



CITY of CALABASAS
CITY COUNCIL AGENDA REPORT

DATE: JUNE 15, 2021

TO: HONORABLE MAYOR AND COUNCILMEMBERS

FROM: KINDON MEIK, CITY MANAGER
RON AHLERS, CHIEF FINANCIAL OFFICER 

SUBJECT: ADOPTION OF RESOLUTION NO. 2021-1736, APPROVING THE OPERATING AND CAPITAL IMPROVEMENT BUDGETS FOR JULY 1, 2021 THROUGH JUNE 30, 2023, PROVIDING FOR THE APPROPRIATIONS AND EXPENDITURES FOR ALL SUMS SET FORTH IN SAID BUDGET; ADOPTION OF RESOLUTION NO. 2021-1737, ESTABLISHING THE APPROPRIATIONS LIMIT FOR FISCAL YEAR 2021-2022; AND ADOPTION OF RESOLUTION NO. 2021-1740, APPROVING A SALARY SCHEDULE FOR PERMANENT EMPLOYEES AND RESCINDING RESOLUTION NO. 2020-1689

MEETING DATE: JUNE 23, 2021

SUMMARY RECOMMENDATION:

Staff recommends the City Council adopt Resolution NO. 2021-1736, approving the fiscal year (FY) 2021-22 and FY 2022-23 budgets; Resolution No. 2021-1737, establishing the Appropriations Limit for FY 2021-22 and Resolution No. 2021-1740 approving a salary schedule for full-time employees.

BACKGROUND:

The annual budget serves as a major policy document and describes how the City intends to finance its services and infrastructure. The budget is a reflection of the City's policies, goals, and priorities for the upcoming fiscal year (July 1 thru June

30). The annual budget is a planning tool that assists the City Council and staff in planning for the future and learning from the past.

The City of Calabasas (City) budget has two primary components: the Operating Budget and the Capital Budget. The Operating Budget includes personnel costs, program costs and facility operating costs. It is funded primarily through a variety of taxes: property, sales, utility users and franchise. Other sources of revenue include permit fees such as building and development fees; charges for services; fines and other smaller sources of revenue such as interest on investments.

The Capital Improvement Budget funds major improvements to City facilities and infrastructure and is an annually revised document. It is supported through multiple funding sources: Gas Taxes, Prop A & C, Measures R & M, grants and cash as well as other smaller sources of funding.

City Council holds a public hearing on the proposed operating and capital budgets and then approves the budget at the last Council meeting in June.

DISCUSSION/ANALYSIS:

The FY 2021-22 and 2022-23 budgets are presented to the City Council for consideration. The total budget is approximately \$59 million. As is typical, this report shall focus on the City’s General Fund.

GENERAL FUND BUDGET

The General Fund budget shows a projected surplus of \$397,000 for this current year, FY 2020-21 and \$5,069 for next year, FY 2021-22.

	FY 2020-21		FY 2021-22
	Current Budget	Revised Estimate	Proposed Budget
Revenues	\$ 23,132,600	\$ 22,479,000	\$ 23,714,000
Expenditures	\$ 23,535,020	\$ 22,082,000	\$ 23,708,931
Net Income/(Loss)	(\$ 402,420)	\$ 397,000	\$ 5,069

GENERAL FUND REVENUES

Property Taxes are increasing about \$100,000 next fiscal year. This is attributable to sales prices increasing as well as the annual Prop 13 adjustment to assessed values of 2%. Next year's estimate is about \$4.2 million. Traditionally, a stable source of revenue for the City; not dependent on the condition of the economy.

Sales Tax has been the surprise these past 15 months. Calabasas is one of about eight cities in LA County that has experienced a year-over-year change in sales tax revenue. Next year, the projection is for an increase of about \$100,000 over this year from \$5,950,000 to \$6,050,000. This source of revenue can be volatile since it is wholly dependent on the sale of taxable goods; which can be impacted by an increase or decrease in economic activity.

Transient Occupancy Tax increases from \$900,000 in FY 2020-21 to \$1,250,000 in FY 2021-22. We are projecting a steady increase in this revenue but not yet a full recovery from the economic shutdown. A "normal" year is about \$2.2 million. Staff did not estimate any increased revenue from the additional 51 rooms at the Hilton nor the new hotel being constructed on the west side of the city. This revenue can vary significantly depending on economic conditions.

Utility Users Tax (UUT) of \$3 million for next year is an increase of \$65,000 from the current year. The UUT is applied to electricity, natural gas, phone and cell phone. This is also a stable source of income since generally electricity and natural gas and cell phone usage are increasing, even during economic slowdowns.

