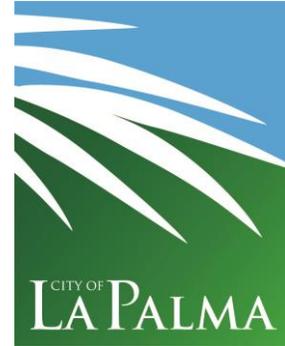


City of La Palma

Agenda Item No. 6



MEETING DATE: March 15, 2016

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Laurie A. Murray, City Manager

AGENDA TITLE: Study Session: Long Term Fiscal Status Update and Fiscal Year 2016-17 Budget Planning

RECOMMENDATION:

It is recommended that the City Council receive the Staff presentation on the Long Term Fiscal Status Update and provide direction for additional materials or information needed for the Budget Workshop scheduled for March 22.

BACKGROUND:

FY 2016-17 Budget

The FY 2016-17 Preliminary 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 begins the budgeting process with a significant \$781,050 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 continual decline in oil prices; a drop in property tax revenues due to the move of a major property owner to non-profit status; a rise in California Public Employees Retirement System (CalPERS) costs over the next four years and beyond 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. As we have discussed over the past few years, the deficit is not a one year problem and, in fact, as the updated Long Term Financial Forecast presented with this report shows, the current level of revenues and expenditures are not sustainable into the future.

Two Year Outlook

A budget summary for Fiscal Years 2016-17 and 2017-18 is provided on the following pages to provide a broad overview of the City's projected short term fiscal condition.

**City of La Palma
Budget Summary**

Acct Code	Department Name	FY2016-17	FY2017-18
		Proposed	Estimate
001-110	CITY COUNCIL	\$ 74,200	\$ 73,600
001-120	CITY MANAGER	272,900	233,800
001-130	LEGAL SERVICES	159,100	134,050
001-140	ADMINISTRATIVE SERVICES	157,300	154,300
001-150	CITY CLERK	172,400	146,400
001-160	FISCAL SERVICES	352,700	357,000
001-170	HUMAN RESOURCES	1,370,200	1,529,900
001-180	TECHNOLOGY & COMMUNICATIONS	317,700	325,800
	ADMINISTRATION/ ADMIN. SERVICES TOTAL >	\$ 2,876,500	\$ 2,954,850
001-210	POLICE ADMINISTRATION	\$ 520,700	\$ 536,200
001-220	OPERATIONS MANAGEMENT	286,800	286,300
001-235	PATROL	2,357,300	2,372,800
001-240	SERVICES DIVISION MANAGEMENT	256,700	258,200
001-250	COMMUNITY EDUCATION	64,200	64,400
001-260	INVESTIGATIONS	541,300	554,600
001-270	RECORDS & COMMUNICATIONS	581,900	587,700
	POLICE TOTAL >	\$ 4,608,900	\$ 4,660,200
001-310	COMMUNITY SERVICES ADMINISTRATION	\$ 347,100	\$ 346,400
001-320	HEALTH & WELLNESS	143,200	143,300
001-330	RECREATION FACILITY OPERATIONS	230,400	231,700
001-340	SPECIAL EVENTS	118,700	119,100
001-350	YOUTH & FAMILY	258,200	259,900
001-370	CITY-WIDE MAINTENANCE	329,250	384,400
001-380	ENGINEERING	87,600	83,700
001-390	PARKS & MEDIANS	224,800	228,200
001-400	STREETS	300,100	270,900
	COMMUNITY SERVICES TOTAL >	\$ 2,039,350	\$ 2,067,600
001-510	COMMUNITY DEVELOPMENT ADMINISTRATION	\$ 106,400	\$ 106,600
001-520	BUILDING AND SAFETY	135,400	135,400
001-530	CODE ENFORCEMENT	100,200	103,200
001-540	PLANNING	115,000	115,200
	COMMUNITY DEVELOPMENT TOTAL >	\$ 457,000	\$ 460,400
	Expenditure Subtotal Before Transfer Out >	\$ 9,981,750	\$ 10,143,050
	Transfer Out >	\$ 587,800	\$ 609,000
	EXPENDITURE GF TOTAL >	\$ 10,569,550	\$ 10,752,050
	Projected GF Revenues >	\$ 9,788,500	\$ 10,129,160
	Surplus(Deficit)	\$ (781,050)	\$ (622,890)

