

MEETING DATE: February 16, 2016	ITEM # 13
SUBJECT: CITY MANAGER'S MID-YEAR REPORT AND BUDGET OUTLOOK FOR FISCAL YEAR 2016-17	
INITIATED OR REQUESTED BY: <input checked="" type="checkbox"/> Staff <input type="checkbox"/> Council <input type="checkbox"/> Other	PRESENTED FOR: <input type="checkbox"/> Action <input checked="" type="checkbox"/> Direction <input type="checkbox"/> Information
FISCAL IMPACT: <input type="checkbox"/> Yes \$ _____ <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown _____ Adm Svcs Director	BUDGET AUTHORITY: <input type="checkbox"/> Yes _____ <input type="checkbox"/> No <input checked="" type="checkbox"/> Not Applicable
ORIGINATED: Administrative Services Department	ATTACHMENT: <input type="checkbox"/> Yes _____ pages
PREPARED BY: Satwant S. Takhar	CONCUR: _____ City Manager

RECOMMENDED ACTION

Staff will make a presentation for Council direction.

BACKGROUND

Key issues for FY 2015-16 have included: (a) depleted reserves and a projected negative fund balance of approximately (\$401,000). Staff will continue to monitor and revise as transactions are posted; (b) slight increase in assessed valuations of properties 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 necessary for public safety personnel to access state/federal databases; and (j) credit downgrades by Moody's Investor Service, making it difficult to finance street improvements and buy equipment.

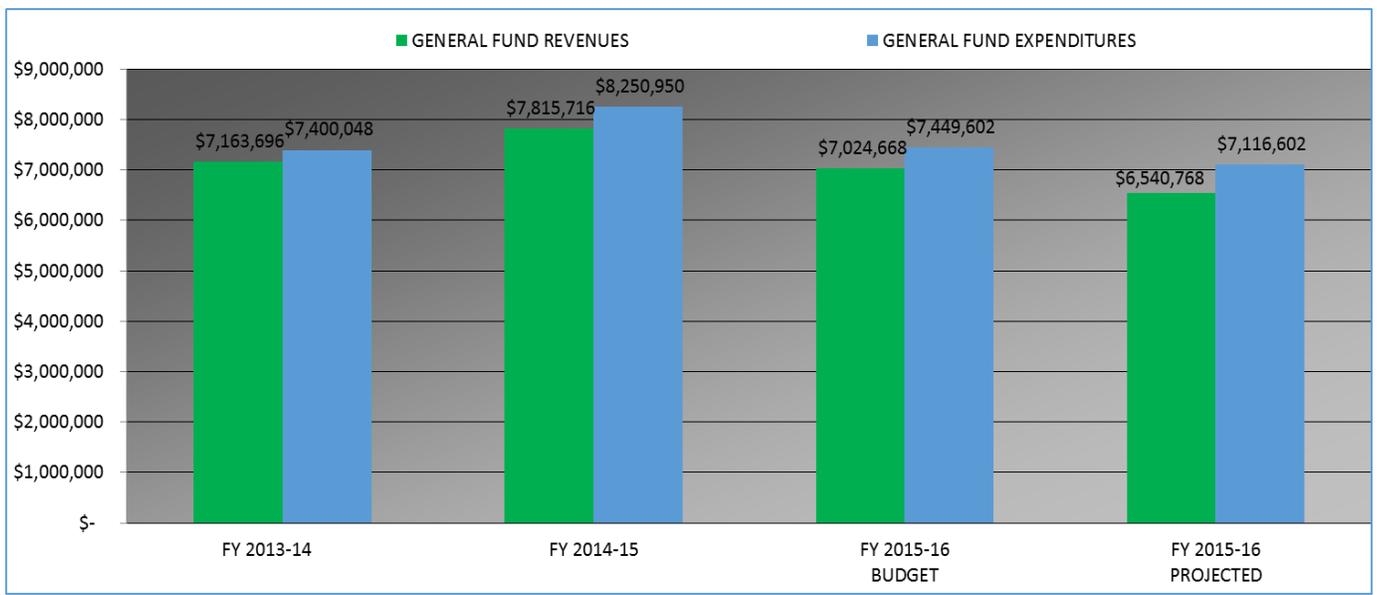
The purpose of this report is to prepare the groundwork for the Fiscal Year 2016-17 budget process by reviewing Fiscal Year 2015-16 finances as of December 31, 2015, analyzing known expenditure increases and revenue decreases that will significantly impact the FY 2016-17 budget and looking at the most promising options to implement going forward.

