




MEMORANDUM

Agenda Item #: 7
Meeting Date: 04/28/2015

TO: HONORABLE MAYOR AND CITY COUNCIL
THRU: ANTON DAHLERBRUCH, CITY MANAGER 
FROM: RUSSELL MORREALE, FINANCE DIRECTOR
RE: INTRODUCTION AND PRESENTATION OF FY 15-16 BUDGET
AND CAPITAL PLAN
DATE: APRIL 28, 2015

ISSUE

An introduction and presentation of Fiscal Year 2015-2016 Operating and Capital Budget, year-two of the 2015-2016 Biennial Budget.

BACKGROUND

The City of Palos Verdes Estates works under a two-year budget. The fiscal-year (FY) budget and CIP was adopted on June 24, 2014 for a Biennial (two-year) period extending to June 30, 2016. At that time, FY 14-15 was appropriated. FY 15-16 was scheduled to return to Council in the last quarter of the current year for final update and formal appropriation. Earlier this year, staff also presented City Council with an update of the prior-year audit results as well as current year fiscal trends, making this the ideal time to commence the budget public meetings for the upcoming year.

Tonight's meeting merely introduces the budget to City Council as updated for the second-year term. No action is being requested. That said, it provides a basis for revisiting the fiscal plan in place, how it has been refined and an opportune time for questions related to the City's use of fiscal resources.

This staff report places focus on the City's major operating and capital funds – in particular, the General Fund (the fund that serves all basic service operations), the Capital Improvement Program (CIP) Fund (through which infrastructure needs are paid for), and the Sewer Fund (used for sewer repairs and projects). The documents included herein are comprehensive in nature and illustrate all elements of the City's budget including all individual Funds.

Based upon the comments and direction received this evening, a public hearing will follow on June 9th, with a formal adoption on June 23, 2015.

DISCUSSION

The City uses two-year budgets and capital plans to increase the range of strategic planning (taking a longer view) and to add process efficiencies. As such, year two entails a “refresh” rather than a “remake” of the document. In fact, the FY 15-16 budget remains mostly unchanged including only those changes that have emerged in the interim and/or require routine adjustment. The document before you this evening remains substantially true to the original June 2014 plan. Plan modifications include:

- Updating employee salary & benefits to latest standards, organizational moves and labor negotiations factors (finalized in FY14-15).
- Reviewing active Capital Improvement Projects in determining completed or ongoing status.
- Prefunding CalPERS and insurance premiums to achieve interest savings.
- Updating revenues for current trends.

Beyond these routine areas of adjustment, this year-two budget puts forth no new initiatives beyond those originally presented. In the fall of 2015, as part of the planning process in FY 2015-2016, staff will present City Council “Budget Issue Papers” to prompt strategic discussions in anticipating the next two-year budget cycle.

FY 15-16 BUDGET & CAPITAL PLAN

Attachment A presents a high level summary of the proposed FY15-16 budget in a format consistent with the original biennial plan (available on the City web site). Highlights of this plan follow:

Highlights

- The operating budget is balanced and reflects positive performance.
- Funds remain healthy and the City’s reserves are maintained.
- The budget proposed a pre-payment of CalPERS pension liabilities in the amount of \$350,000 to trigger interest savings.
- The budget includes \$1.7 million in FY15-16 proposed general capital improvement projects. An additional \$2.5 million in existing general projects are illustrated for carry-over into future years. Additionally, \$3 million of existing and current year sewer improvement projects are included – the most significant being the Force Main project at Rocky Point Road and Paseo Del Mar.
- One full-time Planner position approved in the original FY 14-16 biennial budget is represented in this budget.
- One full-time Code Enforcement Officer approved in FY14-15 is now represented in the budget.
- Pension rates, insurance costs & employee pension contributions have been updated.

- The organizational relocation of the Human Resources Division to Finance from Administration is represented in the budget.

As reported at the mid-year, FY 14-15 is progressing well with budget estimates being met and/or exceeded favorably. At that time, trends indicated that expenses remain in check, and revenues have been boosted by property tax in particular. This same theme continues for the upcoming FY 15-16 budget.

General Fund (operating) Revenues

General Fund revenues are expected to come in at 3.69 %, an increase or \$448,000 above the original estimates. With the original budget plan being balanced, this upward trend in revenue further favors fund balance projections. Property tax has championed revenue over the past two year and is expected to increase by 5% - making up the bulk of growth. This trend validates a recent report by the City property tax consultants noting a 5.47% increase in real property assessed valuations.

