



CITY OF SONORA

94 N WASHINGTON ST
SONORA, CA

June 3, 2016

Honorable Mayor and City Council:

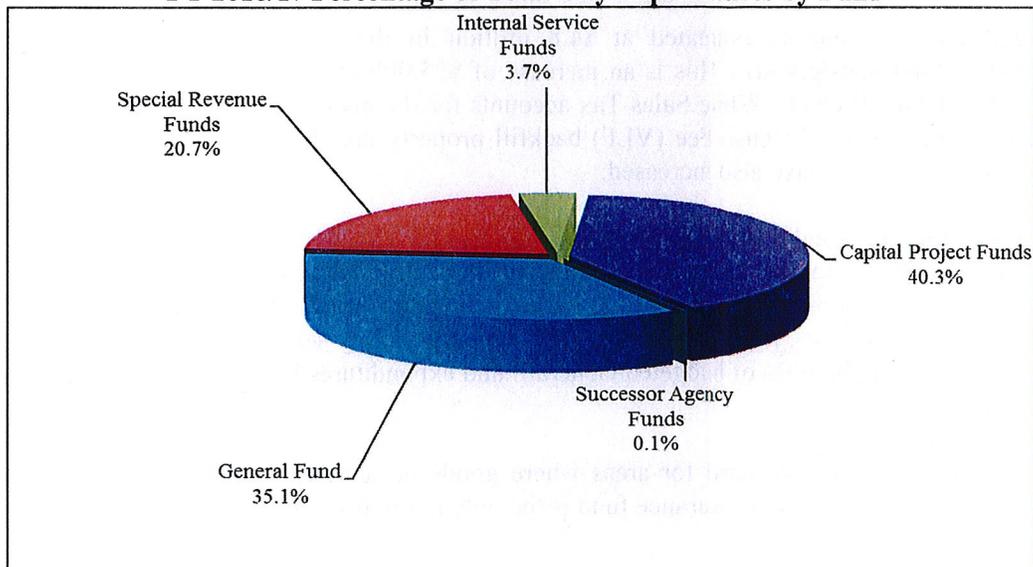
Presented herewith is a balanced Fiscal Year (FY) 2016/17 Proposed Operating Budget for the City of Sonora. The budget for FY 2016/17 reflects a total City budget of \$14.7 million, an increase of \$3.2 million or 28% when compared to the FY 2015/16 budget. This increase is primarily attributed to the planned capital project at the intersection of Greenley and Mono Way. 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 2015/16 budget. This increase is the result of higher personnel costs related to negotiated salary increases, higher benefit rates, and other reorganizations. The General Fund revenues are budgeted at \$4.8 million (excluding debt fund transfers in), a 3.6% increase over FY 2015/16 budgeted revenues.

FY 2016/17 FISCAL OUTLOOK

Overview

As shown in the chart below, the Proposed Budget is largely funded by the Capital projects fund (40.3%).

