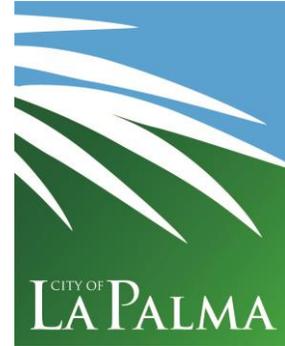


City of La Palma

Agenda Item No. 6



MEETING DATE: May 21, 2019

TO: CITY COUNCIL

FROM: CITY MANAGER

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

AGENDA TITLE: Study Session: Fiscal Year 2019-20 Proposed Budget and Capital Improvement Program

RECOMMENDATION:

It is recommended that the City Council receive the Staff presentation on the Proposed FY 2019-20 Budget and provide direction for any changes to be made for the June 4 Public Hearing.

BACKGROUND:

After a rocky finish to 2018, the U.S. economy picked up steam in the first three months of 2019. Although many economists do not see a slowdown in the economy to recession levels likely for 2019, slower growth is anticipated. La Palma is already seeing slower revenue growth when compared to 2018 and continued slowing is projected for the next two to three years. The City has received property tax, sales tax, and transaction and use tax (TUT) estimates for the next 3-5 years from its tax consultant, HdL Companies. These three revenue sources make up approximately 62% of General Fund revenues. Property Tax revenue growth begins to slow in FY 2020-21 and continues until 2023-24. Sales Tax and Transaction and Use Tax (Measure JJ) are both projected to decline in FY 2019-20 (explained in more detail in next section) and grow at historically low rates in FY 2020-21. Because these three sources make up a large percentage of General Fund revenues, slowdown in these categories have a significant effect on overall revenues.

While the City is embarking on a number of new initiatives, the Proposed FY 2019-20 budget has been developed with consideration to maintaining core services without adding unessential ongoing costs. This report will review the proposed FY 2018-19 budget and highlight General Fund operations, upcoming Capital Improvement Projects, and the long term financial outlook. It should be noted that these are proposed budget numbers that will likely undergo some changes as continued discussion occurs prior to budget adoption in June.

FY 2019-20 Proposed Budget

Projected General Fund Revenues

Projected FY 2019-20 General Fund revenues are \$11,854,800, which is a 0.3% increase over estimated FY 2018-19 revenues. The following is a summary on how revenue projections for the upcoming fiscal year were developed for certain revenue categories that are expected to have significant changes.

- **Property Tax**

- Secured Property Tax: 4.1% increase, Vehicle License Fee Adjustment (VLFAA) 4.6% increase; and all other (unsecured, property transfer, supplemental) 2.0% increase.
- Consumer Price Index Annual Adjustment: The California Consumer Price Index (the "CCPI") for 2019-20 that has been approved by the State is 2.00%, the maximum allowable.
- Transfers of Ownership: For the 2019-20 fiscal year, the actual value increase due to the transfers of ownership is included.

- **Sales Tax/Transaction and Use Tax**

- Sales Tax: Negative -3.2%
- Transaction and Use Tax (TUT): Negative -5.1%
- Although both Sales Tax and TUT receipts are slowing, the FY 2019-20 projections decline is inflated slightly by irregularities in FY 2018-19 receipts. There were several double payments and economic adjustments for various business in FY 2018-19 that inflated some Sales Tax and TUT revenue receipts. Some of the double payment issues were a result of changes in the California Department of Tax and Fee Administration's (CDTFA) timing change of quarter clean up payments and late payments due to the agency's new reporting system. It should also be noted that the City did not anticipate to receive any sales tax revenue in FY 2018-19 from a large contributor that was scheduled to leave the City prior to the beginning of the fiscal year. The business in question did not leave the City until late September 2018 allowing the City to receive a quarter's worth of sales tax revenue that it did not expect to receive.

- **Utility User Tax (UUT)**

- Since FY 2015-16, the City has experienced a gradual decline in UUT revenue. Although traditional UUT sources such as electric and gas show some growth, changes in technology seems to be hampering growth in other sources. FY 2018-19 revenues are estimated to be slightly lower than FY 2017-18 actuals. For FY 2019-20, no growth is projected for UUT revenues and assumes a 5% levy rate.

- **Franchise Fees**

- Franchise Fees for FY 2019-20 are estimated to be down 3.6% from FY 2018-19 estimated receipts. This is due to a payment correction made in FY 2018-19 by the City's waste collection company which corrected underpayment of franchise fees from July 2017 through April 2019. By having included an additional 12-months of franchise fees,

estimated receipts are abnormally high for FY 2018-19. When removing this anomaly, estimated franchise fees are actually anticipated to be up 3% in FY 2019-20.

