

RESOLUTION NO. 2018-18

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA RECEIVING FISCAL YEAR 2017-18 MID-YEAR FISCAL REPORT, AUTHORIZING FINANCE DIRECTOR TO MAKE APPROPRIATE ACCOUNTING AND BUDGETARY ENTRIES AND PROVIDE STAFF WITH ANY FURTHER DIRECTION IN THE MATTER

WHEREAS, the Finance Director presented the FY2017-18 General Fund mid-year fiscal report, and;

WHEREAS, the FY2017-18 estimated revenues and expenditures were determined by the City Manager and Directors based upon historical information, third party data, (if available), and anticipated activities for the remainder of the fiscal year, and;

WHEREAS, these are Staff's estimates during a dynamic economic climate and actual results will differ, and;

WHEREAS, this report focuses on the General Fund.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Marina does hereby:

1. Accept the fiscal year 2017-18 mid-year fiscal report;
2. Authorize the finance director to make necessary accounting and budgetary entries; and

PASSED AND ADOPTED by the City Council of the City of Marina at a regular meeting duly held on the 20th day of March 2018, by the following vote:

AYES: COUNCIL MEMBERS: Amadeo, Morton, O'Connell, Brown, Delgado

NOES: COUNCIL MEMBERS: None

ABSENT: COUNCIL MEMBERS: None

ABSTAIN: COUNCIL MEMBERS: None

Bruce C. Delgado, Mayor

Anita Sharp, Deputy City Clerk

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of March 6, 2018

**CITY COUNCIL CONSIDER ADOPTING RESOLUTION NO. 2018-,
RECEIVING GENERAL FUND FISCAL YEAR 2017-18 MID-YEAR FISCAL
REPORT, AUTHORIZING FINANCE DIRECTOR TO MAKE APPROPRIATE
ACCOUNTING AND BUDGETARY ENTRIES AND PROVIDE STAFF WITH
ANY FURTHER DIRECTION IN THE MATTER**

REQUEST:

It is requested the City Council consider:

1. Adopting Resolution No. 2018- receiving the General Fund Fiscal Year 2017-18 Mid-Year Fiscal Report;
2. Authorizing Finance Director to make appropriate accounting and budgetary entries, and;
3. Provide staff with any further direction in the matter.

BACKGROUND:

The City adopted budget is an estimation of the City resources, revenues and expenditures for a fiscal year period, which is July 1st through June 30th. During the fiscal year, the City Council may authorize changes to the adopted budget. Also, actual events may differ from the adopted budget estimates.

As such, after December 31st (six months of the fiscal year), a “mid-year” fiscal report is presented with updated financial estimations. Although the estimations are based upon thorough review of historical trends and third-party expert data, when available, these remain estimates and actual results may differ. This report reflects Council budget actions through January 17, 2018 and focuses on the General Fund.

The prior year FY16/17 financial performance also contributed to this report. FY16/17 actual revenue of \$21.1M (million) exceeded budget by 2% due primarily to higher tax revenues for property tax and franchise tax and permit revenues from the development projects. FY16/17 actual expenditures of \$21M was lower than budget by 5% due primarily to multiple staff vacancies and deferred project costs for material and supplies. It was difficult to recruit multiple concurrent vacant positions.

GENERAL FUND ANALYSIS:

The City remains financially disciplined and the General Fund balance improved from the adopted FY17/18 budget. The revenue improvements within this mid-year report are due primarily to the voter approved 2016 business license tax and improved assessed valuation for property taxes. On the expenditure side, the mid-year priorities focus on ground water protection, pavement maintenance, fire protection and emergency reserve funding. The anticipated General Fund 6/30/2018 ending fund balance is \$9.7M. The lengthy list of unfunded needs for pavement, public safety, parks, and other important priorities remains, and the City Council and community may wish to consider additional revenues in order to provide these services.

Estimated FY17/18 Revenues and Expenditures:

The estimated FY17/18 revenues of \$22.6M is anticipated to exceed the estimated FY17/18 expenditures of \$22.3M by \$273k. Staff proposes allocating the \$273k to the Emergency Reserve in compliance with the Council adopted 20% policy.

