



**CITY COUNCIL
STAFF REPORT**

TO: Honorable Mayor and Councilmembers
DATE: May 18, 2021
THROUGH: Kathleen S. Trepka, City Manager
FROM: Shelly A. Gunby, Director of Financial Management
SUBJECT: Fiscal Year 2021-2022 Budget Workshop

RECOMMENDATION:

Staff recommends that the City Council receive a report on the status of the Fiscal Year 2021-2022 budget and provide input and direction.

BACKGROUND:

Staff has been preparing the Fiscal Year 2021-2022 (FY 21-22) budget factoring in the pace of the Covid-19 recovery and the impacts on both the City of Winters and our local economy. The pandemic dramatically impacted revenue sources related to business operations during the last year; however, the recovery of sales taxes and transient occupancy taxes is occurring at a faster rate than anticipated a year ago. Financial forecasts indicate that this next year will remain a transitional one in terms of economic recovery and public effectiveness in containing the spread of COVID-19.

DISCUSSION:

This staff report and workshop will focus on the four funds that fund most of the services to the Winters community: The General Fund, City-Wide Assessment Fund, Water Fund, and the Sewer Fund.

Projected General Fund Overview for FY 20-21:

The current FY 20-21 budget included \$5,491,141 in General Fund revenue; however, staff is now projecting approximately \$5,912,505 in revenue by June 30, 2021, an increase of \$421,364 or 7.6%. Fifty-five percent (55%) of that increase is due to building activity during the current fiscal year, which is much more robust than anticipated at the time the FY 20-21 budget was prepared. The balance of the increased revenues is a result of higher assessed property values than anticipated during budget preparation,

which has resulted in higher revenue in the categories of Property Taxes, Property Tax Transfers and Property Tax in Lieu of Vehicle License Fees (VLF). The amount of revenue projected for Transient Occupancy Tax (TOT) and the Sales Taxes is expected to remain as budgeted. The projected budget surplus is good news as FY 19-20 closed with a \$339,134 deficit, which required the use of reserves. Previous fiscal years also relied on reserves, as noted on the table below, which is indicative of a structural budget imbalance.

General Fund Budget 5 Year History:

	16/17 Actual	17/18 Actual	18/19 Actual	19/20 Actual	20/21 Estimated
Revenue	\$ 4,543,747	\$ 5,145,943	\$ 5,659,164	\$ 5,791,594	\$ 5,912,505
Expenditures	\$ 4,884,077	\$ 5,259,554	\$ 6,048,782	\$ 6,130,728	\$ 5,848,522
Over / Under	\$ (340,330)	\$ (113,611)	\$ (389,618)	\$ (339,134)	\$ 63,983

On the expenditure side for FY 20-21, this year’s budget included significant staffing cuts to present a balanced budget, as required by State law. Several positions were not funded following retirements or resignations:

- Management Analyst (resignation)
- Economic Development and Housing Manager (retirement)
- Sergeant (resignation)
- The aquatic program: pool manager, head coach, lifeguards (seasonal)

In addition, the City Clerk position, which also oversaw Recreation programs, was reclassified to an Executive Assistant level, and Recreation programs (including two employees) were transferred into Finance.

Staff is recommending that the unanticipated revenue be used to assist with funding pool operations and the return of the Economic Development and Housing Manager retiree on a part-time basis to assist with several special projects. Factoring in additional expenditures that were not originally budgeted (e.g., city manager recruitment, a new server to replace a failed one, and the vacation cash out for the retiring Building Official), the projected budget surplus for FY 20-21 is expected to be \$63,983. This will be the first year in five that the City may close its books with positive revenue over expenditures, or a budget surplus.

Overview of FY 21-22 General Fund Budget:

To prepare the FY 21-22 budget, staff contacted developers, consultants, business owners and other information sources to determine estimated revenues, and staff prepared department budgets utilizing the new OPENGOV software program.

The following assumptions were utilized to guide the development of the FY 21-22 budget:

- Residential building construction will continue to remain robust.
- Both the Property Tax and the Property Tax in Lieu of VLF will increase, based on new homes completed between January 1, 2020 and December 31, 2020, consistent with information from the City’s property tax consultant, HdL Coren and Cone.
- Sales tax projections will increase by 2%, as determined by HdL, the City’s sales tax consultant.
- TOT is budgeted conservatively at approximately \$425,000, which is more than

double the anticipated revenue for this current fiscal year. Staff understands business at Hotel Winters is accelerating; however, construction at Fairfield Inn remains behind schedule. TOT revenues can be adjusted at mid-year, if appropriate.

