



FINANCE DEPARTMENT

FOURTH QUARTER FINANCIAL REVIEW FISCAL YEAR 2022

Finance Committee | September 27, 2022

Objective

- A. Receive a report from staff on the status of revenues & expenditures in relation to the budget for the twelve months ended June 30, 2022;
- B. Accept the Fiscal Year 2022 Interim Financial Statements for the twelve months ended June 30, 2022;
- C. Recommend that Council approve the proposed fourth quarter adjustments to Fiscal Year 2022 revenue & expenditure appropriations as detailed in the attached Schedule of Proposed Fourth Quarter Adjustments; &
- D. Review staff's proposed recommendations to the City's Reserve Policy, provide feedback to staff & recommend approval of the revised policy to the City Council.



Agenda

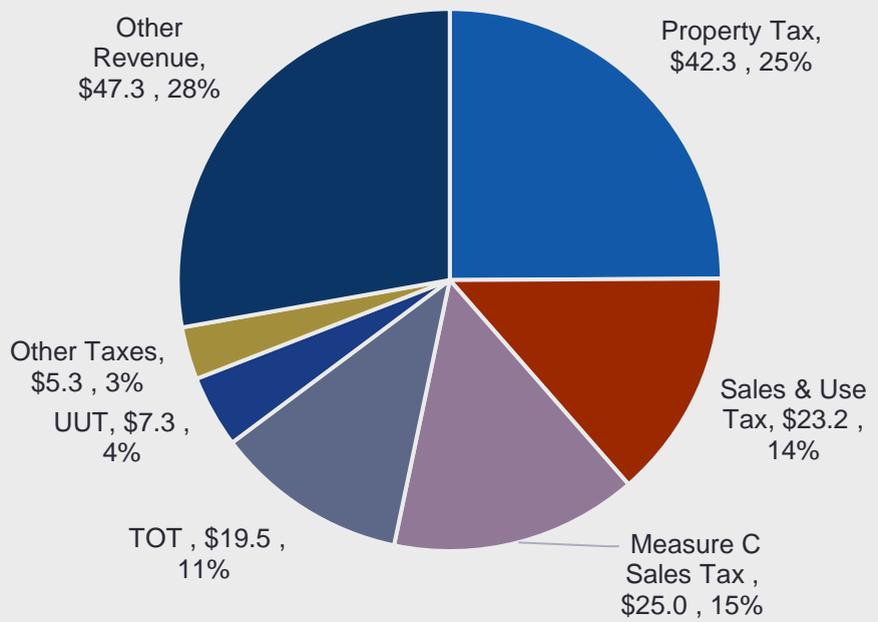
1. General Fund Update
2. Enterprise Funds Update
3. Proposed Budget Adjustments
4. Reserve Policy Proposed Changes
5. Questions, Public Comment, & Discussion

FY2022 Annual Review Process

- Monthly financial statement
- Quarterly financial statement & projection
 - ✓ • **Q1** – Finance Committee November 2021
 - ✓ • **Q2** – Finance Committee March 2022
 - ✓ • **Q3** – Finance Committee May 2022
 - ★ • **Q4** – Finance Committee September 2022
- Annual Comprehensive Financial Report – December 2022

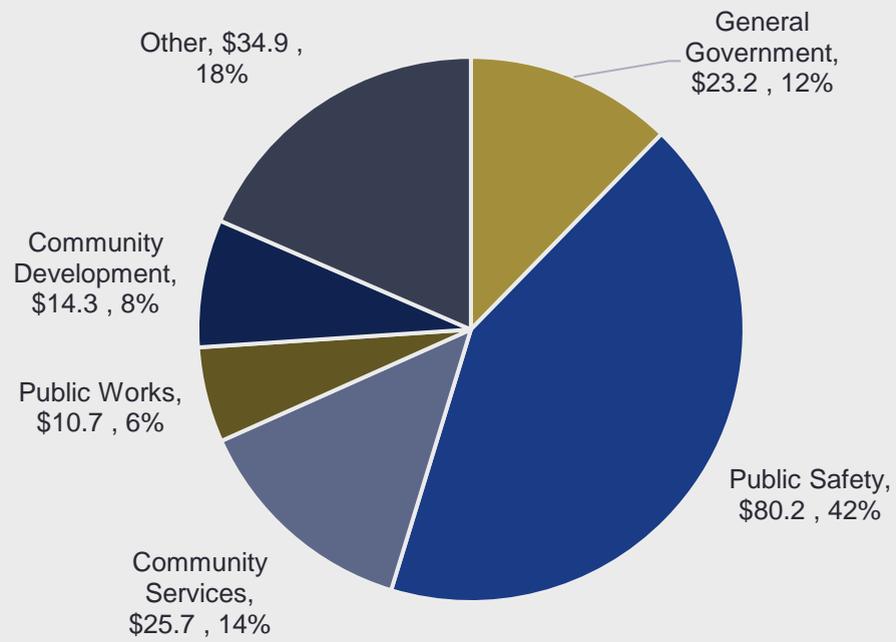
General Fund Revenues FY2022 Revised Budget

