



CITY COUNCIL AGENDA STAFF REPORT
MEETING DATE: March 18, 2013

Title: Presentation of proposed budget/forecast with approved Financial Policies applied, discussion and possible direction on budget priorities for FY '13-14. (FOR POSSIBLE ACTION)
Petitioner: Shaun D. Carey P.E, City Manager Presenter: Jeff Cronk, CPA, Financial Services Director
Recommendation: That the City Council approve the recommended fiscal policy changes, and provide direction to staff regarding the production of the 2013-2014 budget.
Financial Impact: The direction provided by Council will guide in the preparation of the City Managers final budget recommendations and ultimately in the filing of the final budget for fiscal year 2013-2014, scheduled to be approved on 5/21/13.
Business Impact (Per NRS 237) <input type="checkbox"/> A Business Impact Statement is attached. <input checked="" type="checkbox"/> A Business Impact Statement is not required because this is not a rule. <input type="checkbox"/> A Business Impact Statement is not required. This is a rule but does not impose a direct and significant economic burden on a business, or directly restrict the formation, operation or exemption of a business. <input type="checkbox"/> A Business Impact Statement is not required. Thus is a rule but emergency action is necessary to protect the public health and safety (requires a unanimous vote of the City Council and cannot be in effect for more than six months).
Agenda Item Brief: Financial Services is in the process of preparing the Tentative Budget. The attached documents show the preliminary results of the Tentative Budget with all the Council's financial policies included. Today's workshop is designed to present the preliminary results and gain feedback and direction on how to proceed to prepare the City Manager's final budget recommendation and ultimately on how to prepare the final budget. Approval of FY '14 fiscal policies and direction of implementation of those policies and budget direction is being sought at today's workshop.

BACKGROUND/ANALYSIS:

The City is required to file a tentative budget for fiscal year 2013-2014 (FY '14) by April 15, 2013. The final budget is subsequently due by June 1, 2013. This workshop is needed to gain direction from Council on what should be included in the final budget. Utilizing direction received at today's workshop, City staff will prepare the City Manager's final budget recommendations which are scheduled to be presented to Council on April 22, 2013.

Attached to this report is a file containing information being covered at today's workshop as presented by the Financial Services Director. The following topics are scheduled for presentation and discussion:

- Fiscal policies. Results as well as proposed policy changes will be presented and discussed (mostly description changes are being sought for clarity purposes). The most significant policy change being sought is regarding policy #5. The current policy #5 states a goal to "Reduce General Fund personnel costs so that they do not exceed 78% of General Fund base revenues"; however, this policy has posed historical comparability problems considering the significant reorganization changes within the City. Also, staff feels it is better to expand this policy to include a broader scope than just personnel costs. Thus, Financial Services is recommending a

change in this policy to seek a more sustained and balanced allocation of expenditures according to the level of resources available.

- General Fund financial summaries and projections for FY '11 through FY '17. FY '14 tentative budget numbers are shown including full implementation of the City's fiscal policies;
- Cause of Change analysis. Comparing FY '14 projections to FY '12 actual results and FY '13 projections. This Cause of Change analysis will look at both revenues and expenditures for the General Fund and the Parks & Recreation Fund. Cause of Change for expenditures will also be reviewed at the major category level as well as the major drivers within certain departments;
- This preliminary budget built around the City's fiscal policies resulted in a General Fund unrestricted ending fund balance equal to about 3.1% of expenditures for FY '14 (fiscal policy #1 states a minimum goal of 8.3%). This preliminary shortfall amounts to about \$2.5 million. Options to consider filling this budget gap are also presented in the attached file. The list of options is not meant to be exhaustive, and Council direction is being sought to fill this \$2.5 million shortfall.
- General Fund expenditure information is provided by department and by core service.
- Summary financial reports for the City's Redevelopment Agency Areas 1 & 2.
- Summary results from all other funds incorporating FY'14 Tentative Budget.

