

Agenda Item _____
April 18, 2012
File No. _____

AGENDA BILL

Subject: Community Update on the Town's Finances, MLLA Judgment and AB 506 Mediation; and Proposed Schedule of Public Meetings to discuss the Town's Finances, Spending Priorities and Balancing Measures

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BACKGROUND

Town staff has had several public presentations on the matters related to the Town's finances, the judgment awarded to Mammoth Lakes Land Acquisition (MLLA) and settlement negotiations with MLLA, as well as the recently commenced mediation process. The most recent of these public discussions were held on February 15, 2012 (transmitting responses to the Frequently Asked Questions on the Town's settlement process with MLLA) and March 7, 2012 (providing preliminary estimates of the budget shortfalls for the current and next fiscal years).

On March 7, 2012, the estimated budget shortfalls were reported at \$0.7 million for Fiscal Year 2011-12, and \$2.2 million for Fiscal Year 2012-13. Since then, the estimates have been updated with more current financial information. The new estimates are provided further in this report.

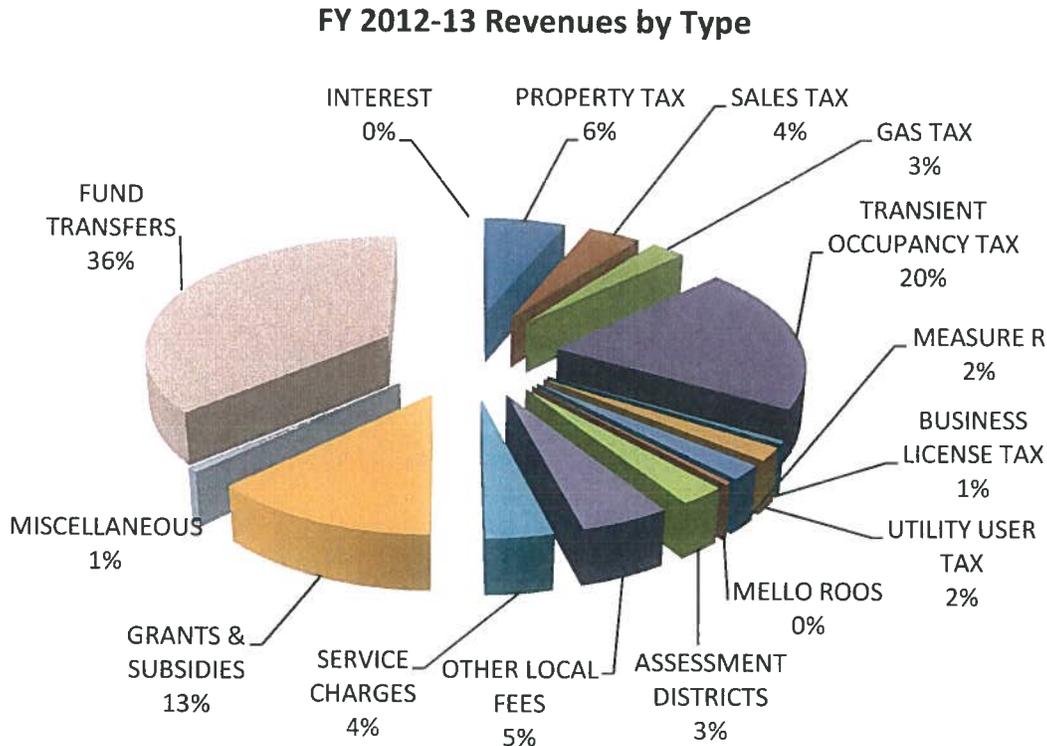
DISCUSSION

This report discusses the composition of the Town's budget; provides an update on the Town's finances; discusses status of scheduling mediation with the Town's creditors; and offers a draft schedule of meetings for a public discussion regarding spending priorities, necessary budget cuts, and any potential settlement with MLLA.

