



CITY OF POMONA COUNCIL REPORT

May 14, 2018

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

By: Onyx Jones, Finance Director

Subject: Fiscal Year 2019 Budget Study Session

OVERVIEW:

Recommendation – It is recommended that the City Council review a presentation of the FY 2019 Proposed Operating and Capital Improvement Program Budgets and provide staff direction.

Fiscal Impact – None with this report.

Previous Related Action – City Council adopted the FY 2017-18 Operating Budget, Housing Authority Budget and the Five-Year Capital Improvement Program on June 12, 2017. City Council also approved the Budget Preparation Calendar, Guiding Principles and Process for FY 2019 on November 20, 2017, received the Mid-Year Budget Report on March 19, 2018 and approved various amendments to the Operating and Capital Improvement Program budgets throughout the year.

EXECUTIVE SUMMARY

The purpose of the meeting is for Staff to present the Proposed FY 2019 Citywide Budget to City Council, answer related questions and receive feedback on the proposal for possible adoption on June 4, 2018. The Proposed FY 2019 Budget for Citywide expenditures is \$238M and it is comprised of seven operating fund types (General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds and Housing Authority Funds). The Proposed FY 2019 Budget is next to the previous year's FY 2018 Budget (see Table 1).

The budget for the General Fund increased \$9M over the prior year. There have been significant increases in retirement cost for current employees (PERS) and retiree benefits, public safety cost, general liability, workers' compensation, salary increases and Information Technology. In FY 2018, there was also \$2M budget savings from the refunding of bonds in the General Fund which cannot be experienced again in FY 2019.

Budget appropriations for the Special Revenue Funds decreased by \$8.4M and the Capital Project Funds decreased by \$8.8M from the previous fiscal year.

The decrease in Special Revenue Funds was due to decreases or elimination of some Federal and State funding such as Cal Home and Neighborhood Stabilization as well as big reductions in Police Asset Forfeitures and Supplemental Law Enforcement Services Account grant funding.

The decrease in the Capital Project Fund types is from budgeting one-time revenue sources such as bond proceeds that were used to fund projects in the previous year; however, it is likely the FY 2019 budget will increase as the year moves forward and new funding sources (i.e. Federal and State money) and capital projects are identified.

Total City Expenditures by Fund Type

FUND TYPE	FY 2018	FY 2019
General Fund	97,831,372	107,149,313
Special Revenue Funds	39,408,174	30,991,519
Debt Service Funds	6,360,531	6,223,368
Capital Project Funds	18,975,560	10,301,427
Enterprise Funds	60,647,718	58,376,769
Internal Service Funds	8,411,306	10,077,049
Housing Authority Funds	14,281,932	15,242,610
Total	245,916,593	238,362,055

Table 1

DISCUSSION

GENERAL FUND OVERVIEW

In summary, the proposed General Fund budget for FY 2019 has an operating deficit of \$4.7M. The General Fund's ending fund balance is projected to be \$12.8M which is 12% of the FY 2019 proposed operating expenditures (Table 2). The General Fund's current reserve policy goal of 17% is based on recommendations by the Government Accounting Standards Board.

In June 20, 2011, City Council adopted Resolution #2011-63A Fund Balance Reserve Policy, which included a graduated benchmark plan that would allow the City to reach the 17% policy goal by FY 2019-20. This plan was a nine-year plan and the benchmark goal for FY 2019 is 15.5% or \$16.6M. The projected fund balance for FY 2019 will be \$3.8M below the benchmark goal and \$5.4M below the recommended 17%. If the City does not meet its reserve requirement, the City's bond rating could be impacted and that could drive interest rates up. It will also reduce the amount of funds available for emergency situations, cash flow needs in the first six months of the fiscal year and one-time capital replacement projects in the future.

