

Capitola City Council

Agenda Report



Meeting: January 27, 2022

From: Finance Department

Subject: FY 2021-22 Mid-Year Budget Report

Recommended Action: Receive Fiscal Year 2021-22 Mid-Year Budget Report and adopt the proposed resolution amending the Fiscal Year 2021-22 Budget.

Background: The Fiscal Year (FY) 2021-22 mid-year budget report provides an update on the City's financial status as of December 31, 2021 and recommends budget adjustments for FY 2021-22 that better reflect current financial projections.

At the on-set of the Coronavirus Pandemic (COVID-19), staff projected major declines in sales tax, transient occupancy tax (TOT), recreation, and parking revenues. While those revenue sources were initially down, sales tax and TOT revenues continued trending back up throughout last fiscal year, 2020-21; and while the budget was increased during the year, these revenues still ended the year approximately \$900,000 ahead of estimates. All other general fund revenues ended the year approximately \$100,000 ahead of estimates. Additionally, Capitola received approximately \$250,000 more in American Rescue Plan (ARP) funding than originally estimated by the federal government and the library project has concluded with a budget surplus of \$750,000 that can be transferred back to the general fund. This brings the total general fund balance available for one-time expenditures to \$2.75 million. In addition, the City has allocated \$600,000 in a COVID-19 stabilization account which may be allocated to one-time uses.

The FY 2021-22 adopted budget returned revenues close to pre-pandemic levels, however, sales tax and TOT continue to outpace projections. These increased on-going revenue sources are critical to bringing back, in a measured approach, some of the typical on-going expenditures that were temporarily eliminated in response to COVID-19.

Discussion: General fund revenues during COVID-19 have performed better than originally anticipated, which appears consistent with most jurisdictions around the State and especially in coastal communities. Sales tax and TOT continue to outpace projections while all other general fund revenues and expenditures are tracking consistent with the FY 2021-22 Adopted Budget.

Due to better than anticipated revenue receipts during the fourth quarter of FY 2020-21 we ended the fiscal year with a general fund balance of \$2.75 million which includes the original \$750,000 target balance and the previously mentioned \$2 million of additional revenue and the Library Project balance. In addition, the \$600,000 COVID stabilization account remains in place to mitigate impacts from the Omicron variant which is driving the current increase in COVID cases.

Now that staff has data for the first half of this fiscal year, staff is recommending several general fund budget amendments including increasing revenues by \$956,000, of which approximately \$685,000 are considered on-going revenues. In addition, staff is recommending increasing expenditures by \$951,320 of which approximately \$300,000 are considered on-going expenditures.

Revenues:

Sales Tax:

The FY 2021-22 adopted budget included approximately \$7.7 million of sales tax revenue which coincidentally is the same amount as receipts in the prior fiscal year. At the mid-point of this fiscal year sales tax receipts exceed last year's receipts by \$249,000. Assuming a similar level of economic activity for the remainder of the fiscal year presents an opportunity to conservatively increase sales tax revenues by \$225,000 which in turn can be programmed into on-going expenditures.

Transient Occupancy Tax (TOT):

The FY 2021-22 adopted budget included \$1,580,000 of TOT revenue which is consistent with pre-pandemic revenue amounts and about \$60,000 more than actual TOT receipts in the prior fiscal year. At the mid-point of this fiscal year, the City has received approximately \$1.2 million of TOT revenue which is \$457,600 above the prior year at this time and represents 75% of our total adopted FY 2021-22 TOT revenue budget. Again, assuming a similar level of activity as last year, the City is currently on pace to receive \$2.0 million of TOT revenue which also presents an opportunity to conservatively increase the TOT revenue budget by \$420,000 which can be used for on-going expenditures.

American Rescue Plan (ARP):

The federal government had estimated that Capitola would receive \$1.88 million of ARP funding over two equal payments of \$940,000 in FY 2021-22 and FY 2022-23. The City received the first ARP funding in July 2021 of approximately \$1.2 million (\$250,000 more than originally estimated). During the adoption of the FY 2021-22 budget \$890,000 was programmed towards the Wharf project and \$50,000 for the purchase of a van for the Recreation Division. The additional \$250,000 is now available to be programmed towards one-time expenditures.

Other Revenues:

Staff recommends an increase to building permit revenues by \$30,000 and Art & Cultural Grant revenue by \$15,000 based on year-to-date activity. In addition, shortly after adoption of the FY 2021-22 Budget, recreation staff was informed by Soquel Unified School District that they would provide \$16,000 towards scholarships to assist participants of the Afterschool Program.

Expenditures:

Staffing:

At the onset of the Pandemic the City froze a number of vacant positions in order to mitigate the fiscal impacts associated with COVID. During the adoption of the FY 2021-22 Budget City Council reduced the General Fund transfer to the Equipment Internal Service Fund (ISF) by \$100,000 to provide funding for a pilot staffing program that allowed some previously frozen positions to be partially filled and increase hours for an existing three-quarter time employee.

Due to the increase in on-going general fund revenues from sales tax, TOT, and building permit revenue, staff requests making the pilot staffing program permanent and increase staffing in FY 2021-22 by \$100,000 to continue to fill some of the remaining frozen positions as well as increase hours to positions that have had their hours reduced. Converting the pilot staffing program to permanent, and the \$100,000 increase in the current fiscal year, represents an annual increase in staffing costs of \$300,000.

