



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of June 25, 2019

TO: Members of the City Council

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

SUBJECT: Public Hearing on Proposed FY 2019-20 City of Hercules Budget Plan including the First Year of the Five Year 2019–2024 Capital Improvement Budget

RECOMMENDED ACTION:

Open the Continued Public Hearing, Receive a Staff Report, Take Public Testimony, Close the Public Hearing, and adopt the following resolutions (Attachment 1):

- a. Approving the FY 2019-20 City of Hercules Budget Plan which includes the First Year (2019-20 Fiscal Year) of the Five-Year (2019-2024 Fiscal Years) Capital Improvement Budget and making certain designations and fund balance adjustments, approving (22) annual contracts for services in a total amount of \$3,473,640.
- b. Approving the FY 2019-20 Hercules Public Financing Authority Budget Plan Consisting of Debt Service in the amount of \$2,210,586.
- c. Establishing the Appropriations Limit for the FY 2019-20 in accordance with Proposition 111 and Article XIII B.

COMMISSION/SUBCOMMITTEE ACTION AND RECOMMENDATION:

The Finance Commission conducted a preliminary review of the FY 2019-20 Proposed Budget on May 20, 2019, and undertook a review of the full FY 2019-20 proposed budget and the proposed City's master fees schedule update on June 17, 2019. Upon completion of their June 17th review, the Commission had no comments to forward to the City Council.

FISCAL IMPACT OF RECOMMENDATION:

The proposed FY 2019-20 Budget appropriates expenditures of \$41.2 million for all City funds, and \$8.2 million for the Successor Agency.

If adopted as proposed, the City's General Fund Budget with Addendums & Corrections will be as follows:

	On-going	One-Time	Total
FY 2019-20 Proposed General Fund Revenues	\$15,450,142	\$724,000	\$16,174,142
FY 2019-20 Proposed General Fund Expenditures	15,884,500	53,300	15,937,800
FY 2019-20 Net Annual Income (Deficit)	(\$434,358)	\$670,700	\$236,342

This is before any Decision Packages or Budget Referrals are incorporated into the Budget by final action of the City Council. On this basis, there is an operating on-going deficit in the General Fund of \$434,358. After recommended Decision Packages, the operating deficit will increase to about \$708,000. Available one-time funding would be applied to a variety of one-time purposes including capital investments and meeting other critical expenditure or reserve needs of a one-time nature.

DISCUSSION:

The proposed FY 2019-20 Budget was introduced to the City Council on May 28, 2019. The City Council conducted its first public hearing on the proposed FY 2019-20 Budget on June 11, 2019, and the public hearing was continued to June 25, 2019. The proposed FY 2019-20 Budget including the City Manager's Budget Message is available on-line on the City's website (www.ci.hercules.ca.us) and through the following link:

<https://www.ci.hercules.ca.us/Home/ShowDocument?id=12956>

An updated version of the Budget Balancing Worksheet is attached, which reflects the Addendums & Corrections, and other revised recommendations of the City Manager. Also attached are the updated or revised budget book pages based on the following list of significant changes to the budget since it was introduced to the Council on May 28, 2019:

General Fund changes

1. Move \$65,000 of new development revenues from one-time to on-going.
2. Add \$9,300 of cost for File Server with Drives and paid for by PEG fee revenue.
3. Add \$20,000 of cost for Insurance Premium.

Other Funds

1. The budget for the Landscape and Lighting Maintenance District (LLAD) is updated to match the Engineer's report.
2. The Capital Projects section is updated with current estimated costs developed by Public Works.

Following the close of the public hearing this evening, the City Council is requested to consider approval of the Decision Packages recommended by the City Manager with whatever changes the City Council may desire, together with any Budget Referrals which the City Council wishes to approve. At the meeting, the Budget Balancing Worksheet will document which items are to be incorporated into the approved budget, and will ensure a balanced budget so that no more one-time funding is allocated than available.

Attached for the Council's review are a number of Budget Referrals based on questions or suggestions made at the first public hearing on June 11, 2019. Once the Council approves the FY 2019-20 budget, a final budget book will be produced with elements updated to reflect the final approvals.

The Budget Resolution sets forth designations necessary to ensure they are appropriately shown in the annual audit. Finally, the resolution approving the Budget also approves a number of annual contracts for services for which funding is included in the Budget.

The contracts being approved are set forth in the following table:

FIRM	DEPARTMENT	SERVICE	AMOUNT
AMS.Net	IT	Network Support and Maintenance	\$85,800
CCTV	IT	Cable Broadcasting	\$25,000
Granicus	IT	Software Annual License & Maintenance	\$40,500
SunGard	IT	Financial & Business Applications Support & Maintenance	\$81,300
Axon	IT	Bodycam Annual License & Maintenance	\$28,700
S&SRV	Police, Public Works, and Parks & Rec	Auto Repairs	\$25,000
Andre, Mechanical Service	Public Works	Lift Station Maintenance	\$12,000
Andre, Mechanical Service	Public Works	Electrical trouble shooting	\$10,000
Bay Alarm	Public Works	Alarms	\$35,000
Clean Lakes	Public Works	Lake Treatment	\$13,000
Clean Streets	Public Works	Street sweeping	\$70,620
Executive Heritage Janitorial	Public Works	Janitorial	\$15,540
Executive Heritage Janitorial	Public Works	Janitorial	\$28,800
Goats are Us	Public Works	Weed Abatement	\$13,000
Kel Aire	Public Works	AC Maintenance	\$12,000
Mission Uniform	Public Works	Uniforms	\$5,000
New Image	Public Works	Landscaping	\$19,800
Pacific Site Maintenance	Public Works	Landscaping	\$561,580
Terminix	Public Works	Pest Control	\$4,000
City of Pinole	Public Works	Sewer Plant Engineering Services	\$2,200,000
Executive Heritage	Public Works	Janitorial Supplies	\$25,000
Contra Costa County	Public Works	Animal Control	\$162,000
TOTAL			\$3,473,640

The City Manager's proposed budget makes use of available one-time monies without tapping reserves to cover the operating deficit and does so in a manner consistent with the Council's commitment to long-term financial sustainability and solvency. The revenue estimates and expenditure appropriations in the budget are for all City funds and include operations, capital and internal transfers for all programs and support functions of the City. Fund summaries and financial schedules showing two prior years actual results, FY 2018-19 projections, and FY 2019-20 budget are presented for each City budgetary unit in the budget document.

In addition to the proposed budget, the following related items are presented for Council approval:

Hercules Public Financing Authority (PFA) Budget

The Hercules Public Financing Authority (PFA) budget plan for FY 2019-20 consists of debt service in the amount of \$2,210,586. The PFA Debt Service Funds include the following:

- 2003B Public Financing Authority (PFA) Lease Revenue Bonds – This bond issue helped pay for the Hercules Community Library construction and is paid for solely out of the General Fund. Debt Service payment for FY 2019-20 is \$563,590;
- 2009 Public Financing Authority (PFA) Taxable Lease Revenue Bonds – Bio-Rad/Venture – This bond was issued to pay for the Venture Building on Linus Pauling Drive and is fully paid for by lease revenue and a guaranteed investment contract (GIC). Debt Service payment for FY 2019-20 is \$913,365;
- 2010 Public Financing Authority (PFA) Wastewater Revenue Bonds – This bond issue was to finance improvements to the City's wastewater system and is paid for solely out of the wastewater fund.

Successor Agency to the former Hercules Redevelopment Agency

The Successor Agency depends on the receipt of property tax increment revenue to pay obligations of the former Hercules' Redevelopment Agency. To receive the tax increment, the Successor Agency submits a Recognized Obligation Payment Schedule (ROPS) annually to an Oversight Board and the State Department of Finance. After approval by the Oversight Board, tax increment funds are distributed to the Successor Agency by the Contra Costa Auditor Controller's Office. The use of tax increment is restricted, and the Successor Agency does not receive excess tax increment. Excess tax increment after payment of debt and administrative costs are distributed to other taxing entities such as the City of Hercules, Cities within Contra Costa County, the State of California (for schools), and special districts.

Successor Agency revenue is expected to be sufficient for all debt and enforceable obligations in FY 2019-20. The total FY 2019-20 Successor Agency budget on loan repayments and other obligations is about \$8.2 million. As property values increase and more tax increment becomes available, there is sufficient funding for administration, and pass-through payments approved by the State Department of Finance. If adopted as proposed, the total Redevelopment Agency Expenditure Budget will be \$8,280,952.

Appropriation (GANN) Limit

The California Constitution limits growth in local government spending and establishes a maximum limit for expenditures from general taxes. The law, commonly known as the Gann Limit, requires that

the limit is recalculated and approved annually by the City Council at the beginning of each fiscal year. The Gann Limit is indexed to specified growth factors approved by the Legislature and applied to revenue appropriations. The annual Appropriation (GANN) Limit establishes the maximum amount that can be appropriated to the General Fund.

Article XIII B of the California Constitution was approved by California voters in 1979 and has been amended a number of times since its adoption. Article XIII B creates a restriction on the amount of revenue that can be appropriated in any fiscal year.

Article XIII B requires all local government entities to establish an annual appropriation limit. The appropriation subject to limitation is to be based on the 1978-79 appropriation adjusted for changes in cost of living and population.

California Government Code Section 7910 requires each local government to establish its appropriation limit by resolution. Adoption of the attached resolution will approve the FY 2019-20 annual Appropriations Limit. For FY 2019-20, the Appropriations Limit has been determined to be \$440,442,779.

ATTACHMENTS:

1. FY19-20 City Budget Resolution
2. FY19-20 PFA Resolution
3. FY19-20 GANN Resolution
4. FY19-20 Additional Budget Referrals
5. BR #20-4 PEG Summary of Activities
6. BR #20-4 PEG Detail by Account Number
7. FY19-20 Updated Budget Balancing Worksheet
8. FY19-20 Updated General Fund Summary
9. FY19-20 through FY 23-24 Capital Improvement Projects
10. FY 19-20 Landscaping and Lighting District Funds
11. FY 19-20 Updated General Fund Expenditure Detail