



**Town of Paradise
Council Agenda Summary
Date: February 14, 2017**

Agenda Item: 6(a)

Originated by: Lauren Gill, Town Manager
Gina S. Will, Administrative Services Director/Town Treasurer

Subject: 2016/17 Operating and Capital Budget Status Update (Mid-Year Budget Review)

Council Action Requested:

1. Review the report presented and approve the recommended mid-year budget adjustments; and,
2. Approve the Fire Prevention Inspector job description and salary pay plan; and
3. Provide direction to staff for scheduling a Town Council goal setting workshop to discuss 2017/18 budget priorities.

Background:

The Town has completed the first six months of the 2016/17 fiscal year. The 2016/17 operating and capital budget was adopted June 20, 2016. The Town has made progress in restoring some general fund cash flow reserves and addressing some other financial weaknesses; however, some financial challenges remain. True to its 2016/17 budget theme “the road to financial stability is a marathon not a sprint”, the Town is in its first leg of a long journey to restore true financial health and stability.

After more than six years of depleted reserves, delayed asset replacement and deferred maintenance, the community responded by passing a six year 0.50% transaction and use tax (Measure C) which took effect April 1, 2015. Measure C is expected to provide about \$1.2 million a year for six years. The appropriations for the 2016/17 Measure C monies were vetted through the Community Oversight Committee and approved by the Town Council and includes replacement of three police cars, purchase of a new fire engine, investment in town roads, public safety facility repairs, and support for police, fire and animal control services.

This mid-year budget report provides an opportunity for staff to do a comprehensive review of all budgeted accounts, including personnel expenditures. It is also the start of the next year budget cycle wherein a timeline for completion, a five-year budget projection is analyzed, and priorities are discussed.

Discussion:

Fund 1010 – General Fund

Staff analyzed a General Fund Budget Performance Report to date for the 2016/17 fiscal year in order to review trends or significant swings in revenues and expenses and to identify needed budget adjustments. A copy of this report is attached for review. The following information was derived from this analysis and highlights of the recommended adjustments are summarized below:

Revenues

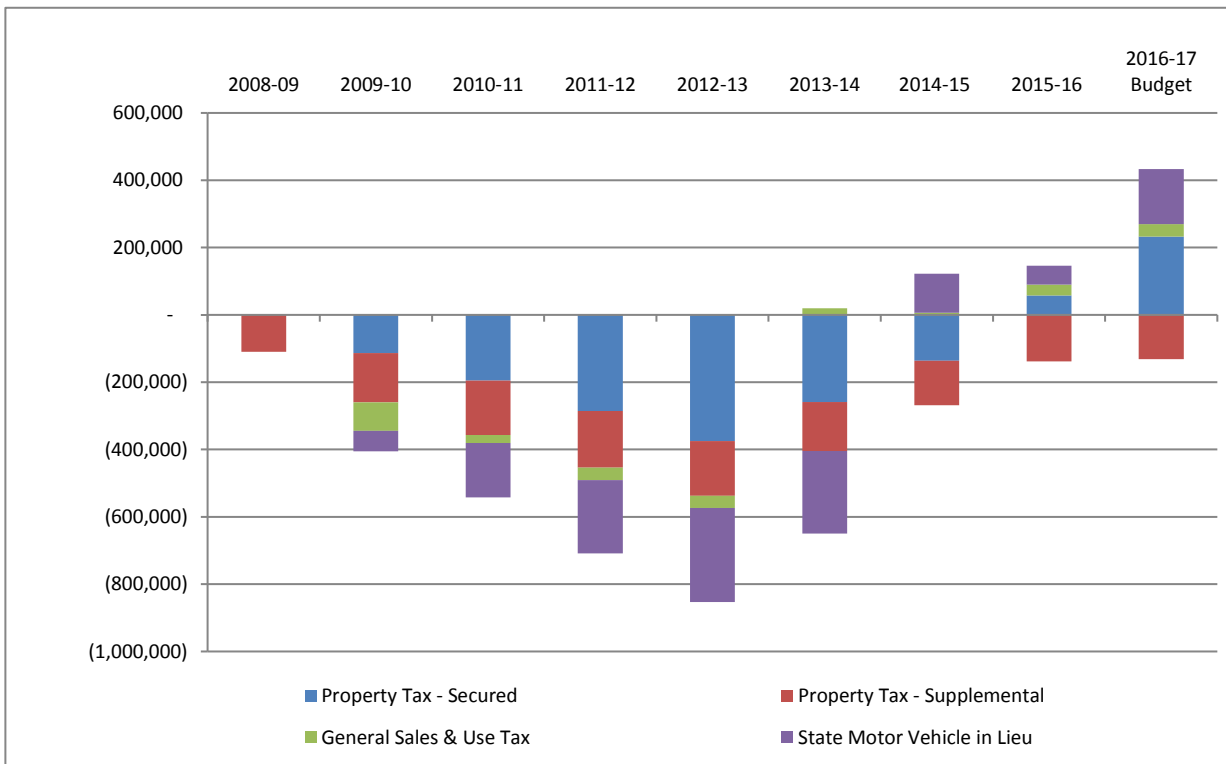
	2015/16 Estimated Actual	2016/17 Amended Budget	2016/17 Proposed Budget	2016/17 Budget Adjustments
Measure C	\$1,236,212	1,200,000	1,264,000	64,000
Non Department	10,468,598	10,664,475	10,765,763	101,288
Finance	18,849	20,100	20,100	0
Police	74,511	87,387	80,012	(7,375)
Fire	98,873	82,670	78,828	(3,842)
Planning	49,515	61,421	62,235	814
Waste Management	82,896	47,032	47,032	0
Engineering	34,442	37,450	29,926	(7,524)
Community Park	2,590	2,750	2,625	(125)
Totals	\$12,066,485	\$12,203,285	\$12,350,521	\$147,236

