



**Town of Paradise
Council Agenda Summary
Date: February 11, 2014**

Agenda Item: 7e

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

Subject: 2013/14 Mid Year Budget Status Update

Council Action Requested:

1. Approve budget adjustments for the following funds; or,
 - a. 1010 – General Fund
 - b. 2030 – Building Safety & Waste Water Services
 - c. 2070 – Animal Control
 - d. 2120 – Gas Tax
 - e. 5900 – Transit

Alternatives:

Refer the matter back to staff for further development and consideration.

Background:

Town Council adopted the fiscal year 2013/14 operating and capital budget June 25, 2013. At each subsequent Council meeting following that meeting, Council has approved budget adjustments based on additional information known at that time. In addition, each year staff completes a thorough mid year budget review after six months of the fiscal year has been completed. The mid year review includes a complete position control review and recalculation of all staff salary and benefits for the remainder of the fiscal year. With the help of each department, it also includes a comprehensive analysis and review of each maintenance and operations account.

At the time of adoption of the 2013/14 General Fund budget, the budget included a balanced budget and small surplus of \$2,788. Since that time, increasing revenues and some expenditure savings have increased the General Fund surplus to \$61,770. The Town started the fiscal year with a General Fund Reserve of \$1,340,767 which represents a 13.6% reserve which is shy of the 15% reserve goal set by the Town. The Town's General Fund reserve was eroded below 15% during 2010/11 and 2011/12 when it was unable to cure its deficit budgets. 2013/14 is the second year of a balanced budget.

Each month staff will propose additional budget adjustments as additional information becomes available. The recommended changes and circumstances for the current proposed 2013/14 budget adjustments are described below.

Discussion:

General Fund - 1010

Staff ran and analyzed a number of year to date financial reports in order to review trends or significant swings in budgeted revenues and expenses to date. Further, finance staff completed a thorough position control review which includes a review of every employee's budgeted salary and benefits. All of this information was reviewed with specific departments to achieve the recommended budget adjustments included on the attached General Fund Mid-Year Budget Performance Report. The second to last column on the right represents the proposed recommended budget amount for each account. The last column on the far right represents the proposed budget adjustment.

After completion of the methodical review, the recommended and proposed General Fund is balanced. As discussed later in the report, these funds must be guarded and are far from curing the true structural deficit which remains in the General Fund. Revenues are increasing in some areas, but decreasing in others to the extent that the change in proposed revenues is negligible. Most of the increased fund balance is from amended personnel costs and additional projected savings on various projects. Following is a more detailed explanation from the analysis completed and the adjustments proposed:

Revenues:

- As reported to Town Council in December 2013, property tax and motor vehicle in lieu receipts will be higher than originally budgeted. These receipts are expected to be 2.21% more than the prior year. The housing market appears to have stabilized, so property tax revenues for 2014/15 will at least receive some modest CPI growth. The first property tax installment for 2013/14 was received by the Town January 9, 2014.
- January Sales Tax receipts showed modest growth, and that combined with the Triple Flip growth submitted by the County, supports increasing the sales tax receipt budget by \$34,267. This maintains a conservative 2% growth for the remainder of the year, and results in total year over year growth of 4.3%.
- Franchise fees after reviewing the budget performance report and receipts to date, are trending about 2% above the prior fiscal year. Staff recommends no additional adjustment at this time.
- With 2nd quarter 2013/14 taxes received for Transient Occupancy taxes, staff recommends no additional budget adjustment. Receipts are trending about 5% below the prior fiscal year.
- Revenues specific to Police Department activities are recommended to be decreased by \$13,293. \$7,000 of that is a reduction to DUI accident and arrest processing projections. The remaining decrease has a strong correlation to decreased department staffing levels. More of the department's focus is on calls for service and community safety.
- Community Development Planning and Waste Management are projected to have \$9,302 and \$3,202 respectively less in revenues than originally budgeted. This is

primarily due to decreased projected administrative citation collections. An adjustment is factored in for the Code Enforcement Official position that has now been filled. In addition, administrative citations are proving harder to collect especially from those determined to not comply with Town ordinances. The majority of citations are placed on the County Tax Rolls.

- Staff also recommends decreasing projected revenues for Engineering services \$12,352. Requests for services just haven't materialized through mid year. Engineering staff is spending their time on grant funded capital improvement projects.

