

# City of La Palma

## Agenda Item No. 13



MEETING DATE: May 5, 2020

TO: CITY COUNCIL

FROM: Conal McNamara, City Manager

SUBMITTED BY: Michael Matsumoto, Financial Consultant

AGENDA TITLE: Long Term Fiscal Status, Fiscal Year 2019-20 Budget Adjustments, and Fiscal Year 2020-21 Budget and Capital Improvement Program

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### **RECOMMENDATION:**

It is recommended that the City Council:

- 1) Receive the Staff presentation on the Long Term Fiscal Status Update; and
- 2) Receive the overview of the Draft FY 2020-21 Budget, and Capital Improvement Program (CIP), and provide direction for additional materials or information needed for Proposed Budget to be presented on June 2, 2020.

### **BACKGROUND:**

At the April 7, 2020, Council meeting, staff was directed to prepare a “macro briefing” on the budget issues for Council discussion as well as to begin preparation of a “status quo” budget for adoption in June.

#### **The Economy and La Palma’s Economic Outlook**

The City has been prudent with its spending as a result of the City Council’s knowledge that a recession would eventually follow the long recovery from the Great Recession. The City made mid-year adjustments on March 3, 2020, but the COVID-19 pandemic has shuttered much of the economy. On a very positive note, the City has healthy reserves that can help the City endure this new recession. As of March 31, 2020, the current spendable reserves were \$14.2M in the following funds:

|                        |                      |
|------------------------|----------------------|
| General Fund           | \$ 1,472,347         |
| Emergency Reserve      | \$ 5,897,700         |
| Capital Outlay Reserve | \$ <u>6,807,387</u>  |
| Total                  | \$ <u>14,177,434</u> |

The Capital Outlay Reserve is money from the General Fund, so it is not restricted by an outside agency. It is set aside by the City Council to fund various capital projects when other funding is

not available. Although the Capital Outlay Reserve was established by Council for Capital and staff is not recommending using the Capital Outlay Reserve at this time, the City Council could use this money for other purposes if needed.

It is not possible to know how long the recession will last, how deeply the economy will be reduced, or how soon a recovery might come; however, staff has reached out to several experts for their projections. Fiscal year 2018-19 ended with a surplus of over \$1M, and current projections indicate that this would be sufficient to cover the deficits for 2019-20 and 2020-21. Staff does not recommend simply waiting for two years to make any adjustments, but rather believes it is prudent to make modest changes at this time, and revisiting the budget when more information is available later in 2020 and at mid-year in February 2021.

### Anticipated Revenue Reductions

Staff has been reaching out to our sales tax consultant and others to obtain updated estimates for 19/20 and 20/21 impacts to revenues. The following is a summary of the largest General Fund revenues:

- Sales Tax and Transactions and Use Tax – We received updated estimates from our sales tax consultant. The prior estimates from February 2020 were \$1,965,100 and \$1,641,000, and the updated estimates are \$1,657,200 and \$1,436,100. These reductions amount to over \$500,000. HdL assumes the economy will reopen 6/1/2020, and recovery to 18/19 levels will take approximately five years.
- Property Tax – Staff does not expect a significant reduction in property tax revenues. Property taxes are calculated using the taxable assessed values, and under Proposition 13, the values are often far below the actual values. The City is on the Teeter plan, so the County pays the City regardless of delinquent payments.
- Utility Users Tax – Staff does not expect a significant reduction in Utility Users Tax revenues.
- Transient Occupancy Tax – Staff anticipates a significant reduction in TOT revenue. Previously, staff anticipated receiving \$409,000 but the revised estimate is \$265,000 for 19/20 with further reductions in 20/21.

Some other general fund revenues such as rentals and program fees will likely be lower, but these will also accompany lower costs. Staff also received updated estimates for 20/21 for Gas Tax, RMRA, and Measure M.