- Measure C: The 0.50% transaction and use tax approved by the voters in November 2014, took effect April 1, 2015. The Town has now received six full quarters of receipts. The most recent quarter reflects receipts from July through September 2016. These receipts were higher than the same quarter in 2015/16. To remain conservative staff will assume that the remaining three quarters are equal to the prior year. The receipts to date support an estimate of about \$1.264 million for 2016/17. Thus, **staff recommends increasing Measure C Revenue budget \$64,000.**

- Property Taxes: The Town has received its first deposit of 2016/17 property tax receipts and final estimates from Butte County based on the finalized tax rolls. About 75% of the secured tax rolls are governed by Proposition 13 which means that property taxes cannot grow on those properties more than 2% per year. So, 25% of the properties are generating most of the growth. Secured property taxes are expected to grow 4.03% as compared to growth of 4.66% last year. Unsecured property taxes are expected to grow 3.01% after growth of 6.55% last year. Homeowner’s apportionment is expected to increase 1.30% after declining 2.75% last year.

For the first time in eight years, property value based taxes collectively have exceeded prerecession levels; although, Council should also take note of the following:

1. It will take several more years to make up the \$3.4 million in lost property value based revenues.

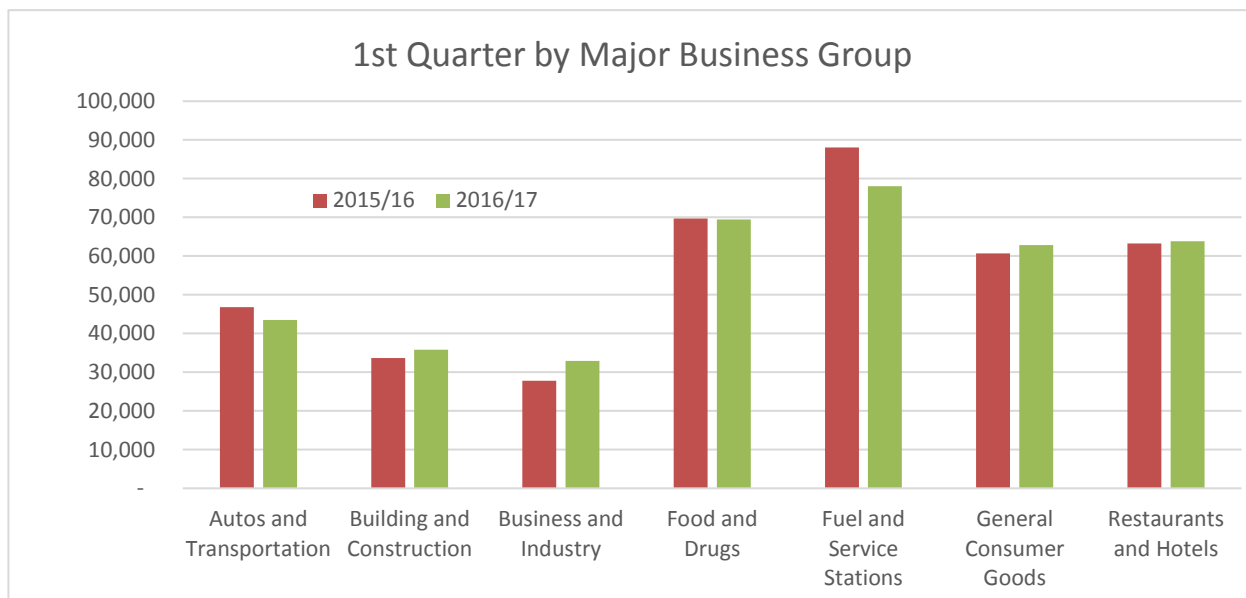


2. With about 75% of the properties restrained by a 2% growth rate, this also means then that 25% of properties will have to turn over or grow 9.9% in order for the Town to maintain property tax growth of 4%.
3. 44% of General Fund revenue (without Measure C) is generated from Property Taxes. With these constrained revenues, inflation or fast increasing CPI will create financial strain in future budgets

The following chart further summarizes property tax expectations and recommended budget adjustments for this 2016/17 budget year:

Property Taxes	2015/16 Estimated Actual	2016/17 Amended Budget	2016/17 Proposed Budget	2016/17 Budget Adjustments
Secured	\$4,359,503	\$4,490,288	\$4,535,132	\$44,844
Unsecured	231,943	232,210	238,914	6,704
Supplemental	44,205	50,836	50,836	0
Homeowners Apportionment	65,655	65,983	66,507	524
Totals	\$4,701,306	\$4,839,317	\$4,891,389	\$52,072

- Motor Vehicle in Lieu (MVIL): The Town has received its first receipts and reviewed the County’s calculations of MVIL for 2016/17. Staff was too conservative in its estimates for 2016/17, and **recommends increasing MVIL \$34,292**. The Town will receive \$2.24 million in 2016/17 as compared to \$2.13 the prior year.
- Sales Tax: With the first quarter of 2016/17 sales tax receipts recorded, receipts remain flat. Analysis shows that growth in business groups are split with four increasing and three decreasing. Gasoline sales are the single largest contributor to sales tax generation in the Town, and with receipts continuing to lag behind the prior year, staff recommends keeping the sales tax budget conservative. No change is currently recommended. The Town is expected to receive \$1.84 million as compared to \$1.89 the prior year when it received some one time revenues associated with the unwind of the triple flip.



