



City Hall, 336 Pacific Avenue • Shafter, CA 93263

**AGENDA  
SPECIAL MEETING  
SHAFTER CITY COUNCIL  
TUESDAY, MAY 12, 2020**

**CORONAVIRUS DISEASE (COVID-19) ADVISORY**

To protect our constituents, City officials and City staff, the City requests all members of the public to follow the California Department of Health Services' guidance and the County of Kern Public Health Officer Order for the Control of COVID-19 restricting group events and gatherings and maintaining social distancing. Additional information regarding COVID-19 is available on the City's website at [www.shafter.com](http://www.shafter.com).

Consistent with Executive Order N-29-20, in-person participation by the public will not be permitted and no physical location from which the public may observe the meeting will be available. **Remote public participation is allowed in the following ways, please see attached supplement for instructions.**

**TELECONFERENCE NOTICE**

Pursuant to Executive Order N-29-20 Issued by Governor Gavin Newsom on March 17, 2020 and, to the extent applicable, Government Code Section 54953(b), the May 12, 2020 City Council Meeting may include teleconference participation by the City Council Members and City staff. Consistent with Executive Order N-29-20, teleconference locations utilized by City Council Members shall not be accessible to the public and are not subject to special posting requirements.

**CALL TO ORDER:** 4:30 p.m.

**ROLL CALL:** Mayor Alvarado  
Mayor Pro Tem Lopez  
Council Member Garcia  
Council Member Givens  
Council Member Prout

**APPROVAL OF AGENDA:**

**PUBLIC COMMENT:**

*This portion of the meeting is reserved for persons wanting to address the Council only on matters listed on this agenda. Speakers are limited to five minutes unless additional time is needed for translation. Please state your name and address for the record before making your presentation.*

**MANAGEMENT REPORT:**

**BUDGET WORKSHOP FISCAL YEAR 2020-2021:** Discussion to set the policy framework for preparing the FY 2020-21 Budget. No action requested. (City Manager Gonzalez)

1. Proposed Budget and Fiscal Policies
2. General Fund Operating Budget Fiscal Year 2019-2020 Year-end Projections

**RECESS:**

**CLOSED SESSION**

1. **THREAT TO PUBLIC SERVICES:** Pursuant to California Government Code, Section 54957. Consultation regarding COVID-19(Coronavirus) impacts to public facilities and services.
2. **CONFERENCE WITH LABOR NEGOTIATORS:** (Government Code 54957.6) Agency Designated Representatives Gabriel A. Gonzalez, City Manager; Employee Organization: Shafter Corrections Officers Association.

**ADJOURNMENT:**

---

Should anyone challenge any proposed action which is the subject of a public hearing listed on this agenda, that person may be limited to raising those issues addressed at the public hearing described in this notice, or in written correspondence delivered to the City Council at or prior to this public hearing. Pursuant to the Americans with Disabilities Act, if you need special assistance to participate in a City Council Meeting, please contact the City Clerk at (661) 746-5000 prior to the meeting or time when special services are needed to allow City staff in making reasonable arrangements to provide you with access to the meeting. Any public record, relating to an open session agenda item, that is distributed within 24 hours prior to the meeting is available for public inspection in the City Clerk's Office at Shafter City Hall, 336 Pacific Ave., Shafter, CA 93263. This is to certify that this Agenda notice was posted at City Hall and the Police Dept. by 4:30 p.m., May 11, 2020. Yazmina Pallares, S/S, City Clerk



Council Chamber, 336 Pacific Avenue • Shafter, CA 93263

**AGENDA SUPPLEMENT  
REGULAR MEETING  
SHAFTER CITY COUNCIL  
TUESDAY, MAY 12, 2020**

**THE MAY 12, 2020 MEETING WILL BE CONDUCTED PURSUANT TO THE  
PROVISIONS OF THE GOVERNOR'S EXECUTIVE ORDER N-25-20**

In order to minimize the spread of the COVID 19 virus, please do the following:

1. You are strongly encouraged to observe the City Council meetings live via YouTube <https://www.youtube.com/user/CityofShafter/>
2. If you wish to make a comment on a specific agenda item or public comment, please submit your comment via email by **4:00 P.M. on Tuesday, May 12, 2020** to the City Clerk at [CityClerk@shafter.com](mailto:CityClerk@shafter.com)
3. If you wish to make a written comment to the City Clerk, 336 Pacific Avenue, Shafter, CA 93263.
4. If you wish to make a comment during the live meeting, callers must first register with the City Clerk at 661-746-5012 before the meeting begins to receive instructions and the call-in number and code. Please call by 5:00pm on the Monday prior to the Council meeting to allow ample time for sign up. You will need to provide your name, phone number and the item number you wish to address.
5. All public comments are provided to the City Council and applicable Staff, for review and consideration by the Board prior to taking action on any matters listed on the agenda and are incorporated into the official record of the Council meeting.

