



CITY COUNCIL STAFF REPORT



March 19, 2024

ITEM TITLE

Financial Report and Appropriation: Accept Quarterly Financial Report for Quarter Ending December 31, 2023, Appropriate Funds to Implement Required Budget Adjustments, Create New CIP Project, and Accept \$47,162 from California State Library Grants

Report Number: 24-0055

Location: No specific geographic location

Department: Finance

G.C. § 84308: No

Environmental Notice: The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines. Therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

Recommended Action

Accept the quarterly financial report for the quarter ended December 31, 2023 (Second Quarter Report) and adopt resolution A) Amending the Fiscal Year 2023-24 budget to adjust for variances, accepting California State Library Grant funds, and appropriating funds for that purpose; and B) Amending the Fiscal Year 2023-24 CIP Program budget by establishing a new CIP Project "MacKenzie Creek Pickleball Courts (PRK0345)", and appropriating funds for that purpose. **(4/5 Vote Required)**

SUMMARY

The Finance Department, in collaboration with other City departments, prepares quarterly financial reports for the General Fund that reflect budget to actual comparisons, projected revenues and expenditures, and highlight major variances that may require additional action or changes. This Second Quarter Report is as of December 31, 2023 and is in compliance with Section 505(f) of the City Charter, which requires that quarterly financial reports be filed by the Director of Finance through the City Manager.

In preparing the Second Quarter Report, staff has identified various budget changes that are needed to accurately reflect actual revenues and expenditures or address changes in budgetary needs. For government entities, a budget creates a legal framework for spending during the fiscal year. After the budget is approved by the City Council, there are circumstances which arise that could require adjustments to the approved budget. Council Policy 220-02 “Financial Reporting and Transfer Authority” was established in January of 1996 and amended November of 2022, and allows for budget transfers and adjustments to be completed. This Second Quarter Report discusses budget adjustments that staff recommends in the General Fund as well as various other funds to address identified fiscal issues.

ENVIRONMENTAL REVIEW

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because the proposed activity consists of a governmental fiscal/administrative activity which does not result in a physical change in the environment. Therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not applicable.

DISCUSSION

The Second Quarter Report is developed using six months of actual financial activity for fiscal year 2023-24 as of December 31, 2023. The data in this report is the most current data available; however, the projections are likely to change.

This provides summary information for the following areas:

- General Fund Revenues and Expenditures
- Adjustments to General Fund Expenditures
- Adjustments to non-General Fund funds

The Finance Department will continue to monitor the City’s actual revenues and expenditures and will provide any significant changes in subsequent Quarterly Financial reports.

General Fund Overview

Revenues are projected to exceed budget by \$3.2 million, and expenditures are projected to surpass budget targets by \$3.2 million. Staff anticipates major discretionary revenues and departmental revenues to come in higher than budget as detailed in the General Fund Revenues section. There are unknown variables that may affect the General Fund including economic factors that may slow economic growth including continued increases in inflation, interest rates, unemployment, and other financial uncertainties. Staff will continue to monitor and will provide updates in future quarterly financial reports.

Fiscal Year 2023-24 General Fund Overview

Table 1

in millions

	Adopted Budget	Amended Budget	Year-end Projection	Variance¹
Revenue Source				
<i>Major Discretionary Revenues</i>				
Property Tax	\$ 48.3	\$ 49.0	\$ 49.0	\$ -
Property Tax in lieu of VLF	29.3	29.9	29.9	-
Sales Tax	45.8	45.8	46.2	0.4
Measure P Sales Tax	27.8	27.8	28.5	0.6
Measure A Sales Tax	27.8	27.8	28.5	0.6
Franchise Fees	14.8	14.8	14.8	-
Transient Occupancy Tax	9.3	9.3	9.0	(0.4)
Utility User Tax	3.8	3.8	3.8	-
Major Discretionary Revenues Subtotal	207.1	208.3	209.6	1.2
<i>Other General Fund Revenues</i>				
Other Revenues	51.2	51.9	53.8	2.0
Other General Fund Revenues Subtotal	51.2	51.9	53.8	2.0
Total Revenues/Sources	\$ 258.2	\$ 260.2	\$ 262.2	\$ 3.2
Expenditures				
Personnel Services	\$ 132.9	\$ 133.6	\$ 134.8	\$ (1.3)
<i>Non-Personnel</i>				
Supplies and Services	25.2	27.8	28.3	(0.5)
Other Expenses	1.8	3.2	3.2	-
Transfers Out	86.8	87.1	88.4	(1.3)
Internal Service	4.5	4.5	4.5	-
Utilities	6.7	6.7	7.0	(0.3)
Other Expenditures Category ²	0.4	0.7	0.6	0.1
<i>Total Non-Personnel</i>	125.3	130.0	132.0	(2.0)
Total Expenditures	\$ 258.2	\$ 263.6	\$ 266.8	\$ (3.2)
Total General Fund Surplus/(Deficit)	\$ -	\$ (3.4)	\$ (3.4)	\$ -
Use of Prior Year Fund Balance		3.4	3.4	-
Total General Fund Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -

Note: Minor variances due to rounding.

¹ Variance compares the Amended Budget and the Year-End Projection.

² Other Expenditure Category includes the following: Other Capital, Non-CIP Projects Expenditures and CIP Project Expenditures.

General Fund Revenues

The City’s major discretionary revenues are projected to exceed the amended budget by approximately \$1.2 million. This is based on the latest projections provided by HdL, the City’s outside sales tax consultant. Sales Tax revenue is currently trending higher than anticipated and is expected to exceed budget by \$0.4 million. Measure A and Measure P Sales Tax are anticipated to exceed budget by \$0.6 million each, for a combined total of \$1.2 million. The additional Sales Tax revenue is partially driven by construction material sales associated with the Bayfront development. These positive variances in major discretionary revenues are partially offset by Transient Occupancy Taxes (TOT), which are projected to come in approximately \$0.4 million under budget. Departmental revenues are projected to exceed the amended budget by \$2.0 million, due to increased programming revenues in Parks and Recreation and additional ARPA reimbursements.

General Fund Expenditures

As shown in Table 1 above, expenditures are anticipated to exceed the amended budget by \$3.2 million. This includes projected personnel cost overage of approximately \$1.3 million. Staff is working with departments to delay or reduce projected expenditures and steps have been put in place to reduce overtime costs where applicable. Fortunately, one-time revenues are available to offset a portion of the projected expenditures. Due to these revenues, the budget is anticipated to be balanced at year end. Staff will be closely monitoring expenditures and revenues and provide an update on the status via the Third Quarter Financial Report. This table reflects projections for all budgeted categories of General Fund Expenditures, which includes an increase to the Transfer Out category equivalent to the increase in projected Measure A and Measure P Sales Tax revenues as well as increases related to operations. The recommended increase to General Fund expenditure appropriations is \$1,060,932.

The increased expenditures appropriations described above will be fully offset by the increased major discretionary - Sales Tax revenues and Charges for Services in the Parks and Recreation Department.

Departmental Revenues and Expenditures

Departmental Revenues

Table 2 below provides the Amended General Fund revenue budget, the projected year-end revenues, and the projected variance at the department level.

Fiscal Year 2023-24 General Fund Departmental Revenues			
<i>Table 2</i>			
Department	Amended Budget	Year-end Projection	Variance
City Council	\$ -	\$ 14.5	\$ 14.5
City Clerk	47.8	50.3	2.5
City Attorney	425.4	811.7	386.4
Administration	55.1	55.1	-
Information Technology	394.7	362.8	(31.9)
Human Resources	622.3	622.3	-
Finance	1,902.0	1,435.0	(467.0)
Non-Departmental	221,934.5	225,459.2	3,524.7
Animal Care Facility	1,530.3	1,319.5	(210.8)

Fiscal Year 2023-24 General Fund Departmental Revenues

Table 2

Department	Amended Budget	Year-end Projection	Variance
Economic Development	351.7	494.8	143.0
Development Services	2,288.7	2,047.7	(241.1)
Engineering/Capital Projects	9,229.6	9,229.6	-
Police	5,919.2	5,855.5	(63.7)
Fire	2,899.4	2,951.8	52.4
Public Works	8,597.3	7,942.2	(655.1)
Parks and Recreation	2,984.0	3,995.0	1,011.0
Library	1,002.6	752.9	(249.7)
Total Departmental Revenue	\$ 260,184.6	\$ 263,399.8	\$ 3,215.2

