

TOWN OF PARADISE

Fiscal Year 2014/15 Mid-Year Operating and Capital Budget Report
February 10, 2015

Financial Background



The Great Recession of 2008 starts the Perfect Storm

- General fund revenues plunge as property values fall.
 - \$3.7 million in revenues lost to date
 - Property taxes, sales taxes and MVIL
- Building and development vanishes
- State cuts and defers revenues to balance their budget
- State abolishes Paradise Redevelopment Agency



\$3.7 Million In General Fund Property Value Based Revenues Lost – 2008/09 to 2014/15



Immediate Cuts and Adjustments Made to Balance the Budget

- 25.5% of the workforce cut (43.3% without CAL FIRE Contract)
- 5 years of remaining employee salary and benefit concessions exceeding \$907,000
- Other funds cut so that no general fund subsidy is necessary
 - Building Safety & Waste Management
 - Gas Tax/Streets
 - Animal Control
- Equipment replacement and repairs deferred
- Most training eliminated or deferred

Unfunded liability addressed

- Town reduces OPEB obligation 70.2% from \$45.8 to \$13.6 million by :
 - ▣ Capping contributions
 - ▣ Tiering benefits
 - ▣ Reducing workforce
- Town enacts Pension reform before the State
 - ▣ Creates a second tier of benefits for Misc. & Public Safety Employees
 - ▣ With State enacted reform, now there are three tiers
 - ▣ Is providing immediate savings on new hires

Celebrate Progress

- The Community, Town Council and Staff fought hard to weather the storm
 - Two years of general fund deficit spending has been cured
 - The local economy is improving and revenues are starting to increase
 - Measure “C” was passed which will provide added revenue for the next six years and allow the Town to rebuild



Municipal Financial Health Diagnostic Tool



Fiscal Health Analysis Overview

- It reinforces the progress made to stabilize finances, but also highlights what is still needed
- The Town is currently graded a C – (It could easily move backward)
- The Town can pay its bills in the short term, but must address longer term obligations and weaknesses to be truly “healthy”

Areas of Fiscal Stability

- The General Fund is no longer subsidizing other funds
- Few constraints on budgetary discretion
- **Not** balancing budget through borrowing
- **Not** balancing budget by deferring debt service payments
- **Not** funding operating costs with non-recurring development revenues
- Town provides timely and accurate financial reports

Areas that Must Be Improved to Improve Financial Health



1. Recurring General Fund Operating Deficits

- The Town has balanced its budget by not spending more than it is taking in, but ...
 - It is not funding all that is necessary to sustain a full service government
 - The Town has been cutting \$400,000 - \$450,000 of critical operating expenses to balance
 - Measure “C” will help address this issue in the short term
 - **But if the Town does not also invest these funds for the long term, the Town will be in the same position after six years.**

2. General Fund Reserves (unassigned reserves) are Inadequate

- Prior to 2012, the Town invested its reserves in economic development by loaning funds to the Paradise Redevelopment Agency.
 - Three prior loans had been paid in full and with interest of 5%
 - In 2012 the State abolished redevelopment agencies leaving three new loans unpaid and with constraints limiting the amount that could be repaid
 - The Town has worked diligently with the State to have these loans approved as enforceable obligations

Inadequate Reserves Con't

- To date the Town's general fund reserves are non-spendable because these loans and other receivables cannot be immediately converted to cash
- Through hard work and painful cuts, the Town is approaching building a small unassigned reserve as follows:

Designated Reserves	June 30, 2014	June 30, 2015
Non-spendable (RDA loan)	\$2,015,945	\$2,006,863
Projected Measure "C" funds		148,000
Unassigned (spendable) reserves	(81,449)	141,806
Total Reserve	\$1,934,496	\$2,296,669

3. Inadequate Cash and Short-Term Investments as a % of Liabilities

- At the end of 2014/15 the Town is projected to have \$141,806 in spendable reserves.
- The goal is \$1 million
 - Current and future RDA loan repayments should be used to build this reserve
- Building reserves will save the Town roughly \$30,000 a year in loan costs
- An adequate reserve will also provide breathing room to sustain future economic downturns.

