CITY OF LOS ALAMITOS

3191 Katella Ave. Los Alamitos, CA 90720

AGENDA CITY COUNCIL SPECIAL MEETING

Wednesday, February 22, 2017 – 5:00 p.m.

NOTE: Pursuant to Government Code Section 54953, Subdivision (b), this meeting will include teleconference participation by Mayor Pro Tem Troy Edgar from Cincinnati Airport Marriott, Montreal Room, 2395 Progress Drive, Hebron, Kentucky 41048.

I, Shelley Hasselbrink, as Mayor of the City of Los Alamitos, do hereby call a special meeting of the City Council of the City of Los Alamitos, to be held at the time and place listed above to discuss the matters listed below.

Shelley Hasselbrink, Mayor of the City of Los Alamitos

NOTICE TO THE PUBLIC

This Agenda contains a brief general description of each item to be considered. Except as provided by law, action or discussion shall not be taken on any item not appearing on the agenda. Supporting documents, including staff reports, are available for review at City Hall in the City Clerk's Office or on the City's website at www.cityoflosalamitos.org once the agenda has been publicly posted.

Each matter on the agenda, no matter how described, shall be deemed to include any appropriate motion, whether to adopt a minute motion, resolution, payment of any bill, approval of any matter or action, or any other action. Items listed as "for information" or "for discussion" may also be the subject of an "action" taken by the City Council at the same meeting.

Any written materials relating to an item on this agenda submitted to the City Council after distribution of the agenda packet are available for public inspection in the City Clerk's Office, 3191 Katella Ave., Los Alamitos CA 90720, during normal business hours. In addition, such writings or documents will be made available for public review at the respective public meeting.

It is the intention of the City of Los Alamitos to comply with the Americans with Disabilities Act (ADA) in all respects. If, as an attendee, or a participant at this meeting, you will need special assistance beyond what is normally provided, please contact the City Clerk's Office at (562) 431-3538, extension 220, 48 hours prior to the meeting so that reasonable arrangements may be made. Assisted listening devices may be obtained from the City Clerk at the meeting for individuals with hearing impairments.

Persons wishing to address the City Council on any item on the City Council Agenda should complete a blue "Request to Speak" card and will be called upon at the time the agenda item is called or during the City Council's consideration of the item and may address the City Council for up to three minutes.

1. CALL TO ORDER

2. ROLL CALL

Council Member Kusumoto Council Member Murphy Council Member Wilson Mayor Pro Tem Edgar Mayor Hasselbrink

3. Mid-Year General Fund Budget Review for Fiscal Year 2016/17 and Preliminary General Fund Budget for Fiscal Year 2017/18

(Administrative Services)

This report provides the City Council with a Mid-Year General Fund budget and financial update for the Fiscal Year 2016/17. The report also provides a preliminary budget for the General Fund for Fiscal Year 2017/18.

Recommendations:

- 1. Review the mid-year budget and financial update for Fiscal Year 2016/17; and,
- 2. Review the preliminary budget for the General Fund for Fiscal Year 2017/18 and direct staff regarding gap closure items.

ROLL CALL

Council Member Kusumoto Council Member Murphy Council Member Wilson Mayor Pro Tem Edgar Mayor Hasselbrink

4. ADJOURNMENT

I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing Agenda was posted at the following locations: Los Alamitos City Hall, 3191 Katella Ave.; Los Alamitos Community Center, 10911 Oak Street; and, Los Alamitos Museum, 11062 Los Alamitos Blvd.; not less than 24 hours prior to the meeting.

Windmera Quintanar, CMC, City Clerk

Date: February 16, 2017

City of Los Alamitos

Agenda Report Special Orders

February 22, 2017

Item No: 3A

To: Mayor Shelley Hasselbrink & Members of the City Council

Via: Bret M. Plumlee, City Manager

From: Jason Al-Imam, Administrative Services Director

Subject: Mid-Year General Fund Budget Review for Fiscal Year 2016/17 and

Preliminary General Fund Budget for Fiscal Year 2017/18

Summary: This report provides the City Council with a Mid-Year General Fund budget and financial update for the Fiscal Year 2016/17. The report also provides a preliminary budget for the General Fund for Fiscal Year 2017/18.

