



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: FEBRUARY 25, 2020

DEPARTMENT: FINANCE

FROM: MATT N. PRESSEY, CPA, FINANCE DIRECTOR

TITLE: FY 2019-20 MID-YEAR BUDGET REVIEW AND BUDGET ADJUSTMENTS

RECOMMENDED MOTION:

A motion to accept the mid-year FY 2019-20 budget review reports, approve a resolution approving amendments to the FY 2019-20 operating and capital budgets for the City of Salinas.

RECOMMENDATION:

It is recommended that the City Council:

- 1) Accept the mid-year FY 2019-20 budget review reports; and
- 2) Approve a resolution approving amendments to the FY 2019-20 operating and capital budgets for the City of Salinas.

EXECUTIVE SUMMARY:

At mid-year, the City needs to continue to be fiscally prudent and manage the costs drivers that impact our fiscal sustainability. Pension costs, health care, and workers compensation are three of the four major cost drivers that are out of the City's control and are increasing at a rate faster than our revenues. Revenues are coming in better than expected, however they may not sustain at that level. Expenditures are on budget. The mid-year review includes a variety of budget adjustments that are more fully discussed in Exhibit A and are funded from 12 different funding sources as shown in the table in the Fiscal and Sustainability Impact section of this report. Revenue adjustments total \$5,062,000, appropriations total \$3,132,900, CIP adjustments total \$6,562,000 and increases in various reserves, including a CalPERS UAL paydown, totaling \$10.5 million. Mid-year adjustments are almost all one-time in nature and are items initially requested by departments prior to the adoption of the budget but were not funded since not enough resources were available. The adjustments are also consistent with the recommendations in the Salinas Plan. The City has many deferred maintenance and equipment needs including old facilities, equipment and technology that are being addressed as part of this mid-year budget proposal. The carry-over balance from the prior year and the current revenue adjustments in the General Fund are positive, however the next two years are going to be the largest growth years in CalPERS so the City needs to remain fiscally cautious and prudent.

DISCUSSION:

Revenue

At mid-year, the General Fund revenues are coming in slightly better than expected. Sales Tax is the largest increase of \$1,297,000, or 4.3%. However, it is not expected for this revenue to sustain at this level in the coming years. The Auto and Transportation sales tax industry group is expected to decrease and has already shown signs of softening. As of December 31, 2019, the City received \$54,316,450, or 54% of the budget, as shown in the table below. The seven major revenues, representing 87% of all General Fund Revenues, are coming in an average of 1.5% better than expected. As part of the mid-year review, staff is recommending increasing the estimated revenue of the General Fund by \$3,046,000. For a detailed report of the revenue, please see Exhibit D.

	Adopted				Proposed	%
	Budget	Actual	Difference	% Rec.	Adjustments	Change
Sales Tax	\$ 29,950,000	\$ 16,307,884	\$ (13,642,116)	54%	\$ 1,297,000	4.3%
Property Tax	31,038,000	16,739,972	(14,298,028)	54%	454,000	1.5%
Utility Users Tax	12,240,000	6,040,365	(6,199,635)	49%	(260,000)	-2.1%
Franchise Fees	8,800,000	4,222,345	(4,577,655)	48%	-	0.0%
Business License Tax	5,300,000	1,829,933	(3,470,067)	35%	-	0.0%
TOT	3,000,000	2,139,233	(860,767)	71%	450,000	15.0%
Charges for Services	4,141,632	3,050,857	(1,090,775)	74%	650,000	15.7%
All Other	6,441,618	3,985,861	(2,455,757)	62%	455,000	7.1%
Total Revenue	\$ 100,911,250	\$ 54,316,450	\$ (46,594,800)	54%	\$ 3,046,000	3.0%

Operating Expenditures

Operating Expenditures of the General Fund are under budget mid-way through the year. The General Fund total expenditures were \$48,480,576 as of December 31, 2019, or 48% spent. Mid-year adjustments to the General Fund operating budget totaled \$2,306,000 and are detailed in Exhibit A to this staff report.

	Adopted			%	Proposed
	Budget	Actual	Difference	Spent	Adjustments
Police	\$ 39,484,747	\$ 18,543,269	\$ 20,941,478	47%	\$ 679,700
Fire	21,225,970	10,486,069	10,739,901	49%	167,000
Public Works	10,128,835	4,676,294	5,452,541	46%	661,300
Library & Com. Serv.	1,324,135	540,054	784,081	41%	-
Community Dev.	3,500,905	1,562,593	1,938,312	45%	393,000
Administration	3,576,170	1,323,465	2,252,705	37%	269,000
Finance	4,297,160	1,882,041	2,415,119	44%	-
City Attorney	940,350	374,501	565,849	40%	-
City Council	226,290	159,780	66,510	71%	-
Non-Dep.	6,018,328	4,241,960	1,776,368	70%	136,000
Non-Dep.-Trans Out	9,699,952	4,690,550	5,009,402	48%	-
Total Operating Exp.	\$ 100,422,842	\$ 48,480,576	\$ 51,942,266	48%	\$ 2,306,000

