

RESOLUTION NO. 2021-27

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA RECEIVING FISCAL YEAR 2020-21 MID-YEAR FISCAL REPORT, AUTHORIZING ACTING FINANCE DIRECTOR TO MAKE APPROPRIATE ACCOUNTING AND BUDGETARY ENTRIES AND PROVIDE STAFF WITH ANY FURTHER DIRECTION IN THE MATTER

WHEREAS, the Acting Finance Director presented the FY2020-21 General Fund mid-year fiscal report, and;

WHEREAS, the FY2020-21 estimated revenues and expenditures were determined by the City Manager and Directors based upon historical information, third party data, (if available), and anticipated activities for the remainder of the fiscal year, and;

WHEREAS, these are Staff's estimates during a dynamic economic climate and actual results will differ, and;

WHEREAS, this report focuses on the General Fund.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Marina does hereby:

1. Accept the fiscal year 2020-21 mid-year fiscal report, authorizing the follow Budget Amendments to FY 2020/21 Mid-Cycle Budget.

Amend the 2020/21 Revenues as detailed below:

- Increase \$450,000 – Property Tax
- Increase \$253,650 – Sales Tax
- Increase \$917,167– Sales Tax – Measure N
- Increase \$480,000 – TOT + Measure P
- All Other:
 - Increase \$109,504 – CARES Act
 - Increase \$813,290 – Mutual Aid/CSA 74 Reimbursement (Fire)
 - Increase \$99,397 – FEMA Grant (Fire)
 - Increase \$55,000 – Assistance to Firefighters Grant (Fire)
 - Increase \$2,000– Services to MPC (Fire)

Amend the 2020/21 Expenditures as detailed below:

- Increase \$4,600 – City Council Department, higher actual workers comp insurance costs
- Increase \$700,000 – City Manager Department, additional special counsel costs
- Increase \$90,000 – Finance Department, professional services
- Increase \$264,000 – Citywide Department, increases in retirement, liability, and property
- Increase \$727,906 – Fire Department, expenditures covered by the Fire reimbursement

2. Authorize the acting finance director to make necessary accounting and budgetary entries; and
3. Direct staff to unfreeze the hiring of all the positions and actively pursue the hiring of necessary staff as all directors and city manager sees fit.

PASSED AND ADOPTED by the City Council of the City of Marina at a regular meeting duly held on the 6th day of April 2021, by the following vote:

AYES: COUNCIL MEMBERS: Medina Dirksen, Burnett, Berkley, Biala, Delgado

NOES: COUNCIL MEMBERS: None

ABSENT: COUNCIL MEMBERS: None

ABSTAIN: COUNCIL MEMBERS: None

Bruce C. Delgado, Mayor

Anita Sharp, Deputy City Clerk

April 2, 2021

Item No. **11a**

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of April 6, 2021

**CITY COUNCIL TO CONSIDER ADOPTING RESOLUTION NO. 2021-,
RECEIVING GENERAL FUND FISCAL YEAR 2020-21 MID-YEAR
FISCAL REPORT, AUTHORIZING ACTING FINANCE DIRECTOR TO
MAKE APPROPRIATE ACCOUNTING AND BUDGETARY ENTRIES
AND PROVIDE STAFF WITH ANY FURTHER DIRECTION IN THE
MATTER**

REQUEST:

It is requested the City Council consider:

1. Adopting Resolution No. 2021- receiving the General Fund Fiscal Year 2020-21 Mid-Year Fiscal Report;
2. Authorizing the Acting Finance Director to make appropriate accounting and budgetary entries, and;
3. Provide staff with any further direction in the matter.

BACKGROUND:

On March 19, 2019, the City Council adopted Resolution No. 2019-33, approving a two-year budget for Fiscal Years 2019-20 and 2020-21. On June 23, 2020, the City Council adopted Resolution No. 2020-78, approving a mid-cycle budget adjustment of the two-year budget. During the mid-cycle budget review, significant budget adjustments were made to the revenue and expenditure estimates due to anticipated economic impacts of the COVID-19 pandemic.