In addition, staff is requesting to “over-hire” a frozen Police Officer position in anticipation of a Police Sergeant retirement at the end of the current fiscal year. This would allow the City to hire, and begin training an Officer to fill the pending vacancy now. Staff proposes utilizing approximately \$56,000 of general fund balance, one-time funding, to cover the cost in the current fiscal year and then reevaluating filling the Police Officer position on an on-going basis during the FY 2022-23 budget public hearings.

Finally, the Community Development Department has been using a consultant to perform housing grant administration services. That consultant has informed staff that she is retiring, and staff requests adding \$8,550 to personnel costs in the housing fund for the Development Services Technician to assume those duties. If this plan is approved, the City will still have two frozen positions and several positions still operating with reduced hours; staff will continue to evaluate as we navigate the ebbs and flows of the Pandemic.

One-Time Expenditures:

As previously mentioned, during the adoption of the FY 2021-22 budget City Council authorized reducing funding to the Equipment ISF by \$100,000 to fund a pilot staffing program. Staff is requesting to transfer \$100,000 from the general fund to the Equipment ISF to return funding to pre-pandemic levels. In addition, at the January 13th, 2022, City Council meeting, Council authorized staff to spend up to \$400,000 from the Equipment ISF for the purchase of an electric street sweeper. The Equipment ISF currently has \$200,000 set aside for the purchase of a street sweeper. Staff requests transferring the remaining \$200,000 from the general fund to offset the sweeper costs.

Staff is also requesting to increase Part-Time wages for the Afterschool program by \$50,419 to address increased capacity as well as impacts from COVID within the program. This increase will be offset by \$23,350 from the Community Grant Program that City Council directed staff to allocate to the Afterschool Program, \$16,000 of scholarship funding from the Soquel Unified School District, and existing revenues within the program.

During the first half of the fiscal year the City incurred one-time expenses related to the recruitment for a new Police Chief and legal expenditures related to labor negotiations and litigation on the library project. Staff is requesting to increase our personnel recruitment budget by \$27,000 for the recently completed recruitment of our Police Chief and \$25,000 for legal services.

Staff requests increasing expenditures of approximately \$16,000 for the Museum and Art & Cultural Programs as they return to pre-pandemic levels as well as funding for the annual Beach Festival. Staff also requests increasing Consulting Services for Outsourced Plan Checks by \$43,100 as we recruit to fill a vacant position in the Building Division; however, this increase will be offset by a \$30,000 increase in building permit revenue and reprogramming \$10,000 from outsourced inspections to outsourced plan checks.

Finally, staff is requesting to transfer \$375,000 from the General Fund to the Capital Improvement Project (CIP) fund for the Rispin Park project and Peery Park bridge repairs. The City learned its competitive grant request for the Rispin Park project was not successful; that project remains \$300,000 under funded. Additionally, staff had to make emergency repairs for public safety to the Peery Park Bridge at a cost of \$75,000

Other Funds:

Staff is requesting to increase the Capital Outlay budget in the Public, Education, & Government fund (PEG) by \$45,000 for the purchase of technology equipment. The PEG fund has a current

fund balance of \$85,000 which is restricted for these types of purchases. Staff is also recommending cancelling the transfers from the Restricted Road Management & Repair Account fund and RTC Measure D fund to the Capital Improvement Fund as we change our accounting methodology in order to provide more transparent annual reporting for these restricted funds.

Summary:

As outlined above, staff is projecting \$3.35 million in fund balance and the COVID stabilization account available for one-time uses. In addition, staff is recommending revenue increases of \$685,000 available for ongoing expenditures

The following table summarizes the proposed changes in general fund expenditures included in the proposed budget revision.

Expenditures	One time cost	On-going annual cost
Rispin Park	\$ 300,000	
Rispin/Peery Bridge	\$ 75,000	
Pilot staffing program permanent		\$ 100,000
Additional staffing <small>*Cost in FY 2021-22 is \$91,500</small>	\$91,500	\$ 200,000
Police Officer Over Hire	\$56,500	
Legal services	\$ 25,000	
Recruitments	\$ 27,000	
Equipment IS transfer	\$ 300,000	
Afterschool program	\$ 27,070	
Museum and Art & Cultural Programs	\$ 16,150	
Building	\$ 33,100	
Totals	\$ 951,320	\$300,000
Projected remaining funding	\$ 2.49 million	\$ 385,000

Staff's recommendations were presented to the FAC at their meeting on January 18th and the committee concurred with staff's recommendations. The FAC also agreed with waiting until after the City Council has identified their goals for FY 2022-23 before programming any additional on-going or one-time funding.

Fiscal Impact: If approved, these requested budget amendments provide approximately \$685,000 of on-going general fund revenue of which \$28,000 will be restricted TOT for local business groups and Early Childhood & Youth programs. It will also increase available one-time general funding by \$250,000 to be combined with other one-time revenue from the prior fiscal year and the library project balance.

The requested budget amendment increases the current staffing budget by \$91,500 in the current

fiscal year and \$300,000 of on-going staffing costs.

The requested budget amendment also utilizes approximately \$859,820 of the \$2.75 million of one-time general fund balance for the Police Officer position, personnel recruitment, legal services, and Equipment ISF funding.

Attachments:

1. Proposed Resolution
2. Budget Amendment

Report Prepared By: Jim Malberg, Finance Director

Reviewed By: Chloé Woodmansee, City Clerk

Approved By: Jamie Goldstein, City Manager