



Administrative Report

L.3., File # 21-2394

Meeting Date: 6/1/2021

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

TITLE

PUBLIC HEARING TO CONSIDER FISCAL YEAR 2021-2022 CITY MANAGER'S PROPOSED BUDGET, FISCAL YEAR 2021-2026 CITY MANAGER'S PROPOSED FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM AND BUDGET RESPONSE REPORTS

PROCEDURES:

- a. Open Public Hearing, take testimony; and
- b. Continue Public Hearing to June 8, 2021; and
- c. Receive and file Budget Response Reports.

EXECUTIVE SUMMARY

The Mayor and City Council on May 18, 2021, received and filed the Proposed Budget for Fiscal Year 2021-2022 and the Proposed Five-Year Capital Improvement Program (CIP) for Fiscal Year 2021-2026 and set June 1, 2021 as the date to conduct a Public Hearing for said documents.

BACKGROUND

The City's Mission Statement is as follows: "The City of Redondo Beach is committed to providing the finest services to enhance the quality of life for those who live, work, visit and play in our community."

The Proposed Budget (found on the City's website at www.redondo.org/budget <<http://www.redondo.org/budget>> describes how the City carries out its mission within a work program for the coming year and the associated resources required for achieving the City Council's goals. It is designed to be consistent with the City Council's Strategic Plan as well as the City's adopted Financial Principles. The budget emphasizes core services that are basic to the City's mission.

The City Manager's budget message describes the projected financial outlook for the upcoming fiscal year, the budget development process, and a summary of the budget's proposed revenues and expenditures. Decision Packages are recommended as additions or reductions to the base budget that are not contractually obligated or the result of annual personnel allocation updates. The departmental sections discuss core service activities, key projects and assignments, and customer service and referral work measures. Financial Summary (mini-financial) reports spotlight important business units. The Capital Improvement Program (CIP) identifies capital investment required to

meet our general plan and other policy goals and to ensure good stewardship of our existing infrastructure. The CIP identifies the projects, their estimated costs, and the financing methods needed to implement the City's capital investment goals and the maintenance of new or existing infrastructure.

In summary:

- The total annual budget including all funds is \$174.1 million.
- The total General Fund budget is \$96.9 million.
- Recommended is a total of \$58.0 million in capital improvements.
- Funding is included for the payroll of 423 full-time employees (before Decision Packages).
- The General Fund's contingency reserve is \$8.1 million.
- The General Fund's unallocated balance is \$869 (if all Decision Packages were approved).
- Although the budget is balanced, ongoing expenditures exceed ongoing revenues in this second year of transition back to structural balance.
- With ongoing expenditures exceeding ongoing revenues (even with adoption of all Decision Packages), the Proposed FY 2021-2022 Budget is not structurally balanced.

General Fund revenues are projected to increase by \$5.9 million, or 6.8%, in Fiscal Year 2021-2022. Property taxes constitute the largest single source of General Fund revenue and show a 4.7% gain, reflecting an incremental improvement in property values as assessed in calendar year 2020 partially offset by an anticipated decrease in Successor Agency residual distributions due to a court ruling allowing the County to retain a greater percentage of the revenue. Sales tax is the second largest source of General Fund revenue and is projected to increase 8.5% to nearly pre-pandemic levels. Transient occupancy taxes (TOT) were hardest hit by the COVID-19 closures and restrictions. TOT revenue, even with a 40.7% increase, will remain well below amounts received in FY 2018-2019 and prior. The beginning of the road to recovery is evident with most other large General Fund revenue sources anticipated to increase, although not to pre-pandemic levels.

A great help in balancing the FY 2021-2022 budget are Federal COVID recovery funds. The City will be receiving \$6.8 million with the first half to come in FY 2020-2021 and the second half twelve months later. A Decision Package recommends the funds be used to offset lost General Fund revenues in each of the fiscal years as well as those in the Harbor Uplands Fund. A bond issuance to refinance the City's CalPERS unfunded accrued liability (UAL) will also assist in balancing the short-term budget deficit with a partial reimbursement of the 2021 UAL payment (in addition to saving on long-term pension costs).

It is under these conditions that the proposed budget for Fiscal Year 2021-2022 was developed. A total of 57 Decision Packages and 90 capital improvement projects are recommended.

