



# CITY OF POMONA COUNCIL REPORT

November 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 Unaudited Year-End Overview, Fiscal Year 2018-19 General Fund 1<sup>st</sup> Quarter Budget Review, and Adoption of a Resolution Amending the Fiscal Year 2018-19 Operating Budget and Personnel Actions**

## OVERVIEW

**Recommendation** – It is recommended that the City Council:

1. Receive and file the FY 2017-2018 Unaudited Year-End Overview;
2. Review the Fiscal Year (FY) 2018-19 General Fund 1<sup>st</sup> Quarter Budget Report;
3. Adopt a resolution amending the FY 2018-19 Operating Budget (As detailed in Table 1); and
4. Adopt personnel actions as reflected herein.

**Fiscal Impact** – The adoption of the attached resolution will increase the FY 2018-19 General Fund appropriations and revenue estimates by \$116,413. The net impact of these adjustments is zero to the General Fund budget. In addition, this action will increase FY 2018-19 Non-General Fund Operating appropriations by \$55,245 and increase estimated revenues by \$245 as reflected in Table 1 and the Resolution (Attachment 1).

Table 1 - Fiscal Year 2018-19 1<sup>st</sup> Quarter Request for Appropriation

General Fund	Revenue Estimate	Appropriation Changes
Bond Refunding Savings (101-101-59900-00000)	(\$51,413)	\$51,413
LA TRAP Police (101-2022-51039-00000)	(\$65,000)	\$65,000
<b>Total General Fund Appropriations</b>	<b>(\$116,413)</b>	<b>\$116,413</b>
Non General Funds	Revenue Estimate	Appropriation Changes
Standards and Training for Corrections (STC) Grant (215-2090-51030-58679)	(\$245)	\$245
Asset Forfeiture Fund (260-2090-52425-51207)		\$25,000
Asset Forfeiture Fund (260-2090-52080-51207)		\$30,000
<b>Total Non General Fund Appropriations</b>	<b>(\$245)</b>	<b>\$55,245</b>
<b>Total Appropriations</b>	<b>(\$116,658)</b>	<b>\$171,658</b>

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**Previous Related Action** – City Council approved the Budget Preparation Calendar, Guiding Principles and Process for the FY 2018-19 on November 20, 2017. City Council adopted the FY 2018-19 Operating Budget, Housing Authority Budget, and the Five-Year Capital Improvement Program on June 4, 2018, with amendments to the General Fund operating budget approved on June 18, 2018, July 2, 2018, August 6, 2018, September 10, 2018, September 18, 2018 and October 15, 2018.

## **EXECUTIVE SUMMARY**

This report contains Fiscal Year (FY) 2017-18 Unaudited Year-End Overview and a review of FY 2018-19 General Fund 1<sup>st</sup> Quarter Budget, which is 25% of the year complete. General Fund revenues are 11% of projections and expenditures are 23%, as of September 2018. While actual receipts for the General Fund are only at 11% or \$11.2M, they are in line overall with prior year actuals during this same time period. Actual General Fund expenditures are 23% or \$25M, which is in-line with the current FY 2018-19 Budget.

This report also includes a request for two General Fund appropriations with corresponding General Fund Revenue adjustments, a position reclassification to the City Authorized staffing (net zero change to the General Fund Budget), and three Non General Fund appropriation requests. This report does not contain any additional impacts to the current FY 2018-19 General Fund Budget deficit of \$4.9M.

## **DISCUSSION**

### **GENERAL FUND FY 2017-18 UNAUDITED YEAR-END OVERVIEW**

Based on the unaudited figures to date, the FY 2017-18 General Fund revenues will end at 102% of budget; and expenditures are on track to end at 99% of budget, which creates a preliminary net surplus of \$826,814. See Table 2.

**Table 2 — UNAUDITED Fiscal Year 2017-18 General Fund Summary**

	<b>2017-2018 AMENDED BUDGET</b>	<b>2017-2018 ACTUALS TO DATE</b>	<b>% ACTUALS/ BUDGET</b>	<b>2017-2018 YEAR END ESTIMATE</b>
Total Revenue	97,067,180	98,524,505	102%	97,582,618
Total Expense	98,286,979	97,697,691	99%	97,097,239
<b>Net</b>	<b>(1,219,799)</b>	<b>826,814</b>		<b>485,379</b>

\*Table 2 is unaudited figures ending June 30, 2018, approximately 90% complete.

