

CITY OF LOS ALAMITOS
Via videoconference
Participation via Phone: (301) 715-8592
Meeting ID: 893 7571 9148

AGENDA
BUDGET STANDING COMMITTEE
SPECIAL MEETING
March 9, 2022 – 5:00 p.m.

SAFETY ALERT –NOTICE REGARDING COVID-19

Due to COVID-19, the City of Los Alamitos Budget Standing Committee Special Meeting on March 9, 2022 will be conducted by videoconference pursuant to the provisions of the Governor’s Executive Orders N-25-20 and N-29-20. The public may access the meeting electronically or telephonically.

Pursuant to Executive Orders and given the current health concerns, members of the public can access meetings by using your phone to dial +1 (301) 715-8592 and enter the Meeting ID: **893 7571 9148**. Your microphone will be disabled upon entry for the duration of the meeting. **Members of the public may not attend the meeting in person.**

The public can submit comments to cityclerk@cityoflosalamitos.org with the subject line “PUBLIC COMMENT ITEM #” (insert the item number relevant to your comment). Comments **received by 3:00 p.m.** will be compiled and provided to the Budget Standing Committee and made available to the public before the start of the meeting. Staff will not read email comments at the meeting but the official record will include all email comments received until the close of the meeting.

Members of the public wishing to verbally deliver comments via the telephone conference can submit their requests to cityclerk@cityoflosalamitos.org **until the close of the public comment period**. The City Clerk will compile a list of speakers who have indicated a desire to speak. Before the close of the meeting, the City Clerk will announce each speaker, enable the speaker’s microphone, and begin the three minute timer. The speaker’s microphone will automatically be disabled at the end of three minutes.

All speakers shall observe civility, decorum and good behavior. Any item submitted to the Budget Standing Committee during the meeting shall become public record and subject to applicable disclosure laws.

NOTICE TO THE PUBLIC

This Agenda contains a brief general description of each item to be considered. Except as provided by law, action or discussion shall not be taken on any item not appearing on the agenda. Supporting documents, including staff reports, are available for on the City's website at www.cityoflosalamitos.org once the agenda has been publicly posted.

Any written materials relating to an item on this agenda submitted after distribution of the agenda packet are available for public inspection on the City's website at www.cityoflosalamitos.org.

It is the intention of the City of Los Alamitos to comply with the Americans with Disabilities Act (ADA) in all respects. If, as an attendee, or a participant at this meeting, you will need special assistance beyond what is normally provided, please contact the City Clerk's Office at (562) 431-3538, extension 220, 48 hours prior to the meeting so that reasonable arrangements may be made.

1. CALL TO ORDER

2. ROLL CALL

Mayor Hasselbrink
Council Member Chirco

3. CONSENT CALENDAR

A. Approval of Minutes

Approve the Minutes of the Special Meeting on January 25, 2022 and Special Meeting on February 18, 2022.

4. DISCUSSION ITEMS

A. Mid-Year General Fund Budget Review and Financial Update for Fiscal Year 2021-22.

This report provides the Budget Standing Committee and Council with a review of Mid-Year General Fund budget for the Fiscal Year 2021-22 and a projection for the fiscal year ending June 30, 2022.

Recommendation: Review the Mid-year General Fund budget for the Fiscal Year 2021-22, and projection for the Fiscal Year ending June 30, 2022. Provide direction and comments.

5. ADJOURNMENT

I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing Agenda was posted at Los Alamitos City Hall, 3191 Katella Ave. and available on the City's website, www.cityoflosalamitos.org, not less than 24 hours prior to the meeting.

Craig Koehler

Craig Koehler, Finance Director

MINUTES OF THE BUDGET STANDING COMMITTEE OF THE CITY OF LOS ALAMITOS

SPECIAL MEETING

Tuesday January 25, 2022 – 5:00 p.m.

