

CITY OF DANA POINT
AGENDA REPORT

Reviewed By:	
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DATE: MARCH 18, 2008

TO: CITY MANAGER / HONORABLE MAYOR AND CITY COUNCIL

**FROM MIKE KILLEBREW, DIRECTOR OF ADMINISTRATIVE SERVICES
ANDY GLASS, ACCOUNTING & DATA PROCESSING MANAGER**

SUBJECT: FISCAL YEAR 2007-08 BUDGET STATUS REPORT

RECOMMENDED ACTION:

That the City Council receive and file the Fiscal Year 2007-08 Budget Status Report and authorize the budget amendments detailed within this report.

BACKGROUND:

On June 19, 2007, the City Council adopted a two-year Operating and Capital Improvement Budget for the City covering Fiscal Years 2007-08 ("FY2008") and 2008-09 ("FY2009"). A recap of the City's FY2007 year end financial performance and year-to-date FY2008 performance are presented in this report, along proposed budget amendments for City Council consideration.

FISCAL YEAR 2007 RECAP (JULY 2006 – JUNE 2007)

On November 15, 2007 the City issued its Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2007. Among the financial highlights outlined in the CAFR was a net fund balance increase ("Additional Surplus") of \$2.1 million in the General Fund, total unrestricted cash and investments on hand at year end of \$43.9 million and \$120.6 million of capital assets (mainly infrastructure such as land, streets, storm drains, parks, etc.). Total Capital Improvement Projects ("CIP") fund expenditures for fiscal year 2007 came to \$8.4 million. The following are some of FY2007's key financial highlights:

City of Dana Point
FY2007 General Fund Financial Summary
(in millions)

	General Fund	CIP Fund	Other Funds	Total
Beginning Fund Balances	\$ 16.3	\$ 24.2	\$ 5.5	\$ 46.0
Revenues	31.2	5.3	1.6	38.1
Expenditures	(27.0)	(8.4)	(1.1)	(36.5)
Transfers In (Out)	(2.2)	3.0	(0.8)	--
Ending Fund Balances	\$ 18.3	\$ 24.1	\$ 5.2	\$ 47.6

FY2007 GENERAL FUND EXPENDITURES:

Total General Fund expenditures for FY2007 were \$26.9 million, which was \$2.2 million less than budget. Approximately \$218,000 of these savings related to projects that were in-progress at year end and had obligated funds through the issuance of purchase orders. The obligated funds were re-appropriated into the FY2008 budget. Of the remaining \$2.0 million of expenditure savings, the City Council re-appropriated \$613,000 in FY2008 for specific projects related to facilities improvements, public safety enhancements, park improvements and various other projects. The remaining \$1.3 million of savings reverted to the General Fund undesignated fund balance at June 30, 2007.

FY07 General Fund expenditures increased by \$2.9 million, or 12.1%, of which \$2.5 million was attributable to the early retirement of the capital lease obligation inherited from the City's 1993 absorption of the former Capistrano Bay Park & Recreation District. In addition, year over year increases were seen in Public Works (+\$562,000), Public Safety (+\$498,000) and Recreation (+\$393,000), which were somewhat offset by reductions in General Government (-\$299,000), Capital Outlays (-\$486,000) and Community Development (-\$253,000).

FY2007 GENERAL FUND REVENUES:

Total General Fund revenues for FY2007 were \$31.1 million, which was \$639,000 more than budget. The principal areas contributing to the favorable variance were transient occupancy tax (+\$438,000 million) and investment interest earnings (+\$492,000). Overall, General Fund revenues for FY2007 increased \$3.4 million, or 12.1%, from FY2006.

Combined, the expenditure savings and positive revenue variance contributed an additional \$2.1 million to the General Fund's ending fund balance. As was mentioned above, \$218,000 of this positive variance was committed to open purchase orders and re-appropriated in FY2008. The \$2.1 million balance was transferred in accordance with the City Council's Capital Infrastructure Funding Policy to the Capital Improvement Projects Fund.

FY2007 CAPITAL IMPROVEMENT PROJECT PROGRAM:

Capital Improvement Project ("CIP") Fund expenditures amounted to \$8.4 million in FY2007, which was a decrease of \$4.3 million from FY2006. Most of the decrease was due to a \$6 million of storm drain master plan improvements performed in FY2006, where in FY2007 the expenditures were only \$3 million as the project was completed. Among the other CIP projects with significant outlays in FY2007 were arterial & residential roadway resurfacing, park rehabilitation and successful development of the Town Center Plan. The City carried over \$13 million for City Council approved capital projects continuing from FY2007 to FY2008.

