



CITY COUNCIL AGENDA REPORT



DEPARTMENT: Administrative Services

MEETING DATE: May 4, 2021

PREPARED BY: Buffy J. Bullis, Administrative Services Director

AGENDA LOCATION: AR-2

TITLE: Fiscal Year 2020-2021 Operating Budget Update, Resolution No. 2021-23

OBJECTIVE: To provide City Council with a Fiscal Year 2020-2021 Operating Budget update for the quarter ending March 31, 2021, and to authorize the proposed budget adjustments

BACKGROUND: In August 2020, the City Council adopted the Fiscal Year 2020-2021 Budget, which appropriated funds and approved revenue projections for the fiscal year. When the budget was approved in August, there was uncertainty regarding the full impacts of the COVID-19 pandemic on the City's finances for both the 2019-2020 and 2020-2021 Fiscal Years, and as a result, it was agreed that ongoing updates and monitoring of the City's finances would be necessary, throughout the year, to closely assess the full impact of the pandemic on the City's finances.

In October 2020, the City Council was provided with its first quarterly budget update, and in February 2021, the City Council was provided with a second quarterly update. The updates included a review of the final results from the 2019-20 fiscal year, based on audited numbers, along with an update on the City's actual revenues and expenditures for Fiscal Year 2020-21 compared to the budget through December 31, 2020. Now that we have completed three quarters of the 2020-21 Fiscal Year, staff has performed a third quarter review of the budget and has compared the City's actual revenues and expenditures for Fiscal Year 2020-21 to projections through March 31, 2021. As part of this review, staff has also taken into account the current economic environment, given the recent re-openings of various business sectors. It is expected that the economy will experience continued growth in the upcoming year, as the nation begins to recover from the pandemic. In fact, the March 2021 UCLA Anderson Forecast anticipates a strong recovery and a new post-pandemic norm, given that vaccines have become widely available. It should be noted that, while the pandemic devastated about every sector of the economy, government action, such as the Paycheck Protection Program, extended unemployment insurance and stimulus checks, has helped to offset some of the negative economic impacts of the pandemic. The UCLA Anderson Forecast calls for 6.3% national growth in 2021, 4.6% growth in 2022, and 2.7% in 2023. This positive news provides hope for the City's post-pandemic financial recovery.

ANALYSIS: This quarterly budget report is intended to provide the City Council with a high level overview of the City's current financial position. While the budget is still fluid and will require close monitoring, at this time, staff is proposing budget adjustments to better align the budget with latest estimates. A detailed listing of proposed budget adjustments is attached as Attachment A to Resolution No. 2021-23 for City Council's review and consideration.

General Fund Revenues

As with past quarterly updates, a review of all General Fund revenues was performed as part of this budget update. Based on this review and analysis, staff is proposing a series of additional revenue

AR-2

adjustments to the Fiscal Year 2020-21 Budget, for a total proposed General Fund revenue increase of \$176,219 (this amount does not include Transfers In). The budgetary review included a special focus on the General Fund's three key revenues, property tax, sales tax, and transient occupancy tax (TOT). Below is a discussion of each:

Property Tax Revenue

Property taxes continue to be a reliable and stable source of revenue in the General Fund, and based on staff's review of updated data, it is still expected that COVID-19 will have minimal impacts on property tax revenue in Fiscal Year 2020-21. The original budget incorporates a 1% delinquency factor in the calculation, as delinquencies are expected to be minimal. Additionally, since property tax values were set as of January 1, 2020, prior to COVID-19, and were based on sales and new construction that occurred during Calendar Year 2019, the financial impacts of the pandemic have not affected the property values that have been used as a base for this year's revenues. Based on this information, staff is not recommending an adjustment to the secured and unsecured property tax revenue budgets at this time.

Sales Tax Revenue

When the Fiscal Year 2020-21 budget was originally approved in August 2020, there was significant uncertainty regarding the performance of sales tax due to the impacts of the pandemic. However, now that the City has received returns for two quarters of the fiscal year, it is evident that sales tax continues to perform better than originally expected. Based on consultation with our sales tax consultants, HDL, staff is proposing a positive budget adjustment of \$31,219 in the Bradley Burns 1% Sales Tax for Fiscal Year 2020-21. Staff will be meeting with HDL in May, but preliminary updated revenue projections have been provided to staff prior to that meeting. Based on those updated estimates, and based on returns through December 2020 (the latest information available), below is a summary of key sales tax statistics.

