

Agenda Item _____
May 16, 2012
File No. _____

AGENDA BILL

Subject: Presentation of Detailed Schedules for the Town's Fiscal Year 2012-13 Baseline Budget and a "Budget Facts" Community Summary, and Continued Discussion of the Budget Reduction Plan Presented on May 8, 2012.

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BACKGROUND

Since February 2012, Town staff has had several public presentations on the matters related to the Town's finances and specifically the FY 2012-13 baseline budget, and the judgment awarded to Mammoth Lakes Land Acquisition (MLLA). The most recent public discussion was held on May 8, 2012. During that meeting, Town staff presented to the community a budget reduction plan to address the FY 2012-13 budget shortfall of \$2.8 million, and long-term projections by FTI Capital Advisors (FTI) that estimated a \$550,000 annual surplus available for a settlement with Mammoth Lakes Land Acquisition (MLLA) and other creditors.

DISCUSSION

This report builds on the information presented in February, April and early May 2012, and presents the following to the community:

- A "Baseline Budget Document" for FY 2012-13, which includes:
 - a) Town-wide budget summaries for the next year, before the Budget Reduction Plan.
 - b) The Budget Reduction Plan, originally presented on May 8, 2012, which would balance the FY 2012-13 baseline budget shortfall and create an estimated \$550,000 annual surplus, to address a writ of mandate recently issued by the State court in relation to the MLLA judgment.
 - c) A long-term fiscal forecast prepared by the Town's financial consultant, FTI Capital Advisors (FTI), confirming the annual surplus after the implementation of the Budget Reduction Plan.
 - d) Detailed schedules of departmental revenues and expenditures, before the Budget Reduction Plan.

- A “Budget Facts” publication for the community that summarizes the Town’s fiscal issues, the budget reduction plan, FTI’s long-term projections and matters related to the MLLA judgment.

Fiscal Year 2012-13 Proposed Budget Document

A. Town-Wide Budget Summaries

The Town’s Fiscal Year 2012-13 Baseline budget document includes a number of Town-wide budget summaries, most of which were introduced in prior budget reports (on April 18 and May 2, 2012).

1. *Town-wide revenues by department:* This summary was presented previously, and shows that the Town estimates collecting a total of \$49.3 million in revenues in Fiscal Year 2012-13. This includes \$17 million in inter-fund transfers in. These transfers are internal accounting transactions, as further explained below.
2. *Town-wide expenditures by department:* This summary was also presented previously, and shows that the Town estimates expending a total of \$51.7 million in Fiscal Year 2012-13. This includes \$17 million in inter-fund transfers out.
3. *Town-wide summary of all funds, with beginning and ending balances, revenues and expenditures:* This document previously appeared in June 2011 during the FY 2011-12 budget adoption, and in August 2011, when the Town Council approved categories of year-end fund balances as of June 30, 2011. The document begins with audited balances by fund, which are categorized according to the national standard established by the Government Accounting Standards Board (GASB). Generally, there are five categories of balances: Unspendable, Restricted, Assigned, Committed and Unassigned.

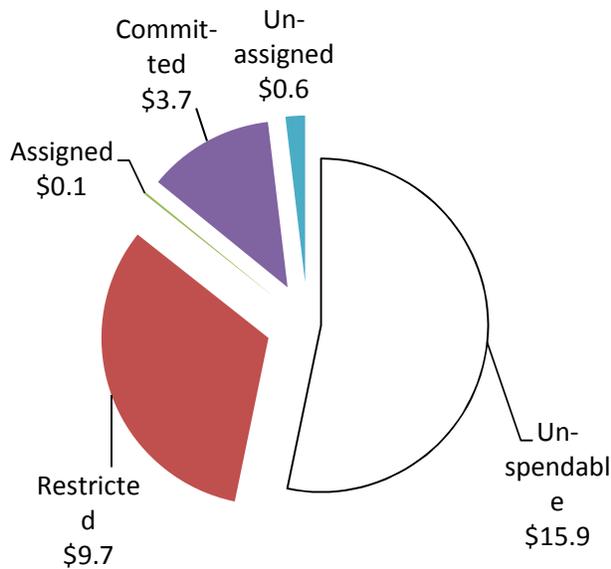
The Unspendable balances represent non-liquid assets such as roads, vehicles, airport infrastructure, and so on. All other categories are generally spendable. However, the Town has limited or no control over the Restricted balances, as they could only be used for specific purposes, usually established by law. (For example, State Gas Tax revenues are restricted, as are Federal Aviation Administration funds.)

