



**CITY OF PACIFICA
COUNCIL AGENDA SUMMARY REPORT**

5/9/2022

SUBJECT:

Introduction of the Fiscal Year 2022-23 Base Budget, Position Recommendations, and FY 2022-27 Capital Improvement Plan.

RECOMMENDED ACTION:

Accept the report, and provide feedback and direction on the proposed FY 2022-23 General Fund Base Budget report, position recommendations, and the FY2022-27 Capital Improvement Plan.

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BACKGROUND:

Each year, the City of Pacifica adopts an annual operating budget that reflects the planned activities for the next fiscal year based on the best information available at the time of adoption. At mid-year, staff revisits the projections and reports to the Council any changes that are needed to reflect new information and keep the City on track.

The City Council adopted the FY 2021-22 Budget on June 28, 2021, which reflected the second year of the COVID-19 pandemic and included the projected pandemic-induced losses in revenue. On March 14, 2022, staff presented the FY2021-22 Midyear Budget analysis, which showed the Budget on track. During the mid-year budget review, the Council authorized additional adjustments to the FY 2021-22 Budget that included factoring-in salary savings and replenishing some General Fund reserves.

On April 11, 2022, staff presented the Narrative Budget report outlining the Budget planning process, methodology, timeline, and long-term financial forecast and provided the City Manager's recommended budget strategies. The City's long-term financial forecast continues to project an ongoing structural deficit. Therefore, staff proposed using the modified zero-based budget methodology, a systematic financial management strategy commonly used by local governments to help achieve more cost-effective delivery of public services, which was discussed at length during the meeting.

This report presents the City's FY 2022-23 General Fund Base budget reflecting the current level of services and operations. The base budget is not an exact duplication of the prior year's adopted Budget because of actions that the Council may have taken that modified the Budget over the course of the year and, most notably, because of the FY 2022-23 budget assumptions

used to develop the base budget further described below.

The goal of a budget process is to develop the City's Budget by completing a full analysis of the City's revenue structure and current service level to identify necessary service increase and/or reduction options, which, when combined, will reach a balanced and sustainable budget. Staff made a number of revenue and expenditure assumptions in developing the base budget for FY 2022-23. These assumptions were based on known projections and economic conditions and reflected the budget adjustments made by Council during the mid-year budget review. The resulting structural deficit or surplus at the base budget level is critical to discussing departmental or other program funding beyond the baseline to accomplish identified priorities for the upcoming year.

Departmental/program detail and new service-level budget requests will be presented in future budget agenda reports as indicated in the budget timeline table below.

PUBLIC MEETING	BUDGET STEP	TIME FRAME
1	✓ FY 2020-21 Mid-Year Budget Review to Council	March 14, 2022
2	✓ Council Workshops: FY2022-23 Goal and Priority Setting	March 25, 2022 March 26, 2022
3	✓ Budget Session 1: Budget Methodology, Budget Calendar, Long-Term Financial Outlook, and FY 2022-23 Strategic Priorities	April 11, 2022
4	✓ Budget Session 2: FY 2022-23 Base Budget, Position Recommendations, and FY 2022-27 CIP Introduction	May 9, 2022
5	Planning Commission: Review of the Proposed FY2022-27 CIP Plan for Conformity with General Plan	May 16, 2022
6	Budget Session 3: FY 2022-27 CIP Budget Review and Master Fee Schedule	May 23, 2022
7	Budget Session 3: City Council Review and Approval of Proposed FY 2022-23 Budget Recommendations	June 13, 2022
8	City Council Budget Hearing: and Formal Adoption of the FY 2022-23 Operating and Capital Budget	June 27, 2022

PROPOSED 2022-23 GENERAL FUND BASE BUDGET

Tonight's report presents the Fiscal Year 2022-23 General Fund Base Revenue Budget of \$45.4 million and Expense Budget of \$43.3 million, leaving a surplus of \$2.2 million. However, this \$2.2 surplus includes a portion of the 4.6 million allocation of American Rescue Plan Act (ARPA) funding. Without ARPA funding, the Base Budget would project a \$2.4 million deficit, primarily resulting from the projected losses of the VLF shortfall as further described below and the general increase in salaries and benefits, including the increase in the PERS unfunded liability. The General Fund Base Budget Revenues and Expenditures Summaries are provided in Attachments 1 and 2. The baseline revenues are built on information previously presented regarding the City's financial status. In coordination with other City departments, Finance developed the FY 2022-23 Base Budget assumptions to include all previously approved items by the City Council and factoring in inflationary conditions.

The General Fund is the City's primary operating fund and is used to account for most day-to-day activities. It receives unrestricted revenues, and the City's general administrative services, public safety, and community development-related activities such as planning, building, and engineering are budgeted in the General Fund. Revenue sources include but are not limited to property tax, sales tax, transient occupancy tax (TOT), business license registration, and current fees for services.

