MINUTES
CITY OF NORCO

SPECIAL MEETING – STUDY SESSION
CITY COUNCIL
CONFERENCE ROOMS "A" & "B"
NORCO CITY HALL – 2870 CLARK AVENUE
SEPTEMBER 20, 2010

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1. CALL TO ORDER: Mayor Pro Tem Hanna called the meeting to order at 1:10 p.m.

2. ROLL CALL:
Mayor Malcolm Miller, **Absent**
Mayor Pro Tem Berwin Hanna, **Present**
Council Member Kathy Azevedo, **Present**
Council Member Kevin Bash, **Present**
Council Member Harvey C. Sullivan, **Present**

3. PLEDGE OF ALLEGIANCE: Council Member Sullivan

4. PUBLIC COMMENTS OR QUESTIONS: No public comments or questions received.

5. STUDY SESSION ITEMS:

A. Overview from the City Manager

City Manager Groves stated that the formal budget process will begin in February for the 2011-2012 fiscal year and reminded the Council that during the budget process last fiscal year, they were reminded that the budget is fragile and was put together with some onetime money. She noted that this is a first in a series of study sessions regarding the status of the current and upcoming fiscal year budgets. She further noted that it is most important to look at short-term timing and issues in regards to cash flow and action items need to be discussed to help implement ideas.

B. Budget Update **(The PowerPoint presentation and spreadsheets as presented are attached hereto and incorporated herein.)**

Deputy City Manager/Director of Finance Okoro presented a re-cap of the current fiscal year budget, noting the structural deficit of $3 million. The biggest concern is the ability to meet daily cash flow needs due to uneven receipt of revenues. Due to this concern, there is a great need to breakdown and monitor the budget month-by-month. Depending on actual cash flow timing, the General Fund may run out of cash before May 2011. The 2010-2011 fiscal year projected cash flow balances were discussed. Noted was that property tax and vehicle license fees are received twice per year. City Manager Groves discussed expenditure reductions that have already been implemented over the last three fiscal years. Deputy City Manager/Director of Finance Okoro stated that the projected 2011-2012 fiscal year budget is presented as status quo, with the post-retirement healthcare costs and the equipment replacement fund added back in as adjustments. The projected cash flows were presented for the FY 2011-2012 fiscal year and it was noted that something significant will need to be done to bring in revenues or reduce expenditures.

City Manager Groves stated that these are the numbers that will be used for discussions moving forward and added that staff will continue to monitor revenues. She noted that the management team will be going over the department budgets and service levels will need to be discussed, as well as contract services. City Manager Groves stated that this will be an ongoing process and it will be necessary to look at the revenue side to see what can be done, noting that a LMD in other parts of the City is being looked at, along with economic development strategic planning on Sixth Street and Hamner Avenue. The upcoming study sessions will be held on October 11, October 25 and November 8.

Council Member Azevedo stated that she attended meetings at the recent League of California Cities Conference relating to budgets and noted that she met with several council members from other cities as well as a financial planner where tax measures were discussed. She also attended a meeting relating to California contract cities. She noted that she would need to know how much it would cost the residents in order to look at a LMD.

Mayor Pro Tem Hanna stated that he also attended the League of California Cities Conference and attended a seminar regarding how to brand your city and market your brand. He added that the speaker offered to provide the City with one free hour of consultation.

Council Member Sullivan stated that he would be interested in looking at a LMD on horse trails, but not in raising sales tax right now.

Council Member Azevedo stated that she would like to expand on the City's branding and would offer her time to make some business contacts.

Council Member Bash stated that the budget needs to be cut and somehow generate revenue, noting the need for an economic strategic plan.

Vern Showalter. Mr. Showalter asked if the GASB 45 funding was ongoing. Deputy City Manager/Director of Finance Okoro confirmed that it is, adding that the post-heath care retirement cost amount is not known from year-to-year and is currently going through the actuary process.

John Box. Mr. Box asked numerous questions from which Deputy City Manager/Director of Finance Okoro responded. Questions included, but were not limited to, what confidence the Council should have if the property tax payments would not come in and further how solid the estimates are; if it is correct to assume that the ending cash balance includes cash reserve; if there are any future revenues that are not within this budget; and how do you propose to function on negative cash flow. Mr. Box recommended that the Council request staff to provide a deficit neutral budget and what the impact on that is because otherwise the City is on a crash course.

