

MAJOR FUNDS OVERVIEW & FINANCIAL ISSUES DISCUSSION

City of Atwater
City Council
Workshop
January 5, 2017

FINANCIAL OVERVIEW

- **What Happened**
- **Where Are We Now**
- **Significant Challenges Ahead**
- **Possible Action to be Taken**

WHAT HAPPENED ?



WHAT HAPPENED

- **Significant Negative Impact of Economic Recession**
 - **Revenue Reduction**
 - **Drawdown / Depletion of Reserves**
 - **Inter-fund Borrowing**
 - **Budget Cuts**
 - **Reduced Staffing**
 - **Reduced Service Levels**

WHERE ARE WE NOW ?

WHERE ARE WE NOW ?



- **Slow Recovery Has Begun**
 - **Property/Sales Tax Revenues Increasing**
 - **Increased Development Activity**
- **Inter-Fund Loan Repayments - 2013**
- **Enterprise Funds Self-Supporting**

WHERE ARE WE NOW ?



- Fully Committed Measure H Funds
- Drawdown of Gas Tax Funds
- Negative Fund Balance in General Fund
- Increasing Demand for General Fund Services

**SIGNIFICANT
CHALLENGES AHEAD**

SIGNIFICANT CHALLENGES AHEAD

Long-Term Fiscal Stability of the City of Atwater





AUDITOR'S NOTE

■ Auditor's Opinion:

The accompanying financial statements have been prepared assuming that **there is substantial doubt that the City will continue as a going concern**. As discussed in Note 16 to the financial statements, the General and Sanitation Funds have suffered recurring deficits from operations. These conditions raise substantial doubt about the City's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

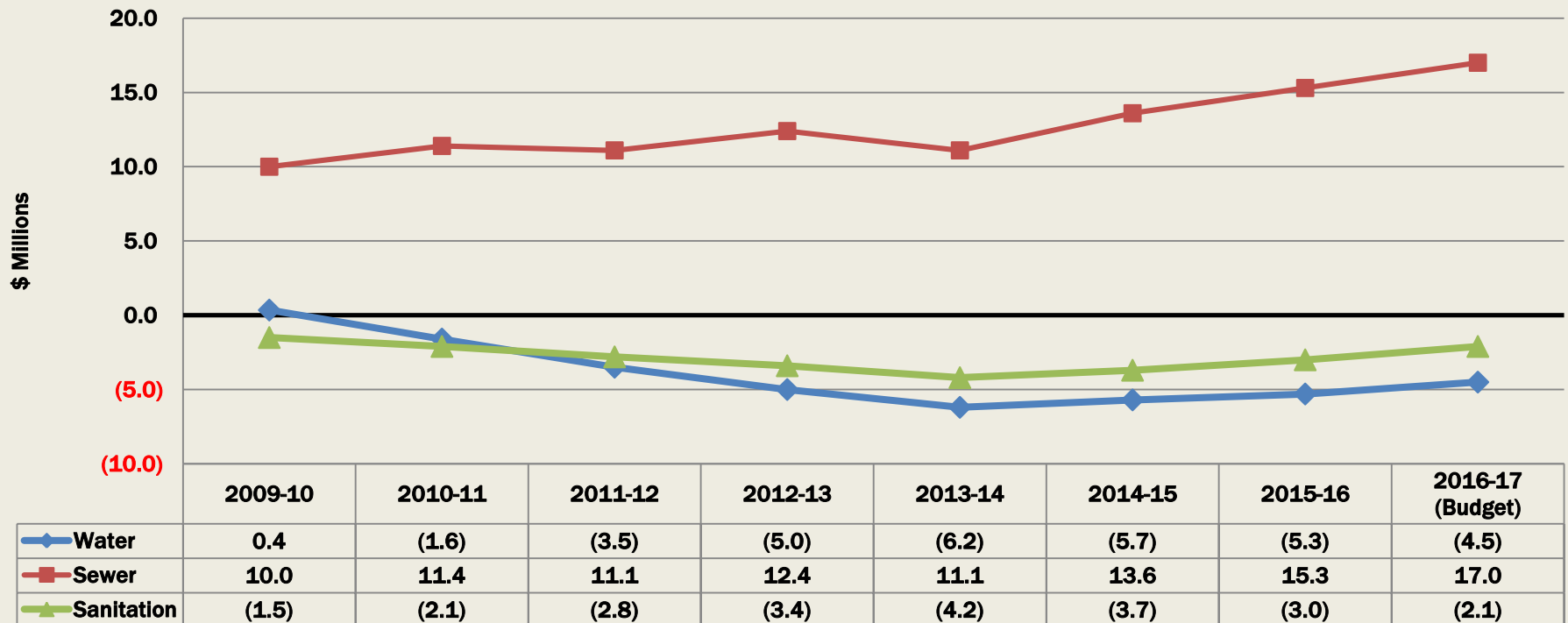
SIGNIFICANT CHALLENGES AHEAD

- **Enterprise Funds**
- **Measure H Fund**
- **Gas Tax Fund**
- **General Fund**