1. CALL TO ORDER

The Budget Standing Committee met for a Special Meeting at 5:00 p.m., Tuesday, January 25, 2022, via video conference, Mayor Hasselbrink and Councilmember Chirco presiding.

2. ROLL CALL

Present: Committee Members: Mayor Hasselbrink
Councilmember Chirco

Absent: Committee Members: None

Present: Staff: Chet Simmons, City Manager
Craig Koehler, Finance Director

3. CONSENT CALENDAR

A. Approval of Minutes

Motion/Second: Hasselbrink/Chirco

Unanimously Carried: The Budget Standing Committee approved the Minutes of the Special Meeting on August 23, 2021.

4. DISCUSSION ITEMS

A. Financial Update for Fiscal Year 2020-21 and Preliminary Results for Fiscal Year 2021-22

The Committee received an update of the financial status for the Fiscal Year 2020-21 and a preliminary projection for Fiscal Year 2021-22.

B. PERS Unfunded Actuarial Liability and Section 115 Trust

The Committee reviewed and discussed the information presented in connection with the PERS Unfunded Actuarial Liability (UAL) and Section 115 Trust.

C. GovInvest Pension Liability Model

The Committee received a preview of the GovInvest Pension Total Liability Calculator Model. The Committee requested staff to study additional funding scenarios for an early paydown of the unfunded pension

liability, including options for a 15 - year early paydown, and additional funding using the 115 Trust.

D. Finance Department Reorganization

The Budget Standing Committee receive the proposed personnel changes for the Finance Department. The Committee approved forwarding the recommended changes to the Council for approval.

5. ADJOURNMENT

The meeting adjourned at 6:13 p.m.

Craig Koehler, Finance Director

MINUTES OF THE BUDGET STANDING COMMITTEE OF THE CITY OF LOS ALAMITOS

SPECIAL MEETING

Friday February 18, 2022 – 8:00 a.m.

1. CALL TO ORDER

The Budget Standing Committee met for a Special Meeting at 8:04 a.m., Friday, February 18, 2022, via video conference, Mayor Hasselbrink and Councilmember Chirco presiding.

2. ROLL CALL

Present: Committee Members: Mayor Hasselbrink
Councilmember Chirco

Absent: Committee Members: None

Present: Staff: Chet Simmons, City Manager
Craig Koehler, Finance Director

3. CONSENT CALENDAR

A. Findings Required by AB 361 For Continued Use of Teleconferencing for Meetings

Motion/Second: Chirco/Hasselbrink

Unanimously Carried: The Budget Standing Committee made the findings required by AB 361 and approved the option to meet teleconferencing during the pandemic.

5. ADJOURNMENT

The meeting adjourned at 8:06 a.m.

Craig Koehler, Finance Director

City of Los Alamitos

BUDGET STANDING COMMITTEE

AGENDA REPORT

MEETING DATE: **March 9, 2022** **ITEM NUMBER: 4A**

To: **Budget Standing Committee Members**

Presented By: **Craig Koehler, Finance Director**

Subject: **Mid-Year General Fund Budget Review and Financial Update
for Fiscal Year 2021-22**

SUMMARY

This report provides the Budget Standing Committee and Council with a review of Mid-Year General Fund budget for the Fiscal Year 2021-22 and a projection for the fiscal year ending June 30, 2022.

RECOMMENDATION

1. Review the Mid-year General Fund budget for the Fiscal Year 2021-22, and projection for the Fiscal Year ending June 30, 2022.
2. Provide direction and comments.

BACKGROUND

On June 21, 2021, the City Council approved and adopted a balanced budget for Fiscal Year 2021-22, which included operating revenues of \$18,393,865 and operating expenditures of \$16,646,847, excluding transfers.

On January 25, 2022, the Budget Standing Committee received early preliminary projections for Fiscal Year 2021-22 that indicated a surplus primarily from departmental savings. Since that meeting, a new sales forecast has been received from HdL. Staff has also been working with the departments to receive updated information in connection with projections of additional requested line-item expenditures. This report reflects updated information since the January 25 report.

