

TO: Andrew P. Powers, City Manager

FROM: John F. Adams, Finance Director

DATE: May 30, 2017

SUBJECT: Proposed FY 2017-18 and FY 2018-19 Operating Budget Study Session

RECOMMENDATIONS:

1. Receive information on the Proposed FY 2017-18 and FY 2018-19 Operating Budget.
2. Schedule a public hearing for formal City Council review and adoption of the Budget on June 13, 2017.

FINANCIAL IMPACT:

No Additional Funding Requested. This is a study session only. The cost of preparing the Proposed FY 2017-18 and FY 2018-19 Operating Budget (Budget) is limited to staff time and material costs, which is included in the Adopted FY 2016-17 General Fund Budget. City Council will be asked to review and adopt the Operating and Capital Improvement Program (CIP) Budgets at the June 13, 2017, City Council meeting.

BACKGROUND:

The purpose of this study session is to provide City Council with an overview of the Proposed Budget for all funds. The Proposed Budget is provided under separate cover and available at the City of Thousand Oaks Grant R. Brimhall and Newbury Park libraries, the City Clerk Department, or by visiting the City's website at www.toaks.org/Operating17-19.

The operating budget preparation process began in January 2017. Staff has been diligently working since then on balancing appropriation requests with revenue estimates. The Proposed General Fund Budget is structurally balanced for both fiscal years and represents a fiscally sound plan that fully complies with City Council's formal Financial and Budget Policies.

Adhering To City Council Goals and Top Priorities

On May 9, 2017, City Council developed ten broad Citywide Goals for FY 2017-18 and FY 2018-19 and ten Citywide Top Priorities for FY 2017-18. The final goals and top priorities will be presented on June 13, 2017. Currently, the Proposed Budget contains sufficient resources to achieve the City Council's Goals and Top Priorities.

City Council Finance/Audit Committee

The City Council Finance/Audit Committee (Committee) was established in 2008 in order to comply with Statement on Auditing Standards (SAS) 114 and to promote additional financial transparency. The Committee provides a forum for open communication between the City's external auditors and City Council. Staff meets periodically with the Committee to provide updates on the City's budget and financial status, as well as to receive input from the Committee on financial strategies. Most recently, staff met with the Committee on April 18, 2017, and provided an update and overview on this Proposed Budget.

Budget Management

With leadership from City Council and management, and guidance from the Financial Strategic Plan (FSP), the City maintained fiscal stability in an era of financial challenge, while limiting impacts on core service levels. It is through this sound leadership, fiscal conservatism, and long-term financial planning the City resisted expanding or adding new programs during strong economic times. This enabled the City to continue providing its core services to residents and businesses.

Reliance on sound leadership and long-term financial planning continues to play a vital role in the future of the City. The Proposed Budget anticipates continued financial support from the General Fund to the Library Fund and Stormwater Fund. Implementation of the Fiscal Sustainability Study (FSS) measures were taken in the Lighting Fund for this budget cycle to eliminate the need for General Fund support. With increases in major expenditures anticipated to outpace increases in major revenues, strategic decisions will be needed to ensure ongoing financial stability of City funds.

A major service challenge the FSS highlighted was the deferred maintenance requirement of the City's streets and roads. This is the estimated funding gap, or deferred requirement, based on the amount required to maintain street and sidewalk infrastructure and the anticipated funding available. Several options were presented and discussed at the January 26, 2016, City Council presentation.

At the FY 2017-18 and FY 2018-19 Capital Improvement Program (CIP) Study Session on April 11, 2017, City Council authorized the use of one-time General Fund - Capital Reserves of just over \$5.0 million per year to ensure the City's streets and roads deferred maintenance funding gap is maintained at its current level and does not continue to increase.

Citywide Staffing – People Strategy

As shown in the chart below, Citywide staffing levels have been reduced by 96 positions (or -16.4 percent) since FY 2008-09 in an effort to both balance the budget and realign staffing levels given the City's transition from a "growth" to a "maintenance" community.

Citywide (All Funds)				
Ten-Year Position History*				
Fund	FY 2008-09	FY 2017-18	# Change	% Change
1 Cultural Affairs	24	14	-10	-41.7%
2 Community Development	75	48	-27	-36.0%
3 Library	66	45	-21	-31.8%
4 City Clerk	9	7	-2	-22.2%
5 City Attorney	6	5	-1	-16.7%
6 Public Works	212	185	-27	-12.7%
7 Human Resources	9	8	-1	-11.1%
8 Police	115	108	-7	-6.1%
9 Finance	56	55	-1	-1.8%
10 City Manager	13	14	1	7.7%
Total Positions	585	489	-96	-16.4%

* Positions include all full-time and designated part-time positions

In the past two calendar years, more than 50 employees have left the City. This trend is expected to continue, with almost 50 percent of staff retiring in the next five-year cycle. This turnover results in the hiring of approximately 30 new employees in 2017 alone.

Although the loss of institutional knowledge is challenging, turnover presents an opportunity to prepare for the future and re-engineer the structure of the organization. Through the People Strategy initiative, the organizational focus is on collaboration, communication, process improvement and efficiencies, and public engagement. In addition, resources will be devoted to enhancing recruiting efforts, improving on-boarding, and training and mentoring current staff to prepare for advancement.

Performance Measures

The City is enhancing its current performance measures as staff strives to continuously improve City operations. The transformation of the current performance measures will be from static annual measures to a robust, valuable, and meaningful tool that will provide quarterly measures. These measures will be used to guide the City's focus and ultimately improve the City's effectiveness and efficiency in delivering services. The new performance measures may be included in the Operating Budget book presented at the public hearing meeting on June 13, 2017. Staff will return to City Council in the fall with a more comprehensive report on performance measures.

DISCUSSION AND ANALYSIS:

Overview of Proposed FY 2017-18 and FY 2018-19 Operating Budget

The Proposed Budget is organized into various sections as follows:

- Citywide Budget Summary: This section includes information on all funds both by revenue and by appropriation.
- General Fund Budget Summary: This section includes information on the General Fund's revenues and appropriations.
- Summaries by Fund: This section includes summaries by individual fund and by division within each department. Also included are proposed goals and objectives and performance measures by function for each department. (Staff is in the process of completing goals and objectives, and performance measures.)
- Position Summaries: This section includes a ten-year history of positions by department and a detailed position summary by fund.

Overall Budget Summary

Total proposed appropriations for the City, including capital and transfers, for all funds for FY 2017-18 is \$195,363,522 and for FY 2018-19 is \$196,081,444, as shown in the following table. The General Fund makes up the largest portion of the Budget at 43.7 percent and 43.9 percent of appropriations in FY 2017-18 and FY 2018-19, respectively.

