



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** February 14, 2023
FROM: Matthew Bronson, City Manager
PREPARED BY: Deanne Purcell, Administrative Services Director
Kristin Eriksson, Deputy City Manager
SUBJECT: FY 2022-23 Mid-Year Budget Review and General Fund Forecast

RECOMMENDATION

Receive information on the FY 2022-23 Mid-Year Budget Review including the City's American Rescue Plan Act allocation and the updated General Fund Financial Forecast; approve mid-year budget appropriations; and provide input and direction to staff.

BACKGROUND

Consistent with the Council's adopted financial policies, this report provides an update on the City's current financial condition this fiscal year and financial projections for revenues and expenditures over the next five years. The report begins with the City's mid-year financial status for the General Fund and two Enterprise Funds (Water and Wastewater) and requested consideration of mid-year budget appropriation changes. This report will also update the Council on the City's American Rescue Plan Act (ARPA) funding allocation and recommended changes from staff.

Following the mid-year information, staff will provide the results of an updated five-year General Fund financial forecast that builds on previous forecasts. The forecast is a starting point in the FY 2023-25 budget process in projecting baseline revenues and expenditures based on various assumptions. As an overall summary, the City is in a position that allows a balanced budget and healthy reserves although there are financial uncertainties that need to be considered. These uncertainties include economic headwinds from a potential recession, continued decline in cannabis tax revenues, service needs and costs of fire services with the departure of the Oceano Community Services District from the Five Cities Fire Authority along with needs in other City services, and higher than normal inflation that is projected to continue through 2023.

FY 2022-23 Mid-Year Financial Report

The General Fund is the City's primary fund with taxes and major user fees funding basic public services such as Police, Fire, Public Works, Community Development, Administration, and Parks and Recreation. The Council adopted a FY 2022-23 General Fund budget of \$18.7 million and included in Table 1 on the next page is a summary of the projected year-end totals based on mid-year actuals that shows an estimated \$225,000 General Fund surplus which is slightly less than the budgeted surplus of \$264,000: Ending reserves of \$7.2 million or 49% of operating expenditures does not include any carryovers from FY 2021-22 or mid-year requests that will be highlighted in Table 9 on page 7 of this report.

Table 1

| GF Summary | FY 2022-23 | |
|------------------------------------|----------------|----------------|
| | Budget | Projected |
| Beginning Reserves | \$ 6,937,300 | \$ 6,937,300 |
| Revenues/Transfers In | 18,728,000 | 18,488,800 |
| Expenditures/Transfers Out | 18,463,949 | 18,263,949 |
| Annual Surplus | 264,051 | 224,851 |
| Ending Reserves | \$ 7,201,351 | \$ 7,162,151 |
| % of Operating Expenditures | 49% | 49% |

General Fund Revenues

For FY 2022-23, the City's top five revenues (sales tax, property tax, cannabis tax, franchise fees, and transient occupancy tax) comprise 87% of total revenue, excluding transfers in and one-time grant funds. Total General Fund revenues are projected to end the fiscal year at approximately \$18.5 million compared to \$18.7 million budgeted. Projections are determined by various factors that include historical trends, revenue received, anticipated business growth, or consulting with tax revenue experts and could change based on the remainder of the fiscal year.

Due to the diversity of the City's revenue make-up, the City's financial position remained strong despite the impacts of the COVID-19 pandemic in FY 2019-20 and FY 2020-21. During those fiscal years, cannabis tax revenues hit the highest level reported to date and sales tax reported substantial increases, mainly due to the significant increase in cannabis sales activity along with an increase in online shopping. In FY 2021-22 revenues continued to increase despite a 38% decline in cannabis tax revenue from the prior FY 2020-21, as the City's new sales tax Measure F-20 added \$2.4 million in sales tax revenue. Transient occupancy tax revenue also increased by 64% over the prior year, mainly due to the addition of permitted short term rentals and increased travel and tourism after the pandemic.