ANALYSIS

Fiscal Year 2015-16: The general fund revenue stream has been sluggish the first six months; as of December 31, 2015 general fund revenues received are approximately 43% of the budgeted amount (\$2,995,923 actual vs. \$7,024,668 budgeted). General fund expenditures, too, are below trend, but at a rate that is slightly outpacing the rate of revenue collections, with approximately 48% of the budgeted amount (\$3,547,944 vs. \$7,449,602) spent. The projected revenues and expenditures for FY 2015-16 are as depicted in the chart that follows. (Continued on page 2)

LEGAL REVIEW

N/A



General fund revenues are projected to be \$6,540,768 compared to the budgeted amount of \$7,024,668, resulting in an anticipated decrease of \$484,000 in the categories as follows:

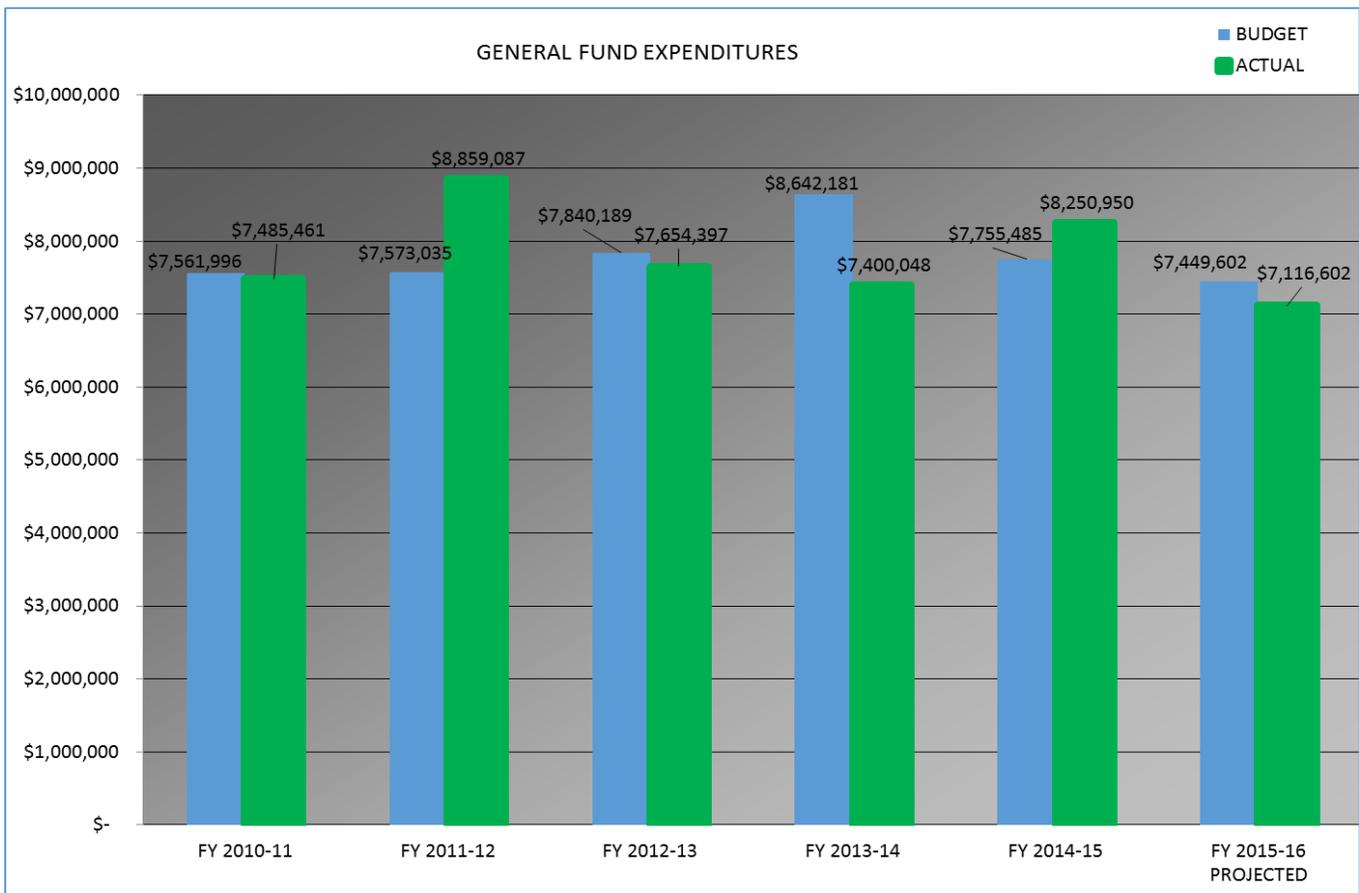
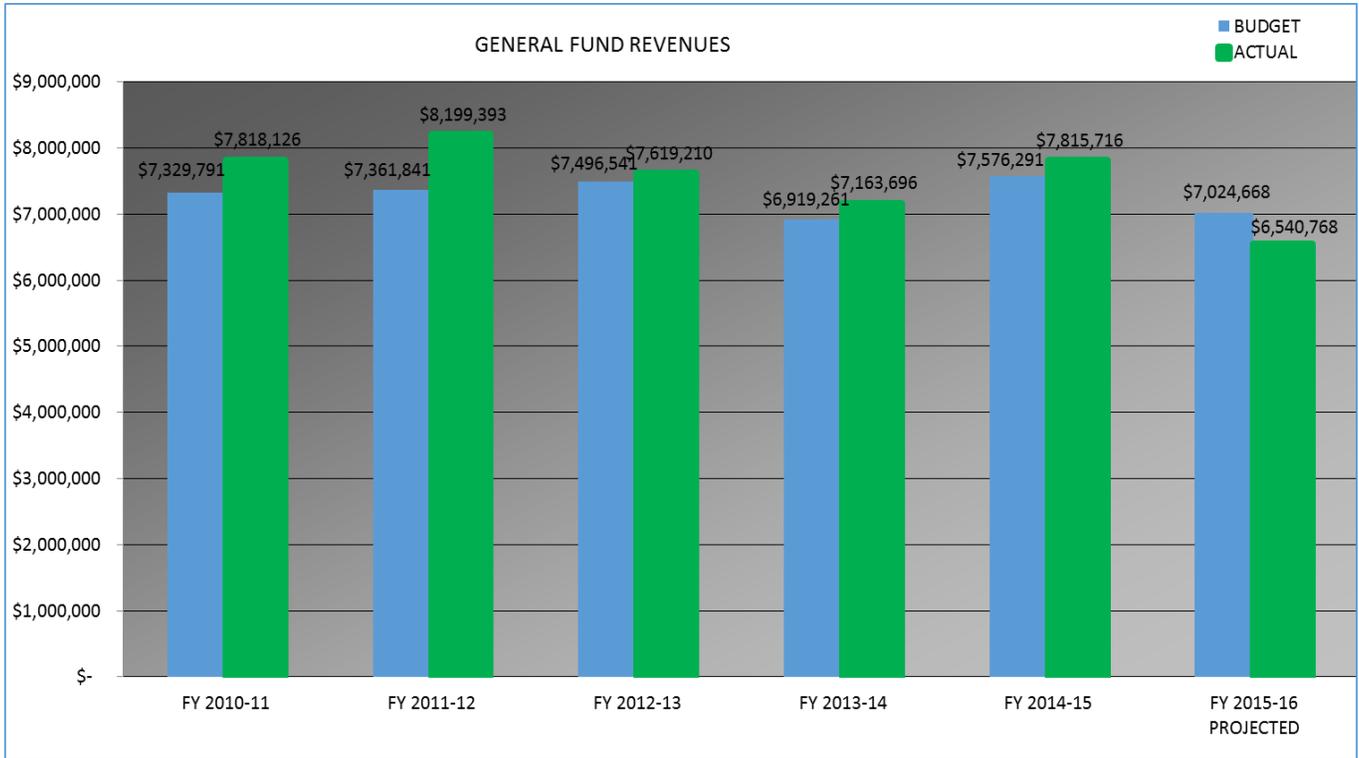
Sales Tax	(66,000)
Vehicle Code Fines	(257,000)
Fire Equipment Rental	(36,000)
Intergovernmental Grants	(125,000)
Projected Decrease in Revenues	<u>(484,000)</u>

General fund expenditures are projected to be no more than \$7,116,602, compared to the budgeted amount of \$7,449,602, resulting in an anticipated savings of at least \$333,000 from just the following major programs and cost centers:

