



# STAFF REPORT

## CITY of YORBA LINDA

---

### FINANCE DEPARTMENT

**DATE:** MARCH 1, 2022

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

**FROM:** DIANNA HONEYWELL, FINANCE DIRECTOR / CITY TREASURER

**SUBJECT:** FISCAL YEAR 2020/21 GENERAL FUND YEAR END RESULTS

---

### RECOMMENDATION

It is recommended that the City Council:

1. Authorize the appropriation of \$1,967,729 of available excess General Fund Operating Reserves for the following purposes:
  - a. \$238,229 to be paid to CalPERS to continue implementation of the Council's direction to accelerate the amortization of the City's unfunded pension liability from 30 years to 20 years or less.
  - b. \$229,500 to be deposited into the City's Other Post-Employment Benefits (OPEB) Trust to pre-fund a portion of the City's unfunded retiree medical liability.
  - c. Allocate \$1.5 million towards Zone 6 Annual Pavement Project.
2. Authorize the appropriation of \$82,540 from Library Fund Operating Reserves to fund the Library's share of the CalPERS (\$42,040) and OPEB Trust (\$40,500) payments.
3. Receive and file the attached list of line-item budget transfers and supplemental budget appropriations for the entirety of fiscal year 2020/21, as required by City Council Policy F-4 – Supplemental Budget and Line-Item Transfers.
4. Receive and file the attached year-end summary of the performance of the City's managed investment portfolio.

## **FISCAL YEAR 2020/21 GENERAL FUND YEAR END RESULTS**

Page | 2

### **BACKGROUND**

On June 18, 2019, the City adopted the Two-Year Budget for fiscal years 2019/20 and 2020/21, and on June 16, 2020, the second year of the budget was modified through the Mid-Term Budget update process. Subsequent budget updates for the first, second and third quarters of the fiscal year were provided to the City Council on October 20, 2020, February 2, 2021, and May 18, 2021, respectively. Now that the books have been closed for fiscal year 2020/21, this report represents the final year-end results.

In the five previous fiscal years, the City Council has appropriated funds for the purpose of implementing a long-term plan to reduce the City's unfunded pension and retiree medical liabilities. The appropriations toward the pension liability are designed to mirror a 20-year amortization, in lieu of the standard CalPERS amortization strategy, with the General Fund and the Library Fund making contributions proportional to each Fund's share of the City's workforce. The appropriations toward the retiree medical liability have been made in flat amounts of \$200,000 from the General Fund, with the Library Fund contributing proportional additional amounts to reflect the Fund's share of the City's workforce. This year the actuary is recommending a total contribution of \$270,000, which maximizes the discount rate of 7%. With the contributions recommended in this report included, the City will have made \$1.6 million of additional contributions to CalPERS over the past five years and \$1.5 million will be on deposit in the City's retire medical trust fund.

### **DISCUSSION**

When the FY 2020/21 budget was adopted, a budget surplus of \$318,521 was projected. After the books were recently closed, the final surplus totaled \$2.2 million (net of the City Council approved use of \$4.2 million in reserves). The following table includes the original budget estimates included in the adopted budget for fiscal year 2020/21, the final revised budget and the actual results for the year.

