



**CITY OF PACIFICA
COUNCIL AGENDA SUMMARY REPORT**

6/28/2021

SUBJECT:

Review and Adoption of the Fiscal Year 2021-22 Operating and Capital Budget

RECOMMENDED ACTION:

Review the Recommended FY 2021-22 Budget and move to:

1. Adopt the resolution approving the FY 2021-22 Operating and Capital Budget;
2. Adopt the FY 2021-22 Capital Improvement Program appropriation of \$995,200 from the Roy Davies Trust Fund by 4/5 vote
3. Adopt the resolution establishing GANN Appropriation Limit for FY 2021-22;
4. Adopt the resolution approving the City's annual review of the Investment Policy included as Exhibit A to the resolution, with no changes for FY 2021-22; and
5. Adopt the resolution approving the City's FY 2021-22 Master Fee Schedule as included as Exhibit A to the resolution.

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BACKGROUND:

The FY 2021-22 Proposed Budget has been prepared during the second year of a historic public health crisis resulting in continuing economic uncertainty impacting City revenues.

The City Council held several study sessions related to the FY 2021-22 Budget. On May 10, 2021, staff introduced the budget methodology for the upcoming year and presented the FY 2021-22 General Fund Base Budget, including the revenue and expenditure assumptions that reflected the current baseline level of services and operations and presented the master fee schedule. At the May 10 meeting, the City Manager also summarized the Budget strategies previously presented to the Council during the Narrative Budget report on April 12, 2021. On May 24, 2021, staff presented a refined version of the Base Budget that included the inter-fund

operating and capital transfers. Staff also presented the FY 2021-22 Capital Improvement Program (CIP) and preliminary recommendations for the use of American Rescue Plan Act (ARPA) funds.

On June 14, 2021, City Council held a public hearing to review the Proposed FY 2021-22 Budget, including revenue, expenditures, transfers, program budget, capital projects, and use of ARPA funds for the upcoming fiscal year. The attached proposed budget reflects the funding priorities that the Council directed staff to incorporate into the proposed budget document.

Since the last meeting, staff prepared the Recommended FY 2021-22 Budget document presented in Attachment 1 to this report.

DISCUSSION:

The goal of the budget process is to develop the City's Budget by completing a full analysis of the City's revenue structure and current service level to identify necessary service increase and/or reduction options, which, when combined, will reach a balanced and sustainable budget.

Economic recovery is one of the prime goals and objectives for the upcoming year. At the last meeting on June 14, 2021, staff presented the Proposed FY2021-22 Budget that included several new and ongoing initiatives, as well as a proposed allocation for the ARPA funds for the upcoming year.

Labor Agreements

The FY 2021-22 Proposed Budget does not include any assumptions related to the outcome of ongoing labor negotiations. However, all current MOU contracts will expire at the end of this current fiscal year. The City continues good faith negotiations under the Meyers-Milias-Brown Act with all labor groups. Because of the one-time nature of ARPA stimulus funds that cannot be used for any ongoing labor cost and following the City Manager's direction, all department directors identified service level reduction options equivalent to 1-2% of their operating budget to offset any potential labor-related increases. Staff will present these service-level reduction options to Council later with the request to amend the FY 2021-22 Budget once the negotiations are complete and new labor agreements are in place.

Insurance Premiums

Since the last meeting, staff received the final premium allocations for the Workers Compensation and General Liability insurance premiums. The positive news is that the Workers Compensation premium is showing a significant reduction of almost \$0.3 million, which is a considerable accomplishment and a result of the hard work of the Human Resources Division in closing a number of old claims over the course of last year. However, the General Liability insurance cost is going up by \$0.35 million to a total premium cost of \$1,445,676. The City is a member of the Joint Powers Authority Pooled Liability Assurance Network Risk Management Pool (PLAN JPA). At the June 18, 2021 Board of Directors meeting, the PLAN's staff shared with member agencies that the property and casualty insurance industry is in a hard-market cycle, meaning that insurance premiums are increasing in coverage lines across the board from general liability and auto liability to property and cybersecurity nationwide. Although PLAN members have partially stabilized these impacts on group self-insurance limit for the first \$2,500,000 of every claim, the PLAN is subject to insurance market conditions for excess insurance from \$2,500,000 to \$30,000,000. This insurance layer expenditure increased 82% for the coming FY 2021-22 fiscal year, resulting in an overall PLAN's liability program budget increase of 30% over the prior year, which is still favorable compared to many other municipal self-insurance programs in the state.

