



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** September 12, 2022

FROM: Matthew Bronson, City Manager

PREPARED BY: Deanne Purcell, Administrative Services Director

SUBJECT: FY 2021-22 Year-End Financial Review

RECOMMENDATION

Receive a report on the FY 2021-22 Year-End Financial Review

BACKGROUND

On June 27, 2022, the Council adopted the Revised FY 2022-23 budget which included estimates for the fiscal year ending June 30, 2022. Staff is currently working with the City’s outside auditors to complete the FY 2021-22 annual audit which is anticipated to be completed in December 2022 and brought to the Council for approval in January 2023. In preparation for the outside auditors’ review in October, staff has conducted an initial review of the year-end financial results of FY 2021-22 to provide a summary to the Council prior to the completion of the audit. The following summary represents this initial review subject to change with the upcoming audit process.

General Fund

The General Fund is the City’s primary fund and includes general City services such as police, fire, and parks and recreation, and general administration. The General Fund is also where property tax, sales tax, and other general revenues are collected. Table 1 below shows the year-end estimates for FY 2021-22 provided to the Council in June 2022 compared to the FY 2021-22 unaudited actuals:

Table 1

GF Summary	FY 2021-22 Estimated	FY 2021-22 Unaudited Actuals	Difference
Beginning Reserves	\$ 5,073,745	\$ 5,073,745	\$ -
Revenues/Transfers In	18,833,127	18,341,888	(491,239)
Expenditures/Transfers Out	18,199,946	17,719,266	(480,680)
Annual Surplus	\$ 633,181	\$ 622,622	\$ (10,559)
Ending Reserves	\$ 5,706,926	\$ 5,696,367	\$ (10,559)
% of Operating Expenditures	39.0%	40.0%	0.9%

FY 2021-22 actual revenues are lower than estimated as part of the FY 2022-23 budget process mainly due to the deferral of American Rescue Plan Act (ARPA) revenue that was not expended in the amount of \$476,983. This amount will be deferred and expended in future fiscal years.

Expenditures shown in Table 1 are also lower than originally estimated mainly due to capital items that were budgeted in FY 2021-22 but not completed or purchased during the year and include:

- Computer aided dispatch system/records management system - \$241,000
- Public Works maintenance boom lift - \$75,000
- Back up computer storage/servers - \$39,000
- Asset management system - \$28,000

As shown in Table 1, the FY 2021-22 General Fund estimated unaudited actual surplus is \$622,622 which is nearly identical to the surplus of \$633,181 originally projected by staff. This estimated surplus produces ending reserves of \$5.7 million or a level equal to 40% of the City’s operating budget which provides sufficient reserves for emergencies and unforeseen needs and demonstrates the City’s strong financial position. Staff would note that this surplus amount does reflect carryover funds of \$1.44M that include the capital items above and approximately \$1.06M in capital projects not completed in FY 2021-22 that will be reallocated this year.

Given these circumstances, staff would recommend refraining from use of the FY 2021-22 unaudited surplus at this time as staff will return to the Council with additional information about the City’s financial condition in November 2022 and in February 2023 as part of the FY 2022-23 first quarter and mid-year review respectively.

Water Fund

The Water Fund is responsible for the maintenance and operation of City’s water system. This includes water lines, tanks, and wells. The Water Fund is estimated to end FY 2021-22 with \$97,000 less than the year-end estimates for FY 2021-22 provided to the Council in June 2022 compared to the FY 2021-22 unaudited actuals as shown in Table 2:

Table 2

Water Fund	FY 2021-22 Estimated	FY 2021-22 Unaudited Actuals	Difference
Beginning Reserves	\$ 8,193,835	\$ 8,193,835	\$ -
Revenues/Transfers In	5,678,357	5,618,062	(60,295)
Expenditures*/Transfers Out	5,944,590	5,981,361	36,771
Annual Surplus	\$ (266,233)	\$ (363,299)	\$ (97,066)
Ending Reserves	\$ 7,927,602	\$ 7,830,536	\$ (97,066)

*Does not include Depreciation Expense of \$179,276

Water revenues are lower than estimated by approximately \$60,000. This was mainly due to lower water usage due to water conservation efforts. Expenditures are higher than anticipated by almost \$37,000 mainly due to operating expenditures where there were supply chain issues and inflation costs that had to be absorbed by the City.

Wastewater Fund

The Wastewater Fund is responsible for the City’s maintenance and operation of wastewater lines within the City and bills for and forwards funds collected to the South San Luis Obispo County Sanitation District. The Wastewater Fund is projected to end FY 2021-22 with \$315,000 more than the year-end estimates for FY 2021-22 provided to the Council in June 2022 compared to the FY 2021-22 unaudited actuals as shown in Table 3:

Table 3

Wastewater Fund	FY 2021-22 Estimated	FY 2021-22 Unaudited Actuals	Difference
Beginning Reserves	\$ 3,485,145	\$ 3,485,145	\$ -
Revenues/Transfers In	1,414,045	1,557,754	143,709
Expenditures*/Transfers Out	1,609,649	1,438,091	(171,558)
Annual Surplus	\$ (195,604)	\$ 119,663	\$ 315,267
Ending Reserves	\$ 3,289,541	\$ 3,604,808	\$ 315,267

*Does not include Depreciation Expense of \$114,203

Wastewater revenues are higher than estimated by approximately \$144,000. This was mainly due to the use of ARPA funding to help cover project costs including a sewer system upgrade of \$81,000 and sewer video services of \$88,000. Expenditures are lower than anticipated mainly due higher estimates than actual costs of projects that were not completed in FY 2021-22.

FISCAL IMPACT

There is no fiscal impact from receiving this report.

ALTERNATIVES

The Council has the following alternatives to consider:

1. Receive information on the FY 2021-22 Year-End Financial Review and provide direction to staff; or
2. Provide alternative direction to staff

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act.