



## *City Council Memorandum*

599 El Camino Real Greenfield CA 93927 831-674-5591  
www.ci.greenfield.ca.us

**MEMORANDUM:** September 8, 2016

**AGENDA DATE:** September 13, 2016

**TO:** Mayor and City Council

**FROM:** Jeri Corgill, Director of Administrative Services  
Susan Stanton, ICMA-CA, City Manager

**TITLE:** **MID-CYCLE BUDGET AMENDMENT**

### **BACKGROUND**

On June 9, 2105, the City Council adopted the 2015-16 and 2016-17 Biennial Operating and Capital Budget, the City's first biennial budget. Creating and adopting a budget every two years, rather than every year, is of significant benefit to planning staff resources for other administrative projects. The extensive work that went into assembling accurate historical information, thus giving staff a comprehensive understanding of City finances, was made possible by the implementation of the new financial accounting system the year before. This system also laid the groundwork necessary for more transparent budgeting.

With the benefit of accurate historical information, staff was able to create a sound twenty-four month spending plan for the City. Nevertheless, every budget is subject to change, as new revenues are received and unplanned expenses arise. For that reason, it is best practice for cities that operate on a biennial budget to make an examination of the budget at the mid-point of the two-year period, to determine if amendments are necessary. This mid-cycle examination has been done, and staff have determined that it is advisable to make significant adjustments to four of the City's funds: General Fund; Supplemental Transactions and Use Tax Fund (formerly Measure X Fund); Sewer Fund; and Water Fund. The following discussion outlines the bases for the Mid-Cycle Budget Amendment.

### **DISCUSSION**

#### **General Fund**

In addition to changes to the revenue and expenditure budgets for the General Fund, actual changes in the fund balance can also be seen in the proposed General Fund amendment. The

beginning available fund balance was estimated in the adopted budget at \$3,004,600. After the City completed the fiscal year, the actual fund balance was \$3,592,812, which represents an increase to the budgeted fund balance of 588,200. Also, because the presentation of this budget amendment was delayed, staff was able to use actual revenue and expenditure totals. As a result, staff proposes that this budget amendment include an **increase in the “Reserved for Budget Stabilization” portion of the fund balance from \$100,000 to \$750,000.** This increase in the reserve will still leave over \$1 million of estimated available fund balance for both fiscal years.

### ***Revenues***

The City’s two largest revenue sources, property taxes and sales tax, are historically the resources with the greatest fluctuation. When projecting these General Fund revenues, it is best practice to estimate conservatively, to avoid the potential surprise of having a reduced amount of available resources for essential City services. The methodology for estimating General Fund revenues for the 2015-16 and 2016-17 budget was certainly no less conservative. However, while property taxes as a whole, along with other tax revenues, have come in at approximately the level budgeted for 2015-16, sales tax revenues lagged somewhat. Overall General Fund sales tax revenues have come in at about \$136,600 less than budgeted for 2015-16. After conferring with the State Board of Equalization and sales tax consultants Hinderliter de Llamas and Associates, staff estimate that overall General Fund sales tax revenues will be about \$239,600 less for 2016-17.

To a large degree, projection of other General Fund revenues can be based on historical information. In these cases, estimates are often closer to actuals. Two examples stand out in conflict with this premise. First, although offset for the most part by expenses paid out for the garbage and solid waste services provided to Greenfield residents, Garbage Fee revenue and Solid Waste Surcharge revenue have come in significantly greater (about \$342,700 more in 2015-16) than had been budgeted. Second, the occasional creation of new fees, such as Greenfield’s new Medical Marijuana Permit fee, can generate significant unanticipated revenue – in this case, \$78,415 for fiscal year 2015-16. The total of all adjustments to the 2015-16 General Fund revenues is an additional \$351,900; and the total of adjustments for 2016-17 is an additional \$184,200.

### ***Expenditures***

General Fund expenditures for 2015-16 total approximately \$109,000 less than budgeted. This is due to a combination of cost savings and unanticipated expenditures. Some of the more significant unanticipated expenditures included:

- Additional legal costs as a result of litigation and personnel issues
- Increase in liability insurance costs
- IT contract re-negotiation
- Election costs, for Ballot Measures V and W
- Significant credit card discount fees incurred for credit card payment of large permit fees
- Police Department equipment and services

For 2016-17, the proposed General Fund budget amendment reflects an anticipated increase in costs of about \$431,300, the vast majority of which is due to increased costs for City employees. In the Departments of Administration and Financial Services, there are increased salary and benefits budgets for the positions of Executive Assistant to the City Manager, Accountant, and

Director of Administrative Services. Also included in this amendment is the transfer of all personnel costs for the Director of Community Services to the General Fund, in anticipation of hiring a Director of Public Works / City Engineer. (The salary and benefits for the new Director of Public Works / City Engineer will be allocated in a similar manner to the current allocation of non-General Fund personnel costs for the Director of Community Services.) The proposed amendment also includes the negotiated annual increases for all union members, and increased PERS rates for payment of the unfunded liability.

