

STAFF REPORT

City Council Presentation Item

DATE: February 6, 2023

TO: Honorable Mayor and Council Members

FROM: Aaron Felmlee, Finance Director

THROUGH: Merritt Perry, City Manager

SUBJECT: Fiscal Year 2022-23 Mid-Year Budget Review

STAFF RECOMMENDATION:

1. Receive the Fiscal Year 2022-23 Mid-Year Budget Review Report; and
2. Review any questions with staff.

EXECUTIVE SUMMARY:

The Finance Department has conducted a mid-year budget review for Fiscal Year (FY) 2022-23. The intent of this report and discussion is to review activities for the first half of this fiscal year, in this case July 2022 through December 2022, and provide a revised projection of revenues and expenditures to fiscal year end. The formal submittal of a review during the fiscal year provides an opportunity to identify and present any fiscal problem areas to the City Council, and to recommend corrective action or additional funding if required.

Mid-year is also a good time to review *actual* revenues and expenditures for the prior fiscal year. The General Fund is currently looking like it will end FY 21-22 with a net surplus of \$936,962, \$57,698 more than the previous fiscal year. The surplus was primarily due to increases in recurring revenues. Compared to FY 20-21 recurring revenues, which includes main contributors such as sales tax, property tax, and transient occupancy tax, increased overall by 7%.

As part of our mid-year budget analysis, staff has reviewed every line item of each activity for Fiscal Year 2022-23. Staff has provided estimates within the attached document for where we expect expenditures to finish at June 30, 2023. Staff is estimating having additional department operating expenditures of \$59,190 in the General Fund for FY 2022-23. A majority of these increases have come before Council for approval at previous Council Meetings. The largest of these is the approximate \$26,000 for increased recreation staff hours. The remaining increase is primarily due to increased fuel costs and increased utility costs, primarily PG&E.

On the revenue side of the mid-year analysis, sales tax has started to come down after years of over performing vs what was budgeted. Although sales tax has started to decline, we are estimating coming in right at where we budgeted for in the General Fund and only \$2,400 under budget in Measure E revenues. The city routinely comes in within the sales tax budget, because staff is conservative when estimating sales tax revenue. Transient Occupancy Tax, or Bed Tax as it is commonly referred to, is estimated to exceed budget by \$50,000. The City also received the second

and final American Rescue Plan Act funds distribution of \$1,466,306 in July. Staff will continue to monitor the City's fiscal health and use these findings to assist in preparing the FY 23-24 budget.

As part of this discussion staff is not recommending making any budget adjustments to the current adopted budget. Any proposed supplemental budget adjustments by staff will come before Council as a separate item for Council consideration and approval.

RECOMMENDED COUNCIL ACTION:

Receive the FY 2022-23 Mid-Year Budget Review; and review questions with staff.

ATTACHMENTS:

- FY 2022-23 Mid-Year Budget Review