NOTICE OF SPECIAL MEETING

Pursuant to Section 54956 of the Government Code of the State of California, a Special meeting of the **Tracy City Council** is hereby called for:

Date/Time:	**Tuesday, February 15, 2011, 5:30 p.m.** (or as soon thereafter as possible)
Location:	**Council Chambers, City Hall** **333 Civic Center Plaza, Tracy**

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy City Council on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

1. Call to Order

2. Roll Call

3. Items from the Audience - *In accordance with* *<u>Procedures for Preparation, Posting and Distribution of Agendas and the Conduct of Public Meetings</u>, adopted by Resolution 2008-140 any item not on the agenda brought up by the public at a meeting, shall be automatically referred to staff. If staff is not able to resolve the matter satisfactorily, the member of the public may request a Council Member to sponsor the item for discussion at a future meeting.*

4. CONDUCT A CITY COUNCIL WORKSHOP REGARDING CITY FISCAL ISSUES INCLUDING FY 10-11 CITY OPERATING BUDGET, 5-YEAR GENERAL FUND PROJECTION, AND PROVIDE DIRECTION TO STAFF REGARDING POLICY UPDATES TO RESERVE LEVELS AND BALANCED BUDGETS

5. Adjournment

Mayor

<u>February 10, 2011</u>

The City of Tracy complies with the Americans with Disabilities Act and makes all reasonable accommodations for the disabled to participate in public meetings. Persons requiring assistance or auxiliary aids in order to participate should call City Hall (209-831-6105), at least 24 hours prior to the meeting.

Any materials distributed to the majority of the Tracy City Council regarding any item on this agenda will be made available for public inspection in the City Clerk's office located at 333 Civic Center Plaza, Tracy, during normal business hours.

February 15, 2011

AGENDA ITEM 4

REQUEST

CONDUCT A CITY COUNCIL WORKSHOP REGARDING CITY FISCAL ISSUES INCLUDING FY 10-11 CITY OPERATING BUDGET, 5-YEAR GENERAL FUND PROJECTION, AND PROVIDE DIRECTION TO STAFF REGARDING POLICY UPDATES TO RESERVE LEVELS AND BALANCED BUDGETS

EXECUTIVE SUMMARY

This City Council workshop will discuss a variety of fiscal issues facing the City of Tracy. Information will be presented concerning; 1) the mid-year review of the FY 10-11 General Fund operating budget, 2) review of a 5-year General Fund forecast, 3) a review of ways to meet the City's ongoing fiscal challenges, and 4) budget and fiscal policy considerations. While no action will be taken at this workshop, Council direction is sought in order to provide an update to the City's current adopted fiscal policy concerning level and use of reserve funds, and balanced budget goals.

DISCUSSION

1. FY 10-11 GENERAL FUND BUDGET AND CURRENT FISCAL POSITION

The City's General Fund Balance as of 6/30/10 is $18,985,106. Additionally, the City had $10,550,972 as of 6/30/10 in the Reserve for Economic Uncertainty Fund for a total of $29.5 million in reserves. These are 6/30/10 audited figures.

By way of reminder the City had an adopted FY 09-10 General Fund budget of $53.8 million. Due to previous budget reduction and reorganization actions the City was able to reduce the FY 10-11 budget to $47.2 million. Even after reducing the budget from the previous year the FY 10-11 adopted budget anticipated a budget shortfall of $4.8 million as revenues were only expected to be $42.4 million. The budget shortfall would be drawn from the reserves.

The mid-year budget review of FY 10-11 has been completed (see Exhibit A). Total revenues for the year are expected to be $42,204,190 and expenses are projected to be $47,386,250. As such, the FY 10-11 deficit will total $5,182,000 which is more than the original deficit of $4,813,000 anticipated with adoption of the FY 10-11 budget. The following discussion of revenues and expenditures will identify the combination of factors resulting in this greater than anticipated deficit.