- Franchise Fees and Transient Occupancy Taxes (TOT): No budget adjustments are currently recommended by staff for Franchise Fees and TOT. Only one quarter of receipts have been recorded for the 2016/17 fiscal year and they align closely to budget estimates. The Town anticipates receiving \$908,159 in Franchise Fees and \$213,621 in TOT for 2016/17.
- State Mandated Claims Reimbursements: The last two years the State has released long deferred mandated cost claim reimbursements. For administrative claims the State issued \$44,670 in 2014/15 and \$13,369 in 2015/16. For police claims \$68,830 was released in 2014/15 and \$20,595.62 in 2015/16. As the Town is still owed \$218,810 according to the most recent report acquired from the State Controller’s Office, staff anticipated more payments in 2016/17. With half the year gone, \$9,169 was released for police claims, but

nothing for administrative claims. **Staff recommends decreasing the 2016/17 administrative account \$5,000 and the police account \$5,000.**

- Police Services: With the police department continuing to struggle with maintaining the budgeted compliment of fully trained officers, some of the correlated service revenues are less than budget. **Staff recommends decreasing police revenues \$2,375 in accounts like fines and DUI accident and arrest processing.**
- Fire Equipment Rental: With the drought, fire seasons the last several years have been especially demanding for the State of California. When possible, the Town lent resources to the State which resulted in rental income. A recent history of income amounts is shown below:

- 2015/16 \$89,635
- 2014/15 \$174,163
- 2013/14 \$24,601
- 2012/13 \$94,085
- 2011/12 \$5,609

\$75,000 was budgeted for 2016/17, and \$54,385 has already been received to date. **Staff recommends no adjustment at this time,** but Council should be reminded of the commitment to place any rental income above \$75,000 this fiscal year in the asset replacement fund for future equipment replacement.

- Public Works/Engineering: Currently public works/engineering service revenues are trending below budgeted levels in accounts like land division, grading checks, and drain plans. The especially wet winter may have delayed development projects, so **staff recommends decreasing engineering revenues \$7,524.**

To summarize, the Town is expected to receive \$147,236 more in revenues for 2016/17 than currently budgeted. \$64,000 in Measure C receipts and \$83,236 in other receipts. This is encouraging compared to the recent past and confirms that revenues have stabilized and show moderate growth.

Further, the Town continues to be challenged by its lack of diversified revenues. Thankfully Measure C is currently filling in the gap, allowing the Town to maintain quality services for the community. Because such a large portion of its revenues are constrained, the Town should be vigilant in recouping costs of special services so that the community as a whole isn't subsidizing the special services of a few. An amended master fee schedule is scheduled as part of the 2017/18 budget process.

Expenses:

	2015/16 Estimated Actual	2016/17 Amended Budget	2016/17 Proposed Budget	2016/17 Budget Adjustments
Measure C	\$873,395	\$1,413,958	\$1,402,106	\$(11,853)
Non Department	970,185	1,014,301	1,013,323	(978)
Administration	1,567,754	1,577,499	1,593,077	15,578
Police	4,014,295	4,081,530	4,154,621	73,091
Fire	3,479,832	3,849,476	3,823,703	(25,773)
Community Develop.	173,462	193,541	194,054	513
Public Works	267,808	283,726	285,972	2,246
Totals	\$11,346,730	\$12,414,031	\$12,466,856	\$52,825

Measure C:

Measure C has been essential in preserving services and maintaining a balanced budget this fiscal year. As previously reported, the Town is replacing public safety equipment, sustaining the CAL FIRE contract, planning road rehabilitation and addressing deferred maintenance issues with this funding. Following is a recap of the Measure C mid-year proposed budget for 2016/17.

Measure C Updated

	<u>2016/17</u> <u>Amended</u> <u>Budget</u>	<u>2016/17</u> <u>Proposed</u> <u>Budget</u>	<u>2016/17</u> <u>Budget</u> <u>Adjustments</u>
Police Department			
Lieutenant Transition	\$15,218	\$15,218	\$0
Lieutenant Training	8,000	8,000	0
2 nd Phase Depart. Siding	50,000	50,000	0
Men's Locker Room Floor	5,000	5,000	0
Emergency Generator Replacement	90,000	90,000	0
2 nd Investigator	160,964	157,714	(3,250)
Police Cadets (2)	34,000	46,153	12,153
Police Cars	100,000	100,000	0
Body Cameras	5,917	5,917	0
Patrol Cameras and Cases	3,000	3,240	240
Emergency 9-1-1 MIS	10,000	10,000	0
Sawmill Peak Communication Study	3,000	3,000	0
Officer Training	15,000	15,000	0
K-9 Program	10,000	13,758	3,758
	\$510,099	\$523,000	\$12,901
Animal Control			
Increased Officer Hours	\$31,056	\$30,647	(\$409)
Officer and Supervisor Training	3,500	3,500	0