Composition of the Town's budget

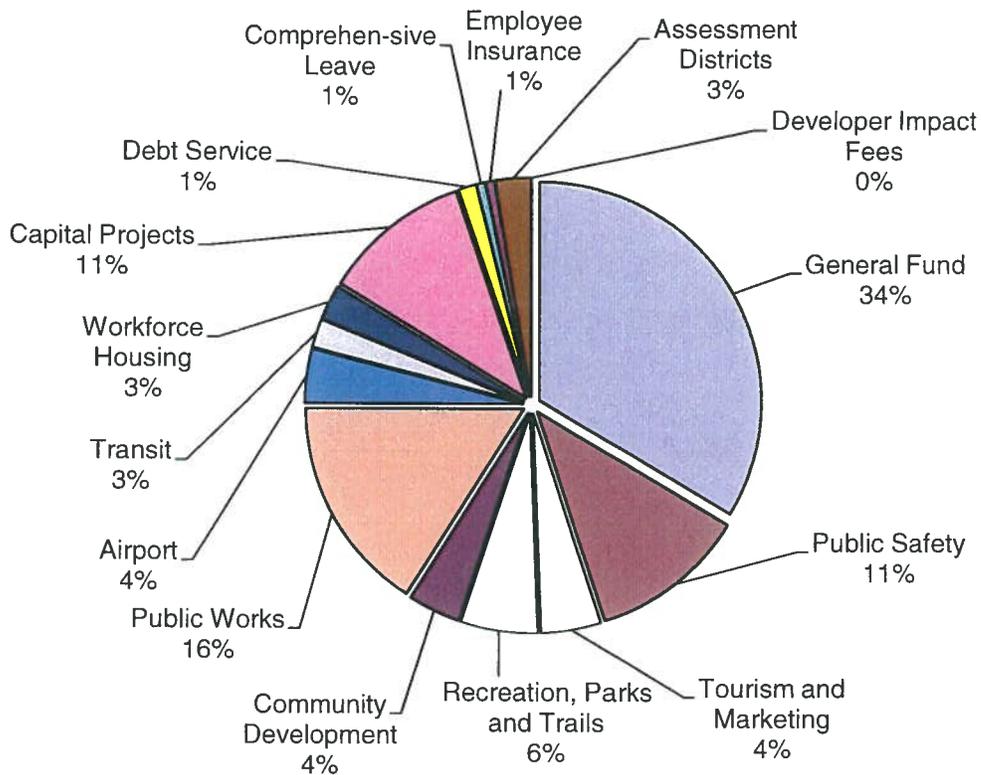
1. Funding Sources

The Town has numerous funding sources. Some are restricted in their use, others are available to pay for general government expenses, such as public safety, recreation programs, road maintenance and snow removal, and so on. The chart below illustrates the breakdown of the Town's revenues for Fiscal Year 2012-13 by funding type.



The Town's various revenues and expenditures are accounted for in various "funds", similar to bank accounts. The largest fund of the Town is called the General Fund, fund #001. As the chart on the following page illustrates, it accounts for 34 percent of the Town's overall budget.

FY 2012-13 Revenues by Department / Fund



While the Town uses very discreet fund numbers in its financial system, broader fund categories are used in the Town's annual audited financial statements. The audit uses the following fund categories:

General Funds: These funds are all unrestricted, but many are committed.

- | | |
|-------------------|-------------------------|
| 001 General Fund | 020 PW Maintenance |
| 008 Public Safety | 205 Public Works |
| 014 Tourism | 425 Transit |
| 015 P&R | 465 Workforce Housing |
| 019 CDD | 920 Comprehensive Leave |

Special Revenue Funds: Generally all are restricted.

- | | |
|------------------|---------------------------|
| 016 Measure R | 480 Drug Enforcement |
| 017 Measure U | 855 North Village (South) |
| 210 Gas Tax | 860 Juniper View BAD |
| 420 LTC | 861 South OMR BAD |
| 460 Housing, CDD | 862 Twin Lakes-BAD |

Capital Project Funds: Generally all are restricted.

