

Town of Mammoth Lakes Fiscal Year 2010-2011 Budget

Mayor, Members of the Town Council, and citizens of Mammoth Lakes:

Transmitted herewith is the proposed Budget for Fiscal Year 2010-2011.

INTRODUCTION

This Budget document is the annual financial plan for the Town of Mammoth Lakes. It is presented in a new format that summarizes departmental revenue and expenditures. The goal of the new format is to present the budget in a more user-friendly format, without the confusing accounting 'line item' pages.

There are two parts to the Budget; 1) the Introduction, and 2) the Individual Department's Budgets. A separate document contains a description of the Budget Policy Decisions that, when acted upon by the Town Council, will be used to finalize the Budget.

The **Budget Introduction** provides a broad overview of the financial picture of the organization, including highlights of the revenues, expenditures, and fund balances.

The **Individual Department's** Budgets are organized into six categories:

1. Revenue - a summary of revenue activity that is generated by the department; including fees, grants and the funding contribution from the General Fund (tax revenue).
2. Expenditures - a summary of expenses related to Personnel Services, Supplies, Other Services, and Capital Outlay by sub-department and then summarized in the overall Department Expenditure Summary.
3. Department Core Programs – a brief description of the primary functions of the department.
4. Performance Indicators – a series of measurable products or outcomes that can demonstrate the success of the Core Programs.
5. Department Positions – a listing of the number of full-time-equivalent employees within each department.
6. Customer Survey Results – a brief listing of the community's values that have been included to inform the department's budget.

BUDGET INTRODUCTION

REVENUES

The Budget estimates that 2010-11 General Fund Revenues, primarily tax revenues, will decline by 1.5%, or \$260,000 overall, compared to the estimated actual 2009-2010 revenues. Exhibit 1 displays a pie chart that compares the percentage of revenue generated by each revenue type. The individual revenue types that provide the majority of the Town's taxes are the Transient Occupancy Taxes, Property Tax, and Sales Tax and are discussed below in more detail.

TRANSIENT OCCUPANCY TAX (TOT)

Not only is TOT the Town's largest revenue generator (58% of General Fund revenues), the first quarter (January through March) typically generates 50% of the TOT revenue. The recession's impact on TOT was primarily felt in that same January through March 2009 period. In Mammoth Lakes, recovery in transient rental activity began in April 2009 even though the recession was still on going. That trend continued throughout Fiscal Year 2009-10, with overall transient rental activity increasing by \$4,266,000, resulting in \$550,000 in TOT, over the prior fiscal year. STR Global, a hotel industry forecaster, has projected that the U.S. hotel industry revenues will increase by 5.4% in 2011. In spite of that positive forecast and the Town's growth in transient rental activity beginning in April 2009, the Budget has not included a growth of TOT. Instead, the TOT projection replicates the last twelve months of actual TOT data that has been received (April 2009 to March 2010). Exhibit 2 presents 10 years of TOT data and the underlying rental activity that generated the TOT to compare historic data to the FY 10-11 projection. Comparing the underlying rents for the last 10 years, adjusted to 2010 dollars, shows the relative value of rents after adjusting for the impacts of inflation. Exhibit 3 presents the table below in a bar chart.

<u>Fiscal Year</u>	<u>CPI Adjusted Rents</u>
2001-02	\$75,477,086
2002-03	\$77,974,245
2003-04	\$83,583,018
2004-05	\$92,352,840
2005-06	\$97,030,288
2006-07	\$79,640,470
2007-08	\$83,913,991
2008-09	\$74,454,048
2009-10	\$78,511,806
2010-11	\$78,507,873

As can be seen, the FY 2010-11 projection is similar to FY 2009-10 and is very similar to what the Town experienced in FY 2001-02 and FY 2002-02, before the development of the Village and the Westin hotel. Exhibit 4 presents the TOT occupancy activity since 2001 along with averages and annualized totals.

