



## **CITY COUNCIL REPORT 2015-18**

**9 B**

**DATE: MARCH 17, 2015**

**TO: MAYOR AND COUNCIL**

**FROM: BELINDA B. ESPINOSA, CITY MANAGER**

**SUBJECT: CONTINUED DISCUSSION ON MEASURE S 2014 FUNDING**

---

### **RECOMMENDATION**

There is no recommendation at this time. This is for discussion purposes only.

### **BACKGROUND**

In November 2014, the Pinole voters approved Measure S, which included a general sales tax measure of ½ cent. Local merchants will begin to collect the tax on April 1, 2015. It is anticipated that Measure S 2014 will generate an additional \$1.8 million a year. While the funds are for General Fund purposes, they will be held in a separate account from the General Fund.

The City Council held its first workshop on Saturday February 7, 2015 to discuss how to plan and budget for the Measure S 2014 funds in the upcoming FY 2015-16 Budget. While Staff received many suggestions from the public, no decisions were made at this meeting, the City Council noted that they would like to continue the discussion and receive additional public input.

At the workshop, City staff presented a three-year plan concept that included items from City Council initiated requests, citizen comments and staff needs. That plan revealed that if all the items listed were funded, the Measure S 2014 funding would be out of balance and in deficit spending by Year 3. As a concept, the City Council requested that Staff look at a plan that set aside 50% of the Measure S 2014 funds as reserve with any remaining funds to be used for projects.

The City Council directed Staff to place the item for further discussion on the March 3, 2015 City Council agenda. At that meeting, Staff presented the Council with a 5-year Plan assuming that 50% of the funds be set aside as reserves. Staff also provided an alternative concept of setting aside 25% of the Measure S 2014 funds as reserves with projects to be completed with the remaining funds, assuring that expenditures do not exceed revenues in any year. All acknowledged that developing a balanced and sustainable spending plan was the intention and that additional planning steps were necessary.

The City Council, after hearing from several citizens and much discussion noted that there should be some guiding principles adopted in order to establish the parameters for the Measure S 2014 funding allocations.

### **REVIEW AND ANALYSIS**

As a result of the discussion on March 3, the City Council endorsed the following guiding principles:

- Amend the City's Financial Policies to Reflect the Guiding Principles of Measure S 2014 Funding.
- Transfer a fixed dollar amount of Measure S 2014 funds each budget cycle into the General Fund Reserve until a \$5.5 million Reserve is achieved. This is the "Reserve" Concept.
- Measure S 2014 Funds should never result in deficit spending – i.e. current year expenditures must be equal or less than current year revenues.
- Maintenance of City facilities should have a high priority for funding allocations.

### **BALANCE MEASURE S 2006 FUNDING**

The City Council also reached a consensus that the deficit spending in the Measure S 2006 should be corrected using accumulated carryover Measure S 2006 funds in FY 2014-15 and that there be no deficit spending in future years. In order to accomplish this, the following actions would need to be taken:

- Transfer the funding of the Fire Chief position from Measure S 2006 to the General Fund; and
- Keep two vacant Firefighter positions open and unbudgeted. Currently, there are 14 allocated positions of which 12 are filled.

### **TRANSFER OF MEASURE S 2014 FUNDS TO ESTABLISH \$5.5 MILLION GENERAL FUND RESERVE**

The City Council focused on the concept of establishing a General Fund Reserve to equal at least six (6) months of operating and maintenance costs. This is estimated at \$5.5 million based on a General Fund of \$11 million. At the current time, the General Fund Reserve is estimated at \$3.2 million, which means that additional contributions of \$ 2.3 million are needed to reach this goal.

The City Council focused on reaching this goal within a reasonable time period. Two conceptual scenarios were presented and discussed, one at 50% and one at 25%. Upon future review, the 50% "set aside" option proved to be too robust in that it did not provide enough funding for projects that the City Council would like to see accomplished. Staff was directed to return on a subsequent meeting with scenarios based on still reaching the goal of \$5.5 million but at a more reasonable pace so that there would be more funds available each year for projects and programs.

