

## **AGENDA BILL**

Subject: Town Council Adoption of the Town's Fiscal Year 2012-13 Budget, Including the Budget Reduction Plan and a Plan to Address the State Court Writ of Mandate Concerning a Judgment by Mammoth Lakes Land Acquisition.

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### **BACKGROUND**

Since February 2012, Town staff has had several public presentations on the matters related to the Town's finances and specifically the FY 2012-13 baseline budget, and the judgment awarded to Mammoth Lakes Land Acquisition (MLLA). The most recent public discussion was held on May 16, 2012. During these public meetings, Town staff presented to the community a complete Fiscal Year 2012-13 budget document for the Town, the Budget Reduction Plan to address the FY 2012-13 budget shortfall of \$2.8 million, and long-term fiscal projections prepared by FTI Capital Advisors (FTI), which estimated a \$550,000 annual surplus available for a settlement with Mammoth Lakes Land Acquisition (MLLA) and other creditors.

### **DISCUSSION**

#### ***Overview of the Town's Fiscal Challenges, Current and Future***

The Town has a baseline budget shortfall of \$2.8 million in the General Fund budget of \$19 million. This 14% gap does not enable any payment to MLLA, and continues deferral of such important expenses as road rehabilitation and maintenance, and replacement of snow removal and other essential equipment. The reason for this baseline budget issue is simple: The Town's available revenues are not sufficient to pay all of the Town's current expenses. The Town already has a high tax level and cannot impose taxes without voter approval. This essentially limits the Town's budget balancing options to reductions in expenditures and services.

The Town has made significant cuts to its spending over the past few years. For example:

- The Town's spending on personnel accounts for less than a third of its budget. And yet since 2008, Town employees reduced their compensation

by nearly 17%. In more recent years, and in FY 2011-12 in particular, the Town began reducing payments to its various contractual services, including such essential programs as tourism promotion, workforce housing, and transit.

- In Fiscal Year 2009-2010, the Town eliminated 17 positions, remaining employees agreed to a number of compensation reductions, and the Town suspended or eliminated non-essential expenditures.
- In Fiscal Year 2010-2011, the Town eliminated additional six - mostly management - positions, remaining employees agreed to further pay concessions, the Town suspended Ice Rink operations, and used the available \$577,000 debt reserve to fund one-time expenditures.
- In Fiscal Year 2011-2012, the Town balanced a General Fund gap of \$2.7 million through some painful reductions that included further employee concessions, position eliminations, use of money from non-General Fund sources including Measures A and T, reduced contractual spending, and deferral of road repair and maintenance.

**The result is an organization that is already “bare bones”** from both a staffing and services standpoint, and which necessarily underfunds some of its essential obligations.

- The Town’s staffing levels have been significantly reduced, and the Town’s current staffing is very low compared to other similar tourist destination communities.
- Road rehabilitation and maintenance has not been fully funded.
- Vehicle replacement has been lacking, increasing vehicle repair and maintenance costs, and increasing the risk of essential equipment failure.
- The Town has no funding set aside for maintenance, repair, and improvements to its critical assets. Independent studies emphasize the need for the Town to “invest in those facilities, amenities, and trappings needed to attract the wider base [to the Town]”, to dramatically upgrade the public infrastructure (such as streets, sidewalks, bicycle paths, trails, plazas, parks, public art, and parking facilities), and create a Main Street / Town Center as a place defining the community. The Town has no funding to pay for these necessary assets.
- The Town’s reserve levels are insufficient. The Town’s policy is to maintain the General Fund reserve at 25%. As of June 2012, the Town’s reserve is likely to be under \$1.8 million, or 10%. The only conceivable way of adding to the reserves is through surpluses, which are not anticipated unless cuts are made to the General Fund spending.