# FISCAL YEAR 2020/21 GENERAL FUND YEAR END RESULTS

Page | 3

## CITY OF YORBA LINDA GENERAL FUND BUDGET FY 2020-21

	ADOPTED BUDGET	FINAL BUDGET	ACTUAL RESULTS	ACTUAL VS. FINAL BUDGET
<b>RESOURCES</b>				
Property Taxes	\$21,612,908	\$21,513,470	\$21,627,120	\$113,650
Sales & Use Tax	7,763,204	7,601,808	7,595,867	(5,941)
Franchise Tax	2,044,808	2,001,000	2,031,675	30,675
Other Taxes	1,538,062	1,501,000	1,739,850	238,850
Fees, Charges & Permits	1,669,100	2,052,000	2,314,518	262,518
Parks & Recreation Revenue	2,091,600	1,203,650	1,065,415	(138,235)
Administrative Charges	1,751,392	1,727,124	1,687,261	(39,863)
Other Revenue	1,347,071	1,308,571	846,714	(461,857)
Total Operating Revenue	39,818,145	38,908,623	38,908,420	(203)
Interfund transfers	650,895	1,556,996	1,314,752	(242,244)
Fd Balance Reserves	-	5,962,504	4,241,206	(1,721,298)
<b>Total Resources</b>	40,469,040	46,428,123	44,464,378	(1,963,745)
<b>APPROPRIATIONS</b>				
Administration	\$7,101,600	\$8,055,317	\$7,479,689	(\$575,628)
City Attorney	650,000	650,000	629,815	(20,185)
Community Development	3,275,519	3,831,882	3,074,808	(757,074)
Finance	1,131,844	1,139,358	1,134,811	(4,547)
Non-Departmental	78,000	27,500	25,954	(1,546)
Parks & Recreation	7,908,835	7,876,939	6,395,433	(1,481,506)
Police Services	13,294,757	12,727,141	12,590,113	(137,028)
Public Works - Admin	4,762,630	5,730,374	4,686,162	(1,044,212)
Vacancy Factor	(305,637)	(305,637)	-	305,637
Parks & Rec Vacancy Factor	-	(580,000)	-	580,000
Total Operating Expenditures	37,897,548	39,152,874	36,016,785	(3,136,089)
Capital Projects	-	425,000	8,264	(416,736)
Debt Service	-	108,271	108,271	-
Transfer to Special Reserves	1,180,000	4,097,998	4,097,998	-
Transfer to Affordable Housing	-	444,834	444,834	-
Transfer to LMAD	1,007,971	1,717,358	1,594,785	(122,573)
Transfer to Capital Projects Fund	65,000	222,046	1,535	(220,511)
<b>Total Appropriations</b>	40,150,519	46,168,381	42,272,472	(3,895,909)
<b>Excess Resources over Appropriations</b>	\$318,521	\$259,742	\$2,191,906	\$1,932,164
<b>Fund Balance Reserves @ 7/1/2020</b>	27,338,592	27,338,592	27,338,592	-
<b>Less Uses of Fd Bal Reserves</b>	-	(5,962,504)	(4,241,206)	1,721,298
<b>Fund Balance Reserves @ 6/30/21</b>	27,657,113	21,635,830	25,289,292	3,653,462
<b>Uses of Fund Balance Reserves:</b>				
Transfer out - CIP	\$ -	\$ 425,000	\$ 8,264	\$ (416,736)
Add'l CalPERS payment	-	157,546	157,546	-
Add'l OPEB Payment	-	253,410	253,410	-
Repayment of Town Center Loan	-	1,138,661	1,138,661	-
Repayment of SA Loan	-	1,779,337	1,779,337	-
GF Carryovers from FY 19/20	-	2,208,550	903,988	(1,304,562)
	-	-	-	-
	-	5,962,504	4,241,206	(1,721,298)

## **FISCAL YEAR 2020/21 GENERAL FUND YEAR END RESULTS**

Page | 4

### **RESOURCES**

In comparison to the final budget, operating revenue was in line with budget. Thanks to the majority of the City's revenues coming from property tax, the mix of retailers comprising the City's sales tax base, and continued strong building construction activity in the City, Yorba Linda has weathered the COVID-19 pandemic to date exceptionally well in comparison to many neighboring jurisdictions. Major revenue variances were as follows:

