BUDGET ADVISORY COMMITTEE

Monday, November 20, 2017
6:00 pm
City Council Chambers
150 S. Palm Avenue

I. Call to Order/Roll Call – 6:00 pm

II. Review/Modification of Agenda Items for Discussion

III. Review and Approval of the Minutes of the November 6, 2017 Meeting

IV. Oral Communications from the Audience on Items not on the Agenda

V. Reports/Discussion Items (Public is offered opportunity to speak prior to Action)

   a. Additional Utility Tax Scenarios per Request (PFM)

   b. Final Utility Tax Ballot Measure Recommendations (Staff)

   c. Departmental Presentations (Public Works)

   d. Departmental Presentations (Development Services – if time permits)

VI. Items Requested for Next Budget Advisory Committee Meeting (December 4th)

VII. Adjournment – 8:00 pm

Budget Advisory Committee Meeting
Meeting Minutes
November 6, 2017

I. Call to order
Stacey called the meeting to order at 6:03.

Attendees:
Community Members: Stacy Augustine, Robin Austin, Lupe Camacho, Anna Gonzalez, David Phillips, Joe Raden, Michele Sanchez, David Lopez

Staff Representatives: Robb Steel (GCEA), Tony Brandyberry (RMMA), Joe Powell (Fire Management), Ryan Cathy (Fire 3688), Thad Coffing (RCEA)

Absent:
Karla Perez, Lena Montes & Richard Royce (RPBA & RPBA Management)

II. Review/Modification of Agenda items

Matt moved and Joe P. 2nd the motion to indicate that there were no additions or modifications; vote was unanimous.

III. Review and Approval of the Minutes of the October 16, 2017 Meeting

Matt moved to approve the minutes to the agenda, Ana 2nd the motion to allow the minutes to be added to the agenda; vote was unanimous.

IV. Oral Communications: None.
Dennis asked at what point the Committee will talk about expenses. Matt said roughly December 2nd they will be talking about revenues.

V. Reports/Discussions:

a) Robb discussed the City Attorney's Memo, as requested by the Committee.

b) Robb introduced PFM Consultant,

Mike talked about the action to take. Mr. Raden asked the City Attorney for his interpretation and opinion regarding the aspect of the exemption for seniors and low Income. Mr. Raden is currently under the exemption status. The City Attorney suggests that two actions take place by the committee: 1. Decide whether to do the tax at all and the percentage. 2. The Exemption status for seniors and low income. At that point Mr. Raden should not take part in that action he should recluse himself from the discussion because he is exempt and the Mike agrees with the City Attorney.

Russ from PFM gave his report and went through his PowerPoint. Last meeting he provided review of baseline projections & UUYT scenarios.

Robb did a followup to Russ' presentation, stating that "we are totally depending on the UUTax at least in the short term. So our recommendation is that you supplement your previous motions by recommending that the tax stay in effect and maintain the same exemptions that we currently have.

Lupe brought some information for the committee about the previous times the Utility Users Tax was up for the vote.

Stacey, who will not be voting, gave his feeling on the tax. Suggest taking to the people 6% / 12% and asked for permanent or out.

Joe R. asked what effect would this have on businesses coming to the City or what effect would it have on large electrical users staying in the City. Because if it has the effect of driving businesses out, that's another problem. He also wants to look at with the perspective of making something permanent, residents might reject it if they don't have the ability to have that review process. Keeping it at 8% has been tried and true method. It might be jeopardizing the financial liability of the city.

Robb didn't have historical data to say one way of the other. Feels comfortable at 8%, putting to 12% would make us the highest in the state. Council prefer us to be somewhere in the middle or a little less than the average with a business friendly climate to entice businesses to help address some of our operational costs.

Lupe discussed additional attachments she had and felt that people were afraid of what would be lost. Mike stress that in 2003 it was to enhance services. 2008 it was to maintain services. 2013 was to not lose services. The city cannot advocate, they can only educate. That is what we did for the last 15 years.

Michelle said that in 2003, the Police was a mess and this money was enacted for Police and Fire. People came out the second time, because they did what they said they were going to do. However, she's not sure about it this time. There were other things going on. She thinks folks are scared. They don't want to lose service and neither does she. She thinks that's why the vote was so high this last time.