FY2007 YEAR END FUND BALANCES:

As disclosed in the FY2007 audited financial statements, it is evident that the City continues to manage its resources in a prudent and conservative manner. Final FY2007 detailed fund balance information for all City funds were as follows:

**City of Dana Point
Fund Balance Details – All Funds
June 30, 2007
(in millions)**

	General Fund	Capital Improvement Projects Fund	All Other Funds
Reserved:	\$ 0.6	\$ 0.4	\$ --
Unreserved:			
Designated for cash flow	2.9	--	--
Designated for infrastructure replacement	2.5	--	--
Designated for emergencies	5.7	--	--
Designated for open space acquisition	--	1.4	--
Designated for utility undergrounding	--	3.4	--
Designated for roadway improvements	--	0.9	--
Designated for art in public places	0.1	--	--
Designated for CIP/park projects	--	18.0	1.5
Designated for coastal transit	--	--	1.2
Undesignated	6.6	--	2.4
Total Unreserved	17.8	23.7	5.1
Total Fund Balance	\$ 18.4	\$ 24.1	\$ 5.1

FISCAL YEAR 2008 YEAR-TO-DATE BUDGET SUMMARY (JULY 2007 – JANUARY 2008)

The City of Dana Point operates under a two-year budget cycle, with FY2008 being the first year of the current cycle. It is expected that operating and financial conditions will change subsequent to adoption of the budget, and that the City must adapt to those changes as they occur. The City has followed a prudent and proactive approach to managing finances, such as addressing major budgetary issues as they arise, and for the less critical budgetary impacts to address them periodically, as is done in these mid-fiscal year financial reports.

FY2008 PROPOSED REVENUE ADJUSTMENTS:

General Fund revenues for the first seven months of FY2008 totaled \$17.8 million, placing the City \$1.4, or 8.4%, ahead of budget. The major components of this favorable variance are Transient Occupancy Taxes (+\$797,000), In-lieu Property Taxes (+\$168,000), Building Fees & Permits (+\$181,000) and investment interest earnings (+\$173,000). All major revenue sources are running at or ahead of budget. When

compared to the same period last year General Fund revenues are up by \$1.5 million, or 9.5%.

Staff conducted a thorough review of the budget status of each major revenue source and the following recommended adjustments have been identified:

Transient Occupancy Taxes

The City has experienced a record-high year for TOT revenues, which totaled nearly \$7.2 million through January. This represents an increase of over \$500,000, or 7.6%, compared to the same period last year, with six of the seven months in FY2008 setting TOT revenue records. Through January the City is \$797,000 ahead of budget. Although much of this favorable variance occurred prior to the recent stock market drop and speculation that the country has already, or may soon enter a recession, Staff believes that the City will achieve its monthly budget targets over the remainder of the fiscal year, and that the current favorable revenue variance will be sustained. Accordingly, it is recommended that the TOT budget be adjusted as follows:

01-10-6109	Transient Occupancy Tax	\$800,000 Increase
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In-lieu Property Taxes

In-lieu property taxes arose in FY2005 when the State swapped portions of cities motor vehicle in-lieu (MVIL) and sales taxes for property taxes. Although the sales tax swap is temporary, the MVIL swap is permanent. Under the sales tax swap, one-quarter of the City's 1% allocation has been replaced with a like amount of property taxes ("in-lieu"). However, the in-lieu property tax payment is based on a projected estimate of sales taxes, so a true-up calculation is necessary each year to adjust the associated in-lieu property tax equal to the sales taxes actually generated. As a result of the true-up, in FY2008 the City will be receiving a larger in-lieu property tax apportionment than was budgeted. Accordingly, it is recommended that the budget be adjusted as follows:

01-10-6113	In-Lieu Property Tax	\$170,000 Increase
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Investment Interest

The City has seen significant growth in its investment portfolio this fiscal year, increasing by approximately \$5 million, mainly due to a combination of increased revenue and balances being carried for CIP outlays timed to occur later in the fiscal year. Note that several large-scale projects have recently broke ground, while others will begin over the next few months. The City has realized a significant positive benefit from the growth in the investment portfolio through a substantial increase in investment interest earnings. Accordingly, it is recommended that the budget be adjusted as follows:

01-10-6103	Investment Interest	\$500,000 Increase
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Building Permits and Fees

