

Agenda Item No. _____

**CITY OF YUCAIPA
AGENDA REPORT**

TO: Honorable Mayor and City Council
Honorable Chairperson and Agency Members

FROM: Raymond A. Casey, City Manager
Jennifer Crawford, Assistant City Manager/City Clerk
Fermin Preciado, Director of Development Services/City Engineer
Ryan Blackerby, Finance Manager
Cortney McRae, Accountant

FOR: Joint City Council/Successor Agency to the Yucaipa Redevelopment
Agency/Yucaipa Housing Authority Meeting of June 22, 2020

SUBJECT: Fiscal Year 2020-2021 Budget and Capital Improvement Program

RECOMMENDATION:

That City Council:

1. Adopt Resolution No. 2020-11, approving Fiscal Year 2020-2021 Budgets for the City of Yucaipa General Fund, Special Revenue funds, Capital Projects funds, the Internal Service Fund, and the 2020-2021 Capital Improvement Program; and
2. Adopt Resolution No. 2020-14, adjusting the Appropriations Limit for Fiscal Year 2020-2021; and
3. Adopt Resolution No. 2020-41, adopting the Measure I, Five-Year Capital Improvement Program; and
4. Adopt Resolution No. 2020-42, approving the Revised Five-Year Capital Project Needs Analysis (CPNA) for fiscal years 2019-2020 through 2023-2024; and
5. Adopt Resolution No. 2020-37, approving a list of projects for Fiscal Year 2019-2020 funded by SB1 fund; and
6. Amend the Fund Balance Policy for the General Fund by decreasing the portion of the City's General Fund Balance committed for severe economic emergencies from 30% to 20% of the annual operating budget; and

That the Successor Agency to the Yucaipa Redevelopment Agency:

1. Adopt Resolution No. 2020-12, approving the 2020-2021 Budget for the Successor Agency to the Yucaipa Redevelopment Agency; and

That the Yucaipa Housing Authority:

1. Adopt Resolution No. 2020-13, approving the 2020-2019 Budget for the Yucaipa Housing Authority.

DISCUSSION:

On June 8, 2020, the City Council, Board Members of the Successor Agency to the Yucaipa Redevelopment Agency and the Yucaipa Housing Authority considered the 2020-2021 Draft Budget for all funds and the Draft Capital Improvement Program (CIP) for Fiscal Year 2020-2021. After careful consideration of the Draft Budget document, the City Council, Successor Agency Board of Directors and the Yucaipa Housing Authority directed staff to proceed with the preparation of the Proposed Budget for adoption, as appropriate. As a result, the purpose of this item is to recommend for adoption the resolutions approving the 2020-2021 Proposed Budget and CIP. The Proposed Budget includes no new Service Level Options, except as required, that were prepared by staff and considered by Council as part of the Draft Budget presentation. A summary of the Service Level Options is included in the Budget Message located in the front of the budget document. In addition, a listing of all Service Level Options, including those recommended for inclusion that have been inserted in the Proposed Budget, is located on page 31 of the Proposed Budget document. Service Level Options, approved by Council to be funded by excess previous year(s) General Fund revenues over expenses, have been incorporated into the financial information, as appropriate.

The 2020-2021 Proposed General Fund Budget, including recommended Service Level Options, but excluding fire and paramedic related activities, projects total estimated revenues in the amount of \$23,059,364 and expenditures in the amount of \$23,059,364. This results in a net amount of General Fund revenues meeting expenses. The total projected expenditure budget for Fire and Paramedic Services for Fiscal Year 2020-2021 is \$5,997,536, which requires \$732,135 from the Fire Fund Balance. Attached is Resolution No. 2020-11, which will memorialize the adoption of the 2020-2021 Budget for the General, Special Revenue, Capital Projects and Internal Service Funds, and the CIP.

Budget-in-Brief

A Budget-in-Brief was originally created in Fiscal Year 2015-2016. This proposed Budget-in-Brief is intended to provide interested readers with a capsulated version of the Budget document. It is intended to focus on the highlights of the document and provide the readers with enough information to satisfy general concerns. Readers interested in gaining insight at a greater depth of understanding will be referred to the Budget document itself. The 2020-2021 Budget-in-Brief is available under separate cover.