The City of Shafter thanks you in advance for taking all precautions to prevent spreading the COVID 19 virus.



336 Pacific Avenue • Shafter, CA 93263

**NOTICE OF  
SPECIAL MEETING OF THE SHAFTER CITY COUNCIL**

NOTICE IS HEREBY GIVEN that a special meeting of the City Council of the City of Shafter will be held on Tuesday, May 12, 2020. The meeting will convene at 4:30 p.m., via teleconference. Said special meeting shall be for the following purpose:

**MANAGEMENT REPORT:**

**BUDGET WORKSHOP FISCAL YEAR 2020-2021:** Discussion to set the policy framework for preparing the FY 2020-21 Budget. No action requested. (City Manager Gonzalez)

1. Proposed Budget and Fiscal Policies
2. General Fund Operating Budget Fiscal Year 2019-2020 Year-end Projections

**RECESS:**

**CLOSED SESSION**

1. **THREAT TO PUBLIC SERVICES:** Pursuant to California Government Code, Section 54957. Consultation regarding COVID-19(Coronavirus) impacts to public facilities and services.
2. **CONFERENCE WITH LABOR NEGOTIATORS:** (Government Code 54957.6) Agency Designated Representatives Gabriel A. Gonzalez, City Manager; Employee Organization: Shafter Corrections Officers Association.

Yazmina Pallares, City Clerk

---

**Affidavit of Posting Special Meeting Notice**

This is to certify that this Special Meeting Notice was posted at City Hall and the Police Department by 5:00 p.m., May 11, 2020. Further information regarding this Agenda Notice is available at City Hall, 336 Pacific Ave., Shafter, CA.

Yazmina Pallares, S/S, City Clerk

Dated: May 11, 2020



# City of Shafter COUNCIL AGENDA REPORT

---

Meeting Date: May 12, 2020

FROM: Gabriel Gonzalez, City Manager  
Prepared By: Bill Statler, Budget Advisor

SUBJECT: BUDGET AND FISCAL POLICIES

## RECOMMENDATION

Conceptually approve the proposed *Budget and Fiscal Policies* in guiding preparation of the Preliminary Budget, with final adoption in June 2020 in conjunction with approval of the 2020-21 Budget.

## DISCUSSION

### Background

When clearly articulated (and followed), budget and fiscal policies provide an essential foundation for effective financial decision-making and in protecting the City’s fiscal health, in both the short and long-term.

The City’s fiscal health is a lot like personal health: it isn’t what you live for; but it is hard to enjoy your life without it. Cities don’t exist to be fiscally healthy: they exist to make communities better places to live, work and play. However, this requires the fiscal capacity to link community goals with the resources needed to achieve them. In short, fiscal health is not an end in itself; but it is an important part of the tool kit in achieving “ends.”

And like personal health, fiscal health is rarely luck. The strength of the local economy is obviously an important fiscal health factor – just as genes are in personal health. However, regardless of the strength of its local economy, no city is immune from economic downturns or unexpected expenditure needs.

For this reason, clearly articulated policies are a city’s “north star” in guiding the preparation and implementation of budgets and financial plans.

They help make tough decisions easier by stating an organization’s values before they are placed under stress by adverse circumstances. The organization might still choose to do something different – effective policies are guides, not straightjackets – but they are a powerful starting point: but for “this,” the organization should do what?

**Formal statements key budget and fiscal policies provide the foundation for assuring long-term fiscal health by establishing a clear framework for effective and prudent financial decision-making.**

Stated simply, articulating and then following prudent fiscal policies is the most effective and proven way for government agencies to ensure their long-term fiscal health.

## Budget and Fiscal Policies

---

They are both preventative and curative: clearly articulated policies help prevent problems from arising in the good times; and help respond to bad times when they do occur. They also help provide continuity as elected officials and staff change. Lastly, budget and fiscal policies are most powerful when put in place before the need for them arrives.

In summary, adopting key fiscal policies is an essential factor for effective stewardship of the City's resources, both in the short and long-term.

### Proposed Budget Policies

“One size does not fit all” in setting fiscal policies. Careful consideration needs to be given in developing policies that are appropriate given the unique circumstances of each city.

Based on “best practices” recommended by professional organizations like the Governments Finance Officers Association of the United States and Canada (GFOA) and the California Society of Municipal Finance Officers (CSMFO) as well as the major credit rating agencies, fiscal policy areas that the City will want to address are presented in the sidebar.

However, these can be developed over time when the new Administrative Services Director comes on board. Accordingly, for guidance in preparing the 2020-21 Budget, we recommend focusing on the following four policies as set forth in Attachment 1:

- Budget purpose and organization
- Revenue management
- Minimum fund balance and reserves
- Financial reporting and budget administration

Each of these will provide an important foundation and guidance for staff preparation of the Preliminary Budget for 2020-21 as well for the Council's review of it at the workshops and hearings that will follow its issuance by June 1, 2020.

