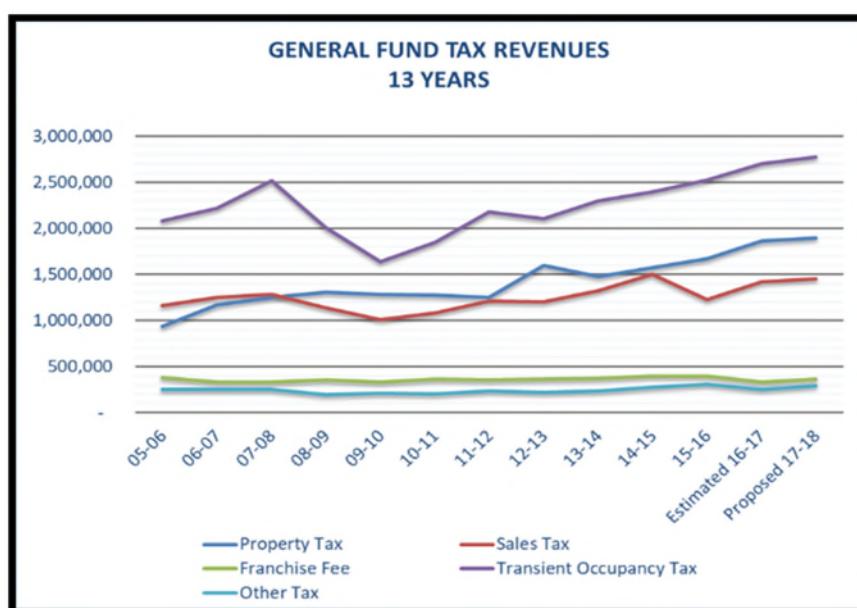
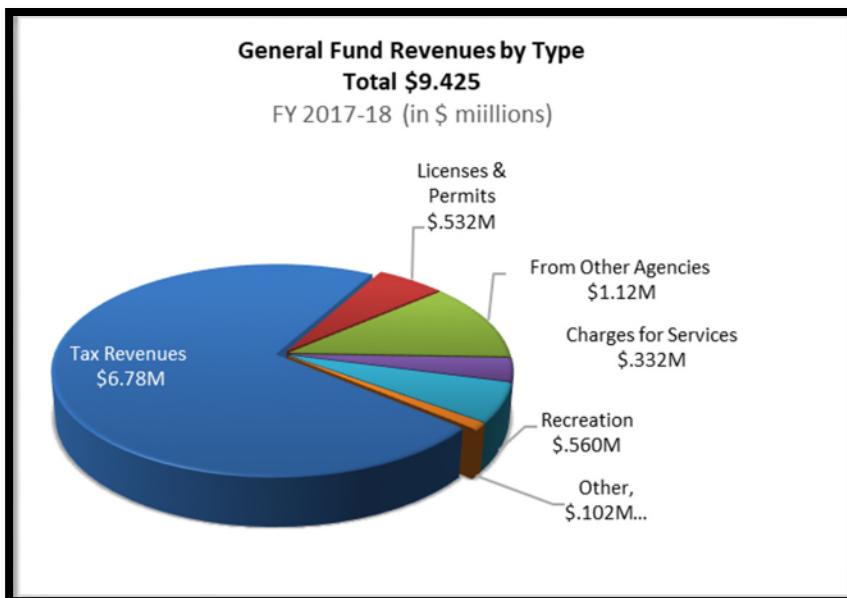


