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TITLE:

FISCAL YEAR 2021-2022 MID-YEAR BUDGET UPDATE

DEPARTMENT: FINANCE DEPARTMENT

PRESENTED BY: CAROL MOLINA, FINANCE DIRECTOR

CONTACT INFORMATION: CAROL MOLINA, FINANCE DIRECTOR (714) 754-5243

RECOMMENDATION:

Staff recommends that City Council receive and file the FY 2021-22 mid-year budget update for the current fiscal year that began on July 1, 2021 and ends on June 30, 2022.

BACKGROUND:

On June 15, 2021, the Fiscal Year 2021-22 Operating and Capital Improvement Budget was adopted by the City Council. The Adopted General Fund budget totaled \$154.4 million and the All Funds (including restricted funds) budget totaled \$197.9 million with a total of 651.9 Full Time Equivalents (FTEs) across City departments.

All City Departments continue to exercise fiscal prudence by monitoring their budgets to ensure there are sufficient appropriations for essential programs; expending actual revenue that has been received or awarded in grants or restricted funds; and making minor adjustments to staffing to better address workload demands and Council priorities.

ANALYSIS:

Since the onset of the pandemic, the City has proactively implemented and managed its finances to ensure fiscal sustainability throughout the impacted period and beyond. The pandemic first affected the City's revenues during the last quarter of Fiscal year 2019-20, from April through June 2020. The City Council approved the temporary suspension of capital projects and reduced spending to emergency-related items only. As a result, the FY 2019-20 General Fund Budget ended with a slight \$160,000 increase to the Fund Balance without the need to dip into the City's reserves.

The following year, Fiscal Year 2020-21 marked the first full year of the pandemic. Expenditure reductions were approved and implemented across all departments including a 5% employee pay furlough, the temporary defunding of numerous vacant positions, and targeted operating reductions in all departments.

The current Fiscal Year 2021-22 budget anticipates a gradual recovery from the fiscal impacts of the pandemic. More than halfway through the fiscal year, the City is experiencing a rebound in Sales Tax revenues, higher than budgeted rebound in hotel taxes, and the continued growth of Property Taxes. Overall, the FY 2021-22 year-to-date financials reflect that revenues and expenditures are generally better than projections made in the Fiscal Year 2021-22 Adopted Budget. As of December 31, 2021, the General Fund recorded 41% of the projected revenues and 51% of budgeted expenditures. These percentages are generally consistent with what is expected at this time of the fiscal year. Revenues and expenditures do not occur uniformly throughout the year, so at the end of the second quarter we do not expect to see 50% of the annual realized revenue. Further details are included below.

Federal American Rescue Plan Act (ARPA) Funding

By March 2021, the \$26.2 million ARPA (American Rescue Plan Act) funding passed Congress and the first half, \$13.1 million, was realized in the City's coffers. Next month, in April 2022, we anticipate receiving the second half of the City's allocation of ARPA funds. Fiscal relief provided by ARPA allowed the City to reinstate staffing and to end the employee furloughs with full reimbursement to the employees, reinstate the Capital Asset Needs (CAN) funding, increase funding for Information Technology projects, and eliminate the deficit in the Disaster Fund (Fund 150), where the expenditures related to the emergency were booked. With all these strategic adjustments and prudent financial management, the City's emergency reserves in the General Fund were again untouched.

The City is expecting to receive the second half of its ARPA allocation totaling \$13.1 million by next month. We are pleased to report that ARPA funds are much more flexible than prior emergency relief funds such as CARES Act funding. Just recently, new Department of Treasury guidelines were released stating that these funds can also be utilized for: premium pay for essential workers, to restore positions, and restore employment: funding for employees that experienced pay reductions or work furloughs; to maintain compensation levels to prevent layoffs, and for worker retention incentives, including reasonable increases in compensation.

As such, realigning positions, leveraging existing positions, revamping the recruitment process, and reasonably increasing compensation to market levels, are all eligible uses of ARPA funds. City staff recommends the use of ARPA funds to recruit and retain high quality staff as approved by City Council as one of the City Council's goals and now within the scope of ARPA's eligibility requirements and guidelines.

