



## **NEW BUSINESS**

### Introduction and Discussion of City's Proposed Fiscal Years 2016-17 and 2017-18 Budget and Related Items

#### **RECOMMENDATION**

That the City Council give staff direction regarding revenue and expenditure matters included in the Fiscal Years 2016-17 and 2017-18 Proposed Budget.

#### **Background**

Presented herein is the Fiscal Year (FY) 2016-17 and 2017-18 Two-Year Proposed Budget. This budget is the result of many hours of work, including intense involvement with the various City Council Budget Sub-Committees. While the City has gone through its share of tough budget cycles in the recent past, and, even though this budget cycle is being considered through a more normalized lens, the FY 2016-17 and 2017-18 proposed budget was a particularly challenging undertaking. The past 4 years has seen the City confront and overcome the dual monumental fiscal challenges of the "Great Recession" and the elimination of Redevelopment. Over the last year or so, due to the prudent fiscal guidance of the City Council, the City's fiscal wellbeing has indeed stabilized. That is not to say that we have or will ever return to the robust funding levels that were seen during the Redevelopment Era. However, we have adjusted to a "New Normal", and are now able to make adjustments that will bolster areas of the organization that were necessarily stripped back in order to get through the fiscal challenges of the recent past. These adjustments will provide for a more efficient and productive provision of services. That notwithstanding, the "New Normal" is also defined by increasing employee retirement costs and a necessarily conservative outlook on revenues, particularly because of the volatile nature of Sales Tax (i.e., hyper-sensitive to the ups/downs/whims of the economy), which is our largest revenue stream in the absence of Redevelopment.

With the above in mind, where we find ourselves is in a position to continue the work of the last two years in rebuilding our revenue base in a way that enhances our ability to sustain the level of service that we provide to the public on into the future. Key strategies in that regard are: 1) building the City's reserves to a level that will help lessen the impact of the next downturn in the economy; 2) continuing to reassess what the City's "Core Services" are, so as to ensure that the City's ability to provide those services that only the City can provide are not diminished as a result of "spreading ourselves to thin"; and, 3) looking at ways to broaden and diversify our revenue streams, so as to lessen our dependency on sales tax revenue.

The Proposed Budget for Fiscal Years 2016-17 and 2017-18, I believe, moves us closer to the above objectives. As well, the proposed budget provides an



# City of Santa Fe Springs

City Council Budget Study Session

June 9, 2016

unwavering commitment to making Santa Fe Springs a safe and great place to live, work and play. It furthers the City's mission to deliver exemplary municipal services responsive to our entire community and consistent with our history, culture and unique character.

## Following is a more detailed review of the Budget specifics:

For the FY 2015-16 Final Estimate, it is anticipated that there will be a \$252,000 surplus at year's end. Likewise, we estimate that the FY 2016-17 General Fund sources will surpass uses by \$77,000. For FY 2017-18, however, we anticipate a "break even" budget with uses equaling sources. While revenues remain relatively strong, projected expenditures (largely fueled by CalPERS pension costs) continue to grow at a faster pace. Budgeted City-wide expenditures are offset by utilizing one-time sources (such as loan repayments) to "pre-fund" future year Capital Improvement Program needs.

Following is a summary of the Proposed Budget activity for each of the two upcoming fiscal years, along with a final estimate for the current fiscal year:

	Final Est. Fiscal Year <u>2015-16</u>	Proposed Fiscal Year <u>2016-17</u>	Proposed Fiscal Year <u>2017-18</u>
Sources:			
General Revenues	\$ 44,127,100	\$ 45,809,000	\$ 45,664,000
<u>Loan Repayments</u>	<u>3,148,800</u>	<u>--</u>	<u>1,760,000</u>
Total Sources	47,275,900	45,809,000	47,424,000
Uses:			
Departmental Expenditures	\$ 40,054,400	\$ 42,606,600	\$ 44,649,300
Capital Improvement Projects*	5,626,000	1,800,000	1,800,000
Non-Recurring	124,400	414,300	111,300
PERS Stabilization - Labor	--	652,000	658,000
Employee Benefits Fund*	600,000	--	--
Insurance Stabilization*	73,700	--	--
<u>Equipment Replacement Fund*</u>	<u>545,000</u>	<u>259,100</u>	<u>205,400</u>
Total Uses	47,023,500	45,732,000	47,424,000
Projected Surplus	\$ <u>252,400</u>	\$ <u>77,000</u>	\$ <u>--</u>