### Plan for Fiscal Year 2020-21 Budget

With the COVID 19 pandemic, the City Council asked for a status quo budget without increases and modest decreases that would not substantially change the services to the community. Staff has been working on the proposed 2020-21 Budget with that mindset and is recommending removing the following items that would have been in the 2020-21 budget:

- Elimination of \$1,500 for billboard advertisement design. The advertisers will format their advertisement to fit the billboard.
- Police reductions of \$7,000 due to the cancelation of some city events.
- Community Services reductions of \$60,650 due to the cancelation of several city events and the elimination of excursions from Day Camp.

- Postponing several maintenance projects totaling \$27,000 at City Hall including painting, window coverings, and lobby furniture.
- Postponing improvements costing \$19,500 at the Police Department including the locker room and jail flooring.
- The total General Fund savings \$115,650.

In other funds, staff is recommending that the street medians project not be included in the 2020-21 budget. On March 17, the City Council postponed action on the street medians, which had an anticipated cost of \$2,245.00, wanting to make the final decision in June. Because of the fiscal impact of the COVID-19 pandemic, staff is recommending that the medians be postponed and not included in the 2020-21 budget. In the Vehicle Replacement Fund, staff is recommending that we delay the replacement of a \$30,000 vehicle until fiscal year 2021-22.

#### Additional Items for Discussion in the 2020-21 Budget:

We recognize that it is very challenging to forecast what changes (good and bad) might be coming as restrictions are lifted in the coming months. As we attempt to anticipate the Governor's phased strategy, we must also weigh not only our budget concerns and ability to adhere to yet unknown restrictions but also attempt to guess what the public's openness to future programs and public interaction might be. As a result, the Council might wish to discuss the proposed Festival of Nations event in the coming year. The City Council has the ability to remove it at this time and possibly add it back if the economy (and public willingness to socialize) improves, or the City Council could leave it in the budget with the option to remove it at mid-year if the economy (and public willingness) has not improved.

Additionally, in anticipation of possible Federal Stimulus money that would target construction and put people back to work, City Council may wish to consider funding design costs to have shovel-ready projects available if funding becomes available. In addition to the medians projects which are already shovel ready, the City Council could budget for design costs for 1) Carmenita Bridge improvements, 2) a replacement Civic Center, and 3) a new Water Well.

#### Future Schedule

With the COVID-19 disruption, the economy is suffering, but we are not certain of the depths or duration of the revenue reductions to the City. Later in fiscal year 2020-21, more information will be available about the recovery. As such, staff recommends that the City Council re-examine the financial outlook in October and again next February to make adjustments depending on the recovery in the economy. Thankfully, the City has healthy reserves, and the ability to wait until later in 2020-21 to determine if further reductions are needed.

#### **SUMMARY:**

The City Manager's Budget Message and other additional detail will be provided with the complete budget document prior to the June 2, 2020, Public Hearing. The City Manager's Budget Message provides a detailed and comprehensive overview of the Proposed Budget, the challenges facing the City, significant trends to watch, and the many accomplishments achieved and anticipated for the organization. Questions or requests for additional information this evening will become part of future informational materials.

**FISCAL IMPACT:**

There is no fiscal impact to discussion of the financial situation or the elements presented in this plan. Direction given, however, will be incorporated into budget preparation and other financial processes.

