



**Town of Paradise  
Council Agenda Summary  
Date: January 9, 2018**

**Agenda Item:**

**Originated by:** Gina S. Will, Administrative Services Director/Town Treasurer  
**Approved by:** Lauren Gill, Town Manager  
**Subject:** 2017/18 Operating and Capital Budget Status Update and Mid-Year Financial Review

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**Council Action Requested:**

1. Review the 2016/17 audit adjustment described in the report; and
2. Review and approve the 2017/18 mid-year budget report and budget adjustments; and
3. Review and File GASB 45 actuarial report; and
4. Review the results of the California Municipal Financial Health Diagnostic Tool; and
5. Review the results of the General Fund 5 Year Budget Projection and Long Range Financial Projection; and
6. Provide direction to staff for scheduling a Town Council goal setting workshop to discuss 2018/19 budget priorities.

**Alternatives:**

Decline to approve all or some of the mid-year budget adjustments recommended which could cause certain accounts to go over budget or which could prevent Town staff from providing certain services.

**Background:**

The Town has completed the first six months of the 2017/18 fiscal year. The 2017/18 operating and capital budget was adopted June 27, 2017. The Town has made progress in restoring some general fund cash flow reserves and addressing some other financial weaknesses; however, financial challenges remain. True to its 2017/18 tortoise and the hare budget theme “slow and steady wins the race”, the Town is taking small but progressive steps in building financial stability.

After 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 \$8.15 million during the six years to maintain services. The appropriate use of the 2017/18 monies were vetted through the Community Oversight Committee and approved by the Town Council and includes replacement of three police cars, 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 long-term budget projection is analyzed, and priorities are discussed.

**Discussion:**

**2016/17 Financial Statement Audit Adjustment**

At the conclusion of the audit of the 2016/17 financial statements, staff agreed with the recommendation of the independent auditors to remove the Paradise RDA cash advance from the General Fund balance sheet. As Town Council is aware, staff fought hard to preserve \$1.3 million in loans from the General Fund to the former Paradise RDA as enforceable obligations through the State dissolution process. These loans are being paid off slowly and \$46,352 has been received in loan repayments since the dissolution. There was an additional \$645,000 advanced that was not memorialized in a loan before 2012, and consequently is not a recognized enforceable obligation. Staff has used RDA residual balance payments as payments against this obligation, but there is no financial benefit to the Town by preserving this presentation. While the onetime book transaction of recording the “bad debt” to remove this receivable appears to make expenses exceed revenues, it is important for Town Council and the readers to recognize that financial position and cash flow reserves are left the same as demonstrated below:

	2016/17 General Fund Position (without Measure C) Before Adjustment	2016/17 General Fund Position (without Measure C) After Adjustment
Revenues	11,144,816	11,161,480
Expenditures	10,817,317	11,438,044
Net Change in Fund Balance	327,499	(276,564)
Designated Reserves		
Nonspendable (RDA & Other Loans)	1,950,753	1,346,690
Assigned for Property Abatements	20,000	20,000
Unassigned – Cash Flow	1,351,534	1,351,534

**2017/18 Operating and Capital Budget Update**

**Fund 1010 – General Fund**

Staff analyzed a General Fund Budget Performance Report to date for the 2017/18 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:

**General Fund Revenues**

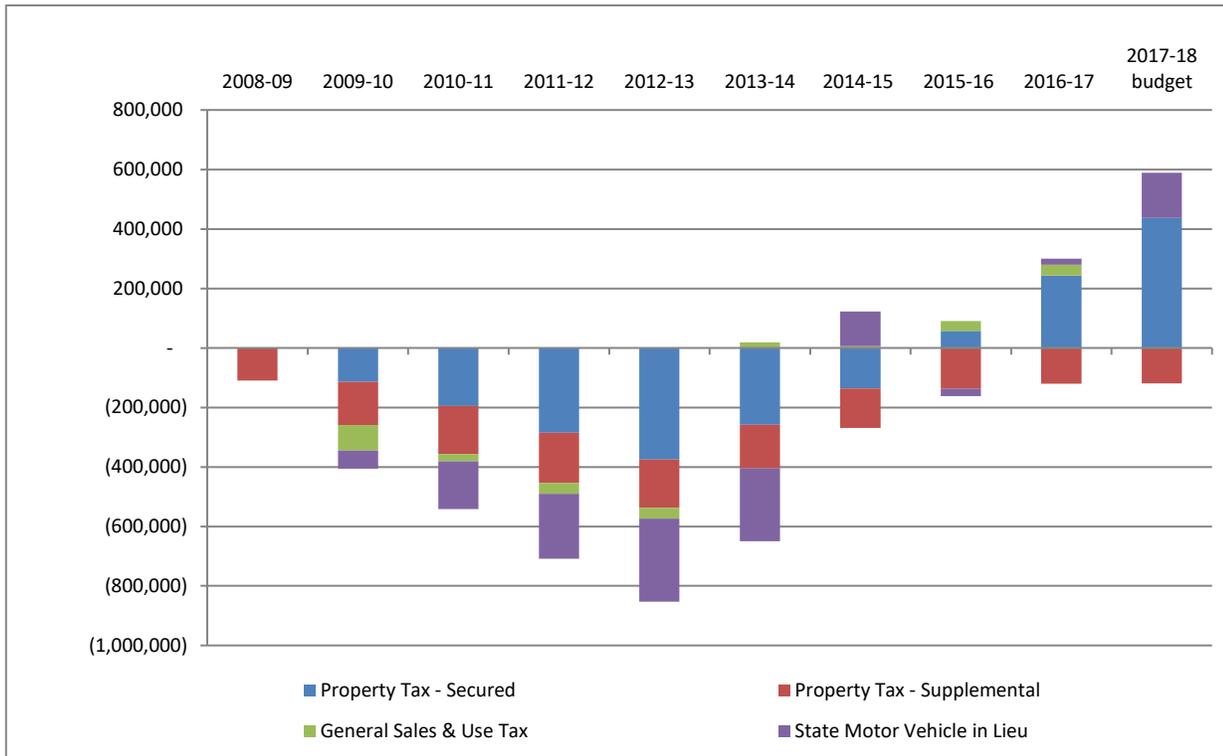
	2016/17 Estimated Actual	2017/18 Amended Budget	2017/18 Proposed Budget	2017/18 Mid-Year Budget Adjustments
Measure C	\$1,355,070	\$1,368,621	\$1,368,621	\$0
Non Department	10,843,935	11,114,386	11,188,453	74,067
Finance	20,039	20,100	20,100	0
Police	92,290	76,631	70,312	(6,319)
Fire	82,339	133,025	188,700	55,675
Planning	61,099	55,729	78,366	22,327
Waste Management	30,426	45,954	42,696	(3,258)
Engineering	28,433	69,882	61,813	(8,069)
Community Park	2,920	2,500	2,500	0
<b>Totals</b>	<b>12,516,551</b>	<b>12,886,828</b>	<b>13,021,561</b>	<b>134,423</b>