4. Fixed & Personnel Costs Exceed 80% of Operating Expenditures

- Having fixed and personnel costs exceed 80% of operating expenses (after these costs have been cut to the bare minimum) is an indication that there are insufficient revenues to fund services long term
 - It leaves insufficient room to fund equipment replacement and maintenance.
 - A healthy budget includes discretionary funds for maintenance and the unexpected
 - The cure is a more diversified revenue stream

Indicator Formula – Goal 80%

Fixed costs and labor costs
as a % of expenditures

Personnel + Fixed Costs
Net Operating Expenses

2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
90.1%	90.6%	89.8%	90.5%	92.0%	92.0%

To improve in this area the Town must diversify and grow its possible revenue base.

5. Budget Balanced by Deferring Asset Maintenance

- Deferral of asset replacement and facility maintenance should only be a short term solution to budget shortfalls
 - These expenses have been deferred for over 5 consecutive years
 - Indication of inadequate revenue stream for level of service provided

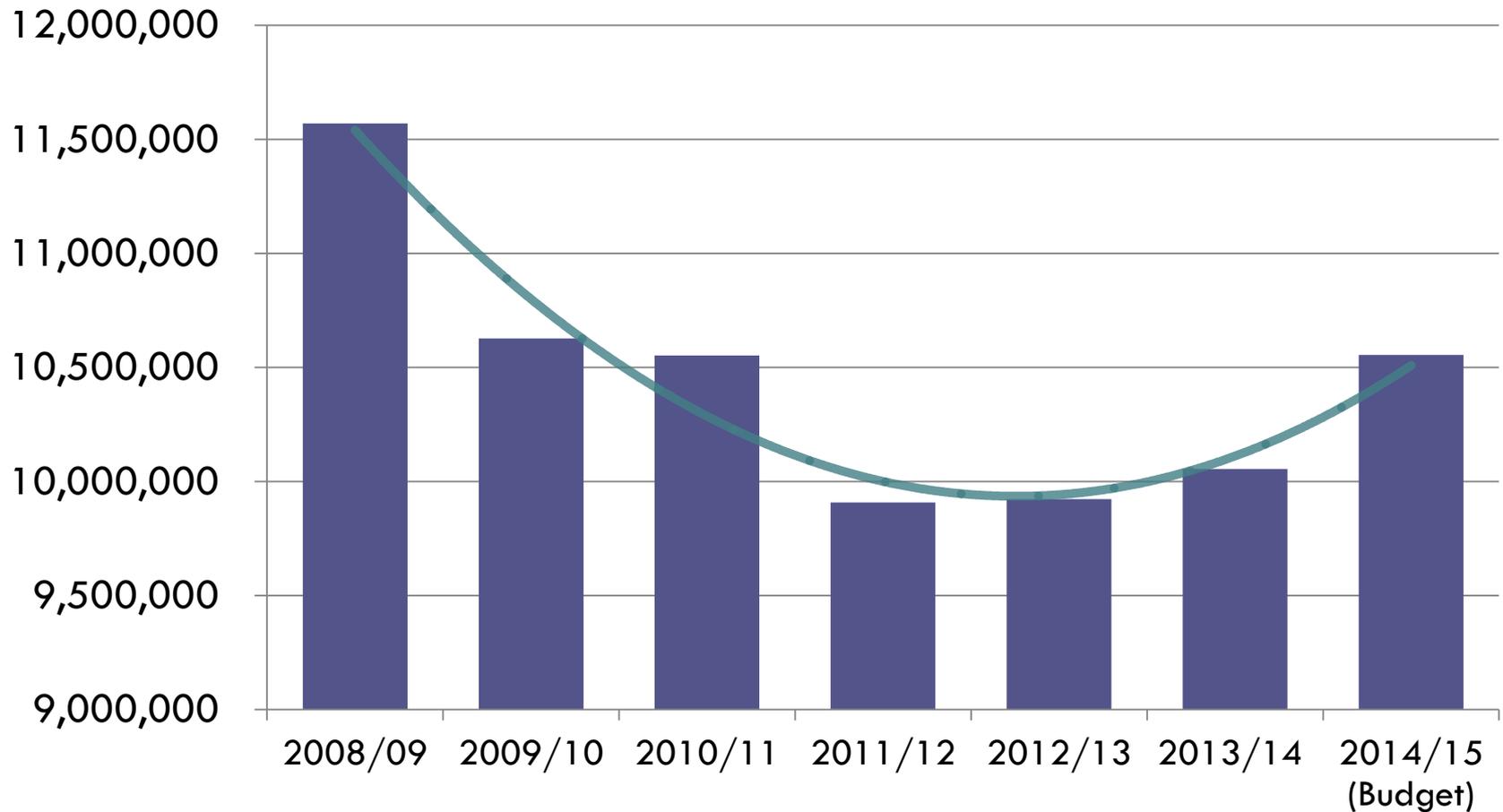
6. Pension Liabilities or Post-Employment Benefit Funding Deferred