- Property tax ended the year \$113,650 above budget which is directly related to the inventory of high-end residential and commercial properties in the City of Yorba Linda.
- Although sales tax ended the year slightly lower than expected, the resiliency in the City's sales tax base was stronger than anticipated. Ongoing analysis by staff and our revenue consultant, HdL, indicates that due to the mix of retailers operating in the City (Costco, office furniture, grocers, etc.), declines in sales tax revenue were lower than expected. The second half of the fiscal year saw the reopening of brick & mortar retail stores and dine in restaurants which were in high demand as residents desired to be out after the lifting of the stay-at-home orders.
- Property Transfer Tax was higher by \$266,000 due to the rapid increase in residential real estate values within the City and the Southern California region which motivated sellers to take advantage of the opportunity for higher gains. Housing units were in high demand with a lower-than-average inventory available for sale, thus dramatically driving property values to an all-time high.
- Transient Occupancy Tax was lower by \$108,000 due to tourism not bouncing back as originally anticipated. When the budget was prepared it was originally anticipated that a full year of revenue would be realized when in fact, it only started rebounding mid-year.
- Business license tax revenues were \$85,000 above budget due to a change in the City's accrual policy to bring the treatment of these revenues in line with other tax revenues and reduce volatility. Revenue this fiscal year is consistent with last fiscal year and therefore, projections going forward will be adjusted accordingly.
- Building, Planning and Engineering fees were \$263,000 higher than anticipated due to an increase in building activity in the second half of the fiscal year.
- Parks & Recreation revenues were \$138,000 below the final budget due to a decline in program revenues that was slightly greater than initially anticipated. Fortunately, most of this decline was offset by savings in part-time staffing and contract costs.
- Other revenues were \$462,000 below the forecast primarily due to investment earnings being lower by \$60,000 and the downward adjustment to the investment portfolio in the amount of \$329,000, which is a required year end market adjustment.

## FISCAL YEAR 2020/21 GENERAL FUND YEAR END RESULTS

Page | 5

- Interfund transfers revenue were lower than projected by \$242,000 primarily due to transfers in from the City's Miscellaneous Grant Fund, PEG Fund and Traffic Safety Fund. Interfund transfers are lower when projects aren't completed when originally anticipated.

### **EXPENDITURES**

In comparison to the final revised budget, operating expenditures were \$3.1 million or 8.7% below budget. Additionally, transfers out and capital expenditures were \$760,000 below budget, contributing to \$3.9 million of actual savings returned from the adopted budget.

The expenditure savings was distributed across all General Fund departments as shown in the table above and results primarily from 1) vacancy savings associated with positions that have since been filled, 2) contract savings associated with various contracts, and 3) the previously discussed reduction in Parks & Recreation expenditures. As the City is largely a contract city, various professional and general services contracts are budgeted at estimated amounts that may not need to be fully expended each year. Savings is therefore to be expected, though the actual savings for each contract varies from year to year. The five largest areas of savings in 2020/21 were as follows:

1. Salary and Benefit Costs	\$ 803,000
2. Professional Services	709,000
3. General Services	636,000
4. Operating Expenditures	338,000
5. Contract Recreation Instructors	<u>373,000</u>
	\$2,899,000

General Fund Operating Reserves decreased from \$27.3 million to \$25.3 million due to the Council approved use of excess reserves from the previous fiscal year. After identifying the 50% of budgeted operating expenditures for FY 21/22 (\$19.8 million) and various other restricted funds, the amount of General Fund reserves available to use at Council's discretion is \$3.8 million. These figures combined (\$23.6 million) equates to 59.5% of General Fund operating expenditures as shown in the table below.

## FISCAL YEAR 2020/21 GENERAL FUND YEAR END RESULTS

Page | 6

### FY 2020/21 General Fund Reserves

Total Fund Balance @ 6/30/2021	25,289,291.98
Less: Interagency Advances (RDA)	(598,079.76)
Less: Committed to 50% Operating Reserve Requirement	(19,822,000.00)
Less: Assigned to Carryovers	(236,558.27)
Less: Assigned to Encumbrances	(866,002.76)
Unassigned General Fund Reserves	3,766,651.19

Total Budgetary Reserves	23,588,651.20
--------------------------	---------------

Percentage	59.50%
------------	--------

### DISPOSITION OF EXCESS OPERATING RESERVES

Per the City's Budget Reserves Policy, which was approved by the City Council on October 4, 2016, whenever the General Fund Operating Reserve balance exceeds 60% of General Fund expenditures, staff must present a plan to the City Council to utilize the excess funds. This fiscal year the ending reserve balance did not exceed 60% of General Fund expenditures, so no appropriations are required at this time. However, staff are recommending appropriations from the reserve balance exceeding 50% at this time as outlined below.