The fund summary shows the estimated year-end revenues and expenditures for FY 2011-12, and the baseline budgeted estimates for FY 2012-13. It also reflects transactions such the use of a loan from the Vehicle Fund to pay the Town’s professional fees and offset negative

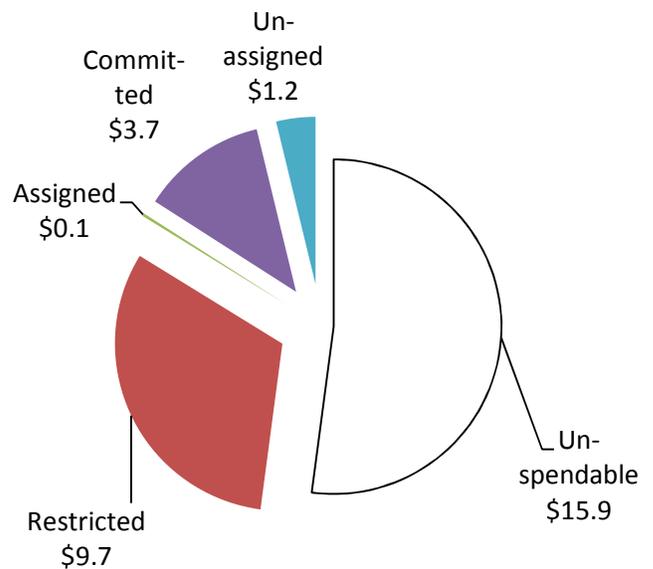
balances in the Development Impact Funds, and expected payments on the Airport Terminal loan from the Airport Department to the General Fund. Lastly, the FY 2012-13 Budget Reduction measures are applied to reflect the impact on the fund balances.

The charts below compare the fund balances by type as of June 2012 (estimated) and June 2013 (projected, after the balancing measures). It is important to note that the Town's spendable balances are projected to increase from \$14 million in 2012 to \$14.6 million in 2013, thanks to the significant reductions assumed in the Budget Reduction Plan. This increase correlates with the \$550,000 annual surplus projected by FTI upon a review of the Town's financials and contemplated balancing measures.

June 2012 Estimated Balances (\$ Mill)



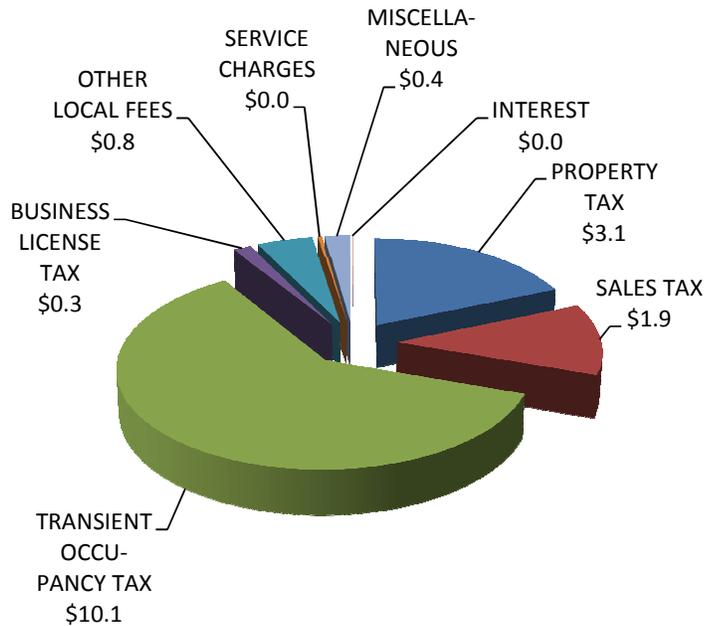
June 2013 Estimated Balances (\$ Mill)



