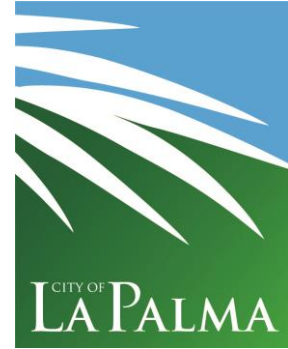


City of La Palma

Agenda Item No. 11



MEETING DATE: March 7, 2023
TO: CITY COUNCIL
FROM: CITY MANAGER
SUBMITTED BY: Ryan Hallett, Administrative Services Director
Mike Matsumoto, Financial Consultant
AGENDA TITLE: Mid-Year Budget Update and Adjustments for Fiscal Year 2022-23

RECOMMENDED ACTION:

It is recommended that the City Council:

1. Receive and file the Mid-Year Budget report,
2. Approve a Resolution amending the Fiscal Year 2022-23 Budget, and
3. Direct staff with regard to any transfers from the General Fund.

BACKGROUND:

At the June 7, 2022 City Council meeting, the City Council approved the Fiscal Year 2022-23 budget. At the October 4, 2022 City Council meeting, some budget adjustments were made primarily for updated labor agreements.

DISCUSSION:

The Economy and La Palma's Economic Outlook

The City maintains a prudent philosophy with regard to its spending. Lessons from prior years indicate that the economy can fluctuate from growth to recession and back again. The City has very healthy reserves which, fortunately, have grown during the pandemic. The June 30, 2022, balances are roughly \$4.3 million higher than the balances at June 2019. As of June 30, 2022, the current spendable reserves were \$17.6M in the following funds:

General Fund	\$	4,312,700
Emergency Reserve	\$	6,047,700
General Fund Budget Reserve	\$	1,918,100
Capital Outlay Reserve	\$	<u>5,354,300</u>
Total	\$	<u>17,632,800</u>

With a revised General Fund budget of \$12,918,200, the fungible reserves represent 136% of the General Fund amended budget (assuming the budget adjustments are approved).

The General Fund unreserved fund balance has increased over the past few years.

- Prior to Fiscal Year 2018-19, the City was working to replenish the balance of the Emergency Reserve Fund and add funding to Capital Operating Reserve (COR). The City would put 25% of any annual General Fund surplus into the Emergency Reserve to replenish the Emergency Reserve. Also, extra money was put into COR as it was available.
- Fiscal Year 2018-19 had a surplus of \$1.1M, and the General Fund Spendable Balance in December 2019 was \$1.1M. In March 2020, the mid-year budget adjustment included a transfer of \$285,000 from the General Fund to the Emergency Reserve (25% of the 2018/19 General Fund surplus). The Emergency Reserve reached the goal of 50% of General Fund expenditures during Fiscal Year 2019-20, so the City began transferring \$150,000 per year from the General Fund to the Emergency Reserve to maintain the 50% threshold.
- The annual COR transfer is \$350,000 from the General Fund. In Fiscal Year 2019-20, the City added an extra \$1,140,000 from the General Fund to COR to fund the medians project. The medians contract was to be awarded on March 17, 2020, but because of the uncertainty of the pandemic shutdown, the City did not award the contract. The City has subsequently received a \$2,000,000 earmark from Congresswoman Linda Sanchez to help fund the project.

Options for the General Fund Unreserved Fund Balance

The General Fund unreserved fund balance over and above the \$1,500,000 needed for cash flow (\$4,312,700 at June 30, 2022) has been increasing and the City Council may wish to consider some transfers for some or all of the money.

- Additional money could be transferred to Emergency Reserve. The stated goal is 50% of General Fund expenditures, but additional money might provide a better cushion in the event of a downturn in the economy or if the City no longer receives bulk fuel sales tax revenues.
- Some money could be transferred to the General Fund Budget Reserve. The fund is holding unrestricted General Fund money, but it allows the Council to see whether some of the excess funds from prior years might be needed to balance future year operations.
- Additional money could pay down the CalPERS unfunded pension obligation. Additional payments toward the unfunded pension obligation now can reduce future payment amounts by the City.
- Additional money could be transferred to COR to fund future capital projects.