\$ Millions



General Fund Expenditures FY2022 Revised Budget

\$ Millions



General Fund Quarter 4 Overview

General Fund Financial Overview

General Fund (in \$ Millions)	FY2022 Adopted Budget	FY2022 Revised Budget	Q4 Actuals	Q4 Actuals Percent of Revised Budget
Revenues	\$168.5	\$180.8	\$196.0	108.4%
Expenditures	169.5	186.7	181.4	97.1%
Surplus/(Deficit)	(\$1.0)	(\$5.9)	\$14.6	
50% Surplus to Capital			(7.3)	
Revised Surplus/(Deficit)			\$7.3	

- Expenditures include \$6.8 Million reduction targets & \$5.3 Million additional savings, largely from vacant positions (*\$12.1 Million planned & unplanned*)
- \$12.4 Million additional sales tax & TOT
- \$50% of year-end surplus goes to capital, per reserve policy

General Fund Tax Revenue Trends

Property Tax

- Largest General Fund revenue source
- Lower growth from prior years expected compared to budget
- Came in right on budget!

Sales Tax

- Increased online, auto & restaurant spending
- Inflation is a driver for additional revenue
- Recession scenario being evaluated in FY2023 & beyond

Transient Occupancy Tax

- Demand for rooms has reached pre-COVID levels
- Average daily rates have reached record levels



General Fund Tax Summary

	Annual Budget	<u>FY2022</u> Year to Date Actual	Percent Rec'd	<u>FY2021</u> Prior Year Actual	Change From FY2021
Property Tax	\$42,347,386	\$42,225,898	100%	\$40,154,409	5%
Sales & Use Tax	23,239,045	28,503,731	123%	24,349,865	17%
Measure C Sales Tax	24,988,418	30,824,430	123%	25,420,407	21%
Transient Occupancy Tax	19,500,000	26,628,111	137%	15,671,049	70%
Utility Users Tax	7,315,292	7,804,880	107%	7,336,944	6%
Business License	2,556,359	2,653,092	104%	2,542,827	4%
Cannabis Excise Tax	1,847,469	1,672,274	91%	1,920,298	(13%)
Property Transfer Tax	<u>923,776</u>	<u>1,352,652</u>	<u>146%</u>	<u>1,144,357</u>	<u>18%</u>
Total Taxes	\$122,717,745	\$141,665,067	115%	\$118,540,156	20%



