Delano City Manager's
FY 2012 and 2013 Budget Message

June 28, 2011

Honorable Mayor and Members of the City Council,

Budget preparation, budget monitoring, and financial reporting, have been in several respects, the consistent organizational focus in Delano for the past years. The "Great Recession" – the most forceful economic crunch since the Great Depression – has been a harsh taskmaster.

One of many unfortunate characteristics of the Great Recession has been its duration. We were thus forced to meet sizable budget deficits. And meet them we did, budget reductions of $2.1 million in FY 2009-10, $275K in FY 2010-11 and $2.9 million dollars in the FY 2011-12 Proposed Budget. Every tool was thrown into the mix. And our generous rainy day General Fund reserves will be used to balance the FY 2012 & 2013 Proposed Budget. The cautious optimism we've embraced throughout this challenging period has not been misplaced.

Respectfully enclosed is the proposed Fiscal Year 2012 and 2013 budget for the City of Delano. The budget takes new steps toward long-term structural balance. FY 2012 & 2013 offers us the first measurable indicators of revenue recovery for sales tax especially with the approval of Measure I – an additional one percent (1%) transactions and use tax imposed on retail transactions for general fund services. At the same time, FY 2012 ushers in a new challenge: the elimination of 14 regular full-time employees, 1 reclassification and 1 additional full-time position, employee pension costs, the health insurance costs, over the next two years, rise to unprecedented levels.

The Budget Process

Budget preparation took a very unusual path this year. Despite two successive years of organizational belt tightening in the General Fund – through creative midyear reductions and reduced annual budgets – our multi-year financial projection has laid bare an estimated $1.7 million of ongoing structural deficit.

We put a more precise point on matters during our midyear review in March, the structural deficit will continuous each year if the City of Delano organization does not act to alter imbalance between revenue and expenditure. This is a situation facing government entities everywhere.

We successfully addressed estimated budgets through midyear balancing actions of $2.1 million in FY 2009-10 and $275K in FY 2010-11. In doing so, we used every tool available to us: salary savings from vacant positions, hiring chills, travel freeze, and reductions in maintenance and operations.

While we believe that we hit bottom with revenue losses in FY 2010, the truth is that we still function between budgetary rock and hard place. The rock: revenues will take years to recover to previous level. The hard place: expenses like CALPERS pension contributions are dramatically increasing in the aftermath of PERS' significant investment losses.

So the budgetary path we selected reaffirmed our mission as a service provider, requiring of us problem resolution through both employee labor concessions and operating budget reductions. We began with labor negotiations, commencing in March, with each of our four represented bargaining units. At the same time, we engaged in the consolidation of the Community Services Department with Public Works and Transportation Department functions.

The budget process is a critical stop on a circular financial path we travel each year. After our June budget adoption, the adopted budget document is published by August 1st. Thereafter, the process of periodic financial reporting commence. We provide to the City Manager, City Clerk and department monthly revenue and expenditure status reports to monitor budget progress during the year. In December (a target date), the Finance Department and our independent auditors present a Comprehensive Annual Financial Report (CAFR) to the City Council. The CAFR discloses audited financial position for the prior year, that ending June 30th six months earlier. At the midpoint of the fiscal year, we engage a midyear review of our financial status with an eye toward the next fiscal year.

How We Balanced the General Fund

In local government, finding structural balance between revenue and expenditure can be a challenge in the best of times. Exponentially greater is the challenge after four years of recession. Our ability to generate additional revenue is tightly restricted by many laws, yet several types of expenditures grow according to price indices.

Our approach each year has been patient and progressive. From a practical standpoint, this statement translates into the following:

- In March of 2011, our midyear review disclosed an estimated fund balance of $5.9 million dollars, which includes Measure I – Sales Tax over-ride of $4.3 million dollar, a decrease of general fund balance reserve by $1.7 million dollars. This is due to a transfer out to the Bank Trustee for the Lease Revenue Bond 2010A Debt Service Reserve of $2.1 million dollars required to pay for the principal payment at the end of the term of December 1, 2030. In addition, the Council approved a budget adjustment of $275 thousand dollars for FY 2010-11. With three months remaining in the fiscal year, and with every available cost cutting tool already used, it seemed prudent to target the complicated processes of structural change.