Update on Quarter Ending December 31, 2020, Sales Tax Revenue:

The quarter ending December 31, 2020, resulted in positive sales tax returns, as cash receipts were 2.6% higher than the same quarter of the previous year. Additionally, Monrovia fared better than the Southern California Region, which was down 1.9% over the prior period. Below are several positive outcomes regarding the City's quarterly sales tax revenues:

- The State and County Pool allocations continue to do remarkably well, with a 51.5% increase over the prior year period. Overall, the State and County Pool allocation category constitutes 24% of the City's total sales tax revenue. The positive performance in the Pool allocations helped to offset negative results in several of the other sales tax categories, including Business and Industry, Restaurants and Hotels, General Consumer Goods, and Fuel and Service Stations. The State and County Pool allocation category is expected to continue to perform well through the remainder of the year.
- The Autos and Transportation category continued to perform surprisingly well. This sales tax category was up 2.8% over the prior year period. This category made up approximately 34% of all sales tax revenue during the quarter, and this better-than-expected performance positively impacted the City's overall sales tax revenues when compared to budget.
- Overall, collections were up approximately \$73,000 over the same quarter of the previous fiscal year.

Transient Occupancy Tax (TOT) Revenue

TOT revenue has been the most impacted General Fund revenue during the pandemic; however, as the economy continues to recover, staff is hopeful for continued growth in this revenue source. While economists are predicting that travel and tourism levels will not return to pre-pandemic levels until 2023, staff is still expecting a certain level of slow and modest growth in this revenue source during the year.

Current occupancy levels for most hotels are ranging between 25%-50%, compared to normal occupancy levels of 70%-100%. A significant budget adjustment to this revenue source was made during the last quarterly update, and based on staff's current review of this revenue source, staff is not recommending an additional budget adjustment as part of this quarterly update. Staff will continue to closely monitor this revenue source on an ongoing basis.

Other General Fund Revenues

A review of all other revenues was performed by staff, which included user fees and charges, fines and forfeitures, revenue from other agencies, interest earnings, transfers in, and other various revenues. It should be noted that, during the second quarter budget review, many revenues were adjusted down based on expected activity through the remainder of the fiscal year. For this quarterly review, revenues were analyzed with new updated economic information and below is a listing of proposed budget adjustments:

- A decrease of \$175,000 in AB 1290 property tax revenues is being proposed. Based on a recent court case (Chula Vista vs. Sandoval), the calculation for the City's share of redevelopment excess revenues will now be calculated using a different methodology, This new methodology is expected to result in a lower allocation of revenue than originally anticipated.
- An increase of \$400,000 in Fire Department Strike Team Reimbursement revenues is being proposed to better align revenues with actual reimbursements collected for the year. This increase is due to increased Strike Team activity during the year. Please note that this increase in revenues is partially offset by an increase in overtime expenditures (as noted below).
- An increase of \$12,500 in Film Permit revenue is being proposed based on an increase in filming activity during the year.
- A decrease of \$5,000 in Sponsorship revenue is being proposed, due to a decrease in City events during the year.
- A decrease of \$10,000 in Fountain to the Falls revenue is being proposed, due to the transition of an in-person event to a virtual event.
- A decrease of \$70,000 in Monrovia Days revenue is being proposed, due to a scaled-down Monrovia Days event this year.
- A decrease of \$5,000 in Passport Fee revenue and \$2,500 in Passport Services revenue is being proposed, due to the delayed re-opening of Passport Operations.

Please note that reductions in Special Event revenues are partially offset by corresponding decreases in expenditures.

General Fund Expenditures

A review of General Fund actual expenditures, to-date, compared to the budget was performed as part of this quarterly update. Updated economic data, as well as future operational needs, were considered through the end of the year. Based on this review and analysis, staff is proposing a series of additional expenditure adjustments to the Fiscal Year 2020-21 Budget, for a total proposed General Fund expenditure increase of \$197,242. A detailed list of adjustments is attached to Resolution No. 2021-23 as Attachment A. A summary of the adjustments is as follows:

- An increase of \$40,000 and \$140,000 in legal services for the Attorney/Legal Department and the Human Resources Department, respectively, for an increase in ongoing legal matters/cases.
- A variety of increases are being proposed to Human Resources Department, Police Department, Fire Department, and other operating departments' budgets. For these departments, budget adjustments have been included for items such as additional training, maintenance supplies, monthly phone fees, consultant fees, Strike Team overtime costs, as well as others. Below is a breakdown by department:
 - Human Resources = Increase of \$500
 - Non-Departmental = Increase of \$16,750

- Police = Increase of \$4,000
- Fire = Increase of \$41,928, which includes \$25,363 in Strike Team overtime costs (as noted above). This increase in proposed Fire expenditures is partially offset by a proposed decrease of \$6,936 in conferences, training, Verdugo fees, and program maintenance cost expenditures.
- A net decrease of \$39,000 is being proposed to the Community Services Department budget, which includes an increase of \$1,000 for additional drinking fountain costs and a decrease of \$40,000 in Special Event program costs.