**APPROVED:**

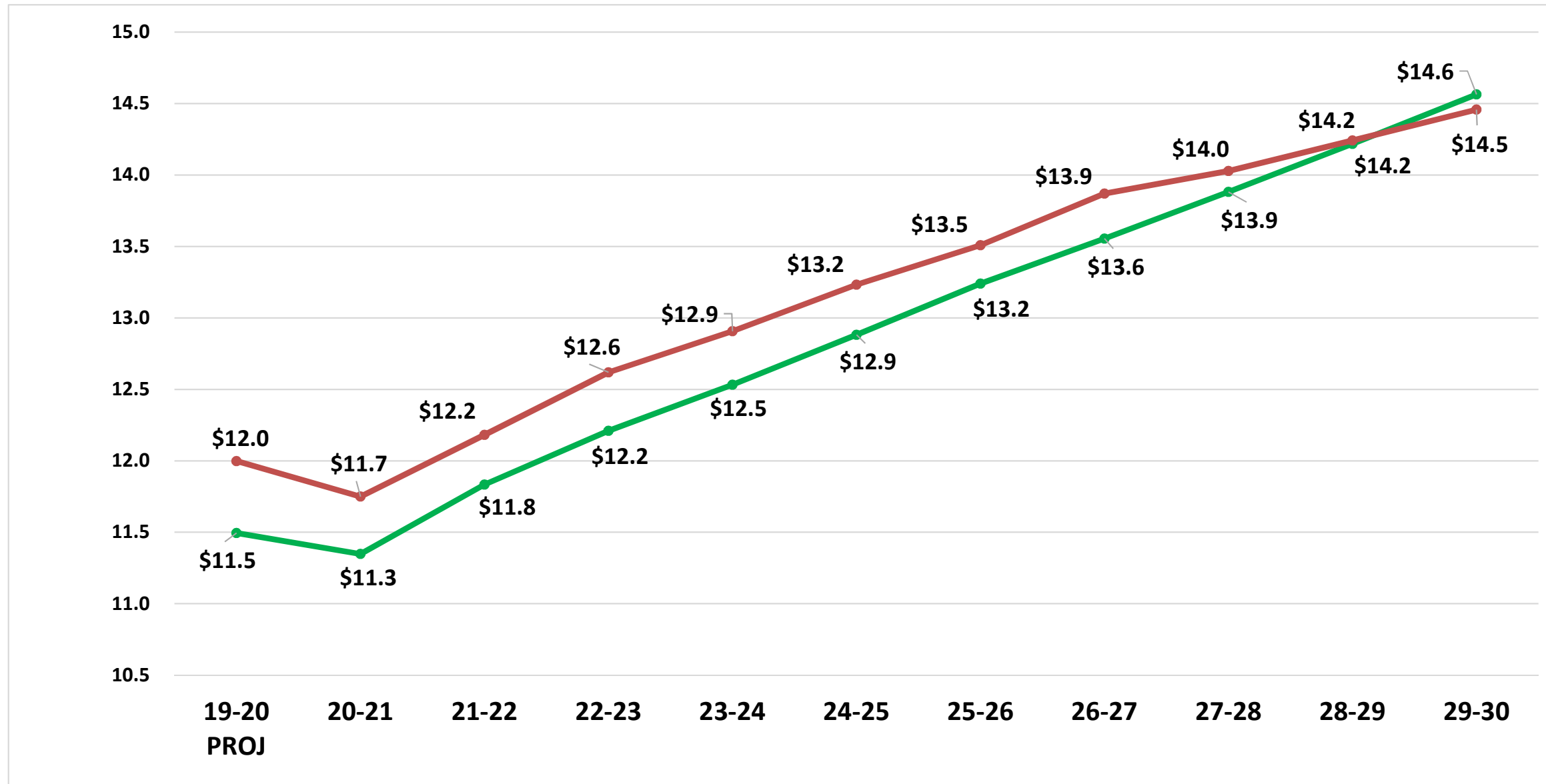
  
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Financial Consultant

  
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City Manager

- Attachments:
1. Ten Year General Fund Financial Forecast (Chart)
  2. FY 2020-21 Draft Budget Summaries

**GENERAL FUND: TEN-YEAR FORECAST**

| <b>STATUS QUO</b> | <b>19-20 PROJ</b> | <b>20-21</b> | <b>21-22</b> | <b>22-23</b> | <b>23-24</b> | <b>24-25</b> | <b>25-26</b> | <b>26-27</b> | <b>27-28</b> | <b>28-29</b> | <b>29-30</b> |
|-------------------|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenues          | 11,494,680        | 11,347,736   | 11,834,000   | 12,209,900   | 12,531,800   | 12,881,500   | 13,240,600   | 13,555,700   | 13,881,400   | 14,217,400   | 14,564,200   |
| Expenditures      | 11,998,400        | 11,749,300   | 12,181,050   | 12,619,400   | 12,906,800   | 13,233,000   | 13,508,400   | 13,870,200   | 14,027,900   | 14,241,179   | 14,457,900   |
| Surplus/(Deficit) | (503,720)         | (401,564)    | (347,050)    | (409,500)    | (375,000)    | (351,500)    | (267,800)    | (314,500)    | (146,500)    | (23,779)     | 106,300      |



