



**Town of Paradise
Council Agenda Summary
Date: February 10, 2015**

Agenda Item: 7(c)

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

Reviewed by: Lauren Gill, Town Manager

Subject: 2014/15 Mid-Year Budget Status Update

Council Action Requested:

1. Approve budget adjustments for the following funds; and,
 - a. 1010 – General Fund
 - b. 2030 – Building Safety & Waste Water Services
 - c. 2070 – Animal Control
 - d. 2120 – Gas Tax
2. Approve revised salary pay plan; and,
3. Approve Animal Control Supervisor job descriptions; or,

Alternatives:

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

Background:

Town Council adopted the fiscal year 2014/15 operating and capital budget June 25, 2014. At each subsequent Council meeting, Council has approved budget adjustments based on additional information as it became available. 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.

The recession of 2008 devastated the revenue sources of the Town. There is little diversity to the Town's revenues, so as property values decreased so did the majority of the Town's revenues. \$3.7 million has been lost to date in general fund revenues from reduced property values. Also, the State of California dealt with its budget deficits by reducing local revenues and eliminating economic development tools. In 2011 the State eliminated all State funded motor vehicle license fees and in 2012 it abolished the Paradise Redevelopment Agency. It was the perfect storm of events for the Town. In reaction, the Town took immediate and prudent action to reduce expenses:

- By 2013/14 the Town had cut 25.5% of its workforce (43.3% without considering the CAL FIRE transition).
- For five years the remaining employees took salary cuts and paid larger portions of their benefits. These concessions exceeded \$907,000 in savings.
- Other non-general funds were cut to the point they were self sustaining as the Town could no longer afford to subsidize other funds.

- Nearly all equipment replacement and maintenance was deferred as well as other critical department expenditures.

In addition to these drastic cuts, the last several years Town Council, management and staff have worked collaboratively and tirelessly on creating financial stability for the organization by also addressing unfunded liability issues.

- Unfunded liability related to OPEB obligations has been reduced 70.2% from \$45.8 million to \$13.6 million by creating a vesting schedule for benefits and by capping the Town's contribution toward these benefits.
- Before the State enacted its Pension reforms, the Town created a second tier of benefits for both public safety and miscellaneous new hires. Now there are three tiers of pension benefits for employees creating some immediate cost savings on new hires.

The hard-fought efforts of the Town were rewarded by 2012/13 when we cured two years of general fund deficit spending. However, the storm was not over, revenues continued to decline and expenses were cut below sustainable levels. At the time of adoption of the 2014/15 General Fund budget, the budget was balanced with expected expenditures equal to expected revenues. In November 2014, the Town finally reached a safe harbor to wait out the remainder of the storm and prepare to rebuild. The community passed Measure "C" the 0.5% temporary six year transaction and use tax which will take effect April 1, 2015. The mid-year budget includes the projected revenues and expenses resulting from that passage.

The Town should take a moment to celebrate all that has been accomplished. The storm is subsiding and revenues are starting to climb. The revenues of Measure "C" will allow the Town to maintain services and to address some of the expenditures that have long been deferred and are critical to operations. As Council prepares to rebuild the ship, it should carefully balance the short term requirements with the need to invest in the long term sustainability of the Town organization and community. A long-term investment model will lessen future economic impacts and allow the Town to regain control of its own financial future.

Discussion:

Fiscal Health Analysis

Staff has completed the California Municipal Financial Health Diagnostic created by the League of California Cities, and it confirms the Town's current fiscal health. It reinforces the progress made as well as identifies areas of weakness that the Town must tackle. In simplest terms the Town is currently graded a C -. It can pay its bills in the short term, but must address longer term obligations and weaknesses to be truly "healthy". Following are areas where the Town is either doing well or has shown improvement:

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

Following are areas that must improve for the Town's fiscal health to improve:

1. **The Town has recurring general fund operating deficits.** Even though the Town has a “balanced” budget where it is not spending more than it is taking in, it is not able to fund all of the expenditures necessary to operate a full service government. The Town has been cutting \$400,000 - \$450,000 of critical operating expenses out of each budget to balance. Measure “C” funds will help address this issue in the short term, **but if these funds are not also invested for the long term the Town will be in the same position after six years.**
2. **General fund reserves (unassigned reserves) are inadequate.** Prior to 2012, the Town invested its reserve funds in the economic development of the Town by loaning funds to the Paradise Redevelopment Agency. Three prior loans had been paid in full and with appropriate interest of 5%. In 2012 however, the State abolished the redevelopment agency leaving three new loans to the general fund unpaid and with constraints limiting the amount that could be repaid on these loans. The Town has worked diligently with the State and now has these loans approved as enforceable obligations. These loans will eventually be repaid, but are a last priority and will be repaid slowly over time.