Total FY2022-23 Base Budget revenues conservatively increased by \$2.3 million, or 5.4%, over the Mid-Year Revised FY2021-22 Budget. Total FY2022-23 Base Budget expenditures increased by \$269,973 or 0.6% over the Mid-Year Revised FY2021-22 Budget level. As a reminder, the base budget reflects current levels of service and current projects and does not factor in yet the cost of enhanced services or new projects. Although this report introduces some position-related recommendations and CIP projects, those costs will be presented in the Proposed Budget at a later time.

Below are some key assumptions applied to the FY 2022-23 Base Budget.

FY 2022-23 Base Budget General Fund Revenues Assumptions

Revenue estimates have been modified based on the most current information available from department feedback, external sources, and further analysis. The Revenues presented in this report include the American Rescue Plan of 2021 (ARPA) stimulus of \$4,610,512. The City was awarded \$9.2 million in ARPA funds paid in two tranches. The City received the first tranche of \$4,610,511 in the current fiscal year. See the ARPA Funding section of this report below for a full discussion.

The following revenues are projected to reflect significant changes over FY 2021-22:

- **Property Tax** is the City's largest revenue source. Historically, Pacifica's property tax base has only very slowly expanded. For the FY2021-22 Budget, property taxes comprise approximately 34% of City General Fund revenues. Both secured and unsecured property taxes are levied based on the assessed real property valuation (the basis for property tax levy) as of January 1, 2022. The COVID19 pandemic, while it delayed home and property sales in the 2020 calendar year, did not impact the growth most Bay Area communities experienced due to the transfer of ownership element that has occurred in the current 2021-22 fiscal year. The property tax revenues are projected at \$15.2 million or \$0.9 million (6.4%) above the FY 2021-22 Revised Budget of \$14.3 million based on the information provided by the County and HdL, the City's property tax consultant.
- **Charges for Services** is the second largest revenue category that includes building, planning, other permits, recreation revenues and rentals, fines, and reimbursements. The building and planning revenues are projected to decrease since last year's expected increase has not been realized yet. The building and planning projected revenue is more in line with pre-COVID levels, which is reasonable given the activity projected for FY 2022-23. Overall, this Category shows a decrease of \$359,151, or 6.2%.
- **Intergovernmental** is the third largest revenue category, which includes Federal, State, and County governments, including revenue from other governmental agencies, including the ARPA funding of \$4.6 million. This Category shows a \$1.1 million or 14% decline over the Revised Budget primarily due to miscellaneous grants that will not continue. Also, the annual cost reimbursement from CalOES for Fire wildfire services is not budgeted due to the unpredictable nature of these services but will be recorded in the Category when received.
- **Vehicle License Fee (VLF) in Lieu** is the fourth largest revenue category. Through the State, there has been insufficient ERAF to fund the VLF in Lieu allocation for the past three years, and there will be insufficient ERAF to fund this next year too. Staff has previously reported to the Council a projected loss (delay) of this major revenue stream (\$2 million for FY 2021-22) currently owed to the City by the State. In the past, the State has backfilled the VLF shortfall, but the State's payment lags two years behind the shortfall year. As of now, the governor's current Budget includes a true-up for 2019-20,

2020-21, and 2021-22 years, and as a result, there may be a way forward for the full allocation if the Governor's Budget is adopted as presented and signed. The City has received part of the 2019-20 shortfall. The County will allocate the shortfall for FY 2020-21 (\$2.0 million) in FY 2022-23 if the State's Budget does not change. The City's tax consultant (HdL) recommends conservatively budgeting half of the \$2 million given the uncertainty of the backfill legislation, which is what staff included in this Base Budget. Aside from the backfill, the FY 2022-23 returns to a normal level and includes \$5.1 million as the full allocation for the year based on the most recent HdL projections. Staff is now working with the County to confirm this budget assumption and may need to modify the Base Budget accordingly once we receive a response from the County. The Governor's May Revised budget will be published in the coming week. The shortfall for FY 2021-22 is reported as \$1,192,769, which should be funded by FY 2023-24, although there is a proposal by the State to swap this payment with the returned ERAF that is currently being opposed by all Cities affected by this issue as both VLF backfill and Returned ERAF are due to the local agencies.

- **Sales Tax** is the City's fifth-largest revenue category. Based on discussions with the City's sales tax advisor and sales tax projections prepared by HdL the local sales activities forecast slightly better performance than initially expected. This is due to an increase in the Restaurants and Hotel category of 5.5%, the Transportation segment increasing 4.6%, and the State / County pool allocation for online sales increasing 4.2% over the FY 2021-22 projections. Total sales tax is estimated at \$3.1 million, a 3.1% increase over the Revised FY2021-22 Budget.
- **Other Revenue Categories** are broken out this year, including Utility Users Tax (UUT) (\$1.9 million), Transient Occupancy Tax (\$2.1 million), Cannabis Operations tax (\$825k), and Business License Tax (\$517k) and other taxes (\$1.7 million). The FY 2022-23 base budget was based on the historical averages, new development, and the prior year's returns. The hospitality industry was most affected by the pandemic and the shelter-in-place orders prohibiting leisure travel. HdL has provided updated estimates for the Transient Occupancy Tax to increase by about \$400,000 or 24%. This is based on the assumption that the hospitality industry projects full recovery from the pandemic in FY2022-23. Plus, the progress work on bringing the short-term rental properties to tax compliance is also factored in and noting the reopening of the Fairfield Hotel under the new name with additional rooms.
- **Operating Transfers In** include the administrative expenses charged to the Waste Water Fund. The current year's charge of \$862,388 is being increased by the CPI inflation factor of 4.24% resulting in a new administrative expense of \$899,000 for FY 2022-23. The onetime catch-up payment included in the current year's Waste Water charge has been removed from the Base Budget resulting in a \$120,998 decrease in this Category over the Revised Budget.

