

**MEMORANDUM**

Finance and Administrative Services Department

DATE: December 17, 2024

TO: Honorable City Council

FROM: Ann Trinh, Senior Financial Analyst
Grace Zheng, Assistant Finance and Administrative
Services Director
Derek Rampone, Finance and Administrative Services Director

VIA: Kimbra McCarthy, City Manager

SUBJECT: **Analysis of Fiscal Year 2023-24 Audited Financial Results for the General Operating Fund and General Fund Available Balance**

PURPOSE

To provide an analysis of the Fiscal Year 2023-24 audited financial results for the General Operating Fund and General Fund available balance (including one-time revenues and expenditure savings).

BACKGROUND

The General Operating Fund (GOF) accounts for recurring unrestricted revenues and general operating expenditures. It is a subset of, and distinguished from, the General Fund, which accounts for total unrestricted revenues and total General Fund expenditures, including reserves and nonrecurring revenues and expenditures in nonoperating accounts.

This memorandum provides an analysis of the GOF financial results for Fiscal Year 2023-24 using final audited numbers. Some amounts will not match the Annual Comprehensive Financial Report (ACFR) as certain revenue and expenditure reclassifications have been made for financial statement reporting purposes. In addition, the ACFR groups all General Fund revenues and expenditures together, including reserves. The City defines "operating" as the recurring revenues and expenditures supporting ongoing City services. These classification differences do not affect the evaluation of the GOF's financial position. For the purposes of this analysis, one-time General Fund revenues and expenditures have been reclassified to conform to the City's definition of "operating" and are presented separately.

ANALYSIS

Fiscal Year 2023-24 GOF Audited Financial Results

The Fiscal Year 2022-23 Audited and Fiscal Year 2023-24 Adopted Budget, Adjusted Budget, and Audited results for the GOF are as follows (dollars in thousands):

	2022-23 <u>Audited</u>	2023-24 <u>Adopted</u> <u>Budget</u>	2023-24 <u>Adjusted</u> <u>Budget</u> ⁽¹⁾	<u>2023-24</u> <u>Audited</u>	Variance of Audited to <u>Adjusted</u>
Revenues	\$181,989	\$180,846	\$181,414	\$182,381	\$ 967
Expenditures ⁽²⁾	(166,873)	(175,530)	(185,093)	(175,522)	9,571
Year-End Adjustments ⁽³⁾	<u> (346)</u>	<u> -0-</u>	<u> 2,705</u>	<u> 225</u>	<u> (2,480)</u>
Operating Balance	\$ <u>14,770</u>	\$ <u>5,316</u>	\$ <u>(974)</u> ⁽⁴⁾	\$ <u>7,084</u>	\$ <u>8,058</u>

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- (1) The Adjusted Budget includes the Adopted Budget and encumbrance carryovers from prior fiscal years, increases for reimbursed expenditures, grants and donations, and any budget adjustments approved during the fiscal year.
 - (2) Amounts are net of projected vacancy factor of \$6.5 million for Fiscal Year 2023-24 Adopted and Adjusted Budget.
 - (3) Year-End Adjustments include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.
 - (4) Negative balance includes Council-approved transfers to various reserves of \$6.0 million during midyear budget update in February 2024.

The Fiscal Year 2023-24 total audited actual revenues are \$182.4 million, slightly higher than the Adopted and Adjusted Budget, and the Fiscal Year 2022-23 audited actual revenues. The Fiscal Year 2023-24 total audited expenditures are \$175.5 million, \$9.6 million (5.2%) below the Adjusted Budget, essentially the same as the Adopted Budget, and \$8.6 million (5.2%) higher than the Fiscal Year 2022-23 actual audited expenditures.

The local economy has fully recovered to COVID-19 prepandemic levels. The City’s major revenues have generally remained strong and have benefited from inflation as well as the increase in interest rates. In recent years, the City has experienced strong revenue growth resulting in a larger-than-normal net operating balance that has allowed the City to address a portion of its infrastructure needs and unfunded liabilities. However, during the past fiscal year, the City’s General Operating Fund experienced a net operating balance lower than the past several years at \$7.1 million.

A discussion of variances by revenue and expenditure categories follows.