- **Licenses & Permits** are expected to increase by 1.9% primarily as a result of COLA increases to the Fee Schedule. Building activity has slowed in the past year and is expected to remain relatively flat in FY 2019-20.
- **Intergovernmental** revenues are expected to increase due to anticipated receipt of grant monies from the State for Spillman GIS upgrades and from the Federal Government for completion of the City's Hazard Mitigation Plan. These revenues offset correlating expenditures for these projects. These are one-time revenues that do not carryover in future fiscal years.
- **Charges for Services** revenue includes fees for recreation programs, building and planning fees not related to permit issuance, and police fees. Most items in this category are being projected at 2% growth due to COLA increases to the Fee Schedule. In FY 2018-19, fees collected for precise plans and CUP variances were abnormally high and are projecting to be lower in FY 2019-20, as a result overall Charges and Services revenue are expected to decline slightly by 1.0%.
- **Fines and Forfeitures** are expected to increase by 2.1%. Revenue in this category had seen a decline in the past two fiscal years as the Police Department has worked to reach full-staffing and properly train newer officers. It is anticipated moderate growth this in this revenue category should occur as a result of the Police Department making progress in this area.
- **Other Revenues**, which include revenues from the billboards, the Successor Agency administrative allowance, and a loan repayment from the Recognized Obligation Payment Schedule (ROPS), is expected to decline by 16.4%. This is primarily due to there not being enough ROPS residual pass-through monies being available for one of the City loans to the former redevelopment agency after funding for other obligations are apportioned. This is likely due to the Prime Health Care obtaining non-profit status. The County Assessor has confirmed that the hospital property has been adjusted to fully exempt from tax year 2016 to 2018. Since this parcel falls under the RDA areas, it will reduce the amount of pass-through payments in the future.
- **Interfund Transfers** will increase by 7.9% primarily due to annual increases to departmental and general overhead charges from the Water and Sewer Funds to the General Fund. Although most utility related expenses are charged directly to the Water and Sewer Funds, certain expenses such as the unfunded pension liability payments, legal expenses, and certain administrative costs are fully supported by the General Fund.

	2018-19 Projected	2019-20 Proposed	Prior Yr Projected	2020-21 Estimated	Prior Yr Proposed
Revenues by Type:					
Property Tax	3,853,600	4,012,300	4.1	4,139,400	3.2
Sales Tax	2,066,100	2,000,000	(3.2)	2,040,000	2.0
Transaction & Use Tax	1,450,000	1,376,000	(5.1)	1,403,500	2.0
Utility Users Tax	980,000	980,000	-	982,500	0.3
Residual Property Tax	120,000	122,400	2.0	124,800	2.0
Franchise Fees	416,800	402,000	(3.6)	410,000	2.0
Transient Occupancy Tax	401,000	409,000	2.0	417,200	2.0
Licenses and Permits	342,800	349,300	1.9	356,200	2.0
Intergovernmental	35,500	102,900	189.9	8,100	(92.1)
Charges for Services	506,000	500,700	(1.0)	510,500	2.0
Fines and Forfeitures	90,000	91,900	2.1	93,700	2.0
Use of Money and Property	380,900	380,100	(0.2)	386,800	1.8
Other Revenues	590,900	494,200	(16.4)	470,700	(4.8)
Interfund Transfers	587,700	634,000	7.9	646,600	2.0
Total Revenues	11,821,300	11,854,800	0.3	11,990,000	1.1

Projected General Fund Expenditures

Projected General Fund Expenditures for FY 2019-20 are \$11,680,800. A surplus of \$174,000 is estimated for FY 2019-20. The overall General Fund operating budget increase from the FY 2018-19 estimated actuals is \$441,100.

EXPENSE TYPE	2018-19 Estimated Expenditures	2019-20 Proposed Expenditures	Var +/-
Personnel	\$ 5,632,100	\$ 6,021,400	389,300
CalPERS Unfunded Liability Payment	1,010,800	1,185,000	174,200
Maintenance & Operations	2,670,000	2,708,700	38,700
Risk Management Fund Transfer	947,600	936,800	(10,800)
Vehicle Replacement Fund Transfer	99,500	152,300	52,800
Technology Fund Transfer	112,200	148,000	35,800
Transfers Out	767,500	528,600	(238,900)
TOTAL GENERAL FUND EXPENDITURES	\$ 11,239,700	\$ 11,680,800	\$ 441,100

Personnel cost increases associated with the City's labor agreements and management resolution have been incorporated and make up approximately 78% of the increase from FY 2018-19 to FY 2019-20. Personnel Costs not associated with labor agreements include scheduled merit increases for full-time staff, part-time pay and benefits, pre-employment screening, and contractual increases to benefits such as dental, life, and disability insurance. An additional \$3,000 has been included for over-time costs for recreation staff related to the new La Palma International Day event. The unfunded liability payments to CalPERS for the City's six plans is estimated based on the CalPERS actuarial valuations as of June 30, 2017, and assume the City will pay the full balance at the beginning of the fiscal year. The City receives a discount of approximately 3.5% for making the payment upfront as opposed to monthly. It should be noted that although the unfunded liability balance as of June 30, 2017, which totaled \$17.7 million, did not include the second of two \$2.5 million additional payments made in March of 2018, the scheduled payment amount for FY 2019-20 did take both payments into account.