- The Town has only made one contribution of \$50,000 toward funding the (ARC) Annual Required Contribution for OPEB benefits.
- The actuary report indicates that in addition to the annual premium costs, the Town should be funding \$150,000 to \$200,00 toward these future premium payments
 - ▣ **Recommend that the Town fund at least \$50,000 a year for 10 years to build an account that can help the Town fund the future obligations**

General Fund Revenues



General Fund Revenue Change Seven Year Comparison



Property Tax Receipts

- Property tax receipts are in line with original estimates. Property taxes will grow about 2.39% compared to the prior fiscal year.
 - Properties that were devalued under Prop 8 can rebound at a rate higher than the typical 2% CPI growth cap.
 - Unsecured revenues are trending about \$6,941 more than budget
 - Supplemental receipts are trending about \$17,627 more

Motor Vehicle in Lieu & Sales Tax

- A State audit of County formulas related to the distribution of MVIL found \$159,968 of 2013/14 corrections, and in January 2015 \$75,728 for this 2014/15.
 - ▣ Normal growth is about 2.4% and with adjustments 19%
- With the drop of gas prices, sales tax receipts are trending a little less than expected, but year over year growth is still 1.8%

Franchise Fees & Transient Occupancy Taxes

- Franchise fees are trending about 2% above the prior fiscal year which is about as budgeted
- With 2nd quarter receipts received, Transient Occupancy Taxes are trending about 2% below last year but about as expected.

Other Revenues

- Measure “C” (transaction and use tax) of 0.50% takes effect 4/1/15.
 - The Town expects to receive about \$200,000 this fiscal year
 - After fees the Town expects to set aside \$148,000 for a full year of expenditures in 2015/16.
- The Town starting leasing fire station 83 to a local ambulance company in December.
 - This lease will generate rents of about \$9,600 this fiscal year

Department Revenues

- Police department receipts are recommended to be decreased about \$9,326 over various accounts
 - \$4,000 reduction for fines in traffic tickets
 - \$2,500 less in DUI accident and arrest collections
 - \$3,000 in special service requests
 - Decreases have a strong correlation to decreased staffing levels

