

BUDGET MESSAGE



Cathedral City

HONORABLE MAYOR, MEMBERS OF THE CITY COUNCIL AND RESIDENTS OF CATHEDRAL CITY:

After months of review and discussions, we are pleased to submit the Biennial Budget for Fiscal Years (FY) 2015-16 and 2016-17 for the City of Cathedral City (Operating Budget and Capital Improvement Project (CIP) Plan), the Successor Agency to the Cathedral City Redevelopment Agency (“Successor Agency”), and the Cathedral City Public Financing Authority as adopted by City Council on May 27, 2015.

This biennial budget has been developed with a primary focus to accomplish City Council goals established in January 2015. Departments reviewed their past accomplishments and developed objectives focusing on achieving these overarching Council goals:

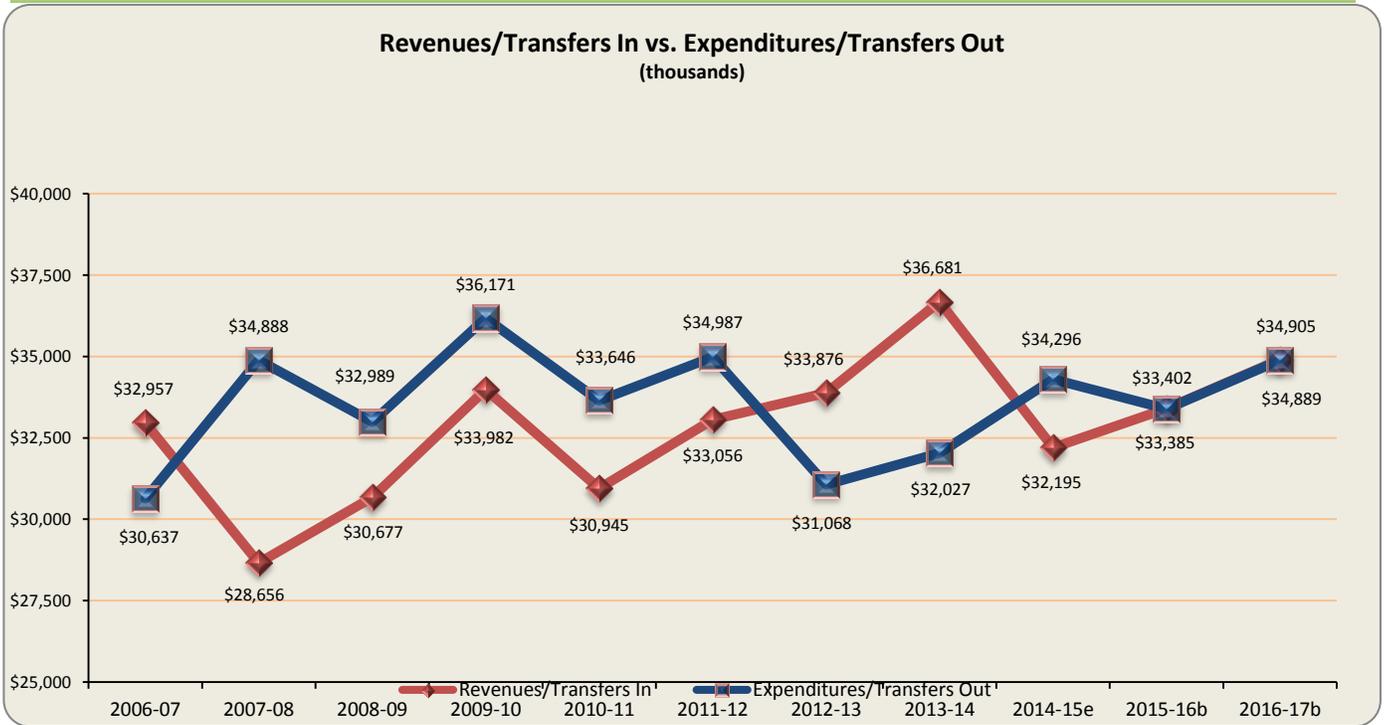
- Economic and Community Development
- Public Safety
- Community Engagement and Community Relations
- Infrastructure
- Governance
- Financial Solvency

FINANCIAL STATUS OVERVIEW

In the past two years, we are happy to see the City of Cathedral City experiencing positive signs of an economic recovery. Recently, there have been increases in property values and decreases in unemployment rates. These indicators are translating into increased revenues for the City.

For the past eight years, balancing the budget has been a challenge. For the five successive years from FY 2007-08 through 2011-12, the City adopted general fund budgets with structural deficits. In order to achieve stabilization in balancing the budgets for the next three year successive years, FY 2012-13 through FY 2014-15, difficult employee-related decisions, including layoffs and concessions, were necessary.

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To illustrate, revenues remained flat from \$32.957 million in FY 2006-07 to \$32.195 million in FY 2014-15 projected revenues. With the economic downturn, it was necessary to generate a stable source of revenues to ensure the City's ability to maintain financial solvency. This stability was achieved through the support of the Cathedral City residents to pass local revenues measures. The utility users' tax (Measure L) was passed in 2008 and the transactions and use tax (Measure H) was passed in 2010. With Measure H having a 5-year sunset/expiration in September 2015, the residents of Cathedral City passed Measure B in 2014 eliminating the transaction and use tax sunset (from Measure H) resulting in a secure revenue source.