Staff has developed two additional scenarios including a transfer of Measure S 2014 funding to the General Fund Reserve at annual fixed dollar amount of \$400,000 and at a \$300,000 level (see Attachment A, B and C). At each funding level, it would take 5, 6, and 9 years, respectively to reach the General Fund Reserve goal of \$5.5 million.

<b>Transferred to General Fund Reserve</b>	<b>Actual Amount to be Transferred</b>	<b>General Fund Reserve by FY 2019-20</b>
25%	\$ 461,337	\$5.475 million
Flat (Option #2)	\$400,000	\$5.168 million
Flat (Option #3)	\$300,000	\$4.668 million

It is important to note that any net income generated from the General Fund (exclusive of Measure S funds) may contribute to the building of General Fund Reserves thereby resulting in less years it would take to build the Reserves.

#### **SPENDING SCENARIOS**

Rather than focusing on specific projects at this time, Staff has prepared an outline of the amount of funds that would be available for projects that would be determined by the City Council at a later date. This amount is based on the list of projects that the City Council has reviewed at their February 3 and March 3 discussions. All of the scenarios place a high priority on adding a full-time Training Officer in Fire (\$150,000) and a part-time Project Manager for Public Works (\$44,000).

Outlined below is the residual amount based on the remaining funds available after the transfer to the General Fund Reserve each year. This amount includes new revenue each year and excludes any accumulated carry forward that may be generated from unexpended funds in preceding years (see discussion below).

	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>
<b>Base-line</b>					
<b>Allocations</b>	\$1,841,415	\$1,834,844	\$1,820,344	\$1,725,644	\$1,574,644
<b>Unallocated Revenues</b>					
<b>By Year</b>	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>
25%	\$ 3,934	\$ 10,505	\$ 25,005	\$ 119,705	\$ 270,705
\$400 K	\$ 65,271	\$ 71,842	\$ 86,342	\$ 181,042	\$ 332,042
\$300 K	\$ 165,271	\$ 171,842	\$ 186,342	\$ 281,042	\$ 432,042

**DEFINITION OF FUND BALANCES**

At the March 3, 2015 City Council meeting, there was much discussion about the definitions and purposes of "Fund Balance." For our purposes, we are using two types of Fund Balances. The first is the *General Fund Reserve* and the second is the *Unallocated Residual*.

*General Fund Reserve*

The General Fund Reserve includes monies that are set aside in case of an emergency and for cash flow purposes. The City Council has set a goal to reserve six months of operating and maintenance costs or \$5.5 million. These funds are designated reserves and are not meant to be easily available for appropriation or expenditures. This reserve is often considered a measure of available expendable financial resources for financial reporting purposes and debt issuance.

*Unallocated Residual Balance*

Simply defined, an Unallocated Residual Balance is money that has been set aside for unknown budget appropriations that may arise during the next Budget Cycle and is readily available for additional general operating expenditures or unanticipated shortfalls. These funds are not part of the City's annual budget or the General Fund Reserve account. These funds are available throughout the fiscal year. There are no planned commitments for these funds but they become commitments as expenditure needs arise and the City Council grants approval for such uses.

Based upon the above discussion, it is projected that even after setting aside a specific percentage to be transferred to the General Fund Reserve each year and allocating expenditures to meet available revenues each year, that there will most

likely will positive net income (or also known as Unallocated Residual). This is outlined on the Attachments A, B, and C.

