



STAFF REPORT – CITY COUNCIL MEETING

March 06, 2024

TO: Honorable Mayor and City Council Members

FROM: Tabatha Miller, Finance Director

PREPARER: Tabatha Miller, Finance Director

DATE: February 23, 2024

TITLE: **Consider Adopting Resolution No. 234-34, A Resolution of the City Council of the City of Arcata Accepting the Mid-Year Budget Review and Approving Budget Revisions for the Fiscal Year 2023-24.**

RECOMMENDATION:

It is recommended that the Council adopt Resolution No. 234-34, A Resolution of the City Council of the City of Arcata to Amend Resolution No. 223-57 Adopting the Annual Budget for the Fiscal Year 2023-24.

INTRODUCTION:

It is the standard policy and practice of the City Council to perform a mid-year budget review in March of each year.

BACKGROUND:

The annual mid-year review serves three purposes. It provides an opportunity to monitor the City's current budget and financial position as of 12.31.2023, to review projections for the year-end budget and financial position, and to preview the City's financial status going into the next fiscal year—2024-25 budget.

The recommendations for adjusting the current expenditure and revenue budgets are set forth in detail in Resolution No. 234-34 (Exhibit, which, is the culmination of a line-by-line review of every revenue and expenditure account. New projects, opportunities, changes in revenue and unanticipated expenditures are incorporated into the recommendations, in addition to carrying forward remaining budget for unfinished projects and capital expenditures from FY 2022-23.

- \$2,491,069 in outstanding FY 2022-23 Purchase Orders, Capital Project Budgets and other outstanding projects;
- \$3,662,543 increased expenditures for FY 2023-24, that are offset by revenues and/or reimbursements;
- \$2,863,772 from increases to projected revenues;
- \$245,900 to cover one-time anticipated retirement leave cashouts;

- Approval of .75 FTE Water/Wastewater Mechanic II to provide much needed support for the increased and aging infrastructure and equipment in the City’s water distribution and sewer collection systems. The cost of the position in FY 2023-24 is covered by salary savings from vacant positions and the estimated annual ongoing cost is \$99,900;
- \$25,000 one-time funding for the property damage insurance deductible associated with the LK Wood residential stormwater damage claim;
- \$128,000 ongoing increase in utility costs associated with increased electric needs of the UV disinfection at the Wastewater Treatment Plant and increased rates charged by PG&E for other city facilities;
- \$140,000 for increased costs of fuel and bus maintenance for the Green & Gold CalPoly route, which will be offset by additional fare revenue;
- \$12,000 for the one-time costs to install solar panels and benches at bus stops, covered by additional grant funding;
- \$20,000 damage claim for rented equipment, split between Water, Wastewater and Street Funds;
- \$60,000 for parks outdoor events supports;
- \$40,000 for City Hall plumbing replacement and breakroom expansion;
- \$12,000 to repair/replace streetlight damaged by vehicle without police report;
- \$20,000 additional annual funding for abandoned vehicle removal;
- \$20,000 one-time funding for additional training needs of new police officers, funded by salary savings within the department; and
- \$50,000 for engineering services for Water Tank No. 4 rehabilitation.

DISCUSSION:

Expenditures/Expenses

As discussed when the FY 2023-24 Budget was adopted, this year’s budget reflects a significant investment in capital and a commitment to reduce the City’s outstanding pension obligations. These commitments require that the City utilize one-time fund balance reserves.

All City Funds Expenditures & Expenses

| All Funds Expenditures & Expenses | | |
|--|-------------------|-------------|
| Classification | Budget | % |
| Capital Outlay | 46,617,087 | 51% |
| Personnel Services | 19,490,374 | 21% |
| Materials & Services | 11,875,271 | 13% |
| Interfund/Intergovt payments | 8,997,466 | 10% |
| Debt Service | 5,210,143 | 6% |
| Total Expenditures & Expenses | 92,190,342 | 100% |

Capital outlay accounts for 51% of the Proposed Mid-year Budget. The City’s Wastewater Treatment Plan Upgrade Phase 1 project is the largest capital project with a FY 2023-24 Budget of

\$18.3 million. Personnel Services, comprised of salaries and benefits, is the second largest FY 2023-24 category at 21% or \$19.5 million but is the single largest ongoing operational cost category for the City. With upcoming labor negotiations, increasing benefits costs and the impact of inflation on salaries, Personnel Services is a category the City Council will be reviewing in more detail in the upcoming budget year.

