

City of La Palma

Agenda Item No. 12



MEETING DATE: May 3, 2016

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Laurie A. Murray, City Manager
Sea Shelton, Administrative Services Director

AGENDA TITLE: Adoption of Fiscal Year 2016-17 Operating and Capital Budget

RECOMMENDED ACTION:

It is recommended that the City Council take the following actions:

- a) Open Public Hearing
- b) Receive Staff Report
- c) City Council Comments and Questions
- d) Close the Public Hearing
- e) Adopt Resolution approving and adopting a Budget for Fiscal Year 2016-17, which includes the City's Financial Policy Statements

BACKGROUND:

The Fiscal Year 2016-17 Proposed Budget has been developed with consideration given to balancing core City services and the needs of the community with increasing costs and declining revenues. In order to receive input from the City Council and the public during the process and allow staff the opportunity to ensure accurate figures are reflected in the budget, a special budget workshop was held on March 22, 2016. Additional opportunities for City Council and public input were provided on April 5, and April 19.

There is a significant gap in expenditures over revenues, largely due to four drivers threatening the City's sustainability. Those drivers are: a significant drop in sales tax revenue due to the loss of a major business and the continual decline in oil prices; a drop in property tax revenues due to the move of a major property owner to non-profit status; a rise in pension costs over the next four years and beyond due to changes in actuarial assumptions and the required payments for the City's prior unfunded liability; rising insurance costs for both general liability and workers compensation; and the loss of redevelopment. As we have discussed over the past few years,

the deficit is not a one year problem and, in fact, as the Long Term Financial Forecast presented with this report as Attachment #1 shows, the current level of revenues and expenditures are not sustainable into the future.

DISCUSSION:

The City has done much over the past few budget cycles to address its financial situation, reduce expenditures and to some extent increase revenues where it could. Some of those actions include:

- Significant changes in both the 2011 and 2015 labor agreements with all groups, which reduced costs and unfunded liabilities, including increased employee contributions towards retirement (employees now pay the full employee portion), lower retirement tiers, no cost of living adjustments in three of the first four years of the 2011 agreement and no increases in the 2015 agreement, and most recently a reduced workweek for all non-safety employees that equates to a 5% reduction in pay through June 2017. Structural changes were made for safety employees that also equated to an approximate 5% reduction in take-home pay.
- Proactive economic development efforts.
- Change in investment policy which has increased interest earnings in a low interest environment.
- Creation of a Trust to fund retiree medical unfunded liabilities and a substantial reduction in those liabilities as a result.
- Reduction in staff strength to below 1986 levels.
- Restructuring throughout the organization to improve efficiencies and work distribution as well as reducing upper management while maintaining as many line positions as possible.
- Significant investment in new technology to support the smaller staff, improve service to the public and management information, and improve efficiencies.
- Significant investment in other major expense line items to improve efficiency including Phase 1 of the energy conversation project and the upcoming purchase and retrofit of street lights.
- Revision of the General Plan, adding new opportunities north of Orangethorpe including a new Freeway Overlay District to allow for digital billboards.

The City's financial situation is therefore not in response to inaction, but in spite of these significant actions already taken and based largely on factors outside of the City's control.

General Fund

General Fund expenditures, including the 6.4% transfer are proposed at \$10,557,400. Revenues are projected to be \$9,785,600. **The projected General Fund deficit is \$771,800** after the 6.4% transfer. The 6.4% transfer is estimated at \$587,600, with \$325,000 being transferred to COR.

