



***Discussion and Possible Action
on the Town's Long-Term Fiscal Projections
and Proposed Budget Reduction Plan***

**May 8, 2012
Town Council meeting**

ITEMS IN THIS PRESENTATION

- An update on the Town's FY 2012-13 baseline budget.
- A budget reduction plan that addresses the baseline budget issue of \$2.8 million, but also creates an annual cash flow to address a writ of mandate recently issued by the State court in relation to the MLLA judgment.
- A long-term fiscal forecast prepared by the Town's financial consultant, FTI.

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

- FY 12/13 baseline budget shortfall is \$2.8 million (14%). It does not enable any payment to MLLA, and continues deferral of important needs.
- The Town's available revenues are not sufficient to pay all of the Town's current expenses.
- The Town is already has a high level of taxation 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.

Prior Cuts Created a “Bare Bones” Organization

- Town’s spending is less than a third of its budget. And yet since 2008, Town employees reduced their compensation by nearly 17%.
- In FY 2011-12, the Town reduced payments to its various contracted services, including tourism, housing and transit.
- The result: Low staffing, under-funded roads and vehicles, insufficient reserves.
- The future is even bleaker.

The Town's Budget Reduction Plan

- \$2.8 million General Fund shortfall is after years of reductions, and before considering how the Town will satisfy the \$43 million MLLA judgment.
- Our Budget Reduction plan will: (i) balance the FY 12/13 budget; (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.

The Town's Budget Reduction Plan

- The Budget Reduction Plan is in Attachment B.
- \$2.7 million in annual savings - 40 discrete actions or initiatives to either reduce expenditures or improve revenue to meet the goals set out above.
- 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.
 - 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 Town's Budget Reduction Plan: DETAILS

- **Employee pay concessions (\$1 million in savings):** 10% for civilian, 24% for sworn police. Position reductions would be considered for police. In general, a police officer costs \$160K, equals 7% concession for police. Impacts of losing 1-2 officers are in the report.
- **Property lease payments (\$50,000 in savings):** 10% reduction.

The Town's Budget Reduction Plan : DETAILS

- **Revenue enhancement through additional TOT enforcement (\$0.5 million in additional revenue):** \$173,000 will go to MLT, MLH and ESTA.
- **Proposed Reductions in "Voter Commitment" Funding (\$154,000 in net savings):** 5% net reductions to Tourism, Housing and Transit. These organizations would benefit from the Town's enforcement efforts to collect 5% in TOT revenue.

The Town's Budget Reduction Plan : DETAILS

- **Departmental program reductions (\$1 million in savings):** Most Town departments will see their costs further reduced, as detailed in Attachment B.
- Includes elimination of 4 positions, outside of police.

The Town's Budget Reduction Plan : DETAILS

- **Lastly, the Town has decided to continue deferring the road rehabilitation funding:** Propose to fund \$750,000, only half of what is desirable. This represents a \$250,000 increase from the baseline level.
- This is not sustainable. But 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.

FTI's Long-Term Forecast

- Financial advisor FTI assisted with a long-term projection of Town's revenues, spending and contemplated balancing measures.
- An executive summary of FTI's long-term projections is in Attachment C.
- Important differences from the Town's budget model:
 - FTI includes all funding sources, not just GF.
 - The Town's FY 11-12 year-end projections and FY 2012-13 baseline budget will continue to be updated.
 - FTI's "unrestricted" category includes GF and other funds.
 - FTI's model builds reserves from zero.

FTI's Long-Term Forecast

- **The bottom line:** After taking into account the Town's balancing measures for the General Fund, the FTI model estimates:
 - 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 available is projected annually.