

REPORT TO THE CITY COUNCIL AND SUCCESSOR AGENCY



DATE: June 2, 2020

TITLE: City of Desert Hot Springs Preliminary One Year Budget for All Funds and Capital Improvement Projects for Fiscal Year 2020-2021

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RECOMMENDATION

- 1) Receive Staff Presentation of the City of Desert Hot Springs Preliminary One Year Budget for All Funds and Capital Improvement Projects for Fiscal Year 2020-2021;
- 2) Entertain questions from City Council;
- 3) City Council to provide any changes, recommendations, or directions to be included in the final budget document; and
- 4) Adopt a Resolution of the City Council of the City of Desert Hot Springs Approving the Fiscal Year 2020-2021 Budget and Fiscal Year 2020-2021 Appropriations Limit.

BACKGROUND

The City of Desert Hot Springs Municipal Code Section 2.08.080 (B)(7) requires the City Manager to submit to the City Council an annual budget and administer the budget after its adoption. Beginning with Fiscal Year (FY) 2016-17, the City moved to a two-year budget format, whereby the operating budget would be presented by Staff and ultimately approved by the City Council every two years. However, due to uncertainty surrounding COVID-19, Staff is presenting a one-year budget covering FY 2020-2021 only.

Staff has prepared the one-year operating budget for FY 2020-2021, a synopsis of which is presented within the body of this staff report. In the wake of the shutdown measures for COVID-19, Staff has worked over the last several months to develop a budget that will allow the City to continue providing services to its residents and businesses. It is estimated that the Consolidated General Fund will lose over \$1,050,000 in revenues due to measures implemented to reduce the spread of COVID-19. In order to adjust to such a change, Staff recognized and incorporated specific revenue increases, but mostly strategically reduced expenditures by almost \$900,000. The cost reductions include continuing to freeze vacant positions, reductions in travel and training, deferring some contract services, reductions in supplies, and decreases in consulting services. For FY 2020-2021, Staff is requesting the use of reserves in the amount of \$345,275. The Consolidated General Fund has an over \$3.7 million reserve balance for natural or fiscal emergencies. This reserve is in addition to the Emergency Reserve that is funded by cannabis revenues. These reserves were created for just such a situation as we are in now, and Staff is requesting a one-time use of these funds. If, during FY 2020-2021, the situation becomes worse, Staff has identified revenue benchmarks and trigger points to make additional cuts if needed. However, these additional cuts are to be used only in a worst-case scenario, as they will severely degrade the City's ability to provide services. Such drastic steps would only be implemented in an effort to not completely deplete the City's reserves.

Staff will present an overview of the recommended Preliminary Budget, focusing primarily on the Consolidated General Fund along with a brief overview of all other funds. Any additions or changes to the existing draft document will be included in the final draft FY 2020-2021 Budget which will be presented at the regularly scheduled City Council meeting on June 16, 2020.

DISCUSSION

Consolidated General Fund

The Consolidated General Fund consists of three funds used to account for virtually all required services funded predominantly with discretionary revenue sources:

- General Fund (Fund 001)
- Health & Wellness Fund (Fund 211)
- Public Safety Fund (Fund 245)

Although the City's General Fund accounts for all receipts of discretionary revenues, it should be mentioned that both the Health & Wellness Fund and Public Safety Fund receive a majority of annual funding (as a transfer from the General Fund) to arrive at a balanced fund budget. As such, sustainment of programs and services accounted for in the Health & Wellness and Public Safety Funds require General Fund support on an ongoing basis. Aggregate revenues and expenditures anticipated for each of the three funds over the next year are noted below:

Fiscal Year 2020-2021

Fund	Revenues	Expenditures	Transfer In/(Out) of General Fund
001 – General Fund	\$ 17,260,155	\$ 9,509,123	(\$ 8,096,307)
211 – Health & Wellness Fund	\$ 40,000	\$ 479,921	\$ 439,921
245 – Public Safety Fund	\$ 6,068,700	\$ 13,725,086	\$ 7,656,386

