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# CITY OF POMONA

## COUNCIL REPORT

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November 21, 2022

To: Honorable Mayor and Members of the City Council

From: James Makshanoff, City Manager

Submitted By: Andrew Mowbray, Finance Director/City Treasurer

**SUBJECT: RECEIVE AND FILE THE FISCAL YEAR 2021-22 UNAUDITED YEAR-END OVERVIEW, REVIEW THE FISCAL YEAR 2022-23 GENERAL FUND 1<sup>ST</sup> QUARTER BUDGET REVIEW, AND ADOPT A RESOLUTION AMENDING THE FISCAL YEAR 2022-23 OPERATING AND CIP BUDGET AND AMEND THE AMERICAN RESCUE PLAN (ARP) SPENDING PLAN**

### **RECOMMENDATION:**

It is recommended that the City Council take the following actions and adopt the following resolutions:

- 1) Receive and file the Fiscal Year (FY) 2021-22 Unaudited Year-End Overview
- 2) Review the FY 2022-23 General Fund 1<sup>st</sup> Quarter Budget Report
- 3) **RESOLUTION NO. 2022-206– A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF POMONA, CALIFORNIA, AMENDING THE FY 2022-23 OPERATIONAL BUDGET BY INCREASING REVENUE ESTIMATES BY \$8,208,490 AND APPROPRIATIONS BY \$7,881,742 AND AMEND THE AMERICAN RESCUE PLAN (ARP) SPENDING PLAN**
- 4) **RESOLUTION NO. 2022-207 A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF POMONA, CALIFORNIA, AMENDING FY 2022-23 CITY OPERATING BUDGET BY UNAPPROPRIATING \$657,127 OF CDBG GRANT FUNDING FROM (213-1791-52350-00000) (EXHIBIT A – SECTION 1) AND AMENDING THE FY 2022-23 CIP BUDGET BY APPROPRIATING \$657,127 OF CDBG GRANT FUNDING AS INDICATED IN EXHIBIT A SECTION 2 AND FURTHER UNAPPROPRIATING AND APPROPRIATING \$20,000 OF CDBG GRANT FUNDING AS INDICATED IN EXHIBIT A SECTION 3.**

**EXECUTIVE SUMMARY:** This report contains the Fiscal Year (FY) 2021-22 Unaudited Year-End Overview and a review of FY 2022-23 General Fund 1<sup>st</sup> Quarter Budget, which is from an accounting standpoint 25% of the year complete. For FY 2022-23 General Fund revenues are 11% of projections, and expenditures are 21%, as of September 2022. While actual General Fund

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Receive and file the Fiscal Year 2021-22 Unaudited Year-End Overview, Review the Fiscal Year 2022-23 General Fund 1st Quarter Budget Review, and Adopt a Resolution Amending the Fiscal Year 2022-23 Operating and CIP Budgets - Page 2 of 13

revenues are only at 11% of budget or \$15.5M, they are in line overall with prior year actuals during this same time. Actual General Fund expenditures are 21% or \$29.8M, which is in-line with the current FY 2022-23 Budget. This report includes General Fund requests to revise revenue estimates and appropriate for items including a new Library Grant, a donation for the Library, and carryover of prior year ARP funded unspent funds relating to the ARP administration. In addition, there are Non General Fund increase requests, including an increase in revenue estimates and appropriations for the SLESA grant, an increase in appropriation for the Asset Forfeiture Fund, realigning the budget from Vehicle Parking District (VPD) to Prop A Fund for taxes paid for the PBID, appropriating Series BG funds that were not spent last fiscal year and are available in reserves. Also included is a request of appropriating several carryover ARP budgets for projects funded in FY 2021-22. A corresponding agenda item on this same agenda is to accept the COPS Technology and Equipment grant which is \$211k short of funds. A request is included herein to use available ARP funds for this difference. Finally, a mitigation plan to address the limited funds that are available in Phillips Ranch Maintenance Assessment District fund is included.

This report also includes an action to amend the FY 2022-23 Operating Budget by unappropriating CDBG funds available which will also amend the FY 2022-23 Capital Improvement Program Budget (CIP) by appropriating \$657,127 of CDBG funding to four projects and then further reallocate \$20,000 of that funding between three of those projects (Attachment No. 2)

**FISCAL IMPACT:** The adoption of Resolution No. 2022-206 (Attachment No. 1) will increase the FY 2022-23 General Fund revenue estimates and appropriations by \$89k. In addition, this action will increase FY 2022-23 Non-General Fund Operating appropriations by \$7.9M and increase estimated revenues by \$8.2M as reflected in Table 1. Resolution No. 2022-207 (Attachment No. 2) will unappropriate CDBG funds available from the FY 2022-23 Operating Budget, and will also amend the FY 2022-23 Capital Improvement Program Budget (CIP) by appropriating \$657k of CDBG funding to four projects and then further reallocate \$20k of that funding between three of those projects.