City Manager's Budget Message

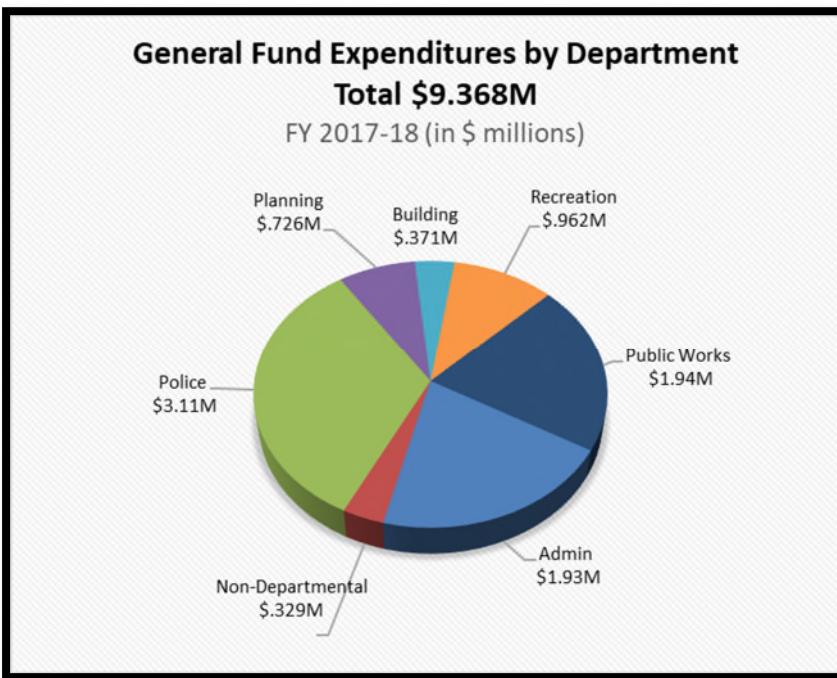
It is my pleasure to transmit the budget for FY 2017-18. This document is a summary of the various items included in the budget. It is one of the most important policy documents that the City Council must address because it makes the choices about how the City will use its limited resources.

General Fund:

The FY 17-18 budget is balanced. Staff projects approximately \$9.43 million in revenues, with approximately \$6.78 million derived from tax revenues (see chart to the right). The remaining \$2.65 million comes from Licenses and Permits, Charges for Services, Recreation Fees, and other revenues.



General fund tax revenue trends are shown in the table at left. This table shows a high-level overview of tax revenue trends over the last 13 years, including Property Tax, Franchise Fees, Sales Tax, Transient Occupancy Tax (TOT) (including the TOT transfer to Fund 31), and other taxes. This chart shows that most General Fund taxes are expected to



Treasurer.

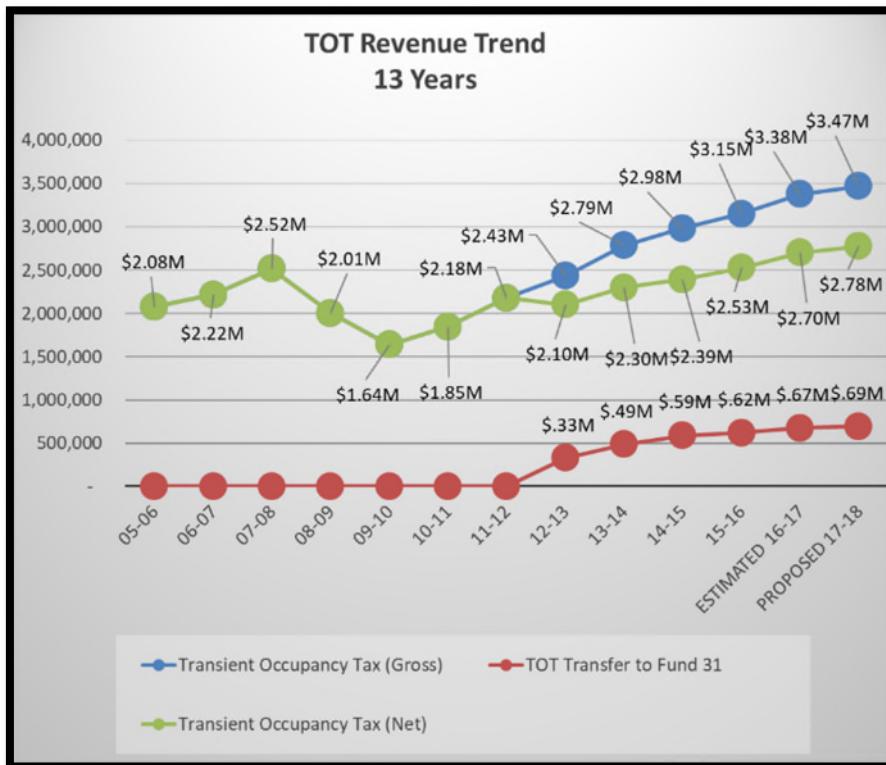
Historical Perspective:

The City of Ojai is highly dependent upon tax revenue from the tourism industry, by way of TOT, which account for approximately 34.2% of General Fund revenues, and related sales tax revenues. As a result, the City is subject to potentially significant shifts in revenues depending on how the economy is affecting travel and tourism. A key contributor to TOT revenues is the Ojai Valley Inn and Spa.

increase in Fiscal Year 17-18. Franchise fees are expected to decline, primarily due to the loss of fees from Golden State Water.