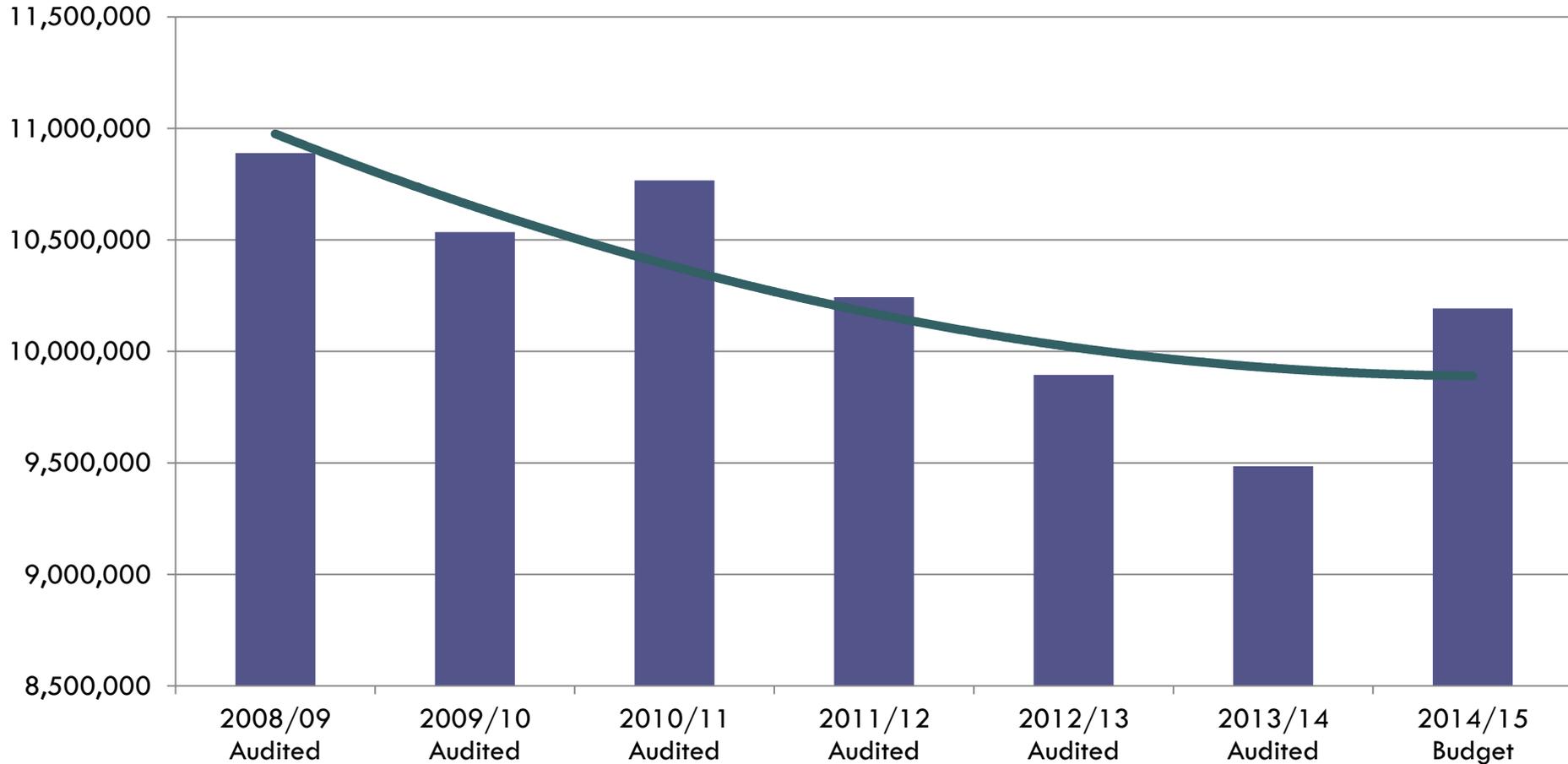
General Fund Revenue Summary

	2013/14 Actual	2014/15 Amended Budget	2014/15 Proposed Budget	2014/15 Proposed Budget Adjustments
Non Program	\$9,796,383	\$9,969,622	\$10,242,237	\$272,615
Finance	2,170	2,100	11,729	9,629
Police	80,000	81,182	71,856	(9,326)
Fire	32,523	88,981	88,711	(270)
Planning	49,113	57,340	54,394	(2,946)
Waste Management	44,737	46,926	47,120	194
Engineering	47,518	37,000	36,609	(391)
Community Park	3,250	2,500	2,580	80
Totals	\$10,055,695	\$10,285,651	\$10,555,236	\$269,585

General Fund Expenditures



General Fund Expenditure Change Seven Year Comparison



Administration

- Non-department specific expenses are decreasing
 - ▣ \$4,500 in bank fee savings (maximizing 0.50% earnings credit rate)
 - ▣ \$2,013 in one month early TRAN payoff
- Central Services is expected to save about \$5,161 from general insurance policies
- Measure “C” set up and first quarter administration will cost about \$52,000

Police Department

- A lieutenant has postponed retirement to help the Town until June 2015. Despite savings in other police admin accounts the added cost is about \$18,500.
- Vacancies in the operations budget has reduced salaries by \$39,324, but increased overtime by \$12,851. Staffing shortages will prevent the Town from performing on all grant assignments. Overall Operations will increase about \$22,757.
- Communication salaries from vacancies are down \$17,518. Overtime is also down as light duty police officers and other admin staff were able to assist. Overall Communications will have \$41,085 less expenses.

Fire Department

- To achieve the requested contract savings of \$200,000 this fiscal year, CAL FIRE will staff the Town with 5 instead of 6 individuals on appropriate days.
- Fire Admin will have about \$8,174 more in costs mainly from increased retiree medical premiums.
- The volunteer fire program was unable to recruit many new members this year, so while disappointing from an operations standpoint, it will provide about \$11,349 in savings.