To date all of the Town’s general fund reserves are non-spendable because these loans and other receivables cannot be immediately converted to cash. The last couple years being conservative through budgeting and prudent through spending, the Town is approaching building a small unassigned reserve. Following are the reserves for the year ended June 30, 2014 and the estimated reserve for the year ending June 30, 2015:

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

3. **Inadequate cash and short-term investments as a percentage of current liabilities.** As indicated above, the Town is projected to have \$141,806 in spendable reserves; however this is completely inadequate for a municipal budget. Our goal should be to bring the level of unassigned (spendable) reserves to approximately \$1 Million. One way we will reach our goal is by investing our future RDA loan repayments to the unassigned (spendable) reserve category, thus building that fund over time and reducing our need to borrow money to pay our bills. Currently, the Town borrows cash during the first six months of the fiscal year to make timely vendor and employee payments. Building reserves and liquidity will save the Town roughly \$30,000 a year in interest and loan underwriting costs. It will also provide the Town breathing room to sustain future inevitable economic downturns.
4. **General fixed costs, salaries and benefits exceed 80% of net operating expenditures.** Fixed costs like utilities, retiree health payments, contractual agreements, and lease purchase payments are those costs over which the government has little control in the short term. As the Town has already cut staffing to the bare minimum to maintain services, having fixed costs and salary costs exceed 80% of operating expenditures is an indication that there are inadequate revenues to fund services long term. It leaves insufficient room in the budget to fund equipment and maintenance requirements. Our goal should be 80% or less, while our balance hovers around 90%. A healthy budget includes adequate discretionary funds to adequately function and also to weather financial crises. The cure to this dilemma is a more diversified revenue stream. Following is the formula used to measure this indicator. It assumes the inclusion of Measure “C” Funds.

Fixed costs and labor costs as a percent of expenditures =			<u>Salaries + benefits + fixed costs</u> Net operating expenditures		
2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
90.1%	90.6%	89.8%	90.5%	92.0%	92.0%

5. ***The general fund budget has been balanced repeatedly by deferring asset maintenance.*** Deferral of asset replacement and facility maintenance should only be a short term solution to budget shortfalls. The Town has deferred portions of these expenses for over five consecutive years. Again, this is an indication of an inadequate revenue stream for the level of service provided.

6. ***General fund pension liabilities or post-employment benefits have been repeatedly deferred.*** GASB 45, an accounting mandate established in 2010/11 requires all government agencies to measure and report the liabilities associated with post-employment benefits (OPEB). By tackling that obligation head-on, the Town has been able to reduce the unfunded liability by 70.2%. However, aside from one initial contribution, the Town has not been funding the Annual Required Contribution (ARC) related to this obligation. The Town has capped the premium costs associated with these benefits, but employees will continue to retire increasing the Town’s annual costs over time. The actuary report indicates that in addition to the actual premium costs paid directly by the Town, the Town should be contributing \$150,000 to \$200,000 toward these future premium payments building up a “bank” to fund these future obligations. It is critical for the Town to heed this advice and start setting aside funds now before the annual contribution becomes more than we can afford. **We cannot possibly keep up with this growing annual obligation without investing in this account. It is the strong recommendation of the Town Manager and Finance Director to fund this account as a priority. Even a small investment of \$50,000/year for ten years will give us an account that will provide financial stability for the organization’s obligations relating to OPEB.** This bold action will not only get and keep us on a firm financial footing, but this “take the bull by the horns” approach to budget management shows strength in leadership and a direction that the community wants us to go.

