



CITY MANAGER'S MID-YEAR REPORT AND BUDGET OUTLOOK
FISCAL YEAR 2012 - 2013

City Council Workshop Meeting
Thursday, December 13, 2012, 1:00 p.m.
Sierra Nevada Auditorium
Caltrans District Office Building
703 B Street
Marysville, CA 95901

CITY MANAGER'S MID-YEAR REPORT
AND BUDGET OUTLOOK
FY 2012 - 2013

As we approach the midway point of the current fiscal year, it is a good time to report to the Council on our current fiscal condition, and to begin to look ahead at the outlook for the upcoming year.

This is the first opportunity your new Administrative and Finance team have had to meet with the Council in a serious review of the City's financial foundation and its capacity to meet its service delivery obligations to the community.

As our region begins to emerge from the years-long slump in the economy; the upturn in the business cycle reported for the regional, statewide and national economies has not yet been fully realized in our own local economy. In Marysville, the best it can be described as is "tenuous." Retail gains have been modest over the past two quarters, and the City's sales tax receipts reflect that tentative improvement, but the near-term outlook is disappointing. Property tax receipts are only now beginning to come in as first installments come due and are paid to the County Tax Collector. Our expectation is that property tax revenue will be slightly above actual collections in FY 2011-2012, owing to a small increase in the total assessed valuation of property within the city limits.

In this and subsequent budget presentations, the Council will see a very different approach to budget development and administration from what you have been accustomed to. The challenges still facing us require nothing less than that we keep a vigilant focus on our vital financial interests, and that the community be well informed about the steps we continue to take to economize with the resources they have given us to get the job done.

You will see from our budget calendar that we will engage with the public in a series of structured "Community Conversations" directed at both informing residents of our circumstances and listening closely to what they have to tell us about their preferred solutions. This is new.

You will see a series of budget workshops over the next four months to keep the council updated on our progress developing next year's spending plan, and to get Council's guidance on your priorities for the community throughout the budget development process. This is new.

You will see an emphasis on discussing policy issues that affect our budget and overall financial health, returning the policy-setting role of Council to the budget formulation process. This is new.

And finally, you will see a real, modern budget document that presents the entire fiscal picture of the City government, complete with meaningful financial schedules dealing with expenditures, revenues, provisions for reserves and contingencies, and debt service; charts and graphs to highlight areas of particular significance; the beginnings of true performance measures and other metrics to allow the Council and the community to evaluate how well the organization is meeting its service goals; and a capital investment plan. All of this is new.

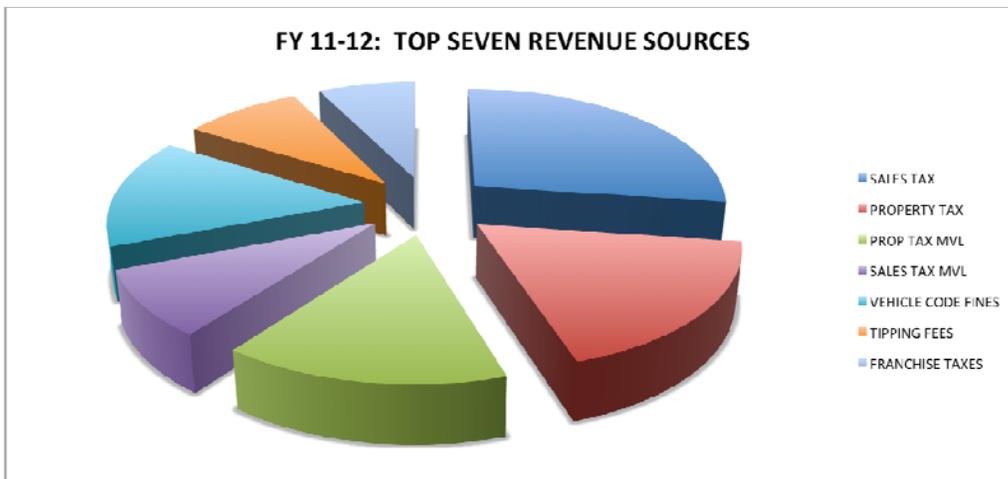
The presentation materials we have prepared for this afternoon's workshop follow in the succeeding pages. The next in this series of budget workshops is tentatively programmed for mid-February. We invite the Council's comments and suggestions.