ENTERPRISE FUNDS

- Water, Wastewater and Sanitation Funds Must Continue to Generate Sufficient Revenue to Cover Operating/Capital Costs

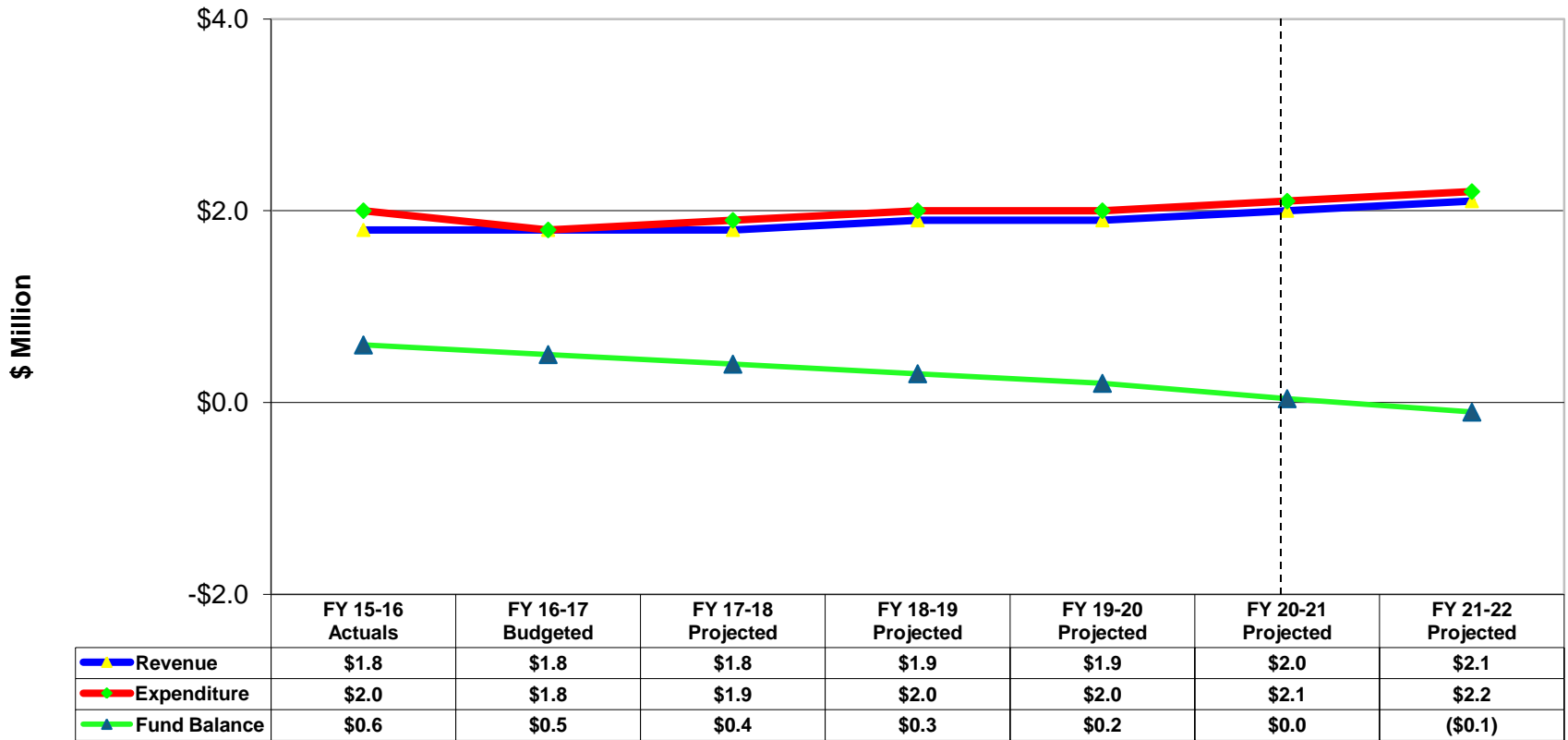
Enterprise Funds Fund Balance History



MEASURE H FUND

- **Projected Operating Shortfall in Each of Next Five Years**
- **Draw Down of Reserves**
- **Measure H Fund in Deficit Position by FY 2021-22**
- ***Shortfall Transferred to General Fund?***

