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Title: Fiscal Year 2020-2021 Budget Update and Appropriation of Funds (Finance Director Charelian).
a) RECEIVE REPORT
b) APPROPRIATE FUNDS

Sponsors:

Indexes:

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Attachments: 1. FY 2019-2020 Year-End Results, 2. FY 2020-2021 Quarter 1 Comparison, 3. Updated Five Year Forecast

Date	Ver.	Action By	Action	Result
11/4/2020	1	City Council Regular Meeting	approved	Pass

TO:
Honorable Mayor and Members of the City Council

THROUGH:
Bruce Moe, City Manager

FROM:
Steve S. Charelian, Finance Director
Henry Mitzner, Controller
Libby Bretthauer, Senior Financial Analyst
Marcelo Serrano, Management Analyst

SUBJECT:
Fiscal Year 2020-2021 Budget Update and Appropriation of Funds (Finance Director Charelian).
a) **RECEIVE REPORT**
b) **APPROPRIATE FUNDS**

RECOMMENDATION:
Staff recommends that the City Council receive the report and approve 1) Appropriate \$496,700 from the General Fund for COVID-related expenditures 2) Budget adjustments related to canceled Special Events for \$293,600 and 3) Revenue adjustment for \$817,472 in the Streets & Highways Fund for grant funds awarded.

FISCAL IMPLICATIONS:
Fiscal implications are discussed within this report.

BACKGROUND:

During the month of March 2020, City staff began estimating the impacts of the COVID-19 Stay at Home order on the budget. Previous to the start of the pandemic, the budget trajectory was positive, but the spread of COVID-19 necessitated modifications to budget projections for the operational and economic effects of community health interventions. Staff has actively monitored the situation as it has evolved, specifically identifying effects on budget performance, trends, and adjustments required. In an effort to keep the City Council and community fully informed of the City's fiscal performance, staff is providing a presentation of financial information to the City Council ahead of the traditional mid-year report.

DISCUSSION:

The City Council and staff respond to the community's needs in part through the Budget. The budget is both a spending plan for the City's available financial resources and the legal authority for the City's various departments to spend available resources for public purposes and meet the needs of Manhattan Beach residents.

Fiscal Year (FY) 2019-2020 Preliminary Results

General Fund

Due to closures and limited business activity resulting from the COVID-19 response, FY 2019-2020 General Fund revenues were expected to be lower than previous years. With recorded revenues of around \$73.2 million, about \$4.2 million (5.6%) below the previous year's revenues, this expectation was proven correct. Expenditures also came in below projections, totaling approximately \$73.0 million, roughly \$1.3 million (1.7%) less than the previous year's expenditures, reflecting City staff's attempts to curtail costs and mitigate the effects of reduced revenues. Preliminary results show revenues exceeding expenditures by \$242,260. To compare with pre-pandemic estimates, the year-end surplus projected in the FY 2019-2020 Mid-Year Budget report was \$1.8 million.

The General Fund surplus (i.e. revenue over expenditure balance) of \$242,260 does not include transfers to other funds. In FY 2019-2020, General Fund net transfers out totaled \$453,533.

Other Funds

Revenues and expenditures in other funds saw similar results in Fiscal Year 2019-2020. Revenues such as Gas Tax, County transportation sales taxes (e.g. Prop "A", Prop "C", and Measure "R"), and Parking funds all came in lower than budget. However, expenditures in these funds were also lower than budget as operations and capital improvement projects also saw impacts of the pandemic.

Fiscal Year (FY) 2020-2021 First Three Months of Activity

The typical pattern of General Fund cash flow includes significant Property Tax revenue in the months of December, January, April and May. As a result, cash flow in the early months of each Fiscal Year is often negative, indicating that expenditures exceed revenues. This is fully expected, and typically by year-end, revenues have exceeded expenditures. Currently, revenues and expenditures are both lower than in comparable periods in previous years with expenditures exceeding revenues as expected.

Revenues

Generally, the three largest contributors to the City's revenue mix are Property Tax, Sales & Use Tax, and Transient Occupancy Tax.

Property Tax is the strong foundation of the City's General Fund revenues. The City's Property Tax consultant, HdL, has confirmed a 7.1% increase in net taxable assessed values for FY 2020-2021. This additional growth was due to new parcels with added improvements in Commercial areas, as well as residential and non-residential construction. With this higher than expected increase in assessed values, Property Tax revenues received in FY 2020-2021 will be approximately \$31.1 million, which is about \$1.15 million over the adopted budget amount of \$29.9 million.

