



Staff Report

TO: City Council
FROM: Jeff Mohlenkamp, Finance Director
DATE May 4, 2021
SUBJECT: Fiscal Year 2022 City Wide Budget

Background and Analysis:

The City prepares an annual budget that must be adopted by June 30, 2021. The budget estimates the resources that will be available to meet City operational and capital needs. It then allocates those resources to meet those needs across the City operating departments and to address priority capital projects.

This is the first draft of the FY2022 budget to review and discuss. The target date for adoption by City Council is June 15, 2021.

This first review of the budget is structured as follows:

- **General Fund Overview** – An overview of the primary operating funds including a comparison of the revenues and expenses for FY2021 and FY2022 to highlight variances;
- **General Fund Expenditure Highlights by Department** - A summary of General Fund department budgets including highlights of material changes and enhancements;
- **Wastewater Fund Overview** – An overview of the Wastewater Fund including changes to revenues and expenditures plus highlights of enhancements;
- **Other Funds Overview** – An overview of all other funds that support operations and that support capital projects; and
- **Internal Service Fund Programs and FY2022 Budgeted Expenditures** – A review of the newly created Internal Service Funds.

General Fund Overview

The General Fund includes the majority of City operations. Revenues supporting the General Fund come from taxes, charges for services, CFD services fees and other miscellaneous sources. Expenses include public safety, community services,

engineering/public works and street maintenance, community development, building safety and administration.

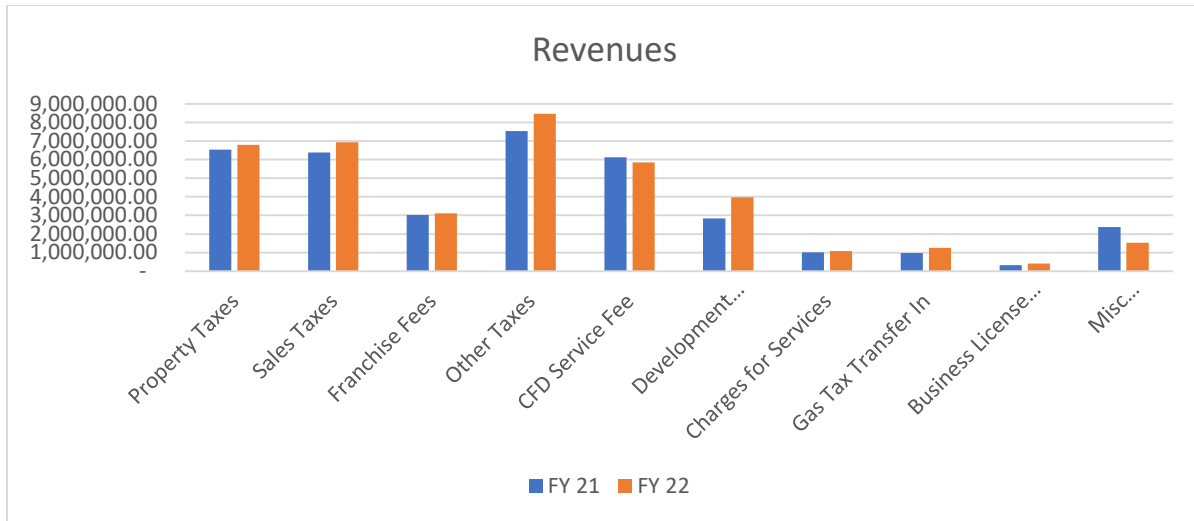
The budget for FY2022 projects total revenues of \$39,372,812 and total expenditures of \$38,598,061 for a budgeted surplus of \$774,751. The total expenditures include certain enhancements that programs new positions and additional operating costs. These enhancements are summarized for each major City function in the following section of this report and also detailed in Attachment C.

General Fund Revenues

For FY2022, tax revenues of \$25.3 million are projected representing 64.2% of General Fund revenues. CFD service fee revenues of \$5.85 million are estimated representing 15% of General Fund revenues. Development related revenues projected to be \$4.0 million representing 10% of General Fund revenues. The balance of General Fund revenues are derived from charges for services, other transfers in from other sources and miscellaneous revenues.

