



City Council Agenda Item

City Council Meeting Date: June 2, 2020

TO: Jim Throop, City Manager

FROM: Dean Albro, Management Services Director
d_albro@ci.lompoc.ca.us

SUBJECT: Fiscal Year 2020-21 Request for City Council Discussion and Direction on Supplemental Appropriation to the Biennial Budget Fiscal Years 2019-21 for New Sales Tax Revenues, Including Appropriations for Payment to CalPERS of City's Unfunded Accrued Liabilities; Adoption of Resolution No. 6338(20) Approving Budget Adjustments and Supplemental Appropriations Related to New Sales Tax Revenues

Recommendation:

Staff recommends the City Council:

- 1) Review and accept analysis for the Biennial Budget Fiscal Years (FY) 2019-21 to include supplemental appropriations for FY 2020-21 related to the new sales tax; and
- 2) Adopt Resolution No. 6338(20) approving budget adjustments and supplemental appropriations (Attachment 1); or
- 3) Give alternate direction.

Background:

The Biennial Budget FYs 2019-21 was adopted by the City Council on June 24, 2019. On August 22, 2019, during a special meeting, the City Council voted to place a sales tax measure on the March 2020 primary election ballot. On March 3, 2020, the Citizens of Lompoc passed the ballot measure I2020 with an approval rate of 69.4%.

The City Council also directed staff to bring back for discussion a "fresh start" 15-year accelerated payment schedule to pay down the City's unfunded accrued liabilities (UAL) for the California Public Employees' Retirement System (CalPERS) pension plans.

On April 7, 2020, the discussion for possible options was presented from NHA Advisors consulting firm, along with an update from the Comprehensive Annual Financial Report

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(CAFR) for FY 2018-19. An update was also provided for the FY 2019-20 mid-year financials, which will be impacted by the Covid-19 pandemic.

Then on April 21, 2020, staff presented recommendations to pay down the CalPERS UAL, by implementing a fresh-start on the Miscellaneous group from the current payment schedule to a 15-year amortization payment schedule and adopt a payment policy to make additional payments to the Safety plan by using General Fund surplus.

Discussion:

The mid-year budget presentation given on April 7, 2020, gave an updated projection on the Biennial Budget FY 2019-20 variances before, and after, the Covid-19 pandemic.

The Biennial Budget FY 2019-20 was approved with a structural deficit of \$315,507 in year-one. The current year-one budget was projected to have a total General Fund deficit of \$1.2 million, which included \$585,700 of one-time capital improvements (Pool Demolition and Police HVAC system), leaving an estimated *operating* deficit of \$633,170. The variance from the original budget was mainly due to lower than expected Transient Occupancy Tax (TOT). However, after the Covid-19 shelter-in-place order, the General Fund operating deficit is estimated to increase by over \$1.0 million. This is mainly attributed to lost revenues in the hotel industry from TOT, a decrease in General Fund sales tax, and from the lost fee revenue for both Recreation and the Library programs due to complete closure to public access caused by the pandemic.

The projected operating deficit will increase the City's General Fund deficit by \$2.2 million, resulting in a \$1.8 million operating deficit, after removing capital projects. For more details, please see Attachment 2 for the projected revenues and expenditures for year-one of the Biennial Budget FYs 2019-21.

During the mid-year budget presentation, it was recommended that only one group commit to a CalPERS fresh-start from the current payment schedule to the 15-year, more aggressive payment schedule. The CalPERS fresh start is an irrevocable payment option and by limiting one group, it would ensure adequate liquidity during the current Covid-19 pandemic. Currently, experts are now predicting the pandemic could impact revenue streams for years. The Miscellaneous plan was recommended by staff, however the City Council directed staff to commit the Public Safety group, either plan could be used to achieve the desired commitment level from expected future resources.

Staff is now recommending appropriations for both the Miscellaneous and Public Safety groups, since projected resources should be sufficient for both. The Miscellaneous plan comprises over 64% of the City's unfunded liabilities for pensions. That group also makes up the majority of the General Fund cost recovery positions, such as, but not limited to, the work performed for special services such as building inspections, and planning and development costs paid for by those receiving those special services. The Public Safety group comprises the remaining 36% of the City's unfunded liabilities and is 100% General Fund related, with little to no cost recovery. (See Figure 1 below.)

