



DATE: May 15, 2018
TO: Mayor and City Council
FROM: Director of Finance
SUBJECT Proposed FY 2019 Operating Budget – Work Session #2

RECOMMENDATION

That the Council provides comments on the FY 2019 Operating Budget, reviews follow-up items from the Saturday, April 28, 2018 budget work session, and discusses the proposed use of general fund reserves to present a balanced FY 2019 Operating Budget, as well as the four strategies to reduce the overall use of general fund reserves in FY 2019.

SUMMARY

The Proposed FY 2019 Operating Budget work session #2 includes a discussion of the use of the \$5.5 Million General Fund Reserve to adopt a balanced budget and a review of four options to minimize the use of General Fund Reserves in FY 2019.

The options to reduce the use of General Fund Reserves include (1) a possible 3-month hiring deferral, (2) consideration of a reduction of the previously planned increased General Fund allocation to Fleet Capital Replacement Internal Service Fund (ISF), (3) negotiated labor-related savings, and (4) prepayment of PERS ARC. Implementation of these options will result in an estimated reduction in the use of General Fund Reserves of \$2.5 million.

Additionally, a transfer from the General Fund for Information Technology (IT) Capital Replacement of \$472,000 is also proposed, which increases the use of General Fund reserves to \$6 Million. If the proposed strategies to reduce the use of general fund reserves are implemented and the proposed transfer from general fund for IT is approved, the use of General Fund reserves is reduced from \$6 Million is reduced to \$3 Million.

BACKGROUND

The City commenced the FY 2019 budget development process in January 2018. Both the Council Budget & Finance Committee and City Council have held several budget-related meetings over the last several months as part of the budget development process.

On April 28, 2018, the Council held a special budget work session to review the Proposed FY 2019 Operating Budget. The budget work session included Department presentations, Council discussion on department budgets and related operating issues, and a review of options to close the Proposed FY 2019 structural budget deficit and next steps. These four options are discussed in more detail in this report.

DISCUSSION

This is the second budget work session regarding the FY 2019 Operating Budget and includes further discussion regarding options to reduce the proposed \$5.5M use of General Fund Reserves to present a balanced FY 2019 Operating Budget for Council consideration. The options to reduce the use of General Fund Reserves include: (1) a possible 3-month hiring deferral, (2) consideration of a deferral of the previously planned increased General Fund allocation to Fleet Capital Replacement Internal Service Fund (ISF), (3) negotiated labor-related savings, and (4) prepayment of PERS ARC. These four options result in an estimated reduction in the use of General Fund Reserves of \$3 million.

Hiring Deferral of non-Public Safety Related Positions for First Quarter of FY 2019 (\$322,000):

A non-Public Safety hiring deferral was implemented during the first quarter of FY 2018 with minimal impact to City operations. Staff recommends that a hiring deferral be implemented for all vacant non-sworn positions in the General Fund for the first quarter of FY 2019. While the hiring deferral would preclude the City from filling vacant General Fund non-sworn positions before October 1, 2018, recruitment efforts would continue during the hiring deferral period so as not to delay the recruitment process unnecessarily.

Reduction in General Fund Allocation to Fleet Capital Replacement ISF (\$1 Million):

As a one-time strategy, Council approved the reduction in General Fund allocation to all ISFs for FY 2018. The Proposed FY 2019 Operating Budget includes the restoration of ISFs to FY 2017 budget levels. In addition to restoring ISFs, the Fleet Capital Replacement ISF includes an increase of \$1.0M in the Proposed FY 2019 Operating Budget. This additional allocation is consistent with the long-term plan of phasing-in an annual increase of \$1.0M in General Fund allocation to build fund balance needed to maintain the City's Fleet replacement program. However, to reduce the use of reserves in the General Fund in FY 2019, staff is recommending that this additional \$1 million General Fund allocation be eliminated.

Instead, staff is proposing a one-time transfer of \$400,000 of the interest earned from prior period UUT revenues to fund essential needs in the Fleet Capital Replacement ISF. At mid-year, staff will consider the possibility of restoring all or some of this proposed allocation, depending on the outcome of some of the budget balancing strategies the City will implement.

Negotiated Labor-Related Savings (\$822,000):

On April 17, 2018, the Council approved a negotiated agreement with one of the City's bargaining groups ([CONS 18-217](#)). The City anticipates that this successor agreement will result in a savings of approximately \$822,000 in FY 2019. The City continues to negotiate with the other bargaining units. Any additional cost savings resulting from approved labor agreements will be included during the FY 2019 Mid-year process.

Prepayment of PERS ARC (\$850,000):

In FY 2018, City staff presented Council with several strategies to close the General Fund Gap. City staff presented the option of prepayment of the PERS ARC. Council supported and approved the prepayment of PERS ARC and recommended that prepayment of the PERS ARC become an annual cost savings strategy. Prepayment of the PERS ARC in the FY 2019 Operating Budget will result in a cost savings of approximately \$850,000 to the General Fund. In future fiscal years this will be included in the proposed budget.

Lastly, as presented in the proposed Capital Improvement Program at the May 1, 2018 City Council meeting, an additional transfer from the General Fund for Information Technology Capital Replacement of \$472,000 is being put forth for Council's consideration.

FISCAL IMPACT

The FY 2019 proposed budget included the use of \$5.5 Million in general fund reserves to balance the budget.

Since the time the FY 2019 Operating Budget was proposed, a transfer from the General Fund for Information Technology Capital Replacement of \$472,000 is proposed and was presented during the May 1st Capital Improvement Program presentation. Should Council support this General Fund transfer, the use of General Fund reserves increases from \$5.5 Million to \$6 Million.

The table below provides a demonstration of the balancing strategies and their collective impact on reduction to the use of General Fund reserves from amounts previously proposed:

Proposed Strategy	Savings in General Fund
(1) 3-Month hiring deferral	\$322,000
(2) Reduction in planned General Fund allocation to Fleet Capital Replacement ISF	\$1,000,000
(3) Negotiated labor-related savings	\$822,000
(4) Prepayment of PERS ARC	\$850,000
Total	\$2,994,000

If the four proposed strategies to reduce the use of General Fund reserve are implemented, the use of General Fund reserves decreases from \$6 Million to \$3 Million.

STRATEGIC INITIATIVES

The Proposed FY 2019 Operating Budget includes budget augmentations to fund projects that support each of the three Council Strategic Initiatives; however, the contents of this report do not directly impact the Strategic Initiatives.

NEXT STEPS

The Public Hearing and Adoption of the FY 2019 Operating and CIP Budgets is scheduled for May 22, 2018.

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Approved by:



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