Daniel doesn't think that these are just scare tactics. He believes them to be fact. We need the 8% and He'd like to see us wean ourselves off it. But we are not in a position to do that right now.

Robin believes it should be permanent or at minimum 10 years. It's obvious that the City cannot survive without it, especially with PERS. We to get the word out and make the information more prominent, such as using the Website. We have the time to get the word out.

Lupe said we need outreach programs and talked about the 76% of Spanish in the City, so there needs to be more information about the UU tax translated into Spanish to reach more people. Michelle said they were in Spanish when it was voted on before.

Stacy said he was thinking that it should be 6% for residents and 12% for non/commercial (6/12), because it would be giving something back to the community. If it goes back 8/8% it is saying the same thing to make it appealing, so someone votes on it.

Michelle said 10 years won't appeal to people because it could turn out to be a free for all for the council. Budgeting for 10 years is fine, but not for the tax. She said there are people that don't want the tax, they are feed up with it. They've been told that it was going to be reduced, but it didn't.

Lupe said yes people are fed up, that's why scaling it down would help.

Joe R. said that in 5 years the citizens may want an oversight, so by saying yes or no periodically. Revenue could be generated if the city gets the tank farm tax.

Dennis said a few things to think about; going forward and what's the best opportunity moving forward. Someone is going to have step up and lead this charge. If you want this to win, he urged that it not be made permanent. Think about how you're going to sell it. He talked about the 6/8% module and maybe there will be an opportunity to change it in a few year.

Thad asked do we know what our voting base is? It will help to know if you're going to target a group, it helps to know who that group is. It is important to know that, because knowing who that base is allows you to gear the presentation toward those groups.

Mike said if it's permanent on residents, it's not going to pass. The commercial piece, that's something that you can look at, because they understand. Russ is showing us a module trying to find some stability in our financial future. Because it didn't lower after we told the residents that is going to hunt us through this next election. Maybe 6/8 you could sell that.

Mike also said before Public Works comes up he wants it understood that the Public Works budget of the General Fund is 10% when you take out the overhead cost for construction it's 5%. 65% is of the budget is still PD and Fire. If there is no recommendation/decision by December $12^{th,}$ it is not going to go for April 10^{th}.

Matt asked about 8 to 6% for everyone. He wanted to see what the 6 to 8% would look like.

Michelle would like to see some additional modules from the consultant.

Matt asked, that because the water rates are going up, is not the UUT going up, as well as electricity cost going up. He also asked about the Annexation and how many more residents will that affect the UUT. Why haven't we annexed. Robb said that. His opinion is 6/8% and he believe that the tank farm tax will come in, but also things that doing it in April and feels that permanent won't work, based on what's been said. What is the net effect of the population of exempt seniors and low income people? Robb estimates 2300 customers that are exempt.

Lupe is said she would like more scenarios 6/8%, 6/10% & 4/10%.

Robb said they should take into account that we have a 4.7 mil dollar structural deficit this year and wants them to keep that in mind.

Much discussion was had by all.

Lupe moved that the decision gets moved to the next meeting on the 20th and voted to have the consultant provide modules with 6% residents / 8% non/commercial, 6 residents /10 non/commercial and 4 residents /10 , non/commercial; Thad 2nd the motion.

c.) PUBLIC WORKS PRESENTATION
Robb introduced Robert Eisenbeisz and his staff from Public Works to make their presentation.

VI. Items Requested for Next Meeting

Lupe moved that Public Works come back to complete the rest of the presentation at the next meeting on the 20th of November. Thad 2nd.

VII. Adjournment: 8:07 pm.

Submitted by:
Angela Perry

City of Rialto
Memorandum

TO:	Budget Advisory Committee
FROM:	Robb Steel, Assistant City Administrator/Development Services Director Kyle Johnson, Finance Manager
COPY:	Michael Story, City Administrator
DATE:	November 20, 2017
SUBJECT:	**Utility Users Tax Ballot Measure Recommendations**

Background
On October 16th and November 6th, the Budget Advisory Committee discussed various topics related to the Utility Tax: the electoral history, revenue trends, expenditure trends, alternative revenue options, and balloting options. Staff also presented budget reduction scenarios assuming a complete elimination of the Utility Tax and a 20% reduction of the Utility Tax.

