



# CITY OF POMONA COUNCIL REPORT

March 6, 2017

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

By: Onyx Jones, Finance Director

Subject: **Fiscal Year 2016-17 General Fund Mid-Year Budget Review and Adoption of a Resolution Amending the Fiscal Year 2016-17 Operating Budget**

## OVERVIEW

**Recommendation** – It is recommended that the City Council review the Fiscal Year (FY) 2016-2017 General Fund Mid-Year Budget Report and adopt a resolution amending the FY 2016-17 Operating Budget.

**Fiscal Impact** – The adoption of the attached resolution will increase General Fund and other Non-General Fund appropriations as reflected in Table 1.

**Table 1 - Fiscal Year 2016-17 Mid-Year Request for Appropriations**

General Fund	Revised Revenue Estimate	Appropriation Changes
FY 2016-17 Mid Year Appropriations *	\$1,055,938	(\$610,922)
<b>Non General Funds</b>		
MOU Changes for Non General Funds – Approved via Council action in October 2016 (Exhibit A)	\$0	\$241,621
Public Works Reclassifications – Approved via Council action in December 2016	\$0	\$2,723
Water/Wastewater Restructure – Approved via Council action in February 2017	\$0	\$25,000
Traffic Offender Fund - Police Department's Mobile Incident Command Center (MICC) upgrade	\$0	\$66,000
<b>Total Non General Fund Appropriations</b>	<b>\$0</b>	<b>\$335,344</b>

\* Refer to Table 6 "Fiscal Year 2016-17 General Fund Anticipated Budget and Fund Balance" on page 7 for details of General Fund Appropriations.

Submitted to City Council: \_\_\_\_\_ Agenda Item # \_\_\_\_\_  
Approved: \_\_\_\_\_ Resolution No(s): \_\_\_\_\_  
Continued to: \_\_\_\_\_  
Denied: \_\_\_\_\_ Ordinance No. \_\_\_\_\_

**Previous Related Action** – City Council approved the Budget Preparation Calendar, Guiding Principles and Process for FY 2016-17 on December 7, 2015. City Council adopted the FY 2016-17 Operating Budget, Housing Authority Budget, and the Five-Year Capital Improvement Program on June 6, 2016, with amendments to the General Fund operating budget approved on July 18, 2016, August 1, 2016, October 17, 2016, November 21, 2016, and December 19, 2016.

## **EXECUTIVE SUMMARY**

This Mid-Year report summarizes the overall financial position of the City's General Fund for the current fiscal year through December 2016. The General Fund is the largest operating fund in the City and is used to account for all the City's general revenues such as Taxes, Charge for Services, Permits, Licenses, Fines, Investment Income, Lease Revenues, Other Miscellaneous Revenues and Intergovernmental Revenues which are mostly revenues from the County and State. General Fund expenditures are related to the rendering of general services, including by not limited to Public Safety, Parks and Recreation services, Public Works, Development Services, Administration and Legislative services for the City.

This report contains six sections:

1. General Fund Overview
2. General Fund Summary of Revenues
3. General Fund Expenditure Detail By Category And By Department
4. General Fund Recommended Mid-Year Budget Amendments
5. General Fund Fiscal Year 2016-17 Anticipated Budget and Fund Balance
6. Recommended Mid-Year Budget Amendments Non-General Fund

## **DISCUSSION**

### **GENERAL FUND OVERVIEW**

Table 2 shows actual receipts and expenditures in the General Fund as of December 2016 in comparison with Fiscal Year (FY) 2016-17 budgeted revenues and expenditures. The first column of the Table 2 shows the adopted budget for General Fund revenues at \$93.5M and appropriations at \$95.4M, which resulted in an adopted budget deficit of \$1.84M. The General Fund budget has been amended since adoption and the budget deficit increased to \$2.61M.

This Mid-Year report represents 50% of the year complete and Table 2 shows that the General Fund revenues are at 33% of the annual budget projections and expenditures are at 48%. It also shows that the General Fund has expended \$15.1M more than it has collected as of December 31, 2016. This is normal for most cities in California due to the timing of tax receipts and other large revenue sources. This is also one of the primary reasons the City must maintain 17% in Fund Balance Reserves.