Total: \$ 23,368,855 \$ 23,714,130

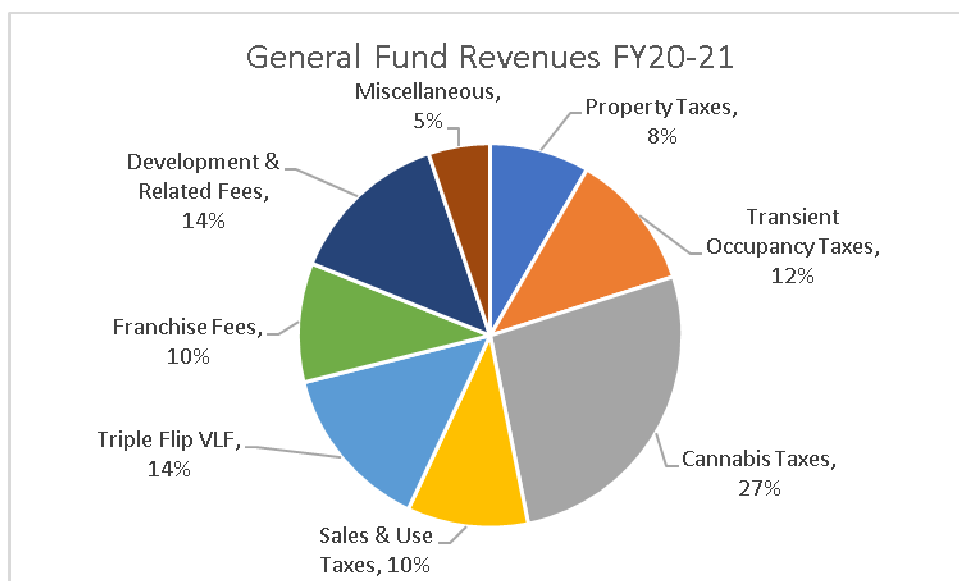
Annual Surplus / (Deficit): \$ (345,275)

Overview of Consolidated General Fund Budgets

General Fund+

It is anticipated that the General Fund will receive \$17,260,155 in revenues and incur \$9,509,123 in expenditures during FY 2020-2021.

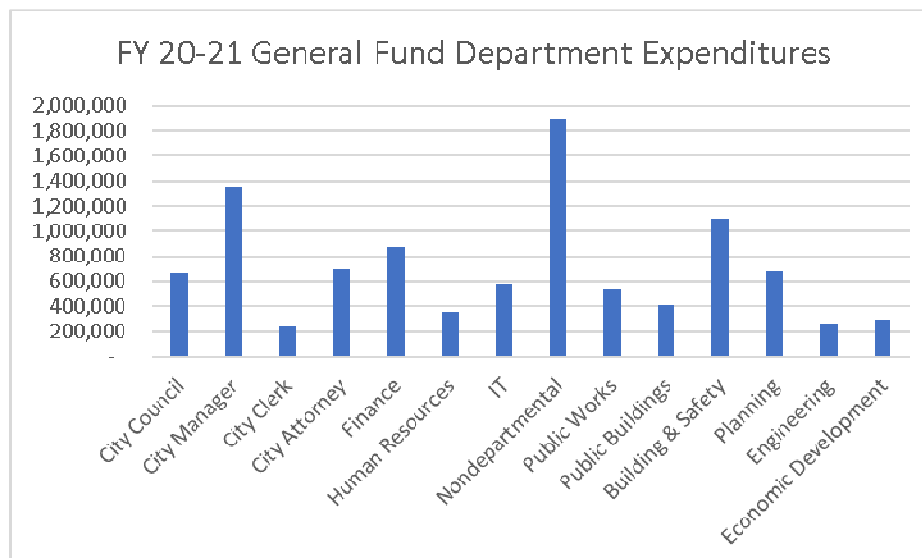
The General Fund revenue sources include the following:



The sources of General Fund revenues are shown in the chart above and account for all General Fund sources anticipated to be received in FY 2020-2021.

- Property taxes are anticipated to decrease 2.0% in FY 2020-2021, as assessed values are expected to remain stable but decreases in sales and developments will lead to less property transfer tax and supplemental property tax revenue.
- Transient Occupancy Taxes are anticipated to decrease by 13% for the 2020-2021 Fiscal Year due to the State-wide shutdown. The revenue is based on the assumption that the shutdown restrictions will be lifted by July 1st but that the travel industry will recover slowly.
- Sales & Use Taxes are down by 14% also based on the assumption State-wide restrictions will be eased by July 1st but that economic recovery will be slow.
- Development and Related Fees, which include planning fees and building permits, are anticipated to decrease by 8% due to reduced development activity.