On October 16th, the Budget Advisory Committee approved a recommendation to the City Council that the City Council declare a fiscal emergency as required by law to allow the City to submit a Utility Tax measure for a special election in 2018. This declaration requires a unanimous vote of the City Council. The Budget Advisory Committee also approved a recommendation to submit the tax measure to the voters on the April 10, 2018 special election date. The City Council must therefore adopt a resolution to submit a tax measure to the voters by January 12, 2018.

On November 6th, the Budget Advisory Committee considered additional recommendations related to the Utility Tax measure: (1) what term and rate structure should the City Council consider and (2) what exemptions if any should the City make available. The Budget Advisory Committee considered revenue forecasts under three scenarios presented by Public Financial Management (PFM): (A) a gradual phase out of the Utility Tax over 5 years, (B) a reduction from 8% to 6% for all users, and (C) a reduction for residential users from 8% to 6%, with an increase for non-residential users from 8% to 12%. Assuming modest expenditure increases across all cost categories and scheduled increases for PERS, fund balances declined dramatically for scenario A and significantly for Scenario B, while increasing for Scenario C (a status quo scenario). At the conclusion of this discussion, the Budget Advisory Committee asked PFM to run three additional forecasts:

- Option 1 – a 6% residential rate, and a 10% non-residential rate

- Option 2 – a 6% residential rate, and a 8% non-residential rate
- Option 3 – a 4% residential rate, and a 10% non-residential rate

Analysis

PFM prepared a PowerPoint presentation attached hereto that summarizes the revenue potential from all 7 scenarios over a 10-year period (including the status quo). The status quo revenue forecast is $168 million, and all other scenarios represent less revenue. Given the City's programmed increases in employee retirement costs (PERS and OPEB), and general inflationary pressures on current compensation and service/supply budgets, the City will be hard pressed to balance revenues and expenditures with the status quo. Utility Tax reductions will probably require cuts (or underfunding) to personnel, services, and capital outlay. For FY 18, the City did not budget general fund operating capital outlay and the full OPEB payment, while also cutting services and freezing positions.

FY	Annual Revenue Growth @ 4%	PERS Annual Increase	Net Discretionary GF Revenues	Spending Choices: OPEB	Capital Outlay	Service Enhance	Existing Personnel	New Personnel	**Unobligated Revenue**
FY 19	3,092,000	(1,369,000)	1,723,000	(1,400,000)					**323,000**
FY 20	3,215,000	(1,472,000)	1,743,000						**1,743,000**
FY 21	3,344,000	(1,400,000)	1,944,000						**1,944,000**
FY 22	3,478,000	(1,326,000)	2,152,000						**2,152,000**
FY 23	3,617,000	(1,206,000)	2,411,000						**2,411,000**

The table above provides a simplified illustration of the budget choices the City will confront with the 8% Utility Tax <u>in place</u> for the next 5 years. The first column shows the incremental net revenue each fiscal year assuming a revenue growth rate of 4% (note: long-term revenue growth has been about 3.7% per year). The second column shows the estimated incremental PERS costs each fiscal year assuming no future wage growth (probably an unreasonable assumption). The residual represents net general fund discretionary revenues available each fiscal year assuming the status quo on all other expenditures. This is what the City Council will theoretically have available for discretionary expenditures, including OPEB, capital outlay, service/supplies, and personnel (both existing and new). Subtracting the OPEB incremental payment (if the City decides to fully fund its long-term obligations for retiree medical care), the Unobligated Revenue in the last column is minimal relative to the various needs. The City Council would inevitably need to draw upon reserves to fund all demands (or cut some departmental budgets to fund others).