Revenues

The amount of expected property taxes is 99.6% of the budget estimate. Additional Measure E sales tax revenue will begin April 1, 2011. As such there will be one quarter of Measure E sales tax that will be posted to FY 10-11. The budget did not include any revenue from Measure E. Sales tax was projected to be $9.4 million but will likely be $10.5 due to the posting of one quarter (April to June 2011) Measure E sales tax revenue. Although there will be an extra $1.1 million in sales tax in FY 10-11 overall General Fund revenues are approximately $260,000 less than budget. There are several other General Fund revenue line items that are tracking at much less than budget estimates. Most notably engineering charges, cultural arts fee revenue, and CIP charges.

Engineering charges were budgeted at $1,195,700 whereas it is estimated these will bring in $930,500 due to less activity in this area than assumed. CIP project management charges are paid by City capital projects to the General Fund as reimbursements and overhead charges for City and consultant staff efforts devoted to such projects. The amount charged can vary depending on the progress made and staff and consultant efforts in terms of design, inspection, and program management. $3,621,000 was budgeted for these charges in FY 10-11 but the mid-year analysis indicates that $2,667,000 is likely to result from these charges. This less than expected revenue is the result of a combination of several factors. Also CIP staff has become more efficient which has a consequence of the City not charging overhead to consultant assistance as much as in previous years. In addition there are currently slightly fewer CIP projects plus the earlier advancement of some projects (as part of the City's efforts stimulate the local economy) skewed the number higher than can most likely be maintained in the current economic environment.

Cultural Arts revenues were budgeted at $337,780 for FY 10-11. They are now projected to be $170,000. The economy has hurt the Arts Education Program as well as program offerings in the theatre as families have less money to spend on entertainment. 80% of the seasonal rentals occur in the third and fourth quarter of this fiscal year so some ground should be made up in overall revenues. The very popular Arts Camps are also scheduled for fourth quarter.

Expenditures
Total expenses are expected to be about $108,000 more than budget. However, this must be further explained. Police and Fire are on target to spend 100% of their budget without any savings. However, other departments are operating with significant savings. With the adoption of the budget it was anticipated that City-wide not 100% of every line item budget would be spent. While it cannot be predicted in which department these savings would fall, it was expected savings City-wide would total $1.4 million. This offset was deducted from the overall operating budget. At present it is anticipated that these savings will total about $1.3 million. As line item discretionary budgets have been previously cut by as much as 55%, departments are skimming by with little unspent funds remaining in their expense budgets. Also, budget savings often resulted when employees terminated and before their replacements were hired. But due to the economy, attrition (vacancy) has slowed.

Reserves at 6/30/11
With an estimated draw on reserves of $5.1 million for FY 10-11 remaining reserves as of 6/30/11 would be approximately $24.3 million. Although the $24.3 million in remaining funds represents a healthy 52% of General Fund Operating expenses, continued draw on reserves in the range of $5 million a year would exhaust the City of necessary reserves within several years.

2. FIVE–YEAR BUDGET AND FISCAL PROJECTION

Exhibit B is a detailed five-year budget projection. Revenues are expected to grow slightly as the economy continues a slow recovery. The big boost in revenues comes from the additional Measure E revenue. With these considerations, General Fund revenues are expected to grow from the current $42.2 million to $52.3 million by FY 15/16. During the same period however, expenditures are also projected to increase from the current $47.3 million to $55.6 million. This would result in continued annual budget deficits of approximately $4 million which has previously been identified as the City's structural deficit. Should this occur at the end of the five-year projection period the City would only have $8.4 million remaining in total reserves (the Economic Uncertainty Fund would be completely exhausted and the General Fund would have a balance of just $8.4 million).

Measure E was projected to bring in approximately $4.6 million per year which would plug the structural deficit and enable the City to continue to offer the current level of services. In order for this to occur, the current cost of those services cannot exceed the modest growth rate in revenues, otherwise no progress is ever made toward balancing the City's budget. And all along the way, the annual budget deficits would eat way at the City's reserves. There are several factors that contribute to increased expenses for the current level of service. The following is a discussion of some of these factors.