The City has experienced a strong year for building activity, with 800 permits issued in the first seven months and a total valuation of slightly over \$30 million. Although the actual number of permits is down by 166 from the same period last year, the valuation of the permitted improvements is up by over \$10 million. This is due in large part to new methodology implemented by the Building Department to more accurately value improvements, along with the higher-value of specific projects. Based upon the City's fiscal year-to-date revenue, together with the volume of new projects currently in the planning phase, it is expected that the favorable trend in building revenues will carry through the end of the fiscal year. Accordingly, it is recommended that the various building revenue budgets be adjusted as follows:

01-10-62XX	Building Permits	\$ 70,000 Increase
01-10-66XX	Building Fees	\$200,000 Increase

Intergovernmental Revenues

The City successfully competed for a grant from the California Office of Traffic Safety to carry out the Selective Traffic Enforcement Program ("STEP"). Our Police Services Department is utilizing these grant funds to acquire equipment and for patrols and checkpoints intended to accomplish the goals set forth in the grant. The grant period extends through September 30, 2008. In order to reflect the revenues the City will receive pursuant to the STEP grant it is recommended that the budget be adjusted as follows:

01-50-6521	Intergovernmental Revenues	\$ 70,000 Increase
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Motor Vehicle In-Lieu (MVIL)

This revenue represents the small fraction of MVIL revenues that were not exchanged for property taxes under the "triple-flip" mentioned previously. With the slowdown in new car sales (the principal source of growth for this revenue) we have seen a drop in revenues in FY2008. Due to the weakness in the economy and the possibility of recession this year it is unlikely that this revenue source will rebound in the remaining months of this fiscal year. Accordingly it is recommended that the budget be adjusted as follows:

01-50-6505	Motor Vehicle In-Lieu	\$ 50,000 Decrease
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Other Revenues

There are a number of smaller revenue variations that have arisen during the year. The City has taken over previously leased space in City Plaza in order to accommodate the renovation of the Community Development and Public Works public-serving and staff work areas, which will reduce rental revenue, while at the same time avoiding the higher cost of renting space elsewhere. Engineering fees are also running slightly ahead of budget due to increased workloads. Finally, the City received a "cleanup" payment from

the prior fiscal year under the Abandoned Vehicle Abatement Program. In order to reflect these items, it is recommended that their budgets be adjusted as follows:

01-40-6405	City Plaza Rentals	\$ 25,000 Decrease
01-60-66XX	Engineering Fees	\$ 20,000 Increase
01-70-6713	Abandoned Vehicle Abatement	\$ 20,000 Increase

Total Proposed General Fund FY2008 Revenue Increases: \$1,775,000 Increase

POTENTIAL STATE BUDGET IMPACTS

The Governor released his FY2009 Proposed State Budget in January 2008, which reported a projected \$14.5 billion deficit over the next eighteen months. The proposal obviously paints a very grim financial picture for the State that will likely last beyond next fiscal year. The Legislative Analysts Office (LAO), in February 2008, painted an even darker picture that projects the State deficit at \$16 billion.

To deal with the looming deficit, the Governor proposed immediate 10% across the board cuts to State agencies beginning March 1, 2008 through the end of the fiscal year, and then 10 percent out of their FY2009 budgets; and, delaying payment of the April 2008 through August 2008 Highway Users Tax (per gallon Gasoline Excise Tax) payments to local governments. The fiscal impact to the City of Dana Point (as estimated by the League of California Cities in their review of the Governor's Proposed FY2009 State budget), would so far be in the form of delayed receipt of the Gasoline Excise Tax of approximately \$275,000. The proposed payment delay of Gasoline Excise Tax revenue is allowed by the State Constitution but must be repaid to cities within 30 days of the State adopting its FY2009 budget. The Governor has not proposed to "borrow" property taxes as provided under Proposition 1A (2004), nor has he proposed to take any transportation funds under Proposition 42, protected under Proposition 1A (2006).

The Governor also proposed issuing the final portion of State Economic Recovery Bonds ("ERB's") that were authorized with Proposition 57 in 2004 (effective in FY2005). By issuing the last set of ERB's, the "triple-flip" swap, as it came to be known, of property tax for sales tax will continue until FY2012 or beyond, instead of ending in FY2010 as would happen if the bonds were not issued. This is important because in the fiscal year that the triple-flip ends the City will receive a one-time recapture of approximately twenty-five percent of its annual sales tax revenue.

The LAO's, in addition to commenting on the Governor's Proposed FY2008 budget, made additional proposals, including elimination of the Citizens Option for Public Safety (COPS) grant funding, of which the City of Dana Point would lose \$100,000.