Deputy City Manager/Director of Finance Okoro replied that the cash flow assumes that the bills will be paid as they come due. He further commented on the two spreadsheets that were handed out and noted that they were presented on a cash basis. Deputy City Manager/Director of Finance Okoro said in terms of the date that the property tax payment will be received, pretty solid, in terms of the amount, not certain. He stated that the ending cash balance does include the cash reserve. He further stated that the objective is to continue everything we know of to

bring in additional revenues. Deputy City Manager/Director of Finance Okoro said there are other options for cash flow, such as borrowing from the special revenue asset fund (with a total of approximately $1.2 million in that account).

Mike Harris. Mr. Harris stated that the process does not need any adjustments but needs to be broader and further commented that he has not seen the City's current comprehensive financial report. Mr. Harris commented on the creation of a long-term financial plan and noted that a strategic plan and management strategies need to be linked to this plan.

Deputy City Manager/Director of Finance Okoro stated that the City's financial report (audited) is presented to the Council each year. He commented on the long-term debt issued by the City earmarked for capital water and sewer projects, and another $10 million issued on behalf of the school district. He further noted that the City is obligated to report that debt service in our audited financial report.

Council Member Bash noted that these are unprecedented times and part of the reason is because there is a lot we don't know. He further stated that the City is working on long-term planning, noting the Silverlakes project and the Historic Preservation Overlay as examples.

Mayor Pro Tem Hanna noted that this is a common concern among California cities.

Council Member Azevedo stated that at the League of California Cities Conference there was discussion regarding the ability to borrow from the Redevelopment Agency. She noted that Ingalls could be an economic engine instead of a burden on General Fund. She further noted that a tax is not what the City needs to do and is a last resort.

John Box. Mr. Box stated that what he is hearing is disturbing. He stated that the cost to run the City is unsustainable and was before the economic crisis and added that the Council needs to stop making excuses and get to the harsh reality.

Council Member Sullivan asked if there are any new development proposals proposed at this time. City Manager Groves noted that there are currently a lot of window shoppers adding that there are some hotels waiting until the Silverlakes project is approved.

Vern Showalter. Mr. Showalter stated that a LMD for the trails would not buy the City anything. City Manager Groves stated that the level of maintenance would need to be determined and added that it can't be used for anything other than what the district is created for.

6. ADJOURNMENT: There being no further business to come before the City Council, Mayor Pro Tem Hanna adjourned the meeting at 2:38 p.m.

BRENDA K. JACOBS
CITY CLERK

/bj-76617
Attachment: PowerPoint Presentation

City of Norco

Budget

Study Session

September 20, 2010

Re-Cap of FY 2010-2011 Adopted General Fund Budget

One-Time Items

- Deferral of Contribution to Equipment Replacement Fund - $146,000
- Reduction of Funding to Post Retirement Healthcare Costs - $250,000
- Deferral of Contributions to IT Fund - $100,000
- Transfer from Developer Agreement Fund - $600,000
- Use of Reserves - $2,197,762

ESTIMATED STRUCTURAL DEFICIT $3,293,762

FY 2010-2011 Budget Update

- Not enough information to determine if initial revenue estimates are still reasonable
- Expenditures are more predictable and will generally mirror budget
- Biggest concern is ability to meet daily cash flow needs due to uneven receipt of revenues
- Due to cash flow concerns, there is great need to breakdown and monitor budget month by month based on cash flow projections
- Depending on actual cash flow timing,

General Fund may run out of cash before May 2011

FY 2010-2011 Cash Flow Worksheet – 1st Qtr.

	Jul-`10	Aug-`10	Sep-`10
Estimated Beginning Cash Balance	$2,784,094	2,404,472	1,868,150
Total Cash Inflows	871,237	714,537	686,537
Total Cash Outflows	1,250,859	1,250,859	1,250,859
Net Cash Inflows (Outflows)	(379,622)	(536,322)	(564,322)
Ending Cash Balance	**2,404,472**	**1,868,150**	**1,303,828**

FY 2010-2011 Cash Flow Worksheet – 2nd Qtr.