As further explained below, in FY 2022-23 cannabis tax revenues are projected to continue to decline from earlier projections this year which appears to be the trend in this industry for various reasons, including competition from other cities and the illegal market, and inflation where consumers are having to spend more on necessities, leaving less for other purchases, such as cannabis. Table 2 below highlights the General Fund revenue for the FY 2022-23 budget compared to projected revenue at year-end. As shown in the table below, total revenues are anticipated to be lower than budget by approximately \$238,000 with additional information to follow about these five main revenue sources:

Table 2

| Top 5 GF Revenue | Budget | Projected | Over/ (Under) | % of Budget |
|--------------------|----------------------|----------------------|---------------------|----------------|
| 1. Sales Tax | \$ 5,916,000 | \$ 5,986,000 | \$ 70,000 | 101.2% |
| 2. Property Tax | 5,381,000 | 5,381,000 | - | 100.0% |
| 3. Cannabis Tax | 1,632,000 | 1,300,000 | (332,000) | 79.7% |
| 4. Franchise Fees | 723,000 | 623,000 | (100,000) | 86.2% |
| 5. TOT | 750,000 | 874,000 | 124,000 | 116.5% |
| Total Top 5 | \$ 14,402,000 | \$ 14,164,000 | \$ (238,000) | 98.3% |

- *Sales Tax* is estimated to be on track as budgeted using latest projections from our sales tax consultant that show a small increase of \$70,000. The latest sales tax report shows business activity is up in the transportation area by 25% from the same period last year mainly due to the high fuel prices. In addition, as higher interest rates cool the housing market, homeowners are focusing more on remodel projects and construction is up 28% from the same period in the previous year. Sales tax revenue in the cannabis industry is down from the same period in the prior year by approximately 21% which is related to the decrease in cannabis tax revenue highlighted below.
- *Property Tax* continues to be a consistent revenue source and is estimated to be on track with budget. The County of San Luis Obispo has estimated a 4% increase in property tax revenue from the prior year, which falls in line with the City’s budgeted numbers.
- *Cannabis Tax* is estimated to be \$332,000 lower than budgeted. This number is based on revenues received through the second quarter ending December 31, 2022, along with expectations for activity in the second half of the fiscal year. There are continued challenges facing the industry including the strength of the illicit market, degree of State taxation and regulations, and competition from businesses in other cities. Economic reports have shown that this trend is predicted to stay for the foreseeable future.
- *Franchise Fees* are projected to be \$100,000 lower than budget due to a delay in the operation of the trans-oceanic fiber optic cable given international boundary disputes affecting the cable. These revenues are now projected to start in FY 2023-24.
- *Transient Occupancy Tax (TOT)* is estimated to be \$124,000 higher than budget. The increase is due to revenue from permitted short-term rentals coming in higher than anticipated along with an increase in travel and tourism to the Central Coast after the course of the pandemic.

General Fund Expenditures

Table 3 below shows that overall General Fund expenditures are projected to end the year under the revised budget by \$200,000. The projected budget is based on best estimates using the most current data and historical trends and could change with six months remaining in the fiscal year:

Table 3

| GF Expenditures | Budget | Projected | Variance | % of Budget |
|------------------------------|----------------------|----------------------|---------------------|--------------------|
| Salaries and Benefits | \$ 8,749,654 | \$ 8,649,654 | \$ (100,000) | 98.86% |
| Supplies and Services | 7,442,870 | 7,442,870 | - | 100.00% |
| Debt Service | 181,425 | 181,425 | - | 100.00% |
| CIP/Transfers Out | 2,090,000 | 1,990,000 | (100,000) | 95.22% |
| Total GF Expenditures | \$ 18,463,949 | \$ 18,263,949 | \$ (200,000) | 98.92% |

The \$100,000 savings in salaries and benefits is the net of salary savings in the Police Department of \$425,000 due to vacant positions which is offset by 1) a \$200,000 equity compensation adjustment approved by Council on September 12, 2022 and reflected as a mid-year appropriation, 2) a temporary change from part time to full time for the administrative assistant in Parks and Recreation due to staffing need or a \$56,000 increase and 3) retirement payouts for

four retirees. The \$100,000 in Capital Improvement Program (CIP) savings is due to a delay in the installation of new streetlights that is expected to start in FY 2023-24 given PG&E processing time. Staff will provide further information on the status of the CIP and proposed upcoming projects at the March 27th Council meeting.

Water Fund

Water Fund revenues in charges for service are down \$53,000 from this time last year which staff believes is due to a decrease in water consumption with customers trying to conserve water along with the tiered rate structure where customers are charged more for using higher amounts of water. Since water consumption is down, customers save by having a lower rate when using less water. A rate study is currently being done to determine the need for any future rate adjustments. Transfers in of \$1.3 million in the prior year came from the Community Development Block Grant (CDBG) Fund for the 2” and 4” water main project that was funded by the CDBG grant.