Revenues

The Fiscal Year 2022-23 Audited and Fiscal Year 2023-24 Adopted Budget, Adjusted Budget, and Audited results for GOF revenues are as follows (dollars in thousands):

	<u>2022-23</u> <u>Audited</u>	<u>2023-24</u> <u>Adopted</u> <u>Budget</u>	<u>2023-24</u> <u>Adjusted</u> <u>Budget</u>	<u>2023-24</u> <u>Audited</u>	<u>Variance</u> <u>of Audited</u> <u>to Adjusted</u>
Operating Revenues:					
Property Taxes	\$ 70,874	\$ 74,558	\$ 74,558	\$ 74,660	\$ 102
Sales Tax	25,346	25,137	25,137	24,489	(648)
Other Local Taxes	25,189	22,933	22,933	21,205	(1,728)
Use of Money and Property Licenses, Permits, and Franchise Fees/Fines and Forfeitures	27,090 6,416	28,155 6,738	28,155 6,738	29,010 6,925	855 187
Intergovernmental	862	738	750	1,095	345
Charges for Services	3,450	3,440	3,440	3,580	140
Miscellaneous Revenues	3,618	2,430	2,986	3,947	961
Interfund Revenue and Transfers	<u>19,144</u>	<u>16,717</u>	<u>16,717</u>	<u>17,470</u>	<u>753</u>
Total Operating Revenues	<u>\$181,989</u>	<u>\$180,846</u>	<u>\$181,414</u>	<u>\$182,381</u>	<u>\$ 967</u>

A summary of revenues by category follows:

- The July 1, 2023 City GOF property tax roll experienced increased secured and unsecured assessed values (AV), including recaptured Proposition 8 value and tax roll reductions from resolved appeals, resulting in a net 7.0% increase compared to the prior fiscal year revised tax roll and a 5.3% increase in revenue from the prior fiscal year. Overall, AV in the City increased a net 7.9% to a total AV of \$44.2 billion, which is the third highest among the 15 cities in the County. Property tax revenues totaling \$74.7 million are essentially the same as budget and \$3.8 million (5.3%) more than the Fiscal Year 2022-23 Audited.
- Sales tax revenues are \$648,000 (2.6%) below budget and \$857,000 (3.4%) lower than the Fiscal Year 2022-23 Audited. The strength in restaurants and hotels was not sufficient to offset declines in new automobile sales, and state and County pools. The decline in revenue was also due to closures of tax generating businesses and corrections of tax amounts which were a result of standard audits by the California Department of Tax and Fee Administration.

- Other Local Taxes are \$1.7 million (7.5%) below budget and \$4.0 million (15.8%) lower than the Fiscal Year 2022-23 Audited. The decrease compared to Fiscal Year 2022-23 audited actual amounts is primarily due to \$1.6 million in lower TOT revenues and \$2.0 million lower Utility Users Tax revenue.
- Use of Money and Property revenues, including both Investment Earnings and Rents and Leases, are \$855,000 (3.0%) above budget and \$1.9 million (7.1%) higher than the Fiscal Year 2022-23 Audited. Investment Earnings are \$756,000 (excluding unrealized gains/losses) above budget and \$1.4 million higher than the Fiscal Year 2022-23 Audited. During Fiscal Year 2023-24, the Federal Open Market Committee (FOMC) raised the benchmark interest rate to a target range of 5.25% and 5.5%. This positively impacted the City's interest earnings and will have a greater impact on future fiscal years as lower-yielding securities mature and higher-yielding investments are purchased. Rents and Lease revenues are essentially the same as budget and \$544,000 more than Fiscal Year 2022-23 Audited. This is primarily due to standard annual rent adjustments per lease agreements. Included in Rents and Lease revenues is approximately \$2.2 million revenue generated from the Ameswell development. Revenue generated from the Ameswell development is earmarked for the Public Safety Administration Building project.
- Licenses, Permits, and Franchise Fees/Fines and Forfeitures are \$187,000 (2.8%) above budget and \$509,000 (7.9%) higher than the Fiscal Year 2022-23 Audited. The variance to the prior fiscal year Audited is primarily due to an increase in franchise fees received from Recology and PG&E.
- Intergovernmental Revenues are \$345,000 and \$233,000 above budget and the Fiscal Year 2022-23 Audited, respectively.
- Charges for Services are \$140,000 and \$130,000 above Adjusted Budget and the Fiscal Year 2022-23 Audited, respectively. Revenues in this category are mainly derived from City Recreation programs and miscellaneous other services.
- Miscellaneous Revenues are \$961,000 (32.2%) above budget, primarily resulting from one-time donations and reimbursements that were not included in the Adopted Budget. The City budgets various donations and reimbursements only if they are ongoing in nature. Compared to Fiscal Year 2022-23 Audited, Miscellaneous Revenues are \$329,000 (9.1%) higher.
- Interfund Revenues and Transfers are \$753,000 (4.5%) above Adjusted and \$1.7 million (8.7%) lower than the Fiscal Year 2022-23 Audited, primarily due to temporarily suspending the overhead transfer from the Development Services Fund.