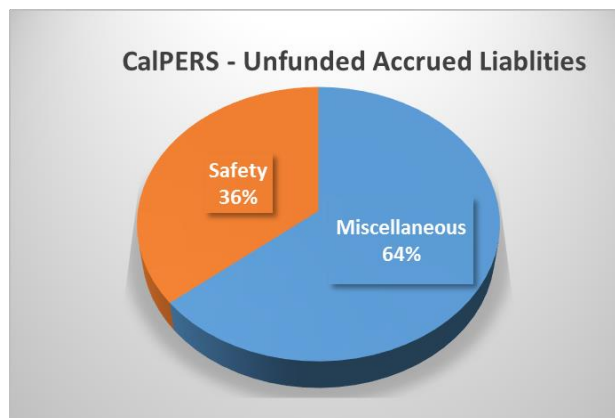


Figure 1

The additional required payments for the fresh-start 15-year payment schedule should be incorporated into the Biennial Budget FYs 2019-21 in order to recover reasonable borne cost from both the utilities and user fee rates.

Converting the Miscellaneous group to the fresh start 15-year payment schedule would have the biggest benefit to the Lompoc citizens by reducing future costs to all funds, due to the more rapid pay-down of the outstanding liability. The Funds that would benefit the most, from a more aggressive payment schedule, would be the Utilities by insuring future reductions in interest expenses. This has the ability to limit the need to raise rates to utility users just to cover the increasing PERS liability costs. Rates will need to be adjusted at some future point, but not solely for the outstanding liability issue.

The funding for the fresh-start would mainly be accomplished by utilizing revenues from the approved ballot measure I2020 for the additional 1% sales tax, which is estimated to generate \$4.9 million, in today's dollars. Those funds would also provide resources to restore the City's General Fund reserves, along with removing held budgeted vacancies for three full-time-equivalent (FTE) Police Officers and 1.75 FTE park positions, as directed by the City Council. All other funds, such as the utilities, would utilize their reserves to accomplish the fresh start payments.

In order to accomplish these goals, it is recommended that the City Council adopt appropriations (permission to spend) for both the Miscellaneous and Public Safety CalPERS plans based on a 15-year repayment schedule. It is recommended that the Miscellaneous and Safety plan be locked in for the 'fresh start', but with the option to make the additional payments to the Safety plan, as funding is available.

Figure 2 below shows the projected CalPERS 15-year payment schedule for Miscellaneous and Safety plans:

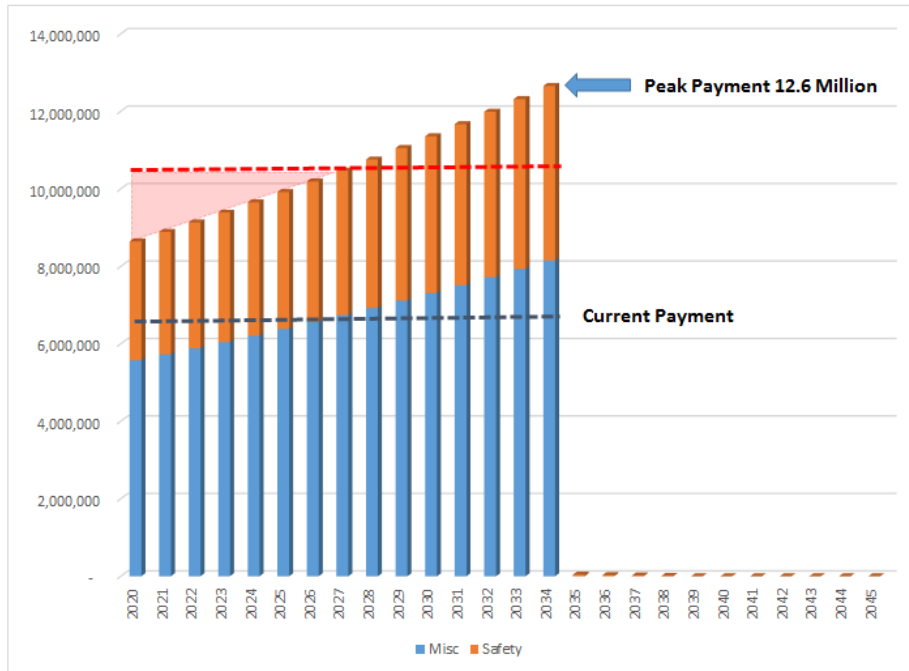


Figure 2

In addition to the CalPERS discussion on April 21, the City Council inquired about the plan to address the potential negative impacts to the General Fund as it relates to Covid-19 and business closures. The City did take aggressive action to mitigate and reduce the exposure to potential downturns in revenues. This was achieved by taking immediate steps by laying-off over 100 General Fund employees, large reductions in expenditures, including but not limited to, critical review of all unfilled positions, elimination of all training and travel, and voluntary budgetary reductions in discretionary expenditures by all divisions. All remaining expenses are through the approval of the City Manager.

On March 3, 2020, the Citizens of Lompoc passed a tax ballot measure I2020, which will add a 1% Transaction or Sales Tax for a 15-year period. This is estimated to generate approximately \$4.9 million a year in future new revenues. As a result, during the April 7, presentation the City Council directed staff to add appropriations to fill the held, but budgeted vacancies, for three FTE Police Offices, 1.75 FTE Park positions, and gave authority to the City Manager to enter into negotiations for possibly supporting the Lompoc Chamber of Commerce for FY 2020-21.

During the Biennial Budget FYs 2019-21, the City Council approved over \$2.4 million, or \$1.2 million per year, in negative expenditures (cost avoidance by keeping positions vacant) for holding vacancies in an attempt to balance the budget. For FY 2019-20, there have been approximately 25 positions held at the discretion of the City Manager.

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However, the salary savings was well short of the needed resources to balance the current FY 2019-20 budget (first year of the two-year budget) and the General Fund operating deficit was projected at \$633,000, before the impacts of the Covid-19 pandemic.

Since, the majority of salary savings has been achieved through holding Police and Park positions, it would be impossible to achieve the expected salary savings within the General Fund budget while filling the requested three FTE police officer and 1.75 FTE park positions. Therefore, staff recommends a reduction of \$400,000 from \$796,818 in budgeted vacancies for FY 2020-21 (second year of the two-year budget), which would be more indicative of vacancies achieved from normal attrition.

Fiscal Impact:

Since the effect of the Covid-19 pandemic on the General Fund has so many unknowns, staff recommends maintaining the majority of the current appropriations for FY 2020-21. However, as a result of the above analysis, it is recommended the following appropriations be added to the Biennial Budget FYs 2019-21 (Year-2) as follows:

Revenue Appropriations

Transaction Sales Tax 1%	\$4,900,000	(110RGF-412140)
Cost Allocation Professional Services (CAP) (CAP – Services provided by the General Fund to other Funds)	\$114,981	(110RGF-479010/20)

Expenditures Appropriations

Police Officer 3 FTE	\$300,000	(110PD-511100)
Park Positions 1.75 FTE	\$113,728	(110PRK-511100)
Public Safety UAL Payments	\$599,985	(Various)
Miscellaneous UAL Payments	\$402,142	(Various)
Held General Fund Vacancies	\$400,000	(110NNS-511950/90)

The above appropriations would add the needed adjustments to achieve the budgeted service levels for Public Safety and other essential services. It would also help to restore the unrestricted fund balance reserves levels (currently at approximately 4.5%) to adopted policy levels of 25%, and address the CalPERS UAL.

The projected estimates for FY 2020-21 (year-two of budget), after the above adjustments, would be a \$1.9 million surplus. For more details, please see Attachment 3 for the projected revenues and expenditures for FY 2020-21 or year-two of the Biennial Budget FYs 2019-21.

Conclusion:

It is recommended that the City Council adopt resolution 6338(20) and direct staff to add the approved supplemental appropriations to the Biennial Budget FYs 2020-21.

Respectfully submitted,

Dean Albro, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Jim Throop, City Manager

- Attachments: 1) Resolution No. 6338(20)
2) Budget Estimates 2019-20
3) Budget Estimates 2020-21