General Fund - Fund Balance		
Est. Beginning Fund Balance FY 2019	17,521,782	
Est. Revenues	102,456,164	
Appropriations & Transfers Out	(107,149,313)	
Est. Ending Fund Balance FY 2019	12,828,633	12.0%
Fund Balance per graduated benchmark for FY 2019	16,608,144	15.5%
Shortfall	(3,779,511)	

Table 2

GENERAL FUND REVENUES

The FY 2019 General Fund Revenues have been estimated at \$102.5M. Overall, the estimates have increased by 6% from last fiscal year due mostly to \$3.1M in one-time revenues that will be received in FY 2019 from the sale of property in the Successor Agency.

Property Tax, Sales Tax and UUT make up 73% of the total General Fund Revenues and are estimated to increase by \$6M over the prior fiscal year. Following Table 3 is a brief discussion of each of these revenue sources.

	FY 2018	FY 2019	Variance	
Property Taxes	34,002,371	38,964,732	4,962,361	
Sales & Use Tax	18,075,000	18,754,400	679,400	
UUT	17,338,266	17,687,803	349,537	
Other Revenue	26,908,843	27,049,229	140,386	
TOTAL REVENUES	96,324,480	102,456,164	6,131,684	6.0%

Table 3

Property Tax – There is a projected increase of 5% (\$1.8M) over the prior fiscal year in property taxes due to an estimated increase in assessed values for secured and unsecured property taxes. The City is also in the process of selling property currently owned by the Successor Agency. Once escrow closes, the proceeds from the sale of land will be forwarded to the Auditor Controller for distribution among all taxing entities. The City of Pomona's share of those proceeds is estimated at \$3.1M.

Sales Tax – Sales tax is estimated to increase by 3.8% (\$.7M). Cash flow has improved now that sales tax is received on a monthly basis. The strongest economic segment for sales tax generators is building materials-wholesale at 21.5% followed by restaurants at 12.8%. The third strongest economic segment continues to be service stations at 10.7% of total sales tax generated as of fourth quarter 2017.

Utility User Tax (UUT) – UUT revenues are estimated to have a slight increase of 2% (\$.3M) for FY 2019. Although UUT for water and electric are starting to improve over prior years, UUT for telecommunications continues to decline. This is due to a decrease in homes that have landline service and more competitive cell phone plans.

Other Revenues – There are several revenue streams, (other taxes, licenses, permits, fees, other miscellaneous revenue and transfers-in) that are notable in FY 2019. The most significant change in revenues is due to a reclassification of \$2.1M from Other Taxes (Franchise In-Lieu fees for water, sewer and refuse) to Transfers-In and Fines for late fees related to water, sewer and refuse collections.

Note: A study was recently done by the City's financial advisor to develop a reimbursement model with documented the basis and methodologies to establish annual reimbursements from the Utility Enterprise Funds to the General Fund based on an evidenced and proportional share of costs and benefits which the General Fund provides to support the utility's infrastructure, operations and services. These benefits include water rights, street pavement maintenance and

repairs, real property and buildings and late fees. Each of these represents a specific and identifiable service, cost or benefit provided by the General Fund in support of the utility infrastructure, operations, and services, and for which the Utility Enterprise Funds should reimburse the General Fund. These specific services, cost and benefits, however, do not include general administrative support services provided by the General Fund.

Other notable variances in this revenue category include a decrease of \$1M in other miscellaneous revenues and an increase of \$.5M in building permits. The decrease in miscellaneous revenue is due to a one-time insurance payout that was received in FY 2018 to reimburse the City for damages to the City's Stable Facility. The increase in building permits is a result of anticipated growth in development activity within the City.

GENERAL FUND EXPENDITURES

The adopted FY 2019 expenditure budget is \$107M, which is a \$9M increase over the prior fiscal year's budget.

