

INTER-OFFICE CORRESPONDENCE

To: Mayor and City Council

From: Satwant Takhar,
Administrative Services Director

Date: October 22, 2015

Subject: 1st Quarter Budget and Finance Review

The purpose of this report is to provide a briefing, focusing on budgetary items that have changed from our estimates and forecasts made during the budget hearings last spring and reviewing the status of significant revenue enhancement opportunities discussed with the Council in the workshop held in April.

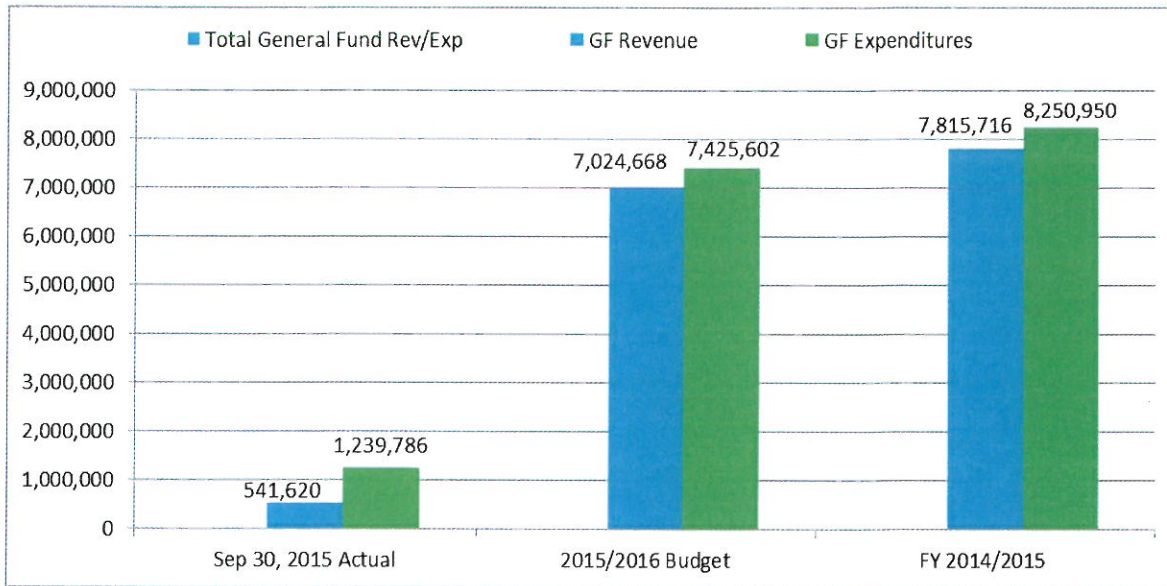
To fully comprehend the budget outlook for the remainder of FY 2015/16, the closeout and financial audit of the preceding fiscal year is important to understand. The FY 2014/15 ending fund balance is projected to be \$141,939 based on preliminary audit figures. Revenues were \$7,815,716 which are \$217,535 higher than projected, the expenditures were \$8,250,950 which are \$162,235 higher than projected as follows:

| <u>FY 2014/15 General Fund (Fund 101)</u> | <u>Actuals</u> | <u>Projected</u> | <u>Variance</u> |
|---|------------------|------------------|------------------|
| General Fund Revenues | 7,815,716 | 7,598,181 | 217,535 |
| General Fund Expenditures | <u>8,250,950</u> | <u>8,088,715</u> | <u>(162,235)</u> |
| Favorable/(Unfavorable) | <u>(435,234)</u> | <u>(490,534)</u> | <u>55,300</u> |

There were cost savings in the city council, public works, traffic safety, building, planning and non-departmental budgets due to the lower cost of supplies and outside services. However, these were more than offset by cost overruns due to delays in completing the fire department transition from Calfire, electric utility costs, salaries/benefits, leave payouts, software maintenance, building and equipment repairs, write-off of bad debts and reconciliation of General Fund support to the Capital Projects Fund. Still, it appears likely that we ended the 2014/15 fiscal year approximately \$55,300 better than projected at the time the FY 2015/16 budget was constructed.

Update of Fiscal Year 2015/16

The actual general fund revenue received for the first three months as of September 30, 2015 are approximately 8% of the budgeted amount (\$541,620 actual vs. \$7,024,668 budgeted). In contrast, general fund expenditures at this point are outpacing revenues with approximately 17% of the budgeted amount (\$1,239,786 vs. \$7,425,602) spent, as shown in the chart on the following page. This is not, in itself, unusual and it does not necessarily indicate a further problem. Revenues and expenditures are almost never linear throughout the year, particularly not in the first quarter of the year, extending into the second quarter. By December, when the first installment of property taxes are received, this imbalance will correct itself.



