



# AGENDA REPORT

Finance Department

<b>DATE:</b>	October 24, 2023
<b>TO:</b>	Mayor Martinez and Members of the City Council
<b>FROM:</b>	Shasa Curl, City Manager Nickie Mastay, Deputy City Manager, Internal Services Andrea Miller, Director of Finance Mubeen Qader, Deputy Director of Finance Antonio Banuelos, Accounting Manager
<b>SUBJECT:</b>	FY 2022-23 Q4 Financial Report and Administrative Budget Adjustments
<b>FINANCIAL IMPACT:</b>	
<b>PREVIOUS COUNCIL ACTION:</b>	June 21, 2022, December 6, 2022, March 28, 2023, May 16, 2023
<b>STATEMENT OF THE ISSUE:</b>	City staff is presenting the Fiscal Year (FY) 2022-23 Quarter 4 General Fund and Non-General funds budget-to-actuals report.
<b>RECOMMENDED ACTION:</b>	RECEIVE the Fiscal Year 2022-23 Quarter 4 (Q4) report for the period of July 1, 2022, through June 30, 2023; APPROVE proposed administrative year-end budget adjustments; and PROVIDE DIRECTION to staff regarding Estimated Unspent Funds - Finance Department (Andrea Miller 510-620-6790/Mubeen Qader 510-412-2077).

## DISCUSSION:

This report presents an overview of the Quarter 4 (Q4) operating revenues and expenditures for FY 2022-23, which includes year-to-date budget to actual activity from July 1, 2022, through June 30, 2023. Most of the fiscal year activity has been captured; however, the amounts are not final until the fiscal year close is completed and the Annual Comprehensive Financial Report (ACFR) is published.

Staff is presenting the Q4 financial report to provide City Council an estimate of unspent funds in the General Fund.

## General Fund

At the end of FY 2022-23 Q4, total revenue exceeds total expenditures by \$14,293,551 (Unspent Funds). Total revenues are above budget by approximately 5 percent and expenditures are below budget by approximately 2 percent as shown in Table 1 below.

Table 1: Estimated General Fund Revenue and Expenditures FY2022-23, Quarter 4

GENERAL FUND	FY 2022-23 ORIGINAL BUDGET	FY 2022-23 REVISED BUDGET	FY 2022-23 DRAFT ACTUALS	PENDING DRAFT ACCRUALS	ESTIMATED YEAR-END ACTUALS	VARIANCE
TOTAL REVENUES	206,632,248	215,103,041	225,458,075	566,000	226,024,075	105.08%
TOTAL EXPENSES	206,632,248	215,139,689	209,296,409	2,434,115	211,730,524	98.42%
GENERAL FUND NET +SURPLUS/(-DEFICIT)	-	(36,648)	16,161,666	(1,868,115)	14,293,551	

## General Fund Revenues

Overall, revenue received totaled approximately \$226 million (105.08 percent of budget) at the end of FY 2022-23 Q4. Several revenues came in higher than expected as reflected in Table 2 below. The variances in each major category are explained in the following paragraph.

Table 2: Estimated General Fund Revenue, FY2022-23 Quarter 4

GENERAL FUND	FY 2022-23 ORIGINAL BUDGET	FY 2022-23 REVISED BUDGET	ESTIMATED YEAR-END ACTUALS	VARIANCE
PROPERTY TAXES	46,056,962	48,608,929	51,919,490	106.81%
SALES & USE TAX	55,282,200	55,554,137	55,417,520	99.75%
UTILITY USERS TAX	49,963,589	50,861,279	54,673,131	107.49%
OTHER TAXES	21,638,449	22,452,187	19,623,677	87.40%
LICENSES, PERMITS & FEES	11,129,402	11,080,956	18,214,217	164.37%
FINES & FORFEITURES	475,275	465,275	255,225	54.85%
USE OF MONEY&PROPRTY	236,079	1,021,047	1,705,816	167.07%
CHARGES FOR SERVICES	3,571,292	3,568,792	2,553,732	71.56%
OTHER REVENUE	187,500	192,545	440,857	228.96%
RENTAL INCOME	874,506	874,506	895,249	102.37%
INTERGOV STATE TAXES	125,000	125,000	118,794	95.04%
INTERGOV STATE GRANT	175,000	175,000	131,430	75.10%
INTERGOV OTHER GRANT	253,569	263,569	307,076	116.51%
PROC FR SLE PROP	100,000	100,000	1,264	1.26%
LOAN/BOND PROCEEDS	-	39,400	39,400	100.00%
OPER XFERS IN	16,563,424	19,720,418	19,727,198	100.03%
<b>TOTAL REVENUES</b>	<b>206,632,248</b>	<b>215,103,041</b>	<b>226,024,075</b>	<b>105.08%</b>

