



City of La Quinta

CITY / SA / HA / FA MEETING DATE: May 19, 2015

AGENDA CATEGORY:

ITEM TITLE: FISCAL YEAR 2015-2016 PROPOSED BUDGET

BUSINESS SESSION:

CONSENT CALENDAR:

STUDY SESSION: 2

PUBLIC HEARING:

RECOMMENDED ACTION:

As this is a study session item, no action is recommended.

EXECUTIVE SUMMARY:

- The Fiscal Year (FY) 2015/2016 Proposed Budget was developed with all departments directed to maintain flat budgets.
- Compared to the FY 2014/2015 Adopted Budget, revenues are approximately 3.7 percent higher and expenditures are approximately 3.9 percent higher.
- The most significant expenditure increases are: \$839,500 in public safety contract costs; \$163,300 to fund employee performance pay and performance steps, and CalPERS' rate increases; and \$148,200 in contract maintenance costs due, in large part, to the State mandate to pay prevailing wages for these services.
- Revenues are expected to exceed expenditures by \$87,200.
- Not included in the proposed budget is \$92,600 to facilitate department staffing needs, \$25,000 to expand the employee wellness program, and a \$7,500 request from the Old Town Artisan Studio for programming assistance.
- The proposed budget is developed with the input of all Department Directors and their key staff. The Executive Team decides on normal operating items

to be included in the proposed budget; however items that involve staffing changes, or new programs are left to the discretion of the City Council.

FISCAL IMPACT:

The proposed budget is balanced with projected General Fund revenues of \$38,611,700 and proposed operational and capital expenditures of \$38,524,500. The net surplus is \$87,200.

BACKGROUND/ANALYSIS

The proposed budget provides the funding necessary to maintain high service levels while ensuring a sound financial structure. It contains financial information for all City funds, which includes the General Fund, Special Revenue Funds, Capital Funds, and Enterprise Funds. Each of these funds serves a specific purpose or governmental accounting requirement, with the General Fund funding public safety and daily operations. As such, the focus of staff's budget efforts is on the General Fund. In developing their budget proposals, Departments were directed to sustain current service levels while maintaining or reducing costs wherever possible. As a result, there are no new programs included in the proposed budget; however, staff has provided a list of supplemental requests for Council consideration.

Proposed General Fund expenditures (including transfers-out from the General Fund to support operations primarily funded by restricted revenues) total \$38,524,500 and projected revenues (including transfers in) total \$38,611,700 leaving a small surplus of \$87,200. After factoring out accounting changes that do not have a net impact on the General Fund, revenues increased by approximately 3.7 percent and expenditures by approximately 3.9 percent, when compared to the FY 2014/2015 Adopted Budget. Compared to the most current FY 2014/2015 estimates (developed in April), projected revenues are flat overall. Compared to the most current (April) estimates, proposed expenditures FY 2015/2016 are approximately \$1.2 million higher, with 70 percent of this increase related to the contract with the Sheriff's Department for law enforcement services.

2015/2106 Revenues Projections

General Fund revenues overall are projected to be \$1.1 million higher than the most current estimate for FY 2014/2015. However, when adjusting for changes in accounting and reporting methods (these are discussed in the specific revenue sections below) revenues overall are flat and equal to FY 2014/2015 revised estimates.

In addition to the accounting and reporting changes, major reasons for variances in various revenue categories are:

- Wide variances in redevelopment property trust fund (RPTTF) residual distributions;
- A one-time spike in sales tax due to the wind down of the “Triple Flip” (see below); and
- Increase in fire tax revenues, which correspond to equal increases in fire expenditures.

Each is discussed in their respective sections below:

Property Tax - property tax in total will be down by approximately 5 percent (\$442,176). The wide variances in RPTTF residual distributions are the main reason for the swings in the property tax category. Also, in FY 2014/2015, the City received the third and final installment of its Property Tax Administration Fund settlement from the County in the amount of \$58,000. Property tax without these variables is projected to grow by 1.5 percent.

Sales Tax - sales tax revenue is projected to grow by 6.7 percent (\$547,300) compared to FY 2014/2015 revised estimates. However, of this amount, only 3.1 percent is expected from actual sales tax growth (\$253,000); the remaining 3.6 percent (\$294,300) is due to the wind down of the “Triple Flip.” The “Triple Flip,” refers to actions the State took in FY 2013/2014 to balance its budget. At that time, the State issued bonds to balance its budget and used .25 percent of the 1 percent sales tax cities received to secure the bonds. The State backfilled this .25 percent to cities with property tax from the Education Revenue Augmentation Fund based on a complicated formula. Now the State has retired the bonds, the Triple Flip is ceasing. In the post Triple Flip world, it is unclear whether the \$294,300 is a one-time adjustment or if the City will continue to receive this additional sales tax revenue.

TOT (Transient Occupancy Tax) – TOT revenue increased by 11 percent from FY 2012/2013 to FY 2013/2014 due primarily to the growing short-term vacation rental program. FY 2015/2016 TOT revenues are expected to level off as compliance grows.

Fire Tax Credit - the amount budgeted in Fire Tax Fund distributions projects an increase of \$672,500. However, this increase directly corresponds to an equal amount of increase in Fire and Emergency Operations expenditures; therefore, there is no net gain/loss to the General Fund.

Successor Agency Reimbursements – the City administers the Successor Agency to the La Quinta Redevelopment Agency; \$300,000 has been budgeted as revenue to reimburse the General Fund for FY 2015/2016 expenses. Total reimbursements are budgeted to be \$200,000 less than FY 2014/2015 amounts, due to a decrease in Successor Agency activities.