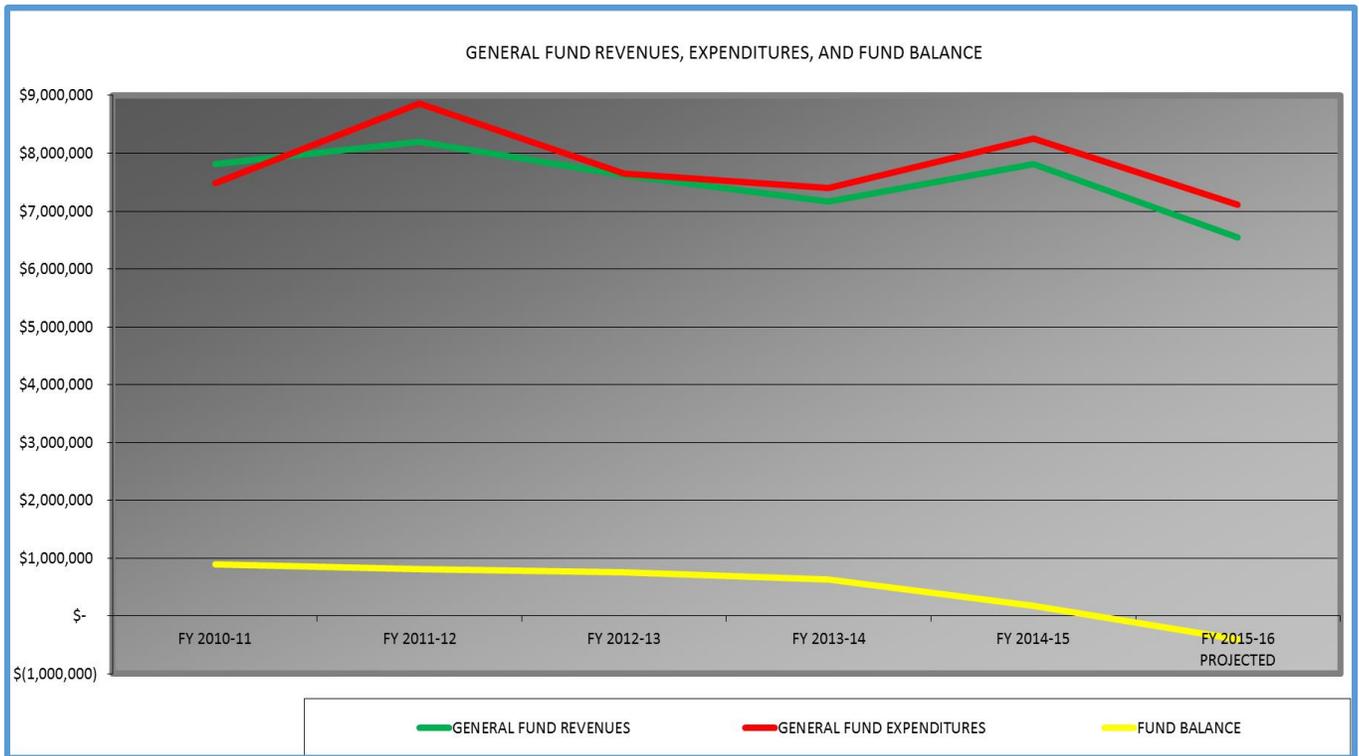
Traffic Safety - Red Light Cameras	(250,000)
Fire Department Budget Savings	(83,000)
Projected Expenditure Savings	<u>(333,000)</u>

The FY 2015-16 projections are based on available information at this time and will continue to be revised as relevant information becomes available and as we begin budget development for FY 2016-17.