### Minimum Fund Balance and Reserves

While each of the attached policy areas speak for themselves, minimum fund balance is an especially important policy in determining the City's ability to respond to unexpected fiscal hardships such as local disasters, public health

#### Fiscal Policy “Best Practices”

“One size does not fit all” in setting fiscal policies. Careful consideration needs to be given in developing policies that are appropriate given the unique circumstances of each city. Fully addressing all of these areas is planned in the coming year.

- Budget purpose and organization (including a balanced budget policy and what this means)
- Revenue management
- User fee cost recovery: when should user fees fund services versus general purpose revenues?
- Minimum fund balance and reserves
- Financial reporting
- Budget administration
- Investments
- Appropriations limit
- Capital improvement plan (CIP) management
- Capital financing and debt management
- Purchasing
- Human resources management
- Productivity
- Contracting for services

## Budget and Fiscal Policies

---

crises, downturns in the economy, external revenue hits (like State budget takeaways) and unforeseen operating or capital needs. Stated simply, it is the City's first line of defense in responding to adverse, unforeseen circumstances.

The City is fortunate to already have in place a comprehensive reserve policy, which was adopted by the Council in February 2017 (Resolution No. 2509). However, there are a few proposed clarifications that would be useful for 2020-21 and beyond in implementing this policy, most notably:

- **Purpose of reserves.** Reserves exist for a reason. The proposed policy sets forth those purposes in accordance with the risk assessment methodology developed by the GFOA.
- **Defining operating expenditures.** The current policy calls for a minimum assigned fund balance in the General Fund of 50% of operating expenditures; and minimum available working capital in the Water, Wastewater and Refuse enterprise funds of 25% of operating expenditures. However, it delegates determining operating expenditures to the Administrative Services Director. The proposed policy makes it clearer in defining how this basis should be determined: operating, debt service and revenue sharing pass-through expenditures, less any significant one-time operating costs.
- **Guidance on when it is appropriate to go below the minimum target.** The proposed policy clarifies the one-time circumstances where taking reserves below the target minimum balances would be appropriate.

These proposed changes to the current minimum fund balance/reserve policy are highlighted in the attached *Budget and Fiscal Policies*: additions are underlined, and deletions are ~~struck through~~.

### Next Steps

If conceptually approved by the Council at this time, staff will use these policies as the foundation in guiding preparation of the 2020-21 Preliminary Budget. Final adoption of the policies will occur in June 2020 in conjunction with the Council's approval of the 2020-21 Budget. For future reference, the City's *Budget and Fiscal Policies* will be included the Budget document (as will any future additions or revisions).

In considering the proposed *Budget and Fiscal Policies*, it is important to note that while the City is currently in compliance with all of them, this may not always be the case in the future. Accordingly, it is important nonetheless to articulate the goal: clearly stating where the City wants to be (versus where it may at that time) will significantly enhance the City's ability to achieve it.

For this reason, each policy area is followed by a brief summary of "compliance status." If the City has not yet achieved the goal, a status summary on the City's progress in doing should be provided. In short, including the policies in the Budget document will keep the policies in front of the Council, community and organization; and help make the relationship between policy and actual transparent for these stakeholders.

**FISCAL IMPACT**

There are no direct fiscal impacts as a result of conceptually approving the proposed *Budget and Fiscal Policies*. However, this will provide an important policy framework and foundation for preparing the Budget.

**ALTERNATIVES**

1. Approve different budget and fiscal policies than those proposed.
2. Do not approve budget and fiscal policies in establishing a policy framework for financial management and decision-making.

**ATTACHMENT**

1. Proposed Budget and Fiscal Policies



## BUDGET AND FISCAL POLICIES

---

### BUDGET PURPOSE AND ORGANIZATION

A. **Balanced Budget.** The City will maintain a balanced budget. This means that:

1. Operating revenues must fully cover operating expenditures, including debt service and revenue sharing pass-throughs.
2. Ending fund balance/working capital must meet minimum policy levels or other target levels established by the Council for the fiscal year.

Under this policy, it is allowable for total expenditures to exceed revenues in a given year; however, in this situation, beginning fund balance should only be used to fund capital improvement plan projects or other “one-time,” non-recurring expenditures. (See *Minimum Fund Balance and Reserves* policy below for other circumstances when it would be appropriate to use beginning fund balance.)

B. **Budget Objectives.** Through its Budget, the City will link resources with goals and results by:

1. Identifying community needs for essential services.
2. Organizing the programs required to provide these essential services.
3. Describing programs and activities performed in delivering services.
4. Proposing objectives for improving the delivery of program services.
5. Identifying and appropriating the resources required to perform program activities and accomplish program objectives.

