



Legislation Text

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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 2021-2022 Proposed Operating Budget (Finance Director Charelian).

DISCUSS AND PROVIDE DIRECTION

RECOMMENDATION:

Staff recommends that the City Council receive this report on the Proposed Operating Budget for Fiscal Year (FY) 2021-2022 and provide direction.

FISCAL IMPLICATIONS:

The Proposed Budget for FY 2021-2022 includes revenues and expenditures for all of the City's Funds. The document includes conservative estimates for ongoing operations as well as planned Capital Improvement Projects (CIP).

The City's General Fund has weathered the COVID-19 pandemic and resulting economic downturn thanks to cost controls that were implemented to help balance the General Fund budget in FY 2020-2021. The City also received CARES Act funding in the amount of \$435,236 and is awaiting approval of FEMA reimbursement applications totaling up to \$1.1 million. Additional Federal relief is on the way with the passage of the American Rescue Plan on March 11, 2021. The City's estimated allotment is \$6.6 million, which is expected in two installments twelve months apart. Although official guidance on the use of funds is still forthcoming, the first installment of funds is expected by July 2021 and the second installment is expected in FY 2021-2022.

Consequently, the FY 2021-2022 General Fund Proposed Budget has a projected surplus of \$3,564,450.

Revenues	\$81,338,011
Expenditures	<u>\$77,773,561</u>
FY 2020-2021 Proposed Budget Surplus	\$ 3,564,450
 Proposed Surplus without ARP Funds	 \$ 253,236

Although the receipt of these funds is included in the Proposed Budget, the monies will be set aside in a separate reserve until Staff and City Council can make a determination on an appropriate use of the funds.

With the City's history of prudent planning and our conservative financial management approach, reserve funds have not been needed during the Great Recession or more recently during the pandemic. The City's General Fund has reserves greater than the Government Finance Officers' Association (GFOA) recommendation of "no less than two months of regular general fund operating revenues or regular general fund operating expenditures," which equates to roughly 17%. The City's current Financial Policy reserve is 20% of operating expenditures, or about \$15.6 million in FY 2021-2022. The City Council has also set aside \$4.0 million as an "Economic Uncertainty" reserve.

After taking into account the projected surplus (without ARP funds that will be held in a separate reserve) of \$253,236 and transfers out from the General Fund to other funds totaling \$1.85 million, the General Fund Undesignated Fund Balance is estimated to be \$3.4 million at the end of FY 2021-2022. Total ending fund balance is projected to be \$29.6 million, which will be drawn upon for transfers out to support other funds.

In FY 2021-2022, transfers out from the General Fund include \$180,784 to the Street Lighting and Landscape Fund and \$1.0 million to the Stormwater Fund. Additionally, anticipated transfers out of \$450,000 to the CIP Fund and \$603,944 to the Pension Rate Stabilization Trust Fund are included in accordance with the Pension Policy approved by the City Council on March 2, 2021. The total of the two transfers (\$1,053,944) is equal to the estimated budgetary savings derived from the issuance of Pension Obligation Bonds (POBs). The transfer to the CIP Fund is sufficient to pay for anticipated Certificates of Participation (COP) debt service on Fire Station #2. The balance, roughly 60%, will be held in the Pension Rate Stabilization Trust fund for future pension costs. The total amount of the savings and the precise allocation will be brought to City Council for approval during the next budget cycle.

BACKGROUND:

On February 16, 2021, staff presented the FY 2020-2021 Mid-Year Budget report. Year-end estimates for FY 2020-2021 indicate that revenues will exceed expenditures by about \$557,105. This anticipated surplus was primarily due to unanticipated savings from vacant positions and programs delayed or modified due to COVID-19 restrictions. The unreserved (available) General Fund balance on June 30, 2021, is projected to be nearly \$5.9 million after accounting for financial policy designations. These funds will likely be needed to relieve future anticipated deficits in the Stormwater Fund and Street Lighting & Landscape Fund.

