



Legislation Text

File #: 21-0095, **Version:** 1

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:

Public Hearing and Adoption of the Fiscal Year 2021-2022 Operating Budget, Including the Gann Appropriation Limit (Finance Director Charelian).

- a) **CONDUCT PUBLIC HEARING**
- b) **ADOPT RESOLUTION NO. 21-0052 AND NO. 21-0053**

RECOMMENDATION:

Staff recommends that the City Council: (1) Conduct a public hearing; (2) Adopt Resolution No. 21-0052 establishing the Gann appropriation limit for Fiscal Year 2021-2022; and (3) Adopt Resolution No. 21-0053 approving the Fiscal Year 2021-2022 Operating Budget.

FISCAL IMPLICATIONS:

With the passage of Resolution No. 21-0053, the FY 2021-2022 Budget will be adopted, as modified, for the fiscal year commencing on July 1, 2021.

The FY 2021-2022 Budget includes revenues of \$134,092,759 and expenditures totaling \$135,370,156 across all funds. The General Fund is balanced with revenues of \$82,260,057 and expenditures of \$77,698,292 resulting in a projected year-end surplus of \$4,561,765. Excluding the second payment of Federal American Rescue Plan Act funds (\$4,208,260), the projected General Fund surplus is \$353,505. The City's American Rescue Plan (ARP) Act estimated allocation of \$8,416,521 will be set aside in a separate reserve until Staff and City Council can make a determination on appropriate uses. Options will first be presented to the Finance Subcommittee in July once the ARP guidelines are finalized. The City Council must allocate all of the funds before December 2024; funds must be spent by 2026.

The FY 2021-2022 Budget, as amended for budget adoption, projects a General Fund balance on June 30, 2022, after adjustments and net transfers out, of \$31.5 million. Within this total fund balance, \$19.5 million has been designated to policy and economic uncertainty reserves and \$8.4 million are ARP funds yet to be obligated by the City Council. The balance of \$3.5 million is

unreserved.

Please note that all annual expenditures and estimated fund balances listed in the budget and five year forecast include up-to-date pension rate estimates as well as fixed debt service payments that resulted from the Pension Obligation Bonds issued in May 2021.

BACKGROUND:

The FY 2021-2022 Proposed Budget was introduced during the May 4, 2021, City Council meeting and a presentation followed during the Budget Study Session on May 11, 2021. The overview presentation outlined budgeted revenues, expenditures and changes in the fund balance due to transfer activity.

Subsequent budget discussions occurred during City Council meetings on May 18, May 25, and June 1, 2021. In addition to reviewing the proposed spending plan, the City Council also reviewed controllable cost expenditure line items above \$1,000 and discussed minor modifications to the budget.

DISCUSSION:

Proposed Budget Recap

The Proposed Budget is attached and available on the City's website at www.citymb.info/Budget. For highlights, it is recommended to read the Budget Message within the Budget document. In keeping with the City's fiscally conservative budgeting principles, \$1.4 million of reductions that were made as part of the previous year's budget process were maintained in the FY 2021-2022 Proposed Budget. Additionally, the hiring freeze implemented last year was maintained for three of the six positions. These positions will remain on the count of authorized positions but are not funded in the FY 2021-2022 Budget for an additional fiscal year budgetary savings of \$235,532, including all salaries and benefits:

- Older Adults Recreation Coordinator (-\$81,466)
- Street Maintenance Worker I/II (-\$77,033)
- Street Maintenance Worker I/II (-\$77,033)

These positions will remain vacant and unfunded in FY 2021-2022 in order to minimize costs. However, the positions are vital to the operations of their respective programs and the need to hire will be revisited during next year's budget process, or sooner, should critical needs arise.

Early Retirement Incentive

The Proposed Budget also reflected the Early Retirement Incentive (ERI) program implemented in 2021. In order to ensure that offering a retirement/separation incentive resulted in ongoing savings, the City determined 11 position classifications and 21 employees were eligible based on whether the vacancy would result in:

1. Not filling the position and reorganizing, restructuring or consolidating work;
2. Filling the position at a lower level with a lower salary, filling less positions within a particular classification, or with part-time employees; or
3. Performing the services of the vacant position through less costly contract service (subject to

agreement with the applicable labor organization).

Of the 21 employees who were offered the incentive, 11 employees accepted and the program resulted in a net reduction of five full-time positions and annual savings of roughly \$507,953.