Overall, the Maintenance and Operations budget only increased by \$38,700, as a result of FY 2018-19 having some one-time costs that are not being carried over to FY 2019-20; such as expenses related to the November 2018 election and the community wide survey. The vehicle operating expense budget in the Police Department has been lowered due to lower fuel cost and lower maintenance cost due to more regular replacement of older vehicles. Some cost increases have been included for existing professional contract services such as crossing guard services (+14.4%) and animal control services (+3.0%). In the Community Development Department, \$50,000 has been included to begin work on the Housing Element update. An additional \$50,000 is also included in the FY 2020-21 estimated budget to complete the Housing Element update. The cost for the Community Development Department consultant of \$25,000 has been moved out of the General Fund to the Economic Development Fund primarily due to the position taking on more economic development related projects.

One of the City Council's goals for FY 2019-20 was development of a City International Day Signature Event for April 2020 that would include a parade component (with local school participation but without a band competition). Although specifics on the event are not yet available, \$25,000 has been included in the Community Services Special Events budget for the event. The \$25,000 includes the \$3,000 in overtime costs for recreation staff discussed in the personnel cost section earlier in this report.

Transfers from the General Fund to the City's Risk Management, Vehicle Replacement, and Technology fund vary each year depending on anticipated expenses for the upcoming fiscal year, long-term funding needs, and maintaining target balances per City policy. Transfers to the Risk Management Fund are anticipated to be lower due to lower Workers Compensation contributions to the California Joint Powers Insurance Authority (CJPIA) for FY 2019-20 compared to FY 2018-19. Contributions to the Vehicle Replacement Fund have increased from FY 2018-19 due to higher values associated with recent police vehicle replacements requiring larger contributions to ensure adequate funding for future replacements. Transfer to the Technology Fund has also increased primarily due to the phase in of the replacement cost for the 800 MHz and additional technology that has been added to the City's IT inventory.

Transfers out for FY 2019-20 include \$350,000 to the Capital Outlay Reserve, \$50,000 to the Civic Center Replacement Fund, and \$128,600 to the Emergency Reserve Fund. The Emergency Reserve Fund policy establishes a commitment for an Emergency Reserve Fund with a minimum fund balance of 50% of General Fund Expenditures at the beginning of each fiscal year. The transfer amount being proposed is to meet the Emergency Reserve Fund policy. The transfer to the Capital Outlay Reserve and Civic Center Replacement Funds are the standard amounts that have been included in the most recent fiscal year budgets. The \$350,000 to the Capital Outlay reserve is sufficient in order to maintain the fund's balance at required minimum and is separate from the transfer from the unassigned fund balance for the median rehabilitation project discussed in the next section.

General Fund Budget Summary

Acct Code	Department Name	FY2019-20	FY2020-21
		Proposed	Estimate
001-110	CITY COUNCIL	\$ 67,200	\$ 68,600
001-120	CITY MANAGER	345,600	360,100
001-130	LEGAL SERVICES	151,800	166,800
001-150	CITY CLERK	93,800	106,600
	GENERAL GOVERNMENT TOTAL >	\$ 658,400	\$ 702,100
001-140	ADMINISTRATIVE SERVICES - ADMINISTRATION	\$ 160,300	\$ 171,200
001-160	FISCAL SERVICES	400,200	390,900
001-170	HUMAN RESOURCES	1,894,000	1,997,800
001-180	TECHNOLOGY & COMMUNICATIONS	266,000	264,700
	ADMINISTRATIVE SERVICES TOTAL >	\$ 2,720,500	\$ 2,824,600
001-210	POLICE ADMINISTRATION	\$ 578,400	\$ 595,400
001-220	OPERATIONS MANAGEMENT	334,900	342,500
001-235	PATROL	2,497,600	2,612,300
001-240	SERVICES DIVISION MANAGEMENT	246,200	257,700
001-250	COMMUNITY EDUCATION	114,400	73,200
001-260	INVESTIGATIONS	686,600	712,100
001-270	RECORDS & COMMUNICATIONS	732,700	749,400
	POLICE TOTAL >	\$ 5,190,800	\$ 5,342,600
001-310	COMMUNITY SERVICES ADMINISTRATION	\$ 352,900	\$ 365,200
001-320	HEALTH & WELLNESS	150,400	150,600
001-330	RECREATION FACILITY OPERATIONS	263,200	270,200
001-340	SPECIAL EVENTS	148,400	150,700
001-350	YOUTH & FAMILY	226,500	231,000
001-370	CITY-WIDE MAINTENANCE	363,200	293,300
001-380	ENGINEERING	105,300	105,700
001-390	PARKS & MEDIANS	235,100	237,300
001-405	STREETS	267,300	270,200
	COMMUNITY SERVICES TOTAL >	\$ 2,112,300	\$ 2,074,200
001-510	COMMUNITY DEVELOPMENT ADMINISTRATION	\$ 11,000	\$ 11,200
001-520	BUILDING AND SAFETY	151,600	151,800
001-530	CODE ENFORCEMENT	113,100	119,800
001-540	PLANNING	194,500	204,600
	COMMUNITY DEVELOPMENT TOTAL >	\$ 470,200	\$ 487,400
	Expenditure Subtotal Before Transfer Out >	\$ 11,152,200	\$ 11,430,900
	Transfers Out* >	\$ 528,600	\$ 400,000
	EXPENDITURE GF TOTAL >	\$ 11,680,800	\$ 11,830,900
	Projected GF Revenues >	\$ 11,854,800	\$ 11,990,000
	Surplus(Deficit)	\$ 174,000	\$ 159,100

Additional Items to Consider

The following items have not been incorporated into the Proposed FY 2019-20 budget and will be discussed at the May 21, 2019, meeting for possible incorporation into the budget.