City of La Palma Budget Summary			
Acct Code	Department Name	FY2016-17 Proposed	FY2017-18 Estimate
Special, Enterprise, and Internal Service Funds			
011-410	GAS TAX	\$ 306,900	\$ 308,000
012-420	MEASURE M	-	-
015-360	AIR QUALITY	-	-
016-185	PEG	-	-
020-280	ASSET FORFEITURE	-	-
021-285	PUBLIC SAFETY AUG. (PROP 172)	179,800	184,800
022-290	COPS	108,700	113,200
023-295	SAAV	-	-
038-710	SUCCESSOR AGENCY - HOUSING	243,100	243,300
049-720	SUCCESSOR AGENCY - DEBT SERVICE	869,700	869,700
SPECIAL FUNDS TOTAL >		\$ 1,708,200	\$ 1,719,000
050-430	WATER ADMINISTRATION	\$ 252,100	\$ 253,000
050-440	WATER BILLING	387,300	391,200
050-450	WATER PRODUCTION	1,803,800	1,795,600
050-460	WATER TRANSMISSION	475,100	483,600
052-480	SEWER	246,400	254,700
UTILITY/ENTERPRISE TOTAL >		\$ 3,164,700	\$ 3,178,100
060-610	RISK MANAGEMENT	\$ 1,106,900	\$ 1,047,100
062-620	TECHNOLOGY REPLACEMENT	80,000	45,400
063-630	VEHICLE REPLACEMENT	222,000	149,000
INTERNAL SERVICE TOTAL >		\$ 1,408,900	\$ 1,241,500

You can see that the City faces deficits for both planning years. This deficit condition continues over the entire ten-year forecast, which is provided later in this report. FY 2016-17 expenditures are, for the most part, status quo to FY 2015-17.

The City has done much over the past few budget cycles to address its financial situation, reduce expenditures and to some extent increase revenues where it could. Some of those actions include:

- Significant changes in both the 2011 and 2015 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 first four years, and most recently a reduced workweek for all non-safety employees that equates to a 5% reduction in pay through June 2017. Structural changes were made for safety employees that also equated to an approximate 5% reduction in take-home pay.
- Proactive economic development efforts.
- Completing, despite the financial challenges, the seven year residential and arterial pavement plans, which 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.
- Restructuring throughout the organization to improve efficiencies and work distribution as well as reduce upper management while maintaining as many line positions as possible.
- Significant investment in new technology to support the smaller staff, improve service to the public and management information, and 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 outside of the City's control.

It is recommended that the City use the projected available fund balance (Ending FY 2015-16 General Fund balance less the \$250,000 Cash Flow Reserve) of \$286,000 to offset the proposed FY 2016-17 deficit and utilize another \$485,000 from the Revenue Volatility Reserve Fund to balance the FY 2016-17 Budget.

Long Term Forecast

Assumptions included in the long term forecast include:

Revenues

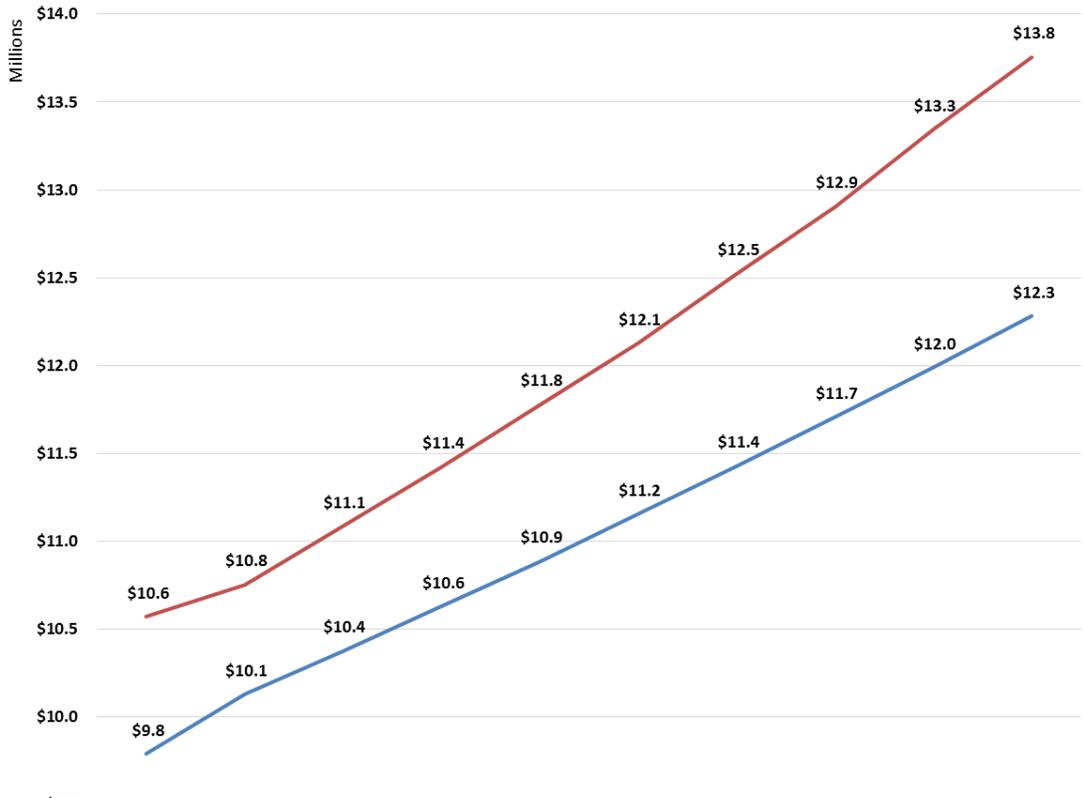
- Property Tax revenues are projected to increase at 2.4% and reflect the transition of La Palma Intercommunity Hospital to a nonprofit status.
- Utility User Taxes are assumed to increase 2% per year at the maximum 5% level.
- All other revenues are projected to grow at 2% based on a 20 year CPI average.
- City property lease revenue is projected per the terms of the lease.
- Billboard revenue is assumed to begin in FY 2016-17 (six months) for two billboards at \$102,000 and \$204,000 thereafter.

Expenditures

- Expenditures are forecast as known for the next three years and then at a 2% increase, based on a 20 year CPI average.
- Insurance costs are forecast to increase at 9.5% per year.
- CalPERS costs are forecast based on the unfunded liability payments and a 3% growth in costs each year from year 4 on.
- In years 1 – 3 Personnel costs are forecast status quo with no added positions and no cost of living increases; Years 4-10 show a 2% increase annually.

The projected ten year gap is shown on the chart, also included as Attachment 2. As is seen, these gaps represent consistently unbalanced budgets throughout the period. The long term gap is reduced from prior projections of \$2.2 million largely in part due to the new reduced labor assumptions. Any restoration to full work weeks in the future will affect the long term forecast negatively. In the short term, there is little the City can do to address these issues.

REVISED 10 Year Financial Forecast - (Actions Taken to Date and Revised Revenue Forecast)



	FY2016-17	FY2017-18	FY2018-19	FY2019-20	FY2020-21	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
Total GF Operating Expenses	\$10,569,550	\$10,752,050	\$11,084,130	\$11,422,500	\$11,779,600	\$12,125,900	\$12,522,600	\$12,906,200	\$13,343,800	\$13,756,528
GF Revenues	\$9,788,500	\$10,129,160	\$10,375,200	\$10,628,100	\$10,886,700	\$11,154,000	\$11,427,000	\$11,706,000	\$11,990,400	\$12,281,300
Fund Surplus/(Deficit)	\$(781,050)	\$(622,890)	\$(708,930)	\$(794,400)	\$(892,900)	\$(971,900)	\$(1,095,600)	\$(1,200,200)	\$(1,353,400)	\$(1,475,228)

SUMMARY:

The Proposed Budget is scheduled for discussion at a workshop on Tuesday, March 15, with the Proposed Budget to be presented at the April 5 meeting, on the Agenda for discussion on April 19, and at a public hearing scheduled for May 3, when it is anticipated that the City Council will approve a final budget document for FY 2016-17.

The City Manager’s Budget Message and other additional detail will be provided with the complete budget document prior to the May 3 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 May 3.