As was the case with the amount of available resources for allocation, this amount varies based upon the amount of available resources after the transfer. However, it is likely that there will be enough each year to accumulate an Unallocated Residual Balance in the Measure S 2014 fund, as follows:

<b>Accumulated Unallocated Residuals</b>	<b><u>FY 2015-16</u></b>	<b><u>FY 2016-17</u></b>	<b><u>FY 2017-18</u></b>	<b><u>FY 2018-19</u></b>	<b><u>FY 2019-20</u></b>
25%	\$ -0-	\$ 3,934	\$ 14,439	\$ 39,443	\$ 159,148
\$400 K	\$ -0-	\$ 65,271	\$ 137,113	\$ 223,455	\$ 404,497
\$300 K	\$ -0-	\$ 165,271	\$ 337,113	\$ 523,455	\$ 804,497

### **FISCAL IMPACT**

It is apparent, that there are many more needs and wants than resources available. However, given development of a strategic approach and plan including the Guiding Principles, the conscious decision to build the General Fund Reserve and assure that current expenditures match current revenue, much can be accomplished.

The first year should be balanced with one-time expenditures, leaving funding for staffing on the back end when the fund balances are stronger and well established. All of the scenarios place a high priority on adding a full-time Training Officer in Fire (\$150,000) and a part-time Project Manager for Public Works (\$44,000).

- **BALANCING MEASURE S 2006**

Based on revised revenue and expenditure estimates, the Measure S 2006 deficit has been reduced to only \$149,312 in this budget year (FY 2014-15). This portion will be covered by Measure S 2006 Unallocated Residual funds, which have accumulated over prior years. In FY 2015-16, expenditures will not exceed revenues. This will be accomplished by transferring the Fire Chief position from Measure S to the General Fund and maintaining the Fire Department line staffing at 12 instead of 14.

As previously mentioned, the General Fund Reserve account is estimated at \$3.2 million at the current time. In order to reach a \$5.5 million dollar General Fund Reserve, the City Council will have to decide how much to put aside each year in Reserves and the appropriate time period to achieve the goal.

Staff is not requesting that the City Council identify specific priorities at this time. Once the City Council provides direction on the specific amount of the transfer to the General Fund Reserve, we will prepare a draft five year plan based on that amount of funds being available.

**ATTACHMENTS**

- |              |  |
|--------------|--|
| Attachment A | Option #1 – 25% Funding Level<br>Summary Five Year Plan        |
| Attachment B | Option #2 -- \$400,000 Funding Level<br>Summary Five Year Plan |
| Attachment C | Option #3 -- \$300,000 Funding Level<br>Summary Five Year Plan |

ATTACHMENT A

OPTION #1

**MEASURE-S 2006**

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Unallocated Residual	\$ 1,498,000	\$ 1,348,688	\$ 1,348,688	\$ 1,348,688	\$ 1,348,688	\$ 1,348,688
Revenues	\$ 1,809,166	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349
Expenditures	\$ (1,958,478)	\$ (1,845,349)	\$ (1,845,349)	\$ (1,845,349)	\$ (1,845,349)	\$ (1,845,349)
Yearly Remainder	\$ (149,312)	\$ -	\$ -	\$ -	\$ -	\$ -

**MEASURE-S 2014**

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Unallocated Residual	\$ -	\$ -	\$ 3,934	\$ 14,439	\$ 39,443	\$ 159,148

Revenues	\$ 146,200	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349
Total Revenues	\$ 146,200	\$ 1,845,349	\$ 1,849,283	\$ 1,859,788	\$ 1,884,792	\$ 2,004,497

**Expenditures**

General Reserve (25% / Year)	\$ 146,200	\$ 461,337	\$ 461,337	\$ 461,337	\$ 461,337	\$ 461,337
Cable Television	\$ -	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000
City Facilities	\$ -	\$ 250,000	\$ 78,000	\$ 40,000	\$ 35,000	\$ -
City Hall	\$ -	\$ -	\$ -	\$ 100,000	\$ 77,500	\$ 20,000
Recreation	\$ -	\$ 64,500	\$ 114,500	\$ 64,500	\$ 64,500	\$ 64,500
Development Services	\$ -	\$ 115,000	\$ 65,000	\$ 65,000	\$ 80,000	\$ 80,000
Parks	\$ -	\$ 145,000	\$ 285,000	\$ 105,000	\$ 35,000	\$ 10,000
Public Works	\$ -	\$ 440,000	\$ 540,000	\$ 665,000	\$ 690,000	\$ 680,000
Police	\$ -	\$ 135,000	\$ 60,000	\$ 65,000	\$ 55,000	\$ 50,000
Fire	\$ -	\$ 185,578	\$ 186,007	\$ 159,507	\$ 172,307	\$ 163,807
City Attorney	\$ -	\$ -	\$ -	\$ 50,000	\$ 10,000	\$ -
Total	\$ 146,200	\$ 1,841,415	\$ 1,834,844	\$ 1,820,344	\$ 1,725,644	\$ 1,574,644