Proposed FY 2017-18 & FY 2018-19 Operating Budget Summary

Fund	Budget 2017-18	% of Total Budget	Budget 2018-19	% of Total Budget
General Fund	\$ 85,421,767	43.7%	\$ 86,155,745	43.9%
Water Fund	31,405,596	16.1%	27,927,117	14.2%
Wastewater Fund	24,664,518	12.6%	25,000,849	12.8%
Transportation Fund	10,367,143	5.3%	13,036,361	6.6%
Library Fund	8,187,353	4.2%	8,933,024	4.6%
Capital Projects Funds	8,106,535	4.1%	7,293,200	3.7%
Landscaping Assessment District Fund	6,148,690	3.1%	6,520,952	3.3%
Los Robles Golf Course Fund	5,413,500	2.8%	5,460,700	2.8%
Street Improvement Funds	5,184,965	2.7%	4,541,000	2.3%
Theatres Fund	4,013,119	2.1%	4,267,717	2.2%
Lighting Assessment District Fund	1,882,813	1.0%	1,952,202	1.0%
Solid Waste Fund	1,534,699	0.8%	1,769,037	0.9%
Public Financing Authority Fund	1,154,800	0.6%	1,155,900	0.6%
Stormwater / Flood Control Assessment Funds	1,012,298	0.5%	1,191,183	0.6%
Community Development Block Grant (CDBG)	600,000	0.3%	600,000	0.3%
Housing Trust Fund	265,726	0.1%	276,457	0.1%
Total Citywide Appropriations	\$195,363,522	100.0%	\$196,081,444	100.0%

Below is a summary of the City's Major Funds:

General Fund

The General Fund is the chief operating fund for the majority of the City's operations and services, including the following:

- Community services (senior/teen/recreation)
- Community development/building/housing/planning/zoning
- General governance administrative oversight
- Public works/highways/streets/engineering
- Public safety (Police)

Revenue: The City is a very low-tax city, incorporating without a general municipal Property Tax. Although the City now receives a small portion of local Property Tax revenue, this represents only approximately 11 percent of the proposed General Fund budget. The primary source of revenue for the General Fund is Sales Tax, which responds quickly to economic cycles and is prone to large fluctuations. The City is limited in its ability to raise revenue and thus is largely reliant upon the overall health of the local economy.

Although the local economy continues to be strong, with a steady low unemployment rate and median home prices continuing to increase, sales tax and fee revenue growth are limited due to the City being built-out.

Staff has taken these economic indications into consideration and has conservatively budgeted for modest adjustments in major General Fund revenue estimates. As illustrated in the table below, estimated revenues for FY 2017-18 is \$82,225,600 and for FY 2018-19 is \$82,912,955. This is an overall increase of 4.6 percent from a conservative FY 2016-17 Revised Budget and an increase of 0.8 percent for FY 2017-18 and FY 2018-19, respectively.

General Fund Revenues

Revenue Source	Prior Year Actual 2015-16	Revised Budget 2016-17	Proposed Budget 2017-18	Proposed Budget 2018-19
Taxes and Fees				
Sales and Use Tax	\$ 30,251,446	\$ 29,821,000	\$ 29,996,000	\$ 30,649,000
Property Tax In-Lieu of Vehicle License Fee	11,139,579	11,220,000	11,955,000	12,315,000
Property Tax Apportionment	8,385,392	8,349,200	8,977,500	9,208,300
Franchise Fee	6,689,427	6,760,000	6,660,000	6,765,000
Transient Occupancy Tax	4,671,343	3,680,000	4,702,000	4,702,000
Property Transfer Tax	1,194,435	850,000	900,000	900,000
Other Taxes	29,306	20,000	30,000	32,000
Total Taxes and Fees	62,360,928	60,700,200	63,220,500	64,571,300
Licenses and Permits	7,189,317	5,720,810	6,706,300	6,297,255
Charges for Current Services	6,138,008	5,974,650	6,596,000	6,704,000
Revenue From Use of Money	1,826,420	1,741,720	2,027,200	2,127,200
Transfers From Other Funds	2,020,429	2,047,000	1,883,200	1,883,200
Revenue from Other Agencies	691,041	810,105	883,150	483,150
Reimbursements	901,872	1,163,350	390,750	328,350
Fines and Penalties	270,222	290,140	334,500	334,500
Other Revenue	171,352	167,400	184,000	184,000
Total Revenue and Transfers	\$ 81,569,590	\$ 78,615,375	\$ 82,225,600	\$ 82,912,955

Total General Fund revenues are estimated to modestly increase with projections of Sales Tax, Property Tax in-lieu of Motor Vehicle License Fees, Property Tax, Franchise Fees, and Transient Occupancy Tax further discussed as follows:

- *Sales Tax* revenue projected to increase to \$30.0 million (0.6 percent) in FY 2017-18; projected to increase to \$30.7 million (2.3 percent) in FY 2017-18. Only moderate increases in sales tax revenue are expected as the post-recession growth begins to slow and there is limited opportunity for retail growth due to being a built-out city. In addition, the shift in sales from brick and mortar stores to online outlets also negatively impacts local point-of-sale transactions.
- *Property Tax in-lieu of Motor Vehicle License Fee In-Lieu (VLF)* revenue projected to increase to \$12.0 million (6.6 percent) in FY 2017-18; projected to increase to \$12.3 million (2.5 percent) in FY 2018-19. The increase in the first year is primarily due to conservative VLF revenue estimates in FY 2016-17.

- *Property Tax* revenue projected to increase to \$9.0 million (7.5 percent) in FY 2017-18; projected to increase to \$9.2 million (2.2 percent) in FY 2018-19. The increase in FY 2017-18 is primarily due to an increase in assessed valuations.
- *Franchise Fee* revenue projected to decrease to \$6.7 million (-1.5 percent) in FY 2017-18; projected to increase to \$6.8 million (1.5 percent) in FY 2018-19. The decrease in Franchise Fee revenue in FY 2017-18 is primarily due to slight decreases in utilities tax and cable tax.
- *Transient Occupancy Tax (TOT)* revenue projected to increase to \$4.7 million (27.8 percent) for both FY 2017-18 and FY 2018-19. The increase in TOT revenue is primarily due to conservative estimates in FY 2016-17 and an increase in hotel occupancy.