Revenues	Current Budget	Mid-Yr Adjustments	Estimated Budget
Revenues	\$ 20,781,146	\$ 1,812,868	\$ 22,594,014
Expenditures	\$ 20,808,557	\$ 1,512,857	\$ 22,321,414
Revenue Over/(Under) Expenditures			\$ 272,600
Maintain 20% Emergency Reserve			\$ 272,600
Available Revenue Over/(Under) Expenditures			\$ -

Estimated FY17/18 Revenues

The FY17/18 current revenue budget of \$20.8M includes Council authorized budget amendments through January 17th. With the mid-year revenue adjustment of \$1.8M, the estimated FY17/18 revenue is \$22.6M. The revenue improvements within this mid-year report are due primarily to the voter approved 2016 business license tax and improved assessed valuation for property taxes. The mid-year adjustments are presented below in monetary descending order:

- Increase \$904k - business license tax (estimated \$1.4 million for FY17/18)
- Increase \$378k - Fire Strike Team State reimbursement
- Increase \$300k - property tax and property tax in-lieu of VLF
- Increase \$176k - FORA caretaker agreement (\$36k FY16/17, \$140k FY17/18)
- Increase \$60k - franchise tax
- Increase \$15k – interest income
- Increase \$10k - damage insurance claims
- Decrease \$30k - police vehicle code citations

Revenues	Current Budget	Mid-Yr Adjustments	Estimated Budget
Taxes	\$ 15,864,700	\$ 1,264,000	\$ 17,128,700
Licenses & Permits	\$ 520,300		\$ 520,300
Fines & Penalties	\$ 157,550	\$ (30,000)	\$ 127,550
Use of Money & Properties	\$ 2,446,534	\$ 15,000	\$ 2,461,534
Intergovernmental	\$ 666,546	\$ 563,868	\$ 1,230,414
Charges for Services	\$ 882,114		\$ 882,114
Other Revenues	\$ 126,000		\$ 126,000
Transfer In (Other Financing)	\$ 117,402		\$ 117,402
Total	\$ 20,781,146	\$ 1,812,868	\$ 22,594,014

Estimated FY17/18 Expenditures

The FY17/18 current expenditure budget of \$20.8M includes Council authorized budget amendments through January 17th. With the mid-year expendable adjustment of \$1.5M, the estimated FY17/18 expenditure is \$22.3M. The mid-year priority focuses are ground water protection, pavement maintenance, fire protection and emergency reserve funding. The mid-year adjustments are presented below in monetary descending order:

- Increase \$575k – ground water protection
- Increase \$378k - fire strike team expenditures (overtime, reserves, material & equipment, training)
- Increase \$350k - transfer for pavement resurfacing (\$600k total from Gen Fund FY17/18)
- Increase \$340k – transfer for vehicle replacement (fire engine)
- Increase \$140k - FORA caretaker agreement
- Increase-\$25k - downtown specific plan update (estimate \$125k project cost)
- Increase \$10k - transfer to Gas Tax Fund (streets/traffic costs associated with insurance claims)
- Increase \$20k – utility (watering landscape)
- Decrease \$250k - transfer to public facility impact fund (associated previously with Marriott's PFIF)
- Decrease \$75k - no election cost in FY17/18

