

# City of Mission Viejo



## **2019-21 ADOPTED BUDGET**

### **CITY COUNCIL**

Greg Raths, Mayor  
Brian Goodell, Mayor Pro Tem  
Wendy Bucknum, Council Member  
Trish Kelley, Council Member  
Ed Sachs, Council Member

### **CITY MANAGER**

Dennis R. Wilberg

### **ASSISTANT CITY MANAGER/ DIRECTOR OF PUBLIC SERVICES**

W. Keith Rattay

### **DIRECTOR OF ADMINISTRATIVE SERVICES**

Cheryl Dyas



The California Society of Municipal Finance Officers (CSMFO) Association presented an Operating Budget Excellence Award to the City of Mission Viejo for its biennial budget for the fiscal year beginning July 1, 2017.

This award is valid for a period of two years only. We believe this 2019-2021 current biennial budget continues to conform to program requirements, and we are submitting it to the CSMFO to determine its eligibility for another award.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**City of Mission Viejo  
California**

For the Biennium Beginning

**July 1, 2017**

*Christopher P. Morill*

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Mission Viejo for its biennial budget for the fiscal year beginning July 1, 2017. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for one year only. We believe our current biennial budget continues to conform to program requirements, and we are submitting it to the GFOA to determine its eligibility for another award.



MISSION VIEJO

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# City of Mission Viejo

## Office of the City Manager

**Greg Rath**  
Mayor

**Brian Goodell**  
Mayor Pro Tem

**Wendy Bucknum**  
Council Member

**Trish Kelley**  
Council Member

**Edward Sachs**  
Council Member

June 25, 2019

### **HONORABLE MAYOR AND CITY COUNCIL:**

It is a pleasure to submit the adopted 2019-21 Budget and Master Financial Plan. The adopted budget is a \$154.4 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 \$14.2 million in funding for the capital improvement program (CIP).

This adopted 2019-21 budget is balanced in both years, which means that resources projected to be received in the next two years is sufficient to pay for planned operating and CIP expenditures. General Fund balances will remain above the minimum reserve level of 44%; however, we expect to see a decline in reserves from 47% at June 30, 2019 to 46% for FY 2019/20 and FY 2020/21. This trend is due to stagnating revenue growth and limited resources available to add to our General Fund reserves during this next budget cycle.

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.

### ***Budget Highlights***

#### ***Key Factors in Developing the 2019-21 Budget***

The development of the 2019-21 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.

On February 12, 2019, a pre-budget discussion took place at a regular meeting of the City Council. The agenda for this meeting included an overview of expectations of revenue and expenditure growth and challenges we would face balancing the budget without the use of reserves while maintaining all programs and services at current levels, as well as identifying resources for needed capital improvement projects. Staff utilized the following objectives in developing the 2019-21 budget.



- Maintain all core services and programs at current service levels.
- Continue funding for economic development.
- Continue to monitor unfunded liabilities; support and participate in efforts for pension reform and the overall reduction of unfunded liabilities.
- Manage rising costs of the police services contract without reducing crime prevention and patrol service levels.
- Maintain current City infrastructure, including IT network.
- Identify funding sources for needed capital improvement projects (CIP) based on a CIP priority list developed by the Community Services Commission and input from the City Council and the public.
- Focus on Community Survey outcomes that reflected high value on maintaining aesthetics of City, including landscaping of parks, medians and slopes.

### ***Revenue***

Total revenues for all funds are projected to be \$77.3 million for FY 2019/20 and \$78.0 million for FY 2020/21. The City's two primary revenue sources are property and sales taxes. Property tax is expected to grow at a healthy 4.0% in FY 2019/20. For FY 2020/21, staff is projecting growth at a more conservative 2.8%. These growth rates are lower than what we have seen over the past five years. With current indicators that the real estate market is slowing and market values are leveling off, a more conservative estimate in property tax growth during the next budget cycle is warranted. Growth in sales tax has stalled during the last few years. The average annual growth in sales tax from FY 2013/14 to FY 2016/17 was 1.9%, with no growth from FY 2016/17 to FY 2018/19. Looking to the last few years as the best indicator, the City is continuing to project no growth in sales tax during the 2019-21 budget cycle.

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 and the Master Financial Plan section in this budget document.

### ***Operating Appropriations***

The adopted operating budget for all funds is \$70.0 million in FY 2019/20 and \$70.1 million in FY 2020/21. The operating budget was developed by starting with the FY 2018/19 base budget, which is the updated budget adopted by the City Council in June 2018 as part of the mid-cycle budget update and other additional budget amendments made during FY 2018/19 that are projected 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. The overall base budget increased approximately \$3.5 million in FY 2019/20. Those programs or expenditure categories reflecting the most notable increases include:

- Environmental/Parks/Median and Parkways Maintenance: Cost for maintenance throughout the City's open spaces is increasing in FY 2019/20 by approximately \$784,000. Of this amount, \$160,000 is expected to be an on-going annual maintenance expense. The balance is due to one-time requests needed to repair or rehab various landscaping elements in various parks, median, slopes and trails. The most significant maintenance requests include: \$100,000 increase for Alicia slope rehabilitation; and \$540,000 for debris

removal, fire suppression efforts and vegetation replacement in all landscape areas of the City.