PROPERTY TAX

Property Tax Revenue is the Town's second largest General Fund Revenue source and is expected to generate 20% of the Town's General Fund Revenue. The historic property tax and projected activity is displayed in Exhibit 5. The historic property tax activity adjusted to 2010 dollars is presented in Exhibit 6. Between 2002 and 2009, the Town, like most of the State, experienced significant increases in assessed valuations that generated an increase in property taxes during that period. Since that time, real estate market rates have declined and that has impacted assessed valuations on some properties. If the market rate of a property drops below the assessed valuation, the property owner may request a Proposition 8 adjustment to lower the assessed valuation. Given the rapid downward trend in valuation, the County Assessor took the initiative and chose to review up to 5,000 properties that changed ownership since 2005 for potential Proposition 8 downward reassessments. Many of those properties qualified for a lower reassessment. The County will not close the valuation process until June 30, 2010, so the final impact to assessed property valuations will not be known for several months. However, the County has estimated that the Town may experience a decrease in property tax of 7% to 9%. An offset to that decrease will be the payment of any delinquent property taxes from a prior fiscal year. FY 09-10 for example, experienced a 10% delinquency rate and the County will collect those taxes anywhere from 1 day to 7 years after the due date. Any of those delinquent payments received during FY 10-11 will partially mitigate the estimated decrease in property taxes.

Considering the above estimates from the County, the Town has chosen to be more conservative and is projecting a conservative 10% overall reduction in property taxes and an 8% reduction in the vehicle license in lieu fees that the State has linked to the decline in assessed valuations.

SALES TAX

Sales Tax is the third largest generator of General Fund revenue, generating 10% of the General Fund revenue. It is shown in two parts ('triple flip' and local tax). The 'triple flip' represents 25% of the entire sales tax amount and is distributed based on the State's estimated growth in sales tax plus a payment that corrects the prior year payment. Based on the State's growth factor and the correction payment, the 'triple flip' sales tax is actually expected to increase 15.5% over FY 09-10 receipts.

The local tax has been estimated by using the State growth (negative and positive) factors by quarter compared to the same quarter in the prior year. The local tax projection is expected to be 6% higher than estimated actual receipts for FY 09-10.

The historic sales tax data is displayed in Exhibit 7 and historic sales tax data adjusted by the Consumer Price Index (CPI) to 2010 dollars is shown in Exhibit 8. Comparing the FY 10-11 projection against the CPI shows that even though the projection is anticipated to grow over FY 09-10, it is less than all other prior year collections since FY 2001-02. In fact, the projection is 40% less than FY 2005-06, which was the best sales tax collection year.

UTILITY USER TAX (UUT)

The UUT is a 2.5% General Fund tax that is scheduled to 'sunset' in June 2011 and is programmed to generate \$917,000 in revenue in FY 2010-11. The UUT revenue is programmed to fund debt service (\$589,000) and will be paid in full in June 2010. Since the debt service payment is less than the expected revenue generated from the UUT, the balance of the revenue (\$328,000) has been programmed to fund Parks, Recreation and Trails. (The voters have been asked to vote on 'Measure U' and, if approved, in the June 2010 election, it would replace the General Fund UUT with a new 'Special Tax' UUT that would be used to fund Mobility, Recreation and Arts & Culture beginning in July 2011.)

All Other General Fund Revenue

Business Tax, Franchise Fees, Intergovernmental Revenues, Administrative Service Fees, Interest Earnings, Charges for Services and Miscellaneous revenues combined represent the balance of 6.5% of projected General Fund revenue. The combined projection for these revenues is expected to be 5.5% less than expected actual receipts that will be realized in FY 09-10.

Other revenue types continue to be restrained because of decreased building activity. They include Building Permits, Planning Application, Engineering Fees, and Development Impact Fees. For example, the fee revenue in Community Development is projected to be \$344,600 for FY 10-11 compared to FY 09-10 projected fee revenue of \$555,000 (this is net of the late collection of fee revenue for prior fiscal years). Engineering fee projections are also expected to be flat compared to the FY 09-10 estimated actual revenues. This fee revenue is reflected in the department revenue summaries for the respective departments.

The proposed budget does not assume that new development will generate any Development Impact Fees (DIF); however it is very likely that some modest revenues will be received. The

Town continues to be successful with the award of capital project grants. The capital projects programmed for the next year are almost completely funded by grants.

