



AGENDA REPORT

Finance Department

DATE:	December 6, 2022
TO:	Mayor Butt and Members of the City Council
FROM:	Shasa Curl, City Manager, Nickie Mastay, Deputy City Manager Delmy Cuellar, Director of Finance Mubeen Qader, Budget Administrator Antonio Banuelos, Accounting Manager
SUBJECT:	Fiscal Year 2022-23 Quarter 1 Budget Report
FINANCIAL IMPACT:	The fiscal impact is an increase in net budget appropriation of \$447,486 in Non-General Funds.
PREVIOUS COUNCIL ACTION:	June 21, 2022
STATEMENT OF THE ISSUE:	The City staff is presenting the Fiscal Year (FY) 2022-2023 Quarter 1 General Fund budget to actuals report, All Funds budget to actuals report, and the Capital Improvement budget to actuals report. The purpose of this report is to monitor revenues and expenditures, as compared to the approved budgeted amounts.
RECOMMENDED ACTION:	RECEIVE the FY 2022-23 Quarter 1 Budget Report for the period of July 1, 2022, through September 30, 2022; and APPROVE proposed budget adjustments – Finance (Shasa Curl/Nickie Mastay/Delmy Cuellar 620-6790).

DISCUSSION:

The purpose of the Quarter 1 Budget Report is to assist the City in monitoring its revenue and expenditures, as compared to the approved budgeted amounts. The report also provides the City Council, staff, and the community the ability to monitor trends that impact the budget cycle.

This report represents an overview of the City's first quarter operating revenues and expenditures for FY 2022-23. The period covers budget activity from July 1, 2022, through September 30, 2022. The threshold for the first three months of the fiscal year is 25 percent, meaning that it is expected that 25 percent of the adopted budget will have been expended. Revenues are not necessarily measured against the same standard due to the seasonality of some major revenue sources, such as property taxes, which are received in December, April, and June each of year.

General Fund

General Fund Revenues

Overall, revenue received totaled \$41.9 million (20.3 percent of budget) for the first quarter of FY 2022-23. This is below the threshold of 25 percent, but the variance is primarily due to the seasonality of some revenue sources. For example, the City does not receive its first property tax installment (55 percent) until the end of December. Table 1 below summarizes the first quarter revenue budget to actuals. See Attachment 1 for the breakdown by department.

Table 1: General Fund Revenue, FY2022-23, Quarter 1

			W/O WITH				
FUNDS	ORIGINAL	REVISED			AVAILABLE	ENCUMB.	ENCUMB.
	APPROP	BUDGET	YTD ACTUAL	ENCUMB.	BUDGET	% USED	% USED
0001-General Fund							
PROPERTY TAXES	(46,056,962)	(46,056,962)	-	-	(46,056,962)	0%	0%
SALES & USE TAX	(55,282,200)	(55,282,200)	(2,464,665)	-	(52,817,535)	4%	4%
UTILITY USERS TAX	(49,963,589)	(49,963,589)	(17,672,407)	-	(32,291,182)	35%	35%
OTHER TAXES	(21,638,449)	(21,638,449)	(2,278,697)	-	(19,359,752)	11%	11%
LICENSES,PRMITS&FEES	(11,129,402)	(11,129,402)	(1,940,532)	-	(9,188,870)	17%	17%
FINES & FORFEITURES	(475,275)	(475,275)	(10,304)	-	(464,971)	2%	2%
USE OF MONEY&PROPRTY	(236,079)	(236,079)	-	-	(236,079)	0%	0%
CHARGES FOR SERVICES	(3,571,292)	(3,571,292)	(586,021)	-	(2,985,271)	16%	16%
OTHER REVENUE	(187,500)	(187,500)	(67,048)	-	(120,452)	36%	36%
RENTAL INCOME	(874,506)	(874,506)	(233,227)	-	(641,280)	27%	27%
INTERGOV STATE TAXES	(125,000)	(125,000)	-	-	(125,000)	0%	0%
INTERGOV STATE GRANT	(175,000)	(175,000)	-	-	(175,000)	0%	0%
INTERGOV OTHER GRANT	(253,569)	(263,569)	(119,209)	-	(144,360)	45%	45%
PROC FR SLE PROP	(100,000)	(100,000)	-	-	(100,000)	0%	0%
OPER XFERS IN	(16,563,424)	(16,563,424)	(16,498,336)	-	(65,088)	100%	100%
Total Revenue	(206,632,248)	(206,642,248)	(41,870,445)	-	(164,771,802)	20%	20%

For most General Fund revenues, it is still too early to tell if adjustments will be needed. By mid-year, the City staff will have a better understanding of the local trends. From the data points we have received thus far in FY 2022-23, most revenues are trending as expected or better.

