

# 2016-17 General Fund Midyear Budget Update

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CITY OF CALEXICO  
CITY COUNCIL  
JANUARY 11, 2017

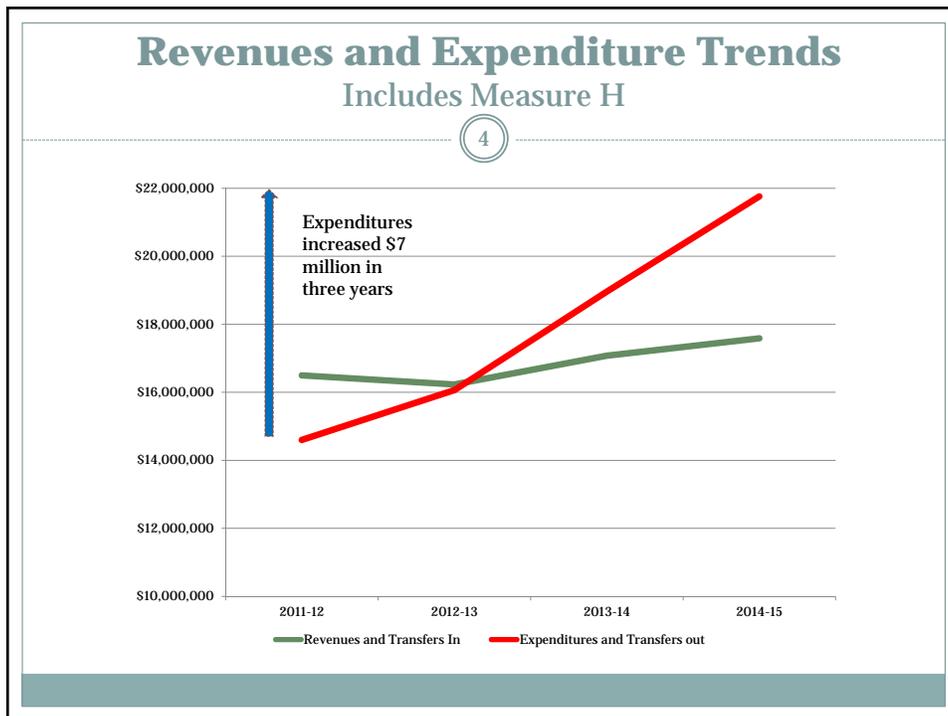
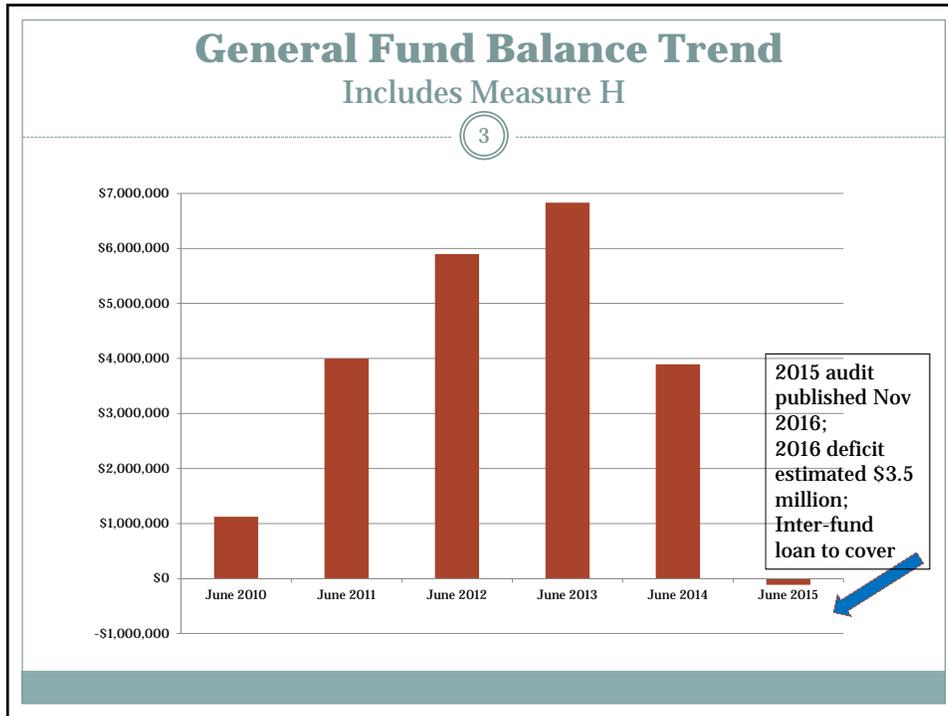
## Tonight's Objectives

