



MEMORANDUM

TO: City Council

FROM: Nicole Valentine, Administrative Services Director

SUBJECT: Consideration of Fiscal Year 2022-23 First Quarter Status Report and Request to Approve Six Budget Adjustment Requests

DATE: November 22, 2022

SUMMARY OF ACTION:

Consider and file the Fiscal Year (FY) 2022-23 First Quarter Financial Status Report and approve six Budget Adjustment Requests.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

Preparation of the First Quarter Financial Status Report requires staff time within the existing work plan and budget for the Administrative Services Department. At the end of the first quarter, FY 2022-23 revenues for the General Fund were \$2.3 million, or two percent (2%), below the Budget Target. Actual Expenditures were \$6.7 million, and below the Budget Target by \$1.5 million (7%).

Council is being asked to approve six budget adjustments. The requests include three budget adjustments for re-appropriation (carryover) of prior year budgets for projects started but not completed as of June 30, 2022. The remaining three requests are items identified after the final FY 2022-23 budget was completed. The overall impact to the budget is an increase in General Fund expenditures of \$17,000, Water Availability expenditures of \$6,134, and COPS Fund expenditures of \$8,654 as reflected in the following table:

Request	Revenue	Expenditure	General Fund Impact	Water Availability Fund Impact	COPS Fund Impact	Original Budget
Carryover OTS Grant for Traffic/DUI Enforcement	11,542	11,542	-	-	-	-
Carryover Retraining Scholarship Program	25,000	25,000	-	-	-	-
Cash for Grass Program	-	6,134	-	6,134	-	-
Radio Communication System Upgrade	13,346	26,000	-	-	8,654	4,000
Steam Clean Village Sidewalks	-	17,000	17,000	-	-	-
Elm Street Park Holiday Tree Lighting	10,000	10,000	-	-	-	-
Totals	59,888	95,676	17,000	6,134	8,654	4,000

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RECOMMENDATION:

Receive, consider, and file the FY 2022-23 First Quarter Financial Status Report; and approve six Budget Adjustment Requests.

BACKGROUND:

First Quarter 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 First Quarter Financial Status Report is the first of four financial performance reports that staff will present to Council during the 2022-23 fiscal year.

The purpose of the FY 2022-23 First Quarter Financial Status Report is to:

- Compare first quarter revenues received and expenditures incurred to the first 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 first quarter 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 first quarter financial results will be compared to both the prior year's first quarter and the budgeted Target. The Target for expenditures is calculated as one fourth (25%) of the FY 2022-23 Budget and represents the 3-month period from July 2022 through September 2022, except for the Non-Departmental Annual Payments line that has a Target of the full budget. This approach increased the Target from 25% to 35% for the first quarter. The Target for revenues does not use the 25% Target but a Target of 13.3% that more accurately reflects the anticipated revenues to be received in the first quarter of the fiscal year. Revenue realization is typically low at the end of the first quarter of the fiscal year due to the timing of when major tax revenues are received, the time lag involved in billing cycles, and the receipt of reimbursements. Using the Target as a comparator against actual results provides a simplified method to evaluate performance for the quarter.

Budget Adjustments

Council is being asked to approve six budget adjustments. Three of the requests include a request for re-appropriation (carryover) of prior-year budgets for projects that were started but not completed as of June 30, 2022. The remaining three requests are items were identified after the final budget was completed.

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ANALYSIS OF ISSUES:

First Quarter (Q1) Revenue and Expenditures Compared to Prior Year

Current Year Q1 Actuals Compared to Prior Year Q1 Actuals

General Fund			
	First Quarter FY 2022-23	First Quarter FY 2021-22	Variance
Revenue	\$ 2,309,588	\$ 2,358,644	\$ (49,056)
Expenditures	\$ 6,670,043	\$ 5,868,747	\$ 801,296

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 the first quarter of this year were \$49,056 lower than the first quarter of the prior year. Expenditures were \$801,296 higher at the end of the first quarter of the current fiscal year versus the first quarter of the prior year. A more thorough explanation of first quarter variances is set forth in the attached financial report. The following is a summary of the first quarter variances between the two fiscal years.

Revenue (\$49,056 lower)

The majority of the \$49,056 variance between the first quarter of this year and the prior first quarter is related to the timing of property taxes received in the first quarter of FY 2021-22 that was not received in the first quarter of FY 2022-23.

Expenditures (\$801,296 higher)

As mentioned, first quarter expenditures compared to the prior year were higher by \$801,296. The majority of the variance between the two fiscal quarters is related to timing and payment of Liability and Property Insurance, as well as additional vacant positions.

First Quarter (Q1) Revenue and Expenditures Compared to Target

Current Year Q1 Actuals Compared to Target

General Fund			
	FY 2022-23 First Quarter Target	FY 2022-23 First Quarter Actuals	Variance
Revenue	\$ 2,773,248	\$ 2,309,588	\$ (463,660)
Expenditures	\$ 8,248,293	\$ 6,670,043	\$ (1,578,250)

The table above compares first quarter actual results to the budgeted Target. First Quarter actual revenue was short of the Target by \$463,660. First Quarter actual expenditures were also short of the Target by \$1.5 million. The following is a summary of

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the first quarter revenue and expenditure variances compared to the budgeted Target. A more thorough explanation of first quarter variances is set forth in the attached financial report.