	FY 2018	FY 2019	VARIANCE
Personnel	55,027,568	58,159,074	3,131,506
Controllable Expense	6,227,554	7,245,771	1,018,217
Required Exp	28,581,356	30,470,596	1,889,240
Utilities	1,534,896	1,537,465	2,569
Allocations & Self Ins	5,693,390	6,831,589	1,138,199
Recovered Cost	(2,649,889)	(1,461,880)	1,188,009
Capital	615	99,200	98,585
Transfers Out	3,415,882	4,273,164	857,282
Total Expenditures	97,831,372	107,154,979	9,323,607

Table 4

Personnel cost increased from the prior fiscal year by \$3M. The largest increase in the personnel budget was due to PERS retirement increases, step increases for staff, the impact of contract negotiations for FY 2019 and the increase in workers' compensation. There were a net total of 6 positions added and 10 positions re-classed which created a budget savings of \$785K to the General Fund. Finally, there was \$300K in salary savings budgeted in FY 2018 that is not reflected in FY 2019.

CalPERS Retirement Rates – Although, the State of California adopted pension reform legislation that will have a gradual long term reduction in retirement costs for employees who are new to the PERS system and hired after January 1, 2013, the City is currently faced with a revised actuarial from CalPERS that shows drastic increased rates for the next five years (Table 5). In FY 2019, the General Fund budgeted approximately \$13.4M of the total estimated PERS cost of \$17.1M. Based on CalPERS' recent actuarials for all employees, the General Fund can anticipate an average annual increase of at least \$2.0M until FY 2020-2022.

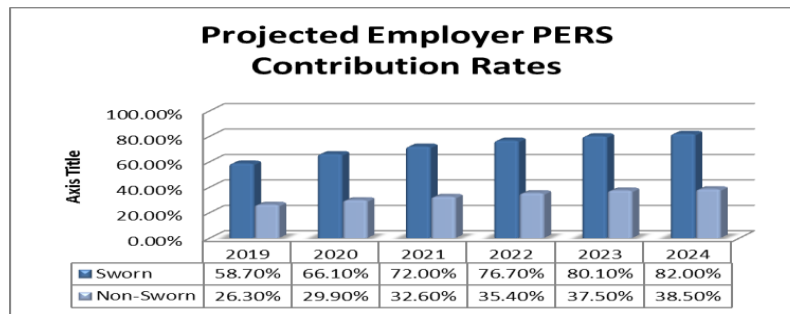


Table 5

Controllable Expense – In FY 2018 there was a \$1M Managed Balance Control factor that was budgeted in the Police Department that is no longer being budgeted in FY 2019.

Required Expense – There was an increase in required expense due to an increase of \$1.5M for fire services provided by the L.A. County Fire District. The contract for fire services increased by \$.6M and there was a recovery of deferred cost of \$.9M. The deferred cost was accumulated over the past three years. When the Fire District’s annual contract increases exceed the “cap” (a 3-year average of contract increases) the amount over the cap is deferred interest free until such year that the District’s annual contract increase is below the “cap”. This year the contract increase of \$.6M was well below the “cap” and the District was able to charge the previous \$.9M that had been deferred.

Allocations & Self-Insurance – Allocations from the IT fund increased by \$225K to absorb the cost of bringing IT services in-house and hiring five new full-time positions. The remainder of the increase is from General Liability insurance premiums and an anticipated increase in General Liability claims.

Recovered Cost – The decreased in recovered cost is a result of a change in methodology for the Cost Overhead Allocation. . The City recently hired MGT Consulting Group to develop a formal Cost Overhead Allocation Plan. It was determined that the current methodology used was not in line with federal guidelines, which are codified in the Code of Federal Regulations (CFR) part 200. The advantage of having a 2 CFR Part 200 compliant cost allocation plan is the ability for local governments to be reimbursed for administrative and support expenditures from federal and state grants and awards.

Transfers Out – The FY 2019 transfers are related to normal scheduled bond payments. The previous fiscal year’s budget was lower than normal due to one-time bond savings from bond refundings.

CITYWIDE PROPOSED STAFFING CHANGES

Personnel history and funding allocations by department are shown in the Authorized Staffing section of this document and include an adopted authorized staffing level of 563 full time equivalent (FTE) positions. In addition to these FTE positions, many departments utilize part-time hourly employees to provide services to the community. As reflected in Tables 9 &10, there are increases to the number of FTE’s and reclassifications of positions; however, these changes created a citywide budget savings of \$.4M and a General Fund budget savings of \$.8M.