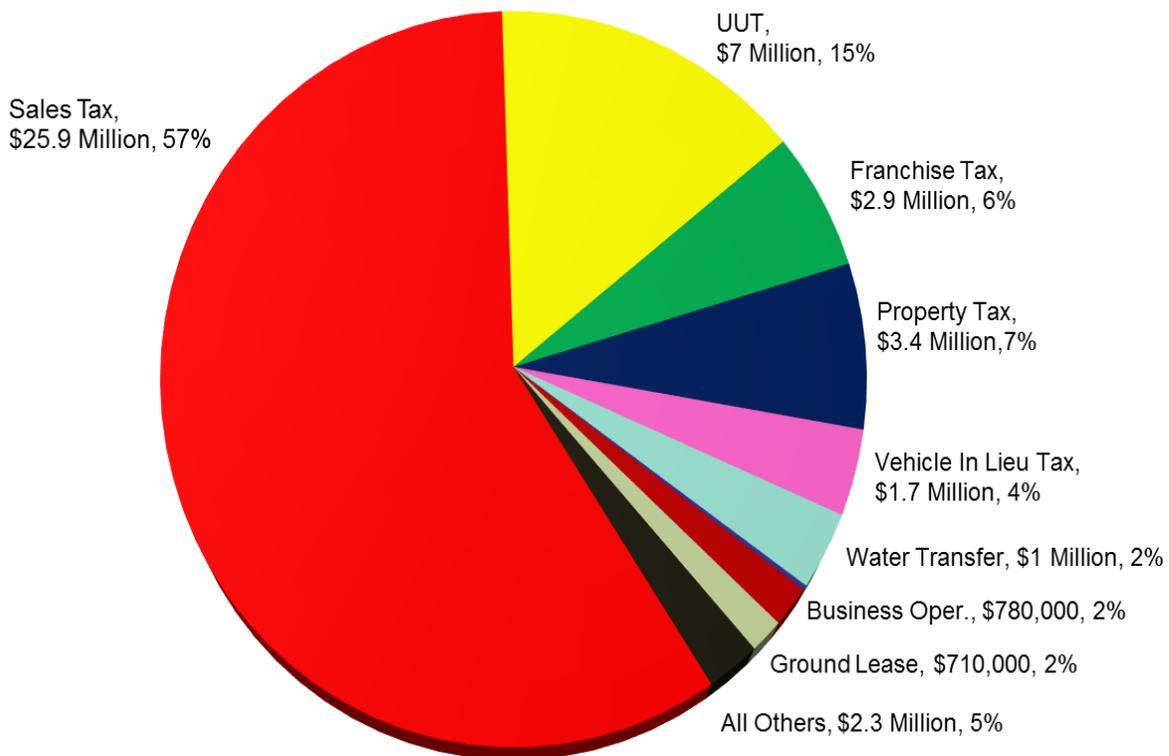


\* FY 2015-16 Final Estimate amount reflects the current year budgetary impact. In January 2016, the City Council set aside \$2,399,700 in FY 2014-15 General Fund Reserves towards various specific purposes as itemized (including \$1,226,000 of the \$5,626,000 in Capital Improvement Projects).

## Revenues / Sources

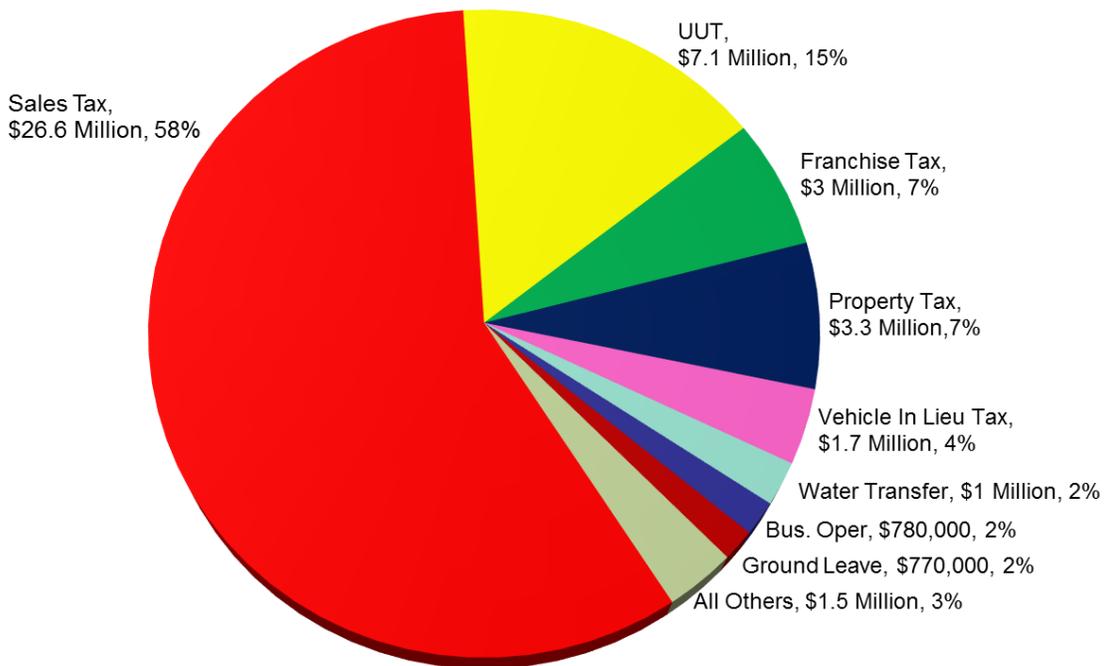
During FY 2016-17 we are expecting City General Fund revenues (not including the Water Utility Fund) to total \$45.8 million. This does not include “applied” General Fund revenues that are derived from the operations of specific departments and allocated to offset those same departmental expenditures. FY 2016-17 General Fund revenues are projected to be about \$1.7 million greater than the current year estimate, largely due to \$1 million anticipated in interest from a one-time loan repayment (Washington Blvd.). Without the amount, the following year is projected to generate slightly less (\$145,000) in revenues despite sales tax revenues forecasted to increase about \$600,000 from the prior year. The graphs below illustrates an overall view of the City’s revenues for each of the next two fiscal years.

