

CITY OF DANA POINT
AGENDA REPORT

Reviewed By:	
DH	<u>X</u>
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CA	—

DATE: APRIL 3, 2018

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: MIKE KILLEBREW, ASSISTANT CITY MANAGER

SUBJECT: MID-FISCAL YEAR 2017-18 BUDGET STATUS REPORT

RECOMMENDED ACTION:

That the City Council:

Receive and file the Fiscal Year 2017-18 Budget Status Report and authorize the budget amendments detailed within this report.

BACKGROUND:

On June 20, 2017, the City Council adopted a two-year Operating and Capital Improvement Budget for the City covering fiscal year's 2017-18 ("FY18") and 2018-19 ("FY19"). Subsequent to adoption, the City Council has approved various adjustments to the budget, including FY18 carry-over encumbrances on October 3, 2017 and individual adjustments at a number of Council meetings related to approval of specific contracts and emerging issues. This report provides an update on the City's FY18 financial performance to date, along with proposed adjustments for City Council consideration.

DISCUSSION:

FY18 Base Budget and Status of Initiatives

In preparing the current fiscal year 2017-18 (FY18) budget, the City Council gave direction to staff to stabilize the budget, limit growth in operating expenses and provide necessary funding for the City's Capital Improvement Program (CIP). The adopted FY18 General Fund operating budget was \$33,880,667, plus transfers to other funds for the CIP and facilities of \$2,650,000. In comparison, the original FY17 General Fund operating budget was \$33,757,043, but only had \$280,000 for the CIP. The goal of limiting growth in the operating budget was achieved, even in light of cost increases for many functions including police services that increased \$687,713.

The status of several initiatives funded in the FY18 budget are: conduct a community survey (complete); update City's strategic plan (in process); develop new financial policies & update the long-term financial plan (in process); conduct a facilities assessment and implement a work order system (in process); implement short-term vacation rental monitoring with 24/7 public hotline support (complete); contract for water quality tech support (complete); and, contract public information services (in process).

Changes to the FY18 Base Budget Since 7/1/17:

This section details City Council approved changes to the General Fund's unassigned fund balance this fiscal year, which began FY18 with an unassigned fund balance of \$7,765,078. In accordance with the City Council adopted financial reserves policy, on July 1, 2017 the Emergency Reserve and Cash Flow Reserve accounts were increased to equal twenty and ten percent of FY18 budgeted revenue. In addition, the Council approved adjustments to General Fund appropriations that affect the budgeted ending fund balance, with all changes shown in the following table:

Unassigned Fund Balance, July 1, 2017 (Audited)	\$ 7,745,617
FY18 Original Budgeted Revenues & Transfers-In	36,877,116
FY18 Original Budgeted Expenditures & Transfers-Out	(36,530,667)
Increase Emergency Reserve	(506,644)
Increase Cash Flow Reserve	(253,322)
Purchase Orders Carried Over from FY17	(337,900)
Transfer to Facilities Fund - Deferred Maintenance Projects	(2,000,000)
City Clerk Records Digitation Project	(45,000)
Peak Workload Contract Building Inspectors/Permit Technician	(125,000)
PCH Linear Park Hobie Memorial Project	(60,947)
Camino Capistrano Landscaping Project	(150,000)
Recycling Program (grant funded)	(8,300)
Prevailing Wage Mandated Compliance/Monitoring Program	(25,000)
Doheny Village Lighting Project	(50,000)
Doheny Village Steam Cleaning Contract	(25,000)
Salt Creek Falconer Services	(20,000)
Parks Facilities Assessment	(24,000)
Holiday Décor Program	(34,000)
Public Access App Development (CCC Settlement)	(8,000)
Contract Maintenance Worker Temp Contract	(30,000)
Emergency Operations Center Furniture/Reconfiguration	(25,000)
Countywide Communications System Partnership Contribution	(87,142)
Police Motorcycle Replacement	(35,000)
Audit Contract Increase	(1,000)
Sheriff's Department Efficiency Study Contribution	(15,700)
Sea Level Study Contract (grant funded)	(135,000)
Sea Level Rise Grant	135,000
Peak Workload Engineering Plan Check Contract	(375,000)
Grading Plan Check Revenue	375,000
ACC-OC Membership	(10,000)
Mercy House Contract Expansion	(45,000)
City Fleet Implementation	(8,810)
Custodial Contract Increase	(34,900)
Budgeted Unassigned Fund Balance @ June 30, 2018	\$ 4,126,401

Assessment of Current Economic Conditions

In a March 21, 2018 press release, the Federal Open Market Committee (FOMC) announced that the economic outlook has strengthened in recent months, economic activity will expand at a moderate pace in the medium term, and labor market conditions will remain strong. With that, they announced the sixth increase in the federal funds rate since December 2015 to a range of 1.5% to 1.75%. The Committee further stated it expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate.

California's State Legislative Analyst (LAO), in its November 2017 Fiscal Outlook report, suggested the State is estimated next fiscal year (2018-19) healthy reserves, with the largest contributor to its projected revenue increases coming from personal income taxes. It goes further and mentions that the State Legislature will have to decide whether to build more budget reserves or make new one-time and/or ongoing budget commitments with the projected increase in revenues. Its longer term outlook was less certain, with one scenario showing continued economic growth, while the second assumes a moderate recession beginning in fiscal 2019-20. In its growth scenario, the State has healthy operating surpluses, while the moderate recession scenario shows their rainy day reserves being drained in about two years, resulting in deficits by 2021-22 that would need to be covered by a combination of spending reductions and/or tax increases. Both of these scenarios assume that the State makes no new budgetary commitments.

Chapman University's Anderson Center for Economic Research December 6, 2017 forecast spoke to us being in the second longest economic expansion on record, and pondered whether the expansion would endure given full employment and falling productivity. It predicted the fed fund rate increase that occurred mid-December 2017, and that two would occur in 2018. Chapman also pointed out weakness in California's manufacturing job base, with those job losses being offset by growth in construction and information services jobs; however, this shift of employment is noted to be toward the more cyclical and volatile construction sector, and California's overall job growth rate is declining.

