



***Community Update on the Town's Finances,
MLLA Judgment and AB 506 Mediation; and
Proposed Schedule of Public Meetings***

**April 18, 2012
Town Council meeting**

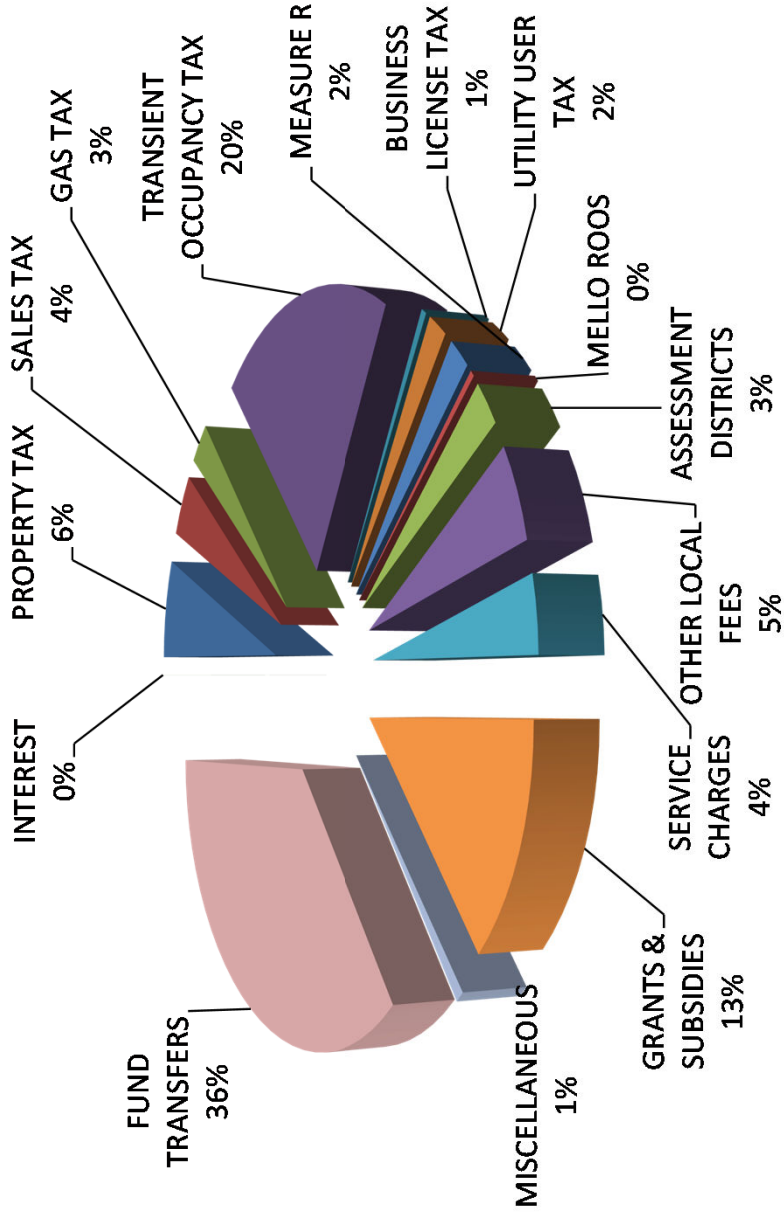
ITEMS IN THIS PRESENTATION

- “Town Budget 101”: composition of the Town’s budget
- Update on the Town’s finances for FY 2010-11, FY 2011-12 and FY 2012-12
- Status of scheduling mediation with the Town’s creditors
- Draft schedule of meetings for a public discussion regarding spending priorities, necessary budget cuts, and any potential settlement with MLLA

