



Legislation Details (With Text)

File #: 17-070 **Version:** 1 **Name:** FY17-18 BUDGET WORKSHOP
Type: Workshop **Status:** Workshop - Information Only
File created: 2/17/2017 **In control:** City Council Workshop
On agenda: 3/7/2017 **Final action:** 3/7/2017
Title: FY17-18 BUDGET WORKSHOP
Staff Contact: Vicki Rios, Director, Budget and Finance

Sponsors:

Indexes:

Code sections:

Attachments: 1. POWERPOINT

Date	Ver.	Action By	Action	Result
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FY17-18 BUDGET WORKSHOP

Staff Contact: Vicki Rios, Director, Budget and Finance

Purpose and Policy Guidance

The purpose of this item is to provide Council with information relative to the FY17-18 budget process. Staff is seeking Council policy guidance and input on the development of the FY17-18 budget.

Background

At the December 20, 2016 City Council Workshop, staff presented the Five-Year Financial Forecasts for the General Fund and other major operating funds of the city. The discussion continued at the first budget workshop on February 7, 2017, where staff presented the FY17-18 budget calendar, an overview of the budget and the state legal requirements, budget components, and information on upcoming budget initiatives. During the planning process for the FY17-18 budget, a series of budget workshops have been scheduled to seek policy guidance and input from the Council on various budgetary items. During this budget process, staff will advise Council of the potential impacts of budgetary decisions on the long-term financial forecasts.

Analysis

This is the second budget workshop seeking Council feedback. Staff will present Council with the budget workshop calendar, provide an overview of the FY17-18 revenues projections, and continue discussion on budget items for consideration requiring Council policy guidance and input.

The City's Annual Budget can be broken down into four major components; revenues, operations, capital and debt service. This budget workshop discussion will focus on the city's major revenue sources and policy items. Budget discussions will continue in a series of budget workshops scheduled through April where staff will

present, review, and discuss each component of the annual budget. The workshops will conclude with two full day budget work sessions in April. At Council's direction, additional budget workshops may be scheduled, or currently scheduled workshops may be cancelled depending upon the need.

General Fund

The December 20, 2016 forecast identified ongoing revenues are sufficient to cover ongoing operating expenditures throughout the five-year period. However, it is important to note that the detailed budget requests could impact the operating expenditures and revenue adjustments could also be made throughout the process. Currently, the ongoing General Fund expenditures assume an increase in police and fire public safety retirement cost, continuation of remaining service levels, continuation of contractual obligations, including management of the Arena, moderate revenue growth and controlling operating costs. The forecast also assumed annual salary and benefit cost increases for both represented and non-represented work groups. These assumptions will be reviewed in greater detail during the process.

Other Operating Funds

Overall, the Enterprise Funds are forecasted to remain stable, however multiple rate analyses are underway to determine future revenue requirements for sustained operations. The financial results of the Enterprise Funds are significantly influenced by the capital outlay spending and financing. Currently, as projected, annual revenues are not sufficient to cover ongoing operating expenses and meet capital planning needs through available ending fund balance. Enterprise funds, most notably the Water and Sewer Fund, are capital intensive in nature. Prudent capital planning in all the enterprise funds will be required to ensure 1) the funds remains financially stable, 2) capital maintenance needs are addressed timely to avoid future maintenance issues, and 3) the City continues to comply with debt covenants driven by the fund's capacity to repay debt service.

The Special Revenue Funds are forecasted to remain relatively stable. Unlike the enterprise operations, there are forecasted increases in revenue growth as these funds are not user fee supported. For the Transportation and Highway User Revenue Funds, care should also be taken to manage the capital outlay for these funds.

Capital Improvement Plan

Capital improvement projects are non-routine capital expenditures that generally cost more than \$50,000 and result in the purchase of equipment, acquisition of land, design and construction of new assets, or the renovation, rehabilitation or expansion of existing capital assets. Capital projects usually have an expected useful life of at least five years.

Each year, a CIP is developed which is the roadmap for creating, maintaining, and paying for Glendale's present and future infrastructure needs. The CIP outlines project costs, funding sources, and estimated future operating costs associated with each capital improvement. The plan is designed to ensure that capital improvements will be made when and where they are needed, and that the city will have the funds to pay for and maintain them. Although the CIP is a ten-year plan, the FY17-18 capital projects are the only year that is eventually appropriated. The remaining nine years are for planning purposes and funding is not guaranteed to occur in the year planned. City Council makes the final decision about whether and when to fund all projects.

Critical to developing a CIP is the impact of the respective enterprise and special revenue funds. The City's practice has been to present a plan that is financially balanced over the first five years of the ten-year CIP

plan. As stated previously, prudent capital planning is required to ensure 1) the respective funds remains financially stable, 2) capital maintenance needs are addressed timely to avoid future maintenance issues, and 3) the City continues to comply with debt covenants driven by the fund's capacity to repay debt service.

Staff anticipates the first review of the Capital Improvement Plan (CIP) to be March 21, 2017.

Previous Related Council Action

On February 7, 2017, the FY17-18 Budget Overview including; calendar, process, legal requirements, major budget components and future discussion items was presented to the City Council at the first in a series of budget workshops.

On December 20, 2016, the General Fund and Major Operating Funds Five-Year Financial Forecast was presented at Council Workshop and initiated the FY17-18 budget process.

Community Benefit/Public Involvement

The community benefit of the City's budget process, policy direction, and budgetary decisions demonstrates sound financial decisions are made through a transparent and public process where ultimate budgetary decisions align with the strategic direction of the City and provide the public with information on services provided and Council priorities.

Budget and Financial Impacts

Budget and financial impacts are based on Council feedback.