On Monday, January 12, 2003, Porterville Department Heads and the City Manager conducted an all-day staff financial review. The purpose of the meeting was to provide an opportunity, outside the routine operational context of City administration, to assess our current financial status, the impact of actions by other governments, and to outline action plans to address financial issues. In particular, this review was intended to consider the background material prepared by the Administrative Services Director and develop a set of recommendations for the City Council’s financial study session scheduled for January 28, 2003.

Status of State Action: The Governor on Friday provided an outline of anticipated actions to be taken over two years to address State budgetary deficits. In the first year (02-03 FY), the impact on cities and counties from VLF is estimated to be $1.3 billion and in the second year (03-04 FY) the amount was projected by the Governor’s plan to be $3 billion.

1. Porterville’s status was considered. In the first year (02-03FY) the curtailments were set at $130,000 in lost SB 90 monies; Around $761,000 in VLF from the budget estimate and $80,000 in the lost booking fee reimbursement. For the City then, the estimated General Fund loss would be about $971,000. In addition, the City is expected to lose $85,000 in street congestion mitigation and $24,000 in Redevelopment Agency ERAF shift.
2. In the second year, (03-04 FY) the estimated General Fund loss would increase to a total impact of \$1,840,000 on the General Fund. The other losses of congestion mitigation monies would continue, as would the RDA’s ERAF shift.

3. Other impacts outlined include the curtailment of Police Officer Standards and Training monies to support training activities.

The Manager and Directors discussed options and outlined the following action plan:

- Effective the beginning of February, all positions should be frozen until May 7, 2003, except for positions essential to maintain the public’s health and safety, and to comply with specific contractual obligations. Hiring within these position categories may be authorized only on a finding of fact by the City Manager. During the period until May 7, 2003, additional information should become available regarding the actions to be taken by the Governor and Legislature. Also, the City management should formulate a specific program for presentation to the City Council for any extension in the hiring freeze during the 90 day period.

- Beyond the hiring freeze, only essential purchases should be made, including travel. Regarding this limitation, an exception shall be basic travel by City officials to Sacramento and other areas to provide information and clarification about the impact of potential budgetary actions upon the City of Porterville and the greater Porterville community.

- A staff task force should be established consisting of the Administrative Services Director, Police Chief, Fire Chief, and City Manager (ex officio) to address the many issues associated with the potential curtailments in monies from the State. Their purpose shall be information and advocacy in appropriate forums.

- Providing objective information for the employees was defined as a crucial activity. The City will continue to use its employee newsletter to outline for the City’s workforce the City’s understanding of actions proposed and approved by the Governor and Legislature, and their potential impact upon City programs.

★ General Fund Financial Report: The Administrative Services Director prepared, using the International City Management Association model, an extensive report about financial factors. The factors are defined, comparative information over a number of years is provided, the City’s current status is presented and goals are recommended. The factors reviewed include

- Revenue Per Capita evaluated “ACCEPTABLE”
- Intergovernmental Revenues evaluated “WATCH”
- Property Tax Revenues evaluated “POSITIVE”
- User Charge Coverage evaluated “ACCEPTABLE”
Revenue Shortfalls evaluated “IMPROVEMENT NEEDED”
Expenditure Per Capita evaluated “WATCH”
Employees Per Capita evaluated “WATCH”
Operating Deficits (w/out debt service) evaluated “WATCH”
Operating Deficits (w/out transfers in) evaluated “IMPROVEMENT NEEDED”
Operating Deficits (with debt service & transfers in) evaluated “WATCH”
Fund Balance (w/out reserving carry overs) evaluated “WATCH”
Fund Balance (with carry-over reserves) evaluated “IMPROVEMENT NEEDED”
Liquidity evaluated “ACCEPTABLE”
Long Term Debt evaluated “ACCEPTABLE (IMPROVING)”
Debt Service evaluated “ACCEPTABLE (IMPROVING)”
Population evaluated “ACCEPTABLE”
Residential Development evaluated “WATCH”

“POSITIVE” means that the indicator exceeds an acceptable standard;
“ACCEPTABLE” means that it provides a financial measure which if continued would provide a dependable and stable financial factor which is viewed as reasonably sustainable;
“WATCH” means that the factor is currently acceptable, but the analysis indicates that the trend is not reasonably sustainable or the trend is not clear and convincing, and
“IMPROVEMENT NEEDED” means that the City should immediately address the factor and define a strategy for improvement.

