



Legislation Text

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TO:

Honorable Mayor and Members of the City Council

THROUGH:

Bruce Moe, City Manager

FROM:

Steve S. Charelian, Interim Finance Director

Henry Mitzner, Controller

Libby Bretthauer, Financial Analyst

SUBJECT:

Presentation of Proposed Two-Year Operating Budget for Fiscal Years 2018-2019 and 2019-2020 (Interim Finance Director Charelian).

RECEIVE REPORTS

RECOMMENDATION:

Staff recommends that the City Council receive a presentation of the Proposed Two-Year Operating Budget for Fiscal Years 2019 and 2020.

FISCAL IMPLICATIONS:

This budget covers a two-year period: fiscal years 2018-2019 and 2019-2020. The first year of the budget will be adopted by City Council this year, with the second year being approved. Then, in June 2019 prior to FY 2019-2020, the City Council will review and adopt the 2019-2020 budget.

The City's fiscal year 2019 budget includes expenditures across all funds totaling \$149,118,024. The General Fund is balanced with revenues of \$75,505,117 and expenditures of \$74,731,871 resulting in a projected surplus of \$773,246. These funds are available for further allocation by the City Council.

The fiscal year 2020 budget includes expenditures across all funds totaling \$126,767,881. The General Fund is balanced with revenues of \$75,199,750 and expenditures of \$74,667,671 resulting in a projected surplus of \$532,079. These funds are also available for further allocation by the City Council.

The FY 2017-2018 year-end General Fund balance is estimated to be \$4,081,580. The FY 2019 budget projects a General Fund balance on June 30, 2019 (after net transfers out) of \$1,769,359. Fund balance is estimated to decrease by \$2,312,221 primarily due to General Fund subsidies for Storm Water (\$1,248,046) and Street Lighting/Landscape Districts (\$187,587). Within the fund balance, \$18.9 million has been designated to policy and economic uncertainty reserves. The balance of \$1.8 million is unreserved and available to be allocated for one time purposes at the direction of the City Council.

Please note that all annual surpluses and estimated fund balances listed in the budget and five year forecast include up-to-date pension rate projections.

DISCUSSION:

The City’s proposed two year operating budget is attached to this report and available on the City’s website at www.citymb.info/Budget <<http://www.citymb.info/Budget>>.

By way of an overview of the budget, staff recommends that City Council review the City Manager’s Budget Message, located in the Introduction Section of the budget document. It serves as an executive summary for the spending plan for FY 2019 and FY 2020. Staff will present the budget highlights during the City Council meeting.

In addition, an updated five year forecast (FY 2019 through FY 2023) is included in the budget (see Five Year Forecast tab). A detailed explanation of the forecast will be presented during the budget overview. The projections take into account known changes on the horizon (including the independent actuary’s CalPERS pension contribution rates) as well as staff estimates on less definitive areas such as revenue growth, workers compensation and medical costs. It covers all City funds and includes the five-year Capital Improvements Plan projects.

Budget Process and Civic Engagement Efforts

This year’s budget process began with the City Council revisiting the Budget Policies. These principles addressed fiscal integrity, revenues, reporting, civic engagement, capital budgeting and other standards, which when applied, provided guidance in the creation and execution of the spending plan (the policies are presented in the Appendix of this document).

On January 30, 2018, the City held a Community “Budget Social,” providing a fun and interactive way for attendees to learn about and address their budget priorities with City staff. After receiving information on key operating areas, attendees were given the opportunity to ask questions and provide input on which areas to reduce, maintain or enhance in future years.

To help attendees relate to the City’s operating budget areas, City services were defined in four areas: Protect, Preserve, Support and Shine.

- Protect Public Safety and Emergency Services to protect life and property.
- Preserve Infrastructure & Investments to preserve our quality of life
- Support City-wide Internal Support Services
- Shine Services & Programs that make Manhattan Beach shine.

At the end of the evening, attendees voted to maintain or enhance almost all budget areas. No budget areas received a majority of votes to reduce spending, which is not realistic if all other areas are maintained or enhanced and revenues remain limited. Although no hard data came out of the meeting given the wide-ranging responses received, the Community Budget Social served to provide an engaging way for community leaders to learn about budgetary challenges and discuss their priorities with others.

Further information was gathered using Open City Hall for an online Budget Survey that was

publicized and available in January and February.

The [budget@citymb.info <mailto:budget@citymb.info>](mailto:budget@citymb.info) email option has also been useful and will remain active throughout the budget process this year for the community to communicate with City Council and staff.

Most recently, an advertisement was included in *The Beach Reporter* announcing the budget meeting schedule, which as is follows:

- May 1 Budget Introduction - 6:00 PM - City Council Chambers
- May 8 Council Budget Study Session #1 - 6:00 PM City Council Chambers
- May 10 Council Budget Study Session #2 (if necessary) - 6:00 PM City Council Chambers
- May 22 Council Budget Study Session #3 (if necessary) - 6:00 PM City Council Chambers
- June 19 Public Hearing and Adoption of Budget - 6:00 PM - City Council Chambers

These dates have been included on the City's calendar of events for which e-notifications have been sent.

Pension Update

The City consulted with an independent actuary for an update on projections, given recent CalPERS policy changes and investment returns. Investment returns in FY 2015 (2.4%) and FY 2016 (0.6%) fell well below the previous assumed 7.5% rate of return further exacerbating the City's unfunded liability. Most recently, CalPERS generated an 11.2% rate of return for the fiscal year ending June 30, 2017. While these changes clearly have an impact on the City's fiscal outlook, the City will be able to absorb the revised projections provided by the independent actuary under its conservative financial projections.

It is important to note that while a lot of attention has been given to unfunded pension liabilities, the City's three employee plans with CalPERS (Police, Fire and Miscellaneous Non-Sworn) are currently funded between 71.2% and 76.2% as of the last actuarial report (as of June 30, 2016). Unfunded liabilities currently total approximately \$65.6 million (more information is available in the City's FY 2016-2017 Comprehensive Annual Financial Report at www.citymb.info/departments/finance <<http://www.citymb.info/departments/finance>>).

To help mitigate these rising pension costs, City Council approved the creation of a Pension Stabilization Trust Fund. This tool provides the City with an option to set aside funds for pension purposes in order to achieve a better rate of return on funds at an acceptable level of risk, diversify our pension investments, and act as a "rainy day" fund to help stabilize variable pension contributions. This is a growing trend among public agencies seeking to mitigate pension cost growth and provide a hedge against rate spikes. Initially, this trust was funded by a transfer of \$750,000 from available unallocated fund balance. Additional transfers (\$250,000 per year) are planned over the next five years to build up the fund.

PUBLIC OUTREACH/INTEREST:

Past and future opportunities for public input are described above.

ENVIRONMENTAL REVIEW

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

Attachments:

1. Proposed Biennial Budget for Fiscal Years 2019 and 2020