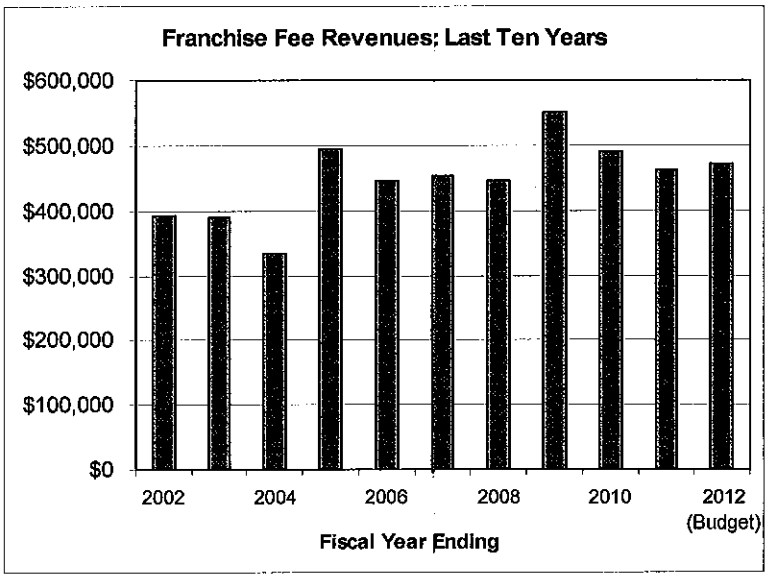
Fines & Forfeitures		
Fiscal Year Ending	Amount	% Change
2002	$1,010,000	
2003	1,253,300	24.1%
2004	1,644,000	31.2%
2005	1,457,000	-11.4%
2006	1,343,000	-7.8%
2007	1,207,000	-10.1%
2008	1,220,000	1.1%
2009	1,251,700	2.6%
2010	992,000	-20.7%
2011	710,800	-28.3%
2012 (Budget)	732,100	3.0%
Average Annual % Change		
Last 2 Years		-12.7%
Last 5 Years		-8.5%
Last 10 Years		-1.6%

Fines & forfeitures are down by 42% from their peak in 2009. This reflects discontinuing overly-aggressive enforcement policies and practices.



Franchise Fees		
Fiscal Year Ending	Amount	% Change
2002	$392,400	
2003	390,100	-0.6%
2004	333,000	-14.6%
2005	496,000	48.9%
2006	446,000	-10.1%
2007	453,000	1.6%
2008	446,000	-1.5%
2009	552,000	23.8%
2010	490,000	-11.2%
2011	461,600	-5.8%
2012 (Budget)	471,800	2.2%
Average Annual % Change		
Last 2 Years		-1.8%
Last 5 Years		1.5%
Last 10 Years		3.3%

While down from their peak in 2009, franchise fees have remained relatively stable during the economic downturn.



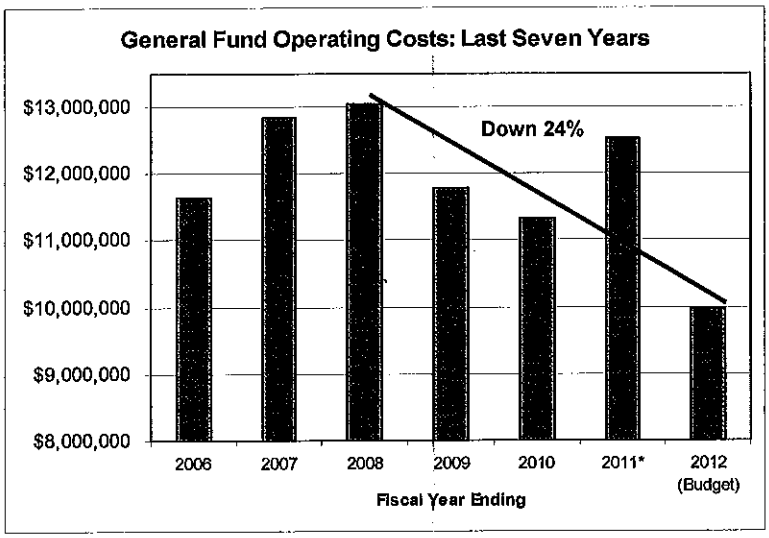
GENERAL FUND EXPENDITURE TRENDS

The following tables and charts show long term trends in the General Fund expenditures in total as well as for police services. Additionally, information is provided for CalPERS employer retirement contribution rates since 2001 as well as projected rates for the next five years.