	Oct-`10	Nov-`10	Dec-`10
Estimated Beginning Cash Balance	1,303,828	824,206	259,884
Total Cash Inflows	771,237	686,537	1,056,537
Total Cash Outflows	1,250,859	1,250,859	1,250,859
Net Cash Inflows (Outflows)	(479,622)	(564,322)	(194,322)
Ending Cash Balance	**824,206**	**259,884**	**65,562**

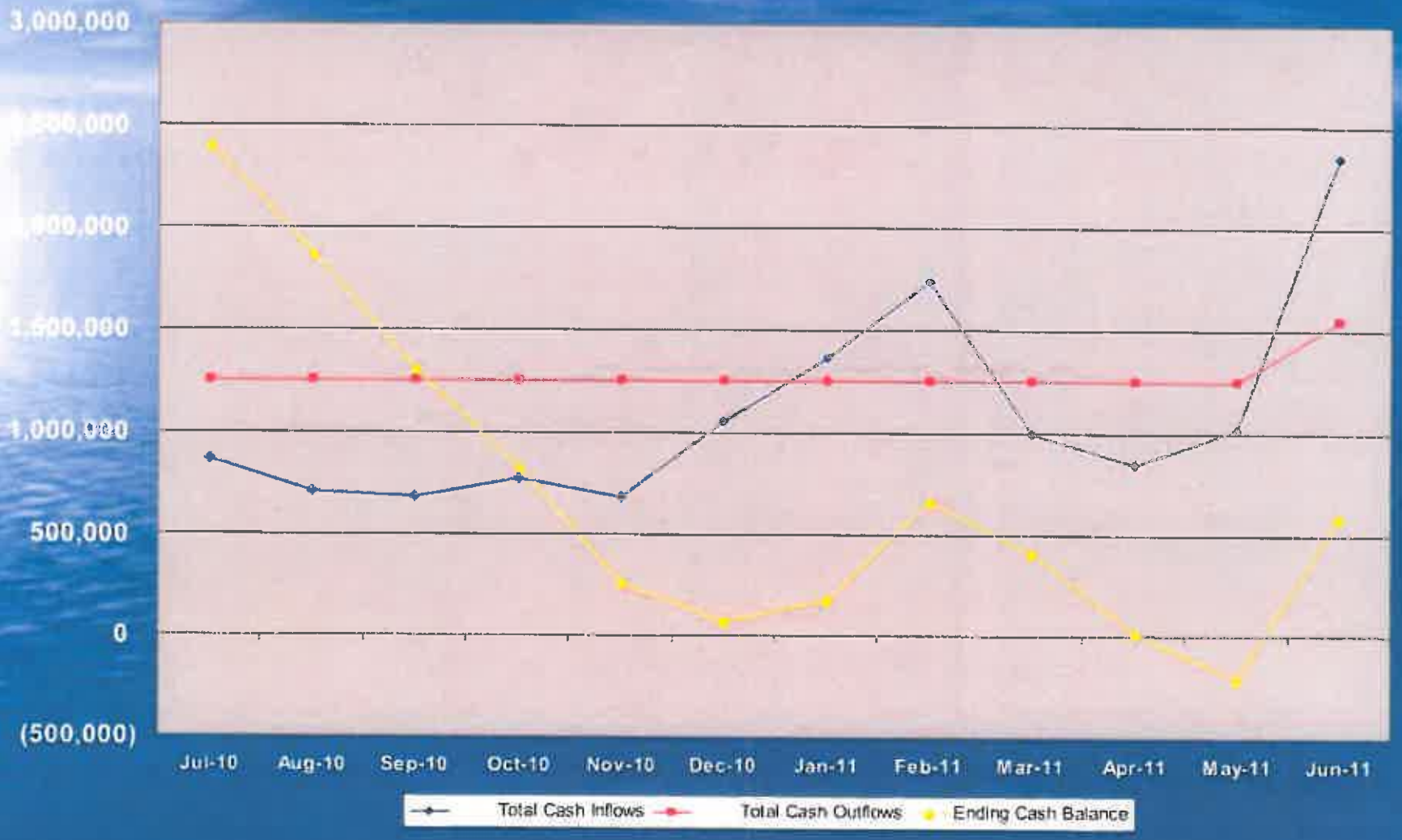
FY 2010-2011 Cash Flow Worksheet – 3rd Qtr.

	Jan-`11	Feb-`11	Mar-`11
Estimated Beginning Cash Balance	65,562	177,815	663,993
Total Cash Inflows	1,363,112	1,737,037	998,697
Total Cash Outflows	1,250,859	1,250,859	1,250,859
Net Cash Inflows (Outflows)	112,253	486,178	(252,163)
Ending Cash Balance	**177,815**	**663,993**	**411,831**

FY 2010-2011 Cash Flow Worksheet – 4th Qtr.