*FY 2016-17 City Revenues - \$45.8 Million*





***FY 2017-18 City Revenues - \$45.7 Million***



**Sales Tax Revenue** – Historically, the City has benefitted greatly from the large business community and the sales tax revenue generated. Conversely, during the “Great Recession” the City’s revenues were disproportionately impacted by the downturn in the economy. Since then, modest gains have provided for a slow but steady rise. In the FY 2015-16 Final Estimate, we anticipate a decrease of \$1 million from the prior year, with a modest uptick in FY 2016-17 (\$478,000) and FY 2017-18 (\$636,000).

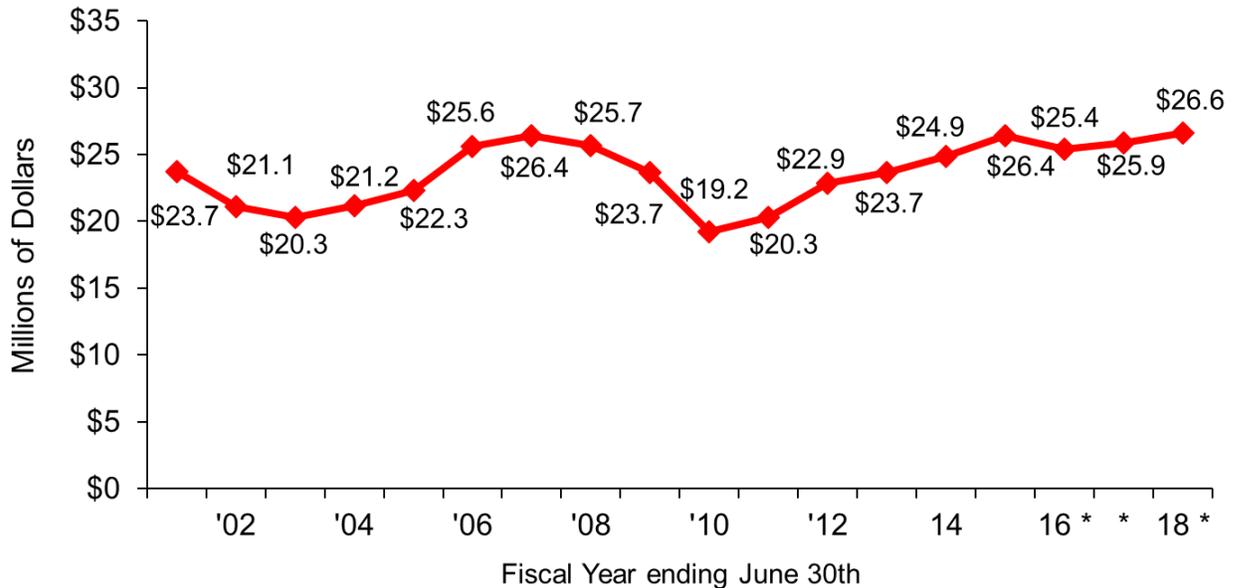


# City of Santa Fe Springs

City Council Budget Study Session

June 9, 2016

## Sales Tax Revenue History FY 2000-01 through FY 2017-18



\*Estimate

**Utility User's Tax** - The City's Utility User's Tax (UUT) has continued to provide much-needed revenue diversification that reduces the City's reliance on Sales Tax Revenue and the disproportionate impact an economic downturn has on the City of Santa Fe Springs compared to other communities. The City anticipates receiving \$6.95 million and \$7.1 million during FY 2016-17 and FY 2017-18, respectively.