The largest variances in Departmental Revenues are projected to be in the Non-Departmental, Parks and Recreation, Public Works, Finance and Library departments. The Non-Departmental positive variance of \$3.5 million is mostly due to Sales Tax, Measure A and Measure P Sales Tax which are projected to come in above budget, as well as additional ARPA reimbursements. The Parks and Recreation positive variance of \$1.0 million is due to additional revenues from recreation programming, which will be offset by an increase in program-related expenditures. Additionally, there is an expected decrease in departmental revenues, most notably in the Public Works Department (\$0.7 million) and Finance Department (\$0.5 million) primarily driven by a decrease in anticipated revenue recovery for staff time reimbursements.

Departmental Expenditures

Table 3 below provides the Amended General Fund expenditure budget, the projected year-end expenditures, and the projected variance at the department level.

Fiscal Year 2023-24 General Fund Departmental Expenditures

Table 3

Department	Amended Budget	Year-end Projection	Variance
City Council	\$ 1,541.6	\$ 1,541.6	\$ -
Boards & Commissions	2.1	2.1	-
City Clerk	3,498.5	3,341.3	157.2
City Attorney	3,178.2	3,168.6	9.6
Administration	2,593.2	2,487.9	105.3
Information Technology	4,599.2	4,497.5	101.7
Human Resources	3,557.9	3,609.8	(51.9)
Finance	4,710.3	4,592.1	118.2
Non-Departmental	97,532.2	98,838.1	(1,305.8)
Animal Care Facility	3,449.0	3,278.8	170.2
Economic Development	1,769.3	1,748.8	20.5
Development Services	2,801.5	2,710.7	90.8
Engineering/Capital Projects	11,278.1	10,192.0	1,086.1
Police	55,806.9	58,960.3	(3,153.4)
Fire	35,346.8	35,621.4	(274.6)

Fiscal Year 2023-24 General Fund Departmental Expenditures

Table 3

Department	Amended Budget	Year-end Projection	Variance
Public Works	23,564.7	23,564.7	-
Parks and Recreation	4,520.0	4,980.3	(460.4)
Library	3,838.0	3,681.4	156.6
Total Expenditure Budget	\$ 263,587.5	\$ 266,817.4	\$ (3,229.9)

Departmental Expenditures are expected to exceed budget in various departments.

The following are explanations of the significant variances between budgeted and projected expenditures:

- The Police Department reflects a negative variance of \$3.2 million which is driven by an increase in overtime costs tied to staffing vacancies and operational needs.
- The Non-Departmental negative variance of \$1.3 million is primarily due to the Transfer Out for both Measure A and Measure P Sales Tax Funds combined, based on updated Measure A and Measure P Sales Tax projections.
- The Engineering/Capital Projects Department’s positive variance of \$1.1 million is driven by department vacancies resulting in anticipated salary savings. Some of these vacancies may result in a reduction of current services revenue.
- The Parks and Recreation negative variance of \$0.5 million is driven by additional program services and is expected to be fully offset by program revenue.

Fiscal Year 2023-24 Budget Adjustments

Staff recommends various adjustments, appropriations, and transfers to City Departmental and Fund budgets that require City Council authorization.

General Fund Adjustments

In the General Fund, some of the transfers are between expense categories within the same Department and some transfers are between Departments. There are also proposed budget adjustments reflecting increased revenue where needed to address unanticipated expenditure category overages and ensure accurate year-end reporting. The recommended budget adjustments are shown in Table 4 below.

General Fund Budget Adjustments Summary – 2nd Quarter Fiscal Year 2023-24

Table 4

DEPARTMENT	Footnote	PERSONNEL	NON- PERSONNEL	TOTAL	TOTAL	NET IMPACT
		SERVICES	EXPENSES	EXPENSE	REVENUE	
Administration	1	\$ -	\$ 10,000	\$ 10,000	\$ -	\$ 10,000
Non-Departmental	2-3	-	15,000	15,000	(127,016)	(112,016)
Economic Development	7	-	100,000	100,000	(100,000)	-
Development Services	4	-	22,000	22,000	-	22,000
Public Works	5	-	80,016	80,016	-	80,016
Parks and Recreation	6	682,911	251,005	933,916	(933,916)	-
TOTAL GENERAL FUND		\$ 682,911	\$ 478,021	\$1,160,932	\$(1,160,932)	\$ -

Note: Minor variances due to rounding.