FY 2022-23 Base Budget General Fund Expenditures Assumptions

Total General Fund Base Budget expenditures are projected at \$43.3 million at the Base budget level, only \$270,000 or 0.6% higher than the FY2021-22 Revised Budget. Operating Expenses are set consistent with the prior year's actuals and Mid-Year Revised budget adjustments and account for expected inflationary increases.

Attachment 2 demonstrates the General Fund expenditure estimates for FY 2022-23 at the Base Budget level. Below are the key base budget expenditures assumptions:

- Salary and Benefits projections include funding for 173 full-time equivalents (FTE) positions citywide. Funding for part-time positions is consistent with the prior year's allocation. Overall, salaries and benefits increased by \$1.2 million compared to the FY 2021-22 mid-year revised Budget primarily due to removing the \$1 million in salary

savings included in the mid-year Budget. Compared to FY2021-22 Adopted Budget, salaries and benefits are increasing by only \$200,000, reflecting year two of the new MOU agreements.

- Vacant positions are budgeted at the top step with the "employee plus one" cafeteria plan assumption for health benefits. Projections also include merit increases for staff members who may be eligible on their performance review dates.
- Salaries and Benefits Projections have been funded at 100% and include the recent labor negotiation increases.
- FY 2022-23 PERS retirement rates are budgeted as provided by CalPERS for classic miscellaneous and safety members and Public Employees' Pension Reform Act (PEPRA) rates for miscellaneous and safety employees without prior municipal experience or who have had a break in service.
- PERS Unfunded Actuarial Accrued Liability (UAAL) payment is budgeted at \$5.1 million for Safety and Miscellaneous employees, an increase of approximately \$500,000 or 11%.
- An additional contribution to the PARS trust is budgeted at \$200,000, consistent with the Council funding strategy #5 approved in April. This FY 2022-23 allocation will provide additional contributions toward the Actuarial Determined Contribution (ADC) in addition to the pay-as-you-go payment strategy that has historically been budgeted in prior years. This change would allow the City to take advantage of the higher discount rate that will substantially reduce the OPEB unfunded liability in the next actuarial valuation report, resulting in the corresponding reduction of the unfunded liabilities in the City's Annual Comprehensive Financial Report (ACFR).
- Most Professional Services contractual obligations were increased by 2% over the FY 2022-23 Revised Budget to account for regular CPI increases unless the further cost increase was noted and factored into the Budget by operating departments. This Category shows a 1.9% decrease because the current year's Economic Development budget includes a onetime \$150,000 ARPA-funded initiative to provide business assistance for economic recovery and small grant programs.
- Similarly, most of the Material, Supplies, and Maintenance category-budget line items were increased by 1% over the FY 2021-22 Mid-Year Revised Budget to account for regular inflationary increases. The 7.5% increase over the Revised Budget is primarily due to restoring certain reductions made in the budget amendment adopted on 9/27/2022 to fund new MOU provisions.
- Transfers Out Category accounts for a transfer to the Debt Service Fund to fund Pension Obligation Bonds payment and transfer to General Liability internal service fund to fund Self Insurance Retention (SIR) budget. Overall, this Category projects a net decrease of \$2 million compared to the Revised Budget because of the onetime General Fund contribution of \$3 million towards the Civic Center budgeted in the current year.

ARPA Funding

The Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program, a part of the American Rescue Plan Act (ARPA), delivers \$350 billion to state, local, and Tribal governments across the country to support their response to and recovery from the COVID-19 public health emergency. The City was awarded \$9.22 million and has already received half that amount in the current fiscal year. As the year unfolded, some of the guidelines and reporting requirements applied to ARPA changed to make it easier for small agencies like Pacifica. According to the Department of Treasury guidelines, the City is a Tier 5 local government, which is considered a Non-Entitlement Unit (NEU) of local government with a population of less than 250,000. As a NEU, the City has different reporting requirements than tier 1 to 4 agencies. Also, since Pacifica's award was less than \$10 million, new streamlined reporting requirements were recently published by the Department of Treasury. The new rules allow NEUs to treat up to \$10

million as all "revenue loss," which is one of their reporting categories. For Pacifica, that leaves significant discretion to the City on how best to use the \$9.22 million to help Pacifica maintain essential services and recover economically from the pandemic, other than not using it to fund reserves or pre-fund pension liabilities. The City already began to identify certain limited-term positions and other onetime uses of the \$9.22 million included in the FY 2021-22 budget. Additional recommended limited-term positions are discussed further below, and more information on recommended ARPA uses will be presented at the next budget meeting. The Council-approved ARPA uses to date are summarized in Attachment 3 to this report, providing the remaining amount available for allocation.