PERS Employer rate

The huge investment losses in the stock market and real estate in 2008 and 2009 also had a dramatic effect on CalPERS investments. Due to the normal actuarial processes, these losses were included in the actuarial completed in October 2010. This actuarial becomes the basis for the July 1, 2011 CalPERS employer rate. This is the rate the City pays as an employer to fund its account with CalPERS for City employee retirement. The employer rate for police and fire will jump from about 24% to 27.2% and the employer rate for all other employees will jump from 11.6% to 13.8%. In addition to the investment loses these rates reflect actuarial demographic changes – most notably increase in life expectancy. The additional cost due to the employer rate increase in FY 11-12 will cost the City $2.8 million in the General Fund ($3.2 million in all funds).

The FY 11-12 increase will likely be the first of three successive years in which the PERS employer rate will increase. The FY 08-09 investment losses by PERS have been isolated into a three year smoothing process to begin with the FY 11-12 rate. The actual investment losses in FY 08-09 were a negative 24% but this is a swing of a negative 31.75% from an actuarial perspective because positive earnings of 7.75% are assumed by the actuaries as an annual rate of return. While the PERS investment returns of late have been excellent, these would have to experience a prolonged period of double digit returns to offset the FY 08-09 actual losses. The 5-year budget forecast has the estimated employer PERS rate as identified by PERS for the City for the next three years as follows:

Plan	FY 11-12	FY 12-13	FY 13-14
Public Safety	+3.2%	+.5%	+2.0%
Misc. Employees	+2.8%	+.3%	+1.4%

In addition to this, the PERS Board is considering a change in the actuarial assumption for investment return from the current 7.75% to 7.5%. If this change is adopted it would become effective with the FY 12-13 employer rate. The effect of this change for the public safety employer rate is estimated to be an additional 3% to 5% and an estimated additional 1.5% to 3% for miscellaneous employees.

The employer rate for the public safety (police and fire) group is increasing faster than the rate for miscellaneous employees. This is of critical importance to note because 80% of General Fund taxes are spent on public safety.

Other provisions in labor contracts

Health insurance costs also continue to rise. Current labor contract provisions place 85% of any such cost increases as the responsibility of the City. These escalating costs are also factored into the 5-year analysis.

A variety of other labor contract provisions can result in additional expenses each year. No current contracts call for any additional across the board wage increases. But employees not currently at E step (the last step of 5 wage steps each 5% apart) can continue to advance to the next step annually until they reach E step. While all employees except Police have taken unpaid furloughs or contribute to pension costs ranging from 3% to 4.5% those employees not yet at E step can actually experience a salary increase of the net between their 5% step increase and the offsetting furlough. Police Officers not yet at E step receive a full 5% because they do not have any unpaid furlough. As a result, the financial benefit to the City of employees taking an unpaid furlough is borne entirely by non-police City employees at E step.

Education and training incentives in the current police and fire contracts can also add to additional expenses each year. The City offers a 5% pay incentive to fire personnel who have obtained an AA or AS degree (completion of junior college) in Fire Science. Police are offered a similar 5% incentive for such a degree in Police Administration. Police can also receive successive 2.5% increases for obtaining certain POST certificates. The addition of as much as 15% increase for officers qualifying for designation as Master Patrol Officer has also resulted in additional expenses.

Additional community priorities

The 5-year budget forecast only continues the budget priorities of the current fiscal year (FY 10-11). No additional programs, services or efforts are added in the 5-year horizon. However, community needs may result in additional expenses. A good example of this *may* be an additional expenditure to address the issue of gangs. If such expenditure is added to FY 10-11 budget as proposed and is an ongoing expense each year, then the figures in the 5-year forecast become more negative resulting in continued budget deficits.