Capital Improvement Program (CIP) Expenditures

The total CIP budget of \$113,932,970 includes \$32,504,062 budgeted as part of the FY 2019-20 adopted budget and \$73,969,081 of projects in progress where the budget carries over year-to-year until completed. Year-to-date CIP expenditures totaled \$9,478,696 and encumbrances totaled \$9,896,693 as of December 31, 2019. Mid-year adjustments to the CIP budget total \$6,562,000 and are described in detail in Exhibit A to this staff report.

CIP By Dept.	Budget	Actual	Encumb.	Difference	%	
					Spent & Enc.	Proposed Adjustments
Police	\$ 11,032,293	\$ 1,177,099	\$ 739,533	\$ 9,115,660	17%	\$ 1,674,000
Fire	3,493,543	615,971	245,631	2,631,940	25%	-
Public Works	86,812,408	6,016,451	7,663,213	73,132,745	16%	1,589,000
Library & Com. Serv.	6,460,618	993,863	363,028	5,103,727	21%	3,160,000
Community Dev.	4,722,050	485,720	808,130	3,428,201	27%	19,000
Administration	807,187	-	-	807,187	0%	20,000
Finance	604,871	189,591	77,158	338,122	44%	100,000
Total CIP	\$ 113,932,970	\$ 9,478,696	\$ 9,896,693	\$94,557,581	17%	\$ 6,562,000

Mid-Year CIP Adjustments by Funding Sources:	Proposed Adjustments
1000 - General Fund	\$ 1,544,000
1100 - Measure E Fund	3,110,000
1200 - Measure G Fund	1,500,000
2404 - Vehicle Abatement Fund	54,000
2506 - PEG Fund	10,000
2510 - Measure X Fund	20,000
2511 - SB1 Road Maintenance & Rehab	147,000
6400 - Sewer Fund	177,000
Total	\$ 6,562,000

Measure E

The Measure E Committee met on January 16, 2020. They reviewed the status of the FY 2019-20 operating and capital projects funded with Measure E. To date, there was a total of \$5,208,733 in operating expenditures spent and \$7,146,297 was collected in revenue. Please see the attached "10-Exhibit H - December 31, 2019 Measure E Financial Report" for more details.

Measure G

The Measure G Committee met on January 23, 2020. They reviewed the status of the FY 2019-20 operating and capital projects funded with Measure G. To date, there was a total of \$10,555,979 spent and \$14,364,151 was collected in revenue. Please see the attached "8-Exhibit F - December 31, 2019 Measure G Financial Report" for more details.

Also included as an attachment to this report is the status of Measure G funded projects. The report is titled, “9-Exhibit G - December 31, 2019 Measure G Funded CIP Projects”. The Measure G funded capital project report shows \$2,707,414 spent, or 11% of the budget and \$38,738,095 spent life-to-date (LTD) as of December 31, 2019. The following table summarizes the Measure G funded CIP activity for the first six months of the year by department:

<u>Measure G CIP</u>					
<u>Department</u>	<u>FY 2019-20</u>				<u>Total (LTD)</u>
	<u>Budget</u>	<u>Actual Exp.</u>	<u>Balance</u>	<u>% Spent</u>	<u>Actual Exp.</u>
12 - Administration	\$ -	\$ -	\$ -	0%	\$ 304,846
20 - Finance	74,744	46,903	27,841	63%	2,012,659
30 - Community Development	2,067,074	38,684	2,028,390	2%	1,497,146
40 - Police	10,169,386	624,025	9,545,361	6%	18,034,324
45 - Fire	2,931,910	574,213	2,357,697	20%	5,729,311
50 - Public Works	3,506,843	738,274	2,768,569	21%	9,264,425
55 - Community Services	<u>475,345</u>	<u>48,315</u>	<u>427,030</u>	10%	<u>1,895,385</u>
Total	<u>\$ 19,225,302</u>	<u>\$2,070,414</u>	<u>\$ 17,154,888</u>	11%	<u>\$38,738,096</u>

As mentioned above, the detailed list of Measure G funded CIP projects are included as an attachment to this report.

