



COUNCIL AGENDA REPORT

DATE: June 5, 2017

TO: CITY COUNCIL

FROM: JENNIFER CALLAWAY, ADMINISTRATIVE SERVICES DIRECTOR

SUBJECT: OPERATING AND CAPITAL BUDGETS
A. CONSIDER THE CITY OF SONORA PROPOSED OPERATING BUDGET FOR FISCAL YEAR 2017/18
B. PROVIDE DIRECTION REGARDING ANY CHANGES TO THE FISCAL YEAR 2017/18 OPERATING BUDGET

RECOMMENDATION:

- A. Consider the City of Sonora Proposed Operating and Capital Budget for Fiscal Year 2017/18.
- B. Provide direction regarding any changes to the Fiscal year 2017/18 Operating Budget.

BACKGROUND:

The Proposed Operating Budget for FY 2017/18 (Attachment 1) represents the City Administrator's recommended comprehensive financial plan to provide services to the City of Sonora. Any changes to the proposed operating budget directed by Council at the June 5, 2017 budget hearing will be incorporated into the implementing documents to be presented for Council approvals on June 19, 2017

DISCUSSION:

The proposed budget was prepared with contributions from all City Departments and was based on status quo directive with emphasis on cost containment in order to develop and recommend a balanced budget that continued to provide the existing level of service while making progress on Council identified strategic priorities.

FY 2017/18 Operating Budget – The transmittal letter in the proposed FY 2017/18 Operating Budget provides an executive summary of the budget, including the fiscal outlook and proposed use of one-time funds. The proposed budget is balanced, however the five-year financial

forecast projects deficit budgets in FY 2018/19 and into the future years due to anticipated CalPERS rate increases as discussed further below.

The Proposed FY 2017/18 budget proposes to maintain existing service levels and provide for minimal staffing changes. As a cost containment measure the proposed budget has reclassified three vacant positions into entry level, tier-two PERS positions, resulting in on-going savings to the City. In addition, the proposed budget includes the reduction of part-time hours in the Fire Department and the addition of a one-year, limited duration Public Works Assistant in the Public Works Department. The limited duration position is budgeted as a full-time, entry-level position within the Measure I fund. The position is proposed to offset an existing vacancy within the Department.

Future Budget Considerations: CalPERS Discount Rate Update – In late 2016, the California Public Employees Retirement System Board approved a reduced Discount Rate, effectively the PERS rate of return on their investments. The discount rate is used in each jurisdictions actuarial evaluations to determine the municipality’s normal cost contribution rate (percentage of payroll) and Unfunded Accrued Liability (UAL) cash payment. The current actuarial evaluations and PERS rates are based on a discount rate of 7.5%. With the action taken by the board late last year, the discount rate will be lowered to 7.0%. This reduction will be phased in over five years, beginning in FY 2018/19. As illustrated in the chart below, early estimates indicate the City will experience an increase of \$30,000 in the first year of implementation up to \$285,000 by the final stages of implementation in FY 2022/23.

Revised Discount Rate					
Estimated Total Impact - City of Sonora					
	7.375%	7.25%	7.00%	7.00%	7.00%
Plan	2018-19	2019-20	2020-21	2021-22	2022-23
Miscellaneous	\$ 14,720	\$ 31,905	\$ 81,428	\$ 111,765	\$ 144,283
Safety - Police	\$ 18,447	\$ 41,252	\$ 72,234	\$ 93,623	\$ 114,043
Safety - Fire	\$ 1,655	\$ 4,151	\$ 12,557	\$ 20,023	\$ 27,634
Total Impact	\$ 34,822	\$ 77,308	\$ 166,219	\$ 225,411	\$ 285,960

While these estimates are extremely preliminary and can fluctuate significantly depending on a variety of factors, including CalPERS actual rate of return, they provide a good framework for examining the five-year forecast of the City with these uncontrollable costs. Staff will continue to provide more information and updates to Council as further action is taken by CalPERS.

Budget Hearings and Next Steps – At its June 5, 2017 meeting, the Council will have an opportunity to listen to public testimony, ask questions, and direct changes to the Proposed Operating Budget. Any changes to the Proposed Operating Budgets directed by Council or identified by Staff will be included for Council consideration in the resolution formally adopting the Budget to be considered by Council on June 19, 2017.

Attachments:

1. FY 2017/18 Proposed Operating Budget