

STAFF REPORT
City of Lancaster
California Choice Energy Authority

Date: June 23, 2020

To: Mayor Parris and City Council Members

From: Jason Caudle, City Manager
George N. Harris II, Finance Director

Subject: **Fiscal Year 2020-2021 Budgets and Five-Year Capital Improvement Program**

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City Council and City Council acting as Lancaster Choice Energy, Lancaster Financing Authority, Lancaster Housing Authority, and Lancaster Power Authority Recommendations:

- a. Adopt **Resolution 20-31**, adopting the proposed City of Lancaster Fiscal Year 2020-2021 General Fund Operating Budget, Special Funds Budget, and Capital Improvement Program Budget.
- b. Adopt **Resolution 20-32**, establishing the annual Appropriations Limit for Fiscal Year 2020-2021.
- c. Adopt **Resolution 20-33**, authorizing an amendment to the final budget for Fiscal Year 2019-2020.
- d. Adopt **Resolution 20-34**, amending Resolution 17-35 by establishing a classification and compensation schedule for temporary employees and amending Resolution 19-06 by establishing terms and conditions of employment and a compensation schedule for represented regular and probationary employees and amending Resolution 19-38 establishing terms and conditions of employment and a compensation schedule for non-represented regular and probationary employees of the City.
- e. Approve a \$1,425,000 Proposition A Funds exchange with the City of Commerce and authorize the City Manager to execute all documents related to the transaction.

California Choice Energy Authority (CCEA) Board Recommendation:

Adopt the proposed CCEA Fiscal Year (FY) 2020-2021 Budget as presented.

Fiscal Impact:

The proposed City of Lancaster Fiscal Year (FY) 2020-2021 Budget totals \$209.3 million, including \$98.2 million for the Capital Improvement Program (CIP). The proposed CCEA Fiscal Year 2020-2021 Budget totals \$1.463 million.

Background:

City of Lancaster FY 2020-2021 Proposed Budget and Capital Improvement Plan

The City is required to adopt a budget by July 1 of each year that establishes appropriations and estimated revenues for the upcoming fiscal year. The proposed budget is a culmination of many months of work by the City Council and staff in reviewing priorities and evaluating programs to meet those priorities, with a focus on maintaining responsive and relevant service for residents.

Addressing City Council's priorities: The City's previously adopted theme of "STIR things up" has not changed despite the many adjustments being needed as a result of the COVID-19 impact. The vision to focus on Technology, Innovation and Resilience in today's seemingly volatile environment is proving to be well guided as revenues have suffered and generally the way the City conducts business with the community has changed in response to COVID-19.

The major budget assumptions that are being used to prepare the FY20/21 Budget are as follows:

- Remain "Cautiously Optimistic" regarding COVID-19 impacts and recovery.
 - Assumptions have been made using the best information known at this time regarding the revenue impacts resulting from COVID-19. The data shows a loss of 16.3% of sales tax revenue in FY19/20 and an additional 2.8% loss in FY20/21. However, the City has used a variety of tools to help stimulate the economy to help local businesses sustain and/or rebound. This activity is not factored in the proposed budget as the results of such intervention are yet to be determined. Additional revenues losses are projected in Transient Occupancy Tax (TOT), GAS taxes and other sales tax based regional measure programs. There are no significant expenditure increases proposed as a result of COVID-19 in FY20/21.
- "Balancing Act" – Focus on presenting a balanced General Fund budget with no planned operation use of General Fund Reserves. To adapt to the reduction in sales tax and other revenues as a result of COVID-19 and an increase in public safety costs many significant adjustments are required to balance the proposed general fund budget in FY2021. A few are listed below:
 - Eliminate 11 FTE vacant positions
 - Personnel Cost Reductions
 - Withheld annual CALPERS OPEB CERBT fund contribution
 - Deferred the start of any new programs or funding requests
 - Suspended parks, recreation, arts, sports leagues and other programming for 6 months
 - Reduced Staff Development and travel/meetings spending
 - Reduced temporary and part-time staffing by 25%.
- "Projects" – Continuing to focus on advancing capital projects with a \$98M Capital Spending Plan.
- Available resources to sustain Special Revenue and Enterprise Fund activity without additional dependence on the General Fund.

The proposed FY 2020-2021 Budget totals \$245.3 million. This includes funding recommended appropriations for Personnel, Operations & Maintenance, Capital Outlay and Capital Improvement Projects, as follows:

Category	Amount
Personnel	\$36,787,496
Operations & Maintenance	109,243,124
Capital Outlay	1,085,840
Capital Improvement Projects	98,266,107
Total	\$245,382,567

The General Fund operating expenditures (including transfers out) for fiscal year 2020-2021 are proposed at \$75.2 million with no funding for capital improvement projects. Operating revenues are projected at \$75.2 million. To address Council's priority of fiscal prudence and discipline with Reserves, the General Fund budget allows for a Financial Stability Reserve of 10%, a Contingency Reserve of 10%, and an Internal Reserve of 10% of Operating Expenditures. The balanced general fund budget will result in a year end expected reserve balance of approximately \$26.5M or 36% of the general fund operations budget.

New funding for the fiscal year 2020-2021 Capital Improvement Program is proposed at \$98.3 million. Project categories are segregated as follows:

Category	Amount
Maintenance & Repair	\$40.4M
Streets & Right Way	39.7M
Facilities & Fixtures	15.3M
Transportation Safety	1.9M
Utilities	0.9M
Total	\$98.3M

Appropriations Limit

In addition to adopting the budget, the City is also required to calculate the Appropriations Limit on an annual basis and adopt a resolution that sets the limit. The limit is adjusted each year by two factors that are provided by the State Department of Finance. They are the change in population and the change in California per capita income. Based on these factors, the appropriations limit is set at \$213,881,042 for fiscal year 2020-2021. The proposed budget subject to the Appropriation limit is below this limit, as required by law.

Amendment to FY 2019-2020 Budget

In accordance with proper governmental accounting and financial reporting practices, staff recommends amendments to the fiscal year 2019-2020 adopted budget to adjust estimated revenues and appropriated expenditures. These amendments are mostly related to the impact of COVID-19 on the City's revenues and expenditures experienced in the last quarter of the fiscal year.

Proposition A Funds Exchange with the City of Commerce

Proposition A guidelines allow for the exchange of unobligated Proposition A transportation funds to be exchanged with other agencies for General Fund dollars. The City of Commerce contacted Lancaster staff inquiring of our interest in exchanging available Proposition A funds. The exchange rate is 70 cents on the dollar, resulting in \$997,500 in unrestricted general fund revenues. This exchange is reflected in the Proposed FY 2020-2021 Budget. FY20/21 is the last year of the agreement.

California Choice Energy Authority Budget

The proposed CCEA FY 2020-2021 Budget totals \$1,463,794. The proposed CCEA Budget projects Reserves to total \$598,979 by the end of FY 2020-2021. The budget adds two new roles to the organization; one project analyst and a lobbyist. Both positions add an additional \$185,000 to the expenditure budget.

Changes since the Budget Public Hearing

- Refined consulting expenditure in Lancaster Choice Energy; and
- Updates Cost Allocation Plan and Transfers.

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Attachments:

Proposed Budget FY 2020-2021

Resolution No. 20-31 (a. Adopting City FY 20-21 Budget)

Resolution No. 20-32 (b. Appropriations Limit-FY21, Including Exhibit A)

Resolution No. 20-33 (c. Amendment to 19-20 Budget)

Resolution No. 20-34 (d. 2020-2021 Classifications and Compensations – All City)