- | | |
|----------------------------|-----------------------------|
| 300 Capital Projects | 835 DIF MCOE |
| 830 DIF Admin | 836 DIF Circulation |
| 831 DIF General Facilities | 838 DIF Fire Fac, Veh/Equip |
| 832 DIF Law Enforcement | 839 DIF Airport Improvement |
| 833 DIF Storm Drains | 840 Public Art |
| 834 DIF Parks & Rec | |

Enterprise Funds: Generally all are committed.

- | | |
|----------------------|----------------------------|
| 520 Airport | 910 Garage Services |
| 529 Airport Debt Svs | 930 Emp 125 & Ins Benefits |
| 540 Long Valley Pit | 990 Debt Service |

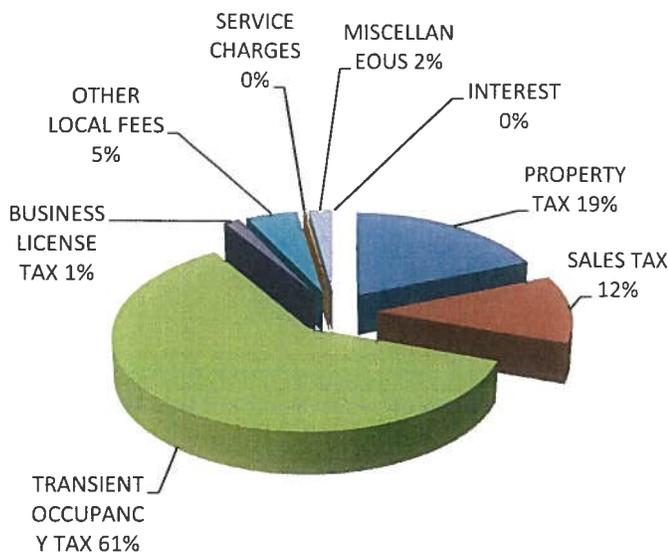
Trust & Agency Funds: Generally all are restricted.

- | | |
|----------------------------|----------------------------|
| 850 Juniper Ridge AD | 856 OMR AD |
| 851 Gateway AD | 857 Village Benefit AD |
| 852 Bluffs AD | 858 Fractional Mello Roos |
| 853 Bluff's Maintenance AD | 859 In Lieu DIF Mello Roos |
| 854 North Village CFD | 880 Trust Deposits |

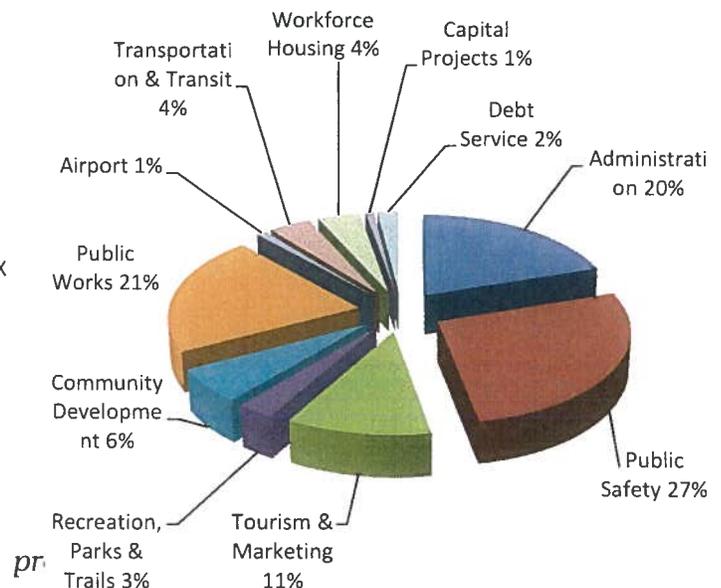
2. General Fund (001)

The General Fund collects unrestricted revenues, such as property taxes, sales tax, transient occupancy tax, and so on. These revenues are spent on general government programs and services. This fund also transfers money to the specific areas deemed high-priority for the Town, per the long-standing commitments made to Town voters to ensure their support for the past transient occupancy tax rate increases. The charts below show the key sources of revenue for the General Fund and key areas of spending.