For Orange County, Chapman forecasts an end to the downward slide in job growth. The number of jobs had grown 2.3% in 2016, and then nosedived to 0.6% in 2017; for 2018, they forecast 2018 job growth at 0.8%. A major component in the County's job numbers are construction jobs, which showed that growth dropped from 5.7% in 2016 to 4.8% in 2017 (still the fastest growing job sector); this trend tracked with a better than 10% decline in residential building permits. Chapman forecasts that in 2018 the number of residential building permits will see growth of 5.3%, led in particular by construction of multi-family dwellings.

Dana Point's tax base is largely dependent on its hotel industry, with transient occupancy tax (TOT or bed tax) making up roughly a third of General Fund revenue; when coupled with hotel-related sales and property taxes, the hotel industry generates about one-half of annual tax revenue. For hotel stays during the first seven months of this fiscal year (7/1/17 thru 2/28/18), TOT was up nearly 5%, which was off from the over 8% gain seen for the prior year but still reflects new record collections for the City's largest tax revenue. Caution should be used in setting assumptions for the pace of future growth in TOT, particularly given the length of the extended duration of the current economic expansion.

Current City General Fund

The City's reserves remain fully funded and, in addition to the Council designated reserves the City began this fiscal year with \$7.8 million in Unassigned Fund Balance.

	FY18 Original Budget	3/27/18 Current Amended Budget	4/6/18 Proposed Amended Budget
Beginning Fund Balance, 7/1/17	\$ 15,639,056	\$ 20,514,236	\$ 20,514,236
Revenues	36,303,900	36,813,900	37,631,462
Transfers In	573,216	573,216	573,216
Total Inflows	36,877,116	37,387,116	38,204,678
Expenditures	33,880,667	35,596,366	36,172,216
Transfers Out	2,650,000	4,650,000	4,650,000
Total Outflows	36,530,667	40,246,366	40,822,216
Budgeted Change in Fund Balance	346,449	(2,859,250)	(2,617,538)
Ending Fund Balance, 6/30/18	\$ 15,985,505	\$ 17,654,986	\$ 17,896,698

As shown in the table above, when the current two-year budget was adopted in June 2017, the City's original June 30, 2018 projected ending fund balance was \$15,985,505. As of this writing, the current amended budget has an ending fund balance of \$17,654,986 that is \$1,669,481 higher than the original budget, and incorporates all budget adjustments to date including purchase order roll-overs from FY17 and contracts/projects approved by the City Council. The proposed budget adjustments in this agenda report are reflected in the last column, showing a net, proposed revenue budget increase of \$817,562 and a proposed expenditure increase of \$575,850. Compared to the original budget's ending fund balance of \$15,985,505; with proposed budget adjustments, the budgeted ending fund balance at June 30, 2018 would be \$17,896,698, or \$1,911,193 more than originally budgeted.

The City's General Fund Reserves are fully funded, as follows:

Fund Balance Designation:	FY18 Original Budget	Current Amended Budget	Proposed Amended Budget
Emergency Reserve (1)	\$ 7,261,000	\$ 7,260,780	\$ 7,260,780
Cash Flow Reserve (2)	3,630,000	3,630,390	3,630,390
Capital Projects Sinking Fund Reserve (3)	2,500,000	2,500,000	2,500,000
Art in Public Places Reserve (4)	117,954	137,415	137,415
Unassigned Fund Balance	2,476,551	4,126,401	4,368,113
Total Budgeted Fund Balance, 6/30/18	\$ 15,985,505	\$ 17,654,986	\$ 17,896,698

(1) Set by Council Policy at 20% of budgeted revenue.

(2) Set by Council Policy at 10% of budgeted revenue.

(3) Set by Council Policy at minimum of \$2.5 million.

(4) Set by City Code and restricted for art in public places; in FY18 an additional \$19,461 of AIPP revenue was received, and has been reclassified from Unassigned Fund Balance into the AIPP Reserve acct.

FY18 Year-To-Date Budget Summary – July 2017 through January 2018

For the General Fund, fiscal year to date revenues and expenditures through February 2018 totaled \$23,210,832 and \$21,616,760, respectively.

General Fund revenues are up \$2,211,804, or 10.6%, compared to the same period in the previous fiscal year; however, adjusted for the one-time Lantern District Impact Fee of \$626,062 received this fiscal year, the year over year increase so far is \$1,585,742 or 7.6%.

In addition to the impact fee, other notable year over year increases in revenue include: Property Tax (up \$835,802 or 18.9%); Transient Occupancy Tax (up \$508,480 or 6.4%); In-Lieu Property Taxes (up \$163,340 or 8.7%); Charges for Services, net of the Lantern District Impact Fee (up only \$37,785); and, interest income (up \$48,289). Notable General Fund revenue decreases include Property Transfer Tax (down \$112,627), and the aggregate of Licenses and Permits (down \$90,999).

Proposed revenue budget adjustments that take into account year to date performance and other information received since the budget was developed are explained in the Revenues Section below.

Total expenditures for the seven months ended February 2018 were \$21,616,760, down \$991,608 or 4.4%, compared to the same period in FY17, with the majority of that due to a prior year transfer-out of \$965,000 to cover the capital cost of the Police Substation build-out. Personnel expenses as of February 2018 were \$5,384,737, down \$298,817 compared to the same period last year. The variance results from a combination of eliminating a management position, vacancy savings, and vested leave termination cash outs that occurred in the prior year. Personnel costs will come in under the \$8.5 million budget, inclusive of achieving the City Council's \$200,000 organizational savings target.

Materials and Services expenditures as of February 2018 were \$15,547,762, up \$558,890 or 3.7% compared to the prior year, with the largest increase being in police services (up \$452,709 or 5.9%). Other increases include: Equipment Maintenance (\$124,072) mainly for a one-time County-wide radio infrastructure payment; Electric/Water Utilities (up \$106,530 with \$50k in Parks and \$41k in Traffic); Reimbursable Expenses (\$116,751 and mostly for 3rd Party Geotechnical work); City Attorney (adjusted for timing difference in prior year payments, up \$228,426 and mostly due to code enforcement litigation associated with unlicensed residential recovery facilities, a zoning issue and Public Records Act requests). Decreases include Professional Services (down \$368,421 with the largest payments in the prior year associated with the Doheny Village Plan project); , Community Activities (down \$121,664 due to timing and elimination of the Dana Point BBQ Championship).