Capital Improvement Program

The 2020-2021 Proposed CIP has been amended from the draft version approved by Council on June 8, 2020 and includes the 2020-2021 Pavement Management Program (PMP) budget, which was also considered and approved by City Council at the June 8, 2020 City Council meeting. The PMP represents the expenditures plan for street-related improvement and maintenance projects for the 2020-2021 Fiscal Year.

FUND BALANCE POLICY

On May 23, 2011, the City Council adopted the Fund Balance Policy for the General Fund. The purpose of the Policy is to establish procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the City Manager, or his designee, to prepare financial reports which accurately categorize fund balance components as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

On April 25, 2016, the City Council considered an amendment to the Policy, as recommended by staff, to increase the portion of the City's General Fund Balance, committed for severe economic emergencies, from 20% to 30% of the annual operating budget.

As a result of the June 8, 2020 Budget study session, staff was directed to include an additional amendment to the Fund Balance Policy decreasing the portion of the City's General Fund Balance committed for severe economic emergencies back from 30% to 20% of the annual operating budget. This policy is reflected in the Proposed Budget. With the proposed budget in the amount of \$23,059,364, the Emergency Contingency amount would be \$4,463,606 as of June 30, 2021. In addition, City Council has established a Reserve for Economic Stabilization (also referred to as a "rainy day fund") in the amount of \$1,000,000. There is adequate funding in the total "undesignated fund balance" to accommodate these amounts.

APPROPRIATIONS LIMIT:

In November 1979, the voters of the State of California approved Proposition 4, commonly known as the Gann Initiative. The Proposition created Article XIII B of the State Constitution that placed limits on the amount of revenue that can be spent by all entities of government. Only those revenues that are referred to as "proceeds of taxes" can be restricted under this Proposition. This restriction on the limit of tax proceeds is often referred to as the Appropriations Limit.

Each year the Appropriations Limit can be increased based on certain inflationary adjustment factors. The adjustment factors are 1) the percentage change in per capita income, and 2) percentage change in population in either the City or in the entire County, whichever is greater.

The Appropriations Limit for Fiscal Year 2019-2020 was \$44,647,113. The percentage change in per capita income for Fiscal Year 2019-2020 was 3.73%. The percentage change in population within the County of San Bernardino is 0.51%. The percentage change in the City of Yucaipa is 0.51%. Staff is recommending that Council approve the use of the County percentage change in calculating the 2020-2021 Appropriations Limit.

Based on the above adjustment factors, the Appropriations Limit for Fiscal Year 2020-2021 is \$46,548,644. Resolution No. 2020-14, setting the Appropriations Limit for 2020-2021 and identifying the appropriate adjustment factors, is attached.

MEASURE I

The City must adopt an annual Five-Year Capital Improvement Plan for planned expenditures to be funded by revenues from Measure I, the Countywide Transportation Sales Tax program

administered by San Bernardino County Transportation Authority (SBCTA), formerly known as SANBAG. Although these improvements are identified and included in the Seven Year CIP, and adopted as part of the budget, SBCTA requires that a separate resolution be adopted relative to Measure I. Beginning with Fiscal Year 2010-2011, the allocation of Measure I revenues was split between maintenance activities and capital projects in the amounts of 56% and 44%, respectively. On June 9, 2014, the City Council approved reallocating 100% of the annual allocation to maintenance activities. As a result, the Measure I allocation has been included for allocation in the PMP section of the Proposed CIP. Resolution No. 2020-41, identifying the proposed Five-Year plan, is attached. SBCTA has modified the requirements for adopting the Five-Year plan to include language relative to the annual required Maintenance of Effort (MOE), which for the City of Yucaipa, totals the amount of \$175,764. The City has consistently exceeded that threshold since the MOE was established.

