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Title: Presentation of the Fiscal Year 2022-2023 Proposed Operating Budget and Updated Financial Policies (Finance Director Charelian).
(Estimated Time: 45 Min.)
DISCUSS AND PROVIDE DIRECTION

Sponsors:

Indexes:

Code sections:

Attachments: 1. Fiscal Year 2022-2023 Proposed Budget, 2. Fiscal Year 2022-2023 General Fund Summary, 3. Financial Policies, 4. Parks and Recreation Program Profit & Loss Estimates

Date	Ver.	Action By	Action	Result
5/3/2022	1	City Council Regular Meeting		

TO:
Honorable Mayor and Members of the City Council

THROUGH:
Bruce Moe, City Manager

FROM:
Steve S. Charelian, Finance Director
Libby Bretthauer, Financial Services Manager
Julie Bondarchuk, Financial Controller
Marcelo Serrano, Management Analyst

SUBJECT:
Presentation of the Fiscal Year 2022-2023 Proposed Operating Budget and Updated Financial Policies (Finance Director Charelian).
(Estimated Time: 45 Min.)
DISCUSS AND PROVIDE DIRECTION

RECOMMENDATION:
Staff recommends that the City Council receive this report on the Proposed Operating Budget for Fiscal Year (FY) 2022-2023 and Updated Financial Policies and provide direction.

FISCAL IMPLICATIONS:
The Proposed Budget for FY 2022-2023 includes revenues and expenditures for all of the City's Funds. The document includes conservative estimates for ongoing operations as well as planned projects in the Capital Improvements Plan (CIP).

The FY 2022-2023 General Fund Proposed Budget has a projected surplus of \$1,210,209.

Revenues	\$86,453,227
Expenditures	<u>\$85,243,018</u>
FY 2022-2023 Proposed Budget Surplus	\$ 1,210,209

With the City's history of prudent planning and conservative approach to financial management, policy reserves were not drawn upon during the Great Recession or more recently during the pandemic. The City's current Financial Policy reserve is 20% of operating expenditures, or about \$17.0 million in FY 2022-2023, which is greater than the Government Finance Officers' Association (GFOA) recommendation of "no less than two months (17%) of regular general fund operating revenues or regular general fund operating expenditures." In addition, the City Council has set aside \$4.0 million as an "Economic Uncertainty" reserve.

After taking into account the projected operating surplus of \$1,210,209 and net transfers out from the General Fund totaling \$7.3 million, the General Fund Unreserved Fund Balance is estimated to be \$7.5 million at the end of FY 2022-2023. These funds may be drawn upon for one-time projects and initiatives. The City's financial position is a result of judicious decisions for cost controls, including long-term pension cost reductions through the issuance of Pension Obligation Bonds (POBs), as well as a practice of balancing the budget and ensuring adequate reserves.

Additionally, City Council made the decision to accept the City's American Rescue Plan Act (ARPA) allocation of \$8.4 million and allocate the funds to the "Revenue Loss" category per the U.S. Treasury Department's Final Rule, thereby placing the funds in Unreserved General Fund balance, which is available for spending at the City Council's discretion. The first half (\$4.2 million) was received in FY 2020-2021 and the remaining funds are expected in FY 2021-2022. In FY 2020-2021, the City Council approved the transfer of \$1.4 million to the Capital Improvements Bond Construction Fund to support the reconstruction of Fire Station No. 2.

The FY 2022-2023 Proposed Budget includes the following transfers out from the General Fund unreserved fund balance:

- **\$4.0 million** to the Capital Improvements Program (CIP) Fund for various one-time facilities and parks projects that align with the results of the recent community opinion survey and City Council Work Plan, including:
 - Sand Dune Park Improvements - \$1.2 million
 - Citywide Security Cameras - \$230,000
 - Polliwog Park Lighted Pathway - \$180,000
 - Park Improvements Annual Program - \$150,000
 - Joslyn Center Façade Improvements - \$70,000 (\$250,000 also scheduled in FY 2023-2024)
 - Park Fitness Equipment Installation - \$65,000
 - Manhattan Beach Unified School District (MBUSD) Project - \$250,000
 - MBUSD Biennial Slurry Seal Program - \$50,000
 - Street, right-of-way and ADA improvement projects - \$350,000
 - Other facility capital maintenance and renovation projects - \$657,500
 - The balance of the transferred funds will remain in the CIP Fund balance for future capital projects identified in the Five Year CIP.
- **\$1.5 million** to the Stormwater Fund to cover ongoing operations and capital expenses. This

fund receives revenues from assessments to property owners, which have not increased since 1996. Without a successful Prop 218 vote, the fund will continue to require subsidies from the General Fund to cover ongoing operations and capital expenses.