It is anticipated that the General Fund will incur \$9,509,123 in expenditures during FY 2020-2021. Expenditure activity by department is shown in the chart below:



Significant activity in General Fund department budgets during the coming budget cycle are referenced below:

- City Council - Continuation of contractual costs for debris removal (trash abatement) and CVAG Homeless Program.
- City Manager - Continuation of special events and additional supplies needed to address the move into the new City Hall.
- Finance - Increase in contract services for payroll processing which was moved from Human Resources (now that Finance staff processes the bi-weekly payroll).

- Non-Departmental - Increase of almost \$500,000 in Transfers Out to other funds to cover growing expenses in the Health & Wellness, Cabot's Museum, and City-wide Landscape Maintenance District funds.
- Building & Safety - Continuation of Building Plan Check contract services, which are covered by development revenues.
- Planning - Addition of Housing Element update (\$75,000) and Zoning Update (\$150,000).
- Economic Development - Continuation of costs for marketing and promotional materials.

Health & Wellness Fund

It is anticipated that the Health & Wellness Fund will receive \$479,921 in revenue and incur \$479,921 in expenditures during FY 2020-2021.

Revenue sources in the Health & Wellness Fund are limited to the following (FY 2018-19 / FY 2019-20):

- Reimbursed of shared costs from Borrego - \$30,000
- Swimming fees - \$10,000
- Transfer in from the General Fund - \$439,921

These amounts are used to fund the City's Furbee Aquatic Center, DHS Recreation, Borrego Health Center and Community Health & Wellness Center programs as well as provide maintenance to the Health & Wellness Center building and grounds.

Public Safety Fund

It is anticipated that the Public Safety Fund will receive \$6,068,700 in revenue and incur \$13,725,086 in expenditures during FY 2020-2021.

Major sources of revenue received in the Public Safety Fund are as follows:

- Public Safety Parcel Tax - \$2,705,529
- Utility Users Tax - \$2,055,300
- Proposition 172 Sales Tax - \$148,157
- School Resource Officer Reimbursement - \$154,230
- Supplemental Law Enforcement Grant (SLESA) - \$100,000

The above revenue sources account for approximately 85% of all Public Safety Fund revenues, the balance of which are generated through fines, citations and other police-related fees. The largest source of revenue, the Public Safety Parcel Tax (P-Tax) is expected to grow by 10% over the previous fiscal year, due to properties that were newly developed over the past year. Revenue sources listed above do not include the annually required transfer in from the General Fund (more than 55% of the total support required to balance the Public Safety Fund).

Sources generated by the Public Safety Fund, in addition to the required General Fund transfer, provide for the following key services (FY 2020-2021 budgeted expenditures):

- Police Patrol & Field (\$9,883,444)
- Code Compliance (\$858,858)
- Animal Control (\$629,632)
- Fire Services (\$2,353,152)

Significant changes in the Public Safety Fund expenditure budget from FY 2019-2020 to the following budget year include:

- Personnel Costs - Personnel services in Animal Control are expected to increase with the reclassification of the Animal Control Technician to Animal Control Officer.
- Contractual Svcs - Contractual services are anticipated to increase by approximately \$150,000 from FY 2019-2020 due to increase in cost of dispatch services and ERICA operating costs.
- Fire Services - Fire Service contractual costs are expected to increase by \$172,000 in FY 2020-2021.
- Cannabis Compliance - With the increase in cannabis facilities in the City, the FY 2020-2021 Cannabis Compliance contract services are expected to increase by \$55,000.

Consolidated General Fund Fund Balance

As previously discussed, The FY 2020-2021 is proposing to use \$345,275 of the Natural or Fiscal Emergency Reserve portion of the Consolidated General Fund balance. The Natural or Fiscal Emergency Reserve was established by Council approval in September 2018 as a part of the City's comprehensive financial policies. The reserve was established as 15% of the General Fund appropriations and currently has a balance of over \$3.7 million. This reserve is different from the Emergency Reserve that is funded by 25% of the marijuana taxes revenues. As shown in the chart below, the Consolidated General Fund will have an estimated fund balance of almost \$10.4 million at 6/30/2021.