### **Supplemental Transactions and Use Tax Fund**

This is the fund formerly known as the Measure X Fund. Since the passage of Measures V and W, this fund has been renamed to reflect the fund's two sources of revenue. Measure V extended the 1% transactions and use tax originally created by Measure X; Measure W created an additional 0.75% transactions and use tax for a five-year period. Although the revenues and their related expenditures for both Measure V and Measure W will be accounted for in the same fund, each are being tracked as separate programs, using the capabilities of the accounting system.

*NOTE: The proposed amendments to this fund have been reviewed by the Measure VW Oversight Committee, and the committee's recommendation report is provided as an attachment to this staff report. The analysis below provides a review of staff's recommended amendments, as well as the recommendations of the Measure VW Oversight Committee:*

As with the General Fund, the proposed budget amendment includes an increase in the budgeted fund summary, to account for the actual ending fund balance for 2014-15 of \$533,148. This will allow for \$500,000 of the estimated 2015-16 ending fund balance to be "Reserved for Budget Stabilization."

#### ***Revenues***

Projections of revenues for this fund were performed in a manner similar to the General Fund sales tax revenues. Revenues for the 2015-16 fiscal year are adjusted to reflect actual revenues received. Staff used historical data from the State Board of Equalization, along with input from sales tax consultants Hinderliter de Llamas and Associates, to estimate Measure V and Measure W revenues for 2016-17. The original 2016-17 estimate for Measure V/X has been reduced slightly, and the estimated Measure W revenues have been added in. The end result is that revenue adjustments in this fund total an additional \$237,100 for 2015-16 and an additional \$785,500 for 2016-17.

#### ***Expenditures***

For 2015-16, the budget for Police Patrol Services is being reduced by \$67,600, to reflect actual expenditures. This reduction is primarily due to the difficulty in recruiting new officers earlier in the year, and the last of the budgeted Measure X officer positions have only recently been filled.

With the passage and enactment of Measure W, a significant amount of resources will be available in 2016-17. According to direction given by the City Council during the retreat on March 5, 2016, staff has allocated these additional resources in the 2016-17 proposed amendment between Fire /EMS Services, Recreation, and Police Department programs.

## Fire/EMS Services

Anticipated expenditures for the Fire/EMS Services are twofold. First, as staff has discussed with Council, it has become necessary to pursue a second phase of the Fire Parcel Tax Study. This second phase of the study specifically addresses the public communication that will best ensure successful approval by Greenfield voters. Staff is recommending a budget of \$50,000 for consulting, outreach, and election costs.

It is anticipated that a fire parcel tax would be placed on the property tax bills of Greenfield property owners. The timing will make it impossible to include a parcel tax on the 2016-17 property tax bill, so there will be a considerable lag in the timing between potential approval of a parcel tax and actual collection of these future revenues. Therefore, the second part of proposed expenditures for Fire/EMS Services is a \$200,000 allocation to fund these services until they can be collected and remitted to the City.

The Measure VW Oversight Committee recommends approval of the budget amendment for Fire/EMS Services.

## Recreation

The total proposed 2016-17 Measure W budget for Recreation is \$156,500. At the March 5 retreat, Council directed that approximately \$100,000 of Measure W revenues should be allocated to Recreation programming. In response, staff propose creating a Recreation Manager position, and budgeting an additional \$50,000 to be used for recreation programming expenses. A survey of comparable positions places this new Recreation Manager at a salary of about \$75,000 per year. Including benefits, the position would cost the City around \$101,500. Recently, Greenfield's Little League organization approached the City for a donation to help defray their expenses. This is reflected in the budget amendment as a \$5,000 donation.

The Measure VW Oversight Committee recommends in their attached report that the Little League donation be increased to \$10,000, "with the additional \$5,000 taken from either the Program Director or recreation programming items." Staff requests direction from the City Council regarding the amount of this donation. There will be some delay in recruiting and hiring a new Recreation Manager, so the budgeted cost of approximately \$101,500 would be somewhat less in actuality for this fiscal year. If the Council directs an increase in the proposed donation to Greenfield Little League, this amount could be absorbed by the temporary reduced cost of salary and benefits for this fiscal year.

## Police Services

Council directed staff at the March 5 retreat that the remainder of Measure W revenues should be used for police services, after allocating funding for Fire/EMS Services and for Recreation. The Police Chief had certainly given this much thought since the retreat, and is in agreement with the following proposal:

- One part time detective
- One investigative consultant
- Two new sergeant positions and two sergeant vehicles
- One new officer position, including necessary uniforms and equipment

While one of the new sergeant positions has already been filled as an internal promotion, Chief Fresé has expressed a willingness to wait to fill the second new sergeant position until later in the year, when there will be more certainty of the Measure W revenues estimates. The Police Services expenditures listed above do not entirely exhaust the anticipated Measure W revenues, but conservatively leave some funding available. This allows for a degree of flexibility, in case of a slight revenue shortfall, in addition to the \$500,000 that is reserved for budget stabilization.

