

CITY OF NORCO STAFF REPORT

TO: Honorable Mayor and Members of the City Council

FROM: Andy Okoro, City Manager

PREPARED BY: Gina Schuchard, Finance Officer

DATE: June 20, 2018

SUBJECT: Approval and Adoption of the City of Norco Operating Budget for Fiscal Year 2018-2019 and Authorizing Appropriations Therefrom

RECOMMENDATION: Adopt **Resolution No. 2018-37**, approving and adopting the City Operating Budget for Fiscal Year 2018-2019 and authorizing appropriations therefrom.

SUMMARY: The Fiscal Year (FY) 2018-2019 Operating Budget recommended total appropriation for the City of Norco is \$39,744,246 (including AQMD transfer). The Funds included in the City's Operating budget consists of General Fund, Community Development Block Grant (CDBG) Fund, Miscellaneous Grants Fund, Water Fund, Sewer Fund, Gas Tax Fund, National Pollution Discharge Elimination System (NPDES) Fund, and Air Quality Management District (AQMD) Fund.

The FY 2018-2019 Proposed Budget for the General Fund, which is the City's primary Operating Fund, includes total estimated revenues of \$19,480,548 and total estimated expenditures of \$20,825,918. This represents \$1,345,370 of estimated expenditures over estimated revenues. The proposed budget estimates that the fund balance for the General Fund to be \$10,888,158 by June 30, 2018 and \$9,542,789 by June 30, 2019. Total revenues for the Water Fund are estimated to be \$12,905,371 while total expenditures are estimated to be \$10,672,398. Total revenues for the Sewer Fund are estimated to be \$7,893,980 and total expenditures are estimated to be \$6,685,897. For additional information regarding revenues and expenditures estimates for the rest of the City Operating Funds, including Gas Tax, NPDES, CDBG, AQMD and Miscellaneous Grant Funds, see Appropriations Schedule (Attachment A).

The budget data for the Successor Agency of the former Norco Community Redevelopment Agency, which includes total estimated expenditures of \$6,706,298, are presented in the City's budget document for information purposes only. The Oversight Board and the State Department of Finance have the authority for approving the Recognized Obligations Payment Schedule (ROPS). Similarly, budget information for the Housing Successor Agency, which includes total estimated expenditures in the amount of \$509,000, is also included separately in the budget document.

BACKGROUND/ ANALYSIS: On May 2nd, 16th and June 6th 2018, staff conducted budget workshops to review the proposed budget for FY 2018-2019 Operating Budgets. During the workshops, staff presented preliminary Operating Budget with the following key highlights:

- Estimated General Fund revenues of \$19.4 million and estimated expenditures of \$21.2 million resulting in a deficit of \$1.9 million
- FY 2018-2019 proposed budget that maintains existing non-safety service levels; no new programs or full-time employees
- Provides funding for estimated 6% increase or \$323,201 for annual Sheriff Services and an additional \$471,431 for the full year funding for one (1) Traffic Enforcement Deputy and one (1) Community Services Officer (CSO) with anticipated hiring of these deputies by the beginning of the coming fiscal year.
- Provides for an estimated 4% increase in County Fire contracts or \$171,482
- Continues to provide reduced funding to pay down post-retirement healthcare cost liability
- Funds pass-through pension rate increases of \$215,804 for a total of \$1.3 million.
- City employees will continue to pay their full share of employee portion of pension contribution
- Includes estimated 3% salary adjustments for employees
- Includes funding for increased water costs
- Continued use of National Pollutant Discharge Elimination System (NPDES) Fund balance to support program activities without the assistance of the General Fund
- General Fund revenue budget that anticipates limited increase of 1.13% in overall projections
- Continued anticipated decrease of \$108,000 from state reimbursement for pension and healthcare liabilities of former Redevelopment (RDA) employees due to an ongoing dispute;
- Estimated Water Fund revenues of \$12.9 million based on revised rates and current consumption levels; and total estimated expenditures of \$10.8 million.
- Estimated Sewer fund revenues of \$7.5 million; and total expenditures of \$6.8 million with a delay in the implementation of the approved sewer rate increase.