FISCAL IMPACT:

There is no fiscal impact to discussion of the financial situation or the elements presented in this plan. Direction given, however, will be incorporated into budget preparation and other financial processes.

APPROVED:



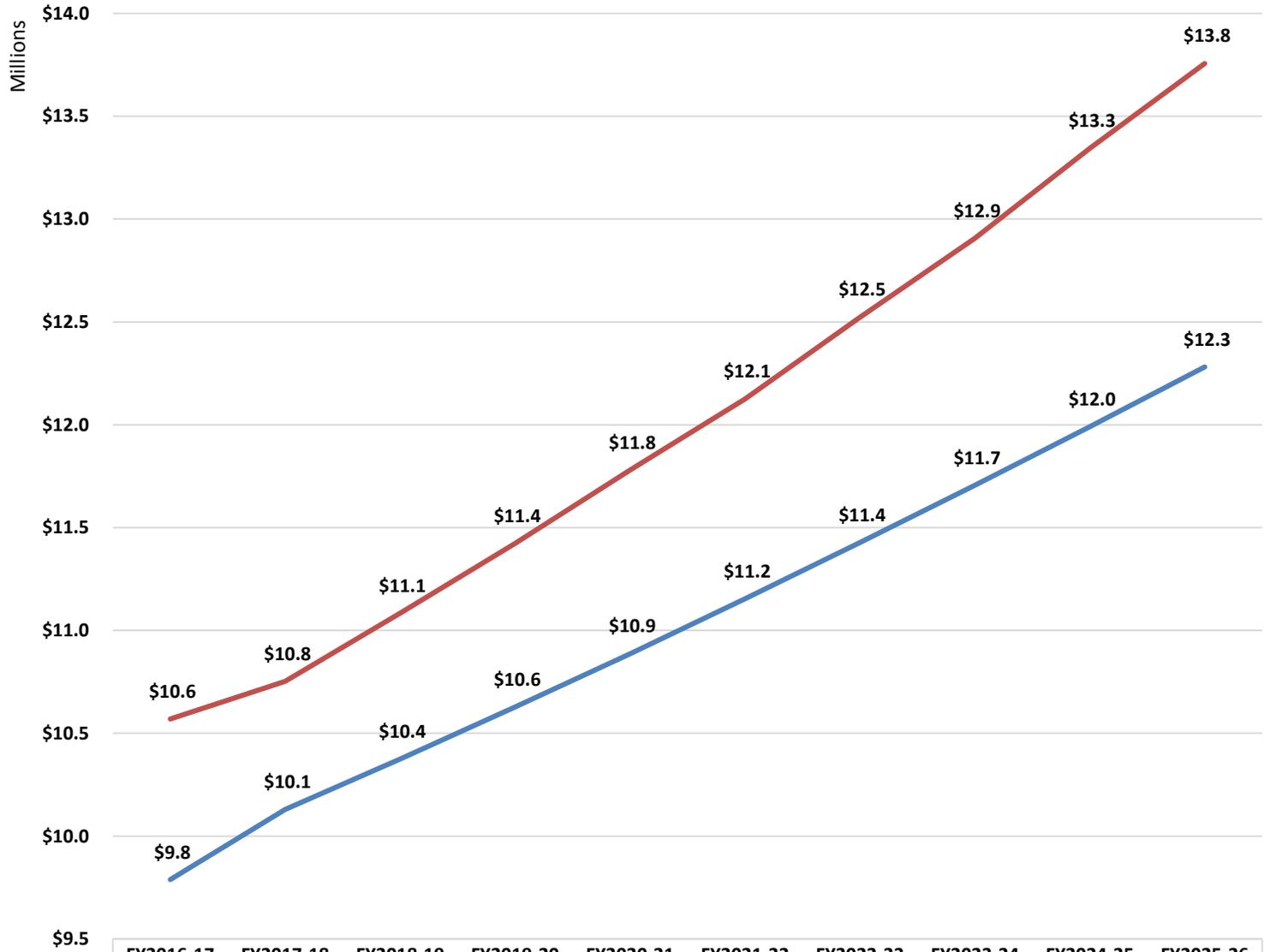
City Manager

- Attachments:
1. Two Year Budget Summary
 2. Ten Year Financial Forecast (Chart)
 3. General Fund Revenue & Expenditure Overview
 4. Draft Fiscal Year 2016-17 Budget worksheets are scheduled to be available and distributed the week of March 14.