**Yearly Remainder**

	\$ -	\$ 3,934	\$ 10,505	\$ 25,005	\$ 119,705	\$ 270,705
--	------	----------	-----------	-----------	------------	------------

**GENERAL RESERVE ACCOUNT**

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Cummulative General Fund Reserve	\$ 3,022,291	\$ 3,168,491	\$ 3,629,828	\$ 4,091,166	\$ 4,552,503	\$ 5,013,840
Measure S 2014 Contribution	\$ 146,200	\$ 461,337	\$ 461,337	\$ 461,337	\$ 461,337	\$ 461,337
Total - General Fund Reserve	\$ 3,168,491	\$ 3,629,828	\$ 4,091,166	\$ 4,552,503	\$ 5,013,840	\$ 5,475,177

As % of General Fund Spending	29%	33%	36%	39%	43%	46%
Est. General Fund Expenditures	10,861,982	11,079,222	11,300,806	11,526,822	11,757,359	11,992,506

# ATTACHMENT B

## OPTION #2

**MEASURE-S 2006**

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Unallocated Residual	\$ 1,498,000	\$ 1,348,688	\$ 1,348,688	\$ 1,348,688	\$ 1,348,688	\$ 1,348,688
Revenues	\$ 1,809,166	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349
Expenditures	\$ (1,958,478)	\$ (1,845,349)	\$ (1,845,349)	\$ (1,845,349)	\$ (1,845,349)	\$ (1,845,349)
Yearly Remainder	\$ (149,312)	\$ -	\$ -	\$ -	\$ -	\$ -

**MEASURE-S 2014**

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Unallocated Residual	\$ -	\$ -	\$ 65,271	\$ 137,113	\$ 223,455	\$ 404,497

Revenues	\$ 146,200	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349
Total Revenues	\$ 146,200	\$ 1,845,349	\$ 1,910,620	\$ 1,982,462	\$ 2,068,804	\$ 2,249,846

**Expenditures**

General Reserve (\$400K / Year)	\$ 146,200	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000
Cable Television	\$ -	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000
City Facilities	\$ -	\$ 250,000	\$ 78,000	\$ 40,000	\$ 35,000	\$ -
City Hall	\$ -	\$ -	\$ -	\$ 100,000	\$ 77,500	\$ 20,000
Recreation	\$ -	\$ 64,500	\$ 114,500	\$ 64,500	\$ 64,500	\$ 64,500
Development Services	\$ -	\$ 115,000	\$ 65,000	\$ 65,000	\$ 80,000	\$ 80,000
Parks	\$ -	\$ 145,000	\$ 285,000	\$ 105,000	\$ 35,000	\$ 10,000
Public Works	\$ -	\$ 440,000	\$ 540,000	\$ 665,000	\$ 690,000	\$ 680,000
Police	\$ -	\$ 135,000	\$ 60,000	\$ 65,000	\$ 55,000	\$ 50,000
Fire	\$ -	\$ 185,578	\$ 186,007	\$ 159,507	\$ 172,307	\$ 163,807
City Attorney	\$ -	\$ -	\$ -	\$ 50,000	\$ 10,000	\$ -
Total	\$ 146,200	\$ 1,780,078	\$ 1,773,507	\$ 1,759,007	\$ 1,664,307	\$ 1,513,307

**Yearly Remainder**

	\$ -	\$ 65,271	\$ 71,842	\$ 86,342	\$ 181,042	\$ 332,042
--	------	-----------	-----------	-----------	------------	------------