Consolidated General Fund Fund Balance Forecast FY 2020-2021	
6/30/2019 Ending Fund Balance (after restatement) (includes \$1,384,266 for Marijuana Reserve)	\$ 11,204,469
FY 2019-2020 Revenues	22,467,518
FY 2019-2020 Expenditures (includes \$482,335 for purchase of heavy equipment)	22,941,740
Estimated Ending Fund Balance at 6/30/2020 (Includes \$2,420,516 estimated to be in Marijuana Reserve)	10,730,247
FY 2020-2021 Proposed Revenues	23,808,776
FY 2020-2021 Proposed Expenditures	24,154,051
Surplus(deficit)	(345,275)
Estimated Ending Fund Balance at 6/30/2020 (Includes \$3,432,406 estimated to be in Marijuana Reserve)	\$ 10,384,972

This forecast reflects management's best estimates on the projected revenues and expenditures using a conservative estimation approach. The FY 2020-2021 Proposed Budget is based on the assumption that the State's Shelter-In-Place orders will be eased by July 1, 2020 but that economic recovery will be slow. It is anticipated that travel will be slow to recover which will affect the transient occupancy tax revenues. Sales tax revenue is also based on slow economic growth and the possibility of some businesses not reopening after the State shutdown is lifted. These forecasts do not include the possibility of the shutdown being extended, a resurgence in COVID-19 in the autumn/winter requiring another shutdown, or significant reduction in assessed property values. If any of these situations should arise, City staff has developed a scenario in which several additional expenditure reductions can be implemented. As discussed before, these changes will drastically affect the City's ability to provide the current level of services.:

Fiduciary Funds

These funds are used to account for resources held for the benefit of other parties outside the government. Desert Hot Springs has budgeted a total of (8) Fiduciary Funds as stated below in the Draft Budget:

<u>Description of Fund</u>	Revenues	Expenditures
DHS Successor Agency Fund (911)	\$4,779,648	\$4,755,548
Community Facility District – Skyborne Fund (421)	\$199,836	\$218,117
Community Facility District Fund 2010-1 (580)	\$18,805	\$13,635
Community Facility District Funds (581-599)	\$302,276	\$72,423

The Desert Hot Springs Successor Agency formerly the Redevelopment Agency accounts for debt service payments on Successor Agency Bonds and administration costs for the Agency up to a maximum total of \$250,000 per year. All revenue and expenditures are approved through

the Recognized Obligation Payment Schedule annually by the Desert Hot Springs Successor Agency, Oversight Board and the Department of Finance. This fund is budgeted at \$4,755,548.

The Community Facility District Skyborne Agency Bond Fund accounts for principal and interest payments on the 2006-1 Bonds, property tax administration, trustee administration costs and county fees. This fund is budgeted at \$218,117.

Community Facility District 2010-1 is a special taxing district that allows for the financing of the installation, operation and maintenance of public improvements. Community Facility District 2010-1 was created to ensure that each new development continues to pay for their fair share of costs for lighting, building maintenance, property tax administration fees, and City and County overhead fees as the community builds out. This fund is budgeted \$13,635.

Community Facility Districts (581-599) are developments that are required by the City to annex into the Community Facility District 2010-1 by forming their own district. Costs associated with those districts only pay for utilities, property tax administration fees, and City and County overhead fees dealing with their specific project budgeted at \$72,423.

Special Revenue Funds

Special Revenue Fund(s) are created to account for proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes. In this two-year draft budget cycle there are a total of (48) Special Revenue Funds.

Description of Fund	Revenues	Expenditures
SB1 Road Fund (142)	\$508,727	\$126,000
Gas Tax Fund (140)	695,303	\$695,303
Citywide Lighting and Maintenance District Fund (501)	\$1,216,082	\$1,216,082
Lighting and Maintenance District Funds (502-520) 19 total	\$306,208	\$634,212
Drainage Assessment District Funds (552-569) 18 total	\$245,173	\$645,672
Measure "A" Fund (127)	\$421,700	\$433,400
Air Quality Control Fund (160)	\$39,100	\$49,175
Art in Public Places Fund (110)	\$40,500	50,000
County Service Area Fund (250)	\$138,383	\$138,383
Cabot's Museum Fund (270)	\$134,000	\$134,000
Supplemental Law Enforcement Fund (130)	\$150,000	\$150,000
Abandoned Vehicle Abatement Fund (233)	\$35,000	\$35,000
Emergency Preparedness Fund (246)	\$40,000	\$80,000
CDBG Grant Fund (145)	\$277,560	\$277,560
Housing Authority Fund (700)	\$726,636	\$228,116

The SB1 Fund (142) – This funding allocation comes from the state for assistance to cities and counties to improve local streets and roads. Funding will be dedicated to road repairs, maintenance, and rehabilitation throughout the City. It can also be designated for expanding the City's growing network of pedestrian and cycling routes. This fund is budgeted at \$126,000.