FY 2015-16 AND FY 2016-17 BUDGET OVERVIEW

Citywide Financials

The City's operating budget includes a number of funding sources. The General Fund is the largest single fund and represents the City Council's most discretionary revenue. Other funds include the following non-General Fund revenue sources: special revenue funds, capital projects funds, debt service funds, internal service funds, and private purpose trust funds. The total City expenditure budget for FY 2015-16 is \$116.4 million; and for FY 2016-17, the total City expenditure budget is \$94.4 million. Within the General Fund for FY 15/16, the budgeted revenues are \$33.402 million and the budgeted expenditures are \$33.385 million, resulting in a net surplus of \$17,057. Within the General Fund for FY 16/17, the budgeted revenues are \$34.909 million and the budgeted expenditures are \$34.889 million, resulting in a net surplus of \$20,276. By presenting a balanced budget for FYs 15/16 and 16/17, the General Fund should retain a fund balance of \$12.2 million, which surpasses our policy of maintaining a minimum of 33% budgeted expenditures of \$11.1 million in FY 15/16 and \$11.6 million in FY 16/17. This year-to-year change in the General Fund is minimal despite rising costs attributable to labor-

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related expenditures, such as salary increases, California Public Employees Retirement System (CalPERS) retirement rates, medical costs, etc.

Citywide Staffing

Labor force reductions over the years have been in response to budget shortfalls and have caused various departments to do more with less. Staffing resources have declined from a high of 238.5 FTEs (full-time equivalents) in FY 2007-08 to a projection of 169.5 FTEs in the FY 2015-16 budget and 171.0 FTEs in the FY 2016-17 budget, a decrease of 28.3%. In doing so, City departments and staff believe in and following the “work smarter, not harder approach” to provide high-quality services while protecting the safety of Cathedral City residents through innovation, ingenuity, and high employee productivity. To that means, the City plans to enhance our customer service capabilities through a new enterprise-wide resource planning system to better service the needs of the Cathedral City community.

FINANCIAL OPPORTUNITIES

Balanced Budgets

Beginning in approximately FY 2008-09, the ever present question from the community and employees has been: “why does the City appear to have a never-ending budget problem?” And, more specifically, “why is there still a problem given that the City has had two tax measures, significant layoffs and employee concessions”. These questions are valid and there are several components to the response as to the reason why: flat revenues (over time), slow recovery in the City’s core revenues, and increasing labor costs.

Prior to FY 2008-09, the City’s annual (core) revenues consisted of taxes (property, sales and use, and transient occupancy), franchise fees, licenses and permits, charges for services, fines and forfeits, intergovernmental revenues, use of money and property, and miscellaneous revenues. In addition to these core revenues, the General Fund would receive transfers in from other City funds for miscellaneous reimbursements.

To supplement the City’s core revenues, the residents of Cathedral City voted/passed Measure L, the Utility Users’ Tax, in November 2008. The Utility Users’ Tax (UUT) imposed a 3% tax on the use of telecommunications, cable, electricity (including cogenerated), gas, and solid waste. The UUT generates approximately \$2.7 million+ in annual revenues each year.

Then, in June 2010, the residents of Cathedral City voted and passed Measure H (Transactions and Use Tax). The Transactions and Use Tax (TUT) imposes a 1% tax on all retailers doing business within the city for five years (a sunset clause). With the impending end to the TUT, the residents of Cathedral City voted and passed Measure B (Transactions and Use Tax without a 5-year sunset clause) to continue the 1% tax. In FY 2014-2015, the TUT is projected to \$5.1M in annual revenues.