Revenue Type	FY2022 Budget	% of Total Revenues
Taxes	\$25,295,395	64.2%
CFD Service Fees	\$ 5,845,595	15.0%
Development Revenues	\$ 3,980,025	10.0%
Charges for Services	\$ 1,080,914	2.8%
Gas Tax Transfer In	\$ 1,242,846	3.2%
Business License Fees	\$ 405,000	1.0%
Misc Revenues/ Transfers	\$ 1,523,037	3.8%
Total Revenues	<u>\$39,372,812</u>	<u>100 %</u>

General Fund revenues have increased from the FY2021 budget by \$2.26 million or 6.1%. This is led primarily by projected growth in property tax revenues, sales tax revenues and increases in projected development related revenues.



A schedule providing General Fund revenues for FY2020, FY2021 as well as the proposed FY2022 budget is included as Attachment A.

General Fund Expenses

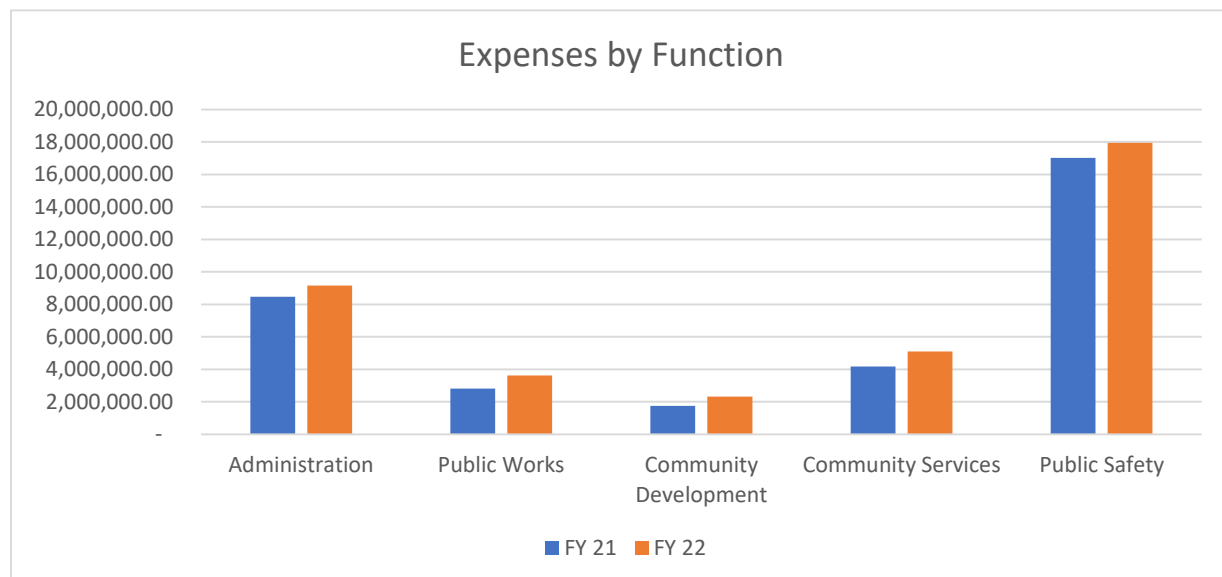
Programmed General Fund expenses are \$38.5 million. This represents an increase of \$4.2 million or 12.2% compared FY2021. The table below indicates changes from FY2021 to FY2022.

Expenditure Type	FY2021 (adjusted) (1)	FY2022	Difference	% Increase
Personnel Costs	\$19,731,364	\$21,654,542	\$1,923,178	9.7%
Operating Expenses	\$13,985,895	\$15,428,070	\$1,442,175	10.3%
Capital Improvements	\$ 488,816	\$ 920,178	\$ 431,362	88.3%
Contingency	\$ 150,000	\$ 150,000	\$0	0%
Transfers Out	\$ 31,000	\$ 445,271	\$ 414,271	1336%%
Total	\$34,387,075	\$38,598,061	\$4,210,986	12.2%

This includes budget adjustments made during FY2021 to add back positions and to adjust the operating budget. It excludes allocations for one-time items authorized by the City Council in September 2020 and March 2021 for additional vehicles, equipment, and capital projects. These adjustments are made to provide for a better comparison from year to year.

