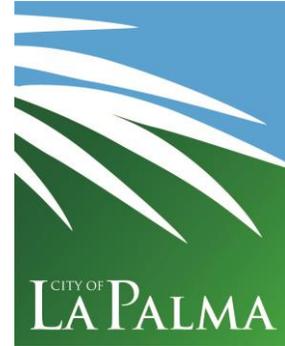


# City of La Palma

## Agenda Item No. B



MEETING DATE: June 1, 2021

TO: CITY COUNCIL

FROM: Conal McNamara, City Manager

SUBMITTED BY: Michael Matsumoto, Financial Consultant

AGENDA TITLE: Adoption of the Fiscal Year 2021-22 Operating and Capital Improvement Program Budget and Appropriations Limit for FY 2021-22

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### **RECOMMENDATION:**

It is recommended that the City Council take the following actions:

- 1) Open Public Hearing
- 2) Receive Staff Report
- 3) Receive Public Input
- 4) City Council Comments and Questions
- 5) Close the Public Hearing
- 6) Adopt Resolution approving the Budget for Fiscal Year 2021-22
- 7) Adopt Resolution approving the Annual Appropriations Limit for Fiscal Year 2021-22

### **SUMMARY:**

As discussed at the City Council meeting on May 4, 2021, the Fiscal Year 2021-22 Budget (FY 21-22) has been prepared as a "status quo" budget. The General Fund budget has been balanced with a transfer in from the Emergency Reserve Fund in the amount of \$390,300 if needed.

#### **Changes since May 4 City Council meeting**

Subsequent to the City Council meeting on May 4, 2021, the City received the final insurance payment amount that is due in early July. The charges will be in the Risk Management (Insurance) Internal Service Fund, but the insurance charges to the General Fund increased by \$9,400 from

the previously calculated amounts. Also, additional Information Technology support in the amount of \$10,000 was added to the Technology and Communications division.

The Economy and La Palma's Economic Outlook

The City has been prudent with its spending as a result of the City Council's suspicion that a recession would eventually follow the long recovery from the Great Recession in the late 2000s. The City has very healthy reserves, which fortunately have not been necessary to sustain the City during the COVID-19 pandemic because of Federal stimulus funding. The March 31, 2021, fund balances are roughly \$600,000 higher than the fund balances at March 2020. As of March 31, 2021, the current spendable reserves were \$14.8M in the following funds:

General Fund	\$ 2,335,641
Emergency Reserve	\$ 5,897,700
Capital Outlay Reserve	\$ <u>6,617,192</u>
Total	\$ <u>14,850,533</u>

The Capital Outlay Reserve is money from the General Fund set aside by the City Council to fund various capital projects when other funding is not available, so it is not restricted by an outside agency. Staff is not recommending using the Capital Outlay Reserve at this time; however, the City Council could use this money for other purposes if needed.

Anticipated Revenue Reductions

Staff has reached out to our sales tax consultant and others to obtain updated estimates for FY 20-21 and FY 21-22 impacts to revenues. The following is a summary of the largest General Fund revenues:

- Property Tax – Staff does not expect a significant reduction in property tax revenues. Property taxes are calculated using the taxable assessed values, and under Proposition 13, the values are often far below the actual values. The City is on the Teeter plan, so the County pays the City regardless of delinquent payments.
- Sales Tax and Transactions and Use Tax – Staff and HdL anticipate factors that will negatively affect future sales tax revenues starting in FY 21-22. HdL assumes the economy will reopen on June 15, 2021, and recovery to FY 18-19 levels will take approximately five years.
- Utility Users Tax – Staff does not expect a significant reduction in Utility Users Tax revenues.
- Transient Occupancy Tax – The budget for FY 20-21 was down substantially from prior years, and Staff anticipates a substantial increase in TOT revenue in FY 21-22, but full recovery is not anticipated until FY 23-24.

**FY 2021-22 Proposed Budget**

Projected General Fund Revenues and Expenditures

Projected FY 2021-22 General Fund revenues and transfers in total \$12,682,800, and General Fund expenditures and transfers out total \$12,682,800. The transfers into the General Fund

include a proposed transfer from the Emergency Reserve Fund in the amount of \$390,300 if needed to balance the actual results for FY 2021-22.