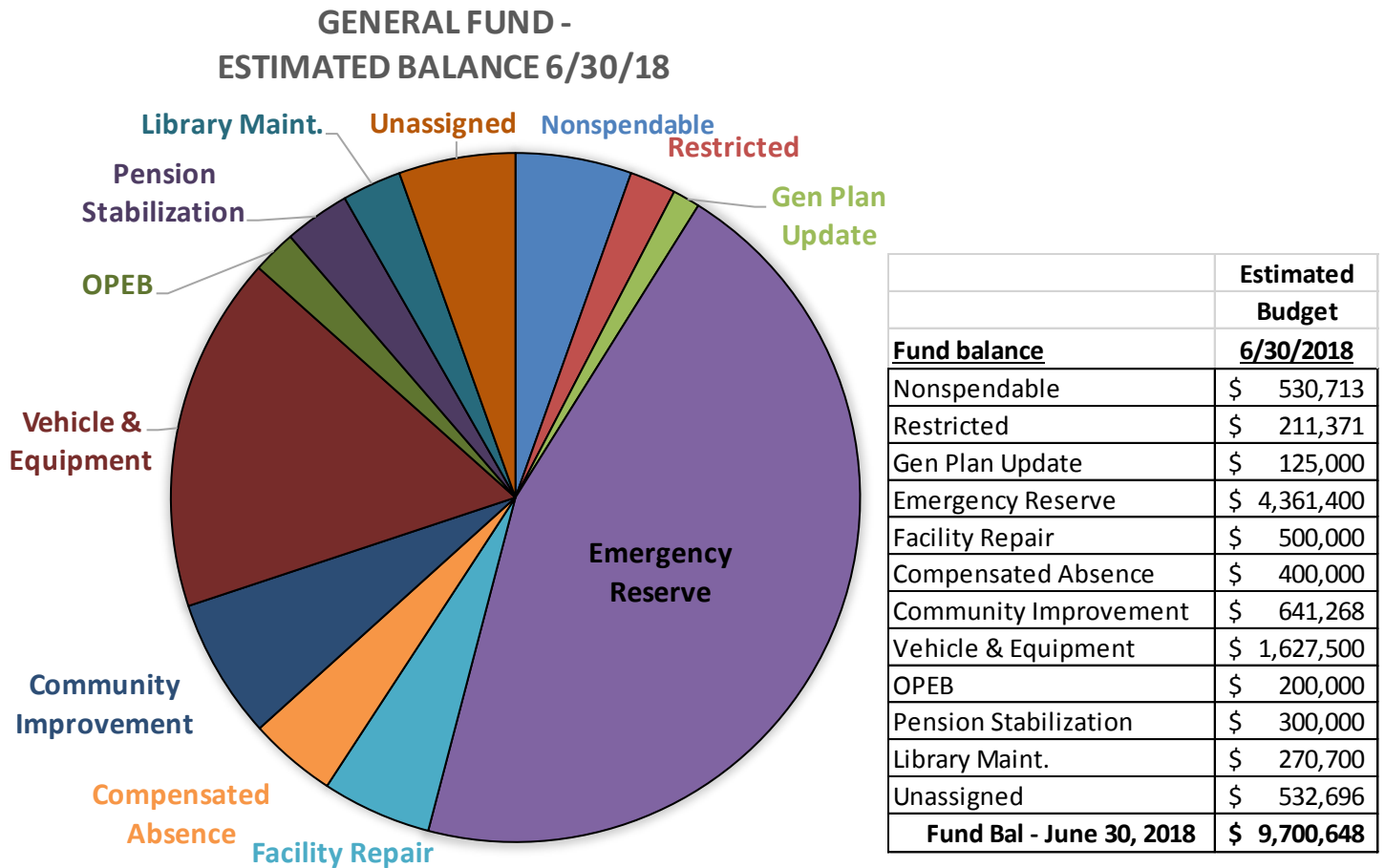
Expenditures	Current Budget	Mid-Yr Adjustments	Estimated Budget
Staffing	\$ 14,021,500	\$ 312,868	\$ 14,334,368
Services & Supplies	\$ 5,027,000	\$ 749,989	\$ 5,776,989
Capital Outlay	\$ 676,546		\$ 676,546
Transfer Out (Other Financing)	\$ 1,083,511	\$ 450,000	\$ 1,533,511
Total	\$ 20,808,557	\$ 1,512,857	\$ 22,321,414

Estimated General Fund Balance

The General Fund estimated 6/30/2018 fund balance is \$9.7M, which is an improvement from the adopted fund balance. The estimated fund balance maintains the emergency reserve at the 20% policy level and specifies non-spendable and restricted funds (i.e. general plan update resources). This reflects the consolidated General Fund including Vehicle & Equipment Fund, OPEB Fund, Library Maintenance Fund and Development Activity Fund.

	Actual	Adopted Budget	Estimated Budget
<u>Fund balance</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2018</u>
Nonspendable	\$ 530,713	\$ -	\$ 530,713
Restricted	\$ 211,371	\$ -	\$ 211,371
Restricted - Gen Plan Update	\$ -	\$ -	\$ 125,000
Emergency Reserve	\$ 3,859,600	\$ 4,088,800	\$ 4,361,400
Facility Repair	\$ 500,000	\$ 500,000	\$ 500,000
Compensated Absence	\$ 400,000	\$ 400,000	\$ 400,000
Community Improvements	\$ 641,268	\$ 641,268	\$ 641,268
Vehicle & Eqp Fund	\$ 1,075,000	\$ 1,287,500	\$ 1,627,500
OPEB	\$ 200,000	\$ 200,000	\$ 200,000
Pension Stabilization Fund	\$ -	\$ 300,000	\$ 300,000
Library Maint.	\$ 351,144	\$ 270,700	\$ 270,700
Unassigned	\$ 1,318,952	\$ 648,447	\$ 532,696
Fund Balance - June 30	\$ 9,088,048	\$ 8,336,715	\$ 9,700,648