MEASURE H FUND FORECAST



GAS TAX FUND

- **Operating Shortfall in Each of Five Years**
- **Reserves Depleted in FY 2017-18**
- **Deficit Increasing to \$2.1 million by FY 2021-22**
- ***Shortfall Transferred to General Fund?***

GENERAL FUND FORECAST

- **Slow Economic Recovery**
- **Expenditures Outpacing Revenues**
- **Impact of Other Fund Deficits on General Fund?**
- **On-going Negative Fund Balance**

FUND BALANCE

■ Definition

- Fund Balance = Assets *minus* Liabilities
 - Assets = Cash, Accounts Receivable
 - Liabilities = Amounts Owed

FUND BALANCE

- Positive Fund Balance
 - Assets greater than Liabilities
- Negative Fund Balance
 - Liabilities greater than Assets
- Government Finance Officer's Association
 - *“at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures”*

FUND BALANCE

- Fund Balance (June 30, 2016)
 - (- \$2.8) million
- Minimum Target Fund Balance
 - + \$2.1 million
- *Atwater Below Minimum Target Level*
By \$4.9 million

FUND BALANCE *vs.* CASH

Example

Assets *Minus* Liabilities = Fund Balance

\$500 Checking Account Cash

+

\$2,000 Paycheck Earned

-

\$5,000 Credit Card Debt