With the reduction in employees from the ERI, departments evaluated workload demands and opportunities for additional staffing efficiencies. As a result, other staffing adjustments were included in the Budget to ensure adequate support staffing to fulfill our mission of satisfying community priorities and adapt to changing operational needs. The changes, which are further explained in the Budget Message included in the Budget document, are summarized below:

Management Services

- Added Communications/Civic Engagement Manager partially offset by the elimination of the vacant Legal Secretary position. (+\$81,178)
- Reclassified the Graphic Artist position, previously in the Parks & Recreation Department, to Digital Communications and Graphics Coordinator (+\$14,520). *(Note: This position title will be further evaluated by Human Resources following the completion of a classification and compensation analysis).*
- Reclassified the Recreation Coordinator (Marketing & Media), previously in the Parks & Recreation Department, to Marketing and Communications Coordinator (+\$26,016). *(Note: This position title will be further evaluated by Human Resources following the completion of a classification and compensation analysis.)*
- Reclassified the Senior Management Analyst to an Assistant to the City Manager position (+\$5,631)
- Reclassified the Management Analyst to a Policy and Management Analyst position (+\$5,076)
- Reclassified the Executive Assistant to an Executive Assistant to the City Manager position (+\$4,713)
- Reclassified the Senior Deputy City Clerk to an Assistant City Clerk position (+\$5,138)
- Changes result in an increase of two positions in Management Services as a result of two transfers from Parks and Recreation.

Finance Department

- Eliminated Purchasing Manager (due to ERI) and added Purchasing Supervisor (-\$50,490)
- Eliminated vacant Revenue Services Manager and added Revenue Supervisor (-\$21,543)
- Eliminated Account Services Representative I/II (due to ERI) in lieu of reactivating "frozen" Revenue Services Specialist (-\$7,513)
- Changes result in a net reduction of one full-time position in the Finance Department.

Parks and Recreation Department

- Transferred Graphic Artist and Recreation Coordinator to Management Services
- Reactivated "frozen" Cultural Arts Manager (+\$138,997)

- Eliminated two Transportation Services Operators due to ERI (-\$174,197) - *Proposition "A" Fund*
- Changes result in a net reduction of four full-time positions in Parks and Recreation, including two positions transferred to Management Services.

Police Department

- Eliminated two Community Services Officers to offset new Code Enforcement Officers in Community Development (-\$190,526)
- Eliminated Community Services Officer due to ERI (-\$94,241)
- Changes result in a net reduction of three full-time positions.

Fire Department

- Added full-time Fire Inspector to keep pace with State mandated inspections, the costs of which are recouped through cost recovery fees (+\$52,136 after offsetting elimination of part-time hours; FY 2021-2022 also includes one-time purchase of vehicle for \$30,000)
- Change results in the addition of one full-time position.

Community Development Department

- Added two Code Enforcement Officers as approved by City Council during the February 16, 2021 City Council Meeting (+\$210,174; FY 2021-2022 also includes one-time purchase of two new vehicles for \$40,000 each); Offset by two eliminated Community Services Officers
- Eliminated "frozen" unfilled Assistant Planner position (\$0)
- Reclassified Executive Assistant to a new position (title to be determined) (+\$6,316) *(Note: This position title will be established following the completion of a classification and compensation analysis.)*
- Changes result in the net addition of one full-time position.

Information Technology Department

- Eliminated Information Systems Manager (due to ERI) and added IT Analyst (-\$69,247)
- Reclassified IS Specialist to Technology Systems Engineer to match current scope of duties (+\$14,431) *(Note: This position title will be further evaluated by Human Resources following the completion of a classification and compensation analysis.)*

At this time, these position changes are critical to our mission and organizational needs, and are needed to maintain service levels. With the ERI reduction of five positions, and the addition of the net -new of Fire Inspector position, the overall staffing changes incorporated into the FY 2021-2022 Proposed Budget resulted in a net reduction of four full-time employees.

The FY 2021-2022 Budget also includes one-time software and equipment purchases to address public safety and other organizational needs, including:

Public Safety

- Upgrade Police Department's exterior and interior door digital access control system (+\$49,500)
- Switch Patrol Vehicle Video systems for better integration and data management (+\$42,000)
- Upgrade of Cellular Connectivity at the Police Station by installing Cel-Fi boosters (+\$30,000)
- Citywide Engineering and Traffic Speed Survey as required by the State to legally enforce the posted speed limits and to enable the Police Department to utilize radar or other electronic speed measuring devices for speed enforcement (+\$50,000)

Information Technology Investments

- Reinstall Technology Refresh funding, which was temporarily reduced in FY 2020-2021 as a budget balancing measure, for needed upgrades and replacements in the City's existing technology environment to ensure reliability, availability and cybersecurity (+\$100,014) - *IT Fund*
- Office365 Subscription and Implementation to improve accessibility, flexibility, geo-redundancy, cybersecurity, and disaster recovery while aligning the City with industry best practices by strategically leveraging the cloud (+\$75,000 initial annual cost; \$50,000 annually thereafter) - *IT Fund*
- Storage Area Network (SAN) Expansion to ensure redundancy if primary SAN fails (+\$55,000) - *IT Fund*
- Core Switch Redundancy to ensure high availability and reliability by eliminating a single point of failure for a critical network infrastructure component (+\$35,000) - *IT Fund*
- Disaster Recovery Infrastructure Expansion at the City's off-site data center location to provide more processing and storage capacity to support the City's disaster recovery and business continuity (+\$20,000) - *IT Fund*
- Reinstall OnBase Upgrades and Enhancements funding, which was temporarily reduced in FY 2020-2021 as a budget balancing measure, to keep pace with OnBase software version upgrades per industry standards (+\$18,000) - *IT Fund*
- Secondary Fiber Connection from City Hall to Police/Fire Facility to remove a single point of failure that exists between the two buildings (+\$10,000) - *IT Fund*

Other Essential Services and One-time Vehicle Purchases

- Reinstall frequency of Landscaping Contract Services temporarily reduced in FY 2020-2021 as a budget balancing measure (+\$164,377)
- Purchase of three new vehicles for Fire Inspector and two Code Enforcement Officers (+\$110,000)

Unless noted otherwise, all of these items are included in the General Fund.