Explanation of Budgeted Expense Changes from FY2021 to FY2022:

- **Personnel** – the primary drivers of this increase include restoration of remaining frozen positions, adjustment to payroll and payroll related expenses pursuant to the City’s multi-year fiscal forecast, and enhancement requests for new positions and related costs;
- **Operating Expense** – the primary driver is increases in contracted plan check and inspections related to development activity, which are directly offset by fees and increases in utility charges and maintenance for City parks. Other contract related increases, including insurance costs, increases in credit card fees, investment management services and increases in contractual services. The remainder of the increase is enhancement requests for additional operating costs;
- **Capital Improvements** – the increases are directly related to transfers to the newly created internal service funds. The transfers for vehicle replacement and information technology (I.T.) equipment are new for FY 2022. These are discussed in detail later in this report; and
- **Transfers** – transfers to the Facility Maintenance Internal Service Fund and the Equipment Internal Service fund are the reason for the increase in transfers out of the General Fund.



A summary of General Fund expenditures by department is included as Attachment B.

General Fund Expenditure Highlights by Department

Administration - Administration, City Council, City Clerk, Risk/Human Resources, Information Technology, Legal and Finance

	FY 2021 Budget	FY 2022 Budget	Variance
Personnel	\$3,326,413	\$3,625,023	\$ 296,610
Operating	\$4,832,768	\$5,340,960	\$ 508,192
Capital Improvements	\$ 150,000	\$ 40,744	(\$109,256)
Contingency	\$ 150,000	\$150,000	\$0
Total Expenditures	\$8,459,181	\$9,156,727	\$ 697,546

Budget Highlights

- All budgets made necessary contributions to the internal service funds;
- Increases in contract service for investment management, credit card fees and insurance costs;
- Legal cost increases from \$1,250,000 to \$1,500,000; and
- Enhancements: 1 New IT Desktop Analyst position, reclassification of one existing Senior Accountant to Assistant Finance Director and several operating enhancements – total requested enhancements - \$192,995.

Public Works - Engineering/ Public Works and Street Maintenance

	FY 2021 Budget	FY 2022 Budget	Variance
Personnel	\$1,609,738	\$1,880,553	\$ 270,815
Operating	\$1,168,830	\$1,522,773	\$ 353,943
Capital Improvements	\$ 38,332	\$ 213,703	\$ 175,371
Total Expenditures	\$2,816,900	\$3,617,029	\$ 800,129

Budget Highlights

- All budgets made necessary contributions to the internal service funds;
- Increases in contract service for plan checking, inspections and traffic engineering – the majority of these expense increases will be recoverable via development fees and revenue estimates for fees have been adjusted accordingly;

- Increase in budget to manage street lights as Solera has been added to City responsibility which will be paid through CFD special assessments; and
- Enhancements: 2 New Street Maintenance Worker positions and new survey equipment – total requested enhancements - \$324,748.

Community Development - Community Development, Community Enhancement, Building and Safety

	FY 2021 Budget	FY 2022 Budget	Variance
Personnel	\$1,358,383	\$1,439,197	\$ 80,814
Operating	\$ 387,980	\$ 853,070	\$465,090
Capital Improvements	\$ 0	\$ 25,589	\$ 25,589
Total Expenditures	\$1,746,363	\$2,317,856	\$571,493

Budget Highlights

- All budgets made necessary contributions to the internal service funds; and
- Increases in contracted plan check and inspection services to accommodate expected increases in development activity – these costs are recoverable via building related fees and revenue estimates have been adjusted accordingly.