- Property Taxes: The Town has received its first deposit of 2017/18 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 4.66% as compared to growth of 3.88% last year. Unsecured property taxes are expected to grow 1% after growth of 4.02% last year. Homeowner’s apportionment is expected to decrease 1.82% after increasing 1.30% last year.

For the second time in nine 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 remaining \$2.86 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.

### Property Value Based Revenues Lost

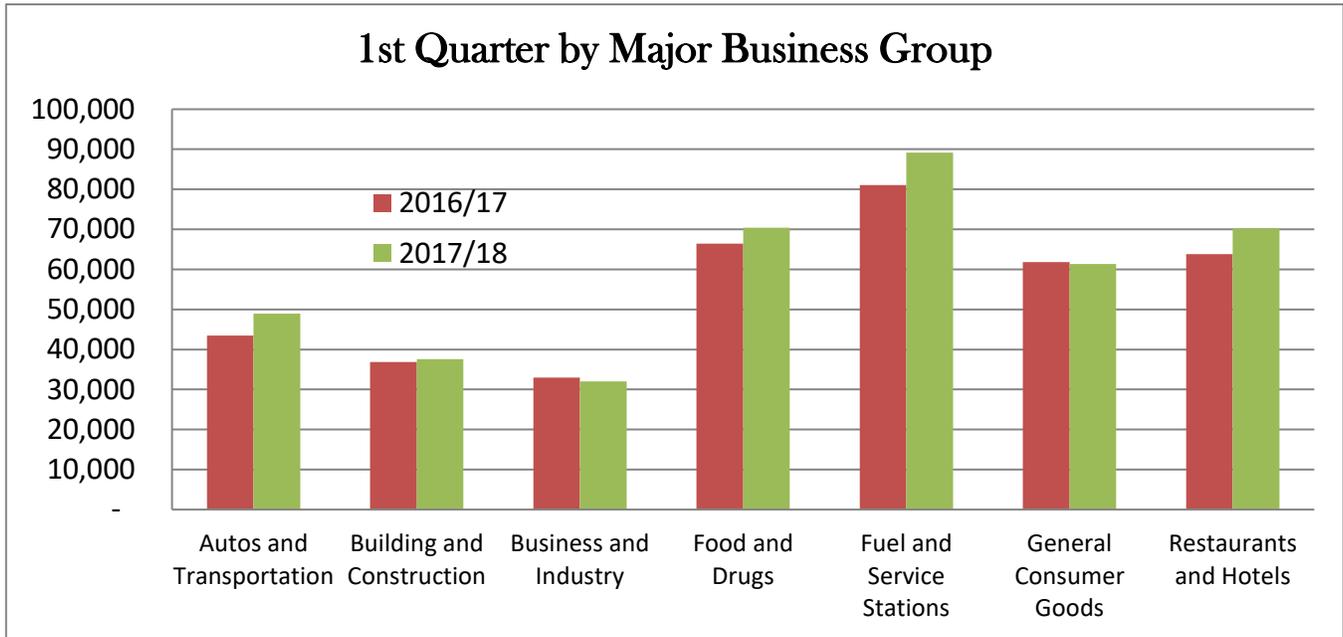


The following chart further summarizes property tax expectations and recommended budget adjustments for this 2017/18 budget year:

Property Taxes	2016/17 Estimated Actual	2017/18 Amended Budget	2017/18 Proposed Budget	2017/18 Budget Adjustments
Secured	\$4,545,285	\$4,687,123	\$4,739,480	\$52,357
Unsecured	241,278	245,483	243,690	(1,793)
Supplemental	61,720	66,507	62,954	(3,553)
Homeowners Apportionment	66,507	66,507	65,294	(1,213)
<b>Totals</b>	<b>\$4,914,790</b>	<b>\$5,065,620</b>	<b>\$5,111,418</b>	<b>\$45,798</b>

- Motor Vehicle in Lieu (MVIL): MVIL is the second largest revenue source for the Town’s General Fund. The Town has yet to receive its first receipts but has reviewed the County’s estimates of MVIL for 2017/18. There is no adjustment currently recommended. The Town will receive \$2.33 million in 2017/18 as compared to \$2.25 the prior year.