Additionally, the increase in property insurance coverage is related to the increase in catastrophic storms nationwide and wildfire losses across the west coast that have dramatically

increased the rates. These are in addition to an increase in frequency and severity for other types of property claims ranging from aging infrastructure breakdowns to civil unrest related damages to business interruption and loss of revenue. Over the past five years, there were several losses of over \$1,000,000 amongst member agencies, further impacting the PLAN's excess property insurance pricing (up 70% over the past year). Altogether, these negative insurance trends resulted in an increase of about \$5.8 million to the FY2021-22 PLAN JPA's Budget, and the City of Pacifica's share of this increase is about \$0.35 million.

To keep the General Fund Budget unchanged from what was presented at the last meeting, staff accounted for this increase by including a transfer of \$0.3 million from the Workers Compensation Fund (which is an amount of anticipated decrease in Workers' Compensation premium) to General Liability Fund to account for the premium increase. The remaining increase in the General Liability insurance premium of approximately \$48,000 is being covered by the General Liability Fund balance with no FY 2021-22 impact on the General Fund. As previously shared with the Council, staff has included the Cost Allocation Plan project to be completed in the upcoming year that may change how the City accounts for this internal cost in the future years.

Budgetary Reserves and Fund Balance Structure

The staff has previously reported the FY 2019-20 COVID-related revenue losses of \$2.1 million calculated according to ARPA regulations. In addition, staff also reported a structural deficit of nearly \$1.9 million at the FY2021-22 baseline level of services before any additions or reductions and before applying ARPA relief funds. These losses make the City budget neither sustainable nor compliant with the Government Finance Officers Association (GFOA) best practices without backfilling lost revenues or severe programmatic reductions to balance the FY2021-22 budget.

After factoring in the above-mentioned adjustments to the Risk Management funds, the General Fund Budget remains unchanged from what was reported at the last meeting. The General Fund Base Budget revenues are projected at \$40.9 million, including the \$4.2 million General Fund portion of ARPA funds. The total General expenditures are budgeted at \$42.4, which includes approximately \$1 million in the ARPA-funded programs and a one-time contribution of \$3 million towards the Civic Center CIP project.

The City's Fund Balance Policy identifies fund balances (or reserves) which fall into the following categories: *non-spendable* items or portions of fund balance that cannot be liquidated, *restricted* amounts for use by outside agencies, *committed* amounts by Council action such as emergency /contingency reserves and *assigned* balances to pay off unfunded liabilities and to fund infrastructure improvements.

In accordance with GASB Statement No. 54 requirements and the City policy, the Council established the following designations or contingencies of General Fund Committed Balance.

- Budget Shortfall Policy Reserve of 10% of Expenditures (\$4.2 million)
- Facilities Maintenance & Replacement (\$0.2 million)
- Compensated Absences Reserve (\$0.2 million)
- Child Care Reserve (\$0.5 million)
- Legal Reserves (\$0.1 million)

The Recommended FY 2021-22 Budget is balanced meaning that the operating revenues do not exceed the operating expenditures. The undesignated General Fund Balance of \$3 million includes approximately \$1.1 million in unprogrammed ARPA funds available for future strategic

investments in the community. By leaving these funds unallocated to any specific programs, the City Council will have an opportunity to revisit the City's economic climate at mid-year, when we hope to have more certainty on the post-pandemic recovery outlook, to make any strategic decisions to maximize the community benefit of ARPA funds at that time. The rest of the General Fund balances are detailed in the table below.

