



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: February 12, 2019

Subject: Fiscal Year 2018-19 Mid-Year Operating Budget Status Report

Recommendations

adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, AMENDING THE FY 2018-19 ANNUAL OPERATING BUDGET FOR MID-YEAR ADJUSTMENTS; 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

The City is presenting its FY2018-19 Mid-Year Budget review of the General Fund. The City's Budget Committee reviewed the FY2018-19 Mid-Year Revised budget for the General Fund. Please note that a review and status report update for Special Revenue Funds, Capital Project Funds, and other funds will be a part of the process for the FY2019-20 Operating Budget and Capital Improvement Plan Budget, which includes a comprehensive workshop in May 2019.

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 FY2018-19 Mid-Year Operating Budget Status Report proposes to maintain current services through June 30, 2019, maintains the Uncertainty Reserve at 17.5%, and establishes a path towards development of the FY2019-20 Operating Budget and the Five (5) Year General Fund Financial Plan. Included, as attachments to this report are several schedules to illustrate (in a tabular format) the status of the FY2018-19 Mid-Year Budget for the General Fund, as follows: Exhibit A – Resolution 2019- ____ including the attached financial schedules Summary of Revenues, Expenditures, and Change in Fund Balances – General Fund - FY2018-19 Mid-Year Annual Operating Budget.

Discussion

Revenues:

At mid-year, the City is anticipating a net decrease in recurring operating revenues of \$251,841 from \$43,563,222 to \$43,815,063, a 0.58% increase. The estimated revenue adjustments are as follows:

<u>Estimated Adjustments to Revenue:</u>	<u>Amount</u>
Building Permit Fees	\$ (675,720)
Other Taxes	(3,350)
Licenses & Permits	849,780
Intergovernmental	275,100
Fees	(579,591)
Fines & Forfeitures	(37,700)
Fire Structural Tax Credit	40,824
Reimbursements & Other	136,413
Special Assessments	246,085
	<u>\$ 251,841</u>

The largest revenue increase of \$849,780 is a result of anticipated cannabis permits. All of the remaining revenue adjustments reflect projections to year-end upon activity year-to-date.

Expenditures:

Appropriations: The total increase for mid-year appropriations is \$245,420. Departments were requested to reduce or maintain costs within their existing appropriations, except for minor changes within individual line items.

<u>Estimated Appropriation Adjustments:</u>	<u>Amount</u>
Planning	\$ 33,140
Building & Safety	150,730
Code Enforcement	187,320
Engineering	74,580
Public Works	209,270
Park Maintenance	63,180
Lake Maintenance	61,440
Recreation	67,860
Community Center	18,650
Senior Center	37,820
Non-Departmental - Operating	(658,570)
Total Appropriations	<u>\$ 245,420</u>

The FY2018-19 Mid-Year changes include:

- An increase in Code Enforcement for homeless camp clean-up expenditures. This expense is offset by a grant received from Cal Recycle.
- An increase in Public Works Administration for temporary help services for clean-up expenditures from the Holy Fire and Holy Floods.

Regarding Police and Fire Services appropriations, the City is maintaining existing levels of service, nevertheless, the modifications noted directly relate to effectively managing the operating expenditures within budget line items including training, fees, supplies, and other line items. All of the remaining expenditure adjustments reflect projections to the City's Unfunded Liability Obligation for retiree medical and vision. In addition, the City Manager will be working closely with the departments to further reduce expenditures before June 30, 2019.

6-Point Plan Adopted by City Council on June 12, 2018 – Status Update:

The City Council adopted a 6-Point Plan when they approved the FY2018-19 Operating Budget for the City. The following is listing of the 6 points:

1. Explore Amending Animal Services concrete to increase canvassing and to delete cat licenses

Status: Proposed amendments to our existing municipal code are planned for the February 26th City Council meeting. Staff is presenting these suggestions regionally at the next Executive Management Committee meeting on February 7th for feedback. These amendments include mandatory spay/neuter, mandatory microchipping, and the removal of cat licensing. Staff has met with AFV on all matters and has asked for the proposed cost to increase canvassing. AFV will be present at the City Council meeting to provide info on all the above.

2. Bring Re-activation of the false alarm ordinance

Status: False Alarm Activations ordinance actions were taken on January 8, 2019 with second reading on January 22, 2019. Changes go into effect February 23, 2019. Staff is working with CALFIRE, Code Enforcement, Finance and the Police Department to formalize the notices and standard operating procedures for implementation. In addition, we are preparing information for our website and an outreach effort for residents and businesses. This includes partnering with the Chamber of Commerce and informing our agency partners including EVMWD and LEUSD.