Walter K. Munchheimer
City Manager
12/13/2012

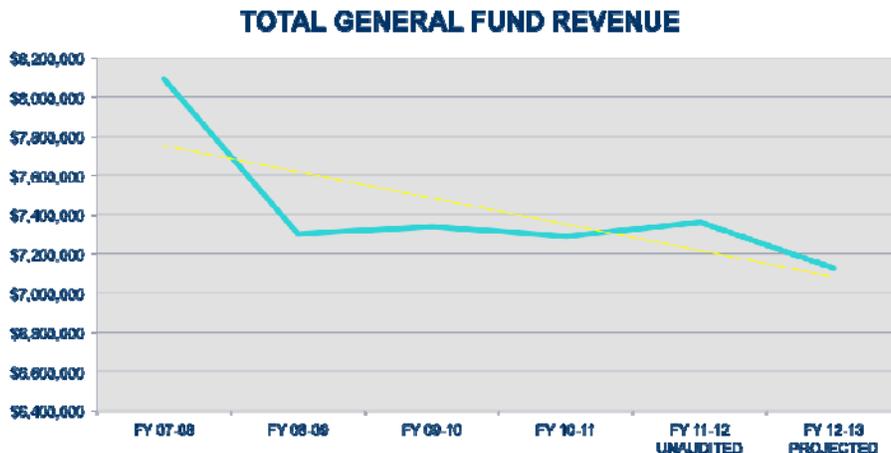
Appendix

The following information represents noteworthy highlights from the Mid-Year Report and Budget Outlook presentation on Thursday, December 13, 2012. In this presentation, the following topics will be discussed: fiscal year 11-12 preliminary audit results, fiscal year 12-13 midyear budget analysis, a long-term financial forecast, ideas for how the City can achieve fiscal sustainability, and a presentation of the City’s budget calendar.

The 11-12 fiscal year brought no significant changes in revenue and expenditure patterns over the recent five-year history. Revenues continue to progress in a gradual downward slope, though it appears that this slope has leveled out slightly. The largest revenue sources in the General Fund continue to be sales taxes, property taxes, motor vehicle license fees, and red light camera revenue. The graph below represents the largest sources of revenue for the General Fund:



General fund revenue as a whole has decreased dramatically since the year prior to when the effects of the economic downturn became widespread in California. As illustrated below, total General Fund revenue has decreased by over \$800,000 since fiscal year 07-08.



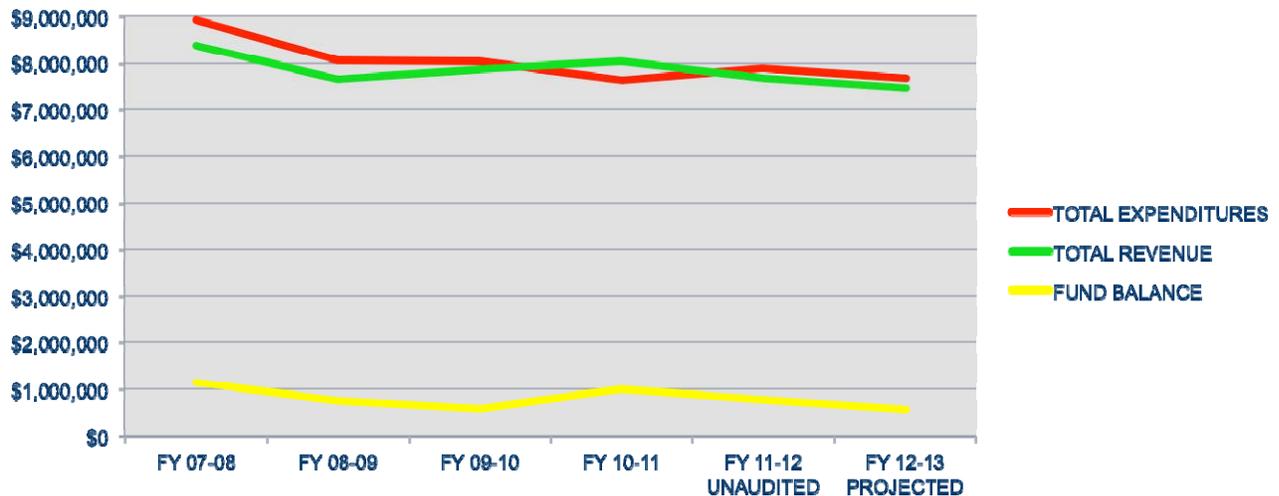
General Fund expenditures have also continued their downward slope as the City has been forced to live within its means. As with previous years, in fiscal year 11-12 the City's largest expenditure category was personnel costs at 70 percent. Also consistent with previous years, roughly 70 percent of its General Fund is spent on public safety. The below graph represents total General Fund expenditures. Since the largest expenditure category is personnel costs, the million-dollar decrease in expenditures is associated primarily with labor concessions.