Community Development Staffing – Currently the business license and code enforcement functions are split 50/50 in one fulltime Code Enforcement/Business License Officer. In order to increase proactive code enforcement activities, it is being proposed that the existing Code Enforcement/Business License officer be converted to a fulltime Code Enforcement Officer dedicated solely to code enforcement. A new Business License/Permit Technician position would take on business license duties, assist at the building counter, and provide administrative support duties for the department. The fully loaded cost for a Business License/Permit Technician is approximately \$75,000 annually at top step. The City is currently paying approximately \$33,000 annually for a contract permit technician. The net cost to include a full-time permit technician at Step C for FY 2019-20 would be **\$28,800**. While staff recognizes the need for increased code enforcement and this matter was discussed at the City Council Goal and Strategic Planning Session in January, staff is hesitant to increase ongoing operational costs at this time.

Potential Walmart Settlement – Over the past year, the City has been working with Walmart and the property management company for the Walmart site, Merlone Geier Partners, on a solution to address noise violations caused by delivery trucks to the Store. The City Council is currently considering a Settlement and Release Agreement with Walmart, Inc. of Delaware, which includes a settlement payment as reimbursement for the substantial costs incurred in resolving the noise violations alleged in citations, including costs associated with analyzing and evaluating potential noise mitigation, conducting public outreach with residents and neighbors of the Store, and ultimately implementing the Soundwall in areas beyond the scope of the violations set forth in the Citations. The potential agreement would require an additional **\$48,800** to be added to the General Fund. This amount includes \$2,600 for a Tree Reimbursement Program for the 13 residents living adjacent to the Walmart property.

New Medians on Moody Street – City Council had requested staff to obtain quotes to construct new street medians on the southern portion of Moody Street from La Luna Drive to Malaga Drive. NUVIS Landscape Architecture, who the City engaged for the Street Median Rehabilitation project, have projected that constructing one new median is estimated to cost \$150,000. It is probable that two medians could be constructed on the southern portion of Moody Street from La Luna Drive to Malaga Drive for an estimated total of \$300,000. Due to budget savings from recently awarded street projects, it is estimated that there are enough funds in COR to construct one new street median at the \$150,000 estimate. If City Council would like to allocate funding for two new street medians on Moody Street, an additional \$150,000 would need to be transferred from Unassigned General Fund Balance to COR.

Ten Year General Fund Long Term Forecast

The following are the revenue and expenditure assumptions used in developing the Ten Year General Fund Long Term Forecast.

Revenues

- **Property Tax**

- Secured Property Tax: 19/20 - 4.1%; 20/21 - 3.2%; 21/22 - 2.7%; 22/23 - 3.25%; 23/24 – 3.5%, 24/25 through 28/29 - 3.75%.
 - Property Tax in Lieu of Vehicle License Fee (VLFAA) – 19/20 - 4.6%; 20/21 - 3.3%; 21/22 - 2.8%; 22/23 - 3.2%; 23/24 - 3.5%, 24/25 through 28/29 – 3.75%.
 - All other (unsecured, property transfer, supplemental): 2.0% per year.
 - Consumer Price Index Annual Adjustment: The California Consumer Price Index (the “CCPI”) for 2019-20 that has been approved by the State is 2.00%, the maximum allowable. In years 2-5 of the long-term, the CCPI has also been forecast at the maximum allowable - 2%.
 - Transfers of Ownership: For the 2019-20 fiscal year, the actual value increase due to the transfers of ownership is included. In years 2-5, a growth rate is applied that is representative of the historical percentage of the value growth in La Palma that is a result of properties that have transferred ownership averaged over the past 6 years.
 - Proposition 8 Value Restoration – Single Family Residential (SFR): Proposition 8 adjustments in years 1-5 are based on the projected growth in the median sale price of SFR homes. The report includes the estimated adjustment value of the remaining Prop 8 reduced properties that are likely to be restored in each of the next 5 years.
- **Sales Tax/Transaction and Use Tax**
 - Sales Tax: 19/20 – Negative 3.2%; 20/21 – 2.0%; 21/22 through 28/29 – 2.25%
 - Transaction and Use Tax (TUT): Negative 5.1%; 20/21 – 2.0%; 21/22 through 28/29 – 2.25%
 - As discussed earlier in this report, declines in Sales Tax and TUT for FY 2019-20 are partially due to abnormal activity in FY 2018-19 (double payments, unexpected revenue from departing business, etc.). In FY 2020-21, both revenues will both be at positive growth although at a lower percentage than what the City has experienced in recent years. Continued slowing in the economy and increased concern over a potential recession has slowed growth in both these categories in the near future.
- **Utility User Tax (UUT)**
 - For FY 19-20, no growth is projected for UUT revenues and for subsequent years less than one percent growth per year and assumes maximum 5% levy rate.
- **ROPS Administrative Allowance**
 - Administration costs to manage the Successor Agency are provided for in the ROPS process from RPTTF. Although statute allows for a minimum of \$250,000 per year for the administrative cost allowance, it also states that this amount may be reduced by an oversight board or by agreement between the successor agency and the Department of Finance. During the review process for the FY 2019-20 by Orange Countywide Oversight Board, cities were cautioned not to continue to request the full \$250,000 amount in future years as administrative costs should decrease overtime as