- For FY 2012 & 2013, in terms of revenue, a reduction in revenue due to proposed closure of the Community Correctional Facility (CCF) in the tone of $728 thousand dollars, reduction in interest income due to a loan from the General Fund to RDA fully paid in 2010, a reduction in engineering fees received in FY 2011 for the Delano Retail Center a combined total of $474 thousand dollars which will not be generated in the next two fiscal years.

- In terms of expenditures, beginning FY 2010-11 the principal and interest payment of $2.1 million dollars for the Lease Revenue Bond 2010A for the Police Facility and Caltrans (Woollomes) Improvement Project; increase in health insurance premiums of $103 thousand dollars for employees and dependents; increase in CALPERS rate of $163 thousand dollars for Public Safety Employees.

- The City Council appointed committee meet with each department to review their departmental requests and were asked to prioritize their needs and what we can get by for the next two fiscal years. In summary, the proposed budget include elimination of fourteen (14) regular full-time positions, 1 reclassification and 1 additional position which will save the City in salaries and benefits of over $1.1 million dollars. Reductions of departmental requests in travel, conference and meetings, community promotions, dues, membership and subscriptions, professional and technical services, legal services, general supplies, capital outlay and capital improvements total of $801 thousand dollars in FY 2012 and $674 thousand dollars in FY 2013.

- The City Manager recommended more cuts by negotiating with the County for the Fire Services contract for FY 2012 & 2013 to remain the same of FY 2011 expenditure level of $2.7 million dollars a saving of $193 thousand dollars each year or a total of $386 thousand dollars; eliminated all travel, conference and training budget; defer the liability ($262,900) each year and workers' compensation ($164,200) each year charges to department by transferring the amount to the general fund; transfer from Traffic Safety Fund the amount of $84,600 and $40,000 respectively to offset the cost of a Traffic officer; and defer the transfers out to Gas Tax Fund in the amount of $163 thousand dollars for street maintenance operations.

- The General Fund is balanced using the reserve of $1.7 million dollars for FY 2012 and $1.5 million dollars for FY 2013. The estimated General Fund balance for FY 2012 is $4.0 million dollars or 22 percent (22%) of operations and $2.5 million dollars or 13 percent (13%) of operations.

Economic Outlook

The United States, the State of California, Central Valley and the City of Delano are slowly, and sometimes in fits and starts, emerging from the "Great Recession" – the worst economic downturn since the Great Depression. If there is, at this place in time, one point of agreement among economists, however, it is this: economic recovery will be slow.

So, what will recovery look like? A great deal of discussion was accorded this topic at our Midyear review in March. Our collective interpretation strongly suggested that Delano's recovery will a graphical path much like an "L", where a precipitous decline in economic activity if followed by a longer, lazy period of modest expansion. This interpretation is consistent with most economic analyses. It also starkly contrasts with the traditional "V" path of most economic recoveries, those characterized by relatively quick rebound to prior activity levels. The sticking points in this recovery have been unyielding unemployment rates, tepid consumer confidence. Looking forward, therefore, we envision an uncertain and inconsistent economic future.

Recent collection data in Delano underscore this assertion. Sales taxes, while no longer in the free fall that created a 13% decline over a three-year period, exhibit a 7% growth trend going forward including sales tax over-ride. However, property tax decline 13% over a three year-period, exhibit a modest 1% growth trend going forward.

To employ a hackneyed phrase, we face a "paradigm shift". Change can be difficult; however, we will perhaps do best in the future by accepting, the fact that comfortable, annual increase in revenue collections may not be a matter of entitlement. It is likely that we will experience only modest income growth over the next 2 to 4 years, perhaps longer.