Revised Revenue Estimates - General Fund

Sales Tax revenues are generally trending higher throughout the State, but the City of La Palma sales tax revenues have declined due to the loss of bulk fuel sales. Staff recently spoke with the bulk fuel sales company, which recognized that they had not properly reported their sales for the past two quarters due to some corporate reorganization. The bulk fuel sales company told staff that they were in the process of amending their sales tax returns. HdL provided an updated estimate showing that after bulk fuel sales are added back, the budget is right in line with the current estimates for both sales tax and transactions tax revenues.

Property taxes are up slightly ahead of the original budget amounts. Estimated secured property tax is projected to increase by \$34,100 to \$2,395,000, and property tax – VLF is projected to increase by \$44,900 to \$1,743,000.

With the voter approved Measure P, the transient occupancy tax for Fiscal Year 2022-23 is projected to increase by \$100,000. The rate increased from 8% to 12% took effect January 1, 2023.

Revised Revenue Estimates – Other Funds

Updated estimates show that gasoline tax revenues are coming in below projected levels, so gas tax revenue estimates have been reduced by \$44,000. Measure M and Public Safety Augmentation Fund revenues are coming in above budgeted levels, so revenue estimates have increased by \$60,000 and \$39,400, respectively.

The Task Force grant received in Fiscal Year 2021-22 also covered Fiscal Year 2022-23, but the amount of the carryover to Fiscal Year 2022-23 was not known until Fiscal Year 2021-22 was closed. The unspent revenue of \$120,126 is an adjustment for the Fiscal Year 2022-23 budget.

New Police Association MOU

After the Fiscal Year 2022-23 budget was adopted, the City Council approved a new three-year Memorandum of Understanding (MOU) with the La Palma Police Association on November 1, 2022. Budget increases of \$77,200 are included in the proposed budget adjustments.

Updated Fees

At the November 1, 2022 City Council meeting, the City approved a new fee schedule based on a fee study completed by Revenue Cost Specialist (RCS). The fee study included updated administrative charges for Water and Sewer totaling \$110,200. The updated administrative charges are higher than the current budget, so the increase is included in the proposed budget adjustment.

Budget Updates from Prior City Council Agendas

Throughout the year, the City Council has approved several contracts that require budget adjustments to be done at mid-year. The following agenda items are included in the proposed budget adjustments:

- The Crossing Guard contract approved at the September 6, 2022 meeting calls for a \$9,400 increase in Police.

- The part-time Building and Safety services agreement approved at the November 1, 2022 meeting calls for a \$36,100 increase in Community Development.
- The City Engineer contract approved at the November 1, 2022 meeting resulted in an increase of \$15,500 increase in Community Services (\$9,700), Water (\$3,900), and Sewer (\$1,900).
- The City approved additional funding for the raised median island on Moody just South of Orangethorpe at the November 1, 2022 meeting resulted in an increase of \$92,500 in COR (\$12,000) and Measure M (\$80,500) along with additional revenue of \$42,000 in COR which was previously received from Starbucks.
- The City approved additional funding for the city yard interior project at the November 1, 2022 meeting resulted in an increase of \$189,700 in COR (\$86,500), Water (\$86,500), and Sewer (\$16,700).
- The Empire Pipe Cleaning contract amendment approved at the February 7, 2023 meeting resulted in an increase of \$9,600 increase in Sewer.
- The MJC Construction contract amendment approved at the February 7, 2023 meeting resulted in an increase of \$13,000 increase in Sewer.

Expenses Tracking Higher

As the year progressed, some accounts are showing higher activity than currently budgeted. The following items are requests for budget adjustments:

- Legal services in the General Fund is experiencing more activity than anticipated. The proposed increase can be attributed to a large public records request, a lawsuit was filed regarding zoning, and a potential lease of City property for a cell tower. The proposed budget amendment is to add \$84,500 to legal services.
- There was an automobile accident that damaged a guardrail at Orangethorpe and a Radar feedback sign. The repairs should be covered by the driver's insurance. The proposed budget amendments add \$40,000 to estimated revenues and appropriations in Gas Tax.
- Electric utility costs have been coming in higher than budgeted. The proposed budget amendment adds \$191,000 to Community Services (\$79,000) and Water (\$112,000).
- The animal control contract with SEAACA came in higher than budgeted. The proposed budget amendment adds \$3,600 to Police.

