



CITY COUNCIL STAFF REPORT



December 3, 2024

ITEM TITLE

Financial Report and Appropriation: Accept the Quarterly Financial Report for the Quarter Ending September 30, 2024 (First Quarter Report) and Appropriate Funds to Implement Required Budget Adjustments

Report Number: 24-0275

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 September 30, 2024 (the “First Quarter Report”) and adopt a resolution making various amendments to the fiscal year 2024-25 budget and the fiscal year 2024-25 Capital Improvement Program budget to adjust for variances 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 First Quarter Report is as of September 30, 2024, and is in compliance with Section 504 (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 First Quarter Report, staff has identified various budgetary 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. Budget transfers and adjustments processed pursuant to this authority are provided as Attachments 1 and 2

to this report. This First 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 First Quarter Report is developed using three months of actual activity for fiscal year 2024-25 as of September 30, 2024. The data in this report is the most current data available; however, due to the limited data available, in-depth year-end projections for departmental revenues and expenditures are not included in this report but will be provided in future quarterly financial reports. The focus instead is on the General Fund’s Major Revenues and Personnel Services, as well as any known Non-Personnel Expenditure needs. As a result of the limited information, the projections are likely to change as the year progresses.

This report 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 updated projections in subsequent quarterly financial reports.

General Fund Overview

As of the Quarter ended, September 30, 2024, expenditures are projected to exceed the Amended Budget by \$11.5 million. This amount is offset in full by projected revenues, resulting in no net impact to the General Fund reserves. The proposed adjustments primarily reflect one-time revenues being applied to capital projects.

There are unknown political and economic variables that may affect the General Fund such as the presidential election, changes to inflation, interest rates, unemployment, and other financial uncertainties. Staff will continue to monitor and will provide updates in future quarterly financial reports.

Fiscal Year 2024-25 General Fund Overview

Table 1

in millions

	Adopted Budget	Amended Budget	Year-end Projection	Variance
Revenue Source				
<i>Major Discretionary Revenues</i>				
Property Tax	\$ 52.0	\$ 52.7	\$ 52.7	\$ -
Property Tax in lieu of VLF	31.1	31.1	31.5	0.5
Sales Tax	48.0	48.0	48.0	-
Measure P Sales Tax	29.3	29.3	29.3	-
Measure A Sales Tax	29.3	29.3	29.3	-
Franchise Fees	15.1	15.1	15.1	-
Transient Occupancy Tax	10.0	10.0	10.0	-
Utility User Tax	3.9	3.9	3.9	-
Major Discretionary Revenues Subtotal	218.6	219.3	219.8	0.5
<i>Other General Fund Revenues</i>				
Other Revenues	55.5	55.5	66.6	11.0
Other General Fund Revenues Subtotal	55.5	55.5	66.6	11.0
Total Revenues/Sources	\$ 274.1	\$ 274.8	\$ 286.3	\$ 11.5
Expenditures				
Personnel Services	\$ 146.9	\$ 147.5	\$ 147.9	\$ (0.4)
<i>Non-Personnel</i>				
Supplies and Services	25.7	28.7	29.1	(0.4)
Other Expenses	2.2	5.5	5.6	(0.2)
Transfers Out	87.7	87.7	98.3	(10.6)
Internal Service	4.6	4.6	4.6	-
Utilities	6.8	6.8	6.8	-
Other Expenditures Category	0.2	0.8	0.8	-
<i>Total Non-Personnel</i>	127.2	134.2	145.3	(11.1)
Total Expenditures	\$ 274.1	\$ 281.7	\$ 293.2	\$ (11.5)
Use of Prior Year Fund Balance	\$ -	\$ (6.8)	\$ (6.8)	\$ -
Total General Fund Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -
Contribution to Reserves per Policy	-	-	-	-
Total General Fund Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -

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

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

*Tables may not tie due to rounding

General Fund Revenues

As shown in Table 1 above, the City’s General Fund revenues are projected to exceed the Amended Budget by approximately \$11.5 million. This is due to increased Property Tax in-lieu of VLF and Other Revenues. The Property Tax in-lieu of VLF will exceed the Amended Budget by approximately \$0.5 million based on the updated information provided by the County of San Diego. The Other Revenues category is projected to exceed the Amended Budget by \$11.0 million primarily in the Transfer In, Other Revenues and Licenses and Permits categories associated with the American Rescue Plan Act (\$10.6 million), bayfront development reimbursements in the Engineering and Capital Projects Department and additional departmental revenue in the Fire Department.

