



Staff Report

File #: REPORT 21-0403, Version: 1

Honorable Mayor and Members of the Hermosa Beach City Council Regular Meeting of July 13, 2021

ADOPTION OF FISCAL YEAR 2021-22 BUDGET

(Continued from June 29, 2021)

(Finance Director Viki Copeland)

Recommended Action:

Staff recommends City Council:

1. Hear public testimony regarding the Fiscal Year 2021-22 Budget (**Attachments 1 and 2**);
2. Approve increase in rates for legal services effective July 1, 2021 and approve an annual CPI adjustment commencing 2023 (**Attachment 3**); and
3. Adopt a Resolution approving the 2021-22 Budget as presented in Exhibit A (included in **Attachment 4**).

Executive Summary:

The initial forecast of the 2020-21 Budget produced a deficit of \$3.5 million. Recommendations to unfreeze some positions, add a new position, and approve supplemental requests from departments of \$248,303 increased the deficit to \$4.1 million. Staff recommends the use of unspent funds of \$1,802,370 from the two prior fiscal years and a transfer of \$2,310,878 from the American Rescue Plan Act Fund to the General Fund to balance the budget. The end result is a 2021-22 budget that includes a Contingency (Rainy Day Fund) of \$6,778,522, or 16 percent of appropriations per the City's adopted financial policy, essential staff and supplemental requests, and capital projects that would continue to move the City forward towards its established goals.

Background:

On April 21, 2021, a study session was held for the 2021-22 Capital Improvement Program.

The City transitioned from a paper-based document to an interactive online budget document for the 2021-22 Fiscal Year. Additional time was needed to prepare the budget due to new software implementation. City Council approved the date of June 29, 2021 for the budget workshop and public hearing. The planned submission date for the Preliminary Budget was moved from May 15, 2021 to June 24, 2021.

A summary of the General Fund is also provided (**Attachment 5**) and will be incorporated into the Adopted Budget.

Analysis:

The estimated General Fund revenue shortfall due to COVID-19 results in a deficit of \$3.5 million, prior to the approval of any position requests, changes to frozen positions, and approval of any supplemental items. The chart below shows the steps taken to balance the budget:

Total General Fund Starting Surplus/(Deficit)	(3,507,445)
New Revenue	
Proposition A Fund Exchange	490,000
Changes to Appropriations	
Supplemental Requests	(248,303)
Position Requests/Frozen Positions	(765,356)
Prospective Expenditures	(100,000)
Changes to Transfer Out	
Cover Lighting/Landscaping Deficit from RTI Fund	204,790
Transfer 20120 and Midyear 2020 Unspent Funds to Calp Improvement Fund	(1,772,773)
Change in Fund Balance Reserves	
Increase Contingency to 16% of Operating Expenditures	(132,455)
Assign balance of Prop A Fund Exchange Funds not used for Engineer in 2021-22	(369,470)
Unassign 20120 Year End Balance	1,751,727
Unassign 20201 Midyear Balance	1,823,416
Use of Other Funding Sources	
Move Crossing Guards to Proposition C Fund	315,000
American Rescue Plan Act Funds	2,310,878
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Staff recommends City Council approve the following actions to balance the 2021-22 Budget:

Adopt revised estimated revenue of \$40,015,295 and transfers in of \$2,729,260 which includes a one-time exchange of Proposition A funds and transfer outlined below:

- The City of Hermosa Beach has an excess of \$700,000 in Proposition A (Prop A) funds. The City of West Hollywood needs additional Prop A funds for its transit operations. Staff recommends City Council approve a fund exchange with the City of West Hollywood at an exchange rate of \$0.70 on the dollar, which results in \$490,000. The Prop A funds would remain restricted for the City of West Hollywood, while the funds received by Hermosa Beach

would become unrestricted and may be used for any purpose. Staff recommends proceeds from the exchange be used to fund a new Assistant Engineer. Of the \$490,000 received, \$369,470 would be assigned in the fund balance of the General Fund to cover costs related to the position for approximately three additional years. The exchange agreement would come back to Council in July 2021 for approval.

- Transfer \$2,310,878 from the American Rescue Plan Act (ARPA) Fund to the General Fund. The City is fortunate to receive federal ARPA funds of \$4.6 million, which may be used for the replacement of lost revenue since March of 2020, and to partially restore staffing to pre-pandemic levels. The first half is expected in July, with the other half distributed 12 months later. Staff recommends using the first half of the ARPA funds for the purpose of working to restore staffing to pre-pandemic levels and providing public safety.

At a high level, American Rescue Plan Act funds have the following eligible uses:

- COVID-19 or a negative economic impact;
- Premium pay for eligible workers;
- Government Services to the extent of the loss of revenue; or
- Investments in water, sewer, and broadband infrastructure.

The proposed use of \$2.3 million in the 2021-22 Budget would free up General Fund revenue and allow for the transfer of prior year unspent funds to the Capital Improvement Fund as outlined below.

