



Administrative Report

N.3., File # 21-2032

Meeting Date: 2/16/2021

To: MAYOR AND CITY COUNCIL
From: MARNI RUHLAND, FINANCE DIRECTOR

TITLE

DISCUSSION AND POSSIBLE ACTION REGARDING FY 2020-21 MIDYEAR BUDGET REPORT

RECEIVE AND FILE THE FY 2020-21 MIDYEAR BUDGET REPORT AND THE PRESENTATION OF THE FY 2020-21 CAPITAL IMPROVEMENT BUDGET AND FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM

ADOPT BY 4/5 VOTE AND BY TITLE ONLY RESOLUTION NO. CC-2102-017, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDONDO BEACH, CALIFORNIA, MODIFYING THE BUDGET FOR FISCAL YEAR 2020-21

EXECUTIVE SUMMARY

In June, the City Council adopted the FY 2020-21 operating budget. The City Council adopted a balanced budget which allocates funding for the provision of core municipal service to the residents, businesses, and visitors of Redondo Beach.

This report reviews the City's budget and financial condition at the midyear point of FY 2020-21. Financial challenges from significant and continuing revenue losses as a result of the global pandemic (particularly in the recreation program and facility rental revenue categories) have led to a projected current fiscal year General Fund shortfall of \$1.4 million dollars.

Decision packages to bring the budget back in balance and to maintain the City's operational effectiveness and financial health are proposed for consideration. Additionally, Budget Response Reports are included as attachments for City Council's consideration and in anticipation of, or in direct response to, questions regarding the midyear budget. Finally, a status report on the Capital Improvement Program will be provided at the City Council meeting.

BACKGROUND

Where are the revised estimated ending fund balance summaries shown with proposed midyear FY 2020-21 revenues and expenditures?

Attachment 1 provides details of the revised estimated ending fund balances as shown on the Proposed Midyear FY 2020-21 Summary that arise in consideration of Decision Packages, adjustments to appropriations, and adjustments to revenue projections.

What was the remaining amount of the General Fund balance at FY 2019-20 year-end after completing the June 30, 2020 Comprehensive Annual Financial Report (CAFR) that becomes the FY 2020-21 beginning fund balance?

The remaining General Fund balance was calculated as follows by excluding fund balance assignments made in November for fiscal year end 2019-20 which are not available to pay for FY 2020-21 expenditures.

\$10,973,833	Total General Fund balance before assignments and transfers (June 30, 2020 ending fund balance)
-7,585,231	Committed fund balance for 8.33% General Fund reserve (contingency reserve required by the City Council's Financial Principles)
-23,262	Nonspendable fund balance for notes and loans (loans to employees for computer purchases pursuant to labor agreements)
-770,942	Fund balance assignment for compensated absences (provision for vacation cashouts upon retirement/termination funded at 30% of employee balances as of June 30, 2020)
-10,800	Fund balance assignment for petty cash (small cash funds held by departments for cash register change drawer or reimbursement of expenses in the amount of \$50 or less)
\$2,583,598	General Fund remaining fund balance

The remaining General Fund balance can also be calculated as follows by including fund balance assignments made in November for fiscal year end 2019-20 which are available to pay for FY 2020-21 expenditures.

\$704,067 Unassigned/unallocated fund balance (after all other fund balance assignments)

84,435	Nonspendable fund balance (payments made in FY 2019-20 for FY 2020-21 expenditures)
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1,292,166	Fund balance assignment for encumbrances (open purchase orders as of June 30, 2020 for contracted goods or services not yet received)
502,930	Fund balance assignment for carryovers (unspent FY 2019-20 funds to be used for FY 2020-21 departmental, donation, grant and capital improvement project expenditures)
\$2,583,598	General Fund remaining fund balance

The beginning fund balances of the other funds are calculated similarly with capital assets and net pension and OPEB liabilities excluded from those of the Enterprise and Internal Service Funds.

What additional items adjust the beginning fund balances to their estimated ending fund balances?

In addition to the General Fund adopted revenues and transfers in and the adopted appropriations and transfers out, the following items adjust the beginning fund balance to the estimated ending fund balance.