C. **Measurable Objectives.** The Budget will establish measurable program objectives and allow reasonable time to accomplish those objectives.

D. **Goal Status Reports.** The status of major program objectives will be formally reported to the Council on an ongoing, periodic basis.

E. **Mid-Year Budget Reviews.** The Council will formally review the City’s fiscal condition, and amend appropriations if necessary, six months after the beginning of each fiscal year.

*Status: In Compliance. These practices are either in place or the Council has adopted a budget process and document for 2020-21 that meets these policy objectives. However, linking resources to outcomes and measuring performance will always be a work in progress, with ongoing improvements.*

### REVENUE MANAGEMENT

- A. Current Revenues for Current Uses; One-Time Revenues for One-Time Purposes.** The City will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues or rolling over short-term debt. The City will avoid using one-time revenues to fund ongoing program costs.
- B. Revenue Distribution.** The Council recognizes that generally accepted accounting principles for state and local governments discourage the “earmarking” of General Fund revenues, and accordingly, the practice of designating General Fund revenues for specific programs should be minimized in the City's management of its fiscal affairs. In those cases where it does occur, the basis and methodology for earmarking should be clearly articulated in the City’s Budget and Fiscal Policies.

*Status: In Compliance. These practices are either in place or the Council has adopted a budget process and document for 2020-21 that meets these policy objectives.*

### MINIMUM FUND BALANCE AND RESERVES

#### *Section 1: Policy*

- A. Policy Overview.** This policy accomplishes two main goals. First, it sets forth specific levels of minimum unassigned fund balance to be maintained for the City's General Fund and a minimum level of available working capital for the City's Water, Wastewater and Refuse enterprise funds. Secondly, this policy establishes a framework and process for the City to follow if these reserve levels falls below the established minimum.

This policy provides guidelines for fiscal sustainability through maintaining adequate operational liquidity and should be used in the preparation of the City's Annual Operating Budget, Capital Improvement Plan and general financial management of the City. It does recognize the need for exceptions in extraordinary conditions and unforeseeable events while maintaining a goal and path to regain fiscal sustainability when necessary.

This Policy should be submitted periodically for peer review, if available, to confirm compliance with best practices and industry standards, including those issued by the Governmental Finance Officers Association of the United States and Canada (GFOA) in setting reserve levels that adequately address risks such as:

1. Economic uncertainties, local disasters, public health crises and other financial hardships or downturns in the local or national economy.
2. Contingencies for unseen operating or capital needs.
3. Unfunded liabilities such as self-insurance, pensions and retiree health obligations.
4. Institutional changes, such as State budget takeaways and unfunded mandates.
5. Cash flow requirements.

## Budget and Fiscal Policies

---

While an independent review does not serve as a substitute for adoption by the Council, it does demonstrate staff's due diligence in the preparation and updating of the policy.

- B. **Objectives.** The purpose of this policy is to assist the City in the pursuit of the following equally important objectives:
1. Maintain long-term fiscal sustainability of the General, Water, Wastewater and Refuse Funds.
  2. Meet the short-term liquidity needs of the General, Water, Wastewater and Refuse Funds.
  3. Cultivate a fiscally responsible internal control environment.
  4. Help achieve the highest possible credit ratings and lowest possible financing costs when borrowing funds.
- C. **Budget Integration and Financial Management.** The City's Annual Operating Budget and Capital Improvement Plan should be developed to comply and implement the various aspects of this policy. This includes but is not limited to both the budgeted use of excess unassigned fund balance or available working capital and the rebuilding of the same as needed to maintain compliance with the minimum reserve levels established herein. As a part of the budget process the City should conduct a sustainability analysis of the General Fund, which compares actual and budgeted recurring revenue sources with recurring expenditures. This tool can help identify a fiscal imbalance before it erodes the General Fund unassigned fund balance.
- Any areas of shortfall or otherwise non-compliance with the minimum reserve levels contained within this policy should be disclosed in the City's Annual Operating Budget document and Comprehensive Annual Financial Report, including a response from management on what actions are being taken to bring the City back into compliance with the policy.
- D. **Annual Policy Review.** Recognizing the liquidity needs of the City will change over time due to items such as the volatility of expenditures; exposure to significant one-time outlays; potential impact on the City's bond rating and cost of borrowed funds; other fiscal commitments and assignments; and the availability of other funds. Accordingly, this policy will be reviewed in conjunction with the City's budget process. Any changes to the policy shall be brought to the Council for consideration and approval.

### *Section 2: Minimum Balances*

The following amounts are hereby established as the minimum unassigned fund balance for the City's General Fund and minimum available working capital for the City's major utility enterprise funds.

