



Budget Report Third Quarter – FY11-12

Overview:

This report summarizes the City's overall financial position for the fiscal year through March 2012. Except as noted below, revenue and operating expenditure trends are generally on target based on mid-year estimates.

News and Information:

- **CalPERS**

In March 2012, the CalPERS board reduced the assumption for the investment return on the CalPERS' portfolio. This change in assumption would typically increase the City's required retirement contribution; however the City is insulated from these increases due to negotiated caps with the various bargaining units.

- **RDA Dissolution**

The dissolution of the RDA resulted in a net reduction to City operating revenue of approximately \$500,000 dollars. This reduction will be offset by minimum Administrative Allowance that was approved by the Successor Agency and their Oversight Board. The City is currently working with the Department of Finance to review the denial of three outstanding debts on its Recognized Obligation Payment Schedule. The Oversight Board has initially approved the City's request to forgive a loan of \$1,350,000 in exchange for the Rispin Property. The other obligations included \$618,000 of to the City and \$920,000 to the Housing Authority of Santa Cruz County. To learn more about the Successor Agency's activities, visit the City Council website at <http://www.ci.capitola.ca.us/capcity.nsf/CtyAdFinance.html>

- **Emergency/Contingency Reserves**

The General Fund has previously borrowed from the Contingency Reserves in November to assist with cash flow requirements. The combined Contingency, General, and Emergency Reserve fund balances are estimated to be only \$142,000 at the end of Fiscal Year 2012. This is \$1.6 million below the required target. This could present a cash flow issue for Fiscal Year 2013, as well as create a challenge to replenish the reserves with limited new revenue. Additional information on the reserves can be found in the Financial Focus section of the quarterly report.

General Fund:

The fiscal year is 75% complete. General Fund revenues are at 63% of the mid-year projections, while expenditures are at 66%.

General Fund	Amended Budget	YTD Actual	Percent
Revenues	\$ 12,619,400	\$ 7,913,720	63%
Expenditures	\$ 12,615,400	\$ 8,330,800	66%
FY11-12 Operating Balance	\$ 4,000	\$ (503,100)	

Overall key revenues and expenditures are performing as projected based on estimates, payment schedules, and past trends; with a potential for salary savings. An overview of the variances is provided in the preceding sections.

Key Revenues:

Revenue	Amended Budget	YTD Transactions	% Used/ Rec'd
Taxes:			
Property Taxes	\$ 1,647,000	\$ 849,252	52%
Sales and Use Tax	4,992,075	2,863,260	57%
Document Transfer Tax	26,600	38,826	146%
Business License Tax	280,000	261,095	93%
Franchise Tax	468,200	194,875	42%
TOT Tax	875,000	596,500	68%
Total Taxes	\$ 8,288,875	\$ 4,803,807	58%
Other:			
Licenses and permits	\$ 245,200	\$ 242,630	99%
Intergovernmental revenues	545,964	197,203	36%
Charges for services	2,210,600	1,577,420	71%
Fines and forfeitures	704,000	508,610	72%
Use of money & property	279,800	265,611	95%
Other revenues	96,500	69,938	72%
Other financing sources	248,500	248,500	100%
Total Revenues	\$ 12,619,439	\$ 7,913,720	63%

Sales Tax – Sales tax revenues are closer to budget estimates. Due to the “triple flip”, only a percentage of our revenues have been received. The In-lieu fees which are anticipated to be \$498,000 should be received in April, along with sales tax for the April through June period.

Property Tax – The City receives property tax in December in April. The City is anticipating that revenues will be on target when they are received in April.

Business License Tax – The renewal cycle for business occurs during the first half of the fiscal year; therefore most of the revenues anticipated for this base year have been collected.

Franchise Tax – Franchise Taxes for Refuse and Cable are received twice a year. It is estimated when the second payment is received in June, the receipts will equal or slightly exceed the projected revenues.

Transient Occupancy Tax (TOT) – Year to date revenues are up \$185,000 or 45% over last year due to the opening of a major new hotel in July, 2011; however, revenue is slightly under budget. It is estimated that revenues will come in closer to projections as the summer season approaches.