Actual General Fund revenues exceeded expenditures by \$826K due mainly to one-time revenues received in property tax, increased sales tax, \$2M in savings from bond refunding, salary savings due to vacancies and conservative spending in all Departments.

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## **FY 2017-18 GENERAL FUND REVENUES**

As adopted, the City's FY 2017-18 General Fund Revenue Budget reflected \$94.8M in anticipated revenues. With approved budget adjustments the total was amended to \$97,067,180. To date \$98.5M has been received and no other significant sources are forthcoming. Actual revenues for Property Tax, Sales & Use Tax and Other Tax revenues exceeded budget. Utility User Tax is the only large revenue source that came in significantly below budget.

## **FY 2017-18 GENERAL FUND EXPENDITURES**

As adopted, the City's FY 2017-18 General Fund Expenditures Budget reflects \$98.2M in appropriations. With approved budget adjustments the total was amended to \$98,286,979. To date, the preliminary overall expenditures are at \$97.7M, which creates an estimated savings of \$589K. The main contributor to this savings is \$2M in salary savings within the Police Department's budget due to turnover and the cumulative vacancy of full time positions.

## **FY 2017-18 PROJECTED FUND BALANCE**

**Table 2A - Fiscal Year 2017-18 Fund Balance**

<b>General Fund - Fund Balance</b>		
Est. Beginning Fund Balance FY 2018	17,164,873	
Est. Revenues	98,524,505	
Appropriations & Transfers Out	(97,697,691)	
Est. Ending Fund Balance FY 2018	<b>17,991,687</b>	18.4%
Fund Balance per graduated benchmark for FY 2018	13,677,677	14.0%
<b>Overage</b>	<b>4,314,010</b>	
Minimum Fund Balance per policy	<b>16,608,607</b>	17.0%

The projected ending fund balance for FY 2017-18 will be \$4.3M above the FY 2018 benchmark goal of 14% and \$1.3M above the recommended reserve policy of 17%. If the City does not meet the 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.

In accordance with the City's adopted Fiscal Sustainability Policy, (I. General Policy; #6) "One-time revenue sources or unexpected revenues should be placed in reserves and not used for operating expenses. Once the reserve balance exceeds the set policy amount, one-time revenues may be used for one time expenses. If the one-time expense results in ongoing operating costs, funding for the ongoing costs must be determined before the one time funds are allocated." Early indications are the General Fund is projected to exceed the minimum fund balance level of 17%

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as of June 30, 2018. However, the City's audit will not be complete until February 2019. This surplus in General Fund reserves will help offset the projected deficit in FY 2019.

**GENERAL FUND**

**FY 2018-19 FIRST QUARTER REVIEW** – As adopted on June 4, 2018, with additional appropriations approved on June 18, 2018 the General Fund budgeted revenues were \$102.7M and appropriations were \$107.4M, resulting in a deficit of \$4.7M. The General Fund budget has been amended since its adoption, and appropriations exceed revenues by \$4.9M. If the proposed 1<sup>st</sup> Quarter appropriations are approved, then there would be a net zero impact. As noted in Table 3 the General Fund has expended nearly \$13.8M more than it has collected as of September 30, 2018. This negative cash flow is normal due to the timing of tax receipts and is one of the significant reasons that a 17% Fund Balance Reserve is necessary.

**Table 3 - Fiscal Year 2018-19 1<sup>st</sup> Quarter Summary**

2018-19	Adopted	Amendments *	1st Quarter	Adjusted Total	As of Sep 30' 18	% Rec'd/ Exp'd
			Proposed Amendments *			
Total Revenue	102,701,164	259,589	116,413	103,077,166	11,176,709	11%
Total Expense	107,394,313	539,274	116,413	108,050,000	24,955,894	23%
Net	(4,693,149)	(279,685)	-	(4,972,834)	(13,779,185)	

**REVENUES**

It may appear General Fund revenues are not performing as projected (11% received at 25% of the year); the reason is many revenue sources received in July and August are accrued back to the prior fiscal year; while other revenues are received on a quarterly or bi-annual basis in late December, January, or spring. Because of this, actual year-end results are difficult to predict at this time; however, as reflected in the Table 4, General Fund revenues in FY 2018-19 are coming in comparable to where they were at the same time in FY 2017-18. "All Other Sources" is slightly higher compared to this time last year due to Fees, Permits Licenses, and Other Miscellaneous categories trending higher.