Important observations from the review of the financial factors are:

1. Goals have been outlined for the various financial factors which have been presented. The recent announcement by Governor Davis that basic City revenue sources may be curtailed moves the entire financial equation back requiring the City to consider major shifts in service provision and the financial allocations to support them. Therefore, until this “shock” to the financial system is resolved, establishing a time-line to achieve financial goals may not be efficacious. Once, however, the system’s balance is re-established, financial goals should be approved by the City Council to lead and measure financial progress. As the current Executive announcement is exemplary, the State Finance System is broken: We must demand that it be reformed.

2. Currently the City departments are operating below budgeted expenditure amounts. The conservative spending by the departments is the major factor for financial stability during the 02-03 Fiscal Year.

3. A Fiscal Impact Analysis will be beneficial to determine the financial impacts of development and the desirable ratio of residential, commercial and industrial projects, and annexations. Understanding these dimension is important in planning the City’s future.

4. The City has relied upon the Cost Allocation Model to define user fees. The model was first developed a decade ago, and it would be very beneficial to compile a new base document for allocating cost and establishing fees.
5. We should correspond with the Courts to assure that booking fees and drunk driving fees are assessed.

★ **Fund Strategies:** A number of funds have had sustained deficits or appear imbalanced in their ability to meet future financial commitments. In some instances it is a lack of resources, while in others it may be short-term cash flow issues.

I. **Redevelopment:** *This year the fund has a $96,000 deficit which is anticipated to worsen in the 03-04 FY as a result of the state budget crisis and other factors.*

1. The current fiscal year (FY) deficit is the result of a number of factors including a tax base that has not grown due to reassessments and lack of significant property appreciation through sales, a larger than normal debt service payment the first year after a bond refunding, an ERAF diversion and a new judicially mandated 2% pass through with the Kern Community College District. The fund faces even more challenges in the 03-04 FY stemming from factors similar to that of the current fiscal year, but worsened by an anticipated increase in the ERAF diversion from $24,000 in the 02-03 FY to a projected $80,000 in the 03-04 FY. Reassessments of key properties within the Redevelopment Project Area will also play a key roll.

A major contributor to the reduction through re-valuation will be the Standard Register property which was recently acquired by Pro Forms. The anticipated re-valuation is anticipated to have a significant effect on the tax increment revenues which Staff is currently calculating. Although Pro Forms will reduce the amount of tax revenue paid by Standard Register, and it was a foregone conclusion that this would have to be addressed, Pro Forms stabilizes the situation by occupying a vacant building that would likely be reappraised as a vacant building, and provides an opportunity for job growth and future increment growth from the new base.

In addition, the new pass through with Kern Community College District will be an annual expense.

2. Typically the shortfalls have been covered by a fund balance which was $272,000 at the beginning of the 02-03 FY. A portion of the shortfall can be accommodated next fiscal year by shifting staff from the Redevelopment Administrative account to Community Development Block Grant (CDBG). Fortunately, the City’s CDBG entitlement amount is projected to be higher than the current fiscal year which will allow a portion of the administrative costs to be transferred out of Redevelopment. As is typical in the Redevelopment Agency, the primary use of the monies raised from tax increment will be to pay approximately $500,000 in debt service cost.

3. Once the actual impact of property re-valuation is determined, staff will develop an action plan to deal with any deficit that will occur. While the Home Depot project is not within the
redevelopment project area, it is immediately adjacent to the project area and may well encourage development in the area which will increase the tax base.

II. CDBG: The Community Development Block Grant Program has short-term cash flow deficits during the year, but an increased allocation from federal monies in FY 03-04 will support activities and goals consistent with Redevelopment and enhance the Youth Center program, and the Murry Park renovation for the coming fiscal year.

Because billings must be made after the expense has been incurred, a systematic lag in revenues occurs. This is addressed by an efficient billing process.

III. Zalud Estate: Each year the endowment to support the house erodes by $15,000 to $18,000. Options to address this erosion must be considered and a course undertaken to address the matter. The Parks and Leisure Services Director will present the issue to the Commission for consideration and recommendation to the City Council. A series of options in this regard have been formulated.

1. The City has addressed this in the past by allocating earning from Tax Revenue Anticipation Notes to support the house. The financial market has changed and as a result the TRAN monies are not available. For this activity there is no quick fix, however, the following approaches are suggested:

2. A partnership with the Museum or other non-profit should be considered. Earnings from the endowment would be paid to support the operation and maintenance of the house. This would address the depreciation of the endowment, but the approach must have a means to address the cost of major capital expenditures.

3. A support group could be developed to raise funds for the preservation of the House. The Friends of the Zalud House could use the facility to undertake fund raising activities. Their imagination and prudence may establish the nature and extent of this, but potentially a gift shop, historical book store, coffee shop could be established. Also, fund raising occasions might be undertaken which would add to the City’s culture life.