Capital Improvement Program (CIP) and Capital Outlay Reserve (COR)

The FY 2021-22 proposed budget includes \$1,587,400 of COR-funded projects as shown in the table below:

FY 21/22 Projects with COR Funding	COR	Other (Grants)
<b>City Yard</b>		
Pavement	\$53,500	
Storage Bunker	19,500	
Building Paint	20,000	
Storm Drain	46,000	
Roof Repairs	10,000	
Storage Unit	50,000	
Interior Improvements	132,800	
<b>City Hall, Community Center &amp; Parks</b>		
Central Park Fire Lane Rehab	40,000	
Softball Field Fence and Shade	35,600	178,000
Emergency Generator	100,000	300,000
Roof - Civic Center	250,000	
Walls - Paint & Wallpaper	75,000	
ADA improvements	75,000	
City Council Voting & Sound	50,000	
City Hall Outside Concrete	150,000	
City Hall Furniture Replacement	70,000	
<b>Police</b>		
HVAC Replacement	60,000	
<b>5410-14 La Palma Avenue</b>		
HVAC & Cool Roof	25,000	
<b>Arterial Streets</b>		
Arterial Pavement Management	15,000	
Del Amo Bridge - La Palma's share of design, engineering, & environmental in anticipation of federal funding.	125,000	375,000
Moody Street @ Orangethorpe Ave. Median Island - Joint project with Developer at this corner to build a center median island.	30,000	
<b>Residential Streets</b>		
Curb, gutter, & sidewalk repair and replace	125,000	
Residential Pavement Management Plan	30,000	
<b>Total</b>	<b><u>\$1,587,400</u></b>	

The estimated costs for some projects such as the City Yard Interior and City Hall outside concrete are higher than the estimates in the FY 20-21 budget. Also, the Generator with a \$300,000 grant was originally anticipated to be fully grant funded, but now staff anticipates the City will have to

spend approximately \$100,000 of COR funds to cover installation costs. Also, \$70,000 has been added for office furniture because some City Hall furniture will need to be replaced.

In the Vehicle Replacement Fund, the budget includes the purchase of three Police vehicles, an Engineering vehicle, a Parks and Medians vehicle, a Street Water Truck, and a Water Transmission vehicle. The Internal Service Fund charges the various divisions to accumulate funds for replacement in advance, so funds are on hand for these vehicle replacements.

Items to note in the FY 2021-22 Budget

The General Fund appropriations are higher than the prior year appropriations, and the following are the more significant increases:

- An additional \$150,000 transfer to Emergency Reserve is included. In prior years, the transfer to Emergency Reserve was done in a subsequent year after an actual General Fund surplus. As discussed at the May 4, 2021, meeting, this change will allow the Emergency Reserve to remain fully funded.
- Professional services of \$150,000 have been added to Administration and Fiscal Services division budgets (\$82,500 and \$67,500 respectively) for services provided by the Financial Consultant.
- The CalPERS UAL payments increased by \$169,000 over the prior year.
- And other smaller increases in costs.

The City has strong reserves, and the City experienced an increase in its reserves from March 2020 through March 2021. Unfortunately, projections for FY 2021-22 and the next eight years anticipate expenditures will exceed revenues. It will take time to determine how quickly the economy will indeed recover from the pandemic.

Appropriations Limit

Voters approved Proposition 4 in November 1979, adding Article XIIB to the State of California's Constitution, which established annual Appropriations Limits on state and local governmental entities. In June 1990, the voters approved Proposition 111, which modified the Appropriations Limit. The annual adjustment is derived using population and per-capita personal income inflation factors provided by the State of California's Department of Finance. The prior year's Appropriations Limit is multiplied by this component to arrive at the current year's Appropriations Limit. For FY 2021-22, the Appropriations Limit has been calculated to be \$19,678,804.

Future Updates for FY 2021-22

With the COVID-19 disruption, the economy has suffered greatly. With restrictions projected to end in June 2021, the pace of the recovery is still not certain. Later in FY 2021-22, more information will be available about the recovery. As such, staff recommends that the City Council re-examine the financial outlook in November 2021 and again in March 2022 to make adjustments depending on the recovery in the economy. Thankfully, the City has healthy reserves and the ability to wait until later in FY 2021-22 to determine if further reductions are needed.

**FISCAL IMPACT:**

General Fund Revenues and transfers are estimated to be \$12,682,800 with proposed expenditures and transfers out of \$12,682,800. The proposed Budget for 2021-22 includes a

transfer of \$390,300 from the Emergency Reserve to the General Fund if needed to balance the budget.