With continued prudence and careful investment toward the Town’s future financial stability, many of these indicators can be improved. Measure “C” and the Town’s tough choices and cuts to date have improved many of these indicators already. With continued wise decisions and investment, the Town is expected to improve on its C – rating. It can likely move into the B’s with care, but will likely not be able to move into the A’s with its current revenue constraints.

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. 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, and revenues are expected to exceed expenditures by \$362,173. As already touched on, **these funds must be guarded in order to rebuild unassigned reserves**. A structural deficit still remains, in that certain deferred maintenance and asset replacement expenditures have yet to be added back to the budget. Outside of the \$200,000 in Measure "C" revenues added to the budget, other revenues are trending about as expected and originally budgeted. Revenues exclusive of Measure "C" will grow about 2.9% compared to the prior fiscal year. Expenses outside of the expenditures budgeted to implement Measure "C" are also trending as expected. Last fiscal year, approved staffing in public safety divisions remained vacant much of the year as recruitment and hiring proved time consuming and difficult. This fiscal year, many of these positions have been filled, so overall expenditures are expected to increase over 6%. Again, this was expected and revenues will still exceed expenditures. Following is a more detailed explanation from the analysis completed and the adjustments proposed:

Revenues:

- The Town received its first major property tax payment of the fiscal year on January 6, 2015. The receipts are principally in line with original revenue estimates, and it looks like property taxes will grow about 2.39% compared to the prior fiscal year. The housing market appears to have stabilized and properties that were devalued under Prop 8 can rebound at a rate higher than the typical 2% CPI growth cap. Unsecured revenues are trending about \$6,941 more than budgeted and supplemental receipts are trending about \$17,627 more than expected.
- A state audit of county formulas related to the distribution of motor vehicle in lieu (MVIL) fees has proved helpful for the Town this fiscal year. The audit found \$159,969 of prior year corrections to the allocation of MVIL fees. In January 2015, the Town received another \$75,728 as a correction of MVIL fees for this fiscal year. With these corrections, revenues in this area will be nearly 19% above the prior year.
- Sales tax receipts are currently trending a little less than expected, but are still expected to grow about 1.8% compared to the prior year. Added businesses in the community are keeping the revenues growing, but reduced gas prices are preventing them from growing as much as they might otherwise. To remain conservative, staff is recommending a budget adjustment decrease of \$17,756.
- Franchise fees after reviewing the budget performance report and receipts to date, are trending about 2% above the prior fiscal year. Staff recommends a very small \$842 adjustment at this time.
- With 2nd quarter 2014/15 taxes received for Transient Occupancy taxes, staff recommends a small \$1,237 decrease as a budget adjustment. Receipts are trending about 2% below the prior fiscal year.
- Some other non-department specific revenue adjustments include the passage of Measure "C" which is expected to generate about \$200,000 this fiscal year. Also, fire station 83 has been rented out to a local ambulance company starting in December 2014. About \$9,600 of additional revenues is expected through that agreement.
- Revenues specific to Police Department activities are recommended to be decreased by \$9,326 over various accounts. \$4,000 is a reduction in the amount of fines the police department will obtain through tickets, \$2,500 less in DUI accident and arrest collections, and \$3,000 less in special service requests. All of these decreases have a strong

correlation to decreased department staffing levels. More of the department's focus is on basic calls for service and community safety.

Changes in General Fund Revenues

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

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 divisions are negligible. Expenses are decreasing and increasing marginally mainly as a result of a complete personnel costs review and analysis. The adjustments are summarized below:

- ✓ Town Council \$749
 - ✓ Town Clerk \$2,349
 - ✓ Town Manager \$2,957
 - ✓ HR and Risk Management (\$86)
 - ✓ Legal Services (\$10)
 - ✓ EOC \$69
 - ✓ Fleet Management (\$2,752)
 - ✓ Finance \$5,463
- Non Department specific expenses are decreasing \$6,813. \$4,500 is bank fee savings. US Bank is currently offering an earnings credit rate of 0.50%. Since this is higher than the interest offered by LAIF, the Town is maximizing the savings through the checking account before investing funds in LAIF. Also, the Town will save \$2,013 in interest on the

TRAN loan by paying the loan back at the end of May instead of the end of June.