**Table 4 - Fiscal Year 2018-19 1<sup>st</sup> Quarter Revenue Summary**

	2017-2018 ACTUALS TO DATE	2017-2018 1st Quarter	% ACTUALS/ BUDGET	2018-2019 ADOPTED BUDGET	2018-2019 1st Quarter	% ACTUALS/ BUDGET
All Property Taxes	34,927,706	562,461	2%	38,964,732	790,365	2%
All Sales & Use Tax	18,913,339	1,774,870	9%	18,754,400	1,439,025	8%
All Utility Tax	16,455,057	3,352,241	20%	17,687,803	3,580,385	20%
All Other Taxes	14,462,116	1,965,565	14%	13,072,900	1,701,991	13%
All Other Sources	13,766,287	2,576,686	19%	14,480,918	3,664,943	25%
Total Revenue	98,524,505	10,231,823	10%	102,960,753	11,176,709	11%

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Tax revenues make up 86% of the General Fund budgeted revenue and therefore merit a more detailed discussion as presented below:

Property Taxes – Typically, a large portion of the property tax revenues is received during the months of November through May. In addition, due to various State actions (i.e. VLF Swap), the City receives “In Lieu” property tax twice a year in January and June. Based on the revenues received through September 30, 2018, the actuals are slightly higher this year due to the one-time sale of Successor Agency Property. There is \$3M in one-time revenues that were included in the FY 2018-19 Budget and are expected to be received throughout the fiscal year.

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 \$18.8M. This source of revenue is typically responsive to economic circumstances. Based on the revenues received through September 30, 2018, the total of these two sales tax revenue sources are about \$300K lower than last year at this time. After meeting with the City’s Sales Tax consultant (HDL), City staff was informed of significant Sales tax reporting errors due to the changeover to California Department of Tax and Fee Administration’s (CDTFA) new tax allocation and reporting software. Some sales tax remittances are not being included at this time and CDTFA has remitted revenue based on estimates and is working to resolve this ongoing issue, which is impacting sales tax revenues for all cities Statewide.

Utility Users Tax (UUT) – Currently budgeted at \$17.7M, utility user tax revenue represents 17% of General Fund revenues. The current amount received of \$3.6M does not represent a full quarter of receipts because revenue received in the July and August is accrued back to FY 2017-18. Based on a comparison of last year’s first quarter receipts to the same quarter this year, staff is not recommending a change to the revenue estimate.

Other Taxes – Other taxes include Business Licenses, Transient Occupancy Tax, Property Transfer Tax, and Franchise Fees, which represent 13% of total General Fund revenues. While receipts for Property Transfer Tax appears higher, Franchise Fees are a large part of this category and have been reduced. Base on a change in methodology, the Franchise Fee for Water/Sewer/Refuse is now reflected in the “All Other Sources” category, which is slightly higher this year.

Other Sources – All Other Sources include Fees, Permits, Licenses, and Other Miscellaneous categories and are all higher than this time last year. Most other areas are in-line with the prior year based on a comparison of last year’s first quarter receipts to the same quarter this year. Staff is not recommending a change to the revenue estimate at this time.

Summary – In summary, the budgeted revenues from tax related items discussed above represent over 86% of the City’s General Fund. Although it is still early in the year, and knowledge of

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significant revenue indicators has not yet been received, prior year actuals and current receipts indicate the City is on pace to obtain its revenue budget for the current year.

The General Fund revised revenue estimates (each corresponds with an appropriation) are discussed in more detail beginning on page 8. As always, staff will carefully monitor events for impacts to the forecast presented herein, and other related developments as they may come to light, and will report to the City Council upon receipt of substantive and/or noteworthy information.

## EXPENDITURES

As of September 30, 2018 (25% of the fiscal year) overall General Fund appropriations are 23% expended. All departments were within an acceptable range of year-to-date expenditures in relation to the total appropriations for the year. The following tables provide a breakdown of the FY 2018-19 appropriations and 1<sup>st</sup> Quarter Expenditures first by Category (Table 5) and then by Department (Table 6). It should be noted the Amended Budget column includes all appropriations approved by City Council through October 2018.