General Fund Expenditures

The City’s General Fund expenditures exceeded the Amended Budget by \$11.5 million, primarily in the Transfers Out, Personnel Services and Supplies and Services categories.

The overage in the Transfer Out category is due to a transfer to the Capital Improvement Projects Fund for various projects discussed later in the report for approximately \$10.4 million. The Personnel Services category of \$0.4 million is mainly due to projected overtime overages in the Police Department. These increases are expected to be offset by savings in other departments detailed in the Departmental Expenditures section below. Additionally, the Supplies and Services category is projected to exceed budget by \$0.4 million, primarily due to reimbursable expenditures related to the bayfront development.

Departmental Revenues and Expenditures

Departmental Revenues

Table 2 below provides the Amended General Fund revenues budget, projected year-end revenues, and the variance (difference) between both at the department level.

Fiscal Year 2024-25 General Fund Departmental Revenues			
<i>Table 2</i>	<i>in thousands</i>		
Department	Amended Budget	Year-end Projection	Variance
City Clerk	\$ 35.8	\$ 35.8	\$ -
City Attorney	382.3	382.3	-
Administration	55.8	55.8	-
Information Technology	306.8	306.8	-
Human Resources	629.5	629.5	-
Finance	1,594.5	1,594.5	-
Non-Departmental	235,855.1	246,934.6	11,079.6
Animal Care Facility	1,373.5	1,373.5	-
Economic Development	767.2	566.2	(201.0)
Development Services	2,213.9	2,213.9	-
Engineering/Capital Projects	9,066.5	9,429.2	362.8
Police	6,086.2	6,086.2	-
Fire	3,545.2	3,752.6	207.4
Public Works	8,017.1	8,056.5	39.5
Parks and Recreation	4,091.5	4,091.5	-
Library	829.6	829.6	-
Total Departmental Revenue	\$ 274,850.5	\$ 286,338.6	\$ 11,488.2

The largest variance in General Fund Departmental Revenues is expected to be in Non-Departmental and Engineering and Capital Projects Departments. Non-Departmental is where the major discretionary revenues are recorded, including Sales Tax, Measure A Sales Tax, Measure P Sales Tax, and Property Tax in Lieu of VLF; the projected variance is a positive \$11.1 million, due to increased Property Tax in Lieu of VLF and transfer in from the American Rescue Plan Act (\$10.6 million). The Engineering and Capital Projects Department’s positive variance of \$0.4 million is due to reimbursements associated with the bayfront development.

Departmental Expenditures

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

Fiscal Year 2024-25 General Fund Departmental Expenditures			
<i>Table 3</i>	<i>in thousands</i>		
Department	Amended Budget	Year-end Projection	Variance
City Council	\$ 1,712.4	\$ 1,712.4	\$ -
Boards & Commissions	10.1	10.1	-
City Clerk	1,567.5	1,567.5	-
City Attorney	3,901.3	3,133.4	767.9
Administration	3,205.7	2,789.8	415.9
Information Technology	4,759.6	4,759.6	-
Human Resources	4,024.9	4,024.9	-
Finance	5,114.3	5,114.3	-
Non-Departmental	104,495.7	115,119.3	(10,623.6)
Animal Care Facility	3,753.6	3,753.6	-
Economic Development	1,464.3	1,263.3	201.0
Development Services	3,314.6	3,146.8	167.8
Engineering/Capital Projects	12,089.3	11,937.0	152.4
Police	59,558.6	61,881.3	(2,322.6)
Fire	37,443.5	37,650.9	(207.4)
Public Works	25,070.9	25,110.4	(39.5)
Parks and Recreation	6,011.5	6,011.5	-
Library	4,174.8	4,174.8	-
Total Expenditure Budget	\$ 281,672.7	\$ 293,160.9	\$ (11,488.2)