- Sales Tax: With the first quarter of 2017/18 sales tax receipts recorded, receipts show over 3% growth. Analysis shows growth in five of the seven business groups. Gasoline sales are the single largest contributor to sales tax generation in the Town, and with gas prices increasing, so too are sales tax receipts. **Staff recommends a \$20,302 increase to the sales tax budget.** The Town is expected to receive \$1.86 million as compared to \$1.84 million the prior year.



- Franchise Fees and Transient Occupancy Taxes (TOT): With one quarter of receipts recorded for the 2017/18 fiscal year, **staff recommends increasing Franchise Fees by \$7,536 and decreasing TOT by \$1,972.** The Town anticipates receiving \$958,206 in Franchise Fees and \$207,723 in TOT for 2017/18.
- Transfers in from Traffic Safety Fund: The Traffic Safety Fund accounts for revenues received from vehicle code fines. On an annual basis, these funds are transferred to the General Fund in support of police operations. The last several years, as the Town has struggled to fill and maintain police operations positions, revenues have declined. In 2008/09, revenues were \$35,311. Last fiscal year they were \$14,047. This fiscal year they are expected to be about \$10,000. **Staff recommends decreasing the revenues transferred by \$10,000 for 2017/18.**
- Police Services: With the police department on the verge of filling its final operations vacancy, police revenues are trending fairly close to expectations. Accounts like impound fees, false alarm response are trending above budget while accounts like POST reimbursements, refunds and reimbursements, and special services are trending below budget. **Staff recommends decreasing police revenues by \$6,319.**

- Fire Equipment Rental: 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:

- 2016/17 \$71,229
- 2015/16 \$89,635
- 2014/15 \$174,163
- 2013/14 \$24,601
- 2012/13 \$94,085

\$75,000 was originally budgeted for 2017/18, and the last budget update increased the budget to \$125,000. As \$177,084 has been received to date, **staff recommends increasing the budget to \$180,000**. As directed by Town Council, any amounts exceeding \$75,000 will be transferred to the Assets Sales Proceeds Fund in order to fund future apparatus replacement. Thus, \$105,000 will be set aside for future replacements. The 2017/18 year is the first year, since making the commitment, that revenues have achieved a transferable level.

- Planning Citations: The Town's code enforcement program continues to make slow but steady progress on addressing blighted and hazardous properties for citizens of the Town of Paradise. The former Carousel Motel, off lower Skyway, has been renovated into a small quality apartment complex. Police calls for service have diminished and property values in the area are increasing.

Code enforcement has recently focused on large outdoor marijuana grows within the Town. Most have now been eliminated. Administrative citations were issued to motivate code compliance. \$13,000 was originally budgeted for public nuisance and hazards citations (including marijuana) and the last budget update increased the budget to \$28,000. With receipts of \$46,445 to date, **staff recommends increasing the planning citations budget to \$48,500**.

- Public Works/Engineering: Currently public works/engineering service revenues are trending below budgeted levels in accounts like private development and drain plans. With the Skyway Safeway potentially delayed with environmental impact reviews, **staff recommends decreasing engineering revenues \$8,069 in order to remain conservative**.

To summarize, the Town is expected to receive \$134,423 more in revenues for 2017/18 than currently budgeted. With Measure C, this is growth of 4% over the prior fiscal year.

However, 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 is not subsidizing the special services of a few. A revised Master Fee Schedule was implemented this 2017/18 fiscal year.

**Measure C**

*“a temporary sales tax increase of 0.50% that automatically expires in six years, and that establishes a citizen oversight committee to ensure that funds are used to **preserve public services** such as police protection, fire suppression, street maintenance, animal control and other services for the Town of Paradise”*

Measure C, the 0.50% transaction and use tax approved by the voters in November 2014, took effect April 1, 2015. The Town is now in its third of six years with the temporary measure. Serious analysis and study is ongoing to determine if the prudent reserves established for Measure C can build a sufficient bridge to financial security, or if public service cutbacks are expected once Measure C sunsets. Staff will attempt to answer this question with a financial projection later in the report.

In the meantime, as intended, 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 police services and 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 2017/18.

Measure C Updated

	<u>2017/18 Amended Budget</u>	<u>2017/18 Proposed Budget</u>	<u>2017/18 Budget Adjustments</u>
<b>Police Department</b>			
Roof Replacement	47,000	47,000	0
2 <sup>nd</sup> Investigator	187,929	97,578	(90,351)
Police Cadets (2)	46,602	56,583	9,981
Police Cars	100,000	75,512	(24,488)
Body Cameras	5,917	5,917	0
Enhanced Training	15,000	15,000	0
K-9 Program	11,000	11,000	0
	<hr/> 413,448	<hr/> 308,590	<hr/> (104,858)
<b>Animal Control</b>			
Support for 2 AC Officers & Rabies Vaccine	75,083	60,158	(14,925)
Officer and Supervisor Training	1,600	1,600	0
Concrete Repairs	8,000	8,000	0
Rendering Setup & Maintenance	13,700	13,700	0
Computer Replacement	1,017	1,017	0
Online Dog Licensing Renewal	4,000	4,000	0
Additional Support to Maintain Services	0	37,239	37,239
	<hr/> 103,400	<hr/> 125,714	<hr/> 22,314



➤ Public Works

Increased costs for the Maxwell Drive Safe Routes to School Project were almost entirely offset by savings from the Bille Road overlay project as reflected in the recommended revised budget.