**APPROVED:**

  
\_\_\_\_\_  
Financial Consultant

  
\_\_\_\_\_  
City Manager

- Attachments:
1. Resolution Approving FY 2021-22 Budget
  2. Resolution Approving Appropriations Limit for FY 2021-22
  3. Proposed FY 2021-22 Budget

**RESOLUTION NO. 2021-\_\_**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LA PALMA APPROVING AND ADOPTING A BUDGET FOR FISCAL YEAR 2021-22**

**WHEREAS**, the City Manager of the City of La Palma did on May 4 and June 1 present to the City Council of said City a Proposed Budget for the Fiscal Year 2021-22; and

**WHEREAS**, the City Council held a duly noticed public hearing in the Council Chambers of City Hall of said City on June 1, 2021; and

**WHEREAS**, the City Council did review said Proposed Budget for Fiscal Year 2021-22; and

**WHEREAS**, pursuant to Article VIII, Section 14-239 of the La Palma Municipal Code, the utility users tax shall be reviewed by the City Council on an annual basis, in conjunction with the City Council's consideration of the City's General Fund budget for the immediately succeeding fiscal year. Upon review the City Council has determined that the rate of the tax should not be altered for Fiscal Year 2021-22; and

**WHEREAS**, the original of said Proposed Budget will be revised so as to reflect each and all of the amendments, changes, and modifications which the City Council, up to the time of adoption of this resolution, believes should be made in said Proposed Budget as so submitted and to correct any non-substantive errors discovered.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LA PALMA, DOES HEREBY RESOLVE AS FOLLOWS:**

**SECTION 1.** The said Proposed Budget, including the five-year Capital Improvement Plan and five-year One-Time Project Plan, of the City of La Palma, California, for the Fiscal Year 2021-22, as so amended, modified, revised, and corrected, including those changes directed by the City Council meeting on June 1, 2021, is hereby approved and adopted. In adopting said budget, the City Council hereby instructs the City Manager to change the columns headed "Proposed" to "Adopted" for each of the several items of Personnel Services, Maintenance and Operations, and Capital Outlay and Improvements for each of the various funds, departments, programs, and accounts as set forth in said Adopted Budget and, as so amended, modified, and corrected, and hereby approves the distribution of the salary detail, maintenance and operations detail, capital outlay and improvements detail, policy revisions, and contractual arrangements noted in the program description and program explanation sections of the "Program Summary" pages, and interfund transactions and transfers shown under each of the respective funds, departments, programs, and accounts, and each of the respective "Item Description" accounts and explanatory data in its entirety, each provision of which should be construed to give effect to the entire document. The City Manager is also directed to adjust beginning balances to reflect actual amounts, to the extent they are known, and, in accordance with standard budgeting and

appropriating practice, is authorized to transfer appropriations within and between departmental budgets as required to accommodate unforeseen operating requirements.

**SECTION 2.** The City Council authorizes the City Manager to make changes in internal service fund allocations to departments to reflect any modifications made after the Adopted Budget was presented.

**SECTION 3.** The City Manager, for the purpose of administrative necessity in implementing the budget, shall have the authority to transfer monies to the appropriate item, account, program, department, or fund to cover expenditures, which have been approved by the City Council, except where such transfer is expressly prohibited in a resolution or ordinance approved by the City Council, such as transfers involving utility replacement funds. The City Manager shall also have the authority to transfer monies between and within funds to meet the operational needs of the City within established spending limits.

**SECTION 5.** The City Council finds that the Utility Users' Tax rate shall be five percent (5%) for Fiscal Year 2021-22.

**SECTION 6.** The City Manager is hereby authorized and instructed to take all steps necessary to implement this Resolution.

**SECTION 7.** The original of said budget for the City of La Palma, California, for the Fiscal Year 2021-22 as now before this City Council, and as amended, modified, revised, and corrected by City Council and staff, in open session, shall be placed on file in the office of the City Clerk of the City of La Palma, California, open to public inspection, and that said Adopted Budget is expressly incorporated in this resolution and made a part thereof. The City Clerk is hereby instructed to have copies of the Adopted Budget duplicated and available for public review and inspection and a copy provided to the Orange County Public Library, La Palma Branch, as soon as practicable.

**APPROVED AND ADOPTED** by the City Council of the City of La Palma at a regular meeting held on the 1st day of June, 2021.