General Fund Operating Expenditures		
Fiscal Year Ending	Amount	% Change
2006	11,655,300	
2007	12,839,500	10.2%
2008	13,044,100	1.6%
2009	11,773,900	-9.7%
2010	11,329,900	-3.8%
2011*	12,527,500	10.6%
2012 (Budget)	9,971,900	-20.4%
Average Annual % Change		
Last 2 Years		-4.9%
Last 5 Years		-4.3%

** Excludes $2,959,000 in tax refunds*

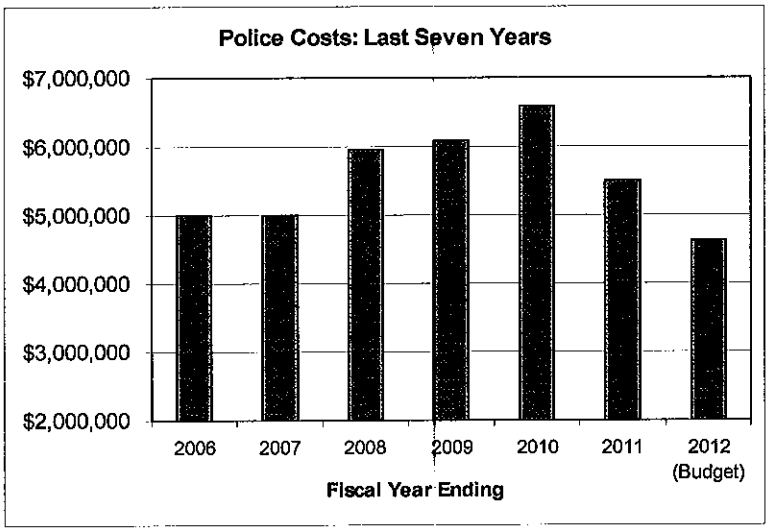
Overall, General Fund expenditures are down by 24% since peak in 2008.



General Fund Police Costs		
Fiscal Year Ending	Amount	% Change
2006	5,000,000	
2007	5,000,000	0.0%
2008	5,960,300	19.2%
2009	6,081,900	2.0%
2010	6,591,700	8.4%
2011	5,502,700	-16.5%
2012 (Budget)	4,621,200	-16.0%
Average Annual % Change		
Last 2 Years		-16.3%
Last 5 Years		-0.6%

Police costs are down by 30% since their peak in 2010.

Note: This only reflects General Fund costs; there are other significant Police costs accounted for in pension obligation, retirement and grant funds.



CALPERS EMPLOYER CONTRIBUTION RATES

The City has three separate retirement plans with CalPERS:

- Non-Sworn ("Miscellaneous")
- Sworn Police: Tier 1 (Covers sworn employees hired before 2007 when a lower level of pension benefits was adopted for new employees.)
- Sworn Police: Tier 2 (Covers employees hired after 2007 when a lower level of pension benefits was adopted for new employees.)

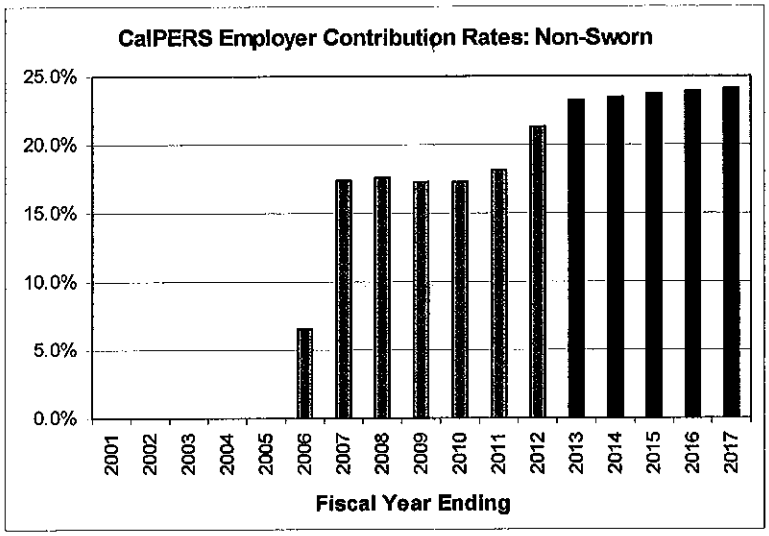
The following summarizes long-term trends in employer contribution rates and projections for the next five years for each of these groups.

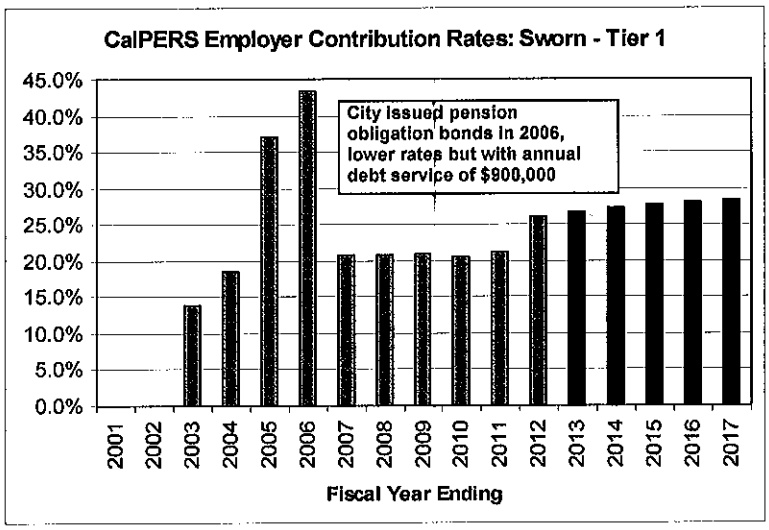
Non-Sworn Employees. Based on significant excess assets at the time, the City had no employer contribution requirements for 2000-01 through 2004-05. However, this changed with CalPERS investment losses due to "9/11," the dot.com meltdown and corporate scandals, resulting in significant increases by 2006-07, followed by relatively stable rates for the next five years. Rates took another jump in 2011-12 due to investment losses resulting from the worst economic downturn since the Great Depression. CalPERS projects that rates will stay relatively stable for the next five years.