ANALYSIS:

Given the continued economic impacts, it is important to provide a “mid-year” fiscal report presented with updated financial estimations. Although the estimations are based upon thorough review of historical trends and third-party expert data, when available, these remain estimates and actual results may differ. This report focuses on the General Fund, and consists of three sections: a review of the mid-cycle COVID-19 reductions, proposed mid-year budget amendments, and preliminary year-end estimates.

Adopted FY 2020/21 Mid-Cycle Revised Budget

The Mid-Cycle budget adjustments adopted June 20, 2020, anticipated that the City could see up to a \$3.52 million reduction in revenues due to the impacts of COVID-19. In order for the budget to remain balanced, a corresponding reduction in expenses was proposed for the Mid-Cycle Revised Budget. The table below demonstrates the necessary Mid-Cycle revisions made on June 20, 2020.

Table 1. General Fund Operating Adopted Budget				
	FY 19/20 Budget	FY 20/21 Budget	FY 20/21 Mid-Cycle Revised Budget	Reductions from Adopted 2-year Budget
Revenues	\$ 26,238,000	\$ 26,059,000	\$ 22,539,000	\$ (3,520,000)
Expenses	\$ 27,770,000	\$ 28,411,000	\$ 24,476,000	\$ (3,935,000)
Revenues over Expenses	\$ (1,532,000)	\$ (2,352,000)	\$ (1,937,000)	
Transfers in for Non-Replacement Vehicle Charges	\$ 507,000	\$ 580,000	\$ 580,000	\$ -
Transfers in for Extraordinary Legal Costs			\$ 700,000	\$ 700,000
Transfers in for Capital	\$ 2,160,000	\$ 2,735,000	\$ 750,000	\$ (1,985,000)
Net Operating Budget	\$ 1,135,000	\$ 963,000	\$ 93,000	

The \$3,935,000 in operating expenditure reductions were accomplished through the budget cuts listed below.

Table 2. Mid-Cycle Budget Reductions		
	Reduction	Description
Wage Reimbursements	\$ 450,000	Charging staff time to Gas Tax Fund and Successor Agency
No MOU increases	\$ 200,000	No previously budget salary/benefit increases
Budget Reduction	\$ 1,200,000	Cut Special Events, non- personnel costs, PT Police & Recreation staff
		Freeze Open Positions:
		City Manager's Office Intern
		Economic Development Manager
		City Manager's Office Executive Assistant
		Building Inspector
		Senior Planner
		Associate Engineer
		Finance Intern
		Finance Pt. Position
		Maintenance Worker I
Capital Reductions	\$ 2,085,000	Cut City Hall and Annex Improvements
		Dunes Barracks & Fire Station #3 stabilization
		Arts Village Building Stabilization
Total	\$ 3,935,000	

The Revenues over Expenditures deficit that is noted in Table 1 is produced by the City Council's desire to fund additional Capital Projects from the City's reserves and vehicle replacement charges that are funded by transfers into the General Fund.

Updated estimates on the COVID-19 mid-cycle budget adjustments:

The good news is that the actual revenues received combined with the projected revenues through the end of this fiscal year have given us a much better year end estimate than expected when the Mid-Cycle Budget Adjustments were adopted. Table 3 below provides a summary comparison to the Revision Summary from Reso. 2020-78. What is important to understand is that although the revenue reduction was not as great as originally projected, it is still a loss from the pre-covid revenue projections for FY20/21 of \$26,059,00 discussed in further detail in the following revenue section. When reviewing the expenditure reduction comparisons, it was found that part of the wage reimbursement reductions was already included in budget numbers, thus already accounted for. This section is just a summary comparison of the COVID-19 reductions, and the actual requested mid-year budget adjustments will be provided in the following sections.