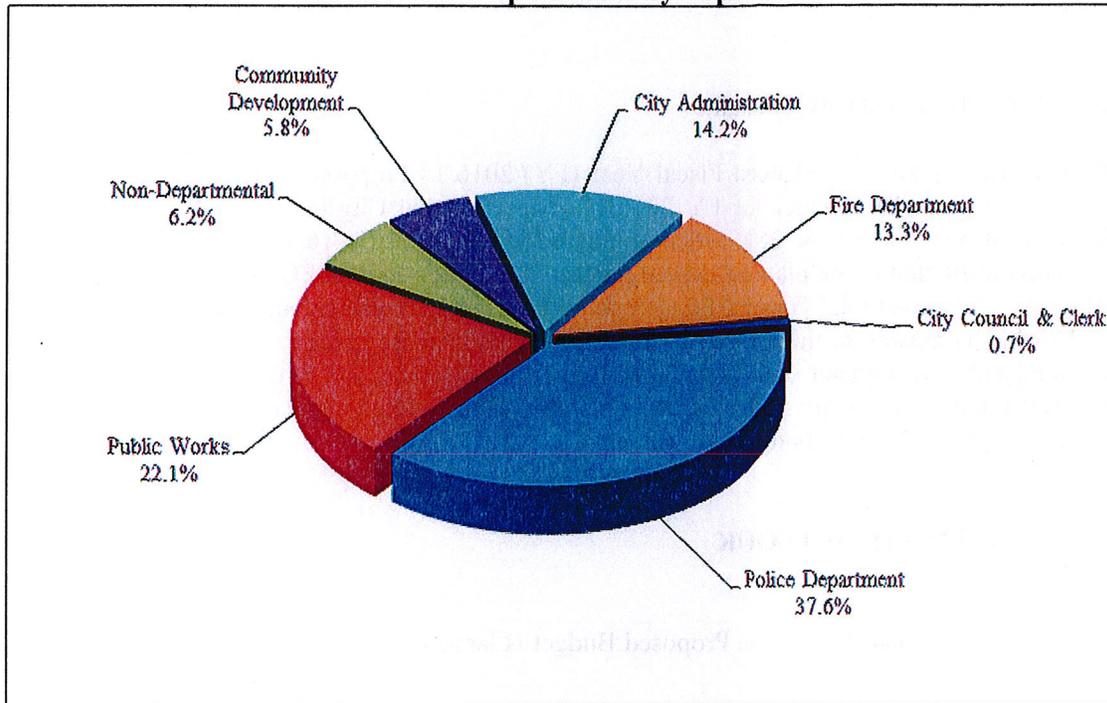
FY 2016/17 Percentage of Total City Expenditures by Fund



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 \$4.8 million in the FY 2016/17 Proposed Budget, (excluding fund transfers in). This is an increase of \$55,000 (1.1%) when compared to the FY 2015/16 Adopted Budget. While Sales Tax accounts for the majority of the increase in revenue, Property Tax, Vehicle License Fee (VLF) backfill property tax, Transient Occupancy Tax, and Business License Tax have also increased.

The City's General Fund operating budget expenditures for FY 2016/17 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, internal service charges, operating expenses for supplies and services, and debt service. The delivery of City services is highly dependent on labor, which makes up 65% of budgeted General Fund expenditures for FY 2016/17.

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 is the only internal service fund at this time.

The total city-wide proposed expenditures for Internal Service charges are \$550,000 which is \$38,000 or 6.4% less than budgeted FY 2015/16 amounts. This decrease is primarily attributed to lower claims and the election to increase the deductible amount from \$60,000 to \$65,000 per person per claim year.

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 2016/17 City-wide expenditures from the Capital Projects Funds is \$5.9 million which is inclusive of the planned 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 20.7% of the City-wide expenditure budget. The City's largest Special Revenue Fund is the Measure I sales tax measure fund at approximately \$1.8 million. The Total proposed Budget for Special Revenue Funds for FY 2016/17 is \$3.0 million, a decrease of approximately \$1.3 million from FY 2015/16 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 2016/17 budgeted expenditures in this trust fund total \$12,000.

General Fund Reserves

The total General Fund Reserves are forecasted at a balance of approximately \$1.8 million as of June 30, 2016. The City utilizes these funds for one-time expenditures. The proposed FY 2016/17 Budget incorporates use of Reserves as highlighted below:

Deferred Revenue Fund - \$194,000

The adopted FY 2015/16 budget included use of \$215,000 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 \$153,500 of the \$194,000 request is carryforward funds for outstanding projects. The additional \$40,000 is for new one-time projects as highlighted below:

- Ed Center Repairs (carryforward) - \$90,000
- General Plan/Zoning Updates (carryforward) - \$40,000
- Building Code Update (carryforward) - \$7,500
- Visitor's Bureau (carryforward) - \$16,000
- Farmer's Market Building - \$20,000
- New Garage Door at the Police Station - \$12,000
- Security improvements at the Police Station - \$8,000

The estimated account balance as of June 30, 2016 is approximately \$200,000.
General Fund Reserves - \$110,000

The proposed FY 2016/17 operating budget also includes the allocation of \$110,000 in general fund reserves to support the following one-time costs.

- New Well - \$35,000
- Retrospective Workers Compensation Adjustment - \$40,000
- Computer Equipment for City Hall Upgrade Support - \$10,000
- New Recruit Training - \$25,000

The estimated fund balance as of June 30, 2016 is approximately \$1.8 million.

