

October 30, 2009

Mr. Marc Maiello, President  
IAFF Local 1821  
310 S. 7<sup>th</sup> Ave.  
Caldwell, ID 83605

RE: Caldwell City Finances

Dear Marc:

As per your request I have reviewed financial documents of the City of Caldwell, Idaho. I have used the FY2006 to 2008 CAFR's, information from the FY2009 and FY2010 budget worksheets, and end of year Revenue and Expenditure Statements provided by the City of Caldwell.

The union raised many questions concerning the financial projections and budget for FY2010. I have reviewed the extensive spreadsheets provided by the City of Caldwell. The spreadsheet modeling and calculations are mathematically correct except for one item which will be discussed in the next paragraph. Your first request was to review the differences between the FY2009 and FY2010 fire fighter salary schedules, including the credit for longevity. The calculations provided by the City given the underlying assumptions are correct. The key assumption is starting with an aggregate base salary number of \$1,982,512. This salary base includes the increase in salary for the six firefighters that progressed from Firefighter II to Firefighter III. The FY2010 salary base is a reduction of \$30,945 from the FY2009 salary base. This is the same reduction you noted on your 2009-2010 CLA Budget Comparison. The \$30,945 is accounted for by the deletion of the new half-time position for a second Fire Prevention Officer and the salary savings from two positions, (Birch and Zachary) returning to Entry Level I from Firefighter II. Birch and Zachary were promoted to Driver/Operator to fill positions vacated by Allgood and Davies. This \$30,945 plus fringes and benefits of \$12,069 are absorbed for use of other budget items. The base salary numbers for FY2010 do not include longevity, the increase in Kelly days or the 3% salary increase. The base salary in FY2009 does include longevity. The longevity amount for 2010 is correct as shown at \$114,827.

As mentioned in the preceding paragraph there is one inconsistency in the budget numbers presented by the City of Caldwell. The new wage money of \$118,431.23 is shown in the spreadsheet comments to be 90% of a mill levy of \$.0024 times the sum of new construction and annexation. The mill levy on the annexation amount of \$11,870,967 is not included in new wage money. It is however included in projected revenues under Rural District fees. If the amount attributable to the mill levy on annexation were included in the Fire Department's FY 2010 budget, the new wage

money would be \$144,072, not \$118,431.22. Instead, this new wage money (\$25,640.77) is included in the overall budget, which balances using projected revenues for 2010 and some monies from General Fund Reserves. The \$144,072 is not totally available for increases in wage and Kelly days. The City's Budget for Fire Department Personnel identifies \$51,952 to be spent just to maintain last year's personnel, and salary schedule. Some of this amount is not subject to budgetary discretion, such as funds for longevity, FICA, insurance and retirement. Other Fire Department Personnel expenditures have more budgetary discretion. Budget appropriations for part-time salaries, overtime, uniform allowance and personnel training should be open for further discussion. For example, to the extent FY2010 budget appropriations for any of these and other line items appear over-inflated in light of historical actual annual expenditures, funds could be shifted to help cover the contractual increases in wages and Kelly Days.

Currently, the FY2010 budget is projecting the use of \$105,970 of General Fund Balance Reserves to finance one-time expenditures. Other items in the FY2010 Budget may also be reasonable to classify as one-time money, including: \$86,164 for Construction in Progress; \$21,607 for Contingencies; and \$12,799 for General Operating Supplies. These three items total to \$120,057. If these three budget items were funded by one-time monies from the unreserved fund balance it would free up ongoing revenue monies for wage increases. If this were done the use of unreserved fund balances would increase to \$226,027, approximately 1% of the City's \$20 million FY 2010 General Fund budget.

To summarize the proposed FY2010 Budget:

1. Fire salaries for FY2010 have been decreased from FY2009 Budget by \$30,945, assuming a half-time salary for the second FPO. Grossed up to include fringes and benefits, the decrease is \$43,014. The \$43,014 was funded in the FY2009 budget with designated funds for firefighter salaries.
2. New monies available for salaries is stated to be \$118,431.23 and defined to be 90 percent of the mill levy of \$.0024 times the sum of new construction and annexation. The City's calculation does not include \$11,870,967 in properties reported on the spreadsheet as annexed. If these properties are included in calculating the new monies available for salaries increases, the total amount available is \$144,072.
3. If the continuing monies that were originally in the FY2009 Budget are added to the new monies available from new construction and annexation, the total available ongoing monies for salary increases totals \$187,086.
4. The estimated cost of a 3% salary increase for FY 2010 is \$88,442 which includes all fringes and benefits. The estimated cost of 4 incremental Kelly Days in FY 2010 is \$100,481. The total estimated cost of the 3% salary increases and the 4 incremental Kelly Days for FY 2010 is \$188,923.
5. If the FY2009 salary base is continued and incremental monies from new construction and annexation are added and the \$51,952 of projected increases in personnel costs are subtracted, \$135,134 is available within the Fire Department's FY2010 Budget to fund the 3% salary increases and four additional Kelly Days for FY2010.

