



Staff Report

TO: Mayor, and City Council Members
FROM: Jeff Mohlenkamp, Finance Director
DATE: March 17, 2020
SUBJECT: FY 2020-21 Budget Discussion and Direction

Background and Analysis:

The City Council has conducted two budget workshops on November 21, 2019, and December 17, 2019, to begin the preparation of the FY 2020-21 Budget. At those meetings, the Council had the opportunity to consider the following elements of the budget building process:

- A review of services provided by the City, including survey results from the Council and senior management;
- An update on the current General Fund and Waste Water Fund unassigned balances;
- A review of the financial challenges for the City in future years; and
- A review of the General Fund Long Term Financial Forecast (FY 2020 through FY 2029) – including the assumptions used in developing the forecast.

This meeting is the next step in the budget process. The City Council will be asked to provide further direction to allow staff to move forward as follows:

1. Confirm core assumptions for building the FY 2020-21 budget,
2. Review additional information regarding services prioritized through the recent Council/ Management survey,
3. Provide direction to City staff regarding the timing and process for allocating unassigned General Fund dollars (One-Time funds), and
4. Overview of the budget preparation process and confirm the planned budget timeline.

Budget Assumptions

A base budget will be created that reflects actual expenditures for the current fiscal year as well as final numbers for the two prior fiscal years. These estimates will be refined by each department to identify where savings may be realized and to determine when enhancements may be appropriate. This will include elimination of any one-time expenditures, annualization of contract costs and evaluation of economic trends/factors.

After the base budget is established, adjustments will be requested based upon assumptions to account for inflation and ensure funds are adequate to continue existing services at current levels. Revenues will also be adjusted to reflect certain base assumptions that are listed below. The following assumptions are proposed for the FY 2021 budget:

Revenues

Revenue Type	Proposed Adjustment	Notes/ Reasoning
Property Tax and Motor Vehicle In Lieu	7.0%	Growth continues as a strong pace but slower than the recent two-year average of 8.5%. This is in line with the HdL conservative forecast. Property tax for FY 2021 will not be impacted by the Coronavirus as the taxable property values were established on January 1, 2020.
Sales Tax	2.5%	The two-year average is 7%. The forecast would have been for slower growth at 5.5%. However, due to recent volatility – it is prudent to project lower growth. We have reduced to 2.5% at the current time due to the economic impacts from the Coronavirus.
Utility Users Tax	1.5%	Growth continues at a pace consistent with the recent two-year average
Franchise Fees	3.5%	Growth moderates and is less than the recent two-year average of 6%. Part of this reduction is to account for the Coronavirus.
All other Taxes	2.5%	Estimated to keep pace with inflation
CFD operational transfers	5.0%	These transfers, which support City operations, are expected to grow by 5% from FY 2020 to FY 2021. The estimate

		would have been closer to 7%, but this is reduced to account for the Coronavirus.
Permits and Inspection Fees	N/A	This will be a quantitative analysis by management to estimate development projects and the timing of revenue recognition. Staff will consider the current economic climate in these assumptions.
Other charges for Services	2.5%	CPI level increase unless specific information is available to warrant other changes

Note: At the time this report was drafted, the Coronavirus was causing significant market disruption that may lead more significant economic challenges and a need to reduce revenue forecasts.

Expenses - the Riverside County area Consumer Price Index (CPI) reported as of January 2020, had an annual increase of 2.5% (excluding food and energy) over the prior year. This will be used for all areas where inflation costs need to be considered and direct knowledge of cost increases is not known.

Expense Type	Proposed Adjustment	Notes/ Reasoning
<i>Personnel Costs - Wages</i>	MOU or CPI	If there is a memorandum of understanding with labor groups (MOU), this will be factored into the payroll costs. If no MOU exists, CPI will be used as a cost estimate.
<i>Personnel Costs - PERS</i>	Cal PERS rates/ estimates	Staff will use the rates for normal costs and the liability cost portion from Cal PERS.
<i>Personnel Costs – Health Insurance</i>	Contracted Adjustment/ MOU	We will use the contracted cost levels for this cost area and follow MOU for cost apportionment.
<i>Personnel Costs - Other</i>	CPI	Use CPI unless specific information warrants a different adjustment
<i>Operating Costs - Utilities</i>	3.0%	The estimated annual increase based upon the most recent 12 months change.
<i>Operating Costs – Contractual Services</i>	CPI	Unless a rate is identified in contract, this will be generally increased to keep pace with CPI – 2.5%
<i>Operating Costs - Fuel</i>	3.5%	Fuel prices can be very volatile/ the most recent year had an 8% increase – while a 5-year trend has minimal inflation
<i>Operating Costs – Repairs and Maintenance</i>	CPI	Use CPI unless specific cost changes are identified

<i>Operating Costs - Supplies</i>	CPI	Use CPI unless specific cost changes are identified
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Review of City Services needing additional Focus

At the December 17, 2019, budget workshop, the City Council discussed 5 of the 70 city services/ functions that were identified by both Council and management as having deficiencies in the performance of those services.