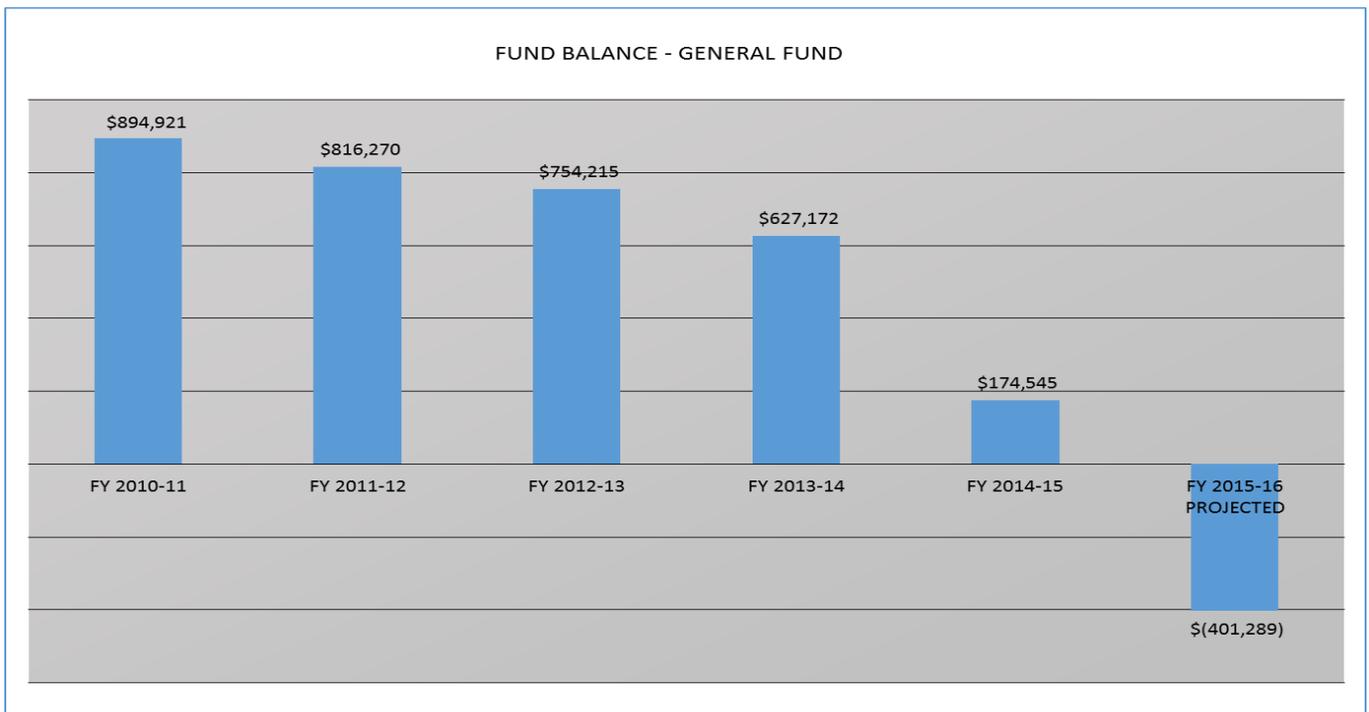
Over the period of the past 5 years, general fund revenues have ranged from a low of \$7.1 million to a high of \$8.2 million, averaging \$7.7 million a year. Actual revenues have generally exceeded budgeted revenues. The general fund expenditures have ranged from a low of \$7.4 million to a high of \$8.9 million, averaging \$7.9 million a year. These annual data are depicted in the following two charts.