CalOES Generator

In Fiscal Year 21-22, the City received a \$300,000 grant from the State to install a backup generator for the Emergency Operations Center at the Community Center. The Fiscal Year 21-22 budget for the project was \$400,000 (\$300,000 from the grant and \$100,000 from COR). The timing of revenues and expenditures overlapped fiscal years with funds not being carried over from the previous fiscal year. Therefore, the FY 22-23 proposed budget amendment adds \$92,600 to estimated revenues and \$53,400 to expenditures in COR to complete this project. In the end,

staff expects the project to come in under budget and only utilizing \$53,400 from COR (compared to the original \$100,000 appropriation).

Building Maintenance

Subsequent to the completion of the Fiscal Year 2021-22 audit, the City received some plumbing bills totaling \$4,000 from Fiscal Year 2021-22. The proposed budget amendment adds \$4,000 to COR.

FISCAL IMPACT:

The result of the budget amendments will reduce the General Fund budget surplus to \$378,688 for Fiscal Year 2022-23. In other funds, the budget amendments will increase estimated revenues by \$354,126 and appropriations by \$645,000. Any additional transfers from the General Fund will reduce the available General Fund balance.


RECOMMENDED ACTION:

It is recommended that the City Council adopt the proposed resolution to amend the budget.

APPROVED:



Financial Consultant



Administrative Services
Director



City Manager

Attachment: 1. Proposed Resolution Recommended Budget Adjustments

RESOLUTION NO. 2023-__**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
LA PALMA AMENDING THE FISCAL YEAR 2022-23
ADOPTED BUDGET**

WHEREAS, the City Council did receive information about various adjustments needed to Department and Program budgets in order to more closely align projected expenditures and revenues with appropriations; and

WHEREAS, the proposed amendments to the Fiscal Year 2022-23 budget are enumerated in Exhibit A to this resolution; and

WHEREAS, the adopted Fiscal Year 2022-23 Budget will be revised so as to reflect each and all of the amendments which the City Council, up to the time of adoption of this Resolution, believes should be made as per Exhibit A; and

NOW, THEREFORE, The City Council of the City of La Palma does hereby resolve as follows:

SECTION 1. The amendments for the Fiscal Year 2022-23 adopted budget as so amended, modified, revised, and corrected including those changes directed by the City Council at the March 7, 2023, Council Meeting, are approved and adopted. In adopting the budget amendments, the City Council hereby approves and instructs the City Manager to implement changes as necessary.

SECTION 2. The budget amendments for the Fiscal Year 2022-23 as now before this City Council and as enumerated in Exhibit A, and as amended, modified, revised, and corrected by the City Council and staff, in open session, shall be placed on file in the office of the City Clerk, shall be open to public inspection, and are expressly incorporated in this Resolution and made a part hereof.

SECTION 3. The City Manager is hereby authorized and instructed to take all steps necessary to implement this resolution.

SECTION 4. 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, 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 utility replacement funds.

APPROVED AND ADOPTED by the City Council of the City of La Palma at a regular meeting held on the 7th day of March 2023.

