



Council Agenda Report

Item 6a

Department: Finance
Cost Center: 2002
For Agenda of: 2/15/2022
Placement: Business
Estimated Time: 90 minutes

FROM: Derek Johnson, City Manager
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SUBJECT: FY 2021-22 MID-YEAR BUDGET REVIEW

RECOMMENDATION

1. Receive and discuss the Mid-Year Budget report based on revised projections for all major funds at the mid-point of the 2021-22 fiscal year; and
2. Adopt a Resolution entitled, "A Resolution of the Council of the City of San Luis Obispo, California, approving amendments to the adopted 2021-22 Budget Appropriations and authorizing the City Manager to approve National Pollutant Discharge Elimination System Permit Violation Settlements" and approve the one-time and ongoing allocations as stated in the Mid-year Budget Report including the annual Transportation Development Act appropriation.

DISCUSSION

Report-in-Brief

The mid-year report provides a thorough review of the City's financials halfway through the fiscal year. It reports out on work programs, capital projects, and reviews the current revenue and overall expenditure trends. It also serves to review possible one-time allocations of unassigned fund balance as reported through the City's audit and Annual Comprehensive Financial Report.

The 2021-22 Fiscal Year is an anomaly due to the ongoing pandemic that influences the City's fiscal outlook. It therefore offers the City opportunities to immediately address community and organizational needs and begin implementation prior to the second year of the Financial Plan.

Background

The City's budget policies require that the City Council review the City's budget and financial condition at least every six months. The mid-year review is part of the quarterly reports and fulfills that purpose. The review allows the Council to make adjustments to revenue and expenditure assumptions should the need arise. The accompanying Mid-Year Budget report for 2021-22 provides a comprehensive overview of the City's financial condition half-way through the fiscal year. The report summarizes current financial trends since the adoption of the 2021-23 Financial Plan in June 2021.

The report's focus is on the General Fund and each of the City's enterprise funds. The mid-year budget report also provides an update on departmental performance measures, work programs, the Capital Improvement Plan, and Major City Goals.

Based on the current revenue trends and the revised forecasts, the City is now in a financial condition to be able to make the additional CalPERS payments consistent with the Fiscal Health Response Plan (FHRP). The total payment equates to \$10.2 million from the General Fund and \$2.2 million from the enterprise funds, which will put the City back on track with its schedule to pay down the pension obligation over 20 years.

With the first FY 2021-22 quarter report, staff alerted Council that the City's appropriation of American Rescue Plan Act (ARPA) funding had increased from \$8.9 million to \$13.5 million. At this time, staff is recommending making decision on the additional \$4.7 million for appropriation with the 2022-23 Supplemental Budget. Council direction on any preliminary priorities for the use of these funds is recommended so that staff has ample time in preparation of the Supplemental Budget and develop any implementing programs related to these priorities.

This report also contains a recommendation related to a settlement agreement with the Central Coast Regional Water Board and authorization for the City Manager to approve NPDES Permit Violation Settlements.

Mid-Year Report Organization

Section A – General Fund Summary: This section provides a narrative overview of the City's current financial condition and current revenue and expenditure trends. In summary, the revised forecast shows a significant increase in revenue as compared to the forecast presented with the adopted Financial Plan. Year-to-date expenditures are on track for FY 2021-22 budget appropriations, but staff estimate that expenditure budgets will need to increase in similar proportion to the revenue increase in order to meet the demands of inflation, price pressure due to supply challenges, and to respond to the service needs of the community.

Section B – General Fund Mid-Year Recommendations: This section outlines the proposed mid-year expenditure budget changes as well as one-time allocations of the FY 2020-21 unassigned fund balance. Detailed recommendations are listed in *Attachment A – Appendix B* and a table of the total budget changes is included in the "Fiscal Impact" section of this report. The revised forecast assumes immediate action to fund community priorities that have emerged since June 2021. It also takes immediate action to address labor market shortages and ensure that the City remains competitive in retaining and attracting talent. All recommended uses of the Local Revenue Measure funding have been reviewed by the Revenue Enhancement Oversight Commission during their January 26, 2022, meeting and the commission concurs with the submitted amendments in this report.

Section C – Enterprise Fund Summary: This section provides a narrative update of the City’s enterprise funds’ financial conditions, including any recommended budget changes. Year-to-date expenditures and revenues are on track for all funds. Revised long-term forecasts are included.