General Fund Revised Estimates:

Since the Budget Workshop, total estimated General Fund revenues have increased by a net of \$116,088. Most of the increase is due to a projected increase of \$88,188 in Residual Property Taxes, \$24,855 in penalties and \$7,145 in Building Permit Fees. Adjustments to other revenue categories are not significant. Please note, a revenue reduction of \$5,000 for Party Partners donations is included due to a reduction in the

program. General Fund expenditures were adjusted by a net of \$28,841 to include: \$16,775 remaining for Lake Norconian Foundation repairs, \$28,066 in unallocated part-time salaries, and a decrease in anticipated utility costs of \$16,000. The revised estimates contributed \$87,246 to the reduction of the deficit.

General Fund Budget Reductions :

After the initial budget was presented on May 2nd, the City Manager developed a list of proposed General Fund reductions to reduce the \$1.9 million deficit. At the May 16th and June 6th Budget workshops, City Council approved the implementation of \$430,591 in General Fund reductions lowering the \$1.863 million dollar deficit to \$1.345 million including the revised General Fund revenue estimates.

The net gap of \$1.4 million between total estimated revenues and total estimated expenditures is recommended to be covered by using reserves or fund balance. The following reductions were made to arrive at the recommended FY 2018-2019 General Fund expenditure budget of \$20,825,918 and revenues of \$19,480,548.

<u>Division/Program/Activity</u>	<u>Amount</u>	<u>Service/Program Impacts</u>
Retiree Medical Benefits - Defer future contribution for UAAL	\$ 100,000	Delays timeline to fully fund accrued retiree medical insurance benefits
Defer contributions for vehicle replacement	94,412	Delays replacement of vehicles, results in potential higher maintenance costs
City Manager	3,000	Eliminate conferences and training - May negatively impact ability to keep current with latest developments in local government
City Clerk	2,000	Eliminate overnight training and conferences
Human Resources	1,500	Eliminate overnight travel - negative impact on ability to keep current with best practices in human resources
City Attorney	50,000	Reduce funding for code cases; consider hourly based fee in lieu of annual retainer
Fiscal and Support Services	20,000	Reduce training, advance fund business license upgrade in FY 2018
Recreation Services	4,000	Eliminate conferences and training
Park Maintenance	42,613	Reduce water usage, reduce contractual - less park maintenance, eliminate Basin Park area maintenance, eliminate professional training - use CDF to abate weeds in the basin area.
Senior Citizens	29,886	Eliminate Party Partners program (part time rec. specialist), reduce utilities and supplies.
Building Maintenance	59,500	Reduce PT staffing; eliminate conferences and training; reduce electricity charges; reduce contractual services for janitorial, air conditioning, and other services
Animal Control	7,480	Reduce overtime budget - certain emergency response calls will not be attended to; reduce utilities
Economic Development	15,000	Eliminate travel and related materials; reduce supplies, reduce historic resources consulting
Planning	1,200	Eliminate travel training
Total	<u>\$ 430,591</u>	

Fund Balance – General Fund

The estimated fund balance of the General Fund at the end of FY 2017-2018 is \$10.9 million.

Projected General Fund Balance	Year-End Projections	Fund Balance
Audited Fund Balance June 30, 2017		\$ 11,357,613
Estimated Revenues	19,545,581	
Estimated Expenditures	<u>(20,015,035)</u>	<u>(469,454)</u>
Estimated Fund Balance July 1, 2018		10,888,159
Estimated Revenues	19,480,548	
Estimated Expenditures	<u>(20,825,918)</u>	<u>(1,345,370)</u>
Estimated Fund Balance, June 30, 2019		\$ 9,542,789

The year-end excess of expenditures over revenues is projected to be \$469,454, a decrease of \$214,438 from the initial year-end presentation estimate of \$683,892. The decrease in the year-end deficit is primarily due to increased year-end estimates in Sales Tax, \$41,830; Residual Property Taxes \$88,188; Community Development fees, \$21,205; Penalties \$24,855; Dog Licenses \$21,585 and various adjustments to other revenue categories as actual revenues are received that surpass original estimates. Additionally, the remaining balance of City contribution to LNCF for repairs of the Norconian Hotel totaling \$16,775 has been included in the FY 18-19 General Fund budget.

As noted previously, \$1,345,370 is projected as the FY 2018-2019 deficit between revenues and expenditures. The deficit will be covered by using reserves/ fund balance. Existing City Council resolution requires that a minimum of 25% of General Fund expenditures be maintained as fund balance for emergencies. As of FY 2017-2018 year-end, the estimated fund balance of \$10,888,159 represent 54% of the estimated year-end expenditures of \$20,015,035.