Fiscal Year 2020-21 General Fund Ending Financial Position

When factoring all Fiscal Year 2020-21 General Fund revenue and expenditure adjustments, the General Fund is estimated to close the year with a deficit of \$1,163,201, which includes setting aside \$500,000 in a Section 115 Trust. After applying the estimated surplus of \$691,317 from Fiscal Year 2019-20, the net negative adjustment to fund balance is estimated to be \$471,884 over the two-year period, which does not include the proposed one-time transfer of \$500,000 in Measure K Funds. Below is a summary which shows the breakdown of this calculation:

**General Fund*
Ending Financial Position**

General Fund Budget Item	Amount (\$)
FY 2020-21 GF Beginning Deficit (Approved February 2, 2021) <i>(Note: This amount includes \$500,000 set aside in a Section 115 Trust)</i>	(\$671,173)
FY 2020-21 Additional Council Agenda Adjustments Approved During the Year	(\$471,005)
FY 2020-21 Proposed Mid-Year Adjustments To Revenues	\$176,219
FY 2020-21 Proposed Mid-Year Adjustments To Expenditures	<u>(\$197,242)</u>
Net FY 2020-21 General Fund Surplus/(Deficit)	(\$1,163,201)
GF Surplus for FY 2019-20 To Help Offset FY 2020-21 Deficit	<u>\$691,317</u>
Net GF Surplus/(Deficit) Over Two-Year Period (FY 2019-20 & FY 2020-21)**	<u>(\$471,884)</u>

* Does not include other funds that are rolled into the General Fund on the CAFR.

** Does not include \$500,000 transfer from Measure K

While additional adjustments are not anticipated through the end of the Fiscal Year 2020-21, staff will continue to monitor the budget very closely and will return to City Council if additional adjustments are needed.

Other City Funds (Non-General Fund) Revenues and Expenditures

A review of the City’s Other Funds was also performed. Based on this review, staff is proposing the adjustments to revenues and expenditures, as noted below:

Revenue Adjustments:

- Public Library Fund – An increase in grant revenues of \$11,984 and \$5,000 is being proposed for the Library Services Technology Act Grant and the Crisis Collections Grant, respectively. These revenues will be offset by an equal increase in grant expenditures (as noted below).
- Business Improvement District Fund – A decrease of \$30,270 in Special Events Revenue is being proposed, due to the cancellation of the Wine Walk Event. Additionally, an increase of \$800 in

Taxable Sales Revenue is being proposed, due to the sale of additional promotional merchandise during the year.

Expenditure Adjustments:

- Traffic Safety Fund - A decrease of \$82,084 in crossing guard expenditures is being proposed, due to extended school closures during the year.
- Public Library Fund – An increase in grant expenditures of \$11,984 and \$5,000 is being proposed for the Library Services Technology Act Grant and the Crisis Collections Grant, respectively. These expenditures will be offset by an equal increase in grant revenues (as noted above).
- Hazardous Materials Fund – A decrease of \$750 in Conference expenditures is being proposed, as savings were realized during the year due to conferences being held virtually, instead of in person, throughout the year.
- Business Improvement District Fund – A decrease of \$9,200 in event supplies is being proposed, due to the cancellation to the Wine Walk Event.
- Storm Drain Fund – An increase of \$7,000 in Professional Fees is being proposed for post construction inspections for the MS4 permit requirement.
- Equipment Replacement Fund – An increase of \$25,500 in vehicle maintenance and auto part expenditures is being proposed for increased costs for repair and maintenance of fire vehicles throughout the year.

Attachment A to Resolution No. 2021-23 provides detail for each line item adjustment. These proposed budget adjustments are recommended in order to better reflect projected revenues and expenditures for the remainder of the year and to maintain balanced budgets. Staff will closely monitor the City's financial activity, on an ongoing basis, and will return to City Council with an additional quarterly budget update in the spring.

Other Budget Items for Discussion

American Rescue Plan Act of 2021

Signed into law on March 11, 2021, the \$1.9 Trillion American Rescue Plan Act of 2021 ("ARPA") provides \$350 billion in funding for state and local governments. The local funding portion is approximately \$130 billion, divided between cities and counties. It is expected that local governments will receive the funding in two installments (or tranches), the first after the United States Treasury certifies the proceeds and the second installment one year later. To that end, as a city with a population of less than 50,000, the City of Monrovia is anticipating the first installment to be received directly from the State of California sometime around June 2021 and the second installment around June 2022. Based on initial projections, it is anticipated that the City will receive approximately \$6.8 million in ARPA funds. Below is a listing of eligible and ineligible uses of the funds.

