



Legislation Details (With Text)

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Title: Discussion of the Fiscal Year 2022-2023 Proposed Operating Budget and Five Year Capital Improvement Program (Finance Director Charelian and Public Works Director Lee).
(Estimated Time: 3 Hr.)
DISCUSS AND PROVIDE DIRECTION

Sponsors:

Indexes:

Code sections:

Attachments: 1. Links to Attachments

Date	Ver.	Action By	Action	Result
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TO:
Honorable Mayor and Members of the City Council

THROUGH:
Bruce Moe, City Manager

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

SUBJECT:
Discussion of the Fiscal Year 2022-2023 Proposed Operating Budget and Five Year Capital Improvement Program (Finance Director Charelian and Public Works Director Lee).
(Estimated Time: 3 Hr.)
DISCUSS AND PROVIDE DIRECTION

RECOMMENDATION:
Staff recommends that the City Council provide direction on the Proposed Operating Budget for Fiscal Year (FY) 2022-2023 and Five-Year Capital Improvement Program (CIP) for fiscal years 2022-2023 through 2026-2027.

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 Program (CIP).

As presented in the Proposed Budget, the General Fund had a projected surplus of \$1,210,209 in FY 2022-2023. Subsequently, the City Council approved part-time salary schedule adjustments at the May 17, 2022, City Council meeting resulting in an increase of \$130,000 to General Fund Expenditures. Based on these adjustments, the City's General Fund is now projected to have a surplus of \$1,080,209 in FY 2022-2023 as reflected below.

Revenues	\$86,453,227
Expenditures	<u>\$85,373,018</u>
FY 2022-2023 Revised Budget Surplus	\$ 1,080,209

The City's current Financial Policy reserve is 20% of operating expenditures, or about \$17.1 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 \$1,080,209 and net transfers out from the General Fund totaling \$7.3 million, the General Fund Unreserved Fund Balance is estimated to be \$7.35 million at the end of FY 2022-2023. These funds may be drawn upon for one-time projects and initiatives (they may also be necessary to subsidize future years' revenue shortfalls in the Storm Water Fund and the Street Lighting and Landscaping Fund as is currently anticipated in the five year forecast). 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.

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 before transfers. Excluding the one-time American Rescue Plan Act (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 FY 2022-2023 Proposed Budget was presented at the May 10, 2022, City Council Budget Study

Session. After an initial Budget Overview presentation, departments presented expenditures by program, performance measures/metrics, key objectives for FY 2022-2023, and investments in service delivery, maintenance and infrastructure.

Subsequently, at the May 17 Regular City Council meeting, two items were approved with budget implications for FY 2022-2023.

- 1) Part-time Salary Adjustments: Part-time salary schedule adjustments will increase General Fund expenditures by \$130,000.
- 2) Senior and Scout Community Center: The City Council dedicated an additional \$1.9 million to the Senior and Scout Community Center project. This funding will be budgeted in the CIP fund in FY 2022-2023.

To offset the impact to the CIP Fund, staff recommends a re-allocation of the budgetary “savings” transfers that resulted from the issuance of Pension Obligation Bonds in 2021. A Pension Liability Policy was approved by the City Council in 2021 to provide guidance on the allocation of “savings” with the baseline standard being 40% to the CIP Fund (for debt service or capital projects) and 60% to the Pension Stabilization Trust Fund (for future pension costs). The Policy also states that a recommendation for the precise allocation will be determined annually during the budget process.

Accordingly, the recommended allocation for the total transfer of \$1,995,731 in FY 2022-2023 is:

- **\$1,596,585 (80%)** to the CIP Fund. This transfer is sufficient to pay for debt service on Fire Station No. 2 (\$400,875) and help fund capital projects, including the Senior and Scout Community Center.
- **\$399,146 (20%)** to the Pension Stabilization Trust Fund. The City Council has the discretion to use funds accumulated in the Trust fund to pay ongoing pension costs directly to CalPERS, which would provide General Fund relief if needed.

The standard allocation of 40% to the CIP Fund (for debt service or capital projects) and 60% to the Pension Stabilization Trust Fund (for future pension costs) will continue to be programmed in future years of the Five Year Forecast.

With the reduced transfer to the Pension Stabilization Trust Fund, the estimated ending fund balance in FY 2022-2023 will be \$2.9 million.

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 following budget discussion schedule:

Tuesday, May 10	City Council Meeting Budget Study Session #1 - 6:00 PM
Tuesday, May 24	City Council Meeting Budget Study Session #2 - 6:00 PM
Tuesday, June 7	Regular City Council Meeting - Public Hearing and Budget/CIP Adoption - 6:00 PM

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.

ATTACHMENT:

1. [Links to Attachments](#)