3. HOW TO ADDRESS THE ONGOING BUDGET CHALLENGES

Measure E revenue has assisted the City in not having to take draconian actions which could have significant impact on the quality of life in Tracy. But with ongoing fiscal pressure to fund services at the existing level, the City will nevertheless face continued fiscal challenges. In order to meet this challenge there are a variety of options to consider. The ultimate solution to long term and sustainable fiscal health may be some, all, or a combination of the following.

New labor contracts
The current contract with the Teamsters Union and the Fire Union both expire on 6/30/11. The contract with the Police Union expires on 6/30/12. The issue of increasing benefit costs will need to be addressed. A second tier retirement formula has already been put into effect for the Teamsters (and all miscellaneous city employees) and for Police. This assists with long term (i.e.10 years or more) efforts to reduce benefit costs. Since both State law and a variety of judicial case law prevent the elimination of retirement benefits for existing employees, the focus of collective bargaining should be on who should pay for such benefits. Also the City will need to examine its long term fiscal resources in setting wages for new employees. With attrition the City could migrate to lower costs over time without ongoing annual salary concessions which have been the source of much contention in other communities. Until new contracts are executed, it is not possible to identify potential savings from the current 5-year budget projection.

In future Fire contracts not only will the City's continued fiscal situation need to be considered but also the fiscal condition of the City's partners in fire service, Tracy Rural Fire District and the Mountain House Community Service District.

Contracting of services
The City has recently moved to contracting out for janitorial and tree trimming services. Additional areas for contracting out of services where such services are readily available in the private sector for a lower price and of equal quality will need to be examined for potential savings.

Continued change to the City's organizational structure
The City has already reduced its work force from 560 FTE to 470. This reduction was the result of a strategic effort to maintain services while at the same time reducing the number of City positions. Specific targets of this approach were to compact layers of management, eliminate duplication of services, contract out services and invest in and utilize technology. While efforts were made to minimize layoffs, this approach did necessitate the City issuing pink slips.

It will be necessary to continue to examine the organizational structure of the City and make changes were appropriate. It is anticipated that such changes can be made without the need for layoffs providing sufficient time is offered for attrition and by using targeted retirement incentives. Whereas the previous reorganization (or "right-sizing") was implemented within a short time frame, it is anticipated that additional organizational changes will be continually implemented over the next few years.

Reprioritize existing expenditures
As noted earlier, community needs may shift over time. Such needs often necessitate additional expenditures to address the issue. But this does not mean that such expenditure must always add to the bottom line. Instead, a focus should be made on identifying an expenditure offset at the same time consideration is given to the increased expenditure. For example, in Police if additional efforts for gang prevention is deemed

necessary, such resources might come from reallocating resources from elsewhere in the department (such as from traffic enforcement) or even from another department.

Elimination or reduction in non-essential services
The City will need to continue to assess its ability to fund non-essential services such as cultural arts. While efforts have reduced General Fund subsidy to the Grand Theatre Center for the Arts, the FY 10-11 subsidy remains at $885,000. Similar arguments can be made regarding parks and community services, grounds maintenance, and others. The City could evolve into a public safety only community. However, such a trend would undermine the tenants of Measure E and the real impact on the community's quality of life.

Improved Economy
The five-year budget forecast anticipates a modest growth in revenues. Because property taxes lag actual reflection in current market conditions it is unlikely that during this five-year period the City will realize significant growth in this key revenue source even if new home construction begins in calendar year 2012 as allowed under Measure A. However, sales tax is much more elastic. If there is a rebound in the economy and improved consumer spending, the City's sales tax revenue could grow more rapidly than this forecast assumes. In addition, new sales tax producing establishments could also add to sales tax revenue. And because of Measure E, this growth could be compounded. While it may not be fiscally prudent to include a greater growth rate in sales tax at this time in the budget forecast, there is potential that this could assist the City on the revenue side of the balance sheet. Such potential will only be known as time goes by and will be periodically examined in order to update budget estimates for this key General Fund revenue source.

