



CITY OF POMONA COUNCIL REPORT

March 19, 2018

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

By: Onyx Jones, Finance Director

Subject: **Fiscal Year 2017-18 General Fund Mid-Year Budget Review, Adoption of a Resolution Amending the Fiscal Year 2017-18 Operating Budget, and Adding \$50,000 to CIP Project # 428-71048 - Financial Software Project**

OVERVIEW

Recommendation – It is recommended that the City Council review the Fiscal Year (FY) 2017-2018 General Fund Mid-Year Budget Report, adopt a resolution amending the FY 2017-18 Operating Budget, and adding \$50,000 to CIP Project # 428-71048 - Financial Software Project.

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

Table 1 - Fiscal Year 2017-18 Mid-Year Request for Appropriations

General Fund	Revenue Estimate	Appropriation Changes
General Fund Appropriations (101-XXXX-XXXXX-00000)	\$1,712,704	\$2,366,084
Non General Funds	Revenue Estimate	Appropriation Changes
Water Fund (575-8125-89938-00000)		\$121,074
Information Technology Fund (675-1410-51012-00000)		\$13,540
Information Technology Fund (675-1410-52274-00000)		\$28,358
Information Technology Fund (675-1410-59960-00000)		(\$225,610)
Non General Funds Information Technology Allocation - Account 52185 (SEE EXHIBIT A)		\$80,672
Self Insurance Fund (668-1352-40842-0000)	\$100,000	
Asset Forfeiture Info Tech Allocation (260-2090-52185-51207)		(\$56,385)
Total Non General Fund Appropriations	\$100,000	(\$38,351)
Total Appropriations	\$1,812,704	\$2,327,733

* Refer to Table 6 "Fiscal Year 2017-18 General Fund Anticipated Budget and Fund Balance" for details of General Fund Appropriations.

Previous Related Action – City Council approved the Budget Preparation Calendar, Guiding Principles and Process for FY 2017-18 on January 9, 2017. City Council adopted the FY 2017-18 Operating Budget, Housing Authority Budget, and the Five-Year Capital Improvement Program on June 12, 2017, with amendments to the General Fund operating budget approved on June 19, 2017, August 7, 2017, October 2, 2017, November 20, 2017, December 4, 2017 and February 26, 2018.

EXECUTIVE SUMMARY

This report summarizes the City's General Fund overall financial position for the current fiscal year through December 2017. 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, Permit Revenue, Investment Income and Intergovernmental Revenues which is 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, and Administration and Legislative services for the City. This report will cover the following areas as detailed below;

General Fund Overview – This overview section will highlight the actual receipts and expenditures as of December 2017 compared to the Fiscal Year (FY) 2017-18 budgeted revenue and expenditures. The report will also compare prior year actuals during this same time period and estimate where the General Fund will finish by year end.

General Fund Summary of Revenue – This section will cover General Fund revenues in FY 2017-18 as compared to where they were at the same time in FY 2016-17 and if there are any significant variances to the FY 2018 Budget.

General Fund Expenditure Detail By Category and Detail By Department – This section will review General Fund Expenditures by categories such as Personnel, Controllable Expenditures, Required Expenditures, Utilities, Capital Cost, etc. In a separate view, this section will also show how each department within the General Fund has utilized their budget resources and stayed within budget through December 2017.

General Fund Recommended Mid-Year Budget Amendments – This section will identify proposed budget amendments and provide justifications for the changes in both expenditures and revenues.

General Fund Fiscal Year 2017-18 Anticipated Budget and Fund Balance Summary - 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. This section provides the

current status of the FY 2017-18 General Fund Budget, includes the proposed mid-year budget amendments, and shows the financial impact to the City's Fund Balance.

Recommended Mid-Year Budget Amendments Non-General Fund – This section will identify proposed amendments for Non-General Funds for both expenditures and revenues.

