



Legislation Text

File #: 17-0237, **Version:** 1

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Mark Danaj, City Manager

FROM:

Bruce Moe, Finance Director

Henry Mitzner, Controller

Libby Bretthauer, Financial Analyst

SUBJECT:

Public Hearing and Adoption of the Fiscal Year 2017-2018 Operating Budget and Gann Appropriation Limit (Finance Director Moe).

**CONDUCT PUBLIC HEARING; ADOPT RESOLUTION NOS. 17-0072 AND 17-0073; APPROPRIATE;
AUTHORIZE CITY MANAGER TO APPROVE JOB SPECIFICATION AND SALARY**

RECOMMENDATION:

Staff recommends that the City Council a) conduct a Public Hearing; b) adopt Resolution No. 17-0072 establishing the Appropriation Limit for FY 2017-2018; c) adopt Resolution No. 17-0073 adopting the FY 2017-2018 Operating Budget; d) appropriate \$325,000 from the Insurance Reserve Fund in FY 2016-2017; and e) appropriate \$2,500 from the AB2766 Air Quality Fund in FY 2016-2017.

Additionally, staff recommends that the City Council authorize the City Manager to approve the job specification and salary for the new classification of Building Supervisor, which is scheduled to be approved as part of the Fiscal Year 2017-2018 budget adoption.

FISCAL IMPLICATIONS:

The FY 2017-2018 budget, including all funds, estimates revenues of \$120,773,650 and expenditures of \$125,661,039. Within those figures, the General Fund has revenues of \$71,013,648 and expenditures of \$70,400,265, resulting in an estimated year-end surplus of \$613,383. The estimated fund balance at June 30, 2018 is \$20,653,510 and includes \$14,080,053 in financial policy reserves and \$4,000,000 in Economic Uncertainty Reserves. The remaining fund balance of \$2,573,457 is undesignated. These figures incorporate all City Council-directed changes identified through the FY 2017-2018 budget study sessions, as well as staff-recommended changes and corrections to the budget. All modifications to the Proposed Budget are listed as Exhibit "A" to Resolution 17-0073 (Attachment #2).

Workers' Compensation claims activity has been above the expected level and has resulted in the Insurance Reserve Fund trending over FY 2016-2017 appropriations. As a result, staff is recommending a FY 2016-2017 appropriation of \$325,000 to ensure that funds are available for the

total estimated/required spending this fiscal year.

Lastly, usage of the employee commuter program has exceeded budgetary appropriations in FY 2016-2017. Staff recommends a FY 2016-2017 appropriation of \$2,500 from AB2766 Air Quality Fund reserves to cover the budget overrun.

BACKGROUND:

The Proposed Budget for fiscal year 2017-2018 is available on the City's website at: www.citymb.info/AdoptedFY17BiennialBudget.

Budget presentations and other documents are also available on the City's website at: www.citymb.info/2017-2018BudgetDevelopment.

DISCUSSION:

The FY 2017-2018 operating budget is the second year of the City's biennial budget approved in June 2016. At that time, City Council adopted the FY 2016-2017 spending plan, and approved the FY 2017-2018 subject to review and adoption prior to the beginning of FY 2017-2018.

In preparation for FY 2017-2018, staff prepared a number of recommended changes to the proposed budget which were presented to City Council at the May 4th Budget Study Session. Subsequently, at the May 30th Budget Study Session, City Council directed a number of other changes, which have been added to the list of modifications to be made to the approved FY 2017-2018 budget. Finally, staff has included three additional late entry changes discussed later in this report. All of the changes to be included in the adopted FY 2017-2018 budget are listed in Resolution No. 17-0073 (Attachment #2 - Exhibit A).

Among the most significant modifications to the approved FY 17-18 budget include:

1. The addition of four engineering positions to enable progress on the growing Capital Improvement Plan. These positions are fully paid from non-General Fund sources (Water, Wastewater, CIP and Special Revenue Funds) for a total of \$674,950.
2. A reorganization of the Community Development Department, including the addition of a Building Supervisor and consolidation of three part-time positions, to improve efficiency and effectiveness in delivering high quality, responsive customer service. The cost of the improvements (\$40,200) will ultimately be recovered through updated user fees. (Please note that this staff report's recommendation includes City Council authorizing the City Manager to approve the job specification and salary for this new classification as part of the Fiscal Year 2017-2018 budget adoption).
3. Reallocation of \$500,000 of Transient Occupancy Tax from CIP (deferred maintenance) back to the General Fund in order to balance the General Fund budget.
4. A reduction of \$250,000 (from \$500,000 to \$250,000) dedicated to the newly established Pension Rate Stabilization Fund. This change is also made for budget balancing purposes. Please see below for additional funding information and action on the Pension Rate Stabilization Fund.
5. Reduction in revenues of \$2,055,000 in the Storm Water Fund. This change is necessary since new revenues were not enacted as previously projected. Correcting Storm Water funding remains a high priority due to continued General Fund subsidies of this enterprise. This issue will be included in the Financial Master Plan discussion with the Finance

Subcommittee.

6. Addition of \$200,000 in General Fund expenditures for the City-MBUSD joint use agreement, in anticipation of approval of a new agreement for FY 2017-2018.

Again, all changes are listed as part of Resolution No. 17-0073 for adoption by the City Council.

Late Entry Changes to the FY 2017-2018 Budget

In addition to the Council-directed changes from May 30th, and those previously presented at the May 4th Budget Study Session, staff recommends (and has included in the Budget Resolution for adoption) three other late-entry changes:

Pension Rate Stabilization Fund

City Council directed the establishment of the PRSF during the May 3rd Budget Study Session. Further, they assigned responsibility for the creation of policies to the Finance Subcommittee (scheduled to be discussed at their June meeting). Originally, City Council dedicated \$500,000 in the FY 2016-2017 General Fund expenditure budget for initial funding of the PRSF, and FY 2017-2018 will include an additional \$250,000 in funding if adopted as proposed.

