



Office of the City Manager
John Russo, City Manager

City of Arts & Innovation

May 19, 2016

Honorable Mayor and City Council Members
City of Riverside
3900 Main Street
Riverside, CA 92522

Proposed Two-Year Budget for Fiscal Years 2016-2017 and 2017-2018, and 2016-2021 Five-Year Plan

Honorable Mayor and City Council Members -

Your executive management is pleased to present for your consideration, discussion and, ultimately, **approval, the City's first two-year budget and five-year plan.** This is a new process for the City. It is a process designed to bring enhanced **transparency to the City's finances, operations and strategic goals** - both internally with employees and departments, and externally with the residents and businesses. City staff, particularly the Finance Department and the executive management team, have invested significant effort, time and creative thinking into the new process. We trust that the City Council and our internal and external constituents will be pleased with the results.

The transition to a two-year budget and five-year plan came at the same time as the City identified a substantial structural shortfall - \$7.2 million for Fiscal Year 2015-16, \$10.6 million for Fiscal Year 2016-17 and \$8.5 million for Fiscal Year 2017-18. Moreover, the accuracy of budget projections had to be verified, which required a significant investment of **time and effort from the City's very small but highly capable budget team.** As a consequence of that significant investment of time and effort, the City has a plan to address its financial challenges, as discussed further in this transmittal letter.

This document provides highlights of key financials, budget development themes, priorities and financial realities applicable to the upcoming two fiscal years, as well as challenges and opportunities for the following three years. Additional details are presented in applicable sections of the enclosed Proposed Budget / Five-Year Plan document.

The Bottom Line

The City's Proposed Budget for Fiscal Year 2016-17 is \$990.3 million across all funds, of which \$277.4 million is in the General Fund (expenditures only). For Fiscal Year 2017-18, the All Funds expenditures are \$971.4 million of which the General Fund spending is \$281 million.

GENERAL FUND

Significant structural shortfalls are projected for the next five fiscal years in the General Fund, including:

- \$10.6 million for Fiscal Year 2016-17
- \$8.5 million for Fiscal Year 2017-18
- \$7.7 million for Fiscal Year 2018-19
- \$8.8 million for Fiscal Year 2019-20
- \$0.6 million for Fiscal Year 2020-21

Note that the amount of each annual shortfall listed above is for that year and not in addition to the year before or after.

The City's administration has taken the following measures to address the fiscal challenges in the General Fund:

- The City Manager instituted a freeze on discretionary hiring and spending in the General Fund on May 13, 2016, to help alleviate the pressure of the \$7.2 million deficit in Fiscal Year 2015-16.
- Based on input from department directors, on April 19, April 26, May 3 and May 10, **the City's executive management** team recommended balancing measures to cover the FY 2016-17 and FY 2017-18 shortfalls – and to address imbalances in the following three fiscal years.

As the two-year budget document transmitted to you today was finalized, the City departments – with the **City Manager's and Finance team's guidance** – continued to refine the financials based on new information.

A table on the following page illustrates the General Fund position in the next five years, based on the financials included in the budget document, plus the aforementioned changes. The table starts with the original baseline numbers, and:

- Adds the net cost of the proposed Union Compensation Model, **which ties employee compensation to the performance of the City's** key revenues, and gradually transitions employees who are currently not paying anything towards their retirement to contribute the employee share of 8-9% over five years;
- Accounts for the anticipated savings from the upcoming update of the Cost Allocation Plan, which allocates central and administrative expenses to service-providing programs and functions, and is updated after the budget is developed and numbers finalized;
- Takes into account the anticipated higher Utility Users Tax and General Fund Transfer revenues from the Water fund due to the recently loosened water conservation requirements at the State level; and
- Lists known to date revisions to the initially proposed balancing measures.

City departments have proposed – and presented at City Council public hearings and meetings in April-May – a combined total of \$10.5 million in balancing measures against the revised baseline shortfall of \$10.6 million projected for FY 2016-17, and the \$8.5 million gap projected for FY 2017-18. If all proposed measures are implemented – along with the revisions listed in the table – the General Fund budget will be balanced in FY 2016-17, and a \$1.9 million surplus will be created in FY 2017-18. The surplus will be deposited into the General Fund reserves to partially offset the \$7.2 million withdrawal expected to occur in the current year.