FY 2012-13 General Fund Revenues



FY 2012-13 General Fund Expenditures



3. Fund Balances and Reserves

The Town has fund balances in each of its numerous funds. Governmental accounting rules (and specifically, pronouncement #54 of the Government Accounting Standards Board, or "GASB 54") require that these balances be presented in the following categories:

- *Non-Spendable fund balances:* These are hard assets or other non-cash items that have value, such as roads, land and vehicles.
- *Restricted fund balances:* These are generally cash amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balances:* These are generally cash amounts constrained to specific purposes by the Town itself, through a Town Council action. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- *Assigned fund balances:* These cash amounts are intended for a specific purpose; intent can be expressed by the Town Council or the Town Manager.
- *Unassigned fund balances:* These cash amounts that are available for any purpose. Unassigned balances can only be reported in the general fund.

In funds where spendable (restricted, committed, assigned and unassigned) balances exist, they function as reserves. In some cases – mainly in the restricted sources – these reserves are mandated. In other cases, the reserves are necessary to ensure that sufficient cash exists to pay expenses during the year.

The Town only controls unrestricted fund balances; restricted funding must be spent in the specific areas established by applicable law. For example, the Gas Tax fund accounts for the State Gas Tax revenues, which can only be utilized for road repair and maintenance, snow removal, and similar expenses.

Generally, the Town only has discretion over fund balances in the "General Fund" category of the audit (see above for the specific fund numbers). As of June 30, 2011, the fund balance within the General Fund group totaled \$13,407,497. A majority of this balance (\$10,094,618) is in a non-spendable form, representing payments expected to the General Fund from other sources; many of these may not be collected for a long time. Of the spendable portion, a

majority is committed. The unassigned, uncommitted balance was only \$423,817. The breakdown of the entire General Fund group balance is on the following page.

General Fund Group - Fund Balance

As of June 30, 2011, per the audited financial statements

NON-SPENDABLE: Long Term Receivables

Expected in fund 001: Airport Operational Loans, 2001 through 2008	3,290,041.03
Expected in fund 001: Airport Terminal Note	1,698,005.73
Expected in fund 001: Loan to DIF funds	3,286,262.91
Expected in fund 001: Equity in Employee housing assistance	272,212.00
Expected in fund 001: Fractional Use Loan FY2003-04 & FY2004-05	89,785.70
Expected in fund 015: Loans to the Mello Roos Fractional District	558,311.01
Expected in fund 465: Loan for an affordable housing project	900,000.00

Subtotal 10,094,618.38

COMMITTED:

Reserve for Economic Uncertainty	1,408,271.12
Self Insurance reserve	15,000.00
Fund 015-Parks & Rec	600.00
Fund 465: Workforce Housing	407,190.82
Fund 920: Comprehensive Leave	1,057,999.72

Subtotal 2,889,061.66

UNASSIGNED:

Fund 008 - Public Safety	93,303.43
Fund 020 - Parks Maintenance	20.26
Fund 014: Tourism	(112,104.46)
Fund 425: Transportation & Transit	442,597.57