Sales & Use Tax received in the first quarter is lower than the same period last year due in part to operational restrictions at brick and mortar retail locations. However, the amount received through the State and County pools increased as consumers continue to shift toward online sales for basic goods. The amount received from the State and County pools is forecasted to increase even more in the first months of FY 2020-2021, corresponding with the final implementation of the Wayfair decision, wherein the Supreme Court decided that out-of-state retailers selling above certain thresholds into a State (e.g., California) can be required to collect and remit state sales & use taxes on their sales within the state.

As part of the response to the economic effects of the pandemic, Sales & Use Tax deferral programs were put into place at the State level. These programs extended the due dates for collections at large businesses and provided additional relief to qualified small businesses. Based on information collected by the City's Sales Tax consultants (HdL), the City can expect to receive about \$600,000 in revenue from deferred payments and about \$301,500 loan repayments in FY 2020-2021.

Transient Occupancy Tax (TOT) receipts have been showing increases month to month, but area hotels expect a decrease in occupancy rates during the upcoming "offseason" winter months. Although it seems as though the worst of the downturn in occupancy rates has passed, despite any improving trends, this year's revenues will likely total below the totals of previous years. The City collects TOT payments in the following month, so the reported receipts for July 2020 actually reflect June 2020 activity. At fiscal year-end, the amount received in July 2020 will be reversed in the accounting system and, in the same manner, TOT collected in July 2021 will be included into the current fiscal year. The trajectory of COVID-19 trends in the spring will be critical for projecting TOT revenue in FY 2020-2021 and beyond.

On July 1, 2020, the City implemented a new fee schedule which, along with changes in the Energov software implemented in FY 2019-2020, has led to changes to the permitting and plan check processes. As a result of these changes, including the combination of what were previously multiple permits into one combination permit, comparisons between this fiscal year and previous years is difficult. Despite the changes, the volume of issued permits and plan checks have increased in the first quarter of FY 2020-2021, but the revenue amounts received from both is lower than the same period during the previous fiscal year. Also, some permits have carrying over from the previous quarter due to the pandemic. There has been a drop in the number of demolition permits, pointing to a shift away from new construction, in favor of remodels. Notably, building record requests have increased, suggesting a stable amount of home sales.

Revenue from other Service Charges (not including Plan Checks) decreased about \$1.4 million compared to the same period last year, significantly impacted by lower revenue from Parks and Recreation programs. Usually, summer programming generates a significant portion of Parks and Recreation revenues, but with operational impacts this year, fee revenues are 71.3% below FY 2019-2020 Q1. As much as possible, staff created new "virtual" programs or modified existing classes and

programs to comply with the Los Angeles County Public Health Order and affiliated approved modification guidelines. Due to the restrictions, the Parks & Recreation Department is offering about 60% less programs than last year. However, for programs eligible to open, enrollments are at capacity, albeit reduced from pre-pandemic levels.

While Interest Earnings and Rents are trending near the prior year periods, the Unrealized Investment Gain/Loss has been identified separately from the category due to big swings in the last few years. At the end of every fiscal year, an accounting entry is required to “mark-to-market” the City’s investments. Governmental Accounting Standards Board (GASB) Statement No. 31 states that “all investment income, *including changes in the fair value of investments*, should be reported as revenue”. As such, on June 30, the City’s investments were “marked-to-market” and a significant Gain on Investments of \$1.3 million was posted in FY 2019-2020. Then, since the City carries investments at cost (“book value”) throughout the year, the June 30 gain was reversed on July 1, which created the significant negative amount in fiscal year 2020-2021. If low interest rates hold through the end of this fiscal year, the City should recover from this large reversal when investments are again marked to new market values on June 30, 2021.

Operating Service Transfers include the General Fund reimbursement per the Cost Allocation Plan adopted in February 2020. In addition, Engineering staff time allocated to capital projects and grants is also included in this reimbursement to the General Fund.

Expenditures

General Fund expenditures are trending as expected, with significant reductions in Salaries & Wages, Contract & Professional Services, and Materials & Services when compared to the same period in previous years. In addition to the budget cuts implemented during the budget process, the shift to remote work in some departments has contributed to the reduction in expenditures to date.

Salaries and Wages are trending below prior years as a result of about 25 vacancies in Quarter 1, some of which were subject to the hiring freeze. A total of 6 positions were put under a hiring freeze during the budget process and therefore not funded in the FY 2020-2021 Adopted Budget. If the remaining budgeted positions remain unfilled, additional budgetary savings will result. All unfilled positions affect the year-over-year comparison, lowering the total expenditures in contrast to previous years.