The inventory of our economic strengths, on the other hand, reveals a ready arsenal. Our economic development efforts have expanded the base of community sales tax providers especially with the upcoming opening of Walgreens, and Walmart in FY 2013. We are, in this manner, positioned to emerge from these difficult times better than many of our neighboring communities.

Challenges We Confront; Responses We Make

Many issues struggle for policy attention. A summary discussion of some of the more significant issues that face Delano follows: The list is not ordered by priority.

- National, State and local Recession In some sense, it matters not whether our economics have technically exited the recession. Fiscal Year 2012 will mark the third consecutive year that the City has been forced to make many hard budget choices required by difficult economic circumstances. In FY 2010, we took steps toward cost-cutting measures by reductions in maintenance and operations. This continues in FY 2011. As we forecasted, FY 2012 proposed budget have more permanent, structural route cost-cutting measures. However, these processes of rebuilding our revenue base to pre-existing levels in a slow moving recovery may take longer. Unemployment, resistant to improvement and hovering, at double-digit levels, appears to have a stranglehold on consumer spending trends, even among those with stable income.

- Water Conservation Water conservation is required by the State. The difficulty in this policy matter is balancing our conservation policy efforts with rising water costs. We have implemented mandatory conservation measures, without which our ability to provide water to our customers is threatened. It would be natural to presume that our revenue stream will also be reduced, but the reality is our conservation will only serve as partial cost avoidance. State has stated that if their purveyors do not achieve conservation and / or water supplies continue to fall, then significantly higher prices will be necessary rather than an option.

- Retirement System Contributions Costs Pension contribution costs have become a serious threat to all levels of California government. Under current Public Safety labor agreements, the City is contributing $0.38 per salary dollar for every sworn police officer and 0.24 per salary dollar for miscellaneous employees. This is clearly not a sustainable situation for an employer; each extra dollar used to pay increased pension costs becomes a dollar taken from core services delivered to the public. We believe it is imperative to reduce this growing obligation through cost sharing with benefited employee – and sooner rather than later if we are to remain a top-quality service provider.

- Structural Balance of Certain Accounting Funds The Landscape and Maintenance District have utility and maintenance costs that have outpaced our voter-imposed revenue levies. The Senior Nutrition Program and Golf Course have maintenance and operations more than revenues generated for the programs. Fund deficits are a reality. At year-end these funds will not be allowed to have a deficit fund balance, therefore, transfers from the General Fund to offset the deficits are necessary.

- Reductions in Force FY 2012 & 2013 have reductions in staffing of 14 full-time positions. Some of these positions have been vacant for some time now due to hiring freeze.

- While we have taken great care to approach workforce reductions with the goal of protecting our organizational service levels, the realities inherent to reduced spending and reductions in force precludes any guarantee that we can now achieve the organizational we would otherwise be capable of.

- Infrastructure Improvements for the Community All governments face great challenge in bringing together adequate financial resources to maintain and restore streets, roads, alleys, water, refuse and sewer infrastructure, etc. We are no exception. The useful life of much of our infrastructure – largely established during the mid-20th Century – is coming to an end. We have been prudent in application of available funding and periodic market borrowing, but recognize that keeping pace, much less catching up, is a formidable task.

California Ballot Initiative That influence Local Government Finances

The "taxpayer revolt" that saw the passage of Proposition 13 was but the first in a long series of voter-initiated ballot propositions that have markedly changed the landscape of local government finance.

- Proposition 13 (1978) establishes the constitutional maximum property tax rate of 1% of assessed value. Prop 13 restricts annual increase in inflationary value to 2%. Sales and transfers of ownership trigger re-assessment to full market value.

- Proposition 4 (1979) limits the growth in government spending each year to population and inflationary factors.

- Proposition 62 (1986) requires majority vote for general taxes and "supermajority" two-thirds vote for special taxes.

- Proposition 218 (1996) increases the stringency of Proposition 62, requiring voter approval for imposition of taxes and assessments. Property-related fees (judicially extended to water and sewer fees) are also subject to voter approval. Prop 218 also permits the initiative process to repeal or reduce existing taxes.

