TO: Mayor and Councilmembers
FROM: Lourdes Aguirre, Finance Director
SUBJECT: Discussion
AFFECTED DEPARTMENTS: City Wide
ITEM REQUEST: Study Session
TITLE OF AGENDA ITEM:
STUDY SESSION: PROPOSED ½ CENT TAX INCREASE & FUND BALANCE OVERVIEW

EXECUTIVE SUMMARY:

Estimated General Fund – Fund Balance Reserves at 6/30/2019: $782,620
Estimated savings (reserves) the city may have on hand after all revenue and expenditure accruals are posted for Fiscal Year 2019 (for June 30th). It has taken approximately 4 years for the city to grow this fund for the sustainability of city services, a slight economic downturn or simply an incidental that was not budgeted for. Both Fiscal Years 2019 and 2020 have not included a contingency line item to address or help mitigate any unforeseen event. The recommended fund balance for cities and towns is 20%-30% of the general fund budget. In the case of the city, 20% of a $5 Million dollar general fund budget would mean savings equal to $1 Million.

Fiscal Year 2020 General Fund Budget Deficit: -$312,237
This is the sum of the original general fund budget deficit of -$293,204 (main/expected driver: rising pension costs) and increased expenditures proposed by the Citizens Advisory Committee in the amount of -$19,033. Staffing levels remain at a minimum, as do operating costs for each department.

*Implementation of the measures listed below, reduce the impact to fund balance reserves (savings) by $213,496; both measures together, reduce the Fiscal Year 2020 General Fund Budget Deficit from -$312,237 to -$98,741.

Internal budget savings: $90,296
This is the result of savings in personnel for Fiscal Year 2020.

The proposed ½ cent tax increase is expected to generate: $123,200
This is merely a “short-term” solution that would help sustain city operations during the necessary, but long-term economic development/planning efforts. While the increase will affect both businesses and residents, we estimate the impact will be minimal, conservative and across the board. Please see the table below:

<table>
<thead>
<tr>
<th>Purchase/bill in the amount of:</th>
<th>$1</th>
<th>$10</th>
<th>$100</th>
<th>$1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Result of tax rate increase</td>
<td>$0.01</td>
<td>$0.05</td>
<td>$0.50</td>
<td>$5.00</td>
</tr>
</tbody>
</table>

Result of the increase in dollars: For Retail Purchase (Non-Food), Utility or Communication Bill

Failure to implement the proposed ½ cent increase could deplete general fund balance reserves before Fiscal Year 2023 (assuming no additional expenses are added to the budget).

RECOMMENDATION(S): Study Session / Discussion
Attachment(s): Memorandum to Council Dated June 27, 2019 – Titled: AVOID A BUDGET CRISIS (Fund Balance Overview), 8 pages

City Manager Concurrence: _____________________________