**Table 1 – Fiscal Year 2022-23 Appropriations and Revised Revenue Estimates**

General Fund	Revenue Estimate	Appropriation Changes
California State Library Grant - Library (101-4501-xxxx-00000)	\$6,428	\$6,428
Donation from the Credit Union of Southern California - Library (101-4501-xxxx-00000)	\$2,000	\$2,000
Inmate Welfare Fund - Police (101-2001-66189-00000/101-2001-40910-00000)	\$20,000	\$20,000
Carryover of ARP Funds for City Attorney Services (101-0101-80881-51353/101-0101-52945-51353)	\$5,510	\$5,510
Carryover of ARP Funds for OpenGov ARP software (101-0101-80881-51353/101-1101-52285-51353)	\$55,219	\$55,219
<b>Total General Fund Revenue Estimates/Appropriations</b>	<b>\$89,157</b>	<b>\$89,157</b>
Non General Funds	Revenue Estimate	Appropriation Changes
Supplemental Law Enforcement Services Account (SLESA) - Service Weapons (281-2090-40873-58712/281-2090-66189-58712)	\$197,604	\$83,856
Asset Forfeiture - SWAT Equipment (260 2090- 66189-51204)		\$90,000
VPD Tax Property Tax (230-9200-53222-00000)		(\$19,250)
Prop A Property Tax (216-2506-53222-00000)		\$19,250
Series BG Capital Project Fund - Consultant Services (435-1712-52285-00000)		\$107,000
ARP Carryover of ARP Funds for Several Funded Programs and Projects (191-xxxx-xxxxx-xxxxx)	\$7,921,729	\$7,921,729
Phillips Ranch Mitigation Plan (256-4073-xxxxx-00000)		(\$410,000)
<b>Total Non General Fund Revenue Estimates/Appropriations</b>	<b>\$8,119,333</b>	<b>\$7,792,585</b>
<b>Total Revenue Estimates/Appropriation</b>	<b>\$8,208,490</b>	<b>\$7,881,742</b>

**PUBLIC NOTICING REQUIREMENTS:** None Required

**PREVIOUS RELATED ACTION:** City Council approved the Budget Preparation Calendar, Guiding Principles and Process for the FY 2022-23 on January 4, 2022. The City Council adopted the FY 2022-23 Operating Budget, Housing Authority Budget and the Five-Year Capital Improvement Program on June 6, 2022. On July 18, 2022, the City Council approved the FY 2022-23 Annual Action Plan, which included funding for Community Development Block Grant (CDBG) Federal Entitlement Programs. There are budget amendments that were approved that impacted the General Fund on August 15, 2022, October 3, 2022, and October 17, 2022.

On August 15, 2022 the most recent update to the ARP Spending Plan was approved to appropriate \$1M for Citywide Rental Stabilization start up costs for consultant services, legal aid, and future work by City staff, \$1.15M for Health and Wellness for possible uses including but not limited to concerts and community events as coordinated by the Mayor and councilmembers with City staff, mainly Neighborhood Services Department, \$1.06M for Small Business Grants to fully appropriate funds allocated for this program, \$600k for Real Time Crime Center (RTCC) which includes live-feed cameras on Holt Avenue (\$300k) and build out of RTCC (\$300k), and \$200k for ARP Administration – Best, Best & Krieger support services, consultant services for subrecipient monitoring and ARP staffing services in Finance and Neighborhood Services

**DISCUSSION:****GENERAL FUND FY 2021-22 UNAUDITED YEAR-END OVERVIEW**

Based on the unaudited figures to date, the FY 2021-22 General Fund revenues will end at 108% of budget; and expenditures are on track to end at 98% of budget, which creates a preliminary net surplus of \$13.3M. See Table 2.

**Table 2 – Unaudited Fiscal Year 2021-22 General Fund Summary**

<b>2021-22</b>	<b>2021-22 ADOPTED BUDGET</b>	<b>2021-22 AMENDED BUDGET</b>	<b>2021-22 ACTUALS TO DATE</b>	<b>% ACTUALS/ BUDGET</b>	<b>2021-22 YEAR END ESTIMATE</b>
Total Revenue	121,081,897	129,127,391	139,479,387	108%	131,893,225
Total Expense	121,075,368	128,168,775	126,131,205	98%	125,325,497
<b>Net</b>	<b>6,529</b>	<b>958,616</b>	<b>13,348,182</b>		<b>6,567,728</b>

Actual General Fund revenues exceeded expenditures by \$13.3M due mainly to unanticipated increases in Sales Tax, Utility User Tax, Property Tax and the All Other Tax Category. In addition conservative spending in all Departments contributed with specific savings in controllable expense category. This surplus of 13.3M will be accounted for in the General Fund reserves. With the status of the FY 2022-23 budget, as well as the net budget changes discussed herein this report the General Fund balance will be at a level over the 17% which is the requirement to be met by June

30<sup>th</sup> each year per the City's Fiscal Sustainability Policy. The current state of the General Fund balance will be discussed herein.