Table 5 - Fiscal Year 2018-19 1<sup>st</sup> Quarter Expenditure Summary

By Category	2018-2019 AMENDED BUDGET	% OF TOTAL	2018-2019 1st Quarter	% Expended
Personnel	58,775,663	62%	14,087,037	24%
Controllable Expenses	7,397,176	8%	1,155,886	16%
Required Expenses	30,473,556	32%	7,122,471	23%
Allocation and Utilities	8,371,046	9%	1,940,033	23%
Recovered Costs	-1,461,880	-2%	(365,470)	25%
Capital	100,528	0%	0	0%
Transfers to Other Funds	4,277,498	4%	1,015,937	24%
<b>Total Expense</b>	<b>107,933,587</b>		<b>24,955,894</b>	<b>23%</b>

Table 6 - Fiscal Year 2018-19 1<sup>st</sup> Quarter Department Summary

	2018-2019 AMENDED BUDGET	% OF TOTAL	2018-2019 1st Quarter	% Expended
All General Services	2,073,807	2%	341,249	16%
All Recovered Costs	-1,461,880	-2%	(365,470)	25%
All Mayor & Council	489,996	1%	113,173	23%
All City Clerk	690,977	1%	139,320	20%
All City Attorney	1,490,303	2%	196,865	13%
All Human Resources	1,152,762	1%	275,712	24%
All Finance	2,139,154	2%	506,234	24%
All City Administration	939,899	1%	223,542	24%
All Development Services	4,683,167	5%	1,031,187	22%
All Police	57,362,849	60%	13,510,538	24%
All Fire	26,941,624	28%	6,735,405	25%
All Public Works	6,944,251	7%	1,234,660	18%
All Neighborhood Services	3,426,306	4%	765,739	22%
All Library	1,060,372	1%	247,740	23%
<b>Total Expense</b>	<b>107,933,587</b>		<b>24,955,894</b>	<b>23%</b>

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As reflected in Table 6, all Departments have expended 25% or less of budget at 1st Quarter and the City's expenditures are on track to end the fiscal year within the amended General Fund budget.

**FY 2018-19 BUDGET – 1st Quarter Appropriations to Date**

The FY 2018-19 Budget was adopted on June 4, 2018 with an additional appropriation adopted on June 18, 2018, to finalize the Adopted Budget amount with a deficit of \$4.7M. Additional budget amendments impacting the General Fund approved by the City Council after July 1, 2018 are listed below. The total budget deficit to date is \$4.9M:

- \$234K appropriation for Council approved one-time payments in FY 2018-19 in accordance with respective MOUs for Sworn Personnel within PPOA
- \$22K appropriation for the installation of two 4-ton Air Conditioner (AC) Units at the Ralph Welch Community Center to replace units that were vandalized
- \$31K appropriation and revenue estimate for setting the rate of compensation for Police services during the 2018 Los Angeles County Fair
- \$27.5K appropriation and revenue estimate for accepting donation from Pomona Community Foundation (PCF) from local donors to fund annual service contract for the voluntary data base of the supportive service to the Pomona Community, known as “Purple Binder.”
- \$176K appropriation and revenue estimate to accept funding from Pomona Unfiled School District to fund a Community School Resources Officer (CSRO), which includes the addition of 1.00 sworn Police Officer to the City’s authorized staffing.
- \$47K appropriation for the costs associated with the implementation plan and statement of intent required by the Public Utilities Code Section 366.2(c)(3) to establish a Community Choice Aggregation (CCA) Program.
- \$24.5K donation (revenue only) from Downtown Property Owner’s Association (DPOA) for additional police services.

**GENERAL FUND APPROPRIATION REQUESTS - FY 2018-19**

Recommended items to be considered in the FY 2018-19 1<sup>st</sup> Quarter Report includes:

- +51,413 Bond Refunding Account
  - Series AU/AV and Certificate of Participation (COP) Bonds for Series AR were successfully refunded on June 30, 2017, effective July 2017 and generated one-

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time budget savings of \$2.0M in FY 2017-18. There were remaining funds of \$51,413 available in the debt service fund that needed to be transferred back into the General Fund prior to closing of the debt service fund. Staff is requesting to appropriate this amount to the Contingency Account #101-0101-59900 and reimburse the General Fund General Services Department. This General Fund action is included in the Resolution (Attachment 1).