Capital Outlay for Furniture & Equipment costs are down compared to last year by \$187,150, due to the purchase last year of upgraded police radios (\$147,232) and a new vehicle for the police chief (\$32,918).

About half of the year over year difference in Professional Services costs is in Community Development and is due to one-time planning work associated with the Doheny Village Plan in the prior fiscal year. The remaining difference is a result of higher costs last year due to the biennial Solid Waste audit, along with one-time costs associated with a fee study, actuarial consulting services, and facility repairs.

Excluding Operating Transfers Out to other funds that will total \$4,650,000 at year end General Fund expenditures through February 2018 (66.7% of the year complete) were at 60.7% of the budget. The City continues to be proactive in managing its budget and resources, including adapting to emerging community matters and Council priorities, by reviewing revenue trends on a regular basis and adjusting revenue and expenditure budgets with the intent of being responsive and maintaining a healthy financial position with prudent reserves.

As discussed in adopting the FY18 budget, both revenues and expenditures were established using conservative estimates, but not as conservative as had been done in prior year budgets. Staff fully expects actual revenue to exceed budget and actual expenditures to be below budget.

The City of Dana Point operates under a two-year budget cycle, with the current FY18 being the first year of the current cycle. Certain budget adjustments are necessary through the course of the fiscal year to accommodate changing operating and economic circumstances. The balance of this report discusses proposed budget adjustments.

General Fund Revenues

Most City revenues are not received evenly throughout the year, so use of simplified analysis approaches, such as straight-line comparisons, should not be relied upon as the only input in developing projections. Variances in the timing of receipts is taken into consideration for this update. The following table summarizes General Fund revenues through February 28, 2018:

City of Dana Point			
General Fund Revenues thru February, 2018 (66.7% of FY)			
Budget Category	FY18 Amended Budget	FYTD Actual 2/28/2018	Percent of Budget Received
Sec & Unsec Property Taxes	7,750,000	5,257,652	67.8%
Property Transfer Tax	600,000	289,324	48.2%
Franchise Fees	1,250,000	655,976	52.5%
Transient Occupancy Tax	12,325,000	8,407,328	68.2%
Short Term Rental TOT	400,000	362,937	90.7%
Sales and Use Tax	5,700,000	2,834,616	49.7%
In-lieu Property Taxes	3,875,000	2,041,161	52.7%
Licenses & Permits	1,918,500	1,055,153	55.0%
Fines & Forfeitures	290,000	169,098	58.3%
Use of Money & Property	253,800	203,951	80.4%
Intergovernmental	537,000	30,565	5.7%
Charges for Services	1,620,000	1,778,220	109.8%
Other	294,600	89,377	30.3%
Transfers from Other Funds	573,216	-	0.0%
Total General Fund Revenue and Operating Transfers	\$ 37,387,116	\$ 23,175,358	62.0%

Transient Occupancy Tax

Transient Occupancy Tax (TOT), or hotel tax, is set at 10% of nightly room rates, and represents the City's largest single revenue source. Past TOT collections (excluding Short-Term Rental TOT) were as follows:

	Amount (in millions)	% Increase/ (Decrease) vs. Prior Year
FY10	\$ 7,221,000	
FY11	8,338,000	15.5
FY12	9,382,000	12.5
FY13	10,086,000	7.5
FY14	11,007,000	9.1
FY15	12,071,000	9.7
FY16	11,648,000	(3.5)
FY17	12,600,000	8.2
FY18 (budget)	\$ 12,325,000	(2.2)

As of February 28, 2018, on a full accrual basis TOT collected totaled \$8,407,328, which is \$508,480 or 6.4% ahead of last year's collections for the same period. The four major resorts in town saw a combined increase of 6.7%. One of these resorts began an extensive guest-room update in November 2017, and the entire project is not expected to be completed before late Spring 2018; this project is expected to affect that resort's TOT over the next few months, and weighs in on the projections to close the fiscal year.

TOT collections stand at 79.4% of the annual budget, which is well ahead of the typical percent collected for the first seven months of the fiscal year compared to actual full year collections. Depending on the economy and impact of the hotel renovation, TOT is expected to finish a couple of hundred thousand dollars better than the budget. It is proposed to increase the adopted \$12,325,000 budget up to \$12,600,000, an increase of \$275,000. At this point it is not advised to assume this year's increase will have an impact on projections for next fiscal year and beyond.

01-10-6109 Transient Occupancy Tax \$ 275,000 Increase

Short-Term Rental Transient Occupancy Tax

In addition to TOT received from the hotels and resorts, the City receives Short Term Rental TOT revenue from a limited number of properties allowed to operate under a current moratorium on such uses. This tax is due quarterly in arrears (staggered so all are not on a calendar quarter). FY18 receipts as of February 2018 were \$362,937, which is \$61,934 more compared to the same period last year, with some of that difference due to timing of receipts. Staff projects Short Term Rental revenue to finish the year above \$450,000, which exceeds its \$400,000 adopted FY18 budget, and recommends a \$50,000 increase at this time. This may result in a positive impact to projections for next fiscal year and beyond.

01-01-6110 Short Term Rental TOT \$ 50,000 Increase

Sales & Use Tax

The City receives 1% of taxable sales occurring in Dana Point, along with a proportionate share of Use Tax allocated from the county pool. Last fiscal year (FY17), Sales Tax revenue ended under projections at \$5,337,477, and ended flat compared to the \$5,315,519 received in FY16. The FY18 projection was based on the FY17 projection, and actual taxable retail sales performance for the first half of this fiscal year is also coming in only slightly better than the same time period last year (note that the City receives payment in the quarter following when taxable retail sales occur).