- Insurance costs through YCPARMIA are expected to be approximately \$322,000.
- The 2.5% Cost of Living Adjustment (COLA) the employees voluntarily deferred one year has been factored in, except for the City Manager who waived her right to a COLA to assist with balancing the budget.
- Maintaining cash balances in reserve funds will remain a Council policy to cover cash flow during the first seven months of the fiscal year (the first property tax allocation is generally received in January of each year).

The adopted fiscal policies for the city require a reserved fund balance of 50% of annual expenditures. Currently, the anticipated reserved fund balance is 28% of annual expenditures. The reserve policy was set at 50% because property tax and property tax in lieu of Vehicle License Fees (VLF) revenues, which are the largest revenues for the City, are not received from Yolo County until late January of each year, approximately 7 months into the fiscal year. The reserve provided available cash to fund city operations during that delay. With the addition of other reoccurring revenues, such as the Transient Occupancy Tax (TOT), cash flow is becoming more even throughout the fiscal year, and once we transition out of the pandemic is expected to continue to improve. With the expansion of additional reoccurring revenues creating more consistent cash flow, the City Council could consider reviewing and updating the reserve fund balance policy during the goal setting workshop to be held later in the summer.

FY 21-22 General Fund Budget Overview: Expenditures:

The proposed FY 21-22 department / program budgets are listed below in alphabetical order. The table includes four years of actual expenditures compared to projected expenditures for this fiscal year and the proposed department / program budget for FY 2021-22. This table does not include any revenue generated by individual programs or departments and does not include any cost allocations out to other departments or funds. For example, the City's cost allocation plan includes allocating a portion of general government costs (i.e., legal, finance, human resources to line departments and programs). The cost allocation is netted below, with the amount by fiscal year, which represents the net impact to the General Fund. As noted, approximately \$542,000 in General Fund costs are allocated to other funds, principally water and sewer, which are discussed below. Overall, staff is recommending a 5.7% increase in the General Fund budget, pre-allocation, totaling \$360,927.

Staff also notes that with the implementation of the new budgeting platform, OpenGov, the opportunity to "roll up" division activities into larger department or program functions is easily accomplished, which allows for budget reporting by more standard municipal program areas.

General Fund Department / Program Budgets

	Actual	Actual	Actual	Actual	Projected	Proposed
Department / Program	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Administrative Services / Finance	361,880	374,613	383,018	406,271	512,456	643,222
Aquatics	97,579	93,258	96,817	69,728	89,612	103,119
Building Division	254,788	362,602	340,609	344,566	352,312	327,360
City Clerk: Elections / regulatory	8,849	1,413	11,584	13,750	25,325	12,135
City Council	73,595	77,306	67,538	93,535	88,048	82,212
City Manager	352,175	329,142	340,361	367,469	382,849	373,243
City Treasurer	365	364	0	0	0	0
Community Development	88,031	89,139	49,751	77,476	87,067	200,459
Community Center	54,550	68,608	65,564	76,464	62,363	73,073
Fire Department	1,046,995	1,067,663	1,336,560	1,129,028	1,238,405	1,197,069
Housing Division	198,993	212,834	201,490	217,841	13,878	0
Human Resources	276,610	348,260	223,699	234,544	156,243	167,814
Non Departmental / Misc	0	0	0	0	52,000	0
Police Department	2,309,609	2,339,016	2,429,636	2,795,759	2,556,351	2,697,996
Public Works	602,262	609,328	1,012,951	810,279	757,622	858,786
Recreation Programs	8,502	6,873	9,808	27,848	1,029	0
Rogers Building	45,670	278	0	450	0	0
Total	\$ 5,780,452	\$ 5,980,698	\$ 6,569,386	\$ 6,665,009	\$ 6,375,561	\$ 6,736,488
Intra-Fund Allocations	\$ (896,375)	\$ (721,144)	\$ (520,604)	\$ (534,281)	\$ (527,039)	\$ (541,939)
Net General Fund Impact	\$ 4,884,077	\$ 5,259,554	\$ 6,048,782	\$ 6,130,728	\$ 5,848,522	\$ 6,194,549

Administrative Services / Finance:

Staff recommends that the Finance Department be retitled and reorganized as an Administrative Services Department, to include Finance, Recreation, and IT. This department would provide administrative support to operating departments in the areas of finance, purchasing and information technology. Recreation was previously transferred into this department when the City Clerk position was reclassified as an executive assistance level position. From the budget table, this Director would oversee Administrative Services, Aquatics, the Community Center, and Recreation. The reclassification / retitling of the Director position to Administrative Services Director would need to be approved by Council; there is no recommended change in salary schedule. In aggregate, the combined programs areas are delineated below:

	Actual	Projected	Proposed	FY 21 v 22
Department / Program	2019-20	2020-21	2021-22	% Change
Administrative Services	\$ 580,311	\$ 665,460	\$ 819,414	23.1%

The 23% increase in aggregate for the department includes the transfer in of one full-time and one part-time staff, and the anticipated retirement of the current Financial Management Director, including the payout of approximately three months of anticipated accrued vacation. Funding to support the aquatic program has also been restored in the

proposed budget.

City Manager's Office:

This department includes the City Manager, the City Clerk, and the Human Resources Division, and includes the program area for elections and other regulatory costs associated with the City Clerk function.

	Actual	Projected	Proposed	FY 21 v 22
Department / Program	2019-20	2020-21	2021-22	% Change
City Manager's Office	\$ 615,763	\$ 564,417	\$ 553,192	-2.0%

More significant changes in this department include the adjusted salary for the current city manager, the reclassification of the City Clerk from a management level employee to an executive assistant, and the transfer of the recreation staff to the Administrative Services / Finance Department. The training budget has been restored to provide for two conferences for the City Manager and ongoing training for the City Clerk. The net impact for the proposed fiscal year is an overall 2% reduction, which is offset by the increase in Finance.

Community Development:

This program area typically includes Planning, Engineering, Building, Housing, and Economic Development. Currently, there is no director, and these program areas individually report to the City Manager. There have been significant changes in this area. Last fiscal year, as a cost cutting measure, the Housing and Economic Development Manager position was eliminated following the retirement of the previous employee and was replaced with a combination of a contract with Yolo County Housing to administer grants, agreements with non-profit housing providers to assist with affordable housing income certification services, and a part-time position to assist with special projects. In addition, planning services are provided by a part-time employee who is retiring in September. In Building, the Building Official retired and the permit technician accepted a position with another agency, prompting a switch to contract services to continue to provide services to the community. Engineering services remain constant. Engineering costs are allocated out to either development projects or other departmental areas (i.e., Public Works, Water, Sewer) and are not reflected in the below program area summary.

	Actual	Projected	Proposed	FY 21 v 22
Department / Program	2019-20	2020-21	2021-22	% Change
Community Development	\$ 639,883	\$ 453,257	\$ 27,819	16.5%

Staff is recommending a number of changes within the Community Development program area, resulting in an overall increase of 16.5%. The fractured arrangement in housing, economic development and part-time planning do not meet the needs of the organization or the community; therefore, staff is recommending the addition of one full-time senior planner position to oversee and coordinate those functional areas, which would provide more technical professional experience on staff. The position classification and salary schedule would need to be approved by the City Council. The contracts will remain for grant administration and income certification support given the volume of work; however, the senior planner would manage those program areas rather than the city manager. Staff

has also included some funding for special project assistance by part-time staff. In addition, staff has included one year of funding for Bureau Veritas to continue to provide contracted building services while that team continues to update policies and procedures consistent with industry best practices. The contract model also allows more executive attention to be devoted to stabilizing staffing in other areas (current recruitments include the aquatic program, the human resources manager, police officer, volunteer fire fighters, a maintenance worker, and a senior planner, subject to Council approval). An amendment to the current Bureau Veritas agreement would be necessary to extend the agreement through June 30, 2022 and to increase contract authority for a full fiscal year of service.

Fire Department:

There are no major changes proposed for the Fire Department. Overall, the budget has been reduced by 3% to assist with balancing the General Fund budget. The department continues to operate as a hybrid paid – volunteer department and relies significantly on volunteers to provide department services.

	Actual	Projected	Proposed	FY 21 v 22
Department / Program	2019-20	2020-21	2021-22	% Change
Fire Department	\$ 1,129,028	\$ 1,238,405	\$ 1,197,069	-3.3%

Police Department:

The proposed budget for FY 21-22 represents a 5.5% increase, including the addition of one police officer position. A vacated sergeant position was left unfunded for FY 20-21 as a cost cutting measure. The current budget environment did not allow for the full restoration of this position; however, the Police Chief has reorganized and alternatively requested that an additional police officer be added to the department. Department staffing remains tight and turnover in the department is primarily the result of compensation and more opportunities that are available in larger departments. Stabilizing public safety staffing will be a priority.