\$2,500 Negative Fund Balance

GENERAL FUND FORECAST SCENARIOS

1. With Furlough (Current Situation / No Changes)

- *Added \$67,577 for RIMS Police Communication System lease payment for Seven Years starting FY 17/18*

2. Without Furlough (40 hours workweek)

- *Added \$67,577 for RIMS Police Communication System lease payment for Seven Year starting FY 17/18*
- *Added \$203,837 for Police Lieutenant and \$168,005 for Sergeant salaries starting FY 17/18*

3. With Furlough and CalPERS Restructuring

- *Same as Scenario #2*

4. Without Furlough and CalPERS Restructuring

- *Same as Scenario #2*

5. With Furlough and CalPERS Restructuring

- *Same as Scenario #1*

Note:

- *All Scenarios are based on **Per Capita Agreement** (Profit Sharing Agreement) negotiations and **Tow Yard** revenue projections of \$100K for FY 2017 and \$500K going forward.*
- *Added 10% additional increase to CalPERS effective July 1, 2018.*
- *Accountant II and 1 Police officer moved to GF in FY 17/18 and FY 18/19, respectively.*

SCENARIO #1

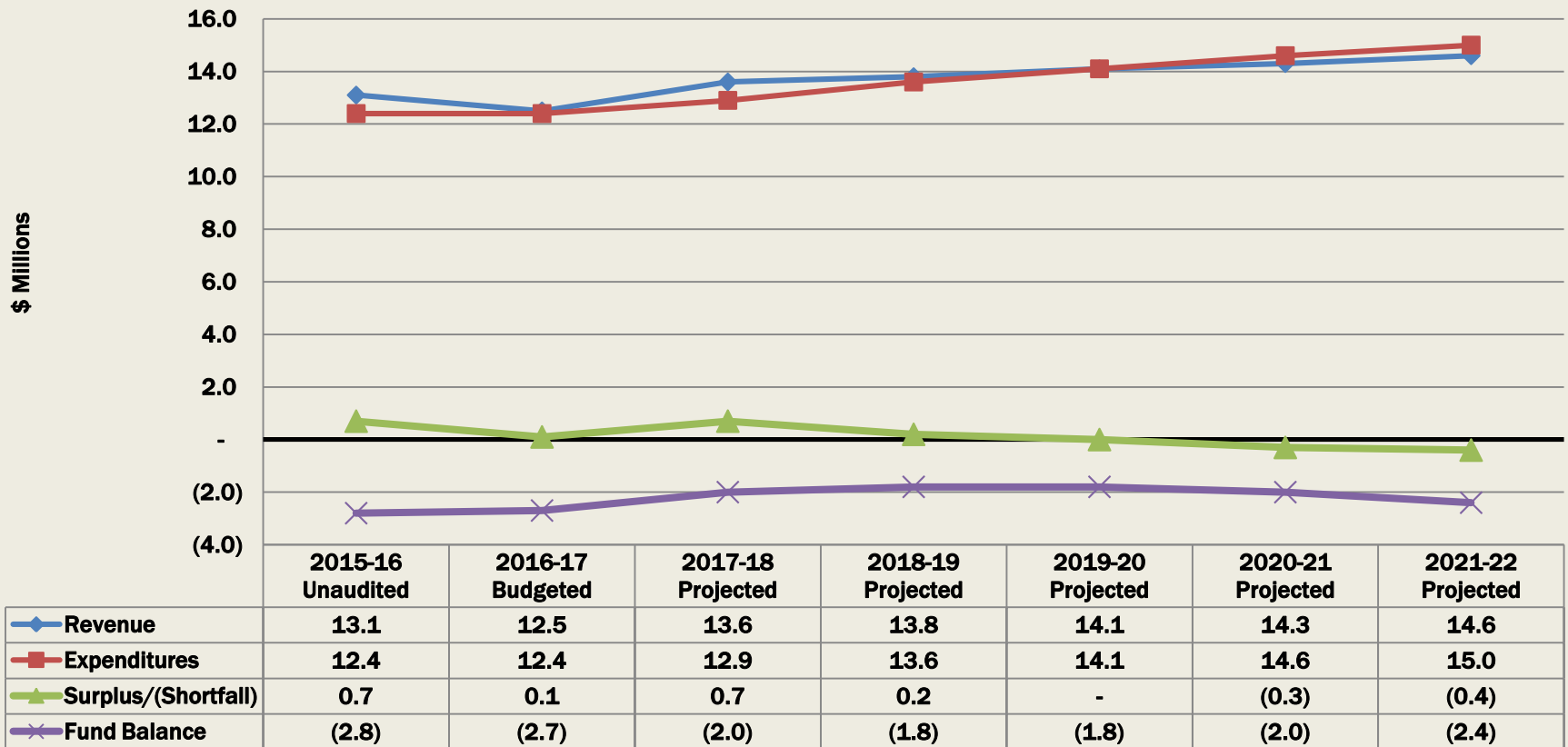
1. General Fund Five Year Forecast with Furlough (Current Situation/ No Changes)