Departments that are projected to exceed their Amended Budget expenditure amounts will be mitigated by savings from other General Fund departments and additional anticipated revenues. The recommended budget amendments are reflected in the General Fund Adjustments section of this report.

Significant variances between budgeted and projected expenditures include the following:

- The Police Department reflects a negative variance of \$2.3 million which is mainly driven by an increase in overtime costs. The Finance Department is currently in the process of hiring a consultant to review overtime usage to determine whether there are structural budgetary issues to be

addressed. Additionally, there are other personnel cost increases per the POA MOU approved in May, that due to timing, were not included in the fiscal year 2024-25 Adopted Budget.

- The Non-Departmental negative variance of \$10.6 million is primarily due to the Transfer Out category for the Chula Vista Housing Authority Fund for staff time reimbursements, maintenance contract increases for various Open Space District Funds and Capital Improvement Projects.
- The City Attorney, Administration, Economic Development, Development Services and Engineering/Capital Projects Department’s combined positive variance of approximately \$1.7 million is driven by department vacancies resulting in anticipated salary savings.

Fiscal Year 2024-25 Budget Adjustments

Staff is recommending 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 revenues and increased expenditures where needed to address unanticipated expenditure category overages and ensure accurate year-end reporting. The recommended budget adjustments are shown in the Table 4 below.

Table 4					
DEPARTMENT	PERSONNEL SERVICES	NON-PERSONNEL EXPENDITURES	TOTAL EXPENDITURES	TOTAL REVENUE	NET IMPACT
GENERAL FUND					
Non-Departmental	\$ 28,050	\$ 10,595,560	\$ 10,623,610	\$ (11,079,572)	\$ (455,962)
Economic Development	(743,544)	(12,004)	(755,548)	201,000	(554,548)
Development Services	(167,775)	-	(167,775)	-	(167,775)
Engineering/Capital Projects	-	362,774	362,774	(362,774)	-
Police	436,444	187,293	623,737	-	623,737
Fire	394,361	(187,005)	207,356	(207,356)	-
Public Works	580,544	13,458	594,002	(39,454)	554,548
TOTAL GENERAL FUND	\$ 528,080	\$ 10,960,076	\$ 11,488,156	\$(11,488,156)	\$ -

Non-Departmental: Increase to Personnel Services and Non-Personnel Expenditures for total increased appropriations of \$10,623,610. These increases are primarily due to transfers to the Capital Improvement Projects Fund, Chula Vista Housing Authority Fund for staff time reimbursements, and various Open Space District funds for operational needs. These increases are completely offset with increased estimated revenues specifically the Property Tax in Lieu of VLF and Transfers In categories.

Engineering/Capital Projects: Increase in Supplies & Services of \$362,774 for additional operational needs related to the bayfront development offset by an increase in estimated revenues.

Police: Increase to Personnel Services and Non-Personnel Expenditures for a total increase to appropriations of \$623,737. These increases are due to POA MOU contract increases and an increase for the Mobile Data Computer agreement and are completely offset with anticipated expenditure savings and revenues within other General Fund Departments. Due to the pending overtime audit, staff is not recommending any budget amendments for overtime costs with this action. This will be addressed in future quarterly reports.

Fire: Increase to Personnel Services offset by a decrease to Non-Personnel Expenditures for a net increase to appropriations of \$207,356. These increases are due to Fire Academy costs and are completely offset with additional revenues received for permit fees.