- Property Tax -- For the FY 2022-23 General Fund property taxes, staff estimated growth of 2.9 percent for Secured Property Taxes and overall growth for this revenue category of 1.8 percent. The County released 2022-2023 Assessment

Roll in July 2022 which indicated growth of the Assessed Valuation (AV) at 8.15 percent for Secured Property Taxes. This is the main component in changes to secure property taxes year to year. Other significant impacts include sale of properties and tax increment allocation. If the 8.15 percent AV increases hold, that would translate to additional revenue of close to \$2.9 million above what was budgeted. The City staff will have a clearer understanding of actual property tax revenues after the City receives the December payment from the Contra Costa County.

- Sales & Use Tax -- The sales tax revenue stream, post COVID's shelter-in-place and the associated downturn in the economy, has significantly increased over the last two years and the trend is expected to continue through the current fiscal year. The updated forecast from the City's financial consultants and the internal forecast tie to what is currently budgeted for FY 2022-23.
- Utility Users Tax (UUT) --This revenue stream, including the maximum cap amount paid by Chevron, has been received as expected. The cap amount was expected to grow by 13.1 percent and ended up being 13.12 percent. Like the other major revenue streams, the year-to-date amounts for UUT currently align with budgeted amounts.
- Other Taxes -- Other revenues of note include the documentary transfer tax which is collected by the County on the sale of properties. The City has received the July, August and September payment totaling \$2.1 million (16 percent of budget). Of the major revenue streams, this is the most volatile and hardest to predict with month to month varying significantly and a sale or two having huge impacts on the tax amount. It is too early to tell if an adjustment will be needed at mid-year, but, as stipulated in the Guiding Fiscal Policy document, the budgeted amount will be recalculated in January by calculating the mean monthly amount collected since the increase to the rate was approved by voters in 2018.
- Licenses, Permits, & Fees – This revenue stream includes the business tax revenue. Through September 2022, the full revenue is at 17 percent of the budgeted amount. Comparing first quarter of FY2021-22 with the first Quarter of FY2022-23, there is an increase of nearly \$1 million. The increase stems from the collection of business tax after the adoption of Measure U. The City is being sued and it is difficult to estimate the impact of this pending litigation with the revenue stream.

General Fund Expenditures

General Fund expenditures totaled \$37.5 million (22 percent of budget) for the first quarter of FY 2022-23. Actuals are trending lower than the approved budgeted amounts. The variances around the 22 percent threshold are mostly due to purchase order encumbrances, which are funds earmarked for specific operating expenditures, such as copier leases. Table 2 below summarizes the first quarter expenditure budget to actuals. See Attachment 1 for the breakdown by department.

Table 2: General Fund Expenditure, FY2022-23, Quarter 1

FUNDS	ORIGINAL APPROP	REVISED BUDGET	YTD ACTUAL	ENCUMB.	AVAILABLE BUDGET	W/O	WITH
						ENCUMB. % USED	ENCUMB. % USED
0001-General Fund							
SALARIES AND WAGES	78,761,868	78,549,213	16,158,437	-	62,390,776	21%	21%
PYRL/FRINGE BENEFIT	66,929,804	66,887,328	14,746,497	-	52,140,831	22%	22%
PROF & ADMIN	16,977,138	17,173,006	1,771,014	3,780,379	11,621,613	10%	32%
OTHER OPERATING	7,970,902	7,987,130	1,195,630	1,738,687	5,052,813	15%	37%
UTILITIES	5,399,957	5,397,722	821,829	900,421	3,675,473	15%	32%
EQPT & CONTRACT SVCS	2,731,448	2,714,957	842,428	551,802	1,320,727	31%	51%
PROVISN FOR INS LOSS	25,725	29,641	3,770	24,871	1,000	13%	97%
COST POOL	15,277,766	15,277,766	-	-	15,277,766	0%	0%
ASSET/CAPITAL OUTLAY	3,172,136	3,455,211	133,172	71,242	3,250,798	4%	6%
DEBT SVC EXPENDITURE	1,037,009	1,037,009	118,080	-	918,929	11%	11%
A87 COST PLAN REIMBS	(3,531,610)	(3,531,610)	-	-	(3,531,610)	0%	0%
GRANT EXPENDITURES	2,500	82,500	-	8,000	74,500	0%	10%
OPER XFERS OUT	11,877,605	11,877,605	1,718,722	-	10,158,883	14%	14%
Total Expenditures	206,632,248	206,937,477	37,509,577	7,075,400	162,352,499	18%	22%