6. Further tightening of other budget lines would reduce the \$53,789 funding gap. Examples of discretionary funding for personnel expenditures have been discussed. Other budgetary items for operations should also be reviewed. An example is General Operating Supplies that is budgeted for \$12,799 with no history to support the amount.
7. Various other budget items could be paid using one time monies from the unreserved fund balance, dependent, of course, on the availability of unreserved fund balances, which is the subject of the next section.

Table 1 presents the City of Caldwell's Revenue history from FY2006 to FY2009.

Table 1

Year	Budgeted Revenues	Actual Revenues	Difference
2006	\$15,112,338	\$16,660,946	\$1,548,608
2007	\$18,927,938	\$18,223,564	-\$704,374
2008	\$21,721,459	\$18,405,302	-\$3,316,157
2009 est. *	\$17,430,099	\$16,422,043	-\$1,008,056

\* Does not include Transfers-in

Revenue projections have not actualized from FY2007 to FY2009. The downturn in the economy has had an impact on actual revenues generated by the City of Caldwell. The FY2009 Revenue estimate is based on preliminary data and does not include transfers-in or contributions from other governments. FY2006 through FY2008 include transfers-in but not contributions from other governments.

Table 2 presents the City of Caldwell's Expenditure history from FY2006 to FY2009.

Table 2

Year	Budgeted Exped.	Actual Expend.	Difference
2006	\$16,533,507	\$15,528,052	-\$1,005,455
2007	\$17,628,083	\$14,947,204	-\$2,680,879
2008	\$20,919,319	\$18,984,089	-\$1,935,230
2009 est. *	\$18,699,212	\$18,260,533	-\$438,679

\* Does not include Transfer-out

Table 2 illustrates that the City of Caldwell historically spends less than they budget. This is typical of good financial planning by municipalities. The FY2009 estimate does not include transfers-out while the preceding fiscal years include the transfers. The FY2009 budgeted expenditures were reduced from the previous year reflecting the economic downturn.

Because of economic downturns and unexpected contingencies municipalities create and maintain Fund Balances. Table 3 presents the Fund Balances for FY2006 to FY2009.

Table 3

Year	General Fund Balance	Unreserved Fund Balance	% Of Budget
2006	\$6,180,642	\$4,869,003	28%
2007	\$9,518,780	\$7,511,375	36%
2008	\$9,750,335	\$7,604,358	41%
2009 est.*		\$6,500,000	33% **

\*Assumes an Actual shortfall of \$1.1 million for FY2009

\*\*Assumes a budget for FY2010 of \$20,000,000

The City of Caldwell has been carrying a very high Unreserved Fund Balance from FY2006 to FY2009. The Government Finance Officers Association and Moody's Rating Agency support a minimum Unreserved Fund Balance of five to ten percent. Even with a projected reduction of the beginning FY2009 Unreserved Fund Balance of \$1.1 million, the remaining Unreserved Fund Balance would still be 33% of a \$20,000,000 FY2010 Budget. This is a more than adequate buffer if the economic recovery in the City of Caldwell is extended into FY2010. There are ample funds available to fund necessary expenditures for FY2010.

In summary, we are in the middle of an uncertain economic downturn. Fortunately the City of Caldwell entered the downturn in excellent fiscal health. Using the latest data available it appears that the City will have a budget shortfall for FY2009. However, the City has ample reserves to manage the shortfall and enter FY2010 in excellent fiscal health. Although the City of Caldwell needs to be vigilant in monitoring expenditures versus revenues for FY2010, there appears to be no economic reason the City could not fund the Fire Fighters' 3% raises and 4 additional Kelly Days for FY2010 while remaining conservative in their approach to fiscal responsibility.

Sincerely,



Alan W. Frankle, Ph.D