



# MEMORANDUM

## City of Venice

### Finance Department

TO: Honorable Mayor and Council Members

THROUGH: Ed Lavalley, ICMA-CM, MPA, City Manager

FROM: Linda Senne, CPA, Finance Director

DATE: May 15, 2020

COUNCIL APPROVAL: Yes

MEETING DATE: May 26, 2020

STRATEGIC PLAN GOAL: Ensure a Financially Sound City

SUBJECT: FY2021 3% Budget Limit – Section 5.02 City Charter

Background: Section 5.02 of the City of Venice Charter places a constraint on the size of a general fund budget that can be submitted by the City Manager to the City Council, without prior Council approval. City Management is hereby requesting the City Council's formal approval to exceed the cap for the FY2021 proposed general fund budget. Section 5.02 reads as follows:

"At least two months prior to the beginning of the fiscal year, the city manager shall submit to the city council a proposed balanced budget and additional recommendations of needs of the city for the ensuing fiscal year and an accompanying message. Without prior city council approval, the city manager's proposed general fund component of the budget shall not be increased by greater than three percent of the approved general fund component of the budget for the prior year, or the percentage change in the Consumer Price Index for All Urban Consumers, U.S. City Average, all items 1967=100, or successor reports for the preceding calendar year as initially reported by the United States Department of Labor, Bureau of Labor Statistics, whichever is greater. Nothing herein shall prohibit the city council from adopting a budget in excess of this limitation, so long as the approved budget is otherwise in accordance with law."

The section above says, that when the City Manager submits his FY2021 proposed budget for consideration, the general fund total cannot be more than 3% higher than the FY2020 general fund budget, without prior Council approval.

The City Fire Department will take over primary responsibility for Emergency Medical Services (EMS) within the City effective October 1, 2020. Therefore, FY2021 will be the first full year of

EMS activities. Fully including this new EMS Division within the general fund budget will cause the budget to exceed the 3% Charter cap. And while it is expected that the FY2021 EMS Budget will be fully funded by property taxes and transport fees and generate a surplus, the Charter cap is based on expenditures only (appropriations) and does not consider the related revenues. Therefore, City Management respectfully requests the City Council waive the Charter cap for FY2021.

#### The Charter Cap Calculation

During the FY2020 budget process, the Finance Department pointed out an ambiguity in the Charter language, which was clarified by City Council (then identified as “Exhibit E”). For purposes of the 3% cap calculation, the “approved general fund component of the budget for the prior year” would include three items:

- 1) The original adopted general fund budget for that year
- 2) Encumbrances rolled from the prior year
- 3) Budget amendments, but excluding extraordinary (large, one-time) items

Following this methodology, the “approved general fund component of the budget for FY2020” would be \$34,182,937, calculated as follows:

#### Base Year Calculation

Original FY2020 Budget	\$33,775,690
Encumbrances Rolled from FY2019	336,521
Budget Amendment #1	70,726
Less: Extraordinary Amendments	-
General Fund Component for the Prior Year	\$34,182,937

The applicable inflation factor is 3%, the greater of the following:

2019 All Items Computer Price Index (CPI-U)	2.3%
Charter Rate	3.0%

And the FY2021 general fund component of the budget that cannot be exceeded without prior council approval would be \$35,208,425:

General Fund Component for the Prior Year	\$34,182,937
Applicable Inflator	103%
Maximum Proposed Budget without Council Approval	\$35,208,425

#### Budgeting Principles

The City’s budgeting process uses sound financial management and best practice budgeting principles and practices to ensure, among other things, that:

- Cash is available when needed for authorized expenditures,

- Reserves are adequate, but not excessive,
- Revenue estimates are generally conservative,
- Restricted funds are expended for the intended purpose,
- Projected surpluses are only appropriated for non-recurring (usually capital or one-time) expenditures
- Debt financing is kept to a minimum and debt terms are matched to related asset lives,
- Capital assets (building and fleet) are acquired, maintained, and replaced as needed,
- Personnel and operational needs are set to maintain desired level of service objectives,
- Interdepartmental allocations are fair and reasonable,
- Best prices are obtained for quality products and services,
- Innovations are incorporated to improve processes and/or reduce costs,
- Budgets are built “from the ground up” utilizing zero-based budgeting concepts, and finally
- Budgets are balanced, i.e., appropriations will not exceed estimated revenues plus fund balance carryovers, leaving at least a minimum “target” reserve.

#### Concepts for the Proposed FY2021 General Fund Budget

Management always strives to follow the above principles and practices when budgeting all City funds, every year. However, because management is requesting a waiver of the Charter cap for the FY2021 budget that will be presented to Council by the City Manager in June, the following are additional objectives specific to the upcoming budget proposal:

- The general fund millage rate will be increased by only .66 mills (the rate the County charged in FY2020 for EMS), so as to be cost-neutral to every City taxpayer. The millage rate in the FY2021 general fund proposed budget will be 4.36 (current 3.70 mills + .66 mills).
- Estimate EMS transport fees consistent with previous studies, but incorporate an appropriate time lag for first year collections.
- The EMS Division costs will increase significantly over FY2020 because FY2021 will be the first full year of staffing and operations. However, these first year costs will approximate previous estimates presented to Council.
- Expect the EMS activity will generate a FY2021 surplus. Restrict this first year surplus for Fire or EMS expenditures, including:
  - o Rent payments to the Fleet Replacement Fund toward the eventual replacement of the currently-leased new rescue units
  - o The previously scheduled purchase of a replacement fire engine
  - o Extra pay-downs on the net Fire Pension liability
  - o Additional reserves restricted for fire and/or EMS
- May increase general fund “pay-as-you-go-capital” above FY2020 levels, to ease pressure off the City’s One Cent Voted Sales Tax Fund. Unless extended, this tax will expire after FY2024.
- Expect to increase “fleet rent” above FY2020 levels, as new assets are continually added to the program.
- Management will not add additional personnel (no new FTEs: full-time equivalents)
- Management will present a balanced budget for the FY2021 general fund and not utilize beginning fund balance/reserve carryovers.

City Management respectfully asks the City Council to waive the Charter cap requirement for the upcoming FY2021 Budget year.

Please do not hesitate to contact me with questions.

Requested Action: Approve to waive the Charter cap requirement for FY2021 budget year

If for an agenda item, this document and any associated backup created by City of Venice staff has been reviewed for ADA compliance: Yes

City Attorney Review/Approved: N/A

Risk Management Review: N/A

Finance Department Review/Approved: Yes

Funds Availability (account number): Click or tap here to enter text.

**ORIGINAL(S) ATTACHED:** Click or tap here to enter text.

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