- Proposition 58 (2004) requires the State of California to adopt a balanced budget and to established reserves. It also restricts the State's ability to borrow funds to cover budget deficits.

- Proposition 1A (2004) prohibits the State of California from taking local government revenues unless "severe financial hardship" is declared by the Governor and approved by two-thirds of the Legislature. Also requires repayment of revenues taken before hardship can again be declared, and limits declaration of hardships to twice every ten years.

- Proposition 1A (2006) designed to protect funding for traffic congestion relief projects, safety improvements, and local streets and roads by prohibiting money collected from taxes on motor vehicle fuels to go to anything other than transportation improvements. Like Prop 1A (2004), however, the state can extract loans from these sources, repayable in three years, during times of "financial hardship".

Local Budget Impacts Resulting from State of California Budget Actions

The History It is still a fact of California political life that the State of California has avoided addressing the structural problems that prevent balance between its revenues and expenditures. Instead, the budgets coming out of Sacramento have been creative in their ability to roll over deficit conditions and redirect local government (including schools) revenues into State coffers. We've learned some hard lessons as a result.

In FY 1993 and FY 1994, the State of California implemented its Educational Revenue Augmentation Fund (ERAF) transfers of city property taxes to schools. ERAF transfers are permanent and grow each year with the change in assessed values.

In FY 2005 and 2006, the City sustained additional "temporary" ERAF losses of secured property taxes to meet another State budget crisis. Then, in 2009, California redevelopment agencies obtained positive court judgment and prevented widespread ERAF losses. Most recently, in 2010 redevelopment agencies lost similar court battle over the State's redevelopment grab. The Delano Redevelopment Agency was forced to pay the State, through County administrators, $1.1 million in FY 2010. In FY 2011, the Agency pay $218,000 ERAF payment to the State.

For a long time, a generous portion of consumer-paid vehicle license fees were returned to local governments on a per capita basis. In FY 2000, the State Legislature created a "tax cut" via reduction in consumer fees, and packaged the reduction in the form of after-the-fact refund checks to consumers. In order to keep local government revenues whole, the state began reimbursing or "backfilling" lost revenue proceeds with its general fund reserves – at an annual $6 billion cost. Since that time, the VLF has been among Sacramento's most durable political footballs. Until FY 2005, license fees were a strong performing category in Delano.

In FY 2004, the State engineered the "triple flip" to take effect during FY 2005. One-quarter of our monthly sales tax payments were siphoned away and substituted with "sales tax in-lieu" payments derived from property taxes that are now received twice a year (January and May). In FY 2005, the "VLF/property tax swap" did a similar thing: vehicle license fees have all but been eliminated in favor of a bi-annual, property tax-based substitution. After triple flip, California cities and counties successfully fought to secure a ballot initiative, Proposition 1A. This Constitutional Amendment goes far toward tying the hands of the Governor and State Legislators from further removal of revenues from local governments.

In May 2009, the State Legislature, on the strength of a required 2/3rds vote, enacted the operative escape hatch in the Constitutional protections afforded by Proposition 1A (2004) and "borrowed" up to 2 billion in secured property tax receipts from cities, counties, and special districts. The borrowing is repayable in June 2013 at an approximate annual interest rate of .67%.

These terms were not good enough for over 400 California cities and special districts, so the State enabled the California Communities Joint Powers Authority to raise capital through bond sale and purchase rights to the borrowed receivables at 100% of value and with no cost of issuance.

The Governor is proposing to eliminate Redevelopment Agencies to close State budget gap. The Redevelopment trailer bills (ABX1 26 and 27). ABX1 27 required agency transfer to meet the $1.7 billion State Budget Payment for FY 2011-12 and $400 million State Budget Payment for FY 2012-13.

Revenue Analysis

Total estimated revenues and transfers in for FY 2012 and FY 2013 are $73,725,632 and $64,906,514 respectively. The General Fund is estimated to collect $16,653,101or 23% of the FY 2012 amount.

