

**MEMORANDUM**

Finance and Administrative Services Department

DATE: December 12, 2023

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 2022-23 Audited Financial Results for the General Operating Fund and General Fund Available Balance**

PURPOSE

To provide an analysis of the Fiscal Year 2022-23 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 2022-23 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 2022-23 GOF Audited Financial Results

The Fiscal Year 2021-22 Audited and Fiscal Year 2022-23 Adopted Budget, Adjusted Budget, and Audited results for the GOF are as follows (dollars in thousands):

	<u>2021-22 Audited</u>	<u>2022-23 Adopted Budget</u>	<u>2022-23 Adjusted Budget⁽¹⁾</u>	<u>2022-23 Audited</u>	<u>Variance of Audited to Adjusted</u>
Revenues	\$163,376	\$163,836	\$165,181	\$181,989	\$16,808
Expenditures ⁽²⁾	(145,825)	(160,080)	(175,081)	(166,873)	8,208
Year-End Adjustments ⁽³⁾	<u>13</u>	<u>-0-</u>	<u>3,084</u>	<u>(346)</u>	<u>(3,430)</u>
Operating Balance	<u>\$ 17,564</u>	<u>\$ 3,756</u>	<u>\$ (6,816)⁽⁴⁾</u>	<u>\$ 14,770</u>	<u>\$21,586</u>

- (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 budget savings of \$6.0 million for Fiscal Year 2022-23 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 due to Council-approved transfers to various reserves of \$11.1 million during midyear budget update in February 2023.

The Fiscal Year 2022-23 total audited actual revenues are \$182.0 million, \$16.8 million (10.2%) over the Adjusted Budget, \$18.2 million (11.1%) over the Adopted Budget, and \$18.6 million (11.4%) higher than the Fiscal Year 2021-22 audited actual revenues. The Fiscal Year 2022-23 total audited expenditures are \$166.9 million, \$8.2 million (4.7%) below the Adjusted Budget, \$6.8 million (4.2%) over the Adopted Budget, and \$21.0 million (14.4%) higher than the Fiscal Year 2021-22 actual audited expenditures.

The City has emerged stronger from the COVID-19 pandemic and is back to business and more resilient than ever. Most notable, Sales Tax and Transient Occupancy Tax (TOT) have surpassed pre-pandemic levels. As the City has generated a strong operating balance, it has provided an opportunity to add critical positions and contribute to the City’s other priorities, including unfunded liabilities for CalPERS pensions.

A discussion of variances by revenue and expenditure categories follows.

Revenues

The Fiscal Year 2021-22 Audited and Fiscal Year 2022-23 Adopted Budget, Adjusted Budget, and Audited results for GOF revenues are as follows (dollars in thousands):

	<u>2021-22 Audited</u>	<u>2022-23 Adopted Budget</u>	<u>2022-23 Adjusted Budget</u>	<u>2022-23 Audited</u>	<u>Variance of Audited to Adjusted</u>
Operating Revenues:					
Property Taxes	\$ 63,996	\$ 69,232	\$ 69,232	\$ 70,874	\$ 1,642
Sales Tax	23,376	21,960	21,960	25,346	3,386
Other Local Taxes	18,663	19,124	19,124	25,189	6,065
Use of Money and Property Licenses, Permits, and Franchise Fees/Fines and Forfeitures	24,530	24,893	24,893	27,090	2,197
	5,936	6,472	6,472	6,416	(56)
Intergovernmental	1,986	712	712	862	150
Charges for Services	3,037	2,857	2,858	3,450	592
Miscellaneous Revenues	4,133	1,892	2,843	3,618	775
Interfund Revenue and Transfers	<u>17,719</u>	<u>16,694</u>	<u>17,087</u>	<u>19,144</u>	<u>2,057</u>
Total Operating Revenues	<u>\$163,376</u>	<u>\$163,836</u>	<u>\$165,181</u>	<u>\$181,989</u>	<u>\$16,808</u>

A summary of revenues by category follows:

- The July 1, 2022 City GOF property tax roll saw increased secured and decreased unsecured assessed values (AV), including recaptured Proposition 8 value and tax roll reductions from resolved appeals, resulting in a net 8.5% increase compared to the prior year revised tax roll. The County incorrectly allocated \$487.3 million in assessed values to the Shoreline Regional Park Community last year instead of to the GOF. Overall, AV in the City increased a net 9.3% to a total AV of \$44.2 billion, which is the second highest among the 15 cities in the County. This presented a slightly better outlook than staff originally expected as developers showed continued interest in constructing commercial and residential buildings. Property tax revenues totaling \$70.9 million are \$1.6 million (2.4%) higher than budget and \$6.9 million (10.7%) more than the Fiscal Year 2021-22 Audited. The variance between budget and actual is primarily due to the higher-than-budgeted unsecured and supplemental tax distributions.
- Sales tax revenues are \$3.4 million (15.4%) above budget and \$2.0 million (8.4%) higher than the Fiscal Year 2021-22 Audited. This is primarily due to strength in new automobile

sales, restaurants/hotels, and increases from the State and County pools as more consumers shop online.

- Other Local Taxes are \$6.1 million (31.7%) above budget and \$6.5 million (35.0%) higher than the Fiscal Year 2021-22 Audited. The increase compared to Fiscal Year 2021-22 audited actual amounts is primarily due to \$5.1 million higher TOT revenues as quarterly payments have recovered back to pre-pandemic levels beginning the second quarter of 2022 and \$1.7 million higher Utility Users Tax revenue due to higher remittances from energy providers
- Use of Money and Property revenues, including both Investment Earnings and Rents and Leases, are \$2.2 million (8.8%) above budget and \$2.6 million (10.4%) higher than the Fiscal Year 2021-22 Audited. Investment Earnings are \$2.1 million (excluding unrealized gains/losses) above budget and \$1.8 million higher than the Fiscal Year 2021-22 Audited. The Federal Open Market Committee (FOMC) raised the benchmark interest rate seven times during Fiscal Year 2022-23, from the benchmark target of 0.25% to 0.5% to a target benchmark range of 5.0% and 5.25%. 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 \$788,000 more than Fiscal Year 2021-22 Audited. This is primarily due to standard annual rent adjustments per lease agreements and percentage rent revenue for the Ameswell office lease. Included in Rents and Lease revenues is approximately \$2.1 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 overall net essentially the same as budget and \$480,000 (8.1%) higher than the Fiscal Year 2021-22 Audited. The variance to the prior fiscal year Audited is primarily due to an increase in franchise fees from PG&E.
- Intergovernmental Revenues are \$150,000 above budget and \$1.1 million lower than Fiscal Year 2021-22 Audited, primarily due to a one-time grant awarded to the Center for the Performing Arts in the 2021-22 fiscal year.
- Charges for Services are \$592,000 (20.7%) and \$413,000 (13.6%) above Adjusted Budget and the Fiscal Year 2021-22 Audited, respectively. Revenues in this category are mainly derived from City Recreation programs and miscellaneous other services. The variance is primarily due to the strong revenue from Recreation and the Center for the Performing Arts.

- Miscellaneous Revenues are \$775,000 million (27.3%) 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. A significant portion of the reimbursements were strike team services rendered for wildfires throughout the State. Compared to Fiscal Year 2021-22 Audited, Miscellaneous Revenues are \$515,000 (12.5%) lower, primarily as a result of less reimbursements related to strike teams received in Fiscal Year 2022-23 compared to Fiscal Year 2021-22.
- Interfund Revenues and Transfers are \$2.1 million (12.0%) above Adjusted and \$1.4 million (8.0%) higher than the Fiscal Year 2021-22 Audited, primarily as a result of higher Capital Improvement Projects (CIP) administrative overhead.