- A September 2011 study by the National League of Cities highlights today's fiscal challenges of cities, and predicts a bleak future for the nation's municipal finances. The Town of Mammoth Lakes is no exception: In future years, the Town's available unrestricted revenues will likely be insufficient to cover the cost of current programs and services. Among other cost factors, the Town's retirement contributions, employee medical benefit costs, and insurance premiums will continue increasing. This will require reallocation of General Fund resources among the various programs, leading to further deterioration of already reduced service levels.

### ***The Town's Budget Reduction Plan***

The Town faces a \$2.8 million General Fund budget shortfall in FY 2012-13. This baseline shortfall is after all the reductions the Town has taken in the past three years, and before considering how the Town will satisfy the existing \$43 million judgment that MLLA holds against the Town.

After an in-depth and diligent analysis of all of its expenses and operations, the Town has developed a Budget Reduction plan to: (i) adjust the Town's expenditures and revenues through specific measures to balance the budget for the upcoming 2012-2013 fiscal year; (ii) create surplus funds to satisfy debts and obligations currently owed, including MLLA; and (iii) put the Town on a sustainable footing for future years, given what we know about the future.

In deciding to implement the Budget Reduction Plan, the Town has considered the competing demands for the Town's limited resources and balanced that with the obligations the Town has to maintain Mammoth Lakes as a livable place for its residents, a desirable destination for its visitors (who provide substantial revenue to the Town and can choose among many resort towns), and a responsible payer of its debts. Two factors have made the development of the Plan especially difficult:

- 1) Budget reductions to date, outlined earlier in this report, which have left every program and service of the Town significantly reduced. As a result, the Town Council approved budget balancing strategies for FY 2011-12, which we have carried forward into the proposed Plan. One such strategy is that reductions would be applied fairly to all impacted parties, to the extent possible. This includes employees, contractors, and residents.
- 2) The Town's already relatively high existing tax burden, compared to other similar communities, and the inability to impose taxes without voter approval.

The resulting plan reflects the Town's best judgment in balancing a number of competing factors:

- Fulfilling the Town's obligation to provide its residents with an acceptable level of essential services that the local government should provide: safety (police and fire), roads/transportation, health and welfare, education, and sanitation/environmental protection.
- Supporting the Town's central economic function as a travel/tourism destination.
- Supporting the Town's obligations to pay its debts.
- Allocating the Town's insufficient resources in pursuit of these goals.

The Budget Reduction Plan is presented in Attachment A, and is incorporated into the FY 2012-13 Budget Document. The plan includes 40 discrete actions or initiatives to either reduce expenditures or improve revenue to meet the goals set out above. This last round of measures follows the prior rounds of cuts the Town has made in the past three fiscal years, including a reduction of staffing by 30%. In this round, we have asked most departments for reductions of expenditures of at least 10%. In the Town's judgment, these are the most cuts/revenue raising measures that the Town could make, given what has already been done, and still provide essential services that maintain the condition of the Town and leave it livable and economically viable. Below are the highlights of the Plan. The impacts are included in Attachment A.

- **Employee pay concessions (\$1 million in savings):** The Town has requested pay concessions from its various employees, most of whom have union contracts through 2014. The requested concessions include compensation reductions of 10% for civilian staff, and 24% for sworn police officers.

Position reductions or furloughs are not acceptable for civilian employees in lieu of the 10% concessions. Position eliminations would be considered by the Town to satisfy all or a portion of the 24% sworn police concession.

- **Property lease payments (\$50,000 in savings):** The Town has sought 10% reductions in its property lease payments.
- **Departmental program reductions (\$1 million in savings):** Most Town departments will see their costs further reduced, as detailed in Attachment A. Impacts of the proposed reductions are summarized in the attachment.