\$2,583,598	General Fund beginning fund balance for FY 2020-21
93,566,545	Adopted revenues and transfers in
-93,566,545	Adopted appropriations and transfers out
-1,292,166	Prior year encumbrances (finalized open purchase orders as of June 30, 2020 for which a fund balance assignment is included in the beginning fund balance - see above)
-502,930	Carryover appropriations and transfers out (re-budgeted departmental carryover requests for which a fund balance assignment is included in the beginning fund balance - see above)
-194,322	Other Council-approved appropriations and transfers out (budget modifications approved by City Council resolutions with a 4/5 affirmative vote during
\$594,180	Estimated General Fund ending fund balance for FY 2020-21

The estimated ending fund balances of the other funds are calculated similarly.

What midyear revenue adjustments to the estimated fund balances are recommended?

At this point in the fiscal year, staff has reviewed revenues received to date and revised the adopted revenue estimates as necessary. The revised revenue estimates are shown in Exhibit B with General Fund revenues anticipated to finish \$2.8 million lower than projected at budget adoption.

As projected in the first quarter budget update, revised tax revenue estimates reflect an increase from the adopted budget. The largest increase is from property tax which continues to remain strong, despite the pandemic. The same cannot be said for transient occupancy tax revenue estimates, which were drastically reduced at budget adoption and now must be revised even lower due to prolonged restrictions on travel and large gatherings.

The overall increase in general tax revenue projections however is unfortunately more than offset by significantly lower estimates for recreation facility and program related revenues. The impacts of the COVID-19 public health emergency have extended beyond projections reflected in the adopted budget. Current estimates for facility rental income and recreation users pay revenue now assume restrictions and closures through the end of the fiscal year. Those facilities and programs impacted include the Redondo Beach Performing Arts Center, the Aviation Gym and Sports Field, events catered by Spectrum Catering at Veterans Park, and various user pay recreation activities which in total reflect an anticipated revenue loss of \$3.2 million.

What midyear adjustments to appropriations are recommended?

The adjustments on the Midyear Adjustments to Appropriations schedule (Exhibit C) reflect the annual update to the internal service fund/overhead allocations (described in the Midyear Budget Response Report) as well as anticipated departmental maintenance and operations savings.

Midyear changes to the adopted budget are also considered by the City Council through supplemental requests called Decision Packages. Decision Packages can be related to policy, operational or financial matters. The following Decision Packages are recommended to address issues at midyear.

Decision Package #1. Retiree Medical Insurance. An increased appropriation is needed for the payment of rising retiree medical insurance premiums costs as well as an offsetting increased revenue estimate for the drawdown from the City's Internal Revenue Service Section 115 trust fund for other post-employment employment benefits (OPEB). Recommended is an ongoing appropriation and offsetting revenue estimate of \$200,000 to the General Fund.

Decision Package #2. Personnel Adjustments. As detailed in Budget Response Report #7, personnel adjustments are needed (primarily as a result of COVID-related restrictions and closures) to recognize savings from vacancies (both current and projected for the remainder of the fiscal year), adjustments for changes in vacation usage/cashout behaviors, full funding of 2021 employee health insurance cash in lieu payments due to MOU approved benefit modifications, and restoration of the Financial Services Department's Office Specialist III position as the expected retirement did not

occur. Recommended is the personnel change, one-time reduced appropriations to the General Fund of \$1,142,378, one-time reduced appropriations to other funds of \$261,123, and one-time reduced revenue estimates to other funds of \$12,115.

Decision Package #3. Fire Department Alerting System. As a result of the new Mark 43 computer aided dispatch (CAD) system implementation, the Fire station alerting systems and relays must be replaced in order to ensure system interoperability with WestNet. The current alerting system has been in use beyond its recommended service life. Recommended is a one-time appropriation in the amount of \$100,000 to the Emergency Communications Fund in order to maintain this critical operational need.

Decision Package #4. Fire Department SCBA Compressed Air Fill System. During working fire responses, Redondo Beach firefighters don required self-contained breathing apparatus (SCBA) to protect responders from inhaling super-heated air, smoke and other toxic gases. Following each use, SCBAs are filled to appropriate pressures and are placed back in service for the next response. In order to fill these high-pressure devices, compressed air fill stations are required. The recommended replacement schedule for a compressed air fill system is 15 years. The Redondo Beach Fire Department fill station located on Support 62 has reached the end of its service life and can no longer meet operational needs. Recommended is a one-time Vehicle Replacement Fund appropriation in the amount of \$35,000 to replace a fixed replacement air fill station located at Fire Station 2.