Table 4

| Water Fund | FY 2021-22 | | FY 2022-23 | |
|-----------------------------|---------------------|---------------------|--------------------|---------------------|
| | Q2 Actual | Actual 7/1-6/30 | Q2 Actual | Budget 7/1-6/30 |
| Revenue | | | | |
| Use of Money and Property | \$ 5,027 | \$ 23,319 | \$ 19,747 | \$ 33,300 |
| Revenue from Other Agencies | \$ 26,269 | 51,619 | | |
| Charges for Services | 1,511,042 | 3,906,986 | 1,458,231 | 4,265,400 |
| Transfers In | 1,326,304 | 1,644,277 | | 32,000 |
| Grand Total | \$ 2,868,642 | \$ 5,626,201 | \$1,477,978 | \$ 4,330,700 |

With Water Fund expenditures, supplies and services are 74% expended to date due to the annual payment at the beginning of the fiscal year for liability insurance and the semi-annual payment made to the County in July and December for the Lopez Water Contract for debt service and routine operations and maintenance. Capital projects are still being completed or have not yet started. Overall, Water Fund expenditures are at budgeted levels for the second quarter with 49% expended to date.

Table 5

| Water Fund | FY 2021-22 | | FY 2022-23 | |
|-----------------------|---------------------|---------------------|--------------------|---------------------|
| | Q2 Actual | Actual 7/1-6/30 | Q2 Actual | Budget 7/1-6/30 |
| Expenditures | | | | |
| Salaries and Benefits | \$ 417,671 | \$ 788,847 | \$ 451,430 | \$ 817,841 |
| Supplies and Services | 1,656,453 | 2,234,235 | 1,599,564 | 2,161,905 |
| Major Capital | 1,212,267 | 2,580,298 | 5,362 | 955,000 |
| Debt Service | 242,930 | 100,493 | 233,839 | 281,443 |
| Transfers Out | | 486,176 | | 476,000 |
| Grand Total | \$ 3,529,321 | \$ 6,190,049 | \$2,290,195 | \$ 4,692,189 |

Wastewater Fund

The City is on track to meet the budgeted revenue amounts for this year as shown in Table 6 below which compares to actual amounts from last year:

Table 6

| Wastewater Fund | FY 2021-22 | | FY 2022-23 | |
|---------------------------|-------------------|------------------------|-------------------|------------------------|
| Revenue | Q2 Actual | Actual 7/1-6/30 | Q2 Actual | Budget 7/1-6/30 |
| Use of Money and Property | \$ 15,579 | \$ 24,002 | \$ 9,602 | \$ 16,000 |
| Charges for Services | 351,522 | 1,306,389 | 351,944 | 1,326,800 |
| Transfers In | | 227,363 | | 85,000 |
| Grand Total | \$ 367,101 | \$ 1,557,754 | \$ 361,546 | \$ 1,427,800 |

In terms of expenditures, Wastewater Fund expenditures are below budget for the second quarter with 19% expended to date. The main reason is due to anticipated capital projects that have not yet started and transfers-out that are reconciled and accounted for annually as a year-end adjustment as shown on the next page in Table 7:

Table 7

| Wastewater Fund | FY 2021-22 | | FY 2022-23 | |
|------------------------|-------------------|------------------------|-------------------|------------------------|
| Expenditures | Q2 Actual | Actual 7/1-6/30 | Q2 Actual | Budget 7/1-6/30 |
| Salaries and Benefits | \$ 349,034 | \$ 756,599 | \$ 380,055 | \$ 697,366 |
| Supplies and Services | 209,462 | 592,307 | 186,943 | 416,800 |
| Major Capital | 26,757 | 157,722 | 32,428 | 1,845,000 |
| Debt Service | 21,808 | 171 | | |
| Transfers Out | | 179,528 | 1,170 | 286,000 |
| Grand Total | \$ 607,060 | \$ 1,686,327 | \$ 600,596 | \$ 3,245,166 |

Carry-Over of Capital Project Funding and Authorized Appropriations

Per Council's adopted financial policies, any unused appropriations at the end of fiscal year 2021-22 in active capital improvement projects and multi-year programs are re-appropriated for continued use in fiscal year 2022-23. These carry-overs include \$1,285,218 in the Capital Projects Fund, \$1,575,040 in the Water Fund, and \$403,450 in the Wastewater Fund. A detailed listing is included in Attachment 1.

The financial policies also authorize any remaining balance of one-time authorized appropriations to be carried forward with the approval of the City Manager and Administrative Services Director. Council previously approved FY 2021-22 appropriations for costs that were not expended until FY 2022-23. The list of authorized one-time appropriations that will be carried over to FY 2022-23 for implementation this fiscal year using General Fund reserves include back-up computer storage (\$5,000), General Plan Circulation Element update (\$60,000), new valve truck (\$75,000), computer-aided dispatch and records management systems (\$227,067), Ramona Center audio visual project (\$24,000), and asset management system allocation (\$9,679). Water Fund one-time appropriations include water system upgrades (\$30,000) and asset management system allocation (\$9,395) and the Wastewater Fund one-time appropriations include the asset management system allocation (\$9,394). Lastly, the development impact fee study that is being conducted in FY 2022-23 was originally budgeted using the development impact fee funds in FY 2021-22 and will be carried forward to FY 2022-23 (\$67,500) to cover the study.