- **\$222,333** to the Street Lighting and Landscape Fund to cover ongoing operations and capital expenses. This fund receives revenues from assessments to property owners, which have not increased since 1996. Without a successful Prop 218 vote, the fund will continue to require subsidies from the General Fund to cover ongoing operations and capital expenses.
- **\$798,292** to the CIP Fund in accordance with the Pension Liability Policy. This transfer is sufficient to pay for debt service on Fire Station No. 2 (\$400,875) and help fund capital projects.
- **\$1,197,439** to the PARS Pension Stabilization Trust Fund in accordance with the Pension Liability Policy. The City Council has the discretion to use funds accumulated in the PARS Trust fund to pay ongoing pension costs directly to CalPERS, which would provide General Fund relief if needed.

The Pension Liability Policy was approved by the City Council in 2021 to provide guidance on how to reallocate the budgetary “savings” achieved by the issuance of POBs in 2021. The budgeted transfers for the “savings” (i.e. the difference between what would have been paid to CalPERS compared to the level-debt service payments of \$5.5 million) is currently allocated 40% to the CIP Fund (for debt service or capital projects) and 60% to the PARS Pension Stabilization Trust Fund (for future pension costs).

The General Fund also receives a transfer-in of excess funds from the County Parking Lots fund, which is estimated at \$409,786 in FY 2022-2023.

BACKGROUND:

On February 18, 2022, staff presented the FY 2021-2022 Mid-Year Budget report. Year-end estimates for FY 2021-2022 indicate that revenues will exceed expenditures by about \$8.5 million. Excluding the one-time ARPA funds of \$4.2 million, the projected surplus would be \$4.3 million. This anticipated surplus is primarily due to temporary cost controls adopted with the FY 2021-2022 Budget, unanticipated savings from vacant positions, and revenues exceeding conservative estimates.

Revenues	\$86,966,164
Expenditures	<u>78,452,354</u>
FY 2021-2022 Year-End Projection	\$ 8,513,810
FY 2021-2022 ARPA Allocation	<u>(4,208,260)</u>
FY 2021-2022 Projected Surplus	\$ 4,305,550

Based on the year-end projection, the unreserved (available) General Fund balance on June 30, 2022, is projected to be \$15.1 million after accounting for financial policy designations. These funds will be needed to fund capital priorities and relieve future anticipated deficits in the Stormwater Fund and Street Lighting & Landscape Fund.

DISCUSSION:

The City Council's steadfast commitment to protecting residents while maintaining essential services has guided the City's pandemic response over the last two years. Likewise, the priorities of public safety and core City services guided our budget development for FY 2022-2023. Our City's history of prudent policy decisions allowed us to sustain essential services and plan strategically for future

investment needs.

The FY 2022-2023 Operating Budget was developed as a conservative spending plan that maintains City Council and community priorities. Where appropriate, service level investments were added in response to feedback received from the Community Opinion Survey and for City Council Work Plan items.

Proposed Budget

The City's Proposed Budget Book is comprised of six key sections as follows:

- 1) Introduction
- 2) Summaries
- 3) Operating Budget
- 4) Five Year Forecast
- 5) Capital Budget Summary
- 6) Appendix

To obtain an overview of the Proposed Budget, staff recommends that City Council first review the City Manager's Budget Message and Budget Overview located in the (1) *Introduction* section of the attached Proposed Budget document. The Message includes an explanation of the City's current fiscal outlook as well as proposed staffing changes and service delivery investments. The Budget Overview includes updates on key revenue sources as well as a comprehensive summary of each City fund. Following the Introduction is the (2) *Summaries* section, which presents revenues and expenditures by fund and by category.