Overall, with the implementation of all of the proposed balancing measures, the General Fund Reserve is projected to gradually replenish from 12% in the first year of the budget to over 16% in the fifth. Therefore, in year five (FY 2020-21), the City should finally have resources to start addressing a significant backlog of unfunded needs, particularly the deferred building maintenance gap of over \$2 million annually.

Category	3rd Quarter FY 2015/16	Proposed: FY 2016/17	Proposed: FY 2017/18	5-Year FY 2018/19	5-Year FY 2019/20	5-Year FY 2020/21
Beginning General Fund Reserve	\$ 40,085,510	\$ 32,853,252	\$ 32,884,565	\$ 34,967,362	\$ 37,904,492	\$ 39,702,500
Baseline Revenue	\$255,093,517	\$266,021,469	\$272,700,401	\$284,183,482	\$291,258,952	\$305,028,077
Baseline Expenditures	\$262,325,775	\$277,350,449	\$280,965,952	\$288,947,080	\$294,517,629	\$297,769,973
Initial Baseline Budget Surplus / (Deficit)	\$ (7,232,258)	\$(11,328,980)	\$ (8,265,551)	\$ (4,763,598)	\$ (3,258,677)	\$ 7,258,104
Union Compensation Model	\$ -	\$ (51,764)	\$ (1,431,685)	\$ (3,779,305)	\$ (6,133,348)	\$ (8,503,184)
Cost Plan Update	\$ -	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
RPU Water Revenue Update Due to Anticipated Changes in Drought Restrictions	\$ -	\$ 205,000	\$ 590,000	\$ 290,000	\$ -	\$ -
Revised Baseline Surplus / (Deficit)	\$ (7,232,258)	\$(10,575,744)	\$ (8,507,236)	\$ (7,652,903)	\$ (8,792,025)	\$ (645,080)
Initial Balancing Measures						
Departmental Reductions	\$ -	\$ 10,511,377	\$ 10,489,353	\$ 10,489,353	\$ 10,489,353	\$ 10,489,353
Revised Baseline Surplus / (Deficit) After Initial Balancing Measures	\$ (7,232,258)	\$ (64,367)	\$ 1,982,117	\$ 2,836,450	\$ 1,697,328	\$ 9,844,273
Revisions To Balancing Measures						
Restore a portion of the University Neighborhood Enhancement Team (UNET) (Police)	\$ -	\$ (750,000)	\$ (750,000)	\$ (750,000)	\$ (750,000)	\$ (750,000)
Restore the RCC Aquatics Cut (PRCSD)	\$ -	\$ (80,000)	\$ (80,000)	\$ (80,000)	\$ (80,000)	\$ (80,000)
Restore Janet Goske Center Cut (PRCSD)	\$ -	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)
Add Raincross Hospitality RCVB Giveback (Non- Departmental)	\$ -	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Add Community Livability Overtime Elimination (Police)	\$ -	\$ 823,680	\$ 823,680	\$ 823,680	\$ 823,680	\$ 823,680
Add Community Livability Program Reduction (City Attorney)	\$ -	\$ 80,000	\$ 80,000	\$ 80,000	\$ 80,000	\$ 80,000
Add Net Savings from insourcing of Innovation and Technology Staff approved by the City Council on May 17. Updated to Cost Plan, FTE's, etc. will be included in the final budget.	\$ -	\$ 12,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000
Managed Savings of \$1.5 million for the Police Department will be achieved through elimination of two vacant Detective positions and managing additional vacancies throughout the year.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revised Baseline Surplus / (Deficit) After Amended Balancing Measures as of 5/17/2016	\$ (7,232,258)	\$ 31,313	\$ 2,082,797	\$ 2,937,130	\$ 1,798,008	\$ 9,944,953
Ending General Fund Reserve	\$ 32,853,252	\$ 32,884,565	\$ 34,967,362	\$ 37,904,492	\$ 39,702,500	\$ 49,647,453
<i>% of Baseline Budget (Baseline Less Reductions)</i>	<i>12.5%</i>	<i>12.4%</i>	<i>12.9%</i>	<i>13.5%</i>	<i>13.7%</i>	<i>16.8%</i>

OTHER KEY FUNDS

Approximately 86% of the City's total budget is comprised of the General Fund, Electric Fund, Water Fund, and Sewer Fund. While the General Fund's fiscal challenges and opportunities are substantially outlined in this letter, it is important to highlight the key elements and upcoming changes to the City's other major funds.

