

This report describes the financial position and activity for the City of Monterey for fiscal year 2010-11 (FY11) through the 4<sup>th</sup> quarter, and touches on how those results impact the current year’s budget. In short, expenditures were on target but some revenues fell short resulting in \$80,000 less in year end fund balance than projected. The new fiscal year (FY12) appears to have started well though there are signs the economy is not on the even modest growth trajectory projected just a few months ago.

is not immune to the downturn in the real estate market of the last few years. Utility users taxes came in 3% (\$91,000) under projections due to consumers cutting back on even basics, like gas and electricity, as we struggle through difficult economic times. On a slightly positive note, both sales taxes and transient occupancy taxes came in a little ahead of projections. Sales tax receipts in particular were stronger last year, though the final quarter (Apr-Jun) was only flat as compared to the previous year.

## General Fund Revenues

General Fund revenues totaling \$54.8 million finished FY11 \$126,000 under projections and

Interest income fell far short of projections (\$217,000) as the economy continued its volatility resulting in government security interest rates remaining historically low (federal agency and

treasury securities make up 65% of the City’s portfolio). Table 1 also shows a large \$417,000 shortfall in “other revenues.” This is due to the timing of when several grants are received. So this is not an actual loss of revenue since the City will still receive the grant funds in FY12. They just did not arrive by the end of June 2011. Fire Department revenues came in over projections due to a one-time

**General Fund Revenues**

	2009-10 Actual Revenue	2010-11 Revised Estimate	2010-11 Actual Revenue	Over (under) Estimate	% over (under) Est.	% growth (decline)
<b>Non-departmental</b>						
Property tax	\$ 8,842,587	\$ 8,556,411	\$ 8,707,218	\$ 150,807	2%	-2%
Utility Users tax	2,745,654	2,918,694	2,827,198	(91,496)	-3%	3%
Sales tax	6,362,466	6,947,506	7,050,150	102,644	1%	11%
Transient Occupancy tax	12,350,400	12,272,705	12,310,576	37,871	0%	0%
Franchise fees	1,512,044	1,591,666	1,578,804	(12,862)	-1%	4%
Business License tax	2,862,916	2,887,500	2,862,173	(25,327)	-1%	0%
Administrative Support	2,439,506	2,083,884	2,096,906	13,022	1%	-14%
Interest	665,458	660,000	442,725	(217,275)	-33%	-33%
Loan repayment (Parking)	1,265,658	1,265,658	1,265,658	-	0%	0%
Other Revenues	716,236	901,566	484,368	(417,198)	-46%	-32%
Total Non-departmental	39,762,925	40,085,590	39,625,776	(459,814)	-1%	0%
<b>Departmental</b>						
Police	857,267	801,300	835,757	34,457	4%	-3%
Fire	3,723,560	3,329,393	3,554,962	225,569	7%	-5%
Plans & Public Works	3,992,317	3,930,850	4,303,935	373,085	9%	8%
Recreation	5,214,655	5,216,397	5,077,793	(138,604)	-3%	-3%
Library	192,531	125,625	133,873	8,248	7%	-30%
Public Facilities	1,532,678	1,420,880	1,252,355	(168,525)	-12%	-18%
Total Departmental	15,513,008	14,824,445	15,158,675	334,230	2%	-2%
	<b>\$55,275,933</b>	<b>\$54,910,035</b>	<b>\$54,784,451</b>	<b>\$ (125,584)</b>	<b>0%</b>	<b>-1%</b>

Table 1

about 1% less than FY10. As Table 1 shows, property tax was 2% ahead of projections (\$151,000), but 2% less than what was received in FY10. An actual year to year drop in property tax receipts is unprecedented and shows that Monterey

\$253,000 disbursement of ambulance assessment funds from the County. On the other hand, Recreation revenues from the pre-school and afterschool programs dropped off last year as did revenues in the Conference Center.

## General Fund Expenditures

Total General Fund expenditures for FY11 were \$57.8 million. As shown in Table 2, departments spent almost \$1.3 million less than budgeted in FY11. Note that budget projections counted on \$1.2 million in savings so the additional budget savings added to the General Fund's ending balance amounts to \$58,000 (see Table 2). All departments turned in budget savings for the

year except Plans & Public Works. However, this does not factor in the \$373,000 in revenues that department brought in beyond expectations (Table 1), which more than covers the \$80,000 shortage shown in Table 2.