Dana Point's five largest Sales and Use Tax producing industry groups include Hotels and Restaurants, Gas Stations, Use Tax Allocations from the County Pool, General Consumer Goods, and Grocery and Drug Stores. Fiscal year-to-date February collections were \$2,834,616, which is \$124,750 or 4.6% more than last year; however, at the time of this writing we received the March remittance and it is roughly \$43,000 less than the same receipt last year. The FY18 budget is \$5,700,000, and the most recent FY18 estimate from the sales tax consultants is \$5,535,000. Staff is proposing to lower the FY18 Sales Tax budget to \$5,500,000. This will also have a negative impact on projections for next fiscal year and beyond.

01-10-6111	Sales and Use Tax	\$ 200,000 Decrease
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Secured and Unsecured Property Tax

Property taxes are imposed by the County at a rate of 1% of assessed value, which is initially established by the sales price. The assessed value may be increased each year as properties increase in value, but by no more than 2% per year. During economic downturns, and as the market value of properties decrease, the County Assessor can and does reduce assessed values of properties on the tax role; this, in turn, decreases the amount of property tax due. Following reductions and as the economy and property values grow, the County Assessor can and does increase assessed values, and does so in a manner that returns the assessed value back to what it would have been had the base value been increased all along at up to 2% per year. The total assessed value of property in Dana Point grew 6.6% in FY17, and is expected to increase in value over this fiscal year.

The City receives roughly 7.6 cents for every \$1 of property tax paid. The other 92.4 cents goes to other agencies and special districts, with the largest beneficiaries being the school district at 39 cents per \$1 paid, the State at 16.6 cents, the Fire Authority at 12.2 cents and the Community College District at 9.6 cents, among others. Dana Point property owners were assessed approximately \$116 million last year in property taxes. Property Tax may be paid by property owners in two installments, December and April, and thus is not received evenly throughout the year.

The FY17 property tax revenue for the City was \$7,753,625, which far exceeded projections; and, the FY18 budget was based on that projection. The FY18 Property Tax budget is \$7.75 million, which is well below what will be received by year end. As of February 2018, the City's property tax revenue totaled \$5,257,632, which is \$835,802 more than it was for the same period last year. However, the Federal tax law changes enacted by Congress before the end of calendar 2017 clearly resulted in an inordinate number of property owners paying their full assessments before December 31, 2017, instead of the more typical approach of paying half the annual assessment in December followed by the other half in April. This front loading of tax payments by property owners was to take advantage of tax deductions that will be limited when they file their 2018

Federal income returns. Projections are skewed if one simply used current year versus prior year collections to date; therefore, projecting based on trends from the past few years have been used and staff proposes increasing the FY18 budget up to \$8,100,000, which is \$350,000 or 4.5% more than budget. This will also have a positive impact on projections for next fiscal year and beyond.

01-10-6101 Secured and Unsecured Property Tax \$ 350,000 Increase

In-lieu Property Tax

In-Lieu Property Tax is the result of involving a swap of Vehicle License Fees ("VLF"), and started in 2004 when the State eliminated the cities VLF revenue and replaced 98 percent of it with State property taxes in each subsequent fiscal year. The In-Lieu Property Tax receipts are split between two equal payments received in January and May each year. The FY18 budget is \$3,875,000, and the first payment this year was \$2,041,161. Based on this, the second payment occurring in May and equaling the first should result in a \$4,082,322 actual for the year. Given that, staff recommends a budget increase of \$200,000. This will also have a positive impact on projections for next fiscal year and beyond.

01-10-6113 In-lieu Property Tax \$ 200,000 Increase

Property Transfer Tax

Property Transfer Tax is assessed on the sale of a property, with the City and the County each receiving 55 cents for every \$1,000 of sales value. Other than large numbers of existing residential properties selling, as occurred the few years prior to the recession, the variance from year to year for this particular revenue is most impacted by high dollar sales, such as hotels and substantive numbers of parcels in the Strand and Monarch Beach neighborhoods.

Property Transfer Tax is budgeted at \$600,000 for FY18, which was in line with the projection to close FY17. As of February 2018, the City received \$289,324, which is about 27% less than the same period last year, and staff is proposing to lower the FY18 budget to \$500,000. This may have a negative impact on projections for next fiscal year and beyond.

01-10-6103 Property Transfer Tax \$ 100,000 Decrease

Franchise Fees

Dana Point's Franchise Fees derive from our utility companies for use of public rights of way and the privilege to operate, and include Cox Communications, San Diego Gas & Electric, Southern California Gas and CR&R Waste Services. The fees are fairly consistent from year to year, and through February 2018, are trending slightly above last fiscal year. Based on collections to date compared to the prior year, it is recommended to increase the original budget of \$1,250,000 up to \$1,275,000. This is not anticipated to have an impact on projections for next fiscal year or beyond.

01-10-6105 Franchise Fees \$ 25,000 Increase

PEG Franchise Fee

The local cable television operator collects Public, Educational and Government (PEG) fees and remits them to the City. As these funds are restricted as to use on specific capital asset

maintenance and improvements. To better segregate and account for these restricted monies, beginning this fiscal year the funds are being deposited directly into and reserved in the Facilities Fund (12). Any expenditure of those funds will be appropriated from the Facilities Fund. This will not have a net negative impact on projections for next year and beyond as expenses to maintain and improve the City's video broadcast equipment will be paid for from these funds.

01-10-6106	PEG Franchise Fees	\$ 10,000 Decrease
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Fines & Forfeitures

This category is made up of Vehicle Code, Parking, and various Municipal and Health & Safety Code fines, and forfeited funds for breach of Construction & Demolition Deposit Agreements ("C&D"). The combined budget is \$290,000 for FY18, and based on year to date collections no change is recommended.