Position Recommendations for FY2022-23 Budget

Recruitment and retention of public sector employees are currently experiencing a severe wave of challenges, the most difficult in decades. Private-sector competition, a wave of retirements, housing costs, and other cost of living factors in this region, pandemic impacts, and a shortage of qualified applicants have resulted in many failed recruitments for cities in the region, including Pacifica. This problem has been exacerbated for cities like Pacifica, with lower salaries and higher job workload demands due to lower staffing levels than other cities in the region. A 2019 staffing comparison study for the City showed that Pacifica's staffing levels are an average for all departments of 23% *lower* than comparably sized cities in the area.

While the City organization prides itself on continuing to provide excellent services to the community through its dedicated labor force, efficient use of resources, and innovative program and service-delivery design, over-stretched staffing resources are reaching a crisis point. Minimal revenue growth year over year, increased expenditures related to just maintaining existing staffing and service levels, and the resulting structural budget deficit does not allow the City the option of adding permanent staff. In these circumstances, human resource and organizational decisions must focus on incentives to retain existing quality employees, reclassification and recruitment strategies, and stop-gap measures such as the use of onetime funding (such as American Rescue Plan Act funding) for the creation of limited-term (non-permanent) positions.

Such strategies are more important than ever for the upcoming FY2022-23 Budget. Therefore, the City Manager recommends the following modest set of staffing recommendations designed to maintain existing services while containing ongoing salary expenditures as much as possible. These recommendations are presented here for Council consideration. Following Council direction, the specific financial impacts will be incorporated into the FY2022-23 Proposed Budget for future Council consideration.

Position Reclassifications: It is appropriate to reclassify positions when the City's business needs on a permanent basis require out-of-class work. The following reclassifications are recommended:

- *Public Works Associate Engineer to Project Manager:* Coastal engineering expertise, grant procurement expertise, Capital Improvement Program development and management, and complex project management such as for the Beach Boulevard Infrastructure Resiliency Project warrant this reclassification from Associate Engineer to a Project Manager classification;
- *Ranger to Lead Ranger:* The Ranger classification, of which the City has three rangers, requires one position to lead the group and create development opportunities within the

series. The Ranger team is critical to the City's responsibilities for the beach, parking lot, and coastal trail maintenance and enforcement efforts;

- *Child Care Assistant Supervisor to Child Care Supervisor.* Currently, the City's child care program has only one Supervisor position, which is focused on the *administrative* side of the program. Given the increasing complexity of child care, the program warrants an equivalent supervisor position focused on the *operational* side of the program;
- *Site Coordinator to Senior Child Care Coordinator.* The Site Coordinator series warrants a higher-level classification that adds supportive administrative, project management, and leadership responsibilities to the series and creates development opportunities within the series and succession planning related to the Child Care Supervisor role;

Limited-Term Positions: In some instances, it is warranted to use onetime funding for a limited period, such as one to two years, to hire a position for immediate business needs while not creating a permanent financial burden in light of a future projected structural deficit. Currently, due to pandemic impacts and challenges with maintaining existing service levels in numerous departments, onetime American Rescue Plan Act funding can be used to fund limited-term positions. Several were approved for this fiscal year, and the following additional limited-term positions are recommended for the next fiscal year:

- *Police Department Records Clerk.* The Records Division in the Police Department is responsible for processing all reports, citations, court paperwork, Department of Justice Reporting, crime statistic reporting, new racial identity data reporting in accordance with new state law, submission of cases to the District Attorney, and much more related to report handling, mail processing, phone calls, lobby traffic and more. This division used to have three positions but was reduced to two in 2011 due to budget cuts, yet the workload has increased dramatically in recent years. Comparable cities' Police Departments employ an average of 5 records clerks. With a recently announced retirement, the department will soon be down to one records clerk and risks falling out of compliance with records responsibilities. In addition to recruiting a permanent position to fill the upcoming retirement, the City Manager also recommends a 2-year limited-term and ARPA-funded records clerk to bring the interim staffing level back to three in the division;
- *Continuation of Management Analyst for Economic Development and Environmental Sustainability.* The City Council previously approved a 1-year limited-term position to support the City's economic development and environmental sustainability efforts. Due to the pandemic, that position was not filled until January 2022. Due to the continuing critical efforts in economic development and environmental sustainability, the City Manager recommends continuing this limited-term position for another year, utilizing ARPA funding;
- *Senior Accountant.* The City is currently undertaking the design and implementation of a new Enterprise Resource Planning system to modernize its financial and human resources systems. This is a major organization-wide undertaking and requires focused project management expertise to roll out over an 18-month to two-year period. The Finance Division, which is severely understaffed compared to comparably sized cities, does not have the capacity to manage this project. Therefore, the City Manager is recommending a 2-year limited-term and ARPA-funded Senior Accountant level position;

In addition to the recommendations above, the City Council had previously approved the addition of several child care teacher positions, the hiring for which was put on hold due to pandemic impacts on the child care program. The program will be looking to ramp back up this year and plans to hire these additional teachers, which are projected to be Budget neutral due to increased child care revenues for being able to enroll more children.