**FY2021-22 RECOMMENDED BUDGET
GENERAL FUND (ASSIGNED & UNASSIGNED BALANCES)**

Designations	Actual 2019-2020	Adopted 2020-21	Revised 2020-21	Proposed 2021-22
Beginning Fund Balance	\$ 14,959,082	\$ 16,502,840	\$ 16,502,840	\$ 14,346,841
Total Revenue*	35,606,712	35,538,000	34,921,623	40,860,858
Total Expenditures	34,062,953	36,971,000	37,077,623	42,423,604
Ending Fund Balance	16,502,840	15,069,840	14,346,841	12,784,094
Non-Spendable	3,783,486	4,106,492	4,118,335	4,600,986
Assigned Reserves				
Shortfall Commitment - 10% of Expenditures	3,410,319	3,726,639	3,726,639	4,242,360
Facility Maintenance & Replacement *	205,000	205,000	10,000	205,000
Compensated Absences	129,000	200,000	200,000	200,000
Child Care Reserve *	948,868	697,908	169,908	488,591
Legal Reserves		100,000	100,000	100,000
Assigned Reserves	4,693,187	4,829,547	4,106,547	5,135,951
Total Designations	8,476,673	8,936,039	8,224,882	9,736,937
Unassigned Fund Balance	8,026,167	6,133,801	6,121,958	3,047,157
Operating Expenses	37,433,871	36,311,000	36,222,623	39,423,604
Unassigned Fund Balance as % of Op. Expenses	21%	17%	17%	7.7%

*Use of Fund Balances CC Action 5/12/20 Included in Revenue

Maintaining a sufficient level of the projected ending fund balance is necessary for fiscal and operational sustainability. It is especially critical in the current uncertain economic situation, especially if the financial assumptions that we are using to develop the FY 2021-22 Budget need to be adjusted for the worse.

After factoring-in the restricted reserves and operating contingency, the ending undesignated General Fund balance is projected at \$3.05 million or 7.7% of the General Fund operating expenditures (excluding one-time and capital transfers), which is lower than the Government Finance Officers Association of the US and Canada (GFOA) recommendation for government entities of no less than two months of regular general fund operating expenditures, which is approximately \$6.6 million for the City of Pacifica. However, if combined with the 10% Budget Shortfall reserve mentioned above, the General Fund reserves are compliant with the GFOA guidelines.

Having this additional policy designation puts us in a slightly better financial position to be prepared for difficult budget choices that we may face in the following year if the economy does not perform as forecasted in our revenue assumptions.

Other Funds

There are no major changes to the other funds from the last meeting, other than Risk Management adjustments described above that affect the Internal Service Funds category in the table below. The summary of Revenues, Expenditures and Fund Balances for all of the City's fund categories is shown in the table below:

Fund Name	Audited Fund Balance 7/1/2020	Projected Fund Balance 6/30/2021	Revenues & Transfers In Proposed Budget	Expenditures & Transfers Out Proposed Budget	Revenue Over(Under) Expenditures	Projected Fund Balance 6/30/2022
GENERAL FUND	\$ 16,502,848	\$ 14,346,800	\$ 40,860,858	\$ 42,423,604	\$ (1,562,746)	\$ 12,784,054
ENTERPRISE FUNDS	24,042,946	21,234,700	18,079,293	25,949,710	(7,870,417)	\$ 13,364,283
SPECIAL REVENUE FUNDS	19,499,161	16,018,800	20,484,363	22,082,432	(1,598,069)	\$ 14,420,731
INTERNAL SERVICE FUNDS	5,426,927	4,853,200	3,499,134	4,127,881	(628,747)	4,224,453
DEBT SERVICE FUNDS	233,296	237,000	2,902,855	2,902,855	(0)	237,000
Total Other Funds	\$ 49,202,330	\$ 42,343,700	\$ 44,965,645	\$ 55,062,878	\$ (10,097,233)	\$ 32,246,467
Total All Funds	\$ 65,705,178	\$ 56,690,500	\$ 85,826,503	\$ 97,486,482	\$ (11,659,979)	\$ 45,030,521

Additional details on any individual funds and their projected fund balances are provided in Attachment 3 and included in the budget document.

The expenditures exceeding revenues in Enterprise and Special Revenue Funds categories is a reflection on the City's continuing aggressive investment in the infrastructure as further described in the CIP Budget Plan for the upcoming year (Attachment 2). Given the uncertain economic outlook for the upcoming year, the Proposed FY 2021-22 Budget limits the use of the General Fund towards the CIP program, except for the previously discussed contribution of the \$3 million from the undesignated General Fund balance towards the Civic Center. The FY 2021-22 CIP Budget includes nearly \$1 million allocation from the Roy Davies Trust fund and is maximizing the uses of other existing fund balances in Street Construction, General Capital, Parking In-Lieu, Park In-Lieu Capital and Wastewater Capital funds, which is reflected in the table above and further detailed in the Attachment 3.