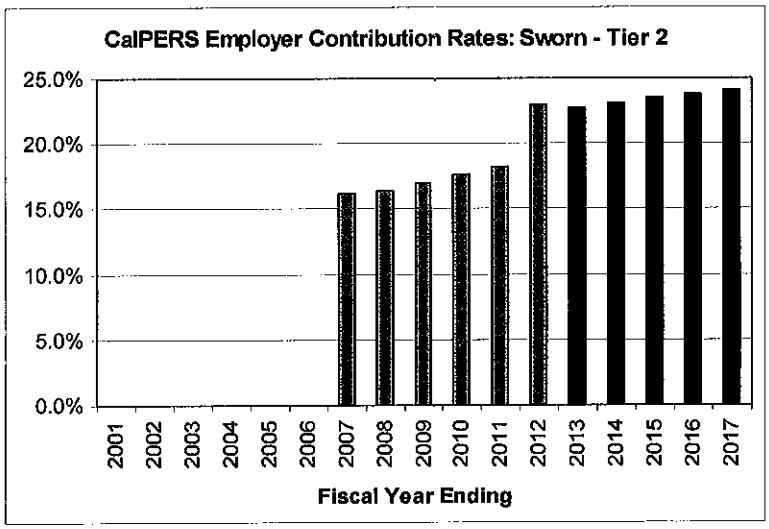
Sworn Employees: Tier 1. The impact on rates for non-sworn employees due to "9/11," the dot.com meltdown and corporate scandals was even more adverse, increasing to almost 45% of eligible compensation by 2005-06.

In response to increasing rates, the City issued pension obligation bonds in 2006. While this significantly lowered rates, which remained relatively for the next five years, related annual debt service costs are about $900.000. Like non-sworn employees, rates for this group also jumped in 2001-12 due to CalPERS investment losses. CalPERS also projects that rates will stay relatively stable for this group for the next five years.

Sworn Employees: Tier 2: The City adopted lower pension benefits for sworn police employees in 2007: rates are set separately by CalPERS for this sub-group. Like other employee groups, rates were relatively stable until 2011-12, when they increased in light of CalPERS investment losses. However, rates are projected to be relatively stable for the next five years.







CONSULTANT QUALIFICATIONS

SENIOR FINANCIAL MANAGEMENT EXPERIENCE

Bill Statler has over 30 years of senior municipal financial management experience, which included serving as the Director of Finance & Information Technology/City Treasurer for the City of San Luis Obispo for 22 years and as the Finance Officer for the City of Simi Valley for 10 years before that.

Under his leadership, the City of San Luis Obispo received national recognition for its financial planning and reporting systems, including:

- Award for Distinguished Budget Presentation from the Government Finance Officers Association of the United States and Canada (GFOA), with special recognition as an outstanding policy document, financial plan and communications device. ***San Luis Obispo is one of only a handful of cities in the nation to receive this special recognition.***
- Awards for excellence in budgeting from the California Society of Municipal Finance Officers (CSMFO) in all four of its award budget categories: innovation, public communications, operating budgeting and capital budgeting. Again, ***San Luis Obispo is among a handful of cities in the State to earn recognition in all four of these categories.***
- Awards for excellence in financial reporting from both the GFOA and CSMFO for the City's comprehensive annual financial reports.
- Recognition of the City's financial management policies as "best practices" by the National Advisory Council on State and Local Budgeting.

The financial strategies, policies and programs he developed and implemented resulted in strengthened community services and an aggressive program of infrastructure and facility improvements, while at the same time preserving the City's long-term fiscal health.

FINANCIAL MANAGEMENT SERVICES FOR OTHER AGENCIES

- Budget and Financial Management Advice: City of Bell
- Interim Finance Director, City of Capitola
- Finance Division Organizational Review: Sacramento Metropolitan Fire District
- Five Year Fiscal Forecast: City of Camarillo
- Five Year Fiscal Forecast: City of Pismo Beach
- Revenue Options Study: City of Pismo Beach
- Water and Sewer Rate Reviews: City of Grover Beach
- Financial Condition Assessment: City of Grover Beach
- Cost Allocation Plan: City of Grover Beach
- Cost Allocation Plan: City of Port Hueneme
- Joint Solid Waste Rate Review of Proposed Rates from South County Sanitary Company: Cities of Arroyo Grande, Grover Beach, Pismo Beach and Oceano Community Services District