The Police Department is proposing to delete four administrative positions, un-fund seven police positions, and create seven Community Services Officer positions in the Community Programs Division. Public Works is proposing to reclass three positions and add two program assistant positions. There were two reclassifications in the Administration Department. Finally, the Water Resources Department is proposing to reclass three positions, add one Water Resources Manager position, and a title change for one position (Table 6).

Authorized Staffing Change Reconciliation			
Action Date	Department	FTE Net Change	Details
2017-18 Authorized Staffing		553.60	Proposed Staffing Levels at July 1, 2017
Police		(2.00)	Delete (2) Report Takers
Police		-	"Unfund" (7) Police Officers
Police		(2.00)	Delete (2) Police Record Specialist I/II
Police		7.00	Add (7) Community Services Officer I/II
Administration		-	Reclass (1) Executive Assistant to Senior Administrative Assistant
City Council		-	Reclass (1) Administrative Assistant I/II/III to Senior Admin Assistant
Public Works		-	Reclass (1) Deputy Public Works Director to Engineering Associate
Public Works		1.00	Add (1) Program Assistant
Public Works		1.00	Add (1) Program Assistant
Public Works		-	Reclass (1) Program Specialist to Management Analyst
Public Works		-	Reclass (2) Payroll Specialists from PCEA to PMMCEA (Confidential)
Water Resources		-	Reclassify (1) Senior Storekeeper to Program Assistant
Water Resources		1.00	Add (1) Water Resources Manager
Water Resources		-	Reclassify (1) Water Production Supvr to Water Prod and Trtmnt Ops Supvr
Water Resources		-	Reclassify (1) Wstetwater Collct Systems Supvr to Dist&Wstetwater Ops Supvr
Water Resources		-	Ttitle Change (1) Water Res Operations Mgr to Water Operations Manager
2018-19 Proposed Staffing		559.60	Proposed Staffing Levels at July 1, 2017

Table 6

RECOMMENDED SUPPLEMENTAL BUDGET REQUEST

GENERAL FUND

Each year the budget includes supplemental budget recommendations for staffing, service, and equipment requests. Items listed in the Table 7 below have been identified as priority projects; however, staff is still working to identify funding sources. The most significant items listed are 12 black and white patrol vehicles which are needed to maintain the Police Department's fleet per the City's Fleet management policy. Fortunately, the General Fund was able to finance 16 new vehicles in FY 2018 with a three year capital lease.

City Manager Recommended Supplemental Budget Requests for Future Funding		
Fund / Department / Expenditure Description		Cost
General Fund		
Neighborhood Services	Staff computers at recreation sites (1 per site)	19,300
Neighborhood Services	Computer labs at each community center (7 sites remaining)	59,500
Library	Library Conference Room Carpet Cleaning	20,000
Library	Library Conference Room Carpet Furniture	20,000
Human Resources	Employee Recognition Program	150,000
Police	Purchase (16) new/replacement police Specialty and/or Black & White vehicles & Builds	851,171
Total General Fund		1,119,971

Table 7

OTHER FUNDS

Table 8 includes supplemental budget recommendations for service and equipment that have been approved by the City Manager and are included in the FY 2019 Proposed Budget.

Other Funds - Supplemental Request		
Item	Division	Cost
Citywide Zoning Code Update	CIP Planning	67,661
Ford Transit Connect Cargo Van	Equipment Maintenance (Fleet)	37,500
Wash Rig	Water Resources	25,000
Generator	Water Resources	115,000
Safety System Harness	Water Resources	7,000
Light Tower	Water Resources	10,000
Message Board	Water Resources	16,000
Vehicle GPS	Water Resources	10,000
Compressor Trailer	Water Resources	64,000
Vac Trailer	Water Resources	42,000
Polymer Pumps (2)	Water Resources	19,000
Containment Building	Water Resources	21,000
Vehicle GPS	Water Resources / Sewer	3,100
2003 GMC 2500 Crew Cab Long Bed Truck (Repl Unit #20-558)	Traffic Offender Fund	65,000
Total Other Funds		\$502,261
Laserfiche License	Water Resources	\$45,000
Seismic Valves	Water Resources	\$75,300
2 Compressor Trailers	Water Resources	\$63,960
1/2 Ton Pick-Up Truck - Unit# 82014	Water Resources	\$32,431
Chlorine Tanks	Water Resources	\$20,000
CNG-Power Combo Vacuum Jetter Truck	Water Resources / Sewer	\$468,624
Total Carryover Requests from FY 2018		\$705,315
Total Other Funds Supplemental Requests		1,207,576

