Budget Highlights

This section summarizes key budget policy issues that are imbedded in the detail of the line items.

Balanced Budget

The City is operating on a pay-as-you-go basis. In accordance with the Statement of Financial Principals, revenues are conservatively estimated, and expenditures are always limited to the available funds. The Budget is broken into a number of different funds because the laws relating to funding sources require this segregation. The largest and most flexible fund is the General Fund, which accounts for most tax revenue, licensees and franchise fees, charges for services, and other sources that can normally be used for any governmental purpose.

There are several other operating funds that must be balanced, including the transit fund, and assessment districts. Considerable effort has been invested in recent years to balance these funds. Transit operations were reorganized and fares increased in order to hold expenses within available revenues. The Lighting District was audited and corrections were made to balance current, ongoing expenses and to eliminate accumulated debts that could not be paid from operations. Finally, the owners of downtown properties agreed to a series of increases to the Plaza Assessment District assessment in an effort to eliminate the fund's operating deficit over a five year period.

Infrastructure Needs

Deferred maintenance of infrastructure, particularly roads, is a deferred liability that does not show up on the balance sheet. Setting aside adequate amounts of money to address this need has been a high priority of the City Council for the past several years. The Council started allocating most of the excess growth in revenues over expenditures to infrastructure. This proposed budget continues the current practice of dedicating 20% of

Transient Occupancy Tax revenue to the Capital Improvement Fund. In the long run this will have a significant positive impact on the quality of life in Ojai. One consequence of this policy is the intentional decision to keep operations lean.

With the lean staffing levels, and increased staff workloads and required duties, it has become increasingly difficult to accomplish many of the key goals of the City Council. The City Council must prioritize demands on staff and decide which goals require immediate attention, and which goals can be postponed until the immediate priorities are completed.

Conservative Revenue Estimates

The General Fund is approximately $9.2 million.

The City's "Big Three" sources of revenue, Transient Occupancy Tax (TOT), Sales Tax, and Property Tax account for approximately $5.8 million of that.

Transient Occupancy Tax receipts have increased by approximately 12.5% since the fiscal year ended June 30, 2011; however, growth decreased to 6.1% at June 30, 2015.More than half of the revenue comes from one operator, the Ojai Valley Inn and Spa. The management at the Inn anticipates that the booking pace will remain strong in the coming year. Therefore we are projecting a 3% increase, which is below the rate of growth over the past five years. Therefore we are projecting a 3% increase, which is below the rate of growth over the past five years.. We expect growth to level off at some point, and also note that TOT is volatile, and an economic slowdown could result is lower revenues.

Sales tax revenues have grown at an average 8.6% rate over the past five years, much slower than the growth in TOT. A portion of the sales tax revenue was impacted by the "Triple Flip" which has been closed out by the State of California in 2016. Accordingly, sales tax revenues will be lower in the coming year and are estimated to be just below the 2012 level. Still, with the ongoing slow growth of the economy and the steady level of tourism staff has projected a 2% growth from the reduced baseline level.

Property tax is the least volatile of all sources and growth has averaged 6.1% over the past five years. The City is currently receiving a portion of the property tax revenues that were previously received by the former Redevelopment Agency. We expect that property taxes will continue to grow in the coming years and staff has included a 2.5% increase in the budget.

Finally, the State has authorized the Successor Agency to repay a loan that was made from the City over the life of the Redevelopment Agency. There are strict limits to the annual amounts that can be
repaid and the State Legislature has continued to pass legislation that impacts the loan balance and the amount of administrative costs that will be paid to the Agency. One of these changes may impact the amount of City overhead expended to administer the Successor Agency and this will likely reduce the amount of these costs that can be charged to the Agency. The loan repayment is not revenue to the City and has not been included in the revenue estimate. The intent of staff is to use the loan repayment to increase reserves.

Several sources of revenue are expected to decline. Gas tax revenues decreased over $55,000 in fiscal year 2016 and will decrease $18,000 more in the coming year. As previously noted, the amount of overhead that can be charged to the Successor Agency will decline by at least $140,000 next year. The imposed reduction has been appealed but the actual reimbursement amount will be known before the final budget is adoptedThese reductions are built into the revenue estimate.

Staffing

As previously noted, staff levels have been maintained at very lean levels for several years. The staffing strategy has been to use technology, contracting services, and reducing top administration to reduce payroll. The savings have been used to add more temporary and contract resources to the Community Development Department in order to accomplish some of the highest priorities established by the City Council.

Over the past year, it has become increasingly difficult for existing staff to keep up with increasing workloads, statutory requirements, and demands on resources. The proposed budget includes the following changes in staffing that are needed in order to meet the increased staff demands and the related costs:

1. Finance Department- Add an accountant position. The department previously had 5.5-6 full time equivalents (FTE), including the following full-time positions: accountant (a CPA and accounting

supervisor), senior accounting specialist, accounting specialist, office specialist II, and an office specialist I. Upon retirement of the accountant and an accounting specialist the City decided to not replace the two staff members. The lack of an accountant has caused unsustainable workload for existing staff and we have reached a point where it is critical to add an accountant. The estimated cost of this change is dependent on actual the benefits elected but is estimated to be approximately $114,000.

