



June 24, 2019

Mayor Clint Garman
Vice Mayor Rick Araiza
Council Member Jenny Crosswhite
Council Member Carlos Juarez
Council Member Andy Sobel

Subject: Fiscal Year 2019/20 Final Budget

Dear Council:

I am pleased to submit for your consideration the Final Fiscal Year 2019/20 Operating and Capital budgets for the City of Santa Paula. The budget document contains revenue and expenditure information for all City programs, capital improvement projects and services that will be provided to the Santa Paula community.

The General Fund Budget (General Fund 100 and Measure T Fund 104) reflects an increase in overall revenue but there is also an increase in expenditures particularly for salary and benefits for nearly all employees. A decrease in a variety of categories including projected sales tax (\$100,000) and franchise fees (\$62,570), as well as increases in other categories such as property taxes (\$231,048), and charges for services (\$816,900), totaled a net increase of \$758,081 over last year's revenues.

The 2019/20 Fiscal Year General Fund Operating Budget (this includes Measure T) is projected to be balanced with expenditures of \$17,246,389 being financed with total resources of \$17,047,200, with existing fund balance covering the shortfall. The current unrestricted General Fund Reserve (Fund 101) balance of \$735,443 is anticipated to increase by approximately \$650,000 through the sale of City property, potentially increasing the total reserve balance to \$1,385,000 or 9.8% of the Proposed Operating General Fund Budget, a significant improvement over the 4.5% of operating expenses last fiscal year.

The Fiscal Year 2019/20 citywide budget for all funds includes expenditures of \$48,241,324 and revenues of \$41,059,081. Excess revenues in special funds are reserved for future specific use as required by the legislation or contractual obligations of the fund. There are additional budgets for the Developer Impact Funds (DIF) with revenue subject to project completion.

MEASURE T:

The Measure T revenue and expenditures are accounted for in a separate fund. Staff is projecting Fiscal Year 2019/20 Measure T revenue of \$3.1 million. The FY 2019/20 revenue projections have come in considerably higher than FY 2018/2019 projections. When compared to the regular 1% sales tax, there is a larger administrative charge taken prior to remittance to the City. Over the last year there is an increase in auto sales which is a factor in the increased Measure T funds. The additional 1% follows the buyer’s City of residence. In other words, if you buy a car outside the City limits, you are paying that City’s 1% point of sales tax and then paying Santa Paula’s 1% Measure T tax.

The Measure T Committee submitted their formal recommendations to the City Council on June 5, 2019 and they recommended the following percentages of Measure T monies be allocated to the following areas for FY 2019/20:

Police	\$1,705,000	55%
Parks, Recreation and Youth Services	\$ 465,000	15%
Street Improvements	\$ 930,000	30%
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GRAND TOTAL	\$3,100,000	100%

It is my recommendation that the Measure T Committee recommendations be accepted and assigned to the program areas as noted above, with additional funding provided to the Police Department to complete the request of \$98,500 for S.W.A.T. team equipment such as vests. The Measure T fund’s existing reserve will cover the additional appropriation.

The Measure T fund balance, not including restricted funds comprised of \$1 million for the police station remodel and expansion is estimated to be approximately \$730,000 at the end of the next fiscal year, June 30, 2019. The Measure T Committee has recommended the available fund balance be set aside as reserves for one time expenditures related to Measure T activities.

There is a special section of the budget entitled Capital Improvement Projects and lists projects by category and funding source. The Capital Improvement Projects (CIP) proposed budget for FY2019/20 is \$7,755,900. The five year projected expenses for CIP through 2023/24 is \$58,906,900.

Citywide changes:

A summary of City wide revenues and expenditures can be found on page 24. Below are items that affect the budget throughout the departments and divisions:

- Beginning July 1, 2019, all employees will pay their employee portion of PERS retirement which will save the City a considerable amount of money in retirement costs (approximately \$78,000 paid in FY2018/19).
- The unfunded liability amount increased by approximately \$285,000.
- There is a citywide employee scheduled salary increase due to labor agreements.

New Positions:

There is a net of approximately zero new full-time positions being recommended in this budget. There are some reclassifications that are being recommended to better reflect the responsibility and authority that employees need to be successful on a daily basis. The recommended changes are:

Personnel Changes

<u>Un-fund</u>	<u>Fund</u>	<u>Net Impact</u>
• Equipment Maintenance Leadworker	➔ • Fleet Supervisor*	3,000
• Street Maintenance Leadworker	➔ • Streets Supervisor*^	22,000
• Administrative Analyst I	➔ • Administrative Analyst II*	4,500
• PW Technician (part-time)	• Administrative Analyst I ^	58,000
• PW Technician (part-time)	• Engineering Technician I ^	60,000
• Public Works Superintendent	➔ • Water Operations Superintendent	25,000
• Facilities Maintenance Leadworker	➔ • Facility Maintenance Supervisor*	22,000
• Customer Services Representative	➔ • Administrative Assistant I*	4,000
• Assistant Finance Director	➔ • Accountant	(33,000)
• Purchasing Agent	➔ • Accountant	(12,000)
• Police Officer		(124,000)
• Building Inspector II	• Permit Technician	3,000

Critical Policy and Management Issues:

Street Repair and Maintenance: The City Council and the community are well aware that many of our streets are in need of major rehabilitation. SB 1 approved by the State Legislature in 2016 and upheld by the voters in 2018 generates approximately \$500,000 annually. Federal and State Excise taxes (HUTA) will generate \$789,335 annually. Measure T recommendations for FY 19/20 will generate \$930,000 annually. These combined funds will allow the City to rehabilitate a number of streets (Areas A,B and C) and perform Citywide Digouts all in FY 2019/20.