Expenditure Reduction Targets

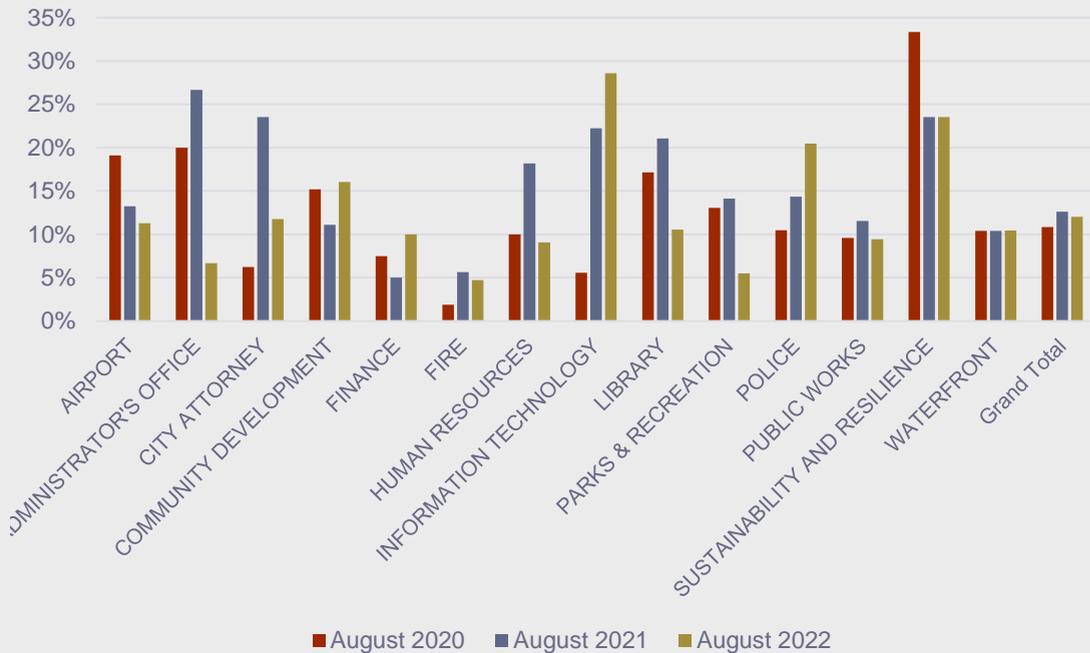
- FY2022 adopted budget included \$6.8 Million of expenditure reductions
 - Deficit from continued decline in revenue due to COVID
 - Required savings from holding positions vacant & other operational savings
 - Budget still required \$1.0 Million of use of reserves

General Fund Expenditures

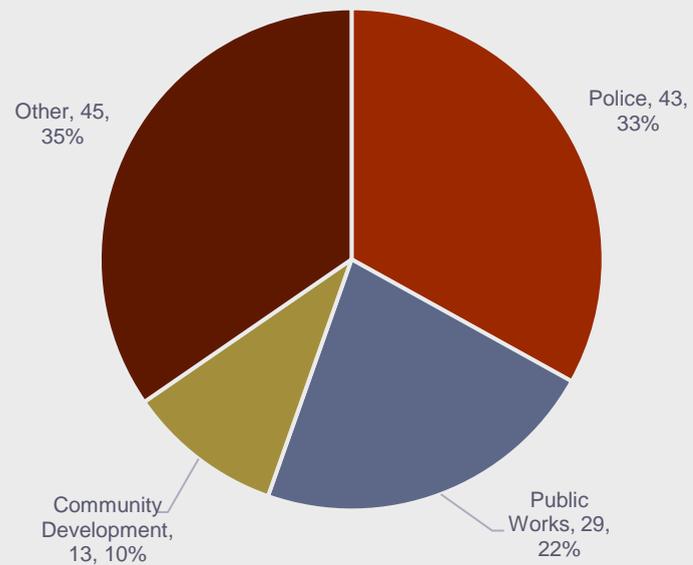
Department	Revised Budget	YTD Actual		YTD Variance Without Encumbrance	Encumbrance	Remaining Budget After Encumbrances
Mayor & Council	\$3,612,672	\$3,469,044	96%	\$143,628	\$47,568	\$96,060
City Attorney	4,664,363	4,128,330	89%	536,033	63,769	472,264
City Administrator	5,221,570	4,262,377	82%	959,193	321,825	637,368
Human Resources	3,000,072	1,937,371	65%	1,062,701	24,669	1,038,032
Finance	6,688,248	6,139,726	92%	548,522	80,979	467,543
General Government	\$23,186,925	\$19,936,848	86%	\$3,250,077	\$538,810	\$2,711,267
Police	47,517,594	46,201,564	97%	1,316,030	269,263	1,046,767
Fire	32,677,119	32,536,866	100%	140,253	128,346	11,907
Public Safety	\$80,194,713	\$78,738,430	98%	\$1,456,283	\$397,609	\$1,058,674
Parks & Recreation	18,586,507	17,762,450	96%	824,057	106,349	717,708
Library	7,085,870	6,191,515	87%	894,355	103,801	790,554
Community Services	\$25,672,377	\$23,953,965	93%	\$1,718,412	\$210,150	\$1,508,262
Public Works	10,689,224	9,048,780	85%	1,640,444	290,888	1,349,556
Sustainability & Resiliency	250,068	113,579	45%	136,489	65,245	71,244
Community Development	14,324,234	12,817,047	89%	1,507,187	256,875	1,250,312
Non-Departmental	32,391,280	36,777,335	114%	(4,386,055)	0	(4,386,055)
Total	\$186,708,821	\$181,385,984	97%	\$5,322,837	\$1,759,577	\$3,563,260



