



City of La Quinta

CITY / SA / HA / FA MEETING DATE: May 20, 2014
ITEM TITLE: DISCUSS FISCAL YEAR 2014/2015
PROPOSED BUDGET

AGENDA CATEGORY:
BUSINESS SESSION:
CONSENT CALENDAR:
STUDY SESSION: 1
PUBLIC HEARING:

RECOMMENDED ACTION:

Discuss the Fiscal Year 2014/2015 Proposed Budget.

EXECUTIVE SUMMARY:

- The Fiscal Year 2014/15 Budget was developed with all departments directed to maintain flat budgets.
- The budget projects that the City will receive \$1,739,920 in additional revenue and will have \$1,330,786 in increased revenue when compared to Fiscal Year 2013/14.
- While departments endeavored to maintain flat budgets, costs did increase as a result of a CalPERS rate increase and other contract cost increases (\$487,647), increased insurance costs (\$470,118), police and fire contract cost increases (\$371,278), and staff costs resulting from new positions in the Public Works and Community Development Departments that were added during the mid-year budget review (\$255,004).
- The departments have submitted supplemental budget requests that total \$48,140.
- After funding a SilverRock operations deficit due to reduced play resulting from the Canal realignment (not including the supplemental budget requests), staff projects that the Fiscal Year 2014/15 budget will have a surplus of \$409,134.

FISCAL IMPACT:

The proposed budget is balanced, with projected general fund revenues of \$36,125,620 and proposed operational and capital expenditures of \$35,468,747. While this leaves a projected surplus of \$656,873, the General Fund must provide \$247,739 to the SilverRock operation to cover a projected operating deficit due to the Canal construction activity. The net surplus is \$409,134.

BACKGROUND/ANALYSIS:

The proposed budget provides the necessary funding to continue the current high service levels while ensuring a sound financial structure. It contains financial information for all City funds, which includes the general fund, special revenue funds, capital funds, and enterprise funds. Each of the funds serves a specific purpose or governmental accounting requirement, with the general fund being the primary source for funding the City's major activities including public safety and daily operations. As such, the focus of staff's budget efforts is on the general fund.

Before developing their proposed budgets, Departments were given direction to sustain current service levels while maintaining or reducing costs wherever possible. As a result, there are no new programs included in the proposed budget; however, staff has provided a list of supplemental requests for the Council's consideration.

2014/2015 Revenue Budget

The proposed general fund revenue for FY 2014/15 is \$36,125,620, an overall 5.1% or \$1,739,920 increase over the current year budget of \$34,385,700. Staff's approach to projecting revenue included a comprehensive review of year-to-date receipts, analysis of revenue anomalies to identify potential one-time revenue spikes, and looking at the upcoming year's overall economic health and potential growth. The City's major general fund revenues include property tax, sales tax, transient occupancy tax (TOT), and development-related revenues. The approach taken in developing these revenue sources is as follows:

Property Tax – year-to-date amounts were refined for the one-time payment of \$1,993,965, representing the City's portion of the \$41,378,966 that was required to be paid as a result of the dissolution of the Redevelopment Agency. The adjusted base was then increased by 2%, which is the maximum amount that property tax assessments can be adjusted from year to year. This results in total estimated property tax revenue of \$7,165,630 for FY 2014/15.

Sales Tax – the City utilizes the services of HdL to audit its sales tax receipts from the State Board of Equalization. In addition to providing audit services, HdL develops and regularly monitors the sales tax budget and actual receipts. For Fiscal Year 2013/14, the budget versus actual comparison is within \$17,000 of the

original budget of \$8,128,000. With this information in hand, staff concurs with HdL's projected 2014/2015 sales tax amount of \$8,247,000, a 1.46% growth factor over the current year.

TOT – the original TOT budget for 2013/14 was \$5.6 million. Based on the City's successful implementation of a short-term rental program for privately owned properties, along with the overall improvement in the tourist economy, staff recommended a mid-year adjustment upward of \$300,000, which the City Council approved. End-of-year receipts are anticipated to meet the new budget of \$5.9 million, and this same amount has been used for the Fiscal Year 2014/2015 budget.

