



# Administrative Report

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J.1., File # BF20-0958

Meeting Date: 5/28/2020

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**TO:** BUDGET AND FINANCE COMMISSION  
**FROM:** MARNI RUHLAND, FINANCE DIRECTOR

## **TITLE**

DISCUSSION AND POSSIBLE ACTION REGARDING THE FISCAL YEAR 2020-2021 CITY MANAGER'S PROPOSED BUDGET AND THE FISCAL YEAR 2020-2025 CITY MANAGER'S PROPOSED FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM.

## **RECOMMENDATION**

Receive and file the Fiscal Year 2020-2021 City Manager's Proposed Budget and the Fiscal Year 2020-2025 City Manager's Proposed Five-Year Capital Improvement Program and provide input as appropriate.

## **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 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 \$163.8 million.

- The total General Fund budget is \$96.7 million.
- Recommended is a total of \$58.0 million in capital improvements.
- Funding is included for the payroll of 432 full-time employees (before decision packages).
- The General Fund's contingency reserve is \$8.1 million.
- And the General Fund's unallocated balance is zero (if all decision packages were approved),
- The balance of the Major Facilities Reconstruction Fund would be \$918,076 following the \$231,924 transfer to the General Fund to bring the operating budget in balance as recommended as part of the decision packages.
- Although the budget is balanced, ongoing expenditures exceed ongoing revenues in this year of transition back to structural balance.
- With ongoing expenditures exceeding ongoing revenues (even with adoption of all decision packages), the Proposed FY 2020-2021 Budget is not structurally balanced.

General Fund revenues are projected to decrease by \$8.1 million, or 8.4%, in Fiscal Year 2020-2021. Property taxes constitute the largest single source of General Fund revenue and show a 0.7% gain. Because the revenue received from this source is based on calendar year 2019 property values, any current downgrades to property values as a result of the COVID-19 public health emergency will not be reflected until FY 2021-2022.

All other large General Fund revenue sources (with the exception of property tax in lieu of VLF which is also based on calendar year 2019 property values) are projected to decrease. The pandemic-related economic conditions have had an immediate and continuing effect on sales tax revenues resulting in an 11.9% decline in FY 2020-2021. Utility users' tax is projected to decrease by 4.5% as the decreased usage of utilities (primarily water and electric) during the pandemic-related business closures is not offset by the increased residential usage as more individuals work from home. And transient occupancy tax is the City's General Fund revenue source most impacted by the COVID-19 public health crisis with a 67.2%, or \$5.8 million, decline.

Still an ever-present strain on the City's finances that remains significant and unfortunately continues to grow is pension obligations. This issue is a common recurrence in municipal budgets across California. In Fiscal Year 2020-2021, the City's pension obligation will total \$20.5 million, which represents a \$1.9 million increase over the current year pension costs. The investment losses experienced by CalPERS during the COVID-19 public health crisis will only make this strain greater beginning in Fiscal Year 2022-2023.

It is under these conditions that the proposed budget for Fiscal Year 2020-2021 was developed. A total of 46 decision packages and 82 capital improvement projects are recommended.

The following provides details of the components of the estimated ending fund balances as shown in the Fiscal Year 2020-2021 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?***

Although a \$1.6 million FY 2019-2020 ending fund balance was anticipated at midyear, COVID-19 and its “Safer at Home” restrictions and business closures have dramatically decreased revenues and, to a lesser degree, expenditures resulting in a projected \$1.0 million deficit at year-end. It is expected that one-time money will be pulled from reserves to cover this deficit, leaving a fund balance of zero.

***In the Fiscal Year 2020-2021 Proposed Budget, what items adjust beginning fund balances to their estimated ending fund balances?***

In the Proposed Budget are the following items which adjust the General Fund beginning fund balance to the estimated ending fund balance.

\$ 0)	General Fund estimated beginning fund balance
88,417,478)	Fiscal Year 2020-2021 proposed revenues (as detailed in the “Revenues” section of the Proposed Budget document)
(96,711,993)	Fiscal Year 2020-2021 proposed appropriations (as detailed in the Proposed Budget document both in the “Expenditures” section and in the “Department Details” section)
1,997,281)	Fiscal Year 2020-2021 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)
(2,629,076)	Fiscal Year 2020-2021 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)
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\$(8,926,310)	General Fund estimated ending fund balance (before consideration of the Fiscal Year 2020-2021 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.

\$(8,926,310)	
General Fund	
estimated	
ending fund	
balance (before	
consideration of	
the Fiscal Year	
2020-2021	
decision	
packages)	
(4,374)	Decision Packages that would be needed to comply with County-State-Federal mandates or fund unavoidable costs to maintain basic services
277,500)	Decision Packages that would sustain or improve revenue to the City
6,523,962)	Decision Packages that would reduce departmental expenditures to align with available City funding sources
(247,000)	Decision Packages that would be needed to protect the health and safety of the public, employees or environment
92,298)	Decision Packages that would improve organizational efficiency, economy or effectiveness
2,283,924)	Decision Packages (with one-time requests) that would fill gaps in current services or meet new service needs
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\$	0) General Fund estimated ending fund balance (after consideration of the Fiscal Year 2020-2021 decision packages)

As can be seen in the decision packages, significant cuts to departmental expenditures are recommended with a targeted 15% reduction for non-safety departments and a targeted reduction of 5% for safety departments and the Prosecution Division of the City Attorney's Office. Additionally, transfers from the Capital Projects and Major Facilities Reconstruction Funds are necessary decision packages for balancing the General Fund.

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.

### **ATTACHMENTS**

- Fiscal Year 2020-2021 City Manager's Proposed Budget
- Fiscal Year 2020-2021 City Manager's Proposed Five-Year Capital Improvement Program
- Fiscal Year 2020-2021 Budget Response Reports (will be provided via blue folder)