



Administrative Report

N.1., File # 24-0268

Meeting Date: 4/2/2024

To: MAYOR AND CITY COUNCIL
From: WENDY COLLAZO, FINANCE DIRECTOR

TITLE

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY 2023-24 MIDYEAR BUDGET REPORT

RECEIVE AND FILE THE FY 2023-24 MIDYEAR BUDGET REPORT

ADOPT BY 4/5THS VOTE AND BY TITLE ONLY RESOLUTION NO. CC-2404-022, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDONDO BEACH, CALIFORNIA, MODIFYING THE BUDGET FOR FISCAL YEAR 2023-24

EXECUTIVE SUMMARY

In June 2023, the City Council adopted the FY 2023-24 operating budget, which allocates funding for the provision of core municipal services 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 2023-24. The report provides a broad view of the City's revenue and expenditure projections and includes limited Decision Packages, reflecting modest resources to fund changes to the Adopted Budget. Including revenue, internal service fund adjustments, and recommended Decision Packages, staff anticipates ending the fiscal year with a positive General Fund balance of approximately \$0.6 million. This includes no change to salary expenses, which at year-end will likely be less than budgeted citywide. It is recommended that the projected fund balance remain unallocated at this time.

BACKGROUND

This report presents the City's financial status as of midyear FY 2023-24. The summary of estimated revenues, appropriations, and fund balance changes (Fund Matrix FY 2023-24 Exhibit A) provides a summary of estimated fund balance before any adjustments or changes.

Where are the revised estimated ending fund balance summaries shown with proposed midyear FY 2023-24 revenues and expenditures?

The Proposed Midyear FY 2023-24 Fund Balance Summary (Exhibit A) shows revised estimated ending fund balances for all funds. This summary incorporates revenue and expenditure adjustments and Decision Packages presented in this report.

What is the final ending fund balance after completing the June 30, 2023 Comprehensive Annual Financial Report (ACFR), which becomes the FY 2023-24 beginning fund balance?

The remaining General Fund balance is calculated as follows by excluding fiscal year end 2022-23 fund balance assignments, which are not available to pay for FY 2023-24 expenditures.

Fund Balance Calculation - to reach FY 2023-24 Starting Fund Balance		
<i>(removes assigned balances unavailable to spend in FY 23-24)</i>		
Balance	18,904,870	06/30/2023 ending fund balance
Committed	(8,599,208)	8.33% contingency reserve
Non-spendable	(21,839)	Notes & loans
Assignments	(785,832)	Compensated absences
	(12,800)	Petty cash
	9,485,191	FY 2022-23 ending/ FY 2023-24 beginning fund balance

The remaining General Fund balance can also be calculated as follows, starting with unassigned fund balance as determined in the ACFR, and including fiscal year-end 2022-23 fund balance assignments for FY 2023-24 expenditures.

Fund Balance Calculation - to reach FY 2023-24 Starting Fund Balance		
<i>(adds prior year-end assignments available to spend in FY 23-24)</i>		
Unassigned	190,591	Balance after all assignments
Non-spendable	148,160	Payments made in prior year for current year
Encumbrances	2,029,853	Prior year orders for goods/ services not yet received
Carryover	7,116,587	Unspent funds for use in current year projects
	9,485,191	FY 2022-23 ending/ FY 2023-24 beginning fund balance

The beginning fund balance for the other funds are calculated similarly. For Enterprise and Internal Service Funds, the beginning fund balance excludes capital assets and net pension and OPEB liabilities, which will not materialize during the one-year timeframe.

What additional items must we consider to estimate ending fund balances?

In addition to the General Fund adopted revenues and transfers in, and the adopted appropriations and transfers out, the calculations consider prior year funds which we expect to spend in the current fiscal year. The negative \$365K is a point in time reflection of General Fund advancements for capital projects that are reimbursed by grants following completed construction. These expenditures will be reconciled at year-end following the receipt of grant funds.