A one-time source of funds for the FY 2010-11 Budget includes a return of funds that have been held by the bank during the term of outstanding debt for the 2003 Certificates of Participation (COP). The bond documents required the bank to hold trust funds until the 2003 COP was paid in full. The final debt service payment for the COP will be made in 2011 and the bank will be releasing those funds. Since this will not be a reoccurring source of funds, the funds have been programmed to increase the Reserve for Economic Uncertainty and to fund one-time planning costs in the Community Development department in preparation for development reinvestment.

EXPENDITURES

The Town Budget is constructed so that the General Fund is allocated in the general overhead and administration of the organization. The General Fund also contributes funds to various departments to support operations and capital projects. Each department's budget clearly shows the level of General Fund or tax dollar contribution required to operate each department.

The proposed Budget continues several significant priorities established by the Council and also makes several significant changes over prior year budgets. The projected General Fund Expenditure Summary itemizes total expenditures funded by tax dollars at \$17,830,334. Following the Council's policy to gradually replenish the Reserve for Economic Uncertainty until the 25% target is reached, there is a \$288,500 contribution to the REU. This contribution to the REU will increase the level of the reserve account from just under 17% to over 18.5% of the General Fund.

The Town and the three of the employee groups have concluded negotiations that eliminate the cost of living increase for FY 10-11 and include another year's suspension of the deferred compensation employer match. Negotiations are still underway with the fourth employee group. These employee concessions are estimated to save the Town \$500,000 in FY 10-11. These new employee concessions have been programmed in the proposed budget, but, because the furlough program will end in June 2010, there is still an increase to employee costs when compared to the prior year. The ending of the furlough program means that employee work hours will increase 9.2% to the normal full time schedule and the resulting wages will also increase 9.2%. Therefore, this increase to personnel costs will be noticed in all departments.

The Public Safety Department is undergoing a significant management transition because of the retirement of both the Police Chief and Lieutenant. A temporary Interim Police Chief will be retained by the Town to serve as the Interim Police Chief for a transitional period. Part of

the responsibilities of the Interim Chief will be to provide recommendations on the structuring of the police department and to provide a smooth transition to a permanent Police Chief. The proposed budget retains funding for this transitional period.

Another significant change for this upcoming year is the transfer of responsibilities, employees and functions of the Tourism Department to the newly created non-profit Destination Marketing Organization (DMO). The expectation is that the DMO will provide an expanded marketing effort that will be funded by existing Measure A revenue and new funding realized from business partnerships. Therefore, there are no expenditures shown for the Tourism Department in the proposed budget. A potential DMO revenue and expenditure proposal has been presented only as a possible option of what the DMO expenditures, through a contract with the Town, may be for the upcoming fiscal year.

In recent years, the Parks, Recreation and Trails Department was part of the Tourism & Recreation Department. The two functions shared a commission, director, facility and other resources. Since the tourism functions will transition to the DMO, the Parks, Recreation and Trails Department now will 'stand alone'. The proposed budget now programs funding in this department for a recreation commission that is no longer shared with Tourism and expands staff hours devoted to recreation. An additional change to this department is the transfer of the Parks Maintenance function to the Public Works Department. Therefore, the Whitmore Pool and Parks expenditures reflect only the recreation program costs for Whitmore Pool and do not include the Whitmore Pool and Parks Maintenance.

The Public Works Department budget contains modifications to prior years operations and expenditures. As mentioned earlier, Public Works is now responsible for Parks Maintenance. The street rehabilitation program has been increased \$54,000 to total \$750,000, this actually means increased funding support from the General Fund of \$282,000, because one time funding of \$228,000 that was available in FY 09-10 is no longer available. No vehicle or equipment replacement purchases have been programmed in the upcoming year. Only the required debt service for snow removal equipment that was purchased in prior years has been included in the Public Works Fleet Management Department.

The planned expenditure for capital purposes is \$7,896,000 and includes the Lake Mary Road Completion Project (\$3,200,000), Meridian Boulevard (\$3,000,000), and 14 additional projects that are all individually less than \$360,000. The capital projects expect no General Fund support, and less than \$100,000 is needed from the Development Impact Fees. The balance of the funding will be received from various grants.