Revenues	\$71,750,905
Expenditures	<u>\$71,193,800</u>
FY 2020-2021 Year-End Projection	\$ 557,105

With the anticipated first installment of ARP Funds, the FY 2020-2021 surplus would total \$3,868,319.

Based on the year-end projection, the unreserved (available) General Fund balance on June 30, 2021, is projected to be \$5.9 million after accounting for financial policy designations and setting aside the \$3.3 million in ARP funds.

DISCUSSION:

The City Council's steadfast commitment to protecting residents and maintaining essential services has guided the City's pandemic response over the last year. Likewise, the priorities of public safety and core City services guided our budget development for FY 2021-2022. Our City's history of prudent policy decisions has positioned us well to continue essential services and plan strategically for future investment needs.

One of our greatest challenges over the last year has been the changing dynamics affecting City revenues. The City's most significant General Fund revenue source, Property Tax, remains stable at this time. However, Sales Tax and Transient Occupancy Tax were both immediately and drastically impacted by "Safer at Home" orders and resulting business closures. The sudden and severe declines in retail sales and travel/tourism activities were unprecedented in scope and therefore made forecasting budgetary impacts a challenge. City staff has made every effort to prudently estimate FY 2021-2022 revenues, and reduce expenditures accordingly, but it should be noted that the duration and severity of the coronavirus-fueled economic shutdown remain uncertain.

The FY 2021-2022 Operating Budget was developed as a conservative spending plan that maintains City Council and community priorities. Where appropriate, the budget includes efficiencies and expenditure reductions to minimize the impact on resources without hindering service levels. City staff is committed to helping achieve the financial goals set forward by the City Council during these challenging times.

Proposed Budget

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

The next section includes department overviews with narratives on service level trends, key initiatives and performance measures.

An updated Five Year Forecast (through FY 2025-2026) is also included in the budget document. A detailed explanation of the Forecast will be presented during the budget presentation. The projections take into account known changes on the horizon (including POB debt service and Fire Station #2 debt service in the CIP Fund) as well as staff estimates on less definitive areas such as revenue growth (or declines), workers' compensation and medical costs.

The Forecast covers all City funds and includes the draft Five Year Capital Improvements Plan presented to the City Council on April 6, 2021, which a few minor modifications. Based on the final revenue projection for the CIP Fund, which has been impacted by the decline in Transient Occupancy Taxes, the annual allocation for facilities improvements projects was reduced to \$550,000 in fiscal years 2021-2022, 2023-2024, 2024-2025, and 2025-2026. All other scheduled projects are fully funded. Presentation of the proposed CIP for 2021-2022 through 2025-2026 will take place at the May 18, 2021, City Council meeting.

The final section of the Proposed Budget includes various schedules and tables as well as the City's current Financial Policies and Budget Policies.

As the City Council directs changes to the Proposed Budget and CIP, all of these components will be updated accordingly.

Budget Process and Opportunities for Community Input

The budget@citymb.info email option has been useful for gathering input from the community, and it will 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 11	City Council Meeting Budget Study Session - 6 PM
Tuesday, May 18	Regular City Council Meeting - 6 PM
Tuesday, May 25	City Council Meeting Budget Study Session - 6 PM (if needed)
Tuesday, June 1	Regular City Council Meeting - 6 PM (Budget discussion if needed)
Tuesday, June 15	Regular City Council Meeting - Public Hearing and Budget/CIP Adoption - 6 PM

Attachments

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

- FY 2021-2022 General Fund Summary
- Parks and Recreation Program Profit & Loss Estimates
- Balance Sheet Accounts

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

PUBLIC OUTREACH:

Past and 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 2021-2022 Proposed Budget

2. Fiscal Year 2021-2022 General Fund Summary
3. Parks and Recreation Program Profit & Loss Estimates
4. Balance Sheet Trust Accounts