

NOTICE OF SPECIAL MEETING

Pursuant to Section 54956 of the Government Code of the State of California, a Special meeting of the **Tracy City Council** is hereby called for:

Date/Time: **Tuesday, March 16, 2021 at 5:00 p.m.**
(or as soon thereafter as possible)

Location: **Tracy City Hall**
333 Civic Center Plaza, Tracy

THIS SPECIAL MEETING WILL BE CONDUCTED PURSUANT TO THE PROVISIONS OF THE GOVERNOR'S EXECUTIVE ORDER N-29-20 WHICH SUSPENDS CERTAIN REQUIREMENTS OF THE RALPH M. BROWN ACT

RESIDENTS ARE STRONGLY ENCOURAGED TO PARTICIPATE REMOTELY AT THE MARCH 16, 2021 SPECIAL MEETING

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy City Council on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

Remote Access to City of Tracy Council Meeting:

In accordance with the guidelines provided in Executive Order N-29-20 on social distancing measures, the City of Tracy will allow for remote participation at the upcoming Special City Council meeting on Tuesday, March 16, 2021.

As always, the public may view the City Council meetings live on the City of Tracy's website at www.CityofTracy.org or on Channel 26. To view from the City's website, select "Watch Live Council Meetings" from the drop down menu "Select an Online Service" at the top of the City's homepage. You will be directed to the "Council Meeting Videos" page where you may select the video for the appropriate date under "Upcoming Events."

If you only wish to watch the meeting and do not wish to address the Council, the City requests that you stream the meeting through the City's website or watch on Channel 26.

Remote Public Comment:

*Public comment, limited to 250 words or less, submitted via email **will be accepted for agenda items before the start of the Council meeting at 5:00 p.m.** Please send an email to publiccomment@cityoftracy.org and identify the item you wish to comment on in your email's subject line.*

During the upcoming Council meeting public comment will be accepted via the options listed below. If you would like to comment remotely, please follow the protocols below:

- *Comments via:*
 - **Phone** by dialing (209) 831-6010, or
 - **Online by visiting** <https://cityoftracyevents.webex.com> and using the following **Event Number:** 182 092 4227 and **Event Password:** TracyCC
 - ***If you would like to participate in the public comment anonymously***, you may submit your comment via phone or in WebEx by typing "Anonymous" when prompted to provide a First and Last Name and inserting Anonymous@example.com when prompted to provide an email address.
- *Protocols for submitting comments by **phone**:*

- *Comments received by phone for the “Items from the Audience/Public Comment” portion of the agenda must be received by the time the Mayor opens that portion of the agenda for discussion.*
 - *Comments received by phone on each “Agendized Item” will be accepted until the Mayor announces that public comment for that item is closed.*
 - *Protocols for commenting via WebEx:*
 - *If you wish to comment under “Items from the Audience/Public Comment” portion of the agenda:*
 - *Listen for the Mayor to open “Items from the Audience/Public Comment”, then raise your hand to speak by clicking on the Hand icon on the Participants panel to the right of your screen.*
 - *If you no longer wish to comment, you may lower your hand by clicking on the Hand icon again.*
 - *Comments for the “Items from the Audience/Public Comment” will be accepted until the public comment period is closed.*
 - *The total allotted time for public comment under “Items from the Audience/Public Comment” will be 15 minutes:*
1. Call to Order
 2. Roll Call
 3. Items from the Audience - Items from the audience - *In accordance with Council Meeting Protocols and Rules of Procedure, adopted by Resolution 2019-240, a five-minute maximum time limit per speaker will apply to all individuals speaking during “Items from the Audience/Public Comment”. For non-agendized items, Council Members may briefly respond to statements made or questions posed by individuals during public comment; ask questions for clarification; direct the individual to the appropriate staff member; or request that the matter be placed on a future agenda or that staff provide additional information to Council.*
 4. DISCUSS PROPOSED FY 2021-22 OPERATING BUDGET AND PROVIDE DIRECTION TO STAFF
 5. Council Items and Comments
 6. Adjournment



Mayor

Posting Date: Thursday, March 11, 2021

The City of Tracy complies with the Americans with Disabilities Act and makes all reasonable accommodations for the disabled to participate in public meetings. Persons requiring assistance or auxiliary aids in order to participate should call City Hall (209-831-6105), at least 24 hours prior to the meeting.