As part of the FY2008 budget adoption, the City Council set-aside \$1,011,500 in a reserve account to provide a buffer against State budget impacts. This was done in anticipation of State actions negatively effecting City funding sources and/or spending requirements. It is still too early in the State budget process to accurately assess the

extent of impact to the City of Dana Point, and therefore no budget adjustments are currently proposed. Staff will present public updates, up to and including proposed budget adjustments, as the situation develops.

FY2008 PROPOSED EXPENDITURE BUDGET ADJUSTMENTS:

The current FY2008 General Fund budget totals \$29.3 million, with expenditures for the first seven months at \$13.6 million. All departments are spending within budget. Staff conducted a thorough review of the budget status of each City department and the following recommended adjustments have been identified:

Personnel Costs – Various Departments

To continue to improve customer service and to lower the investment needed to provide City services, the FY2008 budget converted to “in-house” certain positions previously staffed via contracts. After the budget was passed, Staff began recruiting the best qualified individuals, and given the time needed for recruitments the City has realized some cost savings. While a portion of these savings have been used to backfill the vacancies using outside contracts, there is still an overall estimated net savings of \$439,000.

In the adopted budget, for FY2009, the Public Works Department is authorized to add a secretary position to provide contract management administrative support for the CIP program. The City has let several major CIP contracts and the workload ramped such that it was necessary to contract for a construction-support experienced, temporary secretary. The contract cost at \$65/hour far exceeds the cost of a staff secretary. Staff recently concluded a very successful recruitment for a vacant secretary position, where several excellent candidates were identified. In order to properly support the CIP program, to capitalize on the recent secretary recruitment and to reduce costs being incurred for the temporary support, it is proposed that authority be given in the amount of \$16,000 to hire the FY2009 approved position effective April 2008, instead of July 2008.

Accordingly, it is recommended that the personnel expenditure budgets be adjusted as follows:

Engineering Department - Net	\$209,000 Decrease
Building Department	\$ 80,000 Decrease
City Clerk's Department	\$ 45,000 Decrease
Planning Department	\$ 50,000 Decrease
Code Enforcement Department	\$ 40,000 Decrease
Community Services Department	\$ 15,000 Decrease

The Public Works Department's Senior Management Analyst position is critical to effectively and efficiently managing certain City contracts and franchise agreements (e.g. citywide solid waste collection and recycling), in addition to a myriad of analytical and budgetary duties for the Department. In order to prepare for and ensure a smooth

transition upon the pending departure of the incumbent, Staff is actively recruiting for a replacement. It is anticipated there will be a period of time necessary for the incumbent to train the new analyst, and as such additional cost will be incurred. It is anticipated that there will remain sufficient salary savings from other vacant positions and as such no budget adjustment is requested at this time.

Public Safety - Police Services (#61-233)

On June 19, 2007, the City Council approved a contract with the County of Orange to provide professional and responsive police services to the residents, visitors and businesses of Dana Point in FY2008 for \$7.8 million. The contract was structured to maintain the same staffing level that successfully served the community the prior year, and covered salaries, wages, benefits, services, supplies and transportation expenses, as well as County overhead costs.

The contract language also provided for cost increases related to then pending labor negotiations with County employees. The City's FY2008 budget, at over \$7.9 million, was set 3.9 percent higher than the prior year contract to account for the pending labor increase. In October 2007, the County finally concluded negotiations with the Association of Orange County Deputy Sheriffs for a three-year contract period running from October 2006 to October 2009. Provisions of that labor agreement impact the City's contract costs. For services provided in FY2007, there is a retroactive salary increase that has resulted in a roughly 3.1% increase in contract costs, with a \$218,000 net fiscal cost that hits the City this fiscal year. Further, for FY2008 services, contract costs increased by 5.4%, or \$435,000. These increases were partially offset by a \$144,000 rebate from prior years that resulted from an adjustment to retirement costs.

As mentioned above, the City factored an increase into the police services budget based upon the initial County-provided estimates. Those estimates proved to be somewhat low, and did not take into account the retroactive pay adjustments. As a result, there is a \$325,000 net shortfall in the adopted Police Services budget proposed to be addressed with this action.