Estimated General Fund Balance (continue)

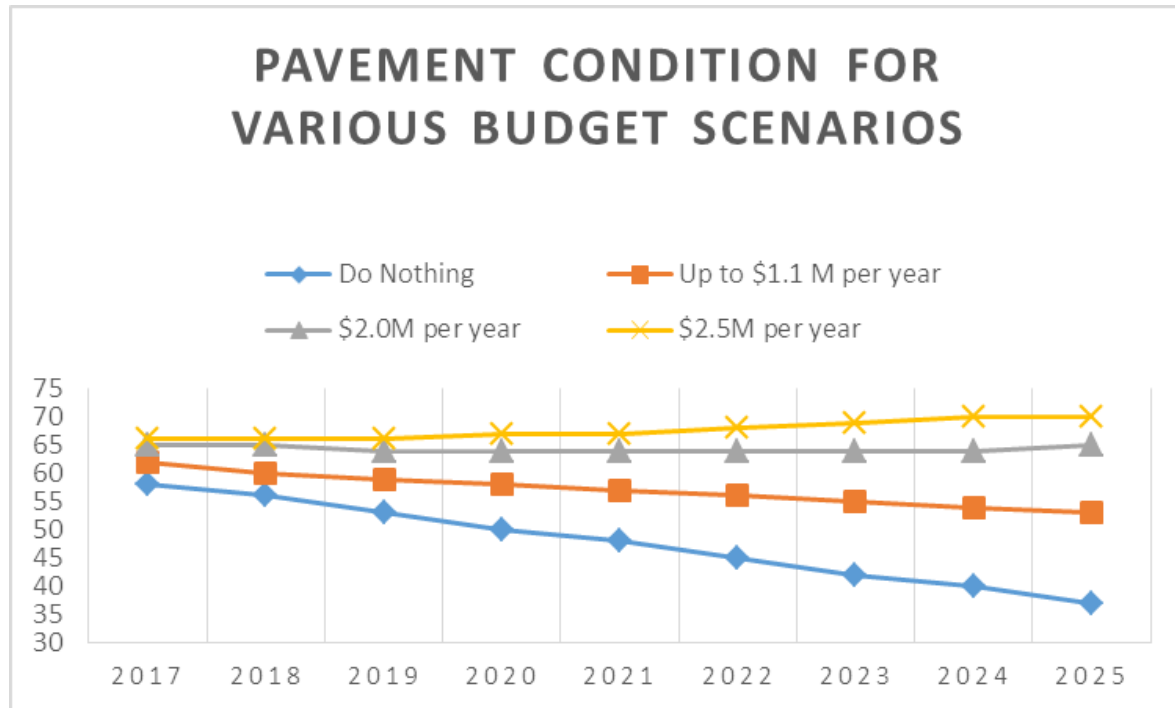


The \$9.7M balance above is a reflection of improvements in the general economy, city development projects, and on-going fiscal discipline and stewardship. However, the balance remains insufficient to address and fund the unmet needs. It remains an on-going dialogue with the City Council and community about funding options and service levels that defines Marina's quality of life, public safety and welfare. These unmet needs include:

- Pavement Streets maintenance (\$2.5M per year, \$13M project backlog)
- Facility Projects Fund (Repairs & Maintenance \$5.6M)
- New Facility Funding (i.e. fire station \$5.4M, parks \$39M, other \$ TBD)
- ADA Compliance (\$ TBD)
- Sidewalks maintenance & improvement (\$7.6M estimated)
- Storm Drain maintenance (\$ TBD)
- Parks maintenance & improvements (\$ TBD)
- Traffic Signal replacement (average cost \$100,000 x 21 units)
- Fire Engine or Truck (\$0.6M - \$1.4M estimate)
- Vehicle Savings Fund (\$400k per year or \$4.2M replacement value, \$2.6M target funding level)
- Fire second engine company (staffing, engine, facility)
- Compensated Absence Liability (\$1.2M per audit)
- Unfunded Retiree Health (\$2.3M)
- Unfunded Pension (\$18M)
- Blight Removal (\$ TBD)
- Program/Department Information Technology (\$ TBD)
- Other Services/Priorities (\$ TBD)

Unfunded Pavement Rehabilitation Need

The City has \$13M of pavement maintenance backlog which is projected to grow to almost \$30M in the next 10 years, with rapid deterioration and rehabilitation cost escalation. This is reflected by the estimated cost to maintain the street network at a Pavement Condition Index (PCI) of 70 increasing from \$1.2M per year in 2013 to \$2.5M per year in 2016. The deterioration trend will continue without a program of regular re-investment. The pavement management software is used to determine the effectiveness of ten-year maintenance programs based upon various funding levels. Notably, it is not until annual investment reaches \$2.5M that the overall pavement condition begins to improve and reaches PCI of 70 after ten years.