Commercial air service was reinstated in 2008 and was expanded with additional flights in 2009. For the first time, there will be 'near year-round service' (no flights scheduled for

October and the beginning of November). The airport staffing has increased in order to provide the required fire and security services for commercial air service. The Airport and Parks, Recreation and Trails Departments are the only departments that have increased full-time staffing. The Federal Aviation Administration (FAA) has also informed the Town that, because enplanements have now exceeded 10,000, the FAA entitlement grant will increase from \$150,000 to \$1,000,000. The FAA has approved the use of the increased grant funding for payment of the Airport Terminal note and the corresponding increased debt service payment has been programmed in the budget.

Litigation costs have been specifically allocated to ongoing cases. The Hot Creek litigation is expected to continue into FY 10-11. The Police Department personnel hearings are also expected to carry into the next fiscal year. The Budget includes \$400,000 to fund the Hot Creek defense and the continued Police Department personnel hearing costs. Because this past year's litigation fund was not exhausted, the budget merely carries over the unexpended funds to the 2010-11 Budget to fund the conclusion to the Hot Creek and Police Department cases.

The Expenditures also reflect the political commitments and priorities of the Town to fund workforce housing and transit. The funding for these departments is by a formula that provides one point of the 13 point T.O.T. to each of these departments.

The breakdown of General Fund Expenditures by departments is reflected in Exhibit 9. This chart reflects the expenditures that are supported by General Fund (tax) dollars and does not include the expenditures supported by other sources of revenue such as fees and grants. Exhibit 10 shows the breakdown of department expenditures. This is different from General Fund Expenditures in Exhibit 9, because most departments generate their own fee revenue or receive grant funding that supports department funding.

In response to the impacts of the recession, the Town has reduced staffing levels through attrition and layoffs. A second action that resulted in staffing reductions in FY 10-11 is the formation of the DMO, and the elimination of staff in the Tourism Department. Since Fiscal Year 2007-08, there has been a reduction of 30 full time equivalent employees or a 24% reduction in staff. The comparison between FY 2009-10 and FY 2010-11 is more pronounced when it is understood that the FY 2009-10 staffing levels reflect the reduced man-hours that resulted from the imposition of two furlough days a month. Although staffing levels have been reduced, an evaluation of the organizational structure and desired service levels has led to certain employees being transferred between departments to meet higher priority service level goals.

FUND BALANCE

The Town has a Fund Balance that is commonly known as the Reserve for Economic Uncertainty, or R.E.U. Long ago, the Council recognized the strong dependence of Town revenue on tourism activity, such as the T.O.T. and sales tax, and also how development activity can dramatically impact revenues in the Community Development and Public Works Departments. The Council's adopted policy is to have a target R.E.U. funding level of 25%. The R.E.U. has dropped below that target level because it was used to fund the Hot Creek litigation costs in the amount of \$1,600,000 in FY 07-08. The projected R.E.U. level as of June 30, 2010 is \$2,955,000, or 17% of the General Fund budget revenue. The Budget programs an increase of \$288,500 to the R.E.U. that will bring the level to over 18.5%.

CONCLUSION

The proposed budget projects the revenues and expenditures of the Town of Mammoth Lakes for the coming fiscal year. The Town, along with most governments and businesses, experienced financial challenges during the course of the recession and a slow growth period following the recession. Council quickly responded to those challenges by reducing expenditures that allowed the Town to maintain balance between revenues and expenditures. The financial challenges continue for Fiscal Year 2010-11, but the proposed balanced budget navigates those challenges with restrained expenditures, employee concessions, pre-funding of litigation expenditures and certain liabilities, while increasing the Town's R.E.U. and projecting conservative revenue forecasts.

The proposed budget maintains community priorities that include the establishment of a Destination Marketing Organization, expanded commercial air service to be 'near year round', increased funding of the road rehabilitation program, increased recreation service levels, and an extensive capital improvement program that is primarily funded by grants.