Licenses and Permits – These revenues are performing better than anticipated. Receipts will be watched closely within the next few months to use as a benchmark for Fiscal Year 2012-2013.

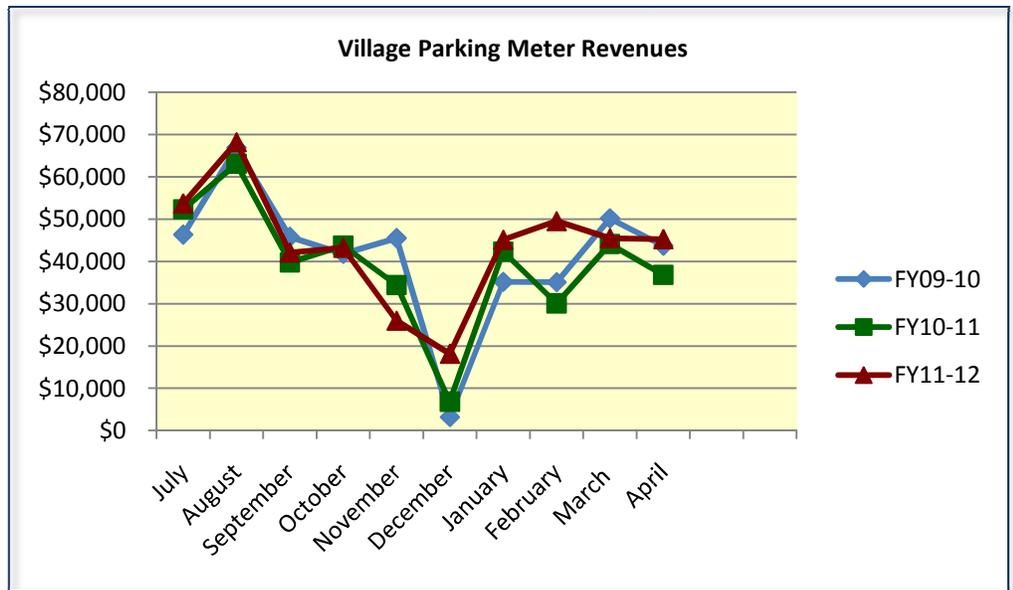
Intergovernmental Revenues - The largest share of intergovernmental revenues reflect Federal and State Grant reimbursements. Additional revenues will be recognized as reimbursements are requested.

Special Revenue Focus:

The City is also monitoring Village Parking Meters to determine if additional revenues will be generated from the installation of paystations. These paystations were installed in November of this year.

A three year-trend is presented in the chart to right. This actual third quarter totals are:

- FY09-10: \$413,500
- FY10-11: \$393,500
- FY11-12: \$436,800



Expenditures:

Expenditures by Category	Amended Budget	YTD Transactions	% Used/Rec'd
Personnel	\$ 7,587,745	\$4,878,566	64%
Contract services	2,495,000	1,756,866	77%
Training	32,832	36,776	112%
Supplies	545,664	377,250	73%
Grants and Subsidies	275,000	206,250	75%
Capital outlay	-	-	-
Internal service fund charges	846,700	635,175	75%
Other financing uses	832,500	439,950	53%
General Fund	\$ 12,615,441	\$8,330,833	66%

Expenditures by Department	Amended Budget	YTD Transactions	% Used/ Rec'd
10 - City Council	\$ 138,859	\$ 90,568	65%
11 - City Manager	793,100	539,466	68%
12 - Personnel	211,275	133,842	64%
16 - City Attorney	218,600	121,920	56%
17 - Finance	633,650	389,030	63%
18 - Community Grants	275,000	206,250	75%
20 - Public Safety	5,831,637	3,888,991	67%
30 - Public Works	2,026,120	1,393,020	73%
40 - Community Development & Building	717,660	474,746	72%
50 - Culture & Leisure	937,040	653,050	71%
99 - Transfers	832,500	439,950	53%
Expenditure Totals	\$ 12,615,441	\$ 8,330,833	66%

Salaries – Approximately 72% of the fiscal year payroll has been posted to date. Salary savings are anticipated from a partial Police Officer and .50 Records Clerk vacancies in the Police Department. In addition there were some salary savings from the partial vacancy of the Finance Director position.

