

## REPORT TO THE CITY COUNCIL

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**DATE:** May 15, 2018

**TITLE:** Approval of 2017-2018 Budgetary Adjustments for Revenues, Expenditures, and Transfers for the Fiscal Year Ending June 30, 2018

**Prepared by:** Linda Kelly, Finance Director

**Reviewed by:** Luke Rainey, Deputy City Manager

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### RECOMMENDATION

- 1) Approve the mid-year budgetary adjustments as stated for FY 2017-18, with revenues totaling \$2,825,404 and expenditures totaling \$2,775,466; and
- 2) Approve the transfer of the General Fund balance on hand in the amount of \$2.0 million for the City Hall Project in FY 2017-2018 by minute order.

### BACKGROUND:

Every two years, the City Council approves a two-year budget which is the financial plan for the Consolidated General Fund, Fiduciary Funds, Restricted Funds, Capital Improvement Funds, Special Revenue Funds, Agency Funds, and the Successor Agency Fund.

During the regular course of business, budgetary adjustments are completed by Staff and approved by Department Heads, the Finance Director, and the City Manager (if necessary). Budget adjustments allow the City to continue daily operations, update revenue and expense estimates (based on actual performance), adjust salary and benefit costs for position changes, and address increased demands for contracted services. Additionally, budget adjustments ensure on-going general repairs, maintenance, and tenant improvements to the City's aging public facilities and equipment are funded.

During the fiscal year, the City's Finance staff reviews revenue, expenditure, and transfer line items in all funds and makes the necessary budget adjustments in compliance with governmental accounting standards, as well as the City's policy requiring City Council approval.

### DISCUSSION:

#### Consolidated General Fund

(General Fund, Public Safety Fund, and Health and Wellness Foundation Fund)

To date, the Consolidated General Fund budgeted revenues for FY 2017-2018 were increased by a grand total of \$2,825,404, based on actual revenues received and updated estimates through the end of the fiscal year in the following categories:

Property Tax Revenue	\$ 40,000
Special Revenue (Cultivation)	\$ 872,000
Special Revenue (Dispensaries)	\$ 200,000
Triple Flip VLF	\$ 175,000
Planning Fees	\$ 350,000
Building Fees	\$ 415,000
Grading Permits	\$ 85,000
Engineering Fees	\$ 315,000
Transient Occupancy Tax	\$ 208,000
Other Revenues	\$ 165,404

Due to an addition of 16 positions throughout the City and the Police Department, as well as job classification changes necessary to meet service demands, various increases in salary and benefit expenditure line items occurred in several departments totaling \$1,351,803.

The City continues to utilize contracted labor in Building, Planning, Engineering, and Public Safety departments for specific expertise. Development related contract services were utilized to address demand increases, resulting from numerous cannabis developments. Specifically, the City contracted for assistance with the Citywide General Plan Update, plan reviews, peer reviews, inspection services, and capital improvement project management services. Since development service needs can fluctuate, contracting labor to meet high demands (rather than hiring additional Staff) allows the City to remain flexible in controlling costs during slower periods of growth. There was also an increase in the Cal Fire services contract. Budgetary adjustments were made in various departments totaling \$424,500.

The City Council approved a variety of tenant improvements to the Desert Hot Springs Animal Shelter Facility, which re-opened this fiscal year offering services to constituents. Also, a vehicle was purchased for the Police Department and the Animal Control vehicle was upgraded. Budgetary adjustments were made in various departments totaling \$147,000.

Each year, the City continues to deal with on-going general repairs and maintenance to all city equipment and public facilities due to age and usage. Based on actual expenses to date and estimates through the end of the fiscal year, budgetary adjustments were made totaling \$64,451.

Due to increased staffing and activities, associated costs increased for line items throughout various departments. The increases addressed needs for new computers, additional software licenses, phones, office supplies, fuel (for increased vehicles usage), office furniture, janitorial costs, increased utility usage, postage, uniforms, travel and training, printing, and other organizational needs. Additionally, costs increased for holiday events, CVEP dues, specialty audits, and advertising. Based on actual and estimated expenses through the end of the fiscal year, budgetary adjustments were made totaling \$432,868.

During the fiscal year, a long-term cost saving change was implemented when the City contracted with Borrego Health Care District to manage the recreation portion of the Health and Wellness Center. Prior to the re-opening of the Recreation portion, the City addressed urgently needed general repairs and maintenance to the interior of the facility, including painting, flooring, restroom equipment, cleaning, furniture replacement, and new alarm systems. Exterior tenant improvements for new signage, supplies to launch new programs, and a final payment to the Coachella Valley Boys & Girls Club was also necessary. Based on actual expenses to date, budgetary adjustments to various line items were increased by a total of \$124,907.

Transfers from the Consolidated General Fund are estimated at the start of each new budget year. Often, additional transfers are required during the year to cover costs in other funds. This year, transfers out of the General Fund were made to the following funds, totaling \$229,937.

*Citywide Lighting and Maintenance Fund (501) transfer in to cover additional costs for the district totaling \$155,000. The assessments being collected for this district were not sufficient to cover all the costs associated to maintain the district.*

*Cabot's Museum Fund (270) transfer in to cover increased costs for liability and property insurance, Cabot's Sponsorship, and maintenance totaling \$52,695.*

*Vehicle Replacement Fund (615) transfer in to cover costs associated with vehicle purchase totaling \$22,242.*

### Restricted Funds (Citywide Lighting and Maintenance District Fund, Gas Tax Fund and Successor Agency Fund)

Often costs associated with certain positions for salaries and benefits are charged directly to the three restricted funds. This year, staffing costs charges to these funds increased by \$141,280.

### City Hall Funding – General Fund

The City Council approved the new City Hall project in February, 2017. The City has worked on site grading, engineering and design services, underground utilities, and additional site preparation. The City will receive bids for the construction of the facility in the next (90) days.

Funding for this project comes from a variety of resources including the Consolidated General Fund, Equipment Replacement Fund, Development Impact Fees, Art in Public Places, Offsite Sidewalk Funds Community Service Area, Emergency Preparedness, and Bond proceeds. The overall project is estimated at \$7.2 million, with a portion of funding from General Fund transfers over the next two years.

A total of \$ 2.0 million for the City Hall project will be transferred at the end of this fiscal year, from the General Fund to the City Hall Capital Improvement Project Fund (222). In the next two-year budget, staff will budget an additional \$1.2 million transfer specifically for this project.

Staff anticipates at least 50% of the \$3.2 million General Fund transfers for this project will be replenished (back into the General fund) via Development Impact Fee recoupment over time. City Staff and the City Attorney will prepare an agreement to recapture Development Impact Fee shortfalls (paid by the City's General Fund) to replenish the General Fund balance on an annual basis, until paid in full.

### **FISCAL IMPACT**

The overall fiscal impact to revenues in the Consolidated General Fund total \$2,825,404. Increases to various departmental expenditures in the Consolidated General Fund total \$2,775,466, for a net total (revenues less expenditures) of \$49,938.

An overall increase of \$141,280 in the salary and benefit line items of the following restricted funds: Gas Tax Fund (140) \$64,496, Citywide LLMD Fund (501) \$71,498, and Successor Agency Fund (911) \$5,286.

Staff is also requesting \$2.0 million to be transferred from the General Fund to the Capital Improvement Fund (222) as of June 30, 2018, for the City Hall project.

### **EXHIBITS:**

- 1) Expenditures by Source Budgetary Increases for 2017-2018
- 2) Revenues by Type for Budgetary Increases for 2017-2018
- 3) Desert Hot Springs Budgetary Adjustments for 2018-2018