Recommendations:

- 1. Review the mid-year budget and financial update for Fiscal Year 2016/17; and,
- 2. Review the preliminary budget for the General Fund for Fiscal Year 2017/18 and direct staff regarding gap closure items.

Background

It is customary to conduct a thorough analysis of all estimated revenues and appropriations at the end of the first six months of the fiscal year. This process updates the City Council on the fiscal status of the City's General Fund at the midpoint of the fiscal year and provides a forum to address potential budget amendments or adjustments.

Discussion

Fiscal Year 2016/17 General Fund Budget Overview

The original adopted budget for fiscal year 2015/16 projected a balanced General Fund budget with an operating surplus of \$267. Revenues were budgeted at \$12,989,394 and operating expenditures were budgeted at \$12,989,127 (excluding \$27,203 of funds that were encumbered against the prior year budget). On July 18, 2016, the City Council approved a \$7,600 increase in budgeted revenues associated with School Resource Officer reimbursements, which was offset with a \$7,600 increase in budgeted expenditures associated with crossing guards. On the following page is an overview of the amended budget and projected revenues, expenditures and fund balance.

	2016/17 Amended Budget	2016/17 Projected	Budget Variance
Beginning Fund Balance	7,408,716	7,408,716	-
Add: Prior Year Carry-Forward	27,203	27,203	-
Add: Revenue and Transfers In	12,996,994	13,125,830	128,836
Less: Operating Expenditures/Transfers Out	(13,023,930)	(12,959,072)	64,858
Ending Fund Balance	7,408,983	7,602,677	193,694
Change in Fund Balance	\$ 267	\$ 193,961	\$ 193,694

A budget surplus of approximately one-hundred and ninety-four thousand is currently projected which would result in \$7.6 million of General Fund balance at the end of the year. The forecast is based on the most likely projected scenario, which is based on a number of assumptions. As the year unfolds staff will continue to monitor the General Fund revenues and expenditures and will provide the City Council with an update later in the fiscal year.

Fiscal Year 2016/17 General Fund Projected Revenues

The amended budget for Fiscal Year 2016/17 forecasted revenues for the General Fund totaling \$12.996 million. For the reasons outlined on the following pages, the mid-year forecast of General Fund revenue is \$13.126 million.

	2016/17	2046/47	Dudaat
Revenues and Transfers In	Amended Budget	2016/17 Projected	Budget Variance
Property Taxes	\$ 3,489,695	\$ 3,541,450	\$ 51,755
Sales & Use Taxes	3,233,579	3,311,423	77,844
Utility Users Taxes	2,129,441	2,024,000	(105,441)
Transient Occupancy Tax	155,000	158,000	3,000
Franchise Fees	679,461	653,385	(26,076)
Licenses & Permits	780,323	856,499	76,176
Fines & Forfeitures	720,300	773,446	53,146
Investment Earnings	52,500	70,000	17,500
Revenue From Other Agencies	98,570	98,600	30
Charges for Services	1,082,263	1,083,313	1,050
Miscellaneous Revenues	161,862	141,714	(20,148)
Interfund Transfers	414,000	414,000	-
Total Revenues and Transfers In	\$ 12,996,994	\$ 13,125,830	\$ 128,836

Material variances from the amended budget are as follows:

- ❖ Sales & Use Tax revenue is projected to be up primarily due to several large one-time adjustments. For example, the City received approximately \$52,700 from the countywide pool that resulted from the re-allocation of use tax associated with sales tax generated from 2006 through 2015 that was erroneously reported to the City of Buena Park.
- ❖ Utility Users Tax (UUT) revenue is projected to be down by approximately \$105,000, which is primarily related to electric UUT revenue. Year-to-date cash receipts remitted by Southern California Edison (SCE) for the first 6 months of the fiscal year is approximately \$83,000 lower than the same 6-month period a year ago, which represents a 16% decline. SCE has indicated that a retroactive credit that covered years 2013 thru 2016 was issued to commercial customers over the last several months for an Emission Intensive Trade Exposed (EITE) credit associated with the State Cap and Trade Program. However, SCE has not yet been able to identify how much of the decline in year-to-date UUT revenue is attributable to the Cap and Trade credit and how much is attributable to other factors such as rate changes. The current forecast projects revenues resume at the average pace seen in prior years and reflects an overall budget variance of approximately \$130,000, which has been offset partially with better than expected water UUT revenue.
- ❖ Licenses and permits revenue is projected to be approximately \$76,000 higher primarily due to unexpected land use application filed for various multi-family developments throughout the City, a proposed fifty-unit residential development on Sausalito and fees related to the Village at 605 Shopping Center.