Departmental Vacancies



Vacancies as of August 2022



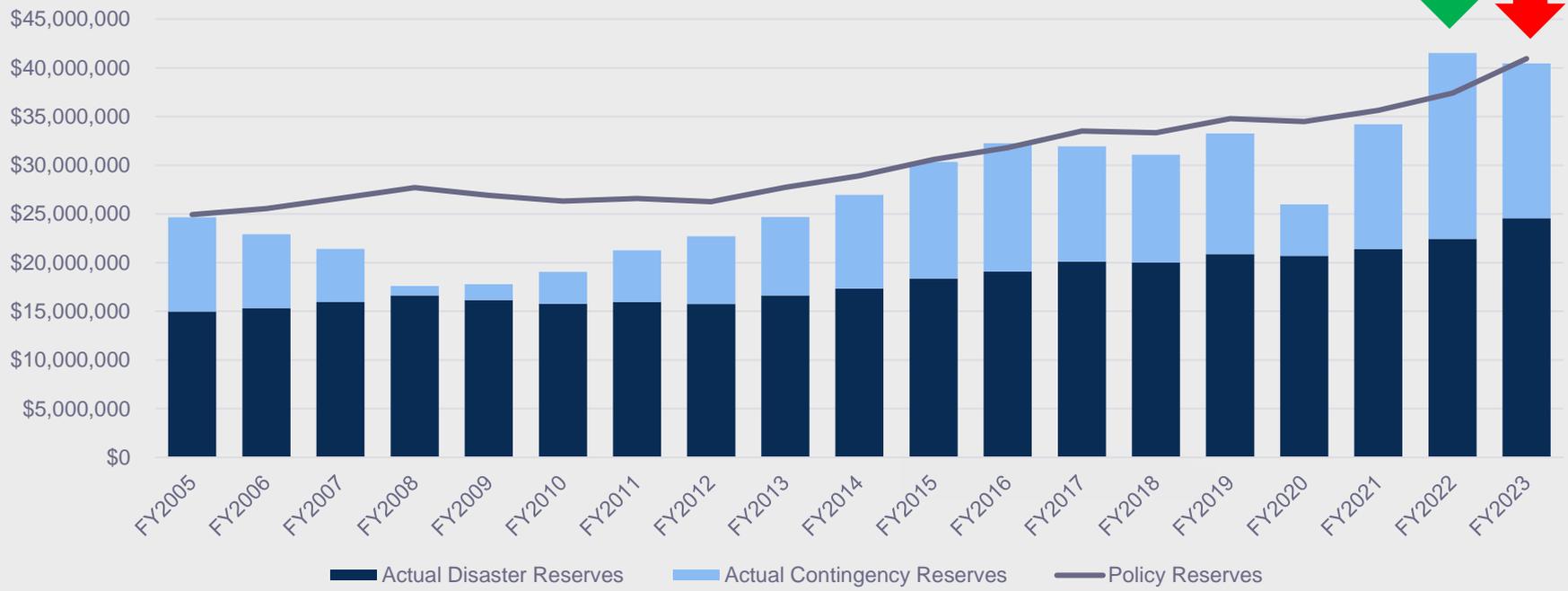
General Fund Reserves



General Fund Reserves Projection

General Fund Reserves	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Projected at Q4	Projected Change in Reserve
Contingency Reserve Target 10%	\$13,910,966	\$13,799,412	\$14,255,661	\$14,965,025	\$709,364
Disaster Reserve Target 15%	20,866,449	20,699,118	21,383,491	22,447,538	1,064,047
Total Policy Reserve Target	\$34,777,415	\$34,498,530	\$35,639,152	\$37,412,563	\$1,773,411
(Below) / Above Policy	(1,513,888)	(8,526,275)	(1,419,589)	4,110,358	5,529,947
Actual Reserves	\$33,263,527	\$25,972,255	\$34,219,563	\$41,522,921	\$7,303,358
Self-Insurance Fund Under-Reserve	(2,109,073)	(4,580,532)	(4,758,252)	(5,889,878)	(1,131,626)
Remaining Contingency Reserve	\$10,288,005	\$692,605	\$8,077,820	\$13,185,505	\$5,107,686