Any materials distributed to the majority of the Tracy City Council regarding any item on this agenda will be made available for public inspection in the City Clerk's office located at 333 Civic Center Plaza, Tracy, during normal business hours.

AGENDA ITEM 4

REQUEST

DISCUSS PROPOSED FY 2021-22 OPERATING BUDGET AND PROVIDE DIRECTION TO STAFF

EXECUTIVE SUMMARY

The City's annual budget is a fiscal representation of Council goals and priorities. As such, the City Manager's proposed FY 2021-22 Operating Budget was developed under the framework of the Council's adopted strategic priorities and objectives, keeping in mind that resources are limited due to the City's structural deficit and revenue impacts associated with COVID-19. As of the publishing of this staff report, the federal legislature approved a stimulus bill, pending President Biden's signature, that will provide financial relief to local governments, improving the fiscal health of communities across the nation, including the City of Tracy.

The proposed FY 2021-22 Operating Budget totals \$241 million. The General Fund proposed operating budget is \$79 million and Transfers Out are \$12 million; which includes almost \$9.8 million in Measure V Capital Transfers. Staff requests that Council provide policy direction concerning the proposed FY 2020-21 Operating Budget.

DISCUSSION

BACKGROUND

On June 16, 2020, the City Council approved the FY 2020-21 Operating and Capital Budget for FY 2020-21 after holding two budget workshops. At adoption, FY 2020-21 General Fund budget projected a deficit of \$5.4 million, which assumed using the remaining 10% Economic/Budget Stabilization Reserves and borrowing \$2.2 million from Measure V General Fund Capital. The amended FY 2020-21 General Fund budget no longer includes the need to borrow funds from Measure V.

The City is still facing a structural deficit as it develops the FY 2021-22 budget. The City Manager has proposed a status quo budget to preserve service levels. This includes continuing some of the budget solutions adopted in FY 2020-21.

In January 2021, the City Council held a three-day Strategic Planning Workshop. Goals and priorities identified at the workshop have been incorporated into the proposed FY 2021-22 Operating Budget, which also includes additional funding in the amount of \$600,000 (6 months) for facility management and homelessness support services. These services are to support the Arbor Road Temporary Emergency Housing Facility which is anticipated to open by December 2021. In addition, the City Manager proposes to restore the MCYSN community grant program (\$200,000) which was not funded as part of the prior year's budget. Also not funded in the FY 2020-21 budget was Internal

Service Centers (ISC) charges for Vehicle and Equipment (\$2.1 million). It is recommended that ISC vehicle and equipment charges be delayed another year.

CITYWIDE PROPOSED BUDGET

In light of current economic conditions, the Adopted FY 2020-21 Operating and Capital Budget reflects economic impacts due to COVID-19 restrictions, which have further exacerbated the City's existing deficits in the General Fund and Utilities Fund. These impacts are expected to continue into FY 2021-22, albeit with some moderate revenue growth projected in some taxes and citywide fees.

Operating expenses were held flat, except for inflationary contractual increases (*e.g.* pension, health care, and workers' compensation). The selected vacancy and hiring freeze is expected to continue through FY 2021-22 and, likely, through FY 2022-23. While primarily in the General Fund and Utilities, City departments are experiencing a 5-10% vacancy rate. Reduced expenditures generated from salary savings has helped to temporarily mitigate personnel increases related to pension, health, and workers' compensation benefits, lessening the overall deficit in the General Fund and Utilities Fund. The proposed budget includes 506 full-time equivalent funded positions in FY 2021-22; of which 300 are funded by the General Fund.

The FY 2021-22 proposed operating budget appropriations total approximately \$241 million from all funding sources. The net change is an increase of roughly \$3.9 million (see Table 1 below). The City's proposed capital budget will be considered at a future budget workshop.

