



STAFF REPORT TO THE FINANCE COMMISSION

DATE: Meeting of February 25, 2019

TO: Members of the Finance Commission

SUBMITTED BY: David Biggs, City Manager
Edwin Gato, Finance Director

SUBJECT: FY 2018-19 Mid-Year Budget Review and Miscellaneous Mid-Year Budget Appropriations and Adjustments and Authorizing the Creation of a Management Analyst position

RECOMMENDED ACTION:

Receive a report on the FY 2018-19 mid-year budget review and adopt a resolution approving various mid-year budget appropriations and adjustments and authorizing the creation of a Management Analyst position.

FISCAL IMPACT OF RECOMMENDATION:

The proposed budget amendments to the FY 2018-19 Budget increase General Fund revenue by \$265,000 to account for updated year-end revenue projections for a total of \$15.3 million. Operating expenditures are recommended to be increased by \$119,000 to account for emergency facility repairs and a proposed management analyst position for a total of \$15.3 million, for a grand total of \$19.1 million in expenditures. This includes the one-time draw of the General Fund cash balance for the decision packages, increase in fiscal neutrality reserve, and Pension/Other Post-Employment Benefits (OPEB) reserve funding, all of which were approved as part of the FY 18-19 Budget. The General Fund reserve is projected to be 25% of the annual operating expenditures by the end of the 2019 fiscal year, which is in-line with the Government Finance Officers Association (GFOA) recommended reserve.

BACKGROUND:

This report updates the Fiscal Year 2018-19 financial projections for the General Fund and proposes current year budget amendments for various City funds to reflect and respond to the City's current financial condition. Also, this report provides the City Council with updates on the financial status of the City's funds by comparing budget projections for revenues and expenditures to actual receipts

and expenses as of December 31, 2018. In addition, an update on the implementation of Decision Packages & Budget Referrals is provided (Attachment 2).

The discussion below is presented in the following sections:

- I. General Fund Revenues
- II. General Fund Expenditures
- III. General Fund Annual Activity
- IV. Pension/OPEB Funding Status
- V. Non-General Fund Programs

DISCUSSION:

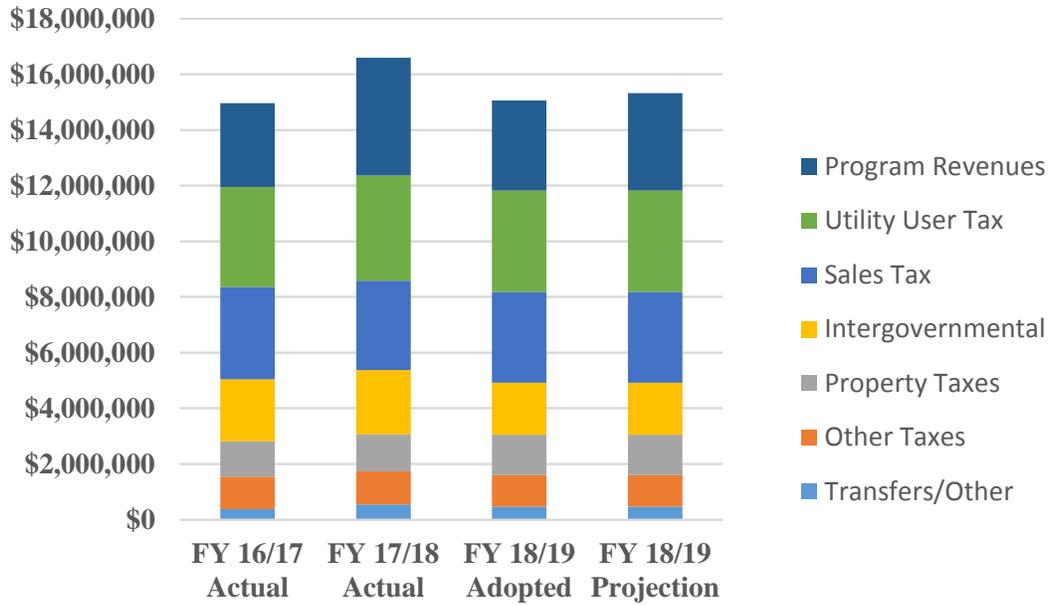
The City Council adopted the FY 2018-19 budget on June 26, 2018. Since adoption, the budget has been selectively amended for specific programs, primarily for capital project activity. At this time, staff recommends approving slight changes and amendments to the FY 2018-19 General Fund budget based upon year-to-date activity and updated revenue projections.