The Measure C Financial Plan (included in the agenda materials) was updated to include these adjustments as well as the ongoing impacts. Following is a summary of the updated Financial Plan:

Projected Revenues		\$8,148,431
Commitments for:	Police	\$2,212,351
	Fire	2,240,849
	Animal Control	614,358
	Public Works	1,577,610
	10% Fixed Reserve	814,843
	Contingency Reserve	688,420 (8,148,431)
Net Remaining		0

Measure C has been used appropriately and effectively to maintain critical public services as committed to the citizens of the Town of Paradise. In addition, Council has had the foresight to commit a portion of the funds to Measure C reserves in order to extend the support for ongoing expenses for after Measure C expires. Between fixed reserves and contingency reserves, current projections show that \$1,503,263 is available for ongoing expenses after Measure C expires. Following is an illustration of how those funds might be used:

<u>Ongoing Annual Costs Supported by Measure C</u>		<u>Totals</u>
2 <sup>nd</sup> Investigation Position	\$157,714	
Sponsor Police Cadet	28,292	
K9 Program	11,000	
Enhanced Police Dept. Training	15,000	
Maintain CAL FIRE Service Levels	250,000	
Animal Control Service Staffing and Operations	134,600	\$596,606

\$1.5 million/\$597 thousand = 2.52 years

Staff most recently met with the Measure C Citizen Oversight Committee on November 29, 2017 where approval was received to move forward with installing an additional fleet bay and lift, and for increasing the Animal Control Officer salary pay plan to attract interest to the vacant position. That meeting included a frank discussion and a healthy debate about the remaining use of Measure C funds. All agreed that to date the intended use and purpose of Measure C has been followed. Following are some of the key questions and answers that came out of the discussions:

Q) *Why isn't the normal general fund operations budget funding Animal Control Services?*

A) It could, but then more police or fire expenses would need to be funded by Measure C to maintain those services. Further, with the recession, the General Fund stopped contributing to all non-public safety operations including Building Safety, Street Maintenance and Animal Control. The General Fund has not grown back sufficiently to fund other operations.

Q) *Why is the Town using Measure C to fund personnel expenses?*

A) The Town of Paradise is primarily a service agency and its personnel provides the services. With the CAL FIRE contract, over 73% of the General Fund budget is personnel related expenses. Further, Town staff are the lowest paid in Butte County and staffing levels are still down over 20% from pre-recession levels. Though not ideal, in order to “*preserve public services*” as directed by Measure C, some personnel expenses are paid by Measure C.

Q) *How will services be impacted when Measure C expires?*

A) With prudent planning and reserves, service levels can be maintained another 2.5 years after Measure C expires. A 6 year community investment then is stretched to 8.5 years. Beyond that, the Town will likely resume deferring equipment replacement and facility maintenance in order to preserve services. More study and detailed analysis is provided in the long-term projection section of the report.

### General Fund Expenditures

	2016/17 Estimated Actual	2017/18 Amended Budget	2017/18 Proposed Budget	2017/18 Budget Adjustments
Measure C	\$1,328,364	\$1,202,776	\$1,121,903	(\$80,873)
Non Department	1,632,745	1,089,820	1,192,516	102,696
Administration	1,594,341	1,592,569	1,614,151	21,582
Police	3,990,008	4,287,017	4,259,252	(27,765)
Fire	3,692,132	4,004,633	4,026,616	21,983
Community Develop.	195,049	206,091	208,297	2,206
Public Works	333,769	314,735	327,510	12,775
<b>Totals</b>	<b>\$12,766,408</b>	<b>\$12,697,641</b>	<b>\$12,750,245</b>	<b>\$52,604</b>

#### Non Department:

By the end of 2016/17, the Town achieved its goal of a 10% General Fund Cash Flow reserve. In fact, with a cash flow reserve of \$1.35 million, it achieved a cash flow reserve of 10.6% of total operating expenses. Now that the Town has addressed some of its short-

term financial objectives, it should begin to set goals and address some longer-term financial objectives.

There are three important longer-term goals to consider:

- ✓ The ability to replace equipment and vehicles when needed.
- ✓ Funding for the unfunded liability related to post employment benefits (retiree health).
- ✓ Further growth of the cash flow reserve in order to eliminate TRAN (short-term annual borrowing).

Currently, as short-term borrowing is relatively inexpensive, and since a cash flow reserve of about 25% would be needed to eliminate the TRAN, staff proposes to begin addressing each of these goals equally. Staff proposes that for each year there is a positive net change in fund balance, that those funds be split between future equipment replacement, an additional contribution toward unfunded liability, and additions to cash flow reserve.

At the end of 2016/17, there is \$74,893 that meet these criteria. Thus, staff proposes to **increase the budget for 2017/18 to include a transfer to future equipment replacement of \$24,964, and an increased contribution to the GASB 45 retiree health trust of \$24,964.** The remaining \$24,964 will be left in cash flow reserves.

Also, as described in the previous fire equipment rental revenue section. Revenues exceeding \$75,000 will be allocated to future apparatus replacement. Based on current revenues, **an additional \$55,000 is recommended** to be moved for future replacements.