Expenditures

The Fiscal Year 2022-23 Audited and Fiscal Year 2023-24 Adopted Budget, Adjusted Budget, and Audited results for GOF expenditures are as follows (dollars in thousands):

	<u>2022-23</u> <u>Audited</u>	<u>2023-24</u> <u>Adopted</u> <u>Budget</u>	<u>2023-24</u> <u>Adjusted</u> <u>Budget</u>	<u>2023-24</u> <u>Audited</u>	<u>Variance</u> <u>of Audited</u> <u>to Adjusted</u>
Operating Expenditures:					
Salaries and Benefits:					
Salaries and All Pays	\$ 75,452	\$ 85,883	\$ 83,958	\$ 80,678	\$3,280
Retirement	24,397	30,470	30,470	27,166	3,304
Health Benefits	9,335	12,796	12,796	10,109	2,687
All Other Benefits	<u>7,463</u>	<u>8,300</u>	<u>8,300</u>	<u>7,585</u>	<u>715</u>
	116,647	137,449	135,524	125,538	9,986
Supplies and Services	21,546	25,178	29,612	23,862	5,750
Capital Outlay/ Equipment Replacement	2,641	3,032	3,487	3,152	335
Interfund Expenditures and Transfers	13,439	13,371	13,970	13,970	-0-
Debt Service	-0-	-0-	-0-	-0-	-0-
Budget Savings	Included	(6,500)	(6,500)	Included	(6,500)
Transfer to GNOF	2,000	-0-	-0-	-0-	-0-
Transfer to GF Reserve	1,600	3,000	3,000	3,000	-0-
Transfer to Transportation Res	-0-	-0-	1,000	1,000	-0-
Transfer to Cap Impr Res	4,000	-0-	-0-	-0-	-0-
Transfer to SPAR	3,000	-0-	-0-	-0-	-0-
Transfer to Budget Contingency Res	1,000	-0-	-0-	-0-	-0-
Transfer to Open Space Acquisition Res	-0-	-0-	3,000	3,000	-0-
Transfer to Parental Leave Res	-0-	-0-	1,000	1,000	-0-
Transfer to Liability Fund	<u>1,000</u>	<u>-0-</u>	<u>1,000</u>	<u>1,000</u>	<u>-0-</u>
Operating Expenditures	<u>\$166,873</u>	<u>\$175,530</u>	<u>\$185,093</u>	<u>\$175,522</u>	<u>\$9,571</u>

A summary of expenditures by category follows:

- During Fiscal Year 2023-24, more positions were filled than vacated. The City has continued the commitment to employee development with over one-third of the appointments made as promotions, which subsequently resulted in additional vacancies. Further, the addition of 14 net new positions added to the salary savings as new positions take additional time to fill. Despite steady recruitment efforts, there were still many unfilled positions, resulting in a \$10.0 million (7.4%) favorable variance in Salaries and Benefits compared to Adjusted and \$11.9 million (8.7%) favorable variance compared to Adopted.
- Historically, the GOF typically realizes savings in the Supplies and Services expenditure category. For Fiscal Year 2023-24, there were savings of \$5.8 million (19.4%) compared to Adjusted and \$1.3 million (5.2%) compared to Adopted. However, of this amount, encumbrances totaling \$2.3 million were identified to be carried over into Fiscal Year 2024-25. Including these encumbrances, the positive variance to Adjusted Budget would be reduced to \$3.5 million or 11.8%.
- The GOF's \$2.3 million contribution to the Equipment Replacement Reserve occurred as budgeted. The remaining capital outlay has a favorable variance of \$335,000 (27.9%) compared to budget, although \$52,000 of this has been encumbered to be expended in Fiscal Year 2024-25.

The Adopted and Adjusted Budget vacancy factor savings of \$6.5 million takes into consideration the anticipated savings in expenditure accounts. The Fiscal Year 2023-24 Audited amounts indicated in the table do not include a total of \$2.3 million of encumbrances outstanding as of the end of the fiscal year. In accordance with the City Charter, appropriations for lawful encumbrances remaining at the end of each fiscal year are reappropriated in the following fiscal year.