DISCUSSION

The economy as a whole is recovering since the outbreak and spread of the COVID-19 pandemic. Economic activity has shown signs of rebounding as reflected in housing sales, durable goods orders, and consumer spending. According to a recent economic

forecast by Beacon Economics and UC Riverside Center for Economic Forecasting and Development, the U.S. economy is rebounding and is not the same economy it was a year and a half ago. Structurally, portions of the economy that were materially impacted by the pandemic have yet to see a full return. Consumer spending on services including healthcare, recreation, travel, and hospitality remains 3% below where it was before the pandemic. Business investment in non-residential structures also remains depressed, as well as U.S. exports. But weaknesses in these sectors have been more than offset by stronger than normal levels of activity in other sectors of the economy, including consumer spending on goods, a robust housing market, and business investment in equipment and software.

The fiscal and monetary policy response in the United States to the COVID crisis was unprecedented in terms of its scale, scope, and speed. Legislation passed by the Congress in March 2020, December 2020, and March 2021, provided a total of nearly \$5.8 trillion in fiscal support to the U.S. economy, representing approximately 28% of the total U.S. GDP. Los Alamitos has benefited directly and was a recipient of \$2.7 million from the American Rescue Plan Act (ARPA) funding and received \$513 thousand in Coronavirus Aid, Relief, and Economic Security Act (CARES) funding. This stimulus funding will be used for authorized expenditures as defined under the ARPA and CARES Act funding guidelines.

However, as the economy shifts to full recovery, concerns over inflation are mounting. In a recent report from HdL, dated January 26, 2022, prices are growing but are now outpacing the rate of sales. Projections for year-over-year growth are 11.5% for FY21-22, however slower growth is projected for FY22-23 and FY23-24.

This mid-year report represents a snapshot in time and reflects recorded information through December 31, 2021, or six months of the fiscal year, and projection of Fiscal Year 2021-22. It will provide the Budget Standing Committee and City Council with an update on the financial status of the City's General Fund at mid-year, and projection of Fiscal Year 2021-22.

General Fund Revenues

The financial summary below depicts the Adopted Budget for Fiscal Year 2021-22, actual General Fund revenues through December 31, 2021 and a projection to June 30, 2022.

	2021-22 Adopted Budget	Actual thru 12/31/21	2021-22 Projection	Variance
Revenue Summary				
Property Taxes	4,584,079	1,697,998	4,695,498	111,419
Sales Tax	3,140,400	895,875	3,153,615	13,215
Sales Tax - Local (Measure Y)	4,438,588	1,818,505	5,601,000	1,162,412
Transit Occupancy Tax (TOT)	180,670	146,367	292,734	112,064
Business Licenses	671,972	407,574	817,188	145,216
Utility Users Tax	2,010,465	980,462	2,009,211	(1,254)
Franchise Fees	667,836	145,101	665,300	(2,536)
Licenses & Permits	923,131	467,382	922,861	(270)
Fines & Forfeitures	738,309	141,460	318,378	(419,931)
Use of Money & Property	229,280	38,406	240,000	10,720
Other Agencies	120,200	39,478	46,000	(74,200)
Charges for Current Services	620,935	440,540	660,907	39,972
Misc.	68,000	87,270	87,270	19,270
Total Revenue	18,393,865	7,306,418	19,509,962	1,116,097

Property Taxes, Sales and Use Taxes, and Measure Y Local Sales Taxes, are the three largest revenue sources for Los Alamitos, and comprise approximately 68% of all revenue generated and collected by the City.

Property Taxes

Property taxes remain one of the largest revenue sources for the City and the majority are received in December and April, following the payment due dates. For secured property taxes, the first installment is due November 1 and delinquent after December 10, the second installment is due on February 1 and delinquent after April 10.

