

City of La Palma/Successor Agency

Agenda Item No. 7



MEETING DATE: May 5, 2015

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Ellen Volmert, City Manager
Laurie A. Murray, Administrative Services Director

AGENDA TITLE: Presentation of Proposed Fiscal Year 2015-16 Budget

RECOMMENDED ACTION:

It is recommended that the City Council receive the Staff presentation on the Proposed FY 2015-16 Budget and provide direction for additional materials or information needed for the Budget Workshop scheduled for May 11.

BACKGROUND:

FY 2015-16 Budget

The FY 2015-16 Proposed Budget has been developed with consideration given to balancing the core City services and needs of the community with increasing costs and declining revenues.

Significant issues. The City began the budgeting process with a significant \$718,600 gap in expenditures over revenues, largely due to four drivers threatening the City's sustainability. Those drivers are: a significant drop in sales tax revenue due to the decline in oil prices; a drop in property tax revenues due to the move of a major property owner to non-profit status, which also affects the ability of the Successor Agency to repay loans to the City; a rise in California Public Employees Retirement System (CalPERS) costs over the next five years due to changes in actuarial assumptions and the required payments for the City's prior unfunded liability; and rising insurance costs for both general liability and workers compensation. The deficit is not a one year problem and, in fact, as the Long Term Financial Forecast presented on April 21 shows, the current level of revenues and expenditures is not sustainable into the future. This proposed budget is part of a three-year plan to bring down expenses and to seek solutions to the City's revenue shortfall to insure financial stability in the long-term. An updated Long Term Financial Forecast is included as part of this report.

Pursuant to Council discussion at its April 21 meeting, the following changes have been assumed in the projected Budget:

- Elimination of the motor officer program (one Police Officer position), with that officer being moved into Patrol. This change requires the meet and confer process.
- Elimination of one Maintenance worker position, which will require the meet and confer process.
- Elimination of the Fit N Fun program.
- Elimination of the Police Interaction with Youth (PIY) program.
- Reduction of the *Mosaic* publication from four issues to three per year.
- Reduction of Summer Concerts from six to five.
- Increase of Parking Fines, which will require separate Council action.
- Increase of Community Development fees, which will require separate Council action.

These changes result in \$242,000 in savings and \$30,000 in increased revenues for a combined reduced first year gap of \$446,600.

At the April 21 meeting, the City Council also directed staff to return with an additional \$250,000 in reductions beyond those described above. The proposed reductions include the elimination of La Palma Days, which was not approved as an initial reduction on April 21, but is necessary to minimize the amount of reserves or one-time monies used. The additional proposed reductions which have been included in the proposed budget are as follows:

\$250,000 Expenditure Reductions			
	FY 2015-16	FY 2016-17	FY 2017-18
La Palma Days	\$ 57,900	\$ 57,900	\$ 57,900
Park Hour Reduction of 2 hours each weekday	\$ 12,000	\$ 12,000	\$ 12,000
Eliminate Granicus Expansion	\$ 4,800	\$ 4,800	\$ 4,800
Eliminate SCORE Workshops	\$ 1,300	\$ 1,300	\$ 1,300
Reduce Records Clerk position to Part Time	\$ 36,000	\$ 37,800	\$ 39,700
Pay WC Retrospective Payment from One-Time Funds (Reduces 6 additional years of Payments) - Cost \$252,303	\$ 38,700	\$ 38,700	\$ 38,700
Subtotal Ongoing Savings	\$ 150,700	\$ 152,500	\$ 154,400
Fully fund GF Liability from One-Time Funds and Insurance Reserves - pay back Insurance Reserves in Year 3 (\$42,700 from Reserves, \$100,000 from One-Time Funds)	\$ 142,700		
Remove HVAC from Citywide Maintenance (In CIP)		\$ 66,000	
Remove Reservoir Painting from Citywide Maintenance		\$ 50,000	
Remove City Hall Improvements (Painting, Wallpaper, Kitchen Renovation)		\$ 59,000	
Subtotal One Time Reductions	\$ 142,700	\$ 175,000	\$ -
Total Reductions	\$ 293,400	\$ 327,500	\$ 154,400
Average Annual Reductions	\$ 258,400		
Total 6.4% Transfer	\$ 615,300	\$ 636,200	\$ 657,900
To COR	\$ 250,000	\$ 250,000	\$ 250,000
Balance Available for other one-time uses	\$ 365,300	\$ 386,200	\$ 407,900
Total Used for Reductions	\$ 352,300	\$ -	\$ 42,700
Balance Forward	\$ 13,000	\$ 386,200	\$ 385,200