Investment Activity

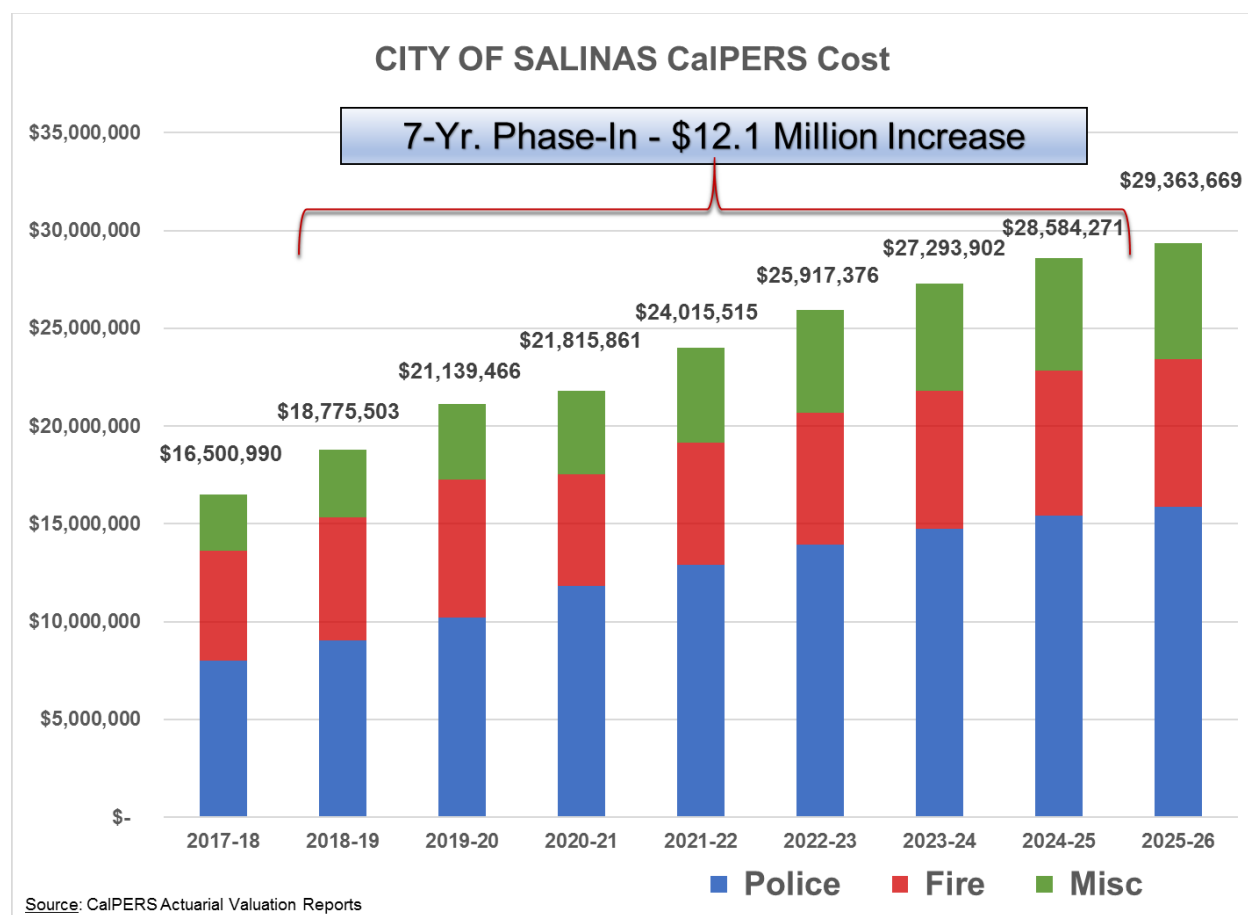
Cash and Investments total \$189,904,604. The General Fund totals \$30,428,652 or 16.02% of the total portfolio. Please see, “Exhibit B – Summary of Cash and Investments” as of December 31, 2019. It shows that the City has sufficient liquid funds to meet its cash requirements for at least the next six months. The Financial Report includes all investment detail required by SB564 (Johnston) and is presented to Council in compliance with the City’s investment policy.

Cash Balances

The Housing and Urban Development Fund has a deficit of \$152,395 and will be cleared when revenues are received from various HUD grants. Downtown Parking District Fund has a deficit of \$545,515 which will be covered by the General Fund until the Comprehensive Downtown Parking Study Plan is completed and implemented. Please see, “Exhibit C – Statement of Cash Balances – All Funds”.

Future Outlook

The City's costs are projected to outpace the City's revenue in the coming years. The top four cost drivers are salaries, retirement, health insurance, and workers' compensation. CalPERS lowered the discount rate in December 2016, which initially would cost the City \$60.5 million cumulatively over the 7-year phase-in period starting in FY 2018-19 and ending in FY 2024-25, based on last year's actuarial reports. This year's actuarial report now shows a \$52.0 million cumulative cost since the City proactively paid down the CalPERS liability by \$11.3 million, reducing the annual cost \$1.9 million a year during the next seven years and achieving interest savings of about \$3 million. Despite this large payment, the City's pension cost will almost double from \$16.6 million in FY 2017-18 to \$28.6 million by FY 2024-25 as shown in the graph below during the 7-year phase-in of the discount rate changing from 7.5% to 7.0%. The chart below reflects the most current actuarial reports published in July 2019.



Reserves

The City's Financial Policies provide that the City "strive" to maintain an eight (8%) percent General Fund Operating Reserve. Five (5%) percent of the reserve is required primarily for cash flow purposes. Reserves above the five (5%) percent level can be characterized more as "rainy day" funds to guard against economic uncertainties. While a prudent reserve is certainly a worthy

policy, it must be balanced with the fact that residents pay taxes for one purpose – to benefit from programs and services paid for with those taxes.

During the Great Recession, the FY 2009-10 Budget was balanced using \$9.4 million of General Fund/Measure E reserves. The use of reserves in both FY 2008-09 and FY 2009-10 was required to maintain services and were depleted to zero. Over the last nine fiscal years using carryover funds and at the mid-year budget review, the City Council has approved replenishing the reserve with increases amounts almost every time. The General Fund, Measure G and E reserves have grown and are now at \$9.6 million or 8.1% of operating expenditures. The Measure G reserve of \$1,760,000 is 8% of the 1st year estimated Measure G sales tax of \$22,000,000 and will function both as an operating reserve and a capital reserve. In addition to these reserves, the City has reserved \$2,500,000 for the New York Life Retirement Reserve and \$1,150,000 remaining in the deficit reduction reserve. Staff proposes to increase the New York Life Retirement Reserve by \$3,000,000, invest \$3,000,000 in the 115 Pension Trust, and increase payment to CalPERS by \$4,500,000.

	<u>General Fund</u>	<u>Measure E</u>	<u>Measure G</u>	<u>Total</u>
Operating Reserve	<u>\$ 6,830,000</u>	<u>\$ 962,000</u>	<u>\$ 1,760,000</u>	<u>\$ 9,552,000</u>
Reserve % of FY 19-20 Appropriations	7.5%	7.8%	11.8%	8.1%

CEQA CONSIDERATION:

Not a Project. The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378).

STRATEGIC PLAN INITIATIVE:

The mid-year review and adjustments applies to all the strategic plan initiatives.

DEPARTMENTAL COORDINATION:

This mid-year budget process was a highly collaborative process involving all departments. Meetings for each department occurred with the City Manager and the Finance Director.

FISCAL AND SUSTAINABILITY IMPACT:

The table below summarizes the mid-year adjustments and related funding sources:

Fund	Mid-Year Adjustments					End. Avail.
	Total Avail. Fund Bal.	Revenue	Appropriations	CIP	Reserves	Fund Bal. 6/30/20
1000 - General Fund	\$ 11,624,742	\$ 3,046,000	\$ (2,306,000)	\$ (1,544,000)	\$ (10,500,000)	\$ 320,742
1100 - Measure E	2,735,524	553,000	(139,000)	(3,110,000)	-	39,524
1200 - Measure G	368,747	1,409,000	(205,500)	(1,500,000)	-	72,247
2404 - Gas Tax	-	54,000	-	(54,000)	-	-
2506 - PEG Fund	302,001	-	-	(10,000)	-	292,001
2510 - Measure X	2,166,798	-	(9,000)	(20,000)	-	2,137,798
2511 - SB1 Road Maint.& Rehab	219,251	-	-	(147,000)	-	72,251
3251 - CA Bev. Container Recy.	80,471	-	(80,400)	-	-	71
6100 - Airport	794,892	-	(47,000)	-	-	747,892
6200 - Industrial Waste	496,967	-	(15,000)	(177,000)	-	304,967
6500 - NPDES	296,147	-	(57,500)	-	-	238,647
6803 - Parking Enforcement	845,260	-	(273,500)	-	-	571,760
Total	<u>19,930,801</u>	<u>5,062,000</u>	<u>(3,132,900)</u>	<u>(6,562,000)</u>	<u>(10,500,000)</u>	<u>4,797,901</u>

ATTACHMENTS:

Resolution - FY 2019-20 Mid-Year Budget Amendments

Exhibit A - FY 2019-20 Mid-Year Budget Adjustments Detail

Exhibit B - December 31, 2019 Summary of Cash and Investments

Exhibit C - December 31, 2019 Statement of Cash Balances – All Funds

Exhibit D - December 31, 2019 Revenue Report (General Fund, Measure E and Measure G)

Exhibit E - December 31, 2019 General Fund Expenditure Report

Exhibit F - December 31, 2019 Measure G Financial Report

Exhibit G - December 31, 2019 Measure G Funded CIP Projects

Exhibit H - December 31, 2019 Measure E Financial Report

Exhibit I - December 31, 2019 CIP Projects

Exhibit J - December 31, 2019 Revenue Report - All Funds

Exhibit K - December 31, 2019 Operating Expenditure Report By Program - All Funds