PROFESSIONAL LEADERSHIP

- Board of Directors, League of California Cities (League): 2008 to 2010
- Member, California Committee on Municipal Accounting: 2007 to 2010
- President, League Fiscal Officers Department: 2002 and 2003
- President, CSMFO: 2001
- Board of Directors, CSMFO: 1997 to 2001
- Member, GFOA Budget and Fiscal Policy Committee: 2004 to 2009

- Chair, CSMFO Task Force on "GASB 34" Implementation
- Fiscal Officers Representative on League Policy Committees: Community Services, Administrative Services and Environmental Quality: 1992 to 1998
- Chair, Vice-Chair and Senior Advisor for CSMFO Committees: Technology, Debt, Career Development, Professional and Technical Standards and Annual Seminar Committees: 1995 to 2010
- Member, League Proposition 218 Implementation Guide Task Force
- Chair, CSMFO Central Coast Chapter Chair: 1994 to 1996

TRAINER

Provided training for the following organizations:

- League of California Cities
- Institute for Local Government
- California Debt and Investment Advisory Commission
- Government Finance Officers Association of the United States and Canada
- California Society of Municipal Finance Officers
- Municipal Management Assistants of Southern California and Northern California
- California Association of Local Agency Formation Commissions
- Humboldt County

Topics included:

- Long-Term Financial Planning
- The Power of Fiscal Policies
- Fiscal Health Contingency Planning
- Financial Analysis and Reporting
- Effective Project Management
- Providing Great Customer Service in Internal Service Organizations: The Strategic Edge
- Strategies for Downsizing Finance Departments in Tough Fiscal Times
- Top-Ten Skills for Finance Officers
- Telling Your Fiscal Story: Tips on Making Effective Presentations
- Transparency in Financial Management: Meaningfully Community Involvement in the Budget Process
- Debt Management
- Preparing for Successful Revenue Ballot Measures
- Multi-Year Budgeting
- Integrating Goal-Setting and the Budget Process
- Financial Management for Elected Officials

PUBLICATIONS

- *Guide to Local Government Finance in California*, Solano Press, Spring 2012 (Co-Author)
- *Managing Debt Capacity: Taking a Policy-Based Approach to Protecting Long-Term Fiscal Health*, Government Finance Review, August 2011
- *Municipal Fiscal Health Contingency Planning,* Western City Magazine, November 2009
- *Understanding the Basics of County and City Revenue*, Institute for Local Government, 2008 (Contributor)

- *Financial Management for Elected Officials*, Institute for Local Government, 2007 (Contributor)
- *Getting the Most Out of Your City's Current Revenues: Sound Fiscal Policies Ensure Higher Cost Recovery for Cities*, Western City Magazine, November 2003
- *Local Government Revenue Diversification, Fiscal Balance/Fiscal Share and Sustainability*, Institute for Local Government, November 2002 (Co-Author)
- *Why Is GASB 34 Such a Big Deal?*, Western City Magazine, November 2000
- *Understanding Sales Tax Issues*, Western Cities Magazine, June 1997
- *Proposition 218 Implementation Guide*, League of California Cities, 1997 (Contributor)

HONORS AND AWARDS

- CSMFO Distinguished Service Award for Dedicated Service and Outstanding Contribution to the Municipal Finance Profession
- National Advisory Council on State and Local Government Budgeting: Recommended Best Practice (Fiscal Polices: User Fee Cost Recovery)
- GFOA Award for Distinguished Budget Presentation: Special Recognition as an Outstanding Policy Document, Financial Plan and Communications Device
- CSMFO Awards for Excellence in Operating Budget, Capital Improvement Plan, Budget Communication and Innovation in Budgeting
- GFOA Award of Achievement for Excellence in Financial Reporting
- CSMFO Certificate of Award for Outstanding Financial Reporting
- National Management Association Silver Knight Award for Leadership and Management Excellence
- American Institute of Planners Award for Innovation in Planning
- Graduated with Honors: University of California, Santa Barbara

Item 3.

Budget Policies

Council Agenda Report

February 22, 2012

TO: City Council

FROM: Arne Croce, Interim City Administrative Officer
Bill Statler, Pro Bono Budget Advisor

SUBJECT: BUDGET AND FISCAL POLICIES

RECOMMENDATION

Conceptually approve the proposed *Budget and Fiscal Policies* in guiding preparation of the Preliminary Budget, with final adoption in June 2012 in conjunction with approval of the 2012-13 Budget.

DISCUSSION

Background

As discussed on November 9, 2011 when the Council approved the budget process for 2012-13, clearly articulated budget and fiscal policies provide an essential foundation for effective financial decision-making and in protecting the City's fiscal health.

The City's fiscal health is a lot like personal health: it isn't what you live for; but it is hard to enjoy your life without it. Cities don't exist to be fiscally healthy: they exist to make communities better places to live, work and play. However, this requires the fiscal capacity to link community goals with the resources needed to achieve them. In short, fiscal health is not an end in itself; but it is an important part of the tool kit in achieving "ends."

And like personal health, fiscal health is rarely luck. The strength of the local economy is obviously an important fiscal health factor – just as genes are in personal health. However, regardless of the strength of its local economy, no agency is immune from economic downturns or unexpected expenditure needs.