The Gas Tax Fund (140) – Revenues from the gas tax deposited into the Highway Users Tax Account (HUTA) in the Transportation Tax Fund are apportioned by the SCO to cities and counties. The apportionment is based on the City's population, vehicle registration and maintained mileage. The City is required to expend gas tax revenues for street and road purposes (in compliance with state Safety and Health Codes) and to be accountable for the efficient and transparent use of the apportioned funds. The funding received and expended is audited by the State Controller's Office each year, with the completion of the annual street report prepared by the City. This fund is budgeted at \$695,303.

Citywide Lighting and Maintenance District Fund (501) – Funding is received through the County tax roll for assessments to all property owners in the City to provide funding for street lighting, park repairs and maintenance, park building repairs and maintenance, median landscaping, etc. This fund is budgeted at \$1,216,082

Lighting and Maintenance District Funds (502–520) As residential development was built, the City required that each individual development set up a separate Lighting Maintenance District. To date there have been a total of 19 Lighting Maintenance Districts approved. The property owners in each district pay and an annual assessment and that funding is used to pay for all maintenance costs for each individual district. A total of 19 districts has been budgeted in the amount of \$634,212.

Drainage Assessment District Funds (552-569) - Drainage Assessment Districts were also required by the City to be established for each residential development ensuring that the property owners would pay assessments each year to cover the costs associated with the maintenance of the Drainage Assessment District. To date a total of (18) Drainage Assessment Districts have been created and are budgeted at \$546,672.

Measure "A" Fund (127) - In 1998 the voters of Riverside County approved a half-cent sales tax for transportation funding to respond to the growing congestion by completing a list of transportation projects to address the problem. The funds collected go back to three districts: Western Riverside County, the Coachella Valley and Pal Verde, in proportion to what they contribute. Measure A Funding has been extended to continue to fund transportation improvements through 2039. A portion of the funding collected from RCTC funds a portion of the debt service for the Trip Bond through a transfer out to Fund (141), street maintenance and rehab through the collection of ½ cent sales tax distributed from the County. Each year this Fund is audited by County and this fund has been budgeted at \$433,400.

Air Quality Control Fund (160) - The City receives funding from Air Quality Management District (funding from a portion of the vehicle registration fee, to provide funds for air districts to meet responsibilities mandated under the California Clean Air Act. The City's share of funding is used to reduce air pollution through regional street sweeping. There is a total of \$49,175.

Art in Public Places Fund (110) – This fund is supplied by a City established fee to promote the public interest and general welfare, through the acquisition and installation of public art. Art projects are presented to the City Council for approval and a total of \$50,000 has been budgeted for this program.

The County Service Area 152 Fund (250) – The National Pollutant Discharge Elimination System program addresses water pollution by regulating point sources that discharge pollutants to underground water tables. The City receives funding from NPDES which is used primarily for street sweeping and water inspections or any other type of expense to further reduce pollution to the underground water tables. A total of \$138,383 was budgeted.

Cabot's Museum Fund (270) – This fund was created to account for the operational and maintenance costs associated with the historical museum, which was donated to the City by

Portia Yara. The Hopi-inspired building is hand-made and created from reclaimed materials found throughout the Coachella Valley. The Consolidated General Fund transfers money to this fund. A total of \$134,000 is budgeted.

Supplemental Law Enforcement Service Fund (130) – This fund receives amounts from the COPS grant program to pay for the costs of front-line police services. The revenue received from this source is transferred out at the end of the year to the Public Services Fund (245) to reduce overall expenditures. A total of \$150,000 is budgeted.