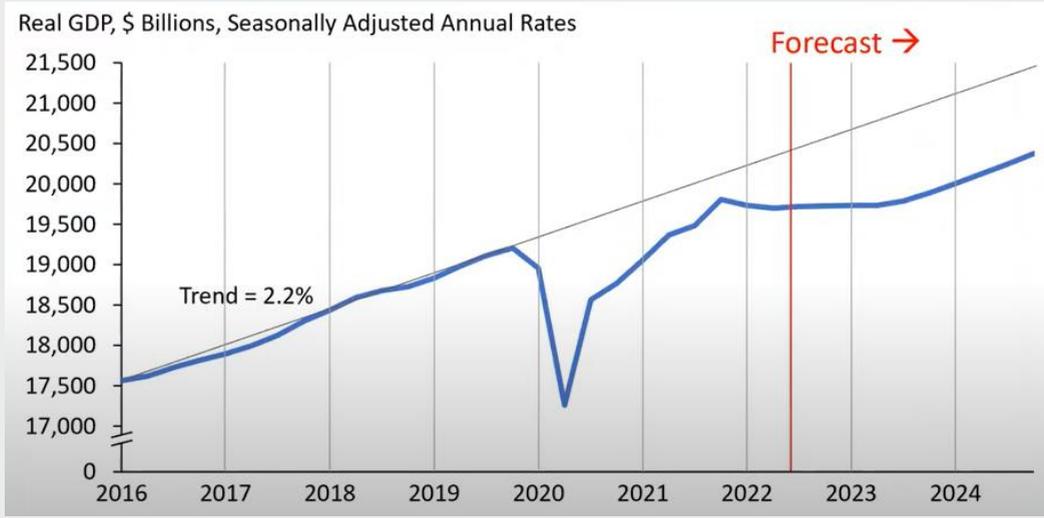
General Fund Reserves Trend



Considerations for FY2023 & Beyond

- Structural operating deficit of **\$8 Million** in FY2022
 - Required departmental expenditure reductions of \$6.8 Million
 - \$1 Million deficit included in the FY2022 adopted budget
- Structural operating deficit of **\$4.2 Million** in FY2023
 - Required departmental expenditure reductions of \$1 Million
 - Labor MOUs & pension costs
 - Inflation, high vacancy rates, & fear of recession
 - Self-Insurance Fund reserves far below recommended level

Economic Indicators



Sources:
Top Left: Consumer Price Index, UCLA Anderson Forecast and U.S. Bureau of Labor Statistics
Bottom Left: Consumer Sentiment, University of Michigan, Consumer Sentiment Survey
Right: Real Gross Domestic Product, UCLA Anderson Forecast and U.S. Bureau of Labor Statistics



Enterprise Funds

Enterprise Funds Revenues & Expenses (1 of 2)

	Annual Budget	FY2022 YTD Actual	YTD Percent	Encumbered	FY2021 YTD Actual	% Variance
Solid Waste Fund						
Revenues	\$32,782,443	\$33,930,892	103.5%	\$0	\$29,882,454	13.5%
Expenses	31,898,579	29,816,546	93.5%	324,062	27,919,994	6.8%
Add / (Use) Reserves	\$883,864	\$4,114,346		(\$324,062)	\$1,962,460	
Water Fund						
Revenues	75,171,571	78,582,151	104.5%	0	64,048,692	22.7%
Expenses	72,560,119	66,416,925	91.5%	1,670,845	57,448,395	15.6%
Add / (Use) Reserves	\$2,611,452	\$12,165,226		(\$1,670,845)	\$6,600,297	
Wastewater Fund						
Revenues	25,771,201	25,910,883	100.5%	0	24,734,273	4.8%
Expenses	26,493,686	25,201,267	95.1%	519,009	21,648,097	16.4%
Add / (Use) Reserves	(\$722,485)	\$709,616		(\$519,009)	\$3,086,176	
Downtown Parking Fund						
Revenues	9,441,517	8,475,672	89.8%	0	5,142,225	64.8%
Expenses	8,807,956	8,048,166	91.4%	101,332	8,093,607	-0.6%
Add / (Use) Reserves	\$633,561	\$427,506		(\$101,332)	(\$2,951,382)	