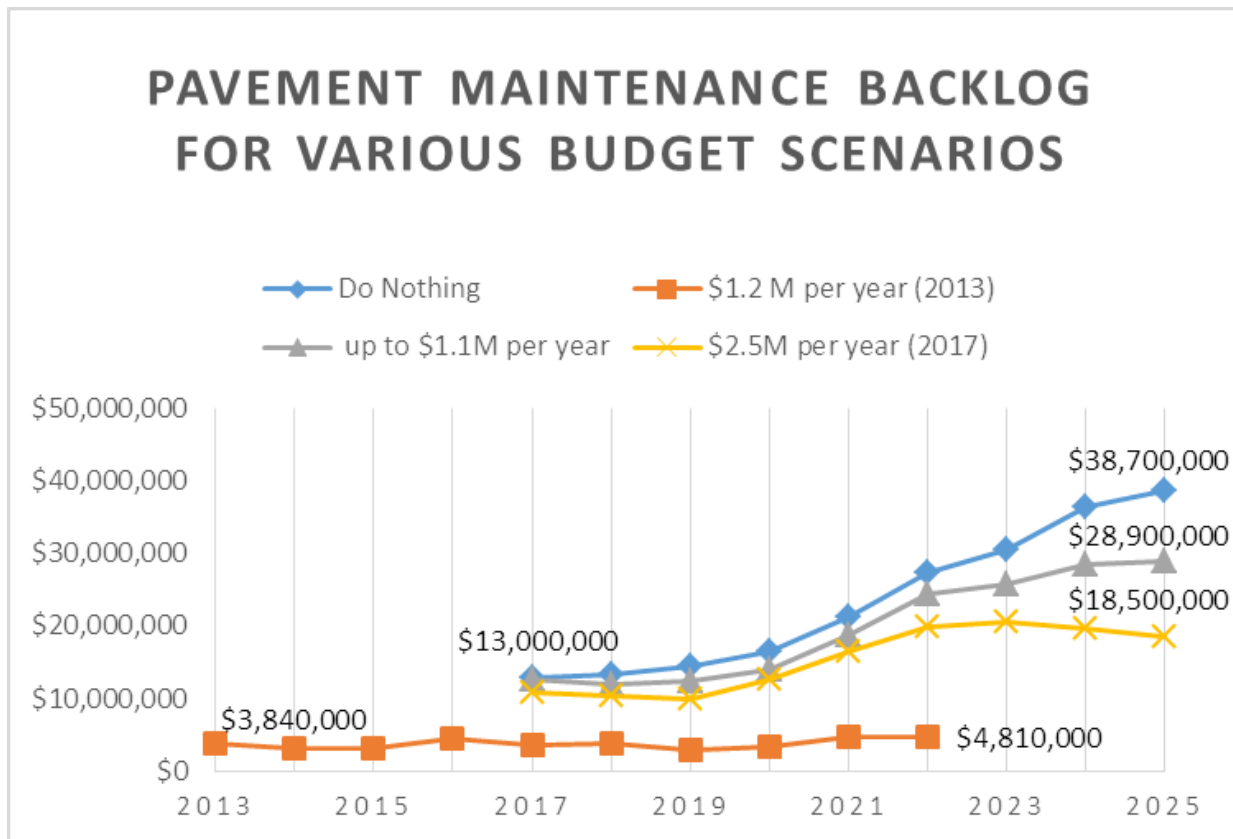


The current and anticipated pavement management funding is significantly below the \$2.5M annual target. Based upon the FY17/18 mid-year report, the FY17/18 pavement funding is \$1.1M or a shortfall of \$1.4M. Based upon the current funding level, anticipated Senate Bill 1 (SB1) revenues and subject to Council budget deliberation, the estimated FY18/19 pavement funding is \$1.4M or a shortfall of \$1.1M. However, there is current discussion of repealing SB1, which would devastate the City's pavement funding, and be an estimated loss of \$6M over ten years (source: League of California Cities).