2016/17 Operating and Capital Budget Status Update (Mid-Year Review)

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Awning and Concrete Repairs	9,500	9,500	0
Animal Isolation Units	7,000	7,000	0
Raised Beds, Metal Bowls, AC Unit	3,300	3,300	0
Online Dog Licensing Setup	10,000	10,000	0
	<u>\$64,356</u>	<u>\$63,947</u>	<u>(\$409)</u>
Fire Department			
CAL FIRE Contract	\$150,000	\$150,000	\$0
Future Apparatus Funding	50,000	50,000	0
Storage Wall & Safety Door	3,470	3,470	0
E82; Blower, Gas Monitor, Tool Bracket	5,500	5,500	0
SCBAs Matching Funds	3,500	3,049	(451)
Fire Engines 81 & 82	127,033	127,033	0
	<u>\$339,503</u>	<u>\$339,052</u>	<u>(\$451)</u>
Public Works			
2016 Micro Surface and Markings	500,000	476,107	(23,893)
	<u>\$500,000</u>	<u>\$476,107</u>	<u>(\$23,893)</u>
Subtotal	\$1,413,958	\$1,402,106	\$(11,853)

➤ Police Department:

Generally the cost of items budgeted from Measure C to support the Police Department are coming in at budgeted levels. The second investigative position is expected to cost a little less because of the officer currently in that position, but the current police trainee will cost a little more because she was already in the CalPERS system and the Town is required to continue those benefits. Further, training options for the K9's are limited. The cost of maintaining appropriate training more than tripled since the budget was adopted.

➤ Public Works

The micro surface and markings road rehabilitation project of 2016 was the only other budgeted item that differed notably from budget. The project cost \$23,893 less than expected.

Staff met with the Measure C Citizen Oversight Committee on January 24, 2017 where they approved the reporting of Measure C financial activity through December 31, 2016. In addition, staff informed the committee that Council approved the selling of the 2008 Sutphen engine in order to leverage the remaining value and purchase another new Pierce Enforcer Fire Engine. Further, staff shared the Measure C preliminary financial plan in order to demonstrate that there are adequate funds available to finance the Engine. As a reminder, following is the preliminary plan shared with Town Council on December 13, 2016:

Preliminary Measure C Financial Plan

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Totals
<i>Revenues/Projected Revenues</i>	1,236,212	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	7,236,212
<i>Police</i>							
<i>2nd Investigation Position</i>	110,238	160,964	160,964	160,964	160,964	160,964	
<i>Police Cadets (3) (2) (1)</i>	55,241	34,000	17,000	17,000	17,000	17,000	
<i>Lieutenant Transition & Training</i>		23,218					
<i>15 Police Cars</i>	13,597	100,000	100,000	100,000	100,000	100,000	
<i>Body Cameras</i>	14,786	5,917	5,917	5,917	5,917		
<i>K9 Program</i>	9,514	10,000	10,000	10,000	10,000	10,000	
<i>Enhanced PD Training</i>	16,101	15,000	15,000	15,000	15,000	15,000	
<i>LiveScan Machine</i>	11,670						
<i>PD Siding & Repairs</i>	97,251	50,000					
<i>Patrol Cameras & Cases</i>		3,000					
<i>Emergency 9-1-1 MIS</i>		10,000					
<i>Sawmill Peak Communication Study</i>		3,000					
<i>Men's Locker Room Floor</i>		5,000					
<i>Emergency Electrical/Generator</i>		90,000					
	328,398	510,099	308,881	308,881	308,881	302,964	2,068,104
<i>Fire</i>							
<i>Maintain CAL FIRE Contract</i>	144,401	150,000	150,000	150,000	150,000	150,000	
<i>Fire Engine 82</i>	98,226	86,632	86,632	86,632	86,632	86,632	
<i>Future Apparatus Funding</i>		50,000					
<i>Apparatus Equipment</i>		5,500					
<i>SCBA's</i>	24,931	3,500					
<i>Exhaust Extraction</i>	21,674						
<i>Station 81 Storage Wall</i>		1,470					
<i>Station 82 Safety Door</i>		2,000					
	289,232	299,102	236,632	236,632	236,632	236,632	1,534,862
<i>Animal Control</i>							
<i>Increased Hours for AC Officer</i>	25,079	34,556	34,556	34,556	34,556	34,556	
<i>Sanitation Unit</i>	5,405						
<i>Raised beds, metal bowls, air conditioner</i>		3,300					
<i>Online dog licensing program & setup</i>		10,000					
<i>Awning & Concrete Repairs</i>		9,500					
<i>Isolation Units</i>		7,000					
	30,484	64,356	34,556	34,556	34,556	34,556	233,064

