



CITY COUNCIL AGENDA REPORT

Meeting Date: June 9, 2022

From: Carolina Yuen

Subject: Overview of Proposed Budget for Fiscal Year 2022/23

Community Goal/Result

Fiscally Prudent – Brisbane’s fiscal vitality will reflect sound decisions which also speak to the values of the community

Purpose

To provide a fiscal plan which provides flexibility to City Council and the Community to provide for services during the time of unknown economic circumstances while planning for the long-term recovery.

Recommendation

It is recommended that the City Council receive a general overview and department presentations of the proposed Budget for Fiscal Year (FY) 2022/23 and consider for approval at the next City Council meeting scheduled for June 16, 2022.

Background

For several years, the City has adopted two-year budgets. Most recently the FY2020-22 biennial budget was approved on June 4th, 2020, adopting Resolution 2020-23. The City and local economy continue to feel the impact of COVID-19, recent supply-chain shortages and other volatile economic conditions. The City Manager is therefore proposing a one-year budget covering the period of July 1, 2022, through June 30, 2023 (FY2022/23) with the intention of returning to a biennial budget for the subsequent fiscal year. Also, the Finance staff has partnered with ResourceX to implement a software application to support our Priority Based Budgeting strategy, quantifying expenses at the program level. This was the first year of implementation and the City Manager agreed that applying to only one year of a budget cycle would better serve the staff’s resources and provide the best output for Council to review.

Discussion

The City’s budget document contains revenues, appropriations, and other financial information pertaining to all City operating budgets. The Capital Improvement Plan is not included, as it is usually reviewed during the off-years of the biennial budget cycle and will therefore be revisited at a later period. The City’s budget goal is to achieve a balanced budget with revenues, including reimbursements or transfer from other funds for services provided, equal to or greater than expenditures. At times, the City can plan for revenues to be less than expenses, and therefore the budget is balanced by using its available resources or Fund Balance.

Budgetary control is maintained at the Department/Program level. The City Manager may approve transfer of appropriation from one program, activity, or line item within or across departments. Total appropriation within a fund may be increased by the City Manager up to \$200,000. Anything exceeding this threshold can only be increased with Council approval. Departments monitor and control budgets using the City’s financial system, through reports of revenue and expenditure accounts. The financial system monitors expenditures down to the line-item level. The Council is provided with a mid-year financial status report that reflects year-to-date expenditures and revenues compared to budget.

The presentation tonight will focus on the General Fund which supports the City’s main operations, funded by a variety of taxes, program fees and service charges. Information will also be presented for two proprietary funds (business-type activities) that are funded primarily through user charges -- the Utility Fund and the Marina Fund.

General Fund Revenues:

For FY2022/23, staff is projecting that revenues will increase slightly from current year by approximately \$180,000 from current year’s expected results.

Both Property Taxes and Sales Taxes are expected to grow slightly. Sierra Point construction continues to positively impact our property taxes which remain strong overall. Sales Taxes are increasing from current year, but still slightly shy of pre-pandemic levels as we must make up for two major sales tax contributors that departed this past year. Although we are projecting an increase in Transient Occupancy Tax (TOT) by \$403,000 to \$1.7 million, this revenue source is still projected to be well below our pre-COVID-19 average of \$3 million as the hotel sector has not fully recovered. Business License revenue also is expected to increase but has not caught up to FY2018/19 levels. Offsetting these increases are an expected decrease in program service fees of approximately \$210,000 and decrease in Other Revenues by approximately \$662,000 as we saw a spike in FY2021/22 for wildfire support reimbursements and miscellaneous grants.

Major Revenue Source	Actual FY2018/19 Pre COVID19	Actual FY2020/21 mid COVID19	Projected FY2021/22 Recovery	Projected FY2022/23 Recovery
Property Tax	\$4,202,000	\$5,513,000	\$5,002,000	\$5,284,000
Sales Tax	\$5,606,000	\$7,652,000	\$5,238,000	\$5,500,000
TOT	\$2,890,000	\$850,000	\$1,291,000	\$1,703,000
Business License	\$4,938,000	\$4,582,000	\$4,663,000	\$4,743,000

General Fund Expenses:

In consideration of the reduction in revenues, staff is making the following recommendations regarding expenses:

- Continue to provide necessary services for FY2022/23
- Normal operations resumed in FY2021/22 and therefore open positions should continue to be actively filled
- Proceed with the City Hall expansion project and tenant improvements at the leased property located at 25 Park Place
- Proceed with the organization-wide technology project, commencing with the review of major processes to identify potential improvements and streamlining opportunities
- Delay funding pension reserves until year-end results are known, except for savings as a result of paying the required Unfunded Liability amount as charged by CalPERS in lump sum instead of monthly payments

With these considerations, overall Expenses from the General Fund are expected to total \$25,014,000. Therefore, staff recommends the use of available resources as required to meet the established programs and initiatives.