- A. **General Fund.** At the end of each fiscal year, the General Fund should have a minimum unassigned fund balance of at least 50% of the next fiscal year's budgeted General Fund annual operating expenditures ~~as calculated by the Administrative Services Director.~~ This is

## Budget and Fiscal Policies

---

determined based on operating, debt service and revenue sharing pass-through expenditures, less any significant one-time operating costs. This represents 180 days of General Fund operating cash flow and is conservatively based on the risk assessment methodology for setting reserve levels developed by the GFOA.

- B. Water, Wastewater and Refuse Funds.** The City operates three major utility enterprise funds: water, wastewater and refuse, which provide essential public services that are paid for by users of these services. Maintaining adequate liquidity in these funds is an essential factor in the City's ability to provide these services without interruption. Accordingly, at the end of each fiscal year the City should have a minimum available working capital balance (current assets less current liabilities, minus amounts designated for funding capital projects) in each of these enterprise funds at equal or more than 25% of ~~the next fiscal year's budgeted~~ operating expenditures for that fund ~~as calculated by the Administrative Services Director.~~ This is determined based on operating, debt service and revenue sharing pass-through expenditures, less any significant one-time operating costs.

This minimum available working capital balance should be factored into all future user rate studies used to establish utility user rates for these three funds.

- C. Taking Reserves Below Minimum Policy Levels.** There are circumstances where intentionally taking reserves below the established policy levels would be appropriate in responding to the risks that reserves are intended to mitigate and are not considered a violation of this policy. These include one-time uses such as:

1. Making investments in human resources, technology, economic development, productivity improvements and other strategies that will reduce future costs or increase future revenue sources.
2. Reducing ongoing expenditures through the partial or full refinancing of liabilities
3. Closing short-term revenue/expenditure gaps.
4. Responding to unexpected expenditure requirements or revenue shortfalls.
5. Meeting one-time cash flow needs as well as normal cash flow needs during the year.
6. Where a forecast shows an ongoing structural gap, providing a strategic bridge to the future.

Any intentional use of reserves that reduces reserve levels below the minimum policy levels shall be specifically approved by the Council.

### ***Section 3: Correcting Balances Below the Minimum Balance***

Whenever the City's Funds with established minimum balances per this policy fall below these minimal levels, the City will strive to restore these balances to the minimum level within a three-year period. Some actions that may be considered to rectify this situation include the following:

## **Budget and Fiscal Policies**

---

### **A. General Fund**

1. Strategically reducing general fund operating budgets.
2. Updating and improving the City's economic development strategy.
3. Assessing workload and staffing levels to ensure appropriate staffing of General Fund operations, redeploy staffing if necessary.
4. Conduct a revenue study to update General Fund revenue sources that may have fallen behind.
5. Conduct an analysis of the General Fund cost allocation to plan to ensure other City funds are paying the appropriate fees for the General Fund services they receive.
6. Identify special revenues or other funds that can help support the General Fund.

### **B. Water, Wastewater and Refuse Funds**

1. Strategically reduce operations budgets.
2. Initiate a user rate analysis and implement rate changes as needed.
3. Analyze existing debt and possible refinancing options to reduce existing debt service costs.
4. Defer non-essential capital improvement projects until adequate funding can be secured through rate increases, grants or debt issuance.

### ***Section 4: Use of Balances Exceeding the Minimum Balance***

At times, the City may find itself with unassigned General Fund balances and/or available working capital in the Water, Wastewater and Refuse funds that exceed the minimums established by this policy. This policy does not require or recommend that those additional reserve funds be spent down but it does establish the following guidelines regarding the potential use of those funds.

- A. Excess reserve funds are not to be used for new or existing recurring expenses except on a short-term basis.
- B. Investment of these funds on a longer-term basis, in compliance with the City's Investment Policy, should be considered to provide an ongoing source of recurring investment income for the City
- C. Assignment or use of these funds should be considered for early partial or full retirement of existing debt or other City liabilities.
- D. A review of the one-time capital improvements needed within the City should be considered to identify and prioritize potential capital projects. Once potential projects have been

## Budget and Fiscal Policies

---

identified, assignment or use of these funds should be considered for these one-time capital improvement projects.

- E. New (as opposed to replacement) one-time capital improvement projects considered for funding should be consistent with the long-term planning of the Council and community led Shafter Visioning project.

***Status: In Compliance. The unassigned General Fund balance was 54% of operating and revenue-sharing pass-through expenditures at June 30, 2019.***

## FINANCIAL REPORTING AND BUDGET ADMINISTRATION

A. **Annual Reporting.** The City will prepare annual financial statements as follows:

1. In accordance with Charter requirements, the City will contract for an annual audit by a qualified independent certified public accountant. The City will strive for an unqualified auditors' opinion.
2. The City will use generally accepted accounting principles in preparing its annual financial statements and will strive to meet the requirements of the GFOA's Award for Excellence in Financial Reporting program.
3. The City will issue audited financial statements within 180 days after year-end.