Changes in General Fund Revenues

	2012/13 Estimated Actual	2013/14 Amended Budget	2013/14 Proposed Budget	2013/14 Proposed Budget Adjustment
Non Program	\$9,527,510	\$9,573,196	\$9,607,854	\$34,658
Finance	2,103	2,100	2,100	0
Police	89,780	90,578	77,285	(13,293)
Fire	146,295	34,625	37,108	2,483
Planning	51,420	57,419	48,117	(9,302)
Waste Management	50,928	48,895	45,693	(3,202)
Engineering	49,327	39,420	27,068	(12,352)
Community Park	6,102	3,000	3,000	0
Totals	\$9,923,465	\$9,849,233	\$9,848,225	(\$1,008)

Personnel

The Town is at a tipping point in terms of being able to continue to provide the level of service expected by the community with its existing reduced staffing. Despite vacancies, illnesses and work related injuries; Town staff have met goals and accomplished a lot the first six months of this 2013/14 fiscal year. The following chart summarizes the change in approved and budgeted staffing since budget adoption and summarizes position control for the 2013/14 fiscal year.

General Fund Full Time Equivalent

Programs	2012/13 Budget	2013/14 Original Budget	2013/14 Proposed Budget
Non Safety			
Administration	8.45	8.53	8.53
Community Dev.	1.91	1.91	2.01
Engineering	0.44	0.00	0.00
Subtotal	10.80	10.44	10.54
Safety			
Fire (CAL FIRE)	23.05	1.05	1.05
Police	31.70	30.70	31.70
Subtotal	54.75	31.75	32.75
Totals	65.55	42.19	43.29

Expenses

Additionally, staff reviewed every general fund department budget account looking for areas where expenses could be reduced. Each account was analyzed from a five year historical perspective, based on financial transactions recorded to date, and based on known account encumbrances. From that analysis budget recommendations were prepared and reviewed with departments. Ultimately, the feedback received was incorporated into the attached report and included in the recommended budget adjustments included in the report. Each department should be commended for their help with this process. Please review the general fund report for specific adjustments, but highlights of significant budget adjustments are indicated as follows:

Administration

For the most part, recommended adjustments in these departments are negligible. Expenses are decreasing marginally mainly as a result of a complete personnel costs review and analysis. The adjustments are summarized below:

- ✓ Town Council (\$1,050)
- ✓ Town Clerk (\$1,618)
- ✓ Town Manager (\$5,146)
- ✓ Central Services (\$3,213)
- ✓ HR and Risk Management (\$1,309)
- ✓ Legal Services (\$5)
- ✓ EOC \$188
- ✓ Fleet Management (\$602)
- ✓ Finance (\$3,879)

Police Department

- With the review and fine tuning of personnel costs, staff recommends reducing the Police Administrative budget by \$27,001. The medical caps are reaching retirees and retirees are reaching age 65 thereby reducing projected retiree medical expenses by \$8,641.
- The vacancies in Police Operations have reduced projected salaries by \$25,736. However, additional overtime in the amount of \$29,873 is needed to fill the gap. Further, the first priority of the department is to community emergencies and calls for service which leaves less time for staff to spend on special grant related assignments. The Town budgeted \$144,800 for police specific grant reimbursements, but upon review, it is recommended this number be reduced to \$118,275, a reduction of \$26,525. Staff proposes to use AB 109 grant monies to hire an AB 109 officer for the last quarter of the fiscal year. There is sufficient AB 109 grant monies to cover the officer for the entire 2014/15 fiscal year. The proposed budget also includes filling the officer vacancy created by a disability retirement by March 1, 2014. Overall Police Operations is projected to increase \$35,329.
- Police communication salaries as a result of vacancies are projected to be down \$43,336. An estimated \$48,553 in additional overtime is needed to fill the gap. The final vacant dispatch position has been factored in as being replaced April 1, 2014. Overall the division is expected to have \$13,309 less in expenditures for the fiscal year.

Fire Department

In order to balance the original 2013/14 budget, the Town asked CAL FIRE to come up with \$200,000 in savings to the newly executed contract. With six months of the 2013/14 fiscal year complete, CAL FIRE is on track to save the \$200,000 and also to provide some additional savings. There were three positions left open part of the first half of the year to obtain the needed savings. Those positions have now been filled (a Communications Operator, a Firefighter, and an Engineer). The contract is budgeted assuming that every CAL FIRE employee receives top step of the salary schedule, but as more original Town employees transition to other CAL FIRE positions, more junior level employees are assigned and charged to the Town's contract creating some additional savings. Some of this savings will be used to replace much needed breathing apparatus. Overall the department is projected to spend \$81,020 less than budgeted.

Planning/Waste Management

There are only minimal adjustments recommended for these programs.

- ✓ Planning - \$105
- ✓ Waste Management – (\$65)

Engineering, Community Park and Public Facilities

There are also minimal adjustments recommended for these programs.