Development Related Revenues – This category of fees is one of the more complex to analyze and predict, because while past revenue trends can assist in the development of future projections, there are typically significant anomalies embedded within one or more of the revenue categories that make up the overall development related revenue category. Another factor complicating staff's analysis is that some of the revenue categories, when migrated to the new financial system, resulted in some revenue amounts being deposited into incorrect categories. This situation is currently being corrected; however, it created additional difficulty in the development of Fiscal Year 2014/2015 revenue projections. Therefore, Community Development and Public Works staff reviewed the current year revenue receipts and end-of-year projections including the modifications made during the mid-year budget review, and then factored into those amounts potential development activity for the coming year based on their knowledge of specific potential projects. This analysis resulted in an increase in overall development related revenue of 9.8% over the current year budget, from \$1,432,200 in the current fiscal year to \$1,572,844 in Fiscal Year 2014/15.

Community Services revenue was developed utilizing current receipts activity and information regarding facilities availability during the coming fiscal year. For example, revenue for Senior Center events was reduced due to the partial closure related to the construction of the Wellness Center expansion project, while youth and adult sports revenue was increased for the coming year based on current activity. Total budgeted revenue for the coming year is \$461,750.

With regard to other major revenue sources contained in the proposed budget, staff utilized information from various sources to assist in the development of projections, including the State Department of Finance (Gas Tax; Motor Vehicle in Lieu fee) and the County of Riverside (Measure A; Library revenue; Fire revenue).

When developing revenue projections for SilverRock Resort (SRR), staff considered several factors, including course closure for a portion of the coming fiscal year due to the continuing work on the canal relocation project being done by the Coachella Valley Water District. In addition to factoring the potential revenue loss from these

activities (\$247,739), staff also considered the increase in golf activity that was experienced during the last several months, which can be attributed to an overall increase in tourist related activity in the Coachella Valley. The ultimate result of these factors is a minor year-to-year increase (approximately .6%) in overall SRR revenue. Both the current and coming fiscal years' revenue have been affected by the canal work, and it is anticipated that once this work is complete, SRR operational costs will be fully offset by annual revenue, as was the case in Fiscal Years 2011/12 and 2012/13.

2014/2015 Expenditure Budget

In developing their expenditure budgets for the coming fiscal year, Departments utilized a "status quo" approach, using the Fiscal Year 2013/14 budget, as modified at mid-year, as a base for the development of their Fiscal Year 2014/2015 budgets. The budget includes \$1,330,786 in increased expenditures, with the major costs as follows:

- Increases in various costs of doing business (\$487,647):
Operational costs for items including an increase in the City's CalPERS retirement fund rate (CalPERS is increasing their rates over the next five years), the cost of supplies, and the increased cost of service and maintenance agreements.
- Increase insurance costs (\$470,118):
The City is required to pay a retrospective (2013) liability deposit of \$209,320. This deposit is based upon liability claims in the previous year and all open claims in all previous coverage periods. Almost all of the City's 2013 retrospective deposit is attributable to adverse claim development in the 2010-11 and 2011-12 coverage periods. Two slip/trip claims (September 2012 and March 2013) are heavy contributors, requiring additional loss reserves and legal expenses of approximately \$200,000.
- Increase public safety costs (\$371,278):
The budget for both Police and Fire services are increasing approximately 2% over current year costs. Police costs are scheduled to increase by \$281,925, while the budget for Fire services is scheduled to increase by \$89,353. While the police services contract increased by 1.07% or \$142,399, the remaining \$139,526 increase in police service costs is due to additional grant funded programs and reimbursements. All of these increases can be attributed to increases in overall costs for personnel, supplies and equipment.
- Annual cost for positions added at mid-year (\$255,004):
During the current fiscal year, the City Council accepted staff recommendations to fund two new positions in the Community Development

Department and one new position in the Public Works Department. These positions were requested to address the increased development and building permit activity, and to improve traffic signal maintenance. The positions are now filled and the full-year cost for these positions included the Fiscal Year 2014/2015 budget.