These changes result in an additional \$293,400 in savings for FY 2015-16 and further reduce the first year gap to \$153,200, albeit with the use of one-time monies in year one. The estimated budget for 2016-17 also assumes the use of \$100,000 from the Revenue Volatility Reserve based on the continuing temporary loss in sales tax associated with the continued lower oil prices. The following is a brief description of the additional reductions:

- La Palma Days - Described in the April 21 staff report, this would eliminate the fall event for savings starting in the 2015-16 fiscal year.
- Park Hours Reduction – Staffing at the park would be reduced during the two weekday afternoon hours with the least demand – from 2-4 p.m.
- Granicus Expansion – The planned expansion would be an improvement in citizen engagement and allow citizen committee meetings to be audio-cast on the City’s website, so this reduction eliminates that functionality.
- SCORE Workshops – Part of the Economic Development Action Plan, however while the events have provided good visibility for La Palma, most businesses taking advantage of the training sessions have not been La Palma businesses so it is not providing the assistance to existing small businesses that was intended.
- Records Clerk – Eliminating the currently vacant full time position will require more records work to be performed by Police Dispatchers and will require meet and confer. This option would also not be possible were the City to contract out its police dispatch function.
- Retrospective Insurance Payments – As discussed, in addition to increasing costs due to claims experience and general trend, the change from retrospective to prospective insurance methodology creates some additional expense during the transition and this therefore temporary portion of increased insurance costs is being proposed to be funded from One-Time projects monies. Since there is not sufficient funds in 2015-16 to finance all of those payments from one-time monies, some funds would be drawn down out of the Risk Management Fund balance and repaid once one-time funds are available (2017-18).
- HVAC – Funding for HVAC systems citywide is also included in the CIP and so the funds there have been retained and these funds removed.
- Painting of Reservoir – While a planned maintenance project, the current condition of the reservoir paint does not warrant the project and the cost of the project can be absorbed into other reservoir maintenance costs already included in the CIP.
- City Hall improvements – Given the civic center discussion returning to the City Council this fall, it is prudent to remove these projects from next year’s budget. Once decisions have been made regarding the civic center, projects will be re-evaluated.

In addition, at its April 27 meeting, the City Council directed staff to bring a salary resolution for the Executive Management Team and an amended Agreement for the City Manager to institute a 5% reduction in salary effective July 1, 2015; and to reduce the City Council stipend by 5% with one Council Member asking that his stipend be suspended in its entirety. This equates to an overall savings across all funds of approximately \$65,000, with \$50,000 in the General Fund, further reducing the first year gap to \$103,500. Additional savings are expected upon the conclusion of labor negotiations, at which time an Amended Budget document will be brought to the City Council for adoption.

This Proposed Budget includes reductions and revisions to the City’s labor force that require a meet and confer process which is not yet complete. The latest Staff plan includes the proposed reduction of the City’s full-time equivalent (FTE) count from 55.0 (FY 2014-15 Adopted Budget) to 52.0 (FY 2015-16 Proposed Budget), continuing the trend to fewer full time positions. With

these reductions, full-time staffing levels have been reduced 20% from 65 in FY2011-12 to a proposed 52 in FY 2015-16, including the elimination of two Director level positions.