In the Benefits category, expenditures for Medical Insurance, Medicare, and CalPERS “Normal Cost” contributions for active employees are currently trending lower in alignment with Salaries and Wages. However, the overall category is indicating year-over-year growth due to the budgeted increase in payments to CalPERS toward the City’s Unfunded Accrued Liability (UAL). As discussed with City Council Agenda Items regarding the City’s Pension Liabilities on October 6 and 20, 2020, these payments will continue to rise. The City’s total UAL payments in FY 2020-2021 were \$681,949 over required payments in FY 2019-2020. Next year, in FY 2021-2022, required UAL payments will increase by an additional \$1.0 million.

The reduction within Contract & Professional Services expenditures is almost entirely the result of reductions in Contract Services. The drop in expenditures can be tied back to changes in special events and recreation programming that have been made to comply with State and County restrictions. Within Contract Services, the largest year to year decrease can be found within the Police Department’s Traffic Safety expenditures. The need for security and traffic control measures

was reduced as various special events have been cancelled throughout the City. Additionally, the City's contract for crossing guard services has not been utilized as the pandemic has virtually eliminated in person classes at the Manhattan Beach Unified School District.

The other significant contributor to expenditure reductions is related to changes to Parks and Recreation programming. With State and County restrictions, Sports Classes, Sports Leagues & Tournaments, Tennis Operations, Special Activity Classes and Special Events all have considerably lower expenditures when compared to the same period last year.

Reductions in multiple areas within Materials & Services have also led to a substantial drop in expenditures when compared to the same period in the previous year. The largest reductions seem to result from changes to the nature of work. With less staff onsite at any given time, expenditures within Office and Departmental Supplies being recorded are roughly a third of what they were for the same period in the previous year. Further, printing costs have been very low, likely stemming from a combination of staff working remotely and improved digital processes. With the shift to the digital workspace, Conferences, Training, & Meetings are also lower than the same period last year, as many trainings and meetings have shifted to online formats, eliminating the need for physical travel.

The last notable category with a significant year-to-year change is Internal Service Charges. During the FY 2020-2021 budget development process, Fleet Rental and Maintenance internal service charges were temporarily eliminated from the General Fund since the Fleet Fund is able to absorb current year expenditures with its healthy fund balance. These charges will be reinstated in FY 2021-2022.

FY 2020-2021 Budget Adjustments

1) *FY 2020-2021 Special Events - Net decrease of \$293,600 from General Fund*

During the budget process, staff identified Special Events that would likely not occur due to ongoing restrictions resulting from the effects of COVID-19. These events were presented as potential budget expenditure reductions in the Proposed Budget that was submitted to City Council as part of the FY 2020-2021 Budget discussions. City Council opted to remove a subset of the identified events, retaining the following events as part of the Adopted Budget:

- Holiday Fireworks (Fee waiver approved by City Council) - \$111,785
- 6-Man Volleyball Tournament - \$107,859
- MB 10K (Fee waiver approved by City Council) - \$45,282
- Pier Lighting/Holiday Open House - \$28,832
- Pumpkin Race/Friendship Walk - \$26,302
- MBO Tennis Tournament - \$18,100
- North End Holiday Stroll (Fee waiver approved by City Council) - \$1,500

These events have now officially been canceled, resulting in budgetary savings of \$339,600. Furthermore, with the cancelation of the 6-Man Volleyball Tournament, its reimbursement revenue of \$46,000 will also not be received. Overall, the net budgetary savings from these canceled events is \$293,600, which can be removed from the Budget.

The City Council recently approved three agreements for unanticipated expenditures related to public health measures in FY 2020-2021. These approvals were made with the understanding that an

appropriation of funds would be brought before the City Council with this Budget Update report.

2) FY 2020-2021 COVID-19 Related Expenditures - Net Increase of \$496,700 from General Fund

The City Council recently approved three agreements for unanticipated expenditures related to public health measures in FY 2020-2021. These approvals were made with the understanding that an appropriation of funds would be brought before the City Council with this Budget Update report.

- **Contemporary Services Corporation - \$258,000 from General Fund**
On September 1, 2020, the City Council ratified a contract amendment dated July 31, 2020 which authorized CSC to assist the Police Department with emergency face covering enforcement. Sufficient funds are available in the Police Department budget for normal operations, but not for the additional services of unexpected events such as social distancing during bioluminescence, COVID- 19 face covering enforcement, and civil unrest as these were not anticipated expenses. Consequently, an appropriation of \$258,000 is requested to cover previous expenditures and maintain current operations through January 2021.
- **Willdan Engineering - Net \$168,700 from General Fund**
On September 15, 2020, the City Council ratified an agreement with Willdan Engineering for code enforcement services in connection with emergency protective measures to safeguard public health during the COVID-19 pandemic. To cover expenditures through the end of January 2021, an appropriation of \$187,200 is needed to maintain current service levels. These expenditures are partially offset by citation revenue estimated at \$18,500 (\$100 per citation).
- **Commercial Cleaning Services - \$70,000 from General Fund**
On October 6, 2020, the City Council approved an increase to the authorized contingency of the 3-year agreement with Commercial Cleaning Services (CCS) relating to additional janitorial services due to COVID-19. The pandemic has necessitated enhanced cleaning, sanitation, and disinfection at various locations including City Hall, the Public Safety Facility, the Public Works yard, and several Parks & Recreation facilities. Staff estimates an appropriation of \$70,000 is sufficient to ensure the protection of the work environment and respond to potential exposures through June 2021.