I. General Fund Revenues

As of December 31, 2018, the General Fund revenues were \$6.4 million or 43% of the FY 2018-19 budget. Revenues from business licenses, franchise fees, vehicles license fees and other taxes are received either bi-annually or towards the end of the fiscal year, which accounts for why revenues are below 50% at mid-year. As shown in the following graph and as detailed in Exhibit 3, General Fund revenues in FY 2018-19 are actually projected to slightly increase by \$265,000 and reach \$15.3 million in total by the end of the fiscal year. The projected revenue increases are driven by recognizing the Redevelopment Agency’s administration reimbursement which is for a multi-year period and which will be treated as one-time revenue as such and pending State approval of the payment.

For information purposes, Community Development requires a deposit for reviewing and approving plans. These deposits will be treated as a liability until the final costs are incurred. So, therefore, the cash collected will not initially be recognized as revenue and are not reflected in the revenue receipts to date.

General Fund Revenues

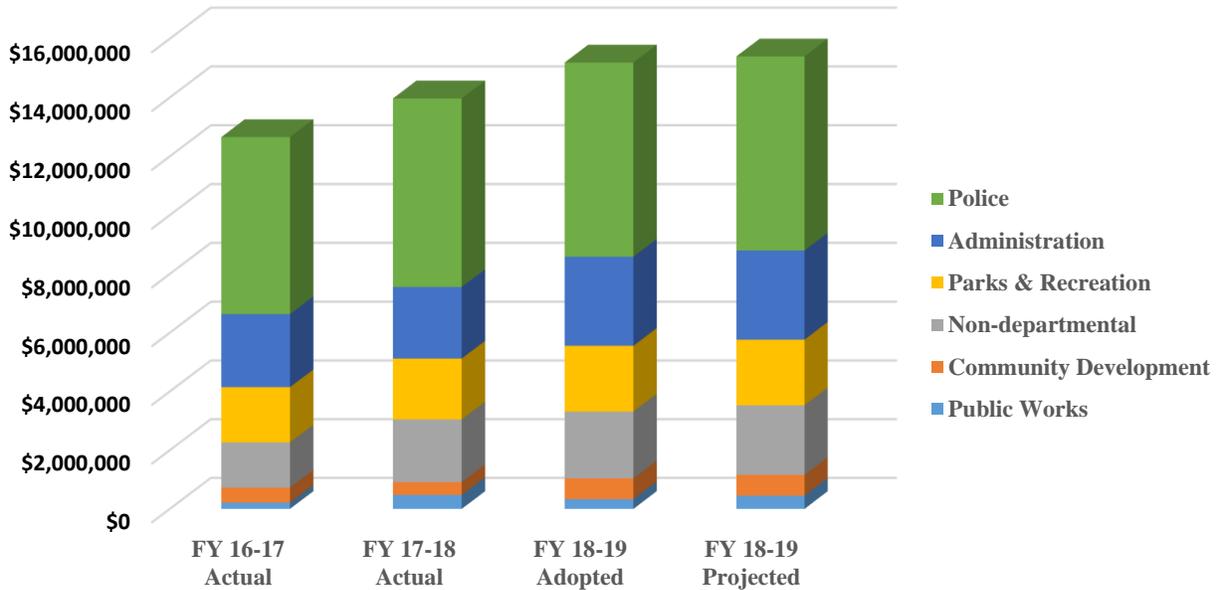


The General Fund major revenue categories are summarized on Exhibit 3. The City derives a significant portion of its General Fund revenues from economically sensitive sources such as property taxes, sales taxes (1% Bradley-Burns), utility users’ taxes and vehicle license fee. If one or more of these key revenue sources deviate significantly from projections, funding for future programs and services could be affected.

II. General Fund Expenditures

A summary and year-to-date status of General Fund expenditures are presented in Exhibit 4 and as shown in the following graph. Operating expenses in total, both by category and by department, are all on target or below approximately 50% of the annual budget through the six-month December fiscal period.

General Fund Operating Expenditure Summary (Excluding One-Time Items)



Operating expenditure budget amendments are proposed for the General Fund’s portion of the proposed management analyst position and to provide additional funding to the Facilities Maintenance Fund as follows:

- Public Works/City Manager’s Office - \$6,750 (3-months)
Adding a new position/classification: Management Analyst

We are recommending that the City Council approve a new position as part of the mid-year adjustments. We have worked to secure some additional resources to assist us as the City heads into what will be a peak of activity taking us through the next two to three years. For development related activity, which is funded by fee revenue, we have secured another contract Planner. As part of this mid-year budget, I am recommending the addition of a full-time Management Analyst position to support us in a variety of areas, mostly in public works related areas. As the City downsized during the worst of times, we lost positions of this nature. With increasing work load driven by development projects, capital projects, Decision Packages & Budget Referrals, and increasing State and Regional agency mandates and reporting obligations, we need assistance to sustain our delivery of projects and to be timely and responsive to mandates.

