

CITY COUNCIL

JIM GAZELEY
MARK WARONEK
HENRY SANCHEZ JR
MICHAEL SAVIDAN
CINDY SEGAWA



ADMINISTRATION

RYAN SMOOT
CITY MANAGER

CITY OF LOMITA

June 16, 2020

Subject: City Manager's FY 2020-2021 Budget Message

Dear Honorable Mayor, City Council and Citizens of Lomita:

I am pleased to submit the Fiscal Year 2020-21 Annual Operating and Capital Improvement Budget for the City of Lomita. In recent years, the City Council has rightly set a high standard for services to our community, and I am proud to say this budget focuses on the goals set forth by the City Council and continues to provide quality public services, promote pride in our community, and encourage economic growth while being fiscally responsible with the limited resources available.

The Fiscal Year 2020-21 Proposed Budget has a deficit of \$541,269 before transfers in, this is mainly due to the Covid-19 Pandemic. The deficit has been balanced with transfers from other funds and General Fund Reserves. Revenues are conservatively projected to decrease by \$424,469; however, expenditures continue to rise over time. This year, General Fund revenues are projected to be \$9,403,836 including transfers in, and expenditures are projected at 9,545,105, and has been balanced using the City's Reserves and transfers from other funds. As in recent years, expenditure forecasts continue to outpace revenue projections and going forward the City will continue to face challenges without added revenues in coming years.

We're proud that Lomita has been able to maintain public safety while protecting city services even during harsh economic times. As our city, along with the rest of the state and the country, faces serious health and economic challenges due to the COVID-19 pandemic, Lomita is working tirelessly to provide the services our residents need to get through this extraordinarily tough time.

Our top priority is to keep Lomita residents safe and protect their quality of life. We are taking proactive measures to ensure the safety and well-being of all families residing in Lomita. We are giving priority to the services that our residents need the most – such as quick emergency response, senior support, as well as adhering to the county's strict health protocols that will help our residents stay safe during this health crisis. It appears likely that the State of California will reduce sources of local funding, and other revenues may diminish, depending on the scale of the COVID-19 economic recession. Lomita may need to consider additional stable sources of local funding that can't be taken by the State in order to prevent budget cuts that would reduce vital local services to residents.

Below is a general overview of the major revenue sources and expenditures with comparisons to previous years:

General Fund Overview of Fiscal Year 2020-2021 Budget

The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other funds are accounted for in this fund. Expenditures of this fund include the general operating expenses which are not paid through other funds.

On March 4, 2020, Los Angeles County declared a Level Three local emergency. On March 17, 2020, the City declared a local state of emergency due to the Coronavirus Pandemic, Covid-19. To reduce the likelihood of community spread and to protect the vulnerable members of the community, the City has closed all city facilities including parks, playgrounds, the gym, and City Hall among others, and cancelled all non-essential meetings, events, and programs. On March 19, 2020, the Public Health Office for the County of Los Angeles issued a Mandatory Safer at Home order requiring all non-essential business activities to cease and implementing other restrictions.

On April 2, 2020, the State of California, Governor Newsom announced a new relief effort that gives all businesses with less than \$5 million in annual taxable sales the ability to defer payment on up to \$50,000 in sales and use tax liability without incurring any penalties or interest and provided a three-month extension for a tax return or payment to any businesses filing a return for less than \$1 million in tax.

Conservative revenue projections have been included in the budget proposal, though without additional revenue in coming years reductions to essential services may need to be considered. In years past, the Council, foreseeing coming increases to CalPERS costs, saw fit to establish a Pension Stabilization Fund, and as presented, the proposed Fiscal Year 2020-21 budget has been balanced using \$200,000 from that Fund to offset costs related to annual payments to CalPERS.

General Fund Revenues

General fund revenues for FY 2020-21 are projected at \$9,403,836, a decrease of \$624,690 (not including transfers from other funds) from FY 2019-20 Adopted Budget. The overall decrease is due in large part to the Covid-19 Pandemic and possible recession.