- ✓ Engineering – (\$883)
- ✓ Community Park - \$1,000
- ✓ Facilities - \$0

Changes in General Fund Expenditures

	2012/13 Estimated Actual	2013/14 Amended Budget	2013/14 Proposed Budget	2013/14 Proposed Budget Adjustment
Administration	\$2,527,099	\$2,594,220	\$2,564,514	(\$29,706)
Fire	3,460,985	3,337,640	3,256,620	(81,020)
Police	3,633,295	3,602,597	3,597,616	(4,981)
Community Dev.	196,513	214,376	214,416	40
Engineering/PW	77,409	38,630	38,747	117
Totals	\$9,895,302	\$9,787,463	\$9,671,913	(115,550)

These proposed adjustments increase the General Fund ending fund balance and reserves as summarized in the following table.

Changes in General Fund Reserves

	2012/13 Estimated Actual	2013/14 Amended Budget	2013/14 Proposed Budget	2013/14 Proposed Budget Adjustment
Revenues	\$9,923,465	\$9,849,233	\$9,848,225	(\$1,008)
Expenditures	(9,895,302)	(9,787,463)	(9,671,913)	(115,550)
Net Difference	28,163	61,770	176,312	114,542
Ending Fund Balance/Reserve	\$1,340,767	\$1,402,537	\$1,517,079	
Reserve %	13.55%	14.33%	15.69%	

Building Safety and Waste Water Services - 2030

The Town has made considerable progress in making this an independent sustainable fund without the need for a General Fund subsidy. Prior year deficits from the Building and Onsite Funds have been eliminated. The fund started the fiscal year with a fund balance of \$31,948. With the recommended budget adjustments, it is projected to end the fiscal year with a \$93,739 fund balance.

Revenues in some areas like plan check fees, building permits and onsite services are trending well above budget projections, but other areas like fire code inspections and fire permit fees are trending below budget projections. Overall, conservatively, it appears that revenues will be about \$61,489 more than budgeted. The following chart summarizes the proposed budget amendments to the fund.

Building Safety and Waste Water Services Fund Changes

	2012/13 Estimated Actual	2013/14 Amended Budget	2013/14 Proposed Budget	2013/14 Proposed Budget Adjustment
Revenues	\$666,004	\$711,190	\$772,679	\$61,489
Expenditures	(670,260)	(710,090)	(710,888)	798
Net Difference	(4,256)	1,100	61,791	60,691
Ending Fund Balance/Reserve	\$31,948	\$33,048	\$93,739	
Reserve %	4.77%	4.65%	13.19%	

Animal Control - 2070

Animal Control services has had vacant positions this entire fiscal year to date. These vacancies have impacted the division's ability to provide services and generate revenues. Staff recommends decreasing service revenues by \$6,319. Further, the vacancies have generated substantial salary and other expenditure savings. The 36 hour per week Animal Control Officer position was filled in January, and the 18 hour Animal Control Officer is anticipated to be filled by mid March 2014. Staff proposes temporarily increasing the Office Assistant III position from 18 hours a week to 26 hours a week for the remainder of the fiscal year while the Animal

Control Officer positions are fully trained and some administrative backlog is caught up. The vacancies coupled with this proposed increase in hours, generates savings of \$17,258. Animal Control donations will not need to be used this fiscal year to balance the fund.

Animal Control Services Fund Changes

	2012/13 Estimated Actual	2013/14 Amended Budget	2013/14 Proposed Budget	2013/14 Proposed Budget Adjustment
Revenues	\$188,811	\$194,445	\$166,584	(\$27,861)
Expenditures	(173,969)	(181,270)	(164,012)	(17,258)
Net Difference	14,842	13,175	2,572	(10,603)
Ending Fund Balance/Reserve	\$2,838	\$16,013	\$5,410	
Reserve %	1.63%	8.83%	3.30%	

The fiscal health of this fund is far from settled however. With a full year of limited staffing as described above, the fund requires the use of about \$21,500 in donations to balance. With the use of the pre cutback staffing model which includes a full time Animal Control Supervisor, a 36 hour Animal Control Officer and a 26 hour Office Assistant III, an additional \$37,005 would be needed.

Currently Animal Control Services is licensing just over 1,000 dogs per year. Conservatively it is estimated that the Town of Paradise has over 4,300 dogs. If the Town was able to license an additional 2,000 dogs per year, over \$34,000 in additional license fees would be generated. This would help close the gap in needed funding, but the fund would still be \$25,000 to \$50,000 short. Councilman Rawlings and staff are working with local veterinarian offices on licensing efforts, and the Town recently coordinated the first of a series of low cost rabies and licensing clinics.

Paradise Animal Shelter Helpers (PASH), long time partners and friends of Animal Control Services, continues to work with the Town on formulating the best long term funding model for these important services. PASH has proposed providing \$7,500 in funding starting with the next fiscal year in order to increase the number of hours and days that the shelter is open to the public. Their generous offer will be fully considered as part of developing the 2014/15 budget.