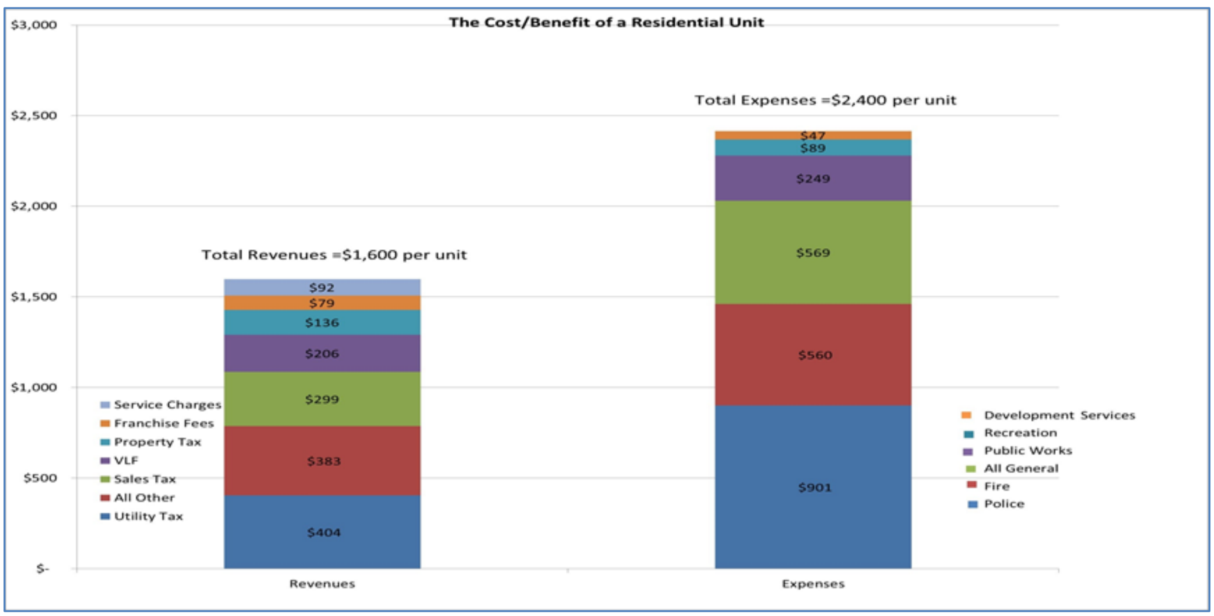
Staff Recommendation

Staff remains adamant that the Utility Tax at its current revenue standard ($14.2 million) is necessary to provide acceptable services to the community. With the programmed obligations for employee retirement (pensions and medical care) growing rapidly, much of the new revenue from economic growth has already been committed. Staff recommends the following structure for the Utility Tax ballot measure:

- **Term**. The Utility Tax measure should renew the tax for a 5-Year term. While staff believes that the City will require the tax for more than 5 years, this sunset provision provides taxpayer accountability and improves the likelihood of adoption. Polling performed by the City also suggests that the voters prefer the shortest possible term.

- **Structure**. Staff prefers the status quo, with an 8% rate applied to all customers (residential and non-residential). The City does not have reliable data on the split between residential and non-residential tax collections, and changing the formula (to burden non-residential at a higher rate) creates risk for a loss of revenue. Additionally, the higher non-residential rate may have deleterious implications for economic development.

  As one additional consideration, a few years ago the City performed a citywide fiscal impact analysis and allocated the revenues and costs for City services to various land uses. The chart below shows the results for existing residential units. Each existing residential unit cost the City approximately $800 more per year for services than it produced in revenue (with the Utility Tax). The business community makes up the deficit, which is why the City has engaged in an aggressive economic development campaign in recent years.



- **Exemptions.** The City currently exempts senior citizens (65+) and lower income households (80% of median and below). The City has approved exemptions for approximately 2,000 households (8% of all households) reducing collections by an estimated $800,000 per year. Exempting senior citizens and lower income households has helped to ensure the success of prior campaigns, but some have recommended limiting the exemptions to lower income households regardless of age – senior citizens that are more affluent would pay the tax.

City of Rialto

Updated UUT Scenarios & Expense Review

November 20, 2017 Budget Advisory Committee Meeting

PFM group consulting

50 California Street
San Francisco, CA
94111

Russ Branson,

(415) 393-7249 Office

(916) 747-7834 Cell

Budget Advisory Committee Request

UUT Rate Options

- At the November 6th BAC meeting, it was requested that the Budget Forecast Model be run with the following UUT Options
  - 6% residential rate and 10% commercial rate
  - 6% residential rate and 8% commercial rate
  - 4% residential rate and 10% commercial rate
- The following slides provide a summary of the revenues generated by these, and all of the UUT, options reviewed to date
- The revenue options however, should be viewed in connection with expense realities of the City