Requested Mid-Year Budget Appropriations and General Fund Impact

With the current fiscal year half-way completed, departments have had the opportunity to re-evaluate their current operations and identify any unforeseen needs that have become known. Staff is requesting the Council's consideration of mid-year budget appropriation changes for the General Fund totaling \$331,000 along with appropriations requested for the Equipment Replacement Fund (\$25,000) as shown in the detail in Attachment 2 and in Table 8 below:

Table 8

| Department | Funding Source | FY 23 Mid-Year Appropriation Request | Description |
|--------------------------------|------------------------------------|---|---|
| Non-Dept | General Fund | \$ 200,000 | Equity adjustment for salaries |
| Public Works | General Fund | 75,000 | N. 12th Street Sidewalk |
| Parks&Recreation | General Fund | 56,000 | To cover cost of administrative assistant part-time position to full time |
| Police | General Fund | 200,000 | Special response van for drone operations, major collisions and crime scene investigations |
| | General Fund | (200,000) | Move salary savings to cover response van purchase |
| | General Fund | 60,000 | Ramona Center Audio Visual Installation |
| | General Fund | (60,000) | Move salary savings to cover Ramona Center project |
| | Total General Fund | \$ 331,000 | |
| Administrative Services | Equipment Replacement Fund | \$ 25,000 | Server-Originally budgeted during pandemic (FY 19-20) but not spent, the need is now current due to new ERP implementaion |
| | Total Equipment Replacement | \$ 25,000 | |

Table 9 below shows the General Fund impact of these recommended mid-year budget appropriations for the current FY 2022-23 along with the related changes in General Fund reserves from the carry-over of authorized appropriations. There is projected to be a net surplus of \$224,851 for this fiscal year with ending reserves of \$5.5 million or 38% of operating expenditures.

Table 9

| GF Summary | FY 2022-23 Projected |
|--|-------------------------|
| Revenues/Transfers In | \$ 18,488,800 |
| Expenditures/Transfers Out | 18,263,949 |
| Annual Surplus | \$ 224,851 |
| Beginning Reserves | 6,937,300 |
| Less: FY 22 CIP Carryover | 915,744 |
| Less: Carryover Authorized Appropriations | 400,746 |
| Less: Mid-Year Requests | 331,000 |
| Ending Reserves | \$ 5,514,661 |
| % of Operating Expenditures | 38% |

American Rescue Plan Act Allocation

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 to be spent primarily in FY 2021-22 and the second disbursement of \$1.6 million will be received this year. The ARPA funding is reflected in the FY 2021-23 budget adopted by Council as non-department funding in both FY 2021-22 and FY 2022-23.

Overall, approximately \$1 million in ARPA funding was spent in FY 2021-22 within the following Council-adopted categories:

- Homeless services and facilities
- Nonprofit assistance
- Rental and utility assistance
- Business assistance/economic development
- Unfunded water or sewer projects

As part of the FY 2021-23 budget hearing on June 14, Council provided direction to use remaining ARPA funding for programs and activities in the following general categories:

- Homeless Services
- Government Service Capacity
- Business Assistance/Economic Development
- Assistance to Households (Childcare and Utility Assistance)
- Nonprofit Assistance

Total ARPA funding spent through the second quarter of FY 2022-23 (December 31, 2022) totals \$399,931 with an estimated \$750,277 in ARPA funding committed in future quarters. Thus, there is approximately \$1million remaining from the total allocation. Year to date expenditures and estimated commitments are included in Table 10 below:

Table 10

| <u>Expense Category</u> | <u>FY 2022-23 YTD Actual Expense</u> | <u>FY 2022-23 Committed Funds (est.)</u> | <u>Comments</u> |
|--|--|--|--|
| <u>Homeless Services</u> | <u>\$85,470</u> | <u>\$101,570</u> | <u>Encampment cleanups and services</u> |
| <u>Government Service Capacity</u> | <u>\$121,902</u> | <u>\$439,359</u> | <u>\$400,000 commitment for implementation of new ERP System</u> |
| <u>Business Assistance/Economic Development</u> | <u>\$110,281</u> | <u>\$140,748</u> | <u>Tourism/marketing & Economic Development Services; Business Facade Grants</u> |
| <u>Assistance to Households</u> | <u>\$67,656</u> | <u>\$18,600</u> | <u>Childcare Grants; Utility Assistance</u> |
| <u>Nonprofit Assistance</u> | <u>\$0</u> | <u>\$50,000</u> | <u>FY 2022-23 Community Grants (Spring)</u> |
| <u>Water/Sewer Projects</u> | <u>\$14,621</u> | <u>\$0</u> | <u>Rollover from FY 2021-22</u> |

