



City Council Agenda Item

City Council Meeting Date: December 7, 2021

TO: Jim Throop, City Manager

FROM: Dean Albro, Management Services Director
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SUBJECT: Preliminary Update for Fiscal Year 2020-21 Annual Comprehensive Financial Report and Budget Workshop for Fiscal Year 2021-23 Reserves and Possible Future Commitments

Recommendation:

Staff recommends the City Council receive this report and give staff future direction.

Background:

On June 15, 2021, Council Member Starbuck initiated a City Council request, which was unanimously approved for a follow-up review for the Fiscal Year (FY) 2021-23 Biennial Budget. This report is to start that process by updating City Council on FY 2020-21 Annual Comprehensive Financial Report's actual numbers and request direction for budgeted reserves and for future potential funding toward the City's Capital Outlay Program (CIP).

Discussion:

This report provides a brief overview of the financial position based on actual transactions for the period ending June 30, 2021. These numbers are preliminary, since the audit is still being completed, however staff anticipate there will be no significant changes.

Revenues:

For the period ending June 30, 2021, the General Fund actual revenues exceeded actual expenditures, which resulted in estimated surplus of \$8.0 million to unassigned fund balance. The original budgeted revenues were \$38.5 million, however the actual year-end revenues resulted in \$47.1 million, a positive variance of \$8.7 million. This was mainly attributed to the passing of I2020 Sales Tax Ballot Measure and the Federal Government passing the American Rescue Plan Act (APRA) both of which were not included in the FY 2020-21 budget. The I2020 revenues were \$6.4 million, which exceed the FY 2021-23 Biennial Budget estimates of \$5.3 million, presented in the Biennial

Budget publication. This was mainly attributed to the I2020 Sales Tax (District Tax) being collected based on a destination point of sale verses the regular sales tax (Bradley Burns) that is based on a point of sale. The City did see higher than expected regular sales tax revenues, which could be attributed to the Federal Government infusing resources into the economy through various stimulus programs.

In May of 2021, the City received \$6.3 million of ARPA funds from the US Department of Treasury to help mitigate the City's impacts from the economic downturn caused by the COVID-19 pandemic. The City was able to substantiate expenditures related to fighting the COVID-19 Public Safety and drew down \$4.1 million for the period of March through June 30, 2021. The City also received \$360,422 in Covid-19 Economic Relief during FY 2021. These drawdowns will continue until all of the approximately \$12.9 million in ARPA funds have been accounted for by the City for reimbursement in fighting COVID.

Expenditures:

For the period ending June 30, 2021, the General Fund original budget for expenditures was \$38 million with actual expenditures being \$39 million, a \$.6 million variance. This was mainly attributed to negotiated cost of living increases, unbudgeted Fire Department salaries, and a number of large grants that were not part of the FY 2020-21 original budget. All were offset by salary savings from a number of unfilled positions.

The following comparative summary of activities shows the original budgeted revenues and expenditures to the projected actuals for the period ending June 30, 2021. One-time transactions have been removed to show the sustainability of resources. The surplus, after removing one-time transactions, was \$3.7 million. This is a favorable indicator of the expected future sustainability of revenue resources.

	Original Budget	Actuals	Variance
Revenues	\$ 38,494,137	\$ 47,148,401	\$ 8,654,264
Expenditures	38,479,156	39,058,452	(579,296)
Excess of revenues (under) expenditures	14,981	8,089,949	8,074,968

One-time Revenues			
Revenues			
American Recue Plan Act (ARPA)		(4,075,214)	
Covid-19 Economic Relief		(360,422)	
Net change in fund balance from Operations	\$ 14,981	\$ 3,654,313	\$ 3,639,332

Fiscal Impact:

For the period ending June 30, 2020, the City actually had an unassigned fund balance of negative \$215,999. The projected unassigned General fund balance for the period ending June 30, 2021, however was \$8 million. Staff recommends that the City Council take steps to maintain and achieve the City's policy goals to keep unassigned fund reserves at the targeted 25% of budgeted expenditures. This would have a future goal of \$11 million based on the FY 2021-22 budget expenditures. Staff also recommends the City Council establish a plan of action to achieve that goal within 5 years.

Based on the above, staff recommends the City Council consider holding \$4.0 million in reserves. This would follow the City's fund balance policy to reestablish its goal of a 25% reserve within a period of five years. The fund balance policy, also states at least 50% of any surplus should be put into reserve until the 25% goal is achieved.

That being said, the \$8 million of unassigned fund balance could be split, with \$4 million being held in reserve and the remaining \$4 million used for one-time capital outlays. This would give the City resources to invest in its infrastructure and make needed upgrades. Staff would also recommend adopting a resolution based on City Council direction to move fund reserve from unassigned fund balance to committed. The committed resources would be moved to the following fund types:

Internal Service Fund Fleet – Vehicle Replacements
Capital Project Funds – Capital Outlays
Special Revenue – Support Programs

The above would also meet the Federal Government's intent to use grant resources for one-time investments into the local economies.

Some additional options that City Council may consider would be to break out the funds into groups by percentages based on the City Council's priorities, such as Police, Fire, Parks and Recreation, Library, or other desired programs.

Funds could also be appropriated for future use for larger capital projects. This would be used like a savings account and would add sustainability to future budgets by reducing the required debt service commitments.

In addition, as more ARPA funds are reimbursed to the City, in its fight against COVID, those funds would be placed into the City's General Fund reserves, and could then be used by the Council to do additional one-time capital projects. The Finance department will continue to keep the Council apprised of the changes to the fund balance.

Conclusion:

Staff recommends the City Council receive this report and provide further direction.

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Respectfully submitted,

Dean Albro, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Jim Throop, City Manager