The FY 2015-16 Proposed Budget includes one-time additional sales tax due to the wind down of the State's triple flip - \$223,000 helping to offset the decrease of sales tax dollars due to oil prices; and also includes the addition of lease revenue for the City's La Palma Avenue property. It sets aside 6.4% of General Fund Revenues for Capital and one-time projects or needs. The Capital Improvement Plan (CIP) provides funding for capital projects, with the timing of street projects being stretched, projects wherein grant funding or financing would be sought being removed; and the contribution to the Capital Operating Reserve (COR) being less in the first three years when sales tax revenues are also lower and then increasing in years four and five so that the target balance of \$2 million is met at the end of the Sustainable Financial Plan 11-year period. The initial three years of the plan require \$250,000 of the 6.4% transfer to COR, leaving one-time monies to provide relief to the General Fund, where needed to cover one-time costs. The transfer to COR increases over the longer planning period to \$395,000 annually in order to maintain the target balance of \$2 million at the end of the planning period.

The information in this report is summary information. A more complete, detailed document will be provided prior to the May 5 meeting and a complete budget document will be published prior to the June 2 Public Hearing based on input received from the City Council and public during the budget process.

Three Year Outlook

As stated above, the City's fiscal problems are not a one-year problem and much effort has gone into forecasting what can be done over the next three years. A brief look at what those three-year projections look like follows:

City of La Palma Budget Summary			
Division Name	FY2015-16 Estimate	FY2016-17 Estimate	FY2017-18 Estimate
CITY COUNCIL	\$ 78,200	\$ 80,900	\$ 80,000
CITY MANAGER	220,300	223,900	225,400
LEGAL SERVICES	138,600	129,000	144,000
ADMINISTRATIVE SERVICES	159,100	166,100	170,600
CITY CLERK	137,800	157,700	145,500
FISCAL SERVICES	327,200	329,900	335,100
HUMAN RESOURCES (FORMERLY INTERNAL SERVICE)	1,314,600	1,370,800	1,492,500
TECHNOLOGY & COMMUNICATIONS	330,000	326,700	331,300
Total >	\$ 2,705,800	\$ 2,785,000	\$ 2,924,400
POLICE ADMINISTRATION	\$ 544,700	\$ 557,100	\$ 569,000
OPERATIONS MANAGEMENT	301,400	315,100	317,200
PATROL	2,403,100	2,507,100	2,552,700
SERVICES DIVISION MANAGEMENT	246,700	260,400	267,600
COMMUNITY EDUCATION	66,700	65,800	66,900

INVESTIGATIONS	569,300	589,400	598,000
RECORDS & COMMUNICATIONS	620,200	646,000	658,000
Total >	\$ 4,752,100	\$ 4,940,900	\$ 5,029,400
COMMUNITY SERVICES ADMINISTRATION	\$ 343,000	\$ 355,300	\$ 360,400
HEALTH & WELLNESS	145,100	145,700	145,900
RECREATION FACILITY OPERATIONS	216,800	229,100	234,400
SPECIAL EVENTS	125,400	125,600	126,900
YOUTH & FAMILY	251,800	266,000	272,700
CITY-WIDE MAINTENANCE	342,900	317,700	358,000
ENGINEERING	94,400	88,200	88,300
PARKS & MEDIANS	372,700	346,300	353,300
STREETS	147,700	152,100	153,600
Total >	\$ 2,039,800	\$ 2,026,000	\$ 2,093,500
COMMUNITY DEVELOPMENT ADMIN	\$ 100,000	\$ 102,900	\$ 104,100
BUILDING AND SAFETY	139,600	135,600	135,600
CODE ENFORCEMENT	97,900	103,200	107,500
PLANNING	116,600	119,500	120,700
Total >	\$ 454,100	\$ 461,200	\$ 467,900
Expenditure Subtotal Before Transfer Out >	\$ 9,951,800	\$ 10,213,100	\$ 10,515,200
Adjusted for changes in Transfer Out >	\$ 615,300	\$ 636,200	\$ 657,900
EXPENDITURE GF TOTAL >	\$ 10,567,100	\$ 10,849,300	\$ 11,173,100
Projected GF Revenues >	\$ 10,463,600	\$ 10,545,800	\$ 10,892,800
Surplus(Deficit)	\$ (103,500)	\$ (303,500)	\$ (280,300)

As demonstrated, reductions in the first three years are not all sustainable nor do they solve the longer term problem.