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Table 1 Citywide Proposed Operating Budget

(in thousands)	<u>2020/2021</u> <i>(amended)</i>	<u>2021/2022</u> <i>(proposed)</i>	<u>2022/2023</u> <i>(projected)</i>
GENERAL FUND	72,516	75,549	78,876
DEVELOPMENT SERVICES	11,113	11,669	11,785
SCFA	6,675	6,739	6,806
GAS TAX	3,163	3,195	3,227
SPECIAL REVENUE	12,116	12,225	12,546
GEN FUND CAPITAL	-	-	-
CAPITAL	14,754	42,004	43,986
DEBT	6,143	6,204	6,447
INTERNAL SERVICES FUND	12,895	14,130	14,272
WASTEWATER	15,300	15,075	15,225
WATER	21,309	21,290	21,503
SOLID WASTE	21,731	21,948	22,168
STORM DRAIN	719	726	733
AIRPORT	947	954	962
TRANSIT	5,556	5,611	5,768
Total Revenue	204,937	237,319	244,305
GENERAL FUND	74,847	79,068	80,092
DEVELOPMENT SERVICES	13,126	13,639	13,775
SCFA	8,871	6,762	6,830
GAS TAX	5,358	5,236	5,288
SPECIAL REVENUE	9,151	8,773	8,859
GEN FUND CAPITAL	1,997	1,935	1,954
CAPITAL	5,627	4,157	4,198
DEBT	4,629	4,488	4,496
INTERNAL SERVICES FUND	14,483	14,929	15,071
WASTEWATER	45,255	47,073	19,185
WATER	19,639	20,582	20,222
SOLID WASTE	24,976	24,484	24,729
STORM DRAIN	701	693	700
AIRPORT	1,098	1,069	1,080
TRANSIT	7,885	8,352	8,436
Total Expenses	237,644	241,239	214,916
Surplus/(Deficit)	(32,706)	(3,920)	29,388

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ADOPTED FY 2020-21 PROPOSED GENERAL FUND BUDGET

On June 16, 2020, the City Council approved the FY 2020-21 Operating and Capital Budget for FY 2020-21 after holding two budget workshops. During the budget workshops, the City Council considered both the upcoming budget adoption and proposed amendments to the FY 2019-20 budget; both of which were negatively impacted by the fiscal strain related to COVID-19 and the State’s Stay at Home orders that began in March 2020. The City’s General Fund was projected to have a \$7 million deficit at the close FY 2019-20; of which, approximately half (\$3.5 million) would require funding appropriations from the 10% Economic/Budget Stabilization Reserves. At adoption, the FY 2020-21 General Fund budget projected a deficit of \$5.4 million, which assumed the use of the remaining 10% Economic/Budget Stabilization Reserves and borrowing \$2.2 million from Measure V General Fund Capital.

Table 2A General Fund FY 2020-21 Amended Budget

(in thousands)	<u>2020/2021</u> <u>(adopted)</u>	<u>changes</u>	<u>2020/2021</u> <u>(amended)</u>
Property Tax	25,776	1,000	26,776
Sales Tax	24,000	3,012	27,012
Sales Tax Measure V	7,967	1,533	9,500
Other Taxes	2,362	(400)	1,962
Other Revenues	18,823	(2,000)	16,823
Total Revenues	78,927	3,145	82,073
Personnel	58,846	(596)	58,250
Non Personnel	16,161	1,134	17,295
Net Transfers In/(Out)	7,096	4,044	11,140
Loan from Measure V	2,200	(2,200)	0
Total Expenditures	84,303	2,382	86,685
Surplus/(Deficit)	(5,376)	764	(4,612)

AMENDED FY 2020-21 GENERAL FUND BUDGET

Staff previously presented the First and Second Quarter budget updates to the City Council and is in the process of preparing the Third Quarter (ending March 31, 2021). While recent updates have reflected improvements in Sales Tax and Property Tax, these revenue increases were negated by losses in Other Taxes and Other Revenues, particularly in Charges for Services revenues. The amended Total Revenues is \$82 million. This is a net change of \$3.1 million, or 3% increase over the adopted revenues.

