

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: ALAN ALTON, CHIEF FINANCIAL OFFICER
FINANCE DEPARTMENT
SUBJECT: FY 2021-22 BUDGET AMENDMENT

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Finance Department that the Council, by two separate resolutions: 1) amend the Fiscal Year (FY) 2021-22 adopted budget and the FY 2021-22 salary plan and number of authorized positions as set forth in Exhibit A of the resolution; and 2) amend the Transaction and Use Tax (Measure O) Implementation Plan for Police, Fire, and Gang Prevention/Intervention Services.

EXECUTIVE SUMMARY

The purpose of this item is to request approval to amend the current FY 2021-22 adopted budget, salary plan and number of authorized positions. This amendment will accomplish several actions. It will 1) increase appropriations for revenue, especially in the General Fund, which has rebounded more quickly than anticipated from COVID-19 pandemic-related losses; 2) increase appropriations to fund Council-approved changes to City labor contracts; and 3) increase appropriations to address critical needs for the last six months of the fiscal year. In addition, staff is requesting personnel changes to support Council priorities and changes in the City's organization structure.

BACKGROUND

The FY 2020-21 Adopted General Fund budget had a \$15.7 million deficit for recurring operating revenues and expenditures. This was largely due to low revenue estimates anticipating significant COVID-19 pandemic-related impacts on General Fund revenue sources. Actual results for FY 2020-21 were significantly better, resulting in an operating surplus of \$8.9 million. General Fund revenues, especially property and sales tax-related revenues were not impacted during the year as expected, with Sales Tax revenues \$11 million higher than estimates. In addition, General Fund expenditures were approximately \$5 million under budget, in large part due to a hiring freeze in effect for most of the year.

Staff developed the FY 2021-22 budget based on the best information at the time; however, initial revenue estimates were influenced by the anticipated impacts caused by the pandemic. After the close of FY 2020-21 in October 2021, staff was able to determine that some revenues are too low and should be adjusted to reflect current trends.

In the same manner that we want to reflect additional revenue, there is also the need to increase appropriations to ensure budgets in the General Fund and other funds do not go over budget. These anticipated higher costs are due to the newly adopted labor contracts, critical infrastructure repairs in the Public Safety Building, increases in Fire Department overtime, and critical staffing needs.

PRIOR CITY COUNCIL REVIEW

Not Applicable.

ANALYSIS

Staff considered several factors prior to bringing forward this budget amendment. These included prior year final budget performance; whether current year budget estimates reflect current trends; and critical operational needs that should be met outside the normal budget process.

Prior Year Performance

Prior fiscal year-end budget performance in the General Fund resulted in an operating surplus of approximately \$8.9 million. This surplus was a result of significantly higher revenues for most major categories, and expenditures ending the year under budget. The FY 2020-21 budget was developed at the outset of the COVID-19 pandemic. Given the uncertainty of the situation, revenue estimates were conservatively low, and expenditures were held flat. In addition, the City instituted a hiring freeze to generate additional salary and benefit savings.

While some General Fund revenues were impacted by the pandemic, namely Transient Occupancy Tax and Recreation Programs, most were not. Property tax and sales tax, the two biggest revenue categories in the General Fund, exceeded estimates by \$1.4 million and \$11.2 million, respectively. In addition, Utility User Taxes were \$1.6 million higher than estimates, and Real Property Transfer Tax was \$2.3 million higher than budgeted estimates.

Budgeted expenditures for the General Fund and other funds assume the full cost of salaries and benefits will be spent during the year. Vacant positions result in unspent salary and benefit appropriations that are returned to the General Fund, or other funds, at the end of the year. This is typically called “turnback”. In FY 2020-21, the City instituted a hiring freeze to ensure salary and benefit turnback, and expenditures were approximately \$5 million under budget, due largely to salary and benefit savings from the hiring freeze.

FY 2021-22 BUDGET AMENDMENT
PAGE 3 OF 7

Current Year Trends and Critical Needs

The chart below summarizes the proposed amendment to the current fiscal year budget.