Expenditures

The Fiscal Year 2021-22 Audited and Fiscal Year 2022-23 Adopted Budget, Adjusted Budget, and Audited results for GOF expenditures are as follows (dollars in thousands):

	<u>2021-22</u> <u>Audited</u>	<u>2022-23</u> <u>Adopted</u> <u>Budget</u>	<u>2022-23</u> <u>Adjusted</u> <u>Budget</u>	<u>2022-23</u> <u>Audited</u>	<u>Variance</u> <u>of Audited</u> <u>to Adjusted</u>
Operating Expenditures:					
Salaries and Benefits:					
Salaries and All Pays	\$ 71,709	\$ 78,364	\$ 78,017	\$ 75,452	\$2,565
Retirement	22,257	28,126	28,126	24,397	3,729
Health Benefits	9,190	11,838	11,838	9,335	2,503
All Other Benefits	<u>7,082</u>	<u>8,198</u>	<u>8,198</u>	<u>7,463</u>	<u>735</u>
	110,238	126,526	126,179	116,647	9,532
Supplies and Services	18,784	21,831	25,690	21,546	4,144
Capital Outlay/ Equipment Replacement	2,854	2,611	3,100	2,641	459
Interfund Expenditures and Transfers	13,949	12,512	12,512	13,439	(927) ⁽¹⁾
Debt Service	-0-	1,000	1,000	-0-	1,000
Budget Savings	Included	(6,000)	(6,000)	Included	(6,000)
Transfer to GNOF	-0-	-0-	2,000	2,000	-0-
Transfer to GF Reserve	-0-	1,600	1,600	1,600	-0-
Transfer to Cap Impr Res	-0-	-0-	4,000	4,000	-0-
Transfer to SPAR	-0-	-0-	3,000	3,000	-0-
Transfer to Budget	-0-	-0-	1,000	1,000	-0-
Contingency Res					
Transfer to Liability Fund	<u>-0-</u>	<u>-0-</u>	<u>1,000</u>	<u>1,000</u>	<u>-0-</u>
Operating Expenditures	<u>\$145,825</u>	<u>\$160,080</u>	<u>\$175,081</u>	<u>\$166,873</u>	<u>\$8,208</u>

⁽¹⁾ The negative variance is due to higher-than-anticipated revenues received, but not budgeted from the Ameswell development which are transferred to the Budget Contingency Reserve.

A summary of expenditures by category follows:

- During Fiscal Year 2022-23, more positions were filled than vacated, and more vacancies were filled in comparison to the prior fiscal year. However, the City has continued the commitment to employee development with over one-third of the vacancies filled through promotion, which resulted in additional vacancies. Further, the addition of 18 net new

positions added to the salary savings as new positions take time to fill. Despite steady recruitment efforts, there were still many unfilled positions, resulting in a \$9.5 million (7.6%) favorable variance in Salaries and Benefits compared to Adjusted and \$9.9 million (7.8%) compared to Adopted.

- Historically, the GOF typically realizes savings in Supplies and Services. For Fiscal Year 2022-23, there were savings of \$4.1 million (16.1%) compared to Adjusted and \$285,000 (1.3%) compared to Adopted. However, of this amount, encumbrances totaling \$1.9 million were identified to be carried over into Fiscal Year 2023-24. Including these encumbrances, the positive variance to Adjusted Budget would be reduced to \$2.2 million or 8.7%.
- The GOF's \$2.4 million contribution to the Equipment Replacement Reserve occurred as budgeted. The remaining capital outlay has a favorable variance of \$459,000 (63.9%) compared to budget; although \$367,000 of this has been encumbered to be expended in Fiscal Year 2023-24.