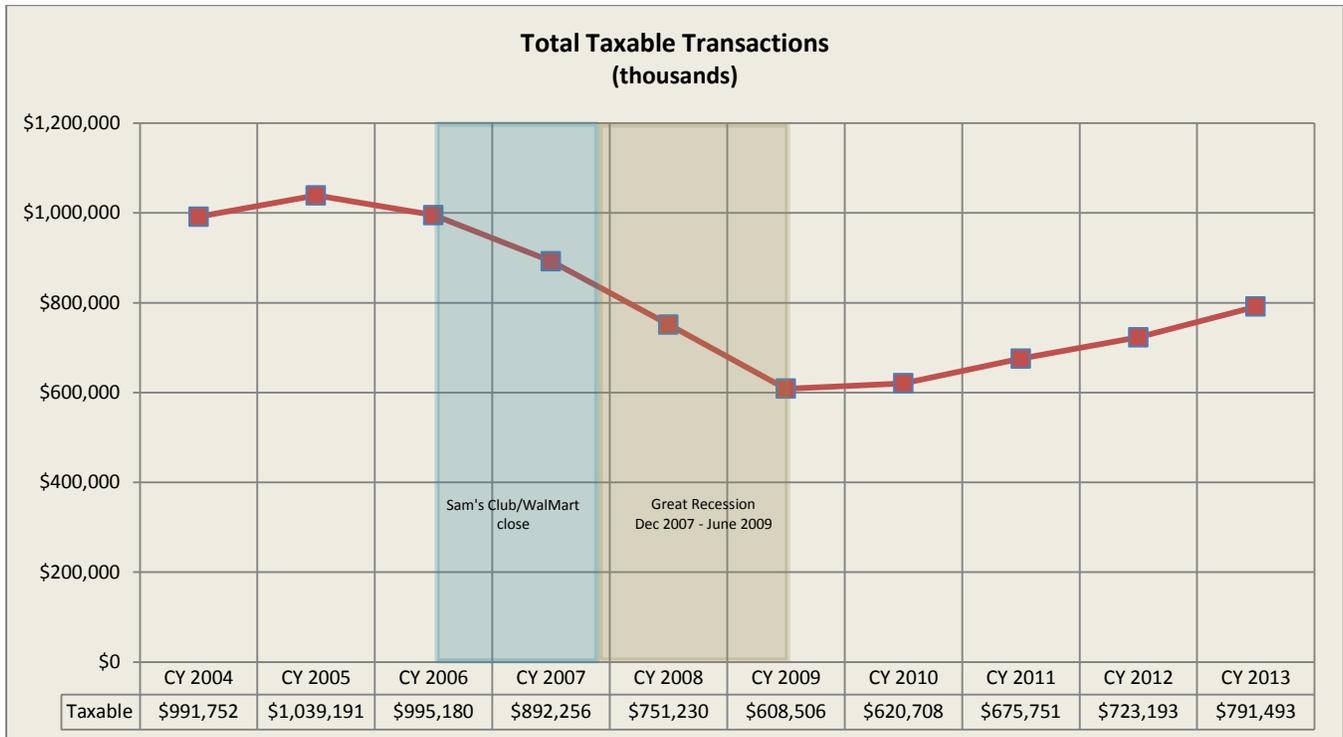
Going forward, the challenge will be to balance each fiscal year’s budget on its own without dipping into General Fund reserves. To ensure long-term viability, the City needs to maintain (and grow) not only the core revenues discussed above, but also the new UUT and TUT revenues.

Economic and Business Development

As was pointed out in the previous section, revenue growth in core revenues, most notably sales and use taxes, still remain well below the levels achieved in the mid-2000’s.

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Sales and use taxes are generated from taxable transactions on goods sold. Total taxable transactions reached its peak in Calendar Year (CY) 2005 at \$1.0 billion+. The first significant loss to the City's sales and use taxes was the closing of the WalMart and Sam's Club stores in June 2006. The next big loss to the City's sales and use tax revenues was the Great Recession, which began in December 2007 and lasted through June 2009, when total taxable transactions reached its low of \$600 million+. Fortunately, the City has seen a consistent rise in taxable transactions since 2009 to the current reportable level of \$800,000 million in 2013; however, there is still work to be done to return to the CY 2005 levels.



For the City to continue this growth trend, core revenues need to return to and grow beyond their previous levels, and that is accomplished not only by the economy, but by community engagement and strong community relations, a goal established by the City Council over this biennial budget period. This will be accomplished through weekly and monthly community newsletters, social media presence and the support and growth of special events. As the economy continues to recover, City staff, under the direction of City Council, will strive to devise and implement new revenue-generating strategies in order to provide Cathedral City residents with the necessary level and highest quality services available within our current capabilities. One of the key strategies for that growth, through the Council adopted goals, is to continue to maintain and improve upon the infrastructure of Cathedral City. Included in this biennial budget, is the Capital Improvement Project (CIP) Plan recommending making significant investments in the City's streets, roads, parks, and facilities for our existing residents and businesses that call Cathedral City home.

Other key strategies adopted by the City Council are to look at ways to provide necessary infrastructure to our North City and new annexation areas for development growth; review, evaluate and update the existing downtown plan; refine our marketing narratives to appropriately define who we are; and continue the planning and fundraising for the development of our downtown Festival and Community

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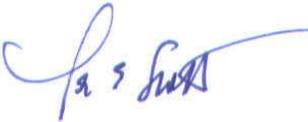
Parks. In addition, continue to enhance the transparency of city government and the availability of information to the public. In doing so, we also feel these investments will attract new businesses and residents in Moving Cathedral City Forward.

ACKNOWLEDGEMENTS

We would like to thank the City Council and City Manager for their leadership and overall direction of this budget. We would also like to thank the many residents and business owners that provide feedback to City staff throughout the year, which also is a valuable resource that we tap into during the budget process. All are to be commended for taking the time for being involved in this very important process.

Finally, we would like to take this opportunity to thank all the City staff who participated in developing this budget document. Preparing the budget is a demanding and time consuming effort for all staff members. This is especially true considering the continued workloads of staff in other areas of responsibility and the budgetary challenges facing the City. "Teamwork" among individuals and departments resulted in this budget document. This same "teamwork" will continue ***Moving Cathedral City Forward*** into the future.

Respectfully submitted,



Tami Scott
Administrative Services Director