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Recession sitll hurts: City's revenue projections are bleak

By TONI SCOTT - Staff Writer

Posted: 10/01/2009 12:00:00 AM PDT

CHICO -- Though some may be hopeful the recession is coming to a close, financial projections from the city of Chico indicate the impacts of the economic downturn are far from over.

The fourth quarter preliminary results for the 2008-09 fiscal year show sales tax revenue — one of the city's major sources of income — declined dramatically, a trend that causes concern for city Finance Director Jennifer Hennessy.

Hennessy prepared the quarterly report that will be presented to the City Council Tuesday. She said with 38 percent of the General Fund dependent on sales tax revenue, the city is directly impacted by the shopping shrinkage.

"It has had a significant impact on our available revenue," Hennessy said.

Sales activity from April to June of 2009 came in 18.6 percent lower than sales in the same quarter in 2008. Hennessy's report states the revenue generated from sales tax has declined to 2004-05 levels.

What is perhaps more troubling is Hennessy's assertion that the situation will not be improving anytime soon.

Hennessy said her projections indicate sales tax revenue is likely to continue to plummet into the 2009-10 fiscal year.

"I have projected a further decline," Hennessy said.

"I am projecting it to get worse."

Part of this further decline will include the realized effects of the recent closures of Mervyns, Gottshalks, Circuit City, McMahan's and Linens and Things, some of the city's former large sales tax revenue contributors.

Hennessy said as fourth quarter numbers are only from April 1 to June 30, 2009, the true impact of the closures have yet to factor in.

"We still have to yet to see the cumulative effects of all those store closures," Hennessy said, noting the impact will likely be felt over the next two fiscal quarters, which includes the holiday shopping season.

To compound an already precarious financial situation, the city has also experienced a decrease in property tax revenue, in large part due to declining home values and subsequent home reassessments.

The city has taken a significant hit from the state as well, with Chico required to fork over a mandatory loan of \$1.2 million in property taxes to help close the state's \$24 billion budget gap.

The state also grabbed city redevelopment funds, used primarily for capital projects, with Chico expected to lose \$11.1 million in RDA funding over the next two years.

That funding would have been used to finance several projects that have since been halted, including the construction of a new fire station, the widening of Highway 32 and new traffic signals.

Hennessy said suspending the funding to the projects has far-reaching implications, noting the loss of funding "trickles down" to the contractors

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and subcontractors who might have been hired to work on the projects.

"You pull \$11 million out of general construction, you will have an impact," Hennessy said.

Though the projected financial outlook may be foreboding, Hennessy emphasized Chico is actually faring better than many cities.

Anticipating a downturn in the economy, the city enacted a deficit reduction strategy, which included expenditure reductions of 7.5 percent in all city departments. The city also took steps to renegotiate employee contracts, saving the city approximately \$1.3 million over the past fiscal year.

"Those reductions helped us absorb the impacts of the reduced sales tax revenue," Hennessy said. "Because of that we are not having to dip into our reserves."

Additionally, Hennessy said the city is seeing some growth in two business sectors, with discount department stores and food and drug stores helping to mitigate the decline of revenue generated from other struggling industries, such as construction and auto sales.

Discount department stores comprise about 14 percent of the city's sales tax revenue, with food and drug stores making up about 8 percent of the total sales tax revenue generated.

With consumers shopping at stores where they can stretch their savings, Hennessy said the rise in revenue within these industries has helped to offset the overall revenue decrease the city is experiencing.

"That is really what is helping Chico — Costco, Wal-Mart, Kmart," Hennessy said. "Because we have all

those stores in our mix, they are actually helping us stay steady."

Staying steady has included the ability to maintain an emergency reserve fund of nearly \$7 million, which the city has yet to dip into. Hennessy said the city is not projecting to use the emergency fund and said unlike the state, the city is likely to remain solvent this next fiscal year.

"We're actually really fortunate," Hennessy said. "Our sales tax revenue looks uglier than we originally thought, but it looks like we still meet our revenue projections and meet our bottom line."

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