MARYSVILLE CITY COUNCIL **AGENDA REPORT**

MEETING DATE:	March 18, 2014	**ITEM #**	**14**
SUBJECT:	**CITY MANAGER'S MIDYEAR REPORT AND BUDGET OUTLOOK FOR FISCAL YEAR 2014-15**		
INITIATED OR REQUESTED BY:	☒ **Staff** ☐ **Council** ☐ **Other**	**PRESENTED FOR:**	☐ **Action** ☐ **Direction** ☒ **Information**
FISCAL IMPACT:	☐ **Yes** $ ☒ **No** ☐ **Unknown** Adm Svcs Manager	**BUDGET AUTHORITY:**	☐ **Yes** ☐ **No** ☒ **Not Applicable**
ORIGINATED:	Administrative Services	**ATTACHMENT:**	☒ **Yes** 26 pages
PREPARED BY:	Matt Michaelis	**CONCUR:**	City Manager

RECOMMENDED ACTION

No action is required. Presentation is for informational purposes only.

BACKGROUND

This mid-year budget outlook presentation will represent the first step in developing the budget for FY 14-15. In this presentation we look primarily at revenue and expense projections for the General Fund and look for any issues that may impact the FY 14-15 budget. These projections will influence revenue projections for FY 14-15. From the 14-15 revenue projections, we determine the departmental expenditure targets which can be provided which will match the projected revenue. This is a complex process with many components and will be continually be refined over the next two months as integral budgetary information is obtained.

ANALYSIS

As consistent with previous budget discussions, the good news is that as a result of the comprehensive and aggressive cost-cutting strategies the City has implemented over the last year and a half (including hiring freezes for various positions, significant benefit cost sharing, and each of the departments' efforts to eliminate discretionary spending), all of the General Fund departments are projected to under spend their budgets by **$569,879** in FY 13-14.

The bad news is of course associated with decreases in sales tax and vehicle code fine revenue. As a result of both car dealerships leaving town and the Cal Trans summer construction project, the two categories combined are projected to be **$494,466** less than what was received in FY 12-13. What's more, the City owes $120,486 in interest payments for the B Street bonds. Combining all revenue and expenditure projections at year-end FY 13-14, the General Fund balance is projected to decrease by **$324,338**, going from **$455,537** to **$131,199.**
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LEGAL REVIEW

N/A

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If realized, this will be the lowest General Fund balance the City has seen in at least the last decade. As has been said in the past, the reason for this is not driven by the lack of cutting expenses. From FY 06-07 until now, General Fund expenses have decreased by over $2 million. Council is well aware of how the City has been able to do this. From MOU reductions including furloughs, pay reductions, and health care reductions; to complete overhaul and elimination of widespread City services, including the elimination of recreation activities, park maintenance, streetlight illumination, and elimination of capital maintenance, combined with significant layoffs in public safety, the City has spared no cost-cutting measure. With the fund balance being this low, the City will most likely have to issue Tax Anticipation Notes in order to produce the December payroll (as a result of December being the period prior to receiving property tax payments from the County, or the "driest" revenue period of the year). Rather, the primary reason for the fund balance reaching worryingly low levels is a lack of consistent and reliable operating revenue sources in the General Fund. Never has the need for such a revenue source been as vital to the overall health of the City of Marysville.

For all of the foregoing reasons, the financial plan for the upcoming year must consider how municipal services will be affected without some new source of significant revenue, such as a local transactions and use tax. The implications of this tax were first addressed in the Issue Paper #2 titled "Financial Restoration Plan." This paper outlined that a full 1 percent transaction and use tax add-on would produce an estimated $1.6 million for the City. Should this tax increase not be approved, the City will continue on its path of living within its declining means. However, in light of the cuts previously mentioned, the City will not be able to eliminate further service levels without compromising its ability to meet State-mandated requirements; let alone basic municipal service expectations. Employee concessions will reach unprecedented levels, resulting in high staff turnover and reduced efficiencies. All forms of City assets will deteriorate to the point of no return. The City will default on its General Fund debt obligations; which will substantially influence the City's ability to borrow money in the future. The decline in service levels will significantly lessen the potential for economic development in the City.

The City of Marysville is at an unprecedented financial crossroads. Disapproval of this measure will result in increasingly negative implications for residents of the City. On the other hand, approval will enable the City to provide basic services which any resident would have the right to expect, including:

1. A reliable, stable, long-term solution to fire protection needs
2. Reducing the high rate of staff turnover among police personnel by bringing greater stability to law enforcement professionals
3. Keeping recreational assets and civic amenities from deteriorating to the point of no return
4. Providing the means for managing long-term debt obligations responsibly
5. Rebuilding deteriorated physical infrastructure, particularly streets, in order to support the new economic development that will sustain "Bounce Back."

With the alternative being an uncertain future with costs the City cannot meet and services which cannot be provided, voters of Marysville must be asked to consider the "Save Our Community" measure on the November 2014 ballot.