Debbie S. Baker
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 March 2023, and that it was so adopted by called vote as follows:

AYES:

NOES:

Kimberly Kenney, CMC
City Clerk

Fiscal Year 2022-23 Budget Adjustments

Exhibit A

Item Description	Adopted Budget	Budget Adjustment	Amended Budget	Justification	
General Fund (001)					
REVENUES					
4010-00000	Property Tax Secured	2,360,900	34,100	2,395,000	Updated estimate
4014-00000	Property Tax - VLF	1,698,100	44,900	1,743,000	Updated estimate
4083-00000	Transient Occupancy Tax	400,000	100,000	500,000	Updated estimate
4950-00000	Charges to Water	636,900	46,000	682,900	Revised fee schedule
4952-00000	Charges to Sewer	35,800	64,200	100,000	Revised fee schedule
TOTAL GENERAL FUND REVENUES		13,622,688	289,200	13,911,888	
EXPENDITURES					
General Government					
6010-00000	Legal Services	35,500	84,500	120,000	Additional legal costs
Police Department					
6000-21010	Professional Services - Animal Control	109,900	3,600	113,500	SEAACA
6000-22010	Professional Services - Crossing Guards	92,900	9,400	102,300	Crossing Guards
5010-00000	Salaries - Full-Time	1,222,400	35,800	1,258,200	Labor Negotiations - New MOU
5200-00000	Special Pay	46,500	1,400	47,900	Labor Negotiations - New MOU
5630-00000	Medicare/FICA Contribution	18,700	500	19,200	Labor Negotiations - New MOU
5640-00000	Retirement	186,300	5,500	191,800	Labor Negotiations - New MOU
5010-00000	Salaries - Full-Time	361,500	10,600	372,100	Labor Negotiations - New MOU
5630-00000	Medicare/FICA Contribution	5,700	200	5,900	Labor Negotiations - New MOU
5640-00000	Retirement	61,400	1,800	63,200	Labor Negotiations - New MOU
5010-00000	Salaries - Full-Time	326,000	9,600	335,600	Labor Negotiations - New MOU
5630-00000	Medicare/FICA Contribution	5,000	100	5,100	Labor Negotiations - New MOU
5640-00000	Retirement	29,900	900	30,800	Labor Negotiations - New MOU
Community Services					
6930-00000	Electric	55,000	20,000	75,000	Revised Estimate
6000-38010	Professional Services	25,500	9,700	35,200	City Engineer
6930-00000	Electric	38,000	22,000	60,000	Revised Estimate
6930-00000	Electric	123,000	37,000	160,000	Revised Estimate
Community Development					
6000-00000	Professional Services	180,000	36,100	216,100	Bldg. & Safety Svcs.
Subtotal General Fund Expenditure Adjustments		12,629,500	288,700	12,918,200	
TRANSFERS IN					
NONE					
TRANSFERS OUT					

Fiscal Year 2022-23 Budget Adjustments

Exhibit A

<u>Item Description</u>	<u>Adopted Budget</u>	<u>Budget Adjustment</u>	<u>Amended Budget</u>	<u>Justification</u>
4951-00000 Capital Outlay Reserve	350,000	-	350,000	
4951-00000 Civic Center Replacement Fund	50,000	-	50,000	
4951-00000 Emergency Reserve Fund	220,000	-	220,000	
TOTAL TRANSFERS OUT	620,000	-	620,000	

FY 2022-23 Surplus (Deficit) - General Fund

	CURRENT BUDGET	PROPOSED AMENDED BUDGET
Revenues	13,622,688	13,911,888
Expenditures	(12,629,500)	(12,918,200)
Transfer Out	(620,000)	(620,000)
FY 2022-23 Surplus (Deficit) - General Fund	373,188	373,688

UNASSIGNED GENERAL FUND BALANCE as of June 30, 2022 **4,312,672** ACFR issued 12/2022