Table 8

NON-RECOMMENDED SUPPLEMENTAL BUDGET REQUEST

As the City struggles to balance the budget services and staffing in some areas have been cut to a point of marginal service delivery. There is also a large majority of Pomona's public

infrastructure that was constructed decades ago and now requires either major renovations or increased frequency of repair and maintenance. A partial list of unmet needs follows:

- | | |
|---|--|
| ➤ Additional Police Resources | ➤ Pool Refurbishment |
| ➤ Reconfiguration of Fire Services – (2 – 3 man crew) | ➤ Turf Replacement at Veterans' Park |
| ➤ New Sidewalk / Streetlights | ➤ Other Deferred Maintenance of Current Infrastructure/ Facilities |
| ➤ Additional Recreation Program Funding | ➤ Corridor Specific Plan Improvements |
| ➤ Additional Library Hours and Staff | ➤ Other Post-Employment Benefits (OPEB) – accrued liability |
| ➤ Technology upgrades | ➤ Compliance Reserve Policy |
| ➤ Street Maintenance | |
| ➤ Park Restroom Renovations | |
| ➤ Park Equipment Replacement | |

CAPITAL IMPROVEMENT PROGRAM

CIP projects include building, upgrading or replacing City infrastructure such as residential and arterial streets, bridges, traffic signals, storm drain systems, parks, and public facilities. The separate five-year CIP document addresses in greater detail specific projects to be undertaken both short and long term. The capital plan includes a total of 137 projects, totaling approximately \$418.9M, of which \$178.7M is funded. The \$178.7M will be funded from prior year appropriations totaling \$168.9M and \$9.8M from proposed FY 2019 appropriations.

HIGHLIGHTS FROM URBAN FUTURES (UFI) REPORT

OVERVIEW

In preparing the forecast and analysis, UFI worked with City staff in the Finance Department, Human Resources Department, and others. UFI relied on the City's historical data, published documents from the City, CalPERS, the City's actuary for other post-employment benefits (OPEB), and the City's labor costing to develop projections. This data was used to construct a long-range budget model tailored to the City's specific financial situation.

Key assumptions in UFI's baseline forecast were: revenue and expense assumptions were considered moderate (simply trend-based predictions or static), it does not assume any recessionary period over the next ten years, assumes no salary increases or benefit adjustments in the next ten years, and finally it incorporates six years of projected costs provided by California Public Employee Retirement System (PERS) but assumes a flattening or stabilizing of pension costs for the final four years of the forecast.

When you eliminate the use of one-time monies, the proposed FY 2019 budget shows the City's General Fund will experience budget insolvency and an annual operating deficit \$8 to \$10 million over the next ten years. The City is facing long-term sustained budget insolvency that will quickly deplete its \$16 million in reserves within the next two years. The City has very little time to act and a significant structural budget deficit to fix.

RECOMMENDATIONS

There were three recommendations provided in UFI's Fiscal Sustainability Report:

1. **OPTION #1** Increase revenues by \$8 to \$10M annually through local tax options such as a transaction and use tax(TUT), a parcel tax, and to extend the Utility User Tax (UUT) to include sewer and refuse.