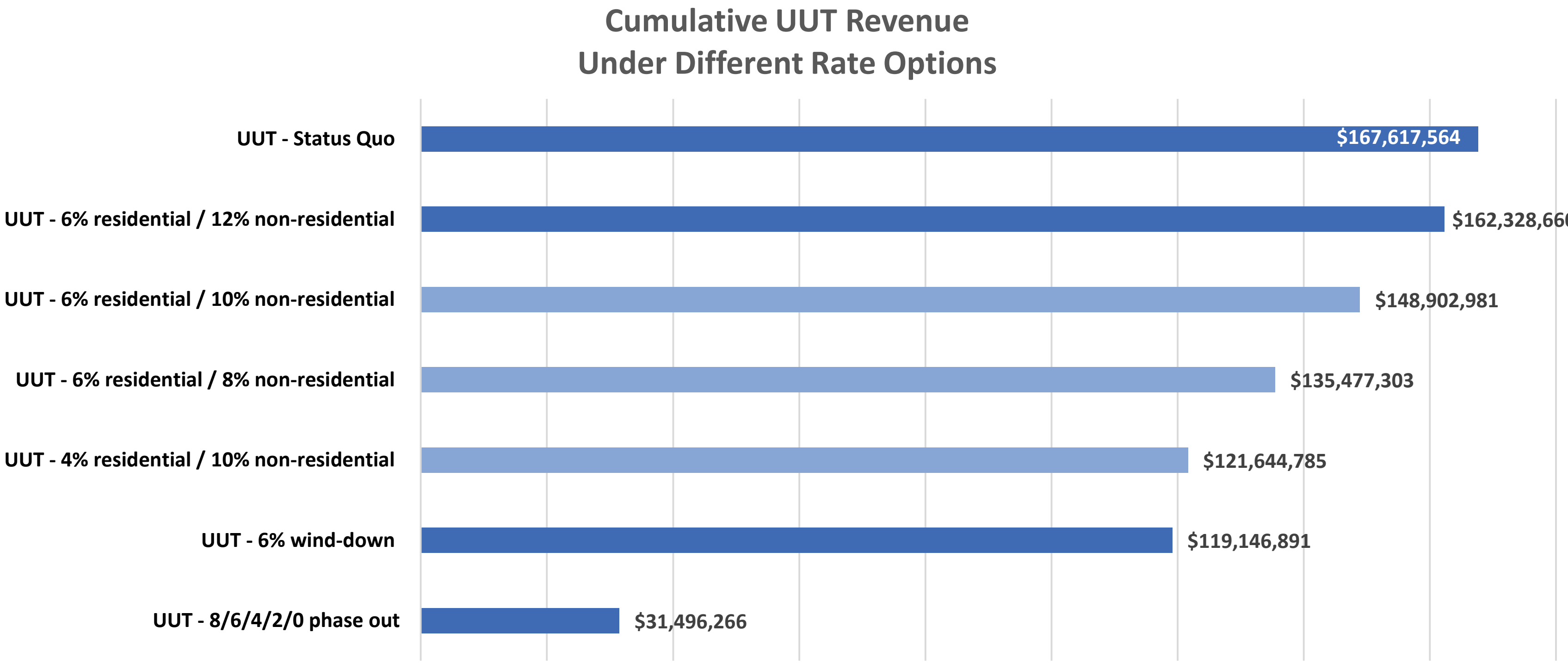
Budget Advisory Committee Request

Expected Expense Increases

- Expenses will rise in the City over the next 10-years
  - Pension costs are set to rise significantly
  - Wages change as staff members go through the salary steps, achieve special pays, and as the City grants cost-of-living adjustments
  - The baseline analysis assumes annual 0.5% increase for miscellaneous employees, and annual 1.0% increase for safety employees
- It is likely that the City will need to increase wages in line with CPI. Analysis provided below shows the impact of annual wage increases of 2% per year
- The City needs to invest in annual capital/maintenance costs