Enterprise Funds Revenues & Expenses (2 of 2)

	FY2022			FY2021		
	Annual Budget	YTD Actual	YTD Percent	Encumbered	YTD Actual	% Variance
Clean Energy Fund						
Revenues	12,526,007	16,312,014	130.2%	0	679,503	100.0%
Expenses	10,224,917	15,548,593	152.1%	175,333	453,815	3326.2%
Add / (Use) Reserves	\$2,301,090	\$763,421		(\$175,333)	\$225,688	
Airport Fund						
Revenues	27,612,095	30,280,673	109.7%	0	28,756,892	5.3%
Expenses	31,535,748	27,226,349	86.3%	1,123,686	23,531,801	15.7%
Add / (Use) Reserves	(\$3,923,653)	\$3,054,324		(\$1,123,686)	\$5,225,091	
Golf Fund						
Revenues	3,643,209	4,198,344	115.2%	0	4,094,479	2.5%
Expenses	3,365,685	3,257,816	96.8%	0	3,101,527	5.0%
Add / (Use) Reserves	\$277,524	\$940,528		\$0	\$992,952	
Waterfront Fund						
Revenues	15,787,604	17,814,379	112.8%	0	15,764,403	13.0%
Expenses	16,322,915	15,015,686	92.0%	275,191	14,747,702	1.8%
Add / (Use) Reserves	(\$535,311)	\$2,798,693		(\$275,191)	\$1,016,701	

Enterprise Funds Projected Reserves

Enterprise Operating Funds	FY2021 Policy Reserves	FY2021 Available Reserves	FY2022 Projected Add (Use) of Reserves	FY2022 Projected Available Reserves
Solid Waste	3,891,700	(195,791)	4,114,346	3,918,555
Water	31,423,570	4,220,266	12,165,226	16,385,492
Wastewater	10,203,876	1,125,749	709,616	1,835,365
Downtown Parking	2,391,028	503,670	427,506	931,176
Clean Energy	0	(2,789,132)	763,421	(2,025,711)
Airport	6,729,550	3,664,829	3,054,324	6,719,153
Golf	932,147	619,710	940,528	1,560,238
Waterfront	3,586,785	1,375,070	2,798,693	4,173,763





Proposed Budget Amendments



Proposed Budget Adjustments

- **General Fund:**
 - \$5.8 Million of Measure C Sales Tax transferred to Capital for future capital project appropriation
 - Fire mutual aid
- **Other Funds:**
 - Library technology projects
 - Park & Rec grant for Alice Keck Park memorial garden
 - Streets grant for Quinientos Bridge Replacement Project
 - SB Clean Energy higher participation

Reserve Policy Proposed Changes

Purpose of a Reserve Policy

Provides
financial stability

Resources
to address
disasters & other
unforeseen events

Smooth
revenue volatility

Achieve
advantageous
credit rating

Favorable
borrowing terms
& ability to
issue debt

Address
one-time projects
& initiatives

Proposed Reserve Policy Changes

Instead of General Fund surplus going to capital, require a proportional share of surpluses in General, Enterprise & Internal Service funds be allocated to pensions;

Incorporate Facilities Management Fund reserve policy to achieve one, citywide reserve policy;

For Enterprise Funds, allow contingency reserves to serve as a rate stabilization reserve, where necessary;

Consider a line of credit for financing projects & in a disaster, which may lessen the need for disaster reserves in the future; &

Increase General fund appropriated reserve from \$150,000 to \$250,000.

Staff Recommendations

Finance Committee Recommend that Council:

- Accept the Fiscal Year 2022 Interim Financial Statements for the twelve months ended June 30, 2022;
- Recommend that Council approve the proposed fourth quarter adjustments to Fiscal Year 2022 revenue & expenditure appropriations as detailed in the attached Schedule of Proposed Fourth Quarter Adjustments; &
- Review staff's proposed recommendations to the City's Reserve Policy & recommend approval of the recommended revised policy to the City Council.



Questions, Public Comment, & Discussion