Appropriations: The two largest expenditure requirements of the General Fund are Police Contract costs and staffing costs. Salaries and Benefits are approximately 43.3 percent and 43.4 percent of the operating requirements and the Police Contract costs are approximately 40.9 percent and 40.8 percent of the operating requirements for FY 2017-18 and FY 2018-19, respectively. Police Contract costs, which include the various public safety services provided to the City, are primarily made up of salary and benefits costs. As illustrated in the table below, the Proposed Budget for FY 2017-18 is \$76,987,317 and for FY 2018-19 is \$77,309,639

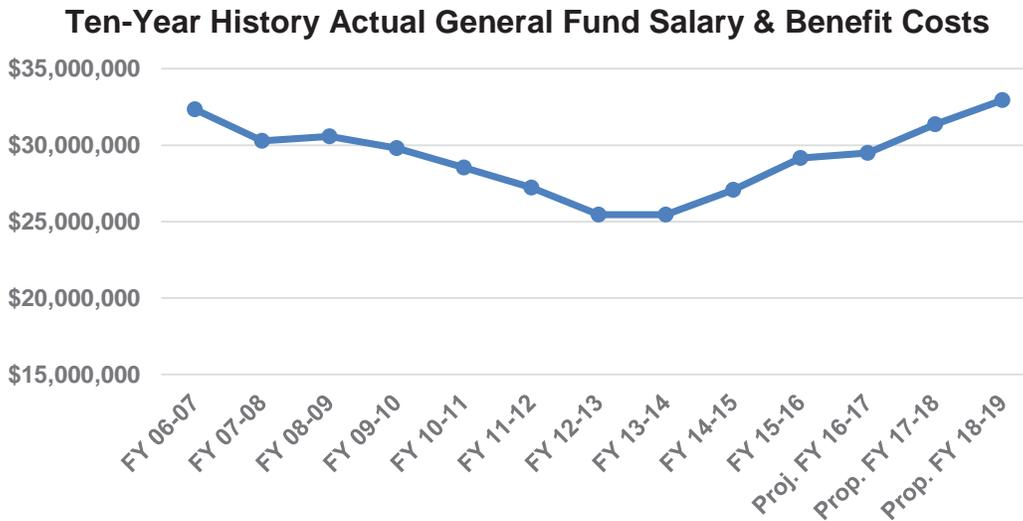
General Fund Appropriations

<u>Appropriations</u>	<u>Prior Year Actual 2015-16</u>	<u>Revised Budget 2016-17</u>	<u>Proposed Budget 2017-18</u>	<u>Proposed Budget 2018-19</u>
Salaries and Benefits	\$ 29,150,648	\$ 30,634,928	\$ 31,356,051	\$ 32,944,441
Maintenance and Operations:	15,195,980	23,690,608	18,741,535	19,028,328
Police Contract Services	26,707,575	29,053,900	30,093,594	31,163,538
Charge Backs	(5,302,090)	(7,041,410)	(7,383,863)	(7,219,168)
Capital Outlay	1,068,934	1,490,262	1,821,987	471,512
Use of Asset Replacement	(798,015)	(1,490,262)	(1,771,987)	(471,512)
Total Operating Requirements	<u>66,023,032</u>	<u>76,338,026</u>	<u>72,857,317</u>	<u>75,917,139</u>
Capital Improvements	1,040,101	13,405,080	2,005,000	270,000
Maintenance Improvements	2,935,139	3,636,753	2,125,000	1,122,500
Total Program Allocations	<u>\$ 69,998,272</u>	<u>\$ 93,379,859</u>	<u>\$ 76,987,317</u>	<u>\$ 77,309,639</u>

Salaries and Benefits – During the past several years, the General Fund has seen reductions in staffing due to retirements, reassignments, and attrition. There are currently 13.0 General Fund positions that are unfilled and the Proposed Budget assumes all of these positions will be funded.

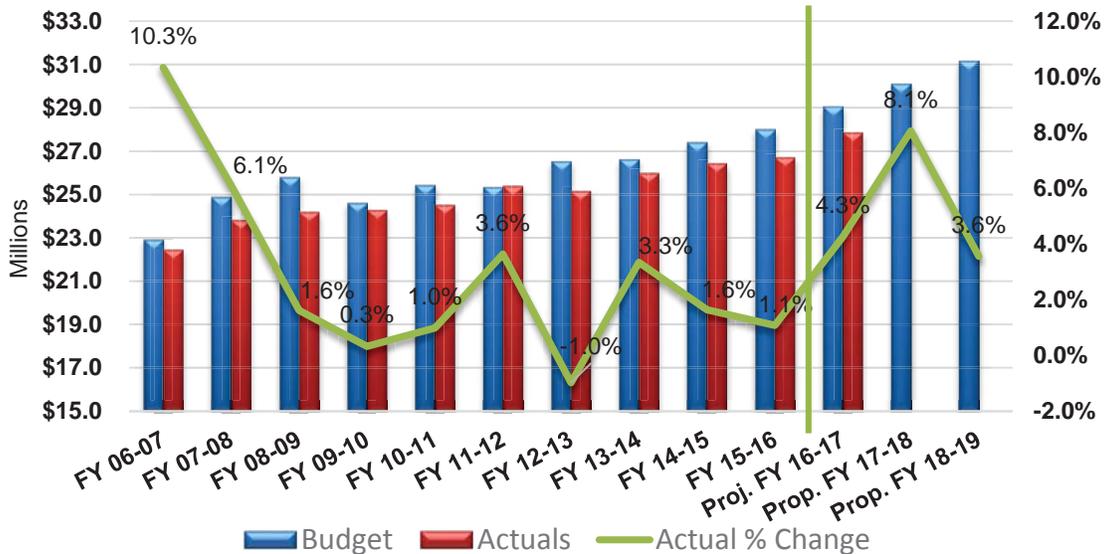
As part of the People Strategy initiative, each department continues to develop long-term staffing plans and reassess its organizational structure to provide quality services to residents in the most efficient and cost-effective manner.

One of the primary challenges the City will face over the next decade is rising pension costs. The CalPERS Board recently voted to reduce the discount rate from 7.5 percent to 7.0 percent. This change is estimated to significantly increase the City's pension payments in the next seven years from 21.1 percent of payroll to 33.5 percent of payroll. Staff is considering multiple alternatives to addressing this challenge, including making additional payments, reducing the amortization period, and establishing a pension stabilization fund. These efforts would help reduce long-term costs associated with the pension program.



Police Contract – Police Contract costs are budgeted at \$30.1 million in FY 2017-18 (3.6 percent increase over FY 2016-17 Budget); and \$31.2 million in FY 2018-19 (3.6 percent increase). As shown in the graph below, the average increase in actual Police Contract costs during the past five years is 1.7 percent and during the past ten years is 2.8 percent. Actual costs generally come in under budget due to savings from vacancies throughout the year. Staff is estimating rates to increase approximately 3.6 percent each of the next two years, however, actual rate increases will not be known until March/April each year and could be less or more than budgeted increases. City staff regularly dialogue with Ventura County Sheriff's Department leadership on current law enforcement needs and strategically planning for the future.

Ten-Year History –Contract Costs



Maintenance & Operations (M&O) – M&O costs are budgeted at \$18.7 million in FY 2017-18 (20.0 percent decrease compared to FY 2016-17 Budget); and \$19.0 million in FY 2018-19 (1.5 percent increase). The decrease in 2017-18 is primarily due to a decrease in Professional and Contractual services of \$4.9 million (-43.4 percent). The Revised M&O budget for FY 2016-17 includes budget for maintenance improvement projects and grant budgets that were carried over from FY 2015-16 to FY 2016-17.