Staff projects approximately \$9.37 million in The breakdown of expenditures by department can be seen in the table at the left.

The “Administration” category includes the following departments: City Council, City Manager, Finance, City Clerk, and City



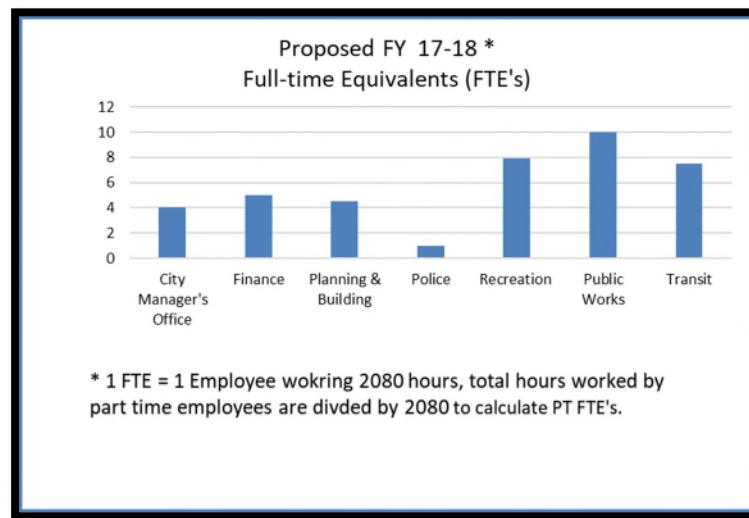
In 2003, the Inn was closed for renovation for an extended period. During this period, City operations were curtailed, and reserves were essentially depleted. From 2005 to 2008, the Inn was reopened and the City was able to begin to replenish reserves. The trend was interrupted by the Great Recession, starting in 2008-2009, but as of FY 16-17, TOT revenues have surpassed the levels experienced prior to the recession. The City has continued to transfer 20% of TOT to Fund 31 for Capital Improvement Projects (as indicated in the chart on the bottom of page 2).

Commitment to Infrastructure:

As City revenues have improved in recent years, the City Council made strategic decisions about how to structure the budget for the future. The most pressing issue was to provide secure, on-going funding to maintain infrastructure, especially streets. The Council decided to keep City operations lean, enact a tourism improvement district to increase TOT, and to dedicate a portion of the growth in TOT to its capital improvement fund. By FY 2014-15, 20% of the TOT was being directly deposited into the Capital Improvement Fund. This amount has grown over the last several years, from approximately \$330,000 in FY 2012-13, to an estimated \$690,000 for FY 2017-18. In addition, the City has successfully leveraged its contributions with grants and donations. Having local "match" money available can enable the City to receive top rankings for its grant applications.

Operational Efficiency:

The flip side of setting aside adequate funding for capital improvements is the reduction in funds available for City operations. The City decided to keep staff levels and operations lean for several years. Last year's budget began to reverse that trend with the goal of restoring staffing levels to near pre-recession levels. This budget maintains the staffing levels approved for FY 16-17 in an effort to maintain good customer service and responsiveness. The move from having city offices open four days a week to five days a week has made it more difficult for staff to meet the demands of the public and slowly, over time, we have adjusted many positions and schedules to meet the schedule demands. As a result, 14 of the City's 29 full-time budgeted positions are now on a five-day, 40-hour work schedule; 15 employees remain on a four-day, 36-hour work schedule. The budget includes 39.9 Full-Time Equivalent positions for the City (excluding