The proposed General Fund budget adjustments result in no net impact to the fiscal year 2023-24 budget, primarily being derived by the following transactions:

1. Increase expenditure appropriations by \$10,000 for contracted services for legislative consultants.
2. Increase both expenditure appropriations and revenue budget by \$15,000 for County fees for the collection of trash accounts that have been posted to the property tax rolls.
3. Increase the revenue budget by \$127,016 for updated Sales Tax projections.
4. Increase expenditure appropriations by \$22,000 for attorney services.
5. Increase expenditure appropriations by \$80,016 for one-time expenditures budgeted in fiscal year 2022-23 that were delayed and not budgeted in fiscal 2023-24.
6. Increase both expenditure appropriations and revenue budget by \$933,916 for Parks & Recreation increased program services offset by additional program revenue.
7. Transfer of expenditures to correct both the Non-CIP expenditure appropriations and increase the revenue budget by \$100,000 for the ARPA Equity & Inclusion Project per spending plan.

Other Fund Adjustments

The following recommended adjustments are for funds outside of the General Fund. The proposed adjustments, displayed in Table 5, have a net cost increase of approximately \$9.5 million to the various identified funds. The proposed adjustments will impact the fund balances or current year available revenues of the respective noted funds.

Other Fund Budget Adjustments Summary - 2nd Quarter Fiscal Year 2023-24						
Table 5						
	Footnote	PERSONNEL SERVICES	NON-PERSONNEL EXPENSES	TOTAL EXPENSE	TOTAL REVENUE	NET IMPACT
2016 Measure P Sales Tax	1	\$ -	\$1,577,086	\$ 1,577,086	\$ -	1,577,086
Transportation Grants-Gas Tax	2	-	63,249	63,249	-	63,249
2018 Measure A Sales Tax	3	-	1,752,604	1,752,604	-	1,752,604
Parking Meter Donations	4	-	97,000	97,000	(114,000)	(17,000)
American Rescue Plan Act 2021	5	-	29,095	29,095	(29,095)	-
Other Grants	6-7	-	183,326	183,326	-	183,326
Local Grants	8	-	63,970	63,970	-	63,970
Federal Grants	9	-	100,000	100,000	-	100,000
State Grants	9-10	-	627,853	627,853	(340,473)	287,380
Storm Drain	11-12, 14	58,351	14,629	72,980	(107,681)	(34,701)
Bayfront Special Tax District	13	-	-	-	(25,000)	(25,000)
Open Space District #04	15	-	65,348	65,348	-	65,348
Workers Compensation Fund	16	-	13,000	13,000	-	13,000
Living Coast Discovery Center	12	-	-	-	(4,391)	(4,391)
Transport Enterprise	17	-	150,000	150,000	-	150,000
Sewer Service Revenue	18	(350,000)	350,000	-	-	-
	13,19	-	5,240,000	5,240,000	(50,000)	5,190,000

Other Fund Budget Adjustments Summary – 2nd Quarter Fiscal Year 2023-24
Table 5

		PERSONNEL SERVICES	NON-PERSONNEL EXPENSES	TOTAL EXPENSE	TOTAL REVENUE	NET IMPACT
Sewer Facility Replacement	13	-	-	-	(25,000)	(25,000)
2017 CREBs LRBs	20	-	28,381	28,381	-	28,381
Public Facilities DIF	21	-	400,000	400,000	-	400,000
Transportation DIFs	22	-	300,000	300,000	(300,000)	-
Capital Improvement Projects	7, 23	-	716,674	716,674	(1,000,000)	(283,326)
TOTAL OTHER FUNDS		\$(291,649)	\$11,772,215	\$11,480,567	\$(1,995,640)	\$ 9,484,926

Note: Minor variances due to rounding.