Charges for Services, and Licenses and Permits - both of these categories are relatively unchanged from current FY 2014/2015 estimates. Community Development predicts that activity will level off in FY 2015/2016. It is important to remember that many of these revenues are dependent on timing of large projects; if a large project comes forward (or is delayed) these numbers will vary.

Wellness Center – compared to the FY 2014/2015 Adopted Budget, Wellness Center revenues (memberships and facility rentals) have increased by 37 percent. The Wellness Center budget reflects a small increase in part-time staff to accommodate the increased traffic at the center.

2015/2016 Expenditure Budget

In developing their expenditure budgets Departments utilized a “status quo” approach, using the FY 2014/2015 budget and mid-year adjustments as a base for the development of their FY 2015/2016 budgets. After backing out accounting changes that do not have a net impact on the General Fund, expenditure increases totaled 3.9 percent (approximately \$1.3 million). The budget basically reflects the cost of doing business at current service levels. The most significant changes are listed below:

\$ 839,500	Police contract services
\$ 148,200	Increased contract cost (primarily prevailing wage requirements)
\$ 103,300	Employee performance step and pay
\$ 68,900	Staffing transitions
\$ 60,000	CalPERS rate increase
\$ 49,400	miscellaneous net changes
<u>\$ 25,000</u>	Cost allocation study
\$1,294,300	Total increases

- Police contract costs are increasing by 6.2 percent compared to the 2014/2015 Adopted Budget. The City Manager’s Office has worked closely with the Sherriff’s Department to get expenditures to this level without changing service levels.
- Personnel costs across all Departments are increasing by \$163,300. This is a combination of a rate increase in CalPERS rates and employee performance step and pay. While CalPERS rates have increased, the City is starting to see the benefit of implementing a lower tier of benefits for new employees. The maximum impact from the change in benefit formulas will be realized as the natural cycle of staffing transitions occur over time.
- Contract costs have increased in Public Works, Community Development and Park Maintenance in total by \$148,200. A majority of this increase is due to new prevailing wage requirements of contractors doing business with the

City. The increase in Public Works contract inspector costs are attributed to increased private development and capital improvements inspections.

- Staffing transitions/contingency – the guiding principles staff and Council have developed when addressing staffing are:
 - Reward Performance
 - Work within the Class and Compensation Structure
 - Manage PERS increases
 - Ensure job rates reflect market rates

\$68,900 has been budgeted as a contingency for continued execution of these principles.

- As part of the budget preparation process (and especially in developing the CIP) it has become apparent that the City needs to complete a cost allocation study to establish overhead and indirect charges that can be used when seeking reimbursement from other governmental or granting agencies. Accordingly, \$25,000 has been included in the budget for a study. This is a one-time cost that will not be need in the FY 2016/2017 budget.

General Fund CIP Contributions

The City, to date, has maintained a level of General Fund support for CIP projects of approximately \$1.5 million. The proposed FY 2015/2016 contribution maintains this level with the following proposed expenditures:

\$1,000,000 - Citywide pavement management program
\$ 75,000 - Citywide sidewalk improvements
\$ 477,000 - Civic Center turf conversion
\$1,552,000 - Total

When the CIP is presented to the Council, staff will discuss the implications of recently developed rules issued by the Coachella Valley Water District to address the drought situation and recommend funding for additional projects related to this issue.

Other Funds

SilverRock Resort (SRR) - Community Development, in conjunction with the contract golf course management firm, has projected an 8 percent increase in SRR revenue based on current year activity. Expenditures for SRR are budgeted at levels close to the current fiscal year with a 2 percent increase. Expenditures of \$4,373,100 exceed revenues of \$3,827,100 by \$546,000. Expenditures include an equipment depreciation cost of \$430,600 which, while required to be included

in the operating budget, is a non-cash transaction and therefore does not affect the cash position of the SRR fund. As a result, the cash needed from the General Fund to support operations is \$115,400.

Transfers

Transfers out of the General Fund appear much higher than the previous year due to accounting/reporting changes that do not impact the General Fund's position. Street Maintenance operations, Lighting and Landscape operations, Library, and Museum operations will now be budgeted directly in the funds that primarily fund the operations, rather than in the General Fund with reimbursement credits from the supporting funds. This is the more appropriate way to budget these operations.

- Street Maintenance operations – Gas Tax fund
- Lighting and Landscape operations – Citywide Lighting and Landscape Maintenance District (LLMD) fund.
- Library and Museum operations – Library fund.

Transfer out from the General Fund to the Gas Tax fund and to the LLMD fund reflect the General Fund support required to maintain the service levels of these funds.

Supplemental Requests

Not included in the FY 2015/2016 budget proposal are supplemental requests that total \$117,600:

3 administrative support positions	\$ 206,100
Reclassification of 4 positions	\$ <u>27,000</u>
Total:	\$ 233,100

Savings from deletion of 1 vacant position and reduction of temporary staff should requests be approved: **(\$140,500)**

Net cost: \$ **92,600**

Employee Wellness Program \$ **25,000**
Nutrition counseling, stress management,
education sessions and fitness consultations

Staff will further detail these requests during the budget presentation. These requests address the City's guiding principles for addressing staffing issues:

- Reward Performance
- Work within the Class and Compensation Structure
- Manage PERS increases
- Ensure job rates reflect market rates

Equally, or perhaps more importantly, these requests address succession planning issues and are concurrent with the Council's goal of providing excellent customer service to the community.

ALTERNATIVES

The City Council may wish to request further information regarding specific items and then provide direction regarding the next steps in the overall budget process which could include a second study session prior to budget adoption.

Report prepared by: Rita Conrad, Finance Director

Report approved for submission by: Frank Spevacek, City Manager

Attachment: 1. Fiscal Year 2015/2016 Proposed Budget