Formal statements of key budget and fiscal policies provide the foundation for assuring long-term fiscal health by establishing a clear framework for effective and prudent financial decision-making.

For this reason, clearly articulated policies are a city's "north star" in guiding the preparation and implementation of budgets and financial plans. They help make tough decisions easier by stating an organization's values before they are placed under stress by adverse circumstances. The organization might still choose to do something different – effective policies are guides, not straightjackets – but they are a powerful starting point: *but for "this," the organization should do what?*

Stated simply, articulating and then following prudent fiscal policies is the most effective and proven way for government agencies to ensure their long-term fiscal health. They are both preventative and curative: clearly articulated policies help prevent problems from arising in the good times; and help respond to bad times when they do occur. They also help provide continuity as elected officials and staff change. Lastly, they are most powerful when it put in place before the need for them arrives.

In summary, adopting key fiscal policies is an essential factor for effective stewardship of the City's resources, both in the short and long-term. Based on "best practices" recommended by professional organizations like the Governments Finance Officers Association of the United States and Canada (GFOA) and the California Society of Municipal Finance Officers (CSMFO) as well as the major credit rating agencies, fiscal policy areas that the City will want to address include:

- Budget purpose and organization (including a balanced budget policy and what this means)
- Revenue management
- User fee cost recovery: when should user fees fund services versus general purpose revenues?
- Minimum fund balance and reserves
- Financial reporting and budget administration
- Investments
- Appropriations limit
- Capital improvement plan (CIP) management
- Capital financing and debt management
- Human resources management
- Productivity
- Contracting for services

Proposed Budget Policies

"One size does not fit all" in setting fiscal policies Careful consideration needs to be given in developing policies that are appropriate given the unique circumstances of each city. Fully addressing all of the areas noted above is planned in the coming year. However, in preparing for the next fiscal year, attached are six *Budget and Fiscal Policies* that we recommend focusing on at this time:

- Budget purpose and organization
- Revenue management
- User fee cost recovery
- Minimum fund balance and reserves
- Financial reporting and budget administration
- Contracting for services

Each of these will provide an important foundation and guidance for staff preparation of the Preliminary Budget for 2012-13, as well for the Council's review of it at the workshops and hearings that follow will its issuance by May 25, 2012.

In considering the proposed *Budget and Fiscal Policies*, it is important to note that in several cases, the City may not have yet achieved the policy goal – and it may take more than one year do so. Even so, it is important to articulate the goal: clearly stating where the City wants to be (versus where it may be today) will significantly enhance the City's ability to achieve it. For this reason, each policy area is followed by a brief summary of "compliance status." Where the City has not yet achieved the goal, a status summary on the City's progress in doing so is provided.

Minimum Fund Balance and Reserves

While each of the policy areas speak for themselves, minimum fund balance is an especially important policy in determining the City's ability to respond to unexpected fiscal hardships such as local disasters, downturns in the economy, external revenue hits like (State budget takeaways) and unforeseen operating or capital needs.

The proposed policy sets the City's policy goal for minimum General Fund balance at 25% of operating expenditures. This target was developed based on the City's fiscal circumstances using a draft methodology under preparation by the Government Finance Officers Association of the United State and Canada (GFOA). It uses a structured assessment of a city's exposure to the following eight fiscal risks:

1. **Vulnerability to extreme events and public safety concerns.** Major extreme events the community could reasonably be subject to and the likelihood and potential magnitude of loss for each event.

2. **Revenue source stability.** Volatility of each major revenue source based on factors such as past experience and trends with that revenue, characteristics of the tax or rate payers, state or federal revenue takeaways and economic factors.

3. **Expenditure volatility.** Spikes in expenditures, usually arising from special, non-recurring circumstances such as lawsuits; critical special projects without a funding source; or new state or federal spending requirements and unfunded mandates.

4. **Leverage.** Common examples include pensions, unfunded asset maintenance and debt: is the source of leverage very large? Does it have an off-setting funding source or asset?

5. **Liquidity (cash flow).** Intra-period cash imbalances, such as property taxes that are only received at one or two points during the year.

6. **Other funds.** Are there other funds that have a significant dependence on the General Fund?

7. **Growth.** This factor is only relevant if significant growth is a realistic possibility in the next three to five years. Includes assessing likely potential marginal costs associated with serving new growth compared with marginal revenues, and resulting gaps.

8. **Capital projects.** Are there high priority projects without a funding source, where reserves may be looked to as a funding source?

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Depending on the results of this assessment, the GFOA methodology provides recommended targets ranging from a minimum of 17% of expenditures (60 days cash flow) to circumstances where more than 35% might be warranted. Based on this structured assessment methodology relative to the City's fiscal situation, a target of 25% of operating expenditures is recommended, which represents 90 days of cash flow.

This compares with the City's existing circumstances, where reserves at the end of the current fiscal year are projected to be 12% of operating expenditures. Given the fiscal challenges facing the City, it is not reasonable to achieve this goal in the coming year: doing so will need to be a multi-year process.