Fiscal Year 2016/17 General Fund Projected Expenditures

Department	2016/17 Amended Budget	2016/17 Projected	Budget Variance
City Council	\$ 77,429	\$ 73,096	\$ 4,333
City Manager/City Clerk	614,033	613,647	386
City Attorney	121,000	121,000	-
Administrative Services	752,060	752,019	41
Police	5,871,433	5,865,360	6,073
Development Services	2,544,486	2,543,812	674
Recreation and Community Services	1,758,443	1,709,841	48,602
Non-Departmental	449,708	444,959	4,749
Interfund Operating Transfers	835,338	835,338	-
Total Operating Expenditures and Transfers	\$ 13,023,930	\$12,959,072	\$ 64,858

Material variances from the amended budget are as follows:

- ❖ Development Services salary savings associated with the departure of the City's Public Works Superintendent in January 2017 are offset primarily with water costs, which are trending higher than budgeted.
- ❖ Recreation and Community Services savings is largely due to salary savings associated with a Recreation Coordinator position (which was vacated in October 2016) and a full-time Secretary position, which was partially offset with the cost for a part-time receptionist and the estimated cost to restore the City Hall Sundial. In October 2016 the Parks, Recreation and Cultural Arts Commission requested funding for the restoration of the City Hall Sundial. The estimated cost to restore the Sundial and for a rededication ceremony is approximately \$6,000, which will be funded from the department's existing budget.
- ❖ Non-Departmental & Police The budget included \$114,969 of salary savings (expenditure budget reduction), which was originally allocated to Non-Departmental. \$150,000 of net salary savings have been realized in the Police Department due to a 6-month vacancy associated with the retirement of a Police Sergeant and temporary vacancies associated with a Police Officer and a Corporal position which were vacant for part of the year. Therefore, the salary savings have been re-allocated to the Police Department's budget.

Fiscal Year 2017/18 General Fund Budget

The preliminary General Fund budget for Fiscal Year 2017/18 projects a preliminary deficit of \$273,831.

Fiscal Year 2017/18 General Fund Preliminary Budget		
Beginning Fund Balance	7,602,677	
Add: Revenue and Transfers In	13,150,403	
Less: Operating Expenditures/Transfers Out	(13,424,234)	
Ending Fund Balance	7,328,846	
Change in Fund Balance	\$ (273,831)	

As shown below, revenues are projected to increase by approximately \$24,573 to \$13,150,403.

	2016/17	2017/18 Preliminary	Increase/
Revenues and Transfers In	Projected	Budget	(Decrease)
Property Taxes	\$ 3,541,450	\$ 3,624,989	\$ 83,539
Sales & Use Taxes	3,311,423	3,293,423	(18,000)
Utility Users Taxes	2,024,000	2,047,260	23,260
Transient Occupancy Tax	158,000	160,000	2,000
Franchise Fees	653,385	657,444	4,059
Licenses & Permits	856,499	849,420	(7,079)
Fines & Forfeitures	773,446	740,300	(33,146)
Investment Earnings	70,000	72,000	2,000
Revenue From Other Agencies	98,600	107,158	8,558
Charges for Services	1,083,313	1,078,909	(4,404)
Miscellaneous Revenues	141,714	119,500	(22,214)
Interfund Transfers	414,000	400,000	(14,000)
Total Revenues and Transfers In	\$13,125,830	\$13,150,403	\$ 24,573

The changes in revenues over the prior year are primarily due to the following:

- ❖ **Property Taxes** are projected to increase approximately 3% based on consultant's projected increase in assessed valuations.
- ❖ Sales & Use Taxes are projected to increase approximately 3% on an economic (or full-accrual basis). However, year over year cash receipts are projected to be down \$18,000 due to the aforementioned one-time adjustments in 2016/17.
- ❖ Licenses & Permit revenue is projected to remain relatively flat overall. Anticipated plan check fees and building permit fee revenue associated with the Village at 605 Shopping Center has been included in the budget for 2017/18. However, license and permit revenue in 2016/17 included various multi-family unit developments which are not anticipated to occur in 2017/18, which offsets the anticipated revenue associated with the shopping center.

