City of Clovis

Five-Year Financial Forecast

Through Fiscal Year 2014/15

Prepared March 2010

CITY OF CLOVIS

Five Year Financial Forecast

Through Fiscal Year 2014/15

PREPARED BY:

Kathleen Millison, City Manager

Robert Woolley, Finance Director

Jamie Hughson, Deputy Finance Director
Bill Casarez, Deputy Finance Director
Barbara Melendez, Senior Accountant
Jay Schengel, Accountant
Susan Evans, Accountant

CITY OF CLOVIS

FIVE YEAR FINANCIAL FORECAST

TABLE OF CONTENTS

INTRODUCTION

INTRODUCTION

The Five Year Financial Forecast through 2014-2015 represents a continuing effort to analyze the City's long term fiscal condition based upon a reasonable set of economic and operational assumptions. It is an important management tool used by both the City Council and the City Manager for identifying fiscal trends and issues which must be addressed in order to assure continued financial success. The set of forecasts contained in this report is not a prediction of what will occur. The forecasts are a snapshot in time and an **approximate view of what could occur** in the future if all of the assumptions are realized.

Uncertainty about the future is still the hallmark of any forecast and this forecast is no exception. In previous reports, historical trends provided an excellent basis for projecting future results. Due to current economic conditions not experienced since the Great Depression of the 1930s, historical trends alone are not a valid indicator of future results. The current fiscal conditions can best be characterized as a reset and represent a "new normal". It is unlikely that revenues, and therefore service levels, will return to those prior to 2007 anytime soon. To illustrate this point we examined the period 2000-2006 when the city experienced double digit, year-over-year sales tax growth (net sales tax collections plus property tax in-lieu of sales tax otherwise known as the "triple flip".) The city is now experiencing negative year-over-year results in sales tax collections, one of the largest sources of discretionary revenue. The first negative quarter occurred in the last quarter of 2006 and has persisted every quarter since that time. That negative trend is projected to continue until the 2nd quarter of 2010, at which time we project a slight increase. Sales tax revenue has declined over 19% since the 2006-2007 fiscal period and per capita taxable sales have declined to levels experienced prior to 2000.

The most difficult part of this forecast is determining when, and to what degree, a sustainable economic turnaround will occur at the national, state and more specifically at the local level.

Below are some factors that need to be highlighted as we proceed through the forecast:

1. The General Fund balance for fiscal year 2010-2011 is projected to show a deficit of $3.0 million which will again require expenditure reductions to balance. This amount represents the dollar value of employee wage and benefit concessions currently in place that will expire on June 30, 2010 and amounts for an operating fund balance and contributions to grow the emergency reserve fund during the year.

2. General Fund revenues are projected to be comparatively flat, increasing less than 0.5% in 2010-2011 when compared to 2009-2010. Sales tax is projected to show a slight increase while property tax is projected to show a slight decline.

3. The General Fund forecast does not project any restoration of programs or services that have been reduced in previous or current year budgets. See the section on "Restoration of Service Levels".

4. The General Fund forecast reflects increasing the "Emergency Reserve" to 10% over the forecast period. A more prudent reserve would be 15%, however this would be very difficult to achieve during the forecast period, unless significant further reductions were made to essential services. However, it is recommended that the policy for establishing the appropriate level for the General Fund emergency reserve be reconsidered. It remains an important goal for the city.

5. PERS rates for funding employee retirements are anticipated to increase moderately beginning in 2011-2012 and continuing upward for several years affecting all funds. PERS rates are anticipated to increase by 30% for safety employees and 58% for miscellaneous employees over the forecast period. This is a critical issue for the city to address.

6. Rate increases are anticipated for the Sewer Enterprise fund during the forecast period to account for increased operating expenses and debt service requirements. Previously approved rate increases for the Water Enterprise fund are reflected in the forecast. There may be opportunities to slightly lower the previously approved annual rate increases for the Refuse Enterprise fund due to the delayed need to construct a new cell to contain waste volumes.

Restoration of Service Levels

It is important to fully understand the impact that this current recession has had on the city's ability to meet its goals for service levels and the implications this will have on future fiscal and land use decisions going forward. It is currently estimated that it would take over $12.0 million to restore services to those levels provided prior to 2007. Over the past three years the city has eliminated over 90 positions, including 31 police and fire personnel. Recreation and senior services were almost entirely eliminated, currently operating at a minimum level funded primarily by donations, grants and fees for services. City parks and landscape medians outside of the Landscape Maintenance District are suffering from inadequate maintenance which was necessarily cut in half due to funding limitations.

As the city develops the General Plan Update, it is critical that thoughtful consideration be given to the level of services provided to both the new areas developed and to the existing built area. The city is currently far short of meeting established service levels goals. Providing service has a cost, and adding additional demand for services with population, activity, and geography without having sufficient resources will only further degrade overall service levels. Balancing the service needs of the existing built city with a manageable rate of new growth must be considered a high priority for future actions.

The Economy

The economy plays a critical role in any forecast, and the current condition of the economy continues to have a significant impact. While most economic experts have observed that the recession may have hit the bottom for some sectors and continues to show signs of stability for other sectors, it is no immediate relief for local governments. We still have a long, slow recovery ahead of us, with many bumps in the road. Current and potential problems include high unemployment, foreclosures, falling property values in the non-residential market, vehicle recalls, California state budget deficit, consumer sentiment, double dip recession, and last, but not least, inflation. All of these factors show that we are not out of the economic woods yet. Government coffers will not improve for several years even after we see sustainable recovery and growth in the general economy due to the time delay in collection of tax revenues. The result of the General Fund forecast continues to reflect that the city is under fiscal stress, primarily due to the economy's impact on tax revenue growth to support general operations, which is primarily derived from property and sales taxes. On a positive note, however, sales tax is projected to return to moderate growth beginning in 2010-2011 as property tax is projected to grow moderately beginning in 2012-2013.

California Economic Snapshot			
New Auto Registrations (Fiscal Year to Date)	**690,140** Through November 2007	**430,341** Through October 2008	**356,742** Through October 2009
Median Home Price (for Single Family Homes)	**$402,000** in December 2007	**$249,000** in December 2008	**$264,000** in December 2009
Single Family Home Sales	**25,585** in December 2007	**37,836** in December 2008	**41,837** in December 2009
Foreclosures Initiated (Notices of Default)	**81,550** in 4th Quarter 2007	**75,230** in 4th Quarter 2008	**84,568** in 4th Quarter 2009
Total State Employment (Seasonally Adjusted)	**15,565,200** in December 2007	**14,727,400** in December 2008	**14,148,000** in December 2009
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**92,318** in December 2007	**51,451** in December 2008	**38,960** in December 2009
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance			

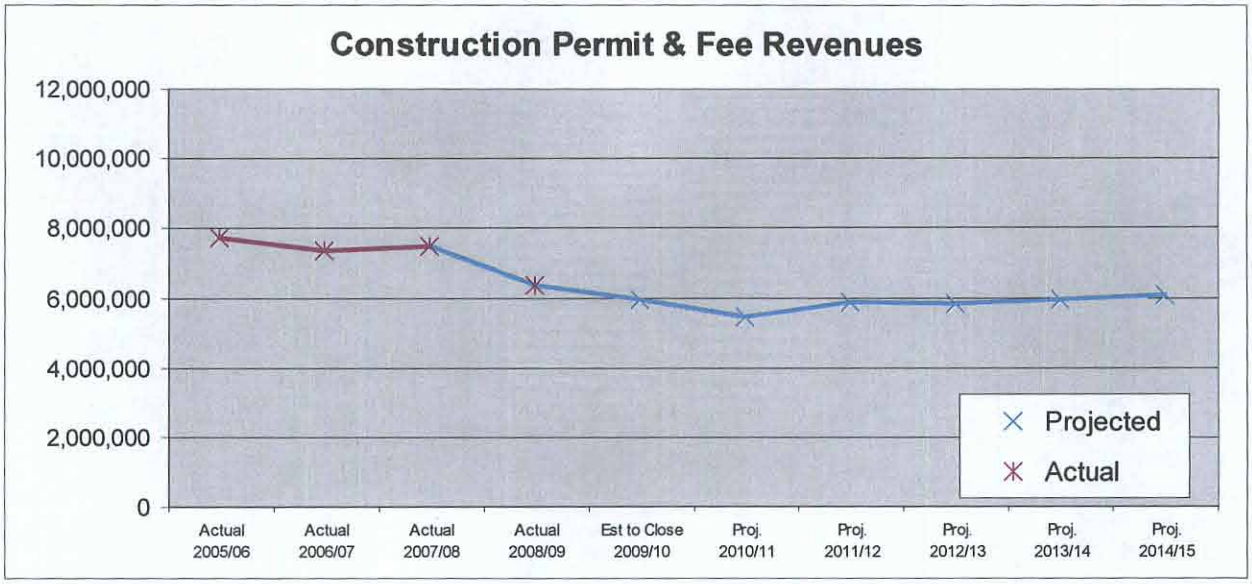
The snapshot above shows the statewide downward trend in auto sales, employment numbers and new residential units, with foreclosures having occurred at an alarming rate. On a positive note, statewide there has been an increase in home sales in 2009 when compared to last year, but more recent January 2010 statistics shows a substantial drop off in home sales. Current information indicates that the recession is far from over in the California real estate market.

The State of California continues to experience severe budget deficits, currently projected to be over $20.0 billion for the balance of this fiscal year and next, with the potential to be much higher if current court case rulings concerning a variety of fiscal matters are adverse to the State. One such case is the California Redevelopment Association lawsuit against the State of California for attempting to take $2.05 billion from redevelopment agencies.

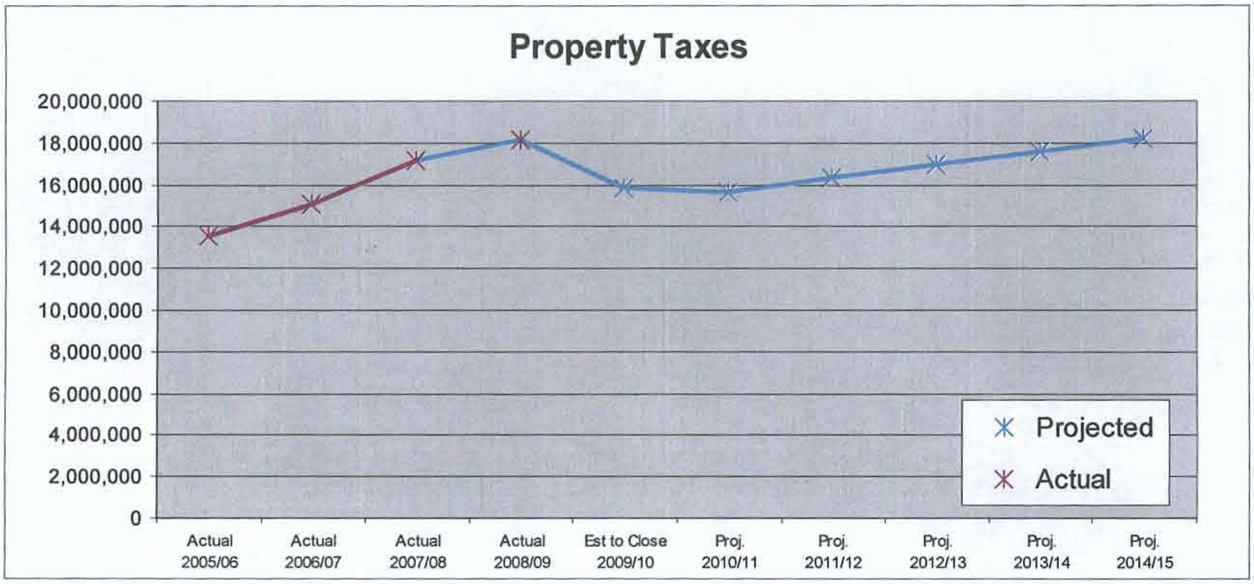
With the state already having borrowed local property tax under the provisions of the State Constitution and Proposition 1A this fiscal year, there are few options currently available to the state to take (borrow) additional city funds. However, the latest proposals for the state to exchange gas taxes or HUTA (Highway Users Tax) for excise taxes should continue to be opposed and legislative actions watched carefully. The League of California Cities is sponsoring a November 2010 ballot measure called the Local Taxpayer, Public Safety, and Transportation Protection Act which will place additional protections on local revenues to prevent the State from these continued raids on local government treasuries.

Revenues and expenditures in the General Fund are both projected to grow at an annual average of 2.8% over the forecast period. There is no indication that the city will see substantial sustained revenue growth beyond the cost of providing services at the current level during the five year forecast. As was previously noted, the forecast does not reflect any restoration of service levels that were reduced or eliminated in the previous or current budget years. This leaves the city further away from meeting staffing goals established by the Police Department's "Master Service Plan" and the Fire Department's "Standards of Coverage for Emergency Response." The staffing levels recommended by these plans are 1.3 sworn police officers and 0.8 firefighters per 1,000 population. Currently these departments are operating at 1.02 sworn police officers and 0.6 firefighters per 1,000 population. Critical non-personnel expenditures such as fleet replacement that were reduced or eliminated beginning with the 2007-2008 fiscal year have also not been restored in the forecast. As the city's fleet begins to age, especially safety vehicles, we will no longer be able to postpone the replacement of these vehicles but will need to consider other options including additional lease / purchase arrangements. Training is another critical item that has been reduced in previous budgets, and is not restored in the forecast. General Fund supported parks and street landscaping maintenance which was reduced by a full one-half has not been restored and the condition of materials and general appearance throughout the city are showing a significant decline from this lack of adequate maintenance.

The most significant General Fund revenue sources --- sales taxes, property taxes, and development related fees --- are the most severely impacted revenues during this downturn of the economy. Development fees, which include planning and building permits, began to fall at the end of 2006 and have remained at a depressed level since that time. The forecast continues to project below average construction throughout the forecast period with a modest increase in 2012-2013, reaching 400 units which are less than one-half of the pre-recession average of 1000 equivalent dwelling units annually.

