



AGENDA STAFF REPORT

DATE: April 12, 2021

TO: Honorable Mayor and City Council

THRU: Jill R. Ingram, City Manager

FROM: Kelly Telford, CPA, Finance Director/Treasurer

SUBJECT: **Approving Budget Amendment 21-10-03 to Increase General Fund Appropriations to Pay for Utility Costs for City Accounts**

SUMMARY OF REQUEST:

That the City Council adopt Resolution 7139:

1. Approving Budget Amendment 21-10-03 to increase appropriations to pay for water, sewer, street sweeping and tree trimming for City utility accounts for Fiscal Year 2020-21; and,
2. To repay the Water Fund, Sewer Fund and General Fund for utility costs in Fiscal Years 2019-20, 2018-19, 2017-18, 2016-17 and 2015-16.

BACKGROUND AND ANALYSIS:

In July 2020 as the Water and Sewer Rate Study project was moving forward, the City's consultant inquired about whether or not the City had been paying for the water and sewer usage at City-owned properties. At that time, the Finance Department began to analyze the City accounts and accounting activity. The analysis looked at each bill for each cycle over a ten year period with a goal of identifying if the balances were written off, paid, or still outstanding. During the analysis, the Finance Department concluded that there were some inconsistent transactions that occurred as well as a change in the procedures related to the City accounts. Uncertain of the full impacts of these inconsistencies, the City Manager directed the City Attorney to hire an independent consultant to verify the analysis conducted by the Finance Department.

Willis Consulting & Accounting was hired to perform an Agreed-Upon Procedures engagement to review the City's utility accounts and accounting activity. The consultant was directed to critically analyze the City's utility accounts and accounting activity and confirm the City's past practices with regard to the payment of the City's utility accounts and whether or not those payments have been made.

The engagement is in its final stages and is expected to be completed within the next few months, however, the City Manager and Finance Director feel strongly it is important to bring forward the preliminary findings with regards to the payments and propose recommendations to the Council to remedy the issue. The engagement looked at seven years of historical information for the City's utility accounts. Willis Consulting & Accounting confirmed that procedures changed throughout the seven years. The method of write-off was inconsistent and in some cases, payments appeared to have been made, however these were reversed and ultimately no payments were made. As a result of these findings, the Finance Department has created a City utility account payment procedure that outlines the process and requirement for the City's payment of utility account balances. The new procedure requires the City to be treated as a normal utility customer and pay for its utility usage each time utility bills are generated.

In order to implement this procedure, the Finance Department is requesting approval of Budget Amendment 21-09-02 to increase appropriations in the General Fund by \$195,800 for Water Utility, Sewer Utility, Tree Trimming and Street Sweeping expenditures for the City's utility bills for Fiscal Year 2020-21. This includes retroactive payments back to July 1, 2020.

Also included in the proposed budget amendment is an increase in appropriations in the General Fund of \$705,407. This would be distributed as follows and would allow the City to retroactively repay the Water Fund, Sewer Fund and General Fund for the past five years of utility bills from Fiscal Year 2015-16 through Fiscal Year 2019-20. The proposed budget amendment is as follows:

Description	Account	Current Budget	Proposed Budget	Budget Amendment (Difference)
Expenditure - Water	001-052-41030	\$ -	\$ 190,000	\$ 190,000
Expenditure - Sewer	001-052-41040	-	5,000	5,000
Expenditure - Street Sweeping	001-052-41050	-	500	500
Expenditure - Tree Trimming	001-052-41060	-	300	300
Expenditure - Transfers Out-Operating	001-080-47002	1,040,624	1,746,031	705,407
Revenue - Transfers In - General Fund	001-000-31502	108,000	110,528	2,528
Revenue - Transfers In - Water Operating	017-000-31502	2,044,200	2,724,962	680,762
Revenue - Transfers In - Water Capital	019-000-31502	-	2,680	2,680
Revenue - Transfers In - Sewer Operating	043-000-31502	902,200	907,721	5,521
Revenue - Transfers In - Sewer Capital	044-000-31502	-	13,916	13,916

ENVIRONMENTAL IMPACT:

There is no environmental impact related to this item.

LEGAL ANALYSIS:

No legal analysis is required for this item.

FINANCIAL IMPACT:

The proposed budget amendment includes an increase in transfers in revenue in the General Fund, Water Operating and Capital Funds, and Sewer Operating and Capital Funds with a corresponding increase in General Fund appropriations of \$705,407 for utility costs for City accounts for the past five years. The appropriation increase is proposed using General Fund reserves. In addition, the budget amendment increases appropriations for utility expenditures in the General Fund by \$195,800 for Fiscal Year 2020-21 utility costs for the City accounts. Approval of the proposed budget amendment will allow the City to repay the past five fiscal years of the City’s utility bills and the current fiscal year of utility bills.

STRATEGIC PLAN:

This item is not applicable to the Strategic Plan.

MEASURE BB:

This item is not applicable to Measure BB, the Seal Beach Neighborhood and Essential Services Protection Measure.

RECOMMENDATION:

That the City Council adopt Resolution 7139:

1. Approving Budget Amendment 21-10-03 to increase appropriations to pay for water, sewer, street sweeping and tree trimming for City utility accounts for Fiscal Year 2020-21; and,
2. To repay the Water Fund, Sewer Fund and General Fund for utility costs in Fiscal Years 2019-20, 2018-19, 2017-18, 2016-17 and 2015-16.

SUBMITTED BY:

Kelly Telford

Kelly Telford, CPA, Finance
Director/Treasurer

NOTED AND APPROVED:

Jill R. Ingram

Jill R. Ingram, City Manager

ATTACHMENTS:

A. Resolution 7139