- Salaries & Wages – includes base salaries for full-time and part-time staff, overtime, and other pay types. Actual expenditures total \$16 million (21 percent of budget). This category is lower than the threshold primarily due to vacant positions.
- Benefits –includes medical, dental, workers compensation, CalPERS pension costs, other post-employment benefits (OPEB), and other benefits. Actual expenditures total \$14.7 million (22 percent of budget) is below the threshold due to vacant positions.
- Professional & Admin Services – includes professional and consulting services, and contractual obligations, such as animal control services. Actual expenditures total \$1.7 million (10 percent of budget) and are below the threshold. Factoring in purchase order encumbrances of \$3.8 million, the total is \$5.6 million (32 percent of budget). Operating savings are typically captured in this category.
- Other Operating – includes copier leases, office supplies, and other items. Actual expenditures total \$1.2 million (15 percent of budget). Factoring in purchase order encumbrances of \$1.7 million, the total is \$2.9 million (37 percent of budget).
- Utilities – includes gas, electricity, water, refuse, telephone, and internet services. Actual expenditures total \$822 thousands (15 percent of budget). Factoring in purchase order encumbrances of \$900 thousands, the total is \$1.7 million (37 percent of budget).
- Equipment & Contract Services - includes equipment and maintenance/repair services. Actual expenditures total \$842 thousands (31 percent of budget). Factoring in purchase order encumbrances of \$552 thousands, the total is \$1.3 million (31 percent of budget).

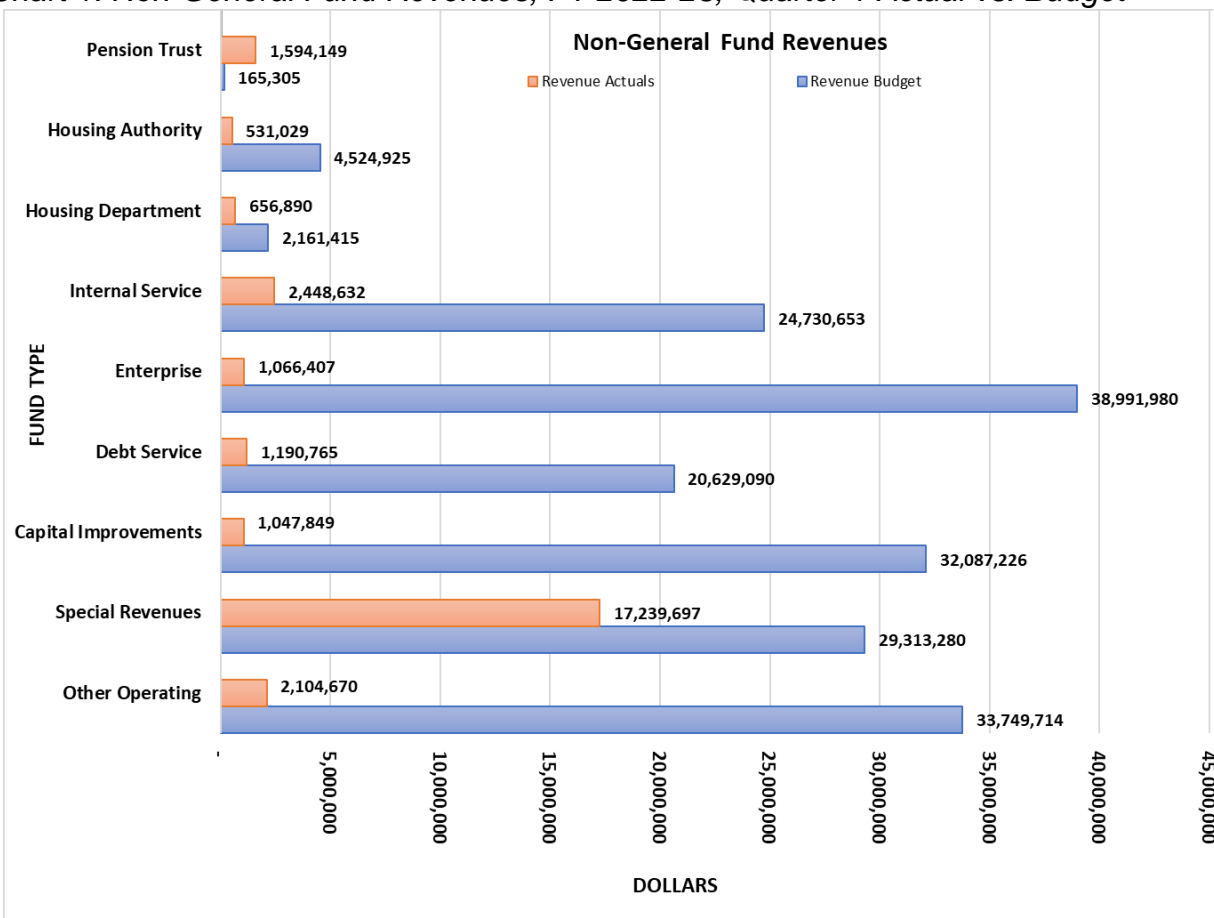
- Transfers Out – includes transfers out from the General Fund to non-General Funds mostly for operating subsidies and a portion of debt service. Actuals total \$1.7 million (14 percent of budget).