As shown below, expenditures are projected to increase by approximately \$465,162 to \$13,424,234.

	2016/17	2017/18 Preliminary	Increase/
Department	Projected	Budget	(Decrease)
City Council	\$ 73,096	\$ 75,772	\$ 2,676
City Manager/City Clerk	613,647	628,025	14,378
City Attorney	121,000	121,000	-
Administrative Services	752,019	765,359	13,340
Police	5,865,360	6,185,558	320,198
Development Services	2,543,812	2,610,636	66,824
Recreation and Community Services	1,709,841	1,799,395	89,554
Non-Departmental	444,959	403,151	(41,808)
Interfund Operating Transfers	835,338	835,338	-
Total Operating Expenditures and Transfers	\$ 12,959,072	\$ 13,424,234	\$ 465,162

The changes in citywide expenditures over the prior year are primarily due to salary and benefit costs (including pension costs), which are projected to increase by approximately \$497,000 in Fiscal Year 2017/18. This is partly due to an increase in pension costs in the amount of \$115,000. It's important to note that the 2017/18 Budget assumes that the City will prepay the unfunded portion of the City's pension costs, which will save the City \$29,340 and has already been reflected in amounts shown above. This means the \$115,000 increase in pension costs would be \$29,340 higher if the City did not prepay the unfunded portion of the City's pension costs.

The amounts that are projected for 2016/17 reflect salary savings associated with vacancies in Recreation, Police and Development Services. However, the 2017/18 budget assumes that these vacant positions are filled the entire year. The 2017/18 budget also accounts for merit increases and Cost of Living Adjustments (COLA) for POA employees (0.5%), CEA employees (1.5%) and Non-Represented employees (1%).

The \$320,198 increase in the Police Department's Budget is primarily due to the aforementioned increases in salary and benefit costs. For example, salary and benefits increased \$312,000 in the Police Department, which is partly due to increases in pension costs in the amount of \$63,000. In the prior year, there was a 6-month vacancy associated with the retirement of a Police Sergeant and temporary vacancies associated with a Police Officer and a Corporal position which were vacant for part of the year and generated salary savings. The 2017/18 Budget assumes that these vacant positions are filled the entire year and also takes into account the aforementioned merit increases and COLAs.

Budget workshops will be held on March 20, 2017 and April 17, 2017, which will provide an overview of each department's budget and how those dollars are used to serve the community.

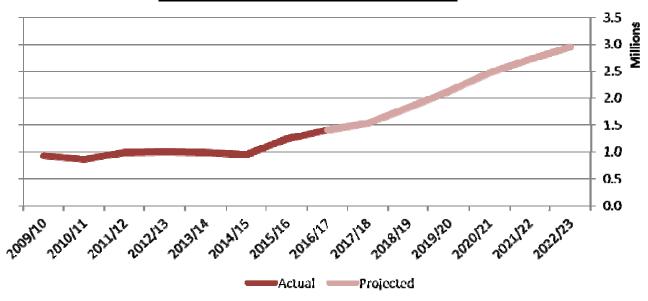
Pension Costs

The CalPERS Board of Directors approved a plan on December 21, 2016 to lower its discount rate (the expected rate of return on portfolio investments) from the current rate of 7.5% to 7% over the next three years with corresponding incremental increases in contributions over an eight-year smoothing period.

The impact on rates from the change in the discount rate is in addition to the ramp-up in contributions that resulted from a previous action taken by CalPERS in 2013 that resulted in shorter amortization periods and higher pension costs. In Fiscal Year 2017/18, the City is projected to pay approximately \$1.57 million to CalPERS in pension costs which, is based on the current discount rate of 7.5%.

As shown below, the City's annual pension cost is projected to be approximately \$3 million annually in 2022/23, which is a \$1.4 million increase in the City's annual budgeted expenditures and would be phased-in over the next five years.

Historical and Projected Pension Costs



In light of these escalating pension costs, the City's is planning to analyze citywide services and the potential reorganization of various departments in an effort to provide a path for long-term fiscal sustainability.