Vehicle License Fees (VLF) is really property taxes that the City receives from the County. The amount is increasing about \$100,000. The increase is directly related to the increased percentage in the City's overall property tax secured revenue. This a stable source of revenue for the General Fund.

Additional sources of revenue for the General Fund

The City does not currently allocate costs for General Fund administrative functions to the various non-General Fund operating funds. The General Fund currently pays the entire costs for: City Council, City Manager, Finance, Human Resources, Communications, City Clerk, etc. The General Fund also pays the total costs for all property insurance, general liability insurance, workers compensation insurance, etc. The City should charge a portion of these costs to a variety of funds according to Federal Guidelines. This past year the Finance department employed the consulting firm of Revenue & Cost Specialists to develop a cost allocation plan for the City. The study shows the General Fund can recuperate over \$2 million from other funds. Staff estimated the current fiscal year, FY 2020-21, at \$900,000 to allow certain funds time to adjust to the new charges (Library Fund, Tennis & Swim Center Fund). Next year's estimate is also at \$900,000. City staff will present the report to the City Council in the near future. City Council has the authority to authorize any dollar

amount from \$0 to \$2⁺ million to provide additional financial resources to the General Fund. This is not new money for the City. This is charging all non-general funds their proper allocation of city-wide costs. These funds would traditionally pay these if they were acting as an independent entity. This cost allocation plan will also allow the City to allocate and justify potentially additional costs to Federal and State grants.

GENERAL FUND EXPENSES

The City Council adopted the FY 2020-21 budget during June 2020. There were a number of expense reductions that occurred do to the economic shutdown imposed by the State of California. Most of those reductions have been reversed back to their original figures for FY 2021-22. For example, the annual contribution to the Parent Faculty Clubs (PFC) has been restored to \$250,000 in FY 2021-22. The allocation for each Council Member's expense account is \$5,000. The Accounting Supervisor is funded at six months, therefore staff will hire the employee after January 1, 2022. A number of events are fully funded, most notably the Fourth of July Celebration and Pumpkin Festival. Numerous training, travel and supply accounts are funded at 90-100% of previous allocations.

EXPENSES OVERALL

This year staff is presenting the budget via a departmental summary document. Exhibit 5 dedicates 2 pages for each city department. This first page has a brief written description about the department along with an organization chart by position. The second page shows expenses for the department for FY 2021-22 and FY 2022-23. These figures are shown using a bar chart and in tabular format. The expenses are summarized into these categories: Salary & benefits, operations, contractual services, capital outlay, capital projects, debt service and transfers out. The bottom of the second page lists the full-time positions for each department.

A few notable salary and employee benefits are listed below.

The budget shows twelve months of funding for one Recreation Manager at the Tennis and Swim Center as well as six months of funding for one Accounting Supervisor in the Finance department.

California Public Employee Retirement System (CalPERS)

General Fund retirement expenses are increasing from \$1,187,000 in FY 2020-21 to \$1,356,000 for FY 2021-22; an increase of \$169,000. This increase is mainly from the unfunded liability increase of \$129,000. Recall at the Council meeting of October 28, 2020, staff presented the June 30, 2019 Unfunded Pension Liability at \$8 million (79% funded). By October 2021, CalPERS will issue the actuarial valuation for June 30, 2020 and staff estimates the Unfunded Pension Liability amount to be greater than \$9 million. This is a debt of the City to CalPERS; which CalPERS charges a 7% interest rate. That is an extremely high interest rate given that 30 year mortgages are currently at 3%. The annual contribution to this unfunded liability will continue

to rise at an increasing rate over the next decade. Staff recommends the City Council authorize paying off this debt in two years or less. Staff requests a dedicated Council meeting to review and provide direction on a plan to pay the Unfunded Pension Liability.

Other Post-Employment Benefits (OPEB)

The City currently pays for retiree medical costs directly from the General Fund operating account. The City has **ZERO DOLLARS** set-aside for its retiree medical liability. The City has the option of establishing an Internal Revenue Code (IRC) Section 115 Trust (Trust) to pay for these costs. As an example, the City could deposit \$4 million (for example) and the Trust would invest the monies in stocks, bonds, etc. to generate earnings sufficient to pay the annual costs, estimated FY 2021-22 expense of \$120,000. For example, \$4 million at a 5% return is \$200,000. The current actuarial unfunded liability of the retiree medical program is about \$7.5 million. The next actuarial will be completed by October 2021 and the number will increase due to this benefit being enhanced in March 2021. Staff is tentatively recommending the City fund this liability at 125% or greater in order to generate sufficient earnings to pay for the future growth in the annual expense of retiree medical costs. Finance staff will present these options to the City Council for consideration at a future date.