Administration:

Collectively **administrative divisions are anticipated to increase \$21,582.** There are two primary reasons for the increase both of which are accounted for in the Central Services program. First, as previously approved by Town Council, the Town has hired a consultant to conduct a facilities review of all of the Town's properties for a cost of about \$12,300. The second, also approved by Council, is water damage repairs to Town Hall at a cost of approximately \$12,960. A summary of all recommended adjustments is summarized as follows:

✓ Town Council	(640)
✓ Town Clerk	(1,397)
✓ Town Manager	1,591
✓ Central Services	24,739
✓ Information Technology	(1,084)
✓ HR and Risk Management	(892)
✓ Legal Services	(3,383)
✓ Finance	2,458
✓ Rental Properties	13
✓ Emergency Operation Center	177

### Police Department

- Police Administration: Despite increased costs for facility repairs and retiree health payments, overall it is recommended that **the police administration budget be decreased by \$19,675**. The savings is mainly from a delay in the hiring of a replacement Police Chief but also some savings from the administration training budget.
- Police Operations: After a couple years of struggling, police operations is on the verge of having all of its positions filled. Two trainees have recently graduated from the academy and have joined the force, and a final cadet has just entered the academy. If all goes as planned, all operations vacancies will be filled by the end of the fiscal year.

It is recommended that the **operations budget be increased by \$45,935** to cover increased overtime costs, increased CalPERS contribution requirements, increased retiree health costs, and increased fuel costs. Those increased costs are partially offset by other salary and benefit savings and by additional AB109 training monies.

- Public Safety Communications: This division currently has two vacancies. So while overtime and retiree health costs are up, salary and benefit savings allow the division to request a **budget decrease of \$54,025**.

### Fire Department

Fire Administration: Staff recommends a **budget increase of \$11,038** mainly to cover increased retiree health and utility costs.

Fire Suppression: This division also needs a **budget increase of \$17,060** principally to cover increased retiree health and increased gasoline costs.

Volunteer Program: **Savings of about \$6,115** is 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 of a firefighter, and the time commitment and physical ability associated with these requirements are making it more and more difficult to recruit and retain volunteers.

### Community Development and Public Works

The primary adjustment for Community Development and Public Works is in the Fleet Management Division. The repairs and maintenance supplies account needs to be increased in order to fund additional repairs. Even with the increase, the account is below prior year levels showing that car and equipment replacement is helping reduce the fleet budget. In addition, some costs have been reallocated between Planning and Waste Management Divisions. Recommended **budget increases for the two departments total \$14,981** as summarized below:

✓ Planning	6,671
✓ Waste Management	(4,465)
✓ Engineering	(1,903)
✓ Paradise Community Park	2,224
✓ Public Facilities	2,500
✓ Fleet Management	9,954

**Fiscal Impact:**

Again, Measure C is the key to allowing the Town to make slow but steady progress 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 and high fixed costs. This year, the Town will maintain a balanced budget, and is expected to add about \$24,599 to cash flow reserves. The Town has achieved its goal of a 10% cash flow reserve and by the end of the fiscal year will have about \$1.38 million. The Town has decreased its cash borrowing, but will continue to borrow until reserves reach about 25%. The Town will continue to build cash flow reserves, but will also begin funding for future equipment replacement and contributions toward unfunded liabilities. Following shows the progress the Town has made:

	2016/17 Estimated Actual	2017/18 Amended Budget	2017/18 Proposed Budget	2017/18 Budget Adjustments
Measure C Revenues	\$1,355,070	\$1,368,621	\$1,368,621	\$0
Measure C Expenses	1,328,364	1,202,776	1,121,903	(80,873)
Measure C Net Income	26,707	165,845	246,718	80,873
GF Revenues	11,161,480	11,518,207	11,652,940	134,423
GF Expenses	11,438,044	11,494,865	11,628,342	133,477
GF Net Income	(276,564)	23,342	24,599	947
Measure C Fund Balance	672,797	838,642	919,515	
GF Fund Balance	2,718,224	2,741,494	2,742,823	
Total Fund Balance	3,391,021	3,580,136	3,662,338	
Designated Reserves – Measure C				
Final Year	283,274	283,274	0	
Police Vehicle Payments	150,149	150,149	177,454	
Fixed Reserve	0	203,710	203,711	
Contingencies	239,374	201,509	538,350	
Designated Reserves				
Nonspendable	1,346,690	1,333,310	1,346,690	
Property Abatements	20,000	20,000	20,000	
Cash Flow	1,351,534	1,388,184	1,376,133	

**Fund 2030 – Building Safety and Wastewater Services**

	2016/17 Estimated Actual	2017/18 Amended Budget	2017/18 Proposed Budget	2017/18 Budget Adjustments
Revenues	\$903,237	\$969,383	\$971,681	\$2,298
Expenses	893,003	962,769	949,524	(13,245)
Net Income	10,234	6,614	22,157	15,543
Ending Fund Balance	\$483,240	\$489,854	\$505,397	

**Revenues:**

Development shows steady increase for the year, but not much more than what was originally expected and budgeted. The numbers are mostly trending as originally budgeted.

**Expenses:**

Collectively expenses for 2017/18 should be decreased about \$13,245 primarily from a vacancy within the division. Currently the Building Official/Fire Marshal position remains vacant after one recruitment attempt. This may be another example of the Town struggling to compete with salaries and benefits of the private sector and other public agencies.

**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. Once the vacant position is filled, the fund 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**

	2016/17 Estimated Actual	2017/18 Amended Budget	2017/18 Proposed Budget	2017/18 Budget Adjustments
Revenues	\$221,176	\$235,983	\$200,387	(\$35,596)
Expenses	219,258	235,983	200,387	(35,596)
Net Income	1,917	0	0	0
Ending Fund Balance	0	0	0	

**Revenues:**

The 2017/18 budget was built with the expectation that the division would be fully staffed and that service levels and service revenues would increase. However, as the division is still

without one of its Animal Control Officer’s those expectations were not realized and revenues need to be reduced. In addition, Paradise Animal Shelter Helpers (PASH) has pulled back a good portion of their financial support. Finally, animal control donation funds will run out this fiscal year sooner than expected. All combined these realities result in a recommendation to decrease revenues by \$35,596.