B. **Interim Reporting.** The City will prepare and issue timely interim reports on the City's fiscal status to the Council and staff. This includes on-line access to the City's financial management system; monthly reports to program managers; more formal quarterly reports to the Council and Department Heads; mid-year budget reviews; and interim annual reports.

C. **Budget Administration.** The Council may amend or supplement the budget at any time after its adoption by majority vote of the Council members. Council approval is required for all new appropriations from fund balance. The City Manager has the authority to make administrative adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year-end fund balances.

***Status: In Compliance. These practices are in place.***



# City of Shafter COUNCIL AGENDA REPORT

Meeting Date: May 12, 2020

FROM: Gabriel Gonzalez, City Manager  
Prepared By: Bill Statler, Budget Advisor

SUBJECT: 2019-20 GENERAL FUND BUDGET REVIEW

## RECOMMENDATION

Review and discuss General Fund projected results for 2019-20 in providing context for the 2020-21 Budget, which will be issued on June 1, 2020.

## DISCUSSION

### General Fund Balance

The following summarizes projected General Fund revenues, expenditures and changes in fund balance for 2019-20. It provides prior year actuals (2018-19) and the following for 2019-20:

- Current budget as of April 30, 2020
- Year-to-date (YTD) results as of April 30, 2020
- Revised estimates
- Variance of revised estimates from the current budget: favorable (unfavorable)

More detailed schedules analyzing revenues and expenditures follow this summary.

<b>Summary</b>					
	2018-19 Actual	2019-20			
		Current Budget	YTD Actual	Revised Estimate	
				Amount	Variance
Revenues	31,606,900	34,062,600	20,653,000	30,353,600	(3,709,000)
Expenditures					
Operating	14,837,100	18,105,800	12,929,500	17,291,200	814,600
Capital Improvement Plan Projects	9,296,300	12,244,300	2,687,400	7,973,000	4,271,300
Revenue Sharing Pass-Through	8,898,400	8,452,500	7,403,100	8,075,100	377,400
Total Expenditures	33,031,800	38,802,600	23,020,000	33,339,300	5,463,300
Other Sources (Uses)					
Transfers In	152,300	110,400	-	110,400	-
Transfers Out	(2,460,800)	-			
Sources Over (Under) Uses	(3,733,400)	(4,629,600)	(2,367,000)	(2,875,300)	1,754,300
Unassigned Fund Balance, Beginning of Year	21,542,600	17,809,200	17,809,200	17,809,200	-
<b>Unassigned Fund Balance, Beginning of Year</b>	<b>17,809,200</b>	<b>13,179,600</b>	<b>15,442,200</b>	<b>14,933,900</b>	<b>1,754,300</b>
Percent of Operating and Revenue Sharing Pass-Through Expenditures				59%	

## 2019-20 General Fund Budget Review

As reflected above, the General Fund is projected to end the current year with reserves (unassigned fund balance) of \$14.9 million, which is 59% of operating and revenue sharing pass-throughs. This compares with the City's General Fund minimum policy target of 50%.

Moreover, this ending balance is \$1.7 million better than projected in the current budget. As reflected above, even though revenues are less than projected by \$3.7 million (largely due to lower proceeds from sales tax and property sales), this is offset by lower expenditures of \$5.4 million for operating (\$814,600), capital improvement project (CIP) projects (\$4.2 million) and revenue sharing pass-throughs (\$377,400).

2019-20 Beginning Fund Balance Designations	
The following summarizes beginning General Fund balance fund assignments for 2019-20. As reflected below, the unassigned balance was \$17,809,200. This the focus of the City's minimum fund balance policy, and accordingly, it is the focus of this analysis.	
Unspendable	1,356,200
Assigned	
Loss Contingency: CDTFA Petition	9,957,500
Job Center Access Imprv	1,493,700
TCP Settlement: Wtr Trtmnt Plant Imprv	1,616,600
Accumulated Losses in Other Funds	1,947,700
Available for Loan: Water/Wastewater	4,000,000
Strategic Plan CIP Projects	13,250,000
<b>Unassigned</b>	<b>17,809,200</b>
<b>Total</b>	<b>51,430,900</b>

### General Fund Revenues

The following presents the City's General Fund "top ten" revenues (which accounted for 98% of actual revenues in 2018-19), plus the sale of property (a significant item in the 2019-20 Budget) and other revenues. As reflected in this summary, estimated revenues are \$3.7 million less than the current budget, largely due to downturns in sales tax and sale of property revenues.

