



# Beaumont City Council FY 2021-22 Budget Workshop

SPECIAL WORKSHOP | OCTOBER 8, 2020



# Workshop Objectives

- **Review FY2020 Financial Results**
  - General Fund
  - Wastewater Fund
- **Discuss Impacts of COVID-19**
  - Impacts to Date
  - Uncertainties
- **Discuss Adjustments to the Multi-Year Forecast**
  - Long-Term Forecast Assumptions (FY2021 thru FY2030)
  - Revised Estimates for FY021 + Suggested Budget Amendments
  - Early Discussion of FY2022 and Beyond
- **Allocation of Unassigned General Fund Reserves and Available CFD Reserves**



# General Fund Results FY2020

- **Estimated Revenues vs. Expenditures**

- Estimated Revenues = \$39.6 Million
- Estimated Expenses = \$31.1 Million
- Surplus = \$ 8.5 Million

- **One-Time Revenues**

- Solid Waste Retention Fee = \$ 5.0 Million
- Sales Tax Revenues = \$ 1.2 Million
- Residual Solid Waste Revenue = \$ 0.1 Million
- One-Time Revenues Total = \$ 6.3 Million

- **Surplus From Operations**

- Operational Cuts for Savings = \$ 2.2 Million
- Frozen Positions and Other Cost-Cutting Measures



# General Fund Results FY2020

- **COVID-19 Pandemic Impacts Less Than Forecasted**
  - Actual Sales Tax Revenues \$165,037 Less Than FY2019 (3% Loss)
  - Commercial Activity Started Prior to Pandemic Continues
  - Business License Revenues and Other Taxes Above Projections
- **On an Equalized Basis Revenues Declined from \$32.8 Million in FY2019 to \$32.0 Million in FY2020**
  - Tax Revenues Increased
  - Development Revenues Dropped
    - One-Time Inspections and Permits
    - New SF Permit Issuance Declined Over Past 3 Years



# General Fund Results FY2020

- **Expenses Increased 4.7% from FY2019 to FY2020**
  - Despite Cost Cutting Initiatives in Final Quarter of FY2020
  - Personnel Costs Increased by \$1.3 Million (7.6%)
  - Operating Costs Increased by \$336,000 (2.7%)
  - Equipment and Vehicle Purchases Decreased by \$263,000
- **Annualized Surpluses Realized from Operations**
  - Including Transfers and Excluding One-Time Revenues
  - FY2019 = \$4.0 Million
  - FY2020 = \$2.2 Million



# WW Fund Results FY2020

- **Revenues In Excess of Budget**
  - Approximately \$400,000
- **Expenses Lower Than Budget**
  - Personnel Costs
  - Operating Costs
- **Contingency Funds Utilized**
  - Unforeseen Capital Maintenance Projects
- **DIF Funds Utilized**
  - Approximately \$1.0 Million of Balance Applied to Debt Service Payment
- **Retained Earnings of Approximately \$590,000**



# COVID-19 Fiscal Impacts

- **FY2020 Budget Anticipated Significant Revenue Retraction**
  - Sales Tax Revenues
  - TOT Revenues
  - Business License Revenues
- **Actual Impacts Not As Severe as Projected**
  - TOT Revenues Declined Significantly
  - Sales Taxes Declined Moderately (3%)
  - Some Retail Sectors Suffering Significantly While Others Steady/Growing
    - County Pool Collections Increased Significantly (On-Line Sales)
    - New Business Openings Helped Make Up Revenue Losses
  - Business License Revenues Increased Due to New Business Openings



# COVID-19 Uncertainty

- **Reasons for Caution**
  - Trajectory of Pandemic Unknown
    - Second Wave?
    - National/State/County Responses?
  - Federal Stimulus a Critical Factor
    - Unemployment Enhancement Kept Households Afloat
    - Federal Loans and Grants Kept Businesses Going
  - Unclear Whether Future Stimulus is Forthcoming
  - Loss/Reduction of Unemployment Enhancements
- **Significant Unemployment and Business Disruption Continues**
  - Half of “Temporary” Lost Jobs Remain Unfilled Nationally
  - Remains Unclear as to If/When Remaining Jobs Return
  - Potential Rise in Rent/Mortgage Payment Delinquencies or Defaults





# Fiscal Forecast General Fund

- **Financial Forecasts Useful**
  - Provide Guidance Regarding Long-Term Financial Condition
  - Establish a Framework for Incremental Decisions
- **Today's Decisions Have Long-Term Impacts on City's Ability to Meet Future Operating Needs**
- **Revenue Forecasts Typically Updated Every One or Two Years**
  - This is the Third Update This Calendar Year
  - Significant Uncertainties Surrounding COVID-19 Pandemic
  - Picture Remains Unclear
    - Third Quarter Sales Tax Revenues are Expected to Provide Clarity
    - Additional Resources will be Required to Meet Ongoing Public Service Demands – Public Safety, Streets, Community Services