Potential Gap Closure Measures

It is recommended that the following measures be considered to close the budget gap in Fiscal Year 2017/18, which will also pave the way for long-term fiscal sustainability:

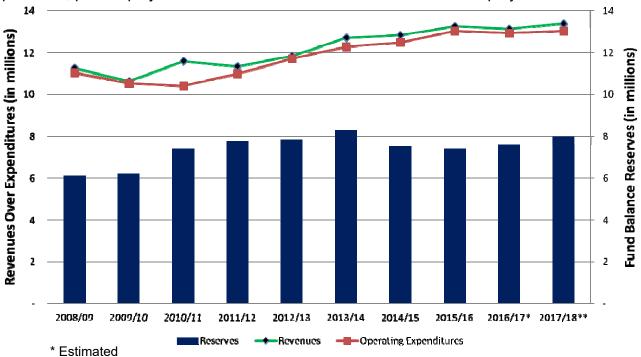
Implement a temporary freeze on all vacant full-time and part-time positions unless approved by the City Manager. The City plans to undergo an organizational study over the next several months while these positions are kept vacant. \$279,485

❖ The City charges a range of fees for services provided to residents and business, which have not been updated since 2008. The City recently conducted a study of its user fees and charges and found that the fees set in 2008 do not recover the full cost of the related services. In May 2017 the City Council will review the results of the study and if the recommended fees are adopted by the City Council, the City would be able to recover at least \$239,000 of costs for related services.

239,000

Reserves and Operating Results – 10 Year History

As shown below, the City has consistently maintained a balanced budget for the past decade and has set-aside reserves of approximately \$7.5 million for emergencies, pensions, postemployment benefits and the Los Alamitos Boulevard project.



^{** 2017/18} Preliminary Budget includes recommended gap-closure measures.

General Fund reserves have also been used over the years to create new Internal Service Funds, which has funded an 800 Mhz project (\$560,000), CAD/RMS (\$360,000) and Self-Insurance Trust Fund Reserves (\$250,000). In addition, approximately \$475,000 remains available for future projects, which could be used for a zoning code update and/or other projects.

Potential Long-Term Revenue Sources

There are several projects that are currently in process which will provide long-term revenues to the City once those projects have been completed. For example, there is a hotel development that would yield, property tax, transient occupancy tax and utility tax revenue. In addition, Lincoln Properties plans to develop the Supermedia site into a future retail shopping center, which would provide future sales tax, property tax and utility tax revenue. These projects are expected to be completed in 2018/19 and therefore the related sales tax, property tax and transient occupancy tax revenue has not been included in the 2017/18 budget.

Fiscal Impact

The preliminary budget and gap-closure measures would provide for a balanced General Fund budget for Fiscal Year 2017/18. The forecast for 2016/17 projected amounts and the preliminary budget for Fiscal Year 2017/18 is based on the most likely projected scenarios, which are based on a number of assumptions. As the year unfolds staff will continue to monitor the General Fund revenues and expenditures and will provide the City Council and Budget Standing Committee with an update later in the fiscal year.

Submitted By: Jason Al-Imam, Administrative Services Director

Approved By: Bret M. Plumlee, City Manager

Attachment: 1. PowerPoint Presentation



CITY OF LOS ALAMITOS

2016/17 Mid-Year General Fund Budget Review & 2017/18 Preliminary General Fund Budget

Overview

- Review projected 2016/17 General Fund revenues and expenditures
- Review the Preliminary Budget for 2017/18 General Fund revenues and expenditures

2016/17 General Fund Budget Overview

	2016/17 Amended Budget	2016/17 Projected	Budget Variance
Beginning Fund Balance	7,408,716	7,408,716	-
Add: Prior Year Carry-Forward	27,203	27,203	-
Add: Revenue and Transfers In	12,996,994	13,125,830	128,836
Less: Operating Expenditures/Transfers Out	(13,023,930)	(12,959,072)	64,858
Ending Fund Balance	7,408,983	7,602,677	193,694
Change in Fund Balance	\$ 267	\$ 193,961	\$ 193,694

2016/17 General Fund Revenues

	2016/17 Amended	2016/17	Budget
Revenues and Transfers In	Budget	Projected	Variance
Property Taxes	\$ 3,489,695	\$ 3,541,450	\$ 51,755
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Interfund Transfers	414,000	414,000	-
Total Revenues and Transfers In	\$ 12,996,994	\$ 13,125,830	\$ 128,836