The Proposed Budget reflects funding for all grants (Cultural Endowment, Sports Facilities, and Social Services), as well as the General Fund transfer to Open Space (\$100,000).

As previously mentioned, the Proposed Budget includes General Fund support to the Library Fund in the amount of \$1,085,352 in FY 2017-118 and \$1,657,023 in FY 2018-19 and the Stormwater Fund in the amount of \$548,298 in FY 2017-18 and \$722,183 in FY 2018-19. The General Fund may be further impacted in the long-term by other funds, such as the Lighting, Landscape, and Street Improvements Funds, if long-term strategies are not implemented.

Library Fund

The Library Fund accounts for operations at the Grant. R. Brimhall Library and Newbury Park Branch Library. The total Proposed Budget for FY 2017-18 and FY 2018-19 is \$8.2 million (\$0.2 million in capital) and \$8.9 million (\$0.5 million in capital), respectively, which includes salaries and benefits, maintenance and operations, and capital improvements.

Library Fund

	Prior Year Actual 2015-16	Revised Budget 2016-17	Proposed Budget 2017-18	Proposed Budget 2018-19
Revenues:				
Property Tax - Library District	\$ 5,997,307	\$ 5,941,100	\$ 6,310,800	\$ 6,486,800
Property Tax Pass Thru Agreement	458,055	428,400	471,000	471,000
Library Fines and Fees	168,497	186,000	172,000	170,000
Interest Income	3,156	4,000	4,500	4,500
Miscellaneous	76,387	108,501	143,701	143,701
Total Estimated Revenues	<u>6,703,402</u>	<u>6,668,001</u>	<u>7,102,001</u>	<u>7,276,001</u>
Transfers From Other Funds	674,121	2,420,715	1,085,352	1,657,023
Reserve Account	-	648,705	-	-
Total Amount Available for Allocation	<u>\$ 7,377,523</u>	<u>\$ 9,737,421</u>	<u>\$ 8,187,353</u>	<u>\$ 8,933,024</u>
Appropriations:				
Operating Expenses:				
Salaries and Benefits	\$ 5,353,084	\$ 5,494,139	\$ 5,589,356	\$ 5,825,187
Maintenance and Operations	1,860,992	3,097,467	2,422,997	2,432,837
Capital Outlay	15,819	127,002	33,460	150,000
Use of Asset Replacement	(15,819)	(110,002)	(33,460)	-
Total Operating Expenses	<u>7,214,076</u>	<u>8,608,606</u>	<u>8,012,353</u>	<u>8,408,024</u>
Capital Improvements	64,446	1,004,790	75,000	125,000
Maintenance Improvements	98,999	124,025	100,000	400,000
Reserve Account	2	-	-	-
Total Estimated Requirements	<u>\$ 7,377,523</u>	<u>\$ 9,737,421</u>	<u>\$ 8,187,353</u>	<u>\$ 8,933,024</u>

Revenue: The Library Fund's main revenue sources are Property Tax and Transfer from General Fund. Property tax was projected using a two percent increase from projected FY 2016-17 revenue amount. Library revenues are restricted for library operations and capital outlay.

Appropriations: Approximately 65 percent of the Library Fund appropriations each year are allocated to salaries and benefits. The materials budget (primarily for the purchase of books) is included in Supplies/Equipment within M&O appropriations and is approximately \$0.7 million. General Fund support is budgeted at \$1.1 million and \$1.6 million respectively. The decrease in FY 2017-18 is primarily due to a decrease in capital improvement projects.

Other Governmental Funds

Stormwater Fund – The Stormwater Fund was created in order to ensure, through the requirements of the Clean Water Act, that the City achieves compliance with the regulations of the federally mandated Stormwater Quality Management Program. This program establishes the requirements of National Pollutant Discharge Elimination System (NPDES) Permit. This Permit provides for regulations in the areas of illicit discharge/dumping response and abatement, public education and outreach, public infrastructure maintenance, construction site pollution controls, ongoing monitoring, and new development discharge controls.

Stormwater Fund

	Prior Year Actual 2015-16	Revised Budget 2016-17	Proposed Budget 2017-18	Proposed Budget 2018-19
Revenues:				
Country Flood Control Zone 3	\$ 153,488	\$ 174,000	\$ 160,000	\$ 165,000
Miscellaneous Revenue/Interest	293,091	320,600	304,000	304,000
Total Estimated Revenues	446,579	494,600	464,000	469,000
Transfers From Other Funds	269,652	438,725	548,298	722,183
Reserve Account	-	25,543	-	-
Total Amount Available for Allocation	\$ 716,231	\$ 958,868	\$ 1,012,298	\$ 1,191,183
Appropriations:				
Salaries and Benefits	\$ 483,883	\$ 500,875	\$ 491,648	\$ 517,283
Maintenance and Operations	137,500	369,393	419,650	419,900
Charge Backs	94,847	88,600	101,000	104,000
Total Operating Expenses	716,230	958,868	1,012,298	1,041,183
Capital Improvements	-	-	-	150,000
Reserve Account	1	-	-	-
Total Estimated Requirements	\$ 716,231	\$ 958,868	\$ 1,012,298	\$ 1,191,183

The primary revenue source is from special assessment fee revenue and sale of reclaimed water. The special assessment fee revenue comes from a countywide special assessment and can only be increased by the County deciding to place a measure on the ballot. The General Fund has been providing support over the past several years to the Stormwater Fund in the past to offset the cost of this program.

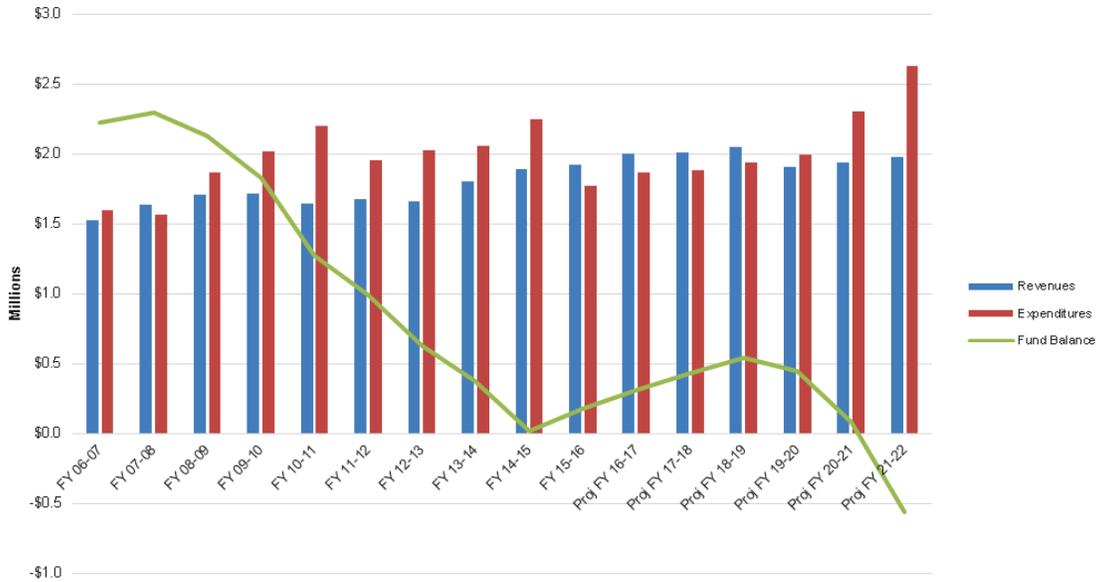
With the mandated cost of compliance with the NPDES Permit continuing to rise and the City's inability to raise additional special assessment revenue, General Fund support of the Stormwater Fund is estimated to increase. The estimated transfer from the General Fund is \$548,300 and \$722,200 for FY 2017-18 and FY 2018-19, respectively. City staff is working on strategies to reduce the General Fund support for this program.