4. Also, a lease may be let on a portion of the facility (maybe the carriage house) to establish a business activity compatible with the preservation of the estate. The rent received from the lease would be used to preserve the house.

IV. Golf Course: The Golf Course over the past decade has lost money at the rate of about $17,000 per year. The major consequence from the sustained
loss is that the Golf Course may be determined to be “not a going concern”. The activity may then not continue as an enterprise, but instead an aspect of the City’s General Fund group which should be annually subsidized.

1. The Consolidated Annual Financial Report for the fiscal year ending June 30, 1992, defined the retained earnings for the fund at $49,843 while the most recent report (June 30, 2002) defines the retained earnings at a negative ($117,587).

2. City rate adjustments last year should partially address the issue, but the long-term consequences must be addressed.

3. Possibly a portion of the enterprise determination may be based upon a realistic valuation of assets. For example, the land for the entire enterprise is valued at only $102,048. This ability to re-evaluate assets will be researched by City staff. Nevertheless, even if land values may be adjusted to market values for the use, a long-term financial strategy for the golf operations must be undertaken.

4. Vital to developing such a strategy is compiling comprehensive information. Currently, the City has undertaken an analysis for a new golf course that will provide much comparative information on other municipal golf operations in the Valley.

5. When the Council considers a golf business plan, the consideration should be comprehensive, and should include the full array of options. In this regard, the City should investigate contracting out the management of the current golf course.

V. Airport: The projected 02-03 FY news is good for the Airport, for there is a probability that cash flow for the year will be positive. This will be the result of reducing costs greatly; A very robust revenue year from fuel sales; The sale of lots at the industrial park; and the coverage of toxic substance remediation costs with COP monies. It is not likely these factors will be sustained. There are very significant challenges in establishing the business plan for a long-term financial recovery.

1. In 1992, the cash loan to support the Airport consisted of $38,993. By 2001, the amount had increased to $600,416. This represents the accumulated cash deficit over the period. In FY 01-02, this was adjusted largely because of Certificate of Participation contributions to support the remediation of toxic soils and the renovation of the Airport restaurant to a loan of $532,894 (cash deficit not including the debt for the fuel tanks/system and the COP debt). In addition, the retained earning improved from $863,212 to $869,352.
2. The Airport continues to face challenges. We are now completing a new Airport Layout Plan and working with the users to coordinate this. This will be presented to the Council as will a long-term vision and business plan.

3. The major financial factors for the Airport are:

3a. The reported withdrawal of the key tenant California Division of Forestry. We are working through the Legislature to modify this. If it is implemented, it will potentially depress fuel sales greatly.

3b. The need to improve Airport facilities with no Airport cash reserve. Most of the cost of improvements is paid by federal and state governments, but the City does have obligations for match and for cash flow during development.

3c. The City has a limited revenue base at the Airport. Relative to cost, small amount of revenue are raised from rents and other charges. The main source of monies is from fuel sales. Fuel sales sufficient to cover the current normal operating budget depend upon the operation of the Fire Base.

3d. The City has curtailed costs against the Airport to the extent possible. The Airport Manager has not billed cost, and administrative expense is being applied against the Sports Center Land Cost. Even with these major curtailments in cost, it is difficult to achieve a positive balance in the fund.

4. Most probably, the future of the Airport will depend upon very close cost containment and the development of a significant enterprise which will through some method cover the cost of the Airport’s operation, maintenance, and improvement.

VI. Sewer Operating:  

Because of impact fee payments, it appears that the fund will be positive during FY 02-03. The long-term solvency of the fund depends upon actions taken with the Wastewater Treatment Fund. Support for the Sewer Operating Fund should be considered with the upcoming review of the Wastewater Treatment Fund.

VII. Wastewater Treatment:  

This fund during FY 02-03 should decline from a beginning cash balance in excess of $1,000,000 to a balance of less than $100,000 during the Fiscal Year. This is a result of capital spending for vital improvements and securing property upon which to discharge effluent. The key to this fund is adjusting rates during the 02-03 FY.
VIII. Bonded Capital:  The fund covering bonded capital is the clearing account for COP monies. Because of requirements for clearing funds, it carries a deficit, which will be addressed by COP monies.

1. The major outstanding project is the Plano Bridge. Certain costs cannot be reimbursed by COP monies until a clearance is obtained from Fish & Wildlife Service.

2. A partial offset will be achieved by applying collected fees for fire hydrants and street lights against the cost of the Granite Hills Street Project.

3. Currently, a rate analysis is being completed by the City’s consultant. Initial meetings to review the conclusions and to define a solution are being scheduled for March, 2003.

★ Conclusion: The Manager and Directors reviewed the financial notes outlined above and concurred in the action plan items defined above.