## General Fund Revenue Variances

- Property Tax -- City staff estimated growth of 2.9 percent for Secured Property Taxes and overall growth for General Fund property taxes of 1.8 percent. Contra

Costa County (County) released the 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 secured property taxes year-to-year and came in as expected at mid-year. Property Taxes totaled \$51.9 million which was \$3.3 million more than the budget. A large segment that came in significantly higher than expected at mid-year was the Successor Agency surplus revenue which was \$2.5 million higher than the budget.

- Sales & Use Tax -- Sales and Use Tax revenue came in as expected and as updated at Mid-Year. Revenue was budgeted at \$55.6 million and actual revenue came in at approximately the same amount. This revenue stream is bolstered by the performance of big box stores such as Costco, Target, Home Depot, and Walmart.
- Utility Users Tax (UUT) – UUT, which applies to Cable Television, Gas and Electricity, Telecommunications, and the Maximum Tax Payable Provision (Cap Amount) paid by Chevron, totaled \$54.7 million, which is \$3.8 million (7.5%) over the budgeted \$50.9 million. The main reason for higher than budget UUT is largely from amounts remitted by PG&E due a rate increase and more usage related to the colder, wetter winter season we experienced.
- Other Taxes – Actual revenue received in the Other Taxes category was \$19.6 million, a difference of \$2.8 million from the budgeted amount of \$22.5 million. Other taxes include the documentary transfer tax which is collected by Contra Costa County on the sale of properties. Of the major General Fund revenue streams, this is the most volatile, where monthly payments can range significantly from \$300,000 one month to \$3 million the next. The City budgeted \$14.4 million in the Transfer Tax category and only received \$10.4 million, equating to a difference of \$4 million. The budgeted amount is obtained by calculating the mean monthly amount collected since the increase to the rate was approved by voters in 2018 as stipulated in the Guiding Fiscal Policies. The rest of the revenue streams in this category came in at a cumulative \$1.1 million higher than budgeted, partially offsetting the lower than anticipated transfer tax amount compared to previous years. Moving forward, City staff will budget documentary transfer tax at a lower rate since real estate transactions are decreasing as interest rates continue to rise.
- Licenses, Permits, and Fees – The total revenue through June 30, 2023, for this category is \$18.2 million which is \$7.1 million above the budgeted amount of \$11.1 million. This revenue stream includes the business tax revenue. This is the first full year of the Business Tax using the gross receipts as mandated with the passage of Measure U. The total business tax was \$16.2 million, more than double the budgeted amount of \$8.1 million. There are some anomalies in the amounts collected in FY 2022-23, as many businesses transitioned from an expiration date based on the anniversary of when they started their businesses to a fixed expiration date of December 31. Therefore, these businesses paid a

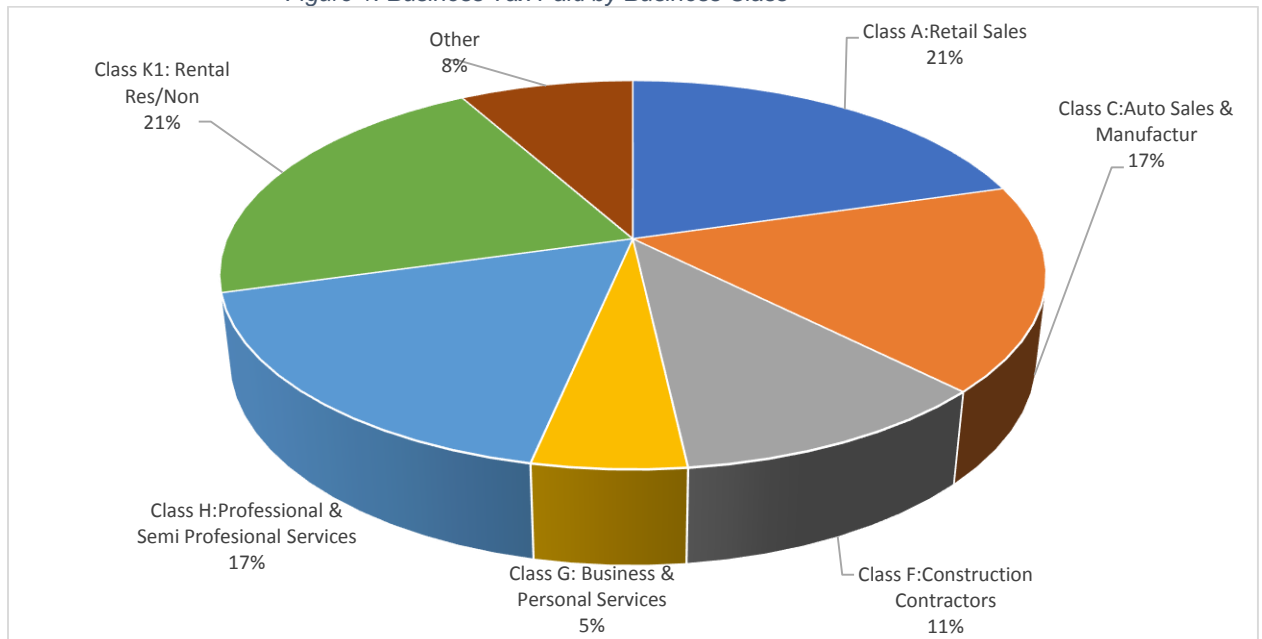
prorated amount for their 2022 business tax and a full amount for their 2023 business tax, all within FY 2022-23. This transition increased the business tax revenue received in FY 2022-23 by approximately \$2.5 million. Moving forward, this revenue stream is expected to decrease.