| <b>EXPENDITURES</b>                    |                       |                        |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
|--|-----------------------|------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>GENERAL GOVERNMENT</b>              | <b>FY18-19 Actual</b> | <b>FY19-20 Adopted</b> | <b>FY19-20 Est</b> | <b>FY20-21</b>    | <b>FY 21-22</b>   | <b>FY 22-23</b>   | <b>FY 23-24</b>   | <b>FY 24-25</b>   | <b>FY 25-26</b>   | <b>FY 26-27</b>   | <b>FY 27-28</b>   | <b>FY 28-29</b>   | <b>FY 29-30</b>   |
| City Council                           | 64,071                | 67,200                 | 67,200             | 71,500            | 70,600            | 71,100            | 72,000            | 72,500            | 73,500            | 74,100            | 75,100            | 75,700            | 76,700            |
| City Manager                           | 342,409               | 345,600                | 344,100            | 384,200           | 391,000           | 395,800           | 400,700           | 405,700           | 410,800           | 416,000           | 421,300           | 426,600           | 432,200           |
| Legal Services                         | 134,208               | 200,600                | 200,600            | 159,200           | 146,700           | 148,800           | 151,200           | 153,600           | 156,000           | 158,500           | 161,000           | 163,600           | 166,200           |
| City Clerk                             | 93,034                | 93,800                 | 93,800             | 111,500           | 102,800           | 112,000           | 113,500           | 115,000           | 116,500           | 118,000           | 119,500           | 121,000           | 122,500           |
|  | <b>633,722</b>        | <b>707,200</b>         | <b>705,700</b>     | <b>726,400</b>    | <b>711,100</b>    | <b>727,700</b>    | <b>737,400</b>    | <b>746,800</b>    | <b>756,800</b>    | <b>766,600</b>    | <b>776,900</b>    | <b>786,900</b>    | <b>797,600</b>    |
| <b>ADMINISTRATIVE SERVICES</b>         |                       |                        |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Administration                         | 130,985               | 160,300                | 160,300            | 169,500           | 175,600           | 177,900           | 180,200           | 182,500           | 184,800           | 187,100           | 189,500           | 191,900           | 194,300           |
| Fiscal Services                        | 352,421               | 400,200                | 400,200            | 393,700           | 414,700           | 414,500           | 421,000           | 427,500           | 434,200           | 440,900           | 447,700           | 454,700           | 461,700           |
| Human Resources                        | 1,641,796             | 1,894,000              | 1,869,600          | 1,993,400         | 2,183,200         | 2,366,900         | 2,513,700         | 2,674,500         | 2,776,600         | 2,910,900         | 2,955,000         | 3,000,279         | 3,046,900         |
| Technology                             | 290,622               | 266,000                | 266,000            | 278,500           | 283,100           | 289,500           | 296,200           | 303,200           | 310,300           | 317,600           | 325,200           | 333,000           | 341,000           |
|  | <b>2,415,824</b>      | <b>2,720,500</b>       | <b>2,696,100</b>   | <b>2,835,100</b>  | <b>3,056,600</b>  | <b>3,248,800</b>  | <b>3,411,100</b>  | <b>3,587,700</b>  | <b>3,705,900</b>  | <b>3,856,500</b>  | <b>3,917,400</b>  | <b>3,979,879</b>  | <b>4,043,900</b>  |
| <b>POLICE SERVICES</b>                 |                       |                        |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Administration                         | 513,613               | 578,400                | 578,400            | 590,900           | 606,000           | 616,800           | 627,700           | 638,700           | 650,100           | 661,800           | 673,700           | 685,900           | 698,200           |