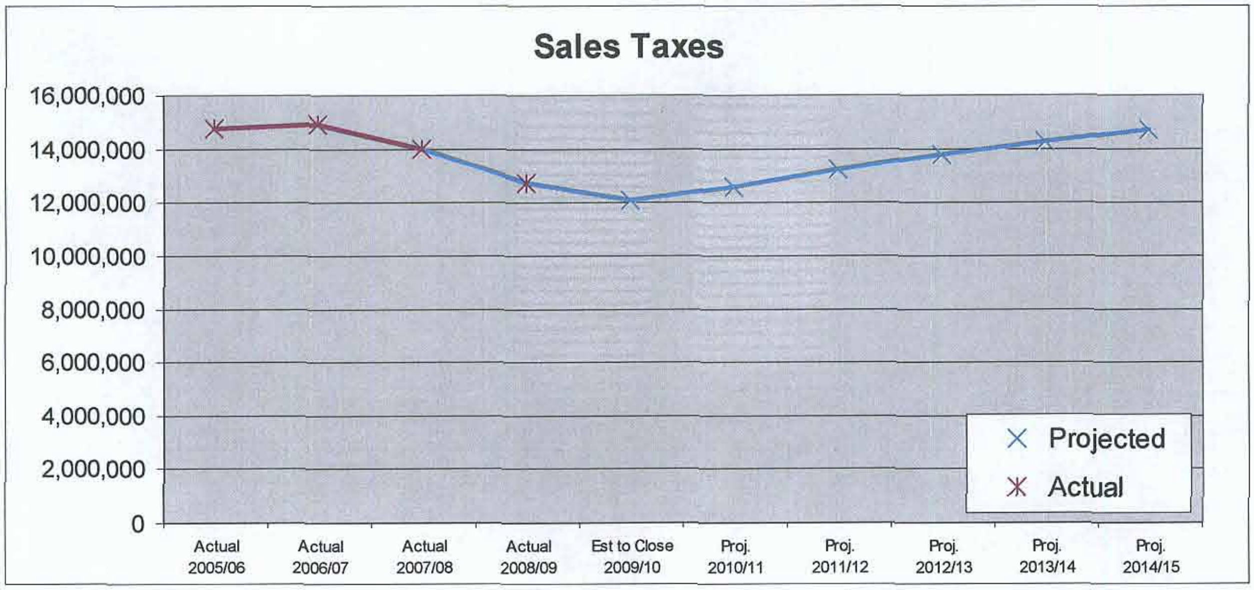


Property taxes, as indicated in the chart below, reflect the slow down in construction activity and also the downward valuation of property sold or constructed in the last five years as announced by the County Assessor. The forecast reflects a decline from the prior year in assessed value of 5.4% in 2009-2010 and 2.5% in 2010-2011. We are assuming that property taxes will begin reflecting new growth with no offsets by 2011-2012. An unknown factor is tax delinquency. Historically the city has experienced a very low property tax delinquency rate. As more homes continue to go into foreclosure, delinquent property taxes may become a more important factor and will need to be closely monitored.

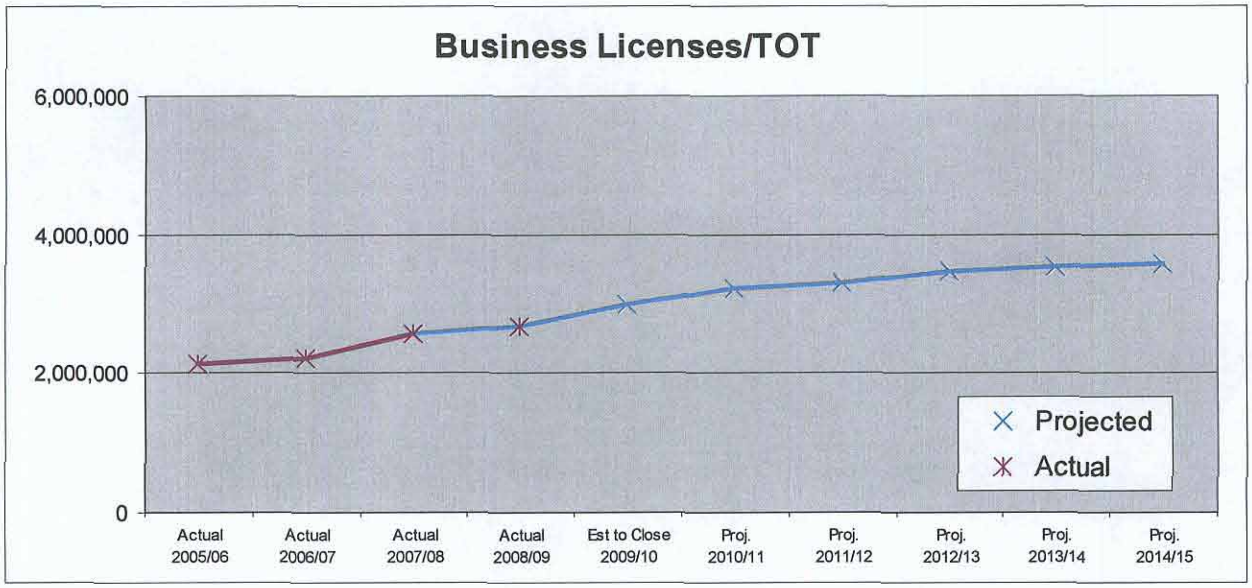


As indicated in the following chart, the city has experienced 3 years of declining sales tax revenues. The sales tax revenue reflects the decline in auto sales, building supplies and materials, and general retail due to a decline in consumer spending and new home sales. The forecast generally reflects a continuing decline of 5% in the current year but reflects a modest turnaround beginning in 2010-2011 of 4%. In 2011-2012 and beyond sales tax is anticipated to grow by the CPI, additional population growth, and the anticipated opening of a major shopping center located at Clovis and Herndon Avenues in the 4th quarter of

2011. If this shopping center is further delayed, the projections simply move out over a longer period before any recovery or significant growth occurs.



Transient Occupancy Tax is a bright spot in the forecast. Five new hotels opened within the last year and are performing as projected with three being open most of the current fiscal year and two just recently opening. Economic development efforts by the city and community partners to secure target industries, in this case hospitality and tourism are beginning to have a positive impact on the local economy. Also included in the following chart are business licenses, which have shown a recent increase as a result of the audit program identifying unlicensed businesses. Over 800 unlicensed businesses were indentified doing business in Clovis. Licensing of these businesses will have a positive impact on this revenue source for many years.



The forecast also reflects increasing the emergency reserve to 10% and maintaining that amount over the forecast period. Once the city is in a more sustainable fiscal position the city should seriously consider raising the General Fund emergency reserve level to 15% of annual expenditures. It should be noted that Clovis currently maintains the lowest emergency reserve amongst a recent survey of 70 California cities. Among cities of comparable size to Clovis the average reserve is greater than 15%. As the city has grown, the current reserve policy should be addressed and aligned with the greater operating needs and revenue volatility. A 10% reserve would provide the city with only 1.2 months of operating resources. As we have found, this amount is not adequate for sustaining operations during periods of rapid economic downturn. Failure to increase the reserve to a more prudent amount could cause the city's credit rating to be downgraded by the rating agencies in the future, affecting both the city's ability to borrow money and the cost of borrowing.

The forecast also reflects maintaining a Contingency for Economic Uncertainty in order to lessen the impact on departmental operations in case of further revenue declines during the upcoming three year period. This will be a planned fund balance each year for carry forward to the next year to address unplanned expenses of modest amounts that do not qualify as emergencies or for small unexpected dips in revenue. The contingency has been established at approximately 1% of expenditures or $0.5 million during the forecast period.

Although suspended in the 2006-2007 fiscal year and forward, the General Fund has set aside some funds to perform ongoing facility repair, maintenance and remodeling, equipment maintenance and replacement, new facility construction, and strategic investment for economic development. This forecast does not include annual funding for these purposes. City facilities are aging and will continue to need repairs, remodeling and equipment upgrades; deferred maintenance will only serve to potentially increase the costs of necessary repairs. This practice can be utilized for the short term but is not recommended for the long term. All revenues from property sales held by this account will need to be held in reserve to insure cash availability to pay for debt service for the construction of Fire Station 1 and any urgent facility repairs.

While the forecast has become a valuable management tool to examine the trends of ever changing fiscal conditions, there are limitations to its use. The forecast is greatly influenced by the many changes in reallocation, swap of funds, and reduction of funding imposed by the State, new regulations and mandatory programs, and dramatic changes in the economy. Due to these variables, it has been our experience that the first few years of the forecast are a fairly good indicator of coming events while the later years are subject to much greater variance as actual conditions become known. Recognizing this shortcoming, we are committed to continue to provide the best projections for these years based upon what is known at the time in order **to reveal trends in both revenue and expenditure growth or decline**. That is the key message of this forecast.

The financial tables in the report include a baseline forecast that reviews actual financial performance over the past three years, an estimate of financial performance for the current year based upon the current operation, and projections for financial performance for the next five years. All of the forecasts are based upon a specific set of assumptions that are utilized throughout the report and identified with each forecast. This forecasting tool has proven useful for examining spending policies and revealing the trends and financial issues facing the City in order for corrective actions to be taken when needed.

This page intentionally left blank.

FIVE YEAR FINANCIAL FORECAST

This year and throughout the forecast period, it is expected that the city will continue to face servicing and fiscal challenges from declining or flattening sources of revenue that support the general operations. The local, state, and national economic have just begun to recover but not all sectors are reporting a sustainable recovery. Local governments in particular will not experience the benefit of a recovering economy for up to two years after a sustainable level has been reached. Primary local revenue sources are directly related to economic conditions and the performance of property and sales taxes.

During the 2010-2011 budget year and through the forecast period the city will need to continue with its efforts to refocus general operations to the highest priorities of its core services to maintain the health, safety, and welfare of the community, deploy resources differently than in the past, seek ways to control and/or reduce expenditures and seek community partners where possible. The following challenges should be addressed in the budget:

1. Public safety is a core service of the city and remains a high priority. However, there is insufficient funding to sustain or expand staffing and resources to meet the goals and standards for master service plan levels for staffing and coverage. These services alone currently require 88% of discretionary General Fund revenues to support and the majority of that is spent on personnel costs. Currently, services are focused upon patrol and direct service response to citizens and businesses in the community. Most prevention activities have been severely curtailed or eliminated due to lack of personnel and funding. Staffing ratios per population and geography of the city are at extremely low levels. This will make future growth and expansion of the city boundary a difficult challenge going forward. It will be necessary to further reduce staffing costs and further constrain response to lesser priority service demands and programs. Some relief has been provided with the authorization of grant revenue from federal economic stimulus and recovery funding directed at retaining and hiring five sworn police officers; a grant application for similar funding for sworn firefighters is pending at this time and would offer great relief. Expenditures for overtime must also continue to be constrained. Given the current economic conditions it is unlikely that any new tax to support these services would receive approval at this time, but supplemental funding sources should be examined at some time during the forecast period.

2. Parks and landscape maintenance has been a high priority to the city because there has been significant investment made in the city greenscape and it provides the first impression of overall care and stewardship for the physical amenities of the community. Over 25 years ago, the City Council initiated a Landscape Maintenance District and tax assessment for new growth areas to improve the public greenscape of the city. The LMD has been a great success in providing a sustainable revenue source for landscaped parks and street medians in about one-half of the city area. However, community parks and street medians located in the older one-half of the

city which was not included in the LMD continues to decline in quality and appearance as a result of insufficient funding to sustain or improve service and materials to meet the goals and standards for master plan service levels for a clean and green community. Much of this area supports a more mature urban forest that must be maintained adequately or a large investment in the community could be lost. Cost containment strategies must continue to be considered and should include reduced use of plant material and redesign of median plantings, reduced watering, reduced maintenance schedules, more use of private maintenance contracts, and greater use of volunteers. The use of the LMD throughout the entire city boundary should be revisited immediately and considered for expansion to include street lighting. Based upon current expenditures, property-based assessments for these services and benefits would free up over $2.4 million in the General Fund that could be redirected to higher priority services. Staff is preparing a workshop that will include these policy issues for consideration by the City Council in the near future.

3. Planning and development services is a high priority for the City. These services guide the overall strategies for current and future land use and building throughout the city that impact the function and livability of neighborhoods and business centers as well as economic vitality of the entire community. The City has already reduced staffing significantly and is looking to sustain a service operation necessary to meet the needs of current demand. Economic growth cannot occur if services are not available and offered in a timely manner to review and permit residential and commercial projects. Most of these services can be supported by permit fees; however, general oversight of code updates and enforcement for maintaining health and safety standards and preventing neighborhood blight must be supported with general taxes. The Department will continue to be constrained by funding and resources for these types of services. Development services are also a source of private contracting for construction and delivery of public improvement projects and capital investment. Local, state, and federal funding is available for these projects and federal economic stimulus and recovery funding continues to flow for such projects, although at a lesser amount. The City has had the ability to advance more projects to help stimulate economic activity within the construction and trades industry that provide jobs and stimulus to the local economy. By redirecting planning and engineering work to city staff rather than contracting out, there is the ability to retain the City's core professional staff rather than sustaining additional lay-offs. Funding for the General Plan Update continues to be a challenge and may need support from general tax revenues to sustain the effort to completion in a timely manner. Funding for routine street maintenance and overlays is in jeopardy of being severely reduced by the State if proposals for eliminating certain gas taxes and replacing with a general excise tax are approved to allow for greater access of funds by the State. The City should continue to oppose such legislative manipulation of secure local government revenue, including a portion that was previously authorized by voters. If this occurs, the City may experience a decline in pavement condition over a short period of time that could negate the millions of dollars spent in recent years on a concerted effort to improve the overall condition of streets throughout the city.

4. Fleet replacement funds will need to be deferred for a fourth year in General Fund operations. This means that the City will be extending the life of the fleet to the

extent that it is possible and that it will be migrating to a "pay as you go" method of funding through lease-purchasing for the foreseeable future. Although interest rates have historically been low for such leases, with so much financial strain on government agencies that may not be the case in the future and this will become an additional cost of operations.

5. Capital outlays should continue to be constrained or in some cases suspended, especially for general operations. This means that some repairs and rehabilitation or replacement of equipment and facilities will be deferred until a future time and grant opportunities will be sought when appropriate.

6. Workforce expenditures should be constrained throughout the City because costs for salaries, paid leave, healthcare benefits, and retirement plans continue to increase. Healthcare and retirement costs are projected to increase at rates higher than the rate of inflation and restructuring of benefit schedules and cost-sharing should be considered.

7. All public utility enterprises will be subject to rate increases during the forecast period to pay for increasing costs of operations and capital projects in addition to a temporary assumption of the bonded debt obligation and bond covenants; therefore, the City will need to constrain spending for operations to lessen the impact of the timing and rate of increases to customers.

8. The Economic Development Strategy to facilitate retention and expansion of business, support business park development, and guide strategic investment in infrastructure to support business growth will continue to require more creative approaches to marketing the city to address the high commercial and office vacancy rates within a very constrained budget. More work effort can be devoted to specific projects in redevelopment areas for targeted investment of bond funds. However, the redevelopment agency continues to face the threat of significant loss of funds if the State is successful at raiding local revenues to help resolve the State budget deficit. If this occurs, future activities of the redevelopment agency will be constrained by reduced revenues and the validity of the future of redevelopment as a financial tool for community reinvestment in California could be at risk.