In addressing this circumstance now and in the future, the proposed policy recommends that whenever the City's General Fund reserves fall below this target, the City will strive to restore reserves to this level within five years. As revenues versus expenditures improve, the City will allocate about half to reserve restoration, with the balance available to fund outstanding liabilities, asset replacements, service levels restoration, new operating programs or capital improvement projects.

Circumstances where taking reserves below policy levels would be appropriate include responding to the risks that reserves are intended to mitigate, such as:

- One-time uses in meeting cash flow needs; closing a projected short term revenue-expenditure gap; responding to unexpected expenditure requirements or revenue shortfalls; and making investments in human resources, technology, liability reductions, economic development and revenue base improvements, productivity improvements and other strategies that will strengthen City revenues or reduce future costs.

- And where a fiscal forecast shows an ongoing structural gap, in providing a strategic bridge to the future.

Next Steps

If conceptually approved by the Council at this time, staff will use these principles – in concert with the Major City Goals set by the Council for the coming year – as the foundation in guiding preparation of the Preliminary Budget for 2012-13. Final adoption of the policies will occur in June 2012 in conjunction with approval of the 2012-13 Budget. For future reference, the City's *Budget and Fiscal Policies* will be included the budget document (as will any future additions or revisions).

ATTACHMENT

Budget and Fiscal Policies

Budget and Fiscal Policies

BUDGET PURPOSE AND ORGANIZATION

A. **Balanced Budget.** The City will maintain a balanced budget. This means that:

1. Operating revenues must fully cover operating expenditures, including debt service.
2. Ending fund balance must meet minimum policy levels or other target levels established by the Council for the fiscal year.

Under this policy, it is allowable for total expenditures to exceed revenues in a given year; however, in this situation, beginning fund balance should only be used to fund capital improvement plan projects or other "one-time," non-recurring expenditures. (See *Fund Balance and Reserves* policy for other circumstances when it would be appropriate to use beginning fund balance.)

B. **Council Goal-Setting, Transparency and Meaningful Community Engagement in the Budget Process.** The Council will set goals for the coming year early in the budget process that provides transparent and clear policy direction in linking goals with resources. The community will be provided with meaningful opportunities to be engaged in the goal-setting and budget process.

C. **Budget Objectives.** Through its Budget, the City will link resources with goals and results by:

1. Identifying community needs for essential services.
2. Organizing the programs required to provide these essential services.
3. Establishing program policies and goals, which define the nature and level of program services required.
4. Identifying activities performed in delivering program services.
5. Proposing objectives for improving the delivery of program services.
6. Identifying and appropriating the resources required to perform program activities and accomplish program objectives.
7. Setting standards to measure and evaluate the:
    a. Output of program activities.
    b. Accomplishment of program objectives.
    c. Expenditure of program appropriations.

D. **Measurable Objectives.** The Budget will establish measurable program objectives and allow reasonable time to accomplish those objectives.

E. **Goal Status Reports.** The status of major program objectives will be formally reported to the Council on an ongoing, periodic basis.

F. **Mid-Year Budget Reviews.** The Council will formally review the City's fiscal condition, and amend appropriations if necessary, six months after the beginning of each fiscal year.

Status: In Compliance. *These practices are either in place or the Council has adopted a budget process for 2012-13 that meets these policy objectives. However, as noted in the November 2011 report to the*

Council on the proposed budget process for 2012-13, linking resources to outcomes and measuring performance will always be a work in progress, with ongoing improvements.

GENERAL REVENUE MANAGEMENT

A. **Current Revenues for Current Uses; One-Time Revenues for One-Time Purposes.** The City will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues or rolling over short-term debt. The City will avoid using one-time revenues to fund ongoing program costs.

B. **Revenue Distribution.** The Council recognizes that generally accepted accounting principles for state and local governments discourage the "earmarking" of General Fund revenues, and accordingly, the practice of designating General Fund revenues for specific programs should be minimized in the City's management of its fiscal affairs. In those cases where it does occur, the basis and methodology for earmarking should be clearly articulated in the City's Budget and Fiscal Policies.

C. **Special Tax and Assessment Levies.** The City will seek to lower special tax rates and assessments whenever possible through expenditure reductions and other cost containment strategies. However, the City will not use General Fund resources to subsidize reductions in allowable levies in the General Obligation Bond Fund, Retirement Fund, Assessment Districts or other similar funds.

Status: In Compliance. *These practices are either in place or the Council has adopted a budget process for 2012-13 that meets these policy objectives.*

USER FEE COST RECOVERY

A. **Ongoing Review**

Fees should be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery. In implementing this goal, a comprehensive analysis of City costs and fees should be made at least every five years. In the interim, fees will be adjusted by annual changes in the Consumer Price Index as well whenever there have been significant changes in the method, level or cost of service delivery.

B. **User Fee Cost Recovery Levels**

The following factors will be considered in setting user fees and cost recovery levels,

1. ***Community-Wide Versus Special Benefit.*** The level of user fee cost recovery should consider the *community-wide* versus *special service* nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.

