



City FY 2023/24 Budget Update & FY 2023/24 Mid-Year Budget Adjustments

**City Council Meeting
March 19, 2024**

Presentation Overview

- **FY 2023/24 Budget Update**
- **FY 2023/24 Mid-Year Budget Adjustment Requests**



City FY 2023/24 Budget Update



City Budget and Financial Position – FY 2022/23

The City ended FY 2022/23 with a \$3.7 million General Fund surplus, after year-end transfers of \$12.62M to partially fund unfunded liabilities (Workers' Compensation, General Liability, Retirement Supplemental) and Infrastructure needs.

- Revenues were available for transfers primarily due to one-time spikes in natural gas prices during Winter 2022-23, as well as increased natural gas and electricity rates, resulting in additional utility tax and franchise fee revenue above the adopted budget.
- Additionally, Transient Occupancy Tax (TOT) remained strong, mainly due to higher average daily rates and a full fiscal year of TOT from the City's Short-Term Vacation Rentals.
- Demand for emergency medical services (EMS) continues to increase.

City Budget and Financial Position – FY 2023/24

After 29 months of post-pandemic jobs growth in California, employment growth was flat in September 2023 and declined in October 2023. California consumers and businesses are spending less, and shifting from taxable goods to nontaxable items.

- Property tax revenues, the City's largest General Fund revenue source (36.7%), remains strong, with revenue projected to be slightly above the adopted budget due to increased supplemental property taxes.
- Sales tax revenues, the City's second largest General Fund revenue source (18.9%), is projected to decline by approximately \$1.3M due to a shift in consumer spending from taxable goods, such as new car sales, to nontaxable items, such as travel, leisure, and entertainment.
- Utility tax and franchise fee revenues are lower than prior year due to lower gas commodity prices.

The City is currently projecting to end FY 2023/24 with a \$2M General Fund surplus (subject to change).

General Fund Long-Term Financial Plan

6.1% CalPERS Return FY22/23

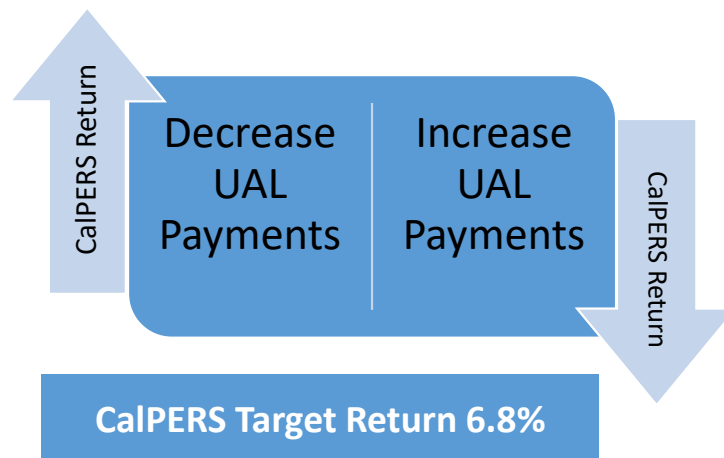
(in thousands)	Actual FY22/23	Projected FY23/24	Projected FY24/25	Projected FY25/26	Projected FY26/27	Projected FY27/28
Revenue (Recurring)	281,337	282,969	287,221	294,366	301,718	309,310
Revenue (One-Time)*	31,380	2,276	-	-	-	-
Planned Use of Reserves	-	8,804	-	-	-	-
Total Sources of Funds	312,717	294,049	287,221	294,366	301,718	309,310
Expenditures less UAL	254,720	264,960	269,807	281,813	290,201	297,443
CalPERS UAL	4,891	5,000	5,223	8,981	12,727	16,458
POB Payment	13,663	13,276	13,010	12,750	12,537	12,537
One-Time Expenditures	18,721	8,804	-	-	-	-
Total Expenditures	291,995	292,040	288,040	303,544	315,465	326,438
Restricted Reserves	16,978	-	-	-	-	-
Surplus/(Deficit)	\$3,744	\$2,009	(\$819)	(\$9,178)	(\$13,747)	(\$17,128)

* FY 22/23 one-time revenue consists of \$29.6M in American Rescue Plan Act funding and \$1.8M in transfers from the Housing Agreement and Triple Flip fund. FY 23/24 one-time consists of General Fund portion of Emerald Cove settlement.

- Current forecast requires use of Section 115 Trust reserves (per UAL Policy) starting in FY 25/26.

CalPERS Update

- CalPERS FY 21/22 return of -7.5% and FY 22/23 return of 6.1% requires escalating UAL payments by the City
- June 26 – City Council approved updates to the General Fund Reserve Policy requiring a minimum of 25% of unrestricted one-time revenues to be transferred to the City’s Section 115 Trust to address CalPERS’ unfavorable returns
- Section 115 Trust balance as of June 30, 2023: \$20.6M



- CalPERS’ investment policy focuses on long-term plan returns
- POB is financially advantageous as long as CalPERS long-term return is $> 2.925\%$

Unfunded Liabilities

- Insurance premiums are anticipated to increase due to rising medical costs and an expanded list of injuries that are presumed to be work related under California law, such as post-traumatic stress.
- General Liability insurance premiums are also expected to increase as additional markets withdraw from California and from writing public entity liability. The City is currently self-insured up to \$1 million per claim with \$25M in excess coverage per claim/occurrence.
- Staff is closely monitoring the City’s unfunded liabilities to identify cost saving opportunities on an ongoing basis.

Description	Unfunded Liabilities as of 6/30/2022	Increase/(Decrease) in Unfunded Liabilities	Unfunded Liabilities as of 6/30/2023
Workers’ Compensation	\$25.0M	(\$2.1M)	\$22.9M
General Liability	\$0.2M	\$4.5M	\$4.7M
Retiree Supplemental	\$15.2M	(\$6.4M)	\$8.8M
CalPERS UAL	(\$41.6M)	\$232.2M	\$190.6M

FY 2023/24 Mid-Year Budget Adjustments



General Fund Adjustments

Community & Library Services Department

- **\$246K** – increased demand for contract class instructors offset with recreational and art class revenues for a **net zero impact**

Fire Department

- **\$480K** – Fire strike team reimbursement costs offset with strike team reimbursement revenues for a **net zero impact**
- **\$117K** – Medical & safety supplies for City ambulances offset with emergency medical response revenues for a **net zero impact**

Total General Fund Adjustments - \$843,187, all offset by additional revenues

Other Fund Adjustments

LRSP Grant (Fund 1272) – Public Works

- **\$7,350** to allocate remaining awarded State grant funds for development of a Local Road Safety Plan (LRSP). A total of \$147,000 was awarded, but only \$139,650 has been appropriated to date. Staff is requesting appropriation of the remaining grant funds. There are sufficient offsetting grant revenues and expenditures for a **net zero impact**.

Summary of Mid-Year Budget Requests

Fund	Description	Amount	Total
General Fund	Community & Library Services	\$246,187	\$843,187
	Fire Department	597,000	
Other Funds	LRSP Grant Fund	7,350	\$7,350
Total			\$850,537
Less: Offsetting revenues			(\$850,537)
Net Increase			\$-

- Approve appropriations of **\$850,537**
- Projected General Fund FY 23/24 surplus after appropriation: **\$2M**

Questions?