9. Community services for recreation and senior services that are important to the City and offer healthy and low cost activity for adults, children, and families is at risk. Should these services be considered a core service of the City? In the current year, both operations relied heavily on community donations and it will be hard to replicate that fund-raising effort on a sustained basis. The City may be faced with choices that reduce hours of operation or even suspend operations entirely. There will continue to be the need to refocus efforts to develop opportunities for partnerships with other public and non-profit agencies, citizen volunteers, and private entities, and to seek cost efficiencies and alternate methods of service delivery.

10. Public Transit Services will need to be restructured within the requirements of the law to meet the new fiscal realities of less funding from gas taxes due to less driving and lesser fuel services by the general public and from raids on revenue by the State. Although bus fares have been increased this year they still remain below

the 10-20% recovery rate prescribed by law and ridership has varied. The ability to raise bus fares and remain a viable service choice for riders that depend upon the service for mobility is limited. Consolidation of routes, reduced service hours, and other methods will need to be explored. Transit services may require that more of the Local Transportation Fund source of revenues will need to be allocated to this service rather than to street maintenance to comply with existing law.

11. New fiscal policies should be adopted that set the emergency reserve balance for the General Fund at no less than 10% of annual expenditures with a goal of reaching 15% after the economy has recovered and city revenues begin to grow on a consistent basis. An unreserved General Fund balance known as "contingency for economic uncertainty" which was established in the current year at a rate of 1% of expenditures or $0.5 million should be continued to provide sufficient funding each year to ensure a carry forward fund balance for general operations as a way of coping with annual spikes in unanticipated expenditure or minor fluctuations in revenues that do not represent catastrophic events.

The City's overall financial condition will again be very constrained due to the continuing effects of the economic recession and now slow improvement of economic recovery. Stability should continue to be sought through restructuring of services and delivery for reduced spending and reduction in workforce expenses. The magnitude of the changes resulting from current economic conditions has shifted the City's general operating revenues downward to a level that is comparable to pre-2006. It will take some time, possibly up to ten years, to recover such losses through real estate activity, business improvement, and consumer spending. The commercial market is expected to continue to experience adjustment to economic conditions and lower consumer spending. Because this is a large sector of the economy in the City, a cautious approach to spending is in order. For the near term, careful examination of services throughout the City must be accomplished to dedicate resources to the greatest needs and continue to constrain spending throughout. This will mean a continued period of adjustment for city staff as well as our citizens.

Decisions of the Governor and the State Legislature for resolving the persistent deficits of state government continue to be a serious concern since local government revenues are regularly placed at risk for the taking. In the current year the State acted on borrowing provisions contained in Constitutional Amendment of 2004 that was intended to help stabilize local government revenues and reduce the threat of raids by the State. Local governments were permitted to securitize the loan and obtain an equal amount of cash for the local treasury. Clovis participated in the securitization and was made whole. However, it simply represents more borrowing by State government to support annual operations and provides only a temporary solution with long-term consequences. Local government continues to face the threat of state government "borrowing" or even taking local transportation taxes to relieve fiscal emergencies. In response to these circumstances, the League of California Cities and its partners are seeking to place a new and more restrictive Constitutional Amendment on the November 2010 ballot to prohibit the State from future raids on revenues dedicated for local government purposes.

While the forecast identifies both negative and positive trends, the City has consistently taken responsible steps to deal with the demand for services, the timely expansion of public facilities, the extraordinary cost of new regulations, and the permanent loss of some revenues. Sound financial management of the City's resources requires that the City Council and city management work together, observe the early warning signs, and take the necessary steps to adjust programs and spending to meet the needs of the community in a fiscally responsible way. The messages that the City Council provides to the community will be critical to the overall success of the changes that will be made to the city's mix of services and methods of service delivery. The willingness to analyze the financial trends, the courage to make changes when they are called for, and the commitment to consider long-term budget policies all will serve to improve the effectiveness of our financial management strategies and will raise the public's confidence in the decision-making and accountability of its public leadership.

This page intentionally left blank.

The purpose of this forecast is to provide the City Council and the City Manager with an early identification of financial trends. With early detection, financial trends identified as possible problems can be dealt with in a reasonable manner rather than waiting for a crisis to occur.

The City's Annual Budget represents a total financing plan for all city operations and must be analyzed by its component parts in order to make any meaningful adjustments. Unlike a private holding company, the City cannot remove cash from any one enterprise operation to help support general tax funded operations. Although there is certainly some financial interdependence between the funds, such as internal service fund charges to allocate common costs, each fund represented in the budget must stand alone.

When analyzing city operations it is appropriate to look at the budget, department by department. However, when reviewing long range financial policies, it is best to look at the fund structure rather than the department structure. The major fund groups reviewed in this forecast are:

General Fund - This fund includes the functions of general government, including elected officials, administration and finance, development services, public safety, and some field maintenance activities, such as parks and street maintenance.

Enterprise Funds - These funds include operations for the water, sewer, solid waste, street cleaning, and transit services.

Internal Service Funds - These funds include property and liability insurance, employee benefits, fleet maintenance, and general services.

Capital Improvement Funds - These funds include all capital improvement projects and are reviewed during the budget process.

Debt Service Funds - These funds include all debt service activity for which the city is responsible.

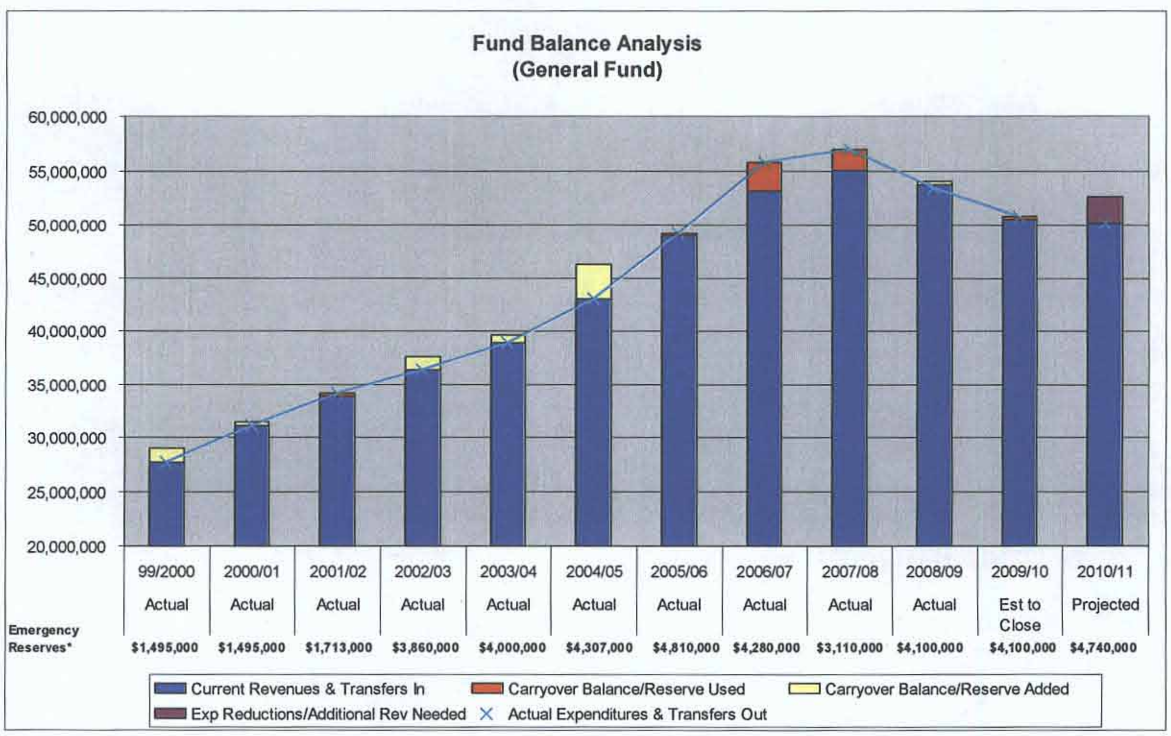
GENERAL FUND - Current Year (2009-2010)

The City began the budget year by reducing spending for all departments, including suspending funding for 18 positions and negotiating employee wage and benefit concessions. With substantial expenditure reductions made in the budget the city entered the fiscal year with a structurally balanced budget. At the mid-year point of the fiscal year revenues are still being negatively impacted by the economy but to a much lesser degree than was experienced in recent fiscal years. Based on current estimates, revenues are projected to have a shortfall of approximately $0.46 million which represents less than 1% of budget. Sales Tax, Highway Users Tax, Vehicle License Fee, and development related fees are all projected to be slightly below 2009-2010 estimates. These revenues are cyclical and strongly tied to economic conditions. Offsetting the shortfall of revenues are projected expenditure savings in the amount of $0.17 million. The net projected shortfall, $0.29 million, is well within the $0.5 million unreserved fund balance ("Contingency for Economic Uncertainty"), which was established to address unplanned expenses of modest amounts that do not qualify as emergencies and/or for small unexpected dips in revenue.

Sales tax, one of the city's major discretionary revenue sources for general operations, continues its downward trend. Sales tax receipts were down over 8.5% in the July through September quarter of 2009 (the last quarter for which information is available) when compared to the same quarter of the previous year. General retail and auto sales contributed to this downturn. Holiday quarter sales (September through December 2009) will be crucial to the overall performance of this revenue and it is anticipated that the quarter will be within budget. Information on this quarter will not be available until mid March, after preparation of this report.

Motor vehicle fees are lower due to declining auto sales and increased Department of Motor Vehicle costs which are paid from this revenue source before the allocations are made to cities and counties. Highway Users Taxes are declining due to less miles being driven by motorists resulting in declining fuel sales. Development fees continue to decline as new residential and commercial construction continues to be curtailed.

As a result of the downturn in development fees, several positions in the Planning and Development Services Department have become vacant due to retirements and will remain vacant until development activity begins to pick up. Expenditure savings will result from these vacant positions. It is anticipated that there will be additional expenditure savings as city departments begin to review their current budgets and look for potential savings. These savings are difficult to project at this time but any additional savings resulting from this budget year can be utilized to fund future year's budgets. All departments are projected to be within budget at this time.



The above chart shows available funding (revenues and transfers in) compared to expenditures. As can be seen, a structural deficit was created beginning in 2005-

2006 in an attempt to expand services to catch up with community growth using accumulated savings and continued through 2007-2008. Before the end of the year the recession hit hard and plans were put in place for significant reductions to all operations. This took tremendous effort to determine which services would be curtailed or eliminated. It also required numerous meetings with all employee bargaining units to determine whether wage and benefit concessions would be possible or if additional workforce reduction would be necessary. In 2008-09 the city received some one time revenue from tax audits and was able to use the additional unexpected revenue to add to the emergency reserve and a balanced budget was accomplished. In the 2009-2010 fiscal year the Council approved a structurally balanced budget by making more substantial expenditure reductions. The chart also depicts that revenues experienced a year-over-year decline in 2008-2009 for the first time in the past ten years and this condition is anticipated to continue through 2010-2011 before a slight rebound is anticipated.

GENERAL FUND - Going Forward (2010-2011)

As with any forecast, this is a statistical forecast based on a fixed set of assumptions. The actual results will differ from the projections as we move through the projected period and make adjustments for actual performance and any new circumstances as they occur. These adjustments are made at the time the budget is adopted. This forecast is presented to provide the opportunity to discuss the alternatives to be considered for preparing and balancing the budget.

The forecast projects a population increase of slightly less than 5,000 for the five-year period which means the city is expected to reach just over 101,000 in population by mid-2015. This projection continues to assume a much slower growth rate than was experienced over the past ten years, with only moderate new housing and commercial growth. As stated in the Introduction Section, it should be noted that the forecast does not reflect any restoration of service levels that were reduced or eliminated in the current and prior budget years. This leaves the city farther away from meeting staffing and service goals established by police, fire and parks maintenance Master Service Plans and such plans may need to be revisited during the five year period as service priorities and methods of service delivery are adjusted. **It is currently estimated that it would take over $12 million annually to restore General Fund services to pre- 2007-2008 levels.** Such a change could take ten years or more to achieve.

General Fund revenue in 2010-2011 is projected to be substantially equal to the previous year. Secured property tax is projected to continue to decline an additional 2.5% due to falling assessed values and a negative adjustment to all assessed values under the rules of Proposition 13 which directs that property valuation may only increase 2% annually or Consumer Price Index, whichever is lower. This year the CPI that is utilized for adjusting property values is a negative 0.237%. Sales tax is projected to increase approximately 4% after several years of decline. Development related revenues are projected to decline further from their already depressed levels as new development remains constrained and capital projects funded by Federal stimulus programs are completed. The projection does include the payment of development fees for the construction of the shopping center on the corner of Clovis and Herndon Avenues. If the project is further delayed, then any revenues will also be delayed to later periods of the forecast. Federal and State stimulus tax benefits for new residential construction are expected to end this spring unless a new authorization is made and it is unclear how this may further impact new housing units. The one positive note in the revenue picture is Transient Occupancy Tax which will be increasing with the newly constructed hotels being open all year.

Expenditures in the 2010-2011 fiscal year are showing an increase over 2009-2010, but most of the increase is attributed to restoring employee wage and benefit concessions that were implemented during the 2008-2009 and 2009-2010 fiscal years. With the restoration of these concessions included, expenditures are projected to increase, after taking out rollover encumbrances for projects from the prior year, $2.3 million or 4.0%. Absent the inclusion of the concessions, expenditures would only increase $0.8 or 1.6%.

As previously mentioned, there are no increases in service levels that have been previously reduced nor is there any restoration of fleet renewal charges. This will be the fourth year that the city has not been able to fund public safety vehicle replacement which is approximately $1.0 million annually. This is a critical issue in the short and long term that the city must address. With insufficient funds being set aside for the replacement of an aging fleet, especially for public safety vehicles, leasing or other financing options will need to be explored. This will lower the annual expenditure amount placing the city in a pay-as-you-go condition but will still contribute to an increase in the cost of operations.

As shown in the Exhibits Section for the "General Fund Financial Forecast-Summary", which includes the projected revenues and projected expenditures for sustaining the current organization and services, expenditures will exceed revenues by $2.3 million in 2010-2011. Also reflected is retaining a $0.5 million unreserved fund balance, ("Contingency for Economic Uncertainty"), and increasing the "Emergency Reserve" to 9% of budgeted expenditures, for a total projected shortfall of $3.0 million for fiscal year 2010-2011. **With few revenue options available, a sustained reduction in expenditures will be necessary to balance the 2010-2011 budget and reach fiscal sustainability going forward.**

In recent fiscal years, the city has relied on negotiated employee wage and benefit concessions as one solution to balance its budget. These concessions have been negotiated on an annual basis. When concessions are restored it contributes to a situation where expenditures exceed revenues. This one time annual budgetary solution has been successful for the short-term, but does not provide a long-term solution to a continuing decline in revenues. It is apparent from the projections in the forecast that without a permanent reduction in expenditures, the use of one time annual reductions will not be effective. A more permanent solution will be necessary to correct the city's long-term budgetary structural imbalance.