Non-General Funds

Non-General Fund Revenues

Overall, 13 percent of non-general fund revenues have been collected and are trending as expected. The timing of receipts vary amongst the funds based on the source of funding. For instance, grant funds are typically received after expenditures are incurred and reimbursement requests are submitted to grantors. The chart below summarizes the revenue budget to actuals for non-general funds. See Attachment 2 for revenue budget to actuals by individual fund.

Chart 1: Non-General Fund Revenues, FY 2022-23, Quarter 1 Actual vs. Budget

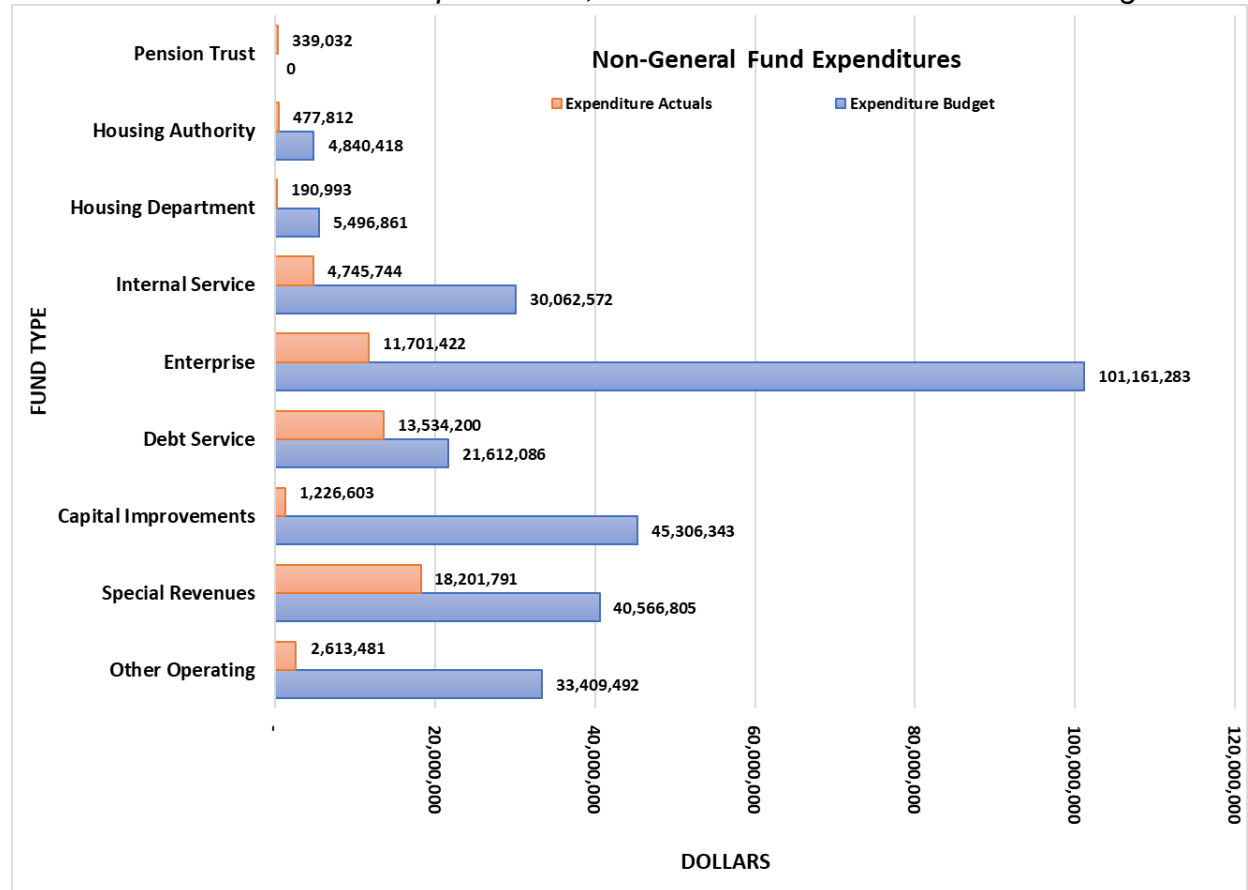


Non-General Fund Expenditures

Overall, 19 percent of non-general fund budget appropriations have been expended. Spending patterns in other funds are like those in the General Fund and trending as expected. Most of the actual expenditures are either at or below the threshold of 25