General Fund Expense Summary

	2013/14 Actual	2014/15 Amended Budget	2014/15 Proposed Budget	2014/15 Proposed Budget Adjustments
Administration	\$2,550,543	\$2,670,801	\$2,726,151	\$55,350
Fire	3,178,872	3,523,842	3,521,545	(2,297)
Police	3,511,535	3,743,663	3,743,835	172
Community Develop.	212,022	168,565	162,204	(6,361)
Engineering/PW	31,636	35,488	39,328	3,840
Totals	\$9,484,609	\$10,142,359	\$10,193,063	\$50,704

General Fund Summary and Reserves



General Fund Summary

	2013/14 Audited	2014/15 Amended Budget	2014/15 Proposed Budget	2014/15 Proposed Budget Adjustment
Revenues	\$10,055,695	\$10,285,651	\$10,555,236	\$269,585
Expenses	(9,484,609)	(10,142,359)	(10,193,063)	50,704
Net Difference	\$571,086	\$143,292	\$362,173	\$218,881
<u>Designated Reserves</u>				
Non-spendable (RDA loan)	\$2,015,945	\$2,015,945	\$2,006,863	(\$9,082)
Projected Measure "C" Rev.	0	0	148,000	148,000
Unassigned (spendable)	(81,449)	61,843	141,806	79,963
Total Reserve	\$1,934,496	\$2,077,788	\$2,296,669	\$218,881

Other Funds



2030 – Building Safety & Waste Management

	2013/14 Audited Actual	2014/15 Amended Budget	2014/15 Proposed Budget	2014/15 Proposed Adjustment
Revenues	\$840,111	\$782,617	\$799,594	\$16,977
Expenses	(677,983)	(756,906)	(748,225)	(8,861)
Net Difference	162,128	25,711	51,369	25,658
Ending Fund Balance	\$194,075	\$219,786	\$245,444	
Fund Balance %	28.6%	29.0%	32.8%	

Animal Control Proposed Adjustments

- A part-time animal control officer position has been vacant most of the year
 - Recruitment of a qualified and reliable person for an 18 hour position is difficult.
 - The vacancy has prevented the division from being proactive in preventing dog attacks and in licensing dogs as required by State law
- Staff proposes to reinstate the original staffing model as the last few years has proved that AC can't function with its current staffing
 - Promote the 36 hour AC Officer to supervisor & increase hours to 40 – 2014/15 cost \$3,200; annual cost about \$8,300
 - Hire a 36 hour AC Officer instead of 18 hour – 2014/15 cost \$5,300; annual cost about \$29,000

Other Animal Control Considerations

- The Town could not operate and fund this division without the support of PASH.
 - ▣ PASH is an invaluable partner in the care and comfort of shelter animals and they will provide about \$12,000 in funding this fiscal year
- AC is currently licensing about 1,000 dogs per year when there is about 4,300 dogs in Town. With just 2,000 more dogs licensed, \$34,000 more in funding would be realized.
- Total funding for this division is still concerning. AC donations are being used to balance the fund annually.

2070 – Animal Control Services

	2013/14 Audited Actual	2014/15 Amended Budget	2014/15 Proposed Budget	2014/15 Proposed Adjustment
Revenues	\$168,734	\$197,882	\$200,751	\$2,869
Expenses	(170,069)	(199,861)	(202,254)	2,393
Net Difference	(1,335)	(1,979)	(1,503)	476
Ending Fund Balance	\$1,504	(\$475)	\$0	
Fund Balance %	0.88%	(0.24%)	0.00%	

State Gas Tax Proposed Adjustments

- This fund is healthy and expected to end the fiscal year with a \$545,641 ending fund balance.
 - This balance is appropriate and the ending funding balance would easily be eliminated with one major road project.
 - Recent State released projections show additional HUTA revenues of \$34,627.
 - A delayed overlay of Elliott Road saves a net \$40,241