The Electric Fund's proposed budget totals approximately \$404 million in FY 2016/17 and FY 2017/18. The Electric Fund is supported almost exclusively by Charges for Services for residential and commercial **electricity usage by the Utility's customers**. As authorized by the City Charter, the Electric Fund will transfer an estimated \$39.6 million out to the General Fund in FY 2016/17 and approximately \$40.1 million in FY 2017/18. These funds are used by the City to augment the provisioning of core city services such as police, fire, parks, and street maintenance.

The Water Fund's proposed budget totals approximately \$90.4 million in FY 2016/17 and \$76 million in FY 2017/18. The largest difference between the two years is attributed to a large reduction in CIP projects of approximately \$16.3 million. Typically, CIP projects are funded out of reserves, appropriated when projects are ready to start. Without **additional resources (e.g. bond measure), the Water Fund's capacity to fund CIP projects and stay in line with the City Council approved Water Fund reserve limits is constrained**. The Water Fund is supported almost exclusively by Charges for Services for residential and commercial water usage. Again per the City Charter, the Water Fund will transfer approximately \$5.5 million out to the General Fund in FY 2016/17 and approximately \$5.7 million in FY 2017/18. Similar to the Electric Fund transfer, these funds are used by the City to augment the provisioning of core city services such as police, fire, parks, and street maintenance.

In concert with the core tenets of fiscal responsibility outlined in this letter, Riverside Public Utilities will be presenting the Board of Public Utilities and City Council with a 10-year outlook on revenues and expenditures. Specifically, the plan will focus on the revenue requirement to fund Utility 2.0, including ongoing operational, enhanced technology, and capital improvement needs to continue to provide the highest and most reliable quality water and electric services.

The Sewer Fund's proposed budget totals approximately \$77 million in FY 2016/17 and \$74 million in FY 2017/18. The largest difference between FY 2016/17 and FY 2017/18 relates to a decrease in CIP as the Sewer **Treatment Expansion Project, the largest CIP project in the City's history,** nears completion. Expenditures in the Sewer Fund include the cost of constructing and maintaining sewer lines and facilities and well as the

operational costs associated with the City's Water Quality Control Plant, which serves the residential and commercial sewer needs within the City as well as the Jurupa, Rubidoux, and Edgemont Community Service Districts. The Sewer Fund is supported almost exclusively by Charges for Services for residential and commercial sewer usage. The current five-year rate structure was approved by the City Council in May 2014; staff returns to the City Council each year to determine if the rate structure should be adjusted based on current revenues and expenses.

The Liability Funds, **which pay for the City's Workers Compensation and General Liability** claims, settlements, staffing, legal costs and insurance, currently carry sufficient cash to cover only 32% of long-term liabilities. This amount is projected to increase to 36% by the end of the five-year term. The City currently has no policy in place on what level of funding is sufficient for these funds. Staff is researching best practices, and will return to the City Council with a policy in the new fiscal year.

How Did We Get Here?

The City of Riverside has enjoyed financial success in the past decade, most notably through the on-time and on-budget delivery of the nearly \$2 billion Riverside Renaissance capital improvement program. The City rode out the Great Recession with grace, while some of our neighbors in surrounding communities struggled to maintain even a basic level of government services.

That success, however, was partially due to budgeting practices that are no longer sustainable. Whether it was borrowing from other funds to **prop up the City's General Fund, relying on one-time** infusions of cash from property sales, or using the concept of **"unfunded positions" or "managed savings" to backfill the budget by not filling some jobs** throughout the year, Riverside has effectively delayed the impact of its spending decisions for years.

