



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Grant Yates, City Manager

Prepared by: Jason Simpson, Assistant City

Manager Date: June 12, 2018

Subject: Adoption of the FY 2018-19 Annual Operating Budget, Schedule of Authorized Positions, and Establishing the Appropriations Gann Limit

Recommendations:

adopt **A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ADOPTING THE FY 2018-19 ANNUAL OPERATING BUDGET AND ESTABLISHING THE CONTROLS ON CHANGES IN THE APPROPRIATIONS; and,**

adopt **A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, REVISING THE SCHEDULE OF AUTHORIZED POSITIONS; and,**

adopt **A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ESTABLISHING THE APPROPRIATIONS GANN LIMIT FOR FY 2018- 19 AND SELECTING THE POPULATION AND INFLATION FACTOR ACCORDINGLY.**

Background

Attached for your review is the Proposed FY 2018-19 Annual Operating Budget. The budget includes revenue projections and expenditure requests for the General Fund, Special Revenue Funds, Capital Project Funds and Agency Funds. Also presented with this report is the fiscal year 2018-19 proposed authorized position schedule and the Gann Limit Calculation. The budget subcommittee has reviewed and discussed the FY2018-19 Annual

Operating Budget.

Discussion

Current Condition - State of California – May 2018 Revision Budget (Governor Brown)

New One-time Funding for Homelessness, Mental Health and Infrastructure *Economic Forecast Projects 174,000 Housing Units Annually by 2021.*

Gov. Jerry Brown held a press conference to unveil his revised FY 2018-19 budget proposal. The proposal includes \$137.6 billion in General Fund spending and a total spending amount of \$199.3 billion. Pointing to his usual charts showing California's boom and bust cycles, dependence on capital gains taxes and spending history, the Governor repeated his fiscal prudence mantra while warning of the inevitability of the next recession. FY 2018–19 marks the Governor's 16th and final budget and he expressed a desire to leave the state's finances in order as he completes his fourth term in office.

With revenues expected to come in higher than what the Governor projected in January, he continues to prioritize building reserves and one-time spending. He proposes to fully fund the Rainy-Day reserve at \$13.8 billion by the end of FY 2018–19, with an additional \$3.2 billion into the state's traditional budget reserve. The May Revise allocates \$4 billion in new one-time spending to address some of California's most urgent needs.

In response to requests for additional funding to address homelessness, led by mayors of California's 11 largest cities and supported by the League, the Governor proposes an additional \$359 million in spending to address homelessness. He characterized this as a "bridge" to provide upfront funding before the state has revenues derived from a recent tax on various real estate transactions through last year's SB 2 (Atkins) and proceeds from a \$4 billion housing bond pending on the November ballot enacted by SB 3 (Beall). The Governor emphasized that addressing homelessness is more than sending extra money to cities and that California needs a framework to help the homeless get needed mental health and addiction treatment. While the May Revise contains less funding than the proposals pending in the Legislature, it is encouraging to see the Governor willing to negotiate with the Legislature and local governments on this important issue.

The Governor is also proposing to end the legal uncertainty associated with the No Place Like Home program by asking voters to approve an amendment to Proposition 63, the Mental Health Services Act. The proposed ballot measure would ask voters to validate that funding from Prop. 63 can be used to fund a \$2 billion bond for permanent supportive housing for homeless individuals or those at risk of becoming homeless, who need mental health services. The Governor views that this is a more expedited path than the courts.

The other one-time funding allocations in the May Revise are \$2 billion for deferred maintenance on state infrastructure including courts, universities, state facilities and

flood control; and \$312 million for mental health services.

The Governor stressed that there will be several developments in the next few years, including court decisions, that could make significant changes to the pension system. He noted that these reforms will have a greater impact each year as the workforce brings on new employees. The May Revise summary references the pressure from pensions on local governments. However, in the Governor's remarks, he warned that the state is not able to bail out cities and counties on pension challenges.

Details on these and other budget areas of importance to cities are outlined in the League budget analysis of May Revise attached as Attachment to this staff report.

