



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** September 13, 2021

FROM: Matthew Bronson City Manager

PREPARED BY: Deanne Purcell, Administrative Services Director

SUBJECT: FY 2020-21 Year-End Financial Review and ARPA Allocation

RECOMMENDATION

Receive information on the FY 2020-21 Year-End Financial Review and recommended American Rescue Plan Act allocation and provide input and comments to staff

BACKGROUND

FY 2020-21 Year End Financial Review

On June 28, 2021, the Council adopted the FY 2021-23 budget which included estimates for the fiscal year ending June 30, 2021. Staff is currently working with the City’s outside auditors to complete the FY 2020-21 annual audit which is anticipated to be completed in December and brought to the Council for approval in January. In preparation for the outside auditors’ review in October, staff has conducted an initial review of the year-end financial results of FY 2020-21 to provide a summary to the Council prior to the completion of the audit. The following summary represents this initial review subject to change with the upcoming audit process.

General Fund

The General Fund is the City’s primary fund and includes general City services such as police, fire, and parks and recreation, and general administration. The General Fund is also where property tax, sales tax, and other general revenues are collected. Table 1 below shows the year-end estimates for FY 2020-21 provided to the City Council in June 2021 compared to the FY 2020-21 unaudited actuals:

Table 1

GF Summary	FY 2020-21 Estimated	FY 2020-21 Unaudited Actuals	Difference
Beginning Reserves	\$ 3,877,213	\$ 3,877,213	\$ -
Revenues/Transfers In	14,513,911	14,964,534	450,623
Expenditures/Transfers Out	13,825,835	14,097,785	271,950
Annual Surplus	\$ 688,076	\$ 866,749	\$ 178,673
Ending Reserves	\$ 4,565,289	\$ 4,743,962	\$ 178,673
% of Operating Expenditures	35%	35%	1%

FY 2020-21 actual revenues are higher than originally estimated as part of the FY 2021-22 budget process mainly due to cannabis tax revenues (\$925,000 higher than budgeted) and sales tax revenues (\$699,000 higher than budgeted). The increase in sales tax is due to both increased sales at the city’s cannabis businesses as well as the continued increase in online sales due to the pandemic and recent changes in State law where sales tax for out-of-state vendors is now collected for online purchases. TOT revenues were also \$200,000 higher than budgeted, which can be attributed in part to collecting TOT on short term rentals given the City’s permitting process.

While these tax revenues showed an increase for the year, other revenues declined for the year mainly due to COVID restrictions or related economic impacts. Construction and encroachment permits were \$42,000 lower than budgeted, fines and penalties were \$28,000 lower than budgeted and recreation rentals, classes and special events were down \$120,000. Plan check fees and other miscellaneous income was also lower than budgeted by almost \$150,000 due to COVID restrictions. In summary however, last year’s revenues overall did much better than anticipated, although there were revenues that reported a decline due to COVID impacts.

Expenditures shown in Table 1 are also higher than originally estimated mainly attributed to additional costs for various projects approved at mid-year, the one-time lump sum payment to City employees at year-end as part of approved labor agreements, and unanticipated increases in utilities and fuel costs. These increases were partially offset by lower than estimated training and education costs due to lack of travel for training and conferences given COVID restrictions.

As shown in Table 1, the FY 2020-21 General Fund estimated unaudited actual surplus is \$866,000 though staff would note that approximately \$400,000 of this amount represents carryover funds in capital projects not completed by year-end that will be reallocated for these projects. Given these circumstances, staff would recommend refraining from further use of the FY 2020-21 unaudited surplus at this time as staff will return to the Council with additional information about the City’s financial condition in November 2021 and February 2022 as part of the FY 2021-22 first-quarter and mid-year review respectively.

Water Fund

The Water Fund is responsible for the maintenance and operation of City’s water system. This includes water lines, tanks, and wells. The Water Fund is estimated to end FY 2020-21 with \$365,000 more than the year-end estimates for FY 2020-21 provided to the City Council in June 2021 compared to the FY 2020-21 unaudited actuals as shown in Table 2:

Table 2

Water Fund	FY 2020-21 Estimated	FY 2020-21 Unaudited Actuals	Difference
Beginning Reserves	\$ 6,249,576	\$ 6,249,576	\$ -
Revenues/Transfers In	4,238,047	4,543,054	305,007
Expenditures*/Transfers Out	3,644,807	3,584,804	(60,003)
Annual Surplus	\$ 593,240	\$ 958,251	\$ 365,011
Ending Reserves	\$ 6,842,816	\$ 7,207,827	\$ 365,011

*Does not include Depreciation Expense of \$155,891

Water revenues are higher than estimated by approximately \$305,000. This was mainly due to water service fees coming in higher than estimated of \$150,000 and grant revenue of \$134,000 received from the County for reimbursement of expenditures related to the Water Master Plan project. Expenditures are lower than anticipated by \$60,000 mainly due to capital projects from the Water Master Plan not being completed by the end of the fiscal year.