Public Safety: The Police Department will add four new sworn officers to patrol by December of 2019. Two other police officer positions will also be available for shifts this year. This will allow for more concentrated efforts to deal with violent and property crimes and allow for some concentrated efforts to deal with homelessness. A Community Services Officer was added to the budget during this fiscal year and has greatly assisted the patrol officers and police administration with administrative tasks that previously had to be done by the patrol officers and other police staff.

Sustainable Water and Sewer Programs: Staff plans to continue the water/sewer rate study in order to fund additional needed infrastructure projects and increasing operating costs. The study will be completed in fiscal year 2019/20.

Santa Paula Beautiful: This project designed to beautify downtown recommends \$20,000 for maintaining the flower boxes along Main Street. This is budgeted in Grounds Maintenance, Department 1532.

Grant Opportunities: Staff recommends funding \$35,000 to continue contracting with grant writing professionals to assist the City with new opportunities for grant funding through the passage of Proposition 68 (\$4.1 billion Parks and Water Bond) to specifically assist disadvantaged communities. There is a federal grant that can assist in the funding of the Regional Sports Park at East Area 1 (Creek Sports Park) and Homeless grants under the State budget for 2019/20. There are also federal highway grants. Any costs of grant writing that can be funded through the grants awarded will be used first to pay for consultants.

Capital Improvement Program (CIP): The Capital Improvement Projects proposed for 2019/20 are summarized in the following table. The summary provides a brief overview of appropriations needed for this fiscal year. In total there are 5 street improvement projects, 20 sewer projects, 11 water projects and 5 buildings and grounds projects totaling \$7,755,900.

<u>Type</u>	<u>Total</u>
Buildings	\$ 480,000
Sewer	\$ 3,517,000
Streets	\$ 1,688,900
Water	\$ 2,070,000
TOTAL	\$7,755,900

Concluding Comments:

While the budget is balanced there remain some significant challenges for the City in achieving the goal of accounting for the full cost of doing business. The City does not have a fleet replacement fund, facilities replacement fund, or a trust fund for retirement or retiree health care costs. This means that any request for a new vehicle or major capital repairs needed for buildings or any increased costs for retirement or health care must come from the next single year operating budget which has a significant impact on all other parts of the budget.

The five-year financial forecast does point to some challenges for balancing the General Fund. The continued rise in costs of retirement and health care will be a challenge for the City. Many cities have started a trust fund for both retirement and health care costs. This allows these cities to pay for retirement and health care increased costs from these trust funds and if the trust funds are large enough to pre-fund retirement costs. This will make it much easier to balance future budgets as single year operating budgets do not feel the full impact of increased costs for retirement and health care costs. It is recommended that if revenues improve with development, as anticipated, that the City create separate health care and retirement trust funds to safeguard against rising costs of retirement and health care benefits all full time employees receive.

The five-year outlook also has some very bright spots. East Area 1 is well underway and by the end of FY 2019/20 the developers believe there will be 200 homes built and ready to occupy. Two other housing projects will add 55 new homes in the next several years. Property tax revenues (assessed at current market value) for all new homes occupied and development impact fees and permit fees will increase over the next seven to ten years. In addition, East Area 2 will begin commercial development adding sales tax revenues and newly assessed property tax rates to the City.

The budget is balanced and there will be a larger unrestricted reserve. However, it should be noted that the unrestricted reserve will only be 9.8% of general fund expenditures. The statewide healthy cities initiative recommends an unrestricted reserve of fifteen percent.

Acknowledgements:

This document represents the input from citizens, staff and Council. This final budget also has a five-year financial forecast that will be refined each and every year moving forward. This forecast is critical to anticipating longer term financial challenges and being able to adjust to anticipated future challenges early on to keep the City of stable financial ground and to avoid structural deficits over the longer term.

This approach reflects the City Council's commitment for future fiscal sustainability and is in keeping with the adopted Strategic Goals and Policies.

The proposed budget has been developed and assembled by the City's budget team under the direction of City Manager, Michael Rock, Finance Director, Christy Ramirez, (and the entire staff of the Finance Department), City Treasurer, Sandra Easley, Lorena Alvarez, Human Resources Manager and Ikani Taumoepeau, Assistant City Manager. A special thanks is well deserved for Christy Ramirez, who was hired on April 8th of this year and in two months has done a remarkable job in preparing this budget. It is staff's hope that this new format and presentation of the information is more user friendly for the City Council and the public.

I would also like to thank the entire executive team and their staff for their assistance in helping us to reach our fiscal goals of a balanced budget.

Sincerely,

Michael Rock
City Manager