Vacation/Sick Leave cash-out

Suspend Vacation/Sick Leave cash-out for another year. This is estimated to save about \$150,000 in the General Fund. This program is for full-time employees who have significant hours on the books and have not had the opportunity to use vacation leave. The up to 80 hours of cash out is in addition to the employee's salary and is real "cash" that leaves the City. By suspending this program the City will save the cash; however, the employees will need to use the accrued vacation leave otherwise the employees will stop earning vacation hours once they reach the maximum. Staff will evaluate this program in 2022 to consider reinstatement.

Deferred Compensation 457 Match

In FY 2020-21 the City suspended the 2% match for full-time employees to a Deferred Compensation 457 plan. This saved about \$125,000 annually. For FY 2021-22, if either Sales Tax or Transient Occupancy Tax (TOT) exceeds budget estimates by 3% during the first quarter, then the City will reinstate the up to 2% match beginning with the paycheck of January 14, 2022. The Deferred Compensation 457 plan is voluntary and is similar to the private sector's 401(k) plan.

A shortened list of certain items that are funded versus items not funded is below:

F U N D E D		General Fund	Other Funds	TOTAL
Cost of Living Adjustment COLA	2.00 %	122,500	29,500	152,000
Recreation Manager ~ Tennis/Swim		148,072		148,072
Accounting Supervisor ~ Finance (6 months)		71,508		71,508
On-Line Permit Software		60,000		60,000
PFCs ~ restoration of full \$250k		125,000		125,000

N O T F U N D E D		General Fund	Other Funds	TOTAL
Beach Bus			24,000	24,000
Dodger Nite		20,000		20,000
Open Space ~ purchase tax-default properties		20,000		20,000
Climate Action Plan		50,000		50,000
Deferred Compensation 457 Plan	2.00 %	103,970	25,360	129,330
Tuition Reimbursement		20,000		20,000
Vacation Leave Cash Out		150,000	36,600	186,600

Note: Beach Bus amount assumes City buses are used. If City buses are not used, the costs increase to between \$70,000 to \$80,000.

Staff requests direction on the beach bus, Dodger Nite, Open Space and the Climate Action Plan. Staff recommends that the Deferred Compensation 457 Plan match be reinstated contingent upon either Sales Tax or Transient Occupancy Tax exceeding budget estimates by 3% for the first quarter of the fiscal year. The match would commence effective with the first paycheck in January 2022. Staff does not recommend funding the Tuition Reimbursement or the Vacation Leave cash out at this time.

The “**Detailed Budget FY 2021-22 & 2022-23**” (Attachment 1) includes all of the City’s revenue and expenditures accounts for each of the City’s funds, and it represents the entire two-year budget for the City of Calabasas at the most detailed level.

Following adoption of Resolution No. 2021-1736 (Attachment 2), the Biennial Budget and Capital Improvement Plan for FY 2021-22 and 2022-23 will be distributed and used for management and reporting purposes.

GENERAL FUND RESERVES

The City of Calabasas General Fund reserve is currently set at a dollar amount, \$10 million. This is a strong reserve since it represents 42% of General Fund expenditures of \$23.6 million. City staff researched other cities General Fund reserve policies to determine if ours needed an update. All of the cities surveyed depicted the reserve as a percentage of either expenses or revenues. Therefore, City staff proposes to modify the General Fund reserve to be 50% of General Fund expenditures. The table below details the survey results of 14 cities.

Agoura Hills	40% of GF operating expenses
Camarillo	50% of GF operating expenses
CALABASAS	\$10 MILLION
Hidden Hills	50% of GF operating expenses
Laguna Niguel	50% of GF operating expenses
Lake Forest	40% of GF revenues
Malibu	50% of GF operating expenses
Manhattan Beach	20% of GF operation expenses
Moorpark	20% of GF expenditures, plus \$1 million
Ojai	50% of GF operating expenses
Rancho Palos Verdes	50% of GF operating expenses
Santa Clarita	20% of GF operation expenses
Simi Valley	17% of GF budgeted expenses
Thousand Oaks	20% of GF expenditures
Westlake Village	50-75% of GF operating expenses

BUDGETED FULL-TIME POSITIONS ~ 5 YEARS

Exhibit 6, depicts all full-time positions in each department for the past four years plus next fiscal year 2021-22. Next year’s full-time position count is 76 which is a decrease of four from the current year. The difference is a reduction in five positions in Community Services (Preschool Supervisor and Preschool Teacher) and an increase of one Recreation Manager.

FULL-TIME EMPLOYEE ALLOCATION COSTS by FUND

Exhibit 7 is a table that lists each full-time position within the City organization and what each fund contributes as a percentage towards the employee's salary and benefits. The reader can use the "Fund Descriptions" table to understand the sources and uses of each fund.