- Central Services is expected to save a total of \$7,722. \$6,219 is from general Town insurance policies savings. There is also \$5,161 in savings from delayed timing of the 2014/15 lease purchase and also savings from the items actually purchased. Some other accounts have been increased due to unexpected repairs and replacements.
- There are one-time setup costs and administrative costs associated with the implementation of the Measure "C" transaction and use tax, so \$52,000 has been designated for this purpose.
- The Town took title to the former RDA property at 5456 Black Olive Drive. There is a note pending against the property that the Town will continue to pay until the property is sold or the note is paid off. \$8,601 is added to the budget for this purpose.

Police Department

- With the staffing shortages in operations and the challenges related to replacing a lieutenant, the lieutenant that was expected to retire in December 2014, extended his retirement until June 2015. Despite savings in some other accounts, this postponement will add about \$18,500 to the Administration budget.
- The vacancies in Police Operations have reduced projected salaries by \$39,324. However, additional overtime in the amount of \$12,851 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 \$135,724 for police specific grant reimbursements, but upon review, it is recommended this number be reduced to \$60,725, a reduction of \$74,999. A good portion of this is a wash between salaries and grant reimbursement of the AB 109 officer as this position will likely not be filled until May 2015. Overall Police Operations is projected to increase \$22,757.
- Police communication salaries as a result of vacancies are projected to be down \$17,518. Also, overtime expected to be down \$16,374. Light duty police officers as well as other administrative staff were able to assist in dispatch during staffing shortages which helped to keep those costs down. Overall the division is expected to have \$41,085 less in expenditures for the fiscal year.

Fire Department

- In order to balance the original 2014/15 budget, the Town asked CAL FIRE to come up with \$200,000 in savings to the contract. With six months of the 2014/15 fiscal year complete, CAL FIRE is on track to save the \$200,000. In order to do so though they will need to have days, when appropriate, with reduced staffing. Overtime costs are mounting as there are employees in the contract out on work related injuries. Some of these added costs are mitigated by how the contract is budgeted. 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 savings.

- Fire administration is expected to have about \$8,174 more in costs. Most of this is from increased costs for retiree medical premiums.
- The volunteer fire program was unable to recruit as many new members as was expected. Currently there are only 11 members. While disappointing from an operations standpoint, the reduced numbers will provide about \$11,349 in savings.

Planning/Waste Management

- About \$6,364 in savings will occur from having the code enforcement officer out on three months leave. A temporary code enforcement officer has been brought in to sustain operations, but that person will work few hours and will not be paid benefits.

Engineering, Community Park and Public Facilities

There are minimal adjustments recommended for these programs.

- ✓ Engineering – \$2,380
- ✓ Community Park - \$760
- ✓ Facilities - \$700

Changes in General Fund Expenditures

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

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

Changes in General Fund Reserves

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

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. The fund started the fiscal year with a fund balance of \$194,075. With the recommended budget adjustments, it is projected to end the fiscal year with a \$245,786 fund balance.

Revenues in most areas like plan check fees, building permits and onsite services are trending above budget projections. Increased development which started last fiscal year appears to be continuing this fiscal year which is good news for the local economy. Overall, conservatively, it appears that revenues will be about \$16,977 more than budgeted. Some expenses like retiree medical insurance premiums are trending below budget, so expenses are being reduced \$8,681. The following chart summarizes the proposed budget amendments to the fund.

Building Safety and Waste Water Services Fund Changes

	2013/14 Estimated Actual	2014/15 Amended Budget	2014/15 Proposed Budget	2014/15 Proposed Budget Adjustment
Revenues	\$840,111	\$782,617	\$799,594	\$16,977
Expenditures	(677,983)	(756,906)	(748,225)	(8,681)
Net Difference	162,128	25,711	51,369	25,658
Ending Fund Balance/Reserve	\$194,075	\$219,786	\$245,444	
Reserve %	28.6%	29.0%	32.8%	

Animal Control - 2070

Animal Control services has had a vacant part-time animal control officer position most of the fiscal year. Recruitment of a qualified and reliable person for an 18 hour a week position has proved extremely difficult. This perpetual vacancy has again set back the division in terms of allowing them to be proactive in monitoring the community for dogs running at large and the prevention of dangerous dog attacks. Unfortunately, there has been an increase in dog attacks this year. The one full-time animal control officer on staff currently is only able to react to calls and has no time to educate or be proactive. Also, this vacancy impacts police operations as it is an already busy Lieutenant who must step in and help with operations when needed. Finally, the measures the division took to partner with local vets to ensure dogs are licensed as required by state law has dropped in priority for lack of staffing. Ultimately, it has been determined that the division can't effectively operate with its current staffing model.