01-30-6301	Vehicle Code Fines	No Change
01-30-6303	Penalties, Interest & Restitution	No Change

Use of Money & Property

This category includes Rental of Property, Investment Income, and City Plaza Rental Revenue. The FY18 General Fund budget for this category is \$253,800. No adjustments are recommended for items other than Investment Income, which is the largest item in this category budgeted at \$170,000. Investment Income shows revenue through February at \$151,129 (net of roughly \$30,000 attributable to other City Funds to be allocated prior to closing the FY18 books, year to date for the General Fund it stands at roughly \$120,000). Half of the City's investment portfolio is invested in the State's Local Agency Investment Fund (LAIF); and, its investment rate has doubled in the past year which has been the biggest contributor to the increase (approximately \$40,000 of the \$50,000 year over year increase in the total portfolio earnings). At this time staff proposes a \$50,000 increase to FY18 General Fund interest earnings budget. This will have a positive impact on projections for next fiscal year and beyond.

01-40-6403	Investment Income	\$ 50,000 Increase
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Waste Disposal Agreement Allocation

The City entered into a County-wide Waste Disposal Agreement in 2009 ("Agreement") to which the County agreed to provide participating cities with disposal capacity for waste generated in or under the control of the cities, and cities agreed to deliver or cause the delivery of waste generated in or under the control of the cities to the County's sanitary landfill system ("Landfill System"). The Agreement was amended in 2015 to address importation of waste from non-County entities that was made possible because additional capacity in the Landfill System beyond that contemplated in the Agreement had occurred due mainly to successful waste diversion programs. The amendment provided for revenue sharing from fees charged for importation of waste to the Landfill System by non-County entities. The City's annual allocation of these revenues was mistakenly budgeted in FY18, but the revenues will be paid in arrears with the first annual payment due September 2018. Staff is proposing reducing the budget to address this oversight; this is not anticipated to have an impact on projections for next fiscal year or beyond.

01-50-6514	Waste Disposal Agreement Allocation	\$ 60,000 Decrease
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Intergovernmental Cost Reimbursements

The City receives a variety of cost reimbursements from other governmental agencies, including but not limited to maintenance work at Salt Creek North Strand Beach access way for the County, and certain State mandated activity for which cities must be reimbursed per State law. Collections to date indicate this source of revenue will not meet the annual \$100,000 budget. This will likely have a negative impact on projections for next fiscal year and beyond.

01-50-6521	Intergovernmental Cost Reimbursement	\$ 30,000 Decrease
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State Grants

The City received the last remittance from a State Safe Drinking Water Grant prior to the end of last fiscal year, and thus will not receive the payment this fiscal year; thus, a budget adjustment is requested to reduce the Intergovernmental State Grants revenue budget. This will not impact projections for next fiscal year and beyond.

01-50-6523	State Grants	\$ 32,000 Decrease
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Gain on Asset Sale

The City sold four vehicles as part of its fleet downsizing effort for \$27,351, and with that a budget adjustment is proposed to account for the amount above the current \$3,000 budget. This will not have an impact on projections for next fiscal year and beyond.

01-70-6704	Gain/Loss on Asset Sale	\$ 25,000 Increase
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Licenses & Permits and Charges for Services

The Licenses & Permits and Charges for Services revenue categories are mainly derived from development activity, along with a development impact fee and recreation related charges. The City has seen record levels of development activities the past several years, and though activity was and is projected to remain at high levels it was also projected with this year's budget that development would be slowing. Predicting the pace of development is incredibly difficult, and even more so to predict timing of particular projects. We are seeing the level of activity slowing, and the timing in particular of larger projects that do occur will result in sizeable swings in revenue collections in any given period. The following adjustments are predicated on collections this year to date, but the projects for next year and beyond that were provided in the budget remain and are based on the thought that development activity is slowing.

Licenses & Permits*Planning Permits (Current Budget \$73,000):*

01-20-6201	Site Development Permits	\$ 5,000 Decrease
01-20-6203	Coastal Development Permits	\$ 5,000 Decrease
01-20-6205	Conditional Use Permits	No Change
01-20-6207	Other Planning Permits	<u>\$ 3,000 Increase</u>
	Net Change	\$ 7,000 Decrease

Building Permits (Current Budget \$1,155,500):

01-20-6209	Building Permits	No change
01-20-6211	Plumbing Permits	No Change
01-20-6215	Electrical Permits	\$ 5,000 Increase
01-20-6217	Mechanical Permits	\$ 5,000 Decrease
01-20-6218	Short Term Rental Permits	\$ 5,000 Decrease
01-20-6219	Other Building Permits	<u>\$ 2,000 Increase</u>
Net Change		\$ 3,000 Decrease

Engineering Permits (Current Budget \$690,000):

01-20-6221	Transportation Permits	No Change
01-20-6223	Encroachment Permits	No Change
01-20-6225	Grading Permits	\$ 295,000 Decrease
01-20-6226	Engineering License & Permits	\$ 20,000 Increase
01-20-6227	Other Engineering Permits	<u>\$ 1,000 Increase</u>
Net Change		\$ 274,000 Decrease

Charges for Services*Recreation Charges for Services (Current Budget \$220,000):*

01-60-6691	Recreation Classes	No Change
01-60-6693	Activities & Trips	<u>\$ 30,000 Decrease</u>
Net Change		\$ 30,000 Decrease

Planning Charges for Services (Current Budget \$97,000):

01-60-6607	Planning Commission Determination	No Change
01-60-6609	Variance Minor Amendment	\$ 1,000 Increase
01-60-6613	Tentative Parcel Map	No Change
01-60-6615	Initial Study	No Change
01-60-6621	Concept Approval	\$ 500 Increase
01-60-6623	Plan Check Fees	\$ 25,000 Increase
01-60-6627	Other Planning Fees	<u>No Change</u>
Net Change		\$ 26,500 Increase

Building Charges for Services (Current Budget \$890,000):

01-60-6631	Building Plan Check	\$ 150,000 Decrease
01-60-6633	Permit Issuance Fees	No Change
01-60-6635	Other Building Fees	<u>No Change</u>
Net Change		\$ 150,000 Decrease

Engineering Charges for Services (Current Budget \$176,000)

01-60-6639	Addressing Fee	\$ 4,000 Increase
01-60-6641	Grading Inspection	\$ 40,000 Increase
01-60-6649	Map Check Fee	No Change
01-60-6655	Other Engineering	<u>\$ 20,000 Increase</u>
Net Change		\$ 64,000 Increase

Lantern District Impact Fees (Current Budget \$0)

Also included in the Charges for Services category of revenue, Lantern District Impact Fees are not budgeted as collection of them is not determinable until they are paid by developers, and they are one-time and non-recurring. The fee was established several years ago to offset

the portion of Town Center Improvements that could legally be assigned to private development, with the allocation to the private property owners being based on lineal footage of their properties that front Del Obispo and Pacific Coast Highway. The public improvements made by the City adjacent to the developer's property were deemed to benefit that property, and the fee was established to reimburse the City for the cost proportionate to private-benefit received from the improvements. Revenue of \$626,062 was received for a project that is under construction.