UUT Rate Options | Cumulative 10-Year Revenue Forecast

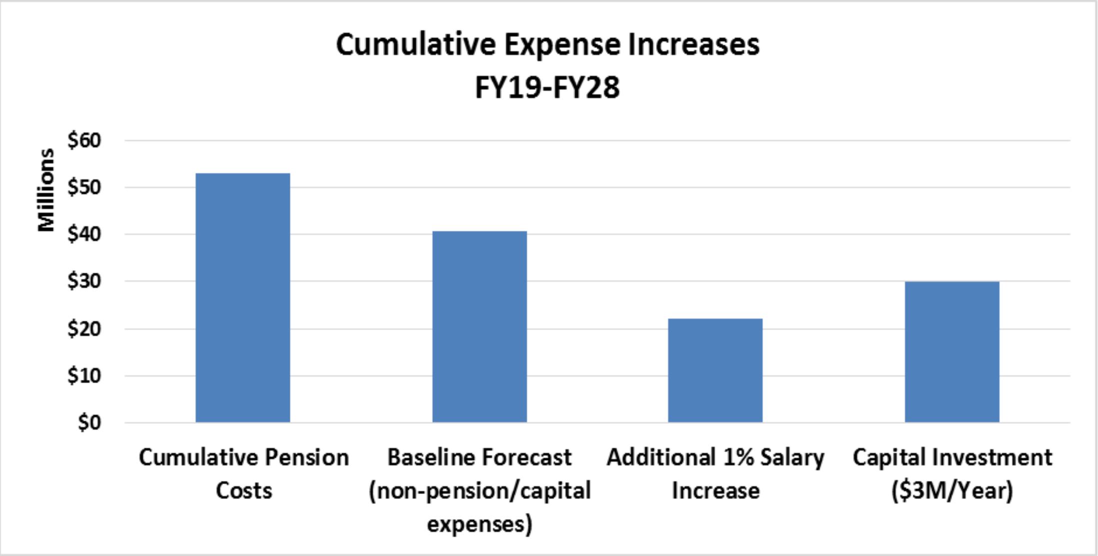
- UUT rate options requested by the Budget Advisory Committee range from $31.5 million to $167.6 million
- Additional options requested at the November 6th meeting are shown in light blue

