

Agenda Report Reviewed by:
City Manager: 

CITY OF SEBASTOPOL
CITY COUNCIL
STAFF REPORT

Meeting Date: May 15, 2018
To: Honorable Mayor and City Councilmembers
From: Budget Sub-committee
Subject: Proposed Fiscal Year 2018-19 Budget
Recommendation Review and Consider the Proposed Budget for Fiscal Year 2018-19, conduct a public hearing, and provide comments and directions to staff on budget allocations for the upcoming fiscal year.
Funding: Currently Budgeted: X Yes No N/A

Net General Fund Cost:

If Cost to Other Fund(s),
Fund:

INTRODUCTION: This item is to request that the City Council Review and Consider the Proposed Budget for Fiscal Year 2018-19, conduct a public hearing, and provide comments and direction to staff on budget allocations for the upcoming fiscal year. This item is scheduled to return to the June 5th City Council meeting for approval of the upcoming fiscal year 2018/19 budget.

BACKGROUND: Each year, the City is required to adopt an annual budget. In order to prepare the budget for review and approval by the City Council, each department submits their proposed budget for the upcoming year to the Finance Department, who in turn prepares it for the Budget Sub-Committee review. The Budget Sub-committee, comprised of Vice Mayor Hinton, Councilmember Glass, City Manager/City Attorney McLaughlin, Assistant City Manager/City Clerk Gourley and Finance Director Kwong, meets with all the Department Directors and the Non-Profit organizations to review and analyze their budgets as originally submitted. The Budget Sub-Committee then makes adjustments to the departmental budget requests as well as the Non-Profit organizations, as they deem necessary. The budget process begins in January and ends when the budget is approved in June.

The Budget Sub-Committee dedicated significant time during the months of March and April to thoroughly analyze many proposals set forth in this budget. Based upon those meetings, the draft budget was developed in accordance with the City's financial management policies and guidelines and reflects the City Council's goals and objectives and how resources are to be allocated to achieve these goals.

DISCUSSION: The Fiscal Year for the City of Sebastopol begins July 1st and ends June 30th. The 2018-19 Proposed Operating for the City of Sebastopol represent the City's proposed financial plan for the

upcoming year. This budget provides projected revenues that the City will receive and expenditures it will incur during the upcoming budget cycle as well as with the five year financial forecast.

Budgetary Overview:

The original requested budget in total resulted in a \$432K General Fund deficit. In an effort to create a balanced budget, the Budget Sub-Committee reviewed these budgets, line item by line item, and made recommendations to those budgets in an effort to reduce the overall deficit. Based on the recommendations, the Budget Sub-Committee has identified approximately \$424K in reductions. Further reductions of budget deficit were due to changes in revenue projections based on outside sources' updated information. Through their hard work, the Budget Sub-Committee has reduced the deficit from \$432K to a planned addition to reserves of \$82,400. The Budget Subcommittee is not recommending further use of the planned addition to reserves pending the outcome of a potential extension to the current Sales Tax Measure recommended to be placed on the upcoming November ballot.

OPERATIONAL DEPARMENTAL BUDGET:

Listed below is a table depicting Departmental Proposed Budgets, Budget Sub-Committee recommendations and whether this was an increase/decrease to the proposed budget.