2. ***Service Recipient Versus Service Driver.*** Cost recovery goals should also consider the concept of *service recipient* versus *service driver.* For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts – the community is the primary beneficiary. However, the applicant is the *driver* of development review costs, and as such, cost recovery from the applicant is appropriate.

3. ***Effect of Pricing on the Demand for Services.*** The level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly-stimulated by artificially low prices.

Conversely, high levels of cost recovery will negatively impact the delivery of services to lower income groups. This negative feature is especially pronounced, and works against public policy, if the services are specifically targeted to low income groups.

4. ***Feasibility of Collection and Recovery.*** Although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user.

C. **Factors Favoring Low Cost Recovery Levels**

1. There is *no* intended relationship between the amount paid and the benefit received. Almost all "social service" programs fall into this category as it is *expected* that one group will subsidize another.
2. Collecting fees is not cost-effective or will significantly impact the efficient delivery of the service.
3. There is *no* intent to limit the use of the service. Again, most "social service" programs fit into this category as well as parks and many public safety (police and fire) emergency response services.
4. Collecting fees would discourage compliance with regulatory requirements and adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Many small-scale licenses and permits might fall into this category.

D. **Factors Favoring High Cost Recovery Levels**

1. The service is similar to services provided through the private sector.
2. Other private or public sector alternatives could or do exist for the delivery of the service.
3. For equity or demand management purposes, it is intended that there be a direct relationship between the amount paid and the level and cost of the service received.
4. The use of the service is specifically discouraged. Police responses to disturbances or false alarms might fall into this category.
5. The service is regulatory in nature and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan check and subdivision review fees for large projects would fall into this category.

E. **General Concepts Regarding the Use of Service Charges**

1. Revenues should not exceed the reasonable cost of providing the service.
2. Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs and organization-wide support costs.
3. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
4. A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

F. **Low Cost-Recovery Services**

Based on the criteria discussed above, the following types of services should have very low cost recovery goals, although in selected circumstances, there may be specific activities within the broad scope of services provided that should have user charges associated with them.

1. Delivering public safety emergency response services such as police patrol services.
2. Maintaining and developing public facilities that are provided on a uniform, community-wide basis such as streets, parks and general-purpose buildings.
3. Providing social service programs and economic development activities.

G. **Recreation Programs**

1. Cost recovery for activities directed to adults should be relatively high.
2. Cost recovery for activities directed to youth and seniors should be relatively low. In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher.
3. For cost recovery activities of less than 100%, there should generally be a differential in rates between residents and non-residents. However, the Community Services Director is authorized to reduce or eliminate non-resident fee differentials when this is reducing attendance and thus cost recovery and there are no appreciable expenditure savings from the reduced attendance.
4. The Community Services Director is authorized to offer reduced fees such as introductory rates, family discounts and coupon discounts on a pilot basis (not to exceed 18 months) to promote new recreation programs or reenergize existing ones .

H. **Development Review Programs**

Cost recovery for planning, building and safety (building permits, structural plan checks, inspections) and engineering (public improvement plan checks, inspections, subdivision requirements, encroachments) services should be very high: in most instances, it should be 100%.

I. **Comparability With Other Communities**

Surveys of fees charged by other comparable agencies should not be the sole or primary criteria in setting City fees. As outlined below, there are many factors that affect how and why other communities have set their fees at their levels. Accordingly, comparability of Bell's fees to other communities should be one factor among many that is considered in setting City fees.

1. What level of cost recovery is their fee intended to achieve compared with Bell's cost recovery objectives?
2. What costs have been considered in computing the fees?
3. When was the last time that their fees were comprehensively evaluated?
4. What level of service do they provide compared with our service or performance standards?
5. Is their rate structure significantly different than ours and what is it intended to achieve?

Status: In Progress. *The City has not prepared a comprehensive analysis of its user fees. Doing so will require significant resources and may not be possible in the coming year. However, focused reviews in areas where a compelling need is identified will be presented to the Council.*

FUND BALANCE AND RESERVES

A. **General Fund Minimum Balance.** The City will strive to maintain a minimum unassigned fund balance of at least 25% of operating expenditures in the General Fund. This represents 90 days of cash flow and is based on the GFOA's draft methodology for setting reserve levels in adequately providing for:

1. Economic uncertainties, local disasters and other financial hardships or downturns in the local or national economy.
2. Contingencies for unseen operating or capital needs.
3. Unfunded liabilities such as self-insurance, pensions and retiree health obligations.
4. Institutional changes, such as State budget takeaways and unfunded mandates.
5. Cash flow requirements.

Whenever the City's General Fund reserves fall below this target, the City will strive to restore reserves to this level within five years. As revenues versus expenditures improve, the City will allocate about half to reserve restoration, with the balance available to fund outstanding liabilities, asset replacements, service levels restoration, new operating programs or capital improvement projects.

