

**REPORT TO CITY COUNCIL**

**DATE: FEBRUARY 22, 2022**

**TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL**

**FROM: NATHAN HAMBURGER, CITY MANAGER**

**BY: CHRISTY PINUELAS, DIRECTOR OF FINANCE**

**SUBJECT: MIDYEAR BUDGET UPDATE AND RECOMMENDATIONS TO AMEND FISCAL YEAR 2021/22 BUDGET**

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The request before the City Council is to consider the amendments to the Fiscal Year 2021/22 City of Agoura Hills (City) Budget, as shown in Exhibit ‘A’. The Finance Subcommittee has met and considered the recommended adjustments. The amended budget for the City’s General Fund anticipated a \$1.7 million operating loss offset by \$2.4 million in American Recovery Act Money (ARPA). This left the General Fund with an adjusted net revenue of \$714,284.

Staff has reviewed current data and has made projections through June 2022. The recommendation is to increase revenues by \$1,777,591 (\$1,758,825 in operating revenues and \$18,766 in ARPA) and expenditures by \$317,600. The table below reflects the overall recommendations, as shown in the attached Exhibit “A”.

General Fund	<b>Current 2021/22</b>	<b>Recommended 2021/22</b>	<b>Difference</b>
Revenues	\$15,800,100	\$17,558,925	\$1,758,825
Expenditures/Transfers	17,485,816	17,803,416	317,600
Operating Net Income/(Loss)	(1,685,716)	(244,491)	1,441,225
American Recovery Act Money	2,400,000	2,418,766	18,766
Adjusted Net Revenue/(Loss)	\$714,284	\$2,174,275	\$1,459,991

As shown in the above table, the General Fund is currently budgeted Net Operating Loss of \$1,685,716, offset by the receipt of ARPA funds for an \$714,284 surplus, the recommended adjustments bring the General Fund to an anticipated \$244,491 operational loss, offset with ARPA funds for a \$2,174,275 net surplus.

Revenues

When the 2021/22 budget was prepared, the City prepared a very conservative estimate for Transient Occupancy Tax, which comes from stays at the hotels within the City. With 50% of the revenues received for the year, the City is now projected to receive an additional \$1.2 million, which is almost double the original budget of \$1.5 million. Even with the most

recent surge of the Omicron variant, travel is still expected to continue to slowly grow toward past levels.

The Sales and Use Tax estimate was prepared not knowing the full impacts of the pandemic. However, a recent review by HdL Companies, the City's consulting firm, shows that most sectors are doing better than previously anticipated, particularly restaurants, gas stations, and state and county shared revenue pools. The recommended adjustment is \$484,360 (12%). Finally, the actual amount of American Recovery Act Money is now known, and an adjustment of \$18,766 is anticipated.

### Expenditures

The approach taken in the preparation of the Fiscal Year 2021/22 budget was to be extremely conservative, as there were many unknowns and staff excluded any expenditures that were not absolutely necessary for operations. Several of the following requests are items that are important to address, since the funds are available and also address impacts that have arisen following as a result of the pandemic.

A request of \$10,000 is included in the Finance Department to pay for an actuarial study of the City's unfunded retirement liabilities. An increase of \$15,000 is being requested in the Public Facilities division for unanticipated building maintenance and a facility reserve study. The reserve study is to assist in budgeting for future long-term maintenance needs at the Civic Center building. A similar study is also being performed at the Recreation and Event Center. The request for Other Improvements includes a reserve study (\$8,000) at that facility, and costs for the completion of the accessibility ramp project (\$9,000). Additionally, \$73,600 is being requested for the Recreation and Event Center building to pay for additional maintenance and event set-up (\$45,000) and additional general maintenance (\$28,600). These maintenance costs were budgeted conservatively, as at the time of the budget adoption it was yet to be known how the reopening of events would impact rentals and the need for the related expenditures.

There is a request to add \$12,000 to the Special Events division to pay for deposits leading to the City's 40<sup>th</sup> Anniversary celebration. The remaining budget for these events will be discussed for inclusion in the Fiscal Year 2022/23 budget.

Automated Office Systems is recommended to be increased by \$25,000 to pay for the cost of implementing the Energov Software used by the Community Development Department to implement on-line permitting. As the expectations of the public have changed in how we offer services, staff will be working to provide additional services that don't require in-person visits.

Community Development is requesting \$150,000 for unanticipated litigation costs related to multiple larger code enforcement cases.

Finally, an increase of \$15,000 is being requested for landscape maintenance, to allow for additional mulch within the city medians.