FUND DESCRIPTIONS

Exhibit 8 displays every fund of the City. The fund number as used in the accounting system along with the official fund title is shown. There is a definition of the types of monies received into the fund along with authorized uses (or expenses). The restricted designation is whether the monies received are restricted to a particular use either by the Federal or State government or grantor agency. The General Fund (10), has no restrictions on expenses and receives taxes and fees for typical city services. Some funds are not currently in use and are so stated.

GANN APPROPRIATIONS LIMIT

In November 1979, the California voters passed Proposition 4 (Article XIII B – "Gann Limit"), which places a ceiling on the amount a local government can spend from "the proceeds of taxation." This limit is known as "the Gann Limit" and for Calabasas, is based on 1992-93 tax expenditures and was adjusted annually for inflation and population growth. According to the Revenue and Taxation Code, Section 7910, local governments must establish its appropriations limit by resolution each year at a regularly scheduled meeting or a noticed special meeting.

Because of Proposition 111, the City is required to choose between two annual inflation factors and two population growth factors for the establishment of the Limit. The choice offered for the annual inflation factor is the greater of (1) the growth in California per capita income, or (2) the growth in non-residential assessed valuation due to new construction within the City. This year, the calculation was based on the growth in California per capita income of 5.73%.

The choice offered for the annual population growth factor is the greater of the growth in City or County population. Based on growth rates for both the City of Calabasas and the County of Los Angeles provided by the California Department of Finance, the appropriation limit was calculated using the City of Calabasas population growth factor of 0.76%.

The application of the annual growth factors to the FY 2020-21 limit resulted in a FY 2021-22 limit of \$36,034,513.

CITY of CALABASAS

GANN APPROPRIATIONS LIMIT CALCULATION

FY 2021-2022

(A)	PRIOR YEAR'S GANN LIMIT 2020-21	\$ 33,825,695
(B)	PRICE FACTOR	1.0573
(C)	POPULATION FACTOR	1.0076
(D) = (B) X (C)	ANNUAL COMBINED FACTOR	<u>1.0653</u>
(E) = (A) X [(D)-1]	ANNUAL ADJUSTMENT	\$ 2,208,818
(F) = (A) + (E)	CURRENT YEAR GANN LIMIT 2021-22	<u>\$ 36,034,513</u>

The amount in the City's 2021-22 budget subject to the Limit (net proceeds of taxes, including interest earnings) totals \$28,732,583. This amount is well within the required limit:

2021-22 Appropriation Limit	\$ 36,034,513
2021-22 Appropriations Subject to Limit	<u>\$ 28,732,583</u>
Amount Under Limit:	<u><u>\$ 7,301,930</u></u>

Resolution No. 2021-1737 (Attachment 3) sets forth the Gann Appropriations Limit for the City of Calabasas for FY 2021-22.

COST of LIVING ADJUSTMENT (COLA) FULL-TIME STAFF

As a reminder, there was no COLA granted to city employees last fiscal year, 2020-21. On an annual basis, the City Council adopts a new compensation resolution for permanent full-time employees for the upcoming fiscal year. This resolution approves employee positions, salary ranges, benefit levels, and the number of employees needed for each position. Resolution No. 2021-1740 provides for the current level of benefits and the salary range schedule incorporated in this resolution.

Beginning with the paycheck of July 16, 2021, the salary schedule provides a 2.0% cost of living adjustment (COLA) for all permanent full-time employee positions (with

the exception of the City Council and City Manager). City staff increased the authorized number of positions by one: Recreation Manager for the Calabasas Tennis & Swim Center. The Deferred Compensation 457 Plan 2% match will be reinstated contingent upon either Sales Tax or Transient Occupancy Tax (TOT) estimates exceeding by 3% of the approved budget for the first quarter. The up to 2% match will commence on January 14, 2022.

FISCAL IMPACT/SOURCE OF FUNDING:

The Detailed Budget FY 2021-22 & 2022-23 as presented.

REQUESTED ACTION:

Adopt Resolution No. 2021-1736 approving the Operating and Capital Improvement Budget from July 1, 2021 through June 30, 2023, providing for the appropriations and expenditures for all sums set forth in said budget and repealing all resolutions in conflict herewith; and Adopt Resolution No. 2021-1737 establishing the appropriations limit for FY 2021-22. Adopt Resolution No. 2021-1740, Approving a salary schedule for permanent employees and rescinding Resolution No. 2020-1689

ATTACHMENTS:

1. Detailed Budget FY 2021-22 & 2022-23
2. Resolution No. 2021-1736
3. Resolution No. 2021-1737
4. Resolution No. 2021-1740
5. Departmental Budgets
6. Budgeted Full-Time Positions ~ 5 years
7. Full-Time Employee Allocation Costs by Fund
8. Fund Descriptions