Public Works Staffing Reorganization

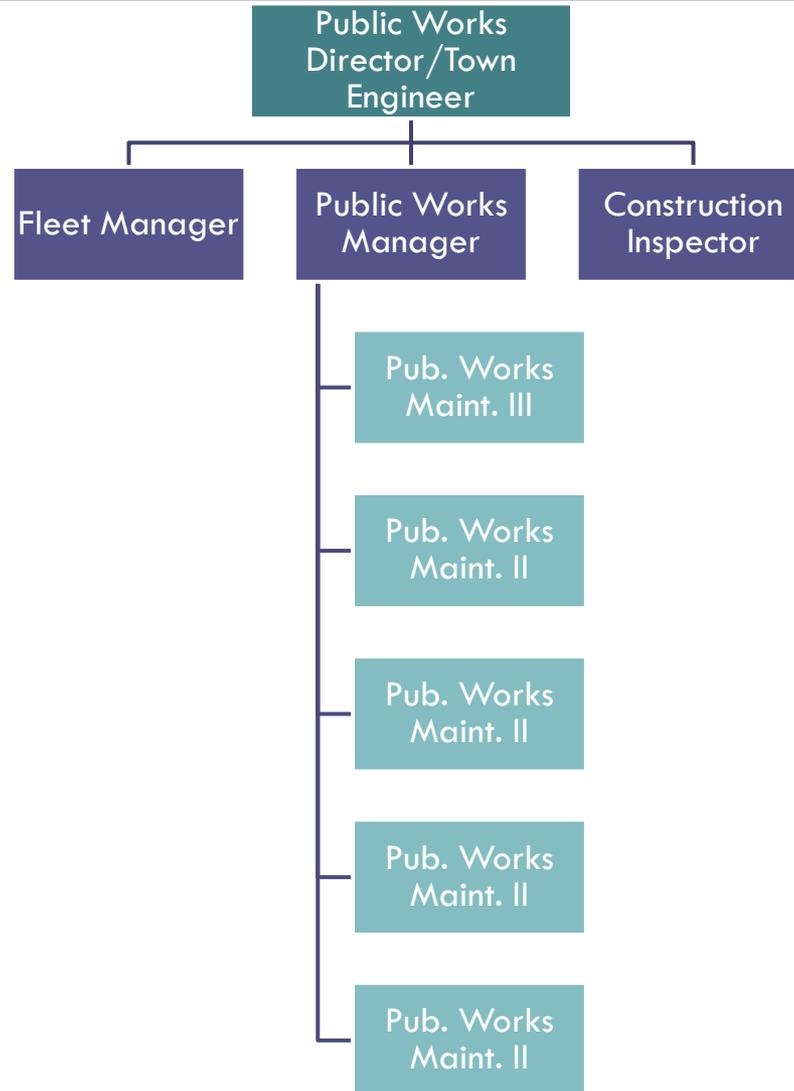
With fund stability, staff recommends restoring the Public Works Director Position

*Aligns functions and pools resources

*Will prioritize everyday needs with longer term goals

*Reduces Direct reports to Town Manager

*\$2,100 this fiscal year and \$5,400 next year



2120 – State Gas Tax

	2013/14 Audited Actual	2014/15 Amended Budget	2014/15 Proposed Budget	2014/15 Proposed Adjustment
Revenues	\$1,295,636	\$1,226,758	\$1,221,144	(\$5,614)
Expenses	(1,185,586)	(1,251,378)	1,179,135	(72,243)
Net Difference	110,050	(24,620)	42,009	66,629
Ending Fund Balance	503,583	479,012	545,641	
Fund Balance %	42.5%	38.3%	46.3%	

