



Agenda
City of Beaumont City Council Meeting
Workshop Session 6:00 PM

Beaumont Financing Authority
Beaumont Successor Agency (formerly RDA)
Beaumont Utility Authority
Beaumont Parking Authority
Beaumont Public Improvement Authority
Community Facilities District 93-1

550 E. 6th Street, Beaumont, Ca
Thursday, November 21, 2019

Materials related to an item on this agenda submitted to the City Council after distribution of the agenda packets are available for public inspection in the City Clerk's office at 550 E. 6th Street during normal business hours.

Any person with a disability who requires accommodations in order to participate in this meeting should telephone the City Clerk's office at (951) 769-8520, at least 48 hours prior to the meeting in order to make a request for a disability related modification or accommodation.

Any one person may address the City Council on any matter not on this agenda. If you wish to speak, please fill out a "Public Comment Form" provided at the back table and give it to the City Clerk. There is a three (3) minute limit on public comments. There will be no sharing or passing of time to another person. State Law prohibits the City Council from discussing or taking actions brought up by your comments.

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WORKSHOP SESSION

CALL TO ORDER

Mayor Martinez, Mayor Pro Tem Santos, Council Member Carroll, Council Member Lara, and Council Member White

Action on any requests for excused absence:

Pledge of Allegiance:

Approval/Adjustments to Agenda:

Conflict of Interest Disclosure:

PUBLIC COMMENT PERIOD (ITEMS NOT ON THE AGENDA)

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ACTION ITEMS

Approval of all Ordinances and Resolutions to be read by title only.

1. Budget Workshop - Initiation of the 2020-21 Budget Building Process

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Recommended Council Action(s):

It is recommended the City Council provide guidance to staff on the next steps in the budget building process and set a meeting for a second budget workshop.

[Staff Report - Html](#)

[General Fund Analysis - Exhibit A](#)

Adjourn to Closed Session

Adjournment of the City Council Workshop of November 21, 2019, at ___ p.m.

The next regular meeting of the Beaumont City Council, Beaumont Financing Authority, the Beaumont Successor Agency (formerly RDA), the Beaumont Utility Authority, the Beaumont Parking Authority and the Beaumont Public Improvement Agency is scheduled for Tuesday, Monthname 1, 2019, at 5:00 p.m. or thereafter as noted on the posted Agenda for Closed Session items in the City Council Board Room No. 5, followed by the regular meeting at 6:00 p.m. or thereafter as noted on the posted Agenda at City Hall.

Beaumont City Hall – Online www.BeaumontCa.gov



Staff Report

TO: Mayor and City Council Members

FROM: Jeffrey Mohlenkamp, Finance Director

DATE: November 21, 2019

SUBJECT: Budget Workshop - Initiation of the 2020-21 Budget Building Process

Background and Analysis:

The City operates under an annual operating budget and a multi-year capital improvement budget. This meeting begins the process of building the 2020-21 annual operating budget and updating the capital improvement budget.

Workshop Format

In this workshop, we hope to accomplish the following:

1. Identify guidance staff needs from the Council
2. Review the results of the survey completed by the City Council and City Management
3. Overview and discussion of the current financial condition of the City
4. Overview and discussion of both known and potential financial threats to the City
5. Questions for the City Council to assist in deliberation and guidance to staff regarding next steps in the budget building process

Guidance Needed from the City Council

The budget process allows the City Council to prioritize services and allocate resources. Staff is seeking guidance from the Council whether there is interest in making modifications to the services provided by the City. Further, due to future financial challenges for the City, staff is seeking guidance as to whether Council desires to begin discussions of options to increase revenues to meeting ongoing operating expenses and capital needs.

Review of Survey Results

City Council and senior management of the City independently completed a survey regarding services and major functions performed by the City. The survey was completed as a first step to inform the Council of the various services provided and functions performed and to allow both Council and management to assess the importance of the individual services/ functions. Respondents were also given the opportunity to assess whether the individual services and functions were being performed acceptably or unacceptably.

The survey results were tabulated by the City Manager's office to provide an aggregate of all respondents and separately provide the aggregate results of the City Council and management. Comments provided by Council and management are summarized to provide the conceptual ideas but to protect the anonymity of the individual respondents.

The results of the survey will be presented for Council review at the workshop.

Current Financial Condition of the City

Over the past three years the financial condition of the City has improved with all major funds having positive balances. Additionally, significant legal matters facing the City have been resolved with future financial exposure being limited. The following is summary information regarding the two largest operating funds (General Fund and Waste Water Fund).

General Fund

General fund operations include a significant portion of operations including public safety, permitting, planning, finance, information technology, human resources, administration, parks and recreation.

The General Fund of the City is the primary fund where the Council has discretion in its funding decisions. As of June 30, 2019, the General Fund had an estimated balance of \$14.5 million, the vast majority of these funds are unassigned. Unassigned funds are available for Council action.

