

TO: City Council
FROM: James L. App, City Manager
SUBJECT: **Financial Forecast Fiscal Years 2008/09 – 2010/11**
DATE: February 3, 2009

NEEDS: For the City Council to receive and file an updated projection of the City's finances (General Fund) through June 30, 2011.

FACTS:

1. The economic recession is significantly impacting City operations.
2. A downturn was anticipated as early as Fall 2007. Steps were initiated to reduce City spending.
3. Further deterioration of economic activity warrants an update to earlier financial forecasts.
4. Bottom line, notwithstanding actions that have eliminated \$4,000,000 recurring annual spending, more will be required to weather the next three years (to June 30, 2011).

ANALYSIS &

CONCLUSION: Projection specifics are provided in the attached spreadsheets. In summary, consumer spending is down 7.2%, residential construction is virtually non-existent, and property tax income is flattening. Cumulative net General Fund results for the three years July 1, 2008 – June 30, 2011 are projected to be \$7-10,000,000 in deficit if nothing more is done to rebalance expenses with revenues.

The City's economic downturn management plan (Layoff Prevention Plan) guides recession response. Consistent with that Plan, contract services and temporary help have been trimmed. Staff levels have been reduced 15% through hiring freeze, attrition, early retirements and some (voluntary) reduced work weeks. Further re-balancing over the three years will be achieved with additional reductions in labor costs and use of savings (leaving a \$1,900,000 reserve balance [cash] at June 30, 2011). There will be unavoidable reductions in services.

Economic indicators will be continuously monitored. If they vary substantively from this projection, steps will be implemented to adjust for the variance. By mid-2011, economic activity should stabilize; it may be possible to begin restoring services and staff in Fiscal Year 2011/12 (July 1, 2011-June 30, 2012).

POLICY

REFERENCE: **Fiscal Policy; Layoff Prevention Plan.**

FISCAL

IMPACT: Cumulative net General Fund results for the three years July 1, 2008 – June 30, 2011 will balance (with significant reductions of labor and other costs as well as use of savings); there will be a \$1,900,000 reserve balance (cash) at June 30, 2011.

- OPTIONS:**
- A. Receive and File the Financial Forecast.**
 - B. Amend, Modify or Reject the Option Above.**

Attachment: Financial Forecast FY 09 – 11
Layoff Prevention Plan