BUDGET SUBCOMMITTEE CHANGES

Seq. No	Department	Account Number	Description	Requested Amount	Recommended Amount	Inc/(Dec)	Comments
1	City Council	100-10-01-4820	Community Benefit Grant	81,760	70,260	(11,500)	Reduction in grant requests
							\$6,100 - Economic Initiatives \$2,300 - Traffic Calming & Community Health \$5,285 - Community Resilience \$1,167 - Administrative \$2,461 - Carryover
	City Council	100-10-01-4840	Other Community Support - Cittaslow	22,445	17,313	(5,132)	
2	City Manager	100-11-01-4210	Contracted Services	30,000	-	(30,000)	Labor Negotiation Consultant Possible Mid-Year Budget Review
3	ACM/City Clerk	124-13-01-4270	Elections	50,000	40,000	(10,000)	\$30K - 2 ballots \$10K - 3 CouncilMember Seats
4	Finance	100-14-01-4510	Conference/Training	10,200	7,500	(2,700)	Reduction in training budget
5	Planning Department	124-21-02-4210	Contracted Services	120,000	55,000	(65,000)	\$55K - Development Impact Fee Study -\$65K - Downtown, Bypass Circulation Study
							\$5K - SCTA Annual Fee \$30K - City Engineer Consultant -\$6K - RCPA Annual Fee - Budgeted in CC -\$20K - Contingency Traffic Engineer -\$12K - Contingency Water Technical Asst (This item relates to Groundwater Assistance and is currently budgeted for in the Water Enterprise fund)
6	Engineering	100-23-02-4210	Contracted Services	88,000	45,400	(41,600)	-\$15K - Miscellaneous Contingency Study
							\$25K - Mandate Storm Water Creek Sampling \$9K - Mandate Bioassessment \$25K - Mandate Trash & Litter Assessment Plan \$4K - Mandate Trash & Litter Assessment 2nd Sample \$10K - Storm Water Consultant \$3K - City Engineer Consultant \$6K - Pavement Runoff/Monitoring Study -\$4K - Misc. Study - Contingency
	Engineering	124-23-07-4210	Contracted Services	85,900	81,900	(4,000)	
7	Fire	100-31-02-4011	Salaries - Part Time	419,400	319,400	(100,000)	Reduction in PT salaries based on historical actual expenses.
	Fire	124-31-02-4890	Other Community Support	-	6,000	6,000	Volunteers Database+Map Neighborhood
	Fire	124-31-02-5100	Capital Outlay	50,000	10,000	(40,000)	\$10K - Routine capital equipment -\$40K - Vehicle purchase moved to Vehicle Replacement Fund
8	Police	100-32-02-4012	Overtime	130,000	127,000	(3,000)	Reduction in OT
	Police	100-32-02-4215	Casino Mitigation Program	14,500	9,000	(5,500)	\$9K Software Update
	Police	100-32-02-4375	Equipment Expense	20,500	10,500	(10,000)	Funding based on historical trend
	Police	124-32-02-5100	Capital Outlay	95,000	14,000	(81,000)	\$14K - Routine equipment -\$81K - Vehicle purchase moved to Vehicle Replacement Fund
9	Public Works - Corp Yard	100-41-02-4710/4711	Utilities - SCP/City Water	7,900	7,850	(50)	Adjustment to budget based on historical trend
							\$40K - Bodega at Jewell Traffic Signal Sensor Replacement \$7K - SEMS Asset Management & Work Order Software \$2K - Asphalt Compactor -\$33K - Vehicle purchase moved to Vehicle Replacement Fund
	Public Works - Streets	124-41-03-5100	Capital Outlay	82,400	49,700	(32,700)	
							\$4K - Irrigation Supplies \$6K - Ives Park Improvements - PC Report \$4K - Playground Engineered Fiber (Fall Zone) +\$7K - Playground Engineered Fiber (Fall Zone) \$2K - Pet Waste Bags \$12K - Park Restroom Janitorial Supplies \$6K - Compost/Mulch/Plants
	Public Works - Parks/Landsp	100-41-04-4330	Misc. Supplies & Services	33,500	40,500	7,000	
	Public Works - Parks/Landsp	100-41-04-4710/4711	Utilities - SCP/City Water	62,500	67,400	4,900	8% Utility increase
	Public Works - Parking Lot	100-41-05-4330	Misc. Supplies & Services	3,500	18,500	15,000	\$3K - Routine Maintenance +\$15K - Replacement EV charging stations
	Public Works - Parking Lot	100-41-05-4710/4711	Utilities - SCP/City Water	9,500	15,200	5,700	Adjustment to budget based on historical trend
	Public Works - Govt Bldg	100-41-06-4710-4711	Utilities - SCP/City Water	22,150	2,825	(19,325)	Adjustment to budget based on historical trend
Grand Total				1,439,155	1,016,248	(422,907)	

COMMUNITY BENEFIT GRANTS:

The Budget Sub-Committee conducted a public meeting receiving information on the applications for community benefit grants. At that meeting, the Budget Sub-Committee provided recommendations to City staff for funding of the community benefit grant applicants. The table listed below shows the community benefit request, the Budget Sub-Committee recommendation and whether this was an increase/decrease to the proposed budget.

