



**CITY COUNCIL AGENDA REPORT**  
**MEETING DATE:** 5/26/2020  
**DEPARTMENT:** Finance

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**SUBJECT:**

FISCAL YEAR 2020-21 BUDGET WORKSHOP

**RECOMMENDED ACTION(S):**

1. Conduct the Workshop on Fiscal Year 2020-21 Proposed Operating Budgets for the City and Housing Authority
  2. Review, revise, or provide other direction to finalize the proposed budgets.
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**EXECUTIVE SUMMARY:**

In January, staff began preparing the Fiscal Year 2020-21 Proposed Operating Budgets for the City and Housing Authority. Staff developed the proposed budgets referencing the Fiscal Year 2019-20 Budget, the Fiscal Year 2019-20 Mid-Year Budget review, the 2019-21 Capital Improvement Projects Budget, and the Draft Five-Year Strategic Business Plan. However, the emergence of the Coronavirus and subsequent sudden closure of the economy required a redirection to a new, more focused budget which continues to provide public safety, infrastructure maintenance, technology enhancements and economic development. Due to the pandemic and the City's ongoing transition to a "maintenance city," staff is presenting a budget that reflects a sharp decline in City revenues and extensive reductions in expenditures. Recreation programming, which traditionally has sought to bring people together, is especially impacted.

The City's proposed total budget consists of \$64.0 million in revenues and \$63.4 million in total expenditures (\$13.1 million of expenditures is one-time capital projects). The proposed General Fund operating budget consists of \$46.0 million in revenues, \$47.0 million in General Fund operating expenditures, resulting in an operating deficit of approximately \$1.0 million and requiring use of available fund balance to fund operations for the fiscal year. Additional expenditures from the General Fund total \$5.7 million for capital projects previously approved in the 2019-2021 Capital Improvement Projects Budget.

The City's reserve levels would remain funded per the Risk Based Reserve Policy through the 2020-21 Fiscal Year based on the proposed General Fund Operating Budget presented in this report. Staff will continue to monitor the major revenue sources, most notably, property taxes, transient occupancy taxes, and sales taxes until adoption of the budgets in June. Any significant changes will be included in the agenda report presented for adoption of the budget.

This report also includes discussion regarding programs and initiatives the City Council previously requested be brought back for consideration. These potential programs include the Stay Safe Lake Forest Program which includes new license plate readers and the Emergency Broadcast Radio System. Should the City Council wish to add these items to the budget, the operating deficit would increase to correspond with these expenses and would require additional available fund balance to cover the increases.

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## **BACKGROUND:**

Each year, the City Council/Authority Board conducts a workshop to review the proposed budgets for the upcoming fiscal year. During the workshop, the City Manager and the Director of Finance present an overview of the budgets. After concluding the presentations, the City Council/Authority Board is invited to make inquiries, receive public input, and provide direction to staff as desired.

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## **DISCUSSION:**

### **Proposed Operating Budget – City**

The City's proposed total budget consists of \$64.0 million in revenues and \$63.4 million in total expenditures (\$13.1 million of expenditures is one-time capital projects).

The proposed General Fund operating budget consists of \$46.0 million in revenues, \$47.0 million in General Fund operating expenditures, resulting in an operating deficit of approximately \$1.0 million and requiring use of available fund balance to fund operations for the fiscal year. Additional expenditures from the General Fund total \$5.7 million for capital projects previously approved in the 2019-2021 Capital Improvement Projects Budget.

Ideally, the City would be able to maintain a stable set of public services through an entire economic lifecycle funded from ongoing revenues and accumulated resources set aside. Economic cycles contain a variety of potentially unexpected issues that can affect the City's ability to provide services. Using a model from

the Government Finance Officers Association (“GFOA”), staff prepared a risk analysis to determine an appropriate level of General Fund reserves based on the City’s exposure to risk factors, otherwise known as a “Risk Based Reserves” approach. A Reserve Fund is similar to a savings account where funding is set aside to meet future costs or financial obligations, especially those arising unexpectedly. The Reserve Fund can also be used to pay for the cost of anticipated future expenses such as maintenance, repairs, or replacement of infrastructure. In March 2020, based upon this risk analysis, the City Council adopted a General Fund Risk Based Reserve Policy establishing a Target Reserve Level of \$43.9 million and a Minimum Reserve Level of \$41.7 million.

