



**MEMORANDUM**

**TO:** City Council

**FROM:** Nicole Valentine, Administrative Services Director

**SUBJECT:** Consideration of Fiscal Year 2023-24 Second Quarter Status Report and Request to Approve Six Budget Adjustment Requests

**DATE:** February 27, 2024

**SUMMARY OF ACTION:**

Consider, receive, and file the Fiscal Year (FY) 2023-24 Second Quarter Financial Status Report (the “Second Quarter Report”) and approve six (6) Budget Adjustment Requests.

**IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:**

Preparation of the Second Quarter Report requires staff time within the existing work plan and budget for the Administrative Services Department. At the end of the second quarter, FY 2023-24 revenues for the Consolidated General Fund were \$8.6 million, or one percent (1%), below than the Budget Target (“Target”). Actual Expenditures were \$12.4 million, and below the Budget Target by approximately \$1.3 million, or four percent (4%).

The City Council is being asked to approve six budget adjustments. The overall impact to the budget is an increase in Consolidated General Fund expenditures of \$185,310, COPS Fund expenditures of \$25,000, Water Fund expenditures of \$13,975, and Sewer Fund expenditures of \$20,000, as reflected in the following table 1:

**Table 1 – Second Quarter Budget Adjustment Request**

Request	Revenue	Expenditure	General Fund	COPS Fund Impact	Water Fund Impact	Sewer Fund
Building Contractual Services	123,700	185,000	23,000	-	-	-
City Attorney Contract Costs	-	150,000	150,000	-	-	-
Escribe Webcasting Module	-	12,310	12,310	-	-	-
Police Equipment	-	25,000	-	25,000	-	-
Central Coast Blue (CCB) Operating Costs	-	13,975	-	-	13,975	-
Lift Station #1 Pump Repair	-	20,000	-	-	-	20,000
<b>Totals</b>	<b>123,700</b>	<b>406,285</b>	<b>185,310</b>	<b>25,000</b>	<b>13,975</b>	<b>20,000</b>

**RECOMMENDATION:**

Consider, receive, and file the FY 2023-24 Second Quarter Report; and approve six Budget Adjustment Requests.

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**BACKGROUND:**

Each fiscal year the City Council adopts a budget, which commits government resources and services to accomplish the City's mission of making Arroyo Grande the best place possible for everyone who lives, works, and visits here. The Second Quarter Report is the second of four financial performance reports that staff will present to Council during the 2023-24 fiscal year. The purpose of the FY 2023-24 Second Quarter Report is to:

- Compare second quarter revenues received and expenditures incurred to the second quarter of the prior year and to the budgeted Target to determine the City's financial performance;
- Provide explanations for key account variances and identify any potential trends that might impact financial planning; and
- Provide other key second quarter information including headcount statistics, status of Capital Improvement Projects, and requests for City Council's approval of Budget Adjustment Requests that have not previously been approved.

The City's actual second quarter financial results will be compared to both the prior year's second quarter and the budgeted Target. The Target for expenditures is calculated as one half (50%) of the FY 2023-24 Budget and represents the 6-month period from July 2023 through December 2023. The Non-Departmental Annual Payments line has a Target of the full budget. The Measure O-06 Sales & Use Tax CIP allocation line has a Target of zero as the allocation is completed in the fourth quarter. This approach decreases the expenditure Target from 50% to 42% for the second quarter. The Target for revenues does not use the 50% Target but a Target of 35.4% that more accurately reflects the anticipated revenues to be received in the second quarter of the FY. Using the Target as a comparator against actual results provides a simplified method to evaluate performance for the quarter.

The Second Quarter Report also includes a section regarding Budget Adjustments Requests. This section summarizes individual budget adjustments approved by the City Council during the second quarter, as well as administrative adjustments completed by City staff. Additionally, this section of the report includes new Budget Adjustment Requests not otherwise addressed in previous City Council agenda items. Approval will enable the City to complete important work items and meet the needs of the community.