Expenditures by Department

A summary of the GOF audited expenditures compared to Adjusted Budget by department are as follows (dollars in thousands):

	2023-24 Adjusted Budget	2023-24 Audited	Encumbrances	Variance of Audited Plus Encumbrances to Adjusted	% Savings from Adjusted Budget
Department:					
City Council	\$ 515	\$ 332	\$ 1	\$ 182	35.3%
City Clerk	1,108	997	1	110	9.9%
City Attorney	3,958	2,645	179	1,134	28.7%
City Manager	6,279	5,695	219	365	5.8%
Human Resources Information Technology	3,714	3,345	96	273	7.4%
Finance and Administrative Services	8,559	6,790	130	1,639	19.1%
Community Development	8,504	7,228	236	1,040	12.2%
Public Works	1,592	1,430	28	134	8.4%
Community Services	14,868	13,365	448	1,055	7.1%
Library	23,116	19,484	520	3,112	13.5%
Fire	8,198	6,987	60	1,151	14.0%
Police	33,695	32,539	150	1,006	3.0%
Housing	51,171	48,526	195	2,450	4.8%
Nondepartmental ⁽¹⁾	695	602	59	34	4.9%
Vacancy Factor Savings	25,621	25,557	-0-	64	0.2%
Total Operating Expenditures	<u>(6,500)</u>	<u>Included</u>	<u>-0-</u>	<u>(6,500)</u>	100.0%
	<u>\$185,093</u>	<u>\$175,522</u>	<u>\$2,322</u>	<u>\$7,249</u>	3.9%

⁽¹⁾ Nondepartmental expenditures include Interfund Transfers for equipment replacement and Interfund Expenditures and Transfers.

All departments ended Fiscal Year 2023-24 with expenditures below their Adjusted Budget amounts.

Fiscal Year 2023-24 GOF Balance Available

As previously discussed, the City's GOF ended the 2023-24 fiscal year with a positive operating balance of \$7.1 million. The table below details the General Fund balance, including one-time

revenues and expenditure savings, budgeted transfers, and limited-period expenditure allocations (dollars in thousands):

GOF Balance from Fiscal Year 2023-24	\$ 7,084
Remaining Available Balance from Prior Fiscal Years	19,297
Fiscal Year 2023-24 Midyear Allocations Approved by City Council	(1,581)

Additions:

One-Time Revenues and Expenditure Savings in Fiscal Year 2023-24:

Property Taxes—Excess ERAF	6,461
Unspent Limited-Period Expenditures	1,750
Miscellaneous Revenues	84
Child-Care Center Rent	<u>206</u>

Subtotal	<u>\$33,301</u>
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Subtractions:

Allocations in the Fiscal Year 2024-25 Adopted Budget:

Limited-Period Expenditures	(10,829)
CIP Reserve	(5,000)
General Fund Reserve	(2,500)
Development Services Fund	(2,000)
Compensated Absences Reserve	(1,167)
Parental Leave Reserve	(1,000)
General Liability Fund	<u>(1,000)</u>

Subtotal of Allocations	<u>(23,496)</u>
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Remaining Unallocated Balance Available	<u>\$ 9,805</u>
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Including the GOF balance, the remaining balance available from prior fiscal years less midyear allocations approved by the City Council, one-time revenues, and expenditure savings, there was a total of \$33.3 million available for allocation through Fiscal Year 2023-24.

Allocations in the Fiscal Year 2024-25 Adopted Budget include new limited-period expenditures of \$10.8 million; transfers of \$5.0 million to the CIP Reserve, \$2.5 million to the General Fund Reserve, \$2.0 million to the Development Services Fund, \$1.2 million to the Compensated Absences Reserve, \$1.0 million to the Parental Leave Reserve, and \$1.0 million to the General Liability Fund. This results in a **remaining unallocated balance of \$9.8 million as of June 30, 2024, \$9.5 million less than what was available a year ago.**

CONCLUSION

Total Fiscal Year 2023-24 GOF revenues are \$182.4 million, slightly higher than the Adopted and Adjusted Budget. Total Fiscal Year 2023-24 GOF expenditures are \$175.5 million, \$9.6 million (5.2%) below the Adjusted Budget and essentially the same as the Adopted Budget. This does not include the \$2.3 million in encumbrances outstanding at the end of Fiscal Year 2023-24. The GOF ended Fiscal Year 2023-24 with a positive operating balance of \$7.1 million, which provided critical funding for Fiscal Year 2024-25 limited-period expenditures and transfers to reserves. The remaining unallocated available balance is currently \$9.8 million.

An updated estimate of the City's financial position for Fiscal Year 2024-25 and preliminary projections for Fiscal Year 2025-26 will be presented to Council in February 2025 with the Midyear Budget Status Report.

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