In addition, as previously noted in the Intergovernmental Revenues section, the City was awarded a STEP grant and the associated expenditures to offset the \$70,000 grant revenues need to be added to the police services budget. Accordingly, it is recommended that the budget be adjusted as follows:

Police Services (net contract increase)	\$325,000 Increase
Police Services (STEP Grant – revenue offset)	\$ 70,000 Increase

Administrative Services – Training (#21-215)

A major impetus of the adopted budget was an increased focus on improving service delivery. Providing a high level of service is not only expected by our constituents and customers, but more importantly it is deserved. To that end, Staff embraces this charge and has conducted extensive research into various customer service training approaches. To build a concierge-level program that adequately embraces “the Dana Point Way”, Staff envisions taking employees through a series of tailored training courses over the next two years, where funding for the first year is provided by the following budget amendment:

Administrative Services – Professional Services	\$27,000 Increase.
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Non Departmental – Furniture & Equipment (#99-301)

During the budget process there were a number of items broadly identified as future potential needs in FY2008. Staff has subsequently determined that to the extent these items would be needed in FY2008 that there is sufficient funding within the various City departments to cover the associated costs. Therefore this particular line item can be eliminated from the budget. Accordingly it is recommended that the budget be adjusted as follows:

Furniture & Equipment	\$135,000 Decrease
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Other Minor Recommended Expenditure Adjustments

There are a number of other smaller adjustments which have been identified over the first seven months of the fiscal year. Workers’ compensation insurance coverage was transferred from State Fund to the California Joint Powers Insurance Authority (CJPIA). The City set aside funds to cover the final “clean up” billing from State Fund to cover bills expected to trickle in for about a year after the transfer. Savings were also realized from a settlement with this past 4th of July fireworks vendor. Accordingly it is recommended that the budget be adjusted as follows:

Workers’ Compensation Insurance (#97-411)	\$ 18,000 Decrease
Community Activities – Fireworks Show (#81-241)	\$ 20,000 Decrease

Total Proposed General Fund Expenditure Decrease	\$190,000 Decrease
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The combination of proposed changes to budgeted revenue and expenditures adds \$1,965,000 to the projected ending fund balance.

CAPITAL IMPROVEMENTS PROJECTS FUND:

Due to project timing, FY2008 CIP program expenditures have decreased when compared to the first seven months of last year, from \$4.9 million to \$1.1 million. In the first half of FY2008 the Public Works Department was in “ramp up” mode for several major projects (Sea Terrace Park, PCH Traffic Congestion Relief and Roadway Resurfacing). The City has now moved from this necessary planning mode into execution phase. Accordingly, beginning in March/April, and continuing through the remainder of calendar year 2008, the City will experience a large increase in CIP outlays. At present there are 31 funded CIP projects, of which 16 have had expenditure outlays so far in FY2008. The total funding allocated to specific CIP projects in FY2008 is \$24.1 million. In addition, specific reserves for open space acquisition (\$1.2 million), utility under-grounding (\$1.4 million), PCH remediation (\$3.0 million) and Priority 1 Projects (\$125,000) have been created and funded in the CIP fund. No changes are being proposed for the CIP Fund budget.

GENERAL FUND BALANCES AND RESERVES – AS OF JANUARY 31, 2008:

The following table summarizes General Fund balances and reserves as of January 31, 2008. It includes the originally budgeted amounts (from the published budget), the current amended budget balances as of January 31, 2008 and the projected June 30, 2008 year end balances. The latter incorporates the fiscal impact of the proposed budget adjustments recommended in this report:

City of Dana Point
General Fund - Summary of Designated Fund Balances
FY2008
(in millions*)

Fund Balance:	Adopted FY2008 Budget	Current Amended FY2008 Budget	Projected (Proposed) FY2008 Budget
Designated for cash flow	\$ 3.1	\$ 3.1	\$ 3.4
Designated for potential State budget Impacts	1.0	1.0	1.0
Designated for art in public places	0.1	0.1	0.1
Reserved for Real Property Held For Resale	0.3	0.3	0.3
Emergency Reserve	6.2	6.2	6.7
Capital Projects Sinking Fund	2.9	2.9	2.9
Total Designated Fund Balance	.13.6	13.6	14.4
Undesignated	4.3	4.3	5.3
Total Fund Balance	\$ 17.8	\$ 17.8	\$ 19.7

** Amounts were rounded in each cell of the table above, including totals.*

The following table summarizes revenues, expenditures, transfers and fund balances projected as of June 30, 2008, also incorporating the budget adjustments recommended in this report:

**City of Dana Point
Projected FY2008 Ending Fund Balances
All Fund Types**

	General Fund	CIP Fund	Other Funds	Total
Beginning Fund Balances	\$ 18.4	\$ 24.1	\$ 5.1	\$ 47.6
Revenues- estimated	33.2	4.2	1.4	38.8
Expenditures-estimated	(29.2)	(24.1)	(1.5)	(54.7)
Transfers In/(Out) – estimated	(2.7)	6.0	(3.3)	--
Ending Fund Balance At June 30, 2008 - estimated	\$ 19.7	\$ 10.2	\$ 1.7	\$ 31.6

INVESTMENT PORTFOLIO

The City remains fiscally strong with an investment portfolio totaling \$51.8 million, invested in U.S. Treasury Notes and the State of California's Local Agency Investment Fund (LAIF). This represents a \$4.9 million increase since the beginning of the fiscal year. Due to the growth in the size of the portfolio, investment income is likewise up significantly. As noted earlier in this report, Staff is recommending that the investment interest budget for FY2008 be increased by \$500,000.

It should be noted that beginning in September 2007 market interest rates began to drop and this drop accelerated markedly beginning in December 2007. The drop reflects the dramatic lowering of the Federal Funds rate by more than 43% over the last 5 months. With respect to City investments, the yield at LAIF peaked at 5.25% in July 2007 and had dropped to 4.62% by January 2008. The City's laddered portfolio of U.S. Treasury Notes peaked at 4.73% in May 2007 and currently yields 4.66%. Due to the laddered nature of the portfolio, the City will not experience a significant negative impact on interest earnings in the current fiscal year. However, as existing U.S. Treasury Notes mature it is likely that the City will not have the opportunity to reinvest the funds to yield close to those of the maturing instruments.

PROPOSED CREATION OF NEW GENERAL FUND DESIGNATED RESERVE

As noted above, the City utilizes a laddered portfolio for its self-directed (i.e. non-LAIF) portfolio. The laddered methodology is an effective tool to smooth out the impact of fluctuations in the interest rate market over time. During periods of rapidly falling interest rates, such as we are experiencing now, the City can experience a major increase in the market value of its portfolio. That is, if the City sells an investment such as a U.S. Treasury Note prior to its scheduled maturity it would garner a higher price than its face, or par, value because it carries a higher interest rate than a U.S. Treasury Note issued today.

Under accounting rules promulgated by the Government Accounting Standards Board (GASB), to which the City adheres, there is a requirement that the City periodically adjust the book value of its investment portfolio to fair market value. This is commonly known as “mark-to-market”. When the City books the mark-to-market accounting entry, it increases or decreases the book value of the portfolio with an offsetting entry to the investment interest revenue account. In the City’s case this particular entry is made on the last day of each fiscal year. Typically, when the interest rate market has modest fluctuations the mark-to-market adjustment is small relative to the City’s revenues and fund balances and therefore would not have a material impact on the financial statements. However, due to the recent steep drop in interest rates the City expects to see a major portfolio market value increase due to mark-to-market, and therefore a corresponding investment interest revenue increase will have to be recorded and reported. The actual amount cannot be calculated until June 30, but based on recent interest rate trends Staff estimates this mark-to-market adjustment could be in the range of \$400,000 to \$500,000 at June 30, 2008.

It has been the City’s long-standing practice to hold all investments until maturity. As a result, the City never actually realizes the “paper” gains (or losses) in values that are recorded as a result of mark-to-market. Although over the years these mark-to-market adjustments offset themselves, in any given year they can dramatically skew the City’s revenue and fund balances. In order to avoid the perception that the City actually has greater undesignated reserves than actually exist (i.e. years with paper gains), it is recommended that beginning in FY2008, and continuing on June 30 of each year thereafter, a new designation of fund balance be created in an amount equal to any gain that has to be recorded due to the mark-to-market valuation adjustment of the City’s investment portfolio. This approach will both satisfy the GASB reporting requirements and also help users of the City’s financial statements understand that these paper gains reported in the financial statements are not actually available for appropriation.

NOTIFICATION/FOLLOW-UP:

None

STRATEGIC PLAN IMPLEMENTATION:

Achieve total excellence in municipal services and City administration/planning with excellent customer service and cost-effectiveness.

FISCAL IMPACT:

Increase General Fund budgeted revenue by \$1,775,000 and reduce budgeted expenditures budget by \$190,000. Combined positive impact to the projected ending fund balance is \$1,965,000.

ALTERNATIVE ACTIONS:

1. Eliminate or modify proposed adjustment, at Council's discretion.

ACTION/SUPPORTING DOCUMENTS:

None