The Risk Based Reserve Policy was one of the strategies identified by the Budget Ad-Hoc Subcommittee (“Subcommittee”) formed in June 2019 with the objective to identify and recommend strategies to ensure funds are available for capital projects, asset replacement, and emerging issues that may result in significant future expenditures. The Subcommittee includes two members of the City Council along with the City Manager, Assistant City Manager, and Director of Finance/City Treasurer. Mayor Moatazedi, Councilmember Robinson, and Councilmember Tetterer have all participated in the subcommittee meetings at different stages and provided feedback. Since July 2019, the subcommittee met to evaluate potential strategies to meet the identified objectives. Additional strategies evaluated by the Subcommittee as part of its scope were:

1. Identify a portion of target(s) for an annual General Fund surplus
2. Re-examine Capital funding goals
3. Revise the Five-Year Strategic Plan to prioritize goals and objectives

Prior to COVID-19, the Subcommittee was in the recommendation development stage for the above three strategies envisioned to result in the development of a Master Financial Plan with 10-year projections of revenues and expenditures along with the changes to the Five-Year Strategic Plan that align with the City’s ability to fund programs and services. Prior to COVID-19, revenue and expenditure projections indicated the City could potentially experience an operating deficit starting in Fiscal Year 2022-23. The City’s transition to a “maintenance city” in which property taxes grow only 2% per year (while expenses may grow at a faster rate) is a major factor contributing to a future structural budget imbalance.

Anticipated revenue losses from COVID-19 are severe, negatively impacting the City’s ability to fund programs and services at the current levels. Structural changes under consideration by the Subcommittee to occur over the next five years have been advanced in the proposed Fiscal Year 2020-21 General Fund operating budget due to the abrupt loss in revenues.

The anticipated revenue losses included in the proposed General Fund Operating Budget are 5.2 million or 10.0% from Fiscal Year 2019-20 levels. The most significant revenue losses are in the sales and use taxes, transient occupancy taxes and licenses and permits revenue category related to building permits.

The Risk Based Reserve Policy positions the City to benefit from its historically strong financial position and is based in the lessons learned by municipalities after the Great Recession emphasizing the importance of establishing reserves. These reserves are intended be used to reduce the budgetary impacts of economic downturns and continue the delivery of basic services during an unforeseen emergency. The iterative self-assessment process conducted by the Subcommittee to develop short and long-term financial strategies to better position the organization into the future allowed for the City to structure the timing of its budgetary response to COVID-19 into several phases.

The first phase includes on-going structural modifications to the organization, services and programs. In other words, these changes were necessary for the City’s ongoing fiscal health prior to the COVID-19 outbreak. The Subcommittee also proposed these items to occur over the next five years.

Program	Description
Personnel	Full-time position reduction (6)
Personnel	Part-time position reduction
Personnel	Building and Safety Contract Scope – Sr Building Tech
Public Safety	Additional Deputies Deferral
Public Safety	Community Programs
Community Services	Youth Recreation – Kids Factory
Community Services	Teen Recreation – Teen Lounge
Community Services	Community Calendar
Community Services	Quarterly Leaflet Newsletter
Community Services	Senior Newsletter
Community Services	Holiday Banners
Community Services	Shop & Dine Banners
Public Works	Pet Waste Bags in non-Dog Parks
City Clerk	City’s Association of California Cities – OC Membership

The second phase includes temporary modifications to the organization, services and programs which includes furloughs, conference travel, and deferral of certain community and economic development programs. Staff intends to evaluate the

economic feasibility and guidelines for operations in response to COVID-19 in assessing when these temporary reductions could be resumed.

Program	Description
Personnel	Unfunded Position (1)
Personnel	Half-Year Funded Positions (3)
Personnel	Part-time employees' furlough
Operations	Travel/Conferences
Community Services	Community Programs/Events
Community Services	Facility Closures
Economic Development	Shop & Dine Events

The proposed General Fund operating expenditures are 47.0 million, a reduction of 2.6 million (5.24%) from Fiscal Year 2019-20. Both the structural and temporary modifications described above are included in the proposed expenditures for the General Fund.

The next phase would evaluate an alignment of spending with the strategic goals to ensure the long-term fiscal sustainability to fund the core municipal services and priorities of the community. Since a significant portion of City operations are provided through contracted services, an evaluation of level of service and its associated costs may result in opportunities for reductions through contract re-negotiations, contract cancellations, or re-procurement of certain services. This anticipated next phase as described is not included in the proposed Operating Budget, however, staff is in the early stages of this analysis. Staff anticipates returning to the Council with proposed contract modifications throughout the year.