- **Reductions in "Voter Commitment" Funding (\$154,000 in net savings):** 10% reductions would be applied to tourism (provided by Mammoth Lakes Tourism), housing (provided by Mammoth Lakes Housing), and transit (provided by Eastern Sierra Transit Authority). These organizations, however, would benefit from the Town's enforcement efforts to collect 5% in TOT revenue. As a result, the net reduction to all three are likely to be in the range of 5%.
- **Revenue enhancement through additional TOT enforcement (\$0.5 million in additional revenue):** \$173,000 of this additional revenue increase would be distributed to MLT, MLH, and ESTA, with the remainder staying in the General Fund.
- **In addition, the Town has decided to continue deferring the road rehabilitation funding:** The Town, mindful of the need to pay its creditors, has proposed to fund only half of its road and related infrastructure need, budgeting only \$750,000 of the \$1.5 million that would be most appropriate to maintain current road conditions. (This represents a \$250,000 increase from the baseline level, which is only a third of the optimal need.) This decision is the most manageable of all the additional cuts the Town has considered to ensure that the Town generates cash flow to pay its unsecured creditors.

We hope that the residents of the Town will support the Plan, which Town management and Town Council believe charts the best course for the Town for the foreseeable future given its limited resources.

### ***Adjustments to the Budget Reduction Plan since the May 16, 2012***

The Town has made adjustments to the Budget Reduction Plan that was made public on May 8, 2012, and presented again on May 16, 2012. The changes to the May version of the plan are highlighted in grey in Attachment A. They acknowledge the ongoing revenue loss resulting from the renegotiated General Aviation Fixed-Based Operator (FBO) contract at the airport, offset by position reductions in the Airport and Public Works. The two positions eliminated in these departments are management-level, and have been replaced by lower-cost maintenance and administrative staff. These cost reductions fully offset the projected revenue reduction resulting from the FBO contract change.

### ***FTI's Fiscal Forecast***

The Town engaged a financial advisor, FTI, to assist with a long-term projection of its revenues and spending, and the corresponding forecast of the contemplated balancing measures. FTI has completed their work, and an executive summary of their long-term projections is available on the Town's website. The following are important highlights of the forecast:

- After taking into account the Town's baseline budget for all funds, and the above balancing measures applied to the General Fund, the FTI model estimates that over the five-year forecast period, some \$3.6 million in net funds will be generated. After the five-year forecast period, some \$550,000 in annual funds are projected as available.
- Differences with the Town's budget: While FTI's model relies on the Town's FY 2012-13 baseline budget, there are important differences, as follows:
  - FTI's model includes all funding sources, while the Town's focus in projecting the \$2.8 million baseline shortfall has been on the General Fund.
  - While FTI's baseline FY 2012-13 numbers needed to be finalized in May in order to complete their projections, the Town continues with its budget development for FY 2012-13. The Town's figures for both FY 2011-12 year-end projection and FY 2012-13 baseline budget will continue to be updated with more current revenue and expenditure data. These updated figures will be presented continually to the Town Council and community in public meetings through May and June 2012, until the Town Council approves the FY 2012-13 budget.
  - FTI includes in the "unrestricted" category of its forecast both the General Fund and some other funding sources. This enables an annual surplus despite the fact that the Town's balancing measures above, once adjusted for the road rehabilitation funding, amount to only \$2.5 million, as compared to the baseline General Fund shortfall of \$2.8 million.
  - FTI's model builds reserves from zero, disregarding what the Town may currently have in place. For example, the Town already has reserves for Economic Uncertainty, Vehicle Replacement, and Employee Leaves. FTI rebuilds these reserves, and sets aside funds for other essential reserves.

Detailed assumptions included in FTI's model are discussed in the accompanying descriptive document.

### ***FTI's Tax Study***

The Town engaged FTI Capital Advisors to prepare an analysis of the Town's current tax burden and the impact of potential tax increases. The analysis was necessary to assess the feasibility of increasing taxes (with voter approval) to

generate revenues to help satisfy the Town's debts and obligations, including the litigation judgment of Mammoth lakes Land Acquisition (MLLA).

