PROPOSED

CITY OF SONORA

94 N WASHINGTON ST
SONORA, CA

June 5, 2017

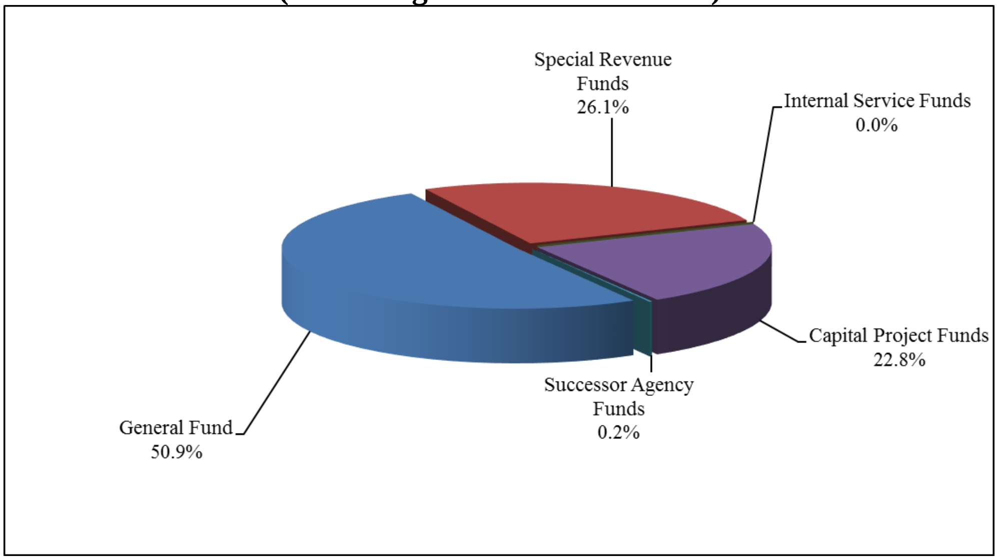
Honorable Mayor and City Council:

Presented herewith is a balanced Fiscal Year (FY) 2017/18 Proposed Operating Budget for the City of Sonora. The budget for FY 2017/18 reflects a total City budget of $11.2 million (including Capital transfers between funds), an decrease of $3.6 million or 24% when compared to the FY 2016/17 adopted budget. This decrease is primarily attributed to initiation of the Greenley Mono Intersection project in FY 2016/17 as well as the elimination of the City's self-insurance fund due to a change in health care plans that occurred during the year. The City's proposed total General Fund expenditures are $5.2 million, an increase of $80,000 or 1.6% when compared to the FY 2016/17 budget. This increase is the result of higher personnel costs related to negotiated salary increases and higher benefit rates. The General Fund revenues are budgeted at $4.9 million (excluding fund transfers in), a 2.3% increase over FY 2016/17 budgeted revenues.

FY 2016/17 FISCAL OUTLOOK

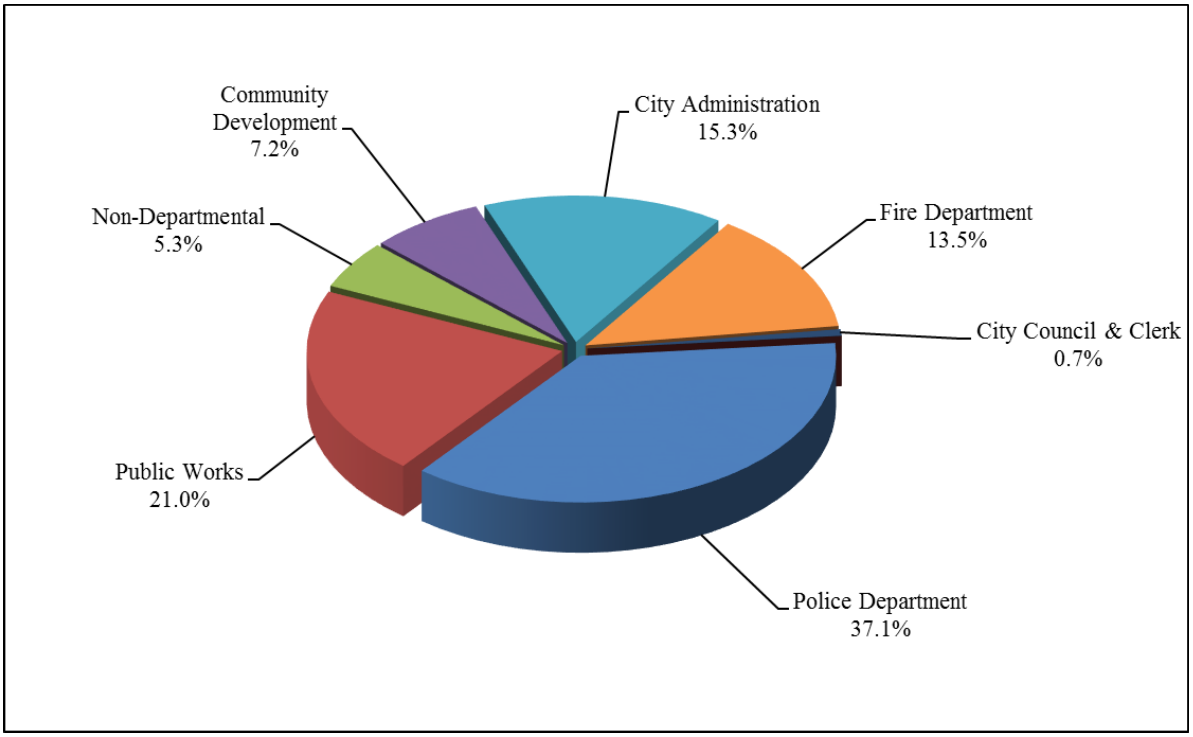
Overview
As shown in the chart below, the Proposed Budget is largely funded by the General Fund (50.9%).