Name of Organization	2017/18 Funded	2018/19 Requested	2018/19 Recommended	Inc/(Dec)
Library Assoc New Techno-Current Regional Entity (LANTERN)	10,000	9,860	9,860	-
Main Stage West	-	5,000	4,000	(1,000)
Rebuilding Together Sebastopol	3,500	3,500	3,500	-
Mr. Music Foundation	8,000	10,000	10,000	-
Chamber of Commerce	10,000	18,000	10,000	(8,000)
Sebastopol World Friends - Sister City Exchanges	4,200	5,000	5,000	-
Western SoCo Historical Society	5,000	7,500	7,500	-
SCCC TeensWork Program	2,400	2,400	2,400	-
Slow Food Russian River	4,500	4,500	4,500	-
Sebastopol Downtown Association	-	5,000	5,000	-
Friends of North Bay Regional Center	-	2,500	-	(2,500)
SUSD Rainbow House	4,000	4,000	4,000	-
Sebastopol Farmers Market	2,000	2,000	2,000	-
Sebastopol Area (Burbank) Senior Center	-	-	-	-
Community and Family Service Agency	-	-	-	-
Law Chaplaincy of Sonoma County	500	-	-	-
Redwood Rainbows Square Dance Club, Inc	7,800	-	-	-
Sebastopol Center for the Arts	15,000	-	-	-
Sebastopol Entrepreneurs Project	-	2,500	2,500	-
UC Master Gardener Program of Sonoma County	-	-	-	-
	\$ 76,900	\$ 81,760	\$ 70,260	\$(11,500)

COMMUNITY SERVICES:

Sebastopol Community Cultural Center: During the FY 2016-17 budget process, the sub-committee proposed that SCCC should be in compliance with the City’s current living wage ordinance. At that time, the SCCC presented the City with multiple options as listed below:

- a) Option#1 - Minimum wages progressive
- b) Option#2 - Minimum wages accelerated
- c) Option#3 - Living wage option

That year the sub-committee recommended, and the City Council approved option#3 and brought all positions up to living wage rates with no progressive steps. The mutual understanding was that the SCCC would work to be self-sustaining and, in 3 years, would be funding and maintaining all living wage costs. The grid below shows the funding the City has provided to the Community Center.

Account Number	Description	2015/16 Actual	Year #1	Year#2		Year#3	
			2016/17 Actual	2017/18 Adopted Budget	2017/18 Adjusted Budget	2018/19 Requested Budget	2018/19 Recommended Budget
100-4202-4880	Contribution to General Operations	11,300	11,300	11,300	11,300	11,300	11,300
100-4202-4880	Contribution to Living Wages	-	115,700	120,800	120,800	123,800	103,800
100-4202-4885	Concert Series	20,000	20,000	20,000	20,000	20,000	20,000
100-4202-4890	SCCC Time Bank	-	-	-	-	-	1,700
Total Operation		31,300	147,000	152,100	152,100	155,100	136,800

In addition to SCCC “ask” of operation support, below is a list of capital outlay requests from the Community Center:

Capital Items	Requested	Recommended
Youth Annex Carpet *	7,650	-
Youth Annex Exterior Paint *	43,000	-
Ice Maker	1,650	1,600
Security/Safety Lighing Improvements	2,600	2,600
Total	54,900	4,200

*Funding requested for these two items was raised in FY 2017-18 and is being requested again in FY 2018-19. However, due to the budget constraints and potential sales tax measure extension, the SCCC has indicated that they are open to delaying these two capital items for one more year.