Abandoned Vehicle Abatement Fund (233) – This fund receives Department of Motor Vehicle registration fees from the County to cover operational costs associated and incurred through the abandoned vehicle process within the City limits (on a reimbursement basis). A total of \$35,000 was budgeted.

Emergency Preparedness Fund (246) – This fund accounts for ambulance fines collected by the County which are then paid to the City. Funds can be used by the Fire Department to purchase supplies and equipment for responding to emergency calls. A total of \$80,000 is budgeted.

Community Development Block Grants Fund (145) – The City applies for this grant annually to fund various capital improvement throughout the City. The grantor reviews and approves projects that use CDBG funds. A total of \$277,560 is budgeted for projects.

Housing Authority Fund (700) – This fund accounts for funds set aside for developments and improvements of the City's housing activity and operations. It is currently being funded by repayment of the SERAF loan through the Successor Agency. The fund helps provide for services such as a first-time home buyers program for residents. A total of \$228,116 is budgeted for the fiscal year.

Capital Project Funds and Uses

Capital Project funds are created to account for the financial resources used for acquisition of capital facilities or for the construction of major capital facility

Description of fund	Revenues	Expenditures
Capital Improvement Project Fund (210)	\$3,323,693	\$3,323,693
Development Impact Fees Fund (101-108) total of (8) separate funds	\$1,175,800	\$597,097
2012 Trip bond Capital Fund (141)	\$405,494	\$400,494
Assessment District Funds (391 – 393)	\$500	\$148,569

The Capital Improvement Fund (210) – This fund accounts for all amounts collected through various funding sources to cover costs associated with approved Capital Improvement Projects. There are several projects scheduled for the next fiscal year. Detailed information on each project can be referenced in the Three-Year Capital Improvement Plan. This fund is budgeted at \$3,323,693.

Development Impact Fee Funds (101-108) – Based on a legally required Nexus Report, this fund keeps track of fees collected from developers to address the increasing demands their development(s) have on various City infrastructures. Several projects that are identified in the Three-Year Capital Improvement Plan will use portions of the funds collected over the next year. These (8) funds have been budgeted at \$597,097.

2012 Trip Bond Capital Fund (141) – Currently, all the bond proceeds approved for various road rehabilitation projects have been expended. The expenditures captured in this fund will cover debt service payments and administration fees at the trustee level totaling \$400,494.

Assessment District (391 – 393) - The funding in these districts represent the balance of the reserves on hand at the maturity of the bonds in 2011. The funding has been moved into a Capital Improvement Fund from a debt service fund. All three Assessment Districts are budgeted at a total of \$148,569.

Debt Service Fund

Debt Service Fund (401) accounts for the long-term debt service payments the City's 2017 Desert Hot Springs Tax Allocation Refunding Bond and the Series 2018 Lease Revenue Bonds. At the time these bonds were issued, the funding was set aside with the trustee for the construction of the City Hall Facility. The other expenses in this fund relate to annual interest, principal payments, trustee fees, and administration costs budgeted at \$1,310,862. The debt for both bonds will be paid in full at the end of June 2047.

Internal Service Funds

The Internal Service Fund accounts for the financing of goods and services, provided between City departments on a cost/reimbursement basis.

<u>Description of fund</u>	<u>Revenues</u>	<u>Expenditures</u>
Risk Management Funds (600 & 610)	\$100,000	\$291,363
Equipment Replacement Fund (615)	\$136,816	\$289,889

Risk Management Funds (600 and 610) account for workers compensation insurance costs, general liability, and other property costs associated with the City's staffing, public facilities, vehicles, equipment, furniture, and fixtures. The costs paid from internal service funds are charged appropriately to the various departments. There is a total of \$291,363 budgeted for these two internal service funds.

Equipment Replacement Fund (615) is used to account for the purchase of capital assets for the City, specifically lease payments for Police Department vehicles. There is a total of \$289,889.

FISCAL IMPACT

Consolidated General Fund revenues are projected to be \$23,808,776 and the expenses and transfers are projected to be \$24,154,051 for the Fiscal Year 2020-2021.

Other City revenues total \$42,196,187 and expenses total \$41,600,261 for Fiscal Year 2020-2021.

EXHIBIT

- 1) City of Desert Hot Springs Draft Budget for Fiscal Year 2020-2021
- 2) 2-Year Capital Improvement Plan
- 3) Resolution