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<i>Public Works</i>							
<i>Pedestrian Safety Crossing</i>	24,779						
<i>Pearson Road Improvements</i>	200,502						
<i>2016 Micro Surface & Markings</i>		500,000					
	225,281	500,000	-	-	-	-	725,281
Total Expenses	873,395	1,373,557	580,069	580,069	580,069	574,152	4,561,311
Net Total	362,817	(173,557)	619,931	619,931	619,931	625,848	2,697,901
<i>Designated Reserves</i>							
<i>Police Car Payments</i>	86,403	86,403	86,403	86,403	86,403	86,403	
<i>Unassigned</i>	276,414	102,857	722,788	1,342,719	1,962,650	2,588,498	
<i>Options</i>							
<i>10% Reserve</i>			180,000	180,000	180,000	180,000	720,000
<i>Maxwell Drive SR2S</i>			200,000				200,000
<i>Almond Street Multi-Modal</i>				388,000			388,000
<i>Ponderosa SR2S</i>				193,000			193,000
<i>Fire Engine 81 (\$319K financed-4 yr)</i>		40,401	80,803	80,803	80,803	40,401	323,212
Total of Options							1,824,212
Net Remaining							764,286

The committee supported the purchase of a new fire engine. Also, there was mixed reaction to the financial plan. Some wanted more toward reserves and some wanted less. Some wanted assurance that the Town would begin weaning off the Measure C support sooner, especially for personnel related items, and some wanted more invested toward Town infrastructure now. All in all it was a healthy discussion and they all agreed that Measure C to date has been spent appropriately on voter approved items. Ultimately it will be up to Town Council to decide on the appropriate balance between funding immediate needs now and saving for future contingencies.

Administration:

Collectively administrative divisions are anticipated to increase \$15,578 for a variety of reasons including changes in staff and retiree health care elections, utility increases, increased LAFCO contributions, needed computer and equipment replacements, and increased financial transaction fees resulting from more online and credit card transactions as summarized below:

- ✓ Town Council (600)
- ✓ Town Clerk (4,749)

✓ Town Manager	(827)
✓ Central Services	13,909
✓ Information Technology	5,379
✓ HR and Risk Management	166
✓ Legal Services	(2,010)
✓ Finance	3,948
✓ Rental Properties	200
✓ Emergency Operation Center	162

Police Department

- Police Administration: The division has settled in with two new Lieutenants after the retirement of two long term Lieutenants this fiscal year. Some of the assumptions used and the timing of those position replacements results in a needed increased budget appropriation for salaries, benefits and accrual payoffs of \$6,204.
- Police Operations: The Police Department continues to struggle to fill open and budgeted positions within police operations. The last few years, turnover within Police Operations has been increasing as shown below:

2013/14	11%
2014/15	16%
2015/16	26%

Given the competition statewide for officers, the best option for replacing officers is currently by sponsoring them through the police academy. With the number of employees that the Town currently has, even in January 2018 when the most recent academy graduate is fully trained, the division will be less than fully staffed. Below is the current position control for Police Operations.

	Position Control	Actual	
Officer	12	11	
Officer Trainee	0	1	June 2017 fully trained
Officer Cadet	0	1	January 2018 fully trained
AB109 Officer	1	1	
Investigator	2	1.5	
Sergeant	4	3	As of March 2017
Totals	19	18.5	

A careful staffing analysis recently completed shows that even with the full complement of 19 sworn officers in operations, the division will incur some overtime to cover vacations, illness and training. However, when the division has less than 19 sworn officers, overtime increases by about \$100,000 a year for each position not filled to maintain minimum staffing levels. Conversely, the analysis does not show a significant decrease in overtime when a position is added. The conclusion and recommendation by staff then is to somehow get ahead of the

hiring curve to minimize the time the division has less than 19 fully trained sworn officers. A more complete recommendation will come with the 2017/18 budget plan.

The total recommended increase to the police operations budget is \$66,217. The \$79,454 increase in overtime with the \$24,563 increase in accrual bank payoffs from terminating employees was offset by salary and benefit savings, and reduced retiree medical expenses.

Fire Department

Fire Administration: The division is expected to save about \$7,928. Most of the savings is the result of the current vacancy of the civilian fire prevention inspector. Staff is proposing to fill this position and have it report to the Fire Marshal/Building & Onsite Sanitary Official as described completely below under the heading of Building Safety and Wastewater Fund.

Fire Suppression: This division is expected to save about \$11,055. Retiree medical costs are coming in less than expected, gas prices are still relatively low, and additional savings are being found in operating supply accounts.

Volunteer Program: Savings of about \$6,790 are expected from this program. While the department has been actively recruiting volunteers, the number of volunteers continue to decline. A volunteer has similar training requirements as a firefighter, and the time commitment and physical ability associated with these requirements are making it more difficult to recruit and retain volunteers.