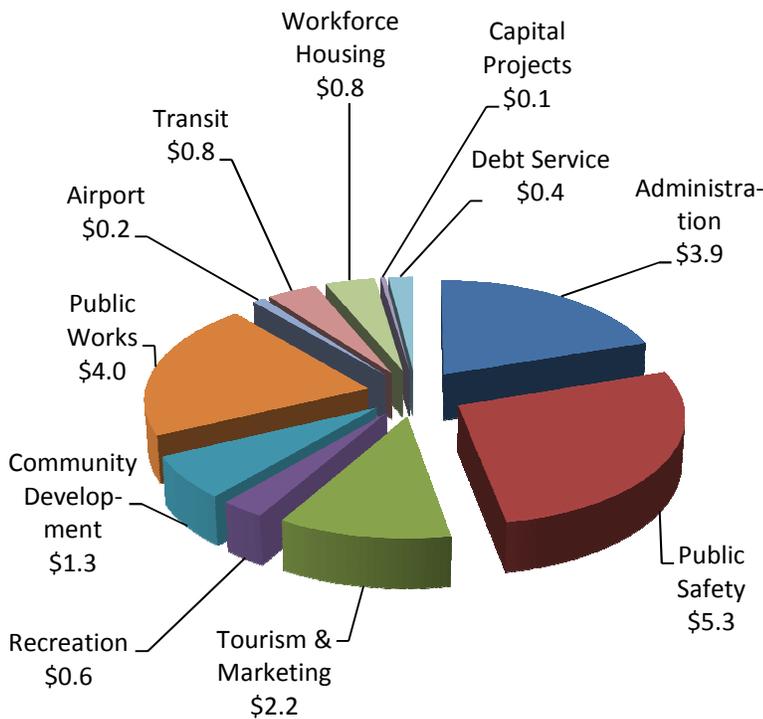
4. *Transfers In and Out.* The Town has in place a number of inter-fund transfers. These total over \$15 million for FY 2011-12, and \$17 million for FY 2012-13. The transfers are inter-fund transactions that account for payments between and among different funds. Most transfers are from the General Fund to various Town departments, and mainly reflect General Fund subsidies to these functions. Transfers in (i.e. revenues for the funds that receive transfers) always equal the Transfers Out.

5. *General Fund Revenues:* This table shows the composition of the General Fund revenues by type. The General Fund is the largest fund of the Town, and accounts for nearly \$17 million in revenues. The largest single source of revenue for the General Fund is the Transient Occupancy Tax. Note that the General Fund revenues have decreased in recent years, due to the economic downturn.

FY 2012-13 General Fund Revenues (\$ Mill)



FY 2012-13 General Fund Expenditures



6. *General Fund Expenditures:* This table shows the General Fund spending by department. It also illustrates that in both FY 2011-12 and FY 2012-13, General Fund revenues are not sufficient to cover all expenses. The FY 2011-12 shortfall of \$0.7 million will be covered by a transfer from the Reserve for Economic Uncertainty. The Town's Budget Balancing Plan addresses the FY 2012-13 shortfall of \$2.8 million.

B. The FY 2012-13 Budget Reduction Plan

As illustrated by the General Fund expenditure summary, the Town faces a \$2.8 million General Fund budget shortfall in FY 2012-13. This baseline shortfall is after all the reductions the Town has taken in the past three years, and before considering how the Town will satisfy the existing \$43 million judgment that MLLA holds against the Town.

After an in-depth and diligent analysis of all of its expenses and operations, the Town has developed a Budget Reduction plan to: (i) adjust the Town's expenditures and revenues through specific measures to balance the budget for the upcoming 2012-2013 fiscal year; (ii) create surplus funds to satisfy debts and obligations currently owed, including MLLA; and (iii) put the Town on a sustainable footing for future years, given what we know about the future.

In deciding to implement the Budget Reduction Plan, the Town has considered the competing demands for the Town's limited resources and balanced that with the obligations the Town has to maintain Mammoth Lakes as a livable place for its residents, a desirable destination for its visitors (who provide substantial revenue to the Town and can choose among many resort towns), and a responsible payer of its debts.

The Town's budget reductions in the past few years, coupled with the Town's already relatively high existing tax burden, have made the development of the Plan especially difficult.