The City’s amended operating expenses, \$75.5 million, have remained relatively flat compared to the adopted operating expenses, \$75 million. Personnel savings (averaging 5-10% citywide) have been generated as a result of select vacancy and hiring freeze implemented in March 2020. The City’s natural attrition rate has also

helped to further mitigate expenses of various minor adjustments arising in non-personnel costs. Non-personnel expenses had an increase of \$500,000 reflecting the Small Business Loans approved by the City Council in December 2020.

Finally, the most significant change in the amended General Fund budget is reflected in the Transfers Out, which increased from \$7.1 million to \$11.1 million. This \$4 million change includes a slight increase in the subsidy to Development Services (less than \$300,000) and increase in the Measure V Capital Transfers Out, (\$3.7 million). First, the City's amended budget that does NOT include a loan of \$2.2 million from Measure V funds to address its structural deficit. Second, the Measure V Capital Transfers Out increased to reflect the revised revenue projections of \$1.5 million less the Small Business Loan program funding (\$500,000). Overall, the amended contribution to Measure V Capital Fund at the end of FY 2020-21 is \$9 million; revised from \$5.5 million in the adopted budget.

The General Fund's amended projections for FY 2020-21 show that the deficit has decreased to \$4.6 million from \$5.4 million. The 10% Economic/Budget Stabilization Reserves balance as of June 30, 2020 was \$5.6 million. This will allow the City to carryover almost \$1 million of the 10% Economic/Budget Stabilization Reserves to help balance the proposed FY 2021-22 budget.

PROPOSED FY 2021-22 GENERAL FUND BUDGET

The City continues to face a structural deficit as part of its proposed FY 2021-22 budget. Given this, the City Manager has proposed a status quo budget to preserve City service levels, with the exception of restoring one budget solution that was used in FY 2020-21 and including the facility management and homelessness support services as reflected in the Council Strategic Priorities. The proposed FY 2021-22 General Fund budget has a deficit of \$5.8 million.

Table 2B FY 2020-21 Proposed General Fund Budget

(in thousands)	<u>2019/2020</u> <i>(actuals)</i>	<u>2020/2021</u> <i>(amended)</i>	<u>2021/2022</u> <i>(proposed)</i>	<u>2022/2023</u> <i>(projected)</i>
Property Tax	24,905	26,776	27,578	28,957
Sales Tax	26,304	27,012	28,000	29,400
Sales Tax Measure V	10,735	9,500	10,000	10,500
Other Taxes	2,298	1,962	2,370	2,709
Other Revenues	18,907	16,823	17,661	17,872
Total Revenues	83,148	82,073	85,609	89,437
Personnel	57,422	58,250	58,984	59,574
Non Personnel	16,227	17,295	20,271	20,708
Net Transfers In/(Out)	23,424	11,140	12,193	12,715
Total Expenditures	97,072	86,685	91,449	92,997
Surplus/(Deficit)	(13,924)	(4,612)	(5,840)	(3,560)

The City's estimated revenues are assumed a moderate growth of \$3.6 million, or 3%. This reflects moderate growth in Taxes and restored Charges for Service fees assumed in FY 2021-22.

The City's projected expenditures are projected to grow by \$4.7 million. The proposed budget does not assume any changes in existing labor contracts set to expire on June 30, 2021, except the anticipated inflationary changes to pension, health, and workers' compensation. Given this, personnel expenses are expected to increase an average of 2-3% across all departments. To mitigate these personnel costs, the proposed budget assumes that select vacant positions that are currently frozen will remain so for the foreseeable future. Transfers Out increase reflects the increase in Measure V Capital transfer, similarly reflected in the revenue growth of Measure V Sales Tax. (Personnel and Transfers Out combined increase is \$1.7 million).

A major change in the proposed FY 2021-22 Operating Budget is non-personnel expenditures, which reflects an increase of \$3 million. This adjustment includes new funding for facility management and homelessness support services for the Arbor Road Temporary Emergency Housing Facility and restored funding for MCYSN suspended as part of a FY 2020-21 budget balancing solution.