FY 2017/18 Percentage of Total City Expenditures by Fund
(Excluding Fund Transfers Out)



General Fund
The General Fund pays for core services such as public safety, community development, public works, fire protection, and other services. The revenue used to pay for these services comes primarily from local taxes such as property tax, sales tax, transient occupancy tax, franchise fees, licenses and permits, City services, fines and forfeitures and a variety of other sources. As illustrated in the chart below, the majority of General Fund revenue supports funding for Police, Public Works, Community Development, and Fire Protection services.

General Fund Expenditures by Department



General Fund revenue is estimated at $4.86 million in the FY 2017/18 Proposed Budget, (excluding fund transfers in). This is an increase of $109,000 (2.3%) when compared to the FY 2016/17 Adopted Budget. While Sales Tax accounts for the majority of the increase in revenue, Property Tax, Vehicle License Fee (VLF) backfill property tax, and Transient Occupancy Tax have also increased.

The City's General Fund operating budget expenditures for FY 2017/18 has increased by $80,000 or 1.6% compared to the prior year's adopted budget (excluding fund transfers). These expenditures are comprised of salaries and benefits, operating expenses for supplies and services, and debt service. The delivery of City services is highly dependent on labor, which makes up 73% of budgeted General Fund expenditures for FY 2017/18.

Internal Service Fund

Internal Service Funds are used for areas where goods or services are provided to other City departments. The City's self-insurance fund was the City's only internal service fund. However, with a change in health care plans the City no longer has a need for an internal service fund.

Capital Projects Funds

Capital Project Funds are typically used to account for financial resources that are used for the acquisition or construction of major capital infrastructure or to provide or improve facilities for City Departments.

The proposed FY 2017/18 City-wide expenditures from the Capital Projects Funds is $2.3 million which is inclusive of the completion of the Greenley Mono Way intersection project.

Special Revenue Funds

Special Revenue Funds are a fund type used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds account for 26.1% of the City-wide expenditure budget. The City's largest Special Revenue Fund is the Measure I sales tax measure fund at approximately $1.7 million. The Total proposed Budget for Special Revenue Funds for FY 2017/18 is $2.7 million, a decrease of approximately $460,000 from FY 2016/17 Adopted Budget.

Successor Agency to the City of Sonora RDA Funds and Low Moderate Housing Fund

The Successor Agency to the City of Sonora Redevelopment Agency (RDA) private-purpose trust fund accounts for the assets, liabilities and operations transferred from the dissolution of the City's RDA. The FY 2017/18 budgeted expenditures in this trust fund total $19,000.

General Fund Reserves

The total General Fund Reserves are forecasted at a balance of approximately $1.46 million as of June 30, 2017. The City utilizes these funds for one-time expenditures. The proposed FY 2017/18 Budget incorporates use of Reserves as highlighted below:

<u>Deferred Revenue Fund - $141,000</u>

The adopted FY 2016/17 budget included use of $194,000 of deferred revenue to complete projects such as the Ed Center repairs, ADA access at City hall, and Visitor's Bureau repairs. These budgeted projects are not projected to be completed by the close of the fiscal year and therefore $141,000 of the $194,000 request is carryforward funds for outstanding projects.