Revenue Summary – All fund Types

	Actual FY 2008-09	Actual FY 2009-10	Estimated FY 2010-11	Approved FY 2011-12	Approved FY 2012-13
General Fund	17,898,591	16,709,996	17,102,652	16,653,101	17,164,701
Special Revenue	15,470,937	12,573,524	18,878,031	8,780,486	5,340,650
Capital Project	6,433,771	2,233,092	45,172,055	14,289,237	9,146,369
Debt Service	1,363,762	(20,551)	3,241,084	2,106,970	2,154,220
Enterprise Funds	19,052,377	12,320,471	22,567,382	23,505,298	22,649,824
Internal Service	2,462,541	3,076,859	2,858,101	3,865,540	3,915,750
Trust Funds	(822,172)	3,230,591	4,447,165	4,525,000	4,535,000
Total all Revenues	**61,859,807**	**50,123,982**	**114,266,470**	**73,725,632**	**64,906,514**

The General Fund

The bad news is that between FY 2009 and 2010, General Fund collections evidence decline of almost $1.2 million or 4%. In FY 2012, the decline of $500 thousand dollars is due to the closing of Community Corrections Facility (CCF) and a 3% increase in revenues in FY 2013 due to sales tax.

General Fund revenue performance excluding transfers in over a five-year period is depicted below.

The General Fund Revenue summary by Category

	Actual FY 2008-09	Actual FY 2009-10	Estimated FY 2010-11	Approved FY 2011-12	Approved FY 2012-13
Property Taxes	2,340,517	2,292,039	2,029,500	2,050,800	2,072,300
Sales & Other Taxes	8,649,217	7,250,699	7,631,770	8,116,300	8,327,800
Licenses & Permits	103,655	181,044	118,400	121,100	123,600
Fines & Forfeitures	250,379	79,223	95,300	100,000	105,700
Money & Property	256,745	151,158	275,300	219,700	227,100
From Agencies	5,132,831	4,445,605	4,176,300	3,617,200	3,658,400
Charges for Service	432,550	351,281	713,568	354,900	367,100
Intergovernmental	619,349	1,746,919	1,736,032	1,253,400	1,489,800
Other Revenues	13,348	102,030	97,000	208,000	222,500
Total Gen Fund	**17,798,891**	**16,599,996**	**16,873,171**	**16,041,401**	**16,594,301**

While the General Fund is made up of many revenue accounts, three distinct categories of revenue account for 86% of the general Fund's collection base in FY 2012. It can be said that as these categories go, so goes the General Fund. The table that follows illustrates the revenue trends for the General Fund's three leading revenue categories.

Three Leading Revenue Categories

	Actual FY 2008-09	Actual FY 2009-10	Estimated FY 2010-11	Approved FY 2011-12	Approved FY 2012-13
Property Taxes	2,340,517	2,292,039	2,029,500	2,050,800	2,072,300 (3)
Sales & Other Taxes	8,649,217	7,250,699	7,631,770	8,116,300	8,327,800 (1)
From Agencies	5,132,831	4,445,605	4,176,300	3,617,200	3,658,400 (2)
Total 3 Leading	**16,122,565**	**13,988,343**	**13,837,570**	**13,784,300**	**14,058,500**

Taxes The property tax is imposed on real (secured) and personal (unsecured) property. The tax is constitutionally limited to 1% of assessed value by Proposition 13. Assessed valuation adjustments, when made, are limited to a maximum 2% annual increase. Property transfers resulting from a sale or new construction trigger new appraisal to fully assessed value, and this can result in new assessments that exceed the 2% cap. Secured collections are anticipated to remain roughly 1% increase from FY 2011, the overall decline in the property tax category results from steep decline in supplemental and redemption collections. This phenomenon reflects sales activity at lower prices that has resulted in declines in assessed values.

Looking forward, the stagnated real estate market combined with the 2% growth limitation of Prop 13 suggests we will not enjoy property tax collections as we had become accustomed to prior FY 2009.