In consulting with the City's auditors regarding these new pension rate stabilization funds, it was determined that the appropriate method of funding is as a *transfer* and not an *expenditure*. As a result, the list of changes for FY 2017-2018 includes a \$250,000 reduction of PRSF General Fund expenditures, offset by a transfer from fund balance of \$250,000 (the distinction being that the funds are deducted from fund balance and are not considered part of the revenue-expenditure equation). Further, because the trust fund is being established in the new fiscal year, staff is also recommending that the \$500,000 budgeted in FY 2016-2017 be included with the \$250,000 initial funding transfer from fund balance (since the funds will be unexpended in FY 2016-2017 and revert to fund balance, they are available for transfer). This recommendation is presented as a \$750,000 transfer in FY 2017-2018 from the General Fund to the Pension Rate Stabilization Fund (see Attachment #4 - Updated Five Year Forecast under FY 2017-2018 Schedule of Reserved and Designated Fund Balances).

City-School District Joint Use Agreement Funds

Staff has included an additional \$200,000 in General Fund expenditures in FY 2017-18 in anticipation of the approval of an updated joint use agreement between the City and MBUSD. The total budget for this agreement is \$773,457.

Transfer of Environmental Programs

With the beginning of FY 2017-2018, Environmental Programs, currently located in Public Works, will be transferred to Community Development. This change will align the City's environmental goals and activities with Community Development's building and planning responsibilities, creating synergy for such initiatives as green building and climate action plan strategies. This change has no budgetary impact, except that Environmental Programs funding (\$240,112 in the General Fund) is being transferred from Public Works to Community Development.

Gann Appropriations Limit

In 1980, California voters adopted Article XIII B of the California State Constitution, commonly referred to as the Gann Initiative or Gann Appropriations Limit, placing limits on the amount of tax proceeds that State and local agencies can appropriate each year. The City's limit is adjusted each year for inflation, population and other factors.

On June 5, 1990, Proposition 111 was voted into California law. Among other provisions, Proposition 111 provided for changes in the calculation of the Gann Appropriation Limit. The annual adjustments to the spending limit were liberalized by Proposition 111 to be more closely linked to the rate of economic growth in personal income or the percent increase in the local tax roll due to nonresidential property construction. Additionally, cities can choose to use the rate of change in population either within the City or County, whichever is higher. The City utilized elements of these adjustment factors in calculating this year's Gann Appropriation Limit. The Gann calculation is reviewed annually by the City's external audit firm as part of the annual audit process.

Staff has calculated the FY 2017-2018 Gann limit to be \$76,212,327. The City's tax proceeds subject to the FY 2017-2018 Gann Limit equal \$49,552,915. Therefore, the City is under the Gann limitation by \$26,659,412 and in compliance with state law. This Gann limit calculation is attached (Attachment #3).

FY 2016-2017 Insurance Reserve Fund Appropriation

The City Council approved a phased transfer plan from the General Fund Unreserved Fund Balance to the Insurance Fund on November 17, 2015. Transfers in the amount of \$667,000 were approved for fiscal years 2015-16, 2016-17, and 2017-18 to correct a fund imbalance that was a result of higher than expected claims activity during FY 2014-15. Additionally, as mentioned in the May 4th Budget status staff report, the Insurance Reserve Fund is trending over budget for the full fiscal year, and a late year appropriation is necessary in order to fund operations.

Workers' compensation paid claims activity for FY 2016-2017 are projected to total \$3.8 million for the year (\$1,020,000 over budget). However, liability claims activity is anticipated to be under budget by \$500,000. Further, other budget savings will help offset the higher Workers' Compensation costs. As a result, an appropriation of \$325,000 is needed so that total fund expenditures do not exceed total fund appropriations.

As previously stated, Risk Management and Finance staff are collaborating on funding methodology alternatives that will stabilize the effects of claims volatility in Workers Compensation funding. Risk Management is also in the planning stages for development of Workers' Compensation program elements designed to gain control over medical provider protocols as allowed under the Labor Code. The intended outcomes of these efforts are: 1) reduction in medical costs; 2) reduction in temporary disability expenditures; and 3) improved medical outcomes for injured employees. Program development and any required labor discussions will proceed through FY17/18.

For FY 2017-2018, insurance premium costs have been adjusted down by \$1.1 million to reflect recent estimates received from the City's new risk sharing pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA). Overall, the move to the new risk pool has reduced projected expenditures in FY 2017-18 by \$537,728.

FY 2016-2017 AB2766 Fund Appropriation

AB2766 Air Quality Funds support the Commuter Pay incentive program offered to employees. More employees took part in this program than expected in FY 2016-17. As a result, an additional appropriation of \$2,500 from the fund's unreserved fund balance is requested to cover the budget overrun.

PUBLIC OUTREACH/INTEREST:

Public outreach for the second year of the biennial budget included advertising the Budget Study Sessions through the City's eNews and social media communications. The public is encouraged to provide questions and comments on the Budget and Capital Improvement Plan to staff at any time, especially during the preparation process.

ENVIRONMENTAL REVIEW

None required.

LEGAL REVIEW

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

Attachments:

1. Resolution No. 17-0072 (Gann Limit)
2. Resolution No. 17-0073 (Budget Adoption) (Includes Exhibit "A" listing all changes to the previously approved FY 17-18 budget)
3. Gann Limit Calculation
4. Updated Five Year Forecast
5. PowerPoint Presentation