Department	Expenditure	Revenue	Description
General Fund		6,000,000	Sales Tax Revenue
General Fund		1,500,000	Property Tax Revenue
General Fund		2,000,000	RPTT
PED (GF)	65,000		3 Months of 2.0 FTES (DRC and CE Tech)
PED (GF)	35,000		3 Months of 1.0 Building Plans Examiner
TPW (GF)	500,000		Boiler Line Replacement
Fire (GF)	1,550,000		Fire Department Overtime
HR (GF)	50,000		3 Months of 1.0 HR Analyst
Non Dep (GF)	7,500,000		General Fund Department MOU Costs
Non Dep (GF)	(1,500,000)		Vacancy Credit
Water	710,000		MOU Costs
Water	100,000		MOU Costs
Water	500,000		MOU Costs
Water	60,000		MOU Costs
Fire (Measure O)		100,000	Sales Tax Revenue
Fire (Measure O)	75,000		MOU Costs
Fire (Measure O)	25,000		MOU Costs
Police (Measure O)		125,000	Sales Tax Revenue
Police (Measure O)	100,000		MOU Costs
Police (Measure O)	25,000		MOU Costs
Recreation (Measure O)		100,000	Sales Tax Revenue
Recreation (Measure O)	30,000		MOU Costs
Recreation (Measure O)	10,000		MOU Costs
Recreation (Measure O)	45,000		MOU Costs
Recreation (Measure O)	15,000		MOU Costs
IT	300,000		MOU Costs
Fund Totals			
General Fund	✓ \$ 8,200,000	\$ 9,500,000	
Water Funds	✓ \$ 1,370,000	\$ -	
Measure O Funds	✓ \$ 325,000	\$ 325,000	
IT	\$ 300,000	\$ -	

Based on strong prior year performance in Sales Taxes, Property Taxes, and Real Property Transfer Taxes, coupled with mid-year results continuing this strong trend, staff is proposing to amend the FY 2021-22 by increasing the revenue estimates for

Property Taxes, Sales Taxes, and Real Property Transfer Tax by a total of \$9.5 million.

The Council recently approved labor contracts for most of the City's bargaining units. Beginning with FY 2022-23, the salary increases specified in the labor agreements will be reflected in the budget; however, the costs are not included in the current year budget. Staff is proposing to increase the FY 2021-22 budget to reflect the cost of the recently adopted labor contracts in the following manner:

- General Fund, \$7.5 million
- Water Enterprise Funds, \$1,370,000
- Measure O Program Funds, \$325,000
- Information Technology Fund, \$300,000

Because the cost-of-living increases are calculated based on the approved number of positions in bargaining units, which include vacant positions, a portion of the first-year costs may be returned to the General Fund and other funds as unspent appropriations at the end of the year.

In addition, the following budget increases are proposed for the General Fund:

- Increase fire overtime by \$1.55 million. This increase reflects current and past usage and establishes budget in an amount that is more reflective of actual costs.
- Add \$500,000 to replace the Public Safety Building boiler line which is suffering a significant leak. This is a critical need that should not wait until the normal budget process.

Personnel Changes – General Fund

There are several General Fund positions proposed to be added at mid-year. These positions provide critical operational support both to the community, or in support of other departments.

- **Planning and Economic Development.** Add three positions, including 1.0 FTE Development Review Coordinator; 1.0 FTE Civil Engineering Technician I/II/III to focus on encroachment permits; and 1.0 FTE Building Plans Examiner. These positions are critical to meet service demands. The additional cost in the current year will be \$100,000, which assumes the positions are filled for the last three months of the fiscal year.
- **Human Resources.** Add 1.0 FTE Human Resources Analyst which would provide critical support for recruitments and classification studies needed by City departments. The current year cost, assuming the position is filled for the last three months of the fiscal year is \$50,000.

Personnel Changes – Other Funds

The Water Department is requesting to reclassify 1.0 FTE Senior Maintenance Worker - Utilities to 1.0 FTE Mechanical Technologist. There is currently insufficient Mechanical

Technologist staff to perform the work assigned to the Mechanical Services Team, which includes the Geysers System and the Regional System. As such, the Team has been using overtime to perform critical work and has spent \$141,171.56 (63%) of its overtime budget to date. There is currently a vacant Senior Maintenance Worker - Utilities classification, which the Department would like to reclassify to 1.0 FTE Mechanical Technologist. This classification is more appropriate for the work performed by the Mechanical Services Team and will assist in reducing the Team's corrective order backlog. There is no impact to the General Fund, and the cost differential of \$16,000 can be absorbed within the Water budget.