The sales taxes have been deeply impacted by the recession, thanks to Measure I a 1% supplemental tax over-ride passed by the voter in 2007. Our projections for FY 2012, fortunately, suggests that we hit bottom in FY 2010, we anticipate growth in FY 2012 & 2013 especially with the opening of Walmart in December 2013.

Motor Vehicle In-Lieu Fee is a category under Revenue from other Agencies and is the second largest revenue category in general fund. This is an in-lieu of property tax (triple flip) and is received in January and May of each year.

License & Permits The foundation of this category is building permits, and building permits have been hit hard by the recession, reduced by more than 62% under FY 2007. In FY 2012, permit activity is estimated to establish stability and achieve some growth, but lukewarm consumer confidence point to continuing weakness in this area.

Fines and Forfeitures This category reflects Police traffic and vehicle code violations collections. This category is holding steady.

Use of Money & Property Interest income is from the investments of idle funds, interest from Redevelopment Agency for the short term loan, and leases of City Buildings.

Intergovernmental Decline in intergovernmental category is due to the proposed closure of the Community Correctional Facilities (CCF). These are the administrative overhead charges to other funds

Charges for Services The Charges for Service revenue category reflects cost recovery for services provided to external customers. These services span a wide range of offerings: plan checking, zoning and subdivision, duplication of materials, recreational classes, engineering inspection, weed abatement, police service charges, and many others.

Special Revenue Funds
As the name of the funds implies, special revenue funds represent a discreet segregation of funding to accomplish specific purposes. Reimbursement-based grants occupy this category, as do local return of State of California tax levies (e.g. Gas Tax, Transportation Development Act) and special fee sources established by the City (e.g. Impact Fees, Park In-Lieu). The revenue accumulation patterns for special revenue funds can vary significantly from year to year according to the availability of funding and/or expenditure timing for grant awards and reimbursement.

Revenue Summary – All special Revenue Funds

	Actual FY 2008-09	Actual FY 2009-10	Estimated FY 2010-11	Approved FY 2011-12	Approved FY 2012-13
All Special Revenue	15,470,937	12,573,524	18,978,031	8,780,486	5,340,650

Proprietary Funds
Proprietary Funds are used to account for the City's business-type activities. There are two types of proprietary funds: Enterprise funds and Internal Service funds. The City of Delano uses both types of proprietary funds.

Enterprise Funds Enterprise funds account for the City's business activities that provide service to external customers. Cost recovery is maintained through user fees and charges for service. The City maintains five distinct enterprise operations that collectively comprise 32% of its revenue accumulation.

Refuse The Refuse Fund has an estimated fund balance on $674,888 for FY 2012 and $446,058 for FY 2013. The estimated revenue is not sufficient to cover the expenditures by $137,300 in FY 2012 and $228,830 in FY 2013. The refuse fees need to be increased to cover the cost of operations.

Street Cleaning The Street Sweeping charges to customers of $406,000 annually is not sufficient to cover the cost of providing services. In FY 2011, 2012 and 2013, transfer in from Gas Tax Fund in the amount of $538,000 for the next three fiscal years will be used to offset the cost of street cleaning. With the transfers in, still the fund has a deficit fund balance of $288,787 in FY 2012 and $238,747 in FY 2013. Street sweeping fee need to be increased to cover the cost of services provided to citizens.

Sewer/WWTP As of June 30, 2010, the Sewer Fund had a deficit unrestricted net assets of $1.8 million dollars. The estimated revenues and transfers in for FY 2012 of $4.2 million dollars while expenses and transfers out excluding depreciation of $5.1 million dollars, a deficit of $851 thousand dollars. However, the accumulated estimated fund deficits for FY 2012 and 2013 are $2.7 and $3.5 million dollars. A service fee study is necessary to evaluate existing fee. The State granted a $31.4 million dollars loan with a 1% interest rate for 20 years to the City for the expansion of the Sewer Treatment Plant. The annual debt service payment is $1.7 million dollars, 74% will be paid by the Sewer Impact Fee and 26% will come from the Sewer Fund. However, current Impact Fee Fund will only be able to afford the debt service payment for two fiscal years, unless growth occurs.