redevelopment dissolution wind down activities continue. This has also been the message from the Department of Finance (DOF) in the City's most recent ROPS approval letter. As a result, the ROPS Administrative Allowance revenue in the long term forecast slowly decreases from \$248,900 to \$25,000 by the end of the ten year period.

- **OPEB Trust**

- Beginning in FY 2021-22, withdrawals from the OPEB Trust are included to offset health costs for existing retirees that are paid out of the General Fund. The most recent OPEB valuation as of June 30, 2017, reported the City's OPEB was 58.0% funded. The City's Actuarial Accrued Liability (AAL) had significantly increased from the previous valuation due to the inclusion of the implied subsidy. Agencies that provide retiree health benefits through CalPERS health plans (PEMHCA) are required under Government Accounting Standards Board (GASB) statement 45 that the implied subsidy be calculated. In PEMHCA, the implied subsidy is the benefit retirees derive from paying the same premiums as active employees. Because younger people are generally healthier than older people, retirees on average have higher health expenses than employees. This results in an (implied) active premium payment which subsidizes the cost for older retirees (subsidy). The inclusion of the implied subsidy increased the Unfunded AAL (UAAL) from \$386,000 (Cash Subsidy) to \$1.133 million. If only looking at the Cash Subsidy value, the Trust was 80% funded. Beginning in FY 2018-19, the City stopped making withdrawals from the OPEB Trust and made the Actuarial Determined Contribution (ADC) to help increase the funding level. By only making the required ADC contribution, accounting for interest earnings, and foregoing making withdrawals for three years, staff estimates that the Trust on a Cash Subsidy basis has the potential to be over 100% funded and on an Implied Subsidy basis over 75%. The next OPEB valuation is scheduled in FY 2019-20 with results being available by December 2019.

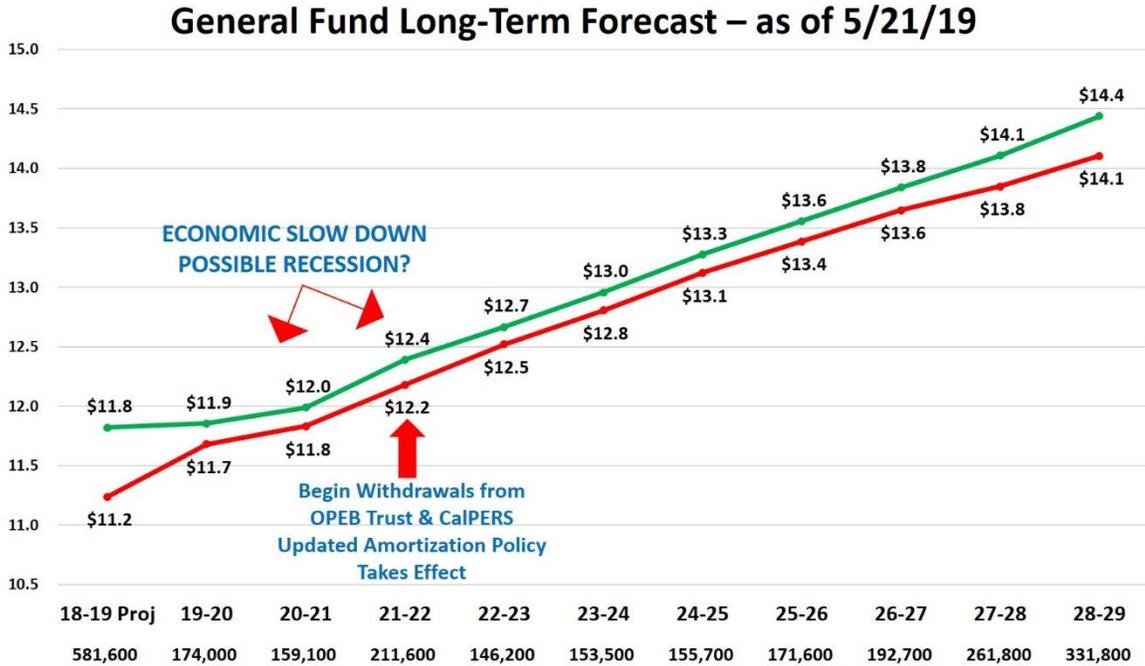
- **Other Revenues** - Most other revenues are projected to grow at 2%, which is slightly lower than the 20 year CPI average of 2.5%