MEASURE I CAPITAL PROJECTS NEEDS ANALYSIS

The Measure I 2010-2040 Strategic Plan requires local agencies to annually adopt a five-year Capital Project Needs Analysis (CPNA) to document project needs by fiscal year and includes the anticipated funding sources, funding amounts and project phasing, where appropriate. The annual CPNA also includes the local agency's development mitigation fair share funding contribution for the projects in the form of Traffic Facilities Fee (TFF) funds and SB1 funds in the form of a loan to the TFF account. SBCTA (formerly SANBAG) will use this information to complete their FY 2020-2021 Measure I 2010-2040 apportionment and fund allocation process for each local agency receiving Measure I Arterial funding.

MEASURE I CAPITAL PROJECTS NEEDS ANALYSIS

The Measure I 2010-2040 Strategic Plan requires local agencies to annually adopt a five-year Capital Project Needs Analysis (CPNA) to document project needs by fiscal year and includes the anticipated funding sources, funding amounts and project phasing, where appropriate. The annual CPNA also includes the local agency's development mitigation fair share funding contribution for the projects in the form of Traffic Facilities Fee (TFF) funds and SB1 funds in the form of a loan to the TFF account. SBCTA (formerly SANBAG) will use this information to complete their FY 2020-2021 Measure I 2010-2040 apportionment and fund allocation process for each local agency receiving Measure I Arterial funding.

The projects currently identified in the City of Yucaipa's Capital Improvement Program (CIP), which include Measure I Arterial funding as a funding source, are as follows:

- Yucaipa Boulevard Widening, 15th Street to the I-10 Freeway
- Avenue E Intersections and Sidewalk Improvements, Bryant Street to 5th Street Project
- County Line Road Improvements, Bryant Street to the I-10 Freeway
- Wildwood Canyon Road/I-10 Freeway Interchange
- Calimesa Boulevard Improvements, County Line Road to Oak Glen Road
- 5th Street Widening, Yucaipa Boulevard to Avenue E

On September 24, 2018, City Council adopted Resolution No. 2018-45 approving the initial Five Year CPNAs for fiscal years 2019/2020 through 2023/2024. The funding identified for the five (5) projects listed above in the proposed FY2020/2021 CIP requires that the CPNAs for fiscal years 2020/2021 through 2024/2025 be revised. The Measure I funding identified in the revised CPNAs is

consistent with the funding identified in the Draft CIP reviewed by City Council at the June 8, 2020 City Council Meeting. The funding includes the advancement of Measure I funds from SBCTA's Measure I Major Streets Program Arterial Sub-Program Advanced Funding process approved by the SBCTA Board in July of 2019. This program allows the City to request an advance of up to five years of the City of Yucaipa's estimated equitable share of Measure I Major Street Project Program/Arterial Sub-program funds for various arterial widening projects in an estimated amount of \$6 million based on the amount of the unused fund balance in the program and the City's ability to match the funds with TFF and SB1 funds. These funds would come from allocated but unused Arterial Sub-program Funds.

SB1 FUNDING

Resolution No. 2020-37 is a required resolution to account for the funding obligations relative to SB1. In May of 2020, the State provided the City with their projections of the funding the City would receive for the Road Repair and Accountability Act of 2017 (SB1). The projections show that the City will be eligible to receive approximately \$1,135,000 in new gas taxes from the State for FY2020-2021. In order to receive SB1 funds, cities are being required to provide a list of projects planned to be funded by SB1 funds to the California Transportation Commission (CTC) by July 15, 2020. Projects on the list should be included in a City Council adopted budget or capital improvement program and identify the appropriate level of SB1 funds for FY2020-2021. If approved, staff will submit the City of Yucaipa's list to the CTC prior to the deadline.