With the recent departure of the Assistant City Manager/Planning Director, the City Manager continues to evaluate potential reorganization necessary in the City Manager's Office and bring forth any budget impacts related to this reorganization in a future budget session for City Council consideration.

Capital Improvement Program

The capital transfers are not included in this report since the Council has not yet discussed the recommended capital projects, and staff has not yet built in any General Fund transfers towards the CIP program. Once the Council provides feedback on new CIP projects and funding levels, the Finance staff will build the required capital transfers in the Budget. The FY 2022-27 CIP program will be the subject of a future budget discussion with the Council at the next meeting on May 23, 2021. Due to the City's limited capital funding sources and limited staff capacity to manage major capital projects, it is anticipated that the CIP Program recommendations will be limited to projects previously approved with dedicated funding sources, legally mandated projects, or projects that pose an immediate threat to public health and safety.

Below is a preliminary list of **new** projects proposed for FY 2022-23. Cost estimates continue to be refined. The Council may wish to provide comments on this list now so that when the full CIP is introduced on May 23rd, the Council's initial input can be factored in:

1. **Community Center Roof Project - \$325k** - Before installation of the photovoltaic (solar power) occurs, the Community Center roof needs routine maintenance to align the life of the roof with the life of the system being installed. In addition to the cost of materials increasing, the City's roof consultant specified a more resilient roof that would be more applicable and accommodate the additional weight loads of photovoltaic panels.
2. **ADA Transition Plan Update - \$100k** - This project would continue the update steps for the City's ADA Transition Plan, including an updated inventory of disabled accessibility compliance at City facilities and within the public right-of-way. Disabled accessibility improvement projects are currently undertaken, and will continue in the future, as separate CIP projects, such as the annual curb-ramp projects.
3. **FY 2022-23 Pavement Resurfacing Project - \$1.5m** - The Project will rehabilitate the pavement along roads designated in the 5-year paving plan. This project will also include pavement grinding for base repair as well as installation of thermoplastic traffic striping, markings and pavement markers.
4. **Local Roadway Safety Plan - \$80k** - In order to be eligible for Highway Safety Improvement Program funding, Caltrans has mandated adopted local roadway safety plans. The plan provides a framework for identifying, analyzing, and prioritizing roadway safety improvements on local roads or highway crossings.
5. **Storm Drain Master Plan Phase 2 Inspection - \$100k** - Inspection and preliminary analysis for priority projects identified in the Storm Drain Master plan. This project is to do inspections of the major storm drain trunk lines.
6. **Community Center Improvements - \$60k** - Ongoing maintenance & improvements that are immediately needed include door replacements for security. Future needs include office remodel to accommodate Staff, spalling of the exterior, flooring in the dining room, hallway area, new baseboard, carpet replacement and indoor/outdoor painting of the building.
7. **City Facilities WiFi Upgrade - \$100k** - The City currently has limited and aging wireless access points at its facilities. An investment to add and replace wireless access points to all City facilities is needed. This upgrade will support today's modern workforce, allowing Staff to securely work on their files seamlessly throughout City facilities.
8. **Enterprise Backup Solution - \$50k** - Due to the increasing threats of ransomware and

other cyber threats, the City needs to upgrade its backup solution to incorporate more robust protection features such as immutable backups to prevent infection of backups. This includes acquiring new storage hardware to support the software.

9. **San Pedro Creek Bank Stabilization Project - \$400k** - Design and construct creek bank stabilization. The location is upstream from Adobe bridge on City property. Current stabilization is beginning to fail, therefore erosion stabilization work is needed.
10. **Oddstad Park Building Maintenance - \$200k** - The Spindrift building has water intrusion coming in from gaps along the rear and front walls. The damage is flooding throughout the bottom floors, causing sheetrock and carpet damage. Work would mitigate current water intrusion areas, by installing a French drain along the face of the building, improve the existing drainage system, and install a water seal to prevent future water intrusion into the building.
11. **Fire Station 71 Building Maint - \$150k** - Fire Station 71 needs maintenance on the roof, furnace, water heater, duct replacement, and asbestos removal.
12. **School Crosswalk Beacon Replacement Project - \$40k** - In 2014, in-ground roadway lights and flashing signs were installed at five schools. Those systems now have maintenance issues and failures. Standard signs have changed, and thus, replacing those with Rectangular Rapid Flashing Beacons is recommended for this project. One crosswalk will be replaced the first year and five the second year with an additional funding request in the second year.