A report received from HdL at the end of 2021, indicated a preliminary net value change in property values up 7.4% over the 2020-21 tax roll, and indicates that property taxes are continuing an upward trend. The projection for Fiscal Year 2021-22 will come in at approximately \$111K higher, or 2% better than the Adopted Budget.

The change is attributed to the 1.036% Proposition 13 inflation adjustment of \$21.8 million, which accounted for 12% of all growth experienced in the City. Residential properties make up 56.4% of all values in the City and grew by \$62.1 million (4.4%), which accounted for 34.5% of all property value growth. Commercial properties added \$47.4 million (10.3%) and industrial properties added \$35.8 million (9.4%). Unsecured values increased by \$31.2 million (19.7%) on the strength of Epson America's new assessment of \$33.8 million.

Residential prices have continued to rise in response to lower inventory and low interest rates. The median sale price of a detached single family residential home in Los Alamitos from January through August 2021 was \$1.1 million. This represents a \$191K (21.68%) increase in median sale price over the prior year.

Sales & Use Taxes

A report from HdL, dated February 19, 2022, reported data for the quarter ending September, 2021. Sales were up 14.4% for the 3rd quarter 2021 compared to the same time frame for 2020, and reflected increases for most of the major business groups. Possible headwinds into 2022 could include pent up demand for travel, experiences shifting way from taxable goods, and expected interest rate hikes that will result in more costly financing. The projection and estimate for Sales & Use Taxes for Fiscal Year 2021-22 is \$3.2 million, slightly higher than Adopted Budget.

When taking a closer look at the individual business groups, autos and transportation reflected a strong demand that boosted the cost of new cars by 10% and used cars by 26%. Available inventory through 2022 is expected to be constrained, but shows signs of loosening. For building and construction, lumber prices rose in September due to commodity availability issues, and prices will remain high through mid-2022. For fuel and service stations, demand for all fuels is much higher than one year ago. The average price of a gallon of gas for California reached a record level of \$4.75 per gallon as of November 2021. Even with the with elevated prices, HdL is not anticipating a significant negative impact on the future consumption of fuel. Strong short-term gains are projected for the next three quarters.

For general consumer goods, concerns related to COVID case rates do not seem to be impacting consumer's ability and willingness to spend at retail establishments. Short-term expectations remain elevated, which is driven by higher customer charges and solid household fundamentals. The cost of taxable goods is expected to rise faster than sales. Recent results from hotels and entertainment venues demonstrate consumer desire to travel and spend more. However, rates for growth will likely vary significantly by region. For the state and county pools, year-to-date collections reflected that 42% came from marketplace facilitators and general retailers, another third from business-industry companies, and 11% from vehicle acquisitions primarily private-party sales processed through the DMV.

Measure Y (Local Sales Tax)

With successful passage of Measure Y, Los Alamitos is now benefiting from an additional 1.5% sales tax. New to the City's revenue stream, this has now become the largest source of revenue at 27.8% of total revenues collected by the City, and exceeds property tax which was traditionally the top revenue producer. Projections are greatly exceeding the budget, and the projection for Fiscal Year 2021-22 is \$5.6 million.

The primary reason for the large variance from the budget and the long-term model is that certain industry groups, like autos and transportation and general consumer goods,

do not follow the true 150% ratio of transaction tax (Measure Y) to the Bradley-Burns (Sales & Use Tax), and are much higher ratios, driving the average across all industry groups to 173.4%. HdL has used a more conservative factor of 165% in their estimates. Even though the recorded history for Measure Y Local sales Tax is less than 12 months, the projections for the current fiscal year and beyond are promising.

Transit Occupancy Tax (TOT)

Transit Occupancy Tax (TOT) is trending at budget and includes the newest hotel, Fairfield by Marriott. Revenues for FY2021-22 may see an increase and exceed budget as travel and leisure activity resumes following the restrictions that have been imposed by the pandemic.

