



Agenda Report

November 25, 2019

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Finance Department

SUBJECT: AMENDMENTS TO THE CAPITAL IMPROVEMENT PROGRAM AND OPERATING BUDGETS

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to the California Environmental Quality Act (CEQA) in accordance with Section 15061(b)(3), the General Rule that CEQA only applies to projects that have an effect on the environment; and
2. Amend the Fiscal Year (FY) 2020 Capital Improvement Program Budget and authorize the appropriation of General Fund fund balance in the amount of \$3,875,000 to fund the Police Computer-Aided Dispatch and Records Management System, Project 71168; and
3. Amend the FY 2020 Operating Budget and authorize the appropriation of General Fund fund balance in the amount of \$5.0 million and transfer said funds to the General Liability Fund.

BACKGROUND:

While the FY 2019 audited financial reports are not yet available, the field audit work has been completed and the Comprehensive Annual Financial Report (CAFR) is being finalized. The CAFR is expected to be completed by December 31, 2019 and will be formally presented to the City Council on January 27, 2020.

Based on the analysis done to date, the General Fund ended FY 2019 in a positive position due to additional revenue and expenditure savings. In total, the fund realized a surplus of almost \$11.9 million. Some of the key drivers of this positive result are highlighted below.

- Sales Tax – Approximately \$5.3 million in sales tax was received in June, July and August from Measure I. Per accounting rules, the July and August payments were accrued back to FY 2019. Additionally, late payments from FY 2018 regular sales tax were paid in FY 2019, resulting in an additional \$1.5 million.
- Property Tax - \$1.1 million of former redevelopment property tax funds were paid to the City for the City's share from the sale of former redevelopment property to the Sheraton. Additionally, almost \$800,000 in additional property tax was received related to supplemental payments from prior year transactions.
- Construction Tax – This tax came in at \$1.7 million over budget, primarily due to the large payments related to the Lincoln Properties project.
- Police Department – The Police Department finished FY 2019 \$2.3 million under budget, mainly due to salary and benefit savings from vacancies.

Capital Improvement Program Budget

As the City Council is aware, the current five-year capital improvement program has a list of future unfunded projects totaling more than \$300 million, along with dozens of current projects that are underfunded. One key underfunded public safety project is the replacement of the *Police Computer-Aided Dispatch and Records Management System*, Project 71168. The estimated project cost is \$4.0 million and currently only \$125,000 has been appropriated for the initial scoping work. It is recommended that the \$2.3 million in salary savings in the Police Department noted above, along with an additional \$1.575 million, be appropriated to fund this critical project in the amount of \$3,875,000.

General Liability

On August 26, 2019, the City Council authorized the purchase of insurance coverages which increased the annual cost of insurance by \$959,436 and raised the City's self-insured retention from \$3.0 million to \$5.0 million. At the end of FY 2019, the General Liability Fund (Fund 507) had just short of \$2.5 million in cash and, while it also holds the title to property in east Pasadena routinely referred to as the Shakey's site, the \$3.7 million of asset value on the books is not available to fund current liabilities. An analysis of both open and closed claims for the past ten years showed that the majority of claims related to the Excess Municipal Liability Insurance coverage were from General Fund supported functions such as public safety, trees, and sidewalks. Therefore, it is recommended that \$5.0 million be appropriated from the General Fund and transferred to the General Liability fund to ensure sufficient cash resources are on hand to fund any current liabilities and to meet the self-insured retention amount.

Fire and Police Retirement System (FPRS)

Assuming Council approves the staff recommendation, the General Fund would still show a budgetary surplus of \$3.025 million for FY 19. It is recommended to leave the remaining surplus unassigned in the event a supplemental payment to FPRS is necessary. At the October 28, 2019 City Council meeting, the City Council authorized

the appropriation of \$3.478 million from the General Fund to make the mandatory contribution to FPRS per the Operating Agreement between the City and FPRS. It was also discussed at that meeting that it is anticipated the escrow for the sale of the Concord Senior Apartments will close prior to June 30, 2020 and the proceeds would then be transferred to FPRS. In this case, the \$3.478 million would be returned to the General Fund.

COUNCIL POLICY CONSIDERATION:

The proposed actions are in keeping with the City Council's strategic plan goal of maintaining fiscal responsibility and stability.

FISCAL IMPACT:

The City Council has fully funded the Emergency Contingency and Operating Reserves for the General Fund at \$50.8 million. Additionally, the Section 115 Trust established for future pension obligations has \$11.2 million from the General Fund. The surplus from the close of FY 2019 and the resulting growth in fund balance being proposed to appropriate through this action is in addition to these reserve amounts.

Per the unaudited draft financial report that was distributed to the City Council on October 31, 2019, the General Fund realized a positive change in fund balance by \$11,954,076 at the end of FY 2019. As this surplus was largely the result of positive outcomes related to one-time activities, it is appropriate to use these funds for the recommended one-time actions. Through the recommended actions the unassigned fund balance of the General Fund will decrease by \$8,875,000.

The attached General Fund Forecast includes the amount previously appropriated to FPRS, which has been included in the "FY 2020 Revised Budget" column. As discussed with the City Council on October 28, 2019, the CalPERS Unfunded Accrued Liability has a significant impact on personnel expenditures with some unique drops in FY 2025 and 2026, so the forecast has been extended to ten years to create a more complete picture that takes these drops into account. This forecast demonstrates that ongoing revenues will be sufficient to cover ongoing expenditures while continuing to fund some capital projects through surpluses and available fund balance.

Respectfully submitted,


MATTHEW E. HAWKESWORTH
Director of Finance

Approved by:


STEVE MERMELL
City Manager

Attachment: (1) General Fund Forecast