Pavement Funding	Estimated FY17/18	Estimated FY18/19 With SB1	Estimated FY18/19 IF SB1 Recalled
General Fund initial budget	\$250,000	\$600,000	\$600,000
General Fund mid-yr budget	\$350,000		
County Regional tax (Measure X)	\$500,000	\$500,000	\$500,000
State SB1*	*	\$350,000	\$0 (if recalled)
Total Funding	\$1,100,000	\$1,450,000	\$1,100,000
Total Need	\$2,500,000	\$2,500,000	\$2,500,000
Shortfall/Unfunded per year	\$1,400,000	\$1,050,000	\$1,400,000
*SB1 FY17/18 deferred due to possible SB1 recall.			

Cost of Deferred Pavement Maintenance

The current pavement backlog is \$13M and the cost of deferred maintenance increases the backlog rapidly. As demonstrated below, in 2013, the minimum annual investment of \$1.2 M over 10 years would attain a PCI of 70 with backlog at \$4.8M. While in 2017, it requires the minimum annual investment of \$2.5 M over 10 years to attain a PCI of 70 with backlog at \$18.5M. The current investment of \$1.1M means the City would not attain a PCI of 70 and backlog grows from \$13M to \$28.9M. More funding investment into pavement maintenance is needed.



Fire Engines

Staff and City Council have worked diligently to address the funding of vehicle replacement. The fire engine has been discussed in depth due to the significant cost of acquisition, increased service demand from new development (housing, VA Clinic, hotel, restaurants, etc) and more recently, the decision by the Department of Defense to move a POM Engine Company over to the Presidio of Monterey, an engine which provides mutual aid support to the City for over 27% of overlapping calls serviced by Marina Fire Department. The City has three fire engines: 2007 Ferrara – primary engine for deployment; 1998 Ferrara – secondary engine for deployment; and 1994 Pierce -- reserve engine and deployed as needed. Generally, a fire engine's useful life is twenty (20) years, with twelve (12) years for primary use deployment and eight (8) years for secondary use deployment. The City's fire engines continue to incur costs and require continual repairs, which prevents them from being deployed. In the past two years, the 1998 engine was out of service approximately 20% of the time. During this period, the 2007 engine was out of service approximately 98% of the time. During September 9 -14, 2016, no City fire engines were functional, which required the City to borrow an OES engine from Monterey County Regional and Cal OES. The City is actively seeking grants to assist with the purchase of an additional fire engine and committing fund balance into the vehicle fund to hopefully replace the 1994 Pierce in the near future. Below is a summary of costs over the last two years.

Fire Engines (continue)

	1994 Pierce	1998 Ferrara	2007 Ferrara		
Mileage	56,819	96,870	79,614		
Engine Operating Hours	5,284	9,649	8,466		
True Mileage (Mileage + Engine Hours)	290,620	530,695	465,630		
Estimated Replacement Cost	\$ 600,000	\$ 600,000	\$ 600,000		
Cost of Repairs	\$ 18,142	\$ 69,589	\$ 94,075		
# days out of service (within last two years)	90 Days	150 Days	2 Years	Pending additional \$30,000 of repair invoices	

Other Funds:

There are several other funds with mid-year adjustments, which are summarized below:

- Public Facility Impact Fee (PFIF) - Eliminate \$240k transfer-in associated with the Marriott's project.
- Gas Tax Fund – Increase the revenue for anticipate SB1 receipt of \$116k.
- Library Maintenance – Increase the landscape maintenance appropriation by \$6k.
- Dunes CFD Fund 252 – Increase professional service appropriation by \$5k. This funded is CFD levies.
- Airport CIP Restaurant Building 529 – Increase transfer-in revenue by \$40k from the Airport Operating fund and increase project appropriation by \$10k.
- Airport Operating Fund – Increase transfer-out expenditure by \$40k to the Airport CIP to fund the Restaurant Building 529 project.

FISCAL IMPACT:

Should the City Council accept this report and approve the budget amendments, the FY17/18 General Fund includes estimated revenues of \$22.6M, estimated expenditures of \$22.3M and estimated ending 6/30/18 *net* fund balance of \$9.7M.

CONCLUSION:

This request is submitted for City Council consideration and possible action.

Respectfully submitted,

Lauren Lai, CPA
Finance Director
City of Marina

REVIEWED/CONCUR:

Layne P. Long
City Manager
City of Marina