Expenditures

- Non-Personnel expenditures are forecast as known for the next three years and then at a 2% increase unless longer term contracts are in place.
- In Years 1-2, personnel costs include current labor agreement increases and then 1.25% for years 4 and beyond.
- The City's unfunded liability payments are forecasted assuming CalPERS actual rate of return will be below its assumed rate of 7.0% for FY 2018-19 and FY 2019-20. The forecast assumes 5.0% for FY 2018-19, 6.0% for FY 2019-20, and 7.0% for FY 2020-21 and beyond. The forecast also accounts for the City's two \$2.5 million additional payments towards its unfunded liability. CalPERS' ability to achieve the 7.0% rate of return is in question due to market losses experienced fiscal year to date (FYTD). As of February 28, 2019, CalPERS FYTD net return was 1.5%. The uncertainty of an economic slowdown and potential recession also puts doubt for FY 2019-20 as well. In February 2018, the CalPERS Board reduced its amortization policy from 30 to 20 years for all gains and losses beginning with the valuation as of June 30, 2019. Fiscal Year 2018-19 experience will effect

rates beginning in FY 2021-22. The change in the amortization policy has been taken into account in the long-term forecast.

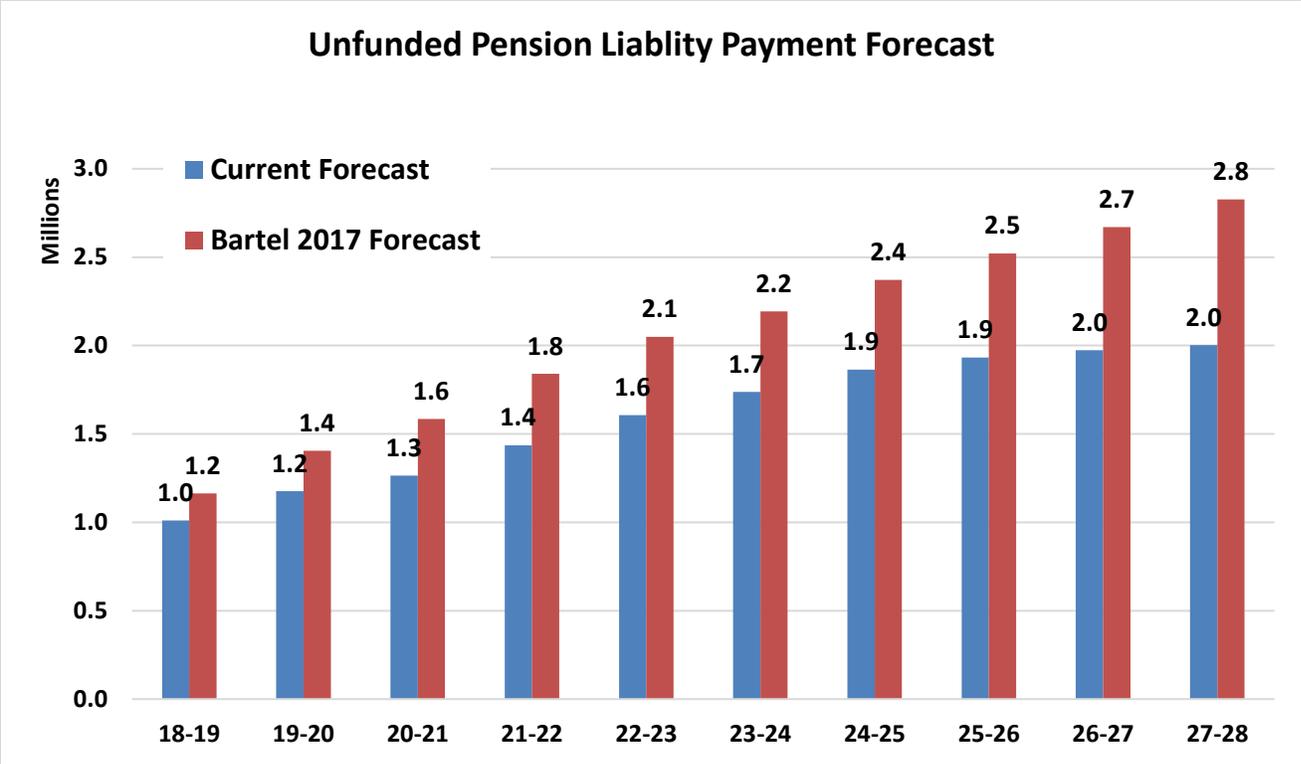
- Transfers out to the Capital Outlay Reserve (COR) from the General Fund increase from \$350,000 per year to \$450,000 per year beginning in FY 2026-27.



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Although the Ten Year Financial Forecast chart shows budget surpluses through FY 2028-29, the gap between revenues and expenditures gets very tight. For FY 2019-20 and 2020-21, revenue is almost flat, 0.3% and 1.1% growth respectively, while expenditures, excluding transfers out, are expected to increase by 6.5% in FY 2019-20 and 2.5% in FY 2020-21. Expenditure growth continues to exceed revenue growth until FY 2024-25 when expenditures begin to level off and more stable revenue growth occurs. The single largest expense to the General Fund is the City's unfunded pension liability (UAL) payment. By the end of the ten year period, the combined UAL payment for all six of the City's plans with CalPERS is estimated to be \$2.06 million or 14.5% of the estimated General Fund budget. As noted earlier in this report, the estimated long-term UAL payments assume that CalPERS does not make their assumed rate of return of 7.0% in FY 2018-19 (5.0%) and FY 2019-20 (6.0%). It should be noted that while the UAL payments are increasing, the required payments would have risen even higher, to unsustainable levels, had the City not made the two additional \$2.5 million payments in FY 2016-17 and 2017-18.