DISCUSSION

GENERAL FUND

2017-18 MID-YEAR OVERVIEW – As adopted on June 12, 2017, General Fund revenues were \$94.6M, appropriations were \$94.6M, and there was a small net surplus of \$22K. The General Fund budget has been amended since its adoption, and appropriations are now expected to exceed revenues by \$319K. With regard to actuals for the year, with 50% of the year complete, General Fund revenues are at 33% of projections and expenditures are at 48%. With the disparity of revenue collections versus expenditures, General Fund has expended nearly \$14.7M more than it has collected in the current fiscal year (as of December 31, 2017). This cash flow is normal due to the timing of tax receipts and is one of the primary reasons that the 17% Fund Balance is necessary. Appropriations and revised revenue estimates could bring the budget deficit to \$972K, and is discussed herein.

Table 2 - Fiscal Year 2017-18 Mid-Year Summary

2017-18	Adopted	Amended Budget*	Prop Mid Year Amendments	Mid Year Budget*	As of Dec 31' 17	% Rec'd/ Exp'd	Year End Estimate
Total Revenue	\$94,612,952	\$94,611,776	\$1,712,704	\$96,324,480	\$31,151,783	33%	\$96,666,934
Total Expense	\$94,590,121	\$94,930,635	\$2,366,084	\$97,296,719	\$45,881,126	48%	\$97,252,446
Net	\$22,831	(\$318,859)	(\$653,380)	(\$972,239)	(\$14,729,343)		(\$585,512)

OPERATING REVENUE

General Fund revenues received as of December 2017 are only 33%. This is due to revenue sources that are received in July and August that are accrued back to the prior fiscal year and other large revenue sources that are received on a quarterly or bi-annual basis in late December, January, or spring. Actual year-end results are difficult to predict at this time; however, as reflected in the Table 3, overall the General Fund revenues in FY 2017-18 are coming in comparable to where they were at the same time in FY 2016-17. Tax revenues make up 87% of the General Fund's budgeted revenue and, therefore, merit a more detailed discussion as presented on the next page:

Table 3 - Fiscal Year 2017-18 Mid-Year Revenue Summary

	2016-2017 ACTUALS TO DATE	2016-2017 Mid Year	% ACTUALS/ BUDGET	2017-2018 AMENDED BUDGET	2017-2018 MID YEAR BUDGET	2017-2018 Mid Year	% ACTUALS/ BUDGET	2017-2018 YEAR END ESTIMATE
All Property Taxes	\$33,301,689	\$6,505,615	20%	\$32,842,629	\$34,002,371	\$6,846,444	21%	\$34,002,371
All Sales & Use Tax	\$18,135,287	\$6,269,259	35%	\$18,075,000	\$18,075,000	\$6,315,491	35%	\$18,105,000
All Utility Tax	\$16,022,386	\$6,825,945	43%	\$17,338,266	\$17,338,266	\$7,515,380	43%	\$17,385,000
All Other Taxes	\$14,258,095	\$5,167,020	36%	\$14,294,429	\$14,294,429	\$5,363,124	38%	\$14,599,293
All Other Sources	\$13,817,686	\$6,379,109	46%	\$12,061,452	\$12,614,414	\$5,111,344	42%	\$12,575,270
Total Revenue	\$95,535,143	\$31,146,948	33%	\$94,611,776	\$96,324,480	\$31,151,783	33%	\$96,666,934

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. Property Taxes are trending higher than last fiscal year by \$340K. There is a proposed budget amendment of \$700K for potential residual property tax revenues that will come from the Successor Agency. In the future, this residual income may be required to be used to pay the Successor Agency’s Deferral Loan Agreement with the County; however, that repayment has not been initiated. There is also a proposed budget amendment of \$459,742 for the City’s share of proceeds from the sale of Successor Agency Properties discussed in more detail on page 8.

Sales Tax – FY 2016-17 marked the first entire fiscal year without the State imposed Triple Flip, which ended March 2016. Cash flow improved due to the elimination of the Triple Flip, as now revenues are received on a monthly basis. 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 \$18M in FY 2017-18. This source of revenue is typically responsive to economic circumstances. Based on the revenues received through December 31, 2017, the total of these two sales tax revenue sources are aligned with budget at this time.