01-60-6682	Lantern District Impact Fees	\$ 626,062 Increase
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Reimbursed Expenses (Current Budget \$200,000)*:

01-60-6685	Reimbursed Expenses	\$175,000 Decrease
01-60-6687	Legal Reimbursements - Developer	\$ 10,000 Increase
01-60-6688	Legal Reimbursements – Other	\$ 70,000 Increase
01-60-6689	Police Services Reimbursements	\$ 85,000 Increase
01-60-6692	Planning Reimbursements	\$ 3,000 Increase
01-60-6694	Staff Time Reimbursements	\$ 20,000 Increase
01-60-6697	Photocopies	<u>\$ 2,000 Increase</u>
	Net Change	\$ 15,000 Increase

**Note, and as detailed in this section, additional accounts were added during this fiscal year to provide more detail to the 01-60-6685 Reimbursed Expenses account.*

Other Planning, Building, Engineering fees (Current Budget \$34,000):

01-60-6699	Other P/b/e	\$ 6,000 Increase
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Other Revenue Adjustments (Current Budget \$234,600):

01-70-6701	Planning Appeal Fee	\$ 1,000 Increase
01-70-6703	Miscellaneous Revenues	No Change
01-70-6705	Sale Of Recyclable Materials	No Change
01-70-6707	User Fee Income Solid Waste	No Change
01-70-6715	Other Financing Sources	<u>No Change</u>
	Net Change	\$ 1,000 Increase

Proposed General Fund Revenue Adjustment - Net: \$817,562 Increase

Excluding the \$626,062 one-time revenue received for the Lantern District Impact Fee, the net, proposed revenue adjustments total \$191,500, or one-half of one percent (0.005%) of the original \$36,877,116 budget for General Fund revenues and transfers in.

Considering the above listed revenue budget changes, and based on the latest information available, there is roughly about a \$450,000 improvement to overall structural revenue budget projections compared to numbers used in the Long-Term Financial Plan section of this year's adopted budget.

General Fund Expenditures

The following are adjustments proposed to General Fund expenditures:

Operations Contingency Account (01-99-2999)

In adopting the FY18 budget, the City Council established a \$250,000 General Fund Operations Contingency Reserve budget in account 01-99-2999. The City's historic budgeting practice had been to provide additional contingency budget in many of the City department's budgeted line items; however, in the FY18 budget many of those accounts had been reduced to what had been average, historical actual expenses. The intent of the reserve is to cover unexpected and emergency maintenance, repairs, and procurements that are difficult to foresee. At final adoption of the FY18 budget, Staff provided a list of functional areas where budget was reduced that included equipment maintenance, street maintenance, street sweeping, storm drains, landscape medians, park and ball field maintenance. It was not atypical in the past to utilize these built in reserves to address any number of emerging operational, equipment and asset issues. The following recommended allocation totaling \$79,000 would leave \$171,000 in the Operations Contingency Account for the balance of the fiscal year:

Public Works

The City Council approved the Concrete Remove and Replace budget (52-2350) in the amount of \$100,000 for FY17-18. Mandatory site inspections of the sidewalks by the City's Street Maintenance staff have identified an unusually high number of areas in need of safety hazard repairs that will exceed the budgeted amount. Staff has inspected approximately 30% of the City to date, and has nearly consumed up the entire budget (in excess of \$75K so far) on repairing identified potential hazards. To promptly remedy the hazards, staff recommends allocating an additional \$50,000 to the Street Maintenance budget, which will allow necessary safety repairs to be completed prior to the end of FY18. This is not expected to have an impact on future expenditure projections.

Facilities Department

New security gates were recently built and installed to better protect and secure the PCH Pedestrian Bridge. This project was the result of continued observations and residents' complaints of camping, loitering and inappropriate behavior on the bridge, particularly during the late evening and overnight hours. Staff is requesting \$14,000 in the Facilities Equipment budget to cover the cost of the unplanned gate project, and \$10,000 in the Facilities Professional Services Budget to cover security guard services for the balance of this fiscal year to clear and secure the bridge each night. While the gate is a one-time expense, the annual cost of the security guard contract will impact future expenditure projections.

In addition, unanticipated plumbing and HVAC issues have occurred this year, including a water-line break at the Community Center that required emergency repair and consumed more than half the annual plumbing budget. An additional \$5,000 is requested for the Facilities Equipment Budget to cover this cost.

01-20-2999	Operations Contingency Budget	\$ 79,000 Decrease
01-52-2350	Public Works Professional Services	\$ 50,000 Increase
01-95-2030	Facilities Equipment Maintenance	\$ 19,000 Increase
01-95-2230	Facilities Professional Services	\$ 10,000 Increase

City Council Department

On February 2, 2018, the City received a letter from an attorney threatening to sue for alleged violations of the California Voting Rights Act ("CVRA") unless the City voluntarily converts to a by-district election system. To avoid the significant litigation expenses likely to occur if it retains its current at-large election method, the City Council adopted a resolution outlining its intention to consider transition from at-large to by-district. To assist with the process to consider changing to by-district elections, the City retained National Demographics Corporation ("NDC"), a districting consultant, to draw several proposed voting district maps and to assist the Council with gathering public suggestions in regards to how final maps should be drawn. A budget adjustment is requested to cover the unanticipated not-to-exceed cost of the consultant.