4. BUDGET AND FISCAL POLICY CONSIDERATIONS

City Council Resolution #2009-086 adopted thirteen budget principles to address the City's structural budget deficit (see Exhibit C). Several of these principles will need to be examined in light of the most recent 5-year budget analysis to ascertain if they are still a desired course of action.

The current "balanced budget" principle states that by the end of FY12/13 a balanced budget must be presented. This means that FY 11/12 (the upcoming fiscal year) would be the last year that reserve funds could be used to bridge the gap between revenues and expenditures that year. A balanced budget is defined in the principles as "ongoing revenues shall equal or exceed ongoing expenditures". The FY 12/13 budget would have to be balanced without using any reserve funds.

As has been discussed in this report, due to rising expenses to maintain current staffing, presenting a balanced budget for FY 12/13 would require significant cuts to public safety and other essential services highly desired by the community. It may take additional time to continue to implement a variety of actions that will help the City continue to make progress toward overall reduction in General Fund expenditures while still maintaining acceptable levels of service to the community. As identified above, these include labor negotiations, contracting services, and continued refinement to the City's organizational structure resulting in fewer positions, reprioritizing current expenditures, and elimination or reduction in non-essential programs. An improved economy may also assist on the revenue side of the ledger.

In order to continue to transition to this goal of a balanced budget in a smooth manner without significant interruption of desired services, it is recommended that this budget principle be amended to allow two additional years for this goal. This means reserves could be used in fiscal years 12/13 and 13/14. FY 14/15 would require that the budget be balanced without the use of reserves.

In conjunction with this change so as to assure the public that the City continues long term prudent fiscal management, it is recommended that the existing 15% reserve level be increased to 25%. This means that if the City adopted a General Fund operating budget of $55 million that $13.25 million would be required in reserves. The reserves at the end of FY 10/11 (June 30, 2011) are projected to be $24.3 million. As such no more than approximately $11 million could be used in reserves over the next three fiscal years (FY 11/12, 12/13, and 13/14). Increasing the reserve level has the self trigger mechanism of requiring the City stay the course toward a balanced budget with the FY 14/15 budget.

An additional budget principle could also be considered which would provide additional fiscal fortitude toward the long term goal of balanced budgets. This requirement would be that anytime additional funds are sought through either a General Fund supplemental appropriation (additional monies after the adoption of the budget for the fiscal year), or through a General Fund augmentation (the adding of funds to the previous base budget for program expansion, new programs, etc., when the budget is adopted), that such action be accompanied by a corresponding action to reduce the General Fund budget in another area.

There is also an existing budget principle that states that “beginning in FY 12/13 or when conditions permit, begin building up the Economic Uncertainty Fund.” As noted, this is not realistically possible by FY 12/13. It will be a major accomplishment to get the City to a balanced budget by FY 14/15 let alone add to reserve levels. It is recommended that this provision be eliminated because the recommendation to increase reserves to 25% and maintain them as such should suffice to provide the City will prudent ongoing reserves.

If Council concurs with these recommendations, Staff will bring back such revisions to Resolution 2009-086 for adoption by City Council at a meeting in the near future.

Prepared by: Zane Johnston, Finance & Administrative Services Director

Approved by: Leon Churchill, Jr., City Manager

Attachments: Exhibit A - General Fund Summary
Exhibit B - Multi-Year Budget Forecast
Exhibit C - Budget Principles to Address the City's Structural Budget Deficit