Pursuant to the U.S. Treasury Final Rule regarding ARPA funding, the City may use ARPA funds to offset revenue losses and to pay for government services. The City can elect a “standard allowance” of up to \$10 million in ARPA funding. Staff will recommend this approach to the Council during the FY 2023-25 budget process to receive the remaining ARPA funding in the City’s General Fund. This will provide greater flexibility in utilizing ARPA funds and will eliminate timing restrictions for the use of the funds.

General Fund Financial Forecast

Economic Trends

The General Fund financial forecast is intended to be a valuable tool to help the Council and staff make prudent financial decisions and provide information for future budgets to come. Staff annually updates a five-year General Fund financial forecast to evaluate the City’s financial condition and help develop the City’s budget.

The December 2022 UCLA Anderson forecast predicts that the action of the Federal Reserve will determine whether the U.S. economy continues to show slow growth or enters a mild short-lived recession in 2023. Either way, the economy is expected to rebound in 2024 with the good news that California is expected to see a milder impact on its economy in 2023. Overall, there is consumer uncertainty with high inflation, rising interest rates and the downturn of the housing market which will make 2023 a challenging year. The forecast anticipates high but slowing inflation, especially as oil prices come down, which is one of the big drivers of inflation. Gasoline prices fell 9.4% in December and are below their level of a year ago. Annual inflation fell to 6.5% in December, the sixth consecutive month of decline and the slowing economy is likely to bring the yearly rate down to 3.2% by the end of 2023. Statewide, the unemployment rate was 4.1% in December 2022 compared to 7.7% in December 2021 and 9% in December 2020.

Lastly, based on the latest sales tax forecast ending September 30, 2022, statewide revenues are up 14% overall compared with the previous year with the Central Coast up 12% overall. Autos & Transportation sales tax revenue continues to increase with modest growth (5%), although this is far less when compared to last year where new car prices were up 10% and used car prices were up 26%. Fuel & Service Stations are up 38%, although fuel prices have been steadily coming down and the demand for fuel is expected to be lower in 2023 and looking ahead, the forecast is expecting to be flat for FY’s 2024 and 2025. Statewide, housing projects were up 57% as higher mortgage rates kept homeowners in their current residence and focusing on remodel projects, although the forecast is normal growth will return in FY’s 2024 & 2025. The Food & Drug group including cannabis and grocery stores had modest growth due to the overall increase in cost of food which helped make up the continued losses in the cannabis industry. These restrained levels are expected to hold for the foreseeable future. Consequently, the projection in the Food and Drug sector is continued modest growth at a rate of 2%.

City’s Five-Year Forecast

Fortunately, the City went through the pandemic with little impact to City finances. This was in large part due to the diversified economy in Grover Beach and similar results are occurring post-pandemic where more sluggish activity in the cannabis industry is being partially offset by TOT increases. The City is seeing some of the short-term impacts coming out of the pandemic including higher than normal fuel costs and low supply, both in labor and goods, which is driving up the inflation rate and creating higher prices. However, the long-term forecast is that these trends will be temporary, and the inflation rate will continue to come down in 2023 and normalize by 2024. The City is in a strong financial position with reserves well over the Council’s 25% goal,

although, the City still faces significant community needs for services and capital improvements. In addition, the forecast does not include any potential increases to the Five Cities Fire Authority contract pending the study that is being prepared by outside consultants. This study will be presented to the Council on February 27 along with a separate organizational assessment conducted to assess service needs in City departments. It is also important to note that the pension cost calculated in this forecast uses the latest actuarial report that was issued in June 2022 and is through June 30, 2021, therefore the report doesn't reflect the -6.1% investment loss that was reported by CalPERS for the fiscal year ending June 20, 2022. The actuarial reports that will reflect this loss (through June 30, 2022) will not be issued until June 2023. This could result in higher pension cost in future years.