Lighting Fund – The Lighting Fund provides for maintenance and improvements in the City's Lighting Assessment District (LLAD), which includes maintenance of the City's traffic signal safety lighting and street lights. The primary source of revenue is Property Tax and special assessments from property owners located within the LLAD. With the ability to raise revenue difficult and maintenance and electricity costs rising faster than revenue, the Lighting Fund faces financial challenges.

To maintain the sustainability of the Fund for the upcoming two fiscal years, staff re-worked the traffic signal maintenance contract to reduce costs and moved projects to the Traffic Signal Developer Fee funds.

The graph below highlights the significant decline in fund balance that the Lighting Fund experienced since FY 07-08. The fund balance steadily declined due to rising costs combined with slow growth in revenues.

Ten-Year Lighting Fund History & Six-Year Projections



Landscaping Fund – Landscaping Funds provide for maintenance and improvements in the City’s Landscaping Assessment District (LLAD). The main source of revenue is Property Tax and special assessments from property owners located within the LLAD. The Landscaping Fund has sufficient revenues and fund balance to cover expenditures in the short-term, but is operating with a structural imbalance. The Proposed use of fund balance is noted in the Revenue section as “Reserve Accounts.”

Landscaping Fund

	Prior Year Actual 2015-16	Revised Budget 2016-17	Proposed Budget 2017-18	Proposed Budget 2018-19
Revenues:				
Special Assessments - Landscaping	\$ 3,777,279	\$ 3,631,000	\$ 3,815,100	\$ 3,853,300
City - Landscaping Property Tax	776,894	733,100	807,200	827,800
Interest Income	55,151	40,300	45,300	45,300
Miscellaneous Income	45,172	30,000	45,000	45,000
Total Estimated Revenues	4,654,496	4,434,400	4,712,600	4,771,400
Reserve Account	-	2,141,817	1,436,090	1,749,552
Total Amount Available for Allocation	\$ 4,654,496	\$ 6,576,217	\$ 6,148,690	\$ 6,520,952
Appropriations:				
Salaries and Benefits	\$ 872,677	\$ 942,242	\$ 879,906	\$ 924,668
Maintenance and Operations	2,040,756	3,354,275	2,942,580	2,942,580
Charge Backs	719,335	969,700	856,204	866,204
Total Operating Expenses	3,632,768	5,266,217	4,678,690	4,733,452
Capital Improvements	-	1,300,000	145,000	400,000
Maintenance Improvements	1,021,728	10,000	1,325,000	1,387,500
Total Estimated Requirements	\$ 4,654,496	\$ 6,576,217	\$ 6,148,690	\$ 6,520,952

One of the challenges facing the Fund is with the ability to fund capital projects. For the next two fiscal years, the City will be working on five demonstration sites (MI2545) from the 2017 Forestry and Landscape Master Plan at a cost of

approximately \$1.3 million per year, which will impact fund balance. This project will provide improvements and upgrades of landscaped areas and irrigation systems, which will lower long-term maintenance costs and improve operational efficiencies and water conservation.

To address the challenges the Landscaping Fund will be facing in the near future, staff is looking into various strategies to maintain fiscal sustainability, including landscape upgrades.

Street Improvement Fund – Overall street improvement revenue has decreased from a high of \$7.7 million in FY 2010-11 to \$1.8 million in FY 2015-16, representing a 76 percent decrease. Since the passage of SB 716 in July 2014, State Transportation Development Act (TDA) funds became restricted to transit (Transportation Fund) operations, which averaged \$1.9 million during the previous twelve years and a high of \$3.7 million in FY 2006-07.

The State Legislature passed the Road Repair and Accountability Act of 2017 (RRAA) in April 2017, which is estimated to provide the City an additional \$30.3 million during the next ten years to be used for transportation infrastructure. The RRAA agreement contains specific provisions to protect the funds from being diverted or used for purposes other than local streets and roads. Allocations are set to commence in the fall of 2017 with \$0.9 million and \$2.3 million anticipated in FY 2017-18 and FY 2018-19, respectively.

As presented during the April 11, 2017, CIP Study Session, the projected ongoing shortfall in street-related maintenance and improvement funding prior to passage of RRAA was more than \$4.5 million. This would have resulted in estimated deferred maintenance requirements in the upcoming two-year budget. In order to keep the deferred maintenance from growing, City staff proposed a one-time transfer from General Fund's capital reserve to Capital Projects Funds – Miscellaneous Streets Citywide Fund of \$10.8 million for the upcoming two fiscal years.

With the ongoing shortfall in funding for streets and sidewalks of more than \$4.5 million per year and the new RRAA funding of approximately \$3.0 million going forward, the City will still be faced with an estimated \$1.5 million deficit in streets funding. Staff will continue to look for ways to obtain sustainable funding for the continued maintenance of streets and roads.

Capital Projects Fund – Developer fee revenue has declined steadily during the past decade since the City has reached residential build-out. It is expected that this trend will continue in future budget cycles and will not be a major source of revenue for funding future capital projects. Developer Fees revenue decreased from \$3.1 million in FY 2006-07 to \$1.4 million projected in FY 2016-17, representing a 54.9 percent decrease.

Enterprise Funds

Water Fund

The City's water system distributes up to 15 million gallons of water each day to serve more than 16,000 residential and commercial customers. With the exception of a few small areas outside the City limits, the City distributes water to 37 percent of the area within its incorporated boundaries. The total value of water assets is \$490 million (based on the February 2016 Water Asset Management Plan), representing a major capital asset. The Proposed FY 2017-18 and FY 2018-19 Water Operating and Capital Budget is \$31.4 million and \$30.0 million, respectively.