The last column of Table 2 shows staff estimates the General Fund will reduce the current budget deficit and end the Fiscal Year with a \$793K deficit. This will be further explained in the section for Recommended Mid-Year Adjustments.

**Table 2 - Fiscal Year 2016-17 Mid-Year**

<b>2016-17</b>	<b>Adopted</b>	<b>Amendments *</b>	<b>Adjusted Total</b>	<b>As of Dec 31' 16</b>	<b>% Rec'd/ Exp'd</b>	<b>Year End Estimate</b>
Total Revenue	93,511,899	64,596	93,576,495	31,145,948	33%	94,643,972
Total Expense	95,355,416	828,389	96,183,805	46,287,610	48%	95,437,062
<b>Net</b>	<b>(1,843,517)</b>	<b>(763,793)</b>	<b>(2,607,310)</b>	<b>(15,141,662)</b>		<b>(793,090)</b>

## Summary

### GENERAL FUND SUMMARY OF REVENUES

In this section, Table 3 shows that General Fund revenues are \$31.1M in the current fiscal year and they were \$29.9M in the prior fiscal year during the same time period. Although the General Fund revenues are only at 33% received at 50% of the year, the revenues are comparable with the prior year. Many revenues sources received in first part of the fiscal year (July and August) are accrued back to the prior fiscal year and other large revenue sources are received either quarterly, bi-annually or in late December, January or spring.

## Mid-Year Revenue Summary

**Table 3 - Fiscal Year 2016-17**

	<b>2015-2016 ACTUALS</b>	<b>2015-16 Mid Year</b>	<b>% Mid Year/ ACTUALS</b>	<b>2016-2017 ADOPTED BUDGET</b>	<b>2016-2017 Mid Year</b>	<b>% ACTUALS/ BUDGET</b>	<b>2016-2017 Year End Estimate</b>
All Property Taxes	29,507,968	6,125,858	21%	32,514,085	6,505,615	20%	31,449,664
All Sales & Use Tax	17,543,901	4,563,146	26%	17,741,950	6,269,259	35%	18,008,817
All Utility Tax	16,419,346	7,331,479	45%	17,364,670	6,825,946	39%	17,364,670
All Other Taxes	13,417,658	4,937,195	37%	13,494,737	5,166,967	38%	13,708,017
All Other Sources	14,848,280	7,029,999	47%	12,461,053	6,378,161	51%	14,112,804
<b>Total Revenue</b>	<b>91,737,154</b>	<b>29,987,677</b>	<b>33%</b>	<b>93,576,495</b>	<b>31,145,948</b>	<b>33%</b>	<b>94,643,972</b>

Tax revenues make up 87% of the General Fund's budgeted revenues and merit a more detailed discussion as presented below:

Property Taxes – Typically, property tax revenues are received from November through August. In addition, due to various State actions, the City receives “In Lieu” property tax twice a year in January and June. An area that trended lower than anticipated last fiscal year was various

Property Tax revenues (Property Tax, Property Tax In-Lieu of VLF, and Prior Year Supplemental). The significant factor that contributed to the decline was the unknown impact of Senate Bill No. 107 (SB 107) which among other factors, eliminated limits on the receipt of tax increment revenues applicable to redevelopment project areas. A portion of property tax revenue previously allocated to the City is now being returned as tax increment revenue for deposit into a redevelopment trust fund to pay obligations listed on the Successor Agency Recognition Obligation Payment Schedule (ROPS). This factor has resulted in a loss of \$1.06M in total property tax revenue in FY 2016-17. A request to decrease the FY 2016-17 Property Tax revenue estimate is included in the attached resolution.

Sales Tax – The total revenue budget from Retail Sales Tax is derived from two distinct sources: a 1.0% share of local sales (from the State and County Pools) and allocations of Public Safety Augmentation Fund (PSAF) sales tax from the County. These two sources were budgeted at \$17.74M. This source of revenue is typically responsive to economic circumstances. As noted in previous reports, the “Triple Flip” component of the sales tax revenue ended in March 2016. Based on the revenues received through December 31, 2016, the total of these two sales tax revenue sources are trending higher than this same period last year.

