

City of La Palma

Agenda Item No. 10



MEETING DATE: June 7, 2022

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Michael Matsumoto, Financial Consultant
Ryan Hallett Hinton, Administrative Services Director

AGENDA TITLE: Adoption of the Fiscal Year 2022-23 Operating and Capital Improvement Program Budgets and Appropriations Limit for FY 2022-23

RECOMMENDATION:

It is recommended that the City Council take the following actions:

- a) Open Public Hearing
- b) Receive Staff Report
- c) Receive Public Input
- d) City Council Comments and Questions
- e) Close the Public Hearing
- f) Adopt Resolution approving the Budget for Fiscal Year 2022-23
- g) Adopt Resolution approving the Annual Appropriations Limit for Fiscal Year 2022-23

SUMMARY:

As discussed at the City Council meeting on May 3, 2022, the Fiscal Year 2022-23 Budget (FY 22-23) has been prepared as a "status quo" budget. With the use of \$725,916 from the American Rescue Plan Reserve Fund, the General Fund budget has surplus in the amount of \$473,288.

Changes since May 3, 2022 City Council meeting

Subsequent to the City Council meeting on May 3, 2022, the City received the final insurance payment amount that is due in early July. The charges will be in the Risk Management (Insurance)

Internal Service Fund, but the insurance charges to the General Fund increased by \$9,800 from the previously calculated amounts.

The Economy and La Palma's Economic Outlook

The City has been prudent with its spending. The City has very healthy reserves, which fortunately have not been necessary to sustain the City during the recession because of the Federal stimulus. The current spendable reserves as of March 31, 2022, were \$17.3M in the following funds:

| | |
|-------------------------------|----------------------|
| General Fund | \$ 4,303,172 |
| Emergency Reserve | 6,047,700 |
| ARP Fund (General Fund money) | 90,043 |
| Capital Operating Reserve | 5,939,659 |
| Civic Center Replacement | <u>888,583</u> |
| Total | \$ <u>17,269,157</u> |

The ARP Fund, Capital Outlay Reserve, and Civic Center Replacement funds hold General Fund money set aside by the City Council for various reasons, so they are not restricted by an outside agency. Staff is not recommending using these reserves at this time; however, the City Council could use the money for other purposes if needed.

Revenue Projections

Staff has reached out to our sales tax consultant and others to obtain estimates for FY 2022-23 sales tax revenues. The following is a summary of the largest General Fund revenues:

- Property Tax – Property tax revenues have remained strong, and staff anticipates continued modest growth. 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.
- Sales Tax and Transactions and Use Tax – Staff and HdL anticipate an audit adjustment that will negatively affect future sales tax revenues starting in FY 2023-24. The economy is experiencing a robust recovery, and HdL projects slower growth in revenue ahead, but they are not anticipating a recession on the near horizon.
- Utility Users Tax – Utility Users Tax revenues have remained strong through the pandemic, and staff anticipates only slight reductions in FY 2022-23 and beyond.
- Transient Occupancy Tax – The TOT revenues rebounded substantially in FY 2021-22, and full recovery is anticipated in FY 2022-23.

FY 2022-23 Proposed Budget

Projected General Fund Revenues and Expenditures

Projected FY 2022-23 General Fund revenues and transfers-in total \$13,632,288, and General Fund expenditures and transfers-out total \$13,159,000. The transfers into the General Fund include a proposed transfer from the American Rescue Plan Reserve Fund in the amount of

\$725,916. The transfers out of the General Fund total \$620,000, and they are transfers to various City funds to bolster those fund balances.