- a. **TUT** – For the City, a TUT would be added to the current 9.5% sales tax applicable throughout Los Angeles County. Currently, fifteen cities in Los Angeles County (mostly in the southern and eastern areas) have adopted a TUT of either $\frac{1}{2}$ or $\frac{3}{4}$ percent, for a total sales tax rate of 10% to 10.25%. The closest cities in Los Angeles County with an adopted TUT are El Monte and South El Monte.
 - i. Under current law, the maximum amount the City can adopt for a TUT is $\frac{3}{4}$ percent, which would create a total sales tax rate in Pomona of 10.25%. At this rate, the City's sales tax consultant provided a very rough estimate that the TUT could potentially generate additional new revenue of approximately \$7 to \$10 million annually. The TUT measure would need to be approved by majority of the voters.
 - b. **Parcel Tax** – The Los Angeles County Assessor's data shows the City has approximately 31,300 taxable parcels. If a flat per-parcel rate of \$100 was adopted, the revenue derived would be approximately \$3,000,000 after the costs of the County Assessor's administration and distribution (estimated at 3.00%). To support on-going basic level services, such as public safety, the City may want to consider a floating rate which keeps pace with Proposition 13 limits and would supplement property tax revenues when Proposition 8 reductions are implemented. To fully address the City's budget insolvency, the per-parcel flat rate would likely need to be \$250 to \$300 per parcel, unless combined with other measure or actions.
 - c. **UUT** –The City currently has a 9% tax on all utilities, except refuse and sewer. If the current UUT was extended to the City's refuse and sewer services, the estimated additional revenue to the General Fund would be approximately \$1.1 million annually. To fully address the City's budget insolvency, the extension of the UUT would need to be combined with other measure or actions.
2. **OPTION #2 Reduce General Fund operating cost by \$8 to \$10M annually by various measures such as: restructuring the delivery model of one or more General Fund Services, seek or impose labor cost concessions, or permanently reduce General Fund Staffing and Municipal Service Levels.**
- a. **Restructuring Delivery Model of One or More General Fund Services**
 - i. Consolidating or Regionalizing service delivery possibly in the areas of parks and recreation, human services, code enforcement and library services
 - ii. Contract with private sector (UFI's analysis indicated this option would only work if the City was successful in contracting out the operations of Neighborhood Services, Development Services and Public Works for less than \$4M and that would only create a savings of \$1M)
 - b. **Seek or Impose Labor Cost Concessions**
 - c. **Permanently Reduce General Fund Staffing and Municipal Service Levels through the use of:**

- i. Priority Based Budgeting which begins with total revenue available to the City, identifies core community needs and priorities, evaluates the relative benefit/value of each municipal service, and creates strong funding for priority services, while reducing or potentially eliminating lower-value services.
 - ii. Create a scope of required cuts that could include reducing or eliminating: neighborhood services, parks, community facilities, fire stations (requires renegotiations with County Fire), gang suppression units, major crime units, library services, code enforcement, and internal service funds such IT or vehicle maintenance.
3. OPTION #3 Implement a combination of Items #1 & #2

SUMMARY

In order to achieve fiscal stability and financial sustainability for the General Fund, the City will need to take bold, decisive action to implement changes. The required actions and changes, especially those required to restore General Fund budget solvency, must be commenced immediately. The City has less than two years to correct the General Fund's budget insolvency before it the General Fund faces potential cash insolvency. The recommendations in UFI's report can assist the City in realigning General Fund annual revenues with annual expenditures to restore budget solvency and to establish a basic level of fiscal stability.

CONCLUSION

Over the last ten years, City Staff has met the challenge of getting the City through a great economic downturn, rebuilding General Fund reserve balances, operating a full service city with limited resources, generating new revenue sources where possible, making budget cuts as needed and hired a Financial Advisor to assist the City in creating a sustainability plan. However, to continue meeting the needs of this growing community and to maintain current facilities and infrastructure there remains a need for further resources. While the budget does not propose, any fee increases, the City must consider moving forward with recommendations from UFI that will secure ongoing revenue sources and streamline the budget where needed.

ATTACHMENTS

1. Proposed FY 2019 Citywide Operating Budget
2. Proposed Capital Improvement Program Budget
3. Urban Futures Inc. (UFI) Fiscal Stability and Financial Sustainability Report for the General Fund