Acct Code	Department Name	FY2016-17	
			Proposed
001-110	CITY COUNCIL	\$	57,500
001-120	CITY MANAGER		295,100
001-130	LEGAL SERVICES		155,200
001-150	CITY CLERK		126,400
	GENERAL GOVERNMENT TOTAL >	\$	634,200
001-140	ADMINISTRATIVE SERVICES - ADMINISTRATION		150,700
001-160	FISCAL SERVICES		359,500
001-170	HUMAN RESOURCES		1,378,300
001-180	TECHNOLOGY & COMMUNICATIONS		308,900
	ADMINISTRATIVE SERVICES TOTAL >	\$	2,197,400
001-210	POLICE ADMINISTRATION	\$	522,400
001-220	OPERATIONS MANAGEMENT		279,100
001-235	PATROL		2,324,100
001-240	SERVICES DIVISION MANAGEMENT		264,400
001-250	COMMUNITY EDUCATION		64,900
001-260	INVESTIGATIONS		585,400
001-270	RECORDS & COMMUNICATIONS		588,600
	POLICE TOTAL >	\$	4,628,900
001-310	COMMUNITY SERVICES ADMINISTRATION	\$	349,900
001-320	HEALTH & WELLNESS		143,400
001-330	RECREATION FACILITY OPERATIONS		235,400
001-340	SPECIAL EVENTS		121,400
001-350	YOUTH & FAMILY		264,600
001-370	CITY-WIDE MAINTENANCE		327,500
001-380	ENGINEERING		87,700
001-390	PARKS & MEDIANS		221,000
001-400	STREETS		301,000
	COMMUNITY SERVICES TOTAL >	\$	2,051,900
001-510	COMMUNITY DEVELOPMENT ADMINISTRATION	\$	103,300
001-520	BUILDING AND SAFETY		136,900
001-530	CODE ENFORCEMENT		101,100
001-540	PLANNING		116,100
	COMMUNITY DEVELOPMENT TOTAL >	\$	457,400
	Expenditure Subtotal Before Transfer Out >	\$	9,969,800
	Transfer Out >	\$	587,600
	EXPENDITURE GF TOTAL >	\$	10,557,400
	Projected GF Revenues >	\$	9,785,600
	Surplus(Deficit)	\$	(771,800)

It is recommended that the City use the projected available fund balance (Ending FY 2015-16 General Fund balance less the \$250,000 Cash Flow Reserve) of \$379,500 to offset the proposed FY 2016-17 deficit, not make the projected \$262,600 transfer to One-time Projects (the difference between the 6.4% that is set aside for capital and one time projects and what is transferred into the Capital Outlay Reserve), and utilize another \$129,700 from the Revenue Volatility Reserve Fund to balance the FY 2016-17 Budget.

Overall Budget Summary

Revenues across all funds are proposed to be \$17,716,400, with proposed expenditures at \$22,749,100. The draw on reserves is as follows: \$771,800 – General Fund due to a deficit, \$1,662,200 – Special Revenues due to revenues being reserved in FY 2014-15 and FY 2015-16 for expenditures in FY 2016-17 (specifically Measure M funds reserved for road projects), \$1,570,100 – Project Funds due to the cost of capital projects in the Capital Outlay Reserve (COR), \$973,700 - Water and Sewer and Facilities funds where funds have been accumulated for capital projects, and \$54,900 – Internal Service Funds due to a draw down on Vehicle Replacement Funds where funds have been accumulated for replacement vehicles. A complete summary of all funds is provided as Attachment #2.

As reported at the April 19, 2016 City Council meeting, expenditures for water needed to be revised to reflect rate increases by the Orange County Water District (OCWD) for groundwater pumping and the Metropolitan Water District (MET) for imported water purchases. Estimated cost to OCWD for FY 2016-17 is \$670,400. This reflects a 25% increase due to the Replenishment Assessment Charge (RAC) going up from \$322 to \$402 per acre foot. Imported water purchase cost for FY 2016-17 is estimated at \$548,300. This reflects an increase of 12% due in part to a 4% increase in the treated water cost going from \$942 to \$979 per acre foot and a change in the way that the Capacity Charge and Readiness to Serve charges are calculated. The change was much bigger than anticipated. The MET Board felt that this change would be more equitable for all members but for smaller agencies like La Palma the fees were higher. Fiscal Year 2017-18 rates will increase another 4% per acre foot.

It is also important to note that both the Risk Management and Employee Benefits Funds will be below target balances and additional funding will have to be funneled to these funds in the coming years to build back up their balances. The Vehicle Replacement Fund will be slightly below its targeted value, but it is anticipated that as part of the Police Department Operations Assessment that the total number of vehicles will be reduced, thereby reducing the fund replacement value.