Table 3 Summary Comparison of COVID-19 reductions

	Mid-Cycle Approved COVID-19 Reductions (reso. 2020-78)	Updated Estimates on COVID-19 Reductions	Diff	
Revenue loss	(4,000,000)	(1,839,934)	2,160,066	
Inc. Traffic Cita.	100,000	24,000	(76,000)	
SAFER Grant	380,000	435,000	55,000	
Revenue Reductions	(3,520,000)	(1,380,934)	2,139,066	More revenue than projected, still revenue loss from pre-covid budget
Wage Reimb	(450,000)	(228,537)	221,463	
No MOU inc.	(200,000)	(200,000)	-	
Budget Red.	(1,200,000)	(1,161,000)	39,000	
Capital Reductions	(2,085,000)	(2,085,000)	-	
Expenditure Reductions	(3,935,000)	(3,676,537)	260,463	Increased costs due to some COVID-19 expenditure reductions not realized

FY20/21 PROPOSED MID-YEAR BUDGET AMENDMENTS – REVENUES

The total mid-year revenue adjustment is \$3.175 million, which will increase the estimated FY20/21 revenue to \$25,714,630. This includes approx. \$900k of non-recurring revenues from CARES Act and Mutual Aid. The mid-year revenue adjustments are detailed below:

- Increase \$450k – Property Tax
- Increase \$253k – Sales Tax
- Increase \$917k – Sales Tax – Measure N
- Increase \$480k – TOT + Measure P
- All Other:
 - Increase \$109k – CARES Act (non-recurring)
 - Increase \$813k – Mutual Aid/CSA 74 Reimb (Fire) (non-recurring)
 - Increase \$99k – FEMA Grant (Fire)
 - Increase \$55k – Assistance to Firefighters Grant (Fire)
 - Increase \$2k – Services to MPC (Fire)

Table 4 – Proposed Budget Amendments Revenue

Revenues	FY20/21 Mid-Cycle Revised Budget	Proposed Mid-Year ammendments	Updated budget if Mid-Year amendments approved
Prop Tax	6,382,500	450,000	6,832,500
Sales Tax	2,310,000	253,650	2,563,650
Sales Tax - Measure N	4,175,000	912,167	5,087,167
TOT + Measure P	2,320,000	480,000	2,800,000
Bus Lic / Franchise Tax	2,521,000	-	2,521,000
All others	4,831,122	1,079,191	5,910,313
Total Revenue	\$ 22,539,622	\$ 3,175,008	\$ 25,714,630

FY20/21 PROPOSED MID-YEAR BUDGET AMENDMENTS - EXPENDITURES

The FY 20/21 current expenditure budget is \$24.55 million. The total adjustments of \$1.7 million will increase the budget expenditures to \$26.33 million. Once the non-recurring transfers are backed out, the expenditures from operating are \$24.3 million. The mid-year expenditure adjustments are detailed below and included in Table 5:

- Increase \$4k – City Council dept, to account for higher actual workers comp insurance costs
- Increase \$700k – City Manager dept, budgeted \$890k but estimating \$1.6mil in special counsel costs, asking for \$700k to be covered by unallocated fund balance
- Increase \$90k – Finance dept, only budgeted \$10k for professional services, believed to be a typo, should have been \$100k in accordance with previous years and current estimates
- Increase \$264k – Citywide dept, \$194k increase per actuals in retirement, liability, and property insurance. \$70k to cover unbudgeted COVID-19 costs, partially covered by the CARES Act
- Increase \$727k – Fire dept, \$567k in personnel costs, \$160k in maintenance and supplies – all expenditures covered by the Fire reimbursement in the above section

Table 5 – Proposed Budget Amendments Expenditures

Expenditures by Dept	FY20/21 Mid-Cycle Revised Budget	Proposed Mid-Year amendments	Updated budget if Mid-Year amendments approved
Council	20,610	4,600	25,210
City Manager	1,596,430	700,000	2,296,430
I.T.	308,850	-	308,850
Finance	703,320	90,000	793,320
City Attorney	221,600	-	221,600
Non-Departmental	5,931,900	264,000	6,195,900
Police	7,548,290	-	7,548,290
Fire	3,745,810	727,906	4,473,716
Public Works	1,651,800	-	1,651,800
Planning	639,810	-	639,810
Engineering	883,640	-	883,640
Building Inspection	358,040	-	358,040
Economic Dev.	119,407	-	119,407
Recreation & Culture	823,860	-	823,860
Total Expenditures	\$ 24,553,367	\$ 1,786,506	\$ 26,339,873
	Back out Vehicle Replacement		580,000
	Back out Extraordinary Legal Cost		700,000
	Back out Capital		750,000
	Expenditures from Operating		\$ 24,309,873

REVISED MID-YEAR BUDGET ESTIMATES

When combined, the Revenues, Expenditures and interfund transfers demonstrate that the City has continued to exceed both revenues and cost containment measures. Table 6 below demonstrates the General Fund Operating Budget performance during the 2-Year Budget Cycle. The Total Revenues and Expenditures noted in the above Table 6 assume that the City Council adopt the recommended mid-year budget adjustments contained below in this report and in the attached Resolution.