	Actual	Projected	Proposed	FY 21 v 22
Department / Program	2019-20	2020-21	2021-22	% Change
Police Department	\$ 2,795,759	\$ 2,556,351	\$ 2,697,996	5.5%

Public Works:

Staff is proposing the reclassification of the Public Works Superintendent position to an executive level Director position given the full breadth of maintenance and operations responsibilities associated with municipal maintenance and public utilities. The net impact of this change is approximately 6% for this position’s salary or \$7,260 annually. The Public Works Director classification and salary schedule would need to be approved by the City Council and would match the current pay structure for other director positions. The department budget includes the subsidy to the City-Wide Maintenance Assessment District, which is expected to be approximately \$12,000 higher in 2021-2022 than in 2020-2021. Additional items that increased the overall budget for the department include increased registration and travel costs for staff training that was not available due to pandemic restrictions. Building repairs are budgeted for the replacement of the roll up doors at the Corp Yard, as well as other smaller repairs at City facilities.

	Actual	Projected	Proposed	FY 21 v 22
Department / Program	2019-20	2020-21	2021-22	% Change
Public Works	\$ 810,279	\$ 757,622	\$ 858,786	13.4%

FY 21-22 General Fund Budget Overview: Revenues:

As noted previously, General Fund revenues are rebounding faster than presumed during the budget development process last fiscal year. While sales tax and TOT were significantly impacted by the pandemic, building activity did not slow; instead, the intensity of the housing market accelerated, which also increased property tax values year over year. The chart below summarizes the activity of the primary General Fund revenue sources.

Revenue	Actual			Actual			Projected			Proposed	
	FY 16/17	FY 17/18	% Chg	FY 18/19	% Chg	FY 19/20	% Chg	FY 20/21	% Chg	FY 21/22	% Chg
Sales Tax	\$ 560,709	\$ 615,141	9.7%	\$ 717,924	16.7%	\$ 654,510	-8.8%	\$ 634,952	-3.0%	\$ 687,506	8.3%
TOT	\$ 7,198	\$ 11,485	59.6%	\$ 20,699	80.2%	\$ 82,079	296.5%	\$ 190,000	131.5%	\$ 424,116	123.2%
Property Tax	\$ 763,742	\$ 689,887	-9.7%	\$ 719,646	4.3%	\$ 787,655	9.5%	\$ 871,426	10.6%	\$ 959,404	10.1%
Building Activity	\$ 283,390	\$ 245,335	-13.4%	\$ 461,322	88.0%	\$ 617,793	33.9%	\$ 631,473	2.2%	\$ 551,272	-12.7%

Sales Tax:

FY21-22 projected revenue is \$687,506 compared to \$717,924 in 2018-2019, the last pre-pandemic year. However, the City's sales tax consultant HdL provided two years of projections, which indicate that economic recovery is occurring faster than assumed last year at this time. While sales tax revenues will remain lower than pre-pandemic levels for one more year, they are expected to fully recover by FY22-23, about 3 years sooner than industry projections last year.

Transient Occupancy Tax (TOT):

Staff contacted the operator of Hotel Winters and the developer of the Fairfield Inn for projected operating revenues for next fiscal year. As a reminder, the FY 20-21 TOT budget was significantly reduced due to the Stay-at-Home order that was in place at the time of budget development. The Governor has announced that pandemic restrictions will be removed this June, and staff expects lodging rates to continue to climb as people increasingly travel. Staff has estimated the TOT budget slightly below the projections from Hotel Winters, taking a cautious approach to projecting revenues for the Fairfield Inn given its current construction pace and potential impacts Fairfield Inn may have on Hotel Winters once open. The FY 21-22 projected TOT revenues are \$424,116 compared to an estimate of \$190,000 for 2020-2021. The TOT budget can be amended mid-year if activity levels are sustained into next winter. While staff is cautiously optimistic this revenue source will contribute greatly to the City's fiscal stability, basing staffing and program decisions on overly optimistic revenue sources should be avoided.