Working from a previous job specification for a Redevelopment Analyst, we have prepared a job description for a Management Analyst. The Management Analyst position, if approved would be a non-exempt professional level position represented by the Teamsters. The salary range would be in the Full-Time Group at Range 147 which is currently \$62,896.02 to \$80,273.29. The estimated annual cost, fully loaded assuming family level benefits would

be \$108,000, at the entry level step. The amount of funding recommended for appropriation is for one-quarter of the year and the annual cost would be included in the FY 2019/20 budget.

Funding for the position would come from the following sources:

Fund	Percentage Allocated	2018/19 Cost
General Fund	25%	\$6,750
Sewer	30%	\$8,100
Streets	25%	\$6,750
Solid Waste	10%	\$2,700
Facilities	10%	\$2,700

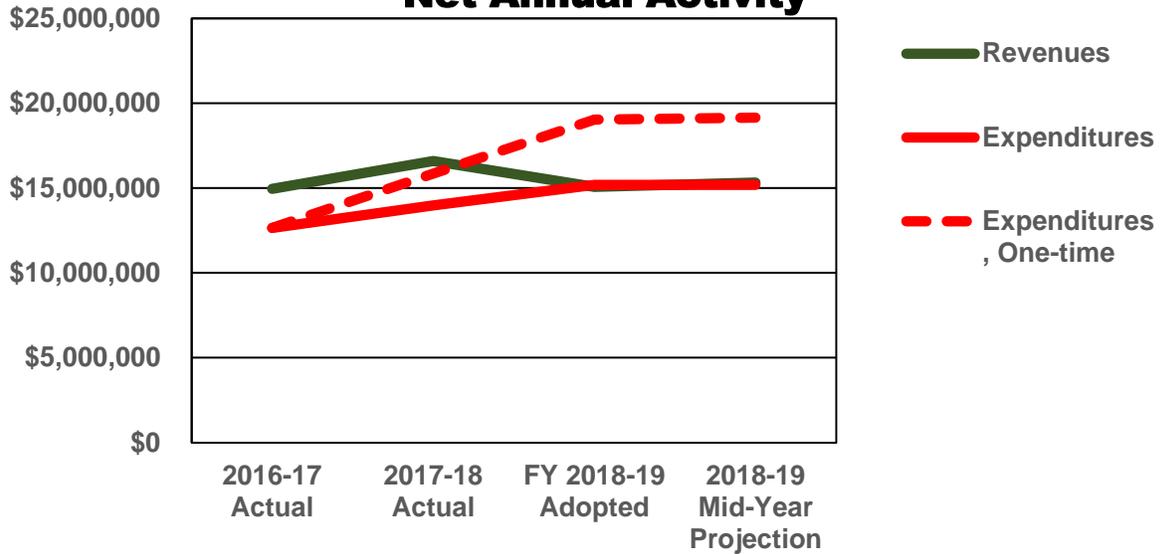
The Management Analyst would work to support the City Manager and Public Works Director/City Engineer primarily. In addition, the Management Analyst is expected to free-up time for the Assistant Engineer which will allow that position to focus on more project and program implementation in a lead capacity. The resolution which addresses the mid-year adjustments also includes the approval of the Management Analyst class specification.

- Facilities Maintenance - \$92,000
 - Janitorial services for City Hall, Library and Senior Center - \$25,000. This is to contract for services while the Maintenance Worker I normally assigned to this work is on light duty.
 - Operating budget for electricity is proposed to increase primarily due to Co-Gen at the Community Center going out of service, but also due to PG&E rate increases, need to repair the solar panels, and lower than normal consumption last year due to the pool replastering over a 3 month period - \$35,000.
 - Unanticipated roof repairs - \$10,000. This work re-sealed the seams in the steel roofing in City Hall to fix a leak and was completed earlier this year.
 - Unanticipated HVAC repairs - \$22,000. This is to replace one of the two air handlers, which is part of the HVAC system that serve the Council Chambers. They are 30+ years old and one handler is being forced to double its output until the replacement can be made.