2016/17 General Fund Expenditures

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	2016/17		
	A mended	2016/17	Budget
Department	Budget	Projected	Variance
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Non-Departmental	449,708	444,959	4,749
Interfund Operating Transfers	835,338	835,338	-
Total Operating Expenditures and Transfers	\$ 13,023,930	\$12,959,072	\$ 64,858

2017/18 General Fund Budget Forecast

6

Fiscal Year 2017/18 General Fund Preliminary Budget

Beginning Fund Balance 7,602,677

Add: Revenue and Transfers In 13,150,403

Less: Operating Expenditures/Transfers Out (13,424,234)

Ending Fund Balance 7,328,846

Change in Fund Balance \$ (273,831)

2017/18 General Fund Revenue Forecast

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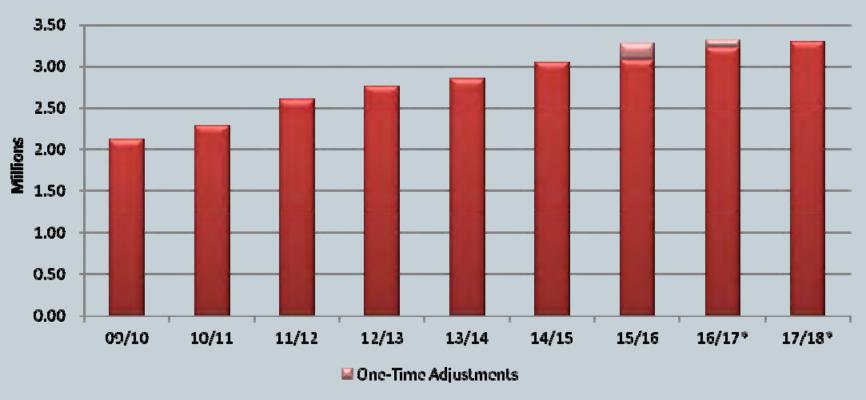
Revenues and Transfers In	2016/17 Projected	2017/18 Preliminary Budget	Increase/ (Decrease)
Property Taxes	\$ 3,541,450	\$ 3,624,989	\$ 83,539
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Miscellaneous Revenues	141,714	119,500	(22,214)
Interfund Transfers	414,000	400,000	(14,000)
Total Revenues and Transfers In	\$13,125,830	\$13,150,403	\$ 24,573

Property Tax Revenue



Sales and Use Tax Revenue

9



*Projected

2017/18 Expenditure Forecast

(10)

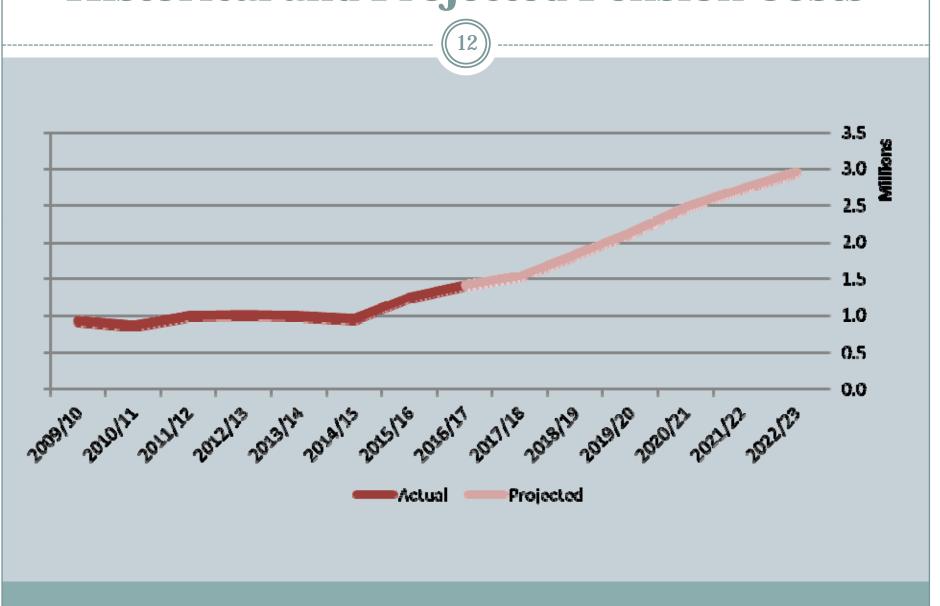
		2017/18	
	2016/17	Preliminary	Increase/
Department	Projected	Budget	(Decrease)
City Council	\$ 73,096	\$ 75,772	\$ 2,676
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Recreation and Community Services	1,709,841	1,799,395	89,554
Non-Departmental	444,959	403,151	(41,808)
Interfund Operating Transfers	835,338	835,338	-
Total Operating Expenditures and Transfers	\$ 12,959,072	\$ 13,424,234	\$ 465,162

