



**City of Grand Terrace**  
**City Manager's Office**  
 22795 Barton Road  
 Grand Terrace, CA 92313-5295  
 (909) 430-2212

June 11, 2013

Honorable Mayor, Mayor Pro Tem, City Council Members,  
 and Citizens of Grand Terrace

***Introduction***

Transmitted herewith is the Proposed Budget for Fiscal Year (FY) 2013-14. The foundation for this document is the Five-Year Financial Analysis and Budget Stabilization Plan (Five-Year Plan), which was presented to the City Council on April 22, 2013, and which provided the basis for the work of the Budget Advisory Committee. While the Five-Year Plan focused on policy decisions that would need to be made to address an ongoing projected General Fund structural deficit, the Proposed Budget narrows the focus to the projected revenues and expenditures for the upcoming fiscal year. Once adopted, the FY 2013-14 Budget will serve as the City's annual financial plan and basis for budgetary control. While the Five-Year Plan addressed the City's major funds (General Fund, Child Care Fund and Waste Water Disposal Fund), the Proposed Budget includes all City funds.

A number of enhancements have been made to the Proposed Budget document, in an effort to make the document more meaningful to the City Council and the citizens of Grand Terrace. These enhancements include background information on the City such as community profile/statistical summaries; organizational/financial structure information; additional financial summaries; program descriptions; position allocations; and a glossary of terms.

***Funds Requiring Policy Decisions***

The three funds addressed in the Five-Year Plan (General Fund, Child Care Fund and Waste Water Disposal Fund) require policy decisions by the City Council in order for the respective budgets to be balanced. Following is a brief discussion of the issues impacting these three funds. The other funds are balanced or have adequate accumulated fund balance to cover proposed expenditures and do not need policy decisions prior to budget adoption.

**General Fund**

The General Fund revenues and expenditures shown in the Proposed Budget are not in balance, and reflect a deficit of revenues to expenditures of (\$674,713). Significant policy decisions will need to be made to enable a balanced budget to be adopted. These issues and budget balancing options are addressed later in this transmittal letter.

Child Care Fund

The Five-Year Plan identified a projected deficit of revenues to expenditures of (\$54,807) in FY 2013-14 and advised the City Council that recommended rate adjustments would be submitted as part of each annual budget process to achieve the goal of the Child Care operation being self-supporting. A separate staff report has been submitted for the City Council agenda of June 11, 2013, recommending a rate increase of 2% effective July 1, 2013. If approved by the City Council, this rate increase is expected to balance revenues and expenditures and maintain a minimal but positive fund balance through FY 2013-14. This proposed rate adjustment has been incorporated in the Proposed Budget.

Waste Water Disposal Fund

Consistent with the Five-Year Plan, an operating deficit of (\$231,260) is projected for FY 2013-14 in the Waste Water Disposal Fund. There are a number of issues concerning waste water collection and treatment with the City of Colton that are currently being evaluated and that could alter the budget projections. The City Council is in the process of addressing these issues. Once resolved, there will be a need for budgetary adjustments to this fund.

***Budget Advisory Committee***

The Ad Hoc Budget Advisory Committee was appointed by the City Council to review the Five-Year Plan and related information, and submit its recommendations to the City Council regarding budget stabilization options. The Committee met six times (from April 25 through May 29) and has issued its report to the City Council as a separate item for the City Council agenda of June 11, 2013.

***General Fund Budget***Beginning Fund Balance

In the Five-Year Plan, FY 2013-14 beginning fund balance for the General Fund was projected at \$440,960. After receiving the Final Determination Letter from the Department of Finance on the "Other Funds" Due Diligence Review, the City Council was presented with various options for handling loan repayment from the General Fund to the Successor Agency. Based on the direction received from the City Council on May 14, 2013, the beginning General Fund balance for FY 2013-14 has been revised to \$300,152, reflecting accelerated loan repayments which benefit the General Fund due to the City's property tax share that is received from payments to the Successor Agency and subsequent disbursement to the various taxing entities.

Operating Deficit

The General Fund operating deficit that is reflected in the FY 2013-14 Proposed Budget is the same as shown in the Five-Year Plan at (\$674,713). Actions to reduce or eliminate this deficit are policy decisions to be made by the City Council; therefore, they are addressed in the budget balancing options that follow. Once direction is received from the City Council, the adjustments will be incorporated in the FY 2013-14 Budget prior to its adoption. However, before addressing the budgetary deficit, there are

several expenditure increases to the FY 2013-14 Proposed Budget that are recommended for the City Council's consideration.