# City of Santa Fe Springs

City Council Budget Study Session

June 9, 2016

**Other Revenues** – The Proposed Budget includes anticipated revenues from new developments coming online in the next two years. The Universal Waste System Materials Recovery Facility is expected to be operational in FY 2017-18 and generate \$200,000 in annual revenues. Likewise, development and ongoing fees from the installation of billboard signs along newly constructed portions of the I-5 Freeway are expected to provide over \$300,000 in annual revenues to the City.

**Other Sources** – Included in the budget are loan repayments stemming from the dissolution of the former City of Santa Fe Springs Community Development Commission (Redevelopment Agency) to the City. Both are expected to be paid back through the Redevelopment Property Tax Trust Fund (RPTTF) distributions as recognized obligations of the former redevelopment agency. One is for the Washington Blvd. Redevelopment Project Area where \$3,148,800 in principal and \$245,600 in interest revenue were received during FY 2015-16. An additional \$1,016,000 in interest revenue is expected in FY 2016-17. The second is the repayment from the RPTTF of a loan made by the City's General Fund to the former redevelopment agency. Anticipated in FY 2017-18 are \$1.76 million in General Fund monies from the \$9.2 original loan.

## Expenditures

General Fund expenditures and fund transfers are expected to total approximately \$45.7 million in FY 2016-17, or about \$1.3 million less than the current year. This is largely the result of depositing or "pre-funding" \$2 million in future year Capital Improvement Projects from the FY 2015-16 Budget. In FY 2017-18 we can expect total uses to be \$47.4 million or about \$1.7 million more than the prior year. The growth is almost exclusively in the operating departments and attributed to higher pension costs.

Departmental expenditures, net of applied revenues, are estimated at \$42.6 million in FY 2016-17 and \$44.6 million in FY 2017-18. The three largest department expenditure components (based on gross expenditures) are Fire, Police, and Public Works. Combined, the amounts spent on public safety (Police and Fire-Rescue Departments) account for slightly more than half of the City's operating expenditures.

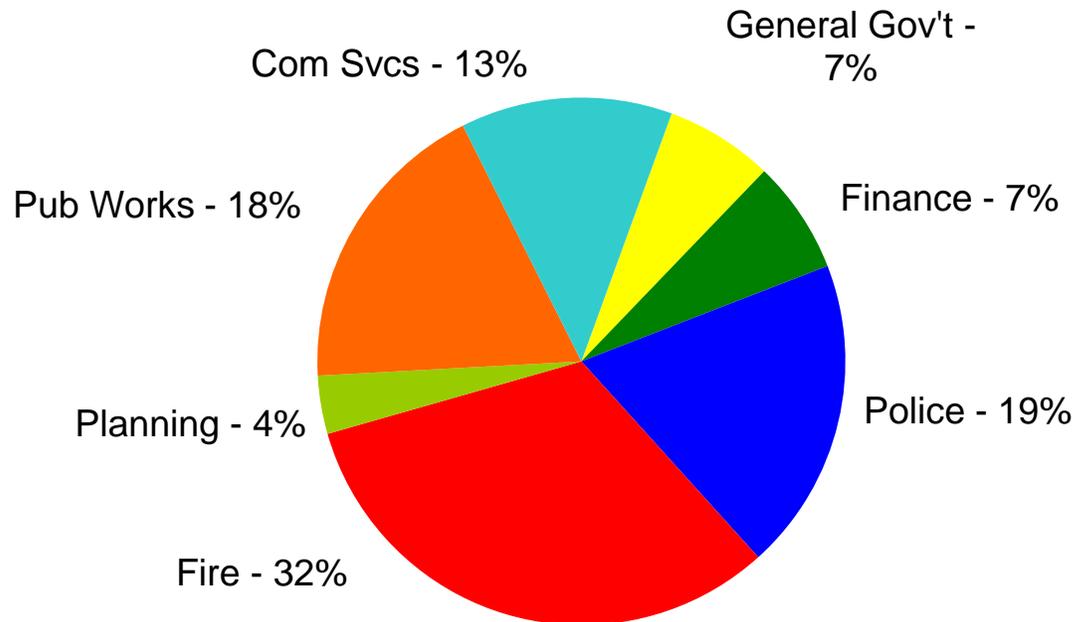


# City of Santa Fe Springs

City Council Budget Study Session

June 9, 2016

## *FY 2016-17 Departmental Expenditures - \$42.6 Million \**



\*Amount is net of applied revenues. Pie chart illustrates department budgets prior to applied revenues.

