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July 2, 2018

Honorable Mayor and City Council:

We are pleased to present to the Adopted Budget for Fiscal Year (FY) 2018-19, which presents a balanced operating spending plan and represents the City's continued commitment to providing a high level of service to the Community.

Temple City continues to experience slow economic growth which, combined with rising pension and other employee compensation costs, presents an ever-increasing challenge to the City's financial future. Fortunately, the City is in a strong financial position due to prudent decisions by the City Council. In preparing the Budget staff took careful consideration in making adjustments and modest increases where necessary to provide the services required and where possible, managing the increases in expenditures so that the immediate and long term ability to meet the City's obligations is not compromised. Yet despite a healthy General Fund balance, the City continues to use extreme caution in appropriating funds so as to preserve its fiscal stability, including developing several new documents included in this Budget that will assist staff and the City Council in future financial decisions.

The first document adopted by the City Council was the City's Strategic Plan which identifies the Council's goals and priorities for the future of the Community. This Plan was used to budget programs and services for the following year. The next document developed was a five-year financial forecast model to assist the staff and Council in understanding how current decisions will impact the General Fund into the future and plan accordingly. The final document is a five-year Capital Improvement Plan (CIP) to map out future projects and funding sources. Together, these three documents provide a strategy for fiscal planning.

#### Budget Overview

The Budget is balanced, with \$21 million in total revenues and \$20.5 million in total expenditures, including the CIP. The City's operating budget totals \$17.7 million, of which 87% represents the General Fund. Most of the revenue deposited into the Special Revenue Funds are transferred to the General Fund to support programs.

General Fund revenues total \$14.95 million and when combined with transfers in of \$447,965 from other funding sources, provides total resources of \$15.4 million. Operating expenditures also total \$15.4 million. Another \$774,000 is being transferred out from the assigned General Fund Reserves to the Capital Improvement Fund for budgeted CIP projects. These projections result in a projected General Fund balance of \$17.3 million at June 30, 2019.

General Fund revenues are projected to increase by 5.6% over the previous year primarily due to property tax and in-lieu VLF fees. An increase in revenue from building permits reflects the Terraces mixed use project currently in the permitting phase. All other General Fund revenues are expected to remain relatively flat. Increases in the Special Revenue Funds are due to Gas Tax, Measure M and SB1 funds which will be used for road maintenance and repair.

General Fund expenditures are projected to increase by nearly 5% in FY 2018-19 due to contractual obligations such as CalPERS retirement, insurance costs and the LA County Sherriff's contract. As employee negotiations are in progress, no salary increases have been budgeted in this document.

The number of full-time positions increased by one next fiscal year as a result of a reorganization in the Parks and Recreation Department. A Recreation Coordinator position is being added and the Administrative Coordinator position is being reclassified to a Secretary position at a lower salary. The part-time hours will be reduced to accommodate the changes with no net increase to the Department's budget.

#### Five-Year General Fund Forecast

The five-year forecast included in the Appendix section of this document has been developed as a budget modeling tool to assist the City Council with its commitment to preserving the General Fund balance and fiscal integrity of the City. Assumptions include modest revenue growth of 2%-3%. Operating expenditures (not including CIP) average 2% growth in future years, accounting for contractual increases of 4% for the Sherriff's contract, 5% in insurance costs and a 22% increase in CalPERS retirement rates over the next five years.

While this model reflects the maintenance of a healthy fund balance over time, it does not account for future operating increases other than those mentioned above. When factoring in employee salary increases, unforeseen costs and normal increases in future operations, the balances reflected below will decrease. Likewise, it does not account for any future unforeseen revenue losses.

#### Capital Improvement Plan

As mentioned previously, staff has developed a five-year CIP to identify and schedule needed projects related to infrastructure maintenance and rehabilitation. While the projects aren't all required to be completed within the five-year timeframe, the Plan assists

the Council and staff in prioritizing how the City's funds will be spent in the future. The funded projects listed for FY 2018-19 total \$2,840,000. Those projects with high costs and/or no funding source have been placed on the "unfunded" list subject to City Council consideration.

#### Conclusion

The City Council is presented with a budget that both addresses the needs for the community and does so in a prudent fiscal manner. Over the next several years it will be important that the City continue to cautiously watch economic trends and their impact to local revenues. The City's focus on prudently managing resources while at the same time compensating employees and managing service agreements in a reasonable manner will be a key element as to the City's financial sustainability.

The FY 2018-19 Budget was prepared through combined hard work by members of City staff. We would also like to thank the City Council, the Budget Ad Hoc Committee and Staff for their continued support and interest in planning and conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,



Bryan Cook  
City Manager



Julia James  
Interim Administrative Services Director