Subtotal 423,816.80

Total General Fund-Fund Balance **13,407,496.84**

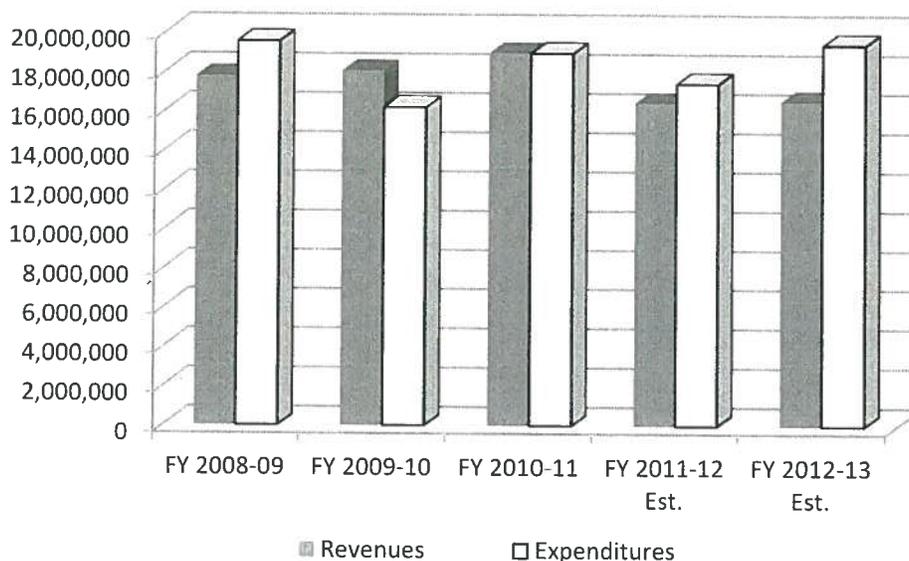
Of the committed portion, \$1,408,271 represents the “Reserve for Economic Uncertainty”. The Town Council established a reserve target at 25%, in line with recommendations from the Government Finance Officers Association. The \$1.4 million reserve, however, only reflects 7%, and is grossly insufficient.

Why the Town Has Fiscal Issues, and Where They are Concentrated

Generally, the Town’s available revenues are not sufficient to pay all of the Town’s current expenses. The issue is mainly within the General Fund, but other funds contribute to it to the extent that the General Fund subsidizes their operations. For example, if State Gas Tax revenues are insufficient to pay for road repairs and snow removal, the Town’s General Fund covers the gap. The General Fund gap is widening because the growth rate on the revenue side

has been lower in the recent years and months than cost increases on the expenditure side. The chart on the following page reflects a history of General Fund revenues and spending over the past five years, as well as currently projected amounts for FY 2011-12 and FY 2012-13.

History of General Fund Revenues and Expenditures



As a result of the past deficits, the General Fund reserve for economic uncertainty has decreased substantially, from \$4.4 million in June 2007 to only \$1.4 million in June 2011.

The budget gaps were addressed in prior years through substantial cuts in personnel and services. For example, in June 2011, the Town balanced a General Fund gap of \$2.7 million through some painful reductions. The result is an organization that is “bare bones” from both a staffing and services standpoint, and which necessarily underfunds some of its essential obligations. For context, the Town’s staffing levels have been reduced from some 130 employees a few years ago to below 80 today. Road repair expenses have been cut down to \$500,000, while at least \$1,500,000 is required annually to keep the Town’s roads in their current condition.

Update on the Town’s current fiscal condition

Currently, the Town projects a budget gap of nearly \$1 million in the present fiscal year (FY 2011-12), and a \$2.88 million shortfall in FY 2012-13. These shortfalls do not account for the unmet needs such as the insufficient road repair spending, and do not address the \$42 million MLLA judgment.

1. Fiscal Year 2011-12 Estimated Year-End Shortfall, and Intended Use of the General Fund Reserve

For Fiscal Year 2011-2012, a **budget gap of \$0.979 million** is currently projected in the General Fund. The forecast reflects:

- dramatic decreases in actual Transient Occupancy Tax (TOT) collections in December 2011 (14.5% drop), January 2012 (a 42.5% decrease) and February 2012 (a 32.4% decline);
- more modest, 10% reductions in TOT in March and April 2012, no decreases in May and June 2012;
- most other revenues staying close to their conservatively estimated FY 2011-12 budgeted figures;
- overall, expenditures coming in under budget mainly due to lower payments to tourism, housing and transit, based on the lower TOT revenues; and
- General Fund paying for the one-year shortfall in the Transit fund, due to the lower TOT revenues and double-counted grant revenues.