III. General Fund Annual Activity

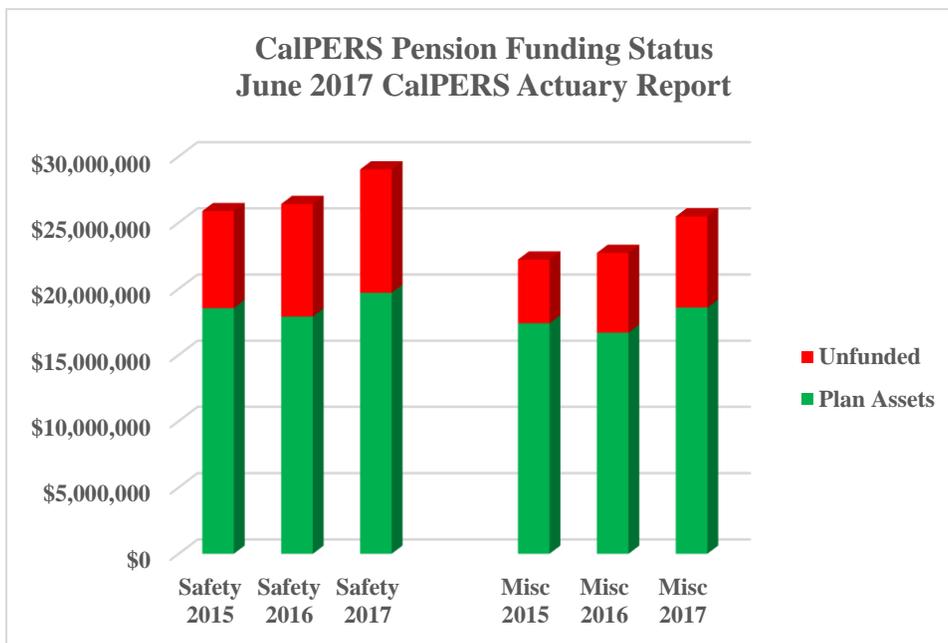
The proposed FY 2018-19 budget amendments, as shown in Exhibit 1, will increase General Fund revenue by approximately \$265,000 to \$15.3 million, and will increase operating expenditures by \$98,000, to \$15.3 million in operating expenditures, and to \$19.1 million in total expenditures including annual contribution to Pension/OPEB trust funds, increase fiscal neutrality reserve, and one-time draw of cash balance to fund decision packages. The following graph depicts General Fund revenue and expenditure trends, including updated FY 2018-19 revenue and expenditure projections. As illustrated below, the FY 18-19 operating budget is balanced.

General Fund Net Annual Activity



IV. Pension/OPEB Funding Status

The General Fund expenditure budget also includes one-time annual contributions to the Pension and OPEB, Section 115 and OPEB trust funds, in the amounts of \$200,000 and \$1,000,000 respectively. Based upon the most recent actuary reports, both the City's CalPERS pension and OPEB plans have accumulated unfunded liabilities, and face increasing annual payment requirements.



June 2017	Safety	Miscellaneous	Total
Accrued Liability	\$ 29,025,468	\$ 25,472,717	\$ 54,498,185
Plan Assets	19,702,271	18,581,448	38,283,719
Unfunded	9,323,197	6,891,269	16,214,466
Fund Ratio %	68%	73%	70%

Because CalPERS adopted a 7-year payment phase-in for recent changes in actuarial assumptions, including a reduction of the pension plan’s investment earnings assumption from 7.5% to 7.0%, as well as changes made to amortization period over which actuarial gains and losses are amortized from 30 years to 20 years. CalPERS is expecting increasing payments towards City’s unfunded liabilities each year.

The City’s commitment to put-aside additional funds as available each year towards Pension/OPEB trust funds can begin to mitigate its growing payment obligations. Without mitigation, Pension/OPEB payment obligation are at risk of “crowding out” the allocation of General Tax dollars to current services and programs.

V. Non-General Fund Programs

These funds are driven by grants or other specific funding sources and are used for specific purposes, such as transportation, gas tax, Measure C “Street Fund,” etc. Such funding sources are restricted in nature, which requires revenues and expenditures to be tracked differently from the City’s primary operating fund, the General Fund. As described and illustrated above, the Management Analyst position will be funded by multiple-funding sources, including General Fund, Sewer, Measure “C” Streets, Solid Waste and Facilities funds. There is sufficient revenues to absorb this mid-year adjustments.

BUDGET APPROPRIATIONS

Staff is recommending that the Council adopt the following FY18-19 budget amendments:

Request for FY18-19 Midyear Budget Amendments

ATTACHMENTS:

1. Budget Resolution
2. Decision Package Status Update
3. Proposed Budget Amendment
4. General Fund Summary
5. General Fund Reserves
6. General Fund Expenditure Detail

Description: FY 2018-19 mid-year budget review and forecast and appropriation requests

Funding Source: General Fund

Budget Recap:

Total Estimated cost:	\$122,000	New Revenue:	\$265,000
Amount Budgeted:	\$	Lost Revenue:	\$
New funding required:	\$	New Personnel:	\$30,000
Council Policy Change:	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	