**Expenses:**

Salary savings from the vacancy is not enough to offset the revenue reductions described above. As Measure C is currently the only viable funding source, it is recommended that it cover the gap in funding expenses until another funding source is determined.

**Fiscal Impact:**

As has been discussed for many years, Measure N the \$12 per parcel per year fee provides \$132,000 of funding per year. It is not enough to fund an approximate \$325,000 operation. The General Fund has also not grown back sufficiently to fund the operations. A long term funding mechanism is needed to maintain these services.

**Fund 2120 – State Gas Tax (Street Maintenance)**

	2016/17 Estimated Actual	2017/18 Amended Budget	2017/18 Proposed Budget	2017/18 Budget Adjustments
Revenues	\$917,965	\$1,234,691	\$1,212,181	(\$22,510)
Expenses	1,098,162	1,176,660	1,148,497	(28,163)
Net Income	(180,196)	58,031	63,684	5,653
Ending Fund Balance	\$90,989	\$149,020	\$154,673	

**Revenues:**

With the additional transportation funding passed by SB-1, the Town will receive about another \$178,000 for street maintenance this fiscal year. A careful review of the Highway User Tax estimates annually released by the League of California Cities compared to the Town’s actual historical receipts, prompts staff to recommend a reduction in revenues of about \$22,510.

**Expenses:**

An ongoing employee leave situation has more than offset the estimated reduced revenues even after an increase in overtime to cover the absence. It is recommended that expenses also be reduced by \$28,163.

**Fiscal Impact:**

The fund will add about \$63,684 to its previously depleted reserves, which will restore reserves to a more appropriate \$154,673.

**Fund 2160 – Business & Housing Services**

	2016/17 Estimated Actual	2017/18 Amended Budget	2017/18 Proposed Budget	2017/18 Budget Adjustments
Revenues	\$153,435	\$159,342	\$159,902	560
Expenses	146,984	152,903	182,073	29,170
Net Income	6,451	6,439	(22,171)	(28,610)
Ending Fund Balance	93,098	99,537	70,927	

**Revenues:**

Recommended revenue adjustments in this division are immaterial and total \$560.

**Expenses:**

With the award of another \$1.0 million Home Grant, there are timing requirements that indicate that additional home type grant monies cannot be applied for until a certain portion of the grant is used. In order to get these monies into the community and draw down this grant, the division has hired a temporary employee to aid the application and administration of the grant. In addition, more funds are needed for inspections, appraisals and other related fees. It is recommended that expenses be increased by \$29,170 to cover these additional costs.

**Fiscal Impact:**

Ending fund balance or reserves in this fund fluctuate with the timing of grant activity delivery and expenses. Ultimately, it is a clearing account and is not meant to carry a balance.

**Valuation of Retiree Health Benefits**

**Background:**

The Governmental Accounting Standards Board (GASB) introduced GASB 45 which required that the Town of Paradise measure and report the liabilities associated with other (than pension) post-employment benefits (OPEB) in their financial statements beginning with the 2009/10 fiscal year. GASB 45 was created to address the growing concern over the potential magnitude of government employer obligations for post-employment benefits.

On March 4, 2011, the Town of Paradise received its first actuary study indicating that the total present value of all future benefits as of July 1, 2010 was \$45,810,590. Further, the actuary study indicated that the Annual Required Contribution (ARC) was \$3,571,180 for the 2009/10 fiscal year. As required

by GASB 45, \$3,124,322 (the ARC less the actual amount contributed for retiree benefits) was disclosed and recorded in the Town's 2009/10 financial statements resulting in a serious decrease of the Town's governmental fund's net assets.

The Town took immediate action to beginning reducing this obligation, recognizing this obligation has immediate adverse financial consequences for the Town by affecting the Town's overall credit worthiness and ability to borrow money at favorable rates. Following are actions that the Town took to reduce the obligation to one that is manageable:

- Implemented retiree health vesting schedule for new hires
- Recession resulted in reduced workforce
- Negotiated health benefit caps with all employee groups
- Established and began funding irrevocable trust

**Discussion:**

Though counterintuitive, analysis and discussions with the actuary led staff to recognize that the retiree health vesting schedule implemented for new hires was actually increasing the liability in the long run. The vesting schedule under CalPERs administration did not cap the benefits so would provide a greater benefit in the future. The Town was successful in explaining this to employee groups, and was able to remove the vesting schedule from all group plans.

As required every other year, the Town contracted to have another actuary study completed to measure the obligation as of July 1, 2017 (a copy is included with the agenda materials). The current report shows that the obligation is currently \$11,507,606. A 74.9% reduction in the obligation compared to the original measurement and a 34.1% reduction from the last report. A summary comparison is provided below:

<b>July 1, 2010</b>		<b>Safety Employees</b>	<b>Non-Safety Employees</b>	<b>Total Present Value of Projected Benefits</b>	<b>Persons</b>
Current Employees		\$15,942,135	\$14,309,133	\$30,251,268	113
Retired Employees		<u>11,410,044</u>	<u>4,149,278</u>	<u>15,559,322</u>	69
<b>Totals</b>		<b>\$27,352,179</b>	<b>\$18,458,411</b>	<b>\$45,810,590</b>	<b>182</b>
<b>July 1, 2015</b>		<b>Safety Employees</b>	<b>Non-Safety Employees</b>	<b>Total Present Value of Projected Benefits</b>	<b>Persons</b>
Current Employees		\$2,964,622	\$3,963,810	\$6,928,432	66
Retired Employees		<u>6,534,835</u>	<u>4,011,882</u>	<u>10,546,717</u>	80
<b>Totals</b>		<b>\$9,499,457</b>	<b>\$7,975,692</b>	<b>\$17,475,149</b>	<b>146</b>
<b>July 1, 2017</b>		<b>Safety Employees</b>	<b>Non-Safety Employees</b>	<b>Total Present Value of Projected Benefits</b>	<b>Persons</b>
Current Employees		\$890,050	\$1,919,297	\$2,809,347	68

Retired				
Employees	<u>5,769,194</u>	<u>2,929,065</u>	<u>8,698,259</u>	79
Totals	\$6,659,244	\$4,848,362	\$11,507,606	147

The obligation decreased mainly because of removing the vesting schedule, but also as a result of high staff turnover.