The Measure VW Oversight Committee recommends approval of the budget amendment for enhanced Police Services. The amount of this amendment has been reduced to \$521,000 since the committee's review, to reflect the delay in filling the second new sergeant position.

### **Enterprise Funds**

Budget amendments for the Enterprise Funds are proposed only for the 2016-17 fiscal year. The primary purpose of amending the budgets for these funds is to include the results of the Utility Rate Study. Therefore, aside from some adjustments for personnel costs, the proposed amendments are reflected for the most part in revenues and capital improvements.

#### **Sewer Fund**

The Utility Rate Study indicates that a budgeted increase of \$99,900 in utility user fees is expected to be received by the City in 2016-17. This increase reflects the change in sewer fees that were proposed by Hawksley Consulting and took effect on August 1, 2016.

Other revenue amendments include debt proceeds and a transfer from the Sewer Impact Fund. These funding sources will be the primary means of financing the proposed capital improvements. These capital improvements consist of the portion of the solar project at the wastewater treatment plant (\$1,052,800) and the priority sewer projects recommended by Wallace Group. These sewer projects include:

- Apple Avenue @ 5<sup>th</sup> Street Alley – connect 12” line to 21” line upstream of Highway 101 crossing (\$15,500)
- New Lift Station – Tyler Lift Station (\$103,000)
- Complete Pond Aerator Addition Project (\$721,000)
- Upgrade Headworks (\$1,442,000)
- New Administration / Laboratory Building (\$1,081,500)
- WWTP Pond Additional Cost (\$618,000)

#### **Water Fund**

The Utility Rate Study indicates that a budgeted decrease of \$(138,900) in utility user fees is expected for 2016-17. This decrease reflects the increase in water usage fees proposed by Hawksley Consulting, combined with the current water conservation that has been accomplished by utility users. The new water usage fees took effect on August 1, 2016.

Other revenue amendments include debt proceeds and a transfer from the Water Impact Fund. These funding sources will be the primary means of financing the proposed capital improvements. These capital improvements consist of the portion of the solar project directly

benefitting the water utility (\$2,384,500), the anticipated project to install automated meter reading (AMR) meters throughout the city (\$2,942,200), and the priority water main upgrades recommended by Wallace Group (\$654,100).

### **Community Development Block Grant (CDBG) Fund**

The County of Monterey receives an annual allocation of CDBG federal grant funding from Housing and Urban Development (HUD). It has been several years since Greenfield has been a sub-grantee of Monterey County's CDBG grant funding, and staff have worked to ensure that the City will be a sub-recipient in 2016-17. The County has approved Greenfield's proposal to allocate CDBG funding for the Patriot Park restroom and concession stand. The anticipated funding amount is \$230,000.

## **Impact Funds**

Budget adjustments for two of the impact funds are included in the proposed amendment. The Sewer Impact Fund and the Water Impact Fund amendments are a result of the proposed transfers to the Sewer Fund and Water Fund, respectively, as mentioned above.

## **Capital Projects Fund**

A proposed amendment for both fiscal years has been included for the Capital Project Fund. This fund is an addition to the budget, and is being used to account for capital projects of a general nature. The amendment for 2015-16 reflects the contribution of redevelopment bond project funds from the Successor Agency to the City, which was approved by the California Department of Finance on October 27, 2015. These bond project funds are only for use in accordance with the original bond covenants, and they are therefore restricted. The capital improvements in this amendment are identical to the original budget for the Successor Agency Capital Projects Fund. The 2015-16 amendment is for actual expenditures made.

The amendment for 2016-17 also includes the capital improvements from the original budget for the Successor Agency Capital Projects Fund, the majority of which are carried over from 2015-16. Also included in the amendments to this fund are revenue and expenditure amendments to reflect the debt proceeds and capital improvements for the portion of the solar energy conservation project that is not directly related to the sewer and water enterprises.

## **CITY MANAGER RECOMMENDATION**

The adoption of a biennial budget has improved the financial planning in the City and saved hundreds of hours that would have been devoted to preparing the FY 2017 budget. The adopted spending plan approved by the City in 2016 was based on very conservative revenue estimates to ensure that projected funds balances would not be negatively impacted by this anticipated budget amendment. The positive financial performance of the city organization is the collective achievement of the city administration, budget team and, most importantly, the City Council which was willing to make very difficult financial decisions in 2016.

The City Manager and Director of Administrative Services recommend that Council approve the Mid-Cycle Amendment to the 2015-16 and 2016-17 Biennial Operating and Capital Budget.

## **POTENTIAL MOTION**

**I APPROVE/DISAPPROVE RESOLUTION #2016-77, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GREENFIELD, AMENDING THE 2015-16 AND 2016-17 BIENNIAL OPERATING AND CAPITAL BUDGET.**

## **ATTACHMENTS**

Mid-Cycle Budget Amendment Fund Summaries

Report of Measure VW Oversight Committee