CITY OF TRACY	Preliminary FY2011-2012 Budget			General Fund Summary				Exhibit A	
General Fund Summary	FY08-09 Actual	FY09-10 Actual	% Change	FY10-11 Adopted	FY10-11 Estimated	% of Budget	% Change	FY11-12 Projected	% Change
BEGINNING FUND BALANCE	$18,585,774	$17,930,357	-3.5%	$17,924,020	$18,985,101	<<Actual	5.9%	$17,925,040	
REVENUES									
Property Taxes	$18,804,068	$15,158,986	-19.4%	$14,899,000	$14,833,400	99.6%	-2.1%	$15,281,000	3.0%
Sales Taxes	10,963,987	9,224,814	-15.9%	9,413,000	10,540,430	112.0%	14.3%	14,255,500	35.2%
Other Taxes	1,788,563	1,516,991	-15.2%	1,440,000	1,485,000	103.1%	-2.1%	1,550,000	4.4%
Operating Assessments	337,771	341,171	1.0%	340,000	342,000	100.6%	0.2%	345,000	0.9%
License & Permit Fees	870,736	663,637	-23.8%	560,600	567,230	101.2%	-14.5%	570,500	0.6%
Franchise Fees	2,137,392	2,222,845	4.0%	4,965,600	4,977,000	100.2%	123.9%	5,171,000	3.9%
State Shared Taxes	775,742	686,604	-11.5%	585,000	683,730	116.9%	-0.4%	695,000	1.6%
Other Grants	513,576	761,395	48.3%	483,070	492,650	102.0%	-35.3%	478,070	-3.0%
Current Charges	8,222,621	8,042,644	-2.2%	6,826,180	5,408,630	79.2%	-32.8%	4,939,900	-8.7%
Fines & Forfeitures	1,684,381	1,714,754	1.8%	1,698,500	1,643,300	96.8%	-4.2%	1,678,000	2.1%
Use of Money & Property	3,089,459	2,874,842	-6.9%	1,055,000	970,000	91.9%	-66.3%	990,000	2.1%
Other Revenues	174,385	527,651	202.6%	199,520	260,820	130.7%	-50.6%	249,520	-4.3%
Other Financing Sources	0	0		0	0			0	
Sub-total	$49,362,681	$43,736,334	-11.4%	$42,465,470	$42,204,190	99.4%	-3.5%	$46,203,490	9.5%
IF Trfs In from EU Fund 299	2,011,760	6,631,600		4,813,000	4,122,000	85.6%		3,425,900	-16.9%
IF Trfs In from other Funds	244,692	0		0	`			0	
Total Revenues	$51,619,133	$50,367,934	-2.4%	$47,278,470	$46,326,190	98.0%	-8.0%	$49,629,390	7.1%
EXPENDITURES								FY11-12 Proposed	
Operating Budget									
Police	$21,568,543	$21,846,115	1.3%	$20,982,240	$21,026,150	100.2%	-3.8%	$21,843,530	3.9%
Fire	8,053,113	8,142,834	1.1%	7,885,900	7,960,610	100.9%	-2.2%	8,576,910	7.7%
Public Works									
Street & Traffic Maintenance	1,190,955	635,752	-46.6%	836,700	568,910	68.0%	-10.5%	720,670	26.7%
Parks & Property Maintenance	2,574,071	2,201,958	-14.5%	2,628,860	2,284,230	86.9%	3.7%	2,463,750	7.9%
Parks & Community Services									
Recreation Programs	3,015,684	2,563,850	-15.0%	2,834,730	2,625,940	92.6%	2.4%	2,749,590	4.7%
Cultural Arts	1,490,937	0	-100.0%	0	0			0	
Development & Engineering									
Planning & Building	3,445,950	3,248,715	-5.7%	3,123,870	3,053,430	97.7%	-6.0%	3,089,900	1.2%
Engineering	3,142,492	3,075,527	-2.1%	2,938,510	2,463,730	83.8%	-19.9%	3,015,120	22.4%
Economic Development	500,588	344,874	-31.1%	357,740	347,070	97.0%	0.6%	349,690	0.8%
Gen Govt Agencies	3,866,941	4,519,539	16.9%	4,731,120	4,485,490	94.8%	-0.8%	4,535,250	1.1%
Finance & Adm Serv	2,324,078	2,275,623	-2.1%	2,074,810	1,987,690	95.8%	-12.7%	2,016,030	1.4%
Non-Departmental	529,586	489,313	-7.6%	250,020	550,000	220.0%	12.4%	250,020	-54.5%
Indirect Cost Reimbursement	(1,186,430)	(1,203,910)	1.5%	(1,139,960)	(1,140,000)	100.0%	-5.3%	(1,154,000)	1.2%
Sub-total	$50,516,508	$48,140,190	-4.7%	$47,504,540	$46,213,250	97.3%	-4.0%	$48,456,460	4.9%
Capital Projects	0	0		0	0			0	
Debt Service	1,758,042	1,173,000	-33.3%	1,173,000	1,173,000	100.0%	0.0%	1,173,000	0.0%
IF Transfers Out	0	0		0	0			0	
Budget Savings	0	0		(1,400,000)	0			0	
Total Expenditures	$52,274,550	$49,313,190	-5.7%	$47,277,540	$47,386,250	100.2%	-3.9%	$49,629,460	4.7%
ENDING FUND BALANCE	$17,930,357	$18,985,101	5.9%	$17,924,950	$17,925,041	100.0%	-5.6%	$17,924,970	0.0%

