



MEMORANDUM

TO: City Council

FROM: Nicole Valentine, Administrative Services Director

SUBJECT: Consideration of Fiscal Year 2021-22 Mid-Year Financial Status Report and Request to Approve One Budget Adjustment Request

DATE: February 22, 2022

SUMMARY OF ACTION:

Consider and file the Fiscal Year (FY) 2021-22 Mid-Year Financial Status Report and approve one Budget Adjustment Request.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

Preparation of the Mid-Year Financial Status Report requires staff time within the existing work plan and budget for the Administrative Services Department. At mid-year, FY 2021-22 revenues for the General Fund were \$8.8 million, or five percent (5%) above the Budget Target. Actual Expenditures were \$9.4 million, and below the Budget Target by \$2.1 million (10%).

With this report, staff is also requesting approval of one budget adjustment totaling \$27,550 from the General Fund. The request would provide current fiscal year funding to add an Associate Engineer position to the Public Works Department to provide additional Capital Improvement Program (CIP) support. With the influx of American Rescue Plan Act (ARPA) Funds, there is a large increase in CIP projects to complete in addition to the growing infrastructure projects that the City has planned to complete in the future. This will increase the full-time equivalent (FTE) staffing count within the Public Works Department by 1 to a total of 23. The ongoing cost of this new position would be \$170,900 annually and, if approved, will be added into the upcoming FY 2022-23 budget.

RECOMMENDATION:

Receive, consider, and file the FY 2021-22 Mid-Year Financial Status Report; and approve one Budget Adjustment Request in the amount of \$27,550 for the addition of an Associate Engineer position in the Public Works Department.

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BACKGROUND:

Mid-Year Financial Report

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 Mid-Year Financial Status Report is the second of four financial performance reports that staff will present to Council during the 2021-22 fiscal year.

The purpose of the FY 2021-22 Mid-Year Financial Status Report is to:

- Compare mid-year revenues received and expenditures incurred to the mid-year 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 mid-year information, including headcount statistics, completed Capital Improvement Projects, and requests for City Council approval of Budget Adjustment Requests that have not previously been approved.

The City's actual mid-year financial results will be compared to both the prior year's mid-year and the budgeted Target. During FY 2020-21, the General Fund revenue and expenditure Target was calculated as one half (50%) of the FY 2020-21 Budget, or basically six equal months of the budget. For FY 2021-22, staff has revised this approach to more accurately reflect what is expected through December 2021. The Target for expenditures is calculated as one half (50%) of the FY 2021-22 Budget and represents the 6-month period from July 2021 through December 2021, except for the Non-Departmental Annual Payments line that has a Target of the full budget items are expended at the beginning of the fiscal year. This approach increased the Target from 50% to 55.5% for mid-year. The Target for revenues does not use the 50% Target but a Target of 40.3% that more accurately reflects the anticipated revenues to be received in the first half of the fiscal year. Using the Target as a comparator against actual results provides a simplified method to evaluate performance at mid-year.

Budget Adjustments

In addition to reporting on the City's quarterly and mid-year financial status, the Mid-Year report also provides an opportunity for adjustments to the budget that have become necessary or advisable following approval of the final budget for the fiscal year. This Mid-Year report includes a request for approval of one budget adjustment that will provide funding for one new position within the Public Works Department, as discussed in more detail below.

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ANALYSIS OF ISSUES:

Mid-Year Revenue and Expenditures Compared to Prior Year

Current Year Mid-Year Actuals Compared to Prior Year Mid-Year Actuals

General Fund			
	Mid-Year FY 2021-22	Mid-Year FY 2020-21	Variance
Revenue	\$ 8,864,353	\$ 7,440,350	\$ 1,424,003
Expenditures	\$ 9,467,533	\$ 8,156,596	\$ 1,310,936

Governmental Funds includes Special Revenue Funds, Debt Service Funds, as well as the General Fund. The majority of the revenue and expenditure variances in Governmental Funds were attributed to variances within the General Fund and the newly created American Rescue Plan Act (ARPA) Fund, which is separate from the General Fund. The General Fund is the primary operating fund of the City and accounts for resources and services traditionally associated with government. General Fund revenues at mid-year of this year were \$1.4 million higher than mid-year of the prior year. Expenditures were also \$1.3 million higher at the end of mid-year of the current fiscal year versus mid-year of the prior year. A more thorough explanation of mid-year changes is set forth in the attached financial report. The following is a summary of mid-year changes between the two fiscal years.