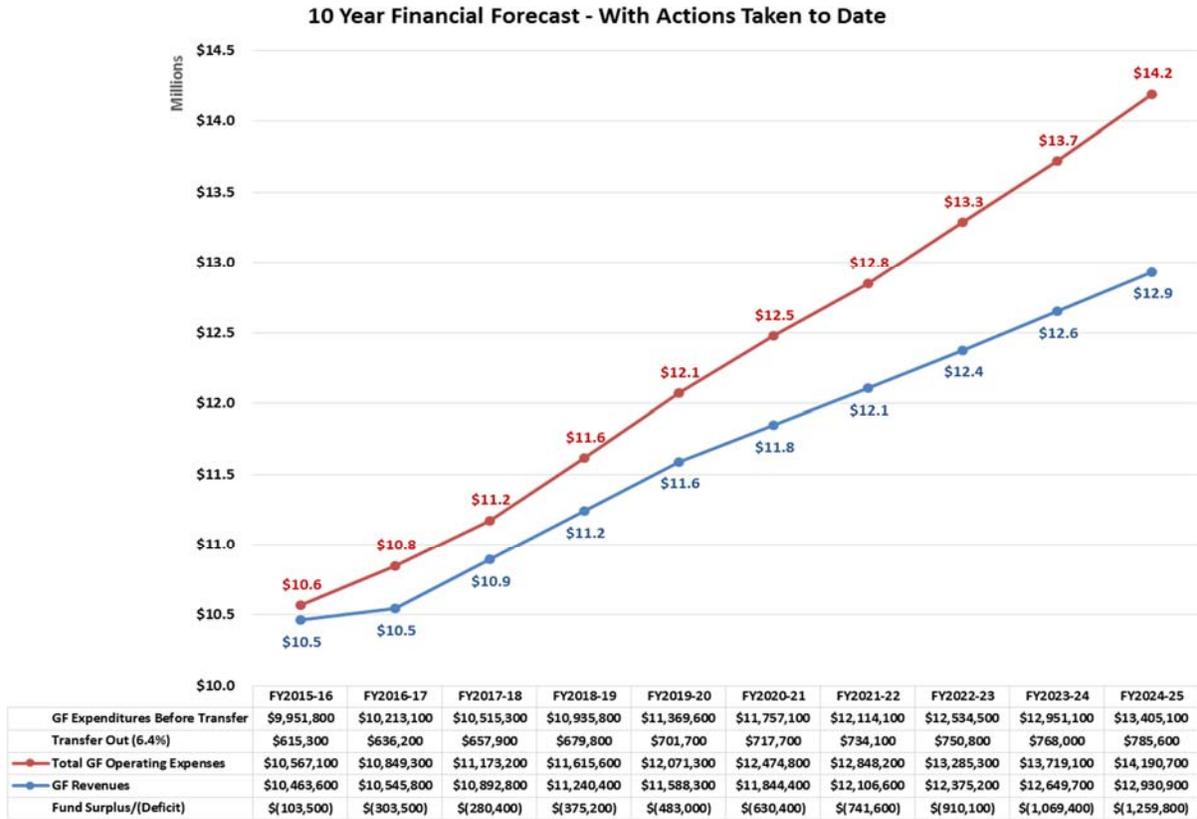
Long Term Financial Forecast

The City Council adopted a Sustainable Financial Plan for the General Fund on March 18, 2014, along with direction regarding target fund balances, a General Fund Volatility Reserve, and one of three potential strategies for dedicating a portion of ongoing General Fund revenues to capital and other one-time projects (6.4% of ongoing revenue).

Staff presented an update on the status of the Long Term Financial Plan on February 17, 2015, and on April 21, 2015. These reports indicated that the Fund's long term sustainability had been lost, in part, due to the drivers mentioned earlier—sales tax revenues, property tax revenues, CalPERS costs, and insurance costs. These four factors equate to a \$981,800 hit to the City's bottom line.