- Ed Center Repairs (carryforward) - $90,000
- General Plan/Zoning Updates (carryforward) - $15,000
- Visitor's Bureau (carryforward) - $16,000
- Farmer's Market Building - $20,000

The estimated account balance as of June 30, 2017 is approximately $155,000.

General Fund Reserves - $60,000

The proposed FY 2017/18 operating budget also includes the allocation of $60,000 in general fund reserves to support the following one-time costs.

- New Well - $35,000
- New Recruit Training - $25,000

The estimated fund balance as of June 30, 2017 is approximately $1.46 million.

Key Budget Assumptions

Revenues
The FY 2017/18 Budget assumes healthy economic growth, with the General Fund revenues (excluding fund transfers in) expecting to increase by 2.3% to $4.86 million. Revenue projections for each category were based upon estimates provided to the City from the City's sales tax consultant and careful examination of revenue trends and patterns. These operating revenues increases are mostly due to forecasted increases in revenues such as Sales Tax, Property Tax, (VLF) backfill property tax, and Transient Occupancy Tax.

Staffing

The FY 2017/18 Operating Budget has 47.3 budgeted FTEs, including temporary staff. This reflects a decrease of 0.75 FTE compared to the prior year. The recommended FY 2017/18 staffing levels reflect the following changes from the prior years adopted budget:

- *City Administration* – The FY 2017/18 budget reflects Council action to reclassify the 0.2 City Attorney position to a contract service, thereby reducing the City Administration FTE.

- *Police* –The FY 2017/18 budget remains status quo with respect to both full-time and temporary employees. While FTE's remain the same, vacant positons have been reclassified to entry-level, PEPRA positions as a cost savings measure.

- *Fire* - The FY 2017/18 Fire remains status quo with respect to full-time FTE positions. The temporary employee hours within the Department have been reduced by 980 hours due to the elimination of fire prevention hours and some background investigation hours. This reduction was implemented as both a cost savings measure as well as lack of available trained personnel to complete the fire prevention inspections. The Department is working on determining costs to train a current employee to complete these inspections.

- *Salary Increases* – Salary adjustments for FY 2017/18 have been included as a result of previous collective bargaining with the City's four employee unions. The City's four bargaining units are: Sonora Police Officers Association (SPA), Sonora Management Employees Association (SMEA), Sonora Firefighters Association (SFA) and Sonora Employees Association (SEA). Members of the SFA, SEA and SMEA negotiated for 2% cost of living increases in both January of 2016 and 2017. The SPOA negotiated for a 5% salary adjustment for the Dispatch classification in both January 2016 and 2017.

- *Non-Personnel Operating Expenditures* - Non-Personnel expenditure budgets were developed based on actual expenditures in prior years, adjusted for FY 2017/18 funding needs. In light of limited available financial resources, the FY 2017/18 Proposed Budgeted non-personnel expenditures are conservative, with additions primarily limited to non-discretionary, contractually obligated, or mandated and one-time increases.

Five-Year Financial Plan

With the development of the proposed FY 2017/18 operating budget, staff continues to update and enhance the five-year financial forecast model, referred to as the five-year financial plan. The plan includes updates to the City's revenues and expenditures with the first year of the forecast's revenue estimates being the most critical in the process, as that will ultimately define the expenditure limitations for the forthcoming budget year. The multi-year conservative revenue projections will help to refine the City's planning for current and future expenditures based on future projections. The preliminary assumptions are used to forecast the City's fiscal capacity and provide the financial framework within which the proposed Department service levels must be developed. They also serve as the basis to test the potential impacts of proposed policy and operational modifications.

While still being refined, the five-year forecast accounts for estimated increases associated with the recent CalPERS discount rate reduction from 7.5% to 7.0%. With this impact in mind, the forecast shows revenue shortfalls in the future years, meaning revenue increases are not forecasted to keep up with the cost to provide existing services. The forecast does not include any future increases in salary and/or benefits that have not already been negotiated and may result from future negotiated Memoranda of Understanding with the City's bargaining units.