| Operations                             | 303,910               | 334,900                | 334,900            | 341,800           | 348,000           | 353,500           | 358,900           | 364,400           | 370,000           | 375,600           | 381,400           | 387,300           | 393,300           |
| Patrol                                 | 2,334,103             | 2,497,600              | 2,497,600          | 2,513,100         | 2,601,700         | 2,661,300         | 2,702,200         | 2,742,400         | 2,783,200         | 2,824,700         | 2,866,900         | 2,911,400         | 2,956,700         |
| Services                               | 182,226               | 246,200                | 246,200            | 248,800           | 260,200           | 264,100           | 268,100           | 272,200           | 276,300           | 280,500           | 284,700           | 289,000           | 293,400           |
| Community Education                    | 106,319               | 114,400                | 114,400            | 74,400            | 76,500            | 77,800            | 79,100            | 80,400            | 81,700            | 83,000            | 84,300            | 85,700            | 87,100            |
| Investigations                         | 630,285               | 686,600                | 686,600            | 700,600           | 719,900           | 711,700           | 721,500           | 731,400           | 741,300           | 751,500           | 761,800           | 772,200           | 782,900           |
| Records & Communications               | 666,368               | 732,700                | 732,700            | 735,800           | 769,900           | 781,300           | 792,800           | 804,500           | 816,200           | 828,200           | 840,500           | 852,900           | 865,300           |
|  | <b>4,736,823</b>      | <b>5,190,800</b>       | <b>5,190,800</b>   | <b>5,205,400</b>  | <b>5,382,200</b>  | <b>5,466,500</b>  | <b>5,550,300</b>  | <b>5,634,000</b>  | <b>5,718,800</b>  | <b>5,805,300</b>  | <b>5,893,300</b>  | <b>5,984,400</b>  | <b>6,076,900</b>  |
| <b>COMMUNITY SERVICES</b>              |                       |                        |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Administration                         | 355,711               | 352,900                | 352,900            | 357,400           | 364,750           | 369,800           | 374,800           | 379,900           | 385,500           | 391,200           | 397,000           | 402,800           | 408,700           |
| Health & Wellness                      | 142,397               | 150,400                | 105,400            | 156,000           | 156,600           | 159,800           | 163,000           | 166,300           | 169,600           | 172,900           | 176,400           | 179,900           | 183,500           |
| Recreation Facility Operations         | 264,810               | 263,200                | 263,200            | 259,700           | 268,100           | 271,700           | 275,300           | 278,900           | 282,700           | 286,500           | 290,300           | 294,100           | 297,900           |
| Special Events                         | 114,107               | 148,500                | 115,100            | 117,000           | 156,700           | 159,300           | 161,900           | 164,500           | 167,100           | 169,700           | 172,400           | 175,100           | 178,000           |
| Youth & Family Services                | 237,795               | 226,500                | 202,800            | 197,500           | 230,200           | 233,700           | 237,200           | 240,700           | 244,200           | 247,800           | 251,600           | 255,400           | 259,200           |