The chart below provides a summary of the City’s Expenditures/Expense by funds.

All City Expenditures/Expenses By Fund

| Funds | FY 2023-24 Mid-Year Budget | % |
|---------------------------------|-----------------------------------|-------------|
| General Fund | 25,305,259 | 27% |
| Special Revenue Funds | 17,827,603 | 19% |
| Water Fund | 12,460,725 | 14% |
| Wastewater Fund | 30,061,603 | 33% |
| A&MRTS (Transit Fund) | 1,497,116 | 2% |
| Solid Waste Fund | 567,662 | 1% |
| Stormwater Drainage Fund | 935,152 | 1% |
| Special District | 94,849 | 0% |
| Internal Service Funds | 3,440,392 | 4% |
| Total Funds Expenditures | 92,190,362 | 100% |

Revenues

Consistent with the City’s overall expenditure budget, the single largest source of revenue is Intergovernmental Revenues, which is primarily grants and reimbursements from federal and state governmental agencies. Charges for services are the second largest revenue source, with Water and Wastewater Fund customer charges at 90% of the total in that revenue category.

All City Funds Revenue

| Revenue | | |
|----------------------------|-------------------|-------------|
| Classification | Budget | % |
| Intergovernmental Revenues | 38,471,496 | 52% |
| Charges for Services | 15,589,900 | 21% |
| Taxes | 11,872,970 | 16% |
| Use of Money & Property | 2,612,309 | 4% |
| Other Revenue | 4,948,880 | 7% |
| Licenses & Permits | 862,000 | 1% |
| Fines & Forfeitures | 225,000 | 0% |
| Total Revenue | 74,582,555 | 100% |

Tax revenues makes up the third largest source of revenue and are important to the City because they provide funding for most of the City’s general services including the police department and public safety, streets, parks, recreation program subsidies, administration, energy management, insurance, and general government facilities maintenance and repair. As set forth below, most major tax revenue sources are anticipated to be slightly higher than the original budget.

Major City Tax Revenues

| Revenue | FY 2021-22 Actual | FY 2022-23 Actual | FY 2023-24 Original Budget | FY 2023-24 Mid-Year Budget | FY 2023-24 Budget Difference |
|----------------------------|----------------------|----------------------|----------------------------------|----------------------------------|------------------------------------|
| Sales Tax | 3,083,415 | 3,003,185 | 2,950,000 | 3,025,000.0 | 75,000 |
| Transaction & Use Tax | 2,826,138 | 2,697,304 | 2,656,000 | 2,726,000 | 70,000 |
| Utility Users Tax | 1,030,498 | 1,211,074 | 1,155,000 | 1,200,000 | 45,000 |
| Transient Occupancy Taxes | 2,029,499 | 1,685,857 | 1,575,000 | 1,600,000 | 25,000 |
| Secured Property Taxes | 1,647,533 | 2,003,782 | 1,793,000 | 1,830,000 | 37,000 |
| Unsecured Property Taxes | 52,937 | 94,662 | 76,000 | 76,000 | - |
| Supplemental Roll Taxes | 11,246 | 50,673 | 20,000 | 50,000 | 30,000 |
| Motor Vehicle In Lieu Tax* | 1,941,133 | 2,054,077 | 2,138,000 | 2,172,000 | 34,000 |
| Total | 12,622,399 | 12,800,614 | 12,363,000 | 12,679,000 | 316,000 |

**Technically Motor Vehicle In Lieu Tax is a Intergovernmental Revenue and not a Tax.*

BUDGET/FISCAL IMPACT:

The budgetary and fiscal impacts of the proposed mid-year budget adjustments and estimates have been described above, are discussed in the second quarter financial report (attached) and are outlined in account detail in attached Exhibit 1 to Resolution No. 234-34.

ATTACHMENTS:

- A. Mid-Year Budget Resolution No. 234-34 (DOCX)
- B. Exhibit to Resolution No. 234-34 (PDF)
- C. Q2 FY 2023-24 Financial Report (PDF)