A new business “AltaGas” has recently constructed an energy storage facility in the City and they have opted to pay the City an in-lieu sales use tax payment of \$266,867. This additional sales tax will be adjusted via revised revenue estimate in the Sales Tax budget.

Utility Users Tax (UUT) – Currently budgeted at \$17.36M, utility tax revenue represents 19% of General Fund revenues. At this time utility taxes figures are coming in lower than the prior year. However, staff is not recommending a change to the revenue estimates because the City is scheduled to start receiving UUT related to pre-paid phone sales from the Board of Equalization.

Other Taxes – Other taxes include Business Licenses, Transient Occupancy Tax, Property Transfer Tax, and Franchise Fees, which represent 14% of total General Fund revenues. These sources, collectively, are budgeted at \$13.5M, approximately \$77,000 more than FY 2015-16 actuals. While receipts for Property Transfer Tax appear on target, franchise fees are a large part of this category and payments from the two largest payers – SCE and The Gas Company – will not be received until April 2017. Therefore, staff is not recommending a change to the revenue estimate for this category at this time.

Other Sources – All Other Sources include Fees, Licenses, Permits and Revenue from Use and Property categories, which all came in above budget in FY 2015-16. Currently the majority of these categories are aligned to finish within the estimated amounts. The only notable item of mention is the \$654,352 that was to be received for the Host Fee for the City’s Transfer station in FY 2015-16, that was instead received and recorded in FY 2016-17. Staff is requesting an increase to the revenue estimate in the requested amendment section below for this item.

In summary, anticipated Property Tax revenues will reduce estimates by (\$1.06M). However, the net total of all the proposed General Fund revenue adjustments is an increase of \$1.06M. As

always, staff will carefully monitor events for impact to the forecasts presented herein, and other related developments as they may come to light, and will report to the City Council upon receipt of any substantive and/or noteworthy information.

**GENERAL FUND EXPENDITURE DETAIL BY CATEGORY AND BY DEPARTMENT**

As of December 31, 2016 (50% of the fiscal year) overall General Fund appropriations were 48% expended. All departments were within an acceptable range of year-to-date expenditures in relation to the total appropriations for the year. Table 4 provides a breakdown of the FY 2016-17 Budget and Mid-Year Expenditures by Category and Table 5 shows the same information by Department.

**Table 4 - Fiscal Year 2016-17 Mid-Year Expenditure Summary**

<b>By Category</b>	<b>2016-2017 AMENDED BUDGET</b>	<b>% OF TOTAL</b>	<b>2016-2017 Mid Year</b>	<b>% Expended</b>	<b>2016-2017 Year End Estimate</b>
Personnel	53,491,012	56%	27,042,343	51%	53,636,904
Controllable Expenses	7,713,156	8%	2,421,527	31%	7,100,061
Required Expenses	26,729,304	28%	13,795,299	52%	27,404,099
Allocation and Utilities	7,489,950	8%	3,582,720	48%	7,460,515
Recovered Costs	(2,559,568)	-3%	(1,132,387)	44%	(2,258,833)
Capital	1,372,457	1%	298,643	22%	1,366,162
Transfers to Other Funds	1,947,494	2%	279,465	14%	728,154
<b>Total Expense</b>	<b>96,183,805</b>	<b>100%</b>	<b>46,287,610</b>	<b>48%</b>	<b>95,437,062</b>