	<u>2015-16</u> Unaudited	<u>2016-17</u> Budgeted	<u>2017-18</u> Projected	<u>2018-19</u> Projected	<u>2019-20</u> Projected	<u>2020-21</u> Projected	<u>2021-22</u> Projected
Revenue	13,147,417	12,459,720	13,584,743	13,832,693	14,091,600	14,339,058	14,598,985
Expenditures	12,361,995	12,386,269	12,854,758	13,628,842	14,114,797	14,552,840	15,001,777
Surplus/(Shortfall)	785,422	73,451	729,985	203,851	(23,197)	(213,782)	(402,792)
Ending Fund Balance	(2,814,335)	(2,740,884)	(2,010,900)	(1,807,048)	(1,830,244)	(2,044,026)	(2,446,817)

Added \$67,577 for RIMS Police Communication System Lease Payment for Seven Years beginning in FY 2017/18

SCENARIOS #1

Scenario #1



SCENARIO #2

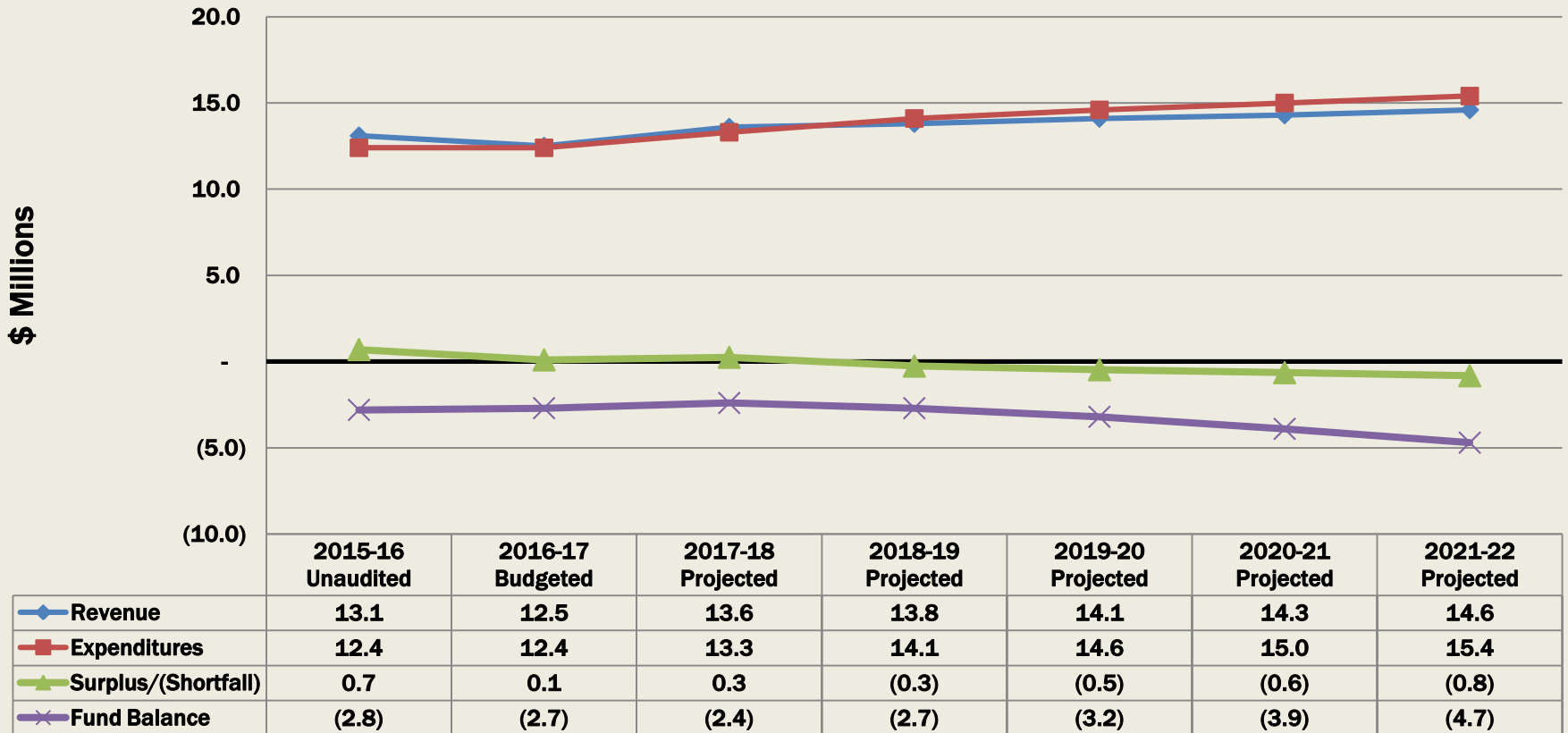
2. General Fund Five Year Forecast without Furlough (40 hours workweek)

	<u>2015-16</u> Unaudited	<u>2016-17</u> Budgeted	<u>2017-18</u> Projected	<u>2018-19</u> Projected	<u>2019-20</u> Projected	<u>2020-21</u> Projected	<u>2021-22</u> Projected
Revenue	13,147,417	12,459,720	13,584,743	13,832,693	14,091,600	14,339,058	14,598,985
Expenditures	12,361,995	12,386,269	13,335,355	14,094,244	14,564,653	14,986,791	15,419,455
Surplus/(Shortfall)	785,422	73,451	249,388	(261,551)	(473,053)	(647,733)	(820,470)
Ending Fund Balance	(2,814,335)	(2,740,884)	(2,491,496)	(2,753,047)	(3,226,100)	(3,873,833)	(4,694,303)

•Scenario 1 PLUS Elimination of Furlough and added \$203,837 for Police Lieutenant and \$168,005 for Sergeant salaries beginning in FY 2017/18