Community Development and Public Works

Very minimal net adjustments totaling \$2,759 are recommended in Community Development and Public Works divisions as summarized below:

✓ Planning	95
✓ Waste Management	418
✓ Engineering	(1,333)
✓ Paradise Community Park	2,765
✓ Public Facilities	1,445
✓ Fleet Management	(631)

Fiscal Impact:

Again, Measure C is the key to allowing the Town to move a few more paces forward and maintain quality services this fiscal year. Outside of Measure C, revenues are growing modestly and the Town is still addressing long-deferred expenditures. This year, the Town will maintain a balanced budget, and is only expected to add about \$21,771 to cash flow reserves. The Town is approaching its goal of a 10% cash flow reserve and by the end of the fiscal year will have achieved an 8.4% cash flow reserve with just over \$1.04 million. The Town has decreased its cash borrowing, but will continue to borrow until reserves are more adequately replenished. With active grant funded capital improvement projects, strong cash flow is even more vitally important as grants reimburse the Town after work has been completed. The following chart shows the progress that the Town is

making in rebuilding its General Fund Ending Fund Balance and Cash Flow Reserves:

	2015/16 Estimated Actual	2016/17 Amended Budget	2016/17 Proposed Budget	2016/17 Budget Adjustments
Measure C Revenues	\$1,236,212	\$1,200,000	\$1,264,000	\$64,000
Measure C Expenses	(873,395)	(1,413,958)	(1,398,559)	(15,399)
Measure C Net Income	\$362,817	\$(213,958)	\$(134,559)	\$79,399
GF Revenues	\$10,830,273	\$11,003,285	\$11,086,521	\$83,236
GF Expenses	(10,473,335)	(11,000,073)	(11,064,750)	64,677
GF Net Income	\$356,938	\$3,212	\$21,771	\$18,559
Measure C Ending Fund Balance	\$646,091	\$432,133	\$507,985	
GF Ending Fund Balance	2,994,787	2,997,999	3,016,558	
Total Ending Fund Balance	\$3,640,878	\$3,430,132	\$3,524,543	
<i>Designated Reserves – Measure C</i>				
Assigned – Final Year	283,274	283,274	283,274	
Assigned – Police Vehicles	86,403	86,403	86,403	
Unassigned – Contingencies	276,414	62,456	138,308	
<i>Designated Reserves – General Fund</i>				
Non-spendable (RDA & Other)	1,978,726	1,950,203	1,950,203	
Assigned – Abatements	20,000	20,000	20,000	
Unassigned – Cash Flow	996,061	1,027,796	1,046,355	

Fund 2030 – Building Safety and Wastewater Services

	2015/16 Estimated Actual	2016/17 Amended Budget	2016/17 Proposed Budget	2016/17 Budget Adjustments
Revenues	\$899,580	\$866,544	\$886,051	\$19,507
Expenses	(812,700)	(875,297)	(903,516)	28,219
Net Income	\$86,880	\$(8,753)	\$(17,466)	\$(8,713)
Ending Fund Balance	\$473,006	\$464,253	\$455,540	

Revenues:

Overall development revenues have leveled out. No large increases or decreases are expected. There will be modest growth of about 1.5% in plan check and building permit fees while other revenues sources like administrative citations and onsite repairs are contracting a bit.

Staff recommends creating a 40 hour Fire Prevention Inspector to replace the 18 hour Civilian Fire Prevention Inspector. The inspector will continue the duties of prevention by identifying fire hazards within the community and then working with the home and business owners to mitigate those hazards. In addition, the position will resurrect the fire hydrant maintenance program wherein fire hydrants are more proactively maintained and repaired. Finally, the position will inspect more of the businesses most prone to fire hazards and the larger dwellings and facilities where citizens gather. It is proposed that the position be funded 1/3 from the general fund fire department budget, 1/3 from the Paradise Irrigation District hydrant repair fund, and 1/3 from the Building Safety Wastewater fund. The total salary and benefit cost of this position at midrange is about \$51,900, thus each of the funding sources would be contributing about \$17,300 annually. If approved, the Town will begin recruiting and will likely fill the position around May 1st in time to begin reducing hazards for the fire season. A job description and salary pay plan is attached for review and approval.

With the funding for this position being transferred in and receipts to date, staff recommends increasing revenues about \$19,500. There are still conservative numbers built into the budget and they reflect expected revenues less than the prior fiscal year.

Expenses:

Collectively expenses for 2016/17 should be increased about \$28,200. This includes the prevention position discussed above. Further, with the vacancy of the Onsite Official, the division was able to reevaluate its staffing needs. The supervisory duties were absorbed into a new position Fire Marshal/Building & Onsite Official which allowed for the hire of a new inspector and a new technician all within the same salary and benefit budget. The only impact to the budget was a onetime payout of accruals of about \$10,500. There is also about an \$8,000 increased cost to the central service allocations.

Fiscal Impact:

The fund will end the fiscal year with a good healthy reserve which is important to maintain for equipment replacement purposes and to prepare for the inevitable next economic downturn. The fund as recommended currently appears to have found a good balance between the demands for service and the staffing required to meet those demands.

Fund 2070 – Animal Control Services

	2015/16 Estimated Actual	2016/17 Amended Budget	2016/17 Proposed Budget	2016/17 Budget Adjustments
Revenues	\$216,187	\$220,832	\$232,766	\$11,937
Expenses	(224,700)	(220,832)	(230,849)	(10,017)
Net Income	\$(8,513)	\$0	\$1,917	\$1,917
Ending Fund Balance	(1,917)	(1,917)	0	

Revenues:

Many revenues for 2016/17 are currently trending less than expected. Citation receipts, dog licenses and impound fees are running below budgeted trends. PASH remains an essential partner in maintaining animal shelter services. PASH is expected to provide about \$16,500 in funding various shelter expenses for the care and comfort of the animals. In order to balance the fund, even more is expected to need to be transferred out of the animal control donation fund. In total revenues will need to be adjusted about \$12,000.