Utility Users Tax (UUT) – Currently budgeted at \$17.3M, utility tax revenue represents 18% of General Fund revenues. A portion of this revenue source is accrued to the prior fiscal year, therefore, the current amount received of \$7.5M, does not represent a full quarter of receipts. Based on a comparison of last year’s first two quarter receipts to the same two quarters this year, actuals are trending a little higher, particularly in the area of Electricity. The increase is not significant and staff is not recommending a change to the revenue estimate at this time.

Other Taxes – Other taxes include Business Licenses, Transient Occupancy Tax, Property Transfer Tax, and Franchise Fees, which represent 15% of total General Fund revenues. These sources, collectively, are budgeted at \$14.3M, almost aligned with FY 2016-17 actuals. While receipts for Property Transfer Tax appear strong, 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 2018; 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 and make up 13% of General Fund Revenues. Currently Licenses and Fees are not projected to finish within the estimated amounts. Development Services Staff are working towards an effort of utilizing consultants to address the number of vacancies in the department. Staff request to reduce Building Plan Check fees, Major Review fees, and New Construction Fee is discussed further in the amendment section on page 8.

Summary – In summary, the budgeted revenues from tax related items discussed above represent over 87% of the City's General Fund. Although revenues received through December 2017 are in-line with last year in some areas, there are slight increases in Property Tax, UUT, and Sales Tax. The significant revenue reductions are in Development Services (Plan Checks, Review Fees, New Construction Fees). Revenue Estimates are projected to end the year below budgeted expenditures and the use of General Fund reserves will be necessary, unless one time revenue sources are received before year end.

EXPENDITURES

As of December 31, 2017 (50% of the fiscal year) overall General Fund appropriations are 48% expended. All departments, with the exception of the City Attorney, were within an acceptable range of year-to-date expenditures in relation to the total appropriations for the year. The following provides a breakdown of the FY 2017-18 appropriations, and Mid-Year Expenditures by Category (Table 4) and then by Department (Table 5). The potential impact of future labor negotiations are not reflected herein, and only includes the 2.5% sworn Impact (PPOA, PPMA, and Group A-3) as was approved in October 2017.

Table 4 - Fiscal Year 2017-18 Mid-Year Expenditure Summary

By Category	2017-2018 AMENDED BUDGET	% OF TOTAL	2017-2018 MID YEAR EXP	% Expended	2017-2018 MID YEAR BUDGET	2017-2018 YEAR END ESTIMATE
Personnel	\$53,810,930	57%	\$26,925,368	50%	\$54,639,312	\$54,761,631
Controllable Expenses	\$6,997,174	7%	\$2,250,808	32%	\$7,169,381	\$6,962,784
Required Expenses	\$28,526,687	30%	\$14,071,469	49%	\$28,647,856	\$28,631,639
Allocation and Utilities	\$7,087,348	7%	\$3,286,715	46%	\$7,232,286	\$7,066,236
Recovered Costs	(\$2,649,889)	-3%	(\$1,160,964)	44%	(\$2,649,889)	(\$2,419,674)
Capital	\$615	0%	\$614	100%	\$615	\$615
Transfers to Other Funds	\$1,157,770	1%	\$507,116	44%	\$2,257,158	\$2,249,215
Total Expense	\$94,930,635	100%	\$45,881,126	48%	\$97,296,719	\$97,252,446