- **Police Services:** The contract with the Orange County Sheriff's Department (OCSD) is increasing approximately \$515,000 over the FY 2018/19 budget. This contract budget with OCSD is projected to increase another 1.6% in FY 2020/21. The lower year two increase is assuming that the City will find a satisfactory alternative to decrease transportation costs. If an alternative method is not identified, then the year two increase will likely be at least 3%.
- **Facility Maintenance:** Costs for maintenance at the various city facilities is increasing in FY 2019/20 by approximately \$273,000. Of this amount, \$159,000 is for an increase in pool chemicals to maintain all city pools at optimum levels. The balance of \$114,000 is needed for on-going annual maintenance expense. A significant cause of this increase is due to minimum wage increases and increases in cost of supplies.
- **Information Technology:** Additional resources were added to the budget in the amount of \$247,000 for additional network security measures and other network equipment needs.
- **Utilities:** The cost of electricity and water across all programs is expected to increase \$147,000 and \$119,000, respectively in FY 2019/20.
- **Community Development:** For FY 2019/20 only, \$140,000 is included in the budget to update the Housing Element as required by the State.
- **Economic Development:** The budget for FY 2019/20 includes an increase of \$40,000 over the prior year budget for a total budget of \$100,000 for various economic development opportunities throughout the City.
- **Interdepartmental:** Insurance under this program is increasing 8.2% in FY 2019/20 or \$84,000. Increasing general liability insurance annual contributions has been the trend since FY 2016/17.
- **Recreation:** The Saddleback Valley Unified School District Kid's Factory contract is increasing \$79,000 in FY 2019/20 and increasing another \$61,000 in FY 2020/21.
- **Personnel Costs across all programs:** Personnel costs includes salaries and wages and cost of all benefits. Salaries and wages are increasing 3.2% in FY 2019/20 or \$412,000 and 1.6% in FY 2020/21. The adopted budget includes a 3% increase in both years on total salaries of all authorized positions to allow for merit increases based on employee performance. Salaries for hourly, seasonal and temporary employees are limited to a 1.1% increase in the first year and remains static in year two. Benefits are increasing \$464,000 in FY 2019/20. The City's pension cost increased \$318,000, which accounts for the majority of the benefit increase. The increase in benefits in FY 2020/21 is \$249,000, due to rising pension costs.

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 2020/21 has been limited to just 0.2% for all funds.

As part of the budget development process, there were a number of requests for funding that did not make the final adopted budget. These additional operating requests relate to facility and landscape maintenance issues throughout the City as well as a number of capital equipment purchases, including vehicle replacement requests in the amount of \$325,000. There are a number of CIPs that are also not funded, including annual playground rehabilitations at Coronado Park and Madrid Fore Park, estimated at \$0.6 million per playground renovation.

### ***Capital Improvement Program (CIP)***

The adopted budget includes funding for CIP projects of \$6.4 million in FY 2019/20 and \$7.8 million in FY 2020/21 for a total CIP budget of \$14.2 million. Of the eleven separate funding requests, \$7.8 million or 55.0% are for the on-going annual Arterial Highway and Residential Road Resurfacing programs. The CIP budget also includes \$3.85 million, including \$2.2 million from a Measure M2 grant, for an I-5 Sound Wall Design and Construction project. This project includes constructing a sound wall for properties adjacent to the I-5 freeway west of Chrisanta Drive, between the Madrid Fore neighborhood and Mission Viejo High School. Non-street and road related projects include \$1.2 million for the rehabilitation of the Montanoso Recreation Center and \$0.8 million for the rehabilitation of the Craycraft Park restroom and snack bar.

### ***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 balances for the General Fund. During both FY 2019/20 and 2020/21 the annual transfer from the Mall Bond rolling reserve is needed to balance the 2019-21 budget. Looking forward, the MFP projection reflects that General Fund operating expenditures, if retained at current program and service levels, will continue to grow at a pace that exceeds General Fund revenue growth. In FY 2021/22, expenditures are projected to exceed revenues by \$1.3 million and this difference is projected to grow to \$5.3 million in FY 2025/26. The primary causes for this trend include stagnating revenue growth, rising cost of the OCSD contract due to increases in salaries and pension obligations, increases to maintenance contracts, and the City's own rising personnel costs, including pension obligations. The MFP provides clear indication that tough decisions are ahead regarding the provision of programs and services at current levels and how those services will be paid for. If the City is to ensure that balanced budgets are adopted in the future, it will be necessary to look at ways to enhance revenue growth and modify current program and service levels to avoid creating a structural budget deficit problem.