Decision Package #5. Solid Waste Fund Adjustment. The Solid Waste Fund needs to be adjusted to account for the residential and household hazardous waste pass through payments. Residents are charged for refuse service on their property tax assessment and the City in turn pays Athens Services on a monthly basis. Each year the Solid Waste Fund is adjusted at budget time to account for the new approved solid waste rates. However, the count of the number of households is not always known before the budget is adopted. Therefore, in order to account for the increase in residential accounts, an increase to the maintenance agreement is needed. Recommended is an ongoing appropriation and offsetting revenue estimate of \$10,585 to the Solid Waste Fund.

Decision Package #6. Torrance Boulevard Resurfacing. The current Capital Improvement Program (CIP) includes the Torrance Boulevard Resurfacing Project from PCH to Prospect, Job No. 41230. Design plans for the project are currently at approximately 50 %. In order to complete improvements to the street in the most cost-effective manner and to maximize bicycle facility connectivity, staff recommends that the project be expanded to include the portion of Torrance Boulevard west of PCH including Torrance Circle. The requested funds are from a transportation restricted source and would allow the project design to move forward in full. Funds for additional construction costs would be included in the FY 2021-22 CIP and also come from transportation restricted sources. Recommended is a one-time appropriation of \$100,000 to the Proposition C Fund.

Decision Package #7. Transit Vehicle Equipment. City Council approved a Decision Package with the adoption of the FY 2020-21 budget for \$1,568,072 for the planned procurement of three fixed route Beach Cities Transit vehicles. This midyear decision package increases the amount of the funding by \$16,756 for an adjustment in the cost of the procurement. The Federal Transit Administration establishes “useful life/mileage” requirements of at least seven years for heavy-duty

transit vehicles. The transit fleet capital plan requires annual purchases to replace vehicles that have or are approaching the maximum standards. New vehicles also improve public safety and have lower maintenance repair costs. Recommended is a one-time appropriation with an offsetting increased revenue estimate of \$13,405 to the Intergovernmental Grants Fund and a one-time appropriation of \$3,351 to the Transit Fund funded by a transfer of the same amount from the Proposition A Fund.

Decision Package #8. Transfer from CalPERS Reserve Fund. The City Council has established a reserve fund to help the City absorb its rapidly increasing employee pension costs and smooth year to year General Fund expenditure hikes. Proposed is a transfer of \$1,363,286 from the CalPERS Reserve Fund to the General Fund to balance the FY 2020-21 operating budget. It was anticipated that this transfer would be necessary at the close of FY 2019-20, but the greatest impacts of the pandemic are instead being felt during FY 2020-21. The balance remaining in the CalPERS Reserve Fund after this transfer will be \$5,209,021. Recommended is a one-time \$1,363,286 transfer from the CalPERS Reserve Fund to the General Fund.

What is the resulting impact of revising the revenue estimates and funding the recommended Decision Packages at this time?

The FY 2020-21 General Fund revised estimated ending fund balance after revising the revenue estimates and funding the recommended Decision Packages would be as follows:

\$594,180 General Fund
estimated
ending fund
balance
(excluding
\$7,585,231
General Fund
contingency)

-2,802,901	Adjustments to revenue (impact of the revenue revisions as shown in Exhibit B)
-296,943	Adjustments to appropriations and transfers out (impact of appropriations and transfers out as shown in Exhibit C)
1,563,286	Decision Package adjustments to revenue and transfers in (impact of recommended revenue revisions included in Decision Packages #1 through #8)
942,378	Decision Package adjustments to appropriations and transfers out (impact of recommended appropriation revisions included in Decision Packages #1 through #8)

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- General Fund revised estimated ending fund balance (excluding \$7,585,231 General Fund contingency)

What is the status of preparation of the FY 2021-22 Budget?

Following completion of the City Council's midyear review of the current year budget, attention will turn immediately towards preparation of the FY 2021-22 Budget that takes effect July 1, 2021.

COORDINATION

All departments coordinated on this midyear budget review. The Budget and Finance Commission reviewed the midyear budget report on February 11. The resolution has been approved as to form by the City Attorney.

FISCAL IMPACT

The report describes the City's financial and budgetary situation at the midyear point of FY 2020-21.

APPROVED BY:

Joe Hoefgen, City Manager

ATTACHMENTS

Midyear Budget Resolution
Attachment 1 - FY 2020-21 Summary
Exhibit A - Council-Approved Appropriation Modifications
Exhibit B - Adjustments to Revenue
Exhibit C - Adjustments to Appropriations
Midyear Budget Response Reports