TOWN'S BUDGET 101: Funding Sources

- Numerous funding sources; many are restricted

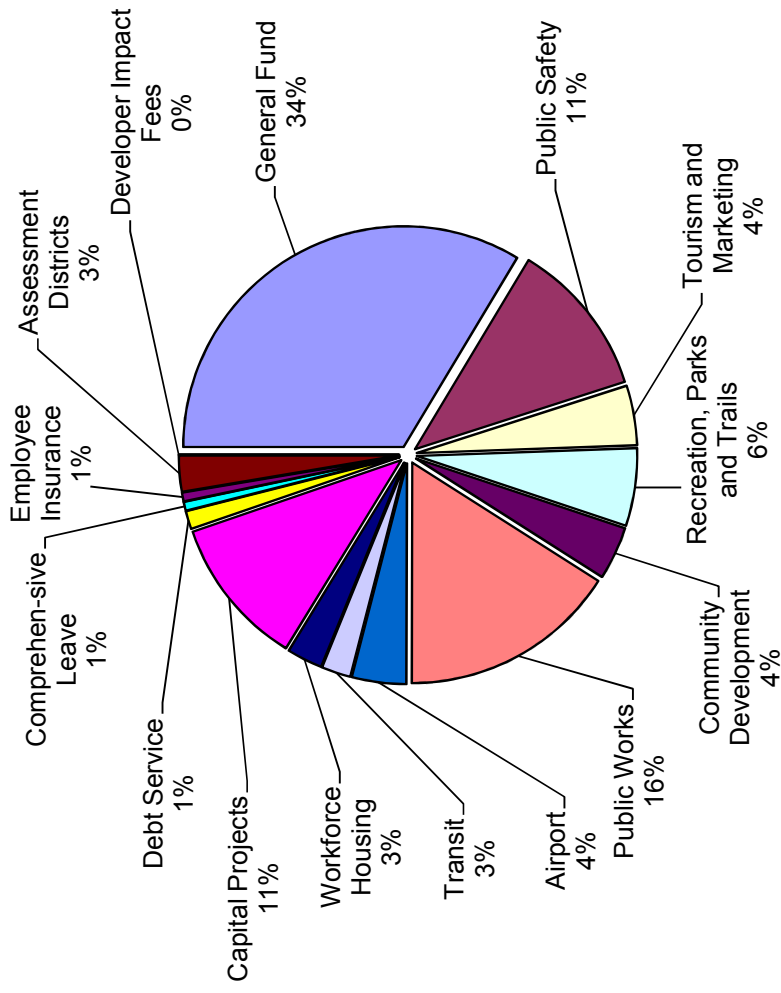
FY 2012-13 Revenues by Type



TOWN'S BUDGET 101: Funds

- Town's various revenues and expenditures are accounted for in various "funds", similar to bank accounts.
- The largest fund is the General Fund (34%).

FY 2012-13 Revenues by Department / Fund



TOWN'S BUDGET 101: Funds and Fund Groups

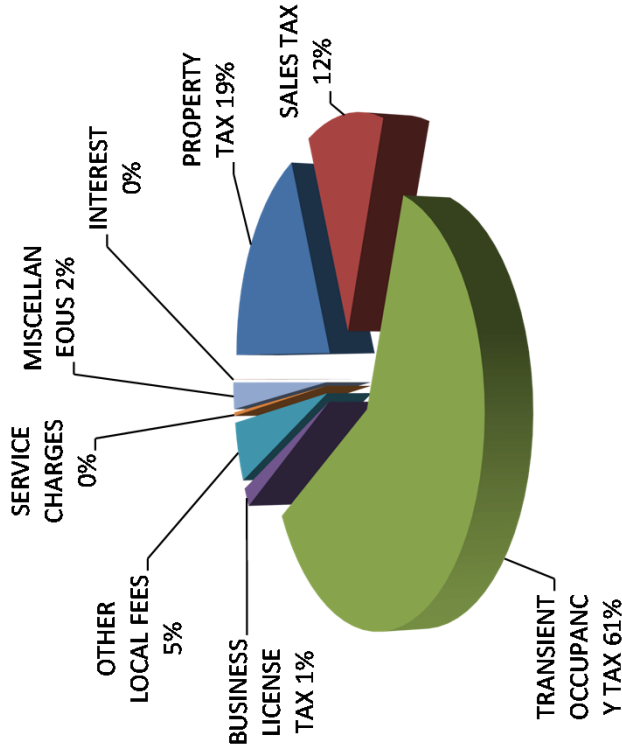
- The Town uses very discreet fund numbers in its financial system.
- During the audit, broader fund categories are used:
 - **General Funds**: These funds are all unrestricted, but many are committed.
 - **Special Revenue Funds**: Generally all are restricted.
 - **Capital Project Funds**: Generally all are restricted.
 - **Enterprise Funds**: Generally all are committed.
 - **Trust & Agency Funds**: Generally all are restricted.