General Fund Revenues					
	2018-19 Actual	2019-20			
		Current Budget	YTD Actual	Revised Estimate	
				Amount	Variance
Sales Tax	18,692,300	17,313,800	11,264,600	16,823,100	(490,700)
Property Tax/Property Tax in Lieu of VLF	4,011,000	4,167,100	3,753,900	4,167,100	-
Investment Earnings	2,202,500	1,208,500	68,500	1,208,500	-
MCCF Fees	1,820,400	1,400,200	633,400	1,400,200	-
Permits and Service Charges					
Indirect Cost Reim from Other Funds	1,678,300	1,554,400	1,418,100	1,554,400	-
Building	1,100,000	900,000	896,800	925,000	25,000
Engineering	300,000	300,000	370,400	400,000	100,000
Planning	260,000	250,000	259,100	225,000	(25,000)
Other Permit and Service Charges	423,200	410,000	134,800	200,000	(210,000)
Franchise Fees	587,300	561,400	549,400	587,300	25,900
Sale of Property	4,300	5,114,000	822,800	1,972,800	(3,141,200)
Other Revenue	527,600	883,200	481,200	890,200	7,000
<b>Total Revenues</b>	<b>31,606,900</b>	<b>34,062,600</b>	<b>20,653,000</b>	<b>30,353,600</b>	<b>(3,709,000)</b>

## **2019-20 General Fund Budget Review**

---

The following summarizes the variances for these two revenue sources.

***Sales Tax.*** The City has a unique, advantageous sales tax situation compared with other California cities due to significant revenues from the Williams-Sonoma Customer Care Center. While “bricks and mortar” retail and “business-to-business sales are likely to see large declines over the next year (Avenu Insights, the City’s sales tax advisor, projects these to decline statewide over the next nine months by 25% to 35%), on-line sales will decline less – and may slightly increase.

The revised estimate reflects Avenu’s assessment from impacts from the 2008 Great Recession and adjusting for the City’s unique circumstance of Williams-Sonoma on-line sales. Based on Avenu’s analysis, the revised estimate reflects a 10% downturn from the prior year actual in 2019-20. However, the variance from the 2019-20 Budget is less than this because 2018-19 revenues were significantly higher than the original 2019-20 estimate: 2018-19 actual was \$18.6 million compared with an original 2019-20 budget estimate of \$17.3 million.

***Sale of Property.*** The 2019-20 Budget assumed proceeds of \$5.1 million from the sale of two properties: the old Corporation Yard and surplus property at the new Corporation Yard. The sale these two properties will not occur in 2019-20. However, depending on the market, these sales may occur in 2020-21.

Unrelated to these two sales, however, the Council approved purchasing property from the Wilson Family Trust in December 2019, with a budget \$1.15 million. The subsequent sale of related property of \$810,000 is reflected above.

Additionally, the City is in the final stages of acquiring two parcels at a budgeted cost of \$2.1 million. Under a Memorandum of Agreement with the Shafter Parks and Recreation District, it is committed to purchasing a large portion of this property for \$1.5 million, with the City retaining a portion for future resale.

Combined, the two sales result in revenues of \$1.95 million, resulting in a variance of \$3.1 million from the original Budget estimate of \$5.1 million.

### **General Fund Expenditures**

Expenditure estimates are organized into three types:

- Department operating expenditures
- CIP projects
- Revenue sharing pass-throughs

The following analyzes each of these.

***Department Operating Expenditures.*** As reflected below, based on an analysis of year-to-date expenditures and departmental projections, expenditures are conservatively estimated to be less than budgeted by \$814,600, for savings of about 5%.

## 2019-20 General Fund Budget Review

Department Operating Expenditures					
	2018-19 Actual	2019-20			
		Current Budget	YTD Actual	Revised Estimate	
				Amount	Variance
Council	101,600	110,800	75,700	110,800	-
City Manager	438,600	604,500	582,100	604,500	-
City Clerk	322,800	200,900	168,300	200,900	-
City Attorney	905,600	325,000	285,400	325,000	-
Economic Development	449,600	1,099,700	592,400	799,700	300,000
Human Resources	360,900	417,800	312,700	396,900	20,900
Administrative Services	1,005,500	1,235,400	1,072,600	1,210,700	24,700
Planning	440,100	655,500	457,700	615,500	40,000
Police	6,041,100	7,617,500	5,307,300	7,458,500	159,000
Educational Partnership	796,300	875,600	595,000	840,600	35,000
Public Works	3,068,200	3,910,200	2,654,900	3,691,200	219,000
Building	906,800	1,052,900	761,700	936,900	116,000
Emergency Response: Covid-19			63,700	100,000	(100,000)
<b>Total Operating Expenditures</b>	<b>14,837,100</b>	<b>18,105,800</b>	<b>12,929,500</b>	<b>17,291,200</b>	<b>814,600</b>

As reflected above, the City has incurred \$63,700 in emergency response costs through April 30, 2020, and additional expenditures are likely by year-end. It is possible that these costs may be fully or partially reimbursed by the County. However, any such revenues will not be received until 2020-21.