Fund Balance Calculation - to reach estimated FY 2023-24 Ending Fund Balance		
<i>(adds Council-approved budget changes from Budget Adoption through Midyear Report)</i>		
Balance	9,485,191	Beginning Fund Balance
Adopted Budget	105,845,321	Adopted Revenues & Transfers In
	(110,603,256)	Adopted Expenditures & Transfers Out
Prior-year funds	(2,021,853)	Encumbrances
	(3,070,694)	Unspent funds for use in current year projects
Modifications	-	Other Modifications Approved by 4/5 Council Vote
	(365,291)	Estimated FY 2023-24 ending fund balance

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

What midyear revenue adjustments are recommended?

At this point in the Fiscal Year, staff has reviewed revenues received to-date and revised revenue estimates as necessary based on current year, historic trends, and external consultant advice. Staff anticipates General Fund revenues to finish \$4.7 million or 5% higher than projected at budget adoption, with increases to tax revenue (+\$0.6 million) and overhead (+\$5.0 million) related to Internal Service Fund adjustments, which are offset by corresponding expenditure changes, and decreases in other categories such as fees for services (-\$0.9 million).

As discussed with the December carryover report, revised tax revenue estimates reflect an increase over the adopted budget. The largest increase is from property tax which continues to remain strong; the revised projection reflects Hinderliter, de Llamas, and Associates (HdL), the City's property tax and sales tax consultant, reporting of a 5.44% assessed value increase over the prior year. This increase is consistent with revenue received to date, and supported by historic trends. The increase is offset by decreases in property transfer tax revenue, the increment the City receives from property sales, and sales tax revenue.

The Property Transfer Tax revenue revision is based on actual receipts and HdL projections, as high interest rates continue to impact the volume of home sales. The recommended sales tax revenue decrease reflects HdL's revised projections. The sales tax decrease is driven by the pressure of federal interest rate increases, the corresponding impact on borrowing rates, and a pullback in spending from an exceptionally high 2022-23 fiscal year. The results are consistent with similar trends in the region and state. In addition to these major tax revenue changes, revisions include adjustments in all categories based on revenue trends.

Adjustments also include a change to overhead internal services revenue from the City's recently completed internal service fund plan updates. The increase primarily reflects a FY 2022-23 audit suggested methodology adjustment that moved all Emergency Communications internal service costs to the Police and Fire Administration Divisions. Remaining increases are primarily due to typical personnel and internal service fund year over year cost increases. The aggregate General Fund overhead revenue increase of \$5.0 million is offset by increased overhead costs of \$3.6 million, resulting in an approximately \$1.4 million net increase to the General Fund.

Revenue adjustments for all other funds reflect internal service fund adjustments and decision packages, as detailed below. The revised revenue estimates for all funds are shown in Exhibit B.

What midyear adjustments to appropriations are recommended?

The Midyear Adjustments to Appropriations schedule (Exhibit C) reflects the following changes:

- 1) The annual update to the City's Internal Service Fund/Overhead allocations
- 2) Administrative accounting changes identified since budget adoption that have no budget impact
 - a. To allocate budget set aside for salary increases from the Human Resources Department to Departments Citywide reflecting bargaining unit agreements and the specific associated personnel costs increases
 - b. Adjustments to move the budget for 2021A bond principal and interest payments from Department operating budgets to General Fund transfers out, consistent with best

practices and the way the City processes other bond payments

- 3) A correction for an amount excluded from the December 2023 carryover report (Information Technology Fund). This proposed adjustment would re-budget an item excluded in error from the December 2023 carryover report which was identified to fund current-year information technology needs, including new firewalls, cybersecurity tools, copiers, printers, conference room equipment, waterfront wi-fi, and other projects that have been approved by Council. These funds were not encumbered in FY 2022-23 are currently available, and are needed to execute planned projects in the Information Technology Service Fund. This action carries forward previously approved funding, and will not impact future ISF contributions.