CITY OF TRACY	Preliminary FY2011-2012 Budget	Multi-Year Budget Forecast	Exhibit B

General Fund Summary	FY12-13 Projected	% Change	FY 13-14 Projected	% Change	FY14-15 Projected	% Change	FY15-16 Projected	% Change
BEGINNING FUND BALANCE	$17,924,970		$17,916,625		$14,195,842		$11,698,102	
REVENUES								
Property Taxes	$15,732,200	2.95%	$16,206,000	3.01%	$16,694,200	3.01%	$17,195,800	3.00%
Sales Taxes	14,684,000	3.01%	15,124,200	3.00%	15,577,600	3.00%	14,736,600	-5.40%
Other Taxes	1,693,000	9.23%	1,722,000	1.71%	1,751,000	1.68%	1,785,600	1.98%
Operating Assessments	345,000	0.00%	350,000	1.45%	355,000	1.43%	360,000	1.41%
License & Permit Fees	643,800	12.85%	744,200	15.59%	1,515,300	103.61%	1,728,700	14.08%
Franchise Fees	5,526,600	6.88%	5,707,400	3.27%	5,889,000	3.18%	6,071,400	3.10%
State Shared Taxes	642,000	-7.63%	660,000	2.80%	705,000	6.82%	755,000	7.09%
Other Grants	423,400	-11.44%	431,800	1.98%	440,400	1.99%	451,200	2.45%
Current Charges	5,293,000	7.15%	5,562,500	5.09%	6,635,000	19.28%	6,994,500	5.42%
Fines & Forfeitures	1,759,500	4.86%	1,767,000	0.43%	1,757,500	-0.54%	1,773,000	0.88%
Use of Money & Property	790,000	-20.20%	550,000	-30.38%	350,000	-36.36%	350,000	0.00%
Other Revenues	142,000	-43.09%	147,000	3.52%	152,000	3.40%	157,000	3.29%
Other Financing Sources	0		0		0		0	
Sub-total	$47,674,500	3.18%	$48,972,100	2.72%	$51,822,000	5.82%	$52,358,800	1.04%
IF Trfs In from EU Fund 299	3,003,070	-12.34%	0		0		0	
IF Trfs In from other Funds	0		0		0		0	
Total Revenues	$50,677,570	2.11%	$48,972,100	-3.37%	$51,822,000	5.82%	$52,358,800	1.04%
EXPENDITURES								
Operating Budget								
Police	$22,508,857	3.05%	$23,708,002	5.33%	$24,410,778	2.96%	$25,134,426	2.96%
Fire	8,832,414	2.98%	9,330,529	5.64%	9,608,550	2.98%	9,894,865	2.98%
Public Works								
Street & Traffic Maintenance	738,687	2.50%	757,154	2.50%	776,083	2.50%	795,485	2.50%
Parks & Property Maintenance	2,525,344	2.50%	2,588,477	2.50%	2,653,189	2.50%	2,719,519	2.50%
Parks & Community Services								
Recreation Programs	2,818,330	2.50%	2,888,788	2.50%	2,961,008	2.50%	3,035,033	2.50%
Cultural Arts	0		0		0		0	
Development & Engineering								
Planning & Building	3,167,148	2.50%	3,246,326	2.50%	3,327,484	2.50%	3,410,671	2.50%
Engineering	3,090,498	2.50%	3,167,760	2.50%	3,246,954	2.50%	3,328,128	2.50%
Economic Development	359,266	2.74%	369,105	2.74%	379,217	2.74%	389,608	2.74%
Gen Govt Agencies	4,305,441	-5.07%	4,260,328	-1.05%	4,543,533	6.65%	4,489,799	-1.18%
Finance & Adm Serv	2,069,660	2.66%	2,124,728	2.66%	2,181,272	2.66%	2,239,332	2.66%
Non-Departmental	266,121	6.44%	281,108	5.63%	297,401	5.80%	315,077	5.94%
Indirect Cost Reimbursement	(1,182,850)	2.5%	(1,212,421)	2.5%	(1,242,732)	2.5%	(1,273,800)	2.5%
Sub-total	$49,498,914	2.15%	$51,509,885	4.06%	$53,142,739	3.17%	$54,478,145	2.51%
Capital Projects	0		0		0		0	
Debt Service	1,187,000	1.19%	1,183,000	-0.34%	1,177,000	-0.51%	1,177,000	0.00%
IF Transfers Out								
Budget Savings	0		0		0		0	
Total Expenditures	$50,685,914	2.13%	$52,692,885	3.96%	$54,319,739	3.09%	$55,655,145	2.46%
ENDING FUND BALANCE	$17,916,625	-0.05%	$14,195,842	-20.77%	$11,698,102	-17.59%	$8,401,757	-28.18%