# Fiscal Forecast **General Fund**

- **Forecasts Used When Considering Financial Decisions That Have Ongoing Impacts**
  - Must Recognize that Actual Results will Likely Vary from Projections
  - Must be Ready to Respond to the Unexpected
  - Less Accuracy is Likely in the Later Periods of the Planning Horizon
  - Variances Will Likely Have Growing Impacts Over Extended Periods of Time Due to Compounding
- **Forecasting is a Useful Tool In Considering Financial Decisions that Have Ongoing Impacts on City Finances**



# Fiscal Forecast General Fund

- **Two Separate Models Prepared for City Council Review**
  - Recession Model – this forecast assumes a moderate level recession that impacts the City in FY 2023 and lasts for two years
  - NON recession model – this forecast does not include a recession
    - Provides for moderate level growth throughout the forecast

The models are built using assumptions. The assumptions provide the building blocks for year over year changes in revenues and expenditures and contemplate the need for new positions and modifications to service delivery.

Note: neither model contemplates expense reductions that would naturally occur in the event of sustained deficits. This is to intended to provide insight into the level of potential budget adjustments that may be necessary and/or the need for new revenues.



# Fiscal Forecast Assumptions

- Assumptions Based on Historical Information, Consumer Price Information and Assistance from Consultants

Revenue Type	Recession Model (Average growth)	Non-Recession Model (Average growth)
Sales Tax	2.8%	4.8%
Property Tax/ VLF	3.3%	5.7%
Other Taxes/ Bus License	3.0%	3.0%
Permits and Fees (development related)	4.0%	4.8%
CFD Transfer	3.7%	4.0%
Charges for Services	3.0%	3.0%
Overall Average	3.1%	4.3%



# Fiscal Forecast Assumptions

Expense Type	Average Growth
<b>Personnel Expenses</b>	
Salaries	4.0%
Pensions	7.5%
Health Insurance	5.4%
Other personnel	4.0%
<b>Operating</b>	
Contractual Services	5.0%
Utilities	3.5%
Insurance	4.0%
Repairs and Maintenance	2.5%
Other operating costs	2.5%
<b>Vehicles and Equipment</b>	3.0%
<b>Overall Average</b>	4.8%



# Fiscal Forecast Results (GF)

- **Recession Model Results**
  - Revenues Grow at an Average Pace of 3.1%
  - Expenses Grow at an Average Pace of 4.8%
  - Budget Deficit by FY2023
    - Adds New Positions to Maintain Consistent Levels of Service
    - Anticipates Increases to Current Operational Expenses
- **Provides for an Estimated Deficit of \$42 Million**
  - New Positions Added
  - Increases for Roadway Maintenance, Buildings and IT Enhancements (Security and Capabilities)
  - Eliminating Positions and Increased Expenditures Reduces the Deficit to Approximately \$9 Million



# Fiscal Forecast Results (GF)

- **Non-Recession Model Results**
  - Revenues Grow at an Average Pace of 4.3%
  - Expenses Grow at an Average Pace of 4.8%
  - Budget Deficit by FY2024
    - Adds New Positions to Maintain Consistent Levels of Service
    - Anticipates Increases to Current Operational Expenses
- **Provides for an Estimated Deficit of \$14 Million**
  - New Positions Added
  - Increases for Roadway Maintenance, Buildings and IT Enhancements (Security and Capabilities)
  - Eliminating Positions and Increased Expenditures Provides for a Surplus of \$18 Million



# Early Estimates GF FY2021

- **Budget Prepared in Early Stages of COVID-19 Pandemic**
  - Uncertainty at Highest Levels
  - Picture More Clear Today
  - High Degree of Uncertainty Remains
- **Careful Approach Used to Estimate Revenues**
  - Implemented Near-Term Cost Containment Measures
    - Frozen Positions in Police and Streets Operations
    - Furloughed Employees in Recreation Services
    - Reductions to Operating Expenses
- **Re-Assessment of COVID-19 Impacts**
  - Certain Revenues Expected to Come in Significantly Higher than Projected
  - FY2021 General Fund Revenues Projected to Exceed Budget Estimates by Approximately \$2.2 Million





# Early Estimates GF FY2021

- **Revised Revenue Projections = Another \$2.2 Million**
  - Sales Tax Revenues = Additional \$1,700,000
  - Property Tax Revenues = Additional \$300,00
  - Other Tax Revenues = Additional \$100,000
  - Business License Revenues = Additional \$100,000



# Budget Adjustment **GF FY2021**

- **Cost Estimated to be \$600,000 (Increases to \$1.0 Million in FY2022)**
  - Unfreeze 1 of 4 Police Officer Positions – Dec. 2020
  - Authorize Overhire of 2 Police Officer Positions – Dec. 2020
  - Unfreeze 1 Streets Maintenance Position – Dec. 2020
  - Unfreeze 4 Recreation Specialist Positions – Jan. 2021
  - New Payroll Technician Position – Support In-House Payroll Management – Dec. 2020
  - Targeted Operational Add Backs from Budgetary Cuts
    - Building Inspections
    - Plan Checks