General Fund Analysis

The Fiscal Year 2014/2015 proposed budget is balanced, with total general fund operating expenditures of \$33,544,747 and revenues of \$36,125,620. In addition to the operational expenditures, staff is recommending \$1,924,000 of general fund revenue be used to fund capital improvement projects. These projects are:

• Sales Tax Sharing Rebate Payments	\$ 378,000
• Sidewalks – Various Locations	\$ 55,000
• Handicap Access Ramps – Various Locations	\$ 20,000
• Pavement Management Plan Street Improvements	\$ 1,000,000
• Horseshoe Drive Drainage Improvements	\$ 37,000
• Avenida Carranza Drainage Improvements	\$ 41,000
• Perimeter Landscaping of City Owned Lots on Ave 52	\$ 313,000
• City Hall Customer Service Center (Design)	\$ 80,000

After accounting for these proposed capital expenditures, the total general fund revenue versus expenditures is \$656,873. After deducting the anticipated SRR revenue, available unallocated general fund revenue is \$409,134. These funds may be used for the \$48,140 of supplemental budget requests (listed later in this report) or they can be added to the general fund reserves. Prior Council discussions regarding reserves surfaced a proposal to transfer at least 50% of projected surpluses to reserves.

Additional Information

Transfers

Also contained in the proposed budget are transfers in and out of various funds for operations, capital projects, and non-operational items. For example, operating transfers include:

- grant funds relating to public safety (\$112,978) and Community Development Block Grant (\$30,000) that are required to be booked into a special revenue fund, then are transferred to the general fund where the operational expense is budgeted
- transfer of the City's share of annual SRR merchandise revenue between the two SRR funds (\$20,000)
- annual funding from the general fund to the Public Safety Officer fund (\$2,000)
- annual repayment on an advance between two development impact fee funds (\$10,000)

- the estimated inter-fund advance from the general fund to the SRR fund (\$247,739)
- capital projects that are budgeted in a single fund (401), with revenue deriving from various other funds including general, special revenue, and equipment replacement (\$5,406,146)

With regard to the SRR transfer, as mentioned previously, the Fiscal Year 2014/2015 revenue estimate anticipates a minor (.6%) increase over the current year budget, for total revenue of \$3,609,755. The projected Fiscal Year 2014/2015 expenditures total \$4,287,105. These expenditures include an equipment depreciation cost of \$430,611, which, while required to be included in the operating budget, is a non-cash transaction and therefore does not affect the cash position of the SRR fund. As a result, the cash needs to support SRR operations is \$247,739.

User Fee Update

As a part of the annual budget process, staff, in conjunction with the City's revenue consultant, has completed a review of existing fees and charges, and staff will be presenting recommendations to the Council at the June 17, 2014 meeting. The recommendations include minor adjustments to existing fees and charges, but these changes have not been incorporated into the proposed budget at this time.

Classification and Compensation Study

The City is currently in discussions with the employee association regarding the recently completed classification and compensation study. Depending on the outcome of these discussions, there will be an impact on the City budget; however, no amounts have been made a part of the proposed budget at this time.

Supplemental Requests

Not included in the proposed Fiscal Year 2014/2015 budget are supplemental requests that total \$48,140; the following items comprise these supplemental requests:

- \$12,000 Staff restructuring – City Manager's Office
- \$ 9,800 Rent for facility use of multipurpose room at Colonel Mitchell Paige Middle School for 9 months to offer community classes in north La Quinta
- \$11,340 Part-time staff for Wellness Center (extended hours with facility upgrade)
- \$ 3,000 Part-time staff at Franklin Elementary for classes until Wellness Center is open
- \$ 2,000 Dog park over-seeding
- \$10,000 Tree pruning

The budget includes summaries of these requests. Each department will further detail these requests during the budget presentation.

Conclusion

With the presentation of the preliminary budget, the City Council may wish to request further information regarding specific items and then provide direction to staff regarding the next steps in the overall budget process. At the conclusion of discussion during the May 20, 2014 Study Session, the City Council can determine the next steps, including a potential second Study Session, prior to budget adoption on June 17, 2014.

ALTERNATIVES:

Council may choose to receive and review the proposed budget and direct staff to schedule a subsequent Study Session to continue budget discussion, or direct staff to prepare a Fiscal Year 2014/2015 Final Budget for the June 17, 2014 City Council meeting.

Report prepared by: Rita Conrad, Finance Director

Report approved for submission by: Frank J. Spevacek, City Manager

Attachment: 1. Fiscal Year 2014/2015 Proposed Budget

