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City Clerk/CDC Secretary
City of San Bernardino

CITY OF SAN BERNARDINO, CALIFORNIA
STAFF REPORT
July 18, 2012

To: Mayor and Common Council
Subject: Declaration of Fiscal Emergency

The City of San Bernardino has been affected by the serious economic recession as have other cities and has taken steps over the last several years to reduce costs. Nevertheless, costs continue to outpace revenue due to increased operational expenses and significant rapid declines in property tax revenues as a result of a drop in property values and decline in sales tax revenue. Deficits of major proportions are expected until cost containment, cost recovery strategies, and/or modification of revenue measures are implemented to close the gap. To ensure basic operational service levels are maintained and to continue to protect the health, safety, and welfare of the community, steps will be needed immediately to reduce costs and protect the assets of the City from creditor action, otherwise the City will not be able to meet its operational and contractual obligations, including paying employees.

The financial state of the City is such that the health, safety, and well-being of the residents of the City will be jeopardized, absent protection under Chapter 9. In addition, the City will not be able to pay debt or obligations as they become due over the next 60 days (the "Applicable Period"), as set forth in the cash flow model attached hereto as Exhibit A and the Budget Analysis and Recommendations for Budget Stabilization attached hereto as Exhibit B. The City's Fiscal Emergency is based upon the foregoing and the following factors:

- Depleted General Fund reserves and limited cash flow
- On-going ERAF shifts by the State of California
- No ability to access short-term credit market
- Vendors and creditors of the City requiring cash up-front before materials, services or goods are provided
- The City has lost its credit line with its bank
- Payment under Debt obligations and lease payments on critical city assets that are due during the Applicable Period cannot be made.
- There is a Pension Obligation Bond payment in the amount of $3.4 million due July 20, 2012
- "Claw Back" of Economic Development Agency expenditures likely
- Increasing CalPERS pension costs
- Timing of reimbursements
- Anticipated acceleration of payables
- Increase in employee retirements triggering immediate cash outs of leave accruals above annual average

Note: factors listed are just some of the factors, not all.

A deficit of $45.8 million is projected in the City's FY 2012-13 Preliminary Budget, and with the loss of redevelopment, the deficit issues will be more significant until the assets held by the Successor Agency can be liquidated and placed back on the property tax rolls. Measures are necessary to mitigate ongoing costs and/or enhance revenue generation during the current fiscal year. The budget deficits for the next three months, respectively, are as follows: July ($5,144,805); August ($2,060,352); and September ($5,676,506). (See Exhibit A)

It is the organization's top priority to address these issues with the adoption of the FY 2012-13 operating budget, as the City's reserves and discretionary funds have been depleted, and the City faces insolvency. Simply put, the City must now take substantial action to reduce its spending and increase revenues while preserving essential services.

CITY OF SAN BERNARDINO
SELECTED MONTHLY CASH FLOW ANALYSIS

Inflows/Outflows	July 2012	August 2012	September 2012
Property Tax	3,893,125	3,439,875	39,682
Sales Tax	2,918,011	2,835,982	3,275,784
Franchise Fees	48,083	47,352	51,599
Transient occupancy tax	208,788	215,167	221,249
Utility users tax	1,411,889	1,893,451	1,993,451
Business registration	571,633	571,229	601,343
Fee & Permits	540,408	617,436	571,389
Fines, Enforcement, Restitution	196,470	138,420	192,680
Use of Money and Property	10,346	26,511	28,305
Intergovernmental (Grants, Other Govts)	309,932	27,741	294,623
Miscellaneous	347,024	347,783	274,837
Credits/Grant Offset (Acct# 5910)	323,618	323,618	323,620
Total Monthly Inflows	**10,779,328**	**10,484,565**	**7,868,562**
Salaries	7,100,745	6,730,823	6,679,654
Overtime	613,933	747,998	706,905
Retiree Health Payments	582,544	645,660	643,756
PERS Payments	1,778,359	1,762,714	1,746,967
Health Insurance	653,670	599,854	537,916
Other benefit payments	399,295	401,740	396,919
SubTotal Salaries and Benefits	**11,128,546**	**10,888,788**	**10,712,116**
Operations & Maintenance	172,546	214,520	441,176
Contractual Services	383,572	210,464	557,455
Internal Service Fund Charges	1,214,441	1,214,442	1,214,419
Equipment	-	-	-
Debt Service	3,427,500	159,864	159,864
Other	-	259,310	1,121,089
SubTotal O&M, ISF, Eq, D/S	**5,198,059**	**2,058,599**	**3,494,002**
Total Expenditures - Outflows	**16,326,605**	**12,947,387**	**14,206,118**
Net Revenues/(Deficit) B4 transfers	(5,547,277)	(2,462,822)	(6,337,556)
Transfers In	661,050	661,050	661,050
Transfers Out	(258,578)	(258,580)	-
Net Transfers	**402,472**	**402,470**	**661,050**
Net Cash Excess /(Requirement)	(5,144,805)	(2,060,352)	(5,676,506)