Community Services – Community Services, Parks and Grounds Maintenance, Building Maintenance

	FY 2021 Budget	FY 2022 Budget	Variance
Personnel	\$2,307,943	\$2,635,795	\$ 327,852
Operating	\$1,590,684	\$2,335,968	\$ 745,284
Capital Improvements	\$275,500	\$123,497	(\$ 152,003)
Total Expenditures	\$4,174,127	\$5,095,260	\$ 921,133

Budget Highlights

- All budgets made necessary contributions to the internal service funds;
- Remaining frozen positions restored for FY 2022 - includes 2 Park Maintenance Positions and 4 part time Recreation Specialists;
- Increased allocation for routine building maintenance;

- Increased utility costs and chemicals for splash pads at Rangel and Michelson Parks;
- Increased spending for maintenance of parks and right of way to include additional tree trimming, bark, hydroseeding, new planting, etc; and
- Enhancements: no new positions are requested, several operating cost increases, including improvements for park maintenance and right of way maintenance are included – total requested enhancements - \$417,391.

Public Safety - Police Department, Police Support, Fire Services, Animal Control, K-9, Emergency Operations

	FY 2021 Budget	FY 2022 Budget	Variance
Personnel	\$11,088,087	\$12,073,974	\$ 985,887
Operating	\$ 5,508,864	\$ 5,375,299	(\$133,565)
Capital Improvements	\$ 409,759	\$ 499,187	\$ 89,428
Total Expenditures	\$17,006,710	\$17,948,460	\$941,750

Budget Highlights

- Remaining frozen police officer position restored, other positions restored during mid-year budget adjustments budgeted for the full year;
- Increase in spending for special department supplies to purchase, including tasers, body armor, weapons, etc;
- Increase in fuel costs to support additional special duty assignments and additional vehicles;
- Fire Services contract reduced from \$4.5 million to \$4.0 million due to a reduction in the contract amount and to more closely approximate historical spending patterns;
- Emergency management - \$91,900 added to support contract emergency management services;
- K-9 budget doubles with an expansion of the K-9 program previously authorized by the City Council to add an additional dog for FY 2022; and
- Enhancements: 3 New Police Officer positions, 1 Support Services Specialist, 1 Officer Trainee, upgrade of 2 Police Officer positions to Corporals – total enhancement request - \$706,883.

A detailed listing of all enhancement requests, including the new positions, is included in Attachment C.

Wastewater Fund Overview

The Wastewater Fund provides for the day-to-day operations of the sewer system, equipment needs and the servicing of debt service. Revenues supporting wastewater operations come primarily from sewer fee payments from customers. Expenses include personnel costs, operating costs, equipment related costs, transfers to support capital projects, debt service payments and an overhead transfer to the General Fund.

The budget for FY 2022 provides for revenues of \$11,781,500 and expenditures of \$11,781,500 for a balanced budget. Expenses include enhancement requests totaling \$493,344 detailed below.

The revenue increase is driven by a 5% increase in rates that begins July 1, 2021, and projected growth of new residential and non-residential accounts.

Wastewater Expenses

Budgeted expenses for the wastewater system increase from \$10,892,800 in FY2021 to \$11,781,500 in FY2022. This represents an increase of \$888,700 or 8.2%.

Type of Expense	FY2021*	FY2022	Increase/ (Decrease)	% Increase
Personnel	\$ 1,859,549	\$ 2,167,400	\$ 307,851	16.6%
Operating	\$ 3,134,022	\$ 3,478,057	\$ 344,035	11.0%
Capital Improvements	\$ 153,638	\$ 413,638	\$ 260,000	169.2%
Contingency	\$ 103,804	\$ 100,000	(\$ 3,804)	(3.7%)
Transfer Out	\$ 5,641,787	\$ 5,622,405	(\$ 19,382)	0%
Total	\$10,892,800	\$11,781,500	\$ 888,700	8.2%

*Added 3 positions at mid-year at a prorated cost.

Explanation of change in expenses:

- **Personnel costs** – full year costs of mid-year added positions during FY2021 and adjustments to payroll and payroll related expenses pursuant to the City's multi-year fiscal forecast;
- **Operating costs** – increases in contract services, equipment leasing/rental, supplies and repairs and maintenance. These costs are partially offset by projected decreases in utility costs;
- **Capital** – ongoing equipment needs;

- **Enhancements** – included in the schedule and detailed below totaling \$493,344; and
- **Transfer Out** – while debt service costs increase slightly in FY2022, additional funds, \$500,583 are transferred in from development impact fees (DIF) to support this payment.

