



Fiscal Year 2021-22 Year-End Summary & Fiscal Year 2022-23 Q1 Budget Update

*City Council Meeting
November 15, 2022*



Purpose

The purpose of this budget update is to:

- Provide City Council with a preliminary financial update for FY 2021-22 based on pre-audit numbers.
- Present FY 2022-23 budget adjustments for City Council's consideration to better align the current year budget with updated estimates.
- Provide City Council with an update on several other important discussion items.

Financial Overview

- The City remains in a strong financial position and continues to show fiscal resiliency. Some recent noteworthy accomplishments include:
 - S & P credit rating upgrade received in June 2022.
 - State Auditor's ranking has moved from 10 (FY 16-17) to 36 (FY 20-21).
 - General Fund reserves continue to grow each year.
 - Pension funding plans now at 104%.
- There is still uncertainty in the economy (e.g., inflationary levels at highs not seen in decades, federal fund rate hikes, mortgage lending rates at highs, possible recession on the horizon); however, the overall outlook is cautiously optimistic.
 - Anticipated inflationary cost increases that will impact Fiscal Year 2022-23 have already been incorporated into the Fiscal Year 2022-23 budget projections/adjustments.
 - Although inflation has had mostly negative financial impacts, there can be positive impacts to some City revenues, including sales tax, hotel tax, Measure K revenues, and others, which is good news. Silver linings can be found in this negative environment!

Financial Overview (Continued)

- Many revenues have rebounded and are exceeding pre-pandemic levels. Overall, the City has a solid revenue base.
- Staff continues to diligently manage departmental operating budgets to ensure we only spend what is absolutely needed.
- Staff will closely monitor the budget and return to City Council with updates, throughout the year, which will allow us to quickly react and pivot, if needed.

Overview of FY 2021-22 Year-End Forecast (Pre-audit)

Staff has closed the books, and the audit is currently underway, so FY 2021-22 numbers are “preliminary.”

Revenues outperformed budget by \$2.67M.

- Several one-time revenues were received during the year. Other revenues performed strongly during the year.

Expenditures were less than budget by \$.99M

- Overall, personnel costs tracked close to budget.
- Maintenance and operations budgets experienced savings of \$1.03M, due to staff’s proactive management of budgets.

Good News! The General Fund ended the year with a \$6.54M surplus.

FY 2021-22 YE Summary

General Fund Revenues and Expenditures

Fiscal Year 2021-22 is expected to close with a surplus of \$6.54M, as illustrated below.

General Fund Item	FY 2021-22 Revised Budget	FY 2021-22 Estimated Actuals (Pre-Audit)	Variance With Budget Positive/(Negative)
Revenues	\$ 50.03 M	\$ 52.70 M	\$ 2.67M
Expenditures	<u>\$ 47.15 M</u>	<u>\$ 46.16 M</u>	<u>\$.99M</u>
Net GF Surplus/(Deficit)	<u>\$ 2.88 M</u>	<u>\$ 6.54 M</u>	<u>\$ 3.66M</u>

Fiscal Year 2022-23 Budget Objectives/Strategies

The Fiscal Year 2022-23 Budget proposal incorporates the City's Financial Resiliency Plan Principals and seeks to incorporate the following key budget objectives:

- Addressing infrastructure and maintenance needs by funding the City's Capital Improvement Program (CIP) for Fiscal Year 2022-23.
- Building up General Fund reserve levels to prepare for the future.
- Continuing to address future long term obligations by setting aside funds for CalPERS and OPEB liabilities.
- Seeking outside funding, whenever possible, to help fund special projects and programs.

FY 2022-23 Budget Overview

All City Funds (Includes CIP)

Fund Type	FY22-23 Original Budget		FY22-23 Revised Budget	
	Revenue	Expenditure	Revenue	Expenditure
General Fund	\$52.55 M	\$52.72 M	\$52.33 M	\$54.50 M
General Fund – Other Funds (Dev. Services/Emergency Services/Measure K)	\$20.19 M	\$14.98 M	\$20.49 M	\$15.55 M
Enterprise Funds	\$27.37 M	\$30.60 M	\$27.41 M	\$30.98 M
Special Purpose Funds	\$39.17 M	\$43.24 M	\$40.78 M	\$43.83 M
Internal Service Funds	<u>\$12.14 M</u>	<u>\$12.65 M</u>	<u>\$12.14 M</u>	<u>\$13.03 M</u>
Total Budget	<u>\$151.42 M</u>	<u>\$154.19 M</u>	<u>\$153.15 M</u>	<u>\$157.89 M</u>

Fiscal Year 2022-23 General Fund Revenue Overview

- The City is in a strong position heading into FY 2022-23. Revenues outperformed expectations for FY 2021-22.
- Overall, a conservative approach to revenue estimates has been incorporated into the Fiscal Year 2022-23 budget. Projections are conservative, yet realistic.
- Sales tax and property tax remain strong. One adjustment for \$162,565 in Vehicle License Fee Revenue (classified as property tax) is being proposed.
- Transient Occupancy Tax (TOT) also performed extremely well in Fiscal Year 2021-22, and TOT revenues are nearing pre-pandemic levels. An adjustment of \$88,879 is being proposed.
- A reduction of \$570,000 for Metro Platform Access reimbursement revenue is being proposed. Revenue was received in Fiscal Year 2021-22, earlier than originally anticipated.