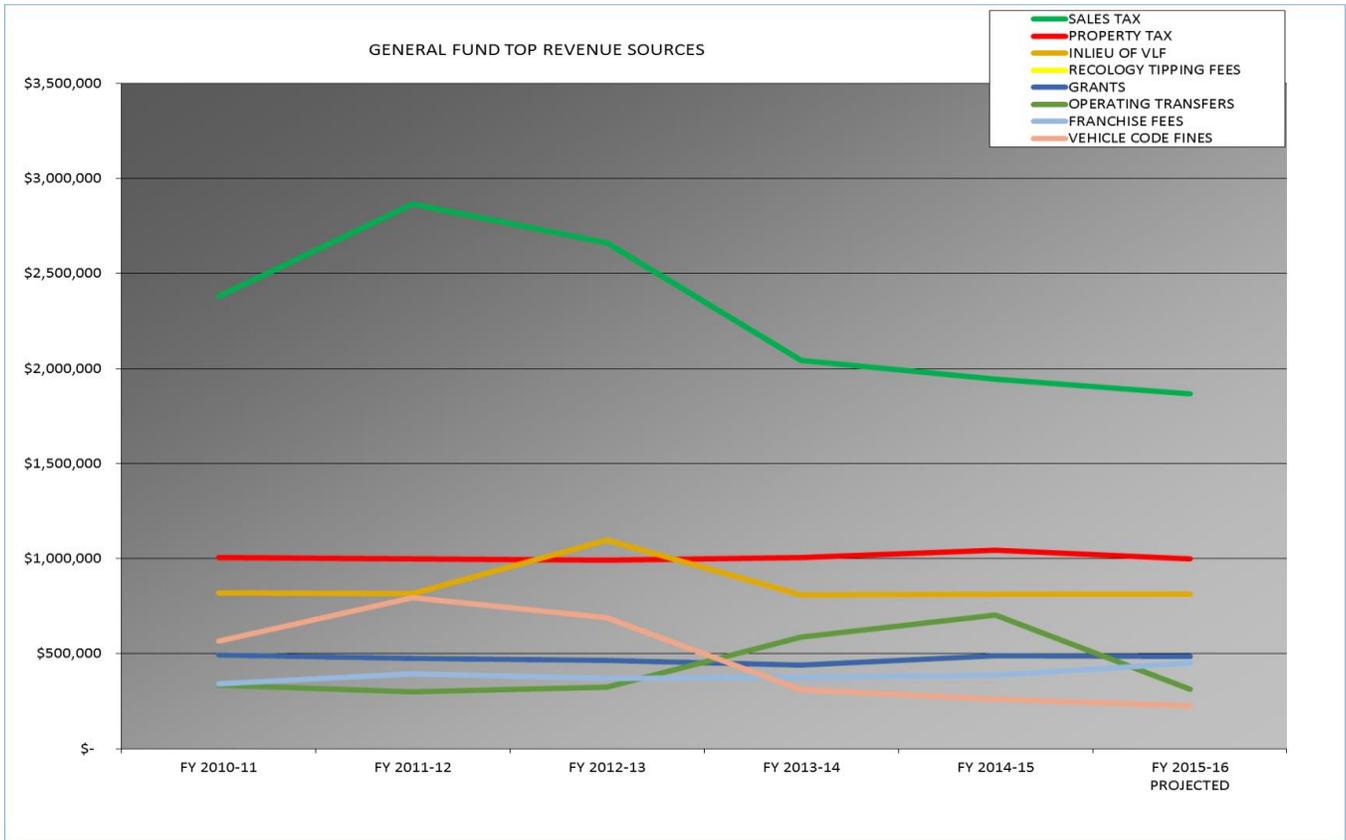
The actual general fund expenditures have exceeded revenues for the past five years and have resulted in the depletion of all reserves and the fund balance as noted in the graph below:



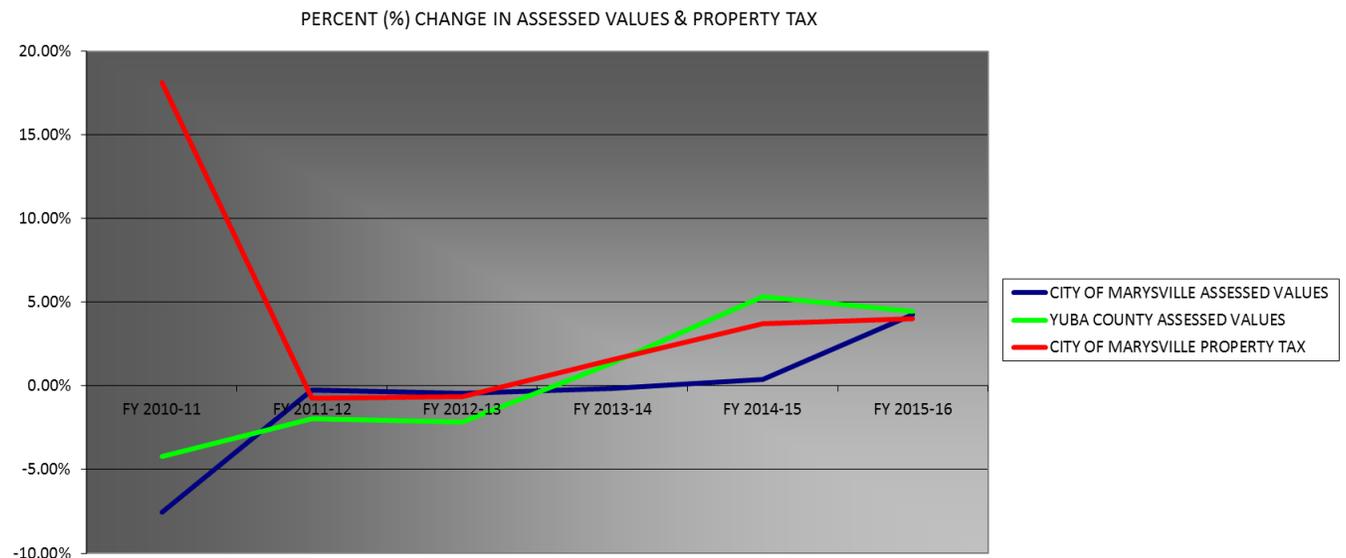
The audited fund balance of the general fund as of June 30, 2015 was \$174,545 going into FY 2015-16. Based upon the revenue and expenditure projections for FY 2015-16, the general fund is projected to have a deficit fund balance of approximately (\$401,289) as of June 30, 2016, as displayed in the graph below:



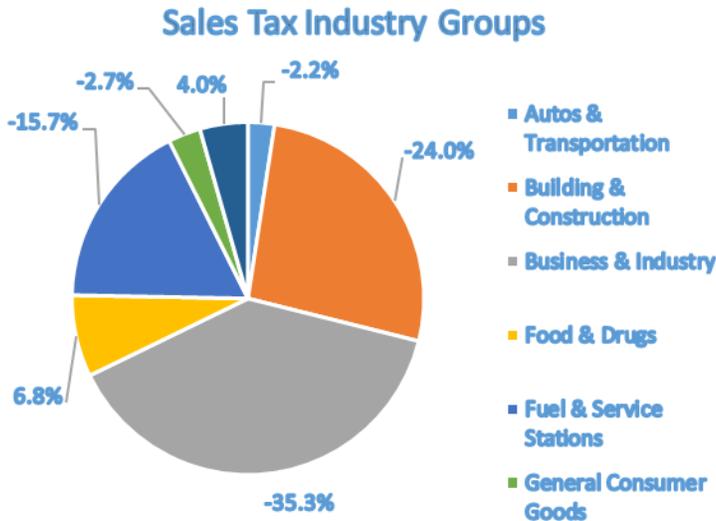
The first allocation of property taxes received in December was as projected. The sales tax revenue is expected to decrease by \$66,000 based on lower gasoline prices. Industry leaders believe the fuel prices have bottomed out but the longer the trend of lower motor fuel prices will negatively affect the overall sales tax revenues. The major general fund revenue categories are as follows:



Property assessed values are expected to increase in FY 2015-16 by approximately 4% from the preceding year and should result in a slight increase in property tax revenues when all property tax revenues are received later in FY 2015-16. A graph depicting the property assessed values is noted below:

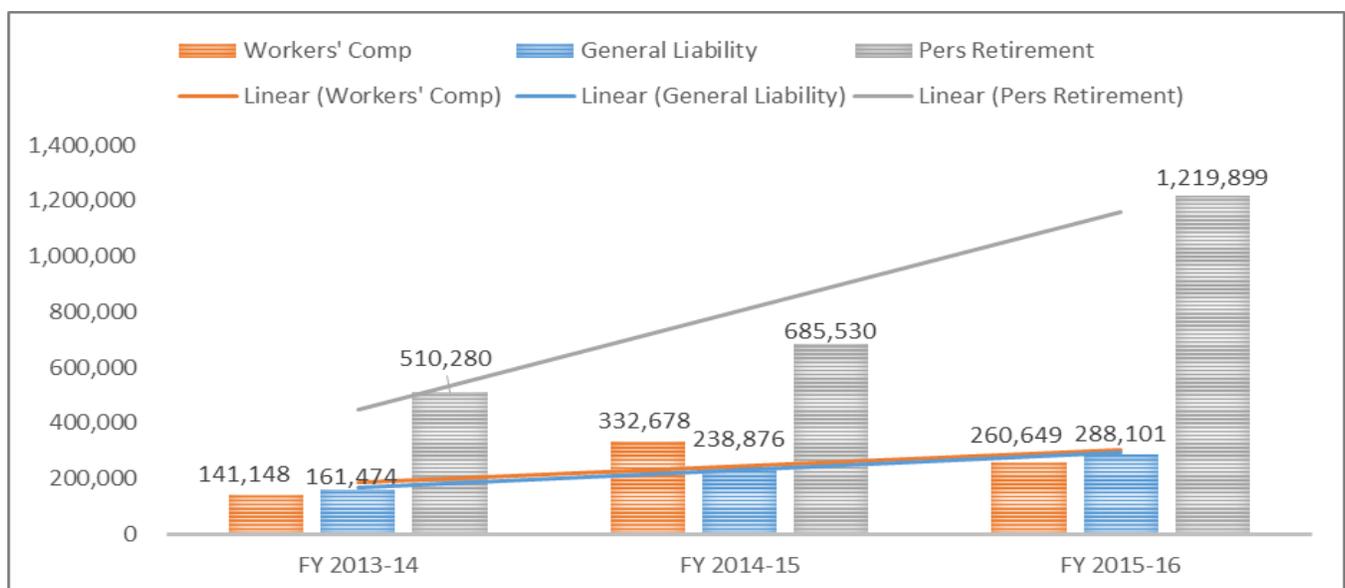


The sales tax industry group projections noted in the table and pie chart below reflect decreases in most industry groups with the exception of restaurants/hotels and food/drugs. The state and county pools have been increasing significantly in which the city shares 37% of the pools but the expected overall downturn is (5.8%) for FY 2015-16. However, projections for FY 2016-17 have a more positive outlook with a projected overall increase of approximately 3.9%.



