



## **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 11, 2019

**Subject:** Adoption of the FY 2019-20 Annual Operating Budget, Schedule of Authorized Positions and the Gann Limit

### **Recommendations:**

**adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ADOPTING THE FY 2019-20 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 2019-20 AND SELECTING THE POPULATION AND INFLATION FACTOR ACCORDINGLY.**

### **Background**

Attached for your review is the Proposed FY 2019-20 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 2019-20 proposed authorized position schedule and the Gann Limit Calculation. The budget subcommittee has reviewed and discussed the FY 2019-20 Annual Operating Budget.

While the economy is showing continuing signs of improving and the development activity momentum is building within the City, it is critical that we continue to operate in a transparent, accountable and fiscally prudent manner while maintaining current public safety service levels and providing key quality of life services that our citizens have come to expect. Residents

identified the following services as community spending priorities in a 2016 community survey:

- maintaining a low crime rate,
- providing fire protection, prevention, and emergency medical services,
- providing police services,
- addressing issues that negatively impact the appearance of the community, like graffiti, homelessness and illegal dumping,
- keeping public buildings, parks, and facilities clean and attractive,
- managing and maintaining the Lake and City beaches,
- promoting economic development to stimulate the local economy, and
- promoting job development in the City.

The City is committed to reflecting the community's priorities and is looking forward to engaging feedback from residents during the budget process and reporting back to the public and City Council on needs and priorities. Working together, we will ensure our budget and financial policies reflect spending consistent with the community's priorities.

As such, the FY 2019-20 Annual Operating Budget Status Report proposes to maintain current services through June 30, 2020, maintains the Uncertainty Reserve at 17.5% and establishes a path towards the development of the FY2021-22 Operating Budget and the Five (5) Year General Fund Financial Plan.

## **Discussion**

### **Current Condition - State of California – May 2019 Revision Budget (Governor Newsom)**

On May 19, 2019, the Governor presented his May Budget Revision to the adopted budget released in July 2019. The Governor's May Revision tops \$213 billion, an increase from the \$209 billion in his January proposal.

The Governor contributed an additional \$1.2 billion into the Rainy Day Fund, bringing the total reserve to \$16.5 billion. The fund is projected to reach its ten percent constitutional cap in FY 2022-23, two years earlier than predicted in January.

The May Revision maintains the Governor's commitment to link SB 1 transportation funding to compliance with housing element law, zoning, and entitlements to meet the state's housing goals. The Governor's housing-related proposals are largely consistent with his January budget, which proposes \$1.75 billion for various housing-related programs. However, the May Revision does contain some minor increases in funding to assist renters and repurposes housing production incentives grants to provide infill infrastructure funding for housing.

In response to requests for additional funding to address homelessness, the Governor's May Revision includes an additional \$150 million for homelessness services and resources, increasing the state's support to prevent and mitigate homelessness to \$1 billion.

The May Revision also includes additional investments to sustain and improve the state's emergency readiness, response and recovery capabilities. The additional \$39.9 million in funding will allow for further investments and an increase in the state's ability to protect vulnerable populations and tackle increasingly frequent and challenging natural disasters as they arise.

The May Revision maintains the Governor's January proposal to reduce the state's unfunded pension liabilities by \$3 billion and increases the state's contributions to CalPERS by a net total of \$3.5 billion.

### **General Fund Revenues**

The projected General Fund revenues are \$45.9 million for the fiscal year 2019-20, which reflects a \$2.1 million, or 4.80% increase from the fiscal year 2018-19 revenue estimates. General Fund revenues have increased primarily as a result of continued growth for the local economy. The most significant revenue increases are identified below:

- \$540,261 in Sales Tax
- \$706,281 in Property Tax
- \$1,088,975 in Special Assessments

The increases for Special Assessments are due to the completion of single-family housing developments that are now being added to the tax roll to pay for approved increases to public safety as well as maintenance to streets, medians, lighting, parks, open space and drainage within the City.

### **General Fund Expenditures**

The proposed budget of \$46.5 million reflects an increase in General Fund expenditures of \$1.09 million or 2.41% from the fiscal year 2018-19 budget. The primary increases contributing to this include a 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 86 authorized to 87 authorized positions due to a position added to support the new neighborhood center. Additionally, part-time positions increased from 51 to 52 primarily due to the addition of the Intern position for Community Services to assist with newly awarded grants.

The City has continued to focus on reorganizing department structures in an effort to streamline processes and enhance efficiencies without reducing essential public services to the community. The following is a summary of significant items by the department in the proposed Preliminary Annual Operating Budget for Fiscal Year 2019-20:

**Community Support:** Increased due to the shift in personnel costs from the City Manager's budget to correct reflect staff time.

**City Clerk:** Increased due to election-year costs.

**Administrative Services:** Increased due to compensation and classification study that must be completed per MOU requirements.

**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 existing County model for the patrol rate to determine if efficiencies or a lower cost of services can be achieved.

**Fire Services:** Increased due to retirement and compensation increases per their MOU.

**Public Services:** Increased due to 1) shift of cost for post-retirement benefits from non-departmental to correct cost centers and 2) continued efforts on maintaining the parks and lake.

**Community Services:** Increased due to 1) shift of cost for post-retirement benefits from non-departmental to correct cost centers and 2) adding Neighborhood Center location.

### **“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 the 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 2019-20 has been computed to be \$101,303,848. Appropriations subject to the Limit in the proposed FY 2019-20 budget total \$27,476,446, which is \$73,827,402 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 \$73,827,402 variance indicated above. Further, any overall actual receipts from tax sources greater than \$73,827,402 from the budget estimates will result in proceeds from taxes in excess of 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 the Fiscal Year 2019-20 Annual Operating Budget provides a reinvestment of fund balance resources, in addition to operating revenues, to fund operating expenditures by \$1,239,770 after the operating transfers. The designation for economic uncertainty is \$8,252,479, an amount equal to 17.5% of General Fund Operating Appropriations for the fiscal year 2019-20.

### **Exhibits**

A Resolution No. 2019-\_\_\_\_ Operating Budget – (Schedules attached)

B Resolution No. 2019-\_\_\_\_ Schedule of Authorized Positions – (Schedules attached)

C Resolution No. 2019-\_\_\_\_ GANN Limit – (Schedules attached)