



Agenda Report

City Council

Date: February 28, 2023
To: Brian Saeki, City Manager
From: Alice Hui, Director of Finance
Subject: Fiscal Year 2022-23 Mid-Year Budget Update

RECOMMENDATION

Receive and file the mid-year budget update for Fiscal Year 2022-23.

BACKGROUND

To manage and timely respond to changes in the City's financial position, the City Council regularly reviews the status of the City's finances, including reviews of revenues, expenditures, and fund balance projections.

On October 25, 2022, the City Council was presented with a Fiscal Year 2022-23 First Quarter budget update. The budget update reported a projected surplus of \$5.67 million, net of reserve adjustments, based on Fiscal Year 2021-22 unaudited numbers.

DISCUSSION

With the City's audit complete for Fiscal Year 2021-22, the General Fund closed the year with the available unassigned fund balance of \$44,765,337:

FY 2021-22 Audited Final

General Fund Revenues	\$ 215,953,055
General Fund Expenditures	(201,449,547)
Reserve Adjustments	<u>(7,830,939)</u>
Projected Surplus	\$ 5,672,569

The General Fund revenues and expenditures reflect the first-year transaction activities related to the issuance of Pension Obligation Bonds. Reserve adjustments consist of the following:

PERS Reserve	\$ 2,800,000
WRSA Loan Repayment	2,054,168
Homeless Shelter & Outreach	2,114,608
Designated Revenues	<u>862,163</u>
	\$ 7,830,939

This report provides an update of the City’s budgetary position at the midway point in the fiscal year, period from July 2022 through December 2022. The information contained in this report is generally applicable to the City’s General Fund and is consistent with the first quarterly report referenced above.

At the adoption of FY 2022-23 budget, the General Fund was projected to have a surplus of \$565,000, net of reserve adjustments. After taking into account year-to-date information and fiscal trends, a revised forecast is expected to result in a potential surplus of \$4,999,867, or about \$4.4 million more than anticipated in the adopted budget.

General Fund	Adopted Budget	Revised Forecast	Favorable/ (Unfavorable)
Sources/Revenues	\$ 94,193,683	\$ 98,516,246	\$ 4,322,563
Less: Uses/Expenditures	85,910,297	85,910,297	-
Reserve Adj	(7,719,000)	(7,606,082)	112,918
Projected Surplus	\$ 564,386	\$ 4,999,867	\$ 4,435,481

Based on the available data through December, General Fund revenues have outperformed expectations and are anticipated to end the year approximately \$4.3 million, 4.6% above budgeted levels due to strong growth in several revenue categories.

Below is a schedule of major General Fund revenue activity through the end of December.

FY 2022-23 Major Revenues through December

Major Sources	Budgeted	Actual through December	Revised Forecast	Prior Year through December	Prior Year Final \$
Property Tax	\$ 7,225,684	\$ 3,286,518	\$ 7,225,684	\$ 2,886,081	\$ 7,686,488
Sales Tax	16,460,854	8,764,728	18,568,578	7,755,238	16,784,025
Measure W	12,457,000	7,114,065	14,056,000	6,939,612	13,880,753
Utility User Tax	7,300,000	3,861,162	7,300,000	3,816,815	7,638,087
Vehicle In-Lieu	11,687,039	-	12,302,878	-	11,221,617

It should be noted that many items are not received or expended on a proportional basis during the year, so revenues received through December may not be reflective of anticipated annual totals. Sales and Use Taxes (Bradley-Burns and Measure W) have been trending considerably higher than projections. Multi-year improvement projects and additional service and staffing resources have been approved by Council with the support of Measure W. Over the last few months, slight inflation improvements materialized in various industries, however real change has yet to take hold. Fortunately, consumer spending remained strong through the holiday season as many remain nervous about the economy sliding into a recession. Experts and economists vary on whether a recession will occur and to what extent. Although the projections provided during the FY 2022-23 are anticipated to improve, as key tax revenue sources appear to be exceeding prior

estimates. However, the anticipated increase in revenues will potentially be offset by the fiscal impacts of our upcoming labor agreements. Staff will continue to closely monitor revenues and expenditures and will provide updated information as it becomes available. Staff is committed to continue to meet the high-quality service expectations of the community by adjusting services levels as necessary. Additionally, as noted above, and outlined in the Surplus Projects table on page 4, City Council had previously approved 19 multi-year improvement projects during our general fund surplus discussion that will continue to exhaust any of our potential surplus funds. Of those 19 projects, the estimated cost of the first eight is more than \$43 million, with \$21.6 million in surplus funds earmarked thus far.

Future Balancing Strategies

In addition to the major revenue sources noted above, ARPA funds will continue to be used to offset direct COVID response and recovery related costs, with emphasis on the operations of the homeless shelter and outreach. Since ARPA funds have a period of performance date until December 31, 2026, the annual cost of services addressing homelessness of \$2.12 million has been set aside into a Homeless Shelter/Outreach reserve, per the Council's direction.

Prior to issuance of the Pension Obligation Bonds (POB), the City's 2022-23 Unfunded Accrued Liability (UAL) payment was projected to be \$11.5 million. The 2022-23 debt service payment for POB is \$7.89 million, plus an additional of \$772,448 of delayed UAL payment due to the two-year lag between valuation date and contribution year, results in our anticipated budgetary savings of \$2.8 million. Furthermore, the \$2.8 million has also been set aside into the PERS reserve per Council's direction. This reserve will allow the City to accumulate funds to address future potential pension liability increases as well as pay down POB debt early.

The Council's long-term fiscally conservative approach has allowed the City to maintain healthy available balances:

Reserves and Fund Balances as of June 30, 2022

Fund Balances

General Fund	\$ 44.8M
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Reserves

PERS	\$ 7.5M
Redevelopment (RDA) Loan Repayments	\$ 6.3M
Police Equipment	\$ 1.1M
Information Technology Replacement	\$ 746K
Sidewalk Repairs	\$ 596K
Homeless Shelter/Outreach	\$ 2.1M
Surplus Funds Earmarked	\$ 21.6M

Surplus Projects Status

	Project	Project Est. Cost	General Fund	Other Sources
1	Murphy Ranch Little League	\$ 600,000	600,000	
2	Uptown Senior Center	5,186,055	5,186,055	
	Uptown			
3	Streetscape/Promenade	20,000,000	11,000,000	8,893,751
	Kennedy Park			
4	Improvements	500,000	268,974	231,026
	Broadway Park Improv. &			
5	Court Repurposing	1,000,000	1,000,000	
	Improvements to acquired			
6	Park Spaces	1,000,000	1,000,000	
7	Parnell Park	15,000,000	10,000,000	5,019,000
8	Park Master Plan	250,000	249,531	
	Total	\$ 43,536,055	\$ 29,304,560	\$ 14,143,777

FISCAL IMPACT

Based on current data, the FY 2022-23 General Fund budget projection remains balanced and future projected General Fund budget surpluses, net of reserve adjustments, are as follows:

<u>Fiscal Year</u>	<u>Adopted Projection</u>	<u>Revised Projection</u>
2022/2023	\$ 565,000	\$ 4,999,867
2023/2024	\$ 2,763,000	
2024/2025	\$ 3,686,000	

STRATEGIC PLANNING GOAL

Goal 2: Ensure Long-Term Financial Sustainability
 Goal 4: Transparent & Open Government

ATTACHMENTS

None.