As noted in the Introduction Section, the General Fund is not expected to transfer resources previously at the rate of $0.5 million each year to the General Government Services Fund to address repair, remodeling and rehabilitation of existing facilities, technology improvements, debt service, new facility needs, or targeted economic development during the forecast period. This can be a risky approach because it will require that certain maintenance activities be deferred for the time being. In addition, staff is recommending gradually increasing the emergency reserve to 10% over the forecast period and establishing this as the new policy for minimum funding. Once the city is in a more sustainable fiscal position the city should seriously consider raising the emergency reserve level minimum to 15% of expenditures. The emergency reserve is deemed prudent to deal with both unforeseen emergencies and potential catastrophic losses of revenue to the General Fund. It is noted that the city continues to reserve $0.855 million in response to the implementation of the "Triple Flip" by the State of California. This is the estimated amount withheld by the State but owed to the city each year. The city won't receive this amount from the State until the conclusion of the triple flip in 2035. Reserving this designated amount improves the fiscal position of the General Fund and avoids reporting a deficit of funding from year to year in the city's annual financial statements.

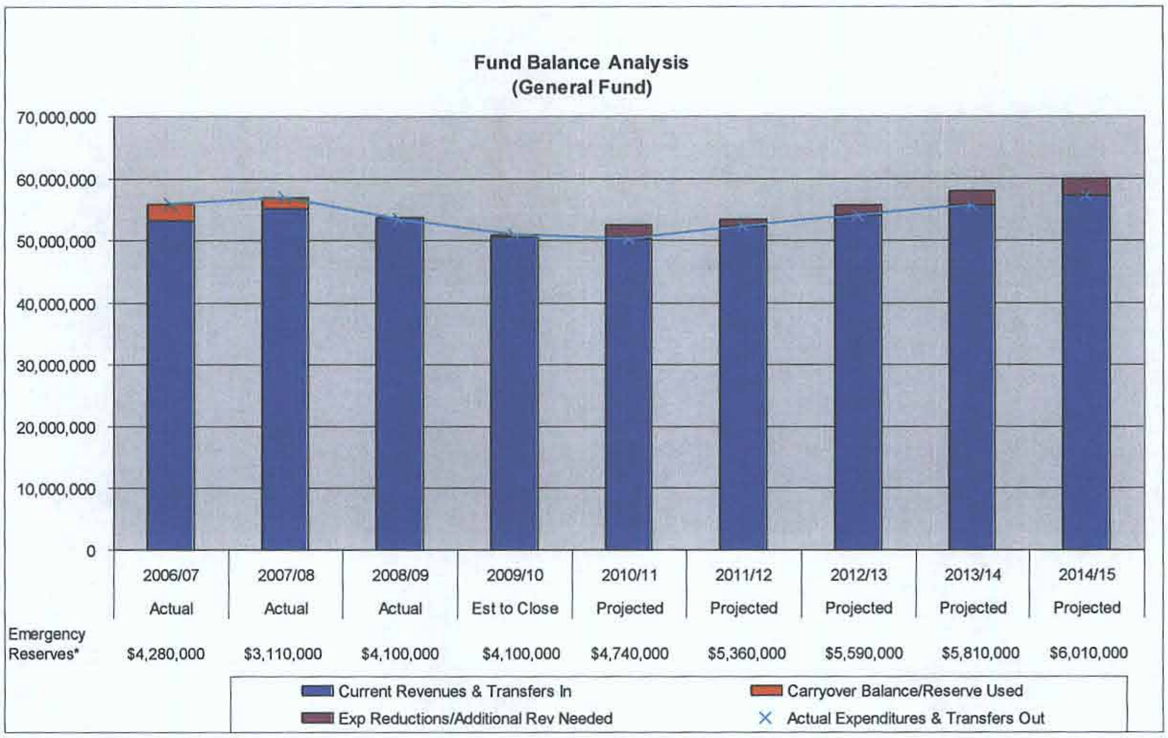
GENERAL FUND - Projected 2011-2012 through 2014-2015

As noted previously, the forecast does not include any restoration of services that have been reduced or eliminated in the current or prior budget years. Revenue growth is projected to increase by an annual average of 2.8% over the five-year period while expenditures in the General Fund are projected to grow at the same annual average of 2.8% over the forecast period. The model has been constrained in this way to provide as realistic a trend as possible based upon what is known of the city's revenue activity and economic forecasts for the region, the state, and the nation.

During the forecast period sales tax is expected to return to a moderate annual increase in 2011-2012. During this same year we anticipate the opening of a major shopping center on the corner of Herndon and Clovis Avenues. Property taxes are expected to return to a positive growth rate although very moderate as housing prices stabilize and the 2% annual growth under Proposition 13 is returned. Expenditures are shown to reflect very modest growth utilizing current service levels. One major concern affecting expenditures in the forecast is Public Employee Retirement System (PERS) retirement rates. Due to stock market losses incurred in recent years by the retirement system, we anticipate PERS rates to increase from 14.208% to 21.9% for General Miscellaneous employees and from 23.251% to 31.0% for Public Safety employees from 2010-2011 to 2014-2015. The annual cost to the city for a 1% increase in the PERS rate is $0.09 million for miscellaneous employees and $0.13 million for safety employees. By the 5th year of the forecast, the PERS annual costs will have increased $2.6 million. Health costs are also a concern and the forecast projects a 12% annual increase and by the 5th year of the forecast the annual costs will have increased $2.6 million. These are increases that will exceed the city's projected rate of revenue growth and must be addressed.

Expenditures, as projected for the purposes of this forecast, are higher than revenues over the forecast period. It should be noted, that **if the city was able to make a permanent expenditure reduction of $3.0 million in 2010-2011 it nearly corrects the structural imbalance reflected in this forecast for the remainder of the forecast period, barring any unforeseen events and without a restoration of services that have been reduced or eliminated in the current or prior budget years.** As noted previously, staff does not recommend utilizing reserves to close the funding gap; therefore, further expenditure reductions or additional revenues will be necessary to balance future budgets. While some additional revenue can be generated with an updating of fee schedules, balancing the budget will need to rely largely on expenditure reductions and changes in service delivery or mix of services. Details of the General Fund are found in the Exhibits Section of the forecast.

Shown below is the graphical representation of the General Fund revenues and expenditures found in the General Fund Summary forecast:



ENTERPRISE FUNDS

The purpose of the forecast for the Enterprise Funds is to provide the City Council and the City Manager with an early identification of financial trends and the ability to respond appropriately. Enterprise Funds, by definition, are supported by rates set to recover the full cost of services, including capital outlays and debt service. The rate setting process requires advance planning, preparation of rate studies, notice and conduct of public hearings, and a final decision to implement new rates if approved. This process can take up to six months to complete. For this reason, the forecast is a critical management tool for the city.

In November 2004 the City Council approved an annual 4% rate increase for the Refuse Enterprise Fund to pay for increased operating costs, the repayment of inter-fund loans, environmental remediation and necessary major capital outlays at the landfill. The forecast reflects that the annual increase might be reduced to 2% annually throughout the forecast period as the inter-fund loans will be repaid and the anticipated construction of a new cell can be postponed. Lowering the approved 4% to a lesser increase will be further examined during budget preparations as the fund's status is reviewed in more detail. Staff will also be recommending, beginning in July 2010 that the Street Cleaning Enterprise Fund is combined with the Refuse Enterprise Fund because of the similarity of the

operations. The current street cleaning fee will remain and will not require an increase during the forecast period.
The City Council approved a rate increase for the Water Enterprise Fund beginning in January 2010 and several additional increases throughout the forecast period. While a portion of the increase is to pay for the rising cost of water production and water banking, a substantial portion of the increase is necessary to pay debt service costs and meet required bond covenants that would normally be borne by development fees that are currently insufficient to cover bond obligation costs.

The Sewer Enterprise Fund is projecting a need for a significant rate increase within the forecast period. Some of the need for the rate increase is driven by the rising cost of sewage treatment and capital outlays at the regional treatment facility. However, the majority of the increase is needed to operate the new pump stations, the Water Reuse Facility, and to meet bond covenants normally paid through development fees that are projected to be insufficient to cover bond obligation costs throughout the forecast period. Sewer rate increases are projected to begin in July 2010 with additional increases over the forecast period. Council will consider the sewer rate increase in beginning in April 2010.

The Transit Fund shows a deficit position indicating the need for additional revenue or service cuts to keep the operation fiscally balanced. Options are currently being reviewed which will consolidate routes and make the system more efficient, reducing operating costs.

Further detail regarding each Enterprise Fund is discussed in the following pages. Annually, staff re-evaluates all enterprise operations to determine if any adjustments to rates are needed. At this time all the major enterprise operations have increases approved or pending which will, barring any unforeseen or catastrophic event, be sufficient to carry the operations through the forecast period. Once these rate increases meet their objectives, staff will begin to evaluate implementing smaller more measured increases on an annual basis to avoid such large one-time increases when possible. The philosophy of rate-making for the enterprise operations will be a policy discussion included with the upcoming discussion of the Sewer Enterprise. As a note, when development activity returns to a higher volume and the associated development fees are able to meet debt service obligations and repay the user account, user rates most notably in the Water and Sewer Enterprise operations will likely see rate reductions.

Refuse Enterprise

The Refuse Enterprise Fund is projected to finish the current fiscal year with a working capital balance of $4.3 million. The fund received more than $6 million in interfund loans in past fiscal years in order to meet regulatory and operational needs and to maintain sufficient reserves to meet bond covenants. The fund has begun repayment of the loans and is projected to repay all outstanding loans in 2010-2011 ahead of the original schedule. The five-year forecast reflects concluding the landfill reclamation project in the current fiscal year and initiating a $2.9 million program to construct a new waste cell at the landfill over two fiscal years beginning in 2010-2011. The Council approved a 4% annual increase in November 2004, but due to the ability to delay the construction of the new waste cell, the annual increase is projected at a lower 2% annually throughout the forecast period. This rate adjustment will be addressed with the City Council at the end of the current fiscal year when actual results of revenue and expenditure are more complete. At this time with the limited growth projected in residential and commercial units no additional routes are anticipated throughout the forecast period. The forecast also reflects the combining of the Street Cleaning Enterprise Fund with the Refuse Enterprise Fund because of the similarity of the operations and the ability to share some personnel and other resources. The current street cleaning fee will remain and will not require an increase during the forecast period.

Sewer Enterprise

The Sewer Enterprise Fund is projected to have a working capital balance of approximately $8.9 million at June 30, 2010. Rate increases are projected beginning in 2010-2011. The need for the rate increases is primarily driven by added operating expenses for the new sewer pump stations, Water Reuse Facility, and meeting the debt service obligation that development fees can no longer cover due to the reduced building activity. General expenses to provide sewage treatment and disposal and the City's share of capital improvements at the regional treatment facility are also contributing to the need for rate increase.

The City issued bonds for the Clovis Sewage Treatment/Water Reuse Facility (ST-WRF) that are repaid with developer impact fees. When the bonds were issued it was calculated that development would need to remain at the conservative ten-year average of 750 equivalent dwelling units annually to meet debt service requirements. Due to the downturn in development we are currently estimating significantly less than that level of development and as a result it has been necessary to use the $10.0 million rate stabilization fund. This fund was established in 2007 at the time of the issuance of the last bonds to make the debt service payments. However, the projected ongoing slow down in development will deplete the rate stabilization fund in mid-2010-2011 requiring rate increases for users to meet debt service obligations and bond covenants. Such covenants require a minimum fund reserve or coverage ratio of 1.2 times debt service. These rate increases are phased in over the forecast period.

Water Enterprise

The Water Enterprise is forecast to have a working capital balance of about $4.7 million at June 30, 2010. The Council approved rate increases in the water enterprise beginning in January 2010 that are necessary to fund the increased cost to treat and distribute potable water within the City, some major water capital improvements, and to provide debt service coverage for the 2003 Surface Water Treatment Plant bonds. Like the sewer bonds a portion of the debt service was to be repaid with developer impact fees. However, due to the decline in development activity it was necessary to increase rates for users to meet debt service obligations and bond covenants. Overall, with the projected rate increases, the fund balance will be stable during the next five years.

Transit Enterprise

The Transit Enterprise Fund is projected to finish the current fiscal year with a working capital balance of $0.1 million. Beginning in 2010-2011 the forecast reflects that the operation will end in a deficit position, requiring additional revenue or adjustments to current service levels which will lower costs. If cuts in programs and costs are unable to be made due to regulatory restrictions, the impact will be to utilize additional Local Transportation Funding (LTF) that is currently allocated to street maintenance. This would cause a significant reallocation of funding away from street maintenance, negatively impacting the city's ability to address those needs.

INTERNAL SERVICE FUNDS

The Internal Service Fund group is projected to be self-balancing throughout the Five-Year Forecast. Since the Internal Service Fund group is funded by charges to the operating funds, issues that will affect the Internal Service Funds are dealt with in conjunction with analysis of the impact on the operating funds. Each of the funds within the Internal Service Fund group is continually reviewed to determine where more cost effective programs and services can be utilized and expenditure reductions have been made in recent years to reduce the impact of cost sharing on all other city operations.

DEBT SERVICE FUNDS

The Debt Service Fund group, out of necessity and legal obligation, will be fully funded in order to make the required debt payments.

This page intentionally left blank.

ALTERNATIVES & RECOMMENDATIONS

It is recommended that the City Council provide policy direction in the following areas:

RECOMMENDATION #1 – Align budgetary expenditures with the City's strategic goals and revisit on a regular basis.

The City Council periodically conducts strategic planning and goal-setting workshops to gain information from citizens about community values and opportunities that are currently being considered or those that may not have been widely known that should be considered in order to achieve the community's full potential. The City Council then studies the information that has been gathered and refines those ideas as strategic goals and target actions for inclusion in the budget in the form of work program development and budgetary allocation. Current goals are:

GOAL #1. Provide for orderly and planned community growth consistent with the vision adopted with the General Plan.

GOAL #2. Make Clovis the safest city in the Valley providing quick and effective response to high priority calls for emergency services.

GOAL #3. Provide for economic development strategies to grow business, jobs and to enhance the revenue base of the community; position the city to compete in the global market.