Table 11 below shows a summary of this updated five-year forecast with a more detailed version shown in Attachment 3:

Table 11

| FIVE YEAR GF FORECAST | | | | | |
|--|----------------------------------|--------------|--------------|--------------|--------------|
| General Fund | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
| Revenues | \$17,389,000 | \$18,097,000 | \$18,606,000 | \$19,106,000 | \$19,601,000 |
| Expenditures | 17,295,600 | 17,787,800 | 18,074,000 | 18,348,400 | 18,698,700 |
| Annual Surplus | 93,400 | 309,200 | 532,000 | 757,600 | 902,300 |
| Beginning Reserves | 5,372,700 | 5,324,100 | 5,491,300 | 5,845,300 | 6,424,900 |
| Ending Reserves | \$ 5,466,100 | \$ 5,633,300 | \$ 6,023,300 | \$ 6,602,900 | \$ 7,327,200 |
| Percent of Operating Expenditures | 36% | 36% | 38% | 41% | 45% |
| | FY 2023-25 Financial Plan | | | | |

Overall, the forecast indicates the General Fund is in a positive position over the five-year period though with a small projected surplus in FY 2023-24 given economic projections for next year. Reserves remain strong and substantially higher than the Council's policy goal of 25% of operating expenditures. There are higher projected revenue increases in future years as described below though still a degree of uncertainty particularly in the later years of the forecast:

- *Sales Tax.* Using the estimates provided by the City's sales tax consultant, this year's forecast assumes that general sales tax revenues will plateau in FY 2023-24 and only increase by 0.6% from the current FY 2022-23 and then return to a more consistent growth level of 3% in the following four fiscal years (2025-28) . The City saw a significant increase of 15.9% in general sales tax in FY 2020-21 due to the strong sales in the cannabis industry and an increase in online sales, although general sales tax was flat in FY 2021-22 due to the decrease in cannabis sales as conveyed previously and is projected to have some impact on future sales tax revenues in the forecast. Voter-approved Measure F-20 in November 2020 added an additional \$2.4 million to sales tax revenues in FY 2021-22.
- *Property Tax.* Using the County's revenue estimates, this year's forecast assumes that the City's property tax revenues will increase by 4% next year from the current fiscal year FY 2022-23 which has been consistent over the last ten years where the average increase stays between 4 and 5%. Fiscal years 2023-25 assume consistent growth of 4% per year.
- *Cannabis Tax.* The forecast assumes that the City will receive \$1.3 million for FY 2022-23, or a 14% decrease from what was collected in FY 2021-22. For FY 2022-23, cannabis sales continue to be sluggish when compared to prior years and are estimated to be almost

\$340,000 lower than what was budgeted, due to industry challenges conveyed previously. This forecast takes a conservative approach of not estimating additional revenues as the City has seen in the pandemic years when cannabis tax revenue hit the highest level at \$2.4 million. Fiscal years 2024-28 assume limited growth of 2% per year from FY 2022-23 base of \$1.3 million. Staff continues to recommend caution with cannabis tax revenues and continues to recommend one-time uses for this revenue source. However, staff would also acknowledge that the initial estimate for cannabis tax revenues projected in 2017 was approximately \$1.5 million which is more in line with current results.

- *Transient Occupancy Tax (TOT)*. TOT revenues were the most impacted tax revenue during the pandemic. FY 2019-20 revenue of \$433K was flat when compared to the prior year FY 2018-19 of \$433K, due to a significant decrease in travel and hotel stays. However, TOT revenue rebounded in FY 2020-21 with a 34% increase followed by a significant increase of 64% in TOT revenue in FY 2021-22 and it is estimated that TOT will be around \$875,000 or \$125,000 over the budgeted \$750,000 in FY 2022-23. This is mainly due to the recovery from the pandemic along with the collection of TOT revenue for permitted short-term rentals (STRs). TOT is projected to increase 3% each year and the forecast does not include TOT for future hotel projects until construction begins. Staff would note that construction may begin on the 950 El Camino Real hotel project sometime this fiscal year based on information from the developer.

FISCAL IMPACT

The General Fund appropriations requested for the current FY 2022-23 budget total \$331,000 and the Equipment Replacement Fund appropriation requested total \$25,000. Total FY 2021-22 carryover of special one-time authorized General Fund appropriations total \$400,746 and will come out of General Fund reserves along with \$30,395, \$9,394, and \$67,500 coming out of reserves for Water, Wastewater and the DIF funds respectively. CIP project carryovers for FY 2021-22 total \$915,744 for the General Fund and will come out of General Fund reserves.

ALTERNATIVES

The Council has the following alternatives to consider:

1. Receive information on the FY 2022-23 Mid-Year Budget Review including the City's American Rescue Plan Act allocation and the updated General Fund Financial Forecast; approve mid-year budget appropriations; and provide input and direction to staff; or
2. Do not approve mid-year appropriation requests; or
3. Provide staff with alternate direction.