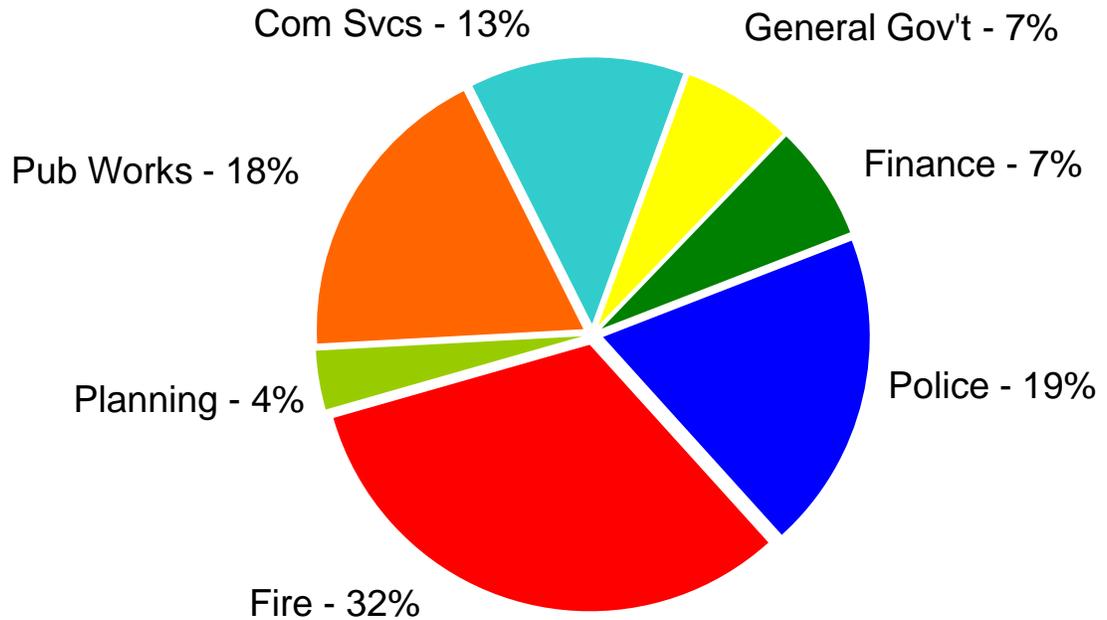


# City of Santa Fe Springs

City Council Budget Study Session

June 9, 2016

## *FY 2017-18 Departmental Expenditures - \$44.6 Million \**



\*Amount is net of applied revenues. Pie chart illustrates department budgets prior to applied revenues.



# City of Santa Fe Springs

City Council Budget Study Session

June 9, 2016

The FY 2015-16 Final Estimate and the Two-Year Proposed Budget include earmarked funds for Capital Improvement Projects, Non-recurring expenditures, Citywide equipment replacement, and set-aside funds to stabilize labor costs, PERS pension rates, and insurance contributions.

## **Conclusion**

As has been made clear over the last few years, the City has been in transition due to the hard-learned lessons of the “Great Recession” and the devastating loss of Redevelopment; the overall challenge of the last few years has been, how can the organization emulate the wonderful achievements and outcomes of the past in an environment where we have dramatically fewer fiscal resources and as a result, fewer human resources? Of course, achieving the same outcomes with fewer fiscal resources requires changing the way we do things in order to gain greater efficiencies. The proposed Fiscal Years 2016-17 and 2017-18 Budget does help build back up the City’s organizational wherewithal while still maintaining a balanced budget. However, while the City has done much to build up our reserves in order to better withstand the inevitable downturn in the economy, an ongoing effort will be needed to achieve the 40% reserve level set by the City Council two years ago.

In closing, although we have entered a more stable environment, there still exists imminent and looming challenges. Over the years the strong partnerships we have developed with residents, businesses and employees has defined Santa Fe Springs as a resilient community that can overcome any and all obstacles that comes its way. I am confident that, working together, Santa Fe Springs will not only “get by”, but flourish under this proposed Budget. Still, the need to remain prudent and vigilant from a cost containment standpoint, and the need to seek out new revenue streams should be front and center as we move on into the future.

A handwritten signature in blue ink, appearing to read "Thaddeus McCormack".

Thaddeus McCormack  
City Manager

Attachments  
Budget Binder\*  
Fee Schedule\*

\*to be delivered Tuesday, June 7, 2016

(If the title of your report is long, please start here)  
Title of Report