Exhibit C

BUDGET PRINCIPLES TO ADDRESS THE CITY'S STRUCTURAL BUDGET DEFICIT AS APPROVED BY RESOLUTION 2009-086 MAY 19, 2009

1. General Fund Reserves
   Over the upcoming years through FY 2012/2013, maintain a General Fund Reserve of at least 15% of the City's General Fund Operating Budget.

2. Balanced Budget
   By the end of FY 2012/2013, present a balanced budget.

3. Economic Uncertainty Fund
   In five years beginning in FY 2012/2013 or when conditions permit, begin building up the Economic Uncertainty Fund.

4. Structurally Balanced Budget
   The annual budgets for all City funds shall be structurally balanced throughout the budget process. Ongoing revenues shall equal or exceed ongoing expenditures in both the proposed and adopted budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance.

5. Proposed Budget Revisions
   The annual General Fund proposed budget balancing plan shall be presented and discussed in context of the updated five-year forecast. Any revisions to the proposed budget shall include an analysis of the impact on the forecasted years. If a revision creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

6. Use of One-Time Resources
   Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, or similar nonrecurring revenue) shall <u>not</u> be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures.

7. Reserves
   All City funds shall maintain an adequate reserve level and/or ending fund balance, as determined annually and as appropriate for each fund. For the General Fund, a contingency reserve amount which is a minimum of 15% of the operating budget shall be maintained.

8. Prudent Use of Debt
   The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs. All General Fund debt issuance shall identify the method of repayment or have a dedicated revenue source. General obligation debt shall be limited to 8% of the operating budget.

9. Capital Improvement Projects
   Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding $25,000 without City Council certification that funding will be made available in the applicable year of the cost impact.

10. Fees and Charges
    Fee increases shall be utilized, where appropriate, to assure that the program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

11. Grants
    City staff shall seek out, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before the grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs.

12. Personnel Services Costs
    Total General Fund personnel services costs shall not exceed 75% of the General Fund operating budget.

13. Performance Measures
    All requests for departmental funding shall include performance measurement data so that funding requests can be evaluated and approved based on effective accomplishment of community desired outcomes and priorities.