Table 3 below illustrates the share of the total business tax paid. The Business Tax Revenue for FY2022-23 is \$13.9 M. The top 50 taxpayers paid 55.4 percent of the total \$13.9 million. The top 500 businesses paid nearly 87 percent of the tax collected, while every other business cumulatively paid 13.1 percent of the total collected. Figure 1 illustrates the percentage of business tax paid by business class.

Table 3: 2023 Business Tax Percentage Paid by Businesses Excluding Proration

Business Tax Accounts	FY2022-23	Percentage	Total Share
Top 1 to 25	6,416,419	46.2%	46.2%
26 to 50	1,276,098	9.2%	55.4%
51 to 100	1,585,211	11.4%	66.8%
101 to 250	1,838,199	13.2%	80.1%
251 to 500	946,600	6.8%	86.9%
501 to 7130	1,818,206	13.1%	100.0%
<b>All</b>	<b>13,880,733</b>	<b>100.0%</b>	

Figure 1: Business Tax Paid by Business Class



### General Fund Expenditures

Overall, expenditures are projected to total \$211.7 million (98 percent of budget) at the end of FY 2022-23 Q4. Actuals are trending lower than the approved budgeted amounts

mainly due to lower-than-expected operating expenditures. The summary of budget-to-actual expenditures is discussed in Table 4 below.

Table 4: Estimated General Fund Expenditures FY 2022-23, Quarter 4

GENERAL FUND	FY 2022-23 ORIGINAL BUDGET	FY 2022-23 REVISED BUDGET	ESTIMATED YEAR-END ACTUALS	VARIANCE
SALARIES AND WAGES	78,761,868	68,387,383	69,865,034	102.16%
PYRLL/FRINGE BENEFIT	66,929,804	60,179,791	67,245,882	111.74%
PROF & ADMIN	16,977,138	20,116,834	11,901,455	59.16%
OTHER OPERATING	7,970,902	6,627,804	4,220,462	63.68%
UTILITIES	5,399,957	5,322,893	4,369,913	82.10%
EQPT & CONTRACT SVCS	2,731,448	2,713,145	2,130,965	78.54%
PROVISN FOR INS LOSS	25,725	29,641	28,641	96.63%
COST POOL	15,277,766	15,277,766	15,277,766	100.00%
ASSET/CAPITAL OUTLAY	3,172,136	3,967,455	3,536,627	89.14%
DEBT SVC EXPENDITURE	1,037,009	1,037,009	2,944,812	283.97%
A87 COST PLAN REIMBS	(3,531,610)	(3,531,610)	(3,622,739)	102.58%
GRANT EXPENDITURES	2,500	117,990	59,647	50.55%
OPER XFRS OUT	11,877,605	34,893,588	33,772,060	96.79%
<b>TOTAL EXPENSES</b>	<b>206,632,248</b>	<b>215,139,689</b>	<b>211,730,524</b>	<b>98.42%</b>