	Apr-`11	May-`11	Jun-`11
Estimated Beginning Cash Balance	411,831	12,509	(215,057)
Total Cash Inflows	851,537	1,023,293	2,352,293
Total Cash Outflows	1,250,859	1,250,859	1,550,903
Net Cash Inflows (Outflows)	(399,322)	(227,566)	801,390
Ending Cash Balance	**12,509**	**(215,057)**	**586,333**

FY 2010-2011 Cash Flow



Expenditure Reductions Already Implemented

SHERIFF DEPARTMENT

- Eliminated a Youth Accountability Team Deputy
- Eliminated four Community Service Officers
- Eliminated four Motor Officers
- Total Estimated Annual Savings $1.5 Million

Expenditure Reductions Already Implemented

FIRE DEPARTMENT

- Eliminated a Battalion Chief Position
- Eliminated three Firefighter/Paramedic Positions
- Reduced Mandatory Holiday Paid Hours from 6.46 Hours Per Pay Period to 2 Hours
- Eliminated Uniform Allowance
- Eliminated Implementation of Negotiated Salary Adjustments

Expenditure Reductions Already Implemented

FIRE DEPARTMENT *(Cont.)*

- Reduced Annual Accrual and Use of Compensatory Time
- Eliminated Payment for Membership to LA Fitness
- Significantly Reduced Constant Staffing for Battalion Chiefs
- Operating with Part Time Fire Chief
- Total Estimated Annual Savings $1 million

Expenditure Reductions Already Implemented

OTHER CITY DEPARTMENTS

- Reduced Full Time General Employees by 23 from 79 to 56 Since FY 2003-2004
- Implemented a 36-Hour Work Week Furlough
- Reduced and/or Eliminated Various Professional Service Contracts
- Implemented Salary/Wage Freeze
- Minimum Estimated Savings for all Funds $2.7 million

List of Municipal Services Partially or Fully Contracted

- Police Protection
- Garbage/Waste Disposal
- Street Sweeping
- Engineering Services
- Park Maintenance
- Trail Maintenance
- Fleet Maintenance
- City Attorney

List of Municipal Services Partially or Fully Contracted *(Cont.)*

- Plan Check/Inspection Services
- Claims Management/General Liability and Workers Compensation
- Information Technology
- Special Districts Administration – CFD Assessment and Delinquency Management
- Housing & Economic Development Programs
- Code Enforcement
- Recreation Program Contract Classes

FY 2011-2012 Budget Preview

- Use FY 2010-2011 as the baseline
- Revenues are assumed to remain unchanged from FY 2010-2011 projections except that one-time revenues have been adjusted
- Expenditures are also assumed to remain unchanged except that one-time expenditures have been added back
- Month by month budget based on estimated cash flows have been presented
- Cash flow presentation assumes that all remaining fund balance are used during the year
- Projection show that the

General Fund will run out of cash by August 2011

FY 2011-2012 Status Quo Projected GF Budget

Revenues	FY 2011 Adopted Budget	Adjustments	FY 2012 Estimated Budget
Property Taxes	1,239,850	-	1,239,850
Sales Tax	3,479,000	-	3,479,000
Other Taxes	720,150	-	720,150
Franchise Fees	1,080,460	-	1,080,460
Motor Vehicle License Fees	2,025,756	-	2,025,756
Community Development Fees	423,275	-	423,275
Community Services Fees	694,914		694,914
Transfers In (1)	1,675,267	(600,000)	1,075,267
Other Revenues	1,773,919	-	1,773,919
Projected FY 2012 Revenues	**13,112,591**	**(600,000)**	**12,512,591**

(1) Subtract Out One-time Transfers In from DAG Fund

FY 2011-2012 Status Quo Projected GF Budget

Expenditures:	FY 2011 Adopted Budget	Adjustments	FY 2012 Estimated Budget
Salaries and Benefits	6,894,433	-	6,894,433
Supplies and Services (1)	954,686	250,000	1,204,686
Maintenance & Utilities	507,113	-	507,113
Contractual and Professional	5,827,444	-	5,827,444
Internal Service Fund Charges (2)	1,010,111	246,000	1,256,111
Miscellaneous	116,565	-	116,565
Project FY 2012 Expenditure Budget	**15,310,352**	**496,000**	**15,806,352**

(1) Supplies and Services - Add back GASB 45 Funding Reduction $250,000

(2) ISF Charges - Add back contribution to Equipment Replacement Fund $146,000, IT Fund $100,000

FY 2011-2012 Cash Flow Preview – 1st Qtr.