SCENARIO #2

Scenario #2



SCENARIO #3

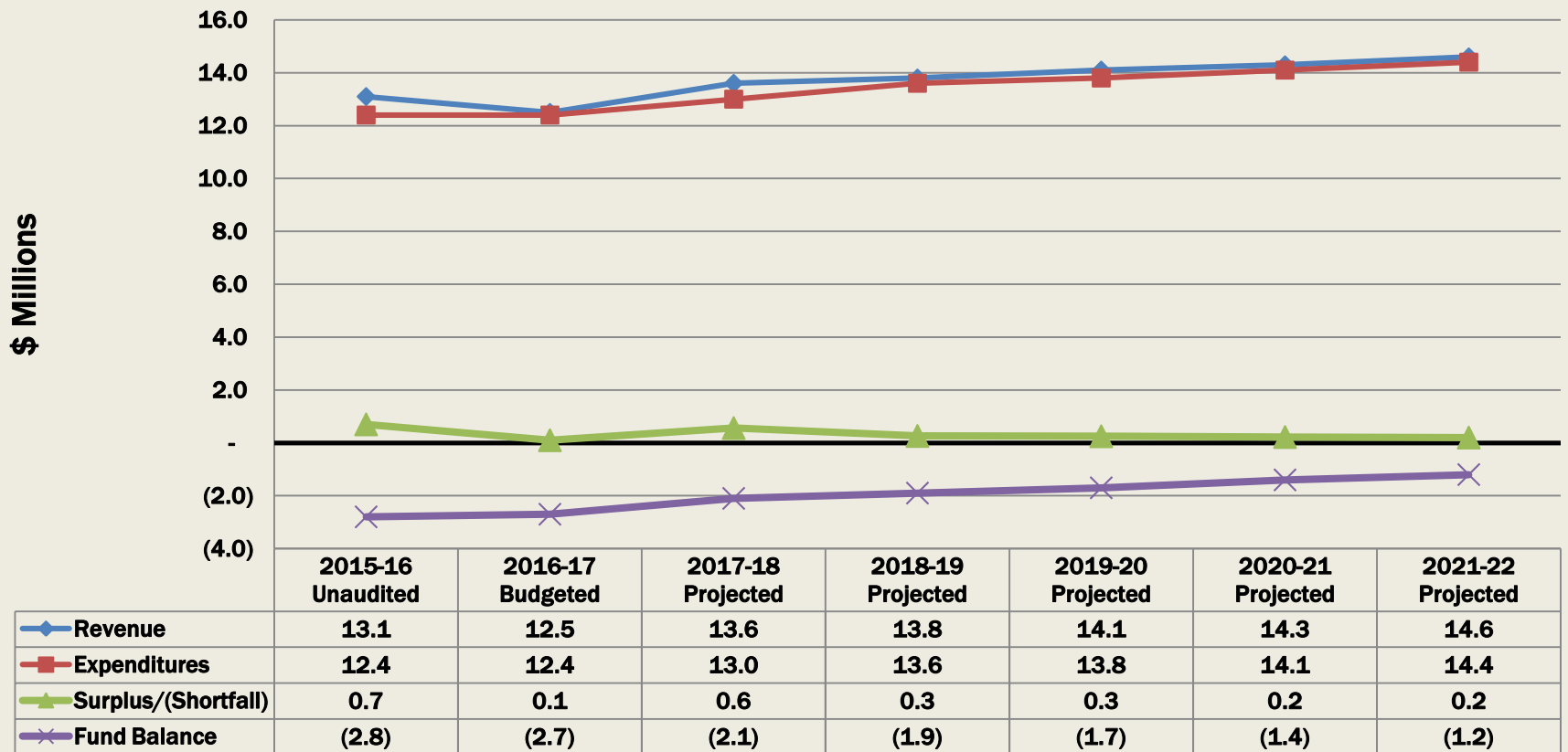
3. General Fund Five Year Forecast with Furlough and CalPERS Restructuring

	<u>2015-16</u> Unaudited	<u>2016-17</u> Budgeted	<u>2017-18</u> Projected	<u>2018-19</u> Projected	<u>2019-20</u> Projected	<u>2020-21</u> Projected	<u>2021-22</u> Projected
Revenue	13,147,417	12,459,720	13,584,743	13,832,693	14,091,600	14,339,058	14,598,985
Expenditures	12,361,995	12,386,269	13,023,990	13,569,941	13,837,721	14,111,887	14,392,635
Surplus/(Shortfall)	785,422	73,451	560,753	262,752	253,879	227,171	206,350
Ending Fund Balance	(2,814,335)	(2,740,884)	(2,180,132)	(1,917,379)	(1,663,499)	(1,436,328)	(1,229,979)