Other notable changes include an increase in concession fees, mostly attributable to golf concessions, overall franchise fee growth (mostly from water and cable utilities) and a property related bump in real-estate transfer taxes. As reported at mid-year, a reduction in planning and building fees has been noted as well as a drop in safety fines.

Core

SOURCE	PROJECTED	PLANNED	UPDATED	CHANGE	CHANGE
	2014/15	2015/16	2015/16	\$	%
PROPERTY TAXES	6,745,000	6,680,000	6,986,000	306,000	5%
PROPERTY TAX IN-LIEU-FEE	1,235,000	1,251,000	1,281,000	30,000	2%
CONCESSIONS, RENT & INTEREST	1,214,000	1,117,000	1,237,000	120,000	10%
PLANNING & BUILDING FEES	927,000	1,067,000	993,000	(74,000)	-8%
FRANCHISE FEES	575,000	548,000	587,000	39,000	7%
OTHER AGENCIES	608,000	545,000	550,000	5,000	1%
FINES	157,000	209,000	201,000	(8,000)	-5%
BUSINESS LICENSE TAX	209,000	211,000	213,000	2,000	1%
REAL ESTATE TRANSFER TAX	201,000	171,000	205,000	34,000	17%
SALES TAX	160,000	154,000	158,000	4,000	3%
LICENSES & PERMITS	35,000	37,000	35,000	(2,000)	-6%
SERVICE CHARGES	62,000	70,000	62,000	(8,000)	-13%
TOTAL	12,128,000	12,060,000	12,508,000	448,000	3.69%

General Fund (Operating) Expenditures

City expenditures have been updated for core operational events since adoption of the biennial plan and approved during FY 14-15. These result in an increase of 4% or \$509,849 above original plan estimates.

This level of expenditure growth is commensurate and consistent with revenue growth projected for FY 15-16, resulting in a maintained balanced budget equation.

Adjustment to expenditures in this year-two of the budget can be described as follows:

- Both the Administration and Finance Department budgets reflect staffing realignments including (1) the transfer of an existing full time Human Resources Analyst to Finance

from Administration, (2) the reassignment of a ½ time Administrative Analyst from Planning, Building & Public Works to Administration.

- The Finance budget was adjusted for contractual increases in technology support fees, credit card banking fees and additional training dollars as the Department addresses key developments and grooms a new Human Resources Analyst and Finance staff.
- The Police budget is status quo in terms of staffing. The adjustment to this budget is attributable to an increase in CalPERS pension rates and general salary/memorandum of understanding (MOU) growth factors.
- Planning, Building & Public Works includes three primary changes (1) the introduction of the proposed new contract for Building, Safety, Engineering & Public Works services, (2) the retention of forestry dollars within the Department budget as a placeholder pending a future bid of such services and (3) the addition of a new Code Enforcement Officer (added after biennial budget adoption)

The chart below quantifies changes by department in the General Fund.

SERVICE AREA	PROJECTED 2014/15	PLANNED 2015/16	UPDATED 2015/16	CHANGE \$	CHANGE %
ADMINISTRATION	1,108,316	1,106,119	1,107,585	1,466	0%
FINANCE	568,886	639,399	790,663	151,264	24%
POLICE	6,164,799	6,634,245	6,726,939	92,694	1%
PLANNING, BLDG & PUBLIC WORKS	2,891,134	3,183,845	3,448,270	264,425	8%
GENERAL FUND	10,733,135	11,563,608	12,073,457	509,849	4%

Putting It All Together - General Fund Surplus

When considering the overall proposed budget model and matching estimated revenues to expenditure levels, the General Fund is expected to end FY 15-16 with a positive gain of nearly \$800,000.

General Fund		
REVENUE	OPERATIONS	REV / EXP
\$ 12,508,000	\$ 11,723,457	\$ 784,543

Putting It All Together – Reserve Balances

Coming off of a good FY13-14 and expected FY14-15 fiscal performance, Fund balance estimates will mostly exceed expectations. In particular, projections for the City’s General Operating, Fire Paramedic, and Capital Improvement Funds are favorable. General Fund available resource levels have strengthened and facilitate inter-fund transfers in support of policy reserves, capital projects and pension pay-downs.