## Balanced Budget

The City Council has a Balanced Budget Policy which states that the City's operating budget in the General Fund is allowed to have total expenditures exceed revenues in a given year for "one-time", non-recurring expenditures. Furthermore, ending fund balance must meet the minimum policy levels as defined by Council Resolution.

The City Council reserve policy states that the City Council and staff will endeavor to designate an amount equal to or greater than forty (40%) percent of each year's proposed General Fund Operating Budget as the City's unobligated General Fund Reserve. On June 30, 2021, the percentage was 71% of operating expenditures and transfers, primarily due to the receipt of ARPA funds. Because another \$2.4 million in ARPA money will be received this year, the projected percentage at June 30, 2022 will be 72%, which is above the required amount.

General Fund	2020/21 Actual	2021/22 Mid-Year Budget
Ending fund Balance	\$10,654,100	\$ 12,828,375
Operating Expenses and Transfers	\$14,979,421	\$ 17,803,416
Percentage	71%	72%

The General Fund reserve level is growing, due to the receipt of the ARPA Funds in 2020/21 and 2021/22. However, operational expenses and transfers are still budgeted to exceed operational revenues. The ARPA Funds budgeted for 2021/22 will not be received until July 2022. Furthermore, the City will not receive any additional American Recovery Act Money for assistance with operations. While several one-time projects may be considered as part of the upcoming budget, it is important to focus on the operational loss and the use of the reserves to stabilize the General Fund as the impacts of the pandemic continue.

As part of the budget adoption, staff recommended quarterly budget reviews. Due to the timing of the City's revenue and expenses, this timeframe has provided a snapshot of the first six months of the 2021/22 fiscal year and an accurate account of the economic effects of the pandemic. There will also be an economic forecast provided to the City Council at the first meeting in March.

## **RECOMMENDATION**

Staff respectfully recommends the City Council review the recommendations to amend the Fiscal Year 2021/22 Budget.

Attachment: Exhibit "A"

**City of Agoura Hills  
Recommended adjustments  
Fiscal Year 2021/22**

		<u>Current Budget</u>	<u>Proposed Budget</u>	<u>Proposed Adjustment Inc/(Dec)</u>	<u>Subtotal Adjustment Inc/(Dec)</u>
<b>Adjustments General Fund</b>					
<b>Revenue - General Fund</b>					
010-0000-311000	Sales and Use Tax	4,315,212	4,799,572	484,360	
010-0000-313000	Transient Occupancy Tax	1,525,535	2,800,000	1,274,465	
010-0000-391000	Miscellaneous Revenue	2,661,550	2,680,316	18,766	
<b>Adjustments to Revenues</b>					<u><b>1,777,591</b></u>
<b>Expenditures - General Fund</b>					
<b>Finance</b>					
010-4150-551000	Professional Services	81,700	91,700	10,000	
					<u>10,000</u>
<b>Public Facilities</b>					
010-4180-543400	Maintenance of Equipment	31,000	41,000	10,000	
010-4180-551000	Professional Services	0	5,000	5,000	
					<u>15,000</u>
<b>Automated Office Systems</b>					
010-4195-551000	Professional Services	6,000	31,000	25,000	
					<u>25,000</u>
<b>Community Development</b>					
010-4305-551000	Professional Services	175,000	325,000	150,000	
					<u>150,000</u>
<b>Recreation and Event Center</b>					
010-4426-568200	Other Improvements	55,000	72,000	17,000	
010-4423-543000	Maintenance/Buildings	80,000	153,600	73,600	
					<u>90,600</u>
<b>Special Events</b>					
010-4430-551000	Professional Services	12,500	24,500	12,000	
					<u>12,000</u>
<b>Landscape Maintenance</b>					
010-4520-542400	Special Supplies	15,000	30,000	15,000	
					<u>15,000</u>
<b>Adjustments to Expenditures</b>					<u><b>317,600</b></u>
<b>Current Budgeted Net Income</b>					<b>714,284</b>
<b>Net Adjustment this Exhibit</b>					<u><b>1,459,991</b></u>
<b>Recommended 2021/22 Net Income</b>					<u><u><b>2,174,275</b></u></u>

**City of Agoura Hills  
Recommended adjustments  
Fiscal Year 2021/22**

<u>Current Budget</u>	<u>Proposed Budget</u>	<u>Proposed Adjustment Inc/(Dec)</u>	<u>Subtotal Adjustment Inc/(Dec)</u>
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**Adjustments to Measure R Fund (Local Return)**

**Expenditures - Measure R Fund**

063-4640-630700	Battery Back ups	70,000	88,000	18,000	<u>18,000</u>
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