	Jul-`11	Aug-`11	Sep-`11
Estimated Beginning Cash Balance	$586,333	136,216	(470,601)
Total Cash Inflows	821,242	664,542	636,542
Total Cash Outflows	1,271,359	1,271,359	1,271,359
Net Cash Inflows (Outflows)	(450,117)	(606,817)	(634,817)
Ending Cash Balance	**136,216**	**(470,601)**	**(1,105,418)**

FY 2011-2012 Cash Flow Preview – 2nd Qtr.

	Oct-`11	Nov-`11	Dec-`11
mated Beginning h Balance	(1,105,418)	(1,655,535)	(2,290,352)
Total Cash Inflows	721,242	636,542	1,006,542
Total Cash Outflows	1,271,359	1,271,359	1,271,359
Net Cash Inflows (Outflows)	(550,117)	(634,817)	(264,817)
Ending Cash Balance	**(1,655,535)**	**(2,290,352)**	**(2,555,169)**

FY 2011-2012 Cash Flow Preview – 3rd Qtr.

	Jan-`12	Feb-`12	Mar-`12
Estimated Beginning Cash Balance	(2,555,169)	(2,513,411)	(2,097,728)
Total Cash Inflows	1,313,117	1,687,042	948,702
Total Cash Outflows	1,271,359	1,271,359	1,271,359
Net Cash Inflows (Outflows)	41,758	415,683	(322,657)
Ending Cash Balance	**(2,513,411)**	**(2,097,728)**	**(2,420,385)**

FY 2011-2012 Cash Flow Preview – 4th Qtr.

	Apr-`12	May-`12	Jun-`12
Estimated Beginning Cash Balance	(2,420,385)	(2,890,202)	(3,188,263)
Total Cash Inflows	801,542	973,298	2,302,238
Total Cash Outflows	1,271,359	1,271,359	1,831,403
Net Cash Inflows (Outflows)	(469,817)	(298,061)	480,835
Ending Cash Balance	**(2,890,202)**	**(3,188,263)**	**(2,707,428)**

City of Norco

Budget

Study Session

September 20, 2010

City of Norco California - FY 2010-2011 General Fund Budget Update - Cash Basis													
Month - Year	**Jul-10**	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**	**Jan-11**	**Feb-11**	**Mar-11**	**Apr-11**	**May-11**	**Jun-11**	**Totals**
Estimated Beginning Cash Balance	**$ 2,784,094**	**2,404,472**	**1,868,150**	**1,303,828**	**824,206**	**259,884**	**65,562**	**177,815**	**663,993**	**411,831**	**12,509**	**(215,057)**	**2,784,094**
Cash Inflows:													
Property Tax Receipts	-	28,000	-	-	-	370,000	157,000	89,000	-	-	336,000	259,850	1,239,850
Sales Tax	217,437	217,437	217,437	217,437	217,437	217,437	652,312	217,437	217,437	217,437	217,437	652,318	3,479,000
Other Taxes	180,000	37,300	37,300	80,000	37,300	37,300	80,000	37,300	80,000	37,300	37,300	39,050	720,150
Franchise Fees	85,000	43,000	43,000	85,000	43,000	43,000	85,000	43,000	312,460	208,000	43,000	47,000	1,080,460
Motor Vehicle License Fees	8,500	8,500	8,500	8,500	8,500	8,500	8,500	970,000	8,500	8,500	9,256	970,000	2,025,756
Community Development	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	38,275	423,275
Community Services	57,900	57,900	57,900	57,900	57,900	57,900	57,900	57,900	57,900	57,900	57,900	58,014	694,914
Transfers In	139,600	139,600	139,600	139,600	139,600	139,600	139,600	139,600	139,600	139,600	139,600	139,667	1,675,267
Other Revenues	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	148,119	1,773,919
Total Cash Inflows	**871,237**	**714,537**	**686,537**	**771,237**	**686,537**	**1,056,537**	**1,363,112**	**1,737,037**	**998,697**	**851,537**	**1,023,293**	**2,352,293**	**13,112,591**
Cash Outflows:													
Salaries and Benefits	574,535	574,535	574,535	574,535	574,535	574,535	574,535	574,535	574,535	574,535	574,535	574,548	6,894,433
Supplies and Services	54,569	54,569	54,569	54,569	54,569	54,569	54,569	54,569	54,569	54,569	54,569	354,427	954,686
Maintenance & Utilities	42,259	42,259	42,259	42,259	42,259	42,259	42,259	42,259	42,259	42,259	42,259	42,264	507,113
Contractual and Professional	485,620	485,620	485,620	485,620	485,620	485,620	485,620	485,620	485,620	485,620	485,620	485,624	5,827,444
Internal Service Fund Charges	84,176	84,176	84,176	84,176	84,176	84,176	84,176	84,176	84,176	84,176	84,176	84,175	1,010,111
Miscellaneous Expenditures	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,865	116,565
Total Cash Outflows	**1,250,859**	**1,250,859**	**1,250,859**	**1,250,859**	**1,250,859**	**1,250,859**	**1,250,859**	**1,250,859**	**1,250,859**	**1,250,859**	**1,250,859**	**1,550,903**	**15,310,352**
Net Cash Inflows (Outflows)	**(379,622)**	**(536,322)**	**(564,322)**	**(479,622)**	**(564,322)**	**(194,322)**	**112,253**	**486,178**	**(252,162)**	**(399,322)**	**(227,566)**	**801,390**	**(2,197,761)**
Ending Cash Balance	**2,404,472**	**1,868,150**	**1,303,828**	**824,206**	**259,884**	**65,562**	**177,815**	**663,993**	**411,831**	**12,509**	**(215,057)**	**586,333**	**586,333**