FY 2022-23 General Fund Revenue

General Fund Revenues			
Original vs. Revised Budget			
Revenue Source	FY 2022-23 Original Budget	FY 2022-23 Revised Budget	Increase/(Decrease)
Property Tax	\$15.69 M	\$15.85 M	\$ 0.16 M
Sales Tax	\$12.87 M	\$12.87 M	\$ 0.00 M
Transient Occupancy Tax	\$ 1.87 M	\$1.96 M	\$ 0.09 M
Other Taxes	\$ 2.29 M	\$2.29 M	\$ 0.00 M
All Other Revenues	<u>\$19.83 M</u>	<u>\$19.36 M</u>	<u>(\$ 0.47 M)</u>
TOTAL REVENUES	<u>\$52.55 M</u>	<u>\$52.33 M</u>	<u>(\$ 0.22 M)</u>

FY 2022-23 General Fund Expenditures Overview

- All expenditures were analyzed and compared to budget. Actuals are tracking to budget for most expenditures.
 - A proposed list of adjustments, totaling \$256,649, for the General Fund is included in Attachment A and includes adjustments for costs such as additional staff training, operational supplies, program and event supplies, and other costs.
- Inflationary impacts in City vendor contracts have been incorporated into this budget proposal.
- Given the one-time \$6.54M FY 2021-22 surplus, staff is requesting to set aside funds for:
 - Art In Public Places = \$300,000
 - A Transfer Out to the CIP Fund for future capital costs = \$2M
- Given the positive position of the Retirement Fund, staff is proposing to reduce the Transfer Out from the General Fund to the Retirement Fund by \$800,000. This reduces the GF Transfer Out to \$1.8M.

FY 2022-23 General Fund Expenditures

General Fund Expenditures			
Original vs. Revised Budget			
Expenditure Category	FY 2022-23 Original Budget	FY 2022-23 Revised Budget	Increase/(Decrease)
Personnel (Salary and Benefits)	\$34.45 M	\$34.45 M	\$ 0.00 M
Maintenance and Operations (M & O)	\$11.99 M	\$12.27 M	\$ 0.28 M
Project/Program Expenditures	\$.60 M	\$.58 M	(\$ 0.02 M)
Transfers Out	<u>\$ 5.68 M</u>	<u>\$ 7.21 M</u>	<u>\$ 1.53 M</u>
TOTAL EXPENDITURES	<u>\$52.72 M</u>	<u>\$54.51 M</u>	<u>\$ 1.79 M</u>

FY 2022-23 General Fund Surplus – Two-Year View

- Given the proposed adjustments, Fiscal Year 2022-23 is expected to close with a deficit of \$2.18M. This deficit is mainly due to the one-time transfer to the CIP Fund (\$2.0M).
- This deficit will be offset by the \$6.54M surplus expected in Fiscal Year 2021-22, resulting in a two-year surplus of \$4.36M

General Fund Item	Amount
FY 2021-22 GF Ending Surplus (Pre-Audit)	\$6,544,387
FY 2022-23 GF Estimated Year-End Deficit	<u>(\$2,180,558)</u>
Net Two-Year Surplus	<u>\$4,363,829</u>

Watch List - Expenditures

- Maintain “cautious optimism” as economy reacts to election, Federal Reserve, inflation, mortgage lending, consumer spending, etc.
- Human Resources Activities
 - Per Council direction, ensure CalPERS and all employee costs are addressed before making personnel decision.
- CalPERS - Managing CalPERS costs will continue to be a priority. Although currently “super-funded,” we will stay focused on our long-term strategy.
- Inflation is good for City sales tax receipts, bad for City project spending.
- Infrastructure project costs may be higher than budgeted
 - Wellfield Electrical Project
 - Library Enhancement Project
 - Others could include Canyon Park, Community Center, Recreation Park, PFAS Treatment, and others.

Upcoming Council Discussions

- Excess Water Penalty Revenue
- Measure K
- Review of Assessment District Funding Gaps
- Sewer and Water Rate Studies
- Collections Policy
- Results of Independent Audit of Fiscal Year 2021-22

Summary

- The City is in a strong financial position heading into the second quarter of FY 2022-23.
- While there's still some uncertainty in the economy, the overall outlook is cautiously optimistic.
- The FY 2022-23 budget is based on conservative, yet realistic, projections.
- Staff will closely monitor the budget and economic environment, so that we can quickly react and pivot, if needed.
- Staff will return to City Council with another quarterly update after the close of the second quarter (December 31, 2022).

Thank you for your time!



Questions?