### General Fund Expenditure Variances

- Salaries & Wages -- This category includes base salaries for full-time and part-time staff, overtime, and other pay types. Actual expenditures total \$70 million (2 percent above the budget). Projected vacancy savings of \$8.3 million was transferred out to the General Capital fund earlier in the fiscal year.
- Benefits – This category includes medical, dental, workers compensation, CalPERS pension costs, Other Post Employment Benefits (OPEB), and other benefits. The original budget was reduced by \$6.7 million due to projected vacancy savings and transferred out to the General Capital earlier this year. Total actual expenditures are \$67 million (12 percent above budget). The variance is due to \$6.1 million additional contribution to OPEB 115 Trust that was approved by the City Council on December 6, 2022.
- Professional & Admin Services – This category includes professional and consulting services, legal services, computer software maintenance, security services, and contractual obligations, such as animal control services. Actual expenditures total \$11.9 million (59 percent of budget).
- Other Operating – This includes copier leases, office supplies, and other items. Actual expenditures total \$4.2 million (64 percent of budget). The total expenditures include reclassification of rent expense to capital lease for about \$2 million as part of Governmental Accounting Standards Board (GASB) 87 implementation which provides guidance for lease contracts for nonfinancial assets—including vehicles, heavy equipment, and buildings.
- Utilities – This category includes gas, electricity, water, refuse, telephone, and internet services. Actual expenditures total \$4.4 million (82 percent of budget). Major

sources of the variance is the result of lower-than-expected utilization, cost of water in parks and landscaping areas due to increased precipitation.

- Equipment & Contract Services - This category includes equipment and maintenance/repair services. Actual expenditures total \$2 million (79 percent of budget). Actual cost of repairs and maintenance came in lower than budgeted.
- Cost Pool – This includes vehicle replacement, general liability, and Civic Center debt allocation. Since these charges are distributed through equal monthly journals, the expenditures are fully captured to 100 percent of the budget.
- Asset/Capital Outlay – This includes capital purchases and major facility and infrastructure upgrades. Total expenditures at the end of Q4 are \$3.5 million (89 percent of the budget). Major sources of the variance are the result of lower than budgeted costs for equipment replacement projects in the Information Technology department.
- Debt Service – Included in this category are debt service payments per the debt payment schedule and capital leases per the agreements. Total expenditures are above budget due to the reclassification of rent expenses into capital lease expenses as part of GASB 87 implementation which provides guidance for lease contracts for nonfinancial assets—including vehicles, heavy equipment, and buildings.
- A87 Cost Plan Reimbursement – This category includes administrative overhead credit from non-General Fund programs through monthly journals. The expenditures are anticipated to be at 100 percent at the end of Q4, currently the transactions are still being analyzed as part of the fiscal year-end close.
- Grant Expenditures – This category includes Office of Neighborhood Safety and Recreation grant expenditures. The expenditures, including encumbrances, are at 51 percent, remaining grant budget will roll over to the following fiscal year.
- Transfers Out – This includes transfers out from the General Fund to non-General Funds for operating subsidies and a portion of the debt service. The General Fund Actuals total \$33.7 million (99.6 percent of budget).

## **Non-General Funds**

### Non-General Fund Revenues

Actual non-general fund revenues collected are 32 percent above the budgeted amounts mainly due to Bond proceeds of \$154 million as a result of Pension Obligation Bonds refunding (from a swap to a fixed rate). Budget-to-actual revenue totals by each fund are explained for some of the major categories (see Attachment 1).

Table 5: Non-General Fund Revenues, FY 2022-23, Quarter 4

FUND	ORIGINAL BUDGET	REVISED BUDGET	ESTIMATED ACTUALS THRU JUNE	VARIANCE
Total Capital Improvement Fund	31,852,226	85,313,066	32,372,772	38%
Total Debt Service Funds	20,629,090	22,107,202	164,051,582	742%
Total Enterprise Funds	58,991,980	58,991,980	44,808,481	76%
Total Housing Funds	2,161,415	2,223,583	2,280,430	103%
Total Housing Authority Funds	4,880,044	4,895,044	5,120,893	105%
Total Internal Service Funds	24,730,653	24,782,653	27,036,337	109%
Total Other Operations Funds	27,276,353	39,280,890	25,725,112	65%
Total Pension Funds	165,305	165,305	1,213,629	734%
Total Special Revenue Funds	29,253,674	39,967,907	62,822,670	157%
<b>Total All Funds</b>	<b>199,940,740</b>	<b>277,727,631</b>	<b>365,431,906</b>	<b>132%</b>