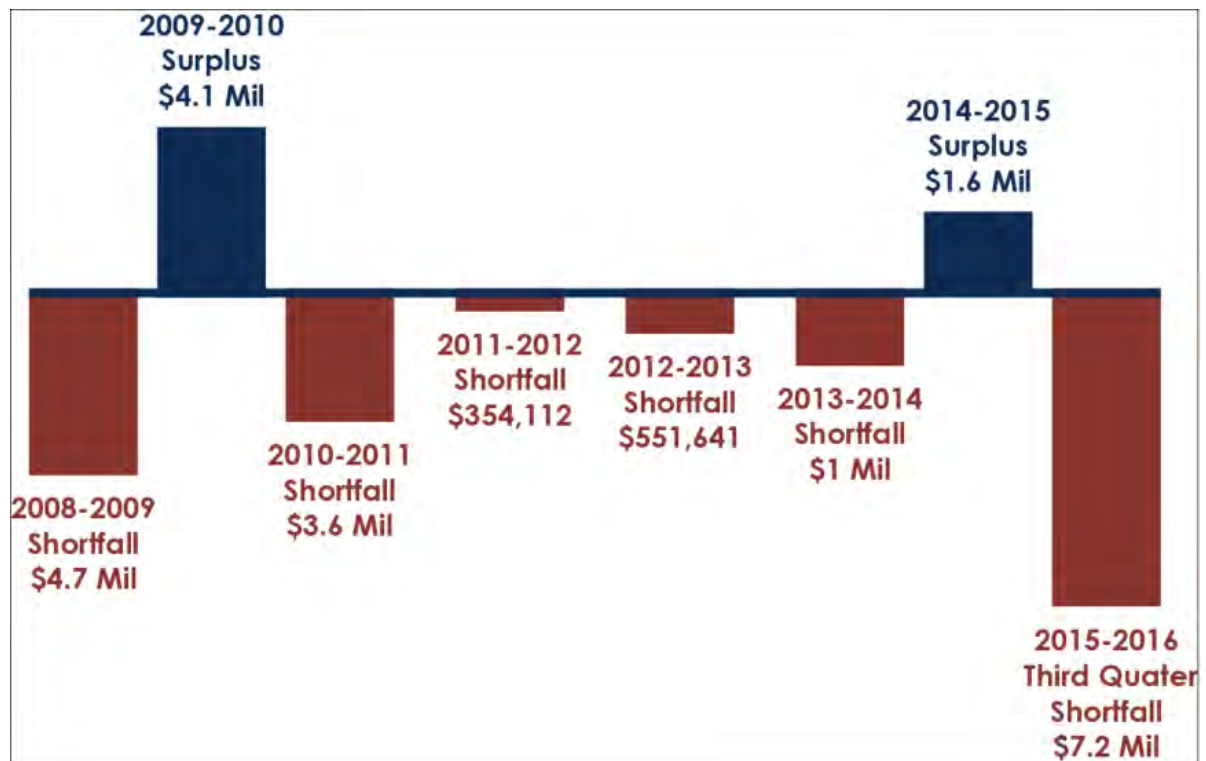
There is nothing ethically wrong with these practices, and they are certainly not illegal. Indeed, many cities employ some variation of such budgeting practices, and Riverside could have continued doing so for a few more years without encountering catastrophic financial difficulties.

However, reliance on such practices is not sustainable over the long term, and goes against the principles of prudence and conservatism in municipal budgeting – which are required to allow Riverside to grow and prosper while maintaining the level of excellent city services to which

residents and business owners have become accustomed. In short, some bills are now coming due.

The City's new administration has spent the last several months working to institute the fiscal discipline required to generate healthy and sustainable budgets well into the future. Changing past practices led to an acknowledgement of the City's structural fiscal challenges, as outlined above.

While the projected deficit numbers may seem scary, they are not surprising – the City has had an expenditure problem for years. As a matter of fact, in six out of the last eight years, the City has taken money from the General Fund Reserve – in most cases, to provide funding for various programs and services after the budget adoption.



Thanks to healthy reserves, this borrowing in prior years did not decimate the **City's finances. However**, we have reached the edge of the frontier when it comes to the use of reserves to balance the ongoing expenditures.

In Fiscal Year 2015-16, a \$7.2 million shortfall is currently projected – and it turns into an \$10.6 million shortfall for the next year, FY 2016-17. This is not because our revenues are declining – on the contrary, the

revenues are projected to increase by \$11 million next year. The General Fund expenditures, on the other hand, will grow by a larger amount - \$15 million over the FY 2015-16 projections – mainly due to pension, salary and benefit increases.

In the long term, these financial gaps are not sustainable, and must be **addressed swiftly and with permanent measures. The City's long-term** fiscal health – and our ability to continue servicing debt at affordable costs – depends on decisive actions we must take on this two-year budget.

Key Themes for the Upcoming Two-Year Budget and Five-Year Plan

STRIVING FOR FINANCIAL ACCURACY

The City's executive management sees accurate financial targets and projections as the essential foundations **for the City's fiscal future. Management's focus on** accuracy is reflected in the comprehensive effort, undertaken during this budget process, to fully understand and diligently **project the City's two-year** and five-year revenues and expenditures at the most detailed level.