The following chart illustrates the UAL payment forecast provided by Bartel Associates in early 2017 (prior to CalPERS amortization policy change) without the additional UAL payments and the current forecast with the additional UAL payments.



FUND BALANCES

The following table lists the estimated FY 2019-20 beginning and ending fund balances for all the City’s various funds:

FUND	19-20 EST BEGINNING	19-20 EST ENDING
General Fund	2,378,300	1,562,300
Emergency Reserve Fund	5,447,500	5,576,100
Project Funds:		
Capital Outlay Reserve (COR)	5,175,000	2,413,200
Economic Development	221,900	146,900
Civic Center Replacement	352,700	407,700

FUND	19-20 EST BEGINNING	19-20 EST ENDING
Special Revenue Funds:		
Gas Tax/Highway Users Tax	200,100	16,300
Road Maintenance & Rehabilitation Account (SB1)	240,500	4,500
Measure M2	219,100	11,600
Air Quality Improvement	155,800	176,800
Public, Educational, & Government (PEG)	272,600	300,600
Asset Seizure	64,000	19,300
Supplemental Law Enforcement Services	213,100	200,700
Service Authority for Abandoned Vehicles	26,700	27,000
BSCC Local Law Enforcement Fund	52,300	40,500
Park Development	61,200	61,700
Successor Agency Housing Authority	114,200	108,200
Enterprise Funds:		
Water Fund	463,700	292,100
Water Capital Reserve	3,750,100	2,685,600
Total Water (Target Balance: \$2,029,200)	4,213,800	2,977,700
Sewer Fund	1,328,700	1,529,100
Sewer Capital Reserve	2,133,500	1,917,800
Total Sewer (Target Balance: \$2,686,300)	3,462,200	3,446,900
Internal Service Funds:		
Risk Management (Target Balance: \$1 million)	1,001,900	1,006,900
Employee Benefits (Target Balance: \$254,000)	298,500	302,000
Facility Maintenance (Target Balance: \$50,000)	52,700	53,300
Vehicle Replacement (Target Balance: \$815,500)	866,200	884,200
Technology Replacement (Target Balance: 725,800)	728,400	754,300

General Fund Balance

The estimated Unassigned General Fund balance at July 1, 2019, is \$2,378,300. This amount includes the estimated FY 2018-19 surplus of \$581,600 minus the 25% surplus transfer (\$145,400) to the Emergency Reserve Fund per the City's policy. During the FY 2018-19 Mid-Year Budget discussion at the February 19, 2019 meeting, City Council discussed options to allocate the available Unassigned General Fund Balance. City Council has directed staff to include a transfer of \$990,000 from the Unassigned General Fund Balance to the Capital Outlay Reserve in FY 2019-20 to fund the Street Median Rehabilitation project. After the \$990,000 transfer to COR, \$1,388,300 is estimated to be available in the Unassigned Fund Balance. After adding the estimated FY 2019-20 surplus, the fund balance is estimated to grow to \$1,562,300 by the end of FY 2019-20. This amount will vary depending on actual revenue and expenditures receipts for FY 2019-20.

Potential uses of the remaining Unassigned Fund Balance include:

- Additional Allocation to the Other Post Employment Benefits (OPEB) Trust
- Additional Transfer to the Emergency Reserve Fund
- Additional Allocation to the Civic Center Replacement Fund
- Transfer to the One Time Projects Fund (currently at zero balance)
- Any other purpose the City council deems appropriate

Capital Improvement Program (CIP)

As part of the annual budget process, staff develops a ten-year Capital Improvement Plan (CIP) with a five-year CIP included in the draft and adopted budget. The CIP lists the major infrastructure projects planned for the subsequent fiscal year, and four additional future years. In addition to listing the specific projects and their estimated cost, funding sources are identified. Generally, La Palma focuses its CIP on arterial and residential roadway rehabilitation (i.e., paving projects). However, the CIP also lists major projects such as water and sewer system upgrades, intersection improvements or major repairs to City facilities (e.g., roof replacement, Americans with Disability Act required improvements, seismic improvements, etc.).

A major accomplishment in the CIP over the last nine years has been the full rehabilitation of all residential and arterial streets in the City. Every two years for arterial streets and every five years for residential streets, a Pavement Management Condition Assessment is conducted. From the most recent assessment in June 2018, the overall condition of the City's road network is "Very Good", with an average weighted "Pavement Condition Index" (PCI) of 93.8, with 100 being a brand new street and 0 being a badly deteriorated street with virtually no remaining life. Arterial streets are "Very Good" with an average weighted PCI of 90.1 and Residential Streets are also "Very Good" with an average weighted PCI of 95.7. Given the City's investment in streets, it is only prudent to continue to maintain these streets to prolong their life expectancy and appropriate funding is included in the CIP both for arterial streets and resuming the 7-year residential pavement program. Residential Pavement Zone 1 slurry seal is currently out for bid with completion anticipated in June 2019.