State Gas Tax - 2120

This fund is presently very healthy and expected to end the fiscal year with a \$205,550 ending fund balance. Additional revenues of \$55,053 are proposed. With the relative health of the Gas Tax Fund, staff proposes bringing the only Public Works Maintenance Worker I position in line with the three Public Workers Maintenance Worker II positions. There is a 5% difference between the top step of the two positions, so the impact is just over \$2,000 for a full fiscal year. Even with this adjustment, overall expenditures are expected to decrease \$1,000.

State Gas Tax Fund Changes

	2012/13 Estimated Actual	2013/14 Amended Budget	2013/14 Proposed Budget	2013/14 Proposed Budget Adjustment
Revenues	\$1,136,037	\$1,018,087	\$1,073,140	\$55,053
Expenditures	(1,101,289)	(1,262,173)	(1,261,173)	(1,000)
Net Difference	34,748	(244,086)	(188,033)	56,053
Ending Fund Balance/Reserve	393,583	149,497	205,550	
Reserve %	35.74%	11.84%	16.30%	

Transit - 5900

This fund also remains healthy with an anticipated ending fund balance of \$1,100,195. Very insignificant adjustments are recommended for this fund.

Conclusion:

The result of this mid-year report shows that the Town has met its short term objective of immediately stabilizing and balancing the 2013/14 fiscal year budget, and rebuilding a 15% General Fund reserve. The 5 year projection that will be presented and is a part of this mid-year process; however, shows that the Town should be vigilant and guard these reserves, and the Town will continue to struggle year over year to balance its General Fund budget.

With its current and projected revenues, the General Fund will continue to have a structural deficit wherein important expenditures will not be budgeted. The Town will not be able to fund and will fall further behind on equipment maintenance and replacement. Currently first responding fire engines are 6, 12 and 13 years old, and the reserve engines are over 20 years old. The police vehicles are an average of 9.7 years. The Town will continue to defer maintenance and repairs on aging Town facilities that are each over 30 years old. Employee training budgets will continue to be deferred and even public safety training will be compromised. There will be no chance of providing employees cost of living adjustments. Between the five years of concessions and another five years without salary adjustments, some employees will be without cost of living increases for over 10 years. If the federal minimum wage is increased, it will become even harder to attract and retain quality personnel. Engineering personnel have been moved out of the General Fund and are currently being funded by capital improvement projects. That may not always be possible. Finally, the Town will not be able to contribute toward the retiree health trust. As more employees retire and jump on the retiree health rolls, it will be more difficult for the Town to fund this obligation on a pay as you go basis. The annual amount needed to fund this structural deficit is estimated as follows:

Equipment Maintenance & Replacement	\$150,000
Facility Maintenance	75,000
Employee Training	60,000
Employee 2% Cost of Living	50,000
Engineering Personnel	100,000
GASB 45 Trust Contribution	<u>50,000</u>
Total	\$485,000

2013/14 Mid Year Budget Status Update
February 11, 2014

Property taxes and motor vehicle in lieu fees which make up the majority of the Town's General Fund revenue stream are constrained by a 2% CPI increase on its Prop 13 properties. Further, sales taxes appear to have already reached prerecession numbers, so limited growth is anticipated for future years. Franchise fees and transient occupancy tax will only grow to the extent those businesses grow and are a limited part of the General Fund revenue stream.

Conversely, expenses like retirement contributions, the Pension Obligation Bond and other operating expenses are not limited to a 2% CPI increase and will grow at a quicker rate. As the Town continues to have staff turnover, some expenditures will decrease as new staff are hired into second and third tier benefits. However, the Town will have step increases for those new employees. Overall, expenditure growth is expected to match or outpace revenue growth.

The employee salary concessions worth about \$178,000 of general fund savings expires as of June 30, 2014. The projection assumes these employee concessions will not be renewed. The projection does assume that CAL FIRE will provide \$200,000 worth of ongoing savings a year. The projection also assumes continued reduction of training and deferral of equipment and facility maintenance and purchases. It assumes frozen positions remain frozen and that no cost of living can be provided to employees during the five years. Finally, the projection assumes that no contribution can be made to GASB 45 trust to begin funding future retiree health benefits. In short, a bare bones, only essential operating staff budget will be perpetuated for the next five years. In addition this projection requires the following additional cuts in order to maintain a balanced budget:

2014/15 - \$76,355
2015/16 - \$105,334
2016/17 - \$125,145
2017/18 - \$107,102
2018/19 - \$88,898

Staff will begin the 2014/15 budget process in March 2014. Staff will seek additional Town Council direction at a budget goal setting session to be established soon. The goal setting session will include a refinement of the 2014/15 budget projection and will provide the basic foundation for the 2014/15 budget year. Town Council will be asked to establish priorities and direction for the 2014/15 budget process.