Provided below is a recap of the most recent Five-Year Financial Plan prepared in May 2017. The updated Five-Year Financial Plan spans FY 2017/18 – 2021/2022:

Five-Year Financial Forecast
FY 2017/18 – FY 2021/22

Revenue Category	2016/17 Adopted	2016/17 Estimated	2017/18 Proposed	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
General Fund							
Property Tax	$ 0.8	$ 0.8	$ 0.8	$ 0.8	$ 0.9	$ 0.9	$ 0.9
VLF Backfill Property Tax	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Sales & Use Tax	2.6	2.6	2.6	2.7	2.8	2.8	2.9
Franchise Fees	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Transient Occupancy Tax	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Business License Tax	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Licenses & Permits	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Intergovernmental	-	-	-	-	-	-	-
Charge for Services	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fines & Forfeitures	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest	-	-	-	-	-	-	-
Other Sources	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Deferred Revenue	$ 0.2	$ 0.1	$ 0.2				
Fund Transfers In	0.1	0.1	0.2	0.1	0.1	0.1	0.1
TOTAL GF REVENUES & TRANSFERS	$ 5.1	$ 5.0	$ 5.1	$ 5.0	$ 5.2	$ 5.2	$ 5.3

Expenditure Category	2016/17 Adopted	2016/17 Estimated	2017/18 Proposed	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
General Fund							
Salary	$ 1.8	$ 2.0	$ 1.8	$ 1.8	$ 1.8	$ 1.9	$ 1.9
Temporary Employees	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overtime	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Other Salary	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Benefits	1.6	1.7	1.7	1.8	1.9	2.2	2.6
Supplies, Materials, & Services	1.1	1.2	1.1	1.1	1.1	1.0	1.0
Transfers In/Out	-	-	-	-	-	-	-
Utilities	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Internal Service Charges	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-
TOTAL GF EXPENDITURES	$ 5.2	$ 5.4	$ 5.2	$ 5.3	$ 5.4	$ 5.7	$ 6.2
GF REVENUES LESS EXPENDITURES	$ (0.1)	$ (0.4)	$ (0.1)	$ (0.3)	$ (0.2)	$ (0.5)	$ (0.9)
Use of Generl Fund Reserves	$ 0.1	$ 0.4	$ 0.1	$ -	$ -	$ -	$ -
NET REVENUES LESS EXPENDITURES	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.3)	$ (0.2)	$ (0.5)	$ (0.9)

The forecast for fiscal year 2017/18 year-end estimates indicates a balanced budget with the limited use of General Fund reserves ($60,000) to fund one-time expenditures as previously discussed.

State Budget Impacts

Details on the State of California Proposed FY 2017/18 budget will be available, as part of the Governor's May Revised Budget and it is not expected to be materially different from the Governor's FY 2017/18 Proposed Budget released in January 2017. Staff will review the Governor's May update for any material differences and notify Council of any impacts.

The proposed state budget addresses the surge in state revenues during the years of recovery from the past recession, however points out that this pattern is beginning to change as State revenues struggle to meet expectations and the budget now faces a deficit of almost $2 billion if no action is taken. The January budget proposal includes $3.2 billion in budget solutions to bring the State's finances back into balance, including: eliminating the authority to spend one-time dollars that were contained in the FY 2016/17 budget, limiting spending proposals to keep spending flat in FY 2017/18, and adjusting Proposition 98 to avoid over appropriating the minimum guarantee.

With respect to transportation, the state budget proposes to allocate about $206 million for local road maintenance and repairs, $485 million for transit, $358 million to improve trade corridors, and $120 million for state highway maintenance. These funds can only be used for new construction and reconstruction of City streets.

On-Going Budget Issues:

Pension Liabilities

The City's unfunded pension liability (UL) as of June 30, 2015 is approximately $7.4 million. In December 2016, the CalPERS Board approved a gradual reduction in the assumed earnings of its pension fund referred to as the "discount rate" which is expected to add stability to the pension trust fund, and will also impact the City's employer contribution rates and increase the unfunded liability calculation. The implications of the reduced discount rate will first affect the City in FY 2018/19 and continue through the ensuing four years.

Conclusion

While the global, national, state, and local economy appears to remain on the positive side, the economy is likely to weaken within the next couple of years. In consideration of the implications of the PERS discount rate changes, the City anticipates deficit budgets in the upcoming years and plans to work proactively to address both revenues and expenditures to plan for those years now. Therefore, the FY 2017/18 budget proposes to maintain service levels with an essentially status quo budget.

In light of future projections, opportunities to enhance service delivery, while lowering operating costs through resource and workload redeployments and organizational restructuring continue to be explored.

Respectfully submitted,

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