



STAFF REPORT – CITY COUNCIL MEETING

January 05, 2022

TO: Honorable Mayor and City Council Members

FROM: Ondrea Starzhevskiy, Finance Director
Karen Diemer, City Manager

PREPARER: Ondrea Starzhevskiy, Finance Director

DATE: December 28, 2021

TITLE: **Receive an Update from Ondrea Starzhevskiy, Finance Director, on the Financial Forecast of the Adopted Budget for Fiscal Year 2021/22.**

RECOMMENDATION:

It is recommended that the Council receive a report by staff regarding fiscal year 2021/2022 financial forecast updates related to the City's budget.

INTRODUCTION:

The City Council has requested periodic updates on the City's budget and respective financial forecasting. This ensures that the Council is kept aware of the budget progress and will be able to respond to changing economic conditions promptly.

BACKGROUND:

Due to the effects of COVID-19 on the local, regional, and national economy City Council has requested periodic updates on our City's financial forecast and budgeted figures throughout the fiscal year.

DISCUSSION:

Please see below summary of recent events which impact our local and regional economy:

The Governor signed SB 155 into law on September 23, 2021, extending California's moratorium on termination of water service for non-payment. Extension moves moratorium end date from September 30, 2021 until at least December 31, 2021.

To date per the [housing.ca.gov](https://www.housing.ca.gov) website there have been 448 applications for COVID-19 Rent Relief Program received by HCD (Housing and Community Development), total funds of \$4,339,665 have been requested by residents of Arcata. 177 of those households have been served with total funds paid of \$1,067,142. Applications are still being accepted and residents have been encouraged to apply directly via [housing.ca.gov](https://www.housing.ca.gov).

BUDGET/FISCAL IMPACT:

Fiscal Year 2021/22:

December 2021

For a listing of major Governmental, Special, Enterprise and Internal Service funds please see Attachment A- Summary Revenues and Expenditures Section. This includes a year to date break out for current fiscal year to evaluate how funds are performing against proposed budget and same period in the prior year.

SUMMARY OF REVENUES:

GENERAL FUND:

See Attachment A- Tracking Reports for detail of Sales Tax and Transactions and Use Tax installment projection break out. These reports are to enable tracking of actuals vs. estimates and how we are performing against the City’s estimates and third party estimates provided by HdL (Hinderliter, de Llamas & Associates).

The City is including Sales Tax, Transactions Use Tax, and Transient and Occupancy Tax (TOT) as these three revenues make up a significant percentage of the General Fund and are most severely affected by economic impacts of COVID-19. Business License tax is also included as all four revenue sources provide insight into how our local and regional economy is performing.

Sales Tax:

	21/22 Fiscal Year City Budget	20/21 Fiscal Year City Budget
	\$2,448,714	\$2,219,800
Percentage % change compared to prior year budget	10%	-18%

	21/22 Fiscal Year Actual	20/21 Fiscal Year Actual	19/20 Fiscal Year Actual
Q2- Dec. 31	\$1,062,072	\$951,772	\$919,396
% of Budget	43%	43%	34%

Through December 2021, revenues exceed same prior year period by \$110,000 and are \$237,000 greater than projected budget.

Transactions & Use Tax:

	21/22 Fiscal Year City Budget	20/21 Fiscal Year City Budget
	\$2,361,451	\$1,913,000
Percentage % change compared to prior year budget	23%	-16%

	21/22 Fiscal Year Actual	20/21 Fiscal Year Actual	19/20 Fiscal Year Actual
Q2- Dec. 31	\$976,436	\$854,537	\$774,598

% of Budget	41%	45%	34%
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Through December 2021, revenues exceed same prior year period by \$121,000 and are \$192,000 greater than projected budget.

Transient & Occupancy Tax (TOT/Hotel Tax):

	21/22 Fiscal Year City Budget	20/21 Fiscal Year City Budget	
	\$1,325,000	\$1,000,000	
Percentage % change compared to prior year budget	20%	-31%	

	21/22 Fiscal Year Actual	20/21 Fiscal Year Actual	19/20 Fiscal Year Actual
Q2- Dec. 31	\$796,754	\$515,570	\$533,819
% of Budget	60%	47%	33%

Through December 2021, revenues are \$281,000 greater compared to prior year and \$250,000 greater than year to date budget expectations.

Business License Tax:

	21/22 Fiscal Year City Budget	20/21 Fiscal Year City Budget	
	\$127,500	\$125,215	
Percentage % change compared to prior year budget	2%	-7%	

	21/22 Fiscal Year Actual	20/21 Fiscal Year Actual	19/20 Fiscal Year Actual
Q2- Dec. 31	\$130,898	\$120,447	\$127,255
% of Budget	103%	96%	94%

The majority of City business license tax revenues are received in the months of May and June for annual renewal with the deferred income recognized as of July 1, 2021. Through December 2021, revenues are \$10,000 greater compared to prior year. Revenues exceed total fiscal year budget expectations by \$3,400.

CITY ENTERPRISE FUNDS:

As our City's enterprise funds are largely user fee generated these are included in overall fund balance break out Attachment A- Summary Revenues and Expenditures Section, to demonstrate performance through December 2021. Highlighting the Water and Wastewater funds below as it is estimated the two funds will continue to have impacts related to COVID-19.

Water & Wastewater Funds

As Water and Wastewater revenues are highly dependent on consumption, the City continues to track consumption levels on a monthly basis. Tracking has indicated decreases in consumption (on average) across each customer classification in comparison to the same periods in calendar year 2021. Please see Attachment A- Tracking Reports, December 2021 Water & Sewer update. Staff are also tracking changes in our Citywide service agreement “Starts and Finals” to see if large trends are forming in customer composition. Through Q2 FY2022, total change in accounts is an increase of 51 customer accounts compared to an increase of 62 customer accounts during the same time in prior year, a net decrease of 11 accounts.

Related to consumption declines the City has been tracking service charge related revenues and comparing against same time, prior year. An overall decrease through Q2 FY2022 has been experienced by approximately \$84,000 on Water related service charge revenues and \$435,000 increase on Wastewater service charge revenues when comparing to prior year. Please note that the same period last year, Q2 FY2021, Wastewater did not include our five year service rate increases. Revenues for Q2 FY2022 include rate increase of 10% effective 1/1/2021 and an additional 10% increase effective 7/1/2021. Water revenues as of Q2 FY2021 included a 1.5% increase effective 7/1/2020 and as part of Q2 FY2022 also includes a 1.5% increase effective 7/1/2021.

The City continues to experience consumption declines across our residential and commercial user categories. However, water and wastewater service revenues are currently on track compared to budget.

City staff have applied for the State Water Resources Control Board (SWRCB) Water Arrearages program. The program’s intent is to distribute ARPA related revenues received by the State of California to assist utility customers who have past due balances. Payments are to be received directly by the City and applied to delinquent accounts. We will receive approximately \$84,000 to offset water customer account receivables which have been considered revenue losses over fiscal year 2020 and fiscal year 2021. The City will also apply for lost Wastewater revenues as the SWRCB has indicated funding is estimated to become available in February of 2022. Future period revenues will reflect these additional receipts.

RESERVES:

Prudent fiscal management and the City’s reserve policy requires that the unappropriated fund balance of the City’s General Fund and working capital balance (non-capital outlay reserves) of the City’s Funds be maintained at a minimum of 25 percent. Estimates of the City’s Fund Balance are included within Attachment A- Fund Balances Fiscal Year 2021/22. There are no major changes to FY2022 to note at this time as and projected reserve minimums are expected to be met.

ATTACHMENTS:

A. December 2021 Budget Update (PDF)