The CTC is requiring that each city and county that will be receiving SB1 funds adopt a resolution to amend their budget or approve their budget identifying the SB1 funds. By adopting Resolution No. 2020-37, the City will satisfy the CTC's requirements to be eligible to receive the SB1 funds. Consistent with the Proposed 2020-2021 CIP, the SB1 funds, available for FY2020-2021, are to be allocated to the following projects:

- Wildwood Canyon Road/I-10 Freeway Interchange for Calimesa Boulevard Improvements, County Line Road to Oak Glen Road--\$250,000
- County Line Road Improvements, Bryant Street to the I-10 Freeway--\$85,000
- Avenue E Intersection Improvements--\$100,000
- Pavement Management Program--\$700,000

SUCCESSOR AGENCY TO THE YUCAIPA REDEVELOPMENT AGENCY

During Fiscal Year 2011-2012, the legislature of the State of California enacted AB X1 26, effectively eliminating every redevelopment agency (RDA) in the State. In order to effectively wind down any active projects/programs at the time of dissolution, the Successor Agency to the Yucaipa Redevelopment Agency was formed. The purpose of the Successor Agency is to monitor those remaining activities to completion and exhaust or transfer any and all assets maintained by the former RDA. The Successor Agency has adopted, as prescribed in the legislation, Recognized Obligation Payment Schedules (ROPS) for the purpose of identifying remaining enforceable obligations to be paid from future tax increment revenue. The ROPS is a budget document, adopted for each six month fiscal period, and reflects only those anticipated expenses that have been approved by the State Department of Finance (DOF) in its efforts to unwind all redevelopment activities. Ultimately, the only expenses to be funded by the remaining revenue source will be debt service payments and a portion of administrative costs. Beginning in Fiscal Year 2016-2017, the

ROPS now covers an entire 12 month period.

The Proposed 2020-2021 Budget includes a section for the Successor Agency to the former RDA and reflects the annual amount of anticipated enforceable obligations, as defined by the legislation, and anticipated in the approved ROPS. The Successor Agency will continue to be responsible for debt service payments on the outstanding bond issues and certain administrative expenses, subject to the approval of the DOF. The Successor Agency is no longer responsible for the statutory pass-through payments to other taxing entities. The County Auditor-Controller's Office calculates and makes those payments directly to the affected tax sharing entities, as appropriate.

In addition, the legislation requires that an Oversight Board convene to approve any action taken by the Successor Agency. The initial Oversight Board was dissolved effective June 30, 2018, and the oversight responsibilities have shifted to the newly formed Countywide Oversight Board. Staff does not anticipate any material changes as a result of this shift. The Oversight Board, consisting of seven members representing various affected local governmental entities, has approved the ROPS for the period ending June 30, 2019. In addition, staff anticipates that 2020-2021 ROPS will likely be considered a Last and Final ROPS.

The Draft 2020-2021 Budget was presented to the Successor Agency on June 8, 2020. The Proposed Budget projects total expenditures for Fiscal Year 2020-2021 in the amount of \$690,333 and total revenues in the amount of \$774,183. These amounts include the debt service requirements associated with the Tax Allocation Bonds issued in June 1998, 2004 and 2010.

YUCAIPA HOUSING AUTHORITY

The Redevelopment Dissolution Law provides that upon dissolution of the redevelopment agency (RDA), the city, county, or city and county that authorized the creation of the RDA may elect whether to retain the housing assets and functions previously performed by the RDA. If the city/county elects to retain the authority, then all rights, powers, duties, obligations, and housing assets, are transferred from the former RDA to the city/county. If the city/county does not elect to retain the authority for performing the housing functions, the rights, powers, assets, duties, and obligations are transferred either to the local housing authority, if one exists, or to the Department of Housing and Community Development. If there is more than one local housing authority in the jurisdiction, the city/county may select which local housing authority will serve as the housing successor.

The City of Yucaipa specifically elected to not retain the housing functions of the former RDA, and the housing assets and functions were then transferred to the Yucaipa Housing Authority. As a result, the Yucaipa Housing Authority became the "housing successor" under Health & Safety Code section 34176(b)(3) and, therefore, the Yucaipa Housing Authority should have been eligible for a housing entity administrative cost allowance. With the dissolution of RDAs, up until Fiscal Year 2015-2016, there were no revenue sources available to fund housing obligations. As a result, all costs associated with administering housing related issues have been borne by the City's General Fund.