# Early Estimates WWF FY2021

- **FY2021 Projected to Realize Retained Earnings of \$300,000 to \$400,000**
  - In-House Wastewater Operations are New to the City of Beaumont and Unknown Operational Costs Remain Outstanding
  - New MBR/RO Plant Startup Adds an Additional Degree of Uncertainty
  - Actual Operations Costs will be Solidified Once Field and Plant Operations Stabilize
  - Wastewater Master Plan is Nearing Completion
    - Will Identify Areas of Criticality
    - Will Provide Estimates to Fix/Upgrade System
    - Will Include Recommendations for a Multi-Year CIP



# Early Estimates WWF FY2021

- **Management Has Assessed Needs for WW Operations – Estimated to be \$312,000 (Increases to \$460,000 in FY2022)**
  - Compliance Manager – responsible for monitoring and reporting on all required elements (New Discharge Permit)
  - 2 Collections Maintenance Workers – responsible for inspection and operation of 23 miles of brine line (reduce chances of system failure)
  - Contract Costs – WWTP is highly technical and will require external expertise for system monitoring and adjustment



# The Future FY2022 and Beyond

- **Beaumont Has Experienced 4 Years of Positive Revenue Growth and Resulting Operating Surpluses**
- **FY2021 and FY2022 are Projected to See Additional Operating Surpluses Barring an Economic Downturn**
- **Financial Reserves Need to be Deployed to Address Operational and Infrastructure Needs**
- **Beaumont Well Positioned to Make Long-Term Financial Decisions**



# The Future FY2022 and Beyond

- **City Services Will Be Stretched in the Future**
  - Population and Commercial Growth will Demand Additional Public Safety and Support Staff
  - Measure A Funds will Decline – WRCOG Settlement Agreement and 2039 Expiration
  - Fire Station Construction Scheduled for FY2021 and Operational by FY2023
  - City Facilities are Aging with Significant Deferred Maintenance
  - Information Technology is of Growing Importance and Will Require Significant Investment



# Allocation of One-Time Funds

- **General Fund and CFD Reserve Balances Have Been Established Over the Past Several Years**
  - At the Conclusion of FY2020 – GF Reserve Balance Estimated to be \$18.5 Million
  - Unallocated CFD Funds are Estimated to be \$7.5 Million
  - Reserve Funds Should Be Allocated to Costs that are NOT Ongoing in Nature



# Allocation of **One-Time Funds**

- **City Staff Proposes Allocating a Portion of These Reserve Funds**
  - General Fund Reserves
    - Allocate \$7.5 Million
    - Retain a Reserve Level of 35%
  - CFD Reserves
    - Allocate \$6.5 Million
    - Retain a Reserve Balance of \$1 Million





# General Fund One-Time Funds

Proposed General Fund Allocation - \$7.5 million		
		Explanation
Pension Trust	\$ 2,300,000	This sets funds aside to address the pension liability and escalating pension costs
Flood Preparation	\$ 200,000	funds to prepare for flood
School Growth - traffic mitigation	\$ 300,000	funds to address increase size of HS
Capital Projects	\$ 4,200,000	addresses priority capital projects
One-Time 2.5% pay to employees	\$ 500,000	This provides pay to employees that does not cause long term impacts
<b>Total</b>	<b>\$ 7,500,000</b>	leaves \$11 million unallocated



# CFD Fund One-Time Funds

Item	Cost	Explanation
Vehical Replacement Fund (internal service fund)	\$ 1,125,000	Equal to 3 years of average level purchases, vehicles purchased out of this fund- fund replenished through budget process by charging departments an annual allocation
Equipment Replacement Fund (internal service fund)	\$ 875,000	Cost charged out to respective departments
IT Equipment Replacement Fund (internal service fund)	\$ 800,000	Servers/ switches/disaster recovery/hardware/ etc.
CIP Fund	\$ 3,500,000	Fund Citywide Maintenance Projects
IT Security	\$ 150,000	improves data security
IT Enhancements	\$ 100,000	payroll module/ fixed assets/ content management
<b>Total</b>	<b>\$ 6,550,000</b>	leaves \$1 million unallocated as further reserves



# Next Steps Timing

- **FY2021 Budget Amendments**
  - City Council Consideration November 3, 2020
  - Continue to Monitor Budget and Amend As Needed
- **FY2020 Audit**
  - Near Completion Early December 2020
  - Confirm Available One-Time Resources
  - City Council Consideration of One-Time Fund Allocations in December 2020
- **FY2022 Budget Preparation**
  - Kick Off Budget Process January 2021