Other than water and sewer projects, the ten-year CIP assumes funding from Measure M2, Gas Tax, and Road Maintenance Rehabilitation Funds (SB1), along with other currently known funding sources such as grants received. The intent is to utilize these funding sources first with the Capital Outlay Reserve (COR) providing the remaining funding for the identified projects.

The ten-year CIP includes very few new projects, but rather items that are either routine or to complete previously adopted projects. The FY 2019-20 CIP includes carryover projects that have been in the design phase and are now ready for bidding and construction/completion. Some highlights include:

Street Medians – The design phase and construction plans are being finalized, with the City Council having seen the 60% plans at the May 7 meeting. The contractor is finishing the plans for public bidding early this summer and construction to begin by late summer or early fall. The three arterial streets in the FY 2018/19 CIP are La Palma Avenue, Moody Street, and Walker Street. Although the plans will be complete for Valley View Street and Orangethorpe Avenue, these two streets are not included in the CIP pending potential development north of the 91 Freeway and potential cost sharing discussions with Buena Park for Valley View Street. As stated earlier in this report \$990,000 of General Fund Unassigned Fund Balance is being allocated to COR for this project so that

adequate funding is available to rehabilitate La Palma Avenue, Moody Street, and Walker Street. Other identified funding includes an additional \$300,000 from COR and \$300,000 M2 funds. The total estimated cost to complete the three streets is \$1,590,000.

Citywide Security – The City’s cross departmental Security Committee has worked diligently over the past year to identify security needs and concerns at City owned facilities with the development of the bid specifications for public bid which was conducted in December. The bid specification included providing security cameras at all City facilities including City Hall, the Police Department, the City Yard, and Walker Well. Additionally, bids were requested for access controls and intrusion detectors at all City facilities. After bids were received and reviewed in January, two firms were interviewed, reference checks conducted, and site visits were completed at two municipal locations where each firm’s security have completed similar projects. Staff anticipates bringing an award of contract to the Council in early June. Upon approval, implementation and installation will occur with completion by late fall. The total project cost is estimated at \$390,000 of which \$250,000 would be funded out of COR and \$140,000 out of the Water Capital Fund. Total replacement for the project has been included in the ten-year CIP in FY 2027-28 (year eight). The FY 2019-20 project cost includes preventative maintenance on all security cameras, access controls and intrusion sensors for three years totaling \$65,200. At the end of three years, renewal of the preventative maintenance agreement would be paid out of the Technology Replacement Fund.

City Hall Improvements – Due to fiscal constraints, numerous maintenance projects have been deferred many times over the years. Some have been in the planning phase and are now ready for completion and construction. These include the City Council Chambers rehabilitation to meet ADA standards and updating electrical and sound systems; general maintenance including carpet and paint, HVAC and roofing, electrical improvements throughout the facility, and ADA improvements to restrooms. Although the City is planning for the eventual replacement of the Civic Center, these needed improvements improve the site functionality for the next twenty years. The proposed City Hall improvements total \$1.4 million and are funded out of COR.

City Yard Improvements – As with City Hall improvements, CIP projects at the City Yard have also been deferred. These include an outdoor storage bunker with roof to meet NPDES requirements, upgraded storm drains, pavement rehabilitation, and interior improvements that have not been updated since the facility was originally built. Total City Yard improvements total \$445,000. The total project cost of \$445,000 includes funding of \$201,800 from COR, \$222,500 from the Water Capital Fund, and \$20,700 from the Sewer Capital Fund.

PROJECTS	Fiscal Year 2019-20 Proposed
Facilities	\$ 2,297,000
City Yard	445,000
Community Center and Parks	302,000
City Hall	1,400,000
Police Facilities	150,000
Arterial Street Rehabilitation	3,260,000
Residential Street Rehabilitation	475,000
Water System Improvements	1,042,000
Sewer System Improvements	315,000
Total Capital Improvement Plan	\$ 7,389,000
FUNDING SOURCE	Fiscal Year 2019-20 Proposed
Capital Outlay Reserve (COR)	\$ 4,166,800
Gas Tax/HUTA	265,000
Measure M2	482,000
Measure M Grant	375,000
Road Maintenance and Rehabilitation Account (RMRA)/SB I	500,000
Sewer	335,700
Water	1,264,500
Total Capital Improvement Plan	\$ 7,389,000

FISCAL IMPACT:

There is no fiscal impact to discussion of the financial situation or the elements presented in this plan. Direction given, however, will be incorporated into budget preparation and other financial processes.

APPROVED:



Administrative Services Director



City Manager

Attachments: 1. Proposed FY 2019-20 Budget



Due to the large size of the attachment, a separate link has been created. You can open the file by clicking on the link provided below:

Attachment 1:
FY 2019-20 Proposed Budget