Staff proposes to reinstate the original staffing model of a full time Animal Control Supervisor. It is proposed that the full time animal control officer be promoted to this position. She is already acting in this capacity much of the time and is effective as the division's leader. It will raise her hours from 36 to 40 hours per week. The added cost the remainder of this fiscal year is about \$3,200 and for a full year about \$8,300.

Staff also proposed to reinstate a 36 hour animal control officer in place of the 18 hour position. The division desperately needs these hours to properly serve the community and be proactive in protection and dog licenses. It is anticipated that at least part of these increased hours can be made up from additional dog licenses. This proposal will increase the current budget about \$5,300 this fiscal year and about \$29,000 next fiscal year.

Currently Animal Control Services is licensing about 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.

The Town could not operate and fund this division without the continued support of PASH. PASH has been an invaluable partner in the care and comfort of shelter animals, and they are providing about \$12,000 in funding this fiscal year.

Funding for this division continues to be a concern for the Town. The Town continues to use animal control donations to balance the fund. The Town may need to consider using Measure "C" monies in future years. The Town will have to solve this funding problem eventually. The last few years has proved that the division cannot properly function and serve the community with reduced staffing.

Animal Control Services Fund Changes

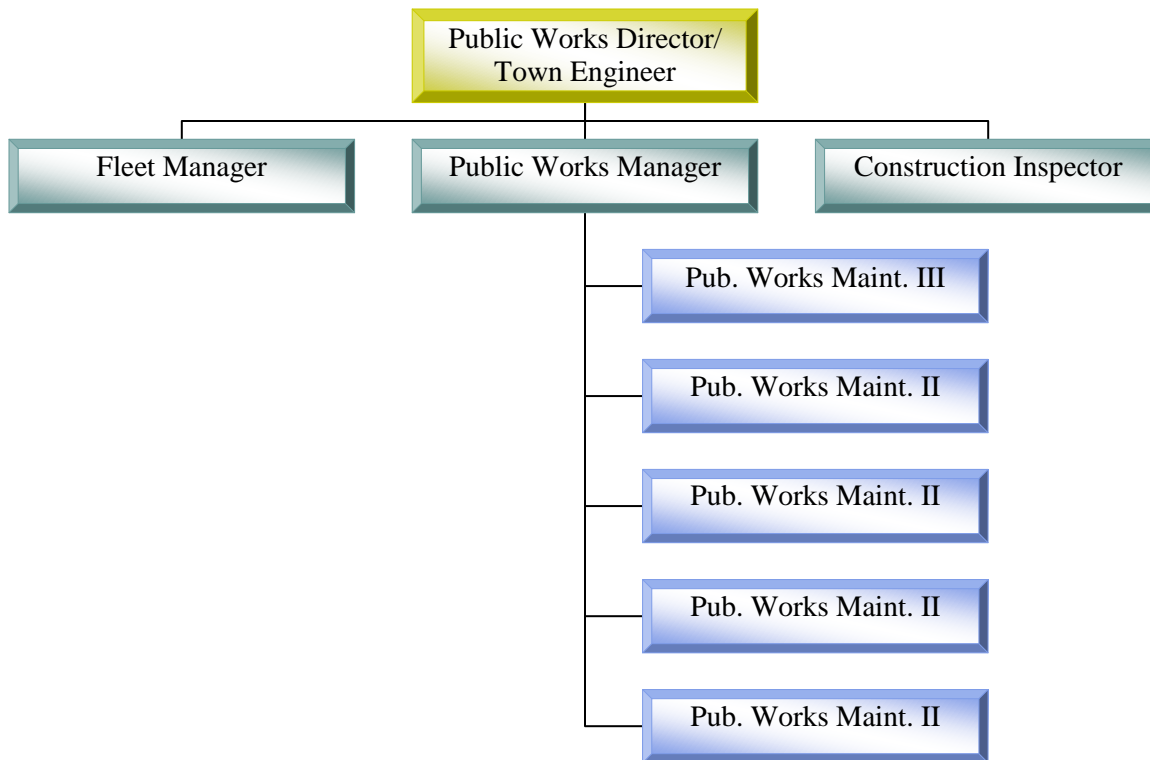
	2013/14 Estimated Actual	2014/15 Amended Budget	2014/15 Proposed Budget	2014/15 Proposed Budget Adjustment
Revenues	\$168,734	\$197,882	\$200,751	\$2,869
Expenditures	(170,069)	(199,861)	(202,254)	2,393
Net Difference	(1,335)	(1,979)	(1,503)	476
Ending Fund Balance/Reserve	\$1,504	(\$475)	\$0	
Reserve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