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Nitesh P. Patel  
Mayor

ATTEST:

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Kimberly Kenney, CMC  
City Clerk

STATE OF CALIFORNIA     )  
COUNTY OF ORANGE     ) SS.  
CITY OF LA PALMA        )

I, KIMBERLY KENNEY, City Clerk of the City of La Palma, California, DO HEREBY CERTIFY that the foregoing Resolution was adopted by the City Council of said City at a regular meeting of said City Council held on the 1st day of June 2021, and that it was so adopted by called vote as follows:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Kimberly Kenney, CMC  
City Clerk

**RESOLUTION NO. 2021-\_\_**

**A RESOLUTION OF THE CITY COUNCIL OF  
THE CITY OF LA PALMA APPROVING AND  
ADOPTING THE ANNUAL APPROPRIATIONS  
LIMIT FOR FISCAL YEAR 2021-22**

**WHEREAS**, the voters of California, on November 6, 1979, added Article XIII B to the State Constitution placing various limitations on the appropriations of state and local governments; and

**WHEREAS**, Proposition 111 established Fiscal Year 1986-87 as the base year for establishing the appropriations limit; and

**WHEREAS**, the City of La Palma has complied with the provisions of Article XIII B in determining the appropriations limit for Fiscal Year 2021-22.

**NOW, THEREFORE**, the City Council of the City of La Palma does find, determine, and declare as follows:

**SECTION 1.** The appropriations limit for Fiscal Year 2021-22 is \$19,678,804, as calculated on Exhibit A, attached hereto.

**SECTION 2.** In calculating the appropriations limit, the City has utilized the California per capita personal income growth factor for Fiscal Year 2021-22, as shown on Exhibit A, attached hereto.

**SECTION 3.** In calculating the appropriations limit, the City has utilized the population growth factor for the County of Orange for Fiscal Year 2021-22, as shown on Exhibit A, attached hereto.

**SECTION 4.** The City reserves the right to change or revise the growth factors associated with the calculation of the appropriations limit if such changes or revisions would result in a more advantageous appropriations limit in the present or future.

**SECTION 5.** The City Clerk shall certify to the adoption of this Resolution.

**APPROVED AND ADOPTED** by the City Council of the City of La Palma at a regular meeting held on the 1st day of June 2021.

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Nitesh P. Patel  
Mayor

ATTEST:

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Kimberly Kenney, CMC  
City Clerk

STATE OF CALIFORNIA    )  
COUNTY OF ORANGE    ) SS.  
CITY OF LA PALMA       )

I, KIMBERLY KENNEY, City Clerk of the City of La Palma, California, DO HEREBY CERTIFY that the foregoing Resolution was adopted by the City Council of said City at a regular meeting of said City Council held on the 1st day of June 2021, and that it was so adopted by called vote as follows:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Kimberly Kenney, CMC  
City Clerk

## Appropriations Limit

### Article XIII-B of the California Constitution (Gann Initiative)

Effective July 1, 1980, Proposition 4 (Gann) put a limit on the City's expenditures from tax revenues based on 1978-1979 appropriations that are adjusted each succeeding year by the Consumer Price Index and population changes. Non-Proceeds of Taxes (Fines and Forfeitures and User Fees) were not subject to this limit.

In 1989-1990, Proposition 111 was passed which changed the base year to 1986-1987 and allowed cities to adjust their limit annually by either the change in the California per capita income or the percentage change in growth in total assessed valuation due to nonresidential construction. For population changes, cities now have the option of using either the percentage increase of the City or the percentage increase of the entire county. The law also allows for the exclusion from the limit of "qualified capital outlay" which includes any appropriation for fixed assets costing over \$100,000 and having a useful life of 10 years.

The Fiscal Year 2021-22 budgeted expenditures are well within the statutory limit. It should be noted that future revenues exceeding the limitation require a return of the excess to the taxpayers or a substantial portion of such excess will be forfeited for State uses.

#### Appropriations Limit Calculation

Appropriations Limit Fiscal Year 2019-20	\$ 18,769,986
Adjustment Factor for Fiscal Year 2021-22	x 1.04841868
Appropriations Limit Fiscal Year 2021-22	<u>\$ 19,678,804</u>

#### FY 2021-22 Appropriations Subject to Limit and Appropriation Margin:

Proceeds of Taxes	\$ 9,383,300
Less Exclusions, Qualified Capital Outlay	<u>-</u>
FY 2020-21 Appropriations Subject to Limit	9,383,300
FY 2020-21 Appropriations Limit	<u>19,678,804</u>
FY 2020-21 Appropriations Under Limit	<u>\$ 10,295,504</u>

#### Calculation of Adjustment Factor for Fiscal Year 2021-22

Per Capita Personal Income Change = 5.73%	1.05730
Population Change (County) = -0.84%	x <u>0.9916</u>
Adjustment Factor for Fiscal Year 2021-22	<u>1.04841868</u>



Due to the large size of the attachment, a separate link has been created. You can open the file by clicking on the link provided below:

**Attachment 3**

3. Proposed Fiscal Year 2021-22 Budget