| Citywide Maintenance                   | 295,389               | 378,200                | 378,200            | 329,000           | 351,200           | 316,700           | 322,500           | 328,500           | 334,500           | 340,800           | 347,100           | 353,500           | 360,100           |
| Engineering                            | 101,791               | 105,300                | 105,300            | 108,000           | 109,600           | 111,600           | 113,700           | 115,800           | 117,900           | 120,100           | 122,400           | 124,700           | 127,000           |
| Parks & Medians                        | 208,306               | 235,100                | 235,100            | 264,400           | 261,800           | 268,300           | 273,200           | 278,100           | 283,100           | 288,100           | 293,300           | 298,600           | 304,000           |
| Streets                                | 279,290               | 277,300                | 277,300            | 278,700           | 280,400           | 285,500           | 277,900           | 282,800           | 285,400           | 290,500           | 293,200           | 298,300           | 303,600           |
|  | <b>1,999,596</b>      | <b>2,137,400</b>       | <b>2,035,300</b>   | <b>2,067,700</b>  | <b>2,179,350</b>  | <b>2,176,400</b>  | <b>2,199,500</b>  | <b>2,235,500</b>  | <b>2,270,000</b>  | <b>2,307,600</b>  | <b>2,343,700</b>  | <b>2,382,400</b>  | <b>2,422,000</b>  |
| <b>COMMUNITY DEVELOPMENT</b>           |                       |                        |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Administration                         | 28,936                | 11,000                 | 61,100             | 34,900            | 10,400            | 10,500            | 10,600            | 10,700            | 10,800            | 10,900            | 11,000            | 11,100            | 11,200            |
| Building & Safety                      | 148,167               | 151,600                | 151,600            | 153,600           | 157,000           | 160,200           | 163,400           | 166,700           | 170,000           | 173,400           | 176,900           | 180,400           | 184,000           |
| Code Enforcement/Business Licenses     | 103,338               | 113,100                | 113,100            | 117,800           | 123,600           | 125,300           | 127,000           | 128,700           | 130,400           | 133,000           | 134,700           | 136,500           | 138,300           |
| Planning                               | 126,589               | 194,500                | 194,500            | 208,400           | 160,800           | 162,700           | 164,600           | 166,500           | 168,400           | 170,500           | 172,600           | 174,700           | 176,800           |
|  | <b>407,029</b>        | <b>470,200</b>         | <b>520,300</b>     | <b>514,700</b>    | <b>451,800</b>    | <b>458,700</b>    | <b>465,600</b>    | <b>472,600</b>    | <b>479,600</b>    | <b>487,800</b>    | <b>495,200</b>    | <b>502,700</b>    | <b>510,300</b>    |
| <b>SUBTOTAL</b>                        | <b>10,192,993</b>     | <b>11,226,100</b>      | <b>11,148,200</b>  | <b>11,349,300</b> | <b>11,781,050</b> | <b>12,078,100</b> | <b>12,363,900</b> | <b>12,676,600</b> | <b>12,931,100</b> | <b>13,223,800</b> | <b>13,426,500</b> | <b>13,636,279</b> | <b>13,850,700</b> |
| <b>TRANSFERS OUT</b>                   | <b>789,732</b>        | <b>565,500</b>         | <b>850,200</b>     | <b>400,000</b>    | <b>400,000</b>    | <b>541,300</b>    | <b>542,900</b>    | <b>556,400</b>    | <b>577,300</b>    | <b>646,400</b>    | <b>601,400</b>    | <b>604,900</b>    | <b>607,200</b>    |
| <b>TOTAL GENERAL FUND EXPENDITURES</b> | <b>10,982,726</b>     | <b>11,791,600</b>      | <b>11,998,400</b>  | <b>11,749,300</b> | <b>12,181,050</b> | <b>12,619,400</b> | <b>12,906,800</b> | <b>13,233,000</b> | <b>13,508,400</b> | <b>13,870,200</b> | <b>14,027,900</b> | <b>14,241,179</b> | <b>14,457,900</b> |