Scenario 2 WITH Continued Furlough and CalPERS Restructuring

SCENARIO #3

Scenario #3



SCENARIO #4

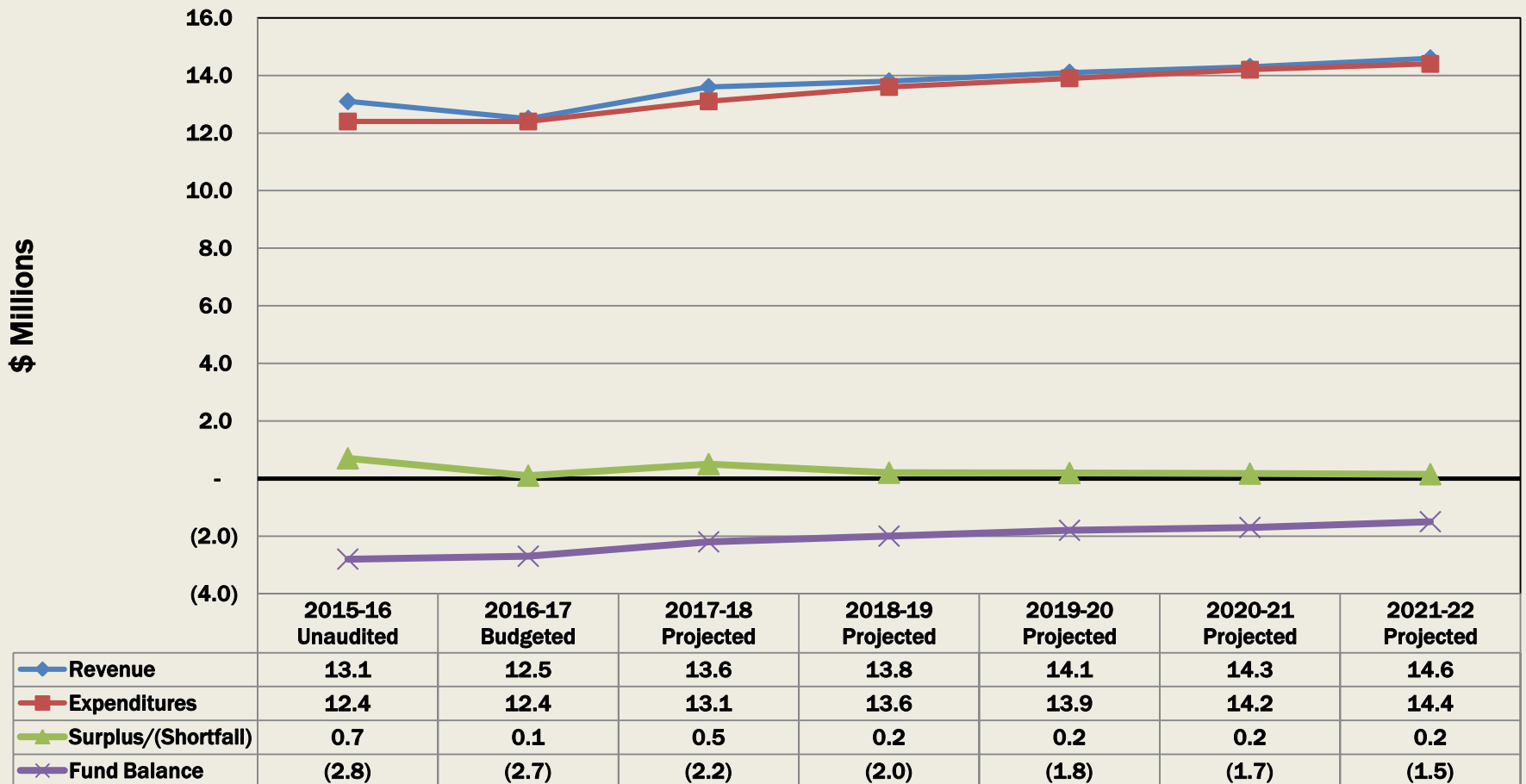
4. General Fund Five Year Forecast without Furlough (40 hrs. workweek) and CalPERS Restructuring

	<u>2015-16</u> Unaudited	<u>2016-17</u> Budgeted	<u>2017-18</u> Projected	<u>2018-19</u> Projected	<u>2019-20</u> Projected	<u>2020-21</u> Projected	<u>2021-22</u> Projected
Revenue	13,147,417	12,459,720	13,584,743	13,832,693	14,091,600	14,339,058	14,598,985
Expenditures	12,361,995	12,386,269	13,078,097	13,624,589	13,892,915	14,167,633	14,448,939
Surplus/(Shortfall)	785,422	73,451	506,646	208,104	198,685	171,425	150,046
Ending Fund Balance	(2,814,335)	(2,740,884)	(2,234,239)	(2,026,134)	(1,827,449)	(1,656,024)	(1,505,979)

Scenario 2 WITH Elimination of Furlough and Implementation of CalPERS Restructuring