- Capital Improvement Funds – Total revenue is 38 percent of the budget. The major variance is due to pending grant reimbursements revenues in Outside-Funded Services fund and Engineering Services Grants fund. Part of the variance is full grant awards are budgeted as revenues and actual revenue is based on the expenditures incurred.
- Debt Service Funds – Revenues are above budget by 742 percent due to \$154 million bond proceeds (passthrough) from Pension Obligation Bonds refunding.
- Enterprise Funds – Total revenues are 76 percent of the budget mainly due to bond proceeds for capital projects, the drawdowns have been recognized as unearned revenue versus revenue.
- Other Operations Funds – Total revenues are 65 percent of the budget. The major variance is due to grant funded program revenues, for which the reimbursements are generally received for the incurred expenditures and remaining balances on budget are rolled into the following year.
- Pension Funds – The variance is due to return on investment experienced in the FY 2022-23.
- Special Revenue Funds – Actual revenue is above the budget by a significant amount due to American Rescue Plan Act (ARPA) funds, and Chevron Environmental and Community Investment Agreement (ECIA) fund revenues.

### Non-General Fund Expenditures

Total non-general fund expenditures are 86 percent of the budget. Several non-general funds have capital and grant projects that span over multiple years, and unspent balances in these funds roll over and was banked by project for utilization to the following year until each respective project is complete. For budget-to-actuals by each

fund see Attachment 1. Non-general fund budget-to-actual expenditures by fund type are shown in Table 6:

Table 6: Estimated Non-General Fund Expenditures FY 2022-23 Quarter 4

FUND TYPE	ORIGINAL BUDGET	REVISED BUDGET	ESTIMATED FY 2022-23 YEAR-END ACTUALS	VARIANCE
Total Capital Improvement Funds	33,902,113	100,170,791	28,458,179	28%
Total Debt Service Funds	21,612,086	21,612,086	177,357,834	821%
Total Enterprise Funds	70,579,794	121,226,354	33,303,955	27%
Total Housing Funds	5,458,047	5,496,861	1,101,601	20%
Total Housing Authority Funds	4,880,044	4,915,044	4,182,157	85%
Total Internal Service Funds	25,169,925	29,809,742	24,224,430	81%
Total Other Operations Funds	27,075,053	44,817,360	27,795,933	62%
Total Pension Funds	-	210,463	1,500,226	713%
Total Special Revenue Funds	39,674,849	58,088,338	33,020,361	57%
<b>Total All Funds</b>	<b>228,351,909</b>	<b>386,347,037</b>	<b>330,944,677</b>	<b>86%</b>

- Capital Improvement Funds – Total expenditures are 28 percent of the budget; the variance is due to projects spanning over multiple years where the unspent balances are rolled forward into the following year.
- Debt Service Funds – Total expenditures are above budget by 821 percent, with the variance due to refunding (Passthrough) of the Pension Obligation Bonds.
- Enterprise funds – Total expenditures are 27 percent of the budget; the variance is due to the wastewater capital projects spanning over multiple years. The remaining balance of the budget will be rolled into the following year.
- Internal Service Funds – Total expenditures are 81 percent of the budget; the variance is due to equipment purchases rolling into the following year.
- Other Operations Funds – Total expenditures are 62 percent of the budget. Several grant funded programs have multiple year grants, and remaining grant balances will be rolled forward to the following fiscal year.
- Pension Funds – Total expenditures are 713 percent of the budget; the variance is due to Police and Fire legacy pension system expenditures which are not typically budgeted.
- Special Revenue funds – Total expenditures are 57 percent of the budget; the variance is due to the main library renovation project which is budgeted but has not started yet. Other major drivers behind the variance are the projects in ECIA and ARPA funds.



## Quarter 4 Administrative Budget Adjustments

At the end of FY 2022-23, staff recommends approving several proposed administrative budget adjustments to align with fiscal year-end actuals. Most of these adjustments are to acknowledge the actual revenue received in non-general funds (see Attachment 2).

Table 7: Q4 Administrative Budget Adjustments

Fund Type	Adjustment Type	Amount
General Fund	Expenditure	\$6,102,459
General Capital Funds	Revenue	\$2,606,659
General Capital Funds	Expenditure	\$2,443,035
Richmond Housing Authority Funds	No net impact	
Internal Services Funds	Revenue	\$52,000
Internal Services Funds	Expenditures	\$2,635,900
Other Operations	Revenue	\$112,431
Special Revenue Funds	Revenue	\$16,509,784

## UNSPENT FUNDS

As a result of the Q4 analysis, staff has identified an estimated amount of unspent funds that could be