The Adopted and Adjusted budget savings of \$6.0 million takes into consideration the anticipated savings in expenditure accounts. The Fiscal Year 2022-23 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):

	2022-23 Adjusted <u>Budget</u>	2022-23 <u>Audited</u>	<u>Encumbrances</u>	Variance of Audited Plus Encumbrances <u>to Adjusted</u>	% Savings from Adjusted <u>Budget</u>
Department:					
City Council	\$ 445	\$ 300	6	\$ 139	31.2%
City Clerk	1,034	948	2	84	8.1%
City Attorney	3,002	2,449	127	426	14.2%
City Manager	5,559	4,660	218	681	12.3%
Human Resources Information	3,166	2,868	41	257	8.1%
Technology	7,697	6,105	166	1,426	18.5%
Finance and Administrative Services	8,128	6,537	340	1,251	15.4%
Community Development	2,159	1,682	81	396	18.3%
Public Works	13,505	12,535	177	793	5.9%
Community Services	20,507	17,896	419	2,192	10.7%
Library	7,970	6,278	241	1,451	18.2%
Fire	30,677	30,372	288	17	0.1%
Police	48,297	45,506	165	2,626	5.4%
Nondepartmental ⁽¹⁾	28,935	28,737	-0-	198	0.7%
Budget Savings	<u>(6,000)</u>	<u>Included</u>	<u>-0-</u>	<u>(6,000)</u>	100.0%
Total Operating Expenditures	<u>\$175,081</u>	<u>\$166,873</u>	<u>\$2,271</u>	<u>\$5,937</u>	3.4%

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

All departments ended Fiscal Year 2022-23 with expenditures below the Adjusted Budget.

Fiscal Year 2022-23 GOF Balance Available

As previously discussed, the City's GOF ended the 2022-23 fiscal year with a positive operating balance of \$14.8 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 2022-23	\$14,770
Remaining Available Balance from Prior Fiscal Years	15,536
Fiscal Year 2022-23 Midyear Allocations Approved by City Council	(1,460)

Additions:

One-Time Revenues and Expenditure Savings in Fiscal Year 2022-23:

Property Taxes—Excess ERAF	8,157
Unspent Limited-Period Expenditures	3,416
Miscellaneous Revenues	203
Child-Care Center Rent	<u>201</u>

Subtotal	<u>\$40,823</u>
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Subtractions:

Allocations in the Fiscal Year 2023-24 Adopted Budget:

Limited-Period Expenditures	(7,074)
CIP Reserve	(3,000)
Strategic Property Acquisition Reserve	(2,000)
Budget Contingency Reserve for the Public Safety Building	(2,000)
Employee Loan Program Reserve	(2,000)
Compensated Absences Reserve	(1,353)
Development Services Fund	(1,100)
Additional Payment to CalPERS	(1,000)
Parental Leave Reserve	(1,000)
General Liability Fund	<u>(1,000)</u>

Subtotal of Allocations	<u>(21,527)</u>
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Remaining Unallocated Balance Available	<u>\$19,296</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 \$40.8 million available for allocation through Fiscal Year 2022-23.

Allocations in the Fiscal Year 2023-24 Adopted Budget include new limited-period expenditures of \$7.1 million; transfers of \$3.0 million to the CIP Reserve, \$2.0 million to the Strategic Property Acquisition Reserve, \$2.0 million to the Budget Contingency Reserve, \$2.0 million to the Employee Loan Program Reserve, \$1.4 million to the Compensated Absences Reserve,

\$1.1 million to the Development Services Fund, \$1.0 million as an additional payment to CalPERS, \$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 \$19.3 million as of June 30, 2023.**

CONCLUSION

Total Fiscal Year 2022-23 GOF revenues are \$182.0 million, \$16.8 million (10.2%) over the Adjusted Budget and \$18.2 million (11.1%) over the Adopted Budget. Total Fiscal Year 2022-23 GOF expenditures are \$166.9 million, \$8.2 million (4.7%) below the Adjusted Budget and \$6.8 million (4.2%) over the Adopted Budget. This does not include the \$2.3 million in encumbrances outstanding at the end of Fiscal Year 2022-23. The GOF ended Fiscal Year 2022-23 with a positive operating balance of \$14.8 million, which provided critical funding for Fiscal Year 2023-24 limited-period expenditures and transfers to reserves. The remaining unallocated balance is \$19.3 million.

An updated estimate of the City's financial position for Fiscal Year 2023-24 and preliminary projections for Fiscal Year 2024-25 will be presented to Council in February 2024 with the Midyear Budget Status Report.

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