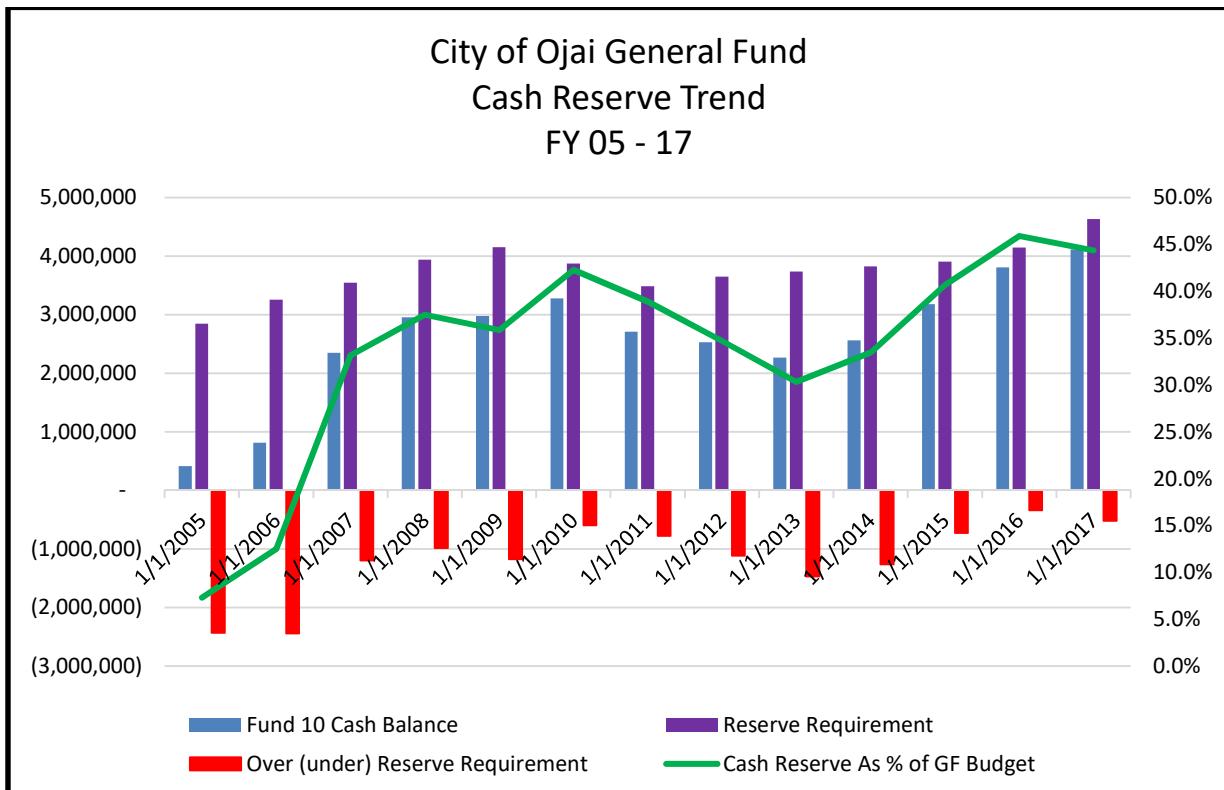


elected officials). This is in line with FY 16-17, but is an increase from the 37.4 FTE's in FY 15-16 and FY 14-15. In the past year, the City has added an Accountant position in the Finance Department, a Planning/Building Technician and Associate Planner (currently vacant with recruitment in process) in the Community Development Department, and a Senior Maintenance Worker in Public Works. These positions will help the City improve the quality of service provided to our residents.

Planned Equipment Replacement:

Another part of efficiency is making sure the employees we do employ have the tools needed to do their jobs in the most productive way possible. Starting in FY 2013-14 a replacement fund was established for vehicles and in FY 15-16, a fund was established for replacement of equipment and technology. The goal is to accumulate enough money to replace vehicles and equipment toward the end of their useful lives, when repair costs accelerate and current technology no longer serves the needs of the City. That practice has been continued in this budget to address these needs. The budget includes transfers from the General Fund and the Transportation Fund, totaling approximately \$65,000 for vehicle replacement, and \$40,000 for equipment and technology.