A schedule summarizing the revenues and expenditures in the Wastewater Fund is included in Attachment D.

Wastewater Recommended Budget Enhancements

The enhancement requests for Wastewater include one new position, a vehicle, other equipment and some operating costs as follows:

• Utilities General Manager	\$288,344 (includes all operating costs)
• Jetter Truck	\$175,000 (for collection line maintenance)
• Water Buffalo	\$ 10,000 (mounted tank for spill cleanup)
• Root control	<u>\$ 20,000</u> (ongoing operating costs for root control)
Total	<u>\$493,344</u>

Attachment E includes additional detail regarding these recommended enhancements.

Other Funds Overview

Operating Funds

Operating funds of the City also include special revenue funds that help support the operations of the City. These include special revenues that must be tracked in their own funds due to either the restrictions of their uses or for reporting purposes.

Other Fund activity is a complex component of the overall budget. Attachment F summarizes the activity discussed below.

The beginning fund balances of operating funds for FY2021 total \$40.2 million with FY2022 projected revenue being \$58.3 million and projected expenditures being \$60.3 million for a projected total ending balance of \$38.2 million. Out of this total, City Council has committed funds of \$10.6 million resulting in a projected unrestricted ending balance of \$27.6 million. The FY2022 planned budgeted revenues are \$61.5 million and planned budgeted expenditures of \$60.4 million, resulting in a projected ending balance of \$28.7 million with \$21.8 million being unrestricted.

Total Operating Funds FY 21 Beg Balance	FY2021 Projected Ending Balance	FY2022 Budgeted Revenues	FY2022 Budgeted Expenditures	FY2022 Projected Ending Fund Balance
\$40,237,793	\$27,632,017	\$61,541,712	\$60,442,780	\$28,730,949

Internal Service Funds

Internal Service funds include the newly allocated internal service funds approved by Council on December 15, 2020. A projected ending fund balance for FY2021 is \$6.3 million. After including the FY2022 budgeted revenues of \$1.2 million and budgeted expenditures of \$2.6 million a projected ending fund balance of \$4.9 million is projected at the end of FY2022.

Total Internal Service Funds Beg Balance	FY2021 Projected Ending Balance	FY2022 Budgeted Revenues	FY2022 Budgeted Expenditures	FY2022 Projected Ending Fund Balance
\$0	\$6,300,000	\$1,239,280	\$2,593,794	\$4,945,486

Capital Projects Funds

Capital projects funds include the General Capital Projects that contains the activity of the majority of the capital improvement plan (CIP) projects and the Enterprise Capital funds which hold the capital assets of the Wastewater and Transit Funds separately from the operating funds. Tracking and accounting for actual construction occurs within this fund.

These funds use transfers in to cover the costs of the capital projects for each fund in amounts equal to project costs. Ending fund balances of these funds are a reflection in timing of the completion of CIP projects and assets held for enterprise funds. These funds are dedicated to specific projects shown in the CIP adopted by the City Council after a duly advertised public hearing. These funds may not be moved to other projects or purposes without City Council first amending the CIP.

Capital Improvement Funding

The CIP funds are available for the City to use for capital improvement or maintenance. These funds are restricted by the type of improvement they can be used for and have expenses either captured within the fund or are transferred to support the CIP in the Capital Projects Fund.

The beginning fund balances for FY2021 total \$15.9 million with projected revenues of \$2.7 million and projected expenses of \$11.1 million with a projected ending balance of \$7.5 million. The FY2022 budgeted revenues of \$2.4 million and budgeted expenditures of \$2.5 million leave these funds at an estimated FY2022 ending fund balance of \$7.4 million.

Total Capital Improvement Funds Beg Balance	FY 21 Projected Ending Balance	FY22 Budgeted Revenues	FY 22 Budgeted Expenditures	FY 22 Projected Ending Fund Balance
\$15,945,977	\$7,552,927	\$2,447,088	\$2,589,263	\$7,410,752

Capital Expansion Funding

Capital expansion funding includes all the development impact fee funds that are restricted to be used only to expand infrastructure to mitigate the impacts of development and cannot be used for maintenance projects.