PROJECTED SALES TAX CHANGE	
Sales Tax Industry Group	FY 2016
Autos & Transportation	(2.2%)
Building & Construction	(24.0%)
Business & Industry	(35.3%)
Food & Drugs	6.8%
Fuel & Service Stations	(15.7%)
General Consumer Goods	(2.7%)
Restaurants & Hotels	4.0%
State & County Pools	20.2%
Total Overall	(5.8%)

Actual workers' compensation costs decreased by \$72,000 in FY 2015-16 from the previous fiscal year, in which there was an increase of \$191,000 in FY 2014-15 from FY 2013-14. The lower cost is not necessarily a trend the city can rely on in coming years and could be adversely affected if there is an increase in the number or severity of claims in the future. Liability and property insurance costs increased by \$49,000 due to increases in liability claims. Pension costs increased due to the required payments for the unfunded accrued liability projected to be \$626,000 for FY 2015-16. The following chart summarizes the projected costs for the three most recent year period.



These cost categories are based on available information at this time and will continue to be refined as we work through the budget process and updated information becomes available. However, as the trendlines indicate, serious efforts to fund these unanticipated cost increases need to be addressed.

Fiscal Year 2016-17 Outlook:

The following assumptions are key issues as we begin the FY 2016-17 budget process:

- Depleted Reserves & Projected Deficit Fund Balance of Approximately (\$401,000)
- Managing Credit Downgrade and Impact on Finances
- Economic Development (reaching out to potential developers, investors, business owners)

Revenue Drivers:

- Sales Tax Projections +3.9% (will be affected if gas prices remain lower than anticipated)
- Property Tax Increases +1.0% (based on assessed valuations)
- Inlieu MVL Tax +1.0%
- Reduction in AB109 Realignment Funds (\$59,370)
- Reduction in Vehicle Code Fines (red light cameras not in operation due to caltrans permitting issues)
- Franchise Fees Increase \$23,000 (increase in recology franchise fees)
- Reduction in Towing Company Fees (council action to not charge for sales of towed vehicles)
- Reduction in Fire Equipment Rentals (repairs to damaged equipment exceeds value of reimbursements)
- Loss of SAFER grant funding for three fire apparatus engineer positions

Expenditure Drivers:

- Liability and Property Insurance +15% (estimated at this time, better projections as budget is developed)
- Workers' Compensation Insurance +10% (estimated at this time, better projections as budget is developed)
- Pension Cost Increases (unfunded liability payments \$626,000 in addition to annual pension contributions)
- Information Technology Upgrades \$100,000 + (public safety security requirements by state/federal agencies)
- Debt Service Obligations \$636,875
- Personnel Costs +3%-5% (increases in health insurance and related benefit costs)

Over the past several years, general fund expenditures have exceeded general fund revenues which has led to a depletion of all reserves and fund balance on hand. Based on information available at this time, the comprehensive fiscal outlook for the city continues to be unfavorable, as it was when we reviewed this with the City Council at the Mid-Year Report and Budget Outlook on February 17, 2015 and again at the April 16, 2015 and October 22, 2015 goal setting sessions.

The upcoming sales tax measure must be the focus of the City Council and the community to ensure it passes and gives the city an ability to restore fiscal soundness and sustainability of the general fund to provide the necessary services required by the community. If the sales tax measure is not successful in the June primary ballot, the community will have to sustain extreme service level cuts which will lead to increased response times for 911 emergency calls for medical aid and public safety, continued deterioration of city streets and essential services. A successful sales tax ballot measure would help to rebuild city streets, improve park appearance and restore emergency calls for public safety. A successful sales tax measure is necessary for the near term economic stability of the city and will be a predicator to the long-term economic development that will need to follow to create an abundant and sustainable economic environment for businesses to thrive in the future.