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act.

Attachments

1. FY 2021-22 CIP Carryover to FY 2022-23
2. Mid-Year Appropriation Requests
3. General Fund Five Year Financial Forecast

| | Expenditure | Revenue/ Transfers from Other Funds |
|--|---------------------|--|
| CAPITAL PROJECTS FUND (11) | | |
| 1259 : Ramona Garden Park Rehabilitation | \$ 219,474 | \$ 219,474 |
| 2283 : Local Street Rehabilitation Program | 50,744 | 50,744 |
| 2287 : Major Streets: West Grand Ave Streetscape | 600,000 | 600,000 |
| 3002 : City Corp Yard Improvements | 250,000 | 250,000 |
| 3264 : Police Station Improvements | 165,000 | 165,000 |
| Total Capital Projects Fund | \$ 1,285,218 | \$ 1,285,218 |
| WATER FUND (81) | | |
| 4001 : Regional Groundwater Sustainability Project | \$ 1,400,040 | |
| 4007 : Water Main Zone Valves | 25,000 | |
| 4270 : Water Meter Replacement Program | 150,000 | |
| Total Water Fund | \$ 1,575,040 | |
| WASTEWATER FUND (80) | | |
| 5002 : Sewer Upgrade for Existing Flows | \$ 403,450 | |
| Total Wastewater Fund | \$ 403,450 | |

| Department | Funding Source | FY 23 Mid-Year Appropriation Request | Description |
|--------------------------------|---|---|---|
| Non-Dept | General Fund | \$ 200,000 | Equity adjustment for salaries |
| Public Works | General Fund | 75,000 | N. 12th Street Sidewalk |
| Parks & Recreation | General Fund | 56,000 | To cover cost of administrative assistant part-time position to full time |
| Police | General Fund | 200,000 | Special response van for drone operations, major collisions and crime scene investigations |
| | General Fund | (200,000) | Move salary savings to cover response van purchase |
| | General Fund | 60,000 | Ramona Center Audio Visual Installation |
| | General Fund | (60,000) | Move salary savings to cover Ramona Center project |
| | Total General Fund | \$ 331,000 | |
| Administrative Services | Equipment Replacement Fund | \$ 25,000 | Server-Originally budgeted during pandemic (FY 19-20) but not spent, the need is now current due to new ERP implementaion |
| | Total Equipment Replacement Fund | \$ 25,000 | |