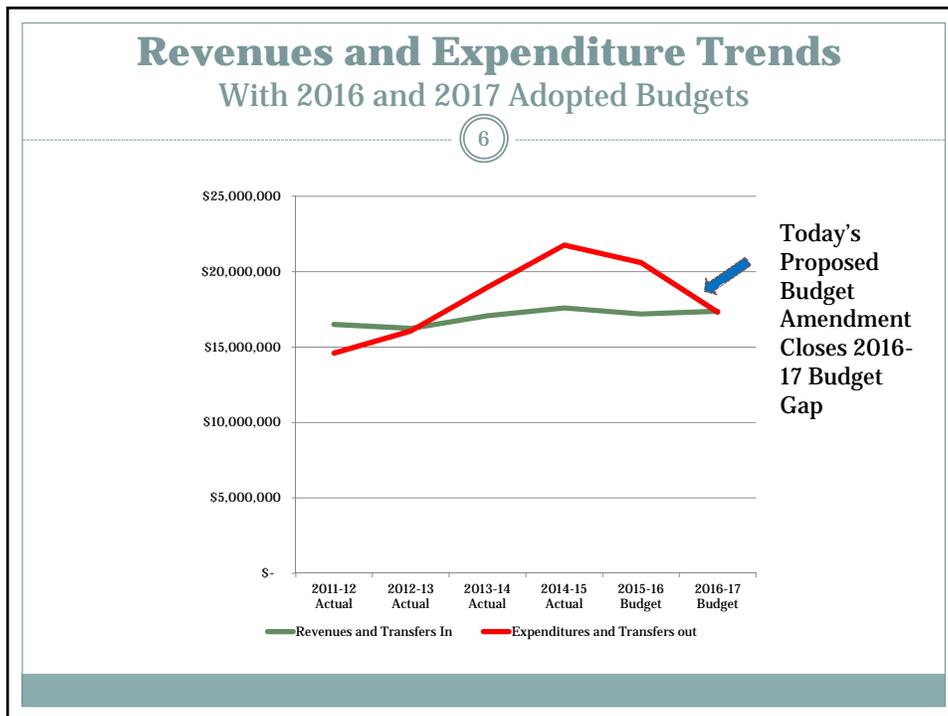
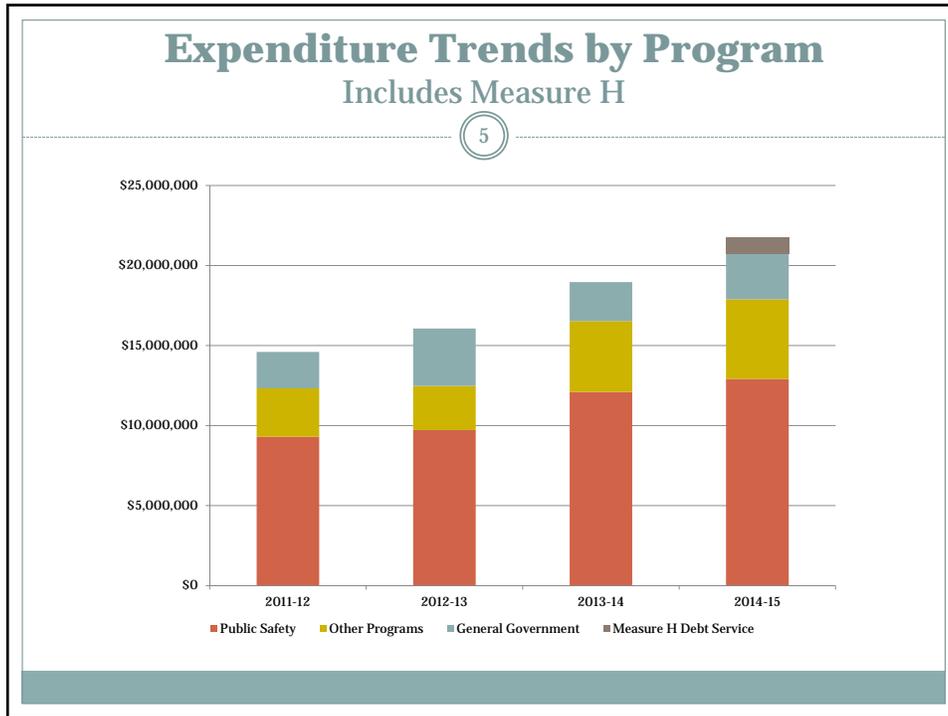
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- Reprise General Fund Financial Condition
- Reprise 2016-17 General Fund Budget Gap
- Report on Progress Closing Immediate Budget Gap
- Recap 6 month Year-to-Date expenditure results
- Discuss New Emerging Risks
- Moving to a Sustainable Service Delivery Model

### Proposed Council Action

- Consider Resolution to Amend 2016-17 Budget





## Progress in Closing 2016-17 Budget Gap

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- ✓ Restored fees
- ✓ Received traffic grant
- ✓ Negotiated employee contract concessions  
CMEA, Mid Management, Unrepresented, and City Council
- ✓ Proposed additional Police/Fire contract savings
- ✓ Identified vacancy savings
- ✓ Deferred equipment replacement
- ✓ Other line-by-line operating reductions