TOWN'S BUDGET 101:

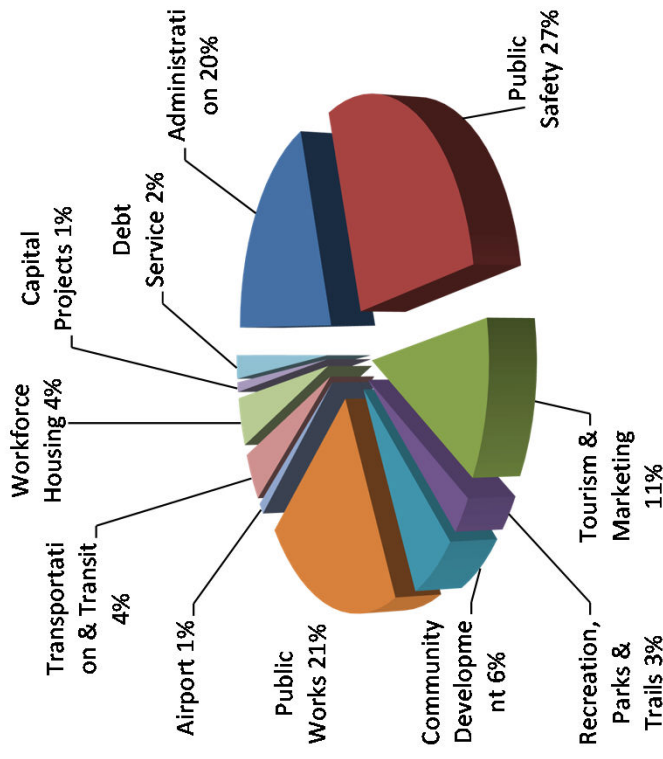
General Fund Revenues and Expenditures

- The General Fund collects unrestricted revenues; funds general government expenses AND voter commitments (tourism, housing, transit).

FY 2012-13 General Fund Revenues



FY 2012-13 General Fund Expenditures



TOWN'S BUDGET 101: Fund Balances and Reserves

- The Town categorizes fund balances in each of its numerous funds, according to governmental accounting rules (GASB 54):
 - *Non-Spendable*: Hard assets / non-cash.
 - *Restricted*: Cash restricted by grantors, bondholders, State / Federal laws, local legislation or ballot initiatives.
 - *Committed*: Cash constrained to specific purposes through a Town Council action.
 - *Assigned*: Cash intended for a specific purpose, through a Council action or by the Town Manager.
 - *Unassigned*: Cash available for any purpose. Only appears in the General Fund.

TOWN'S BUDGET 101: General Fund Reserves

- The Town has discretion over fund balances in the “General Fund” group. As of June 30, 2011, the fund balance within the General Fund group totaled \$13,407,497, BUT \$10,094,618 is NOT CASH, representing payments expected to the General Fund from other sources; many of these may not be collected for a long time.

TOWN'S BUDGET 101: General Fund Reserves

General Fund Group - Fund Balance

As of June 30, 2011, per the audited financial statements

NON-SPENDABLE: Long Term Receivables

Expected in fund 001: Airport Operational Loans, 2001 through 2008
 Expected in fund 001: Airport Terminal Note
 Expected in fund 001: Loan to DIF funds
 Expected in fund 001: Equity in Employee housing assistance
 Expected in fund 001: Fractional Use Loan FY2003-04 & FY2004-05
 Expected in fund 015: Loans to the Mello Roos Fractional District
 Expected in fund 465: Loan for an affordable housing project

Subtotal

3,290,041.03
 1,698,005.73
 3,286,262.91
 272,212.00
 89,785.70
 558,311.01
 900,000.00
10,094,618.38

COMMITTED:

Reserve for Economic Uncertainty
 Self Insurance reserve
 Fund 015-Parks & Rec
 Fund 465: Workforce Housing
 Fund 920: Comprehensive Leave

Subtotal

1,408,271.12
 15,000.00
 600.00
 407,190.82
 1,057,999.72
2,889,061.66

UNASSIGNED:

Fund 008 - Public Safety
 Fund 020 - Parks Maintenance
 Fund 014: Tourism
 Fund 425: Transportation & Transit

Subtotal

93,303.43
 20.26
(112,104.46)
 442,597.57
423,816.80

Total General Fund-Fund Balance

13,407,496.84

\$1,408,271 represents the "Reserve for Economic Uncertainty". The Town Council established a reserve target at 25%, per GFOA.

