



STAFF REPORT

CITY of YORBA LINDA

FINANCE DEPARTMENT

DATE: JUNE 7, 2022

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: DIANNA HONEYWELL, FINANCE DIRECTOR / CITY TREASURER

SUBJECT: FISCAL YEAR 2021/22 THIRD QUARTER BUDGET UPDATE

RECOMMENDATION

It is recommended that the City Council:

1. Receive and file the attached list of line-item budget transfers and supplemental budget appropriations for the first three quarters of the fiscal year (Attachment 1), as required by City Council Policy F-4 – Supplemental Budget and Line-Item Transfers and;
2. Approve the attached list of Third Quarter Budget Requests (Attachment 2).

BACKGROUND

On June 15, 2021, the City Council adopted the Two-Year Budget for fiscal years 2021/22 and 2022/23. Subsequent budget updates for the first and second quarters of the fiscal year were provided to the City Council on December 21, 2021 and March 15, 2022, respectively.

Through the first and second quarter budget updates, projected General Fund revenue had increased \$3.7 million, a majority of which is attributed to the net proceeds from the sale of the West Bastanchury property. General Fund expenditure adjustments totaled \$1.8 million with the net impact resulting in a projected budget surplus of \$1.9 million.

DISCUSSION

Since the budget was adopted in June 2021, the City Council has made additional appropriations from Operating Reserves for various purposes, the revenue projection for the General Fund has been revised based on new information, and the City Manager has authorized several small adjustments to the budget pursuant to City Council Policy F-4.

General Fund Update

The following table includes the adjusted budget and year-to-date actuals through March 31, 2022. It also includes the requested adjustments described below.

FISCAL YEAR 2021/22 THIRD QUARTER BUDGET UPDATE

**CITY OF YORBA LINDA
GENERAL FUND BUDGET
FY 2021/22 - THIRD QUARTER BUDGET TOTALS**

	ADJ BUDGET 3/31/2022	YTD ACTUALS 3/31/2022	THIRD QUARTER ADJUSTMENT	REVISED BUDGET
RESOURCES				
Property Taxes	\$ 22,495,783.00	\$ 13,120,930.00	\$ -	\$ 22,495,783.00
Sales & Use Tax	8,158,700	5,065,337	254,500	8,413,200
Franchise Tax	2,124,285	636,672	-	2,124,285
Other Taxes	2,017,325	1,146,492	-	2,017,325
Fees, Charges & Permits	2,146,793	2,226,808	480,000	2,626,793
Parks & Recreation Revenue	1,833,085	1,479,606	85,000	1,918,085
Administrative Charges	1,761,766	1,296,191	-	1,761,766
Other Revenue	1,204,190	335,263	(146,576)	1,057,614
Total Operating Revenue	41,741,927	25,307,299	672,924	42,414,851
Interfund transfers	875,412	2,689,868	5,083,474	5,958,886
Fd Balance Reserves	3,561,240	370,677	-	3,561,240
Total Resources	46,178,579	28,367,844	5,756,398	51,934,977
APPROPRIATIONS				
Administration	\$8,597,741	\$6,447,903	\$ (23,289)	\$8,574,452
City Attorney	650,000	445,872	110,000	760,000
Community Development	3,969,790	2,329,634	100,000	4,069,790
Finance	1,247,690	903,403	62,000	1,309,690
Non-Departmental	35,800	16,081	-	35,800
Parks & Recreation	8,221,706	5,454,869	55,000	8,276,706
Police Services	13,205,712	9,954,080	22,700	13,228,412
Public Works	6,362,080	3,730,111	-	6,362,080
Vacancy Factor	(241,358)	-	-	(241,358)
Total Operating Expenditures	42,049,161	29,281,953	326,411	42,375,572
Capital Projects	-	-	-	-
Debt Service	89,810	89,810	-	89,810
Transfer to Special Reserves	478,464	478,464	-	478,464
Transfer to Affordable Housing	119,616	119,616	-	119,616
Transfer to LMAD	872,632	-	-	872,632
Transfer to Capital Projects Fund	2,609,487	-	-	2,609,487
Total Appropriations	46,219,170	29,969,843	326,411	46,545,581
Excess Resources over Appropriations	(\$40,591)	(\$1,601,999)	\$5,429,987	\$5,389,396
Fund Balance Reserves @ 7/1/2021	25,289,292	25,289,292	25,289,292	25,289,292.00
Less Uses of Fd Bal Reserves	(3,561,240)	(370,677)	-	(3,561,240)
Est. Fund Balance Reserves @ 6/30/22	21,687,461	23,316,616	30,719,279	27,117,448
Uses of Fund Balance Reserves:				
Transfer out - CIP	\$ 1,745,475.00	\$ -	\$ -	\$ 1,745,475
Add'l CalPERS payment	238,229	-	-	238,229
Add'l OPEB Payment	229,500	-	-	229,500
Cooperative Agreement - Anaheim	245,475	-	-	245,475
GF Carryovers from FY 20/21	1,102,561	370,677	-	1,102,561
	-	-	-	-
	3,561,240	370,677	-	3,561,240