Expenses:

Expenses for 2016/17 will be about \$10,000 more than expected. PASH and the Town are working closely together to capture all the expenses of running the shelter. Up to last year, PASH was paying some of the shelter expenses directly which skewed the true picture of what it costs to run a complete Animal Control Services program. Now PASH is making sure that those expenses are being accounted for by the Town and are providing more of a contribution so that the Town can afford the added cost. With the recent shut down of a nearby rendering plant, the cost of disposing of deer and other road carcasses has also increased dramatically.

Fiscal Impact:

The fund will require a transfer from the animal control donation fund of \$42,697 in order to balance in 2016/17. This will leave about \$20,000 in the fund at the end of the fiscal year. Without increased revenues in other areas, this is enough to sustain services for about another year.

Fund 2120 – State Gas Tax (Street Maintenance)

	2015/16 Estimated Actual	2016/17 Amended Budget	2016/17 Proposed Budget	2016/17 Budget Adjustments
Revenues	\$991,628	\$1,052,871	\$1,025,582	\$(27,289)
Expenses	(1,158,715)	(1,148,951)	(1,123,442)	(25,509)
Net Income	\$(167,087)	\$(96,080)	\$(97,860)	\$(1,780)
Ending Fund Balance	271,186	175,106	173,326	

Revenues:

While lower gasoline prices are helpful in a couple areas of the Town's budget, it is detrimental to sales tax and gas tax revenues. Revised gas tax projections were recently released for 2016/17 and unfortunately, gas tax receipts will be about \$24,500 less than budgeted and about \$36,500 less than the prior fiscal year. The U.S. Energy Information Administration projects increasing gas

prices in 2017 and 2018; however, they are still projected less than 2015 prices. As part of the Governor's budget for next fiscal year, additional funding is proposed for street maintenance. There are differing estimates released on what that additional funding would provide annually from about \$82,000 a year to \$400,000 per year. Staff will be following these developments closely.

Expenses:

Savings in employee benefit elections, utilities and debt service is allowing staff to recommend a decrease in expenses of about \$25,500.

Fiscal Impact:

The fund will use \$97,860 of its already depleted reserves in 2016/17 leaving about \$173,326 to sustain services in the future. The fund has already cut contributions to capital improvement projects and will have to cut street maintenance services within 1.7 years without additional funding.

Municipal Financial Health Diagnostic Tool:

The Town will maintain its C- grade for fiscal year 2016/17 as the overall general fund outlook remains the same since the original budget was adopted. The Town is making progress on its fiscal health, but must continue to address depleted reserves, long-term obligations, diminished assets and diversity its revenue stream. Following are the items that remain a hindrance to the Town's financial health:

1. *Recurring General Fund Operating Deficits*

Measure C has temporarily cured the General Fund Operating Deficit, but the town must now diversity its revenue sources to prepare for when Measure C goes away.

2. *General Fund Unassigned (Cash Flow) Reserves are Inadequate*

A \$1,049,677 unassigned reserve is projected as of June 30, 2017 on a \$12.5 million budget which is 8.4% of the budget. The Town has a goal of 10%.

3. *Inadequate Cash and Short Term Investments*

The amount of the annual Tax Revenue Anticipation Note (TRAN) is being reduced; however, the Town still had to borrow \$2.25 million to build a cash flow bridge this fiscal year. The TRAN will cost \$32,000 in interest and issuance costs.

4. *Fixed and Personnel Costs Exceed 80% of Operating Expenditures*

The Town's fixed costs as a percent of operating expenditures have improved slightly from 87.7% for budget year 2015/16 to 87.3% for budget year 2016/17.

5. *Budget Balanced by Deferring Asset Maintenance*

For the second time in six years, Measure C has allowed the Town to budget asset replacement and maintenance in 2016/17. However, as Council knows Measure C will only last another 4 years.

6. *Pension Liabilities or Post-Employment Benefit Funding Deferred*

GASB 68 and CalPERS are requiring that the pension related unfunded liabilities be funded over time. The Town has another 14 years to pay on the Pension Obligation Bond and CalPERS is amortizing current unfunded liability over 20 + years. This leaves very little room in the budget to fund OPEB benefits (retiree health). \$150,000 to \$200,000 should be contributed toward these obligations, but the Town can only afford to contribute \$25,000 this fiscal year.

General Fund Five Year Projection:

Staff made some basic and conservative assumptions about revenue and expenditure growth for the next five years. Further, staff estimated and included CalPERS pension contribution increases, Pension Obligation Bond Increases, two more years of contracted employee COLA's and reductions for any lease purchases paid off. The result is that there is projected to be a little revenue that exceeds expenditures in a range from \$7,600 to \$200,000 in this five year projection. The challenge will be to prioritize the many items that will require funding. A list of the most important of these are indicated below:

- Measure C expires in just over 4 years, and while the Town has been careful to use Measure C mainly for asset replacement and deferred maintenance, there are some ongoing expenses being funded through this revenue source. The Measure C Preliminary Financial Plan includes a 10% reserve or \$720,000 that could fund some of these items for a few years:
 - 2nd Police Investigative Position
 - CAL FIRE contract support
 - 75% of Animal Control Officer
 - Police Officer training support
 - K-9 program

- The Town is currently in the 1st year of 3 year contracts with all of its employee groups which gave employees their first modest COLA in over seven years. The next contract will also have to find a balance between affordability and attracting and retaining qualified personnel.