City of Norco California - FY 2011-2012 General Fund Budget Preview - Cash Basis													
	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Totals
Estimated Beginning Cash Balance	$ 586,333	136,216	(470,601)	(1,105,418)	(1,655,535)	(2,290,352)	(2,555,169)	(2,513,411)	(2,097,728)	(2,420,385)	(2,890,202)	(3,188,263)	586,333
Cash Inflows:													
Property Tax Receipts	-	28,000	-	-	-	370,000	157,000	89,000	-	-	336,000	259,850	1,239,850
Sales Tax	217,437	217,437	217,437	217,437	217,437	217,437	652,312	217,437	217,437	217,437	217,437	652,318	3,479,000
Other Taxes	180,000	37,300	37,300	80,000	37,300	37,300	80,000	37,300	80,000	37,300	37,300	39,050	720,150
Franchise Fees	85,000	43,000	43,000	85,000	43,000	43,000	85,000	43,000	312,460	208,000	43,000	47,000	1,080,460
Motor Vehicle License Fees	8,500	8,500	8,500	8,500	8,500	8,500	8,500	970,000	8,500	8,500	9,256	970,000	2,025,756
Community Development	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	38,275	423,275
Community Services	57,900	57,900	57,900	57,900	57,900	57,900	57,900	57,900	57,900	57,900	57,900	58,014	694,914
Transfers In	89,605	89,605	89,605	89,605	89,605	89,605	89,605	89,605	89,605	89,605	89,605	89,612	1,075,267
Other Revenues	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	148,119	1,773,919
Total Cash Inflows	821,242	664,542	636,542	721,242	636,542	1,006,542	1,313,117	1,687,042	948,702	801,542	973,298	2,302,238	12,512,591
Cash Outflows:													
Salaries and Benefits	574,535	574,535	574,535	574,535	574,535	574,535	574,535	574,535	574,535	574,535	574,535	574,548	6,894,433
Supplies and Services	54,569	54,569	54,569	54,569	54,569	54,569	54,569	54,569	54,569	54,569	54,569	604,427	1,204,686
Maintenance & Utilities	42,259	42,259	42,259	42,259	42,259	42,259	42,259	42,259	42,259	42,259	42,259	42,264	507,113
Contractual and Professional	485,620	485,620	485,620	485,620	485,620	485,620	485,620	485,620	485,620	485,620	485,620	485,624	5,827,444
Internal Service Fund Charges	104,676	104,676	104,676	104,676	104,676	104,676	104,676	104,676	104,676	104,676	104,676	104,675	1,256,111
Miscellaneous Expenditures	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,865	116,565
Total Cash Outflows	1,271,359	1,271,359	1,271,359	1,271,359	1,271,359	1,271,359	1,271,359	1,271,359	1,271,359	1,271,359	1,271,359	1,821,403	15,806,352
Net Cash Inflows (Outflows)	(450,117)	(606,817)	(634,817)	(550,117)	(634,817)	(264,817)	41,758	415,683	(322,657)	(469,817)	(298,061)	480,835	(3,293,761)
Ending Cash Balance	136,216	(470,601)	(1,105,418)	(1,655,535)	(2,290,352)	(2,555,169)	(2,513,411)	(2,097,728)	(2,420,385)	(2,890,202)	(3,188,263)	(2,707,428)	(2,707,428)