General fund operations and transfers have generated improvement to the fund balance in each of the past four years. Including transfers in from the Communities Facilities District Fund, sources of funding have exceeded expenditures as follows:

	FY 2016	FY 2017	FY 2018	FY 2019 (Estimated)
Beginning GF Balance	(\$ 7.2 million)	(\$ 4.1 million)	\$ 5.2 million	\$10.5 million
Sources	\$26.1 million	\$38.5 million	\$36.3 million	\$40.1 million

Uses	\$23.0 million	\$29.2 million	\$31.0 million	\$36.1 million
Ending GF Balance	(\$4.1 million)	\$ 5.2 million	\$10.5 million	\$14.5 million

Note: The results of FY 2016, FY 2017 and FY 2018 are from audited financial statements. the audit of FY 2019 is ongoing and changes to these numbers are possible. It is contemplated that the audit will be complete by January 2020.

Attachment A provides detail of the General Fund revenues and expenses for the past three fiscal years.

Waste Water Fund

The Waste Water fund is a proprietary fund. Proprietary funds function much like a business operation. The Waste Water fund includes the City's sewer operations. In past years, the sewer system was operated by external contractors. In FY 2018, the City began operating the sewer system directly. The process of transitioning from a contracted operation to in-house operations has identified a number of structural and operational challenges. The sewer system is in the middle of a significant structural upgrade. The \$110 million project includes construction of a new central sewer plant along with significant upgrades to the lines that feed the plant.

Additionally, the City has hired staff and assumed full operational responsibilities. This project and process towards internal functionality will require vigilance in monitoring the operational and capital budgets. It is likely that adjustments will be required moving forward as the team gains a full understanding of operational challenges.

As of June 30, 2018, the waste water operating fund had approximately \$2.9 million in unrestricted cash reserves. Operating results from FY 2018-19 are expected to result in a reserve balance of \$7.7 million.

The following table provides results of operations for the past two years and unaudited results from 2018-19:

Beaumont Actual Results WASTEWATER OPERATING FUND					
FY 2017, FY 2018 and Estimated FY 19					
			FY 2017	FY 2018	FY 2019
Beginning Fund Balance			\$ 897,094	\$ 2,317,042	\$ 2,937,056
Revenue					

	Interest				\$ 118,335
	Sewer Fees		\$ 7,423,174	\$ 8,046,176	\$ 8,811,918
	Other		\$ 1,741	\$ 11,312	\$ 1,466
Expenses					
	Personnel		\$ 69,407	\$ 303,747	\$ 959,892
	Admin Overhead		\$ 600,000	\$ 600,000	\$ 612,000
	Other Operating Costs		\$ 4,064,715	\$ 2,678,621	\$ 2,747,197
	Total Expense		\$ 4,734,122	\$ 3,582,368	\$ 4,319,089
	Operating Surpluses/ (Deficit)		\$ 2,690,793	\$ 4,475,120	\$ 4,612,630
	Net Transfers (In/(Out))		\$ (1,270,846)	\$ (3,855,106)	\$ 121,047
Ending Fund Balance			\$ 2,317,042	\$ 2,937,056	\$ 7,670,732
*Wastewater operations were contracted up until mid FY 18 which created an increase in personnel costs and a decrease to other operating costs					

Note: the waste water operating fund is responsible to make debt service payments which total approximately \$4 million beginning in FY 2019-20. This will significantly narrow positive operating results.

Known and Potential Financial Challenges for the City

While the City has enjoyed positive operational results over the past few years and has a strong reserve balance in the General Fund, there are significant financial challenges on the horizon.

Known Financial Challenges

- *Growth in expenses is generally expected to outpace revenue growth over the next 5 years* - our long term forecasting suggests revenue growth at or near 2% annually over the next 5 years. Meanwhile, expenditures are expected to grow at levels closer to 3% annually. The net impact of this will be to narrow our positive operating margins.
- *Capital maintenance needs have not been separately budgeted* - while we have funding sources to maintain many facilities, the City has not had the funds to adequately maintain City facilities. It is prudent to budget some General Funds each fiscal year to address deferred maintenance gaps.
- *Information technology needs currently exceed available resources* - the City's information technology infrastructure currently is exposed to significant high risk areas that need to be addressed. This includes the need to address disaster recovery, information security, significant upgrades to the data center and staying current on software needs. To adequately address these high risk areas, the City will need to invest approximately \$1.5 million over the next 5 years.
- *Pension Cost Increases* - as of June 30, 2018, the City had an unfunded liability of over \$15 million related to pensions. This liability will need to be paid down over the next 15 to 20 years. This is in addition to normal pension costs necessary for current employees. The result of this will be significant increases in pension costs over the next 7 to 10 years before they begin to stabilize and eventually reduce. The City will need to consider options to address this liability.
- *Insurance and Self-Insurance Risks* - the City uses a combination of self-insurance and external insurance coverage. Self-coverage provides for exposure of up to \$250,000 for general liability per claim and \$300,000 per claim for workers compensation. The City should consider setting aside an allocation to a legal reserve fund to cover costs above and beyond budgeted levels. Our current estimate is that \$750,000 would be a reasonable reserve level.
- *Growth will drive New Positions and costs* - if the City continues to grow at or near the pace of the past several years, new positions and other costs will be necessary to maintain services. Revenues may not keep pace with this growth, especially when an economic downturn occurs - see discussion of potential recession impacts below.

