



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** November 14, 2022
FROM: Matthew Bronson, City Manager
PREPARED BY: Deanne Purcell, Administrative Services Director
SUBJECT: FY 2022-23 First Quarter Financial Review

RECOMMENDATION

Receive and file the FY 2022-23 First Quarter Financial Review.

BACKGROUND

General Fund

The City Council adopted a Revised Budget for FY 2022-23 with a General Fund budget of \$18,284,549 in June 2022 as part of updating the second year of a two-year FY 2021-23 budget. The FY 2022-23 General Fund budget assumed revenues and transfers in of \$18,948,583 which leads to an projected surplus of \$264,034 producing reserves equivalent to 40% of operating expenditures. This first quarter report covers revenue and expenditure activity in the beginning of FY 2022-23 from July-September 2022. 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 2023 will be a more accurate gauge of financial activity and trends impacting the City's budget.

Overall, General Fund revenues are performing as expected in the first quarter of FY 2022-23 using historical trends and the timing of when revenues are received. The City's top five revenues (sales tax, property tax, cannabis tax, transient occupancy tax, and franchise fees) are estimated to comprise 80% of total budgeted revenue for FY 2022-23, not including one-time American Rescue Plan Act (ARPA) funds. The table below compares the first quarter of the current fiscal year compared with the previous year as well as the previous year-end actual to the budgeted year-end estimate for the current year:

Table 1

	FY 2021-22			FY 2022-23			Incr (Decr) PY
	7/1-9/30 (Q1)	Unaudited Actuals 7/1-6/30	%	7/1-9/30 (Q1)	Budgeted 7/1-6/30	%	
Top 5 Revenues							
Sales Tax	415,143	5,649,554	7.3%	419,080	5,916,000	7.1%	3,938
Property Tax	\$ 129,139	\$ 5,229,806	2.5%	\$ 70,286	\$ 5,486,000	1.3%	\$ (58,853)
Cannabis Tax	295,806	1,515,590	19.5%	205,206	1,632,000	12.6%	(90,601)
TOT (Hotel Tax)	249,684	952,228	26.2%	190,438	750,000	25.4%	(59,246)
Franchise Fees	54,562	619,416	8.8%	136,240	723,000	18.8%	81,678
Total	1,144,333	\$13,966,594	8.2%	1,021,250	\$ 14,507,000	7.0%	(123,084)

Sales Tax – Sales tax reported in the first quarter of FY 2022-23 is \$4,000 higher when compared to the first quarter in the previous FY 2021-22. Sales tax revenue for the first quarter represents revenue collected for one month only (July 2022) as there is a two-month lag of when the revenue is received by the City. Revenue received in the first quarter of FY 2022-23 for transactions in May and June 2022 was accrued back to FY 2021-22. Although it is still early, current projections from the City’s sales tax consultant show that sales tax revenue is on course to meet budgeted levels for FY 2022-23.

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 2021-22 will be collected in the second quarter in the current 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.

Cannabis Tax – Cannabis tax collected in the first quarter this year is lower than last fiscal year by approximately \$91,000 given lower revenues reported at some of the cannabis businesses along with late payments that were paid in the second quarter of this fiscal year. Staff will continue to closely monitor and report on this revenue source and will share more information during the mid-year budget review.

Transient Occupancy Tax (TOT) – TOT revenue for the first quarter of FY 2022-23 is \$59,000 lower than the first quarter of FY 2021-22. This is due to the one-time collection effort of \$95,000 in FY 2021-22 from the prior year where some permitted STRs were not paying required revenues in a timely manner. Staff has worked with these STR permit holders to make sure they are staying current with their required tax payments.

Franchise Fees – Franchise fees for the first quarter of FY 2022-23 is \$82,000 higher than the first quarter of FY 2021-22. This is partly due to a timing difference of collection where annual revenue that was collected in the first quarter of FY 2022-23 was received in the second quarter of FY 2021-22.

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 2023. 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	\$ 587,549	\$ 150,956	25.7%
City Management	1,303,754	363,491	27.9%
Community Development	1,154,817	273,414	23.7%
Parks and Recreation	477,287	195,226	40.9%
Police	5,826,086	1,446,903	24.8%
Public Works	1,290,761	348,571	27.0%
Non-Departmental	7,823,814	820,012	10.5%
Total GF Expenditures	\$18,464,068	\$3,598,574	19.5%

As a general rule, expenditures should be approximately 25% of the budget at the end of the first quarter. Expenditures for City Management are 28% mainly due to annual maintenance agreements and sponsorships that are paid at the beginning of the year. Parks and Recreation expenditures are 41% for the first quarter mainly due to costs associated with the summer concerts held in July and August at the beginning of the fiscal year and child care grants that were funded by ARPA and budgeted in non-departmental. A budget adjustment to move ARPA funding to cover these expenditures in Parks and Recreation will be included with the mid-year budget review. Public Works expenditures are at 27% of budget for the first quarter and a review of department activity shows this is mainly due to the annual maintenance agreements paid in the first quarter.

American Rescue Plan Act Funding Update

On September 13, 2021, Council provided direction on the allocation of one-time American Rescue Plan Act (ARPA) funds in which the City was allocated \$3.2 million over a two-year period. The first disbursement of \$1.6 million was received in July 2021. The City's total expenditures for FY 2021-22 was \$1,132,856 with \$476,983 remaining balance to be used in FY 2022-23. The second disbursement of \$1.6 million was received in July 2022 for FY 2022-23 for a total available balance of \$2,086,822 in FY 2022-23.

As part of the Revised Budget for FY 2022-23, Council approved use of the ARPA funding for programs and activities in the following general categories:

- Homelessness Services and Programs \$1.3 million
- Enhancing Government Services \$432,000
- Aid to Local Businesses/Support for Tourism \$215,000
- Assistance to Households \$158,000
- Assistance to Nonprofits \$50,000

The ARPA funding is reflected in the Revised FY 2022-23 budget adopted by Council as non-department funding. Total ARPA funding spent through the first quarter (September 30, 2022) totals \$198,718 with \$1,888,104 remaining to spend in FY 2022-23. Additional details on ARPA expenditures for this fiscal year will be shared at the mid-year budget review in February.

Water Fund

Water Fund revenues are \$15,000 lower from this time in FY 2021-22 which is mainly due to the City's necessary water conservation efforts which has consequently reduced water usage and subsequent payments. 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 Lake water contract, and debt service payment for the water revenue bonds. The capital project expenditures are below budget for the first quarter due to capital projects that have not yet started.

Wastewater Fund

Wastewater Fund revenues are on track with the adopted budget though expenditures are below budget for the first quarter with only 10% 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 along with supplies and services are on track to meet budgeted 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 2022-23 First Quarter Financial Review; or
2. Provide alternative direction to staff

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act.