The FTI Report is available on the Town's website. It concludes that the current level of taxation within the Town is already high, the Town's population is generally not wealthy, and the Town's economy is not likely to sustain additional tax burden. Among the report's conclusions are the following:

- "Roughly 40 percent of the Town's households are classified as low-income, earning less than 80 percent of area median income (AMI), including 53 percent of renters and 24 percent of owners."
- "On a long-term basis, the economy of Mammoth Lakes has been stagnant, and on a near-term basis in decline; nor is recovery expected in the foreseeable future. Imposition of added taxes not serving to finance improvements in municipal services or investment in growth could only exacerbate these problems and make recovery that much more unlikely."
- "No potential particular tax increase would be innocuous in its effects on Mammoth Lakes, either from an equity perspective or from the standpoint of economic growth. The welfare of the resident population is inseparably linked to the competitiveness of the ski resort and the derived demand for all facilities existing because of it, including all related real estate."
- "Even a tax whose proceeds are spent in the economy taxed (not a reasonable assumption in this case) would reduce that economy's growth."

### ***Budget Documents***

The following budget documents are included with this report, and referenced in the legislation.

- The *Town's detailed budget document* for FY 2012-13 **is available online**, at [www.ci-mammoth-lakes.ca.us](http://www.ci-mammoth-lakes.ca.us), and in Town offices. The document is referenced in the budget adoption resolution, and is amended by the Budget Reduction Plan.
- The *Budget Reduction Plan*, presented on May 8, 2012 and May 16, 2012, and amended as discussed above, is **re-printed with this report**. (See Attachment A.) It balances the FY 2012-13 baseline budget shortfall of \$2.8 million and creates an estimated \$550,000 annual surplus, to address a writ of mandate recently issued by the State court in relation to the MLLA judgment.
- *FTI's Long-Term forecast* **is available on the Town's website**.
- The Town has produced, and **posted online** as well as distributed in hard copies, the "*Budget Facts*" publication for the community that summarizes

the Town's fiscal issues, the budget reduction plan, FTI's long-term projections, and matters related to the MLLA judgment.

### **Annual Budget Legislation**

Attached to this report (in Attachment B) are the following legislative items requiring the Town Council's approval:

- *Budget adoption* resolution.
- Legislation to establish the Town's *appropriations limit*, as mandated by the California Constitution.
- Legislation to approve the Town's *Investment Policy*, which changed slightly from the prior year.

### **Legislation to Implement Contemplated Retirement Cost Pick-Up by Town Employees**

The Town's Budget Reduction Plan assumes concessions from Town employees, ranging from 10% to 24%. The Town specifically discussed with the employees its desire to change the current union contracts so that all employees fully pay for their portion of retirement. The employee share of retirement, paid to CalPERS, is 8% for civilian employees and 9% for sworn, and currently fully paid for by the Town. The attached four resolutions (see Attachment C) make this change possible. The Town intends to implement the change on July 1, 2012.

### **Implementation of FY 2012-13 Budget**

The Town will begin the implementation of the FY 2012-13 budget on July 1, 2012. Some budget reductions reflected in the Budget Reduction Plan have already been implemented – for example, layoffs of two senior employees in the Airport and Public Works took place in June 2012.

Some of the reductions require various significant concessions from the employee unions. Changes to property leases and existing contractual agreements also must be formalized with pertinent parties. The Town anticipates that relevant agreements will be reached in time for the July 1, 2012 implementation. If this does not occur, the Town will have no option but to begin implementation of its balancing measures on July 1, 2012, according to the Balancing Plan.



**RECOMMENDATION:**

Staff recommends that the Town Council approve the attached legislation, including:

1. A resolution approving the FY 2012-2013 budget for the Town.
2. A resolution setting a Gann appropriations limit for FY 2012-2013.
3. A resolution approving the Town's investment policy for FY 2012-13.
4. Four separate resolutions to effectuate full payment of the employee retirement share by Town employees.

Attachments:

A – Amended Budget Reduction Plan.

B – Annual budget legislation (3 resolutions).

C – Legislation to implement employee retirement pick-up (4 resolutions).

Available online - Fiscal Year 2012-13 Baseline Budget Document for the Town of Mammoth Lakes, including the "Budget in Brief" summary, FTI's long-term forecast, and the Budget Reduction Plan.