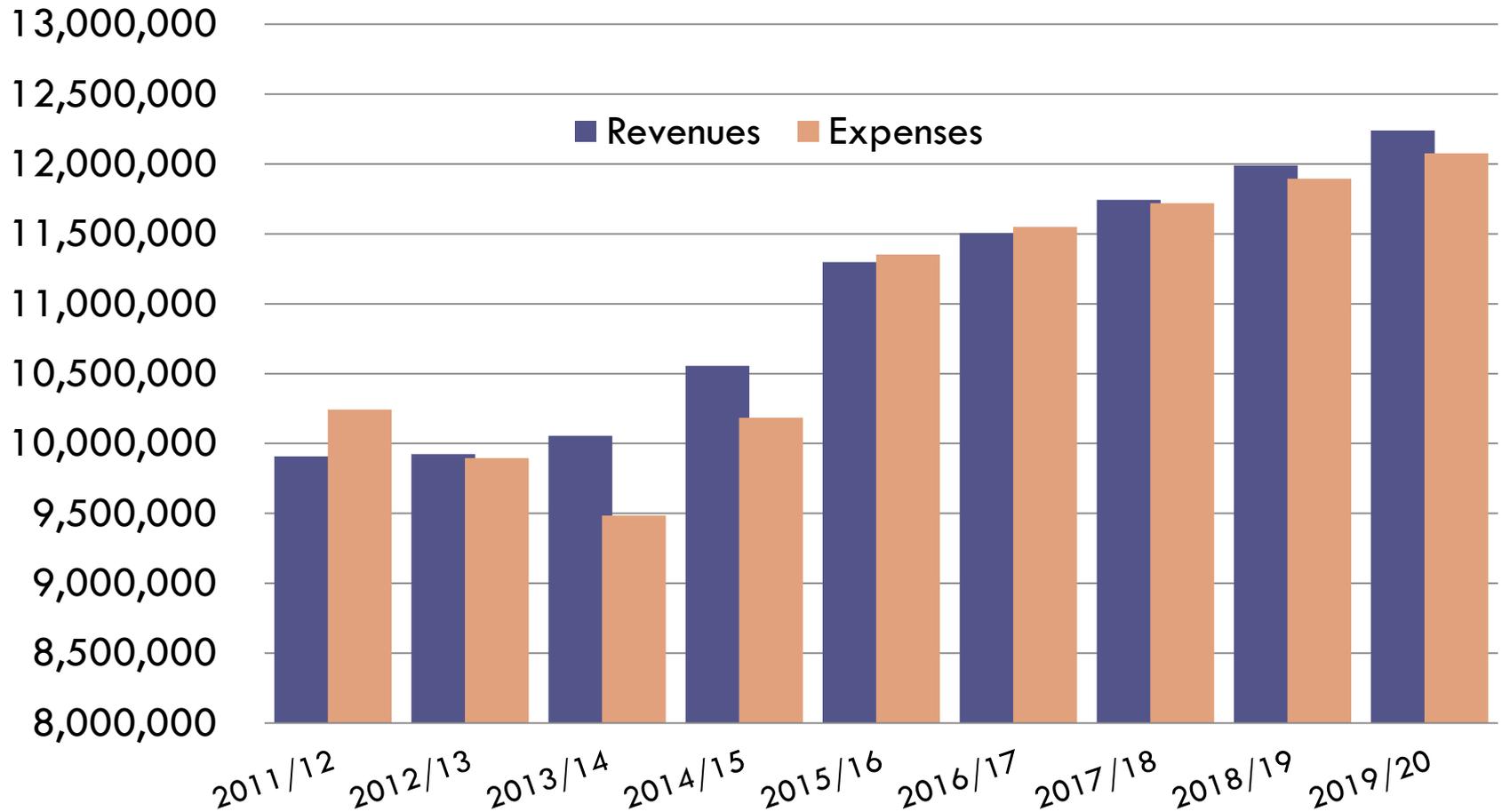
Conclusion



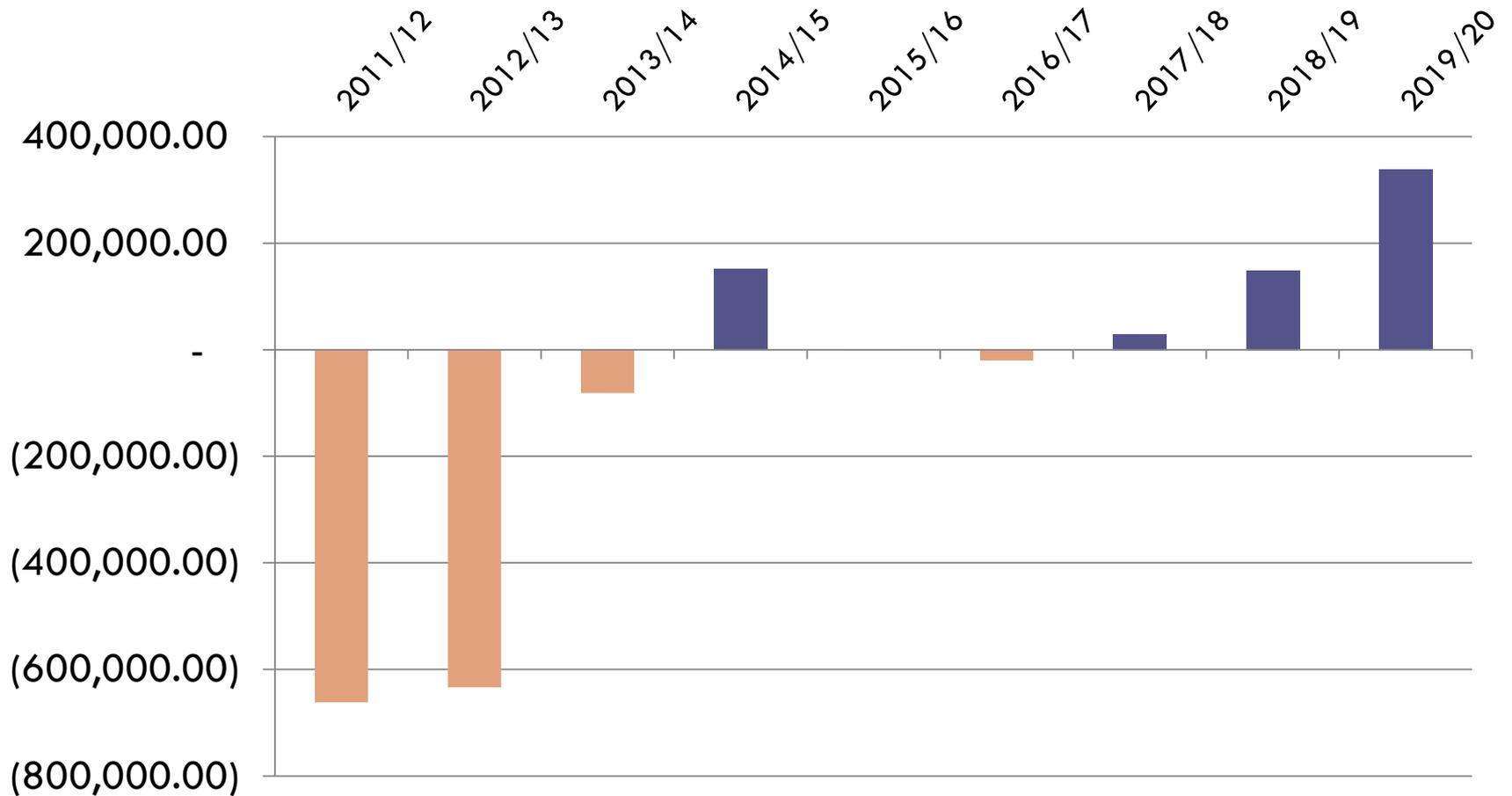
General Fund 5 Year Projection

- Measure “C” will add funds to allow the Town to maintain services and do some equipment replacement and repairs.
 - Staff projects using \$65,000 for reserve investment
- The majority of the general fund revenues are still constrained and it isn't until 2017/18 that they are back to prerecession levels.
- Town starts receiving RDA repayments of about \$25,000 a year
- Expenses do not have the same constraints and will grow or outpace revenues if not kept in check
 - CalPERS contributions will grow about \$330,000 per year with the new GASB 68 requirement in 2015/16

Five Year General Fund Projection Revenue & Expenses



Five Year General Fund Projection Unassigned (Spendable) Reserves

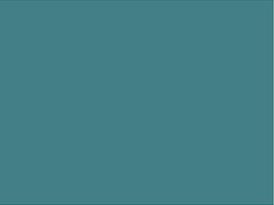


Key Mid-Year Points

- The Town has met its short term objective of maintaining a balanced general fund budget for 2014/15.
- It has starting rebuilding an unassigned reserve which will lesson the amount of annual cash borrowed, but the Town must guard and build these reserves for a sustainable future.
- It should also continue to address liabilities and set money aside to pay those future obligations.

2015/16 Budget Process

- At a special meeting on February 24, 2015, Town Council will be asked to establish budget priorities and give direction for the 2015/16 budget process
- The complete timeline is part of the agenda materials and available for Council and Community Review



Questions