Senior Center:

The Center provides a place of services to be delivered to aging residents and provides activities to enrich the lives of seniors, such as classes, trips, and other group activities. In February 2017, the Senior Center requested funding support from the City of Sebastopol City Council. Per the Staff Report, “The Senior Center is requesting that the City help keep the Senior Center viable in maintaining existing programs for the community.”

The programs and activities at the Senior Center have been expanded tremendously over the past 10 years, and ongoing efforts are being made to continually bring in new ideas and programs. For the future, the Senior Center is planning on taking advantage of their center of town location and expanding a working relationship with the Sebastopol Community Center to collaborate and bring new “age bridging” intergenerational services to life.” At this meeting, the City Council approved an immediate \$50,000 cash infusion from the City to support the Center’s budgetary shortfall challenges. Although funding had been provided to allow the Senior Center to weather through that difficult period, the Senior Center has since returned to the City asking for permanent support going forward.

The requested funding contribution for the Senior Center to their operation is \$42,800. In addition to the operational requests, the Senior Center is asking for capital improvement funding to address chronic on-going issues in relation to safety as listed in the table below:

Capital Items	Requested	Recommended
Security/Safety Lighing Improvements	2,600	2,600
Security Gate Rear Stairs	4,000	4,000
Deck Coating & Mold Repairs	8,000	8,000
Total	14,600	14,600

The Budget Sub-Committee’s focus was on ensuring that the City operates in an efficient and effective manner with a balanced plan. The budget also provides the means to fund the ongoing services and programs, maintenance and improvements to the City’s infrastructure, and other contractual obligations.

The Budget-Sub-Committee has exercised prudent actions and reviewed and discussed recommendations needed to maintain fiscal responsibility and stability. Based on those discussions, the Budget Sub-Committee is recommending the following changes to the Community Center and Senior Center budgets as follows:

	Requested Budget	Recommended by Budget Sub-Committee	Incr (Decr)
Community Center	155,100	135,100	(20,000)
Senior Center	42,800	30,000	(12,800)
Total	197,900	165,100	(32,800)

The Budget Sub-Committee has also requested that the SCCC and the Senior Center review opportunities to combine resources to best provide services and deliver these services cost effectively to serve our community at large.

ACTUARIAL PROGRESS AND PENSION LIABILITY:

In May 2017 the City retained a pension expert consultant, Bartle & Associates, to assist in recommending funding alternatives that would reduce the future costs of pensions for the City. The alternatives measured by the actuary assume a set contribution amount and a long-term investment assumption used by CalPERS. At the time of the study, the unfunded liability portion is as follows:

	Based on CalPERS June 30, 2015 Valuation			
	Police	Fire	Misc	Total
Active Actuarial Accrued Liability (AAL)	3,600,000	100,000	7,200,000	10,900,000
Retiree AAL	13,300,000	1,400,000	10,600,000	25,300,000
Inactive AAL	900,000	-	800,000	1,700,000
Total AAL	17,800,000	1,500,000	18,600,000	37,900,000
Market Asset Value	12,900,000	1,000,000	14,500,000	28,400,000
(Unfunded Liability)	(4,900,000)	(500,000)	(4,100,000)	(9,500,000)
Approx Years to Attain 100% Funded	27.0	26.0	26.0	
Approx Annual Set Aside	181,481.48	19,230.77	157,692.31	358,404.56
Recommended Initial Set Aside	250,000.00	50,000.00	250,000.00	550,000.00

The City reported Net Pension liability at June 30, 2017 (last audited number) was \$11,055,000 based on the latest available actuarial valuation and the City’s proportionate share of CalPERS assets and liabilities. The initial recommended set aside was \$550,000. The FY 17/18 Budget Sub-committee recommended a set aside of \$1.0M. Since then, the City’s Pension and Budget Sub-committee recommends an additional set-aside, within the City’s control, that is formally considered “assigned” fund balance for \$550,000 for a total of \$1,500,000. The initial set aside of \$1.0M is invested in money market earning interest of 2.4% to 2.6% annually.