## Program Use of Tax Base

Table 3 provides an interesting look at how much of the General Fund's tax base various programs use, net of program fees. General Fund programs

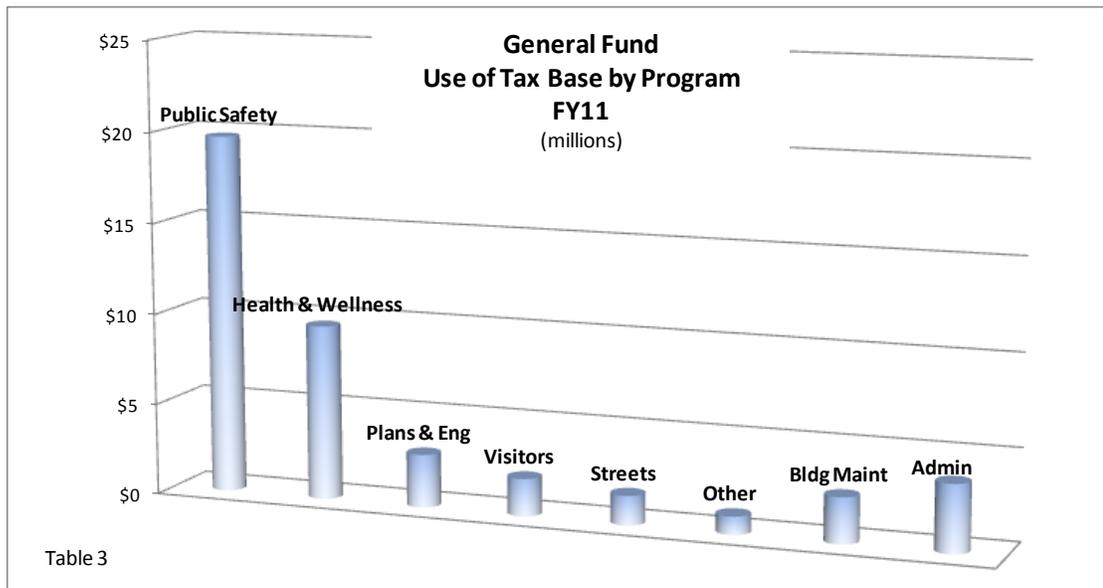


Table 3

## General Fund Expenditures

	2009-10 Actual Expenditures	2010-11 Amended Budget	2010-11 Actual Expenditures	Over (under) Budget	% over (under) Budget
<b>Police</b>	\$ 12,875,616	\$12,827,911	\$12,279,704	\$ (548,207)	-4%
<b>Fire</b>	12,052,882	12,002,939	11,793,730	(209,209)	-2%
<b>Plans/Public Works</b>	13,283,825	13,328,442	13,408,289	79,847	1%
<b>Recreation</b>	7,538,280	7,649,920	7,595,506	(54,414)	-1%
<b>Library</b>	3,255,610	3,080,317	3,019,512	(60,805)	-2%
<b>Public Facilities</b>	3,932,943	4,139,211	3,928,470	(210,741)	-5%
<b>General Government</b>		-			
Council/City Manager	1,183,403	1,244,062	1,241,266	(2,796)	0%
City Clerk	730,225	842,104	726,209	(115,895)	-14%
City Attorney	707,820	832,627	831,909	(718)	0%
Human Resources	816,118	868,373	809,200	(59,173)	-7%
Finance	1,968,726	1,949,681	1,877,439	(72,242)	-4%
<b>Non-departmental</b>	214,113	339,575	318,749	(20,826)	-6%
<b>Totals</b>	<b>\$58,559,561</b>	<b>\$59,105,162</b>	<b>\$57,829,983</b>	<b>\$(1,275,179)</b>	<b>-2%</b>
Projected budget savings				1,216,627	
Net additional savings				<u>\$ (58,552)</u>	

Table 2

cost \$57.8 million in FY11 (Table 2), however more than \$14.8 million (or 26%) was covered by user charges. So the net cost to the taxpayer for these programs was about \$43 million.

As Table 3 shows, the City spends far more of its discretionary tax base on public safety (\$19.7 million) than any other program. The next largest expenditure was for the broad category of "health and wellness" programs, which includes Parks, Recreation, and Library programs (\$9.6 million).