Water Fund (Operations/Capital) Summary

	Prior Year Actual 2015-16	Revised Budget 2016-17	Proposed Budget 2017-18	Proposed Budget 2018-19
Revenues:				
Plant Investment Fees	\$ 627,514	\$ 380,000	\$ 350,000	\$ 350,000
Base Charges	4,831,626	4,728,000	6,552,200	6,552,200
Metered Water Sales	16,406,146	20,891,022	20,481,300	21,529,400
Lift Charges	497,707	658,800	802,300	886,600
Stand-By (Fire Detectors)	52,957	51,900	53,000	53,000
Fire Flow Surcharge	35,263	23,000	25,000	25,000
Backflow Prevention	32,921	50,100	30,000	30,000
Installation - Meter	28,288	-	21,700	21,700
Rental of City Facilities	29,333	25,500	29,600	30,100
Interest Income	467,765	240,000	285,000	285,000
Miscellaneous Revenue	516,719	237,700	255,500	255,500
Total Estimated Revenues	<u>23,526,238</u>	<u>27,286,022</u>	<u>28,885,600</u>	<u>30,018,500</u>
Reserve Account	-	11,294,993	2,519,996	-
Total Amount Available for Allocation	<u>\$ 23,526,238</u>	<u>\$ 38,581,015</u>	<u>\$ 31,405,596</u>	<u>\$ 30,018,500</u>
Appropriations:				
Salaries and Benefits	\$ 3,096,703	\$ 3,263,467	\$ 3,979,016	\$ 4,188,152
Fringe Benefits	870,482	1,078,355	1,325,294	1,447,352
Maintenance and Operations	14,109,809	19,235,985	18,347,156	19,865,541
Charge Backs	(21,576)	(21,576)	(21,576)	(21,576)
Capital Outlay	456,076	417,124	108,500	365,445
Use of Asset Replacement	(215,444)	(131,002)	-	(365,445)
Total Operating Expenses	<u>17,425,568</u>	<u>22,763,998</u>	<u>22,413,096</u>	<u>24,032,117</u>
Capital Improvements	475,075	14,941,154	8,992,500	3,895,000
Maintenance Improvements	229,106	875,863	-	-
Reserve Account	5,396,489	-	-	2,091,383
Total Estimated Requirements	<u>\$ 23,526,238</u>	<u>\$ 38,581,015</u>	<u>\$ 31,405,596</u>	<u>\$ 30,018,500</u>

Revenue: The Water Fund receives revenue primarily from metered water sales and base charges. FY 2017-18 and FY 2018-19 Water Fund revenues are estimated at \$28.9 million and \$30.0 million, respectively.

Appropriations: Proposed FY 2017-18 and FY 2018-19 Water Fund operating appropriations are estimated at \$22.4 million and \$24.0 million, respectively. The estimated capital requirements for FY 2017-18 and FY 2018-19 are \$9.0 million and \$3.9 million, respectively.

Wastewater Fund

Hill Canyon Treatment Plant (HCTP) serves more than 37,300 wastewater accounts and provides service to approximately 90 percent of the City. HCTP treats an average of 10.5 million gallons of wastewater per day. The total value of wastewater assets is \$840 million (based on the February 2016 Wastewater Asset Management Plan), representing a major capital asset. Proposed FY 2017-18 and FY 2018-19 Wastewater Operating and Capital Budget is \$24.7 million and \$25.0 million, respectively.

Wastewater Fund (Operations/Capital) Summary

	Prior Year Actual 2015-16	Revised Budget 2016-17	Proposed Budget 2017-18	Proposed Budget 2018-19
Revenues:				
Residential Service Charge	\$ 12,417,478	\$ 11,458,978	\$ 12,541,100	\$ 12,666,500
Industrial Service Charge	1,312,001	978,823	1,325,120	1,338,400
Commercial Service Charge	2,397,359	3,236,297	2,421,350	2,445,550
Residential Connection Fees	877,308	650,000	300,000	300,000
Commercial Connection Fees	1,633,304	350,000	300,000	300,000
Inspection Fees	44,143	28,000	26,800	26,800
Plan Checking/Filing Fee	5,714	6,000	5,000	5,000
Interest Income	597,938	427,000	440,000	440,000
Miscellaneous Revenue	3,496,224	2,314,178	3,233,400	3,302,500
Total Estimated Revenues	22,781,469	19,449,276	20,592,770	20,824,750
Reserve Account	-	8,776,216	4,071,748	4,176,099
Total Amount Available for Allocation	\$ 22,781,469	\$ 28,225,492	\$ 24,664,518	\$ 25,000,849
Appropriations:				
Operating Expenses:				
Salaries and Benefits	\$ 6,174,346	\$ 7,076,059	\$ 6,966,208	\$ 7,307,569
Fringe Benefits	1,751,043	2,264,048	2,283,580	2,487,433
Supplies and Equipment	1,331,781	2,046,038	1,858,025	1,867,350
Repairs and Maintenance	33,851	36,680	46,500	46,300
Professional/Contractual Services	5,068,800	5,179,566	4,779,581	4,797,526
Utilities	993,472	1,049,386	981,800	1,008,800
Insurance and Claims	171,109	256,006	190,000	200,000
Equipment/Building Rental	19,761	36,730	30,480	30,480
Training and Memberships	81,261	112,700	112,200	109,800
Asset Replacement Funding	318,488	296,822	358,400	412,900
Maintenance and Operations	8,018,523	9,013,928	8,356,986	8,473,156
Charge Backs	(21,576)	(21,576)	(21,576)	(21,576)
Capital Outlay	258,528	242,282	309,570	50,000
Use of Asset Replacement	(150,319)	(33,366)	(309,570)	(50,000)
Total Operating Expenses	14,279,502	16,277,327	15,301,618	15,759,149
Capital Improvements	2,122,711	6,921,262	3,822,500	3,530,000
Maintenance Improvements	104,952	1,443,903	1,960,000	2,130,000
Debt Service	3,582,275	3,583,000	3,580,400	3,581,700
Reserve Account	2,692,029	-	-	-
Total Estimated Requirements	\$ 22,781,469	\$ 28,225,492	\$ 24,664,518	\$ 25,000,849

Revenue: The Wastewater Fund receives revenue primarily from residential and commercial service charges and capital revenue. FY 2017-18 and FY 2018-19 revenues are estimated at \$20.6 million and \$20.8 million, respectively.

Appropriations: Proposed FY 2017-18 and FY 2018-19 Wastewater Fund Budget for operating appropriations is \$15.3 million and \$15.8 million, respectively. The estimated capital appropriations for FY 2017-18 and FY 2018-19 are \$5.8 million and \$5.7 million, respectively.

The City realizes the challenge in funding necessary capital improvements while maintaining reasonable water and wastewater rates. In 2016, the City prepared its Water and Wastewater Financial Plans (Plans). The Plans established a framework for future planning of Water and Wastewater system capital needs and established rates that integrated capital requirements. Both the Plans and the revised Water and Wastewater Rates are adopted by City Council on a biennial basis. Some of the major water projects are Lang Ranch Reservoir Improvements, SCADA Master Plan, and La Granada Pump Station. Staff is currently in the process of updating the Water and Wastewater Financial Plans.