Based on the recommended total General Fund budget of \$20,825,918 the minimum required fund balance is \$5,206,480. The estimated fund balance of \$9,542,789 at the end of FY 2018-2019 represents 46% of total recommended budget. This amount stands above the City Council resolution requirement of 25%.

While this is a healthy fund balance that demonstrates the prior years' success of City efforts in controlling expenditure and increasing revenues, it is important to note that this fund balance will continue to decrease due to anticipated ongoing structural deficit. Healthy fund balance is a way to ensure that existing services can continue to be funded during economic downturns.

Water Fund: The projected FY 18-19 Water Fund assumptions are based on approved water rates effective July 1, 2018, current estimates of the cost of purchased water, an increase in contractual services for one-time reservoir inspection and the cleaning and on-call assistance for street paving after main breaks. The total FY 2018-2019 projected revenue for the Water Fund is \$12,905,371 while total estimated expenditures are \$10,672,398. The difference between revenues and expenditures, or \$2.2 million, is added to Working Capital Balance. The total estimated Working Capital balance is \$7.4 million.

The Water Fund's Working Capital Balance will annually be reviewed to determine the amount necessary to reach the target Operating and Rate Stabilization Reserves and make the necessary transfers to Water Capital Fund for the funding of capital projects. The target Operating Reserve equates to three (3) months of the cost of Water Fund Operations or \$2.6 million for FY 18-19. The goal is to fully fund the Operating Reserve within five years or FY 2020-2021. The Rate Stabilization Reserve target is \$2 million with a goal to fully fund the reserve by 2026. The estimated remaining Working Capital, after allocation of \$2 million to reserves, totals \$5.4 million and will be available for water capital projects.

Sewer Fund: The projected FY 2018-2019 Sewer Fund assumptions are based on the existing sewer rate structure, the City's portion of the Western Riverside County Regional Wastewater Authority (WRCRWA) Treatment Plant, and the increasing costs for sewer line cleaning, treatments and maintenance. The total FY 2018-2019 projected revenues for the Sewer Fund is \$7,893,980 while total estimated expenditures are \$6,685,897. The difference between revenues and expenditures, or \$1.2 million, is added to the Working Capital Balance. The total estimated Working Capital balance is \$8.9 million. The Sewer Fund's Working Capital Balance will annually be reviewed to determine the amount to be allocated to meet Operating Reserve target and fund Sewer Capital Fund projects. The Operating Reserve target was set to equal three (3) months of the annual cost of Sewer Fund operations or \$1.6 million. A rate stabilization reserve was not recommended for the Sewer Fund due to the stability of Water fund revenues. Sewer Fund revenues are derived largely from fixed charges. The remaining Working Capital after allocation of \$1.7 million to operating reserves is estimated to be \$7.2 million and will be available for sewer capital projects.

The rate study approved by the City Council in FY 2016-2017 includes approved increase to the sewer rate effective July 1, 2018. As a result of significant improvement in the financial position of the Sewer Fund due to revenue receipts exceeding the rate study projections, the July 1, 2018 approved rate increase is being deferred. The City has until FY 2020-2021 to implement the approved rates. Staff will continue to monitor the overall financial condition of the Sewer Fund to ensure that adequate funds are available to meet the cost of operation and fund capital improvement projects. The approved rates will be implemented as necessary prior to the expiration date for the approved rates to be implemented.

Other Funds: The proposed budget for other Funds including Gas Tax, CDBG, NPDES, and Miscellaneous Grant Funds estimates that there will be sufficient revenues during the fiscal year to cover recommended expenditure appropriations as shown on Attachment A. For more details, please refer to the City's Adopted Budget for FY 2018-2019.

FISCAL IMPACT: Attachment "A" of the resolution provides a summary of estimated beginning fund balance, estimated revenues, transfers, expenditures and estimated ending fund balance for each Operating Fund. The total operating budget, for all City Funds (excludes Successor Agency) for FY 2018-2019, is \$39,744,426.

RELATIONSHIP TO STRATEGIC PLAN: The City Operating Budget for FY 2018-2019 is consistent with Strategic Direction #3 "Assure financial stability by identifying new revenue sources and continuing prudent financial management."

Attachment: Resolution No. 2018-36
Attachment A