Recall that during last year's Priority-based budget process it was determined that public safety and "health, education and wellness" programs were what the citizens of Monterey desired most. So it is good to see that by far the majority of the City's discretionary tax base (68%) is being spent in those areas.

## Major Special Funds

The chart below shows the financial activity in several of the City’s major special funds for FY11. The Marina Fund had revenue growth of 4% and shows a net increase in working capital of \$222,000, which will be used to augment its reserves for capital investments. Transfers out from the Marina Fund include \$154,000 in support of administrative costs in the General Fund and \$203,000 to the Parking Fund for parking related services within the Marina boundaries.

Parking revenues were flat FY11 when compared to FY10 and debt service rose significantly due to an additional \$1.2 million payment to the General

\$2.9 million in the Presidio Fund are there to cover vehicle and equipment replacement, outstanding encumbrances and Presidio Fund working capital needs.

The Sewer Fund was established to maintain the sewer lines that run through the City and is funded by a charge included in the bill issued to users by the Monterey Regional Water Pollution Control Agency (MRWPCA). This fund ended FY11 with a \$1.9 million reserve that has been committed to sewer line capital projects. The City sewer system represents just one of many important infrastructure renewal programs that must be funded. The City Council recently approved a sewer

### FY11 Major Special Funds

	<u>Marina</u>	<u>Parking</u>	<u>Presidio</u>	<u>Sewer</u>	<u>Storm Water</u>
<b>Revenues</b>	\$ 2,607,522	\$ 7,456,566	\$ 14,037,989	\$ 1,462,442	\$ 1,060,727
<b>Expenditures</b>	2,019,072	10,402,020	8,776,633	925,445	1,101,495
<b>Revenue over expend.</b>	588,450	(2,945,454)	5,261,356	536,997	(40,768)
<b>Transfers/Capital outlay</b>	(366,025)	12,446	(4,253,066)	(357,668)	-
<b>Change in working capital</b>	222,425	(2,933,008)	1,008,290	179,329	(40,768)
<b>Beginning working capital</b>	1,249,915	9,656,890	1,919,314	1,723,702	453,326
<b>Ending working capital</b>	<u>\$ 1,472,340</u>	<u>\$ 6,723,882</u>	<u>\$ 2,927,604</u>	<u>\$ 1,903,031</u>	<u>\$ 412,558</u>

Table 4

Fund on past debt plus the early payoff of the bond related to the Cannery Row Garage. This generated a decline in working capital of \$2.9 million to a current balance of \$6.7 million (Table 4).

The Presidio Municipal Services Agency (Presidio Fund) recorded \$14 million in revenue in FY11, which resulted in over \$1 million in revenue to the City’s General Fund to cover administrative costs. Of this total revenue amount, \$8 million was earned through our maintenance contract with the Army, such as for building and streets, and the remaining \$6 million was generated by the City’s management of capital projects. Ending reserves of

rate increase that will be phased in over five years. This additional funding will be used to fund a \$16.8 million sewer rehabilitation program that will take place over the next two to three years.

As Table 4 shows, revenues of the Storm Water Fund didn’t quite cover operating costs for the program, falling short by \$40,000. This means that any needed capital projects for the storm drainage system will continue to be funded by the General Fund and the Neighborhood Improvement Program until a permanent funding source can be secured.

## General Fund Ending Balance

As detailed in Table 1, revenues overall in the General Fund came in less than originally projected by \$126,000. However, budget savings from all General Fund programs was slightly better than expected so the end result, as Table 5 shows, was that available ending balance in the General Fund at June 30, 2011 decreased by \$80,000, to \$41,000.

<b>FY11 Ending Balance Reconciliation</b>		
(in thousands)		
<b>Ending balance per budget</b>	<b>\$</b>	<b>121</b>
<b>Revenue shortfall</b>		<b>(126)</b>
<b>Expenditure savings</b>		<b>59</b>
<b>Net transfers &amp; adjustments</b>		<b>(13)</b>
<b>Revised ending balance</b>	<b>\$</b>	<b>41</b>

**Table 5**

## Fund Balance Analysis Report

Table 7 (following page) reports the ending balance for all City funds as of June 30, 2011 (in some cases similar funds were combined to make the report more readable). The purpose of this report is to give the reader a fuller overview of all City funds, reserve balances and the degree of control the City Council can exercise over these reserves.

The **restricted** column in Table 7 represents dollars that can only be spent for specific purposes (not discretionary).