## Proposed 2016-17 Budget Amendment

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### Revenues

Fee Restoration; Traffic Grant	\$ 600,000
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### Expenditures

Employee Contract Concessions	587,828
 Proposed Police and Fire Savings	1,132,301
Vacancies	897,516
Capital Replacements - Fire, Public Works	220,000
Operating reductions	855,355
Police, Fire Equipment Leases	(343,000)
	\$ 3,950,000

### 6 Month Year-to-Date Trend With Proposed Budget Amendment

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	General Fund, Without Measure H		%
	<u>Budget</u>	<u>12/31/2016</u>	<u>Remaining</u>
Salaries/Benefits, net	\$ 9,809,570	\$ 6,833,456	30%
Other	<u>5,029,418</u>	<u>1,819,278</u>	<u>64%</u>
	<u>\$ 14,838,988</u>	<u>\$ 8,652,734</u>	<u>42%</u>



**Meeting 2016-17 Expenditure Budget requires Police and Fire Savings**

### New Emerging Risks – **SALES TAX**

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- **Sales Tax is Most Significant Discretionary Revenue**
  - 40% of Combined General Fund/Measure H revenues
- **September 2016 Quarterly Results**
  - Adopted annual budget +2% vs prior year actual
  - **Point of Sale Revenues down 4% vs prior year**
  - Offsetting uptick in County pool allocation
  - HDL Analysis by retail segment in progress
- **December 2016 Quarterly Results**
  - Published by Board of Equalization **March 2017**

## New Emerging Risks - JPIA

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- City shared risk with insurance pool until Dec 2015
- Losses through 2015 still administered by pool
- JPIA has issued new invoices for these losses
- Invoices cover retrospective charges through 2013
- 2014 and 2015 retrospective charges TBD
- **2013** retrospective loss **\$1.1 million** for Police program
- Annual premium paid July 2015 covered 2016 invoice
- **\$838,000** due July 1, 2017; not covered in base budget
- **\$1.2 million** additional balance due, July 2018 forward
- City holds claims risk effective January 2016

## New Emerging Risks – CalPERS

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- **December 2016 CalPERS board action**
  - New investment earnings assumption (7.5% to 7%)
  - Increases cost of defined pension benefit program
- **Employer contributions will begin increase 2018-19**
  - Estimated 1-3% of salary – Non-safety Plans
  - Estimated 2-5% of salary – Safety Plans
- **What is City's Unfunded Pension liability?**
  - **\$19 million**, with CalPERS assumptions, at June 2015
  - 2016-17 payment **\$849,000**; 2017-18 payment **\$1.5 million**
  - Unfunded Liability and payments will increase with new 7% rate
- **Can City continue to afford its CalPERS benefit program?**

## 2016-17 Solution is **Short-Term**

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- **2016-17 Budget Solution is Short-Term**
- **Not Sustainable Going Forward**
  - Sales tax revenue is soft/variable with border impact
  - Police grant programs are diminished
  - Staffing level is bare-bones, many vacancies, not meeting program standards
  - Aging vehicles/equipment, no provision for replacements
  - Benefit costs are rising, “crowding out” capacity to restore staff
  - **\$28 million** unfunded retiree health obligation (City, 2014)
  - No reserves
  - **\$3.5 million debt** for past over spending

## Moving to Sustainable Plan

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- **Financial Reality**
  - Revenues are not covering expenditures; No reserves
  - City’s solvency is at risk in current and future years
- **Immediate Change is necessary**
  - **Cannot continue current service delivery model**
- **Options - What have other cities done in this situation?**
  - Identify new revenues?
  - Reduce staff, level of service?
  - Reduce cost of service?
    - ✦ Continue employee contract and benefit reductions ?
    - ✦ Outsource, privatize, joint services with other agencies?
  - Resize or discontinue programs?

## Essential Budgetary Controls

### Monitoring City's Fragile Financial Condition

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- ✓ Adoption of annual program and capital budgets
- ✓ Upload of annual budget into financial system
- ✓ Timely recording of all financial transactions
- ✓ Timely reconciliation of bank statements
- ✓ Distribution of monthly reports to managers
- 1. *Timely analysis and response to deviations*
- 2. *Formal midyear reporting to City Council*
- 3. *Purchasing controls*
- 4. *Timely year-end close and audit*

## Next Steps

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- Conclude on 2016-17 Police and Fire labor contracts
- • Budget relies on \$1.1 million savings through June 2016
- Conclude on 2015-16 results and schedule audit
- Identify alternative cost structure for 2017-18
- Develop multi-year financial model to evaluate service capacity, build reserves, and restore stability

## **Tonight's Proposed Action**

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- **\$3,950,000 Budget Reductions**
- **Consider resolution to amend 2016-17 General Fund Budget**