The updated ten year gap, taking the actions proposed in the FY 2015-16 Proposed Budget into account, is shown on the following chart. In the short term (3 years), there is little the City can do on the revenue side to address these issues. Even if the City Council were to place a revenue item on the 2016 ballot and the voters approve the measure, depending on the type of revenue,

it would not likely have any impact until 2017-18 and potentially not full impact until 2018-19. Any major new economic development project would likewise take time to come to fruition.



To fully understand the magnitude of the situation and what options remain for the City, it is necessary to look at what the City has already done to address its financial situation, increase revenues, revise operations for efficiency, and reduce services, as well as to establish appropriate reserves and a rainy day fund. Some significant changes over the last five years include:

- Significant changes in the 2011 labor agreements with all groups, which reduced costs and unfunded liabilities, including increased employee contributions towards retirement, lower retirement tiers, no cost of living adjustments in three of the four years, and no increases at all to contributions towards benefits cafeteria plan contributions despite significant medical premium cost increases.
- Proactive economic development efforts even as redevelopment was dissolved and a national recession were impacting opportunities.
- Completing, despite the financial challenges, the seven year residential pavement plan and the upcoming completion of the arterials pavement plan. This results in long term cost savings.
- Return to full levy of the Utility Users' Tax at 5%.
- Change in investment policy which has increased interest earnings in a low interest environment.

- Creation of a Trust to fund retiree medical unfunded liabilities and a substantial reduction in those liabilities as a result.
- Reduction in staff strength to below 1986 levels prior to the reductions contained in the proposed budget.
- Restructuring throughout the organization to improve efficiencies and work distribution as well as reducing upper management while maintaining as many line positions as possible. This included consolidation of four departments into two, redistribution of work between departments and restructuring of a division within the City's largest department, Police.
- Significant investment in new technology to support the smaller staff, improve service to the public and management information, and to improve efficiencies.
- Significant investment in other major expense line items to improve efficiency including Phase 1 of the energy conversation project and the upcoming purchase and retrofit of street lights.
- Revision of the General Plan, adding new opportunities north of Orangethorpe including a new Freeway Overlay District to allow for digital billboards.

The City's financial situation is therefore not in response to inaction, but in spite of these significant actions already taken and based largely on factors which are currently outside of the City's control.

SUMMARY:

The Proposed Budget is scheduled for discussion at a workshop on Monday, May 11, at the City Council meeting of May 19, and at a public hearing scheduled for June 2, when it is anticipated that the City Council will approve a final budget document for FY 2015-16.

The City Manager's Budget Message and other additional detail will be provided with the complete budget document prior to the June 2 Public Hearing and the final document will reflect input received from the City Council and public. The City Manager's Budget Message provides a detailed and comprehensive overview of the Proposed Budget, the challenges facing the City, significant trends to watch, and the many accomplishments achieved and anticipated for the organization. Questions or requests for additional information this evening will become part of future informational materials. Necessary carryover adjustments will be presented to the City Council on June 2.

ALTERNATIVES:

At this point, since this item represents the first presentation of the Proposed FY 2015-16 Budget, there are no alternatives to receiving the document and presentation and providing an opportunity for public and Council Member comment.

FISCAL IMPACT:

General Fund Revenues are proposed to be \$10,463,600 with proposed expenditures at \$10,567,100. While the General Fund budget shows a projected deficit of \$103,500, additional savings are expected upon the conclusion of labor negotiations, at which time an Amended Budget document will be brought to the City Council for adoption. The 6.4% transfer is estimated at \$615,300, with \$250,000 being transferred to COR and most of the remaining \$365,300 being

utilized for one-time insurance costs, providing approximately \$138,700 in relief to the General Fund in the current year and \$38,700 per year for the next six years. An additional \$42,700 relief is provided by utilizing Risk Management Reserve funds, which will be repaid to the Fund in year three of the budget plan.

APPROVED:



Administrative Services
Director



City Manager

- Attachments: 1. Proposed Fiscal Year 2015-16 Budget worksheets are scheduled to be posted on Monday, May 4, 2015, or distributed at the May 5 City Council meeting