Circumstances where taking reserves below policy levels would be appropriate include responding to the risks that reserves are intended to mitigate, such as:

- One-time uses in meeting cash flow needs; closing a projected short term revenue-expenditure gap; responding to unexpected expenditure requirements or revenue shortfalls; and making investments in human resources, technology, liability reductions, economic development and revenue base improvements, productivity improvements and other strategies that will strengthen City revenues or reduce future costs.
- Where a forecast shows an ongoing structural gap, in providing a strategic bridge to the future.

B. **Facilities, Equipment, Fleet and Infrastructure Replacement.** The City will establish an Asset Replacement Fund and strive to set annually aside funds to provide for the timely replacement of long-lived capital assets such as facilities, equipment, vehicles and infrastructure. The annual contribution to this fund will generally be based on the annual use allowance or depreciation, which is determined based on the estimated life of the asset vehicle or equipment and its original purchase cost. Interest earnings and sales of surplus equipment as well as any related damage and insurance recoveries will be credited to this fund.

C. **Future Capital Project Fund Balance Assignments.** The Council may assign specific fund balance levels for future development of capital projects or other long-term goals that it has determined to be in the best interests of the City.

D. **Other Commitments and Assignments.** In addition to the assignments noted above, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year; debt service reserve requirements; commitments for encumbrances; and other reserves, commitments or assignments required by contractual obligations, state law or generally accepted accounting principles.

Status: In Progress. *The City currently has reserves of about 12% of General Fund expenditures; and no funds have been set aside for asset replacement. Achieving this goal is likely to be a multi-year endeavor.*

FINANCIAL REPORTING AND BUDGET ADMINISTRATION

A. **Annual Reporting.** The City will prepare annual financial statements as follows:

1. In accordance with Charter requirements, the City will contract for an annual audit by a qualified independent certified public accountant. The City will strive for an unqualified auditors' opinion.
2. The City will use generally accepted accounting principles in preparing its annual financial statements and will strive to meet the requirements of the Award for Excellence in Financial Reporting program of the Government Finance Officers Association of the United States and Canada (GFOA).
3. The City will issue audited financial statements within 180 days after year-end.

B. **Interim Reporting.** The City will prepare and issue timely interim reports on the City's fiscal status to the Council and staff. This includes on-line access to the City's financial management system; monthly reports to program managers; more formal quarterly reports to the Council and Department Heads; mid-year budget reviews; and interim annual reports.

C. **Budget Administration.** As set forth in the City Charter, the Council may amend or supplement the budget at any time after its adoption by majority vote of the Council members. Council approval is required for all new appropriations from fund balance. The City Manager has the authority to make administrative adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year-end fund balances.

Status: In Progress. *The City has not issued audited financial statements since 2009. The City has contracted with Macias Gini & O'Connell for the preparation of an independent audit for the fiscal years ending 2010, 2011 and 2012. Since more than 180 days have lapsed since the end of the last two completed fiscal years, it will not be possible to present these reports to the GFOA's Award for Excellence in Financial Reporting program. However, the City will strive to submit its comprehensive annual financial report for 2011-12 to the GFOA. The City is also making progress in improving interim financial reporting. For example, the Council will receive its first mid-year budget review in February 2012. However, the City's current financial management information system is limited in its ability to provide timely information and on-line access to City staff. An evaluation of ways to improve the City's financial reporting is currently underway.*

CONTRACTING FOR SERVICES

A. **General Policy Guidelines**

1. Contracting with the private sector or other public agencies for the delivery of services provides the City with a significant opportunity for cost containment and productivity enhancements. As such, the City is committed to using private sector resources or partnering with other public agencies in delivering municipal services as a key element in its continuing efforts to provide cost-effective programs.
2. Contracting approaches under this policy include construction projects, professional services, outside employment agencies and ongoing operating and maintenance services.
3. In evaluating the costs of private sector or other public agency contracts compared with in-house performance of the service, indirect, direct, and contract administration costs of the City will be identified and considered.

4. Whenever private sector or other public agency providers are available and can meet established service levels, they will be seriously considered as viable service delivery alternatives using the evaluation criteria outlined below.
5. For programs and activities currently provided by City employees, conversions to contract services will generally be made through attrition, reassignment or absorption by the contractor.

B. **Evaluation Criteria**

Within the general policy guidelines stated above, the cost-effectiveness of contract services in meeting established service levels will be determined on a case-by-case basis using the following criteria:

1. Is a sufficient private or public sector market available to competitively deliver this service and assure a reasonable range of alternative service providers?
2. Can the contract be effectively and efficiently administered?
3. What are the consequences if the contractor fails to perform, and can the contract reasonably be written to compensate the City for any such damages?
4. Can a private sector contractor or other public agency better respond to expansions, contractions or special requirements of the service?
5. Can the work scope be sufficiently defined to ensure that competing proposals can be fairly and fully evaluated, as well as the contractor's performance after bid award?
6. Does the use of contract services provide the City with an opportunity to redefine service levels?
7. Will the contract limit the City's ability to deliver emergency or other high priority services?
8. Overall, can the City successfully delegate the performance of the service but still retain accountability and responsibility for its delivery?

Status: In Compliance. *These practices are either in place or the Council has adopted a budget process for 2012-13 that meets these policy objectives.*