**Fiscal Impact**

Starting with the next fiscal year, 2018-19, the full amount of the obligation is required to be reported on the Town’s balance sheet rather than just the net addition to annual required contributions. It will be prudent for the Town to contribute to the irrevocable trust whenever possible to fund this future obligation.

**Municipal Financial Health Diagnostic Tool:**

The League of California Cities released a revised California Municipal Financial Health Diagnostic tool that includes capital asset maintenance as an indicator for financial health. As the Town has improved its cash flow reserves, and with recent grants, has done well in maintaining its capital assets, the Town has improved its grade to a C+ for fiscal year 2017/18. The Town has made considerable progress on its fiscal health, but must continue to address long-term obligations 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 expires.

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

The Town’s fixed costs as a percent of operating expenditures has worsened some from 86.0% for budget year 2016/17 to 87.1% for budget year 2017/18.

3. *Budget Balanced by Deferring Asset Maintenance*

Measure C has allowed the Town to budget asset replacement and maintenance in 2017/18. However, as Council knows Measure C will only last another 3 years.

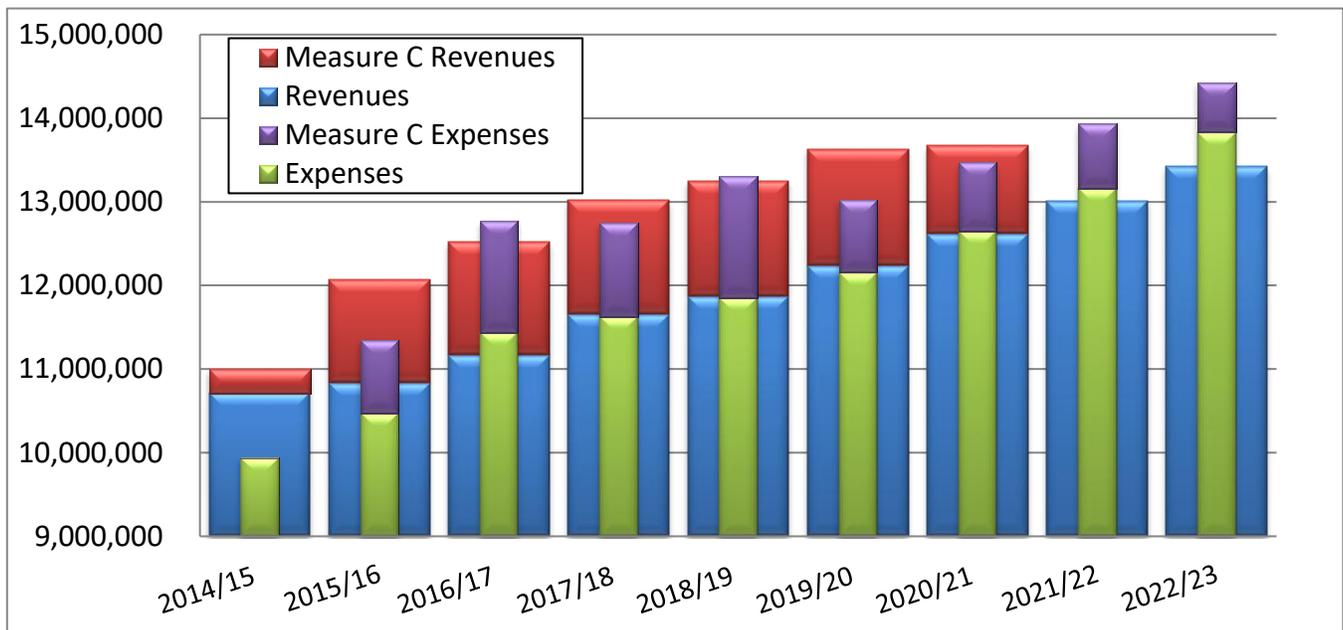
4. *Pension Liabilities or Post-Employment Benefit Funding Deferred*

GASB 68 and CalPERS are requiring that the pension related unfunded liabilities be funded over time. The Town has another 13 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 about \$50,000 this fiscal year.