Consistent with the Council's policy over the past five years to make annual payments from excess General Fund Operating Reserves toward the City's unfunded pension and retiree medical liabilities, it is staff's recommendation that a portion of these funds be utilized as follows:

1. Continued reduction of the City's unfunded pension liability – As the Council will recall, the City's actuary annually prepares a comprehensive analysis to determine the required payment, accounting for actuarial gains and losses and other changes to the CalPERS rates. This ensures that the City is paying at least the minimum amount each year to mirror a 20-year amortization. The table below reflects the payments made in recent years, as well as the payments to be made for the current year in order to continue forward with this plan.

Fiscal Year	Default Payment	Additional Contribution	Total Payment
2016/17*	\$0	\$ 214,550	\$ 214,550
2017/18	1,131,170	375,633	1,506,803
2018/19	1,345,888	295,671	1,641,599
2019/20	1,557,037	264,074	1,821,111
2020/21	1,688,049	186,511	1,874,560
2021/22	1,757,946	280,269	2,038,215

## FISCAL YEAR 2020/21 GENERAL FUND YEAR END RESULTS

Page | 7

\*In FY 16/17 there was a different methodology for paying down the unfunded pension liability. There was not a “default payment” separated out as it is in the current CalPERS valuations.

Staff recommends that the Council approve a payment of \$280,269 for the current year, which would be funded by the General Fund (\$238,229) and the Library Fund (\$42,040) proportionally based on the size of the City’s workforce. The amount shown in the additional contribution column for FY 21/22 of \$280,269 also includes \$60,486, which is the savings from prepaying the City’s unfunded liability payment for the entire fiscal year in July. The City has also been applying the prepayment savings to the unfunded liability as an additional payment each year since 2017/18.

2. Continued reduction of the City’s unfunded retiree medical liability – Since fiscal year 2016/17, the Council has directed that contributions be made to the City’s OPEB trust with CalPERS. For FY 2021/22 the actuary has recommended a total contribution of \$270,000. The table below reflects the payments made in recent years, as well as the payments to be made for the current year. Staff recommends that the Council approve a payment of \$270,000 for the current year which would be funded by the General Fund (\$229,500) and the Library Fund (\$40,500) proportionally based on the size of the City’s workforce.

Fiscal Year	General Fund Contribution	Library Fund Contribution	Total Payment
2016/17	\$200,000	\$ 34,406	\$ 234,406
2017/18	200,000	34,412	234,412
2018/19	200,000	34,412	234,412
2019/20	200,000	30,718	230,718
2020/21	253,410	46,590	300,000
2021/22	229,500	40,500	270,000

3. When the FY 21/22 budget was adopted, the Capital Improvement Project budget included an appropriation for Ongoing Street Maintenance - Zone 6 in the amount of \$4.0 million. As final engineer estimates have come in, it is estimated that there will be a shortfall of approximately \$3.8 million. It is recommended that Council allocate \$1.5 million in excess General Fund reserves for this project. Additional proposed funding sources for this shortfall include the remaining proceeds from the sale of the West Bastanchury property (\$1.47 million) and American Rescue Plan Act (ARPA) funds (\$829,000). Final appropriations will occur when the construction contract is awarded later this fiscal year.

### Year-End Investment Performance Summary

Attached to this report are highlights from the performance report for the quarter ended June 30, 2021, from the City’s investment advisor, PFM. Although investment earnings were lower this year, the City’s portfolio outperformed the index against which performance is measured. PFM continues to reposition the City’s holdings in response to the current economic conditions in an effort to maximize earnings while ensuring that the City’s funds

## **FISCAL YEAR 2020/21 GENERAL FUND YEAR END RESULTS**

Page | 8

remain invested in high quality investments.

### **FISCAL IMPACT**

The year-end General Fund results for fiscal year 2020/21 were positive and resulted in an available reserve balance of \$23,588,651 or 59.5% of FY 2021/22 General Fund expenditures. After accounting for the recommendations included in this report, operating reserves are anticipated to remain safely above the City Council's minimum balance policy of 50% of General Fund expenditures at approximately 54.5%.

### **ATTACHMENTS**

1. List of Budget Adjustments for Fiscal Year 2020/21
  2. Year End Investment Performance Summary
-