Revenue (\$1.4 million higher)

The majority of the \$1.4 million variance between mid-year of this year and the prior mid-year is related to an increase in Property Tax, Sales Tax and Transient Occupancy Tax revenue received in the first half of FY 2021-22 that was lower in the first half of FY 2020-21.

Expenditures (\$1.3 million higher)

As mentioned, mid-year expenditures compared to the prior year were higher by \$1.3 million. The majority of the variance between the two fiscal mid-year reports is related to timing and payment of Liability and Property Insurance, as well as an intentional delay in hiring four positions in the first half of FY 2020-21.

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Mid-Year Revenue and Expenditures Compared to Target

Current Year Mid-Year Actuals Compared to Target

General Fund			
	FY 2021-22 Mid-Year Target	FY 2021-22 Mid-Year Actuals	Variance
Revenue	\$ 7,898,477	\$ 8,864,353	\$ 965,876
Expenditures	\$ 11,648,716	\$ 9,467,533	\$ (2,181,184)

The table above compares mid-year actual results to the budgeted Target. Mid-Year actual revenue was above the Target by \$965,876. Mid-Year actual expenditures were below the Target by \$2.1 million. The following is a summary of the mid-year revenue and expenditure variances compared to the budgeted Target. A more thorough explanation of mid-year variances is set forth in the attached financial report.

Revenue (\$965,876 higher)

Revenue for FY 2021-22 was budgeted conservatively due to the many unknowns related to the ongoing COVID-19 pandemic, which resulted in mid-year revenue being above the Target. 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 first property tax bill at the end of September or early October, with a due date of November 1st. The majority of property tax related to the first installment is received in December 2021. The second installment is due on April 1st and will be reflected in the fourth quarter report. Actual revenue received in this category was higher than the Target by \$688,330.
- The Sales Tax Target identified in the Mid-Year report is based on four months of revenue, taking into account the timing of anticipated payments, as actual sales tax receipts by December 31, 2021, represent four months of payments (Jul – Oct). Nonetheless sales tax realization through mid-year is higher than the Target by \$103,511 indicating stronger than expected economic activity early in this fiscal year
- License and permit revenue fell short of the Target by \$82,506. Planning Division revenue fell short of the Target by \$51,288. The Target is based on 50% or 6 months of the fiscal year’s total budget. The majority of the variance is due to fewer permits being issued through mid-year than estimated in the Target. Revenue in this category is customer driven and fluctuates over the course of a year as well as year over year based on demand.
- Transient Occupancy Tax (TOT) revenue is reflecting an \$277,691 favorable variance to the Target. The Target and actual TOT revenue represents only five

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months of TOT receipts due to the timing of payments. Lodging facilities have thirty days after the month's end to make their TOT payments.

Expenditures (\$2.2 million lower)

Actual mid-year expenditures were \$2,181,184 under the Target. All of the City's departments are under their spending Targets. Some of the more significant savings occurred in the Police, Administrative Services, and Community Development Departments.

- A portion of the variance is attributed to the annual CalPERS UAL retirement payment. This payment was budgeted at \$1,571,900 but the actual expenditure was \$1,519,503, resulting in a favorable variance to the budget of \$52,397.
- Other favorable departmental variances compared to the Target include salary savings and lower contractual service spending, as described in more detail in the report (Attachment 1).

Budget Adjustments

Staff identified one additional budget adjustment request during the mid-year budget review, as described in more detail below:

- \$27,550 Public Works Department: It is recommended that the Public Works Administration Division add an Associate Engineer position to provide additional Capital Improvement Program (CIP) support. With the influx of American Rescue Plan Act (ARPA) Funds, there is a large increase in CIP projects to complete, in addition to the growing infrastructure projects planned to be completed in the future. If approved, this adjustment will increase the FTE count within the Public Works Department by 1 to a total of 23.

ALTERNATIVES:

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

1. Receive and file the Fiscal Year 2021-22 Mid-Year Financial Status Report and approve one Budget Adjustment Request;
2. Provide other direction to staff regarding the FY 2021-22 Mid-Year Financial Status Report and one Budget Adjustment Request;
3. Receive and file the FY 2021-22 Mid-Year Financial Status Report and do not approve the Budget Adjustment Request and provide further direction to staff; or
4. Provide other direction to staff.

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ADVANTAGES:

The financial report presents an updated review of the City's financial performance in the first half of FY 2021-22. Approval of the requested budget adjustment 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.

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 2021-22 Mid-Year Financial Status Report