General Fund Revenue Adjustments

Total operating revenue is projected to increase by \$672,924 with total revenue (including interfund transfers) increasing by \$5,756,398. Highlights of the changes include:

- Sales tax revenue is projected to increase by \$254,500 over already adjusted projections due to continued positive improvements in business activity. Including this quarter's adjustment, sales tax projections have been increased by \$713,350 over the original adopted budget.
- Building activity has been higher than anticipated, therefore, projections for Building Permit and Plan Check revenue have been increased by a total of \$480,000 over the current projections.
- Parks & Recreation facility rentals have seen an uptick in activity over the original projections so rental income is being increased by \$85,000.
- Other Revenue is decreasing primarily due to North SPA revenue being moved from the General Fund to a special revenue fund which is more appropriate when accounting for funds that are designated for specific purposes. The corresponding expenditures will also be moved from the General Fund to the special revenue fund.
- An interfund transfer of \$2.3 million is being transferred to reflect the net proceeds of the sale of the West Bastanchury property. This was previously discussed in the first quarter report but not appropriated when the sale occurred earlier this fiscal year. This action will formally record the transaction.
- An interfund transfer of \$2.7 million is being transferred from the ARPA Fund. This is the net amount being recognized as revenue loss from the COVID-19 pandemic (as allowed by the Department of the Treasury) and as an offset public safety costs.

General Fund Expenditure Adjustments

The operating expenditures are projected to increase by \$326,411. Highlights of the changes are summarized as follows:

Administration – <\$23,289>

- Information Systems – Adjustment for telephone costs (\$50,000) offset by reduction in video production costs already accounted for in the PEG Fund (<\$32,110>). Also being requested are two new servers and their licensing fees (\$62,000).
- Risk Management – Increase in claims settlements (\$35,000)
- North SPA Costs – move costs to a special revenue fund since they are costs related to specific purposes (<\$138,179>).

City Attorney – \$110,000

- Due to an increase in litigation during the year, an additional appropriation in the amount of \$110,000 is being requested.

Community Development - \$100,000

- Due to an increase in Building permit activity, additional funds are requested to fund outside plan check consultants.

FISCAL YEAR 2021/22 THIRD QUARTER BUDGET UPDATE

Finance – \$62,000

- Due to an accounting method change in recording the cost for the City’s sales tax consultant, \$15,000 is being requested. Previously, the costs for this consultant were deducted from the sales tax revenue received by the City. It is more accurate to record the consultant’s costs as an expenditure, thus resulting in the additional appropriation.
- Bank fees are being increased by \$15,000 due to an increase in the use of the online portal being used by residents to make payments to the City.
- Actuarial consultant costs are being increased by \$4,000 due to additional work performed during the year.
- The cost for the continuation of the citywide fee study/cost allocation was not originally included in the adopted two-year budget so it’s being appropriated now in the amount of \$28,000.

Parks & Recreation - \$55,000

- Bank fees are being increased by \$55,000 due to an increase in the use of the online portal being used to pay for various classes.

Police Services - \$22,700

- Increased costs for gasoline for motorcycles in the amount of \$5,000
- Additional maintenance costs for vehicles in the amount of \$6,000
- Increased costs for electricity in the amount of \$5,000
- Increased costs for custodial services in the amount of \$6,700

After considering the above-mentioned changes and the current anticipated results for FY 2021/22, General Fund reserves are estimated to be at 67.5% of General Fund operating expenditures.

Total Budgetary Reserves	21,375,447.19
Third Quarter Excess Reserves Over Appropriations	5,389,396.00
	26,764,843.19
Percentage	67.5%

Other Funds Update

ARPA Fund

The American Rescue Plan Act (ARPA) delivered \$350 billion to state, local and Tribal governments across the country to support their response and recovery from the COVID-19 public health emergency. The City of Yorba Linda received its first of two payments in the amount of \$3,102,556 in June 2021. When the Final Rule was issued by the United States Department of the Treasury in April 2022, it was determined that the City would use the funds to replace lost revenue during the pandemic. It is requested that \$2.7 million of these funds be transferred out to the General Fund as an offset public safety costs.

FISCAL IMPACT

Staff's current projection for fiscal year 2021/22 remains positive with a projected General Fund surplus of \$5.4 million and operating reserves of 67.5% of General Fund expenditures.

The first tranche of \$3.1 million in ARPA funds are now fully appropriated.

ALTERNATIVES

The City Council could choose not to approve one or more of the requested budget adjustments and/or provide staff with direction to undertake any additional analysis by the City Council.

ATTACHMENTS

1. Attachment 1 – List of Budget Adjustments for the Third Quarter of Fiscal Year 2021/22
 2. Attachment 2 – List of additional requested budget adjustments for Third Quarter of Fiscal Year 2021/22
-