The Reserve Fund is intended to be used to reduce the budgetary impacts of economic downturns and continue delivery of basic services during an unforeseen emergency. The extent of the economic impacts of COVID-19 are unknown and the proposed three-phased strategy described above aims to preserve resources held in reserves to mitigate risks identified in the Risk Based Reserve Policy by implementing both short and long-term solutions for a healthy ongoing fiscal position.

The City's reserve levels would remain funded per the Risk Based Reserve Policy through the 2020-21 Fiscal Year based on the proposed General Fund Operating Budget.

## Ongoing Analysis and Council Direction

### Operating Revenues

Staff will continue to monitor the major revenue sources, most notably, property taxes, transient occupancy taxes, and sales taxes until adoption of the budgets in June. Any significant changes will be included in the agenda report presented for adoption of the budget.

### Federal Stimulus Funding Proposals

To date, the City has not received funding from the three rounds of Federal stimulus funding as there has been no direct allocations to cities with populations under 500,000. Federal economic stimulus funding could potentially help backfill the estimated \$7 billion in revenue losses to OC cities caused by COVID-19. Currently, a \$3 trillion Federal stimulus package is under consideration by Congress, including a \$1 trillion "Heroes Act" apportionment which would provide much needed funding to state and local governments for revenue backfills. As with any other law, the Heroes Act would require approval in both houses of Congress and would need to be signed by the President of the United States. The Heroes Act recently passed in the House of Representatives and will be heard in the Senate. As of the writing of this report, however, it is unclear if this legislation will be approved as presented, amended, or resubmitted as negotiations continue between members of Congress and the Administration.

### Operating Expenditures

Further changes and corrections will be incorporated as a result of further review of the Operating Budgets. For example, the City Manager has reduced the number of departments from 10 to 9 by reorganizing Community Services into the Management Services Department; this change is not yet reflected in the budget. Moving the Information Technology Division out of the Management Services Department to the City Manager's Office is also not reflected in this draft.

At its May 19, 2020, meeting, the City Council directed staff to work with an Ad Hoc Subcommittee comprised of Council Members Robinson and Voigts to identify potential savings in the Law Enforcement Agreement with the intended outcome of a net zero increase in cost from FY 2019-20. To achieve this, the Ad Hoc Subcommittee would need to identify approximately \$522,000 in savings from the proposed FY 2020-21 agreement.

Staff is presenting the items below to respect prior City Council direction and provide the opportunity for consideration of these items. Staff is seeking direction regarding the following additional items for potential inclusion in the

Fiscal Year 2020-21 Operating Budget. Should the City Council wish to add these items to the budget, the operating deficit would increase to correspond with these expenses and would require additional available fund balance to cover the increases.

### Stay Safe Lake Forest Campaign

Public safety is a top priority for the City of Lake Forest. With the guidance of Mayor Neeki Moatazedi and Mayor Pro Tem Mike James, staff is proposing a “Stay Safe Lake Forest” campaign, geared toward enhancing public safety within the City. This program includes a social media campaign, speaker series, security cameras in Heroes and El Toro Park, and automatic license plate reader cameras at strategic locations in the city.

All items for the “Stay Safe Lake Forest” campaign are either previously budgeted (security cameras in Heroes & El Toro Park) or reflected in the proposed budget (social media campaign and speaker series) with the exception of the Automatic license plate reader cameras. Staff has identified a camera system which would enhance OCS D’s ability to find stolen vehicles, find “persons of interest”, and conduct investigations. Flock Safety, a vendor based in Georgia, provides a unique product for automatic license plate reader cameras. Flock Safety cameras utilize artificial intelligence to identify the license plate and other objects within the frame (such as “white truck”). Even if the vehicle does not have a tag, the image can be captured for review. The company most recently signed agreements with Stanton, Huntington Beach, and Laguna Beach.

The first year cost of the proposed Flock Safety cameras is \$43,333 for 10 cameras, including installation, maintenance, data hosting and software access. The ongoing cost would be \$20,000 per year or \$2,000 per camera. Subject to approval, this annual cost could be included in the Police Services Operating Budget, beginning with Fiscal Year 2020-2021.