Wastewater Fund

The Wastewater Fund is responsible for the City’s maintenance and operation of wastewater lines within the City and bills for and forwards funds collected to the South San Luis Obispo County Sanitation District. The Wastewater Fund is projected to end FY 2020-21 meeting year-end estimates given to the City Council in June 2021 with a minor difference of approximately \$9,000 as shown in Table 3 below:

Table 3

Wastewater Fund	FY 2020-21 Estimated	FY 2020-21 Unaudited Actuals	Difference
Beginning Reserves	\$ 6,320,907	\$ 6,320,907	\$ -
Revenues/Transfers In	1,709,000	1,716,463	7,463
Expenditures*/Transfers Out	1,701,326	1,699,944	(1,382)
Annual Surplus	\$ 7,674	\$ 16,518	\$ 8,844
Ending Reserves	\$ 6,328,581	\$ 6,337,425	\$ 8,844

*Does not include Depreciation Expense of \$125,743

American Rescue Plan Act Allocation

Staff is seeking further Council direction on the allocation of one-time American Rescue Plan Act (ARPA) funds in which the City will be allocated \$3.2 million over a two-year period. The first disbursement of \$1.6 million was received in July 2021 to be spent primarily in FY 2021-22 and the second disbursement of \$1.6 million will be disbursed one year later in FY 2022-23. As part of the FY 2021-23 budget hearing on June 14, Council provided direction to use ARPA funding for programs and activities in the following general categories:

- Homeless services and facilities
- Nonprofit assistance
- Rental and utility assistance
- Business assistance/economic development
- Unfunded water or sewer projects

The ARPA funding is reflected in the FY 2021-23 budget adopted by Council as non-department funding in both FY 2021-22 and FY 2022-23. At this time, staff is seeking further Council direction on allocation of ARPA funds in FY 2021-22 for specific activities or projects within the general categories with proposed allocation amounts shown on below:

Homeless Services and Facilities

- Temporary or permanent shelter spaces \$500,000
- Homeless outreach and services to help access to housing \$300,000

Nonprofit Assistance	
• Nonprofit assistance grants for agencies serving Grover Beach	\$100,000
• Child care assistance for licensed providers and/or families	\$50,000
Rental and Utility Assistance	
• Low-income utility payment subsidy program	\$50,000
Business Assistance/Economic Development	
• Business assistance/improvement grants	\$200,000
• South County Chambers economic development contract	\$100,000
Unfunded Water or Sewer Projects	
• Front Street Lift Station sewer upgrades	\$100,000
• Upgrading sewer capacity for current and future needs	\$200,000
TOTAL	\$1,600,000

The category of Homeless Services and Facilities is proposed for the largest use of ARPA funds (\$800,000) given the Major City Goal of Housing and Homelessness. These funds would assist with identifying options for temporary or permanent shelter spaces for unhoused individuals along with outreach and other services with a goal of accessing housing. \$200,000 total is proposed for the Nonprofit Assistance and Rental and Utility Assistance categories to provide nonprofit funding assistance, child care assistance following an initial subsidy to families of children in school-age programs in FY 2020-21, and continuation of the City’s low-income utility payment subsidy program. \$300,000 is proposed for the Business Assistance/Economic Development category to provide additional business assistance grants and fund the City’s economic development contract with the South County Chambers of Commerce to help local businesses recover and rebuild from the impacts of COVID. Lastly, \$300,000 is proposed in the Unfunded Water or Sewer Projects category to help fund two sewer projects to support current and future needs of the community.

Pending Council direction on allocation of ARPA funds, staff will begin to implement this allocation in the budget and work programs for FY 2020-21 and bring specific items to the Council for further consideration and action at the applicable time.

FISCAL IMPACT

There is no fiscal impact from receiving this report.

ALTERNATIVES

The Council has the following alternatives to consider:

1. Receive information on the FY 2020-21 Year-End Financial Review and American Rescue Plan Act allocation and comments to staff; or
2. Provide alternative direction to staff

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act.