Gann Limit

Voters approved the Gann Spending-Limitation Initiative in November 1979, adding an Article to the State of California's Constitution to establish and define annual Appropriations Limits on state and local governmental entities. By State law this amount has been adjusted each year based upon a prescribed factor derived from changes in the City's population plus an inflation factor. These two factors are both provided to the City by the California Department of Finance in early May of each year. Under normal circumstances staff would bring to City Council a resolution to adopt the City's Appropriations Limit for the upcoming fiscal year when presenting the proposed budget for adoption. Because the proposed budget is being presented to City Council for adoption early this year, the data needed from the California DOF was not available to calculate the Appropriations Limit for FY 2016-17 for this agenda item. Staff will bring a resolution to City Council at its next regularly scheduled meeting to adopt the FY 2016-17 Appropriations Limit. It is not required that the City establish its Appropriation Limit the same time it adopts its upcoming fiscal year budget.

Utility Users Tax Annual Review

Section 14-239 of the Municipal Code requires that the City Council review the utility users tax (UUT) on an annual basis, in conjunction with their consideration of the City's General Fund Budget. With the City's current fiscal status, the financial condition of the City would be adversely

impacted if the UUT were to be lowered for FY 2016-17. Therefore, the UUT has been included in the Budget projections at 5%.

SUMMARY:


The City's conservative fiscal practices including funding adequate reserves in the event of financial downtimes will get the city through the short term. However, as illustrated in the Long Term Forecast Chart, the continued rise of expenditures without at least an equivalent increase in revenues will make it increasingly more difficult to maintain core city services at the service levels that the community has come to expect.

The projected ten year gap shows consistent unbalanced budgets throughout the period, beginning with the FY 2016-17 deficit of \$771,800 and increasing to a deficit of \$1.5 million by FY 2025-26. In the short term, there is little the City can do to address these issues without significantly affecting service levels.

APPROVED:



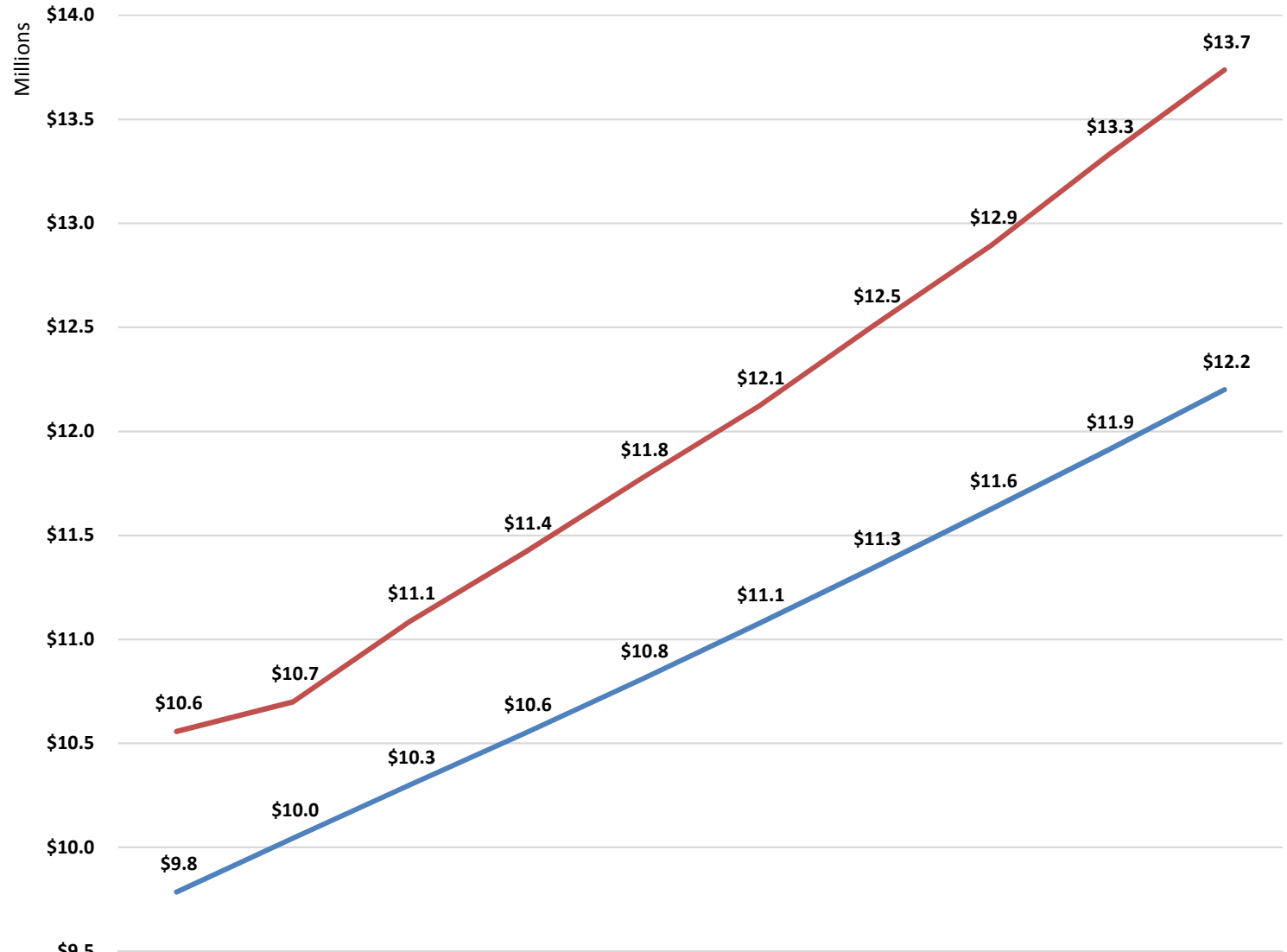
Administrative Services
Director



City Manager

- Attachments:
1. Long Term Forecast Chart
 2. Resolution Adopting the FY 2016-17 Budget
 3. Proposed FY 2016-17 Budget

REVISED 10 Year Financial Forecast - (Actions Taken to Date and Revised Revenue Forecast) 04/14/2016



	FY2016-17	FY2017-18	FY2018-19	FY2019-20	FY2020-21	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
— Total GF Operating Expenses	\$10,557,400	\$10,699,900	\$11,085,400	\$11,421,400	\$11,776,200	\$12,120,100	\$12,514,400	\$12,894,700	\$13,328,900	\$13,737,628
— GF Revenues	\$9,785,600	\$10,045,100	\$10,299,000	\$10,551,300	\$10,809,300	\$11,076,200	\$11,348,700	\$11,626,800	\$11,910,800	\$12,200,900
Fund Surplus/(Deficit)	\$ (771,800)	\$ (654,800)	\$ (786,400)	\$ (870,100)	\$ (966,900)	\$ (1,043,900)	\$ (1,165,700)	\$ (1,267,900)	\$ (1,418,100)	\$ (1,536,728)

RESOLUTION NO. 2016-__**A RESOLUTION OF THE CITY COUNCIL OF THE CITY
OF LA PALMA APPROVING AND ADOPTING A
BUDGET FOR FISCAL YEAR 2016-17**

WHEREAS, the City Manager of the City of La Palma did on March 22, April 5, April 19, and May 3, present to the City Council of said City a Proposed Budget for the Fiscal Year 2016-17; and

WHEREAS, the City Council held a duly noticed public hearing in the Council Chambers of City Hall of said City on May 3, 2016; and

WHEREAS, the City Council did review said Proposed Budget for Fiscal Year 2016-17; and

WHEREAS, the Fiscal Year 2016-17 Proposed Budget reflects a deficit for the General Fund of \$771,800; and

WHEREAS, the City Manager recommends using the projected available FY 2015-16 Unassigned Fund Balance after \$250,000 is set aside for the Cash Flow Reserve, the projected FY 2015-16 transfer to One-time Projects of \$262,600 and \$129,700 from the Revenue Volatility Fund to offset the FY 2016-17 deficit; and

WHEREAS, pursuant to Article VIII, Section 14-239 of the La Palma Municipal Code, the utility users tax shall be reviewed by the City Council on an annual basis, in conjunction with the City Council's consideration of the City's General Fund budget for the immediately succeeding fiscal year. Upon review the City Council has determined that the rate of the tax should not be altered for Fiscal Year 2016-17; and

