



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** June 4, 2018

FROM: Matthew Bronson, City Manager

PREPARED BY: Matthew Bronson, City Manager
Gayla Chapman, Administrative Services Director

SUBJECT: Proposed 2018-19 Budget and 2018-23 Capital Improvement Program

RECOMMENDATION

Review the proposed 2018-19 budget and 2018-23 Capital Improvement Program and provide direction to staff to finalize the budget for adoption on June 20, 2018.

BACKGROUND

The Proposed Budget for 2018-19 and 2018-23 Capital Improvement Program was released on May 25, 2018 and posted on the City's website on May 28, 2018. A public hearing will be held on June 4, 2018 to take public comment on the proposed budget and receive Council direction prior to the adoption of the 2018-19 budget scheduled for June 20, 2018. The total proposed citywide budget for 2018-19 is \$34.5 million including \$11.4 million in the City's General Fund, \$6.3 million in Enterprise Funds including the Water and Wastewater Funds, and \$1.7 million in Special Revenue Funds outside of the Capital Improvement Program (CIP). The five-year CIP includes \$16.0 million in funding for key capital projects in 2018-19 or nearly half of the total citywide budget next year. Highlights and major changes to the budget are identified in the City Manager's Letter of Transmittal which is included in the first section of the new budget document and detail on the City's revenues and expenditures is incorporated throughout the document.

Overall, the City is in solid financial shape under the policy guidance of the Council and implementation by staff. As shown in the 10-year financial forecast presented on February 5, 2018, the City has continued to see strong revenue growth in property taxes, sales taxes, transient occupancy taxes (TOT), and other sources. Additional revenues projected from the new commercial cannabis industry also tie into the City's revenue projections beginning this next fiscal year. The City's prudent fiscal management coupled with a strong local economy has enabled the City to make investments over the past year to meet community needs and improve service delivery. The Proposed Budget builds on this revenue growth to continue making targeted investments in addressing the Council Goals with a particular focus on the five Major City Goals set by the Council: Public Safety, Water Resources and Utilities, Economic Development, Streets Rehabilitation and Related Infrastructure, and Development Review. The Proposed Budget maintains current service levels with a 2% average increase in overall ongoing operating costs and adheres to the Council's policy of reserves equaling 20% of operating expenditures despite the temporary use of reserves to close a projected budget gap for next year.

While the City's long-term fiscal outlook is positive with opportunities to continue making investments in its future, there are several challenges to address that may impact the City's

financial position so the City can take appropriate actions if needed. These challenges include the potential of an economic downturn given the length of the current economic expansion, uncertainties with commercial cannabis and TOT revenues, deferred maintenance needs and funding challenges particularly in the Water Fund, and increased costs for core City services such as fire services, police services, and maintenance of parks and City facilities. As an example, next year's budget includes approximately \$300,000 in additional costs to the Five Cities Fire Authority for providing more responsive and sustainable fire services to our community. The City's pension costs are also increasing significantly over the next 10 years similar to cities throughout the state. These challenges suggest that the City should demonstrate caution in allocating resources to focus on one-time needs and targeted service changes rather than a broader expansion of programs, services, and operating costs. In addition, projected deficits in the next 2-3 years before additional cannabis and TOT revenues are fully realized will lead to reduced reserves in funding current service levels and emphasize the importance of additional ongoing revenue to support core City services.

Lastly, staff has built on the redesigned budget document from last year to make additional improvements in conveying the City's financial information in a transparent and user-friendly manner. The budget document includes information about citywide goals and department initiatives along with numerous pictures to highlight projects and facilities in the city and convey the beauty of the community.

FISCAL IMPACT

There is no direct fiscal impact from this action. The Proposed Budget for 2018-19 contains a consolidated summary of proposed appropriations for 2018-19 in the *Budget Overview* section along with comprehensive financial information at the fund level (*Fund Information* section) and departmental budget information (*Department Budgets*).

ALTERNATIVES

The City Council has the following alternatives to consider:

1. Review the proposed 2018-19 budget and 2018-23 Capital Improvement Program and provide direction to staff to finalize the budget for adoption on June 20, 2018; or
2. Provide alternate direction to staff.

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act. A public hearing notice was published in *The Tribune* on Fri, May 25, 2018 and posted accordingly in the locations for public notices.

ATTACHMENTS

1. 2018-19 Proposed Budget (Printed copies provided to City Council under separate cover. A printed copy of the Proposed Budget is also available at the customer service counter of City Hall during regular business hours, and an electronic copy is available on the City website.)