These revenues are held in separate funds based on the fee collected and had a cumulative FY2021 beginning balance of \$25.4 million with projected revenues of \$4.2 million and projected capital projects expenditures of \$18.6 million with a projected ending balance of \$11 million. The FY2022 budgeted revenues of \$6.5 million and budgeted project expenditures of \$1.1 million leave these funds with an estimated FY2022 ending balance of \$16.5 million available for allocation to eligible CIP expansion projects.

Total Capital Expansion Funds Beg Balance	FY2021 Projected Ending Balance	FY2022 Budgeted Revenues	FY2022 Budgeted Expenditures	FY2022 Projected Ending Fund Balance
\$25,477,423	\$11,090,621	\$6,557,719	\$1,100,583	\$16,547,757

Debt Service Funds

The debt service funds consist of the CFD facilities debt service fund and the Beaumont Financing Authority funds. These funds are used for issuing debt and collecting special assessments to cover debt service payments. These balances include the cash held at the trustee, investments in CFD bonds and the liabilities owed to bond holders. These funds are not eligible for allocation and are only used in tracking and paying for CFD supported debt service payments.

FY 2022 Planned Expenditures from the Internal Service Funds

Vehicle Internal Service Fund

The model for the vehicle ISF provides for replacement of vehicles on a schedule based on age and mileage. All vehicles will be evaluated using these criteria and also by evaluating the cost of maintenance and gas consumption to determine the appropriate replacement time frame. There will typically be some vehicles that need to be replaced before the targeted age and mileage threshold and others that can be extended beyond the established schedule.

The City fleet will require an initial catch up in the first two years of operating the ISF due to aged vehicles. For FY2022, the budget provides for replacing 22 vehicles at a cost of \$898,217. Future years are projected to require lower expenditure levels.

Information Technology Internal Service Fund

The model for the I.T. ISF provides for the replacement of I.T. equipment and infrastructure on a scheduled basis. At this time, software and other related costs are not included in the ISF. Equipment will be replaced on the regular schedule to ensure system reliability.

The replacement model is based upon research of other cities and is in line with best practices. Planned expenditures from the I.T. ISF for FY2022 are \$236,000.

Information technology projects for FY2022 include:

- Data Center Maintenance and Improvements - \$50,000,
- Inspector Vehicle mobile technology - \$36,000,
- Camera Maintenance and Updating - \$42,000,
- Application management and security maintenance - \$44,000, and
- Evidence server upgrade (PD) – 64,000.

Facility Maintenance Internal Service Fund

The model for the Facility Maintenance ISF is being finalized. There is a significant backlog of large maintenance projects at City Hall, the Police Department and the Fire Station. For FY2022, several CIP projects will be created to address some of this backlog. These projects will be funded from a transfer from the Facility Maintenance ISF. The CIP projects to be funded from the Facility Maintenance ISF total \$1,459,577 and are detailed in the CIP report to be discussed as a separate agenda item.

For FY2022, City staff is recommending an allocation of \$250,000 to the Facility Maintenance ISF as this approximates future annual allocation needs. This transfer is included in budgeted transfers out of the General Fund.

Equipment Replacement Internal Service Fund

This fund will be used for the replacement of existing equipment and purchase of new equipment. This model has not yet been developed and no expenditures are currently planned from this fund for FY2022. City staff is recommending an allocation of \$150,000 to this fund as this approximates historical annual spending on equipment. This transfer is included in budgeted transfers out of the General Fund.

Fiscal Impact:

This first meeting regarding the FY2022 Budget is intended to seek guidance from the City Council regarding the proposed budget. No fiscal impact is anticipated from this discussion. City staff estimates it cost approximately \$58,500 to prepare this report.

Recommended Action:

Review the proposed FY 2022 Budget and provide direction to City staff.

Attachments:

- A. FY 2022 General Fund Revenues
- B. FY 2022 General Fund Expenditures by Department
- C. FY 2022 General Fund – proposed budget Enhancements
- D. FY 2022 Wastewater Fund – Revenues and Expenditures
- E. FY 2022 Wastewater Fund – proposed budget Enhancements
- F. FY 2022 All Funds Summary