Fines & Forfeitures

Fines & Forfeitures include red light camera and parking fines, and other moving violations, and are currently trending lower than the budget. COVID related challenges have negatively impacted revenue from the Photo Enforcement program and parking citation revenue. Restrictions on businesses and public gatherings have resulted in less traffic and a reduction in violations. Additionally, staffing issues related to COVID resulted in less violations being reviewed and processed.

The Police Department lobby was also periodically closed to the public due to COVID which prevented access for the public should someone need to view video footage of their violation. As COVID related mandates are lifted, the Police Department is seeing an increase in activity and expects revenue to return to normal in the next fiscal year. With an anticipated retirement this year, a recruitment for Photo Enforcement Operator will be done so that the program is not impacted by a vacancy.

Overall, General Fund revenues for FY2021-22 are projected to exceed the Adopted Budget by \$1.1 million.

General Fund Expenditures

The financial summary below reflects the Adopted Budget General Fund Expenditures for Fiscal Year 2021-22, actual expenditures through December 31, 2021 and a projection to June 30, 2022.

	2021-22	Actual	2021-22	Variance
	Adopted Budget	thru 12/31/21	Projection	
Expenditure Summary				
City Council	66,895	28,841	60,171	(6,724)
Administration	1,051,340	442,042	995,166	(56,174)
Finance	760,754	342,418	723,148	(37,606)
City Attorney	176,000	66,574	176,029	29
Police	7,376,078	3,514,436	6,873,555	(502,523)
Development Services	3,583,622	1,732,259	3,866,431	282,809
Recreation	1,775,322	1,001,492	1,793,316	17,994
Non-Departmental	1,856,836	374,772	2,184,006	327,170
Total Expenditures	16,646,847	7,502,834	16,671,822	24,975

For the most part, department expenditures are trending with the Adopted Budget. The three largest variances are in Police, Development Services, and Non-Departmental, as explained below.

Police

The Police department budget is projected to have a potential savings of approximately \$502K, reflecting vacancies in Youth Programs and Traffic divisions.

Development Services

Projections for Development Services for the Fiscal Year 2021-22 are estimated to be approximately \$283K higher than budget. This is mainly attributable to higher materials, supplies, and services for the three maintenance divisions.

Non-Departmental

Non-Departmental expenditures include contractual services not included in other department budgets, credit card processing fees, health insurance for retirees, and CIP projects funded by the General Fund, and additional approved Measure Y expenditures of \$275K with the recent award of contract bid for the Los Alamitos Street Improvement Project on Various Streets.

The Mid-Year Fiscal Year 2021-22 General Fund revenues are projected to exceed the Adopted Budget, with an estimated surplus of \$1.1 million. This is primarily attributable to higher than anticipated Measure Y Local Sales Tax. The estimated surplus is before any additional CIP needs, UAL paydown considerations, and any additional reserves. It is important to keep in mind that this estimate is not an exact science, and many other factors outside the City's control, like inflation, shifts in the economy, and global unrest, may affect the outcome, and the final numbers will not be known until the end of the fiscal period.

Other Considerations for Discussion

PERS Unfunded Liability

A report for an early paydown option of the PERS Unfunded Liability (UAL) was presented to Council on June 21, 2021. At that time, Council requested staff to return to the BSC for additional study. A follow up report was provided to the BSC on August 23, 2021. Options to study the UAL included an independent actuarial study and the GovInvest Pension Liability Model. Approval to pursue and acquire the GovInvest modeling software was received.

At the January 25 meeting, the BSC received a presentation of the GovInvest pension model and its capabilities. Early paydown of the UAL is possible and savings range from \$3 million to \$9 million, depending on the level of funding. In addition, utilization of the City's Section 115 Trust was discussed. Further study is warranted to determine goals for an early payoff and funding of the UAL, along with accompanying policies.

FISCAL IMPACT

There is no fiscal impact, as this report provides an update on the financial status of the General Fund revenues and expenditures relative to mid-year, and projection of Fiscal Year 2021-22.

Submitted By: Craig Koehler, Finance Director

Approved By: Chet Simmons, City Manager