- **Facility Management and Homelessness Support Services.** At its January 2021 Goal-Setting Workshop, Council identified homelessness as one of its top priorities. Currently, the City is planning for the design and construction of a temporary emergency housing facility, which will need ongoing facility management and support services. Staff estimates the program will cost approximately \$1.2 million annually; approximately six months of funding (\$600,000) has been included in the FY 2021-22 budget.
- **Prior Year Budget Solutions.** The FY 2020-21 budget was adopted with a variety of budget solutions. Two of these budget solutions temporarily suspended funding of the MCYSN community grants and contributions to vehicle and equipment replacement. The City Manager proposes to restore funding for the MCYSN community grants which is approximately \$200,000.

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PROPOSED FY 2021-22 GENERAL FUND BUDGET SOLUTIONS

The City’s proposed General Fund budget has an anticipated deficit of \$5.8 million. The City Manager has identified \$5.1 million in proposed budget solutions. Council direction is needed regarding staff’s recommended budget approaches and solutions to close the remaining shortfall.

Table 2C General Fund Summary FY 2021-22

<u>(in thousands)</u>	<u>2021/2022</u> <u>(proposed)</u>
Revenues	\$ 85,609
*Expenses	79,255
Transfers In/(Out)	(12,193)
General Fund Surplus/(Deficit)	\$ (5,840)
<u>Budget Solutions</u>	
Use of 10% Economic/Budget Stabilization	1,000
Potential Revenue Recovery	1,000
Additional Vacancy Savings	1,000
Delay funding ISC-Vehicles	2,100
Revised General Fund Surplus/(Deficit)	\$ (740)

*Includes funding for MCYSN and facility and homelessness support services

FY 2021-22 Budget Solutions

1. **Use of 10% Economic/Budget Stabilization.** The General Fund has a projected \$1 million remaining in the 10% Economic/Budget Stabilization Reserves that will be used to close the budget deficit.
2. **Potential Revenue Recovery.** The City’s Sales Tax and TOT tax are projected to recover slightly in FY 2021-22 and the budget reflects a moderate growth of \$1.4 million, or 5%, between the two revenue sources. This projected growth assumes new tax generators will commence operations in FY 2021-22. The actual revenue growth is not certain today. In addition, the City may experience a larger recovery to the economic effects of COVID, receive additional grants and federal aid, or generate higher cost recovery through fees. It is moderately possible that revenues may grow an additional \$1 million (2-3%) over the current projections.
3. **Additional Personnel/Non-Personnel Savings.** The proposed FY 2021-22 budget includes a current vacancy and hiring freeze of 5% on select vacant positions. Throughout the year, some departments experience higher attrition rates, which may generate additional personnel savings in FY 2021-22. The City Manager and departments will observe expenditure levels and modify staffing levels, and non-personnel expenses, as needed, to achieve a target savings in the amount of \$1 million, or 1% of General Fund operating expenditures.

4. **Delay Funding ISC-Vehicles.** The City's adopted General Fund FY 2020-21 budget included delaying contributions to the ISC-Vehicle and Equipment funds. The cost to fund these expenses is \$2.1 million. As a budget solution, the General Fund will delay the annual contribution in FY 2021-22; however, any further delay in funding may result in higher maintenance costs and larger future replacement needs as the current vehicles will continue to age. It is not recommended to extend this budget solution more than two years; restoring funding in FY 2022-23 will need to be considered.

American Rescue Plan Act

California cities are expected to receive more than \$8 billion in much needed assistance to help offset the billions of dollars in revenue shortfalls due to the shutdown of local economies and the billions spent protecting public health, delivering essential services, protecting vulnerable populations, and helping small businesses survive during the pandemic. H.R. 1319, the American Rescue Plan Act, now goes to President Biden for his signature, which is expected Friday, March 12, 2021.

The City of Tracy is currently set to receive over \$17.8 million. If approved, this funding is guaranteed to the City, though there will be limits to how the funding can be used by the City. Additionally, the funding will come in two tranches, the first being within 90 days of the enactment of the bill and the second a year later.