Solid Waste Fund

The Solid Waste Fund is responsible for the following programs: Recycling Program, Sustainability, Household Hazardous Waste Program, Community Enhancement Program, Neighborhood Clean-up Program, Caltrans Adopt-A-Highway Program, and the Community Enhancement Grant Program.

Revenues: The Solid Waste Fund receives revenues from various sources including commercial recycling fees, landfill facility fees, residential recycling fees, temporary drop box and bin fees, and state grants for recycling & hazardous waste. Proposed FY 2017-18 and FY 2018-19 revenues are estimated at \$1.5 million for each respective fiscal year.

Appropriations: Proposed FY 2017-18 and FY 2018-19 appropriations are estimated at \$1.5 million and \$1.6 million, respectively. The Solid Waste Fund is projected to continue operating at a deficit as personnel costs and contract service expenses continue to rise. The Solid Waste Fund has sufficient reserves to support operations over the next few years. However, this fund will be reviewed by staff for options to keep it self-sustaining over the long term.

Transportation Fund

The Transportation Fund provides transportation services in the form of the Thousand Oaks Transit (TOT) bus system and Dial-A-Ride to the residents of the Conejo Valley to help reduce traffic, air pollution, and conserve energy resources. The Transportation Fund is also responsible for providing various transportation services to the City of Westlake Village (Los Angeles County), City of Agoura Hills (Los Angeles County), Oak Park (unincorporated Ventura County), and City of Moorpark. The bus and Dial-A-Ride services are provided by MV Transportation.

Effective July 2015, the East County Transit Alliance (ECTA) was formed and the City is the designated operator. ECTA is part of Ventura County Transportation Commission's (VCTC) Regional Transit Plan and was formed to help address unmet transit needs in Ventura County.

Appropriations for operations and capital are funded primarily with Transportation Development Act (TDA) Article 4 and numerous federal grants. While these resources will be sufficient for the foreseeable future, prudence is required to ensure efficient use of funds.

Transportation Fund

	Prior Year Actual 2015-16	Revised Budget 2016-17	Proposed Budget 2017-18	Proposed Budget 2018-19
Revenues:				
Sales Tax on Gasoline, SB325	\$ 3,519,785	\$ 4,500,000	\$ 4,500,000	\$ 4,500,000
Bus Fares	166,002	145,000	167,500	177,500
Dial-A-Ride	226,659	245,000	230,000	230,000
Interest Income	27,996	10,000	20,000	20,000
Federal and State Grants	1,179,205	1,957,500	3,330,000	4,800,000
Non-City Bus Services	1,462,531	1,860,000	1,400,000	1,425,000
East County Transit Alliance (ECTA)	423,038	-	703,250	765,550
Miscellaneous Revenue	25,939	343,200	46,200	46,200
Total Estimated Revenues	<u>7,031,155</u>	<u>9,060,700</u>	<u>10,396,950</u>	<u>11,964,250</u>
Reserve Account	-	11,733,165	-	1,072,111
Total Amount Available for Allocation	<u>\$ 7,031,155</u>	<u>\$ 20,793,865</u>	<u>\$ 10,396,950</u>	<u>\$ 13,036,361</u>
Appropriations:				
Operating Expenses:				
Salaries and Benefits	\$ 218,633	\$ 312,311	\$ 524,920	\$ 559,409
Maintenance and Operations	6,352,164	9,507,522	7,512,223	7,731,952
Capital Outlay	68,567	2,908,848	655,000	1,125,000
Use of Asset Replacement	-	(25,000)	-	-
Total Operating Expenses	<u>6,639,364</u>	<u>12,703,681</u>	<u>8,692,143</u>	<u>9,416,361</u>
Capital Improvements	127,649	8,090,184	1,675,000	3,620,000
Reserve Account	264,142	-	29,807	-
Total Estimated Requirements	<u>\$ 7,031,155</u>	<u>\$ 20,793,865</u>	<u>\$ 10,396,950</u>	<u>\$ 13,036,361</u>

Revenues: The Transportation Fund receives revenues from various sources including, Sales Tax on Gasoline, SB325, State and Federal Grants, operating transfers, Bus Fares, Dial-A-Ride, and Interest Income. FY 2017-18 and FY 2018-19 revenues are estimated at \$10.4 million and \$12.0 million, respectively. Effective July 2014, State TDA Article 8 revenue can only be used for transit related purposes and may not be used for street projects. As a result, the Transportation Fund is eligible to receive additional TDA funding. Staff developed a Transit Master Plan in order to identify current and future transit needs with the report to be presented to City Council later this year.

Appropriations: Proposed Transportation Fund appropriations are primarily for maintenance and operation of the transit system, which comprise 63 percent of expenses for the combined proposed two-year budget. The City contracts with MV Transportation for the operation of the transit system and the Transportation Fund requires limited City staffing. Proposed FY 2017-18 and FY 2018-19

appropriations are estimated at \$8.7 million and \$9.4 million, including capital improvements of \$1.7 million and 3.6 million, respectively.

Golf Course Fund

On October 24, 2006, City Council approved a ten-year management agreement with EAGLE (now known as Arcis) Golf to manage the Los Robles Greens Golf Course (LRGGC), effective January 1, 2007, through December 31, 2016. On December 31, 2016, the contract was extended for an additional five-years to run through December 31, 2021.

LRGGC is projected to generate revenues of approximately \$5.2 million per year, and have expenses of approximately \$5.1 million, which doesn't include Capital Improvements, Debt Service, and Transfers totaling \$370,000.

Theatres Fund

The Theatres Fund maintains and operates the Civic Arts Plaza's two theatres:

- Fred Kavli Theatre – 1,800-seat performing arts theatre, hosts performances from the contemporary to the classic, including nationally renowned shows.
- Janet and Ray Scherr Forum Theatre – 400-seat community theatre and meeting site, caters primarily to performances by the local community, the bi-monthly City Council meetings, and other City functions.

The Theatres Fund has been operating without General Fund support for operational expenses since 2007, but in doing so has been using reserves (Net Position) to bridge the operating gap.