Changes to the Proposed Budget

During the budget discussion on June 1, 2021, the City Council directed staff to add an appropriation of \$250,000 in the CIP Fund for a project to be determined by the Manhattan Beach Unified School District. The scope of the project will be determined at a later date.

To accommodate this change, the Pension Obligation Bond savings allocation, which is currently set at 40% to the CIP Fund for capital projects and debt service and 60% to the Pension Stabilization Trust Fund for future pension costs, was adjusted to minimize the impact on the General Fund balance. The CIP Fund transfer was increased by \$175,000 and the transfer to the Pension Stabilization Trust Fund was reduced accordingly. The remaining \$75,000 of the project cost will be paid for out of existing fund balance in the CIP Fund.

Staff also incorporated a prorated increase in the Police Department budget for the contract service “Ambassador” program through Labor Day at a cost of \$89,286. (Program costs in FY 2020-2021 will be absorbed by savings in the current year budget.)

These changes are included on Exhibit “A” of the attached Budget Adoption Resolution No. 21-0053. Other items included in Exhibit “A” were the result of staff’s thorough final budget review process:

General Fund:

- An increase in the City’s American Rescue Plan (ARP) funding allocation of \$897,047 to reflect the anticipated payment of \$4,208,260 in FY 2021-2022 and the total estimated allocation of \$8,416,521.
- An increase in Fire Annual Business Inspections in General Fund revenues (+\$25,000).
- A reduction in Debt Service expenditures to reflect additional savings from the issuance of Pension Obligation Bonds finalized in May 2021 (-\$164,326).
- A minor reduction to align the budget with the final Street Lighting and Landscape District Assessment Engineer’s report for the City’s contribution for Zone 10 Streetscape costs (-\$229).

Other Funds:

- A reduction of \$155,879 in Gas Tax revenues to reflect revised estimates provided by the State.
- A reduction in Debt Service expenditures in Special Revenue, Enterprise, and Internal Service Funds to reflect additional savings from the issuance of Pension Obligation Bonds finalized in May 2021 (-\$11,717).
- A minor reduction of \$229 in the Street Lighting Fund revenue transfer in corresponding to the change in Streetscape expenditures per the final Assessment Engineer’s report.
- A correction in the Fleet Fund to resolve a financial system data entry error in the account for Transfers In for Vehicle Purchases (\$220,000).

Staff recommends that these changes be incorporated into the final budget and adopted with the attached Resolution No. 21-0053. Additionally, the resolution contains approval for the recommended staffing changes.

The Proposed FY 2021-2022 Operating Budget, as presented in the attached document and with the modifications per Exhibit A of Resolution No. 21-0053, was also incorporated into a revised Five Year Forecast to provide an updated assessment of fund balances and reserves.

GANN APPROPRIATIONS LIMIT

In 1980, California voters adopted Article XIIIB of the California State Constitution, commonly referred to as the Gann Initiative or Gann Appropriations Limit, placing limits on the amount of tax proceeds

that State and local agencies can appropriate each year. The City's limit is adjusted each year for inflation, population and other factors.

On June 5, 1990, Proposition 111 was voted into California law. Among other provisions, Proposition 111 provided for changes in the calculation of the Gann Appropriation Limit. The annual adjustments to the spending limit were liberalized by Proposition 111 to be more closely linked to the rate of economic growth in personal income or the percent increase in the local tax roll due to nonresidential property construction. Additionally, cities can choose to use the rate of change in population either within the City or County, whichever is higher. The City utilized elements of these adjustment factors in calculating this year's Gann Appropriation Limit. The Gann calculation is reviewed annually by the City's external audit firm as part of the annual audit process.

Staff has calculated the FY 2021-2022 Gann Limit to be \$89,733,730. The City's tax proceeds subject to the FY 2021-2022 Gann Limit equal \$57,031,881. Therefore, the City is under the Gann limitation by \$32,701,849 and in compliance with state law. The Gann limit calculation is attached.

PUBLIC OUTREACH:

A Public Hearing notice was published in The Beach Reporter on June 3, 2021, for the adoption of the Budget and Capital Improvement Plan. Additional outreach was conducted using social media and eNews notifications.

ENVIRONMENTAL REVIEW:

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that there is no possibility that the activity may have a significant effect on the environment; therefore, pursuant to Section 15061(b)(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. Resolution No. 21-0053 (Budget Adoption and Exhibit A)
2. Resolution No. 21-0052 (Gann Appropriations Limit)
3. Proposed Budget for Fiscal Year 2021-2022
4. FY 2021-2022 Gann Appropriation Limit Calculation