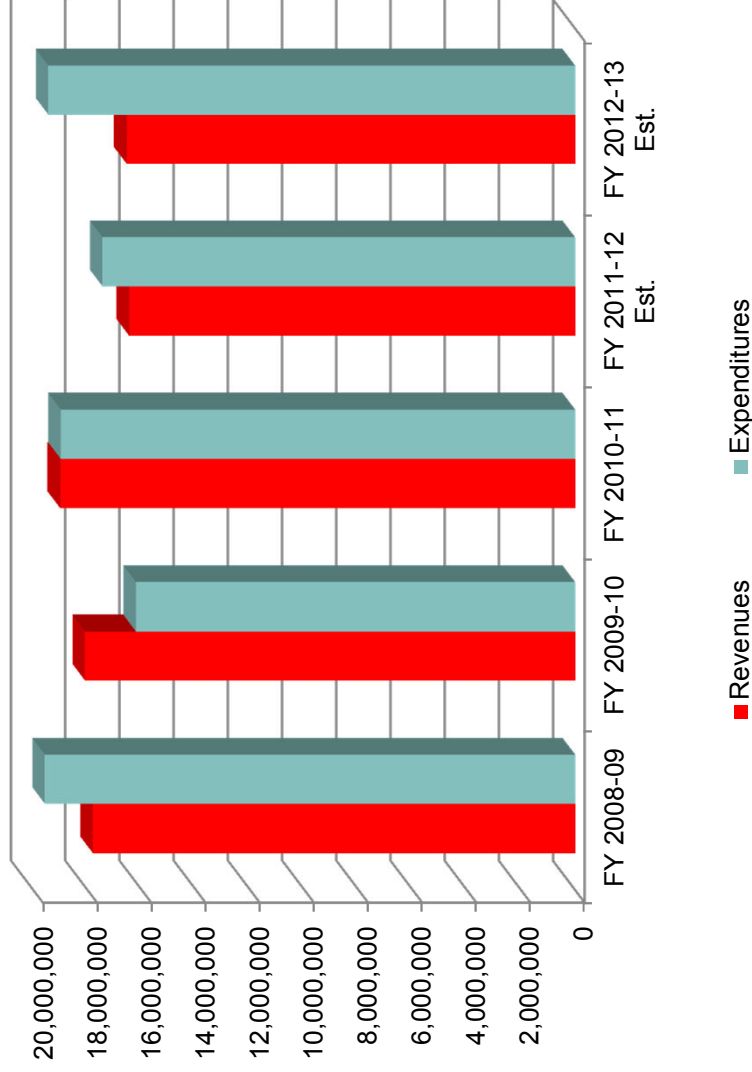
The \$1.4 million reserve, however, only reflects 7%, and is grossly insufficient

TOWN'S BUDGET 101: Why Are there Fiscal Issues?

- The Town's available revenues are not sufficient to pay all of the Town's current expenses.
- The issue is mainly within the General Fund, but other funds contribute to it to the extent that the General Fund subsidizes their operations. (e.g. State Gas Tax revenues insufficient for road repairs and snow removal).
- DIF funds have over \$6 million owed to others.
- The General Fund gap is widening because the growth rate on the revenue side has been lower in the recent years and months than cost increases on the expenditure side.

TOWN'S BUDGET 101: Why Are there Fiscal Issues?

History of General Fund Revenues and Expenditures



As a result of the past deficits, the General Fund reserve for economic uncertainty has decreased substantially, from \$4.4 million in June 2007 to only \$1.4 million in June 2011.

TOWN'S BUDGET 101: How Has the Town Addressed Fiscal Issues?

- Substantial cuts in personnel and services in prior years. The Town's staffing has been reduced from some 130 employees a few years ago to below 80.
- Most recently, in June 2011, the Town balanced a General Fund gap of \$2.7 million through some painful reductions.
- **The result is an organization that is "bare bones"** from both a staffing and services standpoint, and which necessarily underfunds some of its essential obligations. Road repair expenses have been cut down to \$500,000, while at least \$1,500,000 is required annually to keep the Town's roads in their **current condition.**

What Does the Future Look Like?

- Currently, the Town projects a budget gap of nearly \$1 million in the present fiscal year (FY 2011-12), and a \$2.9 million shortfall in FY 2012-13.
- These shortfalls do not account for the unmet needs such as the insufficient road repair spending, and do not address the \$42 million MLLA judgment.

FY 2011-12 Gap Is Due to Lower TOT

- **Budget gap of \$0.979 million** is currently projected. See Attachments A and B.
- Dramatic decreases in TOT collections in December 2011 (-14.5%), January 2012 (-42.5%) and February 2012 (-32.4%).
- More modest -10% TOT in March-April 2012, no decreases in May-June 2012.
- Expenditures coming in under budget mainly due to lower payments to tourism, housing and transit, based on the lower TOT revenues.
- But the General Fund will be paying for the one-year shortfall in the Transit fund, due to the lower TOT revenues and double-counted grant revenues.