With the changes identified in items 1) Special Events and 2) Covid-related expenditures, General Fund Revenues will decrease a total of \$27,500 and Expenditures will increase a total of \$175,600. Overall, the net cost of these General Fund budget adjustments is \$203,100.

With these changes, General Fund Revenues will decrease a total of \$27,500 and Expenditures will increase a total of \$175,600. The net cost of these four General Fund budget adjustments is \$203,100.

3) STP-L Grant Funds - \$817,472 Revenue Adjustment in Streets & Highways Fund

On June 30, 2020, the City Council authorized an exchange of STP-L funds for use on an eligible project. The Rosecrans Street Resurfacing project was determined to be eligible for

the use of STP-L funds, and the City Council then approved a project expenditure appropriation on August 4, 2020. With the STP-L funding exchange now complete, a revenue adjustment of \$817,472 is appropriate for the receipt of these funds.

COVID-19 Reimbursements

FEMA Reimbursement

The funding from the Federal Emergency Management Agency (FEMA) became available to various jurisdictions since the pandemic is classified as a State of Emergency. FEMA reimburses 75 cents on the dollar for eligible expenses. To access these funds, the City prepared and submitted an application to FEMA, identifying potentially eligible costs, for approval and reimbursement on June 10th. Staff has already opened an “In-Progress” application and submitted a total of \$481,232 in expenditures for review through May 2020. A subsequent request of approximately \$388,030 will be submitted for expenditures from June through September 15th. If all expenditures submitted are approved by FEMA, the City’s potential reimbursement, at 75 cents on the dollar, is \$651,947.

Since FEMA released new guidelines that restricted reimbursable categories effective September 15th, staff communicated with FEMA and strategically decided to close the current application for expenditures through September 15th. Another application will be opened for COVID expenditures incurred after September 15th. However, since FEMA has restricted what can be reimbursed, staff anticipates that future reimbursement requests to FEMA will be significantly reduced compared to the previous submittals. While personal protective equipment (PPE) and the cost of communication to the public will still be reimbursable under the new guidelines, the City will no longer be able to submit sworn overtime and legal fees.

State Reimbursement

As part of the CARES Act passed by the Federal Government on March 27, 2020, in response to the economic fallout of the COVID-19 pandemic in the United States, states and certain local governments were given an allocation of funds to assist in the response to the pandemic. Although more limited in funding, the CARES act provides for broader and more flexible reimbursement categories compared to the funding through FEMA. For example, only COVID related overtime is reimbursable through FEMA while sworn and personnel salaries that are dedicated to the COVID response is reimbursable through CARES. Although the City did not meet the criteria for a direct payment from the Federal Government due to having a population of less than 500,000, the City will receive the CARES Act funding through the State of California. The City has been allocated \$435,236; \$217,617 was received in FY 2020-2021 Q1 (included in “From Other Governments” category on attachment), and the City has received the remaining \$217,619 in October 2020 (FY 2020-2021 Q2).

Staff will continue to monitor all opportunities for State and Federal level grants that may become available.

Updated Five Year Forecast

The attached Five Year Forecast has been updated with FY 2019-2020 Actuals and revised CalPERS Unfunded Actuarial Liability (UAL) payments in fiscal years 2021-2022 through 2024-2025. The UAL payments in these outer years were updated to coincide with the latest CalPERS Actuarial Valuation reports released in July 2020. At this time, the proposed budget adjustments for FY 2020-2021 have not been included (pending approval on appropriations from City Council).

Staff will return to City Council with the next Budget Update on February 16, 2021. This presentation

will include updates on revenues and expenditures, and if needed, other budget adjustments for public health and/or safety measures.

PUBLIC OUTREACH:

After analysis, staff determined that public outreach was not required for this issue.

ENVIRONMENTAL REVIEW:

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW:

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

ATTACHMENTS:

1. FY 2019-2020 Year-End Results
2. FY 2020-2021 Quarter 1 Comparison
3. Updated Five Year Forecast