Capital Improvement Program (CIP) and Capital Outlay Reserve (COR)

The FY 2022-23 proposed budget includes \$2,545,000 of COR-funded projects as shown in the table below:

| FY 2022-23 Projects with COR Funding | COR | Other |
|---|--------------|-----------|
| City Yard Improvements | \$ 470,800 | |
| Community Center & Parks | | |
| Central Park Fire Lane Rehab | 40,000 | |
| Softball Field Fence and Shade | 37,500 | 187,600 |
| Community Center Roof | 100,000 | |
| Basketball & Tennis Court Resurfacing | 45,000 | |
| Community Center Exterior Paint | 10,000 | |
| Emergency Generator | 100,000 | 180,000 |
| City Hall | | |
| ADA improvements | 75,000 | |
| City Hall Outside Concrete | 150,000 | |
| Civic Center Exterior Paint | 30,000 | |
| Police - Parking Lot Improvements | 65,000 | |
| Citywide Maintenance | | |
| Maintenance & Repair of Equipment | 40,000 | |
| Maintenance & Repair of Buildings | 45,000 | |
| Building Improvements | 37,000 | |
| Furniture & Fixtures | 10,000 | |
| Machinery & Equipment | 17,500 | |
| Park Improvements | 17,200 | |
| Arterial Streets | | |
| Highway Bridge Preventative Maintenance | 50,000 | |
| Moody@Orangethorpe Median Island | 30,000 | |
| Street Medians | 900,000 | 2,000,000 |
| Orangethorpe Underpass Lighting | 50,000 | |
| Residential Streets | | |
| Curb, Gutter, & Sidewalk Repair and replace | 125,000 | |
| Intersection Improvements | | |
| Traffic Signal Cabinet Replacements | 50,000 | |
| Traffic Signal Battery Backups | 50,000 | |
| COR Funded 2022-23 | \$ 2,545,000 | |

In the Vehicle Replacement Fund, the budget includes the purchase of three (3) Police vehicles, a Parks and Medians vehicle, a Street Water Truck, and five (5) Community Service vehicles to be leased. The Internal Service Fund charges the various divisions to accumulate funds for replacement in advance, so funds are on hand for these vehicle replacements.

Items to note in the FY 2022-23 Budget

The General Fund appropriations are higher than the prior year appropriations, and the following are the more significant increases:

- The CalPERS UAL payments increased by \$195,200 over the prior year.
- And other smaller increases in costs.

The City has strong reserves, and the City experienced an increase in its reserves from March 2020 through March 2022 because of the Federal Stimulus revenues.

Anticipated changes to the FY 2022-23 Budget

The following will be brought forward as a budget amendment during fiscal year 2022-23:

- Updated Labor costs – The City is currently in negotiation with the various bargaining groups because the current contracts expire on June 30, 2022. After the labor agreements are finalized, Staff will update the budget for a proposed budget amendment.
- Vehicle Replacement Charges – Staff are working on updated vehicle replacement charges that may indicate a budget amendment is needed for fiscal year 2022-23.
- Revenues for Fats, Oils, and Grease (FOG) in the amount of \$9,600 will need to be moved from the General Fund to the Sewer Fund because the FOG program was moved to the Sewer Fund for fiscal year 2022-23.

Appropriations Limit

Voters approved Proposition 4 in November 1979, adding Article XIII B to the State of California's Constitution, which established annual Appropriations Limits on state and local governmental entities. In June 1990, the voters approved Proposition 111, which modified the Appropriations Limit. The annual adjustment is derived using population and per-capita personal income inflation factors provided by the State of California's Department of Finance. The prior year's Appropriations Limit is multiplied by this component to arrive at the current year's Appropriations Limit. For FY 2022-23, the Appropriations Limit has been calculated to be \$21,115,875.

FISCAL IMPACT:

General Fund Revenues and transfers in are estimated to be \$13,632,288 with proposed expenditures and transfers out of \$13,159,000. The proposed Budget for 2022-23 includes total expenditures of \$30,476,743 and total Revenues of \$25,900,773.

APPROVED:



Financial Consultant



Administrative Services Director



City Manager

Attachments:

1. Proposed FY 2022-23 Budget
2. Resolution Approving FY 2022-23 Budget
3. Resolution Approving Appropriations Limit for FY 2022-23



Due to the large size of the attachment, a separate link has been created. You can open the file by clicking on the link provided below:

Attachment 1

1. [City of La Palma Fiscal Year 2022-23 Budget](#)

RESOLUTION NO. 2022-__

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LA PALMA APPROVING AND ADOPTING A BUDGET FOR FISCAL YEAR 2022-23

WHEREAS, the City Manager of the City of La Palma did on May 3 and June 7 present to the City Council of said City a Proposed Budget for the Fiscal Year 2022-23; and