The next section is the (3) *Operating Budget*, which includes department overviews with narratives on key objectives, service level trends, staffing tables and financial tables. The (4) *Five Year Forecast* (FY 2022-2023 through FY 2026-2027) covers all City funds and includes funding for operations and the projects identified in the Proposed Five Year CIP found in the (5) *Capital Budget Summary* section. Further discussion of the Proposed Five Year CIP for 2022-2023 through 2026-2027 will take place at the May 10, 2022, City Council Budget Study Session meeting.

The final (6) *Appendix* section of the Proposed Budget includes various schedules and tables to provide further context to the budget as well as the City's Financial Policies and Budget Policies.

Updated Financial Policies

The City's Financial Policies are reviewed annually and adopted concurrently as part of the City's Budget document in June of every year. The Policies are updated periodically as needed. Since the last substantial revision, the Financial Policies document has continued to achieve its purpose of guiding elected officials and staff in the financial management of the City, thereby maintaining our long-term financial integrity and AAA credit ratings.

Staff took the opportunity this year to further refine and polish the document to today's standards. None of the edits resulted in significant fiscal implications. The recommended revisions result in a better alignment with current practices, clarify ambiguous language, and reference more recently adopted City policies such as the Debt Management and Disclosure Policy (2018), Budget Policy (2019), and Unfunded Pension Liability Policy (2021). Additionally, the City Council adopts an Investment Policy annually.

The Finance Subcommittee recently reviewed the revisions on April 14, 2022, and recommends the City Council adopt the Financial Policies concurrently with the Budget on June 7, 2022.

Community Opinion Survey

In an effort to gain valuable input from residents to build a stronger, more connected community following the impacts of the COVID-19 pandemic, the City conducted a Community Opinion Survey in December 2021. Residents were invited to provide feedback on topics such as quality of life, safety, code enforcement, homelessness, budget priorities, and communications. The insights help staff and City Council in budgeting and strategic planning initiatives. The comprehensive survey identified the most important assets to be preserved including:

- The small town feel and charming beach community;
- Public safety and low crime rates;
- The beach and ocean;
- Cleanliness, appearance, and the overall beauty of the City; and
- Community and family-friendly atmosphere

With the organization of the City's budget by department and program, it is possible to connect these community priorities with proposed expenditures included in the FY 2022-2023 Budget. More details can be found in the City Manager's Budget Message located in Attachment 1 - Proposed Budget.

Updated Performance Measures

Each year, staff presents performance measurements for the various departmental programs. The Government Finance Officers Association (GFOA) recommends that program and service performance measures be developed and used as an important component of long-term strategic planning and decision-making, as well as linked to governmental budgeting.

This year the City has enhanced Performance Measures to reflect budget goals, including fiscal responsibility, community engagement, safety & health of the community, and excellent municipal services. In addition to Performance Measures, each City department highlighted notable workload indicators and activities that have been accomplished in the prior calendar year of 2021.

Budget Process and Opportunities for Community Input

The budget@manhattanbeach.gov email has been useful for gathering input from the community, and it will once again remain active throughout the budget process in order for the community to communicate budget priorities to staff.

The Beach Reporter recently included an advertisement announcing the upcoming budget discussion schedule, which is as follows:

Tuesday, May 10	City Council Meeting Capital Improvements Plan/Budget Study Session - 6 PM
Tuesday, May 17	Regular City Council Meeting - 6 PM
Tuesday, May 24	City Council Meeting Budget Study Session - 6 PM
Tuesday, June 7	Regular City Council Meeting - Public Hearing and Budget/CIP Adoption - 6 PM

All meetings will be held in-person at City Council Chambers and via Zoom.

Attachments

In addition to the Proposed Budget, Staff has included the following summary documents to aid readers in their review:

- FY 2022-2023 General Fund Summary;
- Financial Policies (as reviewed/recommended by the Finance Subcommittee);
- Parks and Recreation Program Profit & Loss Estimates (provided annually with the Budget for a different perspective on revenue-generating programs funded by market-driven fees.)

These documents and their contents may be discussed with tonight's presentation or during one of the future meeting dates listed above.

PUBLIC OUTREACH:

Future opportunities for public input are described above.

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. Fiscal Year 2022-2023 Proposed Budget
2. Fiscal Year 2022-2023 General Fund Summary
3. Financial Policies
4. Parks and Recreation Program Profit & Loss Estimates