State Gas Tax - 2120

This fund is presently very healthy and expected to end the fiscal year with a \$545,641 ending fund balance. This fund balance is appropriate considering one project eliminated that fund balance in one fiscal year. Additional revenues of \$34,627 are proposed as estimated by the League of California Cities most recent HUTA estimates. Further, an overlay that was originally anticipated for Elliott, unfortunately has been postponed this fiscal year. The net result of this delay is savings of \$40,241.

Now that the fund and the department have some stability, staff recommends filling the Public Works Director position. The vacancy was a temporary measure to provide some savings and direction to the department when positions were vacant, employees were new and funding was pressured. Staff proposes promoting the Town Engineer to this position. He has already shown vision and leadership to his colleagues within this department. It will be a seamless transition from an operating and financial perspective. For a couple years the department has needed an

expert in that role to prioritize the everyday needs of keeping roads operational with the longer term goal of a proper road maintenance program using the Town's limited resources. Upon approval, the fleet maintenance manager will also report to the Public Works Director. This is a very common alignment of these functions in municipalities and will give the fleet manager some support and assistance from individuals that better understand his function. The increased cost of this proposal is minimal at about \$2,100 this fiscal year and \$5,400 next fiscal year. The department and reporting will look like the following:



Preliminary revenue estimates for 2015/16 are less optimistic due to reduced gas prices. The Town can use the reserve if needed to keep the fund in balance, but it is also anticipated to pursue additional street maintenance projects in 2015/16.

State Gas Tax Fund Changes

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

Conclusion:

The result of this mid-year report shows that the Town has met its short term objective of maintaining a balanced general fund budget for the 2014/15 fiscal year. It has also started rebuilding an unassigned reserve which it can use to reduce the amount of required annual cash borrowing. 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. The Town will continue to struggle for at least the next two years to fund basic operations of its divisions outside of the help that will be provided by Measure “C” given the increased costs of pension contributions required starting next fiscal year.

With Measure “C” Funds the town will finally be able to fund and address equipment maintenance and replacement. It can also replace training in most departments, and other expenses the Town has deferred for too long. Those funds will not fund everything that the Town needs, so it will be up to the Council to prioritize the items of most importance. Further, it will be up to Council to consider the long term stability of the Town as it plans how best to use these funds.

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. Less than 25% of the Town’s properties can rebound at a faster rate. Further, sales taxes have already reached prerecession numbers, so substantial growth will be limited to new businesses coming to town. 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 an example, GASB 68, the new accounting mandate from the Governmental Accounting Standards Board will result in an additional required contribution of approximately \$330,000 per year starting in 2015/16. This new obligation will result in reduced net assets on our balance sheet. However, good decisions regarding our long-term obligations will counterbalance the annual requirements and keep us in a better position to stay in control of our financial destiny.

Overall, expenditure growth is expected to closely match revenue growth. Following are the net revenue projections for the next five years:

2015/16 – (\$65,672)
2016/17 – (\$53,429)
2017/18 - \$15,289
2018/19 - \$84,638
2019/20 - \$153,452

Staff will begin the 2015/16 budget process later this month. A schedule of proposed dates and deadlines are attached for Council review. Staff will seek additional Town Council direction at a budget priority setting session on February 24, 2015. Town Council will be asked to establish priorities and direction for the 2015/16 budget process.