01-01-2230 City Council Professional Services \$ 35,000 Increase

City Manager Department

Included in the FY18 budget was a placeholder for a special project to perform an organizational review with the intent to fund the project out of prior year surplus funds by including it in the annual carry-over report. Staff inadvertently did not include the budget adjustment for this one-time project into the carry-over report. This project is being done in conjunction with the update to the City's Strategic Plan, and is designed to assist in identifying operational priorities, staffing and service levels. An adjustment is requested to increase FY18 City Manager Department budget by \$15,000 to accommodate this project.

In addition, on June 20, 2017 the City Council approved a Community Survey Contract Agreement with FM3 in the amount of \$27,850 with the intent that it be covered by available budget in FY17. Inadvertently, this amount was not carried over from FY17 to FY18 along with all of the other open contractual commitments. An adjustment is requested to increase the budget to include this amount, and combined with the item above the total requested adjustment is for \$42,850. Both of these efforts are considered one-time expenditures and will not impact future expenditure projections.

01-11-2230 City Manager Professional Services \$ 42,850 Increase

Administrative Services

In response to a pricing review of treasury management services, Bank of America has increased banking service fees effective January 1, 2018. These fees include, but are not limited to, account services related to account and payable maintenance, electronic payments, physical deposits, and incoming wires. Staff is negotiating with Bank of America, but an increase is requested to allow payments to continue in this fiscal year until the issue is resolved. In addition, staff is requesting a budget increase to cover merchant fees related to credit card payment processing which were optimistically under-budgeted. This will likely have a negative impact on future expenditure projections.

01-21-2230 Administrative Services Professional Services \$ 18,000 Increase

City Clerk / Indexing Scanned Microfiche

The City Clerk's multi-year effort to index almost 30 years of microfiche records is in reach of being completed. For several years since implementing a digital records management system, staff has been digitizing all new records, and slowly but methodically digitizing old records, many

of which are on microfiche. Having all of the records, particularly microfiche, digitized greatly assists staff with the incredibly numerous and voluminous Public Records Act (PRA) requests, and more importantly will allow the public to access these records directly over the internet

Council approved funding last year for a vendor to scan some of the microfiche, and Staff is now indexing those digitized files into the City's electronic digital management system (Sire); this includes entering informational tags that make the records searchable. The funded scope includes street addresses A – C, and over 15,000 documents remain to be input. Staff has also acquired an online PRA management system, which will allow all PRA requests and documents produced to be stored online for anybody to access through the City's website. Online accessibility will improve customer experience, and given that Staff recommends fast-tracking the remainder of this project by hiring two temporary staff to work full-time for an estimated three months to complete the indexing and uploading of the files, at an estimate labor cost of \$30,000, plus an additional computer workstation computer for \$2,000. In addition, proposed is the hiring of vendor to scan the remaining five City Clerk record series files that are part of the City's functional filing system. The estimated cost to digitize the remaining permanent records is \$9,500. In an effort to make other permanent records accessible to the public and staff, staff recommends hiring temporary staff to index these digitized microfiche into Sire at an approximate cost of \$8,000. City Clerk staff will train and quality control the data entry for all of the records.

Staff is requesting a total additional budget of \$60,000, including contingency, to finally complete digitizing all permanent City records. This is a one-time expenditure that will not impact future expenditure projections.

01-31-2230	City Clerk Professional Services	\$ 60,000 Increase
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Code Enforcement

In establishing the short-term rental ordinance program going into FY14, the City Council funded the addition of one Code Enforcement Officer position to assist with oversight of the program. Given uncertainties as to whether short-term vacation rentals would continue into the future, for the past year and a half the City has contracted with a firm to fill a vacant code enforcement officer position. The FY18 budget assumed at some point this issue would be resolved. The cost of contracting for the work is about 45 percent more than if it were a City employee, and staff proposes continuing to utilize contract support in lieu of hiring an employee until the issue is resolved. At this point, this is viewed as a one-time expenditure that will not impact future expenditure projections.

01-43-1200	Code Enforcement Outside Assistance	\$ 35,000 Increase
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Economic Development

In December 2017, the City Council approved a budget adjustment and contract with Mercy House Living Centers that increased existing part-time support to the City to a full-time outreach worker. In the motion that accompanied the Mercy House contract, the City Council asked that the City Manager enter into negotiations with Families Assistance Ministries (FAM) to provide homeward bound relocation services for individuals in town that need to be reconnected to their support system, with the intent to help them avoid becoming homeless. Negotiations ensued and this request is to provide funding for the FAM contract. Also included is a scope of work to conduct Sober Living Home/Residential Treatment Facility participant outreach geared toward assisting those being dropped from those programs from becoming homeless by providing relocation

services. Staff is requesting \$25,000 for the contract. If the program is successful and continues, it will impact future expenditure projections.

01-44-2230 Economic Development Professional Services \$ 25,000 Increase

City Attorney Department

The FY18 City Attorney budget is \$862,000. Billings incurred through February 2018 total \$774,405, leaving \$87,595 in remaining budget. A rough straight-line projection is being used based on year to date activity given that the same and similar issues involving unpermitted residential recovery facilities and code enforcement cases are continuing, plus the advent of the issue involving the Council election by district claim., a budget adjustment is requested to cover costs estimated through fiscal year end. Note that legal costs associated with development activity is being recovered, along with some current and prior year costs associated with litigation that could be recovered dependent on Court action; however, given that the certainty of payment and amount are not determinable, no reimbursement revenue is being accrued beyond what has actually been collected. Actual revenue realized this fiscal year related to legal costs total \$67,777. The ongoing fiscal impact of this adjustment is dependent on resolution of existing litigation, and Council direction regarding those and other emerging matters.

01-71-2310 City Attorney \$ 360,000 Increase

Transparency and Budgeting Software

This is not a budget request at this time, but rather a notice that Staff has been looking at software to augment the City's efforts to increase financial transparency and allow easier and more timely public access to the City's budget and financial information over the internet. After reviewing proposals from two major software companies in the field, staff is considering the OpenGov platform, including its Transparency and Budgeting modules. The Transparency module represents a tool to better communicate budget and financial information to the residents in a collaborative, easy to use data platform. The Budgeting module would be an improvement to the City's current spreadsheet program, with the latter requiring much more manual input, processing and review. Staff is still negotiating details of the agreement and intends to present the estimated \$40,000 OpenGov agreement, along with a funding request, to the April 17th City Council meeting.