The following provides details of the components of the estimated ending fund balances as shown in the Fiscal Year 2021-2022 Proposed Budget that are likely to arise during the budget adoption process.

Why is the General Fund's beginning fund balance estimated to be zero?

The FY 2020-2021 use of one-time transfers from the Capital Projects, Major Facilities Reconstruction, and CalPERS Reserve Funds kept the General Fund in balance throughout the pandemic.

In the Fiscal Year 2021-2022 Proposed Budget, what items adjust beginning fund balances to their estimated ending fund balances?

\$ 0	General Fund estimated beginning fund balance
91,992,158	Fiscal Year 2021-2022 proposed revenues (as detailed in the "Revenues" section of the Proposed Budget document)
-96,917,676	Fiscal Year 2021-2022 proposed appropriations (as detailed in the Proposed Budget document both in the "Expenditures" section and in the "Department Details" section)
1,989,638	Fiscal Year 2021-2022 proposed transfers in (a transfer from the Harbor Tidelands Fund for the annual property tax in lieu payment, a transfer from the Successor Agency for the reimbursement of administration costs, and a transfer from the Harbor Uplands Fund for the 2019 lease revenue bond debt service payment)
-2,541,345	Fiscal Year 2021-2022 proposed transfers out (subsidy of the Street Landscaping and Lighting Assessment District and a transfer to the Community Financing Authority for the 2019 lease revenue bond debt service payment)
\$-5,477,225	General Fund estimated ending fund balance (before consideration of the Fiscal Year 2021-2022 Decision Packages)

The estimated ending fund balances of the other funds are calculated similarly. The adjustments to the beginning fund balances for all funds are detailed in the "Revenues", "Expenditures", and "Department Details" sections of the Proposed Budget document.

What is the resulting impact of funding the recommended Decision Packages to the estimated ending fund balances?

Recommended adjustments to the estimated fund balances are to be considered by the City Council through supplemental requests called Decision Packages. Decision Packages can be related to policy, operational or financial matters. Those impacting the General Fund are categorized below.

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5,477,225	General Fund estimated ending fund balance (before consideration of the Fiscal Year 2021-2022 Decision Packages)
-762,818	Decision Packages that would be needed to comply with County-State-Federal mandates or fund unavoidable costs to maintain basic services
52,000	Decision Packages that would sustain or improve revenue to the City
-533,426	Decision Packages that would be needed to protect the health and safety of the public, employees, or environment
-338,320	Decision Packages that would improve organizational efficiency, economy, or effectiveness
7,060,658	Decision Packages (with one-time requests) that would fill gaps in current services or meet new service needs
\$ 869	General Fund estimated ending fund balance (after consideration of the FY 2021-2022 Decision Packages)

Budget Response Reports, which will be provided throughout the budget adoption process, give detailed information above and beyond what can be described in the budget document. They help “tell the story” of significant budget issues to be addressed in the coming year and beyond. Attached to this report are several Budget Response Reports which were finalized in time for this agenda. There will be additional Budget Response Reports provided as Blue Folder Items on Tuesday or as part of subsequent public hearings on the budget.

COORDINATION

All City departments participated in the preparation of the Fiscal Year 2021-2022 City Manager’s Proposed Budget and the Fiscal Year 2021-2026 City Manager’s proposed Five-Year Capital Improvement Program. The Budget and Finance Commission reviewed the Proposed Budgets at its meeting on May 27, 2021 and will continue its review at its meeting on June 10, 2021. The Harbor Commission will review the Proposed Budgets at its meeting on June 2, 2021. Commission feedback will be provided in a future Budget Response Report. The Planning Commission is also scheduled to review the Five-Year Capital Improvement Program for General Plan conformity on

June 17, 2021.

FISCAL IMPACT

The adopted version of the Fiscal year 2021-2022 Budget will create the financial guideline for all City operations. The Fiscal Year 2021-2026 Five-Year Capital Improvement Program is a planning document only. Funding for capital projects in the first year of the plan will be approved as part of the Fiscal Year 2021-2022 Budget.

APPROVED BY:

Joe Hoefgen, City Manager

ATTACHMENTS

FY 2021-2022 Budget Response Reports