

Annual Financial Review

The City is a full service municipality operating within a \$17 million budget that funds 66 full-time employees assigned to eight operating departments. The City's primary goal is to provide services to its residents and businesses.

Government services are primarily funded by property taxes, local taxes, and user fees. Since 2008, the City has either had flat or declining revenues such as the loss of Tax Increment Revenues from the Community Redevelopment Agency. Added to the difficulty in maintaining a balanced budget is that contract expenses have increased 3-5% annually, such as dispatching services for the Fire Department, Humane Society animal control services, fuel purchases, or utilities. These impact the City's purchasing power. For example, in Public Works, sidewalk materials increases have grown almost 8% since 2007, but the City General Fund revenues have only grown 2.9% during the same period. The department must choose to buy fewer materials or reduce another purchase (or reduce staff) in order to remain in balance with its funding. This is true in all departments/funds. Another way to state this, the inflationary costs of goods and services exceed inflationary receipts of revenue; therefore, to balance the two, expenditures (services and the materials needed to support the service) are scaled back to revenues supporting City services.

The City's original budget for the 2011-2012 fiscal year was balanced after more than \$900,000 in staffing and other reductions. However, two major financial events occurred in the City during FY 2011-2012. First, in November 2011, the cities in the San Gabriel Valley foothills experienced a large scale windstorm. Sierra Madre's recovery costs exceeded \$560,000 funded by the City's General Fund. Following this, in December 2011, the State Supreme Court upheld AB1X26 which dissolved Redevelopment throughout the State, but it shot down the counterpart AB1X27 that would have allowed Sierra Madre's Community Redevelopment Agency to make payment to the State to remain active despite AB1X26 dissolution. The loss of the CRA is almost \$900,000 annually to the City's finances. The City responded by making \$440,000 in additional General Fund cuts which included \$270,000 from personnel. By July 1, 2012, the City downgraded five positions, laid off two full-time positions, and eliminated 21,500 part time hours (10 FTE) from the budget permanently. All of which required a complete reorganization of every department (except Public Works which had under gone this process at the beginning of the FY 2011-2012 budget in the earlier \$900,000 reductions). These reductions have allowed the FY 2012-2013 year budget to be revised and balanced.

Going forward, the City has experienced five years of flat or nearly declining revenues, which leads into the next five year projections not showing much change in these trends. The City continues to monitor its three remaining major funds, General Fund, Water, and Sewer for revenue improvements, but must also continually scale back expenditures, and therefore purchasing power, in these three funds or risk using reserves to fund its operational needs. Since Proposition 13 in the 1977, governments, state, and local government must achieve voter approval for increased taxes. In Water and Sewer, two City utilities, the City is required to complete a comprehensive fee study and a Proposition 218 Majority Protest.

In the City's General Fund, its financial stability is reliant on the Utility User Tax (UUT). The UUT has grown to over 30% of the General Fund as a result of a voter approved increase in rate in 2008. The City Council has set the Utility User Tax rate at 10% since 2010 through June 30, 2015 despite a maximum collection rate of 12%. The UUT is set to begin stepping down July 1, 2014 from 12% to 10%; and continue stepping down 2% each July 1 thereafter until it reaches a base of 6%. The voters were asked to extend the period out further into 2020 for 12% rate, but this was unsuccessful. The next opportunity for extension of the UUT rate is April 2014 at the next regularly scheduled election. The City's General Fund is estimated to lose \$500,000 per 2% drop in UUT rate. Compounded by inflationary expenditures exceeding revenues by almost 3%, without any changes in the City's financial planning, the City's General Fund will be unbalanced by nearly \$1.7 million by June 30, 2017.

As the City of Sierra Madre begins developing the next biennial budget, the City is hopeful that the major economic recession is winding down. However, realistically as home prices are still close to 2002 prices, it will take many more years before the full recovery and its impacts on City's revenue is felt. Add to UUT revenues that could potentially deteriorate, the City is faced with many challenges ahead.

Business-Type Funds: the enterprise funds had a decrease in revenues collected for services \$316,000; 7.17 percent; and had an increase in expenses of \$310,000; 6.49 percent. The Water fund had a decrease in revenue of \$147,000; 4.62 percent; despite having a rate increase of 7.75 percent. This loss is reflection of conservation of water usage both for economic and environmental intents. At the close of FY 2011-2012, the City's Internal Services funds decreased net assets by \$306,035.

Revenue, Expenditures, and Changes in General Fund Balance
(modified accrual basis of accounting)

	Audited FY 2011-2012	Projected FY 2012-2013
Revenues		
Property Taxes	\$ 3,416,568	\$ 3,428,424
Sales Tax	179,736	197,327
Utility User Tax	2,344,713	2,600,000
VLF/Property Tax	910,848	906,598
Other Taxes	58,107	79,931
Charges for Services	128,437	164,391
Intergovernmental	591	8,161
Business Licenses	238,031	215,000
Franchise Fees	356,588	308,000
Licenses and Permits-Other	89,649	105,676
Fines and Forfeitures	231,011	169,418
Investment income	6,838	52,281
Miscellaneous	18,249	27,902
Total Revenue	<u>7,979,366</u>	<u>8,263,109</u>
Expenditures		
Current:		
General government	1,387,713	1,342,140
Public safety-Fire	510,872	697,868
Public safety-Police	3,591,967	3,634,646
Public works	316,389	355,790
Development	192,750	-
Culture and recreation-Recreation	239,104	281,597
Culture and recreation-Library	814,875	894,936
Debt Service:		
Principal	68,180	99,000
Interest	-	-
Capital outlay	18,674	22,000
Total all other governmental funds	<u>7,140,524</u>	<u>7,327,977</u>
Excess (deficiency) of revenues over (under) expenditures	838,842	935,132
Other financing sources (uses):		
Transfer in	94,638	101,000
Transfer out	(1,344,753)	(954,179)
Total other financing sources (uses)	<u>(1,250,115)</u>	<u>(857,601)</u>
Net change in fund balances	(411,273)	77,531
Fund Balances, beginning	<u>5,521,717</u>	<u>5,110,444</u>
Fund Balances, ending	<u>\$ 5,110,444</u>	<u>\$ 5,187,975</u>