Proposed General Fund Expenditure Adjustment - Net: \$575,850 Increase

Approved City Council expenditure budget changes, along with those proposed here, that may have an impact on future year's projections and in aggregate totaling \$233,000 include Mercy House and FAM homeless outreach services (combined roughly \$105,000/year), ACC-OC membership (\$10,000/year), banking (\$18,000/year) and custodial contracts (\$100,000/year).

Summary of Proposed FY2017-18 General Fund Budget Mid-Year Adjustments:

Revenue Adjustments - Net	\$ 817,562
Less: Expenditure Adjustments - Net	<u>(575,850)</u>
Net Impact to General Fund's Amended Ending Fund Balance	<u>\$ 241,712</u>

OTHER FUND ADJUSTMENTS

Road Maintenance and Rehabilitation Act (RMRA) (Fund 08 – NEW) with adjustments to the Gas Tax Fund (02) and CIP Fund (11)

In April 2017, the Governor signed Senate Bill 1 (SB1), known as the Road Repair and Accountability Act of 2017 (RMRA). SB1 was passed by the legislature as a means of providing additional funding for basic road maintenance, rehabilitation and critical safety needs on both state highways and local streets and road system.

Currently, RMRA revenue is recorded in Gas Tax Street Repairs & Maintenance Fund (Fund 02). However, according to recent clarification from the State, SB1 funds are required to be accounted for in a separate fund. Since the clarification was received, Staff set up a new RMRA Fund 08 in the accounting system, and all SB1 funds received, along with related interest earned on its investment, will be deposited in to and spent out of the new fund.

This housekeeping item removes the RMRA Revenue (02-10-6133) and reduces the Transfer Out to CIP (02-99-90-9050) budgets in the Gas Tax Fund, and reestablishes them in the new RMRA Fund 08 using the most recent estimates from the State. This action also requires moving the CIP Fund 11 Transfer In from Gas Tax revenue account (11-90-6903) to a new CIP Fund 11 Transfer in from RMRA Fund revenue account (11-90-6908).

Revenues:

02-10-6133	Road Maintenance & Rehab	\$ 192,192 Decrease
08-10-6133	Road Maintenance & Rehab	\$ 192,192 Increase
11-90-6903	Transfer In From Gas Tax	\$ 192,192 Decrease
11-90-6108	Transfer In From RMRA	\$ 192,192 Increase

Expenditures:

02-99-90-9050	Transfer Out to CIP Fund	\$ 192,192 Decrease
08-99-90-9050	Transfer Out to CIP Fund	\$ 192,192 Increase

Measure M (04) with adjustment to CIP Fund (11)

Measure M is the half cent sales tax for transportation improvements first approved by Orange County voters in 1990, and renewed by voters for a 30-year extension in 2006. Staff has received updated estimates of FY18 revenues that indicate a \$36,000 increase compared to previous estimates. These additional funds will be available for eligible CIP projects in the coming fiscal year(s).

The City's Measure M Fund also receives revenue for Senior Mobility Programs to offset the senior program's transportation costs, and a recent update shows an additional \$15,000 will be allocated to the City this fiscal year. Staff is requesting to allocate these additional funds as enhanced Senior Mobility Program marketing has resulted in increased operating expenses this fiscal year.

Revenue:

04-50-6521 Intergovernmental Cost Reimbursements \$ 15,000 Increase

Expenditures:

04-99-2230 Professional Services \$ 15,000 Increase

Facilities Fund (12)

Lantern Bay Park was originally built, owned, and maintained by the County, and turned over to the City more than a decade ago. To maintain safe walking paths and in accordance with sound

risk management practices, the City often grinds sidewalk-pad deviations in a manner similar to what is done in our City-wide sidewalk repair program. Based on a recent assessment of all City facilities, it was identified that significant portion of the walking paths in the park have reached a point where they continue to lift and shift, but lack sufficient cement depth to be further ground down to prevent tripping hazards, and/or are cracked and separated to such a degree that they require replacement. Staff is requesting \$99,000 for a concrete replacement project to be completed this fiscal year and prior to the Summer season.

In addition, the HVAC system serving City Hall’s Administration wing was not functioning and was assessed to have ducting and duct insulation that had completely disintegrated, requiring replacement. Staff is requesting \$60,000 to replace the HVAC ducting in the Administration suite.

12-99-3030 Facilities Improvements \$ 159,000 Increase

Supplemental Law Enforcement Services Fund (SLESF) (Fund 25)

These State grant funds are used to supplement funding currently available for costs associated with public safety including personnel, equipment and programs. The funds are not meant to supplant any other existing funding. Currently the City uses the funds to help maintain the following programs:

- School Resource Officer position
- Bike Patrol Program
- Project Hide It, Lock It, or Lose It
- Parent Project Classes
- Motorcycle Deployment
- Special Enforcement Program
- National Night Out Program
- Disaster Response Program

These funds are not guaranteed and thus are not budgeted until received. This fund began the fiscal year with a \$63,251 balance, all of which was appropriated in the FY17 carry-over adjustments approved by Council in November 2017. In addition, through March 1, 2018 the fund has received revenue of \$132,845. Based on this, Staff requests a budget increase to both the revenue and expenditure budgets to cover allowable costs.

25-50-6501	Citizens Option for Public Safety	\$129,571 Increase
25-60-6685	Reimbursed Expenditures Revenue	\$ 3,274 Increase
25-99-2572	SLESF Expenditures	\$132,845 Increase

NOTIFICATION/FOLLOW-UP:

None

STRATEGIC PLAN IMPLEMENTATION:

Achieve total excellence in municipal services and City administration/planning with excellent customer service and cost-effectiveness.

FISCAL IMPACT:

The fiscal impacts to City funds are detailed in the text above.

ALTERNATIVE ACTIONS:

1. Eliminate or modify proposed adjustment, at Council's discretion.

ACTION/SUPPORTING DOCUMENTS:

None