#### **FY 2021-22 GENERAL FUND REVENUES**

As adopted, the City's FY 2021-22 General Fund Revenue Budget reflected \$121M in anticipated revenues, after approved budget adjustments the total was amended to \$129.1M. Year-end estimates provided at last year's Mid-Year estimated revenues to total \$131.9M. To date, \$139.5M in revenue has been received and no other significant sources are forthcoming. Actual revenues for Property Tax, Sales & Use Tax and Utility User Tax (also known as the "Big 3" revenues sources) exceeded year-end estimates by \$5M. Besides the \$1M increase in Property Tax this change was mainly due to the post-Covid reimplementation of utility collections which has resulted in a \$2.8M increase in the utility tax category as well as an increase of \$2.2M in sales tax revenue resulting from historically high inflation rates. The All-Other Taxes category resulted in a \$3.6M increase primarily due to a \$1M increase in Cannabis Business Tax and a \$900k increase in Property Transfer Taxes. Other revenue categories that came in under budget estimates offset some of these other increases, bringing the total revenues estimates \$7.6M higher than expected (\$10.4M when compared to budget).

#### **FY 2021-22 GENERAL FUND EXPENDITURES**

As adopted, the City's FY 2021-22 General Fund Expenditures Budget reflected \$121.1M in appropriations. With approved budget adjustments the total was amended to \$128.2M. To date, the preliminary overall expenditures are at \$126.1M, which creates an estimated savings of \$2.1M compared to the amended budget and \$2M compared to year end estimates. The main contributor to this savings is the almost \$3M in controllable costs savings within several operating Departments that had contracts not utilized or were spent in a conservative manner which in full netted \$2.4M in savings. In addition, \$360k in savings in reduced expenses than anticipated in the City Attorney contract contributed as well.

#### **GENERAL FUND**

**FY 2022-23 FIRST QUARTER REVIEW** – As adopted on June 6, 2022 the General Fund budgeted revenues were \$141.5M and appropriations were \$141.4M, resulting in an estimated surplus of \$57.5k. Additional budget amendments impacting the General Fund approved by City Council after July 1, 2022 are listed below:

- \$50k for City Attorney Contract relating to the American Rescue Plan on August 15, 2022; ARP revenue estimate included
- \$76.5k for Other Expense relating to the American Rescue Plan on August 15, 2022; ARP revenue estimate included
- \$43.2k for General Maintenance and Repair for Windstorm damage at Palomares Park on October 3, 2022
- \$3k for Automation Maintenance relating to the Master Fee Schedule for Concealed Carry Weapons (CCW) Fees and \$30k revenue estimate increase on October 17, 2022

With the above mentioned post budget amendments, the estimated surplus through October 2022 is \$41k. As noted in Table 3 the General Fund has expended nearly \$14.3M more than it has collected as of September 30, 2022. This negative cash flow is normal due to the timing of tax receipts and is one of the significant reasons that a 17% Fund Balance Reserve is necessary.

**Table 3 - Fiscal Year 2022-23 1<sup>st</sup> Quarter Summary**

<b>2022-23</b>	<b>Adopted</b>	<b>Amendments To Date</b>	<b>Amended Budget To Date</b>	<b>1st Quarter Proposed Amendments</b>	<b>Proposed Amended Budget</b>	<b>As of Sep 30' 22</b>	<b>% Rec'd/Exp'd *</b>
Total Revenue	141,545,287	156,500	141,701,787	89,157	141,790,944	15,540,614	11%
Total Expense	141,487,751	172,750	141,660,501	89,157	141,749,658	29,830,010	21%
<b>Net</b>	<b>57,536</b>	<b>(16,250)</b>	<b>41,286</b>	<b>-</b>	<b>41,286</b>	<b>(14,289,396)</b>	
* Reflects percentage of Amended Budget To Date							

**REVENUES**

While it may appear General Fund revenues are not performing as projected (11% received at 25% of the year), the reason is many revenue sources are accrued back to the prior fiscal year; while others are received on a quarterly or bi-annual basis and with some not received until late December, January, or spring. Because of this, actual FY 2022-23 year-end results are difficult to predict at this time; however, staff has prepared a preliminary analysis of the top revenue sources based on FY 2022-23 receipts to date. As reflected in the Table 4, General Fund revenues in FY 2022-23 are coming in as expected based on budget at 1<sup>st</sup> quarter end. Sales tax is coming in a little stronger compared to 1<sup>st</sup> quarter of FY 2021-22. All Utility Tax categories are a little less because of timing of receipts and is comparable to last year's 1<sup>st</sup> Quarter total. The "All Other Sources" category is higher compared to this time last year due to increases in Building Permit, New Construction, and Contractor Job Fees. Property Taxes are slightly under when compared to last fiscal year. Tax revenues make up 83% of the General Fund budgeted revenue and therefore merit a more detailed discussion as presented below.