Some eligible uses include the following generic categories:

- To respond to the COVID-19 public health emergency.
- To provide government services to cover the loss in revenue due to COVID-19.
- To assist workers performing essential work during the COVID-19 pandemic.
- To make necessary investments in water, sewer, and broadband infrastructure.

Some ineligible uses of these funds include:

- Funds allocated to states cannot be used to directly or indirectly offset tax reductions or delay a tax or tax increase.
- Funds cannot be deposited into any pension fund.

Please note that funds should be spent by the end of Calendar Year 2024.

Because the ARPA Funds are one-time funds and temporary in nature, it will be important to avoid creating new programs or add-ons to existing programs that require an ongoing commitment. As the United States Treasury is currently working on guidance for the use of the funds, staff will continue to monitor and determine how best to apply the funds for the City of Monrovia. Once a plan is identified, staff will return to City Council for approval and adoption of the plan. An update will be provided to the City Council during the Fiscal Year 2021-23 Two-Year Budget discussions.

Emergency Fund – Update on Emergency Events of 2020 Funding:

Staff has been diligently working with the Federal Emergency Management Agency (FEMA) and the State on completing reimbursement claim requests for the COVID-19 Pandemic and the Bobcat Fire. The City expects to receive Federal funding for each of these events through Federal Emergency Management Agency (FEMA) reimbursements and the Coronavirus Aid, Relief, and Economic Security (CARES) Act reimbursements. Additionally, staff is also seeking funding from other sources, wherever possible, to minimize the City’s out-of-pocket costs, which includes insurance reimbursements. Below is a breakdown of each event, the updated estimated costs, and the status of reimbursement:

Emergency Events of 2020

Event	Estimated Costs	Estimated Funding Available	Status of Reimbursement
COVID-19 Pandemic	Approximately \$673,000	CARES Act \$468,000 FEMA \$205,000	The City has already received \$468,000 in CARES Act funding. Staff is currently working on the reimbursement process to request \$205,000 in FEMA funding. There has been indication that costs from the pandemic would be fully funded through FEMA, so staff is seeking full reimbursement for the full amount. Should FEMA only cover 75% of the costs, then the City would be responsible for \$51,250 (25% of \$205,000)
Civil Unrest	Approximately \$83,000	FEMA \$62,000 City \$21,000	FEMA funding has not yet been approved – approval is pending. If approved, FEMA will pay 75% and the City will cover the 25% match.
Bobcat Fire	Initial Estimates = \$7,082,000	FEMA \$1,689,000 Cal OES \$5,031,000 Insurance \$225,000 City \$137,000	<p>FEMA- Staff has been working directly with our FEMA representatives on submitting costs for the event. \$883,530 in costs have been submitted to FEMA and are awaiting reimbursement. Staff is continuing to work on reimbursement claims for submission and is planning to submit paperwork as soon as possible. To-date, the City has incurred approximately \$948,000 in actual costs.</p> <p>Cal OES- Updated estimates for the Cal OES reimbursement portion were sent to Cal OES in April 2021. Currently, staff is planning site visits with CalOES representatives, as we plan for repair work to commence. It is estimated that Cal OES will reimburse costs totaling approximately \$5,031,000.</p> <p>Insurance Claim – Staff performed a walk through with the City’s insurance adjuster and we are awaiting information on next steps.</p>

Note: These costs are based on initial estimates and amounts will, most likely, change as we continue to work through the reimbursement process with the various funding agencies.

Staff will continue to provide City Council with additional updates as repair work commences and reimbursement claims continue to be submitted. While staff is seeking to pursue as much outside funding as possible to cover the costs of these events, it is expected that funding will need to be set aside for the “City” portion as noted in the matrix above.

In order to better align the COVID-19 Project and Bobcat Project budgets with estimated expenditures and revenues for the Fiscal Year, staff is proposing a series of budget adjustments for both projects, which can be found in Attachment A to Resolution No. 2021-23.