**Table 5 - Fiscal Year 2016-17 Mid-Year Department Summary**

	<b>2016-2017 AMENDED BUDGET</b>	<b>% OF TOTAL</b>	<b>2016-2017 Mid Year</b>	<b>% Expended</b>	<b>2016-2017 Year End Estimate</b>
All General Services	1,596,306	2%	767,665	48%	2,591,244
All Recovered Costs	(2,559,568)	-3%	(1,126,445)	44%	(2,252,891)
All Mayor & Council	415,754	0%	177,051	43%	412,108
All City Clerk	560,979	1%	372,927	66%	583,001
All City Attorney	1,071,303	1%	480,942	45%	1,029,656
All Human Resources	983,281	1%	506,119	51%	1,134,943
All Finance	1,961,157	2%	988,537	50%	1,989,156
All City Administration	881,527	1%	404,762	46%	853,699
All Development Services	4,373,502	5%	1,603,531	37%	3,766,610
All Police	51,301,876	53%	25,507,082	50%	50,741,220
All Fire	24,189,909	25%	12,153,360	50%	24,306,716
All Water/Wastewater	121,335	0%	39,315	32%	120,089
All Public Works	6,912,523	7%	2,480,666	36%	6,111,801
All Neighborhood Services	3,366,578	4%	1,479,369	44%	3,174,078
All Library	1,007,343	1%	452,729	45%	875,632
<b>Total Expense</b>	<b>96,183,805</b>	<b>100%</b>	<b>46,287,610</b>	<b>48%</b>	<b>95,437,062</b>

As reflected in Table 5, all but one department had expended 50% or less of budget at the Mid-Year point and all departments are expected to complete the year within budget (after the proposed mid-year amendments). The only department that is slightly above 50% is the City Clerk, which paid total election expenses in the first half of the year. To mitigate the \$2.6M budget deficit, expenditure items are being presented for reduction that will reduce total expenditures by \$610,922 (combined with the \$1.06M reduction), lowering the overall budget deficit to \$940,020.

### **GENERAL FUND RECOMMENDED MID-YEAR BUDGET AMENDMENTS**

#### **Human Resource Related Items**

Memorandum of Understandings (MOUs) – In October 2016 the City Council approved various MOU's and Personnel Rules and Regulation with salary rate agreements for the remainder of FY 2016-17 for all non-sworn bargaining groups. These actions included a 2.0% salary rate increase effective October 1, 2016. In total this appropriation will impact the General Fund in an amount of \$249,639.

Public Works Reclassifications – On December 5, 2016, Council approved the reclassifications of the Fleet and Facilities Services Manager to Fleet Services Manager, and Parks and Landscape Manager to Parks and Facilities Manager. There was also a salary rate adjustment for the Facilities Maintenance Supervisor. The total impact for these three actions will require an appropriation increase in the General Fund of \$7,972.

Water/Wastewater Restructure – On February 6, 2017, Council approved the reclassification of one Water Distribution Supervisor to Water and Wastewater Operations Manager, as well as one Storekeeper to Water Utility Worker I/II. The total impact to the General Fund resulted in a savings of \$12,000 for the Storekeeper position and will require an appropriation reduction.

Pomona Police Officers Association (PPOA) cash-out MOU provision – On February 6, 2017 the City Council approved an update to the PPOA MOU on-call compensation terms of payment and will result in an increase of \$89,000 for the remainder of the fiscal year. Also included in this MOU update was a change in the uniform allowance payment method from a one-time annual system to a bi-weekly payment system. The transition will result in an unbudgeted increase of \$88,000. Combined, a \$177,000 appropriation is requested for the PPOA MOU Provisions.

#### **Citywide Items**

Bond Refinancing – In October 2016, Finance Staff was able to secure budget savings for the current Fiscal Year from the refunding of Bond Series AG & AN. This generated one-time budget savings and annual budget savings of \$400,000 each year for the remainder of the bond term. The total savings impact for the General Fund in FY 2016-17 is \$1,724,510.

Department Budget Solutions - Finance met in late August 2016 with Departments to formulate possible solutions to the FY 2016-17 projected budget deficit. Departments proposed various

solutions, one-time expenditure reductions and ongoing revenue enhancements for FY 2016-17 totaling \$814,425. Some Departments were not able to continue the dedicated amount due to unforeseen circumstances. However, Departments were still able to generate \$400,000 in General Fund department budget savings. Details are included in Exhibit B of the resolution.

*Fire Department Contract and Paramedic Pass Thru* – Finance Department budgeted the actual annual fee charged by Los Angeles County in error. The correct amount of the budget or the “net city payment” that should have been budgeted was a difference of \$116,807. The City also receives Paramedic Pass Thru revenue from the Fire Department contract. Based on historical data, staff is recommending an increase to the revenue estimate for this account of \$225,000. The combined net impact is a benefit of \$108,193 to the General Fund.