WHEREAS, the original of said Proposed Budget will be revised so as to reflect each and all of the amendments, changes, and modifications which the City Council, up to the time of adoption of this resolution, believes should be made in said Proposed Budget as so submitted and to correct any non-substantive errors discovered.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LA PALMA, DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. The said Proposed Budget, including the five-year Capital Improvement Plan and five-year One-Time Project Plan, of the City of La Palma, California, for the Fiscal Year 2016-17, as so amended, modified, revised, and corrected, including those changes directed by the City Council at the May 3, 2016, City Council meeting, is hereby approved and adopted. In adopting said budget, the City Council hereby instructs the City Manager to change the columns headed "Proposed" to "Adopted" for each of the several items of Personnel Services, Maintenance and Operations, and Capital Outlay and Improvements for each of the various funds, departments, programs, and accounts as set forth in said Adopted Budget and, as so amended, modified, and corrected, and hereby approves the distribution of the salary detail, maintenance

and operations detail, capital outlay and improvements detail, policy revisions, and contractual arrangements noted in the program description and program explanation sections of the “Program Summary” pages, and interfund transactions and transfers shown under each of the respective funds, departments, programs, and accounts, and each of the respective “Item Description” accounts and explanatory data in its entirety, each provision of which should be construed to give effect to the entire document. The City Manager is also directed to adjust beginning balances to reflect actual amounts, to the extent they are known, and, in accordance with standard budgeting and appropriating practice, is authorized to transfer appropriations within and between departmental budgets as required to accommodate unforeseen operating requirements.

SECTION 2. The City Council authorized the City Manager to use the projected available FY 2015-16 Unassigned Fund Balance after \$250,000 is set aside for the Cash Flow Reserve, the projected FY 2015-16 transfer to One-time Projects of \$262,600 and \$129,700 from the Revenue Volatility Fund to offset the FY 2016-17 deficit of \$771,800.

SECTION 3. The City Council authorizes the City Manager to make changes in internal service fund allocations to departments to reflect any modifications made after the Adopted Budget was presented.

SECTION 4. The City Manager, for the purpose of administrative necessity in implementing the budget, shall have the authority to transfer monies to the appropriate item, account, program, department, or fund to cover expenditures which have been approved by the City Council, except where such transfer is expressly prohibited in a resolution or ordinance approved by the City Council, such as transfers involving utility replacement funds. The City Manager shall also have the authority to transfer monies between and within funds to meet the operational needs of the City within established spending limits.

SECTION 5. The City Council finds that the Utility Users’ Tax rate shall be five percent (5%) for Fiscal Year 2016-17.

SECTION 6. The City Manager is hereby authorized and instructed to take all steps necessary to implement this Resolution.

SECTION 7. The original of said budget for the City of La Palma, California, for the Fiscal Year 2016-17 as now before this City Council, and as amended, modified, revised, and corrected by City Council and staff, in open session, shall be placed on file in the office of the City Clerk of the City of La Palma, California, open to public inspection, and that said Adopted Budget is expressly incorporated in this resolution and made a part thereof. The City Clerk is hereby instructed to have copies of the Adopted Budget duplicated and available for public review and inspection and a copy provided to the Orange County Public Library, La Palma Branch, as soon as practicable.

APPROVED AND ADOPTED by the City Council of the City of La Palma at a regular meeting held on the 3rd day of May, 2016.

Gerard Goedhart
Mayor

ATTEST:

Kimberly Kenney
Deputy City Clerk

STATE OF CALIFORNIA)
COUNTY OF ORANGE) SS.
CITY OF LA PALMA)

I, KIMBERLY KENNEY, Deputy City Clerk of the City of La Palma, California, DO HEREBY CERTIFY that the foregoing Resolution was adopted by the City Council of said City at a regular meeting of said City Council held on the 3rd day of May 2016, and that it was so adopted by called vote as follows:

AYES:

NOES:

Kimberly Kenney
Deputy City Clerk



**Because the size of the proposed
Fiscal Year 2016-17 Budget is so large,
We have created a separate link below.**

**Please click on the link to be
redirected to the attachment.**

Attachment 3

Proposed FY 2016-17 Budget