Water Water Fund had a deficit unrestricted net assets as of June 30, 2010 of $1,558,678. The accumulated unrestricted net assets deficits for FY 2012 and 2013 are $2,135,785 and $2,440,555 respectively. This is an indication that current service fees charged to the users are not sufficient to cover expenses including capital improvements, debt service payment for the State Loan, and annual depreciation. The State of California Department of Public Health grant a construction loan to the City $20.7 million dollars to fund for the Arsenic Mitigation Project with no interest but principal payment is $1,035,457.80 annually which will start six months after project is completed. It is estimated that the project will be completed in December 2013.

Revenue Summary – Enterprise Funds

	Actual FY 2008-09	Actual FY 2009-10	Estimated FY 2010-11	Approved FY 2011-12	Approved FY 2012-13
Solid Waste	2,335,740	2,264,822	2,444,758	2,454,500	2,448,700
Sewer/WWTP	11,102,789	3,933,750	12,195,552	4,216,500	4,209,000
Water	3,322,363	4,217,645	6,439,517	14,712,820	13,741,599
Airport	744,532	330,944	332,551	560,925	563,425
Transit	1,546,953	1,573,310	1,155,004	1,560,553	1,687,100
Total Enterprise	**19,052,377**	**12,320,471**	**22,567,382**	**23,505,298**	**22,649,824**

Internal Service Funds Internal service funds account for the City's business activities that are provided to an internal customer – the City providing service itself, in other words. Cost recovery is achieved through charges to funds in proportion to their use of service.

The City maintains four distinct internal service funds that collectively make up 6% of City revenue accumulation.

Revenue Summary – Internal Service Funds

	Actual FY 2008-09	Actual FY 2009-10	Estimated FY 2010-11	Approved FY 2011-12	Approved FY 2012-13
Central Garage	1,106,577	1,376,199	1,487,467	1,508,000	1,497,200
Liability	427,037	626,343	521,200	919,240	928,250
Workers' Comp	496,579	548,081	509,249	822,350	837,650
Information Sys.	432,348	526,236	340,185	615,950	652,650
Total Internal Service	**2,462,541**	**3,076,859**	**2,858,101**	**3,865,540**	**3,915,750**

Pension Fund

The employee Pension fund is a trust fund administered by the City through Prien Associates, Inc. It is funded by contributions from both the City and employees. The proceeds are invested in fixed income and equities. The total estimated revenue for the budget years 2012 and 2013 is $4,525,000 and $4,535,000. The projected fund balance at the end of the fiscal year 2012 and 2013 is $23,417,309 and $26,539,679.

Expenditure Highlights and Changes

General Fund

The General Fund proposed expenditures for FY 2012 is $18.4 million dollars and for FY 2013 is $18.7 million dollars. The General Fund comprised to 18% of the total City budget. Each departmental request have been reviewed and reduced in order to balance the budget with estimated revenues, still it was not sufficient. General Fund is balanced using the reserve by $1.7 million dollars in FY 2012 and $1.5 million dollars in FY 2013.

Special Revenue Funds

The proposed expenditures for the Special Revenue Funds are $10.4 million dollars for FY 2012 and $6.0 million dollars for FY 2013. This is equal to 10% of the FY 2012 proposed budget.

Debt Service Fund

Included in the Debt Service Fund is the principal and interest payment for the Lease Revenue Bond 2010A in the amount of $2.1 million dollars each fiscal year 2012 and 2013. Funding comes from the General Fund Sales Tax over-ride. The bond was issued to fund for the Police Facility and the Caltrans improvement project.

Capital Projects

A total of $40,309,082 in capital projects is included in FY 2012 budget. Of this amount $25.8 million dollars pertains to the Police Facility and Caltrans Improvement project. The remainder of the projects is largely made up of grants or special revenue sources, and water improvement projects. A detailed listing of projects can be found in the "Capital Projects" tab section of the budget document.