Attachments A and B provide detail on the current revenue and expenditure projections for the General Fund. To bridge the budget gap in FY 2011-12, the Town will have no choice but to use its already low Reserve for Economic Uncertainty. Here is what will happen by the end of FY 2011-12 as the result:

Beginning REU	1,350,938
<i>Surplus / (Shortfall)</i>	<i>(979,983)</i>
Payments from Airport on Term	1,265,000
Ending REU	1,635,955

2. Fiscal Year 2012-13 Baseline Gap Estimate and Development of Balancing Measures

For Fiscal Year 2011-2012, a **budget gap of \$2.88 million** is currently projected in the General Fund. The forecast reflects:

- a moderate recovery in TOT collections, with a 5% increase from the current year;
- a continued decline of the property tax revenue, with a 4.5% decrease based on consultation with Mono County: As of February 2012, the County's preliminary assessment roll reflected a 5.7% decrease for FY 12-13, but did not include up to 2% of value growth nor Prop 8 reassessment declines;
- a 2% increase in sales tax collections, based on a forecast by HdL, a leader in sales tax analysis and projections;
- a moderate 2% growth in franchise fee revenues;
- no growth in other revenue categories;

- negotiated salary increases for Town employees of 4.5% effective July 1, 2012;
- known future increases in retirement and medical insurance costs;
- loss of a grant in the Police Department that will result in an increase in the General Fund subsidy for this department; and
- lower State Gas Tax revenues expected in the next year due to low snow levels this year – leading to an increased General Fund subsidy for the snow removal and other Public Works operations.

The FY 2012-13 baseline budget gap does not take into account any payment to MLLA. Attachments A and B provide detail on the current revenue and expenditure projections for the General Fund for FY 2012-13.

Status of MLLA discussions and AB 506 mediation process

No direct discussions have been held with MLLA since talks broke down in December 2011. In the meantime:

- The Town has commenced a mediation (“neutral evaluation”) process set by the California State law, AB 506. The Town has sent letters to 44 “interested parties” inviting them to mediation. A total of 16 have so far expressed interest in participating, and the Town is on schedule to start the medication by early May 2012.
- The Town will pay for the costs of the mediator, but not the associated costs that may be incurred by the participating parties. The mediator’s time and expenses are expected to be in the range of \$100,000-150,000.
- Once the mediation begins, the Town will ask the participating parties to make the process non-confidential, with documents introduced during the mediation available to the general public.
- MLLA has now twice refused to participate in the mediation. The Town is, however, hopeful that they will reconsider.

Proposed schedule for a public discussion regarding spending priorities, necessary budget cuts, and a settlement with MLLA

Attachment C provides a schedule of public meetings to review the Town’s finances, discuss spending priorities, and receive input on the budget for Fiscal Year 2012-13. The Town Council must adopt the FY 2012-13 budget by the end of June. While it is expected that this decision could be made at the June 20, 2012 regular Council meeting, special meetings could be held before or after to allow for a comprehensive public discussion.

RECOMMENDATION:

Therefore, it is recommended that the Town Council:

1. Accept this informational report.
2. Authorize the use of the General Fund REU to address the FY 2011-12 budget shortfall, currently estimated at \$979,983.
3. Provide input on the proposed schedule of meetings, reflected in Attachment C.

Attachments:

- A - General Fund revenue history and forecast
- B - General Fund expenditure history and forecast
- C - Proposed draft schedule of public meetings, through June 2012