- +65,000 The Los Angeles Taskforce for Regional Auto-theft Prevention (LA TRAP)
  - The LA TRAP program was approved by the City Council on June 18, 2018. The program increased Police sworn authorized staffing to include one (1) Police Investigator position that is completely reimbursed by the County. The City has recently learned that the County will also reimburse overtime expenses. Therefore, the Police Department is requesting an appropriation of \$65,000 for the sworn overtime account line with a corresponding revenue estimate to cover the costs. This General Fund action is included in the Resolution (Attachment 1).
- +10,608 Reclassification of 1.00 Community Service Officer II to Public Information Specialist I/II
  - Increasing the Police Department's trust and legitimacy in the eyes of the public is a high priority of the Police Chief and command staff. A single position assigned full-time to coordinate information by working directly with the news media and various social media platforms allows the department to reach a wide audience. The addition of a Public Information Specialist I/II adds broad multi-media outreach to the in-person engagement efforts provided by the Community Service Officer positions in the Crime Prevention division. Appropriate engagement of the news media and social media platforms significantly increase the reach of the Police Department to all community stakeholders by making the best use of outlets to disseminate timely information and respond to citizen inquiries most efficiently. The current incumbent in the CSO II position recommended for reclassification has expertly established a positive social media presence for the department and acts as the Department's point of contact for all media inquiries. The Public Information Specialist I/II position more accurately describes the duties of the position. The increase in staffing cost for this reclassification will be funded with a reduction in Police hourly account. This action is included in the Resolutions (Attachments 2 and 3 with their respective Exhibits).

These three General Fund actions are cost neutral and will not have a change nor will they reduce or eliminate the current year deficit.

## **NON GENERAL FUND**

### **NON GENERAL FUND APPROPRIATION REQUESTS - FY 2018-19**



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Standards and Training for Corrections (STC) Grant – The originally anticipated budget for the FY 2018-19 STC funds for civilian jail personnel to receive their annual required training was adopted at \$9,000. Training staff was informed the actual amount that has been allocated to Pomona is \$9,245 for FY 2018-19. Therefore, the additional \$245 needs to be appropriated with a corresponding revenue estimate to coincide with the total State allocation.

Asset Forfeiture – With the purchase of (3) new/replacement marked Police vehicles with SLESA funds, no funding had been identified to pay for the equipment outfit of those vehicles. Therefore an appropriation of \$25,000 is requested from available fund balance in the Asset Forfeiture fund to complete this project.

Asset Forfeiture – Police Department staff will be attending two Peace Officer Memorials during 2019; one in Washington, DC and the other in Sacramento, CA. Officer Gregory Casillas will be honored at both services and his name etched in the memorial walls. The Police Department is requesting an appropriation of \$30,000 for travel expenses to cover costs for staff and honor guard personnel to attend and participate in the services.

These three Non-General Fund actions are included in the Resolution (Attachment1) of the report.

## CONCLUSION

As stated in the Executive Summary, the purpose of this report is to give the City Council an overview of FY 2017-18 Unaudited actuals at this time, and a detailed 1<sup>st</sup> Quarter financial update for FY 2018-19. The three General Fund budget adjustment recommendations as included herein, if approved, will result in no net change to the FY 2018-19 \$4.9M deficit.

To address the FY 2018-19 budgeted deficit, City Staff is exploring the sale of City cell-site leases which would produce one-time revenues sources for the General Fund. Additionally, all City Departments will continue to operate within budget while carefully monitoring revenues related to their areas, and all revenues will need to come in on target or above projections before the year ending June 30, 2019.

On November 6<sup>th</sup> 2018, Pomona residents voted to approve Sales Tax Measure PG and Measure PC. Measure PG is a three-quarter cent sales tax that will generate approximately \$12 million annually to preserve our public safety services, address homelessness and maintain Pomona's long-term financial stability. This new revenue source will help the City sustain current services and position the City financially to address increasing retirement contribution rates, continued rise in retiree health costs, debt service requirements, formula increases provided through 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 decreases in funding from certain Special Revenue Funds.

Receipt of this revenue source in FY 2018-19 will not be a full fiscal year allotment. The

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effective date for the measure will be April 1, 2019. The City will likely receive its first advance from CDTFA by June 2019. Staff will discuss revised sales tax projections during the FY 2018-19 General Fund Mid-Year Budget Review, and will bring forward any necessary budget recommendations at that time as well.

**Attachments:**

- 1) City Council Resolution amending the Fiscal Year 2018-2019 City of Pomona Operating Budget.
- 2) City Council Resolution amending Appendix B Memorandum of Understanding between the City of Pomona and the Pomona Mid-Management Confidential Employees Association; With Exhibit A.
- 3) City Council Resolution Amending the City of Pomona's Positions and Salary Schedule pursuant to the California Code of Regulations (CCR) Title 2, Section 570. 5 and Amendments to CCR Section 571, Subdivision (b); With Exhibit A.