### ***Pending Issues***

#### ***Impact of United States Supreme Court Wayfair Decision***

In June 2018, the United States Supreme Court overturned two previous rulings, which freed retailers from collecting and remitting taxes for states or local jurisdictions where they had no physical presence. The 2018 reversal was an acknowledgement that the acceleration in online shopping and its advanced technology creates shortfalls in local tax revenues and an unfair competitive disadvantage for local brick and mortar retailers. In December, the California Department of Tax and Fee Administration (CDTFA) announced they would begin enforcing the Wayfair decision on April 1, 2019. The City's sales tax consultant estimates the City will see an increase of \$1 per capita as a result of the Wayfair decision. Based on our population, this could result in approximately \$100,000 in additional sales tax revenue to the City. We have been cautioned by both our consultant and League of California Cities analysts in recognizing this revenue. Our receipt of additional revenue is dependent on out-of-state retailers complying with the law and how quickly they will come into compliance. Therefore, we have not included this additional revenue in our 2019-21 budget revenue projections. We will monitor sale tax revenue over the budget cycle and if additional revenue is realized, we will make recommendations for adjustment during future budget review processes.

#### ***Police Services Contract***

While the FY 2019/20 OCSD contract reflects a 2.65% increase, this contract does not include any salary and wage increases as current Memorandum of Understandings for all bargaining units expire by June 30, 2019. The County of Orange Board of Supervisors are currently in negotiations and any negotiated increases in salary and wages or benefits will be incorporated into the City's contract at a later date. It is anticipated that negotiations will conclude after the approval of the FY 2019/20 OCSD contract and adoption of the 2019-21 budget. The City should be prepared for salary and wage increases of 3%. The trend in rising OCSD costs that has been occurring since 2015 will continue to have an impact on other City services. Increases in the OCSD contract is forcing the City to shift a greater share of General Fund resources to police services at the cost of other City programs and services. Under the current OCSD contract model, containing costs can only be achieved by cutting positions. In late 2017, the City of Mission Viejo along with twelve other contract cities partnered to perform a comprehensive cost study on the OCSD contract model. The study was recently completed with two primary recommendations. The City is participating on an OCSD Technical Advisory Committee to determine how best to implement the cost study recommendations and develop other strategies for containing costs.

#### ***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. During the past five years, the City has made a \$1.5 million payment directly to the pension plan and \$2.4 million in payments directly to the retiree health benefit plan. In May 2016, the City established a Section 115 pension trust fund with an initial contribution of \$3.0 million and a supplemental contribution of \$221,000 in FY 2018/19. In prior years, additional actions included; 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; and fixing the maximum monthly health benefit for the retiree health benefit plan. Effective January 1, 2018, employees began picking up 1.5% of the City's annual normal pension contribution. The City's pension plan is currently 80% funded, while the OPEB plan is 111% funded. However, with anticipated year-over-year rising pension costs, it is necessary for Staff to continue to review options to further reduce both pension and healthcare costs to the City. Staff actively participates in the League of California Cities, Association of California Cities-Orange County and the California Society of Municipal Finance Officers in pursuing pension reform. In addition, Staff continues to look at alternative options for providing healthcare for both active and retired employees. The pension valuation for June 30, 2018, will be available in August 2019, and is expected to provide the City with a clearer perspective on the current status of the City's pension unfunded liability.

### ***Regional Social Issues***

There are a number of social issues that are present in and around the region, including sober living homes, legalization of marijuana, prescription drug abuse, homelessness, and affordable housing. These are complex issues that cross department and regional boundaries. There are no specific line items in the budget that directly focus on any one of these issues; however, Staff has and will continue to dedicate time toward these on-going issues. In addition, the City Council approved membership in the Orange County Housing Finance Trust (OCHFT) by the Mission Viejo Housing Authority. The OCHFT was created to provide innovative financial solutions for affordable housing and permanent supportive housing for the humanitarian crisis of homelessness in our local communities. If a budgetary need arises during the 2019-21 budget cycle, Staff will bring the issue to the City Council at that time.

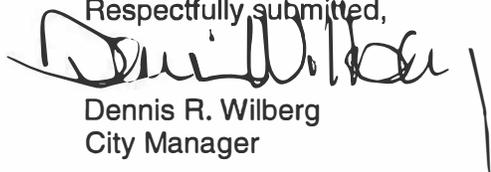
### ***Conclusion***

I believe the adopted budget for 2019-21 successfully maintains the high level of services and programs important to the community as well as addresses the priorities of the City Council. I want to express my appreciation to the City Council for their leadership and support, and for their continuing efforts to maintain the City's fiscal health.

I wish to take this opportunity to thank city staff in all departments for their time and effort in developing a balanced budget for 2019-21 and their participation in the development of citywide and department objectives. Special thanks to the Director of Administrative Services Cheryl Dyas, Administrative Services Managers Susan Knudson and Andrea Pham, and Administrative Services Analyst Sherry Merrifield for their long hours and hard work in preparing another top-quality budget and MFP.

I look forward during the next two years in 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,



Dennis R. Wilberg  
City Manager