General Fund Revenues

The projected General Fund revenues are \$43.6 million for fiscal year 2018-19, which reflects a \$295,000, or .68% increase from fiscal year 2017-18 revenue estimates. General Fund revenues have increased primarily because of continued growth for the local economy. The most significant revenue increases are identified below:

- \$332,918 in Sales Tax
- \$310,718 in Property Tax
- \$1,494,224 in Reimbursements and Other

The increases for Reimbursements and Others is made up of grants, pass throughs from RDA, and reimbursements from CIP projects for staff time.

General Fund Expenditures

The proposed budget of \$45.1 million reflects an increase in General Fund expenditures of \$768,564 or 1.73% from the fiscal year 2017-18 budget. The primary increases contributing to this include: 1) increase in Police personnel cost increases passed through by the County; 2) negotiated increases for employees and increases in CalPERS retirement rates.

The authorized Full Time Equivalent (FTE) positions are proposed to increase from the prior year total of 84 authorized to 86 authorized positions due to a position added to support the campground and a position added to support the front counter. Additionally, part-time positions increased from 46 to 50 primarily due to the addition of the Public Safety Advisory Commissioner positions and the elimination of an unfunded Project Analyst position.

The City has continued to focus on reorganizing department structures to streamline processes and enhance efficiencies without reducing essential public services to the community. The following is a summary of significant items by department in the proposed Preliminary Annual Operating Budget for Fiscal Year 2018-19:

City Council: Increased due to increase in compensation and health coverage premium cost to the City.

City Manager: Increased due to increase rate for retirement contribution.

Administrative Services: Increased due to increase rate for retirement contribution and

benefit costs.

Police Services: Another large increase in contract administration costs passed down from the County of Riverside for Police Service costs. The City, along with several other contract cities, are in the process with studying the feasibility of creating a regional police force to address rising costs. There are significant concerns regarding the County's increasing Public Safety costs and the impact it has to the City.

Community Development: Increased due to 1) continued hiring of economic development consultant; and 2) hiring of additional Fire Prevention Specialist and 3) continued homeless camp clean-up costs.

Public Services: Increased due to 1) increase rate for retirement contribution and number of vacation hours allowed to cash out and 2) continued efforts on maintaining the parks and lake.

Community Services: Increased due to 1) increase rate for retirement contribution and benefits and 2) hiring of management company to oversee Rosetta Canyon Sports Park.

"Gann" Appropriations Limit

In accordance with Government Section 7910, the City Council is required, on an annual basis, to adopt by resolution the "Gann" Appropriations Limit. The Appropriations Limit creates a restriction on the amount of revenue that can be appropriated in any fiscal year. The Limit is adjusted each year based on the change in population and either the change in non-residential assessed valuation or the change in California per capita income. The Limit for fiscal year 2018- 19 is based California's per capita income.

Using population and per capita personal income data provided by the State Department of Finance, the City's Appropriations Limit for FY 2018-19 (adjusted for FY2017-18) has been computed to be \$96,574,996. Appropriations subject to the Limit in the proposed FY 2018-19 budget total \$27,026,113, which is \$69,548,884 less than the computed limit. Additional appropriations to the budget are funded by non-tax sources such as service charges, restricted revenues from other agencies, grants, or beginning fund balances would be unaffected by the Appropriations Limit, however, any supplemental appropriations funded through increased tax sources could not exceed the \$69,548,884 variance indicated above. Further, any overall actual receipts from tax sources greater than \$69,548,884 from the budget estimates will result in proceeds from taxes more than the City's Appropriations Limit, requiring refunds of the excess within the next two fiscal years, or voter approval to increase the City's Appropriations Limit.

Fiscal Impact

The Proposed Fiscal Year 2018-19 Annual Operating Budget provides a reinvestment of fund balance resources, in addition to operating revenues, to fund operating expenditures by \$2,028,675 after the operating transfers. The designation for economic uncertainty is \$8,001,205, an amount equal to 17.5% of General Fund Operating Appropriations for fiscal year 2018-19.

Exhibits

- A Resolution No. 2018-___ Operating Budget – (Schedules attached)
- B Resolution No. 2018-___ Schedule of Authorized Positions – (Schedules attached)
- C Resolution No. 2018-___ GANN Limit – (Schedules attached)
- D Attachment A – League Budget Analysis of Governor's May Revise Budget Proposal