GOAL #4. Provide for a financially sustainable City as the community grows.

GOAL #5. Make Clovis a great place for families to live.

GOAL #6. Foster regional leadership by maintaining a distinct community identity and pride.

GOAL #7. Encourage and promote citizen engagement and community leadership.

GOAL #8. Maintain Clovis as a public sector employer of choice.

The City Council and the management team will have an opportunity to again hear from the community at the bi-annual Citizens' Summit on March 29, 2010. Are these goals valid? Are there additions or deletions to the goals? What are the challenges to achieving them? How should the city prioritize services against available funding? What recommendations do our citizens have going forward? These are just some of the questions that will be asked at the Citizens' Summit. Information received from this Summit will be utilized to refine the city's goals for the future.

Due to the nature of the budget shortfall identified for general operations and the need for constrained spending for public utility enterprises facing current and future rate increases throughout the forecast, strategies for further expenditure reduction must be utilized for the 2010-2011 budget. Each department will continue to examine work flow processes, methods, and priorities for response to continue valuable service to the community while constraining the cost of doing business. The following reductions/expenditures are recommended to occur in the following ways:

a. Deferment of fleet replacement charges for a fourth year in general operations. This means that the fleet replacement program will need further adjustment and a change in the way that business has been done. Full funding in advance is no longer occurring for the general operations and the program has migrated to a pay-as-you-go model. Lease-purchase methods will need to be utilized for acquisition of large volumes of replacement vehicles and vehicles will be retained for use for a longer period of time, when possible. This expenditure has already been eliminated in the forecast and therefore will not result in further overall savings.

b. No further workforce reduction of sworn positions in police and fire are recommended at this time due to the low ratios now existing for coverage of the city but non-sworn positions should be evaluated. Opportunities for the department to provide interagency contracts for services such as police dispatching are being reviewed and could help to improve service coverage and reduce overall costs. Low priority calls that can be managed by either self reporting or, if medically related, by ambulance service, will continue to be reviewed for changes in service. Changes made this year are having some positive impact in reducing the call volume and an overall decline in large incidents and interagency support has added to that decline. However, stacked calls for service are becoming more of a concern and will be closely monitored.

c. Constrain overtime expenses for police and fire. Work schedules have been adjusted to allow for better deployment of staffing resources and non-sworn employees and volunteers are being assigned to more support work for officers in the field. Reductions in expenses this year are planned to be repeated next year and therefore will not result in further overall savings.

d. Wage and benefit savings through cost sharing on retirement and health benefits, reductions in paid leave, or other reductions will be sought through negotiated terms with employees. This is necessary to avoid further lay offs and maintain critical services to the community. It is no longer appropriate to engage in temporary, one-year solutions because it is apparent that the revenue base for the city's general operations has been reset much lower and will take many years to recover the level attained in the past decade. General Fund savings needed will be up to $3.0 million.

e. Senior and recreation services will need to be severely reduced or eliminated altogether. Public and private partners were sought to sustain an acceptable level of services for the current year but are not likely to be sustainable. Facilities may curtail operating hours and programs off-site will only occur if volunteers can supplement staffing resources. If both operations were suspended next year it would result in General Fund savings of up to $0.3 million.

f. Capital outlays for materials, equipment, and buildings will be continue to be severely constrained for all departments. This has already been included in the forecast and no further General Fund savings are expected.

g. A successful volunteer clearinghouse was established by a volunteer in the current year to assist all departments in their efforts to recruit community volunteers for specific work in public services. Effective use of volunteers is well underway and will continue to be a valuable resource. One significant issue that remains a challenge is the ability to seek volunteers capable of supervising projects and people. The value to the city continues to be priceless.

h. Planning and development functions that are not funded by permit fees are presently under analysis to determine the appropriate amount of General Fund resources to allocate to this department. It is estimated that the General Fund will need to allocate up to $0.4 million to this effort.

i. Parks and landscape maintenance received a limited response to its request for partnerships with community groups and businesses to provide for maintenance of park locations and facilities, but when used it has been a success. Watering and maintenance schedules have been evaluated at every park and trail to determine where adjustments could be made that will keep the plant material healthy while at the same time reduce overall costs. Additional private contracts for street landscape maintenance and tree trimming have been considered. Further constraints to General Fund support will necessarily degrade the quality and appearance of existing street and park landscaping. New designs for thinning some existing landscaped areas and future replacement of materials in older parks will focus on more efficient irrigation systems, plant materials more suited to semi-arid climates, and lower cost maintenance of plant materials. The overall goal is to further constrain the costs. Staff will continue to either postpone or reject new offers for grant funding to expand public parks or landscaping in areas that are not supported by property tax assessments but will seek such funding for rehabilitation and modernization of older parks and landscaping that will result in lower maintenance costs. The City is at a less than satisfactory level of maintenance services on General Fund supported landscaping. Unless the City is willing to remove some existing landscaped areas, no significant savings to the General Fund is expected.

j. Contingency funds for economic uncertainty and increased levels to emergency reserve funds are recommended to be included in budget policies. This will require increasing the annual amount for general operating fund balance to $0.5 million and require that the emergency reserve be increased each year to reach an amount of at least 10% of the general operating budget.

RECOMMENDATION #2 – Revisit the financial policies to safeguard assets; stabilize funding base; and compile appropriate accounting data.

In recent years it has been made very clear how volatile and vulnerable city general operating revenues have become in the face of a declining overall economy and continued State budget deficits. Rapid changes in the economy, which continue to have significant and new effect because of the national and global interaction that now exists, prompt the need to reassess the financial policies now in place in order to build a strategy for more stability to the base of revenues and expenditures dedicated to general operations that are considered to be the core services of the city.

A. **Fund Reserves** – The current policy recommends that the goal for setting reserves should be 5-10%. This level is low given the current size of the city's operation and should be increased to 10-15% for the General Fund. With the exception of self-balancing funds, most Enterprise and Internal Service Funds operate with a 10-20% reserve depending upon need for capital spending and debt coverage. This policy should also be revisited given the need for rate stabilization in the enterprise funds and the intensity of corrective action needed when user rates must be adjusted to pay for bonded debt obligations.

B. **Accumulated Savings** – A policy for use of accumulated savings should be established for overall budget stabilization within the General Fund. Currently, all such funds have been directed to the emergency reserve fund and should continue to be directed in this fashion until an adequate balance is achieved. Because general tax revenues have become more volatile as a result of the economic recession and correction and because most accumulated savings from year to year is the result of dramatic activity in either property or sales tax collection, such additional revenue should not be dedicated 100% to operations but rather a portion set aside for budget stabilization. This would assist in stabilizing city operations when dramatic shifts occur as we have witnessed in recent years. This type of fund may take more than five years to establish but is worthwhile to explore.

C. **Balance of Revenues and Expenditures** – As this forecast illustrates, projected expenditures, even with constraints, will exceed projected revenues for the next five years if no changes are made. The City will resolve this by either reducing lesser priority services and the mix of services, limiting and reducing expenditures for personnel and associated benefits, and/or developing new revenue. All of these strategies should be utilized.

D. **General Government Services Fund** – In the past, this fund received regular transfers of accumulated savings from the General Fund for investment in public facilities, facility repairs and remodels, technology, and economic development. The fund also receives allocations for maintenance and depreciation for buildings and support services from all city operations and receipts from the sale of properties owned by the General Fund. The transfers have been suspended for several years due to budgetary constraints. This fund has debt service obligations for public facility construction and will need to dispose of real estate investments in the coming years to meet these obligations if the transfers are not restored. This transfer should be restored up to $0.5 million each year as soon as recovery occurs.

E. **User Fees** – Current policy recommends that user fees for services be regularly examined to make sure that the fees are relevant to actual cost of service. Some fees are indexed to a measure for annual adjustment to stay current. Others are scheduled for review on a periodic basis and do not always stay current with actual costs. To the extent possible, all fees should either be indexed appropriately or be evaluated on at least a two-year basis. Some services that could be defined as user based are also property based. As required by law, any fee associated with such service would need to be treated as a special tax assessment on property and be subject to property owner/voter approval. Street lighting and landscape and park maintenance are two services that should be studied for such assessment.

F. **Development Impact Fees** – Current policy recommends that new development should pay its way and not become a burden to existing taxpayers. The city annually reviews actual costs of development compared to development impact fees and makes adjustment by index or to actual, depending on the fee, with the goal to set fees as close to actual cost as possible. The method of trust fund collection for such fees has provided a sound method for collection and reimbursement for advance work performed by any one development project with the opportunity for reimbursement for completion of work beyond that required for a single project. It has also provided benefit to the community of more contiguity in public facilities as new development takes place incrementally. One issue has been raised that will require a review of the underlying methodology for allocation of costs for the various categories of development --- residential, commercial, and industrial. Staff will undertake a review of this methodology, including discussions with home builders and commercial developers.

G. **New Revenues** – A review of available methods for developing new revenue sources for general operations will continue to be explored. Although funding is tightly constrained, the City will need to seek ways to diversify its sources of revenue by also pursuing its economic development strategies and support for business retention and expansion. This will remain a significant challenge particularly against a backdrop of devaluation that is occurring with business properties.

H. **Legislative Reforms** – The City should continue to remain vigilant and spend time analyzing the impact of various legislative initiatives to make sure both state and federal legislators understand the impacts of their decisions on our communities before new regulations are approved. Budgetary decisions at the state and federal level do impact specific programs conducted by local government and being located at the "bottom of the government food chain" with respect to taxes often becomes an "easy" target for solution when times are tough. The City Council has consistently been engaged in legislative issues and should continue its involvement as time and resources permit.

I. **Economic Stimulus and Recovery Funding** – The City continues to take best advantage of the available programs for stimulus funding from both the state and federal governments. To date it has applied for $11.1 million and has been awarded $5.9 million for various projects. Funding for public safety sworn positions has been a priority and the City was successful in obtaining funds for five police officer positions but has not yet qualified for funding for fire fighter positions. While the city's ability to receive large volumes through entitlement formulas is somewhat limited, it has found ways to leverage the ability to compete for other funding that is available by partnering with nearby communities or being ready to apply for unused fund balances that have been pooled at the county or state level.

J. **Update the Forecast** – The City should continue to utilize the five-year financial forecast to analyze the effect of major revenue and expenditure decisions. In recent years, the assumptions utilized to build the forecast have been subject to rigorous examination due to the significant changes in the economy and will continue to need adjustment. Although the forecast and its methodologies have some limitations, it should be recognized for its usefulness in projecting trends in revenue and expenditure. Precision is not the purpose of a forecast; identification of current and future trends to allow for early interventions and for making longer range decisions is the purpose. Regular review of the history of actual conditions is recommended to continually refine the data and sources of data to improve the value of the forecast. Paraphrasing from the ancient philosopher Heraclitus, "the only constant in life is change." This is the nature of any forecast.

EXHIBITS

CITY OF CLOVIS

General Fund Financial Forecast - Summary

(dollars in thousands)

	ACTUALS			ESTIMATED	PROJECTED				
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Beginning Available Fund Balance	3,930	1,830	1,170	480	180	500	500	500	500
Reappropriation			(520)	520					
REVENUES									
Discretionary	35,260	36,350	36,050	33,550	34,110	35,810	37,330	38,550	39,800
Non-Discretionary	17,330	18,740	18,190	16,470	16,160	16,690	16,870	17,250	17,620
Total Revenues	52,590	55,090	54,240	50,020	50,270	52,500	54,200	55,800	57,420
EXPENDITURES									
Public Safety	35,130	35,840	33,830	32,290	33,990	34,670	36,050	37,680	38,880
Public Utilities	5,910	6,580	6,680	7,160	7,270	7,410	7,660	7,920	8,120
Planning/Development	8,140	7,550	6,790	6,110	5,660	5,780	6,020	6,280	6,480
General Government	6,540	6,670	6,170	5,280	5,660	5,610	6,000	6,050	6,420
Total Expenditures	55,720	56,640	53,470	50,840	52,580	53,470	55,730	57,930	59,900
Resources Above/(Below) Operating Expenditures	**(3,130)**	**(1,550)**	**250**	**(300)**	**(2,310)**	**(970)**	**(1,530)**	**(2,130)**	**(2,480)**
ADDITIONAL ITEMS									
Return of Unspent Funds/Premiums	580								
Transfers Out to Government Facilities		(250)							
Other Transfers In/(Out)	(80)	(30)	50	0	0	0	0	0	0
Total Additional Items	500	(280)	50	0	0	0	0	0	0
Net Increase/(Decrease) to Fund Balance	**(2,630)**	**(1,830)**	**300**	**(300)**	**(2,310)**	**(970)**	**(1,530)**	**(2,130)**	**(2,480)**
OTHER ITEMS									
(Use of)/Addition to Emergency Reserve	(530)	(1,170)	990	0	400	750	170	160	160
Total Other Items	(530)	(1,170)	990	0	400	750	170	160	160
Expenditure Reductions/Additional Revenue Needed					**3,030**	**1,720**	**1,700**	**2,290**	**2,640**
Ending Available Fund Balance	**1,830**	**1,170**	**480**	**180**	**500**	**500**	**500**	**500**	**500**
Sales Tax Triple Flip Designation	860	860	860	860	860	860	860	860	860
Emergency Reserve-(Dollars)	4,280	3,110	4,100	4,100	4,500	5,250	5,420	5,580	5,740
Emergency Reserve as a %	7.68%	5.50%	7.70%	8.10%	9.00%	10.00%	10.00%	10.00%	10.00%

CITY OF CLOVIS
General Fund - Financial Forecast (dollars in thousands)