- The first five year CAL FIRE personnel contract expires in June 2017 and the Town is

currently negotiating a new service contract. A not to exceed 5% escalator amounting to about \$150,000 a year was built into that contract. While the Town is negotiating a lower escalator for the renewal, if the State provides higher wages or benefits than what the escalator will cover, the Town may not be able to maintain the same level of service for its wildfire vulnerable community.

- The Town has been underfunding its OPEB (retiree medical) obligation. It will contribute \$25,000 this fiscal year when it should be contributing \$150,000 to \$200,000 per year to make the obligation manageable in the future.

2017/18 Budget Adoption Timeline:

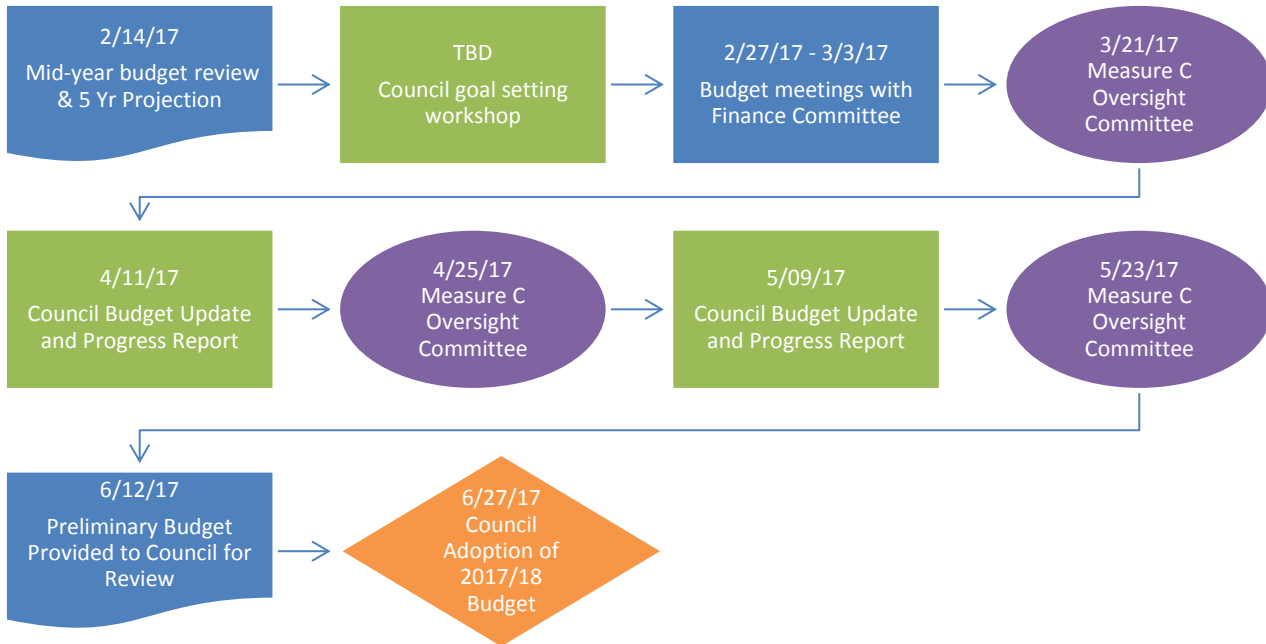
Starting with this mid-year budget report, the Mayor, Vice Mayor and Council members will have a number of opportunities to indicate their budget priorities and provide input during the budget process.

To review, the 2016/17 budget started with a Town Council priority setting session on February 25, 2016 where a list of priorities were identified and it was discussed that 4-5 items on the list could realistically be accomplished. Council and Staff will meet that expectation and following is an update on those priorities to date:

	Priority	Completion Date
1	CAL FIRE Contract Renewal	April 2017
2	Northern Recycling & Waste Services Franchise Agreement	February 2017
3	Paradise Sewer Project	Ongoing – Draft Feb. 2017
4	Town-wide Personnel Structure (Phase I)	July 2016
5	Business Identification/License	February 2017
6	Master Fee Schedule Update	Deferred to July 2017
7	Facilities Best Use/Deferred Maintenance	Deferred to 2017/18
8	Tourism/Economic Development	Ongoing
9	Increased Traffic Enforcement	Deferred
10	Review Code Enforcement & Animal Control Processes (Phase I)	March 2016
11	\$175,000 for Animal Shelter Addition	Deferred

2016/17 Operating and Capital Budget Status Update (Mid-Year Review)
 February 14, 2017

Following is the schedule for 2017/18 Budget Adoption:



Conclusion:

As expected, this 2016/17 fiscal year is one mile in a long marathon to achieve financial stability. Town Council, the Community and staff should be pleased with the continuing progress but recognize there are more challenges ahead. All funds are being carefully monitored and only sustainable expenses are being put back into budgets. Further, the Town is being good stewards of Measure C monies and is investing those funds as expected by the community in items that sustain and enhance the services provided to the community. However, the next mile on the horizon, the Town will need to focus on sustaining Animal Control Services and Gas Tax/Street Maintenance services. Final miles the focus will be on diversifying revenue sources and investing in future sustainability by providing funding for asset replacement and long-term obligations.