



City of Mission Viejo California



Budget & Master Financial Plan 2015 - 2017

ABOUT THE COVER: Pavion Park playground, the first universally designed playground in Orange County, reopened in December 2014 after a complete renovation. Universal design is intended to provide equal access for all, including children and caregivers of all ages and abilities. The newly renovated playground includes: a main tree house with slides, accessible ramps and interactive boards; rocking boat that accommodates a wheelchair; accessible sand diggers; spinners; swings equipped with harness/support to protect a child's neck; and interactive light/sound games. Pavion Park is the second largest playground in Mission Viejo and is located on the corner of Jeronimo Road and Pavion.

Photos courtesy of Michele Whiteaker, FunOrangeCountyParks.com

City of Mission Viejo



2015-17 BUDGET

CITY COUNCIL

Cathy Schlicht, Mayor
Greg Raths, Mayor Pro Tem
Wendy Bucknum, Council Member
Ed Sachs, Council Member
Frank Ury, Council Member

CITY MANAGER

Dennis R. Wilberg

ASSISTANT CITY MANAGER/ DIRECTOR OF PUBLIC SERVICES

W. Keith Rattay

DIRECTOR OF ADMINISTRATIVE SERVICES

Cheryl Dyas

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2015-17 Budget
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GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
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**City of Mission Viejo
California**

For the Biennium Beginning

July 1, 2013

Jeffrey R. Emer

Executive Director

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City of Mission Viejo

Office of the City of Manager

Cathy Schlicht
Mayor

Greg Raths
Mayor Pro Tem

Wendy Bucknum
Council Member

Edward Sachs
Council Member

Frank Ury
Council Member

July 6, 2015

HONORABLE MAYOR AND CITY COUNCIL:

It is a pleasure to submit the adopted 2015-17 Budget and Master Financial Plan. The adopted budget is a \$136.7 million two year package of services, programs and projects for the benefit of Mission Viejo residents and businesses. The adopted budget essentially maintains all existing service levels and programs, and provides for \$13.6 million in funding for the capital improvement program (CIP). Fund balances are healthy and total discretionary reserves are projected to be at the City Council's target level of 50% of General Fund group revenues at the end of both FY 2015/16 and FY 2016/17.

Over the last two year budget cycle, the City has experienced continued growth in revenues. Actual General Fund revenues in FY 2013/14 exceeded the original operating budget projections by \$2.5 million and we are currently estimating that revenues in FY 2014/15 will exceed the original projections in excess of \$4.0 million. These improved revenue trends resulted in General Fund operating surpluses over the last four completed fiscal years and we anticipate ending FY 14/15 with another operating surplus. We foresee a continuation of a slow to moderate growing economy over the next two year budget cycle and have forecasted revenues to grow at a modest pace in anticipation of this.

The adopted budget was developed by following the sound fiscal policies adopted by the City Council and a continuation of organizational efficiencies and cost saving measures implemented in prior fiscal years. The importance of the city's prudent fiscal management in past years became evident while preparing this adopted budget. While the recovery of the economy has provided solid revenue growth for the City, the recovery has also resulted in two years of minimum wage increases and increases to prevailing wages that affect many city contracts. As a result, the City will experience significant increases in cost to necessary contracts over the next two year budget cycle and beyond for on-going operational costs, including contracted landscape maintenance, building inspection services and police services. Most notably, all monthly landscape maintenance contracts that were publically bid for the 2015-17 budget period went up on average 19%.

The CIP program continues to provide a significant amount of funding for the Arterial Highway and Residential Street Resurfacing projects with \$7.0 million of the total \$13.6 million two-year CIP budget going toward these projects.

Budget Highlights

Key Factors in Developing the 2015-17 Budget

The development of the 2015-17 adopted budget was guided by a continued focus on the City's organization values and strategic goals. The strategic goals were first established in 2008 and were further developed in 2011 as part of a budget prioritization process utilized by the City in developing the 2011-13 two-year budget.