Revenue (\$463,660 lower)

The first quarter revenue shortfall compared to the Target is not unusual. Revenue realization is typically low in the first 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 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 will be received in December 2022. The second installment is due on April 1st and will be reflected in the fourth quarter report. The revenue Target includes the equivalent of one month of property tax revenue, but actuals were still lower than this conservative revenue assumption by \$397,620.
- Transient Occupancy Tax (TOT) revenue is reflecting an \$122,120 favorable variance to the Target. The Target and actual TOT revenue represents only two 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.
- 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 \$126,100. The largest variance in this grouping is related to the anticipated revenue from the sale of the police fleet that will be received in Q4 after the new Police Explorers are outfitted and ready for use.
- License and permit revenue fell short of the Target by \$8,700. Franchise Fees fell short of the Target by \$18,800. Recreation Fees fell short of the Target by \$18,800 and Transfers to the General Fund fell short of the Target by \$14,500. The Target is based on 25% or 3 months of the fiscal year's total budget. The majority of the variance is timing of payments being issued through first quarter. Revenue in many of these categories is customer driven and fluctuates over the course of a year as well as year over year based on demand.

Expenditures (\$1.5 million lower)

Actual first quarter expenditures were \$1,578,250 under the Target. All of the City's departments are under their spending Targets. Some of the more significant savings

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occurred in the Police, Administrative Services, Public Works, and Community Development Departments.

- A portion of the variance is attributed to the annual CalPERS UAL retirement payment. This payment was budgeted at \$1,856,772 but the actual expenditure was \$1,319,522, resulting in a favorable variance to the budget of \$537,250.
- Other favorable departmental variances compared to the Target include salary savings and lower contractual service spending.

Budget Adjustments

One of the purposes of the first quarter report is to recommend the re-appropriation (carryovers) of prior year budgets for services/products that were begun, but not completed, as of June 30, 2022. These requested carryovers do not include capital improvement projects. Each year, the City Council adopts a budget which commits resources to the Capital Improvement Program (CIP) that addresses infrastructure maintenance and improvements throughout the City. The CIP is funded through a variety of sources including significant grants and transfers from other funds. CIP funds do not have annual appropriated budgets. Control over capital projects is maintained by a project-length CIP budget. This project-length budget authorizes total expenditures over the duration of a construction project, rather than year by year. A detailed accounting by Project is included in Attachment 1 for information purposes.

Staff identified three projects that were budgeted in FY 2021-22 and were not completed in that fiscal year but are expected to be completed in the current year. It is requested that the following carryover budget adjustments be approved:

- \$11,542 Police Department: Carryover \$11,542 related to the Office of Traffic Safety (OTS) Grant for Traffic/DUI Enforcement Program. This Grant program operates from October 1, 2021 through September 30, 2022. This carryover is due to the misalignment of the program year ending in September but budgeted in FY 2021-22. The invoice for July 1 - September 30, 2022 was submitted totaling \$11,542 and it is anticipated to be received within the next few weeks.
- \$25,000 City Council: Carryover \$25,000 for the retraining scholarship program funded using SB 1090 funds. This program was approved at the March 9, 2021 City Council meeting, item 10.a., but only \$15,000 was spent in FY 2021-22. This program is administered by the South County Chamber of Commerce in partnership with SLO Partners. The Chamber is continuing to process scholarships throughout this fiscal year as needs arise.

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- \$6,134 Public Works Department: Carryover \$6,134 for the Cash for Grass program from the Water Availability Special Revenue Fund that has been allocated to residents participating in the program but has not been processed for payment related to completion of work in FY 2021-22.

Finally, staff requests approval of three additional budget adjustments that are not carryovers, as described in more detail below:

- \$26,000 Police Department: The Police Department has received \$13,346 of Nuclear Power Plant (NPP) PG&E Grant for Emergency Management Systems for 50% of the total project cost of \$26,000 to upgrade the radio communications system to improvement communications on the East side of Arroyo Grande. The remaining funds will be provided through \$4,000 of the current General Fund Police Department budget and an allocation of COPS Grant fund balance of \$8,654.
- \$17,000 Public Works Department: It is recommended that the Streets Division Contractual Services budget be increased by \$17,000 to allow the City to contract with a vendor to steam clean the Village Sidewalks. After meeting with the businesses in the Village, this request was brought forward and has been included for Council consideration. This budget request would appropriate \$17,000 from the General Fund balance to complete this project.
- \$10,000 Recreation Department: The Recreation Department has received approximately \$10,000 in donations to be used for the Elm Street Park Holiday Tree Lighting event on December 10, 2022. This event will include a City tree lighting ceremony, festival crafts, snow and many more activities to be enjoyed by the community. This budget adjustment request would appropriate approximately \$10,000 of donations to be accepted and to fully fund the costs of the entire event. No General Fund dollars are proposed to be used for the event.

ALTERNATIVES:

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

1. Receive and file the Fiscal Year 2022-23 First Quarter Financial Status Report and approve six Budget Adjustment Requests;
2. Provide other direction to staff regarding the FY 2022-23 First Quarter Financial Status Report and the six Budget Adjustment Requests;
3. Receive and file the FY 2022-23 First 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.

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ADVANTAGES:

The financial report presents an updated review of the City's financial performance in the first half of FY 2022-23. 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.

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 2022-23 First Quarter Financial Status Report