



**CITY OF PACIFICA
COUNCIL AGENDA SUMMARY REPORT**

6/27/2022

SUBJECT:

Adoption of the Fiscal Year 2022-23 Operating and Capital Budget.

RECOMMENDED ACTION:

Hold a public hearing, review and move to adopt the following resolutions:

1. Adopt the resolution approving the FY 2022-23 Operating and Capital Budget;
2. Adopt the FY 2022-23 Capital Improvement Program appropriation of \$1.205 million from the Roy Davies Trust Fund by 4/5 vote
3. Adopt the resolution establishing GANN Appropriation Limit for FY 2022-23;
4. Adopt the resolution approving the City's annual review of the Investment Policy included as Exhibit A to the resolution, with no changes for FY 2022-23; and
5. Adopt the resolution approving the City's FY 2022-23 Master Fee Schedule as included as Exhibit A to the resolution.

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BACKGROUND:

Each year, the City of Pacifica adopts an annual operating and capital budget that reflects the planned activities for the next fiscal year based on the best information available at the time of adoption.

The City Council held several study sessions related to the FY 2022-23 Budget. 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. 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.

On May 23, 2022, staff presented the General Fund Base Budget, preliminary position recommendations, Master Fee Schedule and Proposed Capital Improvement Plan for FY 2022-23 and received City Council feedback for development of the Recommended Budget options.

On June 13, 2022, City Council held a public hearing to review the Proposed FY 2022-23

Budget, including revenue, expenditures, transfers and program options for the upcoming fiscal year.

The primary focus of today's discussion is to provide Council with the final recommended FY 2022-23 Proposed Budget for adoption, presented in Attachment 1 to this report.

DISCUSSION

The goal of the 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. Economic recovery is one of the prime goals and objectives for the upcoming year. At the last meeting on June 13, 2022, staff presented the Proposed FY2022-23 Budget that included several new and ongoing initiatives, as well as a proposed allocation for the American Rescue Plan Act (ARPA) funds for the upcoming year. The summary of these proposed changes is included in Attachment 4.

Budgetary Reserves and Fund Balance Structure

The Proposed FY 2022-23 Operating and Capital Budget is being presented as a balanced budget, meaning that the City's operating expenditures do not exceed general revenues.

As previously reported by staff the City's FY 2022-23 Budget will be largely balanced by the use of ARPA funds. The eased reporting requirements for small agencies now allow for more flexibility in the use of these funds. Staff has also reported a projected future structural deficit of approximately \$2.7 million at the current baseline level of services without applying ARPA relief funds. A structural deficit exists when the general revenues can no longer support operating expenditures without applying additional budget strategies to balance the Budget.

This means that the City budget in the future years (beyond the upcoming FY2022-23) will neither be sustainable, nor compliant with the Government Finance Officers Association (GFOA) best practices unless the City's revenue base changes or substantial programmatic changes are made in the FY 2023-24 Budget to balance. The General Fund projects a small ending surplus of about \$3,000, and will maintain previously approved reserves which is necessary for fiscal and operational sustainability.

The General Fund Base Budget revenues and transfers are projected at \$47.3 million, including the \$4.6 million General Fund portion of ARPA funds. The total General expenditures and transfers out are also budgeted at \$47.3, which includes a one-time General Fund contribution of \$655,000 towards the FY 2022-23 CIP Budget.

The table below demonstrates the Net change to the General Fund Balance.

The City's Fund Balance Policy identifies fund balances (or reserves) which fall into the following categories: *non-spendable* items or portions of fund balance that cannot be liquidated, *restricted* amounts for use by outside agencies, *committed* amounts by Council action such as emergency /contingency reserves and *assigned* balances to pay off unfunded liabilities and to fund infrastructure improvements.

In accordance with GASB Statement No. 54 requirements and the City policy, the Council established the following designations or contingencies of General Fund Committed Balance.

- Budget Shortfall Policy Reserve of 10% of Expenditures (\$4.7 million)
- Facilities Maintenance & Replacement (\$55,000) includes a one-time policy reduction of

- \$150,000 for Station 71 CIP project planned for the FY 2022-23
- Compensated Absences Reserve (\$0.2 million)
- Child Care Reserve (\$0.5 million)
- Legal Reserves (\$0.1 million)

The Recommended FY 2022-23 Budget is balanced meaning that the operating revenues do not exceed the operating expenditures, and includes an undesignated General Fund Balance of \$5.5 million. The rest of the General Fund balances are detailed in the table below.