The Other Funds proposed budget adjustments result in a net impact of \$9,484,926, primarily being derived by the following transactions:

1. Increase expenditure appropriations by \$1,577,086 for Measure P Plan Updates.
2. Increase expenditure appropriations by \$63,249 for staff time costs for various capital projects.
3. Increase expenditure appropriations by \$1,752,604 for Measure A Plan Updates.
4. Increase expenditure appropriations by \$97,000 and revenue budget by \$114,000 for costs and revenue associated with Smart Meter Services, Merchant Service Fees, and utility costs.
5. Increase both expenditure appropriations and revenue budget by \$29,095 for donations received.
6. Transfer of expenditure appropriations by \$283,326 to align project appropriations with the American Rescue Plan Act (ARPA) Spending Plan and CIP Project PRK0345 "MacKenzie Creek Pickleball Courts".
7. Transfer of expenditure appropriations by \$100,000 for ARPA Equity & Inclusion Project per spending plan.
8. Increase expenditure appropriations by \$63,970 from fund balance for operational needs for the Fire Department.
9. Increase expenditure appropriations by \$420,000 from fund balance for operational needs for the Police Department.
10. Increase expenditure appropriations by \$207,583 and revenue budget by \$340,473 for projected grant expenditures and reimbursements.
11. Increase expenditure appropriations by \$55,356 and revenue budget by \$94,448 for Library's literacy grants.
12. Increase expenditure appropriations by \$4,391 to correct an administrative error for worker's compensation.
13. Increase revenue budget by \$100,000 for a pass-through grant to liquidate outstanding sewer accounts.
14. Increase expense appropriations and revenue budget by \$13,233 for State Library grant.
15. Increase expenditure appropriations by \$65,348 for interest expenses on the Bayfront Project.
16. Increase expenditure appropriations by \$13,000 for tree maintenance cost increases.
17. Increase expenditure appropriations by \$150,000 for repair costs at the Living Coast Discovery Center that are anticipated to be reimbursed by an insurance claim.
18. Transfer expenditure budget of \$350,000 from Personnel Services to Supplies & Services for anticipated cost increases in the Fire Department's Transport program.
19. Increase expenditure appropriations by \$5,240,000 for increases in wastewater charges and related capital projects.
20. Increase expenditure appropriations by \$28,381 for debt obligation adjustment.
21. Increase expenditure appropriations by \$400,000 for outfitting a new fire engine.

22. Increase both expenditure appropriations and revenue budget by \$300,000 for project expenses reimbursed by the developer.
23. Increase both expenditure appropriations by \$716,674 and revenue budget by \$1,000,000 for ARPA technical correction to align with the ARPA spending plan for the Public Works department.

DECISION-MAKER CONFLICT

Staff has reviewed the decision contemplated by this action and has determined that it is not site-specific and consequently, the real property holdings of the City Council members do not create a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.).

Staff is not independently aware and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

CURRENT-YEAR FISCAL IMPACT

The Second Quarter Report presents projected revenue and expenditure actuals as of December 31, 2023. Approval of the Resolution (A) amending the fiscal year 2023-2024 budget will result in the following impacts:

General Fund – The proposed adjustments result in no net impact to the fiscal year 2023-24 budget. This resolution includes an increase in General Fund appropriations of approximately \$1,160,932 and an increase in estimated revenues of \$1,160,932.

Other Funds – The proposed adjustments result in a net impact to the fiscal year 2023-24 budget of the Other (non-General Fund) funds of \$9,484,926. This includes an increase in appropriations of approximately \$11,480,567 and an increase in estimated revenues of \$1,995,640.

Approval of Resolution (B) will amend the Fiscal Year 2023-24 CIP Program Budget by establishing a new CIP, PRK0345, “MacKenzie Creek Pickleball Courts”; appropriate \$283,326 from the available balance in the American Rescue Plan Act Fund.

ONGOING FISCAL IMPACT

Staff will review the impacted budgets to identify potential ongoing impacts and will incorporate as required during the fiscal year 2024-25 budget development process.

ATTACHMENTS

1. General Fund Budget Transfers
2. General Fund Budget Amendments
3. Lunch at the Library Summer 2024 Grant Award
4. Memory Lab Project Grant Award

*Staff Contact: Sarah Schoen, Director of Finance/Treasurer
Ed Prendell, Budget and Analysis Manager*