On January 16, 2015, a pre-budget discussion took place at a special meeting of the City Council. The agenda for this meeting included the presentation and discussion of a variety of topics, including the police services contract, landscape maintenance, pavement and traffic management, economic development, capital improvements, unfunded liabilities and discretionary reserves. The City Council provided input on their respective preferences for those programs and services that should be maintained at the current level and those where increased spending should occur. At the conclusion of the pre-budget discussion and in a following City Council meeting that took place on January 19, 2015, the City Council prioritized the six areas that were identified for increased spending. The group ranking was as follows:

1. Economic Development
2. Reduction of Unfunded Liabilities
3. Playground Rehabilitation
4. Park Restroom Master Plan
5. Marguerite Aquatics Complex Rehabilitation
6. Slope Rehabilitation

The 2015-17 Budget:

- *Maintains the City's discretionary reserves at the City Council target level of 50% of annual General Fund revenues*
- *Maintains the Library Fund reserves above the City Council target level of 10% of annual Library Fund revenue*
- *Maintains the Gas Tax reserves above the City Council target level of 30% of annual Gas Tax Fund revenue*
- *Maintains all core services and programs at current service levels*
- *Includes \$1.3 million for playground renovations*
- *Includes \$1.0 million for new park restroom facilities*
- *Maintains \$4.9 million in Park Development Fee revenue for the Marguerite Aquatics Complex renovation*

The City Council also provided direction to staff to utilize discretionary reserves, if needed, to implement the priorities of the City Council. This adopted budget utilized discretionary reserves from one of the asset replacement funds to provide resources for the replacement of various IT related equipment. This adopted budget also utilized approximately \$11,000 in General Fund reserves for the development of a landscape plan for the Aegean Hills area.

In developing the 2015-17 budget, the objectives were to maintain all core services and programs, include funding for two playground rehabilitations and two new park restrooms, propose a funding plan for the Marguerite Aquatics Complex rehabilitation, shift spending from slope rehabilitation to landscape water conservation efforts in light of the drought crisis and maintain the General

Fund discretionary reserve at or above 50%, maintain the Library Fund reserve above 10%, and maintain the 30% minimum fund balance level in the Gas Tax Fund as provided by Council policy. The 2015-17 adopted budget meets all of these objectives.

As for fund balance reserve objectives, it is projected that the General Fund group discretionary reserve levels will be 50% of General Fund group revenue at both June 30, 2016 and 2017. Other Council reserve policies involve the Library and Gas Tax Funds. Council policy for these funds state that the Library Fund will maintain a minimum fund balance of 10% of estimated Library Fund revenues. For the Gas Tax Fund, this reserve level is 30% of estimated gas tax revenue. Based on revenue projections for FY 2016/17, library and gas tax revenue is projected to be \$2.8 million and \$2.1 million respectively, calling for reserves of \$278,000 in the Library Fund and \$636,000 in the Gas Tax Fund at June 30, 2017. The Library Fund fund balance is projected to be just over \$325,000 at June 30, 2017, and the Gas Tax fund balance is projected to be at \$637,000.

Revenue

Total revenues for all funds are projected to be \$67.9 million for FY 2015/16 and \$68.8 million for FY 2016/17. The City's two primary revenue sources are property and sales taxes and continued growth is projected in both of these categories. Property tax is expected to grow a modest 3.7% in FY 2015/16 as projected by the City's property tax consultant, HdL. For FY 2016/17, staff is projecting growth at a conservative 2.8% (other forecast resources project higher growth of 3.4% and 5.0%). These modest growth rates are consistent with actual growth experienced in the years since the recession and represent seven straight years of modest growth in assessed values. Growth in retail activity has also been consistent over the past seven years. Actual sales tax received by the City in FY 2012/13 was \$16.9 million as compared to the FY 2016/17 projection of \$18.5 million. This is a \$1.6 million or 9.4% increase during a four year period. The City is using conservative growth in the 2015-17 budget projection of 3.3% and 3.0% in each year. City consultants and leading economists in the Southern California area are forecasting growth rates that range from 3.8% to 7.2%.

We are anticipating the receipt of Park Development Fees of \$1.0 million in FY 2015/16. These fees are expected to be generated by the Skyridge project off El Toro Road. Park Development Fees are recorded in a separate Special Revenue Fund and are restricted for park or recreation related uses. In addition to the fees expected in FY 15/16, the City has \$4.4 million in unappropriated fees received during the past few fiscal years. The total of these fees will provide \$5.4 million for park related projects during the next two year budget cycle. The proposed budget includes utilizing \$0.5 million for the construction of a restroom at Pavion Park. The balance of \$4.9 million is available for the Marguerite Aquatics Complex renovation.

The largest source of grant funding is approximately \$1.0 million expected over both FY 2015/16 and FY 2016/17 for the Marguerite Parkway and Trabuco Parkway pavement rehabilitations, as well as funding to continue median rehabilitations on Marguerite Parkway, north of Alicia Parkway. The City is also expected to receive \$2.25 million in developer fees to improve the Felipe Road and Oso Parkway intersection and improve the northbound I-5 on ramps at Oso Parkway. More information on all CIP projects can be found in the Capital Improvement Project section of this document.