Table 5 - Fiscal Year 2017-18 Mid-Year Department Summary

	AMENDED BUDGET	OF TOTAL	MID YEAR EXP	Expended	MID YEAR BUDGET	YEAR END ESTIMATE
All General Services	\$1,788,553	2%	\$680,232	38%	\$2,846,452	\$2,593,401
All Recovered Costs	(\$2,649,889)	-3%	(\$1,160,964)	44%	(\$2,649,889)	(\$2,419,674)
All Mayor & Council	\$431,851	0%	\$183,419	42%	\$431,851	\$431,005
All City Clerk	\$413,752	0%	\$197,367	48%	\$413,752	\$414,922
All City Attorney	\$1,073,014	1%	\$588,431	55%	\$1,455,817	\$1,455,658
All Human Resources	\$1,021,211	1%	\$473,600	46%	\$1,021,211	\$1,010,969
All Finance	\$2,065,618	2%	\$922,276	45%	\$2,115,618	\$2,027,749
All City Administration	\$855,022	1%	\$418,918	49%	\$855,022	\$870,545
All Development Services	\$3,770,983	4%	\$1,633,251	43%	\$3,817,983	\$3,818,329
All Police	\$50,940,054	54%	\$25,256,728	50%	\$51,768,436	\$51,710,630
All Fire	\$25,332,795	27%	\$12,654,738	50%	\$25,332,795	\$25,350,795
All Public Works	\$6,066,801	6%	\$2,332,609	38%	\$6,066,801	\$6,140,156
All Neighborhood Services	\$2,899,715	3%	\$1,279,139	44%	\$2,899,715	\$2,942,353
All Library	\$921,155	1%	\$421,382	46%	\$921,155	\$905,608
Total Expense	\$94,930,635	100%	\$45,881,126	48%	\$97,296,719	\$97,252,446

As reflected in Table 5, most departments have expended 50% or less of budget at Mid-Year; however, there are appropriations of \$2.4M being requested in this report. More details are provided in the next section.

RECOMMENDED BUDGET AMENDMENTS –

Citywide Items

City Attorney Department Increases - City Attorney staff is requesting an increase in appropriations for \$382,803 due to the following:

- \$10,800 is needed to correct a clerical error in the original budget submission
- \$11,500 is needed for additional legal expense for Westlaw legal research, legal process service of documents, and other miscellaneous cost.
- \$312,170 is needed for supplemental legal services that are in excess of the 260 retainer hours. This increase is due to a higher volume of General Fund litigation cases, enforcement of illegal marijuana dispensaries, adoption of adult cannabis regulation ordinances, complex public records request, various homeless related matters, the Maya Cinema project, and City Council request for ordinances and attendance at special meetings.
- \$48,333 is needed for additional outside legal services that were not known at the time of the budget adoption.

Information Technology Fund Enhancements – IT is requesting an increase of \$144,938 for the IT allocation to the General Fund due to the following:

- On July 17, 2017 Information Technology Department amended the FY 2017-18 Information Technology Fund Internal Service Fund Budget by \$183,712 and Awarded a Contract to PCM-G for the Purchase and Installation of Critical Information Technology Infrastructure, Software and Security Software Upgrades.
- Information Technology FY 2017-18 staffing estimates are under budget
- Additional expenses are needed for the Council Chamber technology upgrade.

In total, these actions for the Information Technology Fund will impact the all City Funds by \$225,610 of which \$144,938 will be adjusted in the General Fund and \$80,672 will be adjusted in non-general funds.

Police Department Retirement Termination Payouts –The Police Department has had several long term employees either retire or terminate employment in FY 2017-18. To adequately fund these termination payouts staff is requesting an \$828,382 appropriation for Police Departments Retirement Termination Payout line item.

General Service Required Contract Increase – City Tax consultants, Muni Services, provide sales tax review and audit services. The budget for these services can fluctuate based on their findings. Staff is requesting an appropriation of \$15,000 for a total budget of \$45,000 through the end of June 2018. Increased audit services provided in the current fiscal year creates increased sales tax revenues in future years when the funds are collected.

Transfer from Water Fund to General Fund – This request is for a transfer of \$121,074 from the Water Bond Fund to the General Fund. Beginning in May 2000 approximately 200 water development projects were recorded in the Water Bond Fund; however, there was review work performed by Public Works Engineering Staff (employees allocated to the General Fund). Developers (customers) would provide deposits and administrative fees for Public Works Engineering staff and once the project was completed remaining funds for administrative cost were transferred to the General Fund. Each deposit was assigned a project number to insure that the deposit and expenses could be captured. This process was discontinued in June 2012; however, there was a balance of \$121,074 still remaining in the Water Bond Fund that should have been transferred to the General Fund. The process today requires that deposits for Public Works engineering staff are recorded directly to the General Fund as the services are performed. If approved, the amount of \$121,074 can be used for the City Hall 1st floor reorganization project.