General Fund Highlights & Discussion Points

1. Revenues in FY '14 could increase for the first time since the recession by 0.9% compared to FY '13. This includes:
 - a. 1% decline in Property Taxes. This includes the assumption that the City's property tax rate remains at \$3.6163 per \$100 of assessed value, or \$.0437 (4.37 pennies) below the \$3.66 tax rate cap. Approximately \$800k of additional revenue would be generated should the Council decide to increase the rate to the maximum
 - b. 4% increase in CTAX (this may be optimistic, but reflects the removal of CTAX distribution formula issues pressuring receipts downward in FY '13)
2. The General Fund subsidy of the Development Services Enterprise Fund totaled \$1.116M during the recession. \$60k is going to be repaid during FY '13 leaving a balance of \$1.056M. Planning to pay this back in even installments over the next three fiscal years results in a transfer of \$352K from the Development Services Fund to the General Fund in FY '14, and is included in these tentative results.
3. Personnel costs are projected to increase in FY '14 by \$1.3M or 3.1%.
 - a. This includes a planned 8.0% decrease to health insurance contribution rates that will be applied to all parties making contributions into the City's Health Insurance Fund;
 - b. FY '14 personnel costs also include the effects of PERS contribution rate increases of 2.0% point for Regular Members (to 25.75% contribution rate) and 0.75% point increases for Police/Fire Members (to 40.5% contribution rate);

- c. FY '14 is also the year when the City loses the COPS grant that provided funding for 6 Police Officers. This results in a an approximate \$550k increase in expenditures -- or about 3 pennies worth of the City's property tax rate.
- 4. Parks & Recreation Fund subsidy by the General Fund is increasing by \$750k in FY '14. This is the cumulative result from decreasing revenues, increasing expenditures, and utilizing fund balance. With this increased transfer, the Parks & Recreation Fund will only have a projected ending Fund balance of approximately \$6k.
- 5. Approximately \$1.6M of the 2007 CTAX bond proceeds remains unspent and will be utilized to pay the debt service on these bonds in FY '14. This reduces the need to transfer money from the General Fund to the Debt Service Fund to pay the CTAX bond debt service saving the General Fund about \$723k in FY '14. This can be done in FY '15 as well and perhaps even a little in FY '16 before the unspent bond proceeds are completely spent.
- 6. \$750k is expected to be transferred in FY '14 to the Redevelopment Agency Area #2 (RDA #2) to cover debt service needs. Specifically, the 2007 Ad Valorem Refunding bonds that were issued in the City's name, but paid by the RDA #2, has debt service requirements of approximately \$1.1M in FY '14 which the RDA #2 is unable to fully support. Tax increment bonds issued by the RDA #2 in 2007 and 2008 are expected to be fully supported by RDA #2 tax increment.
- 7. Total expenditures and transfers-out are expected to increase in FY '14 by \$2.2M compared to FY '13 estimates, and by \$3.0M compared to FY '12 actual results.
- 8. Total fund balance reduction of \$3.1M is expected as presented in these preliminary results.
- 9. These preliminary FY '14 results would leave the General Fund budgeted ending fund balance at approximately 3.1% of estimated expenditures, or \$2.5M short of reaching the fund balance minimum goal of 8.3% of expenditures.

Redevelopment Agency Highlights & Discussion Points

1. Area #1:

- a. Property Tax revenue is expected to decline by about 6% in FY '14;
- b. FY '14 is expected to produce an estimated "net loss" of \$295k with an unrestricted ending fund balance of about \$376k;
- c. It's expected that the General Fund will need to begin subsidizing RDA #1 debt service by FY '15 due to declining property tax revenues;
- d. Total debt service due to be paid by the RDA #1 is \$2.6M (including \$300k for debt service payments for 2007 CTAX bond proceeds which were issued in the City's name, but paid by the RDA #1). This debt service compares to \$2.4M property tax receipts;
- e. RDA #1 is expected to only be able to fund debt service payments (i.e., no other projects or operations) until the Area terminates in 2023.

2. Area #2:

- a. Property Tax revenue is expected to decline by about 0.5% in FY '14;
- b. Due to a lack of property tax revenue and the level of debt service required in RDA #2, the General Fund needs to provide a subsidy of \$200k in FY '13 followed by another \$750k in FY '14;

- c. The RDA #2 is able to sustain the debt service payments of nearly \$2.0M required of increment bonds issued by RDA #2 in 2008 and 2009; however, is unable to support the nearly \$1.1M debt service payments required by the 2007 Ad Valorem bonds that were issued in the City's name, but have been paid so far by the RDA #2. It is the debt service from these 2007 bonds for which the General Fund will need to subsidize.
- d. Assuming RDA #2 property tax revenues do not significantly decline, the General Fund subsidy to RDA #2 should end in FY '18 as the 2007 Ad Valorem bonds mature in FY '17.

Approval of FY '14 fiscal policies and direction of implementation of those policies and other budget direction being sought at today's workshop.

ALTERNATIVES:

Council could choose not to approve the revisions to the Fiscal Policies as recommended by staff.

RECOMMENDED MOTION: I move to adopt the Fiscal Policies and that staff begin creating the FY '14 budget according to direction received today.