**Table 4 - Fiscal Year 2022-23 1<sup>st</sup> Quarter Revenue Summary**

	<b>2021-22 ACTUALS TO DATE</b>	<b>2021-22 1st Quarter</b>	<b>% ACTUALS/ BUDGET</b>	<b>2022-23 AMENDED BUDGET</b>	<b>2022-23 1st Quarter</b>	<b>% ACTUALS/ BUDGET</b>
All Property Taxes	\$43,071,198	\$512,684	1%	\$44,819,146	\$503,545	1%
All Sales & Use Tax	42,229,675	3,238,580	8%	40,113,922	3,472,288	9%
All Utility Tax	18,407,292	3,040,878	17%	16,018,403	2,918,620	18%
All Other Taxes	18,384,230	2,141,177	12%	16,223,175	2,550,770	16%
All Other Sources	17,386,992	5,293,887	30%	24,527,141	6,095,391	25%
<b>Total Revenue</b>	<b>\$139,479,388</b>	<b>\$14,227,205</b>	<b>10%</b>	<b>\$141,701,787</b>	<b>\$15,540,614</b>	<b>11%</b>

Property Taxes – Typically, a large portion of the property tax revenues is received during the months of November through May. In addition, due to various State actions (i.e. VLF Swap), the City receives "In Lieu" property tax twice a year in January and June. Based on the revenues received through September 30, 2022, the actuals are slightly lower this year, yet they are expected to come in stronger than FY2021-22, as property values remain steady. The Los Angeles County

Assessor's Roll is released each year after budget adoption. Based on this year's Roll and analysis from the City's Tax Consultant, the City has experienced a growth in value of 3.8% for the 2021-22 tax roll. Staff is not recommending any changes to property tax categories until after the tax remittances are received in January 2023. If these trends continue staff anticipates increasing Property Tax revenue estimates in the FY 2022-23 Mid-year report in March 2023.

Sales Tax – The total revenue budget from Retail Sales Tax is derived from three distinct sources: a 1.0% share of local sales (from the State and County pools), the new Transactions and Use Tax at .75% (Measure PG) and allocations of Public Safety Augmentation Fund (PSAF) sales tax from the County. These three sources were budgeted at \$40.1M. This source of revenue is typically responsive to economic circumstances. Based on the revenues received through September 30, 2022, the total received of these three sales tax revenue sources are about \$3.4M. Based on a thorough review of our sales tax patterns and comparisons to last fiscal year's revenues conducted by the City's Tax Consultant, it has been suggested that the City hold off on any increases to revenue projections pending a forecasted reduction in consumer spending that would directly affect sales tax revenues.

Utility Users Tax (UUT) – Currently budgeted at \$16M, Utility User Tax revenue represents 11% of General Fund revenues. The current amount received of \$2.9M does not represent a full quarter of receipts as the revenues received in July and August are accrued back to FY 2021-22. Based on a comparison of last year's first quarter receipts to the same quarter this year, funds are coming in slightly lower, yet as expected per budget. At this time staff is not recommending a change to the revenue estimate.

Other Taxes – Other taxes includes Business License, Transient Occupancy Tax (TOT), Property Transfer Tax, Franchise Fees, and the Cannabis Business Tax - Measure PC (CBT), which combined represent 11% of the total General Fund revenues. Business License revenue is trending slightly higher, as the City has experienced an increase in new business applications as well as delinquent account renewals due. TOT is trending higher due to a steady increase in registrations of short-term rentals and transient occupancy tax remittance payments. Property Transfer Tax and Franchise Fees are trending as expected. The newly implemented Cannabis Business Tax is on track but staff will be monitoring as additional locations are scheduled to open over the next several months. Staff is not recommending an increase to revenues estimates at this time, however, it is anticipated increasing these estimates in the FY 2022-23 Mid-Year report if these trends continue.

Other Sources – All Other Sources include Fees, Permits, Licenses, and Other Miscellaneous categories that appear to be trending the higher than this time last year. The increase is primarily due to increased building and construction in the City. Staff is not recommending an increase to the revenue estimate for Other Sources at this time due to other line items coming in lower than anticipated, however it may be implemented as part of the FY 2022-23 Mid-Year report if these trends continue.