**CIP Projects.** These costs are projected to be significantly less than budgeted, which is not uncommon for CIP Projects, with remaining budgets at year-end typically carried over into the next fiscal year. For example, while the City’s Charter states that operating budgets lapse at year-end, it provides for “project-length” budgets for CIP projects. (The option for project-length budgets is also in accordance with generally accepted accounting principles.)

However, in light of the fiscal challenges facing the City, rather than simply carrying over unexpended balances into next fiscal year, we plan to take a “fresh look” as part the 2020-21 Budget at the following projects (which were largely first introduced in the 2019-20 Budget), with limited or no expenditures year-to-date. Additionally, given current workloads, we need to assess our organizational capacity to effectively manage new projects at this time.

- Land Improvements: Lerdo Highway/Zerker Road
- City Hall Replacement
- ADA Access Improvements
- Aquatics Center
- Walker/Mannel Park
- CDBG Community Pool: General Fund Share
- Building Permit System
- Police Substation
- Police Parking Expansion
- Other Police Projects

## 2019-20 General Fund Budget Review

This does not mean that these projects will not be recommended for funding in the Preliminary 2020-21 Budget; but it does mean that their priority will be reconsidered in light of the City’s fiscal situation and our organizational capacity to manage them, and possibly deferred to later years in the City’s five-year CIP.

As reflected below, these reconsidered projects reflect current budget savings of \$4.2 million.

CIP Projects					
		2019-20			
		Current Budget	YTD Actual	Revised Estimate	
				Amount	Variance
Alliance Site Development	955,300	789,200	16,800	789,200	-
Land Improvements: Lerdo Hwy/Zerker Rd	-	100,000		-	100,000
Land Acquisition	-	3,250,000	1,150,000	3,250,000	-
City Hall Replacement	-	549,300	-	-	549,300
General Plan Update	122,600	-	-	-	-
Corporation Yard Relocation	4,616,500	383,500	291,200	383,500	-
ADA Access Improvements		250,000	26,700	50,000	200,000
Aquatics Center	10,000	2,000,000	-	-	2,000,000
Land Acquisition	1,023,100				-
Walker/Mannel Park		750,000	-	-	750,000
CDBG Community Pool: Gen Fund Share		67,000	-	-	67,000
Kirschenmann Park Improvements	7,700	17,300	-	-	17,300
Shafter Job Center Access Improvements	2,148,900	2,416,900	205,600	2,416,900	-
ERP Replacement	411,900	1,065,900	979,600	1,065,900	-
Building Permit System		50,000	-	-	50,000
Citywide Camera System	300	-	-	-	-
Police Substation		200,000	-	-	200,000
Police Parking Expansion		250,000	-	-	250,000
Other Police Projects		105,200	17,500	17,500	87,700
<b>Total</b>	<b>9,296,300</b>	<b>12,244,300</b>	<b>2,687,400</b>	<b>7,973,000</b>	<b>4,271,300</b>

*Note: In some cases, the revised budget estimate reflects costs to complete the project, not all of which may be expended on a cash flow basis in 2019-20. However, in accordance with City policy, any unexpended balance for these projects will be carried over into 2020-21.*

**Revenue Sharing Pass-Throughs.** The City has several agreements with large retailers in the City to share up to 80% of their sales revenues. While sales tax revenues are the “metric” for determining the amount to be shared, the agreements call for the General Fund to be the source of pass-throughs. Accordingly, the pass-throughs are accounted for expenditures rather than as reductions in sales tax revenues.

These pass-throughs have historically accounted for about 48% of sales tax revenues. Accordingly, since sales tax revenues are reduced from the original budget estimate, pass-through expenditures are also reduced from \$8.4 million to \$8.0 million.

## 2019-20 General Fund Budget Review

---

### Next Steps

The following summarizes the budget calendar for the Council's consideration of the 2020-21 Budget. (Note that all dates are special Council budget study sessions except for planned budget adoption on June 16, 2020.)

Date	Purpose
April 16	Strategic Planning Workshop
April 28	Strategic Budget Direction
May 12	Budget and Fiscal Policies; 2019-20 General Fund Budget Review
June 1	Preliminary Budget Issuance
June 4	Preliminary Budget: Overview and General Fund
June 11	Preliminary Budget: Special and Enterprise Funds
June 16	Council Budget Adoption (Regular Meeting)
June 23 or 30	Continued Budget Review (if needed)

The next steps are Council review of the Preliminary Budget on June 4 and 11, with adoption planned for June 16. However, if needed, June 23 or 30 have been tentatively scheduled for continued review.

### FISCAL IMPACT

There are no direct fiscal impacts as a result of reviewing the projected General Fund fiscal results for 2019-20. However, this provides an important context in preparing the 2020-21 Budget.