Fund Balance:

The net use of Fund Balance for FY2022/23 is therefore anticipated to be \$3,198,000 (difference between revenues and expenditures). As part of the Mid-Year Budget Review, staff identified the ending fund balance for FY2021/22 is expected to be \$16,186,000, where a portion is restricted for existing debt, contract commitments, and encumbrances, leaving an unrestricted and available amount of \$1,955,000 which we recommend be used in FY2022/23.

Over the past decade the City has built up its reserves to be able to continue to provide necessary services during times of economic stress. The City Council has looked at a three-pronged reserve policy:

- Recession Reserve – To be used during times of national economic downturns, set at \$2.5 million.
- Emergency Reserve for Unanticipated Events – To be used during times of local events which increases the City's need to spend or decreases the City's ability to collect anticipated revenues, set at \$3.5 million.
- Annual Fluctuation Reserve – To be used for one-time events which either increase expenditures or decreases revenues, set at 5% of Budgeted Revenues plus 5% of Budgeted Expenses.

As previously discussed, the COVID-19 event, increase in fuel costs, supply-chain shortages, and volatile markets continue to impact both national and local economic cycles. Staff recommends tapping into the Recession Reserve to meet the objectives outlined above.

Based on the recent actual results and budgeted projects, staff anticipates the available reserves as shown below if these reserves are used:

Reserve	Actual 6/30/2020	Actual 6/30/2021	Projected 6/30/2022	Projected 6/30/2023
Recession Reserve	\$2,500,000	\$2,500,000	\$2,500,000	\$1,257,000
Emergency Reserve	\$3,500,000	\$3,500,000	\$3,500,000	\$3,500,000
Annual Reserve	\$2,100,000	\$2,504,000	\$2,231,000	\$2,341,000

The above projections are based on conservative estimates of the impact of COVID-19 and other uncertainties on the economy.

Other Considerations and Budget Threats:

After the City begins to fully financially recover from the impact of COVID-19, there are some long-term financial implications to consider:

- At the time of this budget presentation, the City is in the middle of labor negotiations with several bargaining groups. Not all contract results are known and therefore not reflected in the proposed budget.
- The tenant improvements to the property located at 25 Park Place are in the design phase and therefore the cost and expected duration are unknown. The preliminary range has been estimated to be as high as \$3,000,000
- PERS rates – In July 2021, CalPERS announced their investment return for FY 2021-21 was 21.3% which triggered a reduction to their discount rate from 7% to 6.8%. In November 2021, the CalPERS Board voted to maintain the 6.8% discount rate target for its investment portfolio. This discount rate is the long-term interest rate used to fund future pension benefits. The less earned by the CalPERS investment portfolio, the more the City must cover to fund the pension liability, also known as the unfunded liability. The known increase in the annual payment from FY2021/22 to FY2022/23 is \$276,000 and will grow if the target is not met.
- Replacing reserves – if staff’s projections for FY2021/22 and FY2022/23 are accurate, the City will have used approximately \$1,243,000 of reserves to continue to provide services to the Community. Staff would recommend beginning to reimburse these in FY2023/24, or as soon as possible. It will be several years if we repay ourselves at \$500,000 per year
- Pension Trust Fund Reserves – Staff recommends to resume funding this in FY2023/24 as well. The goal was to reach \$5M which would have covered two years’ worth of our unfunded liability payment. With the anticipated growth in our Unfunded Liability

payment, staff will recommend this Trust Fund grow accordingly as well. At a minimum any savings from a prepayment of the annual cost versus monthly payments should be considered for transfer to the Pension Trust. Resuming annual funding would be at \$500,000 for the next ten years.

- Healthcare and Liability Insurance costs have been rising in recent years. Any additional increases will need to immediately be implemented.

Any one or combination of these items will continue to have impacts on our ability to begin new programs going forward and add stress to our bottom line.

Financial stability remains a high priority for the City of Brisbane. Staff looks forward to working with the Council and the community to address the financial challenges that lay ahead. Staff will continue to seek ways to as efficient as possible in providing services to the community. The City will continue to consider appropriate economic development and tax revenue generation projects that are viable for our City.

Fiscal Impact

There are no fiscal implications to receive this report. Recommendations related to the FY2022/23 Budget will be presented at a future City Council meeting.

Measure of Success

Council will accept proposed budget for additional review and consider for approval at future meeting.

Attachments

None



Carolina Yuen, Finance Director



Clay Holstine, City Manager