

# City of Chico - Financial Update

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## Questions

- What is Financial Health and when will the City of Chico be Financially Healthy?

## Questions

- What can the City afford given the demands on limited resources?

## Today's Agenda

- Review Key Budget (Fiscal) Policies
- State “Audit”
- Fiscal Year 2014-15 Results
- Operating Projections – FY 2015-16  
thru FY 2019-20
- Economic Projections – FY 2015-16  
thru FY 2019-20

## Review Key Budget (Fiscal) Policies

- Guiding Principles:
  - C.4.b – “A budget must be sustainable into the future, not balanced with one-time fixes, such as transfers of reserves or set-asides, and must reasonably reflect expenditures that match available revenues.”

## Review Key Budget (Fiscal) Policies

- Guiding Principles:
  - C.4.c – “Reducing funding for capital projects, or eliminating projects from the Capital Improvement Program, in order to support operating activities sacrifices the community’s long-term interests.”

## Review Key Budget (Fiscal) Policies

- Guiding Principles:
  - C.4.d – “Continuous investment in technology, systems and equipment is needed to improve organizational efficiency, especially when staffing levels are reduced.”

## Review Key Budget (Fiscal) Policies

- Guiding Principles:
  - C.4.e – “Reasonable compensation levels in line with the labor market for similar governmental agencies are desired in order to minimize staff turnover and maintain City productivity; however, compensation levels must stay within a range that the City can sustainably afford while still providing the full range of city services that citizens expect from their City government.”

## Review Key Budget (Fiscal) Policies

- Financial Planning Policies:
  - D.1 – “The City shall establish a plan to reduce current deficits and to structurally balance the budget.”
  - D.1.g – “The City will refrain from allowing funds to fall into deficit positions or continuing growth in existing fund balance deficits.”

## Review Key Budget (Fiscal) Policies

- Financial Planning Policies:
  - D.1.i – “The City will evaluate and consider personnel compensation and benefit expenditures from a total compensation perspective.”

## Review Key Budget (Fiscal) Policies

- Financial Planning Policies:
  - D.1.a – “The City will dedicate new ongoing revenue sources in the following manner and priority:”
    - 1 – Reducing fund deficits, addressing anticipated deficits, funding significant long-term liabilities, and replenishing Reserves to established targets;

## Review Key Budget (Fiscal) Policies

- Financial Planning Policies:
  - D.1.a – Continued
    - 2 – Fixed cost increases, such as built-in escalators, benefit increases outside City control, etc.;
    - 3 – Replenish internal service funds, such as Vehicle Replacement, Building Maintenance, etc.;
    - 4 – Discretionary expenditures and negotiable items.

## Review Key Budget (Fiscal) Policies

- Financial Planning Policies:
  - D.1.c – “One-time revenues not anticipated during the fiscal year will be primarily dedicated to reducing fund deficits, addressing anticipated fund deficits, funding significant long-term liabilities, and replenishing reserve and internal service funds to established targets.”

## State "Audit"

- BACKGROUND:
- California State Auditor's viewed the City as "at-risk" and conducted a three-week analysis to determine whether an extensive audit was required.
- City had to demonstrate that it was not "at-risk."

## State "Audit"

- BACKGROUND: (continued)
- Results – The State is not going to conduct an audit at this time, but rather place the City on a “watch list.”
  - The State will continue to monitor from afar and audit if they believe it is warranted.

## Fiscal Year 2014-15 Results

- General Fund - Balance 6/30/14 - <\$2.8M> deficit
- General Fund - Balance 6/30/15 - \$4.2M (All Non-Spendable, Committed and Assigned)
  - Reasons for positive change:
    - \$5.2M in one-time revenue and cost savings
    - \$1.8M in ongoing revenue. - This revenue has been included in the FY 15-16 Budget

## Fiscal Year 2014-15 Results

- Other City Funds carrying deficits totaling approximately \$9M (Note G. in the City's CAFR).
- Audited results will be presented to Council in December.
- Fiscal Policies will be considered and should impact decisions.

Operating Projections (General Fund)  
2015-16 thru 2019-20

**OPERATING PROJECTIONS: FOCUS ON  
ANNUAL BUDGETS**

- State Auditors required the City to produce a financial forecast.
- City's forecast through FY 2019-20 shows a flat line (i.e., no growth, no decrease).
  - Projected Fund Balance at 6/30/20 is \$4M. As previously stated, Fund Balance at 6/30/15 is estimated at \$4.2M.