**FY 2020-21 DRAFT BUDGET SUMMARY**

| <b>REVENUES</b>                    |                       |                        |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
|------------------------------------|-----------------------|------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                    | <b>FY18-19 Actual</b> | <b>FY19-20 Adopted</b> | <b>FY19-20 Est</b> | <b>FY20-21</b>    | <b>FY 21-22</b>   | <b>FY 22-23</b>   | <b>FY 23-24</b>   | <b>FY 24-25</b>   | <b>FY 25-26</b>   | <b>FY 26-27</b>   | <b>FY 27-28</b>   | <b>FY 28-29</b>   | <b>FY 29-30</b>   |
| PROPERTY TAX                       | 3,863,599             | 4,012,300              | 4,000,780          | 4,131,736         | 4,252,300         | 4,385,400         | 4,533,400         | 4,698,000         | 4,868,700         | 5,045,700         | 5,229,400         | 5,419,700         | 5,617,000         |
| SALES TAX                          | 2,010,833             | 2,000,000              | 1,657,200          | 1,661,200         | 1,721,400         | 1,807,500         | 1,897,900         | 1,992,800         | 2,092,400         | 2,139,500         | 2,187,600         | 2,236,800         | 2,287,100         |
| TRANSACTION & USE TAX              | 1,663,764             | 1,376,000              | 1,436,100          | 1,464,500         | 1,546,600         | 1,623,900         | 1,660,400         | 1,697,800         | 1,736,000         | 1,775,100         | 1,815,000         | 1,855,800         | 1,897,600         |
| UTILITY USER TAX                   | 951,388               | 980,000                | 930,000            | 911,400           | 893,200           | 875,300           | 857,800           | 840,600           | 823,800           | 807,300           | 791,200           | 775,400           | 759,900           |
| RESIDUAL PROPERTY TAX              | 156,224               | 122,400                | 213,000            | 160,000           | 163,200           | 166,500           | 169,800           | 173,200           | 176,700           | 180,200           | 183,800           | 187,500           | 191,300           |
| FRANCHISE FEES                     | 437,747               | 402,000                | 402,000            | 410,000           | 418,200           | 426,600           | 435,100           | 443,800           | 452,600           | 461,700           | 470,900           | 480,300           | 489,900           |
| TRANSIENT OCCUPANCY TAX            | 398,343               | 409,000                | 265,000            | 205,000           | 328,000           | 410,000           | 418,200           | 426,600           | 435,100           | 443,800           | 452,700           | 461,800           | 471,000           |
| LICENSES & PERMITS                 | 366,063               | 349,300                | 349,300            | 356,200           | 363,300           | 370,500           | 377,800           | 385,200           | 392,900           | 400,700           | 408,700           | 416,900           | 425,200           |
| INTERGOVERNMENTAL                  | 38,885                | 102,900                | 102,900            | 19,100            | 8,300             | 8,500             | 8,700             | 8,900             | 9,100             | 9,300             | 9,500             | 9,700             | 9,900             |
| CHARGES FOR SERVICES               | 495,744               | 500,700                | 500,700            | 510,500           | 520,800           | 531,200           | 541,900           | 552,700           | 563,800           | 574,900           | 586,300           | 597,800           | 609,600           |
| FINES & FORFEITURES                | 83,110                | 95,100                 | 95,100             | 97,000            | 98,900            | 100,900           | 102,900           | 105,000           | 107,100           | 109,200           | 111,400           | 113,600           | 115,900           |
| USE OF MONEY & PROPERTY            | 568,945               | 414,400                | 414,400            | 421,800           | 429,400           | 437,100           | 445,000           | 453,200           | 461,600           | 470,100           | 478,900           | 487,900           | 497,200           |
| OTHER REVENUES                     | 499,041               | 494,200                | 494,200            | 352,700           | 430,900           | 393,800           | 396,800           | 403,900           | 407,000           | 410,100           | 413,300           | 416,600           | 419,900           |
| INTERFUND TRANSFERS                | 587,700               | 634,000                | 634,000            | 646,600           | 659,500           | 672,700           | 686,100           | 699,800           | 713,800           | 728,100           | 742,700           | 757,600           | 772,700           |
| <b>TOTAL GENERAL FUND REVENUES</b> | <b>12,121,386</b>     | <b>11,892,300</b>      | <b>11,494,680</b>  | <b>11,347,736</b> | <b>11,834,000</b> | <b>12,209,900</b> | <b>12,531,800</b> | <b>12,881,500</b> | <b>13,240,600</b> | <b>13,555,700</b> | <b>13,881,400</b> | <b>14,217,400</b> | <b>14,564,200</b> |
| <b>Surplus/(Deficit)</b>           | 1,138,660             | 100,700                | (503,720)          | (401,564)         | (347,050)         | (409,500)         | (375,000)         | (351,500)         | (267,800)         | (314,500)         | (146,500)         | (23,779)          | 106,300           |