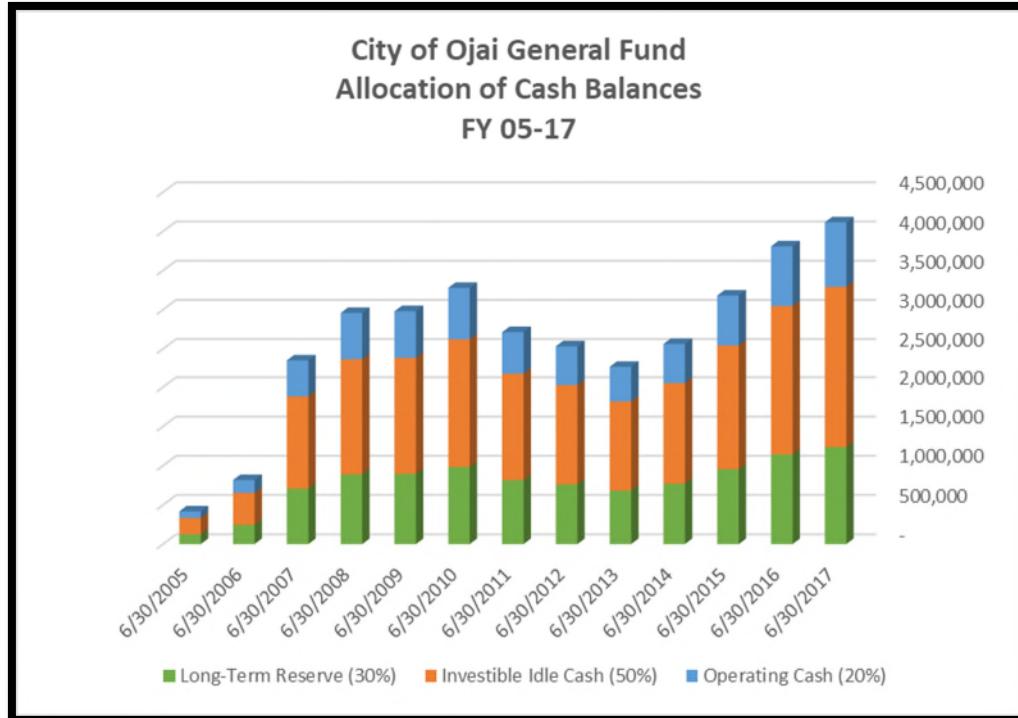
Reserves:



Due to the volatile nature of TOT and Sales tax revenues, which represent approximately

48.5% of total budgeted General Fund revenues, it is important to have substantial reserves. The City Council policy is to have General Fund cash reserves equal to 50 percent of the annual General Fund appropriations. Cash reserves fluctuate throughout the year and staff projects that the cash reserve balance held in the General Fund will be about 44% of budgeted General Fund expenditures at June 30, 2017, 6% short of the reserve goal.

Staff expects to allocate reserves in the following manner: 20% as operating cash, 50% as investible idle cash, and 30% as long-term reserves (See the table above). These allocations are discussed in the Summaries section of the budget document.



Economic Outlook:

There are several concerns that need to be considered in preparing the current and future budgets. The following are five of the most pressing concerns for the foreseeable future:

- **Pension costs** – The State of California and CalPERS have taken measures to ensure that the plan has sufficient assets to fund promised future benefits. Changes by the state will result in future cost reductions as new employees receive reduced pension benefits and employees must pay a portion of their pension contributions. Other changes will result in immediate and significant increased pension costs to the City. Recent changes made by CalPERS will result in an estimated \$150,000 annual increase in pension costs to the City.
- **OPEB Retiree Medical** – The actuarially computed liability for retiree medical costs has been increasing over the past few years as governmental and financial accounting standards boards have changed the requirements for computing and reporting these costs for inclusion in the City's financial statements. Some of these costs are hard costs (i.e. amounts actually paid for medical insurance premiums for retired employees and their dependents) and others are amounts computed by

actuaries based upon complex computations and assumptions. Currently, the City pays more than \$150,000 annually for retiree medical premiums. The City has significantly reduced retiree medical benefits for employees hired after October 1, 2012 but will be responsible for retiree medical benefits for many of the current work force as they retire in the coming years. The City has been contributing \$100,000 per year to the OPEB trust for future retiree medical premiums. These contributions are anticipated to begin to reduce the accrued long-term liability as early as FY 2018-19.

- **Medical Insurance & Benefits** – Costs for the City's portion of CalPERS medical insurance have been relatively constant over the past two years; however, the cost of several individual plans have increased significantly for employees and dependents. These increases have resulted in four of the eight available plans requiring contributions for employee coverage and increased costs for dependent coverage. The most recent City Council position was to establish a baseline contribution that would provide for no contribution for employee coverage. The premium for the PERS Choice plan has been established as the baseline amount.
- **Public Safety Costs** - Costs for Police services have been increasing between 2.5-5% annually over the past few years. Some of the increase is due to new technology (MDTs, body cameras, smart phones, etc.), changing the type of vehicles used and equipping them, and protective equipment, but most of it is the cost of services provided by the County Sheriff Department. The cost of public safety has been increasing in all cities and increased costs are expected from the Sheriff as well. The cost of services provided by the County are lower than they would be for a City police force but the increased costs need to be covered by increased revenues or decreased expenditures in other areas of the budget.
- **Economic Downturns** – Current economic indicators and analysis by several trusted economists do not point to a recession in the immediate future. Regardless, economic cycles always include downturns at some point. US and foreign geopolitical issues could result in a sudden down turn or the natural cycle could have a downturn in the coming years. Regardless, City operations should be structured to provide for buffers to allow us to weather any future economic storms.