Section D – Department Performance Measures and Work Program Updates: This section provides an evaluation on the performance measures and an update on core objectives of each operating program. Overall, 97% of the 74 total operating programs manage workload within budget and meet core objectives.

Section E – Capital Improvement Plan (CIP) Update: This section provides an update on active and ongoing CIP projects.

Section F – Major City Goal Update: This section provides an update on Major City Goal tasks that were either scheduled for completion in 2021-22 or are listed as “ongoing”. Several tasks were delayed but most were completed or are scheduled to be completed before year end.

Appendix A – Detailed Financials: This section provides a closer look at year-to-date actuals for the major funds and the recommended revenue budget adjustments.

Appendix B – Budget Requests: This section list provides a description for each of the expenditure budget recommendations.

CalPERS Down payments and Investment Into 115 Trust Fund

With the 2018-19 Budget Adoption, Council adopted the “Fiscal Health Response Plan” to help balance the long-term forecast and begin an ambitious schedule to pay down pension obligation over 20 instead of 30 years. This was based on the commitment to use available unassigned fund balance mainly for this purpose. Though the City did achieve a positive revenue over expenditure picture over the past three fiscal years, the planned additional CalPERS payments were postponed at the onset of the pandemic due to the uncertainty around COVID-19. Based on the positive fiscal outlook, all outstanding payments are recommended to be made in 2021-22. For ongoing payments above the regular CalPERS contributions, see the updated long-term forecasts in Attachment A.

Table 1 - CalPERS Down payments:

Fund	Down-Payment
General Fund	10,200,000
Water Fund	840,685
Sewer Fund	864,037
Parking Fund	311,114
Transit Fund	64,031
Whale Rock	109,229
TBID	40,678
Total	\$12,429,774

Table 2 - 115 Trust Fund Investments:

Fund	115 Trust Fund Investment
General Fund	2,000,000
Water Fund	166,317
Sewer Fund	170,896
Parking Fund	61,446
Whale Rock	21,417
TBID	7,976
Total	\$2,428,052

American Rescue Act Plan (ARPA)

In April 2021, the City received confirmation of an estimated \$8.9 million of ARPA funds which was subsequently revised to \$13.5 million in July 2021. The funding will be received in two equal installments and the first one was received on July 6, 2021. The second installment should arrive around the same time in 2022. The original amount of \$8.9 million coincided almost exactly with the calculated revenue loss in 2020 and was budgeted to assist in investing in capital projects that were defunded due to the fiscal uncertainty. Since only \$8.8 million is currently programmed for revenue loss, \$4.7 million remains eligible for appropriation in 2022-23. The additional ARPA funding provides a unique opportunity for the City to address community needs.

With the issuance of the Final Rule pertaining to ARPA use, the Treasury has provided the option to use a flat \$10 million in revenue loss without further substantiation of the loss. However, this is an either-or decision, but since the City does not anticipate any further loss beyond 2020, it will be beneficial and allows for the most flexibility in spending.

Given the multitude of other budget recommendations proposed with the Mid-Year Budget, staff recommend further strategic planning to present well-informed, strategic options on how to utilize the \$4.7 million at the 2022-23 Supplemental Budget meeting in June 2022.

Settlement of Alleged Water Quality Violations

The Water Resource Recovery Facility (WRRF) is regulated through a State-issued, regionally enforced discharge permit. Over the last year, the WRRF experienced discharge permit violations, in part, due to the extensive use of disinfecting compounds being used by the community to combat COVID-19. When introduced to the WRRF in these greater concentrations, these disinfecting compounds, referred to as quaternary ammonia, had a negative impact on the biological treatment process. The impacts from these elevated levels of quaternary ammonia resulted in four separate pathogen discharge permit violations at the WRRF.

After extensive sampling, operational changes, literature review, correspondence with other wastewater agencies and laboratories, as well as the use of a chemical additive that counters the effects of quaternary ammonia, the City's WRRF was able to return to compliance. The other 10 violations were caused by the formation of disinfection by-products called trihalomethanes (THMs), which are a byproduct of the chlorine disinfection process. The SLO Water Plus (WRRF) project is constructing an ultraviolet disinfection process to replace chlorine that will bring the WRRF into compliance with THMs.