SCENARIO #4

Scenario #4



SCENARIO #5

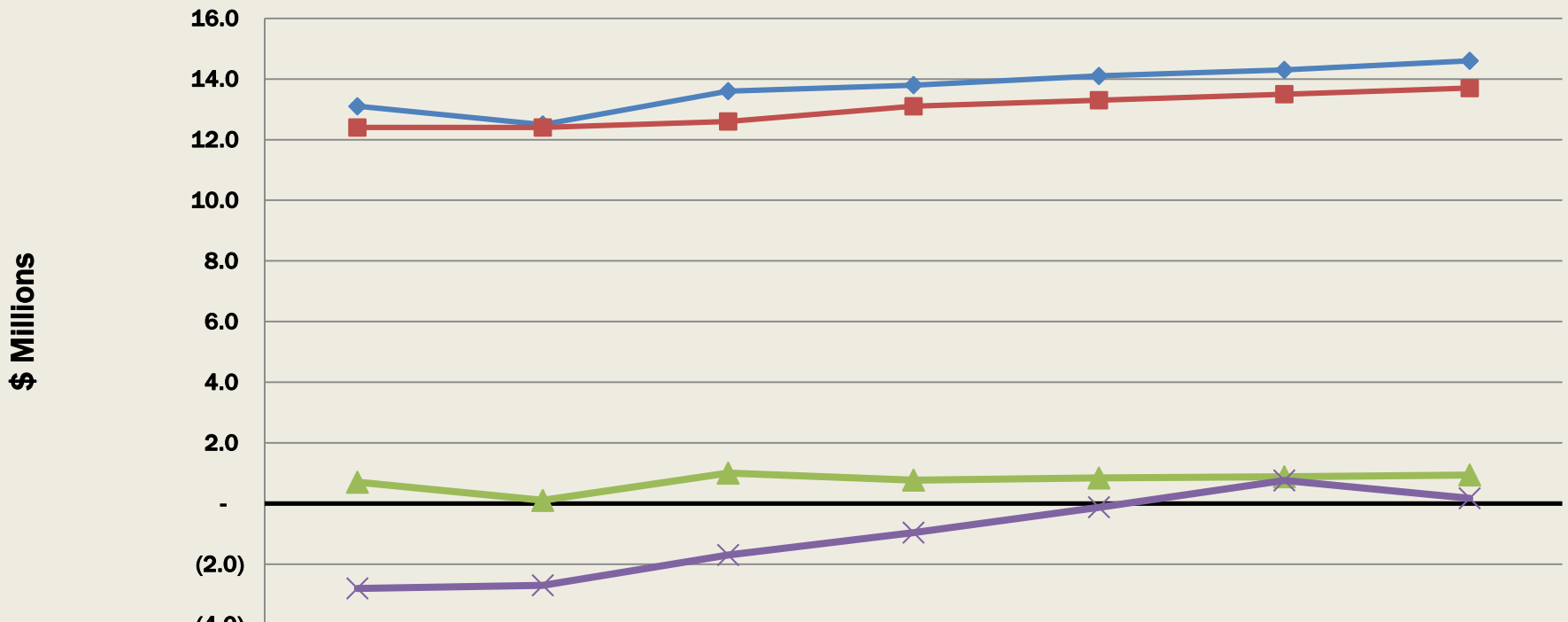
5. General Fund Five Year Forecast with Furlough (Current Situation) and CalPERS Restructring

	<u>2015-16</u> <u>Unaudited</u>	<u>2016-17</u> <u>Budgeted</u>	<u>2017-18</u> <u>Projected</u>	<u>2018-19</u> <u>Projected</u>	<u>2019-20</u> <u>Projected</u>	<u>2020-21</u> <u>Projected</u>	<u>2021-22</u> <u>Projected</u>
Revenue	13,147,417	12,459,720	13,584,743	13,832,693	14,091,600	14,339,058	14,598,985
Expenditures	12,361,995	12,386,269	12,584,571	13,057,875	13,251,592	13,450,252	13,654,022
Surplus/(Shortfall)	785,422	73,451	1,000,172	774,818	840,008	888,806	944,963
Ending Fund Balance	(2,814,335)	(2,740,884)	(1,740,713)	(965,894)	(125,886)	762,920	1,707,884

Scenario 1 (No Additional Staffing) WITH CalPERS Restructuring

SCENARIO #5

Scenario #5



	2015-16 Unaudited	2016-17 Budgeted	2017-18 Projected	2018-19 Projected	2019-20 Projected	2020-21 Projected	2021-22 Projected
◆ Revenue	13.1	12.5	13.6	13.8	14.1	14.3	14.6
■ Expenditures	12.4	12.4	12.6	13.1	13.3	13.5	13.7
▲ Surplus/(Shortfall)	0.7	0.1	1.0	0.8	0.8	0.9	0.9
× Fund Balance	(2.8)	(2.7)	(1.7)	(1.0)	(0.1)	0.8	0.2

GENERAL FUND SUMMARY

(Five Year Forecast Period)

- With No Action, Negative Fund Balance Continues
- Cost to Eliminate Furloughs = \$568,118 for 5 years
- Savings from Pension Re -Structuring = \$3.4M
- All Budgeted Revenues ***Must*** Be Collected
- General Fund ***Cannot*** Support Additional Costs
 - Increased Staffing
 - Coverage of “Other Fund Shortfalls”

**POSSIBLE ACTION TO BE
TAKEN**

ACTION PLAN

- **Options**

- **Increase Revenue**

- **Reduce Expenditures**

ACTION PLAN

- *Suggestions ?*



QUESTIONS / COMMENTS ?