REVENUES	ACTUALS			ESTIMATED	PROJECTED				
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Residential Units (SF + MF)	718	524	447	465	250	300	400	400	400
Discretionary									
Property Taxes	12,220	13,800	14,800	12,630	12,300	12,700	13,160	13,630	14,110
Educational Augmentation	(3,040)	(3,420)	(3,430)	(3,280)	(3,190)	(3,180)	(3,290)	(3,410)	(3,530)
County Admin Fee	(220)	(220)	(280)	(260)	(250)	(210)	(210)	(220)	(230)
Property Tax In Lieu-VLF	6,100	6,990	7,030	6,760	6,750	7,000	7,290	7,550	7,820
Sales Tax	11,780	11,040	10,090	9,520	9,900	10,440	10,870	11,240	11,620
In Lieu Sales Tax-Triple Flip	3,930	3,680	3,310	3,170	3,300	3,480	3,620	3,740	3,860
County Share	(790)	(740)	(670)	(630)	(660)	(700)	(720)	(750)	(770)
Franchise Fee	1,660	1,750	1,780	1,880	1,930	1,990	2,050	2,110	2,170
Business License	1,910	2,250	2,160	2,030	2,090	2,160	2,210	2,260	2,310
Other Taxes	800	680	820	1,260	1,440	1,480	1,690	1,730	1,770
State Subvention-Motor Vehicle	740	420	390	260	260	390	390	390	390
Interest	170	120	50	50	80	90	100	100	100
Enterprise In-Lieu Fees				0	0	0	0	0	0
Other Revenues-Disc	110	170	180	160	160	170	170	180	180
Non-Discretionary									
Community Facility Fee	230	310	420	480	540	600	630	670	720
Sales Tax-(public safety)	230	280	260	200	200	210	210	220	230
Building Permits	1,960	1,610	1,220	1,190	1,060	1,230	1,170	1,200	1,220
Other Lic & Permits	90	150	70	120	120	120	120	120	120
Fines & Forfeit	310	350	280	230	240	240	240	240	240
Building Rentals	40	30	20	30	30	30	30	30	30
State Subvention-Gas Tax	1,040	1,040	970	960	970	980	990	1,000	1,010
Grants	1,120	1,740	1,500	1,020	1,040	900	900	900	900
From Other Agencies	620	410	490	230	230	240	240	250	250
Planning Fees	1,370	1,710	1,280	1,240	970	1,120	1,070	1,090	1,120
Engineering Fees	1,450	1,380	880	750	800	930	890	910	930
Capital Improvement Charges	2,570	2,770	2,980	2,740	2,600	2,560	2,680	2,740	2,800
Current Services	2,640	3,100	4,120	3,580	3,660	3,740	3,830	3,920	4,010
Other Revenues-non-disc	250	190	140	200	120	130	130	140	140
Impact/Rental Fees	840	920	920	1,140	1,170	1,200	1,230	1,260	1,290
Admin Charges	2,460	2,580	2,460	2,360	2,410	2,460	2,510	2,560	2,610
Total Revenues	***52,590***	***55,090***	***54,240***	***50,020***	***50,270***	***52,500***	***54,200***	***55,800***	***57,420***

Revenue Assumptions (dollars in dollars)

PROPERTY TAXES:	ANNUAL INCREASE	INCREASE IN ASSESSED VALUE	CITY TAX RATE (Before reductions)
	2.00%	$143,000,000	17.72% of 1%

Increase in AV above based on 500 units; Adjust 10/11 & 11/12 with 130 units for Walmart/WinCo.

PROPERTY TAX IN LIEU-VLF: INCREASE BY ASSESSED VALUE GROWTH 4.00% ***(based on 500 units)***

COMMUNITY FACILITY FEE: 2/3 OF NEW RES UNITS PER YE 335 ANNUAL FEE: $199 INCREASE BY: 2.32%

SALES TAX:	3 YEAR CPI	SALES TAX RATE	POPULATION GROWTH	PER CAPITA $ PER YEAR
	2.32%	1.00%	1,400 PER YEAR	$139
COUNTY SHARE:	5.00% OF GROSS SALES TAX		(Based on 500 units)	

Add $400k in 11/12 for Walmart, et al Note: Annual Population: 250 units =700; 300 units=800; 400 units=1100

FRANCHISE TAX:	3 YEAR	NEW RES UNITS	FEE	PARTICIPATION %	P G & E
	CPI	PER YEAR	OF GROSS	65.00% Comcast/AT&T	$300 Per Unit per Mo
	2.32%	500	1.00%	$50 Per Unit per Month	

Note: Units adjusted in 10/11 to 250 units, 11/12 to 300 units, 12/13 forward to 400 units

BUSINESS LICENSE: INCREASE ANNUALLY BY THREE YEAR CPI: 2.32% ***Note: Add $14k for Kohls & Winco in 10/11; $21k for Walmart, et al in 11/12***

BUILDING PERMITS:	NEW RES UNITS	FEES PER	NEW	ANNUAL
	PER YEAR	RES UNIT	NON-RESIDENTIAL	INCREASE
	500	$2,372	15.00% of the residential amount	2.32%

Note: Units adjusted accordingly, with 130 units added in 10/11 and 130 in 11/12 for Walmart/WinCo

FINES AND FORFEITURES: PARKING AND VEHICLE $255,000 BASED ON TWO YEAR AVERAGE

INTEREST: RATE ->> 1.50% ON PRIOR YEAR'S BALANCE OR $50,000 IF NEGATIVE FUND BALANCE

BUILDING RENTALS: INCREASE ANNUALLY BY: 2.00%

STATE SUBVENTIONS:		MOTOR VEH	GAS TAX	POPULATION GROWTH
	PER CAPITA	$4.00	$10.16	1,400 PER YEAR
				(Based on 500 units)

Note: Annual Population: 250 units =700; 300 units=800; 400 units=1100

STATE GRANTS: THREE YR. AVG $1,187,000 $902,000 3 YEAR AVG. WITHOUT STIMULUS FUNDS

UNITS:	447	465	250	300	400	400	400
PLANNING FEES:	2008/09 (actual)	2009/10 (rev est)	2010/11 (DR)	2011/12	2012/13	2013/14	2014/15
General Plan Fees	390,835	439,000	300,000	347,000	331,000	338,000	346,000
Regular Planning Fees	889,165	801,000	671,000	777,000	739,000	756,000	774,000
		AVG. PLANNING FEES PER UI		$1,500	(BASED ON 3 YEAR ACTUALS)		

Note: Units adjusted accordingly, with 130 units added in 10/11 and 130 in 11/12 for Walmart/WinCo

PER UNIT BASED ON 3 YR. ACTUALS ***Adjusted for units accordingly, with 130 add'l in 10/11 and 11/12***

ENGINEERING FEES:	NEW RES UNITS	AVG. ENG FEES PER UNIT	ANNUAL INCREASE	ADD'L NON-RESIDENTIAL
	500	$1,800	2.32%	15%

IMPACT/RENTAL FEES: BASED ON ADD'L ROUTES PROJECTED IN THE ENTERPRISE FUND AND INCREASE BY THREE YEAR CPI AVERAGE

ADMIN CHARGES: INCREASE 2.00% PER YEAR

CURRENT CHARGES: INCREASE BY THREE YEAR CPI AVERAGE 2.32%

OTHER REVENUE: INCREASE BY THREE YEAR CPI AVERAGE 2.32% ***Note: 2010/11 Donations reduced by $100K***

CITY OF CLOVIS

General Fund - Financial Forecast (dollars in thousands)

EXPENDITURES	ACTUALS			ESTIMATED	PROJECTED				
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
PUBLIC SAFETY									
Salaries									
Police-CPOA	7,390	7,900	7,140	7,200	7,530	7,530	7,700	7,880	8,060
Fire	4,380	4,730	4,560	4,390	4,390	4,390	4,490	4,590	4,700
Public Safety-Management	1,980	1,960	1,370	1,530	1,530	1,530	1,570	1,610	1,650
Dispatchers	590	790	780	740	740	740	760	780	800
Police-Non CPOA	1,310	1,250	1,550	1,380	1,380	1,380	1,410	1,440	1,470
Fire-Non Firefighters	250	260	260	140	140	140	140	150	150
Overtime									
Overtime-CPOA	1,510	1,400	1,400	1,600	1,600	1,600	1,640	1,680	1,720
Overtime-Fire	940	1,100	1,340	700	700	700	720	740	760
Extra Help	860	880	760	840	840	840	840	840	840
Benefits									
Health	1,990	2,390	2,240	2,280	2,550	2,860	3,200	3,580	4,010
Retirement	3,480	3,720	3,460	3,280	3,520	3,810	4,300	4,960	5,130
Other	2,300	2,160	1,820	940	2,060	2,050	2,090	2,140	2,210
SMS	6,950	6,160	6,270	6,680	6,520	6,600	6,680	6,760	6,840
Capital Outlay	1,200	1,140	880	590	490	500	510	530	540
Total Public Safety	35,130	35,840	33,830	32,290	33,990	34,670	36,050	37,680	38,880
PUBLIC UTILITIES									
Salaries	1,690	1,770	1,750	1,900	1,900	1,900	1,940	1,990	2,040
Overtime	50	60	60	50	50	50	50	50	50
Extra Help	180	170	160	220	220	220	220	220	220
Benefits									
Health	330	400	390	440	490	550	620	690	770
Retirement	280	260	270	260	300	330	400	480	490
Other	280	270	260	190	320	320	330	340	350
SMS	2,870	3,510	3,670	3,860	3,900	3,950	4,000	4,050	4,100
Capital Outlay	230	140	120	240	90	90	100	100	100
Total Public Utilities	5,910	6,580	6,680	7,160	7,270	7,410	7,660	7,920	8,120
PLANNING/DEVELOPMENT									
Salaries	3,950	3,810	3,130	2,620	2,650	2,650	2,710	2,770	2,830
Overtime	140	70	120	150	80	80	80	80	80
Extra Help	230	190	150	170	170	170	170	170	170
Benefits									
Health	570	580	510	480	480	540	600	670	750
Retirement	610	550	460	390	400	440	530	630	660
Other	430	380	270	320	340	340	350	360	370
SMS	2,110	1,960	2,110	1,900	1,510	1,530	1,550	1,570	1,590
Capital Outlay	100	10	40	80	30	30	30	30	30
Total Planning/Development	8,140	7,550	6,790	6,110	5,660	5,780	6,020	6,280	6,480
GENERAL GOVERNMENT									
Salaries	2,320	2,350	2,300	2,030	2,030	2,030	2,080	2,130	2,180
Overtime	40	30	10	20	20	20	20	20	20
Extra Help	350	340	260	70	70	70	70	70	70
Benefits									
Health	350	410	370	350	390	440	490	550	620
Retirement	340	340	320	270	300	320	390	480	500
Other	240	240	170	110	240	240	250	260	270
SMS	2,870	2,950	2,740	2,420	2,600	2,480	2,690	2,530	2,750
Capital Outlay	30	10	0	10	10	10	10	10	10
Total General Govt	6,540	6,670	6,170	5,280	5,660	5,610	6,000	6,050	6,420
Total Expenditures	**55,720**	**56,640**	**53,470**	**50,840**	**52,580**	**53,470**	**55,730**	**57,930**	**59,900**

Expenditure Assumptions (dollars in thousands)

SALARIES:			2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
POLICE-CPOA	7/1		- (5.74%)	0.00%	0.00%	2.32%	2.32%	2.32%
	1/1							
POL-SAL BASE			$7,530	$7,530	$7,530	$7,700	$7,880	$8,060
Additional Officers-Salary			297,000	0	0	0	0	0
Number of Additional Officers			5	0	0	0	0	0
DISPATCH-SAL BASE			$740	$740	$740	$760	$780	$800
FIRE	7/1		- (5.74%)	0.00%	0.00%	2.32%	2.32%	2.32%
	1/1							
SALARY BASE			$4,390	$4,390	$4,390	$4,490	$4,590	$4,700
Additional Firefighter-Salary			0	0	0	0	0	0
Number of Addl Firefighters			0	0	0	0	0	0
PUBLIC UTILITIES	7/1		- (5.74%)	0.00%	0.00%	2.32%	2.32%	2.32%
SALARY BASE			$1,900	$1,900	$1,900	$1,940	$1,990	$2,040
Additional Salaries-Park/Street			0	0	0	0	0	0
Addl Park/Street employees			0	0	0	0	0	0
GENERAL GOVT	7/1		- (5.74%)	0.00%	0.00%	2.32%	2.32%	2.32%
MGMT	7/1		- (5.74%)	0.00%	0.00%	2.32%	2.32%	2.32%
OVERTIME:		INCREASE BY PREVIOUS THREE YEAR CPI				2.32%		
EXTRA HELP:		FLAT FOR NEXT FIVE YEARS						
HEALTH:		INCREASE PER YEAR				12.00%		
					(PERS est.)			
RETIREMENT:			2009/10	2010/11	2011/12	2012/13(est.)	2013/14(est.)	2014/15(est.)
POLICE-SAFETY			23.760%	23.251%	25.1%	27.4%	30.7%	31.0%
DISPATCHERS			13.799%	14.208%	15.5%	18.4%	21.5%	21.9%
FIRE			23.760%	23.251%	25.1%	27.4%	30.7%	31.0%
PUBLIC UTILITIES			13.799%	14.208%	15.5%	18.4%	21.5%	21.9%
GENERAL GOVERNMENT			13.799%	14.208%	15.5%	18.4%	21.5%	21.9%
MANAGEMENT			13.799%	14.208%	15.5%	18.4%	21.5%	21.9%
WORKERS COMP:	Police-CPOA		9.28%	9.28%	9.28%	9.28%	9.28%	9.28%
(included in other benefits)	Fire		5.80%	5.80%	5.80%	5.80%	5.80%	5.80%
	Mgmt & CUE		5.80%	5.80%	5.80%	5.80%	5.80%	5.80%
	Public Utility		11.60%	11.60%	11.60%	11.60%	11.60%	11.60%

OTHER BENEFITS: Previous year's amount increased by contracted and estimated salary increases. Includes 2% of non-safety salaries for deferred comp and 1% of total salaries for sick leave incentive and 1% for other benefits.

OTHER SMS: INCREASE BY ONE HALF OF AVERAGE PREVIOUS 3 YEAR CPI 1.16%

CAPITAL OUTLAY:		
	INCREASE BY 3 YEAR AVG CPI PER YEAR	2.32%
	50% FOUR YEAR AVERAGE-PUBLIC SAFETY	$480
	50% FOUR YEAR AVERAGE-PUBLIC UTILITIES	$90 + ADDITIONAL EQUIP FOR NEW EMPLOYEES
	50% FOUR YEAR AVERAGE-COMMUNITY DEV	$30
	50% FOUR YEAR AVERAGE-GEN GOVT	$10

CONTINGENCY RESERVE: Maintain not less than 5.00% but not more than 10% of total expenditures. See the Summary Sheet for reserve.