Wastewater Enterprise Projects

13. **Linda Mar Pump Station Jockey Pump Upgrade (Breakout from LM PS Upgrade Project) - \$50k** - Add a new jockey or smaller pump to the pump station, improving wear and tear on bigger pumps and increasing efficiency and lowering power costs. The project includes one new dry pit submersible pump, suction and discharge piping, valves and appurtenances, and VFD.
14. **Linda Mar Pump Station - Bar Screen Rebuild (Breakout from LM PS Upgrade Project) - \$150k** - Rebuilt existing bar screen that is damaged.
15. **Rockaway PS - Bar Screen Rebuild - \$150k** - Rebuild existing bar screen that is damaged.
16. **Sharp Park Pump Station Bar Screen Rebuild - \$250k** - Rebuild existing bar screen that is damaged. This is a larger bar screen than the Rockaway PS.
17. **Smoke Testing Linda Mar & Park Pacific Drainage Basins (Breakout from LM PS Upgrade Project) - \$300k** - Perform smoke testing for the entire Linda Mar & Park Pacifica drainage basins to confirm issues to identify Inflow and Infiltration sources.

The following continuing Projects will require additional funding in FY 2022-23:

General Capital Projects

1. **Beach Boulevard Public Plaza Project - \$50k** - This project, previously approved by the Council, will replace the existing landscaping within the picnic area along the southern end of the Beach Boulevard Promenade with resilient improvements that will withstand the ocean environment, including plaza area animal play structures. To be flexible and compatible with design and construction of the Beach Boulevard Infrastructure Resiliency Project, only the animal sculpture/play structures will be installed for now. They can be moved and reinstalled later. Additional Budget is needed to complete the installation of the concrete footings for the sculpture/play structures.
2. **Urban Forest, Land, and Vegetation Management Plans - \$75k** - This project, Phase 2 of the Tree Study Program, will hire a consultant to assist in preparing Urban Forest, Land, and Vegetation Plans to address issues related to trees and open space. Additional funding is needed to increase the current Budget to prepare the Urban Forest Management Plan and conduct public engagement events for the project.
3. **Corporation Yard Vehicle Storage Project - \$40k** - Currently, there is not adequate

space for vehicles at the corp yard, and there is no storage for vehicles. This project will reorganize the corp yard so that vehicles can be covered from the weather, which will lengthen their useful life. A temporary solution is currently being explored/installed, however additional funding for 22-23 is needed to put in the desired overhang that will be effective.

4. **Police Department Radio Infrastructure Improvement - \$10k-** Pursuant to the Department of Justice requirement, Police Department radio infrastructure equipment needs to be upgraded to the latest security protocols, which involves the replacement of radio infrastructure equipment.
5. **Fire Station 72 Emergency Signal Restoration - \$80k** - The stoplight in front of Fire Station 72 (Linda Mar) is in disrepair. It works intermittently and is outdated. A repair or replacement is needed for public and fire safety.
6. **Pier Handrail Repair Project - \$200k** - The project looks to repair all of the pier railings and a fallen forty-foot section completely rendered unusable on the Pacifica Municipal Pier damaged by high tides and large waves in early 2021. The project is a full replacement of all handrail panels. The additional ask for money is to make up the shortfall that was not able to be grant-funded.
7. **Playground Equipment Improvement (formerly Parks & Recreation Projects) - \$1.34m** - Improvement to outdated citywide parks playground equipment. Equipment will be prioritized per audit. Encompasses Priority Parks Projects: FY 21-22 - Fairmont rec decks, playgrounds at Oddstad, Brighton, Imperial, Skyridge, and Mar Villa. FY 22-23 work - playgrounds @ Edgemar, Saltaire, & Fairway. Additional funding is to cover more park replacements.
8. **Parks, Beaches, and Trail Signage Improvements - \$5k-** Evaluate the Parks and Recreation Sign Inventory document in order to prioritize replacement and/or upgrade of signage at parks, beaches, and trails. Making upgrades to signage at City parks, beaches, and trails will improve the quality, messaging, and communication with facility users. Additional funding is to allow the project to include more signage.

In preparation for the next meeting, staff will identify probable funding sources for projects and explore outside funding sources whenever possible. These will include Federal and State Grants, County contributions, Gas Tax, and various other tax measures. When no external sources of funding can be identified, limited General Fund funding may be proposed to help fund identified projects.

Once the Council provides direction regarding this preliminary list of projects, staff will finalize the funding sources and incorporate final recommendations in the complete five-year CIP program at the next Council meeting on May 23, 2022.

Projected Fund Balance Structure

The FY 2021-22 Operating and Capital Budget was adopted as a balanced budget, meaning that the City's operating expenditures did not exceed general revenues.

At the last City Council budget session meeting, staff reported the long-term financial outlook that showed that the ongoing services to the community will remain in balance during the upcoming fiscal year but will face a projected long-term structural deficit starting with FY 2023-24. This is in part due to the availability of ARPA funds that offset losses of City revenues during the COVID pandemic. Since these onetime funds will be spent by the end of 2024, the ongoing structural deficit is projected in the future years.

To demonstrate the structural nature of the financial challenges, staff completed the FY 2022-23 Base Budget at the current level of services with and without factoring in the ARPA funds. As shown in the table below, the structural surplus of \$2.2 million is projected when the full ARPA

revenues are taken into account. However, when the ARPA revenues are backed out, the Base Budget shows a structural deficit of \$2.4 million.