Fiscal Year 2022-23 Budget Adjustments

Exhibit A

Item Description		Adopted Budget	Budget Adjustment	Amended Budget	Justification
OTHER FUNDS (Non-General)					
REVENUES					
Streets Fund (011)					
4208-00000	Gas Tax 2103	153,329	(19,629)	133,700	Updated Estimate
4212-00000	Gas Tax 2107	137,220	(24,520)	112,700	Updated Estimate
4700-00000	Expense Reimbursement	-	40,000	40,000	Insurance Damage
Measure M Fund (012)					
4221-00000	Measure M2	263,200	60,000	323,200	Updated Estimate
PSAF Prop 172 Fund (021)					
4240-00000	Prop 172 Revenue	190,600	39,400	230,000	Updated Estimate
No. OC Safety Task Force Fund (025)					
4281-00000	No. OC Safety Task Force Grant	-	120,126	120,126	Updated for carryover from 21/22
Capital Outlay Reserve (035)					
4250-00000	Miscellaneous Grants	367,600	92,600	460,200	CalOES Grant - Generator
4700-50111	Grant Revenue	-	42,000	42,000	Moody Median Orangethorpe
Total Other Funds Revenue Adjustments			354,126		
EXPENDITURES					
Gas Tax Fund (011)					
6000-41010	Professional Services	10,200	3,900	14,100	City Engineer
7090-41030	Maint & Repair-Improvements - Traffic Control	-	40,000	40,000	Insurance Damage
Measure M (012)					
8134-00000	Median Rehabilitation	-	80,500	80,500	Moody Median Orangethorpe
Prop 172 Fund (021)					
5010-00000	Salaries - Full-Time	141,200	4,200	145,400	Labor Negotiations - New MOU
5630-00000	Medicare/FICA Contribution	2,100	100	2,200	Labor Negotiations - New MOU
5640-00000	Retirement	16,200	500	16,700	Labor Negotiations - New MOU
SLESF Fund (022)					
5010-00000	Salaries - Full-Time	94,200	2,700	96,900	Labor Negotiations - New MOU
5640-00000	Retirement	11,500	300	11,800	Labor Negotiations - New MOU
North OC Public Safety Task Force Grant Fund (025)					
5010-00000	Salaries - Full-Time	94,200	2,700	96,900	Labor Negotiations - New MOU
5640-00000	Retirement	11,300	300	11,600	Labor Negotiations - New MOU
Capital Outlay Reserve (035)					
7080-00000	Maintenance & Repair-Buildings	45,000	4,000	49,000	Prior Year Plumbing Bills

Fiscal Year 2022-23 Budget Adjustments

Exhibit A

	Item Description	Adopted Budget	Budget Adjustment	Amended Budget	Justification
8040-00000	Machinery & Equipment	397,500	53,400	450,900	CalOES Grant - Generator
8434-00000	CY Modernization	470,800	86,500	557,300	City Yard Interior
8618-00000	New median - Orangethorpe x Moody	30,000	12,000	42,000	Moody Median Orangethorpe
	Water Fund (050)				
6000-00000	Professional Services	37,400	3,900	41,300	City Engineer
9750-00000	Departmental Overhead	21,600	1,600	23,200	Revised fee schedule
9760-00000	General Overhead	50,500	3,600	54,100	Revised fee schedule
9750-00000	Departmental Overhead	36,400	2,600	39,000	Revised fee schedule
9760-00000	General Overhead	73,100	5,300	78,400	Revised fee schedule
9750-00000	Departmental Overhead	28,300	2,000	30,300	Revised fee schedule
9760-00000	General Overhead	278,500	20,100	298,600	Revised fee schedule
6930-00000	Electric	153,000	112,000	265,000	Revised Estimate
9750-00000	Departmental Overhead	27,700	2,000	29,700	Revised fee schedule
9760-00000	General Overhead	120,800	8,800	129,600	Revised fee schedule
	Sewer Fund (052)				
6000-00000	Professional Services	25,000	1,900	26,900	City Engineer
9750-00000	Departmental Overhead	2,300	4,100	6,400	Revised fee schedule
9760-00000	General Overhead	33,400	60,200	93,600	Revised fee schedule
	Water Capital Reserve (055)				
8434-00000	CY Modernization	383,800	86,500	470,300	City Yard Interior
	Sewer Capital Reserve (056)				
8130-00000	Residential Slurry Seal	80,000	5,600	85,600	MJC Contract - 2/7/23
8434-00000	CY Modernization	30,700	16,700	47,400	City Yard Interior
9050-00000	Long. Cracks - Sewer Master PI	140,000	7,400	147,400	MJC Contract - 2/7/23
9062-00000	Swr System Evaluation	60,000	9,600	69,600	Empire Contract - 2/7/23
	Total Other Funds Expenditure Adjustments		645,000		