Development Services Planning and Code Enforcement Division Increases - Controllable Contract Services within the Planning Division has increased in response to staff turnover and vacancies; which resulted in additional consultant services that are needed to expedite plan checking for backlogs, preparation of planning fee study, and implementation of street frontage landscape requirements. Staff is requesting \$17,000 appropriations for consultant services in FY 2017-18. There has been an increase of abatement proceedings and abatement properties in the Code Enforcement Division. Staff is requesting an appropriation of \$30,000 for the Abatement

line item in the Code Compliance Division. In total Development Services is requesting an increase in appropriations of \$47,000.

General Services Bond Note Issuance Savings – As a result of the \$2M Bond refunding savings, an excess of resources over appropriations resulted in an amount of \$273K in the General Fund. This amount was budgeted in the Bond Issuance Expense line item account in the General Fund as part of the Fiscal Year 2017-18 General Fund 1st Quarter Budget Review Report (November 2017). These funds can be used as part of this proposed action to fund the requested items above. Staff is requesting a decrease in appropriations of \$272,501.

PDS Payroll System – The City's new Payroll System is set to come on line by December 2018. Recently it has been identified that specific features that are needed in the new PDS Payroll System, in particular those for CalPers reporting, and unique programing for leave regulations for the respective employees groups will require additional infrastructure to complete this projects implementation. Staff is requesting an appropriation of \$50,000 which will be transferred to CIP Project #428-71048 "Financial Software Project".

Insurance Settlement for Pomona City Stables Building - The City received \$1M for an insurance settlement due to the collapse of the City Stables building. At this time the City is awaiting further direction on how to utilize the funds. Staff is requesting an appropriation of the \$1,049,388 in the General Services Department, \$949,388 to CIP Projects line item and \$100,000 to reimburse the Self Insurance Fund for the insurance deduction paid by the City. There is also an increase in revenue estimates for the corresponding amount.

Revenue Items

Adoption of a Resolution Adopting the Consolidated Fire Protection District of Los Angeles Fire Code and Ratifying More Restrictive Building Standards Contained in that Code – Consolidated Fire Protection District of Los Angeles (District) adopted a revised fee schedule in conjunction with the updated Fire Code on December 18, 2018. The fees are levied by the District for services that they provide over and above normal fire service operations, like plan checks for fires sprinklers, hydrants and fire alarm systems. Because the City of Pomona pays the District for personnel to complete those talks, the Fire Contract allows for the City to retain those fees. It is estimated that the fees will generate approximately \$23,000 in revenue to the City of Pomona. This request is to increase the FY 2017-18 Fire Permits & Inspections revenue estimate by \$23,000.

Sale of Successor Agency Properties (4) – The Successor Agency Oversight Board adopted an agreement to sale Successor Agency Properties throughout the FY 2017-18. Refer to the table below, for the APN#, Property Address, Sales Processed, and the estimated return to the City General Fund. The General Fund will receive a portion of the sale and this will result in the General Fund receiving \$459,742 in FY 2017-18. This request is to increase the FY 2017-18 Successor Agency Property Sales Distribution revenue estimate by this amount.

APN#	Address	Sales Proceeds	Estimated Return to City
8327-019-900	1300 South Reservoir	\$266,980	\$62,098
8348-001-900	340 Short Ave.	\$817,842	\$190,227
8358-035-944	1510 Murchison Ave	\$355,000	\$82,571
8349-002-901	1630 W. Mission Blvd	\$536,750	\$124,846
TOTAL GENERAL FUND REVENUE TO BE RECEIVED			\$459,742

Insurance Settlement for Pomona City Stables Building – As discussed on page 7, the City received \$1M for an insurance settlement due to the collapse of the City Stables building.

Development Services Revenue Decrease – As mentioned in the Major Revenue section, the Building Plan Check fees are trending \$300K lower due to the changes in the market, in addition, Major Review fees are trending lower by \$250K, which results in a decrease of applications processed. Also trending lower, due to these same factors, is New Construction Tax by \$140K. This request is to decrease the FY 2017-18 Development Services revenue estimate by \$640,500.