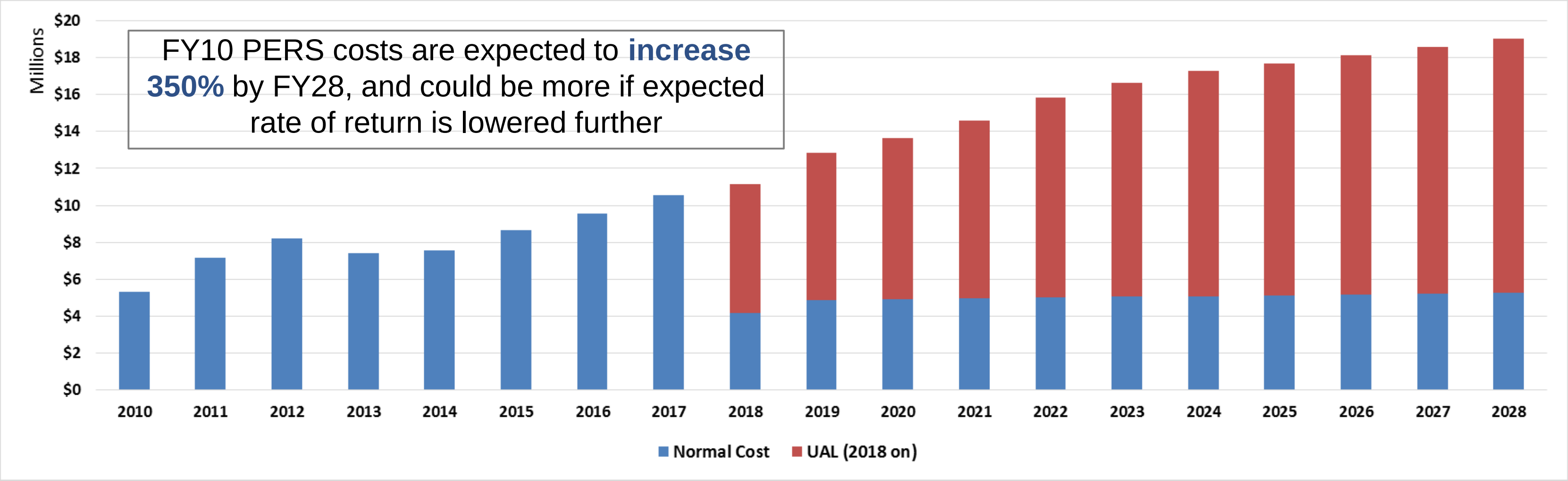


Light-blue bars show added UUT rate alternatives

Expenses are on the Rise | UUT Re-Authorization is Critical

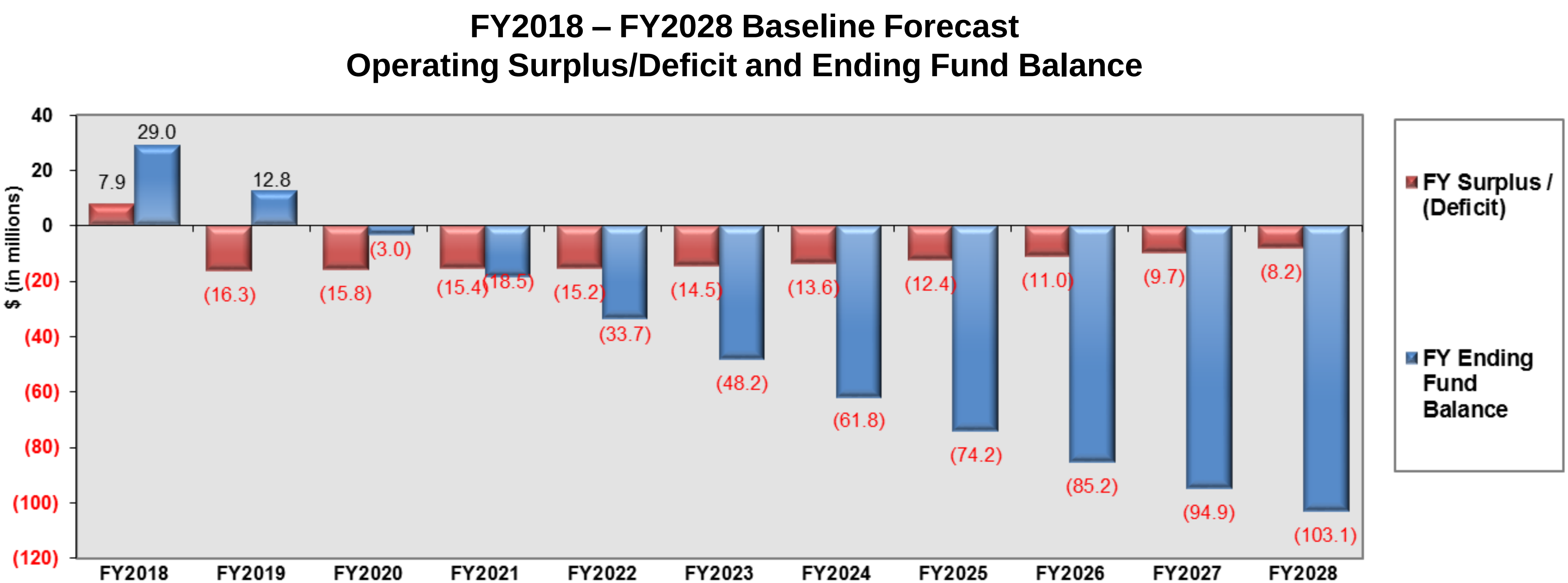
- Pensions and general inflation will push City expenses up over the next 10 years
- Additional salary costs (which may be required to keep the City competitive) and capital investment will also add to overall expenses
- Re-authorizing the UUT will allow the City to absorb most of these expenses over the next 10 years