Property Tax:

Property taxes are based on the assessed value of property as of January 1st of each year. Property tax payments are then due the following December and April of each year. Yolo County pays the cities its share of property tax revenue approximately one to two months following property owner payments (i.e., January and May of each year). The City of Winters utilizes the consulting services of HdL Coren and Cone to assist with property

tax projections, factoring in the rate of new construction, new assessments, and any appeals by property owners of the assessed value of their property. Staff's projections for FY21-22 of \$959,404 for property tax revenue (compared to an estimated \$871,426 for 2020-2021) are consistent with the HdL's recommendations.

Building Activity:

Staff has consulted directly with the developers of the three active subdivisions (Stones Throw, Aspire and Crown Communities) to estimate the level of building activity for the next fiscal year. The revenues for FY 20-21 are currently projected to be slightly above the prior fiscal year. However, staff is budgeting this revenue to be slightly below FY 20-21 revenues for the coming fiscal year, based on information from the developers. Projected 2021-2022 revenues are \$608,125 compared to an estimated \$671,995 for 2020-2021, primarily because the current building pace has been surprisingly accelerated. Staff is cautious about the stability of that pace.

As a reminder, the average building permit revenue for a \$500,000 home is approximately, \$3,500; while the estimated property tax revenue is approximately \$1,200. Developing more recurring revenue opportunities continues to be a priority to reduce budget dependence on construction.

Other Funds:

The other three (3) funds that most impact the Winters Community are the City-Wide Maintenance Assessment District, a special revenue fund that accounts for the revenues collected and the expenditures made to operate the parks, landscaping, and lighting within the City. The other two (2) funds are Enterprise Funds. Enterprise funds are operated more like a business than a government, fees are set to pay for costs of operating the enterprise. The Water Fund is one of the city's enterprise funds, and the Sewer Fund is the other city's enterprise fund, each of which is accounted for separately.

City-wide Assessment Fund:

The City-Wide Maintenance Assessment District was created in 1996 to assist with funding landscaping and lighting maintenance within the District. The assessment is charged through the tax rolls at \$82.50 per residential parcel and \$26.25 per non-residential parcel. The rates have not been adjusted since the District was formed in 1993, and additional park, landscaping and lighting facilities have been constructed since that time as new housing units have been constructed. This fund is projected to have revenues of \$225,709, while expenditures are estimated to cost \$311,367, requiring a subsidy from the General Fund in the amount of \$85,658. This anticipated subsidy is included in the General Fund Budget for 2021-2022 in the Public Works Department.

Water Fund:

The Water Fund has projected revenues of \$1,852,660 and expenditures are \$1,787,034, which includes Debt Service payments of \$167,694 on the 2018 Refunding Bonds and Capital Projects in the amount of \$155,000. The bond covenants require that total operating revenues exceed total operating expenditures by an amount equal to 125% of the debt service payment (principal and interest). The Debt Service payment is not considered an operating cost for this calculation and neither are Capital projects. Therefore, the current budget provides for results of operations of 232% of the debt service payment, well above the required amount.

Sewer Fund:

The Sewer Fund has projected revenues of \$2,075,900 and expenditures of \$2,311,007,

including Debt Service payments of \$197,444 on the 2018 Refunding Bonds and Capital Projects in the amount of \$285,000. The bond covenants require that total operating revenues exceed total operating expenditures by an amount equal to 125% of the debt service payment (principal and interest). The Debt Service payment is not considered an operating cost for this calculation and neither are Capital projects. Therefore, the current budget provides for results of operations provides 126% of the debt service payment which is right at what is required.

In addition to the enterprise funds noted above, other funds will be included in the proposed budget:

- Special Revenue Funds, which include grants in which the expenditures are restricted for specific purposes by the entity that provides the revenues. The three most active of these Special Revenue Funds are the Gas Tax (HUTA) - restricted to Road and Street Expenditures; the SB2 RMRA Fund- also restricted to Road and Street Expenditures; and the Transportation Development Act Fund (TDA)- which is primarily for public transportation needs, with funds not spent for transportation needs available for Street expenditures.
- Capital Funds include Development Impact Fee Funds. These funds are restricted by law to be used only for the purpose of providing funding for projects, infrastructure and equipment specifically detailed in the AB1600 Nexus Study.

Because the funds are restricted in their use, we have not included them in the workshop discussion at this time.

FISCAL IMPACT:

The report above provides an overview of the proposed FY 21-22 Operating Budget.

ATTACHMENTS:

Power Point Presentation includes associated charts and graphs