Key Budget Assumptions

Revenues

The FY 2016/17 Budget assumes healthy economic growth, with the General Fund revenues (excluding fund transfers in) expecting to increase by 4% to \$4.8 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 2016/17 Operating Budget has 48.0 budgeted FTEs, including temporary staff. This reflects an increase of 1.5 FTE compared to the prior year. The recommended FY 2016/17 staffing levels reflect the following changes from the prior years adopted budget:

- *City Administration* – The FY 2016/17 budget reflects Council action in November 2015 to reclassify a 0.8 FTE Finance Analyst to a 1.0 FTE Administrative Analyst, and the reclassification of a 0.6 FTE Finance Analyst to a 0.625 FTE Office Assistant-Accounting Technician. Also incorporated is the reclassification of a 1.0 FTE Administrative Assistant to a 1.0 FTE Finance Assistant to better align job responsibilities and duties. Finally, the FY 2016/17 budget includes the reclassification of the City Attorney as an employee which resulted from an audit.
- *Police* –The FY 2016/17 budget includes an operational restructure which best meets the demands within the Department. The reorganization resulted in the addition of a 1.0 FTE Lieutenant Position and freezing of a 0.5 FTE Community Services Officer (CSO) position. This restructure allowed for growth opportunity within the department while having minimal fiscal impact. The freezing of the 0.5 FTE CSO position will be re-examined throughout the year to determine if funding is available to fill the position.
- *Fire* - The FY 2016/17 Fire budget increased slightly as the result of the Departments temporary Office assistant increasing from 0.40 FTE to 0.60 FTE. These additional hours will provide needed administrative support for the Department and will be supported by Measure I.

- *Salary Increases* – Salary adjustments for FY 2016/17 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 2016/17 funding needs. In light of limited available resources, the FY 2016/17 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 2016/17 operating budget, staff has begun to develop a five-year financial forecasting 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 preliminary and being refined, the five-year forecast indicated limited opportunity to fund operational increases related to various costs such as contractually obligated increases and unavoidable increases in certain employee benefit costs such as pension and health care. The forecast does not include any future increases in salary and/or benefits that have not already been negotiated and may result from future updated 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 2016. The updated Five-Year Financial Plan spans FY 2016/17 – 2020/2021:

**Five-Year Financial Forecast
FY 2016/17 – FY 2020/21**

Revenue Category	2015/16 Budget	2015/16 Estimated	2016/17 Proposed	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
General Fund & Measure I							
Property Tax	\$ 0.7	\$ 0.7	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.9
VLF Backfill Property Tax	\$ 0.3	\$ 0.4	0.4	0.4	0.4	0.4	0.4
Sales & Use Tax	\$ 2.4	\$ 2.6	2.6	2.6	2.7	2.8	2.9
Franchise Fees	\$ 0.1	\$ 0.1	0.2	0.2	0.2	0.2	0.2
Transient Occupancy Tax	\$ 0.3	\$ 0.3	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	\$ 0.3	\$ 0.2	0.1	0.1	0.1	0.1	0.1
Intergovernmental	\$ -	\$ -	-	-	-	0.1	0.1
Charge for Services	\$ 0.2	\$ 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	\$ 0.2	0.1	0.1	0.1	0.1	0.1
Deferred Revenue	\$ 0.2	\$ 0.1	\$ 0.2	0.1	0.1	0.1	0.1
Fund Transfers In	\$ 0.2	\$ 0.1	0.1	0.1	0.1	0.1	0.1
TOTAL GF REVENUES & TRANSFERS	\$ 5.0	\$ 5.0	\$ 5.1	\$ 5.0	\$ 5.1	\$ 5.3	\$ 5.5
Expenditure Category							
	2015/16 Budget	2015/16 Estimated	2016/17 Proposed	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
General Fund & Measure I							
Salary	\$ 1.7	\$ 1.6	\$ 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	0.2	0.1	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	\$ 1.1	1.2	1.2	1.2	1.3	1.3	1.3
Supplies, Materials, & Services	\$ 1.3	1.2	1.1	0.9	0.8	0.9	1.0
Transfers In/Out	\$ 0.5	0.5	0.5	0.5	0.5	0.5	0.5
Utilities	\$ 0.2	0.2	0.2	0.2	0.2	0.2	0.2
Internal Service Charges	\$ -	-	-	-	-	-	-
Debt Service	\$ -	-	-	-	0.1	0.1	0.1
TOTAL GF EXPENDITURES	\$ 5.1	\$ 5.1	\$ 5.2	\$ 5.0	\$ 5.1	\$ 5.3	\$ 5.4
GF REVENUES LESS EXPENDITURES	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ -	\$ -	\$ -	\$ 0.1
Use of General Fund Reserves	\$ 0.1	\$ 0.1	\$ 0.1	\$ -	\$ -	\$ -	\$ -
NET REVENUES LESS EXPENDITURES	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ -	\$ -	\$ -	\$ 0.1