Summary – In summary, the budgeted revenues from tax related items discussed above represent over 83% of the City's General Fund. Although it is still early in the year, and knowledge of significant revenue indicators has not yet been received, prior year actuals and current receipts indicate the City is likely to surpass its revenue budget for the current year if the current positive revenue trends continue, meanwhile economic forecasts are currently predicting a downturn in the

economy in 2023. As always, staff will carefully monitor events for impacts to the forecast presented herein, and other related developments as they relate to the City's revenues and will report to the City Council upon receipt of substantive and/or noteworthy information.

## EXPENDITURES

As of September 30, 2022 (25% of the fiscal year) overall General Fund appropriations are 21% expended. All Departments were within an acceptable range of year-to-date expenditures in relation to the total appropriations for the year. The following tables provide a breakdown of the FY 2022-23 appropriations and 1<sup>st</sup> Quarter Expenditures first by Category (Table 5) and then by Department (Table 6).

**Table 5 - Fiscal Year 2022-23 1<sup>st</sup> Quarter Expenditure By Category Summary**

<b>By Category</b>	<b>2022-23 AMENDED BUDGET</b>	<b>% OF TOTAL</b>	<b>2022-23 1st Quarter</b>	<b>% Expended</b>
Personnel	\$61,020,935	43%	\$12,079,157	20%
Controllable Expenses	14,591,832	10%	2,020,980	14%
Required Expenses	36,996,505	26%	9,025,238	24%
Allocation and Utilities	23,465,750	17%	5,808,263	25%
Recovered Costs	(1,672,659)	-1%	(418,165)	25%
Capital	1,956,314	1%	128,875	7%
Debt Service	197,989	0%	0	0%
Transfers to Other Funds	5,103,835	4%	1,185,662	23%
<b>Total Expense</b>	<b>\$141,660,501</b>		<b>\$29,830,010</b>	<b>21%</b>

As reflected in Table 6, all Departments have expended 25% or less of budget at 1st Quarter and the City's expenditures are on track to end the fiscal year within the amended General Fund budget. Besides the Fire Department budget, which is paid on a set monthly payment schedule, all Departments are under 25% as many controllable contracts are not paid until mid-year. There are also vacancies in some Departments which provides savings. More detail will be provided in the FY 2022-23 Mid-Year Report that will be presented in March 2023.

**Table 6 - Fiscal Year 2022-23 1<sup>st</sup> Quarter Department Summary**

<b>By Department</b>	<b>2022-23 AMENDED BUDGET</b>	<b>% OF TOTAL</b>	<b>2022-23 1st Quarter</b>	<b>% Expended</b>
All General Services	\$4,935,262	3%	\$604,736	12%
All Recovered Costs	(1,672,659)	-1%	(418,165)	25%
All Mayor & Council	533,123	0%	104,204	20%
All City Clerk	1,109,876	1%	139,979	13%
All Human Resources	1,902,488	1%	361,094	19%
All Finance	2,760,793	2%	550,722	20%
All City Administration	1,098,713	1%	200,297	18%
All Development Services	6,125,575	4%	1,129,074	18%
All Police	72,965,440	52%	15,667,042	21%
All Fire	33,490,372	24%	8,372,593	25%
All Public Works	10,849,177	8%	1,975,414	18%
All Neighborhood Services	5,750,736	4%	806,474	14%
All Library	1,811,605	1%	336,547	19%
<b>Total Expense</b>	<b>\$141,660,501</b>		<b>\$29,830,010</b>	<b>21%</b>

**GENERAL FUND APPROPRIATION REQUESTS – FY 2022-23**

- +\$8k increase to the Library as they received an unanticipated \$2k donation from the Credit Union of Southern California and a \$6k California State Grant. The library will use the donation to expand electronic offerings to patrons. The State Library Zip Books grant allows patrons to order books directly from Amazon that are otherwise not available in the existing Library collection. After the patron has read and returns the materials to the Library, the books are then catalogued and become part of the permanent collection and made available to other patrons for continued circulation.
- +\$20k increase in revenue estimates and increase in appropriations of \$20k for the Police Department Inmate Welfare fund. This will fund maintenance of jail locks and doors, camera system, jail deep cleaning, and first aid kit replenishment. These funds will now be tracked in the City's General Fund.
- +60k increase in revenue estimates and appropriations for ARP unused funding carryover from FY 2021-22 to fund City Attorney ARP support services and funding for the OpenGov software that assists tracking and reporting of ARP funds to the US Treasury.