Public Works Projects The Public Works Engineering Department administers a variety of street, curb, sidewalk, and capital construction projects. In FY 2012 they are as follows:

- Cecil/Hiett Traffic Signal
- Slurry Seal
- SC 3000 Cold Mix Street project
- Arsenic Mitigation
- Water #4 Improvements
- Water Line Replacements
- New Water Meters
- Retrofit Toilets
- Gateway Sign
- Wastewater Expansion projects
- RSTP Overlay projects
- Woollomes/Highway 99 construction project

- FAA Grant Cal Recycle project
- Fire project
- Street Resurfacing and Water Lines project

Community Services projects The Community Services Department will quarterback a variety of improvements, primarily through application of Parks Development and Community Development Block Grant (CDBG) funding.

- Park Veneto/Primavera
- Spray Park – Cesar Chavez
- Tennis Court Rehabilitation project – Jefferson Park

City Facilities Projects Includes Police Facility and Technology Center at the Community Center, Gym and Community Center Construction Project, and property acquisition for the Homeless Shelter. Funding for these projects comes from the Lease Revenue Bonds, and CDBG grant.

Employee Compensation

Compensation The City maintains memorandum of understanding (MOUs) for four labor bargaining groups: Delano Police Officers Association; Management Employees Group; The Service Employees international Union (SEIU); The Central California Association of Public Employees. The City's department directors and executive management contract employees are not organized bargaining unit; the terms and conditions on their employment are reflected in individual employment contracts.

The MOU with the Delano Police Officers Association expired June 30, 2010. Negotiations are ongoing at this writing to secure a successor agreement. No assumption for change in employment terms and conditions has been made in the proposed FY 2012 and 2013 budget.

The MOU for the Management Employees Group (MEG) will expire June 30, 2011. City will be starting the process for negotiations on their new contract.

The MOU for the Service Employees International Union (SEIU) expired February 21, 2011. This is for Correctional Officers and Custodial Officers/Jailers Bargaining Unit.

The MOU for the Central California Association of Public Employees, (Miscellaneous Employees Bargaining Unit) will expire June 30, 2011. Negotiations are underway and there are no assumption for change in employment terms and conditions has been made in the proposed FY 2012 & 2013 budget.

Change in Full-Time and Part-Time Staffing

The effects of recession have deeply impacted the City in its role as an employer. The proposed FY 2012 and 2013 budget include reductions in staffing level. To close the gap on this year's General Fund budget, the City's full-time workforce displays a negative net change of 14 regular full-time positions. This equates to a 4.6% reduction in force from FY 2011 total number of 305 employees. There are 1 reclassification and 1 new employee requested in the proposed budget for Public Works, Refuse and Water for FY 2012 and 1 additional full-time position in Water for FY 2013.

General Fund Reserves

Our ability to manage reserves speaks to the strengths of our balance sheet – or what we keep "in the bank". Each year we maintain the expectation of balanced operating budgets, and thus expects reserves to remain constant year-to-year.

A five-year summary of General Fund reserves is shown below:

	Actual at June 30, 2009	Actual at June 30, 2010	Actual at June 30, 2011	Actual at June 30, 2012	Actual at June 30, 2013
Unreserved	7,705,303	7,428,512	5,760,550	4,016,199	2,506,052

Conclusion

As always, the adoption of the budget by the City Council will not be taken as an invitation to spend. Every effort will be made throughout the year to achieve savings wherever possible.

This proposed budget demanded significant time and attention by nearly every employee. It will take a great effort for all of these employees to maintain the level of service during these crucial economic times during the coming years.

Thanks are given to our departments for not only making hard choices unselfishly, but also for compiling budget proposals. On behalf of the entire City staff, I would like to express our appreciation for the efforts of Council budget sub-committee and the entire City Council. City staff looks forward to working with the members of the City Council in the upcoming fiscal years.

Respectfully submitted,

Abdel Salem
City Manager

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