**General Fund Five Year and Long Range Projections**

**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, one more year of contracted employee COLA's and reductions for any lease purchases paid off. The result is challenging budgets in the later part of the projection. Measure C reserves will be used in the later part of the projection to maintain some ongoing expenses. The projection moves from a positive change in fund balance of about \$18,000 to a negative change in fund balance of about \$400,00 the last projection year as shown below:



Staff is confident that any deficits can be cured; however, the challenge will be to prioritize the many items that compete for funding. A list of the most important of these are indicated below:

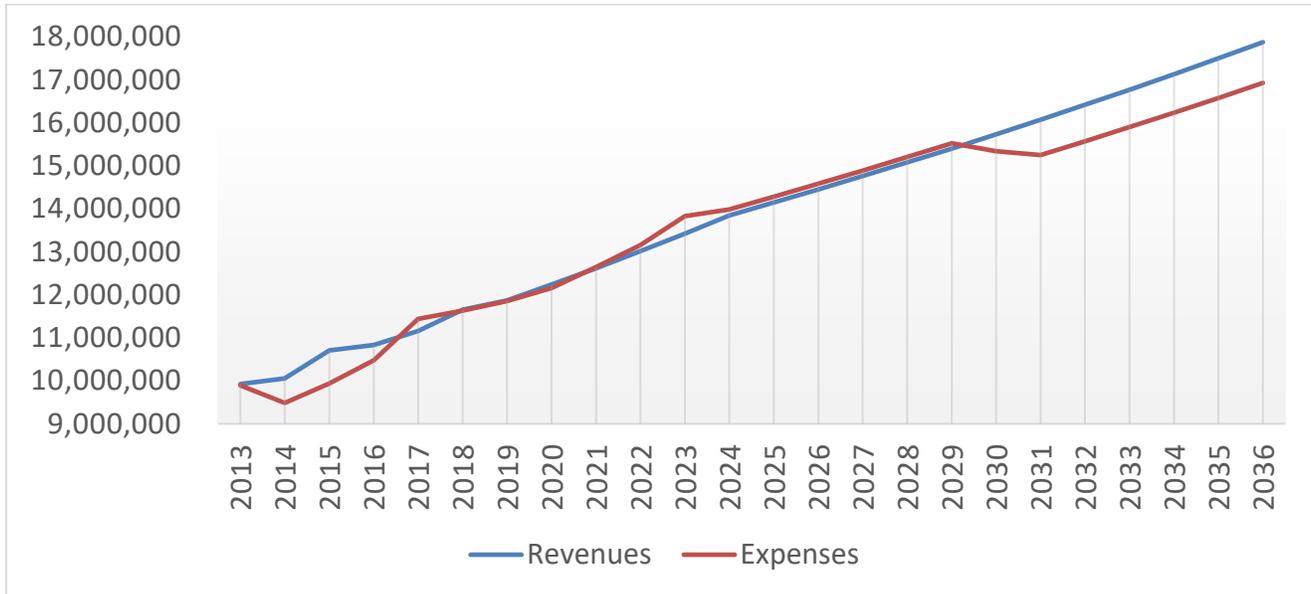
- Measure C expires in just over 3 years, and while the Town has been careful to use Measure C mainly for asset replacement and deferred maintenance, there are some ongoing expenses being funded through this revenue source. The Measure C Financial Plan includes a 10% fixed reserve and contingency reserve of \$1.5 million that could fund some of these items for about 2.5 years:

- 2<sup>nd</sup> Police Investigative Position
  - CAL FIRE contract support
  - Animal Control Services Support
  - Police Academy Sponsorship
  - Police Officer training support
  - K-9 program
- The Town is currently in the 2nd year of 3 year contracts with all of its employee groups that 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 Town negotiated another four year personnel agreement with CAL FIRE that expires in June 2021 (the same year Measure C expires). This contract capped the contract escalator; however, 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 about \$50,000 this fiscal year when it should be contributing \$150,000 to \$200,000 per year to make the obligation manageable in the future.

### **Long Range Projection**

Though imperfect, staff prepared a long range General Fund financial projection through fiscal year 2035/36 to help illustrate and model the trend or direction of the General Fund finances. Town Council should not expect that these exact numbers are realized, as there is a huge range of variables that will affect actual outcomes. However, Council can use this projection as a tool for future financial policies and direction.

A careful review of historical actuals and short-term estimates, indicate that generally, General Fund revenues grow 2.15% and expenses grow 2.11% annually. Further, the Pension Obligation Bond's (POB) largest debt service payment is in 2028/29 and is completely repaid by 2030/31. Finally, if it is assumed that the same general level of service is maintained, following are the results of the projection:



- There is roughly a 10 year period between 2020/21, when Measure C expires, and 2030/31, when the POB is repaid, that the Town will struggle to maintain a balanced General Fund. The General Fund will be balanced but sacrifices will be necessary such as:

  - Equipment replacement and facility maintenance will be deferred
  - Services supported and enhanced by Measure C will be lost
  - Cash flow reserves will not grow and may erode
  - Unfunded liability contributions will be postponed
  - There will be little in the way of matching funds for capital improvement project grants
  - There will be little room to attract and retain quality employees
  
- By 2030/31, the General Fund will be relieved by the payoff of the POB. However, the roughly \$925,000 available to fund critical needs will be less than the current Measure C receipts of \$1.35 million per year. Further, \$925,000 of the current budget is 7.9%, of the 2030/31 budget it is 5.8%, so it will need to stretch even further.

**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.

Following is a rough schedule for 2018/19 Budget Adoption:

1. February 2018 – Town Council goal setting workshop
2. Early March 2018 – Budget Discussions with Finance Committee
3. Early March 2018 – Budget Packages to Departments
4. March, April and May – Town Council and Measure C Citizens Oversight Committee Budget Updates
5. Late May 2018 – Budget Discussions with Finance Committee
6. Early June 2018 – Preliminary Budget Provide to Town Council for Review
7. Mid to Late June 2018 – Adoption of 2018/19 Budget

**Conclusion:**

As expected, the 2017/18 fiscal year shows more slow and steady progress toward 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; some investment is being made toward longer term obligations, and future equipment replacement. 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, Measure C expiration resumes financial shortages for the Town. In order for the Town to make it to the finish line and achieve long term financial sustainability, another General Fund revenue source will be required to replace Measure C.