- For revenues, this increased level of analysis includes comparing historical trends to information provided by consultants and the **City's business community**. Additionally, revenues have been thoroughly vetted through City departments, including capturing anticipated future policy and operating changes and their impacts **on the City's** finances.
- For expenditures, this effort included (for the first time in recent years) involving City departments in the analysis of their current and projected financial needs, resulting in increased accountability over budget numbers, better analysis of fiscal impacts, and accurately assessing **the City's unfunded** needs.

Importantly, **the City's executive management is adhering to the** principle of financial accuracy – also contributing to the principles of financial responsibility and discipline, as discussed below – by eliminating the following long-standing practices that in past years had led to artificially balanced budgets:

- *Use of Unfunded Positions:* The City historically budgeted for positions that had no funding allocated to them. This allowed City departments to hire people without funds to pay for them, thereby leading to overspending.

- *Over-Relying on Supplemental Appropriations:* As mentioned above, the City has had in place a practice of seeking additional General Fund funding for programs, services, positions and purchases that were not included in the original budget. These supplemental appropriations were sometimes offset by grants and other revenues, but often simply withdrew money from the General Fund Reserves.
- *Using the Concept of Managed Savings for Budget Balancing:* For years, the City has plugged balancing measures ranging from \$12.2 million (FY 2007/08) to \$2.6 million (FY 2010/11) to \$6.1 million (FY 2015/16) at the bottom line of the General Fund budget, to force revenues to balance expenditures by creating a theoretical category of “measures” which were to be administratively determined during the year. City departments often did produce such measures, mainly through vacancy savings. However, no specific reduction targets were ever established for each City department, and no plans were ever requested from them on how they would meet such targets. This method violated the principle of transparency by depriving the City Council of its charter role as the body established to prioritize budgetary expenditures. That is because this method gave executive staff unsupervised authority to balance a significant portion of the budget outside of the public eye and without the benefit of Council direction.

Starting with Fiscal Year 2016-17, the City’s General Fund budget allocates approximately 2% of Citywide reductions to each department based on their historical savings patterns. **Departments have been provided very specific “managed savings” targets, and have plans to address them, as reflected in each departmental section of the budget document.**

- *Under-Budgeting of Overtime:* In previous years, the Fire Department has been under funded for overtime by nearly \$1 million annually. The mandated overtime in Fire is related to a labor union Memorandum of Understanding (MOU) provision that requires a staffing backfill for the majority of employees when they are not at work (vacation, sick, etc.), which causes the department to incur overtime costs. The backfill requirement is primarily related to the need to have a mandatory minimum number of firefighters available to respond to emergency calls. To be clear: this mandatory minimum would have the full support of executive management even were the aforementioned provision not contained in the labor contracts. It is an essential component of

public safety for our firefighters, as well **as for Riverside's residents** and businesses.

FY 2016-2018 Two-Year Budget appropriately funds Fire **Department's overtime** to avoid the structural overtime issues related to the need to backfill staff.

- *Overuse of One-Time Revenues:* The City seemed to rely heavily on one-time revenues over the years, some as a result of property transfers with associated entities (such as the Riverside Public Utilities or the Redevelopment Agency), as well as land sales. The two-year budget presented here contains one-time property sales; however, these amounts are recommended for one-time development-related initiatives and not for ongoing expenses. In years three and five of the five-year plan, additional property sales are projected, as reflected in the attached budget document. It is intended that these amounts will eventually be used in year five to **both replenish the City's reserves (a one-time measure)** and to start addressing the currently unfunded deferred maintenance needs (some of which may be one-time or limited-duration).

MAINTAINING FINANCIAL RESPONSIBILITY AND DISCIPLINE

Riverside is in a better financial position than many other California cities as **a direct result of the City Council's** generally conservative fiscal management. **Key indicators of the City's stability** include a high and stable bond rating and maintenance of a healthy General Fund reserve over the years.