### Major Revenue Items

*Property Tax* – Due to the impact of Senate Bill No. 107 (SB 107), as previously discussed, staff is recommending a decrease to Property Tax revenue of \$1.06M.

*Host Fee Revenue Transfer Station* - Assuming the vendor for the Host Fee revenue will continue to pay the fee on a timely basis, staff is recommending an increase for the Host Fee Revenue in the amount of \$654,352 for the FY 2016 payment that was received in the current fiscal year.

*Sales Tax* – Also discussed in the Revenue Summary section, the addition of a new business “AltaGas” has resulted in a one-time In Lieu of Use Tax payment of \$266,867; therefore, staff is requesting an increase for the Sales Tax revenue for the same amount.

**Table 6 – Fiscal Year 2016-17 General Fund Anticipated Budget and Fund Balance**

ITEM	2016-2017 BUDGET	Fund Balance %
<b>Actual Fund Balance FY 2015-16 Per CAFR</b>	16,839,652	17.7%
<b>Total Adopted Revenue</b>	<b>93,511,899</b>	
<b>Total Adopted Expense</b>	<b>(95,355,416)</b>	
<b>Total Adopted July 1, 2016 (Revenue/Expenditures)</b>	<b>(1,843,517)</b>	
Amendment approved July 18 for Ganesha Park Plaques	(7,000)	
Amendment approved August 1 for Carry Over Items	(541,464)	
Amendment approved October 17 for HEART Team (Period 4)	(173,000)	
Amendment approved November 21 for PD Data Ticket	(41,925)	
Amendment approved November 21 for PD Data Ticket	64,596	
Amendment approved December 19 for Library and PEOC	(65,000)	
<b>Net Total To Date (Revenue/Expenditures)</b>	<b>(2,607,310)</b>	
<b>Projected Fund Balance FY 2016-17</b>	<b>14,232,342</b>	14.8%

	<b>General Fund Proposed Appropriations</b>	<b>City Council Meeting Date</b>
<b><i>FY 2016-17 General Fund Mid-Year Appropriations</i></b>		
<b><i>Personnel/MOU Related Items - Council Approved</i></b>		
MOUs approved - PCEA	(132,000)	10/17/2016
MOUs approved - PMMCEA	(34,341)	10/17/2016
Agreements approved - A&B, Library C2, and Part Time	(83,298)	10/17/2016
Public Works Department Reorganization (3 FTE)	(7,972)	12/5/2016
Water Wastewater Restructure February 6th (2 FTE)	12,000	2/6/2017
PPOA Standby Pay MOU Update	(89,000)	2/6/2017
PPOA Uniform Pay MOU Update	(88,000)	2/6/2017
<b>Subtotal of Council Approved Personnel Items</b>	<b>(422,611)</b>	
<b><i>Citywide Items</i></b>		
Bond Refinancing Expenditure Savings	750,340	1/9/2017
Bond Refinancing Debt Service Funds Realized	974,170	1/9/2017
Department Budget Solutions (Originally \$814,425)	400,000	1/9/2017
Fire Contract Correction	(116,807)	New
Paramedic Pass Thru Increase	225,000	New
<b><i>Revenue Items</i></b>		
Property Tax Decrease (Originally \$1,504,833)	(1,064,421)	1/9/2017
Host Fee Revenue Transfer Station	654,352	1/9/2017
Sales Tax Increase Alta Gas	266,867	New
<b>Anticipated 2016-17 Deficit To Date</b>	<b>(940,420)</b>	
<b>Updated Projected Fund Balance FY 2016-17</b>	<b>15,899,232</b>	16.6%
<b>Fund Balance FY 2016-2017 Per Policy (17%)</b>	<b>16,247,390</b>	
<b>Graduated Benchmark Per Policy as of June 30, 2017 (13%)</b>	<b>12,424,475</b>	

**FUND BALANCE POLICY** – On June 20, 2011, the City Council adopted resolution 2011-63A approving the City’s Fund Balance Policy (Attachment 1). The objectives of the policy were to comply with the Governmental Accounting Standards Board (GASB) Statement Number 54 – Fund Balance Reporting and Governmental Fund Type Definitions; establish formal reserve policies; build adequate reserves; and guide the City toward meeting its short and long-term obligations.