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 - Information Technology Department Reorganization

With increased demand for technology systems across all departments and numerous modernization projects, the need for additional hands-on technical personnel has increased in recent years. Proposed is the reclassification of the Department's Information Technology Operations Supervisor (\$119,436) to Information Systems Specialist (\$98,928), and the addition of a new full-time Computer Support Specialist (\$89,736) position to provide support for the growing number of applications and systems used by the City's Departments. To absorb the position cost adjustments, recommended is allocation of salary savings from the underfilling of the Information Technology Operations Supervisor position and the balance (\$69,228) from the Department's part-time staffing budget. The reorganization has no impact on the General or Information Technology Funds and is consistent with recommendations identified by the Department's organizational assessment. Recommended is an ongoing Information Technology Fund Department personnel structure change as outlined above.

Decision Package #2. Athens Annual Rate Adjustment

In the Approved FY 2023-24 Budget, Decision Package #37 Public Works Refuse Rate Adjustment increased annual solid waste fund revenues and expenditures to align with the updated refuse rate. While these changes are made to account for the new approved solid waste rates, the new count of households served by Athens Services each year is not known before the Budget is adopted. A follow-up adjustment is occasionally needed at midyear to account for the increase in residential accounts serviced. Additional households were added to the rolls since June, and an increase in funding for the solid waste handling services agreement is needed at this time. Recommended is an ongoing appropriation and offsetting revenue estimate of \$6,876.60 to the Solid Waste Fund.

Decision Package #3. Additional Funding for Legal Costs involved in the AES Property Bankruptcy Proceeding

The City of Redondo Beach is an interested party in the bankruptcy case involving the AES property, specifically 9300 Wilshire LLC Bankruptcy C.D. Cal. Case Number: 2:23-bk-10918-ER. The legal expenses associated with this matter are not within the core budget for City legal services. Initially \$300,000 was approved by the City Council for FY 2023-24 to protect the City's interests. Recommended is a one-time appropriation of \$175,000 to the General Fund to continue the City's efforts in this matter.

Decision Package #4. User Pay Program Contracts/Professional Services

The User Pay program provides recreational opportunities for residents of all ages and are provided through individual contracts with experienced instructors. Instructors are paid 70% of the collected class registration fee following the conclusion of each activity. User Pay programs and activities continue to increase in popularity post pandemic and activity registration has exceeded forecasted totals. This has led to higher-than-expected revenue and associated expenditures to pay the contractors for their share of the registration fee. Recommended is an ongoing appropriation and offsetting revenue estimate of \$200,000 to the General Fund to accommodate the additional programs and activities, which is offset by activity registration revenue.

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

The FY 2023-24 General Fund revised estimated ending fund balance after revising the revenue estimates, updating the internal service fund amounts, and funding the recommended Decision Packages would be as follows:

Fund Balance Estimate including Recommended Changes		
Balance	(365,291)	Estimated FY 2023-24 ending fund balance
Revenue Adjustments	4,933,342	Revenue adjustments, ISF, Overhead, Decision Packages
Expenditure Adjustments	(3,981,624)	ISF, Overhead, Decision Packages
	586,427	Estimated FY 2023-24 ending fund balance

As mentioned above, the remaining balance excludes the \$8.6 million contingency reserve, which is backed out before calculating available fund balance. It is also important to note that it does not include CalPERS Reserve funds, which are held in a separate account.

What is the status of preparation of the FY 2024-25 Budget?

Following completion of the City Council’s midyear budget review, attention will turn to preparation of the FY 2024-25 Budget that takes effect July 1, 2024.

COORDINATION

All Departments participated midyear budget review. The Budget and Finance Commission reviewed the midyear budget report on March 29, 2024. 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 2023-24.

APPROVED BY:

Mike Witzansky, City Manager

ATTACHMENTS

- Reso- No. CC-2404-022 Midyear Budget Resolution
- Midyear Fund Matrix Summary
- Attachment 1 - Midyear Council-Approved Appropriation Modifications
- Exhibit A - Midyear Fund Balance Summary

- Exhibit B - Midyear Adjustments to Revenue
- Exhibit C - Midyear Adjustments to Appropriations
- Exhibit D - Midyear Decision Packages