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Budget Summary**

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		Proposed		Estimate	
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001-520	BUILDING AND SAFETY		135,400		135,400
001-530	CODE ENFORCEMENT		100,200		103,200
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REVISED 10 Year Financial Forecast - (Actions Taken to Date and Revised Revenue Forecast)



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Attachment 3

City of La Palma

General Fund

Revenue and Expenditure Overview

	Fiscal Year 2012-13 Actual	Fiscal Year 2013-14 Actual	Fiscal Year 2014-15 Actual	Fiscal Year 2015-16 Projected	Fiscal Year 2016-17 Proposed	% Change Prior Yr Projected	Fiscal Year 2017-18 Estimated	% Change Prior Yr Proposed
Revenues by Type:								
Property Tax	\$ 3,421,974	\$ 3,129,620	\$ 3,260,968	\$ 3,390,300	\$ 3,465,000	2.2	\$ 3,541,200	2.2
Sales Tax	4,335,175	1,989,556	2,560,938	2,208,000	1,929,500	(12.6)	2,018,100	4.6
Utility Users Tax	994,444	1,101,159	1,126,749	1,149,000	1,149,000	-	1,162,100	1.1
Residual Property Tax	922,527	263,661	126,355	200,000	204,400	2.2	208,500	2.0
Franchise Fees	358,672	381,839	407,115	403,500	426,400	5.7	442,200	3.7
Transient Occupancy Tax	257,975	313,662	346,077	300,000	306,000	2.0	312,100	2.0
Licenses and Permits	281,143	267,110	357,912	338,200	306,200	(9.5)	310,700	1.5
Intergovernmental	49,492	38,174	51,591	33,000	31,400	(4.8)	31,500	0.3
Charges for Services	514,015	584,575	570,514	512,600	493,900	(3.6)	500,260	1.3
Fines and Forfeitures	136,883	148,175	144,972	160,200	160,200	-	160,200	-
Use of Money and Property	231,163	322,505	236,877	317,600	313,600	(1.3)	328,900	4.9
Other Revenues	88,333	98,344	321,842	321,100	398,500	24.1	500,500	25.6
Interfund Transfers	286,100	538,912	283,100	626,600	604,400	(3.5)	612,900	1.4
Total Revenues	11,877,896	9,177,292	9,795,010	9,960,100	9,788,500	(1.7)	10,129,160	3.5
Expenditures by Department:								
Administration/Administrative Svcs.	1,473,464	1,424,959	2,644,580	2,882,240	2,876,500	(0.2)	2,954,850	2.7
Police	5,103,111	5,032,985	4,814,202	4,707,200	4,608,900	(2.1)	4,660,200	1.1
Community Services	-	1,850,531	2,262,227	2,021,300	2,039,350	0.9	2,067,600	1.4
Recreation and Community Services	1,312,419	-	-	-	-	N/A	-	N/A
Community Development	538,375	481,168	512,357	455,100	457,000	0.4	460,400	0.7
Public Works	732,565	-	-	-	-	N/A	-	N/A
Total Expenditures	9,159,934	8,789,643	10,233,366	10,065,840	9,981,750	(0.8)	10,143,050	1.6
Rev vs. Expend Surplus / (Deficit)	2,717,962	387,649	(438,356)	(105,740)	(193,250)	82.8	(13,890)	(92.8)
Transfer Out	1,700,000	12,285,208	1,870,613	610,000	587,800	(3.6)	609,000	3.6
Net Change in Fund Balance	\$ 1,017,962	\$ (11,897,559)	\$ (2,308,969)	\$ (715,740)	\$ (781,050)	9.1	\$ (622,890)	(20.2)

In FY 2013-14 \$1,500,000 was transferred to a OPEB Trust; \$9,250,000 was transferred to Reserves; \$819,500 was transferred to 800 MHz project; \$216,000 was transferred to One-Time Projects Fund; \$400,000 was transferred to COR; Remaining was related to RDA dissolution