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**ANALYSIS OF ISSUES:**

Second Quarter (Q2) Revenue and Expenditures Compared to Prior Year

**Table 2 - Current Year Q2 Actuals Compared to Prior Year Q2 Actuals**

	Second Quarter FY 2023-24	Second Quarter FY 2022-23	Variance
Revenue	8,612,371	8,397,932	214,439
Expenditures	12,350,666	11,106,641	1,244,025

The Consolidated General Fund shown in Table 2 is the primary operating fund of the City and accounts for resources and services traditionally associated with government. The Consolidated General Fund provides administrative, financial, police protection, community development, public works, fire, and recreation services to the community and other funds. The Consolidated General Fund accounts for revenues that have unrestricted uses and are not required legally or by contractual agreement to be accounted for in another fund. The City has historically reported on the Consolidated General Fund separately from the Local Sales Tax Fund, although the City's auditors traditionally combine this information in the Annual Comprehensive Financial Report.

The Local Sales Tax Fund accounts for the revenues derived from Measure O-06, a local 1/2% sales tax approved by the City's voters in November 2006. Measure O-06 included advisory measures when passed, providing direction on the uses to which the funding should be allocated. To ensure accountability, the measure included a provision requiring the City to publish and distribute an annual report to each household on the revenues and expenditures from the sales tax proceeds. To aid in the collection and reporting of this information, the City has accounted for this fund in a separate account.

This report presents information for the Consolidated General Fund that includes Local Sales Tax Fund Measure O-06 revenues and expenditures. Consolidated General Fund revenues at the second quarter of this year were approximately \$214,439 million higher than the second quarter of the prior year. Expenditures were approximately \$1.2 million higher at the end of the second quarter of the current fiscal year versus the second quarter of the prior year. A more thorough explanation of second quarter variances is set forth in the attached financial report. The following is a summary of the second quarter variances between the two fiscal years.

Revenue (approximately \$214,439 higher)

The majority of the \$214,439 variance between the second quarter of this year and the prior second quarter is related to the increase in User Fees received in the second quarter of FY 2023-24 when compared to the second quarter of FY 2022-23.

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Expenditures (approximately \$1.2 million higher)

Second quarter expenditures compared to the prior year were higher by \$1.2 million. The majority of the variance between the two fiscal quarters is related to increased costs of one-time payments for Liability and Property Insurance, CalPERS Unfunded Accrued Liability, and Workers Compensation.

Second Quarter (Q2) Revenue and Expenditures Compared to Target

**Table 3 - Current Year Q2 Actuals Compared to Target**

	FY 2023-24 Second Quarter	FY 2023-24 Second Quarter	Variance
Revenue	8,763,486	8,612,372	(151,113)
Expenditures	13,683,153	12,350,666	(1,332,487)

Table 3 above compares second quarter actual results to the budgeted Target. Second Quarter actual revenue was short of the Target by \$151,113. Second Quarter actual expenditures were short of the Target by approximately \$1.3 million. The following is a summary of the second quarter revenue and expenditure variances compared to the budgeted Target. A more thorough explanation of second quarter variances is set forth in the attached financial report.

Revenue (\$151,113 lower)

The actual second quarter Consolidated General Fund revenue shortfall compared to the Target is not unusual. Revenue realization is typically low in the second quarter of the fiscal year due to the time lag involved in billing cycles and the receipt of reimbursements. Some of the larger revenue variances are explained below.

The largest single source of City revenue is Secured Property Tax. Secured Property Tax is billed by the County to property owners and payable in two (2) installments. Property owners typically receive their second property tax bill at the end of September or early October, with a due date of November 1st. Most of the property tax related to the second installment was received in December, 2023. The second installment is due on April 1st and will be reflected in the fourth quarter report. The revenue Target includes the equivalent of four months of property tax revenue, but actuals were still lower than this conservative revenue assumption by \$235,374.

License and permit revenue is above the Target by \$61,850. User fee revenue is above the Target by \$212,094. Planning revenue exceeded the Target by \$31,774. The Target is based on 50% or 6 months of the fiscal year's total budget. Revenue in this category is customer driven and fluctuates over the course of a year as well as year over year based on demand.

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Other revenue is made up of Business License Tax, Fines, Intergovernmental Income, Other Charges for Service, and Other Revenues. The actual revenue in this category is lower than the Target by \$190,937. The largest variance in this category is related to three revenue accounts. The revenue from other government agencies accounts for the SB 1090 funds earmarked for use of the General Plan Update. Once these funds are spent for this project, the revenue will be recognized at that time.

