



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** November 22, 2021

FROM: Matthew Bronson, City Manager

PREPARED BY: Deanne Purcell, Administrative Services Director

SUBJECT: FY 2021-22 First Quarter Financial Review

RECOMMENDATION

Receive and file the FY 2021-22 First Quarter Financial Review

BACKGROUND

General Fund

The City Council adopted a FY 2021-22 General Fund budget of \$19,184,972 as part of approving a two-year budget for FY 2021-23. The FY 2021-22 General Fund budget assumed revenues and transfers in of \$19,228,267 which leads to an estimated surplus of \$43,395 producing reserves equivalent to 32% of operating expenditures. This first quarter report covers revenue and expenditure activity in the beginning of FY 2021-22 from July-September 2021. The first quarter is early in the fiscal year and staff would caution about identifying trends with this initial information. The mid-year budget review scheduled for February 2022 will be a more accurate gauge of financial activity and trends impacting the City's budget.

Overall, General Fund revenues have been received thus far as anticipated for the first quarter of the year though there are some signs that cannabis tax revenue could be somewhat lower than FY 2020-21 as shared previously with the Council and discussed further on the next page. The City's top five revenues (property tax, sales tax, cannabis tax, franchise fees, and transient occupancy tax) are estimated to comprise 74% of total budgeted revenue for FY 2021-22. The table below compares the first quarter of the previous fiscal year to the first quarter of the current year as well as the previous year-end actual to the budgeted year-end for the current year:

Table 1

	FY 2020-21			FY 2021-22			Incr (Decr) PY
	7/1-9/30 (Q1)	Unaudited Actuals 7/1-6/30	%	7/1-9/30 (Q1)	Budgeted 7/1-6/30	%	
Property Tax	\$ 17,159	\$ 4,951,472	0.3%	\$ 129,139	\$ 5,256,000	2.5%	\$ 111,980
Sales Tax	233,645	3,846,966	6.1%	415,143	5,364,000	7.7%	181,498
Cannabis Tax	700,554	2,424,914	28.9%	436,593	2,448,000	17.8%	(263,961)
Franchise Fees	122,559	600,228	20.4%	54,562	709,000	7.7%	(67,997)
TOT (Hotel Tax)	115,509	580,423	19.9%	204,407	480,000	42.6%	88,898
Total	1,189,426	\$12,404,003	9.6%	1,239,843	\$ 14,257,000	8.7%	50,417

Property Tax- Property taxes are due November 1 and February 1, therefore property tax revenue collected in the first quarter is very minimal. With that said, there is a timing difference where some of the property taxes collected in the first quarter of FY 2021-21 were collected in the second quarter in the prior year. Property taxes overall have followed past years’ historical trends so far and no change to the budget/projected end of year amounts are being recognized at this time.

Sales Tax – Sales tax reported in the first quarter of FY 2021-22 is \$181,000 higher when compared to the first quarter in the previous FY 2020-21. The difference is mainly due to Measure F-20 that was approved in November 2020 and became effective April 1, 2021. Sales tax revenue for the first quarter represents revenue collected for one month only or July 2021 as there is a two-month lag of when the revenue is received by the City. Revenue received in the first quarter of FY 2021-22 for transactions in May and June 2021 was accrued back to FY 2020-21.

Cannabis Tax – Cannabis tax collected in the first quarter this year is lower than last fiscal year by approximately \$264,000 given lower revenues reported at a number of cannabis businesses. Staff will continue to closely monitor and report on this revenue source and will share more information during the mid-year budget review. Staff would also note that there are three additional businesses currently under construction and expected to begin operating this fiscal year that are not reflected in the revenue estimates. There are other cannabis businesses in the initial planning process that will add to future tax revenues along with the potential for allowing onsite consumption lounges in the future.

Franchise Fees – Franchise fees for the first quarter of FY 2021-22 is \$68,000 lower than the first quarter of FY 2020-21. This is due to a timing difference of collection where annual revenue that was collected in the first quarter of FY 2020-21 is expected to come in the second quarter of FY 2021-22.

Transient Occupancy Tax (TOT) – TOT revenue for the first quarter of FY 2021-22 is \$89,000 higher than the first quarter of FY 2020-21. This is likely due to the increased collection of TOT for permitted short-term rentals along with people traveling more and staying in lodging establishments following the lifting of pandemic restrictions this past summer.

A more detailed estimate of City revenues will be presented with the mid-year budget review and included in the updated five-year financial forecast presented in February 2022. With regards to expenditures, staff has worked to keep expenditures on track as budgeted with first quarter General Fund expenditures listed below in Table 2:

Table 2

GF Department	Adopted	Q1 Actual	% of Budget
Administrative Services	\$ 573,578	\$ 82,292	14.3%
City Management	1,419,373	303,921	21.4%
Community Development	1,416,676	239,188	16.9%
Parks and Recreation	428,597	116,483	27.2%
Police	5,639,721	1,199,911	21.3%
Public Works	1,427,446	466,635	32.7%
Non-Departmental	7,694,672	1,022,944	13.3%
Total GF Expenditures	\$18,600,063	\$3,431,374	18.4%

As a general rule, expenditures should be approximately 25% of the budget at the end of the first quarter with all departments below this threshold except for the Parks and Recreation and Public Works departments. Expenditures for Parks and Recreation are 27% for the first quarter mainly due to costs associated with the summer concerts held in July and August or the beginning of the fiscal year. Public Works is at 33% of budget for the first quarter and a review of department activity shows this is mainly due to the purchase of two vehicles budgeted in FY 2020-21 for \$40,000 but purchased in FY 2021-22 along with street sign signage also budgeted in FY 2020-21 for \$75,000 and completed in FY 2021-22. A budget appropriation to carry over these funds to FY 2021-22 will be included with the mid-year budget review.

Water Fund

Water Fund revenues are \$45,000 higher from this time in FY 2020-21 which is mainly due to the 2% rate increase approved in May 2021 and enacted with the FY 2021-23 budget. Operating expenditures for the Water Fund in the first quarter are tracking with expectations which includes an annual payment for insurance, a semi-annual payment made to the County for the Lopez Water contract, and debt service payment of the new water revenue bonds that will be used to fund a total of \$3 million in water projects this fiscal year. The capital project expenditures are above budget for the first quarter with 46% expended to date. This can mainly be attributed to the upgrade of 2- and 4-inch water mains project that is funded by a prior year CDBG grant where the remaining grant balance of \$2.2 million will be carried over from FY 2020-21 to FY 2021-22 with the mid-year budget review.

Wastewater Fund

Wastewater Fund revenues are on track with the adopted budget though expenditures are below budget for the first quarter with only 14% expended to date. This is mainly due to capital projects that will start later this fiscal year and transfers-out that are reconciled and accounted for annually as a year-end adjustment. Operating expenditures that include salaries and benefits (22% expended) along with supplies and services (23% expended) are on track to meet budgeted expenditures. Lastly, debt service payments that are 100% expended to date are made at the beginning of the fiscal year and therefore meet the budgeted expectation for these expenditures.

FISCAL IMPACT

There is no fiscal impact from receiving this report.

ALTERNATIVES

The Council has the following alternatives to consider:

1. Receive and file the FY 2021-22 First Quarter Financial Review; or
2. Provide alternative direction to staff

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act.