REVENUES

The City continually monitors and adjusts its revenue projections based on revenue performance and other developments that impact City revenues. It is important to note that several key revenues are received at different times throughout the fiscal year. Sales Tax represents 40% of the total annual General Fund revenue and is the largest revenue category. Property Tax represents 33% of the total General Fund revenues budget and is primarily received in the December/January and April/May periods. Transient Occupancy Tax (TOT) represents 4% of total General Fund Revenues, and is received monthly. Although TOT receipts have increased since last fiscal year, this revenue stream continues to be impacted by the pandemic and the loss of group business mainly comprised of industry and trade conferences and bookings. Cannabis Gross Receipts Tax represents 1.3% of budgeted General Fund Revenues, but will not materialize at the level budgeted as the retail cannabis program's implementation is still underway. As of today, based on these trends, we are amending the General Fund Year-End projections from \$154.4 million (including transfers) to a total of \$156.0 million, a projected increase of \$1.6 million.

EXPENDITURES

The Fiscal Year 2021-22 expenditures budget was \$154.4 million for Citywide services with public safety comprising over 50% of total expenses. As of this writing, General Fund expenditures are expected to come in below budgeted levels by \$1.2 million, at \$153.2 million, due to greater than anticipated vacancies.

These expenditure savings combined with the increased revenue projections will result in an estimated year end savings in the General Fund budget of approximately \$2.8 million.

Fiscal Year 2021-22 Mid-Year Update

Category	Adopted FY 21-22	Projected FY 21-22*	Difference
Property Taxes	\$49.6	\$49.7	\$0.1
Sales Tax	61.0	66.1	5.1
TOT (hotel tax)	5.6	6.7	1.1
Cannabis (fees and permits)	3.3	2.5	(0.8)
Other Revenues	25.1	28.0	2.9
Subtotal	144.6	153.0	8.4
Use of Reserves	3.2	0.0	(3.2)
Transfer In – Use of ARPA	6.6	3.0	(3.6)
Total Funding Sources	154.4	156.0	1.6
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Expenditures	(154.4)	(153.2)	1.2
Surplus/(Deficit)	\$ -	\$ 2.8	\$ 2.8

Strengthen the Public Safety and Improve the Quality of Life

The City Council has implemented a goal to strengthen the public's safety and improve the quality of

life in Costa Mesa. There are a few critical positions in the safety departments that staff will be requesting at a future Council meeting to further strengthen our public safety response. The experience of the pandemic has only heightened the necessity to identify critical areas of operation that need additional support; hence, a request will be made shortly to add a few new key positions in the Police and Fire and Rescue Departments to strengthen our public safety response.

In addition, throughout the year, the City's public safety personnel provides mutual aid support to other jurisdictions. This is a situation that occurs more frequently in the Fire Department, but with the pandemic, we also experienced this in the Police Department. In these situations, Costa Mesa will respond to the call for help and send our personnel and fleet to assist others. After that response, the City will receive full reimbursement for the expenses incurred. At a future meeting, Staff will also be requesting that City Council authority be provided to appropriate funds as revenues are received to ensure net neutral impacts to the City's public safety departments. Based on our review of the City's financial performance thus far, these adjustments can be accommodated in this fiscal year.

Recruiting and Retaining High Quality Staff

City Council identified and approved a goal to recruit and retain high quality staff at the September 2021 Strategic Plan Retreat. It is imperative that the City enhance its ability to actively recruit and retain talented staff. As a result, staff is proposing to create a new Recruitment Office in the Human Resources Division of the City Manager's Office with the addition of two key positions and the realignment of other staff to those duties full time. Further, staff will be recommending to bring a second round of positions for market based adjustments to further enhance our recruitment and retention efforts. Phase 1 of the hard-to-fill positions was presented and approved by the City Council in December 2021. The next phase will be presented on March 15, 2022.

FISCAL REVIEW:

There is no fiscal impact to receiving and filing this report. All future proposed staffing changes will be fully costed and presented to the City Council with detail regarding specific funding available and annualized costs when presented to the City Council.

LEGAL REVIEW:

The City Attorney has reviewed and approved this report as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the following City Council Goals:

- Strengthen the Public's Safety and Improve the Quality of Life
- Achieve Long-term Fiscal Sustainability
- Recruit and Retain High Quality Staff
- Diversify, Stabilize and Increase Housing to Reflect Community Needs
- Advance Environmental Sustainability and Climate Resiliency

CONCLUSION:

Staff recommends that City Council receive and file the mid-year budget review for Fiscal Year 2021-22 that began on July 1, 2021.