#### Recommended Expenditure Increases

The following expenditure increases are recommended in the FY 2013-14 Budget.

Recommended Action	Justification	FY 2013-14 Amount	Recurring Annual Cost
Remove "underfill" status of Accounting Technician	The Accounting Technician position in the Finance Department has been "underfilled" as an Account Clerk since April 2010. This action was taken to facilitate the transfer of an employee from another department whose position had been eliminated and who did not meet the minimum requirements for the Accounting Technician position. The individual in the position is now fully performing all duties of the position and should be classified as an Accounting Technician.	\$2,200	\$2,200
Implement additional banking services	To improve internal control and staff efficiency, it is recommended that Positive Pay and Remote Deposit services be added through Bank of America. Positive Pay is recommended as a basic control against check fraud. Remote deposit will allow check deposits to be processed without requiring staff to drive to the bank.	\$1,100	\$1,100
Updated valuation for Other Post Employment Benefits (OPEB)	The last OPEB valuation was performed in 2008. Per Governmental Accounting Standards Board (GASB) Statement No.45, valuations should be performed every two years to determine the actuarial liability and required annual contribution.	\$7,500	\$5,000 every other year
November 2013 Special Election	Funding of \$75,000 is needed for a special election in November 2013: \$25,000 County cost, plus \$50,000 for Election Advisor, tax analysis, ballot measure preparation, and preparation/mailing of informational (non-advocacy) materials to residents.	\$75,000	None
Total		\$85,800	\$5,800

If the recommended expenditure increases as shown above are approved by the City Council, the projected operating deficit for FY 2013-14 will increase to (\$760,513). Despite adding to the deficit, each action is considered to be essential and is recommended for approval.

### Budget Reduction Options

At this time it is not known whether or not a special election to consider a tax measure will be held in November 2013 or, if held, the outcome. This uncertainty makes adoption of a balanced General Fund budget difficult. For this reason, four (4) budget reduction options are presented for the City Council's consideration. The expenditure reductions incorporated in these options were previously identified in the Five-Year Plan.

#### Option #1 – Offset projected budgetary deficit with expenditure reductions to preserve maximum fund balance and maintain fiscal stability.

Budgetary Category / Action Item	FY 2013-14 Impact	Fund Balance
Beginning Fund Balance		\$300,152
Projected Budgetary Deficit	(\$674,713)	(\$374,561)
Recommended Expenditure Increases	(\$85,800)	(\$460,361)
Reduce law enforcement contract by two (2) deputies (\$257,500 each)	\$515,000	\$54,639
Close Rollins and Pico Parks	\$120,000	\$174,639
Reduce contract services (Finance & City Attorney)	\$52,000	\$226,639
Eliminate Senior Center funding	\$27,000	\$253,639
Reduce EOC/CERT Committee funding by 50%	\$5,700	\$259,339

While the actions included in the above option would have a significant impact on the community, it represents the most fiscally conservative course of action given the uncertainty of a November 2013 tax measure. Fund balance would be reduced by approximately \$41,000 but would remain adequate at \$259,339 to mitigate short-term operating risks and for the City to remain fiscally viable, at least for the short term. The services reduced or eliminated under this option could also be reinstated fairly easily, should a November 2013 ballot measure be approved by the voters. Under this option, the residents served per Sheriff's Deputy would decline from 1,520 to 2,026.

#### Option #2 – Authorize provisional depletion of fund balance to help offset budgetary deficit, pending November 2013 special election.

Budgetary Category / Action Item	FY 2013-14 Impact	Fund Balance
Beginning Fund Balance		\$300,152
Projected Budgetary Deficit	(\$674,713)	(\$374,561)
Recommended Expenditure Increases	(\$85,800)	(\$460,361)
Reduce law enforcement contract by one (1) deputy	\$257,500	(\$202,861)
Close Rollins and Pico Parks	\$120,000	(\$82,861)
Reduce contract services (Finance & City Attorney)	\$52,000	(\$30,861)
Eliminate Senior Center funding	\$27,000	(\$3,861)
Reduce EOC/CERT Committee funding by 50%	\$5,700	\$1,839

The actions included in the above option would still have a significant impact on the community, but would mitigate the public safety impact when compared to Option #1. Residents served per Sheriff's Deputy would be 1,737 versus 2,026 in Option #1. However, since fund balance would be essentially depleted by the end of the fiscal year,

additional budget reduction actions would need to be implemented effective December 2013 if a ballot measure is delayed beyond November 2013 or is unsuccessful.