**NON-GENERAL FUND APPROPRIATION REQUESTS – FY 2022-23**

- +\$198k increase in revenue estimates and increase to appropriations in the amount of \$84k in the Supplemental Law Enforcement Services Account (SLESA). The Police Department's current inventory of Officer issued handgun service weapons was purchased in 2004 and has become increasingly costly to maintain due to age and wear-related factors. Additionally, the handgun manufacturer (Glock, Inc.) has made new design enhancements, including a multiple back strap system that allows the user to change the circumference of the grip to fit individual hand sizes. This project will allocate funds to replace a number of the Police Department's handguns with new, latest generation Glock Handguns. Due to that activity, it has become necessary to appropriate additional funding from SLESA reserves to cover the continuing expenditures for the remainder of FY 2022-23.
- +90k increase in appropriations from available reserves is request in the Asset Forfeiture Fund within the Police Department for the replacement of SWAT Rifles and snipers.
- +\$19.2k increase in appropriations Proposition A (Fund 216) and a corresponding decrease in appropriations in the Vehicle Parking District (VPD Fund 230 ) in the amount of \$19.2k. An adjustment in budget is required due to two Metrolink properties being assessed property taxes that should have been appropriated in the Proposition A fund instead of the VPD fund.
- +\$107k increase in appropriation for 2017 Series BG Capital Project Funds (Fund 435). Currently there are funds available in reserves to fund consultant services to prepare the City's comprehensive update of the Pomona zoning ordinance.

- +\$7.9M increase in revenue estimates and appropriations in the ARP Fund (Fund 191) to be carried over to the FY 2022-23 Operating budget for previous approved programs and projects that are consistent with the ARP expenditure spending plan.
- (\$410K) decrease in appropriations for the Phillips Ranch Maintenance Assessment District - The City has been aware of a severe budget deficit for the Phillips Ranch Landscape Maintenance District (District) for several years. The District's budget provides for landscape maintenance and lighting services managed by the City, and paid for by an assessment that the Phillips Ranch property owners pay annually per the original Development Agreement. This annual assessment has remained at a fixed level since 1993, and has not seen any sort of substantial increase to match the ever-increasing costs to provide the landscape and lighting maintenance services. In 2008, an assessment increase to a sustainable level was proposed per Proposition 218 requirements. However, that ballot measure was voted down. In 2019, the City once again went through the Proposition 218 process to increase the assessment, which, if approved, would have increased the assessment by \$17 per month, and include annual CPI increases that would have been capped at 5%. This, too, did not pass. Now, the City is faced with an almost complete depletion of the reserves and a \$410,000 deficit in this fund. In order to mitigate this situation, the City is preparing for another Proposition 218 ballot measure to increase the assessment. The City has hired a consultant to determine and justify what the rate increase should be, and it is anticipated that a new voting opportunity will be placed on a ballot in the Spring of 2023. In the meantime, the City is forced to consider a drastic reduction and/or a total elimination of many landscape maintenance services, including tree maintenance, landscape maintenance, and watering totaling \$410,000. For the current Fiscal Year, the District's budget for tree maintenance is \$110,000, of which \$81,000 remains. This is proposed to be eliminated for the remainder of the Fiscal Year. For landscape maintenance, the District's budget is \$407,732. By January 1, 2023, there will be approximately \$203,000 remaining in this budget. This is proposed to be reduced to \$89,000 to allow for some basic maintenance of the green belt area along Village Loop Road. Lastly, there is \$385,112 budgeted for water for the Fiscal Year. It is being proposed that all but \$30,000 be eliminated from the remaining budget for watering for the most essential watering needs through the remainder of the Fiscal Year. These budget cuts will mitigate the immediate severe deficit the District is facing, while the Proposition 218 ballot measure will provide a long-term solution, if approved by the Phillips Ranch property owners. Staff will continue monitoring the budget through the remainder of the Fiscal Year with the hope of identifying other potential opportunities for savings.

### **CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET**

On June 6, 2022, the City Council adopted the FY 2022-23 City Operating Budget and the FY 2022-23 Capital Improvement Program (CIP) Budget. On July 18, 2022, the City Council approved the FY 2022-23 Annual Action Plan, which included Funding for Community Development Block Grant (CDBG) Federal Entitlement Programs. This action will amend the FY 2022-23 Operating Budget by unappropriating CDBG funds available from (213-1791-52350-00000) (see Exhibit A – Section 1). Additionally, this action will amend the FY 2022-23 Capital Improvement Program Budget (CIP) by appropriating \$657,127 of CDBG funding (see Exhibit A – Section 2) to four projects and then further reallocating \$20,000 of that funding between three

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of those projects (see Exhibit A - Section 3). The changes to both Operating and CIP Budgets are detailed in Exhibit A to Attachment No.2 as well as summarized below:

<b>Section 1 - Amend the FY 2022-23 Operating Budget</b>		
<b>Funding Source</b>	<b>Amount</b>	
	<b>Unappropriated:</b>	
<b>CDBG Funding-Account unappropriated from: 213-1791-52350-00000</b>	\$	(657,127)
	<b>Total</b>	<b>\$ (657,127)</b>
<b>Section 2 - Amend the FY 2022-23 Capital Improvement Program (CIP) Budget per the Annual Action Plan Final approved Allocation</b>		
<b>Project Name</b>	<b>Project No.</b>	<b>Amount Appropriated</b>
ADA Curb Ramps & Path of Travel - Citywide (CDBG) (FY 22-23)	428-2590-XXXXX-67939	<b>\$ 313,244</b>
Civic Center Plaza Rehabilitation	428-2590-XXXXX-71063	<b>\$ 96,647</b>
Streetlights - Citywide (CDBG) (FY 22-23 - FY 24-25) <b>(Partially Fund from the Unfunded Traffic Projects List)</b>	428-2590-XXXXX-64777	<b>\$ 130,168</b>
Street Improvements - Citywide (CDBG) (FY 22-23 to FY 24-25) <b>(Partially Fund from the Unfunded Street Projects List)</b>	428-2590-XXXXX-71065	<b>\$ 117,068</b>
	<b>Total</b>	<b>\$ 657,127</b>
<b>Section 3 - Further Amend the FY 2022-23 Capital Improvement Program (CIP) Budget and Reallocate CDBG Funding as follows:</b>		
<b>Project Name</b>	<b>Project No. /Funding Type</b>	<b>Amount (Unappropriated)/Appropriated</b>
Streetlights - Citywide (CDBG) (FY 22-23 - FY 24-25) <b>(Partially Fund from the Unfunded Traffic Projects List)</b>	428-2590-XXXXX-64777 / D3 CDBG Funding	<b>\$ (10,000)</b>
Street Improvements - Citywide (CDBG) (FY 22-23 to FY 24-25) <b>(Partially Fund from the Unfunded Street Projects List)</b>	428-2590-XXXXX-71065 / D3 CDBG Funding	<b>\$ (10,000)</b>
ADA Curb Ramps & Path of Travel - Citywide (CDBG) (FY 22-23)	428-2590-XXXXX-67939 / D3 CDBG Funding	<b>\$ 20,000</b>
	<b>Net Total</b>	<b>\$ -</b>

#### **FISCAL YEAR 2021-22 AND PROJECTED FY 2022-23 FUND BALANCE**

The projected ending fund balance for FY 2022-23, including the unaudited FY 2021-22 projected available funds of \$13.3M, will easily meet the FY 2021-22 benchmark goal of 17% reserves and should be 22.3% above the recommended reserve policy of 17%. If the City did not meet the reserve requirement, the City's bond rating could be impacted and that could drive interest rates up. It will also reduce the amount of funds available for emergency situations, cash flow needs in the first six months of the fiscal year and one-time capital replacement projects in the future.

Related to this increase in the General Fund reserves, staff will forward to the City Council in December 2022 a revised Financial Policies and Procedures which includes updates to the Fiscal Sustainability Policies, including but not limited to updating the current Fund Balance Policy and establishing a Pension Policy. These policies will assist the City in addressing long term needs to fund necessary City services, as well as to set up a Pension Policy to address funding long term pension liabilities. The \$13.3M estimated contribution to reserves is still an estimate as the City's audit will not be complete until early 2023.

**Table 7 - FY 2021-22 and Projected FY 2022-23 Fund Balance**

	<b>FY 2020-21</b>	<b>Est FY 2021-22</b>	<b>Est FY 2022-23 *</b>
<b>Fund Balance</b>	<b>\$36,259,131</b>	<b>\$49,607,313</b>	<b>\$49,648,599</b>
Change in Fund Balance	N/A	\$13,348,182	\$41,286
Expenditures	\$108,664,150	\$119,193,260	\$136,645,823
Transfers	\$5,679,708	\$6,937,945	\$5,103,835
<b>Total</b>	<b>\$114,343,858</b>	<b>\$126,131,205</b>	<b>\$141,749,658</b>
Percentage	31.7%	39.3%	35.0%
Policy Goal	17.0%	17.0%	17.0%
Difference	14.7%	22.3%	18.0%
<i>* Assumes proposed budget actions in FY 2022-23 1st Quarter Report</i>			

**ARP EXPENDITURE SPENDING PLAN**

On September 20, 2021 the ARP Expenditure Spending Plan was first approved by the Mayor and City Council. Since then there have been several updates brought forward for consideration. The last update to the ARP spending plan occurred on August 15, 2022. A council agenda item that will be presented on this same agenda (November 21, 2022) will award a \$3.4M COPS Technology and Equipment grant. This grant will be used for replacement of all Police Department (PD) radio communication equipment that will total \$3,615,352. The difference of \$211k is needed and it is requested to be funded by using ARP funds from the “General Fund Budget Shortfall Category”. With the requested appropriation of \$211k of ARP funds for FY 2022-23 as detailed above, staff is required to provide an updated Expenditure spending plan with this change as they relate to the appropriations. The table below captures the programs, projects, and commitments that the Mayor and City Council have approved to date and this request for a proposed \$211k adjustments is based on a recommendations from City staff.