Budget Format:

The layout and presentation of the budget have been revised to allow readers to more easily understand the document, while still providing sufficient detail for in depth analysis. Items A-F in the Table of Contents constitute the Budget while item G includes supplemental information to allow the reader to delve into the numbers that make up the amounts in the budget. The revised layout includes the following sections:

A – Budget Message: The budget message is a summary of the budget and important information provided by the City Manager transmitting the budget to City Council.

B - Statement of Financial Principles: These principles have been developed to guide City Council and staff as we budget city resources and use those resources to carry out

the mission of the City.

C – Adopted Budget – General Fund and All Other: The budget is presented in summarized form, including major revenues and expenditures by major expenditure types. The Budget is shown in the first column with comparisons to prior year budgets and prior year actual amounts in the other columns. Furthermore, the General Fund budget is laid out to show the City's "net income from operations", which is revenues less departmental expenditures. This is intended to present the resources available to use for contingencies, non-operating expenditures, and transfers.

The budget includes \$10.1 million revenue less \$8.4 million departmental expenditures resulting in \$1.27 million in "net income from operations". The budget includes the following "non-operating" expenditures resulting in \$1.0 million "net income before transfers":

- \$ 100,000 Prepayment of Retiree Medical
- 70,000 Museum grant
- 50,000 Green Coalition grant
- 3,000 July 4th Committee grant
- 1,000 2-1-1 Ventura County grant

The budget includes the following transfers resulting in "Net Income" of almost \$58,000:

- \$ 40,000 Transfer to Equipment & Technology Replacement Fund
- 66,800 Transfer to Vehicle Replacement Fund
- 145,700 Transfer to Capital Projects Fund
- 691,750 20% of TOT Transfer to Capital Projects Fund

D – Budget Highlights: Includes narratives about significant items included in the budget and schedules providing additional information to allow readers to understand different aspects of the budget. These schedules are a new addition to the Budget Highlights and include:

- **General Fund Revenues by Type and Expenditures by Department** – This shows revenues by major revenue type and the expenditures that are budgeted for each department (and sub-department) in the General Fund. This includes the dollar and percent changes from the prior final budget and a comparison to actual results from the prior three years.
- **General Fund Revenues & Expenditures by Major Category** – This shows revenues by type and expenditures by major expenditure type in the General Fund. This includes the dollar and percent changes from the prior final budget and a comparison to actual results from the prior three years.
- **General Fund Departmental Expenditures by Major Category** - This schedule shows the expenditures of each General Fund department by major expenditure category. This includes the dollar and percent changes from the prior final budget and a comparison to actual results from the prior three years.
- **Changes from FY17 Final Budget to FY18 Budget** – This schedule highlights the

more significant General Fund items that changed from the prior year budget to the FY18 budget.

- **Revenue & Expenditure Summary – All Funds** – This schedule shows the revenues, expenditures, and budgeted use of fund balance for each of the City's funds. This includes the dollar and percent changes from the prior final budget and a comparison to actual results from the prior three years.

E – Summaries – This section includes 20 charts and graphs providing historical and current budget information to assist the reader in understanding various aspects of the General Fund and other funds in the City.

F – Adopted CIP Plan – This includes multi-year schedules that were adopted by City Council on June 27, 2017 showing the estimated revenues and City's planned capital and other projects for the next five years. This also shows the five-year plan for equipment & technology and vehicle revenues and expenditures.

G – Supplemental Information – This is a new section of the budget which includes the following:

- **FY 17-18 Budget Detail Worksheet** – This includes line item detailed revenue and expenditures for each city fund, with a total showing the net "Revenues over/ (under) expenditures for each fund. This includes the dollar and percent changes from the prior final budget and a comparison to actual results from the prior three years. This schedule shows the budget in the first column and comparison information in other columns.
- Line item detailed revenue and expenditure schedules for all departments and funds of the city, narratives describing the various items included in each schedule, and organization charts for all departments of the city. This is comparable to the budget schedules and narratives contained in prior year budgets

Respectfully Submitted,



Steve McClary,
City Manager