Some of the most significant changes in funding for FY 2020-21 are listed below:

- Sales tax revenue is projected at \$1.77 million, a net decrease of \$89,792 from FY 2019-20 Adopted Budget and represents 19% of total general fund revenues.
- Motor Vehicle In-Lieu revenue is projected at \$2.2 million, no change from FY 2019-20 Adopted Budget and represents 26% of total general fund revenues.
- Property tax revenue is projected at \$1.7 million, a net increase of \$12,352 from FY 2019-20 Adopted Budget and represents 18% of total general fund revenues.
- Business License Fees are projected at \$600,000, a net decrease of \$70,000 over FY 2019-20 Adopted Budget and represents 6% of total general fund revenues.
- Building Department Fees are projected at \$500,000, a net decrease of \$100,000 over FY 2019-20 Adopted Budget and represents 5% of total general fund revenues.

General Fund Expenditures

Preliminary projections for the coming years were developed in early 2020, and based on those projections, each department was instructed to prepare a conservative budget, with a focus on maintaining essential services and finding long term savings while pushing forward with the Council's adopted goals and priorities.

General Fund expenditures have been reduced for FY 2020-21 and are projected at \$9,545,105 - a decrease of \$83,421 from FY 2019-20 Adopted Budget.

The proposed budget includes significant planned investments to the City's water system including the construction of the Granular Activated Carbon Secondary Filtration System at the Cypress Water Production Facility. These projects rely on investment and partnership with outside agencies and may also require internal investment from the Water Enterprise Fund and the City's General Fund.

The largest increased expenditure this year comes from the regularly scheduled November City Council Election and an increase in the City's Workers' Compensation and Liability insurance. Rising pension costs will continue to be a concern in the coming years, but investments made in recent years to pay down the obligation – such as the pay-off of the City's Side Fund in FY 2018-19 and the commitment of much of the City's staff to contribute over and above the employee share of pension costs, as well as many other benefit amendments and reductions in recent years – will help to mitigate the severity of future increases, and help to secure the retirement future for our employees.

General Fund Reserve

As proposed, the Fiscal Year 2020-21 Budget continues to maintain a general fund reserve of \$4,000,000.

Summary Conclusions

The Proposed Fiscal Year 2020-21 Budget focuses on service delivery while living within our means. It maintains critical services and keeps our enterprise fund in strong financial shape while continuing to invest in long term infrastructure improvements to enhance the quality of life of our residents. The General Fund has a deficit due to revenue shortfalls and increased expenditures due to the pandemic. This budget reflects the difficulties of a weakening revenue outlook and projected increases in the costs to maintain service levels. The Budget also includes departmental and operational adjustments to better align with the City Council's priorities and shape our organization to continue to meet the future needs of the community. Of course, we will continue to tighten our belts and operate conservatively, as we always have. However, given the challenges ahead in coming years, the City will need to creatively improve our ongoing revenue sources as well as continue to closely monitor and contain our expenditures.

In summary, the Fiscal Year 2020-21 Operating and Capital Improvement Budget provides a spending plan that maintains fiscal responsibility while highlighting some of the challenges the City faces in coming years in pursuing its long-term goals and objectives.

I would like to recognize the efforts of the City's outstanding finance team for all their efforts in the preparation of this budget, as well as our Department Heads in preparing and managing a concise, transparent, and informative budget document. I would also like to recognize the City's staff for their hard work and continued willingness to assist the City in addressing our long-term challenges. I would like to thank the City Council for their continued support and for providing a long-term vision to make the City of Lomita the City of the future and beyond. It is the tireless dedication of our City Council and our staff that will allow the City to continue to thrive.

Sincerely,

A handwritten signature in black ink that reads "Ryan Smoot". The signature is written in a cursive, flowing style.

Ryan Smoot
City Manager