	FY 20/21 Budget	FY20/21 Mid-Cycle Revised Budget	FY20/21 Updated Year End Forecast	Difference Mid-Cycle Budget/Yr End Forecast
Total Revenues	\$ 26,059,000	\$ 22,539,622	\$ 25,714,630	\$ 3,175,008
Total Expenditures	\$ 28,411,000	\$ 24,476,000	\$ 26,339,873	\$ 1,863,873
Revenues Over/(Under) Expenditures	\$ (2,352,000)	\$ (1,936,378)	\$ (625,243)	\$ 1,311,135
Transfers in for Non-Replacement Vehicle Charges	\$ 580,000	\$ 580,000	\$ 580,000	\$ -
Transfers in for Extraordinary Legal Costs		\$ 700,000	\$ 700,000	\$ -
Transfers in for Capital	\$ 2,835,000	\$ 750,000	\$ 750,000	\$ -
Net Operating Budget	\$ 1,063,000	\$ 93,622	\$ 1,404,757	\$ 1,311,135

Again, as noted above, the net revenue increase includes approx. \$900k of non-recurring revenues from CARES Act and Mutual Aid. While there is good news that impacts were not as significant as expected, HdL sales tax experts project that sales tax levels are not expected to resume 2019 sales tax levels until FY 2022/23. And the Monterey County Convention and Visitors Bureau is projecting that TOT revenues will also lag until 2023/24, however, our hotels tend to perform a bit differently than the rest of the peninsula and we believe our TOT will look more normal by FY 2022/23. The bottom line is staff expects that we will still see an approximate \$1,000,000 reduction in revenues from the FY 2019/20 budget in the FY 2021/22 budget estimates.

While the revenues this year have outpaced the estimates, it is important to note that in order to demonstrate the \$1,311,135 positive budget performance indicated above it was necessary to cut \$1,200,000 through freezing unfilled positions, a \$2,085,000 reduction in capital projects (City Council Chambers upgrades, Arts Village, Barracks and Fire Station #3 stabilization), and a \$200,000 elimination of MOU enhancements. The Council may consider reinstating this spending going into the next fiscal year.

OTHER FUNDS/UPDATES:

Since this report focuses on the General Fund, an update on the other funds will be provided with the year-end review. Finance will also be bringing the FY19/20 audit to Council review in the next month or so with an update on all fund balances.

FISCAL IMPACT:

Regarding the mid-cycle COVID-19 reductions, the comparisons show that revenue losses were not as steep as originally projected due to COVID-19, but the City is still below pre-covid revenue estimates. Although the estimations are based upon thorough review of historical trends and third-party expert data, when available, these remain estimates and actual results may differ.

Regarding the mid-year budget amendments, while most of the expenditure adjustments will be covered by the updated revenue adjustments, \$700k is requested to be appropriated from unassigned fund balance for special counsel costs. Unassigned fund balance was approximately \$5 million as of last completed

audit FY18/19, and prelim reports of the FY19/20 unassigned fund balance which includes approx. \$6 million from the land sale, is estimated to come in at \$13 million. Final FY19/20 audit numbers will be available in the coming weeks. Should the City Council accept this report and approve the budget amendments, the FY20/21 General Fund includes estimated revenues of \$25.7 million, and estimated expenditures of \$24.3 million.

CONCLUSION:

This request is submitted for City Council consideration and possible action.

Respectfully submitted,

Marisol Gomez
Acting Finance Director / Accounting Services Manager
City of Marina

REVIEWED/CONCUR:

Layne P. Long
City Manager
City of Marina