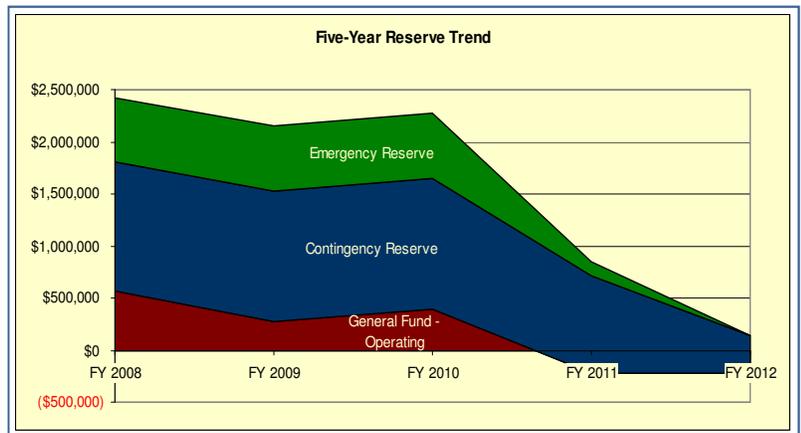
Other Financing Uses – Represents transfers from the General Fund. The following entries will be posted in the final quarter of the fiscal year: CIP at \$50,000; Pension Obligation Bonds at \$120,000; Emergency Reserve Transfer at \$168,750; and required transfers to the Parking Reserve Fund.

Financial Focus – Reserves

The City of Capitola adopted a Financial Management Policy on June 8, 2000 which required the City to set aside funds for the following purposes:

- Contingencies – An appropriation equal to 10% of the General Fund for the purpose of providing financial resources to protect against temporary revenue shortfalls or unanticipated operating costs, and/or to meet short-term cash flow requirements
- Emergencies – Requires an appropriation equal to 5% of the General Fund expenditures for the purpose of funding one-time significant costs.

In March of 2011, an underground storm drain failed and flooded the Pacific Cove Mobile Home Park and portions of Capitola Village. Over the past two years, the City has paid over \$1.4 million in flood related costs from the Emergency Reserve Fund, with an additional \$200,000 of anticipated expenses for a retaining wall. It is projected that at the end of FY 11-12 the City will have only \$141,900 in reserves; which is \$1.6 million below the recommended funding level. This represents a decline in available funds of over 2.2 million within a five-year period.



A detailed accounting of the reserves is listed below:

Contingency and Emergency Reserves	FY 10-11 Actual	FY 11-12 Adopted	FY 11-12 Third QTR to Date	FY 11-12 Year-End Est.
Estimated Beginning Balance - Reserve Funds	\$ 1,874,234	\$ 934,844	\$ 1,069,572	\$ 1,069,572
Revenues: Transfers In - General Fund	\$ -	\$ 337,500	\$ 168,750	\$ 337,500
Expenditures:				
Flood*	\$ 804,662	\$ 530,000	\$ 625,632	\$ 825,632
Transfers to the General Fund				
Chamber			30,000	30,000
CVC			23,000	23,000
Legal Council - Insurance			20,000	20,000
Voter Survey			13,000	13,000
Community Grants				137,500
Expenditure Totals	\$ 804,662	\$ 530,000	\$ 711,632	\$ 1,049,132
Estimated Ending Balance - Reserve Funds	\$ 1,069,572	\$ 742,344	\$ 526,690	\$ 357,940
Potential Adjustment-Prior Year General Fund Deficit				\$ (216,016)
Estimated Ending Balance - Reserve Funds				\$ 141,924
Policy Funding Target				15%
Total General Fund Expenses				\$ 11,635,631
Target				\$ 1,745,345
Reserve Funds - Deficit				\$ (1,603,421)