The forecast for fiscal year 2016/17 year-end estimates indicate a balanced budget with revenues equaling expenditures.

State Budget Impacts

Details on the State of California Proposed FY 2016/17 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 2016/17 Proposed Budget released in January 2016. Staff will review the Governor's May update for any material differences and notify Council of any impacts.

The State of California Legislative Analyst's Office reported in February that the State has enjoyed remarkable economic growth over the past year. The Office added the cautionary note that the State may be reaching the peak of this long expansion. Responding to this concern, the Governor's January 2016-17 budget proposals included a mix of adding to reserves (raising the State reserves to a target of more than \$10 billion), one time spending opportunities, and ongoing budget commitments based on California budget priorities. The Governor's budget allocates most other discretionary resources to one time infrastructure spending. Outside the General Fund, the Governor plans to: (1) spend \$3.1 billion cap-and-trade auction revenues, (2) provide additional revenues for transportation, and (3) extend the managed care organization (MCO) tax.

Regarding transportation revenues, the Governor's proposed budget allocates about half of the new transportation revenues to the State and half to local agencies to support various existing and new programs. Specifically, the Governor proposes to allocate about \$1.5 billion to rehabilitate state highways, about \$1.4 billion for local streets and roads, \$400 million for transit, \$200 million to improve trade corridors, and \$120 million for state highway maintenance. If adopted, this proposal would have the effect in FY 2016/17 of increasing fuel tax funding of local streets and roads by about \$324 million.

Conclusion

While the global, national, state, and local economy appears to remain on the positive side, the City anticipates that future years may present very limited, if any, available resources to augment services. Therefore, the FY 2016/17 budget proposes to maintain service levels and provide for minimal staffing additions.

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,



Timothy A. Miller
City Administrator



Jennifer Callaway
Administrative Services Director

GANN APPROPRIATION LIMIT

On November 6, 1979 California voters approved Proposition 4, commonly known as the Gann Spending Limitation Initiative, establishing Article XIIB of the State Constitution. This proposition, which became effective in Fiscal Year 1980/81, mandated an appropriations (spending) limit on the amount of tax revenues that the State and most local government jurisdictions may appropriate within a fiscal year. This limit grows annually by a population and cost-of-living factor.

The State Appropriation Limit was since modified by two subsequent initiatives – Proposition 98 in 1988 and Proposition 111 in 1990. Proposition 98 established the return of tax revenues exceeding appropriation limit levels to the State or citizens through a process of refunds, rebates, or other means. Proposition 111 allowed more flexibility in the appropriation calculation factors.

Only tax proceeds are subject to this limit. Charges for services, fees, grants, loans, donations and other non-tax proceeds are excluded. Exemptions are also made for voter-approved debt, debt which existed prior to January 1, 1979, and for the cost of compliance with court or Federal government mandates.

The City Council adopts an annual resolution establishing an appropriations limit for the following fiscal year using population and per capita personal income data provided by the State of California's Department of Finance. Each year's limit is based on the amount of tax proceeds that were authorized to be spent in fiscal year 1978/79, with inflationary adjustments made annually to reflect increases in population and the cost of living.

APPROPRIATION LIMIT ADOPTION

The resolution to adopt the appropriation limit will be presented to Council on June 20, 2016 for adoption.

∞ GANN APPROPRIATION LIMIT ∞

GANN APPROPRIATION RESOLUTION

Resolution is not available at the date of publication