Public Works: Increase to Personnel Services and Non-Personnel Expenditures for a total increase to appropriations of \$594,002. These increases are due to the transfer of the Sustainability function from the Economic Development Department to Public Works and overtime costs that are offset with additional anticipated revenues within the Public Works Department.

Other Fund Adjustments

The following recommended adjustments are for funds outside of the General Fund. The proposed adjustments are displayed in Table 5 below. The proposed adjustments are offset by additional current year revenues or the available fund balance of the respective funds.

Table 5					
	PERSONNEL SERVICES	NON-PERSONNEL EXPENDITURES	TOTAL EXPENDITURES	TOTAL REVENUE	NET IMPACT
OTHER FUNDS					
2016 Measure P Sales Tax	\$ -	\$ 3,082,617	\$ 3,082,617	\$ -	\$ 3,082,617
2018 Measure A Sales Tax	390,610	(270,610)	120,000	-	120,000
Parking Meter	-	72,317	72,317	(193,379)	(121,062)
Donations	-	73,203	73,203	(73,203)	-
American Rescue Plan Act 2021	-	(5,588,978)	(5,588,978)	-	(5,588,978)
Other Grants	-	125,000	125,000	(20,000)	105,000
Local Grants	-	700,000	700,000	-	700,000
Federal Grants	32,380	343,900	376,280	(76,280)	300,000
State Grants	(19,558)	1,644,029	1,624,471	(1,611,261)	13,210
Environmental Services	-	(201,000)	(201,000)	-	(201,000)
Chula Vista Housing Authority	-	-	-	(137,596)	(137,596)
Section 115 Trust	7,000,000	-	7,000,000	-	7,000,000
Open Space District #02	-	9,300	9,300	(9,300)	-
Open Space District #03	-	14,100	14,100	(14,100)	-
Open Space District #04	-	3,000	3,000	(3,000)	-
Open Space District #08	-	23,300	23,300	(23,300)	-
Open Space District #11	-	38,900	38,900	(38,900)	-
Open Space District #15	-	6,600	6,600	(6,600)	-
Open Space District #20	-	2,600	2,600	(2,600)	-
Living Coast Discovery Center	-	200,000	200,000	(200,000)	-
Capital Improvement Projects	-	12,593,879	12,593,879	(16,648,227)	(4,054,348)
TOTAL OTHER FUNDS	\$ 7,403,432	\$ 12,872,157	\$ 20,275,589	\$ (19,057,746)	\$ 1,217,843

Measure P Sales Tax: Increase to Non-Personnel Expenditures of \$3,082,617 of which \$345,262 is for a transfer for Radio Communication System (RCS) lease and an increase to CIP expenditures related to two projects, GGV0247, Loma Verde and DRN0221 for Hilltop Slope Stabilization. These items will be presented to the Citizen’s Oversight Committee in January 2025.

Measure A Sales Tax: Increase to Personnel and Non-Personnel Expenditures of \$120,000 of which \$270,610 is a transfer of expenditures to align the Fire Academy budget to the Measure A expenditure plan and \$120,000 is for drone expenses approved by Citizen's Oversight Committee for the Police Department.

Parking Meter: Increase appropriations by \$72,317 for parking garage maintenance expenses offset with an increase to estimated revenues of \$193,379 based on recently adopted rate increases and revenue growth.

Donations: Increase of \$73,203 to Non-Personnel Expenditures for various donations received.

American Rescue Plan Act 2021: Decrease of \$5,588,978 to Non-Personnel Expenditures to align budget with the expenditure plan.

Other Grants: Increase of \$125,000 to Non-Personnel Expenditures of which \$105,000 is appropriated from fund balance and an increase of estimated revenues of \$20,000 received from tuition (fees charged by the Fire Department for trainings offered to other agencies and City staff).

Local Grants: Increase of \$700,000 to Non-Personnel Expenditures from fund balance for Police Department's Body Worn Camera program.

Federal Grants: Increase of \$376,289 to both Personnel and Non-Personnel Expenditures offset by an increase to estimated revenues of \$76,280 to align budgets to grant awards.