## Operating Projections (General Fund) 2015-16 thru 2019-20

- Forecast through FY 2019-20 (Continued)
  - Flat-line forecast includes:
    - No new positions (including Police)
    - No COLA's
    - Personnel increases currently known:
      - MOU provisions
      - CalPERS increases
      - Health insurance increases
      - Workers' Comp increases

## Operating Projections (General Fund) 2015-16 thru 2019-20

- Forecast through FY 2019-20 (Continued)
  - Flat-line forecast includes:
    - Current level of transfers
    - Static non-personnel expenditures
    - Annual lease payments for fire trucks
    - CAD/RMS (Police)
    - Revenue increases ranging between 2% and 4%.

Operating Projections (General Fund)  
2015-16 thru 2019-20

**OPERATING PROJECTIONS: FOCUS ON  
ANNUAL BUDGETS**

Conclusion – While the City can afford our current service level, there are no new \$\$ on the horizon. The City remains vulnerable as it has no reserves. Fiscal Policies require sustainable budgets.

Economic Projections (City-Wide)  
2015-16 thru 2019-20

**ECONOMIC PROJECTIONS: FOCUS ON  
CURRENT AND LONG-TERM OBLIGATIONS,  
NEEDS, ETC.**

- Major Items:
  - Net Pension Liability - > \$100M
  - Streets and Roads - > \$4-\$10M/year
  - Staffing Additions - > \$1M+/year
  - Other Infrastructure Needs - > \$4M/year

## Economic Projections (City-Wide) 2015-16 thru 2019-20

<b>City of Chico FY2015-16 Annual Budget Unfunded Obligations &amp; Additional Needs</b>					
	FISCAL YEAR 2015-16	PROJECTED 2016-17	PROJECTED 2017-18	PROJECTED 2018-19	PROJECTED 2019-20
<b><i>Operational Deficiencies</i></b>					
Staffing Additions - 3% Staffing (Includes Police and Fire)	\$ -	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Staffing Compensation Adjustments - 2%		750,000	750,000	750,000	750,000
Operating Transfers In (Decrease to GF)		200,000	400,000	600,000	800,000
Non-Personnel Exp Increases - 3%		300,000	300,000	300,000	300,000
<b>Total</b>	<b>-</b>	<b>2,250,000</b>	<b>2,450,000</b>	<b>2,650,000</b>	<b>2,850,000</b>
<b><i>Capital &amp; Long-Term Obligations</i></b>					
Net Pension Obligation (2% of Obligation)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Streets and Roads (2007 Report - 1/2 Of recommended)	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Airport Infrastructure	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Facilities	500,000	600,000	700,000	800,000	900,000
Fleet	1,000,000	1,100,000	1,200,000	1,300,000	1,400,000
Information Systems	300,000	400,000	500,000	600,000	700,000
<b>Total</b>	<b>9,800,000</b>	<b>10,100,000</b>	<b>10,400,000</b>	<b>10,700,000</b>	<b>11,000,000</b>
<b>ANNUAL COSTS</b>	<b>(9,800,000)</b>	<b>(12,350,000)</b>	<b>(12,850,000)</b>	<b>(13,350,000)</b>	<b>(13,850,000)</b>
<b>CUMULATIVE OBLIGATIONS</b>	<b>\$ (9,800,000)</b>	<b>\$ (22,150,000)</b>	<b>\$ (35,000,000)</b>	<b>\$ (48,350,000)</b>	<b>\$ (62,200,000)</b>
<b><i>Note - This projection is not optimum and additional funds are needed in most categories.</i></b>					

Economic Projections (City-Wide)  
2015-16 thru 2019-20

**ECONOMIC PROJECTIONS: FOCUS ON  
CURRENT AND LONG-TERM OBLIGATIONS,  
NEEDS, ETC.**

- Conclusion – Liabilities, Obligations and Needs Outpace Available Funding

## Summary

- The City has rebounded very well from the edge of the cliff (i.e., <\$15M deficit>).
- However, the General Fund should have Reserves of at least \$13M.
- Council will prioritize use of one-time funds per Policy.
- City's Deficit Reduction and Restoration Plan shows that City will achieve the desired reserve level in FY 2027-28.
- City will provide financial updates as warranted.<sup>25</sup>

Questions??

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