Option #3 – Defer expenditure reductions, except reduction of one (1) Sheriff's Deputy, pending November 2013 special election.

Budgetary Category / Action Item	FY 2013-14 Impact	Fund Balance
Beginning Fund Balance		\$300,152
Projected Budgetary Deficit	(\$674,713)	(\$374,561)
Recommended Expenditure Increases	(\$85,800)	(\$460,361)
Reduce law enforcement contract by one (1) deputy	\$257,500	(\$202,861)

This option is considered to be a temporary cost reduction measure that can be implemented with minimal disruption to the community and City operations, pending a decision to proceed with a November 2013 ballot measure and the outcome of such a ballot measure. However, to avoid ending the fiscal year with a fund deficit (which would require borrowing from other funds), additional budget reduction actions would need to be implemented effective December 2013 if a ballot measure is delayed beyond November 2013 or is unsuccessful.

Option #4 – Defer expenditure reductions pending November 2013 special election.

Budgetary Category / Action Item	FY 2013-14 Impact	Fund Balance
Beginning Fund Balance		\$300,152
Projected Budgetary Deficit	(\$674,713)	(\$374,561)
Recommended Expenditure Increases	(\$85,800)	(\$460,361)

This option would maintain City services and operations at the current level, pending a decision to proceed with a November 2013 ballot measure and the outcome of such a ballot measure. This option has the greatest risk, in that failure to pass a tax measure in November 2013 at an adequate funding level would require dramatic budget cuts immediately thereafter to enable the City to remain fiscally viable. The items identified in Option #1 would need to be implemented effective December 2013, plus additional actions taken as discussed below.

City Manager's Recommendation

Options #1 and #2 enable a balanced General Fund budget to be adopted, although both options include dramatic service level reductions that will impact the community, as well as the use of fund balance as a revenue source to offset budgeted expenditures. (Option #1 would reduce fund balance by \$41,000, while Option #2 would deplete essentially the entire fund balance of \$300,152.) Options #3 and #4 do not represent a balanced budget, since budget reductions are largely deferred pending the decision to proceed with a November 2013 ballot measure and the outcome of such a ballot measure. However, these options spare the community from drastic service level reductions included in Options #1 and #2 until the outcome of a tax measure is known. Recognizing the significance of a tax measure to the City's future, it is recommended that Option #3 be approved by the City Council so that immediate cost savings may be

obtained in the law enforcement contract, while deferring other significant budget reductions pending the outcome of a tax measure.

Regardless of which budget reduction option is authorized by the City Council, the following additional actions are recommended to be implemented immediately to position the City for potential further budget reductions that would be needed should a tax measure not proceed or be unsuccessful.

- Issue Request for Proposals (RFP) for outsourcing of City positions identified in the Five-Year Plan (Scenario A-1) and evaluate proposals such that outsourcing could be implemented effective December 2013 if necessary.
- Obtain appraisal for City Hall facility; then attempt to renegotiate loan repayment terms with Zions Bank.
- Solicit offers to purchase Child Care Facility, with preference to maintain it as an ongoing operation utilizing existing staff.

### **Summary**

The FY 2013-14 Proposed Budget is submitted for the City Council's consideration and deliberation. Although most of the City's funds are balanced, three major funds (General Fund, Child Care Fund and Waste Water Disposal Fund) reflect operating deficits unless policy decisions are made to balance the respective budgets. Separate action to increase Child Care rates has been recommended and, if approved, will enable the Child Care Fund to be balanced and self-supporting. Operational issues with the City of Colton must be resolved to enable the Waste Water Disposal Fund budget to be balanced, which the City Council is currently addressing. With respect to the General Fund, maintaining a balanced budget without significantly reducing essential services can only be accomplished by increasing revenues through a local tax measure. An Election Advisor has been retained and the polling process will soon begin to obtain critical public opinion information regarding a November 2013 ballot measure. With this critical election pending, adoption of a balanced General Fund budget is difficult. However, four (4) options have been presented for addressing the projected budgetary deficit pending the outcome of a tax measure. City Council direction is needed regarding these options to enable adoption of the City's FY 2013-14 Budget as scheduled on June 25, 2013.

Respectfully submitted,



Betsy M. Adams  
City Manager