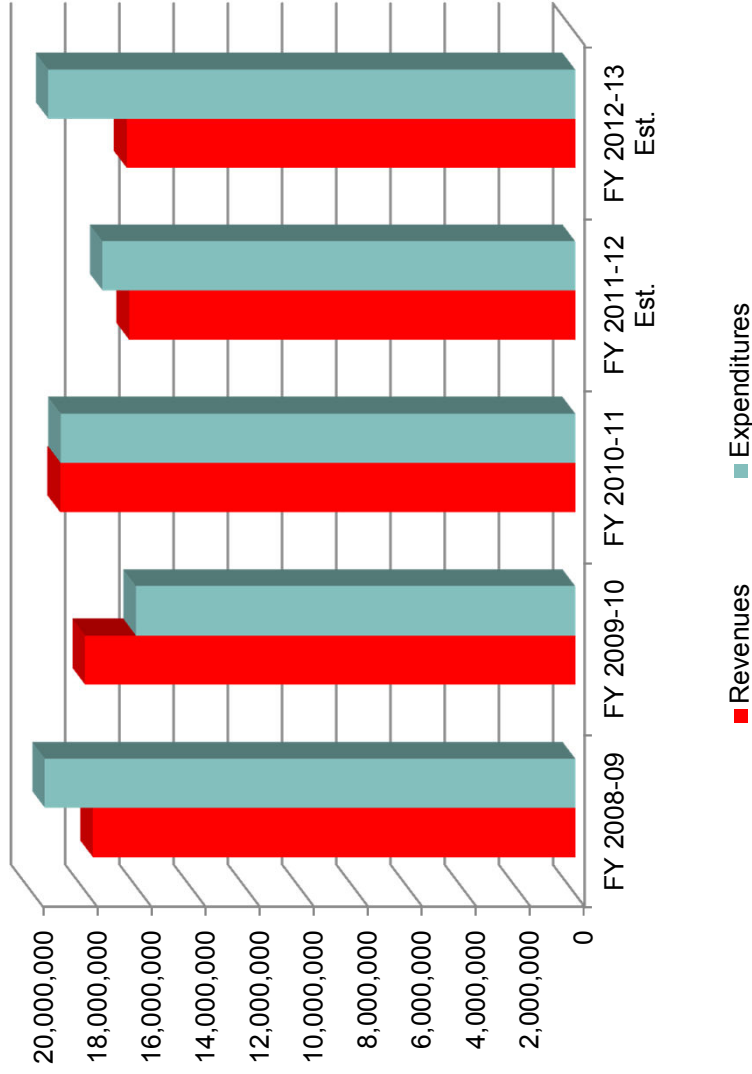
FY 2011-12 Gap Will Decrease REU

- To bridge the budget gap in FY 2011-12, the Town will have no choice but to use its already low Reserve for Economic Uncertainty.

Beginning REU	1,350,938
<i>Surplus / (Shortfall)</i>	(979,983)
Payments from Airport on Term	1,265,000
Ending REU	1,635,955

FY 2012-13 Gap: Flat Revenues vs. Higher Costs

History of General Fund Revenues and Expenditures



FY 2012-13 Gap: Flat Revenues; Higher Costs

- **Budget gap of \$2.88 million** is currently projected in the General Fund.
- *Revenues:* Moderate recovery in TOT at 5% increase; continued decline in property taxes at -4.5%; 2% increase in sales tax and franchise fees.
- *Personnel:* Negotiated salary increases for Town employees of 4.5% effective July 1, 2012; increases in retirement and medical insurance costs.
- *Other impacts:* Loss of a grant in the Police Department; lower State Gas Tax revenues.

Status of MLLA Process and AB 506 Mediation

- Mediation (“neutral evaluation” per AB 506) process has commenced. So far, 16 out of 44 “interested parties” have agreed to participate. Actual mediation sessions may start by end of April.
 - The Town will pay for the costs of the mediator, expected to be up to \$150,000. (Reflected in FY 11/12 shortfall.)
 - Almost all parties to mediation have agreed to make the process non-confidential.
 - No direct discussions with MLLA since December 2011. MLLA twice refused to participate in mediation.
- The Town is hopeful that they will reconsider.**

Proposed Schedule of Public Meetings

See Attachment C for the schedule

Town Council Action Requested

- Authorize the use of the General Fund REU to address the FY 2011-12 budget shortfall, currently estimated at \$979,983.
- Provide input on the proposed schedule of meetings, reflected in Attachment C.