- *City will Outgrow Existing Facilities* - most facilities are at capacity. As a result, the need for new positions to maintain service levels will drive the need to expand or replace existing facilities, driving capital expenditure requirements.
- *Growth in Community Demands* - as the City expands, growth in demands for services such as parks and recreation will also increase. The current funding structure does not provide for sufficient revenues to cover the full costs of residential growth.
- *Aging Infrastructure* - a significant portion of the City's street, drainage and utility infrastructure are relatively new. However, the City will experience depreciation and failure within a relatively short window of 10 to 15 years. The City's maintenance programs will need to be robust enough to maintain the infrastructure at acceptable levels which are established by City Council policy.

Potential Financial Threats

- *Affordable Housing requirements* - state legislation and regional processes are driving a requirement to substantially increase the number of affordable housing units. While it remains somewhat unclear how this will unfold, it is prudent for the City to consider the potential costs of infrastructure and community services that will result from these mandates.
- *Impacts of a Recession or economic slowdown* - we are enjoying a very long period of economic expansion. Historically, a financial recession occurs every 6 to 7 years. We are now fully 9 years since the last downturn ended. Recessions have generally lasted 1 to 2 years but the financial impacts are often felt for another year or two after recovery has started. It is prudent to plan for some level of an economic downturn within the next three years. While reserves are in place for this exact type of scenario, even a mild recession coupled with other financial challenges could force the City to use its reserve balances.

Discussion Questions for City Council

1. Is it a Council priority to maintain existing services/ functions at or above current levels?
2. Are there any services/ functions the Council wants to consider reducing or eliminating?
3. Are there any services or functions the Council wants to consider expanding or augmenting?
4. Are there any new services the city wants to consider adding?
5. Does the Council want to consider making a direct budget allocation to capital maintenance projects?
6. Does the Council want to consider making a direct budget allocation to address information technology high risk areas?
7. Does the Council want to explore options for increasing working capital to meet financial challenges?

Set Next Meeting Date(s)

The Council is asked to consider one or more additional budget workshops to provide guidance to staff.

Fiscal Impact:

This budget workshop is a planning meeting only. There is no financial impact to the City from this planning workshop.

Recommendation:

It is recommended the City Council provide guidance to staff on the next steps in the budget building process and set a meeting for a second budget workshop.

Attachments:

[General Fund Analysis - Exhibit A](#)

Beaumont Actual Results GENERAL FUND			
FY 2017, FY 2018 and FY 2019 (estimated)			
	FY 2017	FY 2018	FY 2019
	Actual	Actual	Unaudited (estimate)
Beginning Fund Balance	\$ (4,070,636)	\$ 5,247,540	\$ 10,531,396
Revenues			
Property Tax	\$ 4,852,262	\$ 5,199,098	\$ 5,656,662
Sales Tax	\$ 4,851,947	\$ 5,029,443	\$ 5,558,667
Franchise Fees	\$ 805,244	\$ 876,551	\$ 912,923
Motor Veh In-Lieu Tax	\$ 3,768,042	\$ 4,125,662	\$ 4,517,090
Other Taxes	\$ 1,891,979	\$ 2,489,914	\$ 1,942,682
Permits and Licenses	\$ 4,268,970	\$ 4,787,153	\$ 5,773,934
Charges for Services	\$ 6,934,989	\$ 8,491,817	\$ 9,160,140
Fines and Forfeitures	\$ 128,005	\$ 114,572	\$ 129,224
Misc Revenues	\$ 527,930	\$ 403,579	\$ 808,937
Total Revenues	\$ 28,055,975	\$ 31,849,709	\$ 34,459,840
Expenses			
General Govt	\$ 5,464,863	\$ 4,434,173	\$ 6,105,943
Public Safety	\$ 12,503,812	\$ 12,918,763	\$ 14,552,370
Public Works	\$ 2,902,986	\$ 3,161,763	\$ 3,468,330
Community Develop	\$ 1,218,594	\$ 1,430,407	\$ 1,948,916
Community Services	\$ 2,396,166	\$ 3,070,774	\$ 3,646,563
Refuse	\$ 4,239,048	\$ 4,899,899	\$ 5,504,512
Other *	\$ 508,754	\$ 1,087,252	\$ 914,693
Total Operating Exp	\$ 29,234,223	\$ 31,003,031	\$ 36,141,327
Operating Surplus/ (Deficit) (1)	\$ (1,178,248)	\$ 846,678	\$ (1,681,487)
Net Transfers (In)/(Out)	\$ 10,496,424	\$ 4,437,178	\$ 5,645,237
Ending Fund Balance	\$ 5,247,540	\$ 10,531,396	\$ 14,495,146

(1) Excludes transfers from CFD fund and Gas Tax

* Debt service and capital outlay

Attachment A

