



Staff Report

TO: City Council
FROM: Jeff Mohlenkamp, Finance Director
DATE: March 16, 2021
SUBJECT: **FY2021 General Fund/ PEG Fund Budget Adjustments and Allocation of Unassigned General Fund Reserves (One-Time Allocation)**

Background and Analysis:

This report requests adjustments to the General Fund budget, the Public Education Government Fund (PEG) budget and seeks approval to allocate Unassigned General Fund Reserve balance.

The City Council approved the FY2021 budget on June 2, 2020. That budget was built as the COVID-19 pandemic was in its earliest stages and the original budget assumptions anticipated a severe economic retraction. Actual economic performance exceeded the original forecast and the City Council adjusted the budget accordingly on November 3, 2020. That amendment provided for increases in revenue estimates and restoration of service costs that had been frozen or reduced. City staff is now recommending a second set of adjustments to the General Fund.

General Fund Operating Budget Adjustments

As the fiscal year progresses, City staff has re-evaluated revenue estimates and are recommending some additional upward adjustments. City staff has also reviewed the budgets of the various City departments and recommend a few adjustments to ensure each department has sufficient resources to meet expenditure requirements. City staff recommend adjustments to the General Fund Operating budget as outlined in the following tables.

Revenue Adjustments

Type of Revenue	Increase/ (Decrease)	Explanation
Sales Tax	\$650,000	Revenues continue to out preform estimates.
Motor Vehicle In-Lieu Tax	\$400,000	Initial of two equal payments was higher than budgeted.
Transfer-In to Gen Fund	\$26,800	The Police Department received a grant for \$26,800 from the Bureau of Justice Assistance to purchase a handheld device for handling narcotics. These funds will be received in a fund designed to collect grant awards and transferred to the General Fund to support the purchase.
Total	\$1,076,800	

Expense Adjustments

Department/ Type	Increase/ (Decrease)	Explanation
Finance Dept/ Credit Card Fees	\$89,028	Due to the COVID-19 pandemic and business model changes credit card use is double that of prior year's activity.
Risk Management/ Insurance Cost	\$108,434	Insurance premiums exceeded budget estimates.
Police Department	\$29,815	Covers the cost of purchasing the handheld narcotics device that is primarily funded with a recently awarded grant.
Building and Safety/ Plan Check Expense	(\$190,000)	Due to use of internal staff and a slow-down in development activity, less need for contracted plan check services.
Community Development/ Housing Element Cost	(\$50,000)	Department was able to secure grant funds to cover costs and will not need this GF appropriation.
Total	(\$12,723)	Overall Expense reduction

The net result of these adjustments is an increase in the budgeted General Fund surplus by \$1,089,523 from \$1,635,833 to \$2,725,356. Attachment A provides a

summary of recommended General Fund budget adjustments with the impacted department and accounting codes.

Public Education Government Fund (PEG) Budget Adjustments

Due to COVID-19 and the need to expand/modify the use of technology to conduct City Council and committee meetings, the City needed to utilize PEG funds to purchase equipment and to contract for services such as Zoom meetings. Additionally, City staff is looking to use some additional funds over the next few months to further modernize camera and broadcast equipment.

This adjustment seeks \$12,000 for computer supplies and \$12,800 for services and maintenance of equipment for a total of \$24,800 in expenditure authority using PEG funds. Attachment A includes the recommended adjustments to PEG Fund spending for FY2021.

Allocation of Unassigned General Fund Reserves (One-Time Allocation)

As of June 30, 2020, due to positive operating results for the past few years and a \$5 million one-time payment received during FY2020, the City has an Unassigned General Fund balance of \$19,775,458. This represents the audited, unassigned General Fund balance.

The City Council has a policy to maintain a minimum of 25% of General Fund expenditures in its reserves to address financial downturns or unplanned needs for financial resources. The estimated General Fund expense for FY2022 is approximately \$36 million. The necessary reserve is \$9 million.

Further, the Council also set aside an amount of \$2 million as an insurance reserve to address any unforeseen claim expenses. After these amounts are deducted from funds available for Council action, the City Council has \$8,775,458 available for one-time allocations. Attachment B provides for the computations regarding Unassigned General Fund reserves and funds available for Council action.

One-time allocations are those that do not have a future obligation. As a result, changes in pay or new positions should not be funded using one-time resources as there may not be sufficient funds to continue those types of expenditures.

City staff has made recommendations for allocations of available General Fund reserves. These recommendations include purchase of replacement vehicles, new and replacement equipment to maintain parks, information technology equipment, building maintenance projects, infrastructure projects and an investment in a pension trust to

address the pension liability. The total recommended allocation of General Fund reserves is summarized in the table below.

Type of Allocation	Amount	Council Action Requested
Replacement Vehicles	\$314,775	Amend FY 2021 Budget
Parks and Ground Equip	\$37,000	Amend FY 2021 Budget
Information Tech Equip	\$115,000	Amend FY 2021 Budget
Park Maintenance	\$109,500	Transfer funds to Building Maintenance/Facility Internal Service Fund
Building Maintenance	\$250,000	Commit Funds to Future Capital Improvement Projects
Infrastructure Projects	\$2,500,000	Commit Funds to Future Capital Improvement Projects
Pension Trust Allocation	\$2,500,000	Commit Funds to Future transfer to a Pension Trust Fund
Total	\$5,826,275	

As noted in the schedule above, if the City Council decides to move forward with the recommended allocations, three different type actions are needed. First, the vehicle and equipment requests would require an amendment to the FY2021 budget to allow departments to move forward with these purchases.

Second, the Park Maintenance project would require the Council to approve a further allocation to the Building Maintenance internal service fund to specifically move this project forward.

Third, the allocation of funds for capital improvement projects and to a pension reserve program represents a commitment by the City Council for these uses. The actual movement of funds and direct allocation to the projects will be implemented through a CIP adjustment and the establishment of a pension reserve program.

Detail regarding these proposed one-time allocations of General Fund surplus is included as Attachment C to this report.

Fiscal Impact:

The impact of these adjustments for the General Fund is an increase in the revenue budget of \$1,076,800 and a decrease in the expenditure budget of \$12,723 for a net increase in the budgeted surplus of \$1,089,523.

The impact of PEG Fund adjustments is to increase expenditure authority by \$24,800. This will reduce the fund balance in the PEG fund by this same amount.

The allocation of General Fund Unassigned funds totaling \$5,826,275 would effectively reduce the unassigned (reserve) balance by this same amount. It should be noted that the reserve balances reported here do not include reserves that may exist at the close of the current fiscal year.

Recommended Action:

Approve the proposed operating budget adjustments for the FY2021 General Funds as highlighted in this report,
Approve the proposed Public Education Government Fund budget adjustments as highlighted in this report, and
Approve the proposed allocations of Unassigned General Fund dollars as highlighted in this report through FY2021 budget amendments, allocation of funds to the Building Maintenance Internal Service Fund and commitment of funds to identified CIP projects and a future pension trust fund.

Attachments:

- A. General Fund and PEG Fund Recommended Operating Budget Adjustments
- B. Computation of Available Unassigned General Funds for Allocation
- C. Recommended Allocation of Available Unassigned General Fund