For a more detailed discussion of the revenues received by the City and projections and assumptions, as well as individual estimates by category and fund, please see the “Revenue” section in this budget document.

Operating Appropriations

The adopted operating budget for all funds is \$61.9 million in FY 2015/16 and \$61.2 million in FY 2016/17. The operating budget was developed by starting with the FY 2014/15 base budget, which is the updated budget adopted by the City Council in June 2014 as part of the mid-cycle budget update and other additional amendments that are considered to be on-going costs during the next budget cycle. From the base budget each department budget was developed by carefully reviewing current service levels and programs. While there are programs within the overall budget that through operational efficiencies and contract management resulted in cost cutting, the overall budget increased \$4.0 million in FY 2015/16. Approximately \$2.3 million of this increase relates to on-going operational costs, including contracted landscape maintenance, building inspection services and police services. Another \$1.2 million of the total increase relates to one-time capital asset replacement needs for various technology related equipment and systems. Those program areas reflecting significant increases and the reasons why are:

- **Information Technology:** The base budget for this department is increasing by \$859,000 in FY 2015/16. Included in this program budget is \$490,000 to replace network infrastructure hardware, \$100,000 to upgrade the City Hall facility security system, and \$76,000 in other capital outlay requests to replace existing hardware. Software licensing has also increased approximately \$60,000. This program budget will be declining 19.8% in FY 2016/17 since the majority of the capital outlay requests in FY 2015/16 are one-time requests.
- **Police Services:** The contract budget with the Orange County Sheriff’s Department (OCSD) is increasing approximately \$0.6 million over the FY 2014/15 contract budget. This contract budget with OCSD is projected to increase another 3% in FY 2016/17.
- **Building Program in Community Development:** The contract for building and safety services beginning July 1, 2015 went out for bid in March 2015. The result of this process resulted in fee increases for these services by approximately \$83,000 a year.
- **Parks/Median and Parkways Maintenance:** These two program areas account for ten separate landscape maintenance contracts for all parks, medians and slopes in the City. Due to increases in minimum wages and prevailing wages by contractors that perform work for public agencies, for those contracts that went out to bid for the 2015-17 budget period, the average contract cost increased 19% or approximately \$1.4 million. There is another \$0.2 million increase from other landscape maintenance related contracts in these two programs and for facility maintenance contracts that are also due to minimum wage increases during the past two years.
- **Mission Viejo Television (MVTV):** The FY 2015/16 proposed budget includes an increase to capital outlay by a little over \$0.5 million. This budget includes \$650,000 to upgrade the MVTV studios, replace the council chambers display screen and projector and to upgrade the council chambers voting system, including software and equipment. This

program budget will be declining 57.3% in FY 2016/17 since the majority of the capital outlay requests in FY 2015/16 are one-time requests.

Since most contracts are structured as two-year contracts with amounts fixed over the two-year contract period, growth in the operating budget for FY 2016/17 has been limited, just 0.9% in the General Fund and the total budget for all funds is actually declining 1.0%.

Capital Improvement Program (CIP)

The adopted budget includes funding for CIP projects of \$6.8 million in both FY 2015/16 and FY 2016/17 for a total CIP budget of \$13.6 million. Of the fourteen separate funding requests, \$7.0 million or 54% are for the on-going annual Arterial Highway and Residential Resurfacing programs. The largest single non-street resurfacing request is for the Felipe Road and Oso Parkway intersection improvement project for \$1.5 million. The CIP budget also includes the rehabilitation of two park playgrounds and the construction of two new park restroom facilities as prioritized by the City Council.

Another priority set by the City Council is the rehabilitation of the Marguerite Aquatics Complex. A facility review and needs assessment study was first presented to the City Council on March 2, 2015. The City Council sent the study to the Community Services Commission for review, public input and to provide the Council with a recommended action. The City Council approved a scope of work for rehabilitation at the June 1, 2015 City Council meeting. The adopted budget includes an appropriation of \$700,000 for design development, engineering and project management costs. The appropriation for the construction of the project is anticipated to occur upon award of a construction contract. The current estimated cost for the entire project is \$7.7 million; however, this estimate is subject to change based on the final design. As previously stated, there is \$4.9 million available in Park Development Fund resources; and it is anticipated that the Nadadores Foundation will contribute \$1.366 million through fundraising efforts. Another \$1.1 million was identified through resources received by the sale of City owned land to the Mission Viejo Housing Authority. The funding source(s) for the balance of this project is yet to be identified.