GENERAL FUND FIVE YEAR FISCAL FORECAST: 2023-2028

| | 2020-21 | 2021-22 | 2022-23 | | FIVE YEAR-FORECAST | | | | |
|--|------------|------------|------------|------------|--------------------|-------------------|------------|------------|------------|
| | Actual | Actual | Budget | Revised | 2023-24 Budget | 2024-25 Budget | 2025-26 | 2026-27 | 2027-28 |
| REVENUES | | | | | | | | | |
| Taxes and Franchise Fees | | | | | | | | | |
| Property Tax | 4,881,500 | 5,136,800 | 5,381,000 | 5,381,000 | 5,596,000 | 5,820,000 | 5,995,000 | 6,175,000 | 6,360,000 |
| Sales Tax | | | | | | | | | |
| General: 1% | 2,089,100 | 2,082,800 | 2,176,000 | 2,155,000 | 2,167,000 | 2,226,000 | 2,293,000 | 2,355,000 | 2,412,000 |
| Measure X: 1/2% | 1,185,100 | 1,215,200 | 1,234,200 | 1,264,230 | 1,274,130 | 1,308,450 | 1,346,730 | 1,382,370 | 1,415,370 |
| Measure F-20: 1% | 572,800 | 2,351,600 | 2,505,800 | 2,566,770 | 2,586,870 | 2,656,550 | 2,734,270 | 2,806,630 | 2,873,630 |
| Franchise Fees | 600,200 | 619,400 | 623,000 | 623,000 | 635,000 | 648,000 | 661,000 | 674,000 | 687,000 |
| Fiber Optic Cable (4 @ \$100K) | | | 100,000 | - | 100,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Transient Occupancy Tax | 580,400 | 952,200 | 750,000 | 874,000 | 900,000 | 927,000 | 955,000 | 984,000 | 1,014,000 |
| Utility Users Tax | 184,900 | 190,300 | 186,200 | 194,000 | 198,000 | 202,000 | 206,000 | 210,000 | 214,000 |
| Cannabis Tax | 2,424,900 | 1,515,600 | 1,632,000 | 1,300,000 | 1,326,000 | 1,353,000 | 1,380,000 | 1,408,000 | 1,436,000 |
| Business Tax | 154,600 | 152,400 | 175,000 | 155,000 | 159,000 | 162,000 | 165,000 | 168,000 | 171,000 |
| Other Taxes | 189,600 | 200,400 | 193,000 | 204,000 | 208,000 | 212,000 | 218,000 | 225,000 | 232,000 |
| Total Taxes and Franchises | 12,863,100 | 14,416,700 | 14,956,200 | 14,717,000 | 15,150,000 | 15,815,000 | 16,254,000 | 16,688,000 | 17,115,000 |
| From Other Governments | 340,400 | 1,475,000 | 1,795,000 | 1,795,000 | 51,000 | 53,000 | 55,000 | 57,000 | 59,000 |
| Licenses and Permits | 181,100 | 199,000 | 225,000 | 225,000 | 230,000 | 235,000 | 242,000 | 249,000 | 256,000 |
| Service Charges | 624,200 | 860,500 | 899,800 | 899,800 | 918,000 | 936,000 | 964,000 | 993,000 | 1,023,000 |
| Use of Money and Property | 72,400 | (69,200) | 227,300 | 227,300 | 232,000 | 237,000 | 244,000 | 251,000 | 259,000 |
| Other Revenues | 40,800 | 47,900 | 53,700 | 53,700 | 54,000 | 54,000 | 64,000 | 69,000 | 74,000 |
| Total Revenues | 14,122,000 | 16,929,900 | 18,157,000 | 17,917,800 | 16,635,000 | 17,330,000 | 17,823,000 | 18,307,000 | 18,786,000 |
| EXPENDITURES | | | | | | | | | |
| Operating Programs | 13,534,500 | 15,373,900 | 16,205,900 | 16,105,900 | 15,030,600 | 15,482,800 | 15,724,800 | 15,954,100 | 16,284,500 |
| Debt Service | 154,600 | 134,200 | 168,000 | 168,000 | 95,000 | 95,000 | 95,000 | 95,000 | 69,000 |
| CIP (Tr Out Fund 11 start in FY 21) | 229,000 | 589,300 | 2,090,000 | 1,990,000 | 2,000,000 | 2,040,000 | 2,080,800 | 2,122,400 | 2,164,800 |
| Total Expenditures | 13,918,100 | 16,097,400 | 18,463,900 | 18,263,900 | 17,125,600 | 17,617,800 | 17,900,600 | 18,171,500 | 18,518,300 |
| OTHER SOURCES (USES) | | | | | | | | | |
| Transfers In | | | | | | | | | |
| Cost Allocation Transfers | 486,000 | 500,000 | 515,000 | 515,000 | 528,000 | 541,000 | 552,000 | 563,000 | 574,000 |
| Other Transfers In | 92,000 | 31,000 | 56,000 | 56,000 | 226,000 | 226,000 | 231,000 | 236,000 | 241,000 |
| Transfers Out | | | | | (170,000) | (170,000) | (173,400) | (176,900) | (180,400) |
| Long-Term Debt Issued | | 371,100 | | | | | | | |
| Total Other Sources (Uses) | 578,000 | 902,100 | 571,000 | 571,000 | 584,000 | 597,000 | 609,600 | 622,100 | 634,600 |
| Sources Over (Under) Uses | 781,900 | 1,734,600 | 264,100 | 224,900 | 93,400 | 309,200 | 532,000 | 757,600 | 902,300 |
| Reserves, Start of Year * | 4,704,800 | 5,486,700 | 7,079,300 | 7,079,300 | 5,514,700 | 5,466,100 | 5,633,300 | 6,023,300 | 6,602,900 |
| Wastewater Fund Repayment C/O from FY 22 (CIP 915,700, other 400,800) | | (142,000) | (142,000) | (142,000) | (142,000) | (142,000) | (142,000) | (178,000) | (178,000) |
| Additional Mid-year requests | | | | (331,000) | | | | | |
| Reserves, End of Year | 5,486,700 | 7,079,300 | 7,201,400 | 5,514,700 | 5,466,100 | 5,633,300 | 6,023,300 | 6,602,900 | 7,327,200 |
| * 2020-21 reserves at start of the year is net of the advance payable to Wastewater Fund of \$1,435,700, each year starting with FY 22 reflects deduction for WW fund repayment with end of yr reserves. | | | | | | | | | |
| Reserve % Operating Costs | 41% | 51% | 49% | 38% | 36% | 36% | 38% | 41% | 45% |
| <i>Minimum reserve policy is 15% of operating costs, with a goal of 25%.</i> | | | | | | | | | |