

AGENDA ITEM #: _____

DATE: December 7, 2020

CAR #: 2020-7115



CITY COUNCIL ACTION REPORT

SUBJECT: Approve Mid-FY2021 Budget Changes

STAFF PRESENTER(S): Lauri Wingenroth, Finance Manager-Budget and Research

OTHER PRESENTER(S): None

Summary: With the uncertainty presented by the Corona Virus pandemic emerging as the FY2021 budget was being developed, additional General Fund contingencies were included in the adopted budget to allow the Council to revisit additions and compensation increases mid-way into the fiscal year. FY2020 and year-to-date FY2021 revenues have exceeded expectations and can support budget additions.

The budget changes recommended in this report are:

- A 2.5% merit or up to a 1.25% lump sum for individuals at the top of their pay range which will impact all funds. This is for non-represented employees.
- General fund additions of \$4.7 million in one-time and \$4.0 million in full-year ongoing expenses including 26 full-time and 8.2 full-time equivalent (FTE) part-time positions. These additions are from original FY2021 budget process department supplemental requests, new obligations that have arisen since budget adoption, and to address COVID-related adaptations.
- Water fund ongoing addition of \$125,000 for water conservation related activities.
- Solid Waste fund one-time addition of \$100,000 to address increased volumes of bulk trash that have arisen.

Other than reductions in the one-time amounts for the Fire Department recruitment expense to exclude those costs in the original request associated with preparing for FS188 needs and to recognize the portion of temporary staffing needs in Engineering that can be absorbed by salary savings, no changes are made to the information presented at the Council Retreat on November 13, 2020.

With these proposed additions and those approved previously for FY2021, the all fund totals include \$8.7 million in ongoing and \$9.0 million in one-time items and 69.6 full-time equivalent positions.

Recommendation:

Approve compensation changes, position changes, and budget transfers to implement:

- non-represented 2.5% merit or a 1.25% lump sum compensation increase effective with the pay period beginning January 10, 2021, and

- budget and position changes outlined in Attachments A and B.

Fiscal Impact: Adopted contingencies including capacity for the pre-pandemic initial revenue estimates to provide funding for General Fund budget additions. The non-General Fund additions are funded from available budget balances.

The following table summarizes the budget and position changes by fund showing both the full year and the estimated FY2021 part-year amount for the ongoing portion.

Summary of Budget and Position Additions by Fund (in dollars)

	FY2021 Full-year Ongoing	FY2021 One- time	Total Additions	Full-time Positions	Part-time Positions (FTE)	FY2021 Part-Year Ongoing
General*	4,031,500	4,662,300	8,693,800	26	8.2	2,517,700
Water	125,000	-	125,000	0	0	90,000
Solid Waste	-	100,000	100,000	0	0	-

*Includes HURF and Ballpark.

In addition, the budget will be increased for the cost of the non-represented 2.5% merit or 1.25% lump sum. The following table provides these estimated costs for a full year and the partial FY2021 year.

Summary of Compensation Increase (in dollars)

Fund	Full-year	FY2021 Part-Year
General	695,100	320,800
Ballpark	34,100	19,000
HURF	30,100	13,900
Total General Fund Impact	759,300	353,700
Impound and Court Special Revenues	2,600	1,200
Water	60,900	28,200
Wastewater	58,100	26,800
Solid Waste	20,200	9,400

Budget transfers may be adjusted based on actual requirements not to exceed the full-year amounts. As is standard practice, the savings between the full-year amounts and partial year amounts will become ending balance available for funding needs in future budget allocations and processes.

Background and Previous Actions

The FY2021 budget was adopted on June 22, 2020 with the final step of the property tax levies done on July 6, 2020. The adopted budget included two contingencies to provide the opportunity to make mid-FY2021 budget additions dependent on revenue performance through the pandemic. These two contingencies are in addition to the standard 15% ‘rainy day’ contingency.