Notably, “rainy day” target balances are maintained, and even bolstered, by the overall fiscal trends. Major fund reserve and balance projections follow:

Fund	Original Budget	June 30, 2016 Projection
Fiscal Policy Reserve	\$ 8,662,715	\$ 8,962,771
Undesignated	581,514	996,477
Pension Pre-Payment Balance	-	385,000
Total General Fund Balance	9,244,229	10,344,248

Paramedic/Fire Parcel Tax Fund Balance	511,779	586,483
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Capital Improvement Fund	4,309,101	4,094,180
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Insurance Fund	770,014	1,366,419
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The decrease in the Capital Improvement Fund is attributed to the planned use of accumulated resources for infrastructure improvements. Budget projections presume the full use of such funding for identified projects.

How are Capital Improvement Projects (CIP) proceeding?

Attachment A includes an update of all citywide Capital Improvement Projects (CIP) displaying adjusted budgets, funding sources, expenditures to date, remaining balances, carry-forwards and FY 15-16 project plans. The CIP remains essentially the same as adopted with the exception of:

- An increase of \$150,000 to the Via Zurita/Via Coronel sewer upgrades given the latest estimates.
- A reduction of the FY15-16 Bluff Cove project budget from \$400,000 to \$250,000 reflecting the current year budget advance approved when the demolition contract was awarded.

Much progress has been made in the current year with over \$1.75 million paid out for CIPS to date.

Reflecting on the CIP schedule, it is important to note that over \$5 million in existing and pending projects remain on the books subject to future expenditure. Projected fund balances assume full expenditure use of these project funds to completion. To the extent that projects are deferred, these earmarked dollars will replenish available/discretionary fund balance levels.

Other Funds

A review of **Attachment A**, indicates that all other funds are performing as expected. Attachment A. also identifies operational fund transfers, as is customary in these budget developments. Planned fund transfers include:

- \$597,000 from General Fund Unreserved balances to the General Fund 50% policy reserve
- \$500,000 from General Fund Unreserved balances to the Capital Improvement fund
- \$385,000 earmarked in the General Fund for a CalPERS pension pre-payment to take advantage of interest savings
- \$50,000 from the Gas Tax Fund and \$128,000 from transportation based Measure R funds to the Capital Improvement Fund
- \$273,000 to the Insurance Fund to pay for estimated Retrospective Liability and Workers Compensation balances

Keeping an Ever Present “Eye on the Ball”

The positive nature of the budget results from the establishment of and follow-through with strong fiscal policies, fiscally conservative leadership, an extraordinarily strong property-taxed City, citywide cost control at all organizational levels and the exercise of a patient, strategic, incremental course of action relative to fiscal decisions. Nonetheless, each budget cycle reminds us of the many fiscal challenges that face cities of our nature and size. These challenges, itemized below, remain in the forefront of our attention as we plan the allocation and use of city resources.

- The critical nature of the community renewal of the Paramedic and Fire Service parcel tax (nearly 50% of all General Fund dollars) set to expire in 2017 and subject to resident voter approval.
- The long-term absence of a dedicated revenue source for Capital Improvement projects – maintenance and infrastructure projects that are fully primarily dependent on operating fund surplus levels.
- Aging facilities citywide in need of repair and/or replacement.
- Citywide ADA improvements recently identified in the range of several million.
- The absence of long-term storm water and sewer upgrade and repairs funding.
- Continued pressures by rising employee pension rate increases combined with low interest earning levels on city investments.

It is relevant to explain that CIP funds consist only of General Fund revenue in excess of General Fund expenses. The City’s ability to cover the cost of the capital improvements noted above, without a dedicated source of new revenue, is limited to savings.

FISCAL IMPACT

The Operating and Capital Budget are foundational to fiscal control and oversight. This process presents an opportunity to match tax dollars to community service needs with a focus on safety, quality of life and infrastructure.

Staff will return to Council with final proposed numbers and the plan adoption in June. Staff will prepare the customary required resolutions and State required calculations. Additionally, before June staff will present Council final operating adjustments that will help close out the current FY 14-15 fiscal year.

NOTIFICATION

This matter was posted and noticed for the City Council meeting consistent with the City's routine process.

ALTERNATIVES AVAILABLE TO THE CITY COUNCIL

Discuss and provide comments and direction on the fiscal status, Fiscal Year 2015-16 Operating and Capital Budget and plan.

Attachments:

A – Fiscal Year 14/16 Budget Update (High level summary documents)

- FY 14/16 Budget Update
- What We Have
- What We Take In
- What We Use
- Capital Projects