Master Financial Plan (MFP)

The City's long-range MFP has been updated and is included in this document. The MFP contains a seven-year General Fund revenue forecast and expenditure plan which projects revenues, operating expenditures, transfers, funding available for capital projects, and reserve requirements for the General Fund. This MFP provides a clear indication that the City is benefiting from a continuously improving economic climate. General Fund revenue exceeded pre-recession revenues in FY 2013/14 and revenues are expected to grow throughout the forecast period. The MFP also projects that funding for discretionary use increases each year from \$313,000 in FY 2017/18 to \$2.5 million in FY 2021/22. Discretionary uses include one-time capital projects or other expenditures, including deposits into the asset replacement funds.

Pending Issues

Unfunded Pension and OPEB Liabilities

The City Council has taken a number of actions over the past several years in an effort to reduce the cost of employee pension and retiree health benefits to the City and minimize the unfunded liabilities associated with these plans. Some of these actions include; reducing the retirement benefit plan from a 2.7%@55 plan to a 2%@60 plan; shifting the cost of the employee contributions to these plans to the employees, with employees picking up the full employee share of pension costs by June 30, 2015; and fixing the maximum monthly health benefit for the retiree health benefit plan. The City has also been proactively paying down the unfunded liability each year for the retiree health benefit plan including a one-time special payment made in April 2015 of \$2.1 million. The City Council also directed staff to make a lump sum payment toward the pension unfunded liability of \$1.5 million in June 2015.

It is the second priority of the City Council to reduce unfunded liabilities; specifically, to obtain 100% funded status in the retiree health benefit plan by June 30, 2016 and achieve an 85% funded status in the pension plan by June 30, 2017. The next valuation for the retiree health plan for June 30, 2015 and the valuation for the pension plan for June 30, 2014 will be available in late 2015. Staff will review these valuations when complete and report back to the City Council on the status of the unfunded liabilities of both plans no later than the end of December 2015. Depending upon the results of the pending valuations on both of these plans, it may be necessary to make additional contributions toward unfunded liabilities to meet City Council goals.

Conclusion

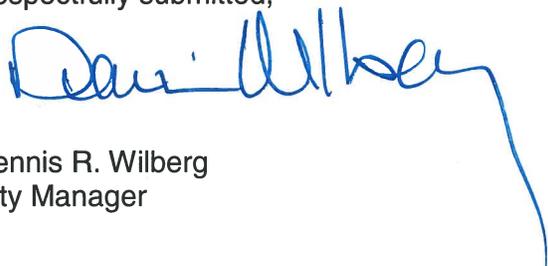
I believe the adopted budget for 2015-17 successfully maintains the high level of services and programs important to the community as well as addresses the priorities of the City Council. To address the City Council's first priority of Economic Development, earlier this year the City entered into a contract with Kosmont Companies to prepare an Economic Development Strategic Plan. This plan will be utilized to guide the City during the 2015-17 budget period on fostering economic and land use revitalization. The second Council priority to reduce unfunded liabilities was addressed during FY 2014/15 by making special one-time payments as identified above. Staff will continue to monitor unfunded liabilities and report back to Council as new information becomes available. The third and fourth priorities are playground rehabilitations and construction of new park restroom facilities: funding has been included in this two year budget for four projects for a total of \$2.3 million. The fifth priority is the rehabilitation of the Marguerite Aquatics Complex as previously discussed. The final and sixth priority of the City Council is slope rehabilitation. Due to the water drought crisis and mandatory water cuts being imposed by the State, the adopted budget includes funding for water conservation efforts in lieu of slope rehabilitation since the later will actually increase the use of water for newly planted vegetation on slopes.

I wish to take this opportunity to thank city staff in all departments for their time and effort in developing a comprehensive and responsible budget for 2015-17. Special thanks to go the Director of Administrative Services Cheryl Dyas and Budget and Purchasing Analyst Susan Knudson for their long hours and hard work on this budget. I also would like to thank the entire Administrative Services Department staff for their top-quality work in preparing this adopted budget.

HONORABLE MAYOR AND CITY COUNCIL
Budget Message
FY 2015-2017

I look forward during the next two years to continuing to provide the very highest level of service and responsiveness to our residents and businesses, and to ensure that Mission Viejo remains the special place that it is.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Dennis Wilberg". The signature is fluid and cursive, with a long, thin tail extending downwards and to the right.

Dennis R. Wilberg
City Manager