

2009-10 General Fund Review

This is the time of year when cities take stock of where they ended their previous fiscal year. For Menlo Park, that is the year ended June 30, 2010. With General Fund operating revenues of \$35.5 million and expenses of \$36.1 million, the City's "bottom line" is negative, showing a \$637,925 operating deficit. In comparison to the adjusted budget for the year, revenues were approximately \$1 million under budget while expenses were approximately \$1 million under budget as well. In addition, the City spent \$388,795 for the El Camino Real / Downtown Specific Plan. The pre-planned use of reserves for this long-term project is not an annual operating expense, but is funded by the City's General Fund.

The largest revenue shortfall was in sales taxes, which were \$500,000 short of budget due to the continued economic downturn. In addition, hotel taxes also suffered from the poor economy and were \$400,000 short of budget. Expenditures, however, were also under budget by 2.9% (roughly \$1 million) and were only .66% higher than the previous year. The increase over prior year expenses was due to a \$400,000 "transfers out" largely to fund the City's regular infrastructure maintenance (\$2.1 million annually) for things like street paving, parks and building repairs. Other cities may choose to delay or defer infrastructure maintenance during tight budget times; however, Menlo Park prefers to fund this expense as part of the annual operating budget.

When we complete the required Comprehensive Annual Financial Report (CAFR), it will show a larger draw on reserves (\$1,339,311) than indicated above, in order to reflect a requirement to "mark-to-market" the City's investment portfolio and record any market gain or loss. This would be similar to you counting your stock market losses as an expense, even if you still owned the stock. For the City, this reporting adjustment amounts to \$312,000 and does not represent any actual cash expense.

Because Menlo Park's revenues were severely impacted by the economic downturn, City staff and Council are aggressively pursuing strategies to reduce long-term costs further to resolve the structural deficit for a sustainable budget. A sustainable budget is one where the costs of the services provided equal the revenues received over a period of years and through varying economic cycles.