Other Matters (Action Items):

GANN Appropriation Limit

The City is required by the State Constitution to annually establish and adhere to a limit on the amount of its appropriations. Such limit is prescribed by a State formula calculated by taking the prior year's limit and applying growth factors as appropriate. The growth factors are determined by 1) the change in population in either the City or the County, and 2) the change in per capita income or non-residential new construction. For the Fiscal Year 2021-22, staff has calculated that the appropriations limit is \$47.9 million. Per the Recommended FY 2021-22 Budget, the City expects to collect, and has budgeted to appropriate, \$37.8 million, which is 21.06% or \$10.1 million below the appropriations limit (Attachment 5).

Investment Policy

Following the CA Government Code requirement for annual review of the Investment Policy, we are bringing the City's Investment Policy to City Council together with the budget to satisfy this requirement. There are no changes to the Investment Policy recommended at this time. The Council previously approved Investment Policy changes on October 8, 2018. (Attachments 6).

Master Fee Schedule

The FY 2021-22 Proposed Master Fee Schedule was presented to City Council on May 10, 2021 and June 14, 2021. Staff has not made any additional changes to the Master Fee schedule, which is now included in the Budget document. The enclosed resolution approving the attached Master Fee Schedule will be included in the final budget book (Attachments 7).

Conclusion and Future Outlook

The COVID-19 Pandemic has had an unprecedented impact on our nation and local economy that resulted in a multi-year financial deficit to the City of Pacifica General Fund Budget.

Locally, the pandemic has created significant economic hardship for many small businesses and households, especially those in industries such as food services, tourism, travel and

hospitality. Many businesses and restaurants that have closed during the crisis will not reopen. Restrictions on schools and workplaces also limited the volume of economic activity in a wide variety of sectors. These combined impacts diminished City revenue sources last year and it will take time to resume and recover local economic activity. We are optimistic about the pace of Pacifica's recovery, and the recommended FY2021-22 Budget includes allocation of ARPA funds to stimulate this recovery.

The Proposed FY 2021-22 Budget is balanced and reflects the City Council's direction and priorities in applying balancing strategies in response to COVID-19 revenue impacts. Fiscal sustainability remains a top priority as the City continues to provide quality programs and services in a financially sustainable fashion. This goal is especially important in the face of potential future fiscal challenges, such as on-going economic impacts from the pandemic and the prospects of an economic downturn, unfunded liabilities related to pension and OPEB and the potential lowering of the CalPERS discount rate that would significantly increase the City's reported liability.

City staff looks forward to continued work with the City Council and the community to address any potential financial challenges that may lay ahead and identify operational opportunities and efficiencies, assess appropriate fee structures, pursue economic development opportunities, and advise on alternative revenue options available to the City and the community to facilitate Pacifica's recovery and ensure Pacifica continues to be a desirable community in which to live, work, and play.

ALTERNATIVE ACTION:

The City Council is being asked to adopt the FY2021-22 Proposed Budget. No alternative action is identified.

RELATION TO CITY COUNCIL GOALS AND WORK PLAN:

A balanced and structurally sustainable budget is consistent with all of the City Council goals.

FISCAL IMPACT:

The FY 2021-22 Recommended General Fund Operating Revenues Budget is \$40.9 million and exceeds the General Fund Operating Expenditures Budget of \$39.4 million because the expenditures include only partial allocation of ARPA funds, leaving approximately \$1.1 million of the first tranche for a future strategic Council decision at mid-year or beyond. The total General Fund expenditures of \$42.4 million include \$3 million in a one-time capital transfer towards the Civic Center project. The FY 2021-22 Other Funds revenues and expenditures total \$44.9 million and \$55.1 million respectively and include the FY 2020-21 Capital Improvement Plan (CIP) budget of \$26 million, which is partially funded by one-time use of various fund reserves and included outside funding sources.

ORIGINATED BY:

City Manager's Office

ATTACHMENT LIST:

- Attachment 1 - FY21-22 Budget Book (PDF)
- Attachment 2 - FY 2021-22 Capital Budget (PDF)
- Attachment 3 - Fund Balance Summary (PDF)
- Attachment 4 - Budget Resolution (PDF)
- Attachment 5 - GANN Resolution (PDF)
- Attachment 6 - Investment Policy Resolution(PDF)
- Attachment 7 - Master Fee Schedule Resolution (PDF)