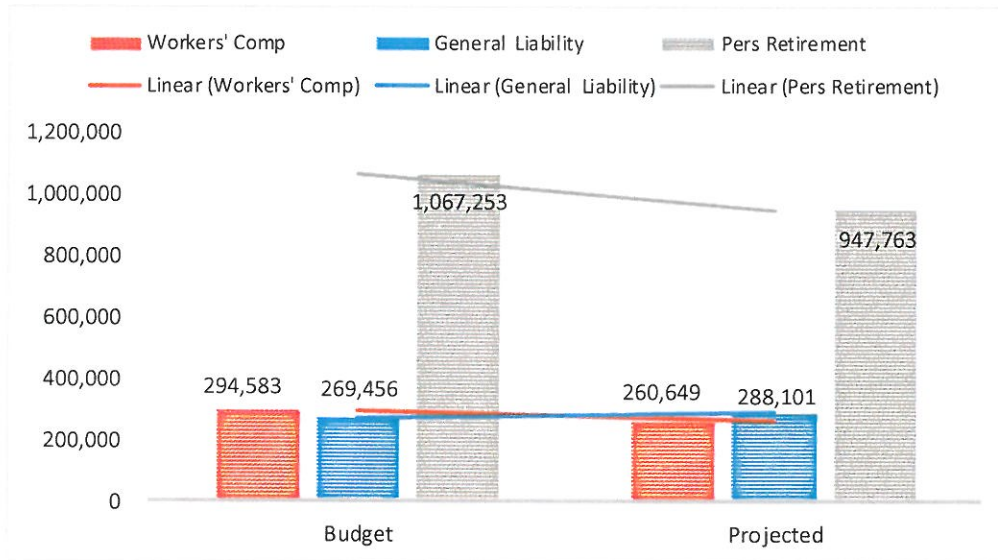
Analysis of Fiscal Year 2015/16

Key issues for FY 2015/16 include: (a) depleted reserves and a projected negative fund balance of approximately (\$300,000). Staff will continue to monitor and revise as transactions are posted; (b) slight increase in assessed values and related property tax revenues; (c) lower sales tax projections based on lower gasoline prices; (d) public service levels; (e) economic development; (f) debt service obligations (g) pension, liability and workers’ compensation costs; (h) administration of grant funds for infrastructure projects and code enforcement; (i) required information technology upgrades for all departments; and (j) credit downgrades by Moody’s Investor Service, making it impossible to find creditors to refinance the CalPERS pension side fund, finance street infrastructure projects and buy equipment.

Since the preparation and adoption of the city’s budget and subsequent actions taken by the state legislature, we have made revisions to the budget projections in the following areas: (a) property tax revenue increased by \$27,000; (b) sales tax revenue decreased by \$20,000; (c) towing fees decreased by \$19,750; (d) fire equipment rental fees decreased by \$35,000; (e) state mandated reimbursement increased by \$13,000; (f) police cops funds decreased by \$10,000; (g) police AB 109 realignment funds decreased by \$59,400; (h) county corrections partnership grant increased by \$25,000; (i) RDA loan payment reclassified as reduction of loans receivable in the amount of \$93,899; (j) liability insurance costs increased by \$18,645; (k) workers’ compensation costs decreased by \$33,934; and (l) CalPERS retirement premiums decreased by \$119,490.

| | General Liability | Workers' Comp (1) | PERS Retirement (2) | Totals |
|-------------------------|-------------------|-------------------|---------------------|------------------|
| Budget | 269,456 | 294,583 | 1,067,253 | 1,631,292 |
| Projected | <u>288,101</u> | <u>260,649</u> | <u>947,763</u> | <u>1,496,513</u> |
| Favorable/(Unfavorable) | (18,645) | 33,934 | 119,490 | 134,779 |

Note 1: Fire Dept Claims Experience Unknown
 Note 2: UAL Repayment Begins 7/1/15, Reducing Normal Cost Rate
 Note 2: Fire Contract Amendment Separates Police Pers from Fire Pers