Initial Set Aside (Investment)	1,000,000
Additional set aside	550,000
Est. Year 1 Interest	25,000
Est. Year 2 Interest	25,000
Est. Year 3 Interest	19,000
Total Set aside	<u>1,619,000</u>

The set-aside is intended to be available to the City to smooth the effect of spikes in future CalPERS contribution requirements. However, within control of the City Council, the funds are available to the City for emergency purposes.

CAPITAL IMPROVEMENT PLAN (CIP)

The CIP is a five-year plan designed to improve the City's physical infrastructure, building, roadway and water and wastewater system. The preliminary capital budget is recommended in the amount of \$2.5 million, a decrease of 24% compared to prior year. In reviewing the CIP budget, it is important to keep in mind that most projects are funded by restricted revenue sources or grants. Consequently, there will potentially be significant differences from year to year in both the numbers of projects adopted and the total dollars spent. Primary funding sources for capital projects include Measure M, Gas Tax Traffic Congestion Relief, SB1, Community Development Block Grant (CDBG), Traffic Impact Fee, and Street Pavement Reserve.

POLICY

As part of the budget process annually, the City Council reviews and updates various of City's policies to ensure compliance and adhere to current laws and practices.

- Revisions to Financial Policy No. 69 – removing the capitalization thresholds and depreciation useful life section as this provision is now expanding to a new Capitalization and Depreciation Policy can be found on page 191.
- Purchasing Policy No. 89 – revision to page 173 of purchasing authority section to add \$50,001 and up at Council level. Page 185 revised to add Police Lieutenant and Assistant Public Works Superintendent position to receive a credit card.
- **NEW** California Government Code Section 53646 and good financial practice dictate that local agencies prepare a written investment policy and that the governing body review and approve the policy on an annual basis. The policy can be found on page 188.
- **NEW** Capital assets are assets of relatively permanent nature and significant value, and are broadly classified as property, plant, equipment, and infrastructures (e.g. roads, sidewalks, bridges and similar items) assets. With the implementation of Governmental Accounting Standards Board (GASB) issued Statement No. 34 & 51, cities were required to include all capital assets in their financial reporting and establish accounting and financial reporting requirements. Capitalization and Depreciation Policy can be found on page 191.

FUTURE ACTIONS:

The budget is a commitment to our residents, our businesses and City employees that we will strive to do the very best we can with the resources available to us. City of Sebastopol is focused on what is truly important - the core functions of operating a City – resulting in a healthy community for residents.

In an effort to continue the stabilization of the City's budget, the Sub-Committee discussed several revenue enhancement measures such as the extension of the Measure Y (1/2 cent) sales tax and an increase to the Transient Occupancy Tax (TOT) which is currently 12% (2% of which goes to the Sonoma County Tourism). Based on these discussions, the Budget Sub-Committee has recommended an agenda item for Council consideration at the May 15, 2018 City Council Meeting to consider these measures going forward to the November 2018 general election. That agenda item contains a history of the Transient Occupancy Tax (TOT) as well as Measure Y (Sales Tax) revenue figures, as well as a projection for TOT based on potential hotel development as approved by the City Council.

CONCLUSION:

The Budget Subcommittee is pleased to submit the Fiscal Year 2018-19 Preliminary Operating and Capital Budget. The objectives used in developing this budget are to submit a balanced budget to the full City Council; to do the best job possible of maintaining current excellent levels of service to the community; to implement City Council's goals and priorities as feasible; and to be prudent in our revenue estimates and cautiously optimistic overall.

City staff and the Budget Sub-Committee are presenting an overview of the proposed budget and are available to answer any questions the Council or the public may have. After tonight's public hearing, staff will take direction from the City Council and return at the June 5th meeting for review and consideration of approval of the FY 2018-19 City Budget. In accordance with State legislation, the City Budget should be approved and adopted by June 30th.

RECOMMENDATION: That the City Council Review and Consider the Proposed Budget for Fiscal Year 2018-19, conduct a public hearing, and provide comments and direction to staff on budget allocations for the upcoming Fiscal Year.

Attachment(s):

None (City Council has previously received the FY 2018-19 DRAFT Budget)

One (1) copy is available for the public at the Library

Preliminary FY18-19 Budget is also available on the City's website.