Staff identified locations for the ten proposed cameras. Eight of the ten cameras are focused on capturing west-bound and east-bound traffic near the intersections of Lake Forest and Rockfield and El Toro and Rockfield. One camera is proposed at the intersection of Rockfield and Los Alisos, capturing eastbound traffic. The other proposed camera would be located on Jeronimo Road, just north of the entrance to Heroes Park, to capture south-bound traffic and cars entering Heroes Park. The cameras would be installed on City-owned traffic signal poles. Flock Safety also has the ability to install its own poles and would coordinate those efforts with the City. The camera locations may be changed at any time during the agreement, however there will be an installation fee to do so. Flock Safety uninstalls and removes its cameras and infrastructure when a contract with a client has ended.

## Emergency Radio Broadcast System

At its December 3, 2019, meeting, the City Council directed staff to present information regarding an emergency radio broadcast system during the Fiscal Year 2020-21 Budget Workshop. Currently, the City utilizes AlertOC and Nixle to reach residents with emergency notifications. AlertOC has 7,132 subscribers and Nixle has approximately 4,000.

Another alternative to notifying residents during an emergency is a low power AM radio broadcast system. This system would be useful during an emergency that resulted in no electricity or cell service. In this scenario, residents would be able to tune into an AM radio station and listen to important information provided by the City.

Staff identified a vendor that provides this service and received an informal quote. The vendor provides an Alert AM Emergency Advisory Radio System with a Single Station. The proposed service includes the application processing for an AM frequency license as well as the station with 5000 bandwidths, local, telephone and network control, UPS, and processor. The estimated cost is approximately \$30,000 for licensing and equipment but does not include installation and site preparation for the antenna and transmitter. Those costs would be dependent upon the site selected.

Staff will provide information to the City Council regarding any further significant changes to the budget in June. Additionally, some minor re-alignment of functions and expenditure adjustments may occur due to organizational reviews.

## Capital Expenditures

The proposed capital expenditures are consistent with the 2019-2021 Capital Improvement Projects Budget adopted by the City Council in June 2019, except for the Community Development Block Grant – ADA Ramps Phase 13 project. The funding for the project is anticipated to be reallocated to public service grants and the small business assistance grant programs. The remaining improvement projects are anticipated to be funded by the General Fund, Infrastructure and Neighborhood Park Improvement Reserves, Impact Fees from developers, Transportation Mitigation and Special Revenue Funds. The proposed projects are included as staff's recommendations and are subject to City Council approval or modification. The list of projects, therefore, may be modified as necessary or appropriate based on Council direction.

## Proposed Operating Budget – Housing Authority

The Housing Authority proposed operating budget contains \$12,600 in operating revenues and \$99,700 in operating expenditures.

## **Conclusion:**

### **Major Initiatives for Fiscal Year 2020-21**

- Prioritizing the City's economy by implementing the Economic Development Action Plan and the Business Development and Attraction Work Plan
- Promoting and monitoring the public services (food bank, rental and utilities assistance) and the Small Business Grant Program funded through CARES-CV monies.
- Providing enhanced services to the public and development community utilizing the City's technology
- Preparing required Zoning Ordinance amendment for mixed use development to implement the 2040 General Plan and 2021-2028 Housing Element as required by California Housing and Community Development Department.
- Continuing to invest in infrastructure by completing projects which preserve the City's pavement condition index and rehabilitate neighborhood parks.
- Navigating new laws and regulations and financial impacts related to the Coronavirus
- Evaluating and altering City program and service protocols based upon the Governor's Executive Orders and guidance from the Center for Disease Control (CDC) and National Recreation and Parks Association (NRPA).
- Procuring and implementing new accounting system.
- Launching "Stay Safe Lake Forest" public education campaign.

Pursuant to direction from the City Council/Authority Board, staff would modify the proposed City and Housing Authority Operating budgets. In the event the City Council/Authority Board requires additional time to consider the budgets, a follow-up workshop may be scheduled for further discussion at the first meeting in June; the City Council/Authority Board is scheduled to consider adoption of the final budgets on June 16, 2020.

The proposed operating budget provide relevant information to assist the City Council/Authority Board and staff in financial decisions regarding expenditure plans for the immediate and long-term future. The projected revenues and expenditures result in an operating deficit requiring the use of available fund balances in the proposed budget. General Fund Reserves remain funded per the Risk Based Reserve Policy.

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**FISCAL IMPACT:**

There is no fiscal impact associated with conducting the workshop. The potential fiscal impact of adopting the budgets will be determined based on input by the City Council to be used in preparing the final drafts.

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**ATTACHMENTS:**

1. Proposed City Operating Budget
2. Proposed Housing Authority Budget

Submitted By: Kevin Shirah, Director of Finance/City Treasurer

Approved By: Debra Rose, City Manager