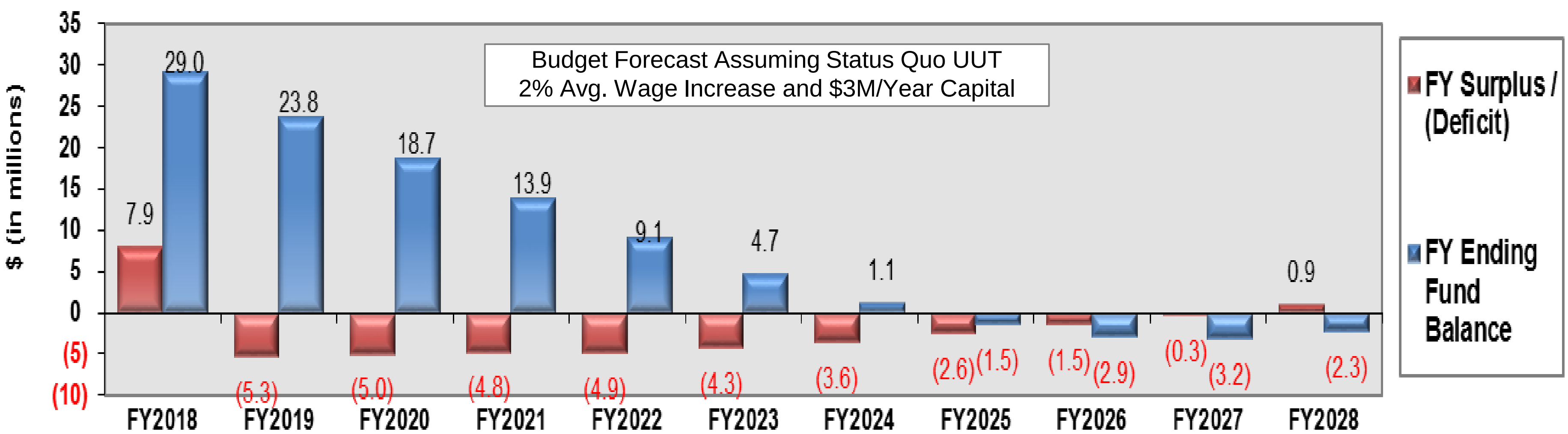
Baseline Projection (From Nov. 6th Presentation)

- Fueled primarily by the loss of UUT revenue, the City of Rialto is projected to run a budget deficit beginning in FY19 absent corrective action
- **Total change in fund balance of $132.1 million** over forecast period



Status Quo UUT and Additional Expenses | Long-Term Forecast is Negative

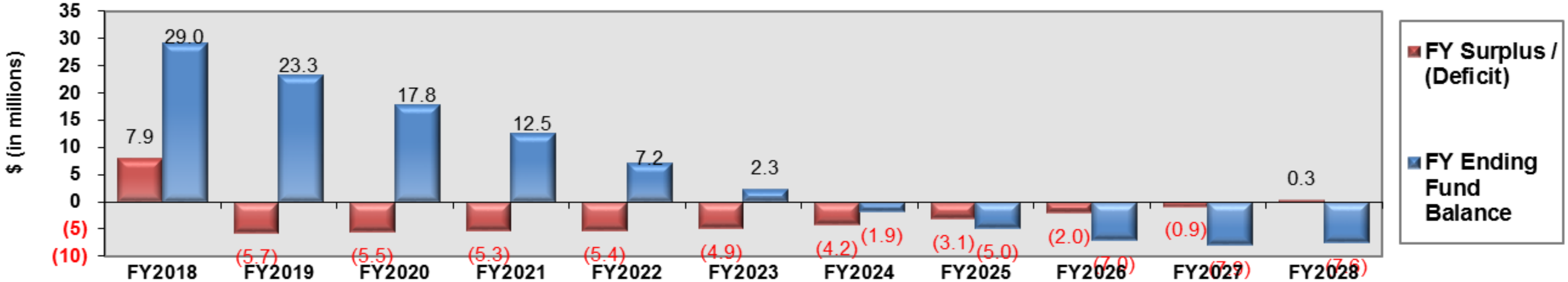
- Voter approval of the current UUT of 8% for all customers will provide near-term budget relief
- However, if the City provides an average 2% per year increase in wages (vs. a 0.5% to 1.0% increase) and adds $3 million per year in capital expense, the current fund balance is forecast to be negative by FY25
- Seemingly small changes in expenses, can have outsized impacts on City net revenues



Alternative UUT Rates will Worsen Forecast Outlook

- The following charts show the same expense assumptions as the prior slide with different UUT funding options—The 6% Residential/12% Commercial and the 6% Residential/12% Commercial Options

Forecast Assuming **<u>6%/12% Split of UUT Rates</u>**
And 2% Wage Growth and $3M/Year Capital Funding



Forecast Assuming **<u>6%/10% Split of UUT Rates</u>**
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