ATTACHMENT A
General Fund revenue history and forecast

General Fund Revenue by Type

Revenues By Type / Source	Actual FY 2008-09	Actual FY 2009-10	Actual FY 2010-11	Nov-11 Budget FY 2011-12	CONSERVATIVE Year-End Estimate FY 2011-12	SURPLUS / (SHORTFALL) from the Nov '11 budget	Baseline Budget FY 2012-13
Transient Occupancy Tax - 8.5% of 13%	6,305,024	6,826,837	7,290,963	7,066,433	6,272,042	(794,391)	6,585,644
Dedicated to Tourism - 2.5% of 13%	1,854,215	2,006,905	2,144,401	2,080,069	1,846,233	(233,836)	1,938,544
Dedicated to Housing - 1% of 13%	741,686	802,762	857,760	832,027	738,493	(93,535)	775,417
Dedicated to Transit - 1% of 13%	741,686	802,762	857,760	832,027	738,493	(93,535)	775,417
Total Transient Occupancy Tax	9,642,611	10,439,266	11,150,884	10,810,557	9,595,260	(1,215,296)	10,075,023
Business Tax - Dedicated to Tourism	289,492	276,319	272,892	272,892	254,000	(18,892)	254,000
Property Tax	3,078,982	2,831,822	2,527,260	2,406,914	2,406,914	0	2,298,603
In Lieu VLF (ERAF Related)	832,471	874,007	802,561	818,156	818,156	0	781,339
Total Property Tax	3,911,453	3,705,829	3,329,821	3,225,070	3,225,070	0	3,079,942
Sales Tax	1,321,131	1,247,812	1,306,556	1,368,803	1,400,803	32,000	1,428,819
Triple Flip Backfill (ERAF Related)	509,504	405,776	448,180	431,197	431,197	0	516,006
Total Sales Tax	1,830,635	1,653,588	1,754,736	1,800,000	1,832,000	32,000	1,944,825
Utility User Tax	887,573	892,700	943,735	0	0	0	0
Franchise Fees	770,497	643,022	711,912	728,167	728,167	0	742,731
Interest on Investments	143,094	123,222	97,603	97,603	14,000	(83,603)	5,000
Administrative Service Fees	63,915	80,151	56,108	56,108	56,108	0	56,108
Charges for Services	113,144	40,379	46,846	46,846	46,846	0	46,846
Intergovernmental Revenues	20,344	28,514	33,577	0	4,126	4,126	0
Miscellaneous Revenues	31,099	89,823	37,757	0	0	0	0
Hospital Land Exchange	0	0	0	716,696	716,696	0	358,348
Total Miscellaneous Revenue	31,099	89,823	37,757	716,696	716,696	0	358,348
Transfers In	102,000	120,000	577,035	0	0	0	0
Total General Fund Revenues	17,805,857	18,092,813	19,012,905	17,753,938	16,472,274	(1,281,665)	16,562,823

ATTACHMENT B
General Fund expenditure history and forecast

General Fund Expenditures

Department	Actual FY 2008-09	Actual FY 2009-10	Actual FY 2010-11	Nov 2011 Budget FY 2011-12	Revised Year-End Estimate FY 2011-12	Surplus / (Shortfall) from the Nov '11 budget	Baseline Budget FY 2012-13
Direct Charge to the General Fund:							
Town Council	250,705	208,096	789,175	393,226	393,763	(537)	377,981
Local programs	0	0	32,000	0	0	0	0
Legal Services	348,186	419,807	392,766	684,450	797,454	(113,004)	937,890
Town Management	765,848	749,296	645,971	589,467	591,656	(2,189)	682,245
Town Clerk	250,833	221,052	156,282	178,587	161,461	17,126	200,650
Finance	749,864	695,392	712,553	886,424	798,371	88,053	1,029,556
General Services	4,845	-368,884	-5,417	0	0	0	0
Personnel Services	217,922	249,678	245,386	171,898	162,841	9,057	178,672
Information Systems	177,384	168,201	148,567	156,612	154,138	2,474	194,161
Risk Management	616,637	797,369	748,809	246,771	248,905	(2,134)	252,831
Facilities Maintenance	10,880	8,566	10,221	11,000	11,000	0	11,000
<i>Subtotal Administration</i>	<i>3,393,104</i>	<i>3,148,573</i>	<i>3,876,313</i>	<i>3,318,435</i>	<i>3,319,589</i>	<i>-1,154</i>	<i>3,864,985</i>
Transfers from the General Fund:							
Public Safety	4,670,981	4,300,497	4,399,624	4,644,206	4,564,570	79,636	5,295,183
Tourism and Marketing	2,143,707	2,283,224	2,416,478	2,364,101	2,100,233	263,868	2,155,620
Recreation, Parks and Trails	71,776	58,101	384,075	579,787	528,471	51,316	560,649
Community Development	1,402,473	585,847	1,112,964	951,475	1,041,903	(90,428)	1,188,680
Public Works	1,900,788	2,157,793	3,757,573	3,517,320	3,569,800	(52,480)	4,113,650
Airport	3,193,531	800,848	360,925	94,691	147,498	(52,807)	185,838
Transportation/Transit	741,686	802,762	857,434	835,642	738,493	97,149	775,417
Additional General Fund support beyond the 1% TOT					263,982	(263,982)	
Workforce Housing	741,686	802,762	857,434	835,642	738,493	97,149	775,417
Assessment Districts	0	0	44	0	0	0	0
Capital Projects	0	0	29,218	95,110	36,777	58,333	154,520
Debt Service Fund	1,316,125	1,277,319	939,177	417,821	402,449	15,372	380,120
Total	19,575,857	16,217,726	18,991,260	17,654,230	17,452,257	201,973	19,450,079
General Fund revenues (separate spreadsheet)							
	17,805,857	18,092,813	19,012,905	17,753,938	16,472,274	(1,281,665)	16,562,823
Beginning REU			1,350,938	1,350,938	1,350,938		1,635,955
Surplus / (Shortfall)	(1,770,000)	1,875,087	21,645	99,708	(979,983)	(1,079,691)	(2,887,256)
Payments from Airport on Terminal Debt			825,000	825,000	1,265,000		485,000
Ending REU			2,275,646	2,275,646	1,635,955		(766,301)