On July 13, 2020 and August 31, 2020, the Council approved uses of the \$17.1 million Special General Fund Contingency and/or revenue increases associated with the \$12.3 million revenue reductions budget capacity. These were primarily for development related positions and other critical needs or new obligations.

At a Council Retreat on November 13, 2020, an update on FY2020 pre-audit year end results as well as initial FY2021 and FY2022 revenue estimates for the General fund were presented and discussed with City Council. In addition, mid-year non-represented compensation increases and budget additions were discussed. Council also shared priorities for the balance of FY2021 and FY2022 budget development purposes.

Staff Analysis

Pre-audit FY2020 results and revenue collections through the first three months of FY2021 show higher revenues than anticipated. Revenues are running well above that planned in the budget primarily due to the high levels of conservatism applied in preparing the budget in a time frame before any pandemic related revenues changes were experienced.

General Fund beginning fund balance is estimated at \$21 million more than the budgeted level with more than \$17 million of that increase coming from higher revenues. Of that almost \$9 million was in revenues classified as ongoing.

Initial revenue and expense estimates have been prepared for FY2021 with the typical level of conservatism used in routine budget development. These estimates assume continuing high levels of growth, no significant changes in pandemic responses including federal funding or policy, and no near-term economic recession. These revenue estimates will be updated for the FY2022 budget process.

One of the contingencies allowed for in the budget was related to the \$12.3 million in General Fund resources removed from the pre-pandemic budget planning. Those specific revenue reductions were overcome in FY2020 actuals and in the initial FY2021 revenue estimates. The other contingency was a \$17.1 million Special General Fund Contingency that was funded within the post pandemic revenues in the budget.

With labor negotiations essentially complete with the two represented employee groups prior to the declaration of the pandemic, those agreements were approved and included in the adopted budget. However, non-represented employee compensation decisions occurred after the uncertainty raised with the pandemic, and at a 2.5% market were approximately half of the represented compensation changes. At the presentation and discussion of the City Manager’s

Recommended Budget, the Council and management expressed a clear intent to address non-represented compensation mid-year. The recommended 2.5% merit brings non-represented compensation changes in line with the represented FY2021 total compensation increases. A lump sum not to exceed 1.25% will be paid to employees at the top of the pay range. Employees within less than 2.5% of the top of the range, will receive a combination of merit and lump sum.

The following table summarizes the initial FY2021 ongoing and one-time General Fund status with updated revenue estimates and known expenditure changes including those recommended in this report. As shown, there are significant amounts of resources remaining after funding these recommended changes.

Updated FY2021 General Fund Estimates with Known Changes and Mid-Year Additions
(in millions of dollars)

	Ongoing FY2021 Estimate	One-time FY2021 Estimate
Beginning Balance	-	112.4
Revenue & Transfers In	123.4	27.5
Total Resources	123.4	139.9
Operations and Maintenance	95.5	6.6
Debt Service	1.4	-
CIP	-	11.0
Contingencies (Removed)	-	-
Transfers Out	17.1	50.5
Mid-Year Additions - Full Year Cost	4.0	4.7
Total Uses	118.0	72.8
Remaining Balance	5.4	67.1

All other funds impacted by recommendations in this report have adequate fund balance to pay the compensation and other budget additions.

As a recap, the budget additions implemented for the FY2021 budget were adopted with the original budget that included only the most essential items. On July 13, 2020 with a few more months of actual revenue experience, essential additions primarily for development support related positions in Development Services and Engineering were approved. Attachment C summarizes the supplemental budget amounts and positions added in these steps. Overall with these recommendations the all funds FY2021 budget will include \$8.7 million ongoing and \$9.0 million one-time supplemental budget additions as well as 62 new full-time and a net increase of 7.6 full-time equivalent part-time positions.

Attachments

Attachment A - Mid-FY2021 Budget Additions Listing with Partial FY2021 Costs

Attachment B - Mid-FY2021 Position Additions

Attachment C - Summary of FY2021 Budget Additions and Positions