The violations are \$3,000 each and the City has contested the four pathogen violations. Negotiations with the CCRWQCB, have resulted in a reduction to the fine amount, treating the biological upset as a single event, which is reflected in the current budget request.

Staff is recommending Council delegate to the City Manager the authority to approve all future National Pollutant Discharge Elimination System (NPDES) permit violation settlements in an amount not to exceed \$50,000 (Attachment B) to ensure settlement payment for any mandatory minimum penalty be authorized in an expedient manner to comply with the Central Coast Regional Water Quality Control Board (CCRWQCB) deadline.

Policy Context

As referenced, the City's budget policies require that City Council review the City's budget and financial condition at least every six months.

Public Engagement

Public comment on the item can be provided to the City Council through written correspondence prior to the meeting and through public testimony at the meeting. The Mid-Year Report will also be posted on the City's website for public review.

CONCURRENCE

The City's internal Financial Plan Steering Committee has met on multiple occasions and concurs with the recommendations included in this report. Budget changes pertaining to the Local Revenue Measure were presented to the Revenue Enhancement Oversight Commission on January 26, 2022, and the commission concurs with the recommendations included in this report.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act does not apply to the recommended action in this report, because the action does not constitute a "Project" under CEQA Guidelines Sec. 15378.

FISCAL IMPACT

Budgeted: Yes

Funding Identified: Yes

Budget Year: 2021-22

Fiscal Analysis:

The table below shows a summary of the recommended budget allocations by funding source for each year of the Financial Plan. For detail, see *Attachment B – Exhibit A*. Based on the City's increased revenue projects presented in the Mid-Year Budget report, these allocations are within the parameters necessary to present a balanced budget.

Table 3: Revenue Budget Changes¹

Fund	Adopted 2021-22 Budget	Revised 2021-22 Budget	Total Mid-year Changes
General Fund*	\$ 99,762,516	\$ 106,947,257	\$ 7,184,742
Downtown Association	\$ 245,000	\$ 245,000	\$ -
Tourism Bid Fund	\$ 1,444,000	\$ 1,444,000	\$ -
Water Fund	\$ 24,452,759	\$ 24,452,759	\$ -
Sewer Fund	\$ 22,499,887	\$ 22,500,887	\$ 1,000
Parking Fund	\$ 5,450,826	\$ 4,551,136	\$ (899,690)
Transit Fund	\$ 6,640,081	\$ 7,446,049	\$ 805,968
Total	\$ 136,042,310	\$ 143,217,464	\$ 7,175,154

*includes ARPA

Table 4: Expenditure Budget Changes

Funding Source	2021-22	2022-23
One-Time Allocations		\$ -
General Fund FY21 One-time Fund Balance (Per ACFR)	\$ 4,800,000	
Local Revenue Measure FY21 One-time Fund Balance (Per ACFR)	\$ 1,940,000	\$ -
Capital Reserve	\$ 1,872,000	\$ -
PEG Funds	\$ 110,030	
Public Safety Equipment Replacement Fund	\$ 68,656	\$ -
San Luis Ranch Fund	\$ 28,000	\$ -
Affordable Housing Fund	\$ 30,000	\$ -
Law Enforcement Grant Fund (JAG Grant)	\$ 10,000	\$ -
Transit Fund	\$ 35,000	\$ -
Reappropriation of Cerro San Luis Greenway Project Budget (ATP)	\$ 476,971	\$ -
Transportation Development Act Fund (TDA)	\$ 53,029	\$ -
Ongoing Allocations		
General Fund	\$ 261,025	\$ 501,938
Local Revenue Measure	\$ 623,660	\$ 1,083,497
Sewer Fund	\$ 396,000	\$ 95,000
Water Fund	\$ (75,000)	\$ (95,000)
Parking Fund	\$ 135,000	\$ 180,000
Total	\$ 10,711,342	\$ 1,765,435

¹ For updated long-term forecasts, see Attachment A.

ALTERNATIVES

The Council could direct staff to not implement the proposed budget change recommendations. Should the adjustments not be approved, the budget will remain unchanged at the adopted budget levels. Staff does not recommend an unchanged budget due changing needs of the community and the City organization.

ATTACHMENTS

A - Mid-Year Budget Report

B - Draft Resolution approving an amendment to the 2021-22 Budget Allocation and authorizing the City Manager to approve NPDES Permit Violation Settlements up to \$50,000