Measure K Fund

Measure K revenues continue to perform better than original expectations. For this quarterly update, staff has consulted with HDL to analyze revenues collected through the quarter ending December 31, 2020. Based on latest projections, staff is proposing a positive adjustment to revenues of \$651,000 for Fiscal Year 2020-21, for total budgeted revenue of \$5,558,000. Given that the City closed Fiscal Year 2019-20, with approximately \$900,000 in unused Measure K revenues, the Measure K pot of funds continues to grow. At the end of Fiscal Year 2020-21, it is anticipated that the City will have accumulated \$6,458,000 in Measure K funds, and as City Council is aware, unused revenue will remain in the Measure K Fund to be used on projects at a later time. To-date, only one expenditure is planned for use of Measure K revenues:

- ADA Transition Plan - \$105,000 (Approved in October 2020)

As City Council will recall, in November 2020, a Measure K Study Session was held to discuss the Measure K Spending Plan and funding priorities. During the study session, City Council provided informal direction to staff to prioritize funding for financial reserves (financial management) and deferred maintenance (infrastructure), which are two areas that were rated as “very or extremely important” by respondents of the Measure K survey. To that end, based on City Council’s informal direction, any proposed project that seeks to utilize Measure K funding in the future will be reviewed and approved by the City Council. Below is the Measure K Spending Plan reviewed by City Council during the Study Session:

Measure K Spending Plan
(Presented During November 17, 2020, Study Session)

 Financial Management \$1.2m	 Infrastructure \$2.48m	 Customer Service \$75k	 Relationships \$270k
Increase General Fund Reserves by \$500,000	\$1m Annual Street Maintenance	\$50,000 Citywide Training as a Result of Ad Hoc Committee on Equity	\$100,000 Reserve set aside for Santa Fe Depot
Workers Compensation Deficit \$500,000	\$750,000 Old Town Improvements	\$25,000 Police Use of Force Tracking Tool	\$150,000 to Develop New Partnership Programs (ex: Monrovia Community Gardens)
Apply \$200,000 to Assessment District Deficit	\$300,000 to Facility & Equipment Replacement		\$20,000 Tree Planting
	\$300,000 for Park Improvements		
	\$130,000 to Develop ADA Transition Plan		
<u>Undesignated Measure K Fund Balance = \$875,000</u>			

As part of this third quarter budget proposal, staff would like to present the following Measure K *Financial Management* and *Infrastructure* appropriations for City Council consideration.

Financial Management Appropriations:

- Increase General Fund Reserves by \$500,000
- Apply \$500,000 towards the City’s Workers Compensation Fund Deficit

- Apply \$200,000 towards the City's Assessment District Fund Deficit

Additionally, under the Infrastructure objective, staff would like to present the following budget proposal:

Infrastructure Appropriations:

- Appropriate \$20,000 for Batting Cages at Barney Glenn Field

Please note that these budget proposals have been included in the list of budget adjustments attached as Attachment A to Resolution No. 2021-23.

Measure K Citizens Advisory Committee Update

The Measure K Citizens Advisory Committee (CAC) has held two initial virtual meetings, via Zoom, one in March 2021 and one in April 2021. During the April 2021 meeting, the Measure K CAC requested staff to provide an approved Measure K Spending Plan at a future meeting. To that end, as part of the upcoming Fiscal Year 2021-23 Budget, staff will return to City Council with a formal plan proposal for consideration. If approved, the Plan can be submitted to the Measure K CAC at their next scheduled meeting in September 2021.

Next Steps:

As the economy continues to make positive strides in recovering from the pandemic, it should be noted that the City's Fiscal Year 2020-21 Budget is still a fluid budget that requires close monitoring and tracking. Staff will continue to monitor the budget closely and will return to City Council should additional adjustments be needed through the end of the fiscal year. Additionally, staff has begun preparing the development of the Fiscal Year 2021-23 Two-Year Budget, and will return to City Council with budget study sessions in May, and with formal budget approval in June.

ENVIRONMENTAL IMPACT: There is no environmental impact associated with approving the recommended budget adjustments.

FISCAL IMPACT: The updated estimates provided in this report are based on the latest information available at this time and includes assumptions and forecasts which will change. The proposed adjustments will result in a City-wide increase of \$3,018,837 in revenues and an increase of \$2,524,350 in expenditures. Although it is not anticipated that additional adjustments will be needed through the end of the fiscal year, staff will continue to monitor the budget closely and will return to City Council should additional adjustment be necessary.

OPTIONS: The following options are presented for consideration:

- 1) Adopt Resolution No. 2021-23 to approve the budget adjustment recommendations, as presented.
- 2) Make additional adjustments to the information presented.
- 3) Seek clarification or further detail on specific items, and refer those items to staff for additional analysis or research.

RECOMMENDATION: Staff recommends Option 1, thereby approving the recommended budget adjustments, as presented.

COUNCIL ACTION REQUIRED: If the City Council concurs, the appropriate action would be a motion to adopt Resolution No. 2021-23.