The **committed or assigned** column includes amounts the Council has discretionary control over. The \$10.5 million in the General Fund are all the Council-established reserves as shown in Table 6.

The remaining **unassigned** column shows the \$41,108 in available ending balance described in Table 5.

## **General Fund "Committed" Reserves**

### **June 30, 2011**

(in thousands)

<b>Capital renewal</b>	<b>\$</b>	<b>2,020</b>
<b>Economic Uncertainty</b>		<b>5,821</b>
<b>Continuing CIP</b>		<b>1,566</b>
<b>Encumbrances</b>		<b>800</b>
<b>Other reserves</b>		<b>319</b>
<b>Total committed reserves</b>	<b>\$</b>	<b>10,526</b>

**Table 6**

## Looking ahead

The revised FY11 ending balance of \$41,000 means the projected ending balance for FY12 is now \$109,000. This is obviously a very tight budget without much room for error or contingency. On the plus side, TOT came in stronger than expected during the July/August reporting period which is always welcome news. Receipts were up 8.5% rather than the expected 4% growth rate so this is a promising start to the new fiscal year.

This good early news is contrary to the steady stream of bad state and national economic news we have been hearing for the last two months. Unemployment remains over 9% nationwide and higher still in California. The Gross Domestic Product (GDP) is growing at an anemic annualized rate of 1.3%, which drags on sales tax receipts, while the housing market still struggles, which impacts property taxes. So given this mixed economic news, revenue estimates have not been adjusted at this point and the City's budget is still in balance. However, we will continue to monitor budget estimates closely and make any necessary adjustments at mid-year or sooner depending on economic conditions.

## Fund Balance Analysis

June 30, 2011

Fund	Comment	Restricted	Committed or Assigned	Unassigned
General Fund	General purpose	\$ -	\$ 10,525,922	\$ 41,108
Sewer Mains Fund	Sewer main expansion	616,032		
Wharf 1 Sprinkler System	Wharf I sprinkler repair	172,041		
Skyline Forest	Landscape maintenance	115,354		
Neighborhood Improvement	Council control with 4/5 vote	-	5,653,311	
Dept of Conservation Grant	Garbage/recycling containers	(661)		
Public Safety Grant Funds	For grant purposes only	48,114		
Gas Tax	Street repair/reconstruction	1,054,087		
Construction Truck Impact	Street repair/reconstruction	550,431		
Maintenance Districts	Alvarado/Calle P maintenance	26,300		
Parking Districts	Parking facility expansion	4,344		
Housing Grants	Housing programs	3,539,194		
Park Dedication	Park and recreation land	62,389		
Sewer Line Maintenance Fund	Sewer construct/repair	1,903,031		
Storm Water Utility Fund	Storm Drain construct/repair	412,558		
Integrated Regional Watershed	For grant purposes only	17,587		
Water System Improvements	Water system construct/repair	334,055		
Public Safety Training	Council control	-	103,895	
Asset Seizure	Police related expenditures	19,034		
Public Education/Govt. Access	AMP public access contract	7,854		
Senior Center Programs	Senior programs only	239,907		
Debt Service Funds	For debt service	415,602		
Capital Projects	For approved capital projects	-	462,001	
Marina	Marina operations/capital	1,472,340		
Cemetery	Cemetery operations/capital	(36,321)		
Parking	Parking operations/capital	6,723,882		
Materials Rrecycling Facility	Maintenance of debt service	124,764		
Presidio of Monterey	Presidio operations/capital	2,927,604		
Navy Services	Navy operations/capital	144,324		
Institutional Network	Support City I-net agreement	499,845		
Vehicle Maintenance/Replace	Council control of "committed"	-	1,342,324	
Information Services	Council control of "committed"	-	1,185,835	
Insurance Trust Funds	Council control of "committed"	895,696	(258,165)	
Tidelands	For tidelands/CR hotel contract	6,349,951		
Library	Library Board control	743,187		
Museum	Museum programs only	132,634		
Scholze Trust Funds	Parks/Playground programs	44,692		
Totals		\$ 29,559,849	\$ 19,015,122	\$ 41,108

**Category Descriptions:**

"Restricted": can be spent only for specific purposes stipulated by resource providers (e.g. grantor or state law).

"Committed": can be spent only for items as determined by formal action of City Council (e.g. General Fund reserves).

"Unassigned": not currently earmarked for any specific program or purpose.

Table 7