This changed in Fiscal Year 2015-2016 with the approval of the repayment of General Fund advances. Formulaically, the amount of 20% of the calculated loan repayment is set aside for housing-related obligations. This amount provides resources to cover some of the costs over the next couple of years. Once the General Fund advances are fully paid, which occurred in Fiscal Year

2017-2018, the housing set-aside allocations reverted back to zero.

The Housing Entity Administrative Allowance would have relieved the General Fund of those costs and afforded the Housing Authority the ability to incur costs and more fully implement programs, as prioritized by the Authority. Unfortunately, the State of California, Department of Finance (DOF) interpreted the law unfavorably to the City in that, the DOF claims that the allowance does not apply to public entities that actually created the Housing Authority so long as the creating entity “controls” the Housing Authority. As a result, the DOF has denied an allowance to the Yucaipa Housing Authority. Staff believes the DOF has grossly misinterpreted the law. However, the matter has been litigated and the appellate court has ruled in favor of the DOF. As a result, the anticipated Housing Administration Allowance is no longer expected.

The Draft 2020-2021 Budget was presented to the Yucaipa Housing Authority on June 8, 2020. The Proposed Budget projects total expenditures for Fiscal Year 2020-2021 in the amount of \$37,228 and total revenues in the amount of \$0. Staff will be evaluating available funding options, including the potential of utilizing a portion of the residual receipts from housing projects, and will return to the Board with a recommendation, as appropriate. In the meantime, the Authority will continue to incur a moderate level of expenses in the administration of the three approved senior living projects.

CONCLUSION:

In order to fund financial commitments for Fiscal Year 2020-2021, an approved expenditure plan must be adopted by the City Council. The 2020-2021 Proposed Budget includes a spending plan for all operational programs of the City, the Successor Agency to the Yucaipa Redevelopment Agency and the Yucaipa Housing Authority. The 2020-2021 CIP outlines the spending plan for capital expenditures. The Draft Budget and CIP were considered by the City Council, Successor Agency Board and Yucaipa Housing Authority on June 8, 2020. The approval of the Budgets will be accomplished by the adoption of the relative Resolutions outlined in this agenda report. The Proposed Budget and CIP will become effective on July 1, 2020.

Attachments:

- Proposed Budget/CIP is available for review in the Office of the City Clerk and on the City’s website
- Resolution No. 2020-11, Adopting Budget
 - Exhibit A
- Resolution No. 2020-14, Appropriations Limit
 - Exhibit B
- Resolution No. 2020-41, Measure I Five-Year Plan
 - Exhibit C
- Resolution No. 2020-42, Capital Project Needs Analysis (CPNA)
 - Exhibit D
- Resolution No. 2020-37, SB1 Fund
- Resolution No. 2020-12, Successor Agency Budget
 - Exhibit E
- Resolution No. 2020-13, Yucaipa Housing Authority Budget
 - Exhibit F
- Attachment A: Fund Balance Policy
- Budget-in-Brief (Available under separate cover)

RESOLUTION NO. 2020-11

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF YUCAIPA,
STATE OF CALIFORNIA, ADOPTING A BUDGET FOR FISCAL YEAR
2020-2021**

WHEREAS, it is necessary for the efficient operation of the City that the City Council adopt an annual budget, and

WHEREAS, Government Code Section 53901 requires each local agency to file with the County Auditor a copy of its annual budget.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Yucaipa, State of California, does hereby RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

Section 1. That the Budget for Fiscal Year 2020-2021, a condensed copy of which is attached as Exhibit A and made part hereof, is hereby adopted for the City of Yucaipa General Fund, Special Revenue Funds, Capital Projects Funds, as presented in the Capital Improvement Program and Internal Service Fund, with total estimated revenues in the amount of \$34,445,586 and total estimated expenditures in the amount of \$34,445,586. In some instances, budgeted expenses may exceed budgeted revenues, but only to the extent carryover encumbrances exist to cover those specific project expenses. This occurs primarily in the Capital Project Funds whereby projects may be funded in multiple fiscal years.

PASSED APPROVED AND ADOPTED this 22nd day of June 2020.

DAVID AVILA, MAYOR

ATTEST:

JENNIFER CRAWFORD,
CITY CLERK