The Policy states that at the end of each fiscal year, the City shall have a Committed Fund Balance equal to 17% of operating expenditures in the General Fund. The 17% is to be considered the minimum level. Based on the FY 2015-16 audited financial statements the Fund



Balance reserves were 17%. However, based on the adopted deficit, additional General Fund actions since July 1, 2016, and the appropriations proposed within, the FY 2016-17 fund balance reserve is estimated to end the year at 16.6%, which is below the 17% ultimate target. Any increases to appropriations between now and June 30, 2017 will increase this deficit and the General Fund will not meet the minimum fund balance requirement.

#### **NON GENERAL FUND APPROPRIATION REQUESTS - FY 2016-17**

*Memorandum of Understandings (MOUs)* – In October 2016 Council approved various MOU's and Personnel Rules and Regulation with salary rate agreements for the remainder of FY 2016-17 for all non-sworn bargaining groups. These actions included a 2.0% salary rate increase effective October 1, 2016 in total and will impact all Non-General Funds in an amount of \$241,621. Details by Fund are included in Exhibit A of the resolution.

*Public Works Reclassifications* – On December 5, 2016 Council approved the reclassifications of the Fleet and Facilities Services Manager to Fleet Services Manager, and Parks and Landscape Manager to Parks and Facilities Manager. Also approved was a salary rate adjustment for the Facilities Maintenance Supervisor. The total impact and appropriation requested for Non-General Funds (Gas Tax, GSF, and Maintenance Assessment District) is \$2,723.

*Water/Wastewater Restructure* – On February 6, 2017 Council approved the reclassification of one Water Distribution Supervisor to Water and Wastewater Operations Manager, as well as one Storekeeper to Water Utility Worker I/II. The total impact and appropriation requested for the Enterprise - Water Fund is \$25,000.

*Traffic Offender Fund* - The Police Department's Mobile Incident Command Center (MICC) serves as the centralized command center during major local incidents and/or disasters. It incorporates all of the technology needed to receive and disseminate information through mobile dispatch consoles, interoperable radio communications and other secure wireless transmissions. The current interior design of the MICC is extremely non-functional and much of the equipment is obsolete. Due to this, staff has received quotes on remodeling the interior as well as replacing the outdated equipment. As such, the total cost of the remodel and equipment replacement will be approximately \$145,000. This appropriation of \$66,000 will supplement the existing \$79,000 amount already included in the current budget to fund the remodel.

#### **CONCLUSION**

As stated in the Executive Summary, the purpose of this report is to give City Council a financial update of the FY 2016-17 budgets at the mid-year point. Based on this information, staff is recommending City Council adopt the amendments proposed and included herein.

While the City successfully rebuilt reserves to an acceptable level by the end of FY 2014-15 and FY 2015-16, the General Fund is currently in a deficit position. It should also be noted that, although Staff has been able to reduce the budget deficit from \$2.6M to \$940,420, this was due

in large part to one-time budget strategies that will not be available next fiscal year.

The City's financial structure will be challenged in the future by factors including, but not limited to; increasing retirement contribution rates, continued rise in retiree health costs, debt service requirements, annual increases of contract provisions with the Los Angeles County Fire District, continued reliance on special funds for services traditionally funded by the General Fund, deferred maintenance of facilities and infrastructure, and a decrease in funding for Asset Forfeiture and Gas Tax that could result in unmet service needs.

Finally, without an increase in sustainable resources, the operations as presented in the FY 2016-17 Budget cannot be continued into future years without significant and detrimental reductions to the General Fund reserves. Deterioration of the reserves affects the City's credit standing and will lead to more difficult future financial hardships. These are all factors to consider as staff and City Council prepare for the FY 2017-18 Proposed Budget process that begins next month.

Attachment – Resolution