#### Expenditures (approximately \$1.3 million lower)

Actual second quarter expenditures were \$1,332,487 under the Target. Some of the more significant savings occurred in Police, Community Development, Public Works, Administrative Services, and City Administration Departments. The Second Quarter Report provided in Attachment 1 includes greater detail regarding the causes for the expenditure variances in these departments.

Section 5 of the Second Quarter Report includes a new update on the Goal Status Reports to Council, that includes City's progress towards completing Major City Goals and City's Capital Improvement Plan. This information is provided to keep the Council apprised of the status of the Goal Status Reports and includes progress towards completing Major City Goals and Capital Improvement Plan.

#### Budget Adjustments

Staff identified six budget adjustments that are requested as described in more detail below:

- Community Development: Appropriate \$23,000 from the General Fund Balance to account for the increased costs related to Building Contractual Services. Recent development and building permit activity has increased and a demand for plan check services has resulted. In order to help decrease the processing time to return building permit plan checks to customers, additional contractual services totaling \$180,000 is requested. These increases are expected to be offset by a conservative increase to fee revenues totaling \$123,700. Additionally, it is recommended to reallocate the remaining \$38,300 of budgeted expenditures within the Building Division salary savings to cover a portion of this increased costs since the contractual firm has been providing this service until the new Building Permit technician began with the City in January 2024.
- City Administration: Appropriate \$150,000 from the General Fund Balance to account for the increased costs related to the City Attorney contract. Best, Best, and Krieger continues to provide exceptional service to the City and has increased the amount of hours used by approximately 50 hours per month to a monthly average of approximately 165 hours. This increased service level was not reflected in the original budget estimates for FY 2023-24, but has been seen as necessary to update some of the City's practices. Opportunities to reduce legal costs in the

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future are being identified. City staff will incorporate a more accurate estimate in the Mid-Cycle FY 2024-25 budget update at a future Council meeting.

- Legislative and Information Services: Appropriate \$12,310 from the General Fund Balance to add the Escribe Webcasting Module to provide video indexing to the City Council meetings and support the automation of meetings.
- COPS Fund: Appropriate \$25,000 from the State COPS Block Grant Fund to purchase license plate readers, evidence drying rack, handheld laser speed gun, and a drone. All pieces of equipment are eligible for COPS Grant Fund use but the special revenue fund did not incorporate these items into this budget.
- Water Fund: Appropriate \$13,975 from the Water Enterprise Fund Balance to fund the City's share of the Central Coast Blue (CCB). This increase is related to the CCB Mid-year Budget request presented to the CCB Board on Monday, February 5, 2024, due to substantive work activities related to the start-up of the Authority, including but not limited to legal and financial advisor services.
- Sewer Fund: Appropriate \$20,000 from the Sewer Enterprise Fund Balance to replace one of the pumps at Lift Station # 1. The pumps at Lift Station # 1 are the City's largest sewage pumps and pump around 250,000 gallons of raw sewage per day for it to flow via gravity in the collection system to the plant in Oceano.

#### **ALTERNATIVES:**

The following alternatives are provided for the Council's consideration:

1. Receive and file the Fiscal Year 2023-24 Second Quarter Financial Status Report and approve six Budget Adjustment Requests;
2. Provide other direction to staff regarding the FY 2023-24 Second Quarter Financial Status Report and the six Budget Adjustment Requests;
3. Receive and file the FY 2023-24 Second Quarter Financial Status Report and do not approve the Budget Adjustment Requests and provide further direction to staff;  
or
4. Provide other direction to staff.

#### **ADVANTAGES:**

The financial report presents an updated review of the City's financial performance in the second quarter of FY 2023-24. Approval of the requested budget adjustments will enable staff to continue providing high quality services to the organization and to the public.

#### **DISADVANTAGES:**

No disadvantages have been identified at this time.

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**ENVIRONMENTAL REVIEW:**

No environmental review is required for this item.

**PUBLIC NOTIFICATION AND COMMENTS:**

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

**ATTACHMENTS:**

1. Fiscal Year 2023-24 Second Quarter Financial Status Report