Given the projected budget deficits for the current and next two fiscal years, more needs to be done to ensure that the City remains financially strong. Your executive management team is committed to re-establishing and maintaining the **City's** fiscal stability. We will continue applying the principles of financial responsibility and discipline, along with focused management action, to strengthen, maintain and enhance **the City's fiscal health.**

- *Financial Responsibility* requires acknowledging and fully disclosing **the City's** critical funding requirements including the unfunded needs, particularly during the budget development process. Financially responsible **decisions should be based on the City's** policy priorities while keeping those measures in line with the **reality of the City's finances. Another aspect is departmental** responsibility over their budgets, reflected in the ability to constrain spending within the City Council-approved budget allocations. However, in order for the departments to be held

responsible, they must receive accurate budget allocations from the outset.

- *Fiscal Discipline* demands that City departments operate within their budget targets. This includes oversight by Finance, and requires collaborative relationships among departments, Finance, **and the City Manager's Office to proactively address any potential issues.** Both the fiscal responsibility and fiscal discipline principles are adhered to through quarterly financial updates to the City Council.
- *Management Action* calls for timely recommendations to the City Council to address any financial issues confronting the City. Although the City has been placing an increased emphasis on accuracy and financial responsibility, unforeseen economic events **can still impact the City's fiscal position. In order to address such** circumstances efficiently, management action must be swift and decisive – yet based on accurate information pertaining to both financial calculations and operating impacts.

TAKING CARE OF ESSENTIAL SERVICES AND INFRASTRUCTURE

The City faces enormous challenges in funding its existing programs and services, and identifying revenues for the critical needs that have been unfunded for years, including repair, maintenance and replacement of our buildings, roads and sidewalks, streetlights, and fleet including first responder vehicles.

The backlog of these critical unfunded needs is currently estimated at \$225,774,008 for the five-year planning period. Addressing this backlog will require significant additional resources including, but not limited to, new municipal revenues. No funding currently exists for these critical needs.

TRANSPARENT AND PARTICIPATORY PROCESS

This year for the first time, the budget process involved a variety of efforts designed to both inform and solicit feedback from the various internal and external stakeholders. These efforts included:

1. Internal budget discussions with all City departments in January 2016, to discuss their service challenges, efficiencies and opportunities, unfunded critical needs, and budget balancing measures.
2. Numerous public meetings with the various internal and external stakeholders in February and March 2015. These meetings both provided information, and even more importantly, solicited feedback **from those attending as to the City's most critical needs. Meetings**

were held throughout the community with residents, employees, various labor groups, and the business community.

3. A selected number of the above meetings were filmed, with videos played on the Government Television channel (GTV) and posted on **the City's website as well as on EngageRiverside.com.**
4. **Easy to follow summaries of the City's budget ("Community Report" and "Budget Facts")** have been published to provide a high-level **overview of the City's** finances, along with key anticipated challenges and opportunities. Intended to both educate and solicit input, the publications contain easy to understand infographics. They have been **posted on the City's website** and made available in print for the various internal and external constituents.
5. A few videos have been produced to educate and solicit input on the budget from the public, business community, City employees and labor unions. All have been aired on GTV, YouTube, **the City's website**, and EngageRiverside.com.
6. In April and May, all City departments presented to the City Council their contemplated balancing measures to address the projected FY 2016-18 shortfalls.

This transparent and participatory budget process, very different from prior City budget processes, provides the ability for all constituents and decision makers to collectively identify the current challenges and critical needs, and to propose solutions to address those challenges.