TOTAL GENERAL FUND EXPENDITURES

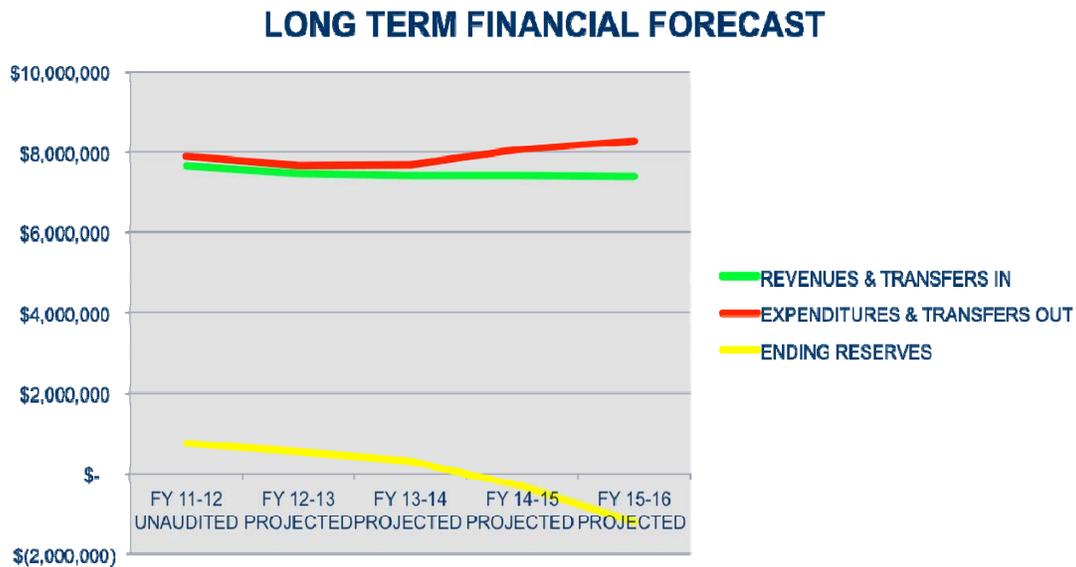


The City has a history of spending more than it takes in. However, interfund transfers (from the Gas Tax, Redevelopment, and Sewer funds) typically prevents the General Fund reserve from being completely eroded. Below represents a history of total revenues and expenditures, with transfers out and in, and the corresponding fund balance at year end.

GENERAL FUND: TOTAL REVENUES (WITH TRANSFERS IN), EXPENDITURES, AND FUND BALANCE



The previous graph illustrates that while the City has made significant efforts to size itself to the levels of service that it can afford to provide, the overall downward slope in revenues has resulted in an overall downward slope in its fund balance. The Government Finance Officer's Association recommends that General Fund reserves be at 20 to 25 percent of operating revenues (or enough revenue set aside to fund 2-3 months of operating expenditures). The fund balance in the previous graph ranges from 4 to 10 percent. These are dangerously low levels; and in light of the continued downward slope in revenues the budget outlook in the near future looks negative. The State's recent dissolution of all Redevelopment activities, along with the pending departure in prominent car dealerships in Marysville, and various challenges in Red Light Cameras as it pertains to road construction, have all negatively impacted the General Fund. These impacts have been projected in the below graph:



This graph is an illustration of what would happen if the City does nothing to mitigate negative impacts to the General Fund. As illustrated, the City is projected to have zero cash on hand in as early as fiscal year 14-15. Fortunately, this is a worst-case scenario projection and there are many things which can be done to mitigate this scenario from happening. First of all, the City has implemented a hiring freeze and limits on overtime and discretionary spending. The savings from the implementation of these cost containment measures will be substantial. What's more, the City will be conducting an in-depth review of its contractual obligations. The City will present a series of financial and budgetary policies which will restore fiscal health and sustainability. Lastly, the City will present for Council's approval a list of policy and operational changes designed to save money.

It is anticipated that these cost containment measures, combined with the "Bounce Back" Initiative and operational improvements implemented over the next several months, will help restore the fiscal health of the City in the long term.