Fire Protection

Primary Concerns/ Comments

1. The City needs expanded coverage and needs to open a new fire station as quickly as possible, and
2. The contract with Riverside County has administrative costs that appear to be very high and possibly excessive.

Streets and Pavement Management Programs

Primary Concerns/ Comments

1. This has been a source of community concern and complaints,
2. Needs will increase as the City continues to grow, and
3. There is a backlog of projects and funding has not been sufficient to address this backlog.

Business Attraction and Development

Primary Concerns/ Comments

1. Targeting businesses with higher paying jobs and those that provide needed services is important,
2. More resources or staffing is needed to make this an effective program, and
3. The strategic plan is not well understood and needs to be executed to add better diversity of businesses.

Real Estate Revitalization/ Entrepreneurial Development

Primary Concerns/ Comments

1. Target businesses that offer higher pay, provide specific needed services and add to the tax base,
2. Develop relationships with key players in the industries we are trying to attract, and
3. Add resources or more positions to implement the strategic plan.

City-owned Right of Way Maintenance

Primary Concerns

1. We need consistent effort in this area and target areas where lack of maintenance could cause dangerous conditions,
2. Policies, procedures and training is needed to ensure consistency, and

3. We should consider contracting out some of these functions to keep up with demand.

Staff has reviewed these areas and have identified potential solutions to improve these services. Summary information is identified in Attachment A to this report. Staff is preparing budget enhancement requests for City Council consideration in future budget discussions.

Allocation of Unassigned General Fund Balance (One-Time Funds)

As of June 30, 2019, the City had an unassigned General Fund balance of \$14,980,384. This is approximately 42% of expenditures for the last fiscal year (\$14.9 million divided by total expenses \$35.5 million)

City Council has discussed a goal of keeping 25% of expenditures in the unassigned balance as a safety net to address unplanned needs for funds or an economic downturn. This equates to approximately \$8.9 million that should be left in unassigned reserves. The balance of \$6 million is available for City Council action.

Further, the FY 2020 budget is currently trending to have a surplus of \$6 to \$8 million. These funds will be available for Council action near the end of calendar year 2020 once the audit of those funds is complete.

Any action by the City Council to allocate one-time funds should target projects or expenses that do NOT require ongoing allocation of resources. As such, new positions or contractual obligations that extend beyond the availability of dollars allocated should not be funded with unassigned fund balance.

Staff is seeking direction from the City Council as to the timing and process it wants to follow to make an allocation of unassigned General Fund balance.

Budget Preparation Process/ Timeline for Completion

The budget building process began with the budget workshops completed in November and December 2019. Staff officially began the process of internal budget building with a kickoff meeting on February 25, 2020.

Base Budget Preparation

Department managers will review the estimated expenditures for FY 2020 and compare that to actual expenditures for FY 2019 and FY 2018. This analysis, along with direct operational expertise, will form the basis for reviewing base budget expenditures. This will involve reviewing contracts, evaluating equipment needs determining what resources are needed to continue operations at current levels. In this process, costs will be adjusted for inflation and expected increases in the cost of providing services.

Enhancements

All requests for new funding that allows for expansion or improvement of services will be requested as budget enhancements. Departments will request any funding that allows for new services or expanding existing services separately from the base budget. All enhancements will be ranked by departments and then ultimately ranked by the City Manager for City Council consideration. **Note:** Any new positions will be requested through the enhancement process.

The Finance Department will evaluate the overall change in the budget and provide an estimated budget surplus (revenues less expenditures) that could be used to support enhancement requests.

Budget Timeline

The City is required to adopt a budget by June 30, 2020. With this time limitation in mind, staff have developed the following schedule for budget preparation:

2/25	Budget Kickoff Meeting – department heads and those involved in the budget process
2/26	Budget packages sent to departments with instructions
3/13	Budget packages due to Finance Dept (departments deadline)
3/17	Final Budget building guidance sought from City Council
3/16- 3/23	Review budget packages and follow-up with departments
3/25 or 3/26	Finance Dept reviews proposed budget with the City Manager (Finance Dept deadline)
3/27 to 4/10	City Manager meets with departments to review proposed budgets
4/13 to 4/17	Finance Department compiles the City Manager proposed budget for City Council review
4/28	Budget to City Council for initial review
May 2020	Budget Book Preparation

6/09

Final budget to Council for Approval

Fiscal Impact:

There is no cost associated with this item.

Recommended Action:

Provide guidance to staff if any changes are desired in the planned budget building assumptions,
Provide direction to staff if there is additional information needed to consider increased funding allocation to services identified as needing attention during the recent Council/ Management survey,
Provide direction to staff regarding the timing and process for allocation of unassigned General Fund balance (one time funds), and
Provide feedback to staff regarding the planned budget preparation process and the proposed timeline.

Attachments:

A. Options for Improvement of Services – 5 Services Areas ranked as deficient