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 audited FY 2016-17 figures, the General Fund balance was 18%. However, based on the current deficit, additional General Fund actions since July 1, 2017, and the appropriations proposed within, the FY 2017-18 fund balances could equal \$16M, which would be 16.7% of the 17% ultimate target. Table 6 shows a breakdown of potential budget actions for FY 2017-18 that will increase the budgeted deficit to \$972K. Any other increases to appropriations between now and June 30, 2018 will increase this deficit and the General Fund will not meet the minimum fund balance requirement.

Table 6 – Fiscal Year 2017-18 General Fund Anticipated Budget and Fund Balance

ITEM	2017-2018 BUDGET
Projected Fund Balance FY 2017-18 (Based on Audited Figures)	17,164,893
Total Amended Revenue	94,611,776
Total Adopted Expense	(94,930,635)
Net Total To Date (Revenue/Expenditures)	(318,859)
Proposed Mid Year Appropriations	
Items discussed at the March 19, 2018 City Council Meeting	
City Attorney (Supplemental, Outside Legal)	(\$382,803)
IT Allocation Updates for Infrastructure and Personnel	(\$144,938)
Police Department - Retirement/Termination Payout	(\$828,382)
Transfer from Water Fund / Transfer to CIP for Reorg of City Hall (\$121,074)	\$0
General Services Contract Increase for Sales Tax Services	(\$15,000)
Development Services Planning Consultants	(\$47,000)
General Services Bond Note Issuance Savings Account	\$272,501
Transfer to Financial Software Project	(\$50,000)
Fire Inspections Fee Increase	\$23,000
Sale Of Properties from Successor Agency	\$459,742
Residual RTTPF Revenue	\$700,000
City Barn Settlement - Insurance Refund / Transfer to CIP Fund & Self Ins Fund (1,049,380)	\$0
Development Services Revenue Adjustments	(\$640,500)
Total Request at March 19, 2018 City Council Meeting	(653,380)
Anticipated 2017-18 Deficit/Surplus To Date	(972,239)
Updated Projected Fund Balance FY 2017-18	16,192,654
Fund Balance FY 2017-2018 Per Policy (17%)	16,540,442
Graduated Benchmark Per Policy as of June 30, 2018 (14%)	13,621,541

NON GENERAL FUND

NON GENERAL FUND APPROPRIATION REQUESTS - FY 2017-18

Information Technology (IT) Fund Enhancements – As discussed under the General Fund appropriation requests, there will be a Non-General Fund impact of \$80,672 in total related to the IT fund item. In total \$225,610 will be recovered from all City Funds to fund additional information technology budget amendments.

Asset Forfeiture Fund (F260) – This request is to reduce the Information Technology allocation in the Asset Forfeiture by an amount of \$56,385. This amount is not accounted for in the Information Technology Fund and was incorrectly posted in Asset Forfeitures.

Water Fund – This request is for a \$121,074 appropriation, as discussed in the General Fund amendment section in this report, the program ended in June 2012 and there was a balance of \$121,074 sitting in the Water Fund. These funds should have been transferred to the General Fund, and can be used for the City Hall 1st floor reorganization project.

CONCLUSION

As stated in the Executive Summary, the purpose of this report is to give City Council a financial update of the FY 2017-18 Budget at the mid-year. Based on this information, staff is recommending City Council adopt the amendments proposed and included herein.

Although Staff was able to reduce the budget deficit during the FY 2017-18 1st Quarter report, due in large part to one-time budget strategies, the budget amendments requested in this Mid-Year report will create a \$972K budget deficit. Based on Staff estimates, this deficit could be reduced to \$585K if General Fund revenues come in slightly higher than budgeted and this would put the General Fund Balance right at its reserve policy of 17%.

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 2017-18 Budget cannot continue into the future without one time revenues. Per the City's Fiscal Sustainability Policy, one time revenues should not be relied on for current operations and instead should be set aside for future capital needs. Also to note, detrimental reductions to the General Fund reserves can affect the City's credit rating for its bonds and could lead to more difficult financial hardships. These are all factors to consider as staff and City Council prepare for the FY 2018-19 Proposed Budget processes that is currently underway.

Attachment – Resolution