



City Council Agenda Item

City Council Meeting Date: June 15, 2021

TO: Jim Throop, City Manager

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

SUBJECT: Consideration and Adoption of Resolution No. 6426(21) Adopting a Biennial Budget for Fiscal Years 2021-2023 and Capital Improvement Program for Fiscal Years 2022-27

Recommendation:

Staff recommends the City Council:

- 1) Adopt Resolution No. 6426(21) adopting the Biennial Budget Fiscal Years (FY) 2021-23 and Capital Improvement Program for Fiscal Years 2022-27, as described herein (Attachment 1); or
- 2) Give alternate direction for the development of the Biennial Budget.

Background:

On January 5, 2021, staff presented the results of the FY 2020 Comprehensive Annual Finance Report to update the City Council on the current budget status. On February 16, 2021, during a regularly scheduled meeting, the City Council reaffirmed its previous goals from the FYs 2019-2021 budget cycle moving forward into FYs 2021-2023. Goals set for FYs 2021-2023 are as follows:

- Ensure a safe and supportive City through fully staffed and equipped public safety departments;
- Determine a sustainable financial plan;
- Implement a community development program that improves opportunities for growth of our residents and businesses; and
- Provide support and partnerships that empower community members and volunteers' ability to improve Lompoc.

On May 20, 2021, a special meeting was held to kick-off the budget presentation for the Biennial Budget FYs 2021-23. All departments and divisions presented a brief overview of their missions, services, and future goals and objectives. The City Council also received a hardcopy of the proposed Biennial Budget FYs 2021-23, which included a

Capital Improvement Program (CIP) publication. This was the first Biennial Budget to include a completed CIP publication that provides a comprehensive plan for current and future needs for capital outlays. Both publications were posted on the Management Services, Finance webpage. This provided City Council, staff, and all Lompoc residents 26 days to review it before its scheduled adoption.

On June 3, 2021, a special meeting was held to further discuss the Biennial Budget FYs 2021-23. Staff presented a brief overview of the current changes in revenues compared to prior year actuals. The discussion also covered additional expenditure items proposed in the Biennial Budget FYs 2021-23 and the net change to the fund balance.

It was noted that after taking into consideration the expected cost of living adjustment (COLA) currently being negotiated with the union groups, funding for police patrol vehicles, and funding for a contract that was awarded in September 2020 to build a Type I Fire Engine the unassigned fund balance would be approximately \$0.3 million at the end of budget cycle, June 30, 2023. The current City fund balance policy sets the reserve goals at 25% of expenditures, which is estimated at \$11 million. The policy also requires the City to develop a plan of action to restore the 25% reserve within 5 years, as outlined in Resolution No. 5913(14).

The City Council majority took the following action to adjust the proposed budget:

- Add \$240,000 – Type I Fire Engine;
- Add \$360,000 – (4) Police Patrol Vehicles;
- Add \$14,000 – Domestic Violence program;
- Add \$125,000 – Fire Exhaust Removal System; and
- Add \$87,769 – Development Service Assistant for FY 2022-23.

The above City Council action would set the Biennial Budget at a \$1.3 million surplus. However, after consideration for expected COLA, and budget reductions, the current proposed budget is projected to have a \$.6 million deficit. It should also be noted that the public safety expenditures list above could potentially be funded by the American Rescue Plan Act of 2021 (ARPA) and leave the Biennial Budget FYs 2021-23 with a \$127,600 surplus. This would leave a \$1.1 million projected fund balance for June 30, 2023. The City is still waiting for final Treasury direction on the approved calculation and uses of the ARPA funds.

Discussion:

General Fund

Revenues in the General Fund, for the combined FYs 2021-23 budget cycle, are estimated to increase \$15.6 million or 20.9%, mainly attributed to the passing of the I2020 ballot measure, which added 1% to sales tax, as well as the continued growth of tax revenues paid by the Cannabis industry.

As a service-driven organization, salaries and benefits represent 74% of total General Fund Expenses. In total, net positions in the General Fund were unchanged as compared with the FYs 2019-21 budget cycle.

During the Biennial Budget FY 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. With anticipated increases in revenues, the negative expenditures were eliminated for the FY 2021-23 budget cycle.

Pensions

The City's pension costs continue to escalate due to circumstances beyond the City's control. CalPERS has taken several steps over the past few years that are intended to mitigate future impacts to cities even as they result in more significant near-term costs.

The City Council adopted a "fresh start" in July 2020, which sets the payment schedule for the unfunded accrued liability (UAL) at a fixed 15-year schedule versus the previous variable 30-year repayment schedule. (It is important to note that employees have continued to increase their contribution toward pensions and benefits over the last several years, which is a rare accomplishment among area cities.)

Retiree Healthcare

In 2009, Lompoc moved away from the pay-as-you-go methodology and started to pre-fund its retiree healthcare. In January 2019, Lompoc switched health benefit providers, significantly reducing its liability for retiree healthcare from previous years. It is estimated that the funding status for the retiree healthcare program will reach 100% in this budget.

City-Wide Expenditures

The Biennial Budget FY 2021-23 provides additional funding to complete the following:

- Development Impact Fee Study;
- User Fee Study;
- Capital Infrastructure Reviews for the Public Utilities; and
- Rate Reviews for the Utilities.

The proposed Biennial Budget FY 2021-23 represents the efforts and best professional judgment of City staff in attempting to provide a plan to allow the City to meet the goals and priorities of the City Council of the City of Lompoc.

Fiscal Impact:

This report presents a Biennial Budget FYs 2021-23 for the City Council to review and, if the City Council wishes, adopt.

Conclusion:

June 30, 2021, is the end of Biennial Budget FYs 2019-21. No funds have been allocated for operation of the City past that date. The City Council may choose to either adopt the Biennial Budget FYs 2021-2023 by adopting Resolution No. 6426(21), or provide alternate direction.

Respectfully submitted,

Dean Albro, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:



Jim Throop, City Manager

Attachment: Resolution No. 6426(21)