Key Changes in this Budget Document

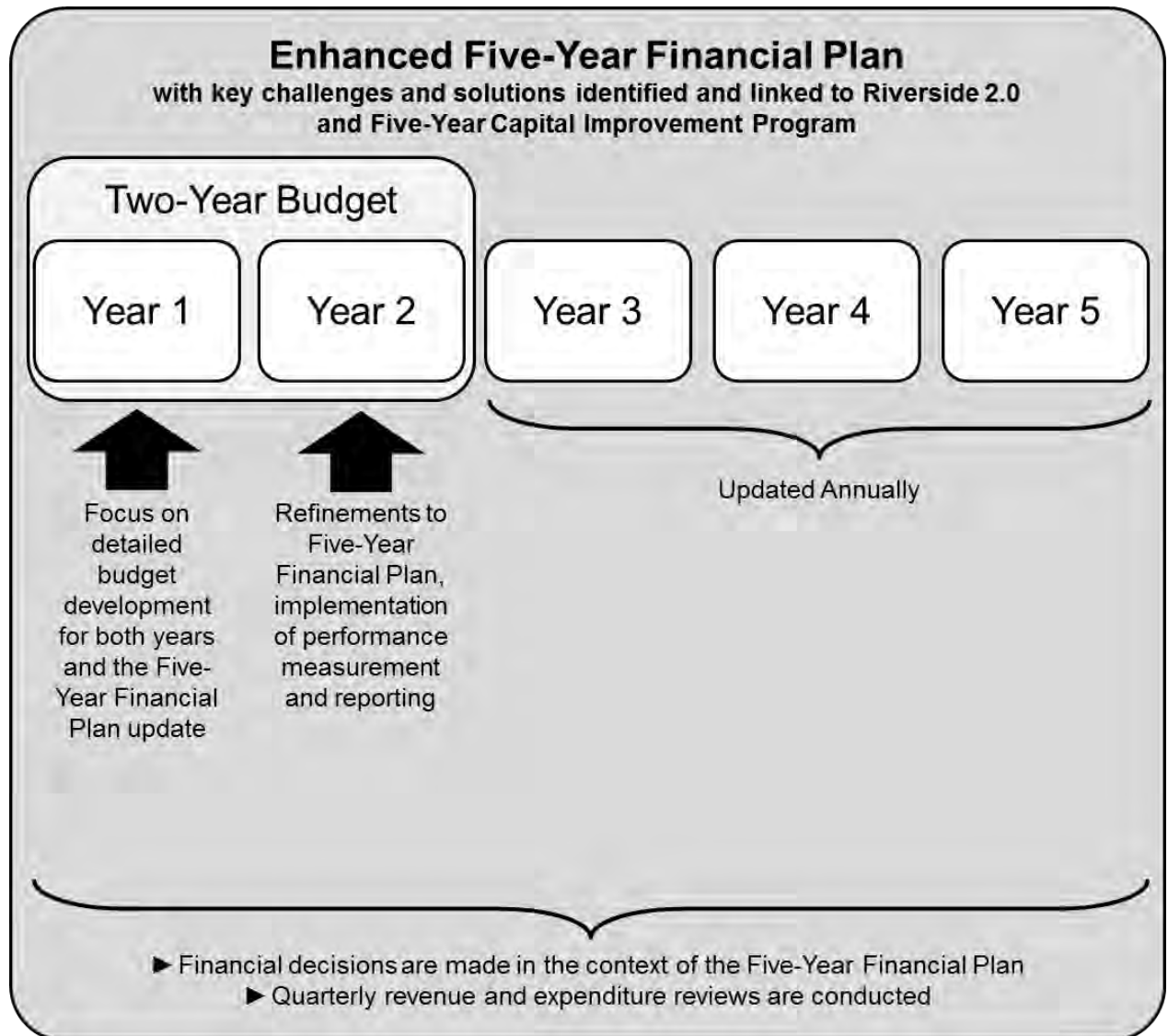
TWO-YEAR BUDGET IN THE CONTEXT OF A FIVE-YEAR PLAN

Consistent with the City Council's direction at its December 8, 2015 meeting, the executive management team has prepared a two-year budget for fiscal years 2016/17 and 2017/18. Furthermore, this budget has been developed within the context of a five-year plan, which provides a financial framework to guide future policy and programmatic recommendations by management and decisions by the City Council.

Moving to a two-year budget will provide the City Council, departments and the public with greater certainty regarding ongoing funding and staffing for programs and services. It will eliminate the time required to produce, review, and approve the budget document every year. At the conclusion of the first year, the City Council will receive a mid-cycle review of year-end financials. The mid-cycle review process will provide the mechanism to 1) ensure that revenue and expenses forecast at the beginning of the first year remain accurate and 2) only if necessary,

amend the budget to address any significant revenue shortages and/or unknown and unforeseeable expenses.

Not having to prepare a budget every year creates opportunities for the City organization to focus upon the efficiency of our expenditures instead of the traditional annual budget, which is primarily concerned with the amount of expenditures. Therefore, instead of developing a full budget for the second year, the focus will be on *performance measurement and reporting*.



The two-year budget will provide *incentives for the City departments to be fiscally prudent and responsible*.

- At the end of the first year of the two-year budget, departments with savings will automatically carry over the unspent funds to the second year, barring any significant unforeseen revenue shortfalls. Similarly, departments that overspend in the first year will not be given higher budget allocation in the second year. They will have less to spend.
- At the end of the second year, departments with savings will be able to retain 50% of the unused funds for capital or other one-time needs. (This is barring any significant unforeseen revenue shortfalls.) The other 50% will be used to balance the General Fund, or returned to the General Fund reserves.