WHEREAS, the City Council held a duly noticed public hearing in the Council Chambers of City Hall of said City on June 7, 2022; and

WHEREAS, the City Council did review said Proposed Budget for Fiscal Year 2022-23; and

WHEREAS, pursuant to Article VIII, Section 14-239 of the La Palma Municipal Code, the utility users tax shall be reviewed by the City Council on an annual basis, in conjunction with the City Council's consideration of the City's General Fund budget for the immediately succeeding fiscal year. Upon review the City Council has determined that the rate of the tax should not be altered for Fiscal Year 2022-23; and

WHEREAS, the original of said Proposed Budget will be revised so as to reflect each and all of the amendments, changes, and modifications which the City Council, up to the time of adoption of this resolution, believes should be made in said Proposed Budget as so submitted and to correct any non-substantive errors discovered.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LA PALMA, DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. The said Proposed Budget, including the five-year Capital Improvement Plan and five-year One-Time Project Plan, of the City of La Palma, California, for the Fiscal Year 2022-23, as so amended, modified, revised, and corrected, including those changes directed by the City Council meeting on June 7, 2022, is hereby approved and adopted. In adopting said budget, the City Council hereby instructs the City Manager to change the columns headed "Proposed" to "Adopted" for each of the several items of Personnel Services, Maintenance and Operations, and Capital Outlay and Improvements for each of the various funds, departments, programs, and accounts as set forth in said Adopted Budget and, as so amended, modified, and corrected, and hereby approves the distribution of the salary detail, maintenance and operations detail, capital outlay and improvements detail, policy revisions, and contractual arrangements noted in the program description and program explanation sections of the "Program Summary" pages, and interfund transactions and transfers shown under each of the respective funds, departments, programs, and accounts, and each of the respective "Item Description" accounts and explanatory data in its entirety, each provision of which should be construed to give effect to the entire document. The City Manager is also directed to adjust beginning balances to reflect actual amounts, to the extent they are known, and, in accordance with standard budgeting and appropriating practice, is authorized to transfer appropriations within and between departmental budgets as required to accommodate unforeseen operating requirements.

SECTION 2. The City Council authorizes the City Manager to make changes in internal service fund allocations to departments to reflect any modifications made after the Adopted Budget was presented.

SECTION 3. The City Manager, for the purpose of administrative necessity in implementing the budget, shall have the authority to transfer monies to the appropriate item, account, program, department, or fund to cover expenditures, which have been approved by the City Council, except where such transfer is expressly prohibited in a resolution or ordinance approved by the City Council, such as transfers involving utility replacement funds. The City Manager shall also have the authority to transfer monies between and within funds to meet the operational needs of the City within established spending limits. The City Manager shall also have the authority to modify funding to use restricted sources first, like special revenue funds, before using non-restricted funds, like Capital Outlay Reserve fund, within established spending limits.

SECTION 5. The City Council finds that the Utility Users' Tax rate shall be five percent (5%) for Fiscal Year 2022-23.

SECTION 6. The City Manager is hereby authorized and instructed to take all steps necessary to implement this Resolution.

SECTION 7. The original of said budget for the City of La Palma, California, for the Fiscal Year 2022-23 as now before this City Council, and as amended, modified, revised, and corrected by City Council and staff, in open session, shall be placed on file in the office of the City Clerk of the City of La Palma, California, open to public inspection, and that said Adopted Budget is expressly incorporated in this resolution and made a part thereof. The City Clerk is hereby instructed to have copies of the Adopted Budget duplicated and available for public review and inspection and a copy provided to the Orange County Public Library, La Palma Branch, as soon as practicable.

APPROVED AND ADOPTED by the City Council of the City of La Palma at a regular meeting held on the 7th day of June, 2022.