**Table 8 – ARP Revised Spending Plan**

ARP Proposed Spending Plan - November 21st City Council Meeting		
Program	Amount	Justification/Comments
Universal Household Grant for 400 families w/ children for 2yrs @ \$500/mo	\$5,000,000	
Small Business Grants	\$1,150,000	
Economic Support related to the Pandemic	\$1,000,000	
Allocation - Mayor	\$1,500,000	
Council Allocations @ \$750k per District	\$4,500,000	
General Fund Budget Shortfall	\$8,393,747	Less \$211,352 for the COPS Technology and Equipment grant
Grant to Affordable Housing Project	\$550,000	
City Support related to the Pandemic	\$794,901	
Citywide Capital Improvement Program (CIP) Projects	\$15,000,000	
Health and Wellness Activities	\$1,350,000	
Library Youth Commitment Additional Dollars in FY 2022-23 Budget	\$500,000	
Technology upgrades, Leadership Development, Operational efficiencies	\$1,000,000	
Police Real Time Crime Center	\$600,000	
COPS Technology and Equipment Grant	\$211,352	Add \$211,352 from General Fund Shortfall category to fund difference needed. Grant received totals \$3,404,000.
Rent Stabilization Start up costs	\$1,000,000	
Participatory Budget	\$750,000	
ARP Onetime Payments - MOUs	\$2,070,000	
<b>TOTAL</b>	<b>\$45,370,000</b>	

## CONCLUSION

As stated in the Executive Summary, the purpose of this report is to give the City Council an overview of FY 2021-22 Unaudited actuals at this time, and a detailed 1<sup>st</sup> Quarter financial update for FY 2022-23. The General Fund budget adjustment recommendations as included herein, if approved, will result in a \$41k surplus. The current estimated fund balance far exceeds the reserve policy amount of 17%. All City Departments will continue to operate within budget while carefully monitoring expenditures, and all revenues will need to come in on target or above projections before the year ending June 30, 2023. Finance Department Staff will continue to apprise the Mayor and City Council of any significant financial impacts. Many factors such as high inflation passed along in the cost of goods and services, unstable fuel prices, supply chain and raw material interruptions, and increased interest rates have contributed to forecasting obstacles as well as a threat to economic changes that are predicted to occur. The threat of a recession is constantly looming and the need for sufficient reserves is more critical than ever. Opinions from various City Consultants all agree across the board that a recession is insight, but the magnitude and timeline is unknown.

November 21, 2022

Receive and file the Fiscal Year 2021-22 Unaudited Year-End Overview, Review the Fiscal Year 2022-23 General Fund 1st Quarter Budget Review, and Adopt a Resolution Amending the Fiscal Year 2022-23 Operating and CIP Budgets - Page 13 of 13

In addition to those concerns, staff has been working over the last year on a comprehensive plan that will be brought forward to the City Council in December 2022 to update the City's Fiscal Sustainability policy. Main components of this update will be to address if the minimum reserve policy percentage should be changed, as well as to create a policy to address the long-term pension liability costs to the City. In addition, a 10-year forecast will be presented and will display that structurally our budget has items to address long term to remain sustainable. The FY 2022-23 General Fund Mid-Year Budget review will be brought forward in the spring of 2023 with more supporting detail as it relates to year end expenditures and revenue projections. As mentioned, staff is optimistic that many revenue sources will be increased once six months of revenue has been collected.

**COUNCIL PRIORITIES & GOALS:** This item supports the City Council Priorities and Goals - Priority 1 (GOAL A) Continue to ensure that the City has sufficient financial reserves in accordance with City's Fund Balance Policy, including at least 17% of General Fund operational budget for General Fund reserve.

Prepared by:

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Andrew Mowbray  
Finance Director/City Treasurer

**ATTACHMENT(S):**

Attachment No. 1 – Resolution No. 2022-206

Attachment No. 2 – Resolution No. 2022-207

Exhibit A – CDBG Funding Amendments to FY 2022-23 Operating and  
CIP Budgets

Attachment No. 3 – 1<sup>st</sup> Quarter Report Presentation