**FY2022-23 RECOMMENDED BUDGET
GENERAL FUND (ASSIGNED & UNASSIGNED BALANCES)**

Designations	Actual FY 2020-21	Adopted FY 2021-22 (amended as 9/27/2021)	Revised 2021-22	Base Budget FY 2022-23	FY 2022-23 Proposed
Beginning Fund Balance	\$ 15,917,102	\$ 16,501,373	\$ 16,501,373	\$ 15,841,009	\$ 15,841,009
Total Revenue	36,445,882	40,836,064	43,093,242	46,277,932	47,275,263
Total Operating Expenditures	34,802,341	39,536,846	40,002,209	44,599,106	46,617,227
Total Capital Project Expenditures	1,059,270	3,000,000	3,751,397	655,000	655,000
Ending Fund Balance	16,501,373	14,800,591	15,841,009	16,864,835	15,844,045
Non-Spendable	3,783,486	4,298,191	4,348,782	4,848,527	4,848,527
Assigned Reserves					
Policy Level of 10% of Expenditures	3,480,234	3,953,685	4,000,221	4,459,911	4,661,723
Facility Maintenance & Replacement	205,000	205,000	205,000	55,000	55,000
Compensated Absences	200,000	200,000	200,000	200,000	200,000
Child Care Reserve	697,908	488,591	488,591	488,591	488,591
Legal Reserves	100,000	100,000	100,000	100,000	100,000
Assigned Reserves	4,683,142	4,947,276	4,993,812	5,303,502	5,505,314
Total Designations	8,466,628	9,245,466	9,342,594	10,152,029	10,353,841
Unassigned Fund Balance	8,034,745	5,555,125	6,498,415	6,712,806	5,490,204
Operating Expenses	34,802,341	39,536,846	40,002,209	44,599,106	46,617,227
Unassigned Fund Balance as % of Op. Expenses	23%	14.1%	16.2%	15%	12%

Maintaining a sufficient level of the projected ending fund balance is necessary for fiscal and operational sustainability. It is especially critical in the current uncertain economic situation when the City projects a long-term structural deficit in future years and if the City's revenue base does not change.

After factoring-in the restricted reserves and operating contingency the ending undesignated General Fund balance is projected at \$5.5 million or 12% of the General Fund operating expenditures (excluding one-time and capital transfers), which is lower than the Government Finance Officers Association of the US and Canada (GFOA) recommendation for government entities of no less than two months of regular general fund operating expenditures, which is approximately \$7.8 million for the City of Pacifica in FY2022-23. However, if combined with the 10% Budget Shortfall reserve of \$4.7 million mentioned above, the General Fund reserves exceed the minimum-recommended threshold and are compliant with the GFOA guidelines.

Having this additional policy designation puts the City in a slightly better financial position to be prepared for difficult budget choices that may be faced in the following year if the City's revenue base does not improve and/or economy does not perform as forecasted in our revenue assumptions.

Other Funds

There are no changes to other funds from the last meeting. The summary of Revenues, Expenditures, and Fund Balances for all of the City’s fund categories is shown in the table below and further described in Attachment 3.

Fund Name	Audited Fund Balance 7/1/2021	Projected Fund Balance 6/30/2022	Revenues & Transfers In Proposed Budget	Expenditures & Transfers Out Proposed Budget	Revenue Over (Under) Expenditures	Projected Fund Balance 6/30/2023
GENERAL FUND	\$ 16,501,373	\$ 15,841,009	\$ 47,275,263	\$ 47,272,227	\$ 3,036	\$ 15,844,045
ENTERPRISE FUNDS	27,555,191	20,575,325	19,339,000	28,302,709	(8,963,709)	11,611,615
SPECIAL REVENUE FUNDS	20,117,259	15,781,299	19,000,207	18,580,853	419,354	16,200,653
INTERNAL SERVICE FUNDS	4,698,157	4,109,510	3,223,500	3,023,829	199,671	4,309,181
DEBT SERVICE FUNDS	227,401	227,401	2,900,800	2,900,800	0	227,401
Total Other Funds	\$ 52,598,008	\$ 40,693,534	\$ 44,463,507	\$ 52,808,191	\$ (8,344,684)	\$ 32,348,850
Total All Funds	\$ 69,099,381	\$ 56,534,543	\$ 91,738,770	\$ 100,080,418	\$ (8,341,648)	\$ 48,192,895

The expenditures exceeding revenues in Enterprise and Special Revenue Funds categories is a reflection on the City’s continuing aggressive investment in infrastructure as further described in the CIP Budget Plan for the upcoming year (Attachment 2). Given the uncertain economic outlook for the upcoming year, the Proposed FY 2022-23 Budget limits the use of the General Fund towards the CIP program to \$655,000 from the undesignated General Fund balance. The FY 2022-23 CIP Budget includes nearly \$1.205 million allocation from the Roy Davies Trust fund and is maximizing the uses of other existing fund balances in Street Construction, General Capital, Parking In-Lieu, Park In-Lieu Capital and Wastewater Capital funds, which is reflected in the table above and further detailed in the Attachment 2.

