



## Biannual Budget Review

At the August 24 City Council Meeting, City Manager Vicki Mayes presented the first biannual budget review and pointed out that all of the figures provided in the report are unaudited. The biannual budget review in January of 2011 will be based on the actual audited numbers.

In 2008 and 2009, General Fund (GF) revenues stabilized at about \$21 million. During the last fiscal year, GF revenues declined to approximately \$20 million, which was about \$1.8 million less than anticipated in the adopted budget. Actual revenues were less than actual revenues in both Fiscal Year (FY) 2008 and 2009. The real question from a revenue side is whether or not revenues will stabilize at this rate or continue to decline because of the economy. Another potential factor affecting revenue could be state revenue shortfalls. When the Legislature convenes next year, it is uncertain if, or to what extent, legislative actions might impact local government revenues.

Although the FY 2010 budget was adopted anticipating a \$1.7 million GF ending balance, the City Manager explained to the Council her uneasiness with drawing a fund balance below \$2 million, which prompted the adoption of the "Save A Million Program" on September 1, 2009. By the time the FY 2009-2010 budget was half over, it was clear that further reduction in GF expenses would be needed to offset revenue shortfalls; an expanded plan to reduce expenses was launched in December of 2010. Positions were held open, capital expense was once again deferred and line item spending was reduced where ever and when ever possible. The approval of the Sol Bio lease in December of 2009 brought with it the promise of some unprojected revenue that might alleviate other revenue shortfalls, but no rent was realized last year from that contract.

By close of the year, actual revenues fell about \$1.8 million short of what had been anticipated and these were due to less than anticipated revenues in nearly every category. Consolidated tax revenues were a large part of this shortfall, together with general tax and municipal golf revenue.

In the FY 2011 budget, conservative revenues were projected based on the first half of last year's results. If actual revenues remain exactly the same as last year, some areas, namely licenses, permits and municipal golf, are likely to have shortfalls in actual revenue compared to budget. Fines and forfeits are not anticipated to decline due to the impressive results of the warrant team. Although this year's final budget anticipates over \$24 million in revenue, it is important to note almost \$2.3 million is included for revenues derived from Boulder Creek Golf Club, a component not in the GF last year. This year's adopted budget also includes \$1.6 million in revenue from Sol Bio. Although revenue appears to increase significantly when compared to last year, about \$3.9 million is derived from two primary revenue sources; an increase in lease revenue in connection with Sol Bio and revenue generated from Boulder Creek Golf Course (which was not recorded in General Fund activities last year). All of the remaining revenue categories are projected to increase by only \$400,000. While the City has limited ability to impact revenues and only land or solar leases provide the biggest opportunity for additional funds, smaller changes such as increasing warrant collection efforts and careful golf course oversight should not be underestimated.

The City has much more control of its destiny on the expenditure side. Two expense reduction plans across six government categories resulted in a gross reduction of \$2.3 million in General Fund expense. This would not have been possible without every City employee doing his/her part to reduce expenses. Net savings from expense reduction plans was \$1.9 million in an operating budget of just under \$22 million. This saving was in addition to reductions from the previous year's budget and carried over. This was made possible by all employees doing more with fewer resources.

Although cumulative savings are from many expense categories, the most significant savings were achieved in the employee and benefit category because positions remained opened or staffing levels were reduced. The savings also represented the continual deferral of capital expense and additional reductions in contractual expenses in golf course maintenance and parks and recreations. The combined effort of all departments in the GF had an outstanding effect. The under-spending in the GF offset the lower than projected revenues and protected fund balance at approximately \$2 million with no new revenue sources. The preservation of fund balance was accomplished without eliminating services or programs.

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## Biannual Budget Review (continued)

### Electric Operations

- Revenue increased \$3 million over Fiscal Year 2010 results
- Expenses were stable; only \$200,000 lower than Fiscal Year 2010 results
- Net income is \$2.1 million compared to a net loss of \$1 million in Fiscal Year 2010
- The rate increase anticipated a return of \$4 million in added revenue by October of 2010
- The overall cost per kilowatt hour is up from Fiscal Year 2010 but less than the NV Energy kilowatt hour rate

### Water Operations

- The operating loss of \$983,694 is similar to Fiscal Year 2010 loss
- Revenues declined by \$225,000, which is likely due to conservation efforts
- The operating net loss of \$2.8 million, which is higher than Fiscal Years 2010, is the result of \$1 million in increased debt service, of which \$500,000 is related to the third intake.

### General Fund Budget Plan

The City Manager presented information regarding the challenges the City faces with the Fiscal Year 2011 General Fund Budget. She noted the Sol Bio contract has the potential to reduce General Fund revenues by \$1.6 million, so she planned to implement a phased General Fund expense reduction plan in an effort to maintain employees and services, and at the same time, provide a safety net in the event Sol Bio rent is not received. Phase 1 of a reduced spending plan will be implemented on September 1, 2010 and will reduce General Fund expense by \$800,000. The reductions will be derived from deferring capital expenditures, which should gain approximately \$465,000 in savings; placing a hold on filling any full-time positions that have General Fund impact, which should gain approximately \$115,000; delay the implementation of the strategic planning process, which will save \$20,000; and a reduction in other general expense categories, which would result in a \$200,000 savings.

Phase 2—must offset the remaining \$800,000 through a combination of expense reductions in non-essential service areas and through the identification of revenues not included in Fiscal Year 2011 revenue projections. The proposed date for implementation of Phase 2 is October 1, 2010. City Manager Mayes recommended that Phase 2 include the following steps:

- Prioritize, reduce and/or suspend non-essential recreations programs and general government services
- Review revenues not included in projections: Taihan Techren, other solar lease(s) and additional revenue through expansion of the warrant collection team

Phase 3—This phase would go into effect, if necessary, on November 1, 2010. City Manager Mayes recommended that first quarter revenues, July 1, 2010 through September 30, 2010, along with the impact of expense reduction plans be reviewed. If further expense reductions are needed, it would be likely that further savings could only be achieved by reducing employee expense. Phase 3 steps may include the following:

- Analyze alternatives to reduce employee expense for employees (furloughs, contract concessions)
- Implement employee expense reduction plan by January 1, 2011 (primarily through layoff or work force reduction).

### Update on Sol Bio

- Sol Bio has entered into a tentative agreement with an undisclosed party to escrow \$3 million in lease payments by September 1, 2010, to fulfill the first two year's rent obligation
  - The condition of the escrow agreement is the assignment or novation of the lease to another party.
  - Sol Bio will continue to work with the City so that specific information regarding the assignee can be reviewed by the City.
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