* (5.74%) represents employee concessions which are projected to end 7/1/2010

CITY OF CLOVIS

Water Enterprise - Financial Forecast (dollars in thousands)

	Actual 2006/07	Actual 2007/08	Actual 2008/09	Est to Close 2009/10	Projected 2010/11	Projected 2011/12	Projected 2012/13	Projected 2013/14	Projected 2014/15
BEG WORKING CAPITAL	9,550	8,920	7,750	7,160	4,730	3,490	3,710	3,110	3,220
REVENUES									
WATER CHARGES	9,760	9,240	9,050	10,080	12,650	14,700	15,640	15,860	16,070
DBCP-LEGAL SETTLEMENTS	560	510	360	330	330	340	350	360	370
TOTAL REVENUES	10,320	9,750	9,410	10,410	12,980	15,040	15,990	16,220	16,440
EXPENDITURES									
SALARIES	1,690	1,680	1,750	1,920	1,960	1,960	2,010	2,060	2,110
EXTRA HELP	30	50	50	50	50	50	50	50	50
OVERTIME	70	80	70	90	90	90	90	90	90
BENEFITS									
RETIREMENT	250	250	260	270	280	300	370	440	460
HEALTH	310	360	360	410	460	520	580	650	730
OTHER	290	240	260	300	350	350	350	360	370
SERV, MAT & SUPP	5,650	6,350	5,910	6,990	6,900	7,060	7,220	7,380	7,540
GAC REPLACEMENT/GEOSIMIN TREATMENT	110	140	190	170	170	170	170	170	170
CAPITAL OUTLAY	880	680	610	1,890	800	820	840	850	840
TOTAL EXPENDITURES	9,280	9,830	9,460	12,090	11,060	11,320	11,680	12,050	12,360
OTHER REVENUE AND EXPENSE									
INTEREST/RENTAL/GRANTS	480	520	320	300	110	100	100	100	100
	480	520	320	300	110	100	100	100	100
INTERFUND LOANS-(DEBT SERVICE)						(780)	(1,340)	(830)	(130)
TRANSFERS-OUT (CAPITAL)	(750)				(1,210)	(810)	(1,650)	(1,310)	(750)
WATER BANKING LOAN TO DEV FUND					(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
CONTRIBUTION-SURFACE WTP	(600)	(810)	(810)	(810)	(810)	(810)	(810)	(810)	(810)
MEMBRANE REPLACEMENT RESERVE				(190)	(200)	(200)	(210)	(210)	(210)
WELL HEAD TREATMENT(RESERVE)	(50)	(50)	(50)	(50)	(50)				
RESERVE FOR DROUGHT CONTINGENCY	(750)	(750)							
END WORKING CAPITAL	8,920	7,750	7,160	4,730	3,490	3,710	3,110	3,220	4,500
RESERVE FOR WELLHEAD TREATMENT	800	850	900	950	1,000	1,000	1,000	1,000	1,000
RESERVE FOR MEMBRANE REPLACEMENT				190	390	590	800	1,010	1,220
RESERVE FOR DROUGHT CONTINGENCY	750	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500

Water Enterprise - Revenue Assumptions (dollars in dollars)

Residential Rates: $1.23 per 1,000 gallons for 10,001 - 35,000 gallons, $1.54 per 1,000 gallons for 35,000 - 70,000 gallons, $1.85 per 1,000 gallons above 70,000 gallons. Minimum monthly charge $6.05.

Commercial Rates: $1.06 per 1,000 gallons over 5,000 gallons. Minimum monthly charge from $6.05(1") to $168.03(6") includes 5,000 gallons.

Current Charges: INCREASED EACH YEAR BY THE AVERAGE INCREASE OF THE PREVIOUS THREE YEARS

		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Rate Increase:	7/1	20.0%	15.0%	15.0%	5.0%	0.0%	0.0%

Rate Increase: Based on Council approved annual rate increases.

Interest: 1.50% OF PREVIOUS YEARS WORKING CAPITAL OR A MINIMUM OF $10,000

Water Enterprise - Expense Assumptions (dollars in thousands)

Salaries:	CPWEA	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
7/1		(5.74%)**	0.00%	0.00%	2.32%	2.32%	2.32%
10/1							
SALARY BASE		$1,920	$1,960	$1,960	$2,010	$2,060	$2,110
Add'l employee for Surface Water Plant		$40					

Extra Help: FLAT FOR NEXT FIVE YEARS

Overtime: FLAT FOR NEXT FIVE YEARS

	2009/10	2010/11	(PERS Proj) 2011/12	2012/13 (Est)	2013/14 (Est)	2014/15 (Est)
Retirement:	13.799%	14.208%	15.5%	18.4%	21.5%	21.9%

Health: INCREASE PER YEAR 12.00%

Other Benefits:
- -RETIREMENT 13.799% OF EXTRA HELP
- -WORKERS COMP 11.600% FOR CPWEA 5.80% FOR ADMIN
- -MEDICARE 1.450% OF SALARIES
- -DEF COMP/SICK LEAVE INC 5.250% OF SALARIES

Other SMS: INCREASE BY CPI FOR FUTURE YEARS 2.32%
(Increase energy cost by 50% for the Surface Water Treatment Plant operation beginning in 2004/05)
Rental of New Corp Yard-beginning 2002/03 $320 per year

Capital Outlay: FOUR YEAR AVERAGE INCREASED BY CPI FOR FUTURE YEARS 2.32%

Transfers Out: FOR CAPITAL CONTRIBUTIONS FOR DISTRIBUTION SYSTEM IMPROVEMENTS
FOR LAND ACQ, DESIGN AND CONSTRUCTION OF RECHARGE FACILITIES-100%

Reserves: WELLHEAD TREATMENT CONTINGENCY ESTABLISHED FOR POSSIBLE CLEANUP OF DBCP CONTAMINATION
MEMBRANE REPLACEMENT RESERVE ESTABLISHED FOR NEW MEMBRANE COSTS
DROUGHT CONTINGENCY ESTABLISHED FOR WATER PURCHASE DURING POSSIBLE DROUGHT

** Represents employee concessions equivalent to a 5.74% reduction of salary and benefits

CITY OF CLOVIS

Sewer Enterprise - Financial Forecast (dollars in thousands)

	Actual 2006/07	Actual 2007/08	Actual 2008/09	Est to close 2009/10	Projected 2010/11	Projected 2011/12	Projected 2012/13	Projected 2013/14	Projected 2014/15
BEG WORKING CAPITAL	6,920	7,370	9,090	11,680	8,950	10,640	7,240	6,870	6,960
REVENUES									
SEWER CHARGES	7,420	7,790	7,810	7,860	9,590	12,180	15,250	15,400	15,460
PRETREATMENT CHARGES	50	50	50	50	50	50	50	50	50
TOTAL REVENUES	7,470	7,840	7,860	7,910	9,640	12,230	15,300	15,450	15,510
EXPENDITURES									
SALARIES	560	560	570	580	620	620	630	640	650
EXTRA HELP	10	0	0	10	10	10	10	10	10
OVERTIME	10	10	10	10	10	10	10	10	10
BENEFITS									
RETIREMENT	80	80	80	80	90	100	120	140	140
HEALTH	80	120	130	150	170	190	210	240	270
OTHER	100	50	80	50	110	110	110	110	110
SERV, MAT & SUPP	1,610	1,700	1,830	2,770	2,830	2,890	2,950	3,010	3,070
FRESNO TREATMENT PLANT	2,320	2,690	2,910	2,910	1,430	2,280	2,370	2,460	2,550
CLOVIS TRMT/REUSE PLANT (ST-WRF)	0	0	30	1,900	1,940	1,990	2,040	2,090	2,140
DEBT SERVICE	1,070	1,310	1,190	1,250	1,250	1,250	1,250	1,250	1,250
CAPITAL	20	30	80	40	30	30	30	30	30
CAPITAL-FRESNO PLANT IMPROVEMENTS	240	1,370	(60)	4,540	2,200	2,000	2,000	2,000	2,000
TOTAL EXPENDITURES	6,100	7,920	6,850	14,290	10,690	11,480	11,730	11,990	12,230
OTHER REVENUE AND EXPENSE									
INTEREST	530	640	420	320	160	160	110	100	100
GRANTS/MISC/SALE OF ASSETS	30	20	20	10					
	560	660	440	330	160	160	110	100	100
TRANSFERS IN-DEBT SERVICE	370	370	370	370	370	370	370	370	370
TRANSFERS OUT-CAPITAL	(120)		0	(320)	(60)	(150)	(290)	(110)	(110)
FROM MAJ FAC-PLANT BUY-IN, UPGRADE AND CAPITAL IMPROVEMENTS	270	270	270	270	270	270	270	270	270
INTERFUND LOANS-(DEBT SERVICE)		500	500	1,000	2,000	(4,800)	(4,400)	(4,000)	(2,400)
(INC)/USE OF FRESNO PLANT CAP RESERVE	(2,000)			2,000					
END WORKING CAPITAL	7,370	9,090	11,680	8,950	10,640	7,240	6,870	6,960	8,470
RESERVE FOR FRESNO PLANT CAPITAL	2,000	2,000	2,000	0	0	0	0	0	0
REQUIRED FOR DEBT COVERAGE				1,800	5,800	6,900	6,900	6,900	6,900

Sewer Enterprise - Revenue Assumptions (dollars in dollars)

Current Charges:	Population Increase	Residential:	New Units Per Year	Additional Commercial	2009/10 Per Unit Per Month	Pretreatment Per Unit Per Month
	1,400		400	$18,000	$14.62	$0.06

(Note: Adjusted to 250 units for 10/11 and 300 units for 11/12)

Rate Increase:		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Percentage		0.00%	20.00%	25.00%	25.00%	0.00%	0.00%
Interest:	1.50%	OF PREVIOUS YEARS WORKING CAPITAL					

Sewer Enterprise - Expense Assumptions (dollars in thousands)

Salaries:	(CPWEA)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
7/1		(5.74%)**	0.00%	0.00%	2.32%	2.32%	2.32%
1/1							
SALARY BASE		$580	$620	$620	$630	$640	$650
Additional employee		$0	$40				
Extra Help:	FLAT FOR NEXT FIVE YEARS						
Overtime:	FLAT FOR NEXT FIVE YEARS			(PERS Proj)			
Retirement:		2009/10	2010/11	2011/12	2012/13 (Est)	2013/14 (Est)	2014/15 (Est)
		13.799%	14.208%	15.5%	18.4%	21.5%	21.9%
Health:	INCREASE PER YEAR					12.00%	
Other Benefits:	-RETIREMENT			13.799%	OF EXTRA HELP		
	-WORKERS COMP			11.600%	FOR CPWEA	5.80%	FOR ADMIN
	-MEDICARE			1.450%	OF SALARIES		
	-DEF COMP/SICK LEAVE INC/OTHER			5.250%	OF SALARIES		
Other SMS:	INCREASE BY AVERAGE CPI FOR PREVIOUS 3 YEARS					2.32%	
	Rental New Corp Yard-Beginning in 2002/03					$320	
	Clovis Treatment/Reuse Plant Operations-Beginning 1/1/2009					$1,000	
Regional Treatment Plant:	Annual payment for original plant buy-in plus O&M costs.						
	Adjusted for average 3 year CPI and per capita amount					2.32%	
Debt Service:	Fresno/Clovis Regional WWTP Renovation						
	96/97 - 2023					$1,250	
Capital Outlay:	FUTURE YEARS @					$30	
	- ADJUSTED BY 3 YEAR AVERAGE CPI					2.32%	
Capital-Plant Improvements:	Based on estimates from the City of Fresno for sewer main and plant refurbishments						
Transfers In-Debt Service:	In from Major Facilities-34.57% of debt service for 1993 WWTP Renovation/Expa					$370	
Transfers Out:	Out for on-going capital improvements-per Five Year CIP						
Interfund Loans:	Temporary cash loans to conform with various bond covenants						

** Represents employee concessions equivalent to a 5.74% reduction of salary and benefits

CITY OF CLOVIS

Community Sanitation - Financial Forecast (dollars in thousands)

	Actual 2006/07	Actual 2007/08	Actual 2008/09	Est to Close 2009/10	Projected 2010/11	Projected 2011/12	Projected 2012/13	Projected 2013/14	Projected 2014/15
BEG WORKING CAPITAL	4,280	3,660	4,230	5,430	4,330	3,100	4,790	5,880	7,580
REVENUES									
REFUSE CHARGES	11,070	11,840	12,670	12,860	13,190	13,540	13,910	14,290	14,680
RECYCLING CHARGES	860	950	970	1,020	1,070	1,120	1,170	1,220	1,280
GREEN WASTE CHARGES	1,030	1,110	1,180	1,230	1,290	1,350	1,410	1,480	1,550
STREET SWEEPING CHARGES	930	950	980	990	990	1,000	1,010	1,020	1,030
TOTAL REVENUES	13,890	14,850	15,800	16,100	16,540	17,010	17,500	18,010	18,540
EXPENDITURES									
SALARIES	1,870	1,990	1,950	1,990	2,140	2,220	2,270	2,320	2,370
EXTRA HELP	130	150	150	110	110	110	110	110	110
OVERTIME	120	130	150	180	180	180	180	180	180
BENEFITS									
RETIREMENT	280	290	290	280	300	340	420	500	520
HEALTH	320	380	400	480	540	600	670	750	840
OTHER	350	300	320	230	390	410	420	430	440
SERV, MAT & SUPP	5,270	5,490	5,530	5,430	6,250	6,390	6,530	6,670	6,820
RECYCLING	880	940	910	960	1,000	1,050	1,100	1,150	1,200
GREEN WASTE PROGRAM	990	1,060	1,210	1,260	1,320	1,380	1,450	1,520	1,590
STREET SWEEPING	950	960	860	920	960	980	1,020	1,060	1,100
DEBT SERVICE	360	340	160	160	50	0	0	0	0
LANDFILL CLOSURE	140	130	140	150	150	150	150	150	150
CAPITAL	280	530	760	2,030	130	2,710	690	90	390
LANDFILL IMPROVEMENTS	2,230	960	840	1,040	1,450	1,450	200	200	200
LANDFILL DEBT SERVICE	790	790	810	800	800	1,540	1,540	1,540	1,540
TOTAL EXPENDITURES	14,960	14,440	14,480	16,020	15,770	19,510	16,750	16,670	17,450
OTHER REVENUE AND EXPENSE									
INTEREST	260	290	210	220	110	100	120	140	170
GRANTS/MISC/SALE OF ASSETS	90	40							
SALE OF BONDS					1,250	3,930			
	350	330	210	220	1,360	4,030	120	140	170
TRANSFERS	150	120	80	50	50	60	80	80	80
LANDFILL LINER FEE	70	210	90	50	90	100	140	140	140
INTERFUND LOAN REPAYMENT	(120)	(500)	(500)	(1,500)	(3,500)				
END WORKING CAPITAL	3,660	4,230	5,430	4,330	3,100	4,790	5,880	7,580	9,060
RESERVE FOR CLOSURE	1,720	1,850	1,990	2,140	2,290	2,440	2,590	2,740	2,890
RESERVE FOR LIABILITY INS	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

*Note: Maintain ending working capital at 10% of expenditures or the bond covenant requirements.