Other Matters (Action Items):

GANN Appropriation Limit

The City is required by the State Constitution to annually establish and adhere to a limit on the amount of its appropriations. Such limit is prescribed by a State formula calculated by taking the prior year’s limit and applying growth factors as appropriate. The growth factors are determined by 1) the change in population in either the City or the County, and 2) the change in per capita income or non-residential new construction. For the Fiscal Year 2022-23, staff has calculated that the appropriations limit is \$51.0 million. Per the Recommended FY 2022-23 Budget, the City expects to collect, and has budgeted to appropriate, \$40.1 million, which is 21.3% or \$10.8 million below the appropriations limit (Attachment 6).

Investment Policy

Following the CA Government Code requirement for annual review of the Investment Policy, staff is bringing the City’s Investment Policy to City Council together with the budget to satisfy this requirement. There are no changes to the Investment Policy recommended at this time. The Council previously approved Investment Policy changes in October, 2018 (Attachment 7).

Master Fee Schedule

The FY 2022-23 Proposed Master Fee Schedule was presented to City Council on May 23, 2022 with minor changes in PBNR fee schedule as well as addition of the Park in-lieu and pavement impact fees that were discussed at the meeting. Staff has not made any additional changes to the Master Fee schedule since that meeting, and the final Master Fee Schedule is now included in the Budget document. The enclosed resolution approving the attached Master Fee Schedule will be included in the final budget book (Attachment 8).

Conclusion and Future Outlook

The Proposed FY 2022-23 Budget is balanced and reflects the City Council’s direction and priorities in applying balancing strategies in response to COVID-19 revenue impacts and other revenue constraints in Pacifica.

This Budget was prepared when the local economy is still recovering from the pandemic. Staff remains optimistic about the pace of Pacifica's recovery, and the recommended FY2022-23 Budget includes allocation of ARPA funds to stimulate this recovery.

Fiscal sustainability remains a top priority as the City continues to provide quality programs and services in a financially sustainable fashion. This goal is especially important in the face of projected future fiscal challenges due to the long-term financial outlook projecting City expenditures to outpace revenues. The City's tax revenue base is significantly lower than the majority of Bay Area cities and the local economy is still experiencing on-going impacts from the pandemic. The cost to deliver services and City operations has increased due to inflation, as well as increased personnel cost due to unfunded liabilities related to pension and OPEB. The City is looking into financial sustainability options as part of the Vision 2025 & Beyond project. Although, staff is optimistic about improving the City's revenue base, service reductions likely will need to be identified in the upcoming year if the revenue base does not change.

City staff looks forward to continued work with the City Council and the community to address any potential financial challenges that may lay ahead and identify operational opportunities and efficiencies, assess appropriate fee structures, pursue economic development opportunities, and advise on alternative revenue options available to the City and the community to facilitate Pacifica's recovery and ensure Pacifica continues to be a desirable community in which to live, work, and play.

ALTERNATIVE ACTION:

The City Council is being asked to adopt the FY2022-23 Proposed Budget. No alternative action is identified.

RELATION TO CITY COUNCIL GOALS AND WORK PLAN:

A balanced and structurally sustainable budget is consistent with all of the City Council goals.

FISCAL IMPACT:

The FY 2022-23 Recommended Budget is balanced. The General Fund Operating Revenues Budget is \$47.275 million and slightly exceeds the General Fund Operating Expenditures Budget of \$47.272 million. The total General Fund expenditures includes \$0.6 million in a one-time transfer towards the CIP program. The FY 2022-23 Other Funds revenues and expenditures total \$44.464 million and \$52.808 million respectively and include the FY 2022-23 Capital Improvement Plan (CIP) budget of \$21.9 million, which is partially funded by one-time use of various fund reserves and outside funding sources.

ORIGINATED BY:

City Manager's Office

ATTACHMENT LIST:

- Attachment 1 - Operating Budget (PDF)
- Attachment 2 - CIP Budget 2022-2027 (PDF)
- Attachment 3 - Fund Balance Summary (PDF)
- Attachment 4 - Summary of Recommended Budget Options (PDF)
- Attachment 5 - GANN Resolution (PDF)

Attachment 6 - Budget Resolution (PDF)
Attachment 7 - Investment Policy Resolution(PDF)
Attachment 8 -Master Fee Schedule Resolution (PDF)