percent. Amounts over the threshold are primarily due to purchase order encumbrances. The chart below summarizes the expenditure budget to actuals for non-general funds. See Attachment 2 for expenditure budget to actuals by individual fund.

Chart 2: Non-General Fund Expenditures, FY2022-23 Quarter 1 Actual vs. Budget



Capital Improvement Project Highlights

The Capital Improvement Project budget total is \$114.9 million which consists of \$40 million of special project funding and \$74.9 million of funding from Enterprise funds, Internal Services, or other funds. \$35.9 million of the total includes project funding that was carried-forward from the prior year. Overall, 5 percent of capital project fund budget appropriations have been expended. Spending patterns may seem low due to several projects still under design phase. Expenditures will pick up quickly once the projects move into construction. The table below shows major project highlights, See Attachment 3 for Capital Improvement Project Quarter 1 expenditure budget to actuals for details.

Table 3: Capital Improvement Projects Highlights

	Budget	Actual
Castro Ranch Road – this project is at end of planting landscaping establishment and is expected to be completed by end of this fiscal year	\$ 1,070,682	\$ 483
Grit and Aeration Replacement – this project is funded by the State Revolving Fund (SRF) Loan and is under top priority order of the Baykeeper Settlement agreement to rehabilitate the Wastewater Treatment Plant	\$ 37,139,075	\$ 1,413,954
Richmond Parkway – this funding covered the worse paving locations along the corridor	\$ 1,000,000	
Street Paving - the annual program is underway and is an ongoing effort	\$ 2,456,167	\$ 466,085
Yellow Brick Road – this project will be complete once Pacific Gas & Electric (PG&E) service connections are met	\$ 1,904,636	\$ 340,070
CIP - Highlights	\$ 43,570,560	\$ 2,220,592

Quarter 1 Budget Adjustments:

City staff propose budget adjustments net of \$447,486 as mentioned below and set forth in the Resolution (Attachment 4):

- American Rescue Plan Act – City staff is proposing to appropriate \$296,300 for the Environmental Planning. The project was appropriated in the FY2021-22 budget; however, the appropriation was inadvertently not included in the FY2022-23 budget that was approved on June 21, 2022.
- American Rescue Plan Act – City staff is proposing to appropriate \$1,000,000 for the Community Beautification Project. The project was appropriated in the FY2021-22 budget; however, the appropriation was inadvertently not included in the FY2022-23 budget that was approved on June 21, 2022.
- American Rescue Plan Act – City staff is proposing to appropriate \$150,000 for MLK Turf Field. The project was appropriated in the FY2021-22 budget; however, the appropriation was inadvertently not included in the FY2022-23 budget that was approved on June 21, 2022.
- Wastewater Fund 4003 – City staff is requesting to remove the Flood Risk Reduction Rheem Creek grant budget of (\$1,598,844). The Grant is already budgeted in the Stormwater fund and this appropriation is redundant.
- Measure J – the revenue exceeded by \$600,000 than the original budget, the City staff is proposing to appropriate the additional monies to the Street Paving Program.

Labor Negotiations and Looming Recession:

The City is in the middle of labor negotiations with several bargaining units regarding labor contracts and the implementation of the Classification and Compensation study. The results of the negotiations will impact the expenditure trends in the next three quarters. The global economy is also indicating early signs of recession in the calendar

year of 2023. Due to these pressures on the City's expenditures and revenues, there is a great deal of potential for fiscal headwinds in the coming years that could deplete the City's reserves.

Next Steps

City staff will continue to closely monitor the revenues and expenditure trends in the current fiscal year to determine if adjustments will need to be made during the mid-year budget review.

DOCUMENTS ATTACHED:

Attachment 1 – General Fund – Quarter 1 Budget Report

Attachment 2 – All Funds – Quarter 1 Budget Report

Attachment 3 – Capital Improvement Projects Quarter 1 Report

Attachment 4 – Resolution

Attachment 5 – Presentation