Community Sanitation - Revenue Assumptions (dollars in dollars)

Current Charges:		New Units Per Year	09/10 Avg Unit Per Month	Recycling Per Month	Green Waste Per Month	Street Cleaning Per Month
		400	$24.46	$2.81	$4.31	$2.25

(Note: Adjusted to 250 units for 10/11 and 300 units for 11/12)

Additional Commercial Annual Revenue -------------------------------- $35,000

		2009/10 *	2010/11 *	2011/12 *	2012/13 *	2013/14 *	2014/15 *
Rate Increase:	7/1	4.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Adjusted Monthly Rate:		$24.46	$24.95	$25.45	$25.96	$26.48	$27.01

*** Rate Increase:** Based on Council approved annual rate increase unless not necessary.
Green Waste/Recycling: Based on current year charges, increased by new unit growth and projected rate increases of 4% per year.
Street Cleaning: Based on current year charges, increased by new unit growth.
Interest: 1.50% OF PREVIOUS YEARS WORKING CAPITAL

Community Sanitation - Expense Assumptions (dollars in thousands)

Salaries: (CPWEA)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
7/1	(5.74%)**	0.00%	0.00%	2.32%	2.32%	2.32%
Salary Base:	$1,990	$2,140	$2,220	$2,270	$2,320	$2,370
Additional Personnel: Res/Comm		$150	$80			

Extra Help: $110 for Operations per year
Overtime: FLAT FOR FUTURE YEARS 2.32%

Retirement:	2009/10	2010/11	(PERS Proj) 2011/12	2012/13 (Est)	2013/14 (Est)	2014/15 (Est)
	13.799%	14.208%	15.5%	18.4%	21.5%	21.9%

Health: INCREASE PER YEAR 12.00%

Other Benefits:

-RETIREMENT	13.799%	OF EXTRA HELP		
-WORKERS COMP	11.60%	FOR CPWEA	5.80%	FOR ADMIN
-MEDICARE	1.45%	OF SALARIES		
-DEF COMP/SICK LEAVE INC/OTHER	5.25%	OF SALARIES		

Other SMS: INCREASE BY AVERAGE CPI FOR PREVIOUS 3 YEARS 2.32%
Rental for 25% of the Corp Yard beginning 2002/03 $320 per year
Debt Service: 98 Landfill Improvements Beginning 1999/00-2018/19 actual according to debt service schedule
2011 Landfill Improvements Beginning 2010/11-2019/2020 estimated according to debt service schedule
Capital Outlay: FLAT FOR FUTURE YEARS $80
ADJUSTED BY 3 YEAR AVERAGE CPI 2.32%
Transfers: In-For Toters $80 /year
Reserve For Closure: FROM 98/99, INCREASE BY 3 YEAR AVERAGE CPI 2.32%
Interfund Loans/Repayments: Temporary cash loans to meet bond covenants. The Sewer Enterprise Fund loaned four million dollars, the Sewer Capital Development Fund loaned one million dollars and the Liability and Property Insurance Fund loaned one million dollars.

** Represents employee concessions equivalent to a 5.74% reduction of salary and benefits

CITY OF CLOVIS

Transit - Financial Forecast *(dollars in thousands)*

	Actual 2006/07	Actual 2007/08	Actual 2008/09	Budget 2009/10	Projected 2010/11	Projected 2011/12	Projected 2012/13	Projected 2013/14	Projected 2014/15
BEG WORKING CAPITAL	580	1,500	1,350	360	160	(90)	(340)	(650)	(1,020)
REVENUES									
MEASURE C FUNDS	330	1,060	1,070	930	950	970	990	1,010	1,030
LOCAL TRANSPORTATION FUNDS	2,310	1,970	1,840	2,240	2,290	2,340	2,390	2,450	2,510
STATE TRANSIT ASSISTANCE	770	400	210	0	0	0	0	0	0
OTHER(Fares, Advertising, Trolley Rents)	210	230	230	230	240	250	260	270	280
TOTAL REVENUES	3,620	3,660	3,350	3,400	3,480	3,560	3,640	3,730	3,820
EXPENDITURES									
SALARIES	750	810	880	950	950	950	970	990	1,010
EXTRA HELP	360	520	670	590	590	590	590	590	590
OVERTIME	30	30	30	30	30	30	30	30	30
BENEFITS									
RETIREMENT	110	130	130	130	130	150	180	210	220
HEALTH	160	180	190	210	240	270	300	340	380
OTHER	120	220	270	230	290	290	310	330	340
SERV, MAT & SUPP	1,140	1,320	1,340	1,470	1,500	1,530	1,570	1,610	1,650
CAPITAL-OTHER	0	0	70	0	0	0	0	0	0
CAPITAL-BUSES	60	630	1,680	0	0	0	0	0	0
TOTAL EXPENDITURES	2,730	3,840	5,260	3,610	3,730	3,810	3,950	4,100	4,220
OTHER REVENUE AND EXPENSE									
INTEREST/GRANTS/MISC	20	30	820	0	0	0	0	0	0
SALE OF ASSETS	10		100	10					
	30	30	920	10	0	0	0	0	0
END WORKING CAPITAL	1,500	1,350	360	160	(90)	(340)	(650)	(1,020)	(1,420)

10 transit.xls 3/9/2010 8:10 AM

Transit- Revenue Assumptions

Transit Revenue:

Measure C revenue is projected to grow by 3 year average 2.32%
LTF Revenues are projected to grow by the 3 year averag 2.32%
(Note: LTF Revenues may need to be increased to fund transit operations, thus reducing the amount available to fund street construction projects)
State Transit Assistance is not projected to be available during the 5 year period and when available is used primarily for capital.
Other revenue is projected to grow by the 3 year average (2.32%

Interest: 1.50% OF PREVIOUS YEARS WORKING CAPITAL

Transit- Expense Assumptions

Salaries:		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	
CUE	7/1	(5.74%)**	0.00%	0.00%	2.32%	2.32%	2.32%	
Additional Employees								
Extra Help:								
Overtime:	INCREASE BY PREVIOUS THREE YEAR CPI					2.32%		
Retirement:		2009/10	2010/11	(PERS Proj) 2011/12	2012/13 (Est)	2013/14 (Est)	2014/15 (Est)	
		13.799%	14.208%	15.5%	18.4%	21.5%	21.9%	
Health:	INCREASE PER YEAR					12.00%		
Other Benefits:	-RETIREMENT				13.799%	OF EXTRA HELP		
	-WORKERS COMP				11.600%	OF SALARIES	5.80%	FOR ADMIN
	-MEDICARE				1.450%	OF SALARIES and EXTRA HELP		
	-DEFERRED COMP/SICK LEAVE INCENTIVE/OTHER				5.250%	OF SALARIES		
Other SMS:	INCREASE BY AVERAGE PREVIOUS 3 YEAR CPI					2.32%		
Capital Outlay:	BASED ON BEST ESTIMATES FOR BUSES AND OTHER ADJUSTED BY 3 YEAR AVERAGE CPI					2.32%		

** Represents employee concessions equivalent to a 5.74% reduction of salary and benefits

EXHIBIT B

PROJECTION ASSUMPTIONS

GENERAL FUND

Generally in preparation of the forecast, trends are determined and utilized for projecting future activity. With current activity in both revenues and expenditures falling significantly outside normal "trends" adjustments to the basis for the projections are needed. The table below indicates the values that required modification for projection purposes.

	10-YR Average	Projected 2010/11	Projected 2011/12	Projected 2012/13	Projected 2013/14	Projected 2014/15
Residential Units (Single Family plus Multi Family)	1,012	250	300	400	400	400
Assessed Valuation (in Millions)	$297	$72	$86	$115	$115	$115
Population Increase	2,632	700	800	1,100	1,100	1,100

The 2009/10 revenues were estimated based on actuals to date through mid-February of 2010, and projected out for the remainder of the fiscal year based on trend analysis of prior years receipts. Some revenues were given special consideration due to the current economic climate along with budgetary actions taken at the state level such as property taxes, sales taxes, gas tax, and motor vehicle license fees. The economic downturn remains a major consideration in budgeting revenues in both 2009/10 and 2010/11, but some revenue sources were projected to experience marked increases such as sales taxes, business licenses, and planning fees due to the opening of the Clovis/Herndon Shopping Center (Wal-Mart) and WinCo Foods in 2011/12. Transient Occupancy Tax has significantly increased from 2008/09 due to the opening of two new hotels in 2008/09 and three new hotels in 2009/10.

The 2009/10 expenditures estimates were derived from the input received from department heads, and are based upon actuals to date through mid-February of 2010 and their knowledge of the remaining year's activities.

The following are the assumptions used in the projections of revenue and expenditures for the five-year forecast for the General Fund for the years 2010/11-2014/15:

REVENUE ASSUMPTIONS

Property Taxes – will decrease in 2010/11 by 2.5% from the prior year due to the devaluation of existing properties taking effect. In 2011/12-2014/15, increases are projected at 2% on existing properties plus additional revenue generated by the annual increase in assessed values depending on the number of units noted above for the projected fiscal year.

Property Tax in Lieu-VLF – 2010/11 is projected to decrease by the negative growth in Assessed Valuation of -.237% projected by Fresno County Assessor's Office. 2011/12-2014/15 projected an increase of 2% plus the annual increase in Assessed Valuation based on the year projected, with additional units in 2011/12 and 2012/13 for the opening of the Clovis Herndon Shopping Center (Wal-Mart) and WinCo Foods Supermarket.

Community Facilities Fee - flat per unit fee based on new residential units falling within the community facilities district at $199 per unit increased annually by CPI.

Sales Tax – 2010/11 is projected to increase by 4% from the prior year to reflect the opening of Kohl's in November 2010, right before the holiday shopping season. In addition, sales taxes are projected to grow by the three-year CPI average plus a per capita amount for additional population. Sales taxes are adjusted for the shift of the County's share of the annual sales tax resulting from the tax sharing agreement with Fresno County. [In 2011/12, an additional amount has been added for the Clovis/Herndon Shopping Center (Wal-Mart)].

Franchise Taxes - Franchise fees will increase by the three-year average annual CPI plus the addition of new residential units per year.

Business Licenses - Business licenses are projected to grow annually by CPI plus in 2011/12, an additional amount has been added for the Clovis/Herndon Shopping Center (Wal-Mart), Kohl's and WinCo Foods.

Building Permits - Construction permits are estimated based on the number of new residential units per year plus 15% of the residential fees for commercial activity, plus the three-year average annual CPI. Additional units were added in 2010/11 and 2011/12 for the Clovis/Herndon Shopping Center (Wal-Mart) and WinCo Foods.

Other Taxes – Includes Transient Occupancy Tax which reflects significant increases beginning in 2009/10 as a result of the opening of 5 new hotels.

Fines and Forfeitures - Parking citations are based on a two year average and remain flat for projected years.

Interest - Interest is calculated at 1.5% on the prior year's ending fund balance plus contingency reserve, with a minimum of $50,000 per year.

Building Rentals - Rental of City owned buildings is expected to increase at 2% annually.

State Subventions - State Subventions are calculated at the per capita rate based on estimated population.

State Grants - State Grants are projected based on the past three-year average excluding grants from the American Reinvestment and Recovery Act of 2009 and adjusted when specific duration of multi-year grants is known.

Planning Fees – Regular planning fees and the general plan update fee are projected based on the estimated number of units, the planning fee per unit based upon a three year average, and adjusted by CPI. Additional units were included in 2010/11 and 2011/12 for the Clovis/Herndon Shopping Center (Wal-Mart) and WinCo Foods.

Engineering Fees - Engineering fees are projected by taking the average engineering fee based upon three year actuals, plus fees for new residential units adjusted for the three year average annual CPI. Additional units were included in 2010/11 and 2011/12 for the Clovis/Herndon Shopping Center (Wal-Mart) and WinCo Foods

Impact/Rental Fees - Impact/Rental fees are based on additional routes/mileage projected in the enterprise funds.

Administrative Charges - Administrative revenue to the General Fund is expected to increase at 2% per year.

Current Charges - Current charges are projected to increase at a rate of the three-year average annual CPI.

Other Revenue - Other miscellaneous revenues are expected to increase by the three-year average annual CPI.

EXPENDITURE ASSUMPTIONS

Staffing - Safety salaries reflect an increase due to the addition of 5 police officers during the 2009/10 year which is partially funded by a 3 year grant.

Salaries - No salary increases are projected for any groups until 2012/13 at which time the three-year average annual CPI is projected.

Overtime - Overtime is projected to remain flat until 2012/13 and will increase by the three-year average annual CPI.

Extra Help - Extra Help is projected to remain flat for the next five years.

Salary Related Costs

- *Health Benefit* – The Health Benefit costs are projected to increase by 12% per year.
- *Retirement* – Retirement costs are based on actual rates from PERS for 2010/11, estimated rates from PERS for 2011/12, and therefore rates are projected to increase 9% in 2011/12, 12% in 2012/13, and 1% in the 2013/14 year due to the severe decline in PERS market valuation that occurred over the past two years.
- *Other Benefits*
  - *Worker's Compensation* – Rates are projected to remain the same as the budgeted rates for 2009/10.
  - *Medicare and Unemployment* – Medicare is projected at 1% of salaries and Unemployment is projected as part of other benefits and has sufficient reserves for this expenditure.
  - *Deferred Compensation and Sick Leave Incentive* – Deferred compensation is projected at 3% of non-safety salaries and sick leave incentive is projected at 1% of total salaries.
  - An additional 1% of salaries have been added for other benefits.

Services, Materials, and Supplies - Services, materials, and supplies are projected to increase by one half of the three-year average annual CPI. Also, in 2006/07 significant cuts were made to fleet replacement charges and training for both safety and non-safety departments. Due to the economic uncertainty of the future years, they have not been re-instated.

Capital Outlays - Capital outlays are projected at 1/2 the previous four-year average expenditure or a portion thereof.

TRANSFER ASSUMPTIONS

Transfers to Government Facilities - This represents the on-going need to pay for governmental capital assets. This includes acquisition, construction, and debt service requirements for the City owned assets. Due to the current economic downturn, no transfers are being projected.

Other Transfers In/(Out) and Return of Unspent Funds/Premiums - This represents the General Fund contribution to other programs/projects as the need arises or the return of unused funds previously transferred from the General Fund. Due to the fiscal crisis of the City, no transfers are being projected at this time.

RESERVE ASSUMPTIONS

Emergency Reserve - The reserve established for emergencies. In 20010/11 this reserve is projected to be 9% of expenditures as they will need to be reduced to not exceed revenues. Council's established goal is from 5%-10% of expenditures. Throughout the forecast period the reserve is increasing 1% every year beginning in 2010/11 and reaches 10% in 2011/12.

Reserve for Triple Flip - This reserve was established in 2004/05; the first year the sales tax triple flip was in effect and represents an offset to the long-term accrual of revenue that is not available for appropriation.