PROPOSED SCHEDULE OF PUBLIC MEETINGS TO REVIEW AND DISCUSS THE TOWN'S FINANCES, SERVICE DELIVERY, SPENDING PRIORITIES AND POSSIBLE BALANCING MEASURES FOR FISCAL YEAR 2012-2013

Council meeting date	Subject matter(s) for discussion
<p>May 2, 2012 – regular meeting</p>	<p>Presentation of the preliminary annual SUMMARY schedules for the baseline FY 2012-13 budget, with the focus on the General Fund.</p> <p>Discussion with the Town Council and public on:</p> <ul style="list-style-type: none"> • Spending Priorities • Contemplated Balancing Measures responsive to the writ mandate and their Impact on Town's services <p>Update from staff on the AB 506 mediation.</p>
<p>Week of May 7, 2012 (exact date TBD) – special meeting</p>	<p>Presentation of the DETAILED departmental schedules for the baseline FY 2012-13 budget.</p> <p>Review of the cash flow analysis and five-year projection by FTI.</p> <p>Update from staff on:</p> <ul style="list-style-type: none"> • AB 506 mediation. • MLLA settlement process and State court writ. <p>Continued discussion with the Town Council and public on:</p> <ul style="list-style-type: none"> • Spending Priorities • Contemplated Balancing Measures responsive to the writ mandate and their Impact on Town's services
<p>May 16, 2012 – regular meeting</p>	<p>Update from staff on:</p> <ul style="list-style-type: none"> • AB 506 mediation; Acceptance of restructuring plan measures. • MLLA settlement process and State court writ. <p>Continued discussion with the Town Council and public on:</p> <ul style="list-style-type: none"> • Spending Priorities • Contemplated Balancing Measures responsive to the writ mandate and their Impact on Town's services
<p>June 6, 2012 – regular meeting</p>	<p>Measures R and U – revenues and possible eligible items for consideration. Capital Improvement Program.</p>
<p>June 20, 2012 – regular meeting</p>	<p>Update from staff on:</p> <ul style="list-style-type: none"> • AB 506 mediation; Acceptance of restructuring plan measures. • MLLA settlement process and State court writ. <p>FY 2012-13 budget adoption by the Town Council:</p> <ul style="list-style-type: none"> • Regular budget legislation responsive to the writ mandate (budget resolution, appropriations limit, investment policy). • Legislation on the assessment and community financing districts. • Policy decisions and direction to staff on implementation.

Additional special meetings will be scheduled, if necessary, in the month of June 2012.