Michele Steggell
Mayor

ATTEST:

Kimberly Kenney, CMC
City Clerk

STATE OF CALIFORNIA)
COUNTY OF ORANGE) SS.
CITY OF LA PALMA)

I, KIMBERLY KENNEY, City Clerk of the City of La Palma, California, DO HEREBY CERTIFY that the foregoing Resolution was adopted by the City Council of said City at a regular meeting of said City Council held on the 7th day of June 2022, and that it was so adopted by called vote as follows:

AYES:

NOES:

ABSENT:

ABSTAIN:

Kimberly Kenney, CMC
City Clerk

RESOLUTION NO. 2022-__

**A RESOLUTION OF THE CITY COUNCIL OF
THE CITY OF LA PALMA APPROVING AND
ADOPTING THE ANNUAL APPROPRIATIONS
LIMIT FOR FISCAL YEAR 2022-23**

WHEREAS, the voters of California, on November 6, 1979, added Article XIII B to the State Constitution placing various limitations on the appropriations of state and local governments; and

WHEREAS, Proposition 111 established Fiscal Year 1986-87 as the base year for establishing the appropriations limit; and

WHEREAS, the City of La Palma has complied with the provisions of Article XIII B in determining the appropriations limit for Fiscal Year 2022-23.

NOW, THEREFORE, the City Council of the City of La Palma does find, determine, and declare as follows:

SECTION 1. The appropriations limit for Fiscal Year 2022-23 is \$21,115,875, as calculated on Exhibit A, attached hereto.

SECTION 2. In calculating the appropriations limit, the City has utilized the California per capita personal income growth factor for Fiscal Year 2022-23, as shown on Exhibit A, attached hereto.

SECTION 3. In calculating the appropriations limit, the City has utilized the population growth factor for the County of Orange for Fiscal Year 2022-23, as shown on Exhibit A, attached hereto.

SECTION 4. The City reserves the right to change or revise the growth factors associated with the calculation of the appropriations limit if such changes or revisions would result in a more advantageous appropriations limit in the present or future.

SECTION 5. The City Clerk shall certify to the adoption of this Resolution.

APPROVED AND ADOPTED by the City Council of the City of La Palma at a regular meeting held on the 7th day of June 2022.

Michele Steggell
Mayor

ATTEST:

Kimberly Kenney, CMC
City Clerk

STATE OF CALIFORNIA)
COUNTY OF ORANGE) SS.
CITY OF LA PALMA)

I, KIMBERLY KENNEY, City Clerk of the City of La Palma, California, DO HEREBY CERTIFY that the foregoing Resolution was adopted by the City Council of said City at a regular meeting of said City Council held on the 7th day of June 2022, and that it was so adopted by called vote as follows:

AYES:

NOES:

ABSENT:

ABSTAIN:

Kimberly Kenney, CMC
City Clerk

**CITY OF LA PALMA
APPROPRIATIONS LIMIT
FISCAL YEAR 2022-23**

Appropriations Limit Calculation

| | | |
|---|----|-------------------|
| Appropriations Limit Fiscal Year 2021-22 | \$ | 19,678,804 |
| Adjustment Factor for Fiscal Year 2022-23 | x | 1.07302635 |
| Appropriations Limit Fiscal Year 2022-23 | \$ | <u>21,115,875</u> |

FY 2022-23 Appropriations Subject to Limit and Appropriation Margin:

| | | |
|--|----|-------------------|
| Proceeds of Taxes | \$ | 10,920,772 |
| Less Exclusions, Qualified Capital Outlay | | <u>-</u> |
| FY 2022-23 Appropriations Subject to Limit | | 10,920,772 |
| FY 2022-23 Appropriations Limit | | 21,115,875 |
| FY 2022-23 Appropriations Under Limit | \$ | <u>10,195,103</u> |

Calculation of Adjustment Factor for Fiscal Year 2022-23

| | | |
|--|---|-------------------|
| Per Capita Personal Income Change = 7.55%* | | 1.07550000 |
| Population Change (County) = -.23%* | x | 0.99770000 |
| Adjustment Factor for Fiscal Year 2022-23 | | <u>1.07302635</u> |

**Data from the State DOF (see letter May 2022). Per capita personal income change % is the "price factor." The law then allows either the population change percent of the City or the County to be used, whichever is higher. For FY 2022-23, the County of Orange population change was used.*