The City can use the funds to cover costs incurred by December 31, 2024, for the following:

- Response to the coronavirus emergency and address its economic effects, including aid to households, small businesses, nonprofits, and other industries
- Provide government services affected by a revenue reduction during the pandemic
- Provide premium pay to essential employees or grants to their employers
- Investments in water, sewer, and broadband infrastructure

Once details are known, this funding could be incorporated into the budget as short-term solutions, helping to offset expenses and restore reserves, while the City identifies and implements long-term budget strategies as part of its fiscal sustainability planning efforts.

Budget Policy Considerations

- The following budget items have been included in the proposed FY 2021-22 Operating Budget. These programs are likely eligible for the American Rescue Plan Act. Upon final approval of the federal funds, staff will determine where these funds may be applied. Policy direction is needed as to whether Council would like these items to remain in the proposed budget. If removed or grant funding is awarded, the budget deficit would be reduced by \$800,000.

1. **Fund MCYSN.** The City's adopted General Fund FY 2020-21 budget included the delay of funding the MCYSN community grants. The proposed General Fund FY 2021-22 budget restores funding of these expenses. The cost to fund these expenses is \$200,000 and will require a funding sources, such as Measure V. This program may be eligible under the pending federal stimulus funding. Alternatively, the City Council may identify another funding source, modify the amount, or delay funding these expenditures another year.
2. **Fund Facility Management and Homeless Support Services.** The City Council has directed staff to design and construct, and subsequently manage at temporary emergency housing facility consistent with its strategic priorities and Homelessness Strategic Plan. The annual cost for facility management and support services is anticipated to be \$1.2 million; however, because the City's new housing facility is expected to open in December 2021, only six months of this expense (\$600,000) was included in the proposed budget. The on-going cost for this new expense will require a funding source, such as Measure V. This program may be eligible under the pending federal stimulus funding. Alternatively, the City Council may identify another funding source, modify the amount, or delay funding these expenditures another year.

OTHER FUNDS

The City's total operating budget is \$241 million. Below are the City's Utilities: Water and Wastewater Funds.

Water Fund. This fund accounts for the City's water utility. All expenses relating to the provision of purchasing, treating, and providing water services are charged to this fund, which is financed with customer utility rate payments and connection fees. This fund also accounts for debt issued on behalf of the water utility and for the repayment of such debt. Revenues in the Water Fund vary based on metered water usage by customers. The statewide drought that began in 2013 led to water rationing and other conservation measures across California. As a result, less water was consumed and revenues declined. As a result, the utility has only responded to urgent repairs and maintenance costs.

Following the last water rate update in 2008, a Water Rate Study was prepared in 2017 by HDR, a firm specializing in water rate and revenue analysis. The study identified the need for a rate increase at that time. The study included a five-year projection of revenue with two proposed rate increases of approximately 25% each. Prior to this rate study, the water rates had not been increased for more than 10 years, while inflationary costs and maintenance demands continued to rise. Staff recommended Council approve the first increase in water rates for FY 2017-2018 and bring back the second proposed increase for consideration in FY 2019-20. On November 21, 2017, City Council adopted the first rate increase. Although the first rate increase was 25%, financial reports indicate that water revenues only increased by 10% in FY 2018-2019 due to low consumer consumption. The Utilities department has deferred several key capital projects in order to minimize the impacts of the lower revenues on the Water Fund. In November 2019, the City Council adopted the second rate increase. The amended water rates for FY

2020-21 reflect this rate increase, which in turn has allowed for capital maintenance increases to be slowly restored in the Utilities budget.

The Water Fund has projected revenues of \$21.3 million in Fiscal Year 2021-22; however, staff will be closely monitoring this revenue as drought conditions in California may require water conservation efforts in Tracy. The Water Fund proposed expenses are \$20.9 million. The expenses include the restoration of \$1.5 million in capital maintenance and water purchases. The Water Fund has years of deferred maintenance at the treatment and storage sites, as well as water lines and meter replacement costs, that must be addressed through another rate study. In addition, the Water Fund reserves levels are less than 10% of operating reserves. They should be raised at least another \$4 million to reach the 30% City policy for reserves. In addition, enterprise funds should have a maintenance reserve equal to one or more years of depreciation. This is an additional \$5 million to reach the minimum standard reserve for this utility.