The structural deficit exists when the ongoing operating expenditures consistently exceed the ongoing operating revenues. This means that the general revenues could no longer support operating expenditures without new revenue sources or applying additional budget strategies or cuts to balance the Budget moving forward (after onetime ARPA funds run out).

Major components of this deficit are due to the severe impact of the COVID-19 pandemic on the City's revenue base, as well as the anticipated loss (delay) of the Vehicle License Fee (VLF) revenues as described earlier and the increased cost of the unfunded pension liability.

**FY 2022-23 RECOMMENDED BASE BUDGET
NET GENERAL FUND SURPLUS (DEFICIT) WITH AND WITHOUT ARPA**

	Actual FY 2020-21	Adopted Budget (amended as 9/27/2021) FY 2021-22	Mid-Year Revised 2021-22	Base Budget FY 2022-23
Revenue				
Operating Revenues	\$34,944,216	\$38,685,166	\$40,942,344	\$43,408,412
Operating Transfers In	\$1,476,707	\$2,150,898	\$2,150,898	\$2,029,900
Operating Revenues	\$36,420,923	\$40,836,064	\$43,093,242	\$45,438,312
Operating Expenditures				
Operating Expenditures	\$34,345,424	\$38,167,365	\$38,782,728	\$41,060,101
Operating Transfers Out	\$1,861,270	\$4,219,481	\$4,219,481	\$2,212,081
Total Operating Expenditures and Transfers	\$36,206,694	\$42,386,846	\$43,002,209	\$43,272,182
Surplus (Deficit) with ARPA	\$214,229	(\$1,550,782)	\$91,033	\$2,166,130
Back out ARPA Funding		(\$4,610,511)	(\$4,610,511)	(\$4,610,512)
Surplus (Deficit) without ARPA	\$214,229	(\$6,161,293)	(\$4,519,478)	(\$2,444,382)

Again, the numbers presented in this report only reflect the current Base Budget level of services. It does not consider the implementation of budget strategies and recommendations that staff will be bringing forward at future meetings for more in-depth discussion and the Council's direction on how to reach a balanced and sustainable budget at a desirable level of services.

Budget Deficit - Hypothetical Deficit Balancing Scenario

The \$2.4 million deficit without ARPA funds is being presented for illustrative purposes only, just to demonstrate the magnitude of the financial challenge of continuing operations at the current service level that is being kept afloat by the use of ARPA funds in the upcoming year but will be more apparent in the future years. Since, by statute, the City will have to adopt a balanced budget, the services would likely have to be reduced or reimagined in order to balance the Budget in the future years unless the City's revenue base is increased.

The table below provides a hypothetical distribution of the \$2.4 million deficit between departments based on the current share of the General Fund Budget. To balance the \$2.4 million deficit, each department would be required to submit program requests for structural and programmatic service-level cuts to their Budget of approximately 6% to balance the Budget if the City's revenue base remains the same.

The table is just meant to provide perspective. An across-the-board cut does not take into consideration the City Council or community priorities but can serve as a useful tool to begin the discussion.

City of Pacifica
General Fund Hypathetical Deficit Cuts Distribution

Expenditure By Department	FY 2021-22 Mid-Yr. Revised Budget	Distrubution Based on Mid- Year Revised Budget	Deficit Distribution	% Cut
General Government	5,469,351	13%	(310,900)	-6%
Police Department	10,792,423	25%	(613,500)	-6%
Fire Department	7,541,377	18%	(428,700)	-6%
Planning & Building	4,045,777	9%	(230,000)	-6%
Public Works	4,825,068	11%	(274,300)	-6%
Parks, Beaches & Recreation	5,068,645	12%	(288,100)	-6%
Non-Departmental	5,259,568	12%	(299,000)	-6%
Total	\$ 43,002,209	100%	\$ (2,444,500)	-6%

It is important to note that these reduction targets show the required economic value that would need to be identified. Although all departments will be required to submit program changes that meet these target cuts, the Council may prioritize some programs and departments over others based on the nature of services and overall impact on the community. Across the board cuts are not a best-practice; rather, the City Manager likely would recommend a strategic approach with careful consideration of each program and service reduction in light of the value and benefit that it brings to the community and the long-term implications on the City's ability to provide high-quality municipal services.

Vision 2025 & Beyond - Exploring Revenue Options

At the February 14, 2022 meeting, the City Council received an update from staff on the Vision 2025 & Beyond fiscal sustainability program. This update included a presentation and discussion of potential revenue options the City could consider to cover the \$2 to \$3 Million per year structural budget deficit that is projected to begin in the 2023-24 fiscal year. (This projection assumes that the upcoming 2022-23 operating budget will be balanced in part by using the second tranche of ARPA funds and the State's repayment of VLF In Lieu funds in the coming fiscal year).

The Council directed staff to explore the possibility of placing a Revenue Measure on the November 2022 ballot, which would be one of three revenue options - Local Sales Tax (.50 cent per dollar) estimated to raise \$2.6 Million per year, Utility User Tax (reduce the rate from 6.5% to 5% and broaden the base to include telecommunications and water) estimated to raise \$2 Million per year, or Transient Occupancy Tax (an increase from 12% to 15%) estimated to raise \$350,000 per year. The City Manager has retained Lew Edwards Group and FM3 Research to poll Pacifica voters to obtain data on these three potential revenue options. Information about polling results will be forthcoming later in May.