2. Community Development Department (CDD) - Add a building and planning technician. The workload in the CDD is greater than the current staff resources can manage and a second full-time staff person is needed. This position will result in the elimination of a part-time temporary office specialist II position. The part-time clerical support was added to reduce overtime, and expedite processing of applications. The estimated cost of this change is dependent on the actual benefits elected but is estimated to be approximately $57,000.
3. Public Works - Eliminate a maintenance worker I position and add a maintenance worker II position. The level of work performed by the maintenance worker I has increased and the position should be elevated to maintenance worker II. The estimated cost of this change is $3,420.
4. Reorganization of City Manager's Office - the budget proposes eliminating the existing deputy city manager position and replacing with a Human Resources/Risk Manager position that would focus primarily on human resources and the city's risk management programs. The City Manager will directly supervise the Recreation Manager, and some deputy city manager duties would be shifted to the Administrative Assistant.

Employee Compensation

The City Council normally meets in closed session before the start of the fiscal year to discuss any desired changes to employee compensation.

The proposed budget includes a 2% increase in full-time salaries, equivalent to approximately $53,000, in anticipation of this discussion.

The Public Employees Retirement System and State Legislature have made actuarial and structural changes to the retirement system that will result in increasing pension payments for several years, a leveling off after that, and long run decreases. Current PERS costs are comprised of ongoing PERS rates for employees and an annual amortization of the unfunded PERS liability. The estimated PERS charges to the City will increase by approximately $160,000 this year. This is built into the benefit expense line items for each operating division of the City.

Prior to 2012 the City offered a very generous post-retirement medical benefit (OPEB) that was funded on a pay-as-you-go basis. This benefit was significantly reduced to the minimum allowed by the Public Employees Health System for employees hired after 2012. However, the costs will go up before they go down as employees still covered by the more generous benefit retire. The City has decided to partially pre-fund that liability. The benefits of this prefunding arrangement are: 1) Funds put into a trust account with PERS yield investment rates comparable to those earned in the PERS portfolio; 2) Prefunding- the OPEB agreement allows the plan actuaries to use a higher discount rate for future liabilities which results in decreased long-term liabilities for the OPEB benefit; and 3) The funds placed in the OPEB trust can be drawn down to fund the City's OPEB liability as needed in the future. In each of the past two years the City Council approved contributions of $100,000 per year to start pre-funding the liability.
The proposed budget includes a third $100,000 contribution to the trust in the coming year.

Equipment to Enhance Productivity
Public employees are expensive, and it is foolish to hamper their productivity by having them work with old tools and equipment that hinder efficiency and productivity. A couple of years ago a sinking fund was started to provide for the timely replacement of vehicles and major pieces of equipment. The budget includes charges to user departments totaling about $60,000 for vehicle replacement.

The fiscal year 16 budget included a similar sinking fund for equipment replacement, information technology upgrades and replacement, and other productivity enhancing equipment. The charges to departments total $40,000.
Staff has developed a multi-year plan for upgrading our computers, software applications, and other IT equipment. Staff is also developing a replacement schedule for the tools and equipment needed for maintenance crews, non-office personnel, and office staff. The current budget includes the use of $30,000 from this reserve for implementation of Building & Planning software.

Community Support

The Council has provided financial support to the Visitor's Bureau, Museum, Green Coalition, and July 4th Committee. These allocations should be reviewed in detail annually and are not guaranteed from year to year. Nevertheless, the proposed budget includes $100,000 for Community Outreach, $50,000 for Libbey Bowl operations, and $3,000 for the July 4th program. This approach provides flexibility to the City Council for community organizations..

Capital Improvement Plan (CIP)

The CIP provides the means to plan for high priority capital improvements on a multi-year basis. Even though capital projects in the coming year, and most of the following year are fully allocated to paving, park and complete street projects, Council is encourage to consider the priories down the road. If we plan now for projects three or more years down the line, we are in a better position to acquire funding through grants, private donations, or saving. We can also start design work early to keep the projects moving through the pipeline. Our planning for roadwork three and four years ago has put us in a position to place $1 million in overlays in fiscal year 2016.

The regular allocation of Transient Occupancy Tax to the Capital Improvement Fund enhances our ability to attract other funding. We were recently notified that we have been awarded over $2.5 million for sidewalk, road, and other improvements which would not have been possible if we could not guarantee matching funds. The availability of predictable funds for these projects has also resulted in a strong funding partnership with the Ojai Civic Association and contributions from others.

Resilience

A conservative budget, lean staffing, pre-funding of long term liabilities, building up our reserves, and fixed allocations to capital improvements together give the City the resilience to weather hard times such as economic downturns while attempting to maintain operating service levels. Recently, the lean staffing levels have made it increasingly difficult to maintain the operating service level that has been provided in the past. Ojai has experience challenging times in the past, and it would be unwise to not prepare for that eventuality in the future. The projection for next year looks reasonably clear of significant issues, but we watch carefully for signs of problems so that we can adjust quickly if necessary.