The Budget Reduction Plan contains an estimated \$2.5 million in annual savings. In the Town's judgment, these are the most cuts/revenue raising measures that the Town could make, given what has already been done, and still provide essential services that maintain the condition of the Town and leave it livable and economically viable. The Plan includes the following measures:

- **Employee pay concessions (\$1 million in savings):** The Town has requested pay concessions from its various employees, most of whom have union contracts through 2014. The requested concessions include compensation reductions of 10% for civilian staff, and 24% for sworn police officers. Position reductions or furloughs are not acceptable for civilian employees in lieu of the 10% concessions. Position eliminations would be considered by the Town to satisfy all or a portion of the 24% sworn police concession.

- **Property lease payments (\$50,000 in savings):** The Town has sought 10% reductions in its property lease payments.
- **Departmental program reductions (\$1 million in savings):** Most Town departments will see their costs further reduced, resulting in the elimination of additional four positions.
- **Proposed Reductions in "Voter Commitment" Funding (\$154,000 in net savings):** 10% reductions would be applied to tourism (provided by Mammoth Lakes Tourism), housing (provided by Mammoth Lakes Housing) and transit (provided by Eastern Sierra Transit Authority). These organizations, however, would benefit from the Town's enforcement efforts to collect an additional 5% in TOT revenue. As a result, the net reduction to MLT and ESTA are likely to be in the range of 5%, and MLH may see no reduction at all.
- **Revenue enhancement through additional TOT enforcement (\$0.5 million in additional revenue):** \$173,000 of this additional revenue increase would be distributed to MLT, MLH and ESTA, with the remainder staying in the General Fund.
- **In addition, the Town has decided to continue deferring the road rehabilitation funding:** The Town, mindful of the need to pay its creditors, has proposed to fund only half of its road and related infrastructure need, budgeting only \$750,000 of the \$1.5 million that would be most appropriate to maintain current road conditions. (This represents a \$250,000 increase from the baseline level, which is only a third of the optimal need.) This decision is the most manageable of all the additional cuts the Town has considered to ensure that the Town generates cash flow to pay its unsecured creditors.

We hope that the residents of the Town will support the Plan, which Town management and Town Council believe charts the best course for the Town for the foreseeable future given its limited resources.

C. FTI's Fiscal Forecast

The Town engaged a financial advisor, FTI, to assist with a long-term projection of its revenues and spending, and the corresponding forecast of the contemplated balancing measures. FTI has completed their work. An executive summary of their long-term projections was first presented publicly on May 8, 2012. The summary is re-printed with this report, and reflects the following **bottom line conclusion:** After taking into account the Town's baseline budget for all funds, and the above balancing measures applied to the General Fund, the FTI model estimates that over the five-year forecast period, some \$3.6 million in net funds will be generated. After the five-year forecast period, some \$550,000 in annual funds are projected as available.

It is important to re-emphasize that FTI includes in the “unrestricted” category of its forecast both the General Fund and some other funding sources, including tourism, housing and transit funds (Measures A and T). This enables an annual \$550,000 surplus available for a settlement with MLLA and other creditors.

Detailed assumptions included in FTI’s model are discussed in the accompanying descriptive document.

D. Town-Wide Organizational Summaries

Included with the attached FY 2012-13 Budget Document are a Town-wide organizational chart, and a Town-wide position summary, by department.

E. Departmental Details

The attached FY 2012-13 Budget Document includes the following details for the individual departments: an organizational chart, and a summary of revenues, expenditures and positions. Future budget document versions will also include departmental budget highlights.

Fiscal Year 2012-13 “Budget Facts” Summary

A “Budget Brief” is a community summary of the Town’s budget, fiscal issues in general, the proposed budget reduction plan and long-term projections, and matters related to the MLLA judgment.

Future Budget Meetings

At this time, the next public discussion of the Town’s financials and the FY 2012-13 budget in particular is scheduled for June 6, 2012. The Town Council must approve the FY 2012-13 budget by June 30, 2012. The budget will include a plan to satisfy the MLLA judgment, responding to the recent state court mandate.

RECOMMENDATION:

Therefore, it is recommended that the Town Council:

1. Accept this informational report.
2. Take community comment on the FY 2012-13 Baseline Budget and the proposed Budget Reduction Plan.
3. Provide direction to staff on any appropriate matters discussed in this report.

Attachments:

1. Fiscal Year 2012-13 Baseline Budget Document for the Town of Mammoth Lakes
2. "Budget in Brief" summary