The Water Department is requesting to add 1.0 FTE Wastewater Operator I/II to support the Geysers Recharge System. The five Geysers pump stations and 25 pumps and motors that span 41-miles should undergo weekly, ideally daily, inspections by an Operator and the system valves should be exercised quarterly. Currently, staff does not have adequate capacity to do this, and the stations, motors, and pumps are being inspected at most monthly, and the valves are not being exercised. The infrequent inspections and inability to do preventative maintenance activities has led to preventable equipment failures, the need for urgent response, system downtime, and costly repairs. There is no impact to the General Fund.

The Housing and Community Services (HCS) Department is requesting to add 1.0 FTE Limited Term Housing and Community Services Technician for two years. This position will assist with the backlog of inspections due to COVID-19 waivers and program impacts, address the additional workload associated with the 131 new Emergency Housing Vouchers, including initial inspections, and inspections associated with the 197 Project Based Voucher (PBV) units that are under construction or in pre-commitment and anticipated to be completed within the next two years, in addition to the existing 202 PBV unit turnover inspections. This position will be 100% funded by federal funds within the Housing Authority.

The Information Technology (IT) department is requesting the reclassification of 1.0 FTE Senior Information Technology Technician classification, which is currently vacant to 1.0 FTE Network Systems Analyst in order to perform the desired complexity of tasks needed to meet the organization's technology needs.

Organizational Structure

The City Manager has begun reviewing the organizational structure to determine what will be most beneficial to the operations of the City. This reorganization will be completed in phases, with the first phase solidifying the core management structure, which includes a return to the traditional City Manager/Assistant City Manager organizational structure. Under this structure, there will be two Assistant City Manager (ACM) positions that would no longer have department, director-level responsibilities, and the re-establishment of a Director of Transportation and Public Works and a Director of Planning and Economic Development. This change in structure was recommended as part of a recent organizational review by Management Partners to help promote better representation for all City departments. Additionally, inherent

conflicts that arise with the ACM and director dual role - where an ACM serves as both superior and colleague with department directors - will be eliminated.

Measure O Implementation Plan Change

As stated before, the labor contract costs necessitated an increase in appropriations in the Measure O funds. In addition, increased revenue should be appropriated due to the special sales tax that supports Measure O programs trending higher than the current fiscal year adopted revenue estimates. Finally, the Fire department is in need to purchase enhanced radio equipment.

These changes require changes to the Measure O Implementation Plan. Staff reviewed the proposed changes with the Measure O Citizen Oversight Committee on January 19, 2021. The Committee approved the Implementation Plan change by a 6-1 vote.

FISCAL IMPACT

Aside from the \$500K for the PSB Boiler line replacement, all appropriations in the table above and all proposed staffing changes within the General Fund are ongoing costs. Costs associated with Labor agreements are expected to be \$6.9M in FY 2022-23 and \$9.2M in FY 2023-24. In all, the General Fund can expect an additional \$9.2M burden in FY 2022-23 and \$11.9M in FY 2023-24.

The General Fund is experiencing a rebound in revenues after the initial losses of the pandemic. In the current budget year, revenues are able to sustain the increase in appropriations as set forth in this report. In the next two budget cycles, revenue may remain strong and continue to support all proposed ongoing budget amendments. However, revenue growth is typically depended on to support natural growth of costs associated with CPI, inflation, and other factors. With the General Fund relying upon revenue growth to support the changes in this budget amendment, it is unknown if an operational deficit will emerge as a result.

Budget amendments and Personnel changes in all other funds, including the Measure O Special Revenue Funds, Water Enterprise Funds, and the Housing Authority Fund, are sustained by their own revenue sources or fund balance. These changes have no impact on the General Fund.

ENVIRONMENTAL IMPACT

The budget adjustments and personnel changes set forth herein are exempt from the provisions of the California Environmental Quality Act (CEQA) under CEQA Guidelines Section 15061(b)(3) and 15378 in that there is no possibility that the implementation of this action would have significant effects on the environment. No further environmental review is required.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

FY 2021-22 BUDGET AMENDMENT
PAGE 7 OF 7

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Resolution 1/Exhibit A (FY 2021-2022 Budget Amendment)
- Resolution 2/Exhibit A (Measure O Implementation Plan)

CONTACT

Alan Alton, aalton@srcity.org, 707-543-3093