Table 3 FY 2020-21 Proposed Water Fund Budget

<i>(in thousands)</i>	<u>2020/2021</u> <i>(adopted)</i>	<u>2020/2021</u> <i>(amended)</i>	<u>2021/2022</u> <i>(proposed)</i>	<u>2022/2023</u> <i>(projected)</i>
CHARGES FOR SERVICES	18,016	21,041	21,041	21,252
NON-OPERATING REVENUES	352	268	248	251
	18,368	21,309	21,290	21,503
PERSONNEL	5,632	6,058	5,942	6,001
PURCHASED SERVICES AND SUPPLIES	8,454	9,765	10,638	10,192
UTILITIES	1,390	1,643	1,758	1,776
CAPITAL	0	916	986	995
DEBT	1,311	1,258	1,258	1,258
TRANSFERS OUT	2,000	510	510	510
	18,788	20,149	21,092	20,732
Grand Total	(419)	1,160	197	770

Wastewater Funds. This fund accounts for the City's wastewater utility. All expenses relating to the provision of sewer services are charged to this fund, which is financed with customer utility rate payments and connection fees. The fund's non-operating revenues reflect contributions from developer impact fees related to costs associated with infrastructure expansion improvements. The Wastewater Fund non-operating expenses reflect both capital and debt issued on behalf of the sewer utility and for the repayment of such debt.

The Wastewater Fund operating revenues are projected to be flat as all prior rate increases have been adopted seven years ago. The Wastewater Fund has an adopted revenue budget of \$14.5 for FY 2020-21 and \$14.7 for FY 2021-22. The Fund has operating expenses of \$15.7 million in Fiscal Year 2020-21 and capital expenses of \$28

million due to one-time Capital improvements in the Wastewater Treatment Plant for the Outfall project. This projects will utilize reserves to complete, which was considered in the last rate study.

In the proposed FY 2021-22 budget, the Non-operating revenues will receive \$25 million from developer contributions for the capital expansion of the Treatment Plant. The estimated costs of the capital improvement range from \$27 million to \$30 million. In addition, the fund has an annual deferred maintenance budget of \$2 million that is depleting fund reserves in order to maintain this funding level. The Wastewater fund will consider a rate increase and possible debt financing to accommodate the capital expenses proposed in this budget.

Table 4 FY 2020-21 Proposed Wastewater Fund Budget

<i>(in thousands)</i>	<u>2020/2021</u> <i>(adopted)</i>	<u>2020/2021</u> <i>(amended)</i>	<u>2021/2022</u> <i>(proposed)</i>	<u>2022/2023</u> <i>(projected)</i>
CHARGES FOR SERVICES	14,548	14,557	14,702	14,849
NON-OPERATING REVENUES	2,369	1,254	25,883	886
	16,917	15,810	40,585	15,735
PERSONNEL	5,858	6,172	6,942	7,036
PURCHASED SERVICES AND SUPPLIES	6,341	7,147	7,613	7,609
UTILITIES	1,661	1,969	1,566	1,581
CAPITAL	0	28,112	29,100	1,111
DEBT	1,799	1,855	1,853	1,848
	15,659	45,255	47,073	19,185
Grand Total	1,258	(29,444)	(6,488)	(3,450)

(Continued on Next Page)

STRATEGIC PLAN

This agenda item supports Governance Strategic Goal 3: Ensure Short and Long-term Financial Sustainability.

FISCAL IMPACT

The FY 2020-21 proposed budget appropriations of \$241 million from all funding sources. The budget appropriations for the General Fund is \$79 million, plus \$12 million in Transfers Out. The General Fund has a projected deficit of \$5.8 million. Included in this report are four one-time budget solutions that will close the budget shortfall to approximately (\$740,000). Staff is also monitoring the American Rescue Plan Act, which provides federal stimulus funding to cities that could temporarily offset the cost of providing MCYSN community grants and facility management and homelessness support services.

RECOMMENDATION

It is recommended that the City Council discuss and provide direction related to the proposed FY 2021-22 annual budget.

Prepared by: Karin Schnaider, Finance Director

Reviewed by: Midori Lichtwardt, Assistant City Manager

Approved by: Jenny Haruyama, City Manager