State Grants: Overall increase of \$1,624,471 in total expenditures offset by an increase to estimated revenues of \$1,611,261 to align budgets to grant awards.

Environmental Services: Decrease of \$201,00 to Non-Personnel Expenditures to correct baseline transfer out for overhead costs.

Chula Vista Housing Authority: Increase estimated revenues of \$137,596 in the Transfer In category for staff time reimbursements.

Section 115 Trust: Increase to Non-Personnel Expenditures by \$7,000,000 for UAL discretionary payment.

Open Space District (02, 04, 08, 11, 15, and 20): Increase of a total \$97,800 to Non-Personnel Expenditures offset with estimated revenues of \$97,800 for maintenance contract increases.

Living Coast Discovery Center: Increase of \$200,000 to Non-Personnel Expenditures offset with estimated revenues of \$200,000 due to insurance claims.

Capital Improvement Projects Fund: Increase of Non-Personnel Expenditures for CIP Project expenditures of \$12,593,879 offset by an increase in estimated revenue of \$16,648,227. The difference of \$4,054,348 is anticipated to be used for the Millenia Library project.

Capital Improvement Project budget amendments:

Transportation Grants-Gas Tax: Transfer of expenditures from project STL0471 to project STL0456 for additional tree removal and replacements of \$200,000.

Capital Improvement Projects Fund: Details outlined in the chart below:

PROJECT	NON-PERSONNEL EXPENDITURES	TOTAL EXPENDITURES	TOTAL REVENUE	NET IMPACT
CTY0238	\$ 1,385,990	\$ 1,385,990	\$ (1,360,990)	\$ 25,000
BGP0393	(25,000)	(25,000)	-	(25,000)
CTY0239	2,445,000	2,445,000	(2,420,000)	25,000
BGP0393	(25,000)	(25,000)	-	(25,000)
CTY0240	340,000	340,000	(315,000)	25,000
BGP0393	(25,000)	(25,000)	-	(25,000)
PROJECT	\$ 4,095,990	\$ 4,095,990	\$ (4,095,990)	\$ -

American Rescue Plan Act (ARPA) Obligation Deadline Requirements

As the obligation period for the ARPA funds comes to an end, staff is recommending that the City Council authorize the City Manager to amend the fiscal year 2024-25 budget and approve any necessary adjustments to the American Rescue Plan Act (ARPA) related to ARPA adjustments that may occur after this reporting period. This is to ensure adherence to the Treasury obligation deadline of December 31, 2024, per the Obligation Interim Final Rule in 31 CFR 35.3 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). All funds must be obligated by recipients within the statutory period between March 3, 2021 and December 31, 2024 and expended to cover such obligations by December 31, 2026.

Staff recommends that the Director of Finance report to the City Council any further amendments to the fiscal year 2024-25 budget and adjustments to the American Rescue Plan Act approved by the City Manager in the next quarterly financial report.

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 First Quarter Report presents projected revenue and expenditure amounts as of September 30, 2024, with updates through November 7, 2024. Approval of the resolution amending the fiscal year 2024-25 budget will result in the following impacts:

General Fund – The proposed adjustments result in no net fiscal impact to the fiscal year 2024-25 budget. This includes an increase in General Fund appropriations of approximately \$11,488,156 offset by an increase in estimated revenues of \$11,488,156. These are primarily one-time funds that will be applied to capital projects.

Other Funds – The proposed adjustments result in a net negative impact to the fiscal year 2024-25 budget of the Other (non-General Fund) Funds of \$1,217,843. This includes an increase in appropriations of approximately \$20,275,589 and an increase in estimated revenues of \$19,057,746.

ONGOING FISCAL IMPACT

Staff will review the impacted budgets to identify potential ongoing impacts and may recommend budgetary adjustments to Council during fiscal year 2024-25.

ATTACHMENTS

1. General Fund Budget Transfers
2. General Fund Budget Amendments

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