Adopt revised appropriations of \$42,419,974 and transfers out of \$3,134,118, which includes the following staffing recommendations and supplemental requests:

- Add Essential Supplemental Requests of \$148,703;
- Add Position Requests/Frozen Positions of \$765,356;
- Cover the Lighting/Landscaping Deficit of \$229,790 from the RTI Fund instead of the General Fund;
- Move the budget for Crossing Guard Services, historically funded from the General Fund, to the Proposition C (Prop C) Fund, which is an approved use of the funds restricted for transit related expenses;
- Increase Prospective Expenditures account by \$100,000; and
- Transfer \$1,772,773 in unspent funds from prior years to the Capital Improvement Fund to provide funding of \$886,386 for future Capital Improvement Projects, increase the Capital Facilities Reserve by \$316,813, and establish a reserve of \$569,574 for the remaining Fire Facility payments to the County for the newly renovated fire station. The remaining \$1,802,370 from Midyear 2020-21 would be used to cover the deficit in the General Fund.

As a part of the Midyear Budget Review on March 9, 2021, staff recommended assigning the unspent General Funds from 2019-20 of \$1,751,688 and the remaining available balance of \$1,823,416 from the 2020-21 Budget for use in the 2021-22 Budget process. During the budget process, it would be determined if the funds need to remain in the General Fund or should transfer to meet funding goals, in accordance with the City's financial policies. The use of American Rescue Plan Act Funds mentioned above would free up the General Fund and allow for the City to replenish the Capital Improvement Fund.

Contracts for Services

As part of approval of the 2021-22 Budget, the City Attorney is requesting an increase in rates for legal services effective July 1, 2021 (except as noted below for pending litigation matters). The City's contract for legal services with Best Best & Krieger allows for Council to approve an increase in rates without a contract amendment.

The City Attorney indicates that services have been provided to the City for over 25 years and during that time rates were kept very low and have only increased on a few occasions. The last increase was thirteen years' ago in 2008. Consequently, the rates are not commensurate with the public agency legal market (which is itself considerably lower than private sector rates) and are not on a par with the rates that are currently charged to other city clients. The rates are lower than many non-attorney consultants used by the City and are well below the rates charged by outside attorneys that have been hired by the City.

The new rate structure proposes an across-the-board increase in various categories of rates as shown in **Attachment 3**; however, the current rate structure for pending litigation matters will be retained until they conclude, and the new rates will apply for new litigation matters commencing after July 1, 2021. In order to avoid asking for this sort of increase in the future, a biannual CPI adjustment in rates, commencing in 2023 is proposed.

Despite the proposed increase in rates, there is no increase in the overall legal services budget for the 2021-2022 fiscal year. The amount budgeted for general city attorney services and litigation should be sufficient.

General Plan Consistency:

PLAN Hermosa, the City's long-range planning document, was adopted by the City Council in August 2017, and envisions a future where "Hermosa Beach is the small town others aspire to be; a place where our beach culture, strong sense of community, and commitment to sustainability intersect." One of the guiding principles to achieve the vision is to make decisions and take actions that help contribute to the City's economic and fiscal stability. Other relevant General Plan policies are listed below:

Governance

- 1.2 Strategic planning. Regularly discuss and set priorities at the City Council and management level to prioritize work programs and staffing needs.
- 1.6 Long-term considerations. Prioritize decisions that provide long-term community benefit and discourage decisions that provide short-term community benefit but reduce long-term opportunities.

Parks and Open Space

- 1.1 Facility upgrades. Improve and update park and open space facilities on a regular basis.
- 2.6 Investment and maintenance. Prioritize the investment and maintenance of existing facilities prior to development and expansion of new facilities.

Infrastructure

- 1.2 Priority investments. Use City Council established priorities and the Capital Improvement Program (CIP) to identify and allocate funding for projects identified in the infrastructure plan.

Public Safety

- 5.2 High level of response. Achieve optimal utilization of allocated public safety resources and provide desired levels of response, staffing, and protection within the community.

Fiscal Impact:

The recommendations contained in the Preliminary Budget cure the General Fund deficit and reflect the philosophy of maintaining City services to the extent possible with minimal disruption.

The 2021-22 Budget, including all funds, estimates revenue of \$50,829,066 and appropriations of \$71,900,085, of which \$16,377,229 is carried forward from prior year Capital Improvement Projects.

Attachments:

1. Link to Fiscal Year 2021-22 Preliminary Budget and Capital Improvement Program (Online Platform)
2. Link to Fiscal Year 2021-22 Preliminary Budget and Capital Improvement Program (PDF Version)
3. Proposed Legal Services Rates 2021
4. Resolution of Budget Adoption, including Exhibit A-Budget Summary
5. Fiscal Year 2021-22 General Fund Summary

Respectfully Submitted by: Viki Copeland, Finance Director

Legal Review: Mike Jenkins, City Attorney

Approved: Suja Lowenthal, City Manager