2017/18 Expenditures



- \$465k increase in expenditures primarily due to:
 - Salaries and Benefits \$497k increase
 - × \$115k Increase in PERS Costs
 - ➤ Full-Staffing in 2017/18 (Loss of Vacancy Savings)
- Budget workshops on March 20th and April 17th will provide for an overview of each department's budget and how those dollars are used to serve the community.

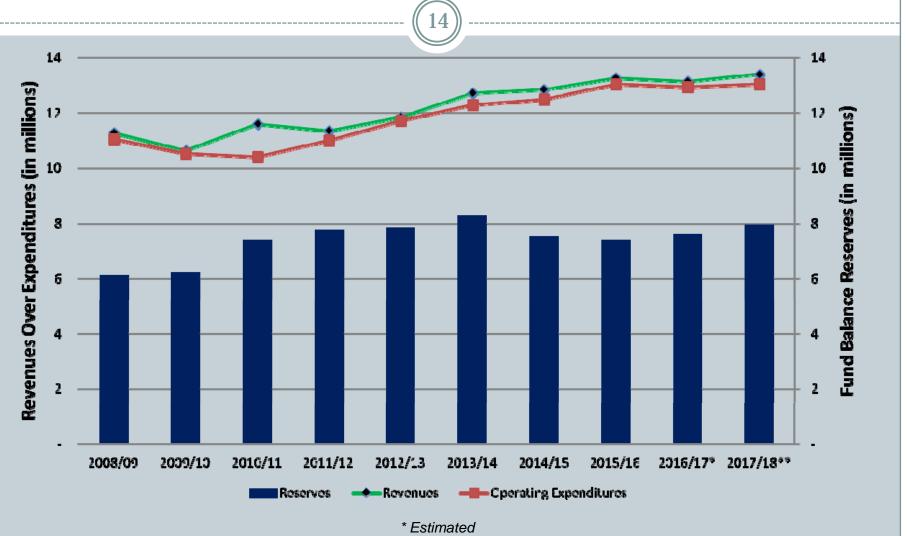
Historical and Projected Pension Costs



2017/18 Budget Gap Closure Measures

- 13
- Potential budget gap (\$273,831) closure measures include:
 - Implement a temporary freeze on all vacant full-time and part-time positions unless approved by the City Manager. The City plans to undergo an organizational study over the next several months while these positions are kept vacant. (\$279,485)
 - The City charges a range of fees for services provided to residents and business, which have not been updated since 2008. The City recently conducted a study of its user fees and charges and found that the fees set in 2008 do not recover the full cost of the related services. In May 2017 the City Council will review the results of the study and if the recommended fees are adopted by the City Council, the City would be able to recover at least \$239,000 of costs for related services.

General Fund Reserves & Operating Results



* * 2017/18 Preliminary Budget includes recommended gap-closure measures

Budget Calendar

15)

March 20 th	5 PM Special Meeting (prior to Regular Meeting)	Department Overview
April 17 th	5 PM Special Meeting (prior to Regular Meeting)	Department Overview
May 1st	5 PM Special Meeting (no Regular Meeting)	2017-18 Budget & CIP Workshop
May 15 th	5 PM Special Meeting (prior to Regular Meeting)	2017-18 Budget & User Fee Study Workshop
June 5 th	5 PM Special Meeting (no Regular Meeting)	2017-18 Budget Workshop*
June 19 th	6 PM Regular Meeting	Public Hearing – Budget Adoption

* If Needed

Staff Recommendations

- 1. Receive and file the mid-year budget report for Fiscal Year 2016/17; and,
- 2. Review the preliminary General Fund budget for Fiscal Year 2017/18 and <u>direct staff regarding potential gap closure</u> <u>items</u>.