The revenue revisions decrease general fund revenues by \$173,149 and the expenditures revisions decrease general fund expenditures by \$134,779 as follows:

| <u>General Fund (Fund 101)</u> | <u>FY 2014/15</u> <u>Estimated</u> | <u>FY 2015/16</u> <u>Budgeted</u> | <u>FY 2015/16</u> <u>Changes to Budget</u> | <u>FY 2015/16</u> <u>Projected</u> |
|---|---------------------------------------|--------------------------------------|---|---------------------------------------|
| Beginning Fund Balance 7/1/2014 | 577,173 | | | |
| Projected General Fund Revenues | 7,815,716 | | | |
| Projected General Fund Expenditures | (8,250,950) | | | |
| Projected Ending Fund Balance 6/30/2015 | 141,939 | | | |
| Projected Beginning Fund Balance 7/1/2015 | | 415,589 | (273,650) | 141,939 |
| Budgeted General Fund Revenues | | 7,024,668 | (173,149) | 6,851,519 |
| Budgeted General Fund Expenditures | | (7,425,602) | (134,779) | (7,290,823) |
| Projected Ending Fund Balance 6/30/2016 | | 14,655 | (312,020) | (297,365) |

Note 1: Projections Based on Audit Fieldwork to Date, Audit Adjustments in Progress

Note 2: Revenues & Expenditures Include Interfund Transfers

Based on the projected beginning fund balance of \$141,939 and the revenue and expenditure revisions, without significant increases in new revenue sources or further service level reductions, the fund balance in the General Fund is projected to be in a deficit position of approximately (\$300,000) by the end of the fiscal year.

On the positive side, staff continues to pursue all of the cost saving and revenue producing items discussed with Council at the Mid-Year Report and Budget Outlook session held in February and the Council Workshop held in April as follows:

- Develop an aggressive approach to grant funding opportunities—Staff has applied for several grant programs, including Community Development, HOME, River Parkways, SACOG, Caltrans, Department of Justice and Office of Traffic Safety.

The City has received funding from the following: (a) CDBG for \$1,800,000 for infrastructure improvements, code enforcement, planning for a new community center and up to an additional \$400,000 in park irrigation improvements; and (b) Office of Traffic Safety in the amount of \$163,450 for police salaries/benefits and equipment.

- Recology Franchise Fee increase has been implemented and will increase revenue this fiscal year by an additional \$65,000 and \$90,000 in future years.
- Implement a First Responder/EMT callout fee—Staff has determined the process to establish a fee and has met with a firm that provides first responder fee collection services. Staff will be following up to determine how much revenue could be generated from first responder fees in the City to recover costs associated with providing services and what the related costs would be to implement and manage the program. The Fire Chief will be following up with the firm to obtain additional details.
- Renegotiate existing contract with D-10/Hallwood CSD for fire protection—Staff has met with board members of the district which has resulted in a mutual understanding of needs of the district and the City. Staff will continue to meet with district officials to provide factual cost information that will enable both agencies to negotiate adequate levels of service and fair compensation that will result in a win-win contract to be implemented when the current contract expires on July 1, 2017, or possibly sooner.
- Fee schedule update—Staff has prepared and Council has adopted several fee schedule updates over the past year.
- Off Highway Vehicle (OHV) lease revenue—Staff worked with Armstrong LLC owners to reconcile fees owed to the City and credits due to the lessee for improvements made at the request of the City. The City received \$13,438 this past fiscal year and projects to receive \$65,292 in this fiscal year and each year after until the lease expires on June 1, 2017.
- Sale of Plumas Lake Golf Course – Staff met with board members of the golf course to determine their interest in purchasing the property. They have not responded whether they are interested at this time. The lease expires on April 30, 2029.
- Baseball license agreement—Staff believes the agreement has ended due to the lessee not requesting extension in the term of the agreement. A letter has been sent to the new owner’s representative with no response back to the City. The matter will be reviewed with the Council’s ad hoc committee on baseball affairs to decide on the appropriate approach for renewal of a license agreement with the Gold Sox for the use of Bryant Field for the 2016 season.

Based on information available at this time, the comprehensive fiscal outlook for the City continues to be unfavorable unless serious steps are taken to increase new revenue sources

to attain fiscal solvency. As of September 30, 2015 the general fund negative cash balance of (\$922,000) is of considerable concern; the City Treasurer cannot certify there is enough cash on hand to cover expenditures for the next six months and the possibility of running out of cash should be of serious concern to the Council. The fiscal health of the City needs to be addressed immediately, or essential services will have to be further curtailed in order to continue to function at all. That would also put in serious jeopardy our recovery plans for the long-term revitalization of the local economy.