FIVE-YEAR FINANCIAL PLAN

For the first time, the City's budget document (now prepared on a biennial basis) includes the five-year plan as a separate section. A significant amount of effort has **been devoted by City's management and** finance staff to prepare revenue and expenditure projections for the next five years, to serve as a framework for policy decisions on the two-year budget as well as in the future. Among other things, the five-year plan also allows us to illustrate fiscal impacts of budget decisions in June 2016 on the General Fund Reserves through June 30, 2021.

FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM

This year, the City Council has received the first comprehensive Five-Year Capital Improvement Program (CIP) document. The first two years include anticipated funding sources for 87 projects in FY 2016/17 and 70 projects in FY 2017/18. The funded CIP projects are incorporated into **the City's Proposed FY 2016/2018 Biennial Budget. The last three years** of the CIP Plan, from FY 2018/19 through 2020/21, contain projects that are anticipated to be funded during the term of the Five-Year CIP Plan.

The CIP two-year budget is \$92,448,986 for fiscal year (FY) 2016/17 and \$64,768,933 for FY 2017/18. The CIP five-year plan presents a \$348,129,519 planned CIP revenue and expenditure budget for FY 2016/17 through FY 2020/21. This funded figure is different from – and in addition to – the unfunded critical operating needs referenced above.

The proposed CIP responds to the needs of our residents to ensure the streets, public buildings, sewer, water, and electric infrastructure, and parks are well maintained and operated for optimum health and safety, added value, increased efficiency and functionality, enhanced attractiveness and beautification, and compliance to legal mandates. The CIP document places equal emphasis on planning for new projects as

well as improving and preserving existing capital assets. In the next five years, \$50.6 million has been programmed for Transportation and Railroad-Related projects; \$4.8 million for Municipal Buildings and Facilities, such as library, police, and fire facilities; \$4.6 million for Parks, Recreation, and Community Services projects; and \$288.3 Million for **upgrades to and expansion of the City's electric, water, sewer, and storm drain infrastructure.**

Also for the first time, the City's CIP document includes a list of Unfunded CIP Projects. This is an initial attempt to identify and quantify **the City's true CIP needs** - not only in the short term, but also in the long term. Although the list is comprehensive and reflects a good assessment **of the City's needs, it is by no means a complete list as more work needs** to be done in the coming years to refine this list, create guidelines to prioritize projects, and prepare a strategic approach to fund and complete these unfunded projects.

As part of staff's due diligence, prior to the five-year CIP Plan being presented to the City Council, the CIP Plan was presented to the Planning Commission for review to determine consistency of the planned CIP projects with the General Plan 2025. On May 5, 2016, the Planning Commission reported to the City Council that the CIP is consistent with **the City's General Plan and determined that the planned CIP projects are** exempt from the California Environmental Quality Act.

ANNUAL CONTINGENCY FUNDING

The two-year budget includes \$500,000 per year for unanticipated spending contingencies, at the City **Council's** discretion. The intent is to minimize – and, ideally, prevent – supplemental appropriations throughout the year.

OTHER KEY CHANGES

The budget document being proposed is a complete revamp of the City's existing document, with significant additional details on revenues, expenditures and departmental operations. Also included in the budget document (Expenditure Summary) is the most current information on the outstanding Interfund Loans.

Underlying Assumptions

The Revenue Summary and Expenditure Summary sections discuss in **detail assumptions used to develop the City's revenue** and expenditure projections for the next five years. A significant amount of effort has gone into developing, vetting internally and externally, and documenting

these assumptions – to ensure the accuracy of budget projections, and enhance transparency of the budget information.

Conclusion and Recommendations

Preparation of the fiscal year 2016-18 two-year budget culminates a complex process undertaken by all City Departments to ensure that the funding plan meets the City's fiscal realities, City Council's policy directives and public service priorities. It is recommended that the City Council:

1. Conduct a public hearing on June 14, 2016, to receive comments on the proposed fiscal year 2016-18 two-year budget;
2. Provide direction to staff regarding any modifications to be made prior to adoption of the two-year budget; and
3. Consider adoption of the final two-year budget during the evening session of the City Council's June 21, 2016, meeting.

Respectfully Submitted,



JOHN A. RUSSO
City Manager