Theatres Fund

	Prior Year Actual 2015-16	Revised Budget 2016-17	Proposed Budget 2017-18	Proposed Budget 2018-19
Revenues:				
Box Office Charges	\$ 242,957	\$ 245,000	\$ 231,750	\$ 245,250
Charges for Services	866,312	996,400	1,069,000	1,110,000
Labor Sales	1,040,636	1,131,000	1,084,000	1,125,000
Performance Rehearsal Rents	393,713	405,000	481,000	506,000
Concession Rental	-	-	6,000	6,000
Parking	276,429	317,194	300,000	300,000
Alliance for the Arts	300,000	500,000	300,000	300,000
Advertising/Promotion/Lobby Sales	86,434	192,000	168,500	168,500
Cost Allocations	409,981	432,359	394,679	438,649
Interest Apportionment	33,799	25,000	25,000	25,000
Miscellaneous Revenue	49,169	-	-	-
Total Estimated Revenues	<u>3,699,430</u>	<u>4,243,953</u>	<u>4,059,929</u>	<u>4,224,399</u>
Transfers From Other Funds	-	43,311	-	-
Reserve Account	-	140,218	-	43,318
Total Amount Available for Allocation	<u>\$ 3,699,430</u>	<u>\$ 4,427,482</u>	<u>\$ 4,059,929</u>	<u>\$ 4,267,717</u>

Theatres Fund (cont.)

	Prior Year Actual 2015-16	Revised Budget 2016-17	Proposed Budget 2017-18	Proposed Budget 2018-19
Appropriations:				
Operating Expenses:				
Salaries and Benefits	\$ 1,788,521	\$ 1,907,879	\$ 1,989,045	\$ 2,083,559
Maintenance and Operations	1,881,429	2,264,603	1,995,598	1,934,158
Capital Outlay	79,577	-	50,000	50,000
Use of Asset Replacement	(79,577)	-	(50,000)	(50,000)
Total Operating Expenses	3,669,950	4,172,482	3,984,643	4,017,717
Capital Improvements	-	-	28,476	-
Maintenance Improvements	-	255,000	-	250,000
Reserve Account	29,480	-	46,810	-
Total Estimated Requirements	\$ 3,699,430	\$ 4,427,482	\$ 4,059,929	\$ 4,267,717

Although the General Fund has not been supporting the Theatres Fund for its operational expenses, during the past few fiscal years, the General Fund provided necessary capital improvements. The Proposed FY 2017-18 and FY 2018-19 budgets include capital or maintenance improvements of \$28,476 and \$250,000 respectively. In FY 2017-18, proposed revenues of \$4,059,929 exceed proposed appropriations of \$4,013,119 by \$46,810. This reserve will be applied to FY 2018-19 when proposed revenues of \$4,224,399 are estimated to be less than proposed appropriations of \$4,267,717 by \$43,318.

Future Challenges

Although the local economy has improved, it is not expected that the City will experience the annual revenue growth it did when it was a growth-oriented community. The City is built-out and has limited ability to raise revenues.

In the years ahead, the City will experience financial challenges due to its transition from a growth-oriented community to a maintenance-oriented community with an aging infrastructure. The City's street infrastructure is estimated to require more than \$6.5 million in annual capital and maintenance expenditures in order to maintain the existing levels of service. Historically, the City received millions annually in Gas Tax, Developer Fees, and grant revenue in order to improve and maintain the City's streets, however those sources of funding have significantly declined or been eliminated altogether. The Road Repair and Accountability Act (RRAA), which passed in April 2017, will assist in the funding of street maintenance. The City is anticipating approximately \$3.0 million annually from RRAA beginning in FY 2019-20, which would result in a street revenue shortfall of about \$1.5 million annually.

In addition, several other funds are projected to face future financial challenges, including the Lighting and Landscaping Funds and the Solid Waste Fund.

Long-Term Financial Strategy Options

Staff presented the Long-Term Financial Strategic Plan to City Council on January 26, 2016, with long-term strategy options for various City Funds with the goal of achieving and maintaining balanced budgets for various City Funds. Staff developed various strategies to maintain long-term financial stability citywide. Some strategies were already implemented, as previously mentioned in the Lighting Fund discussion.

At the May 9, 2017 City Council Goal Setting, additional focus was placed on strategies for Landscape Districts, economic development, and transient occupancy tax to achieve long-term fiscal sustainability. Staff will focus on these areas over this budget cycle.

Budget Engagement

Staff continues to prepare and review the FSP and FSS to ensure the City achieves long-term fiscal sustainability. At the January 26, 2016, City Council meeting and City Council's Goal Setting meeting held on May 10, 2016, Councilmembers requested that staff provide public outreach and community engagement to acquire information from community stakeholders and residents on what services provided by the City are important to them.

Starting in January 2017, staff worked with a consultant to address the need for community engagement related to budget priorities and educating residents on the City's budget and budget process. Through this process, staff provided a budget survey tool for residents and community stakeholders, where they were able to select and prioritize various budget areas that were important to them.

To inform them of the budget survey tool, staff participated in "Pop-Up" events throughout the City including: a Farmer's Market, The Oaks Mall, Coffee with the Chiefs, and Arbor Earth Day. Staff also advertised the budget survey tool in City newsletters, correspondence, utility bill inserts, the Acorn and Ventura County Star, radio ads (CLU), and various social media outlets. As of the May 9, 2017 City Council Goal Setting meeting, there were over 600 participants that took the survey.

This information, along with the results from the Community Attitude Survey has been used during the budget process to ensure that important priorities are addressed.

Budget Preparation Timeline

- February 28 – User Fees Study Session
- April 10 – CIP Budget to Planning Commission
- April 11 – CIP Study Session, User Fees Public Hearing
- April 18 – Finance/Audit Committee Meeting
- May 9 – City Council Goal Setting Meeting
- May 30 – Operating Budget Study Session
- June 13 – Operating & CIP Budget Public Hearing
- June 27 – GANN Appropriation Limit

Summary

During the past few years, staff worked diligently to maintain local municipal services that residents, businesses, and visitors have come to expect. A series of difficult decisions were made to guide the City through the last few budget cycles as a result of County, State, and Federal revenue reductions. To balance previous budgets, City Council approved significant expenditure reductions, deferred maintenance, and elimination of more than 100 positions.

The Proposed Budget for the next two fiscal years represents a spending plan that is fiscally responsible and responsive to the community's current needs. The City remains committed to long-term strategic fiscal planning with a focus on examining financial, operational, and service needs of the community and adjusting staffing configurations accordingly. With an estimated 42 percent of staff expected to leave/retire from the City in the next five years, there are unique opportunities to align staff resources. The ongoing People Strategy is also addressing training needs of current staff, recruitment of new staff, and revisiting the on-boarding process.

Staff will continue to monitor the City's revenues and expenditures on a monthly basis to ensure that any material changes to revenues or expenditures are communicated to City Council. Staff will continue to take proactive steps to ensure strong financial health for the City of Thousand Oaks in the future.

COUNCIL GOAL COMPLIANCE:

Meets City Council Goal B:

- B. Operate City government in a fiscally and managerially responsible and prudent manner to ensure that the City of Thousand Oaks remains one of California's most desirable places to live, work, visit, recreate, and raise a family.

Prepared by: Brent S. Sakaida, Budget Officer

Document Provided Under Separate Cover:

#1 – Proposed FY 2017-2018 and FY 2018-2019 Operating Budget