3. Revenue projections for cannabis development

Status: Although not approved by October, City Council took several actions on December 11, 2018 (which required second readings for ordinances). Overall, 10 applications were approved with an estimated annual fiscal impact of \$2.8 million dollars provided the permit holders perform. Five of the permit holders received their State Temporary permits and staff added \$1 million to mid-year budget estimates.

4. Meet with new Fire Chief – evaluate equity in current system and explore Calimesa Model

Status: We will meet with the new fire chief as new division chiefs and reorganization was implemented. Prior to this Holy Fire and Holy Flood, as well as State-wide fires, have deflected resources in order meet community-wide emergency needs. Staff explored the current level of services being provided to the City of Lake Elsinore as well as participated on the county-wide truck allocation committee which was presented to participating agencies at the TAC meeting in November 2018. CALFIRE administration was requested at the November TAC meeting to provide the known cost increases based on the CalFire bargaining agreement. The cost increases through the fiscal year beginning July 2020 are as follows:

- There is a salary increase of 2% to 2.75% in July 2019 and 2% to 2.5% in July 2020.
- Benefit rate changes will not be known until late January/February 2019 at the earliest.
- Their goal is to have cost estimates for FY 19/20 available by the end of February or sooner.

5. Meet with Sheriff to identify cost saving measures and evaluate JPA option for police services

Status: The JPA prepared by Matrix is going under a peer review and we anticipate a presentation to the City Council by the peer reviewer in Spring 2019.

Staff had several meetings with County executives and the Contract Partners were cancelled by Sheriff Sniff for the last part of the calendar year. A new Sheriff, Chad Bianco, was elected in November and was sworn in January 8, 2018. As reported, major staffing shifts were implemented immediately at the County level with no warning or opportunity for input.

We will work on scheduling a meeting with the new Sheriff to meet with all council members and public safety subcommittee.

6. Develop plan of action with public safety subcommittee and bring back at Mid-Year

Status: The Mid-Year Budget is on the February 12, 2019 agenda. Due to county staff turnover in key positions, County discussions/posturing to shift millions of dollars into contract city costs or not approving agreements going forward, staff was unable to bring forward any viable policy recommendations to Public Safety Subcommittee to consider. As such, any funding, service level, or policy recommendations from the Public Safety Subcommittee will be incorporated into the FY2019-20 Operating Budget discussions.

General Fund Balance Reserves

The General Fund Balance Reserves at June 30, 2019 would reflect the following because of the proposed Mid-Year adjustments, as follows:

Budgetary - FY2018-19 Mid Year Operating Reserves	
Description	Amount
Revenues	\$ 43,815,063
Appropriations	45,452,486
Net transfers	(352,599)
Net operating revenues/(deficit)	(1,990,022)
 Budgetary Fund balance, beginning of year	 11,839,237
Budgetary Fund balance, end of year	<u>\$ 9,849,215</u>

Detail of Budgetary Fund Balance Reserves	
<i>Nonspendable:</i>	
Deposits and prepaid items	\$ 25,000
Loans Receivable	1,000,000
<i>Assigned:</i>	
Uncertainty reserve (17.5%)	8,049,140
<i>Unassigned:</i>	
Unallocated reserve	775,075
Total Fund Balance (net)	<u>\$ 9,849,215</u>

"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 has been computed to be \$96,448,725. Appropriations subject to the Limit in the proposed FY 2018-19 budget total \$27,026,113, which is \$69,422,613 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 \$69,422,613 variance indicated above. Further, any overall actual receipts from tax sources greater than \$69,422,613 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

While the City is beginning to benefit from the improving economy, the development of an accurate, balanced and achievable budget is critical to establishing a solid foundation to manage the anticipated growth and demand for services within and by the community. In developing and implementing a comprehensive operating budget plan, the factors affecting the City's operations and financial condition are numerous, and while the City's General Fund is still in a vulnerable condition, efforts will continue to monitor operating activities closely to ensure the General Fund's resources are programmed appropriately.

The FY2018-19 Mid-Year Budget Report is one of the first steps in beginning the FY2019-20 budget preparation process. The City Manager will be proactively working with each department to develop and present a balanced budget to the Mayor and City Council that moves the City forward in achieving its financial goals as part of the FY2019-20 Budget process. The overall fiscal impact of the FY2018-19 Mid-Year Operating Budget for the General Fund is as follows:

Revenue adjustments	\$ 251,841
Appropriation adjustments	245,420
Net chang/(impact) - FY1819 Mid-Year	<u>\$ 6,421</u>

Exhibit

- A - Resolution
- A1 - Exhibit A to the Resolution
- B - Resolution – Gann Limit
- C - Gann Limit Calculation Worksheets