Vision 2025 & Beyond - Exploring Revenue Options

At the February 14, 2022 meeting, the City Council received an update from staff on the Vision 2025 & Beyond fiscal sustainability program. This update included a presentation and discussion of potential revenue options that the City has to cover the \$2 Million to \$3 Million per year structural budget deficit that is projected to begin in the 2023-24 fiscal year that starts just over one year from today. (This projection assumes that the upcoming 2022-23 operating budget will be balanced in part by using the second tranche of ARPA funds and the State's repayment of VLF In Lieu funds in the coming fiscal year).

The Council directed staff to explore the possibility of placing a Revenue Measure on the November 2022 ballot, which would be one of three revenue options - Local Sales Tax (.50%) estimated to raise \$2.6 Million per year, Utility User Tax (reduce the rate from 6.5% to 5% and broaden the base to include telecommunications and water) estimated to raise \$2 Million per year or Transient Occupancy Tax (an increase from 12% to 15%) estimated to raise \$350,000 per year. The City has retained Lew Edwards Group and FM3 Research to poll Pacifica voters to obtain their thoughts on these three potential revenue options. Information about polling results will be forthcoming later in May.

OTHER FUNDS

The Base Budget revenue and expenditure for all other funds have also been updated. This includes all of the Special Revenue, Debt Service, Enterprise, and Internal Service Funds. The full budget discussion will include "All Funds," which we typically divide into the **General Fund** (the majority in terms of dollars and completely discretionary) and **Other Funds** (largely designated for specific purposes) as well as the Capital Budget (significant projects expected to begin or continue in 2022-23). The Base Budget numbers do not include the CIP budget allocations that will be added for the next meeting as mentioned above.

Staff used the same basic assumptions for all other funds to factor in 2% cost of living increase for the contract and professional services categories and 1.5% for materials and supply.

Enterprise Funds consist of Sewer/Wastewater and Beach Parking funds. Enterprise funds are used for services that are financed and operated as a private business enterprise. The FY 2022-23 total enterprise funds base budget is \$27.1, which is 30% of the City's overall budget. Sewer funds are used to account for sewage collection, treatment, major replacements, and maintenance and protection improvements to the sewer system. Sewer charges of \$18.6 million are based on a 3.5% rate increase in FY 2022-23. The sewer operating expenditures include the same inflationary base budget assumptions. The Salaries and Benefit costs of approximately \$5.4 million are based on 14 FTE allocated to the Sewer Fund and include all current MOU provisions. Beach Parking Fund is used to account for parking services to residents and visitors. The revenues are projected at \$18.6 million, which is in-line with the FY 2021-22 Revised Budget.

Special Revenue and Capital Funds are used to account for specific revenue sources or financial resources for which expenditures are restricted by law or administrative action to specific purposes. This Category includes Gas Tax and Streets Funds, General Capital, Drainage, Housing in-lieu, Parking in-Lieu, Park in-Lieu, PB&R Special Revenue and Roy Davies Trust, Disaster Accounting, and other funds. The FY 2022-23 expenditures of \$13.5 million for this Category represent around 15% of the City's total Budget.

Internal Service Funds serve the needs of the City and are used to account for Citywide services on a cost-reimbursement basis. These funds accommodate the motor pool, employee benefits, and risk management needs of the City and are supported by the funds that receive

benefits, including the General Fund. The FY 2022-23 budget for this Category is \$3.3 million, which is 4% of the City's Budget.

Debt Service Fund is used to account for long-term debt obligations. The FY 2022-23 budget for the debt service category is based on the updated debt service schedule. The changes include a change in accounting for the General Fund repayment for the Wastewater Enterprise loan payment of \$0.4 million that is now being recorded as part of the annual debt service and not year-end adjustment as it was done in the past.

NEXT STEPS

At the next meeting on May 23, 2022, staff will be presenting a five-year CIP program and Master Fee schedule. In parallel, all departments are currently working on their budget recommendation for service changes that will be submitted to the City Manager in order of department priorities. Over the next few weeks, the City Manager will meet with each department to review and discuss their requests and ultimately formulate a plan for the balanced FY 2022-23 budget. FY 2022-23 Budget recommendations will be based on many factors, including the Council's strategic vision and service-level impact on the overall City operations and services provided to the community.

FISCAL IMPACT:

There is no action associated with this item; this is an informational presentation only with Council comments being sought to help guide preparation of the Proposed Budget for future Council consideration. As reflected in the budget calendar above, staff will be bringing forward specific strategies to balance the FY 2022-23 Budget at future meetings.

ORIGINATED BY:

City Manager's Office

ATTACHMENT LIST:

Attachment 1 - General Fund Baseline Budget Revenues Summary (PDF)
Attachment 2 - General Fund Baseline Budget Expenditures Summary (PDF)
Attachment 3 – Updated ARPA Allocation (PDF)