**GENERAL RESERVE ACCOUNT**

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Cummulative General Fund Reserve	\$ 3,022,291	\$ 3,168,491	\$ 3,568,491	\$ 3,968,491	\$ 4,368,491	\$ 4,768,491
Measure S 2014 Contribution	\$ 146,200	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000
Total - General Fund Reserve	\$ 3,168,491	\$ 3,568,491	\$ 3,968,491	\$ 4,368,491	\$ 4,768,491	\$ 5,168,491

**As % of General Fund Spending**

Est. General Fund Expenditures	10,861,982	11,079,222	11,300,806	11,526,822	11,757,359	11,992,506
	29%	32%	35%	38%	41%	43%

OPTION #3

ATTACHMENT C

**MEASURE-S 2006**

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Unallocated Residual	\$ 1,498,000	\$ 1,348,688	\$ 1,348,688	\$ 1,348,688	\$ 1,348,688	\$ 1,348,688
Revenues	\$ 1,809,166	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349
Expenditures	\$ (1,958,478)	\$ (1,845,349)	\$ (1,845,349)	\$ (1,845,349)	\$ (1,845,349)	\$ (1,845,349)
Yearly Remainder	\$ (149,312)	\$ -	\$ -	\$ -	\$ -	\$ -

**MEASURE-S 2014**

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Unallocated Residual	\$ -	\$ -	\$ 165,271	\$ 337,113	\$ 523,455	\$ 804,497

Revenues	\$ 146,200	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349	\$ 1,845,349
Total Revenues	\$ 146,200	\$ 1,845,349	\$ 2,010,620	\$ 2,182,462	\$ 2,368,804	\$ 2,649,846

Expenditures

General Reserve (\$300K / Year)	\$ 146,200	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000
Cable Television	\$ -	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000
City Facilities	\$ -	\$ 250,000	\$ 78,000	\$ 40,000	\$ 35,000	\$ -
City Hall	\$ -	\$ -	\$ -	\$ 100,000	\$ 77,500	\$ 20,000
Recreation	\$ -	\$ 64,500	\$ 114,500	\$ 64,500	\$ 64,500	\$ 64,500
Development Services	\$ -	\$ 115,000	\$ 65,000	\$ 65,000	\$ 80,000	\$ 80,000
Parks	\$ -	\$ 145,000	\$ 285,000	\$ 105,000	\$ 35,000	\$ 10,000
Public Works	\$ -	\$ 440,000	\$ 540,000	\$ 665,000	\$ 690,000	\$ 680,000
Police	\$ -	\$ 135,000	\$ 60,000	\$ 65,000	\$ 55,000	\$ 50,000
Fire	\$ -	\$ 185,578	\$ 186,007	\$ 159,507	\$ 172,307	\$ 163,807
City Attorney	\$ -	\$ -	\$ -	\$ 50,000	\$ 10,000	\$ -
Total	\$ 146,200	\$ 1,680,078	\$ 1,673,507	\$ 1,659,007	\$ 1,564,307	\$ 1,413,307

Yearly Remainder

	\$ -	\$ 165,271	\$ 171,842	\$ 186,342	\$ 281,042	\$ 432,042
--	------	------------	------------	------------	------------	------------

**GENERAL RESERVE ACCOUNT**

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Cummulative General Fund Reserve	\$ 3,022,291	\$ 3,168,491	\$ 3,468,491	\$ 3,768,491	\$ 4,068,491	\$ 4,368,491
Measure S 2014 Contribution	\$ 146,200	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000
Total - General Fund Reserve	\$ 3,168,491	\$ 3,468,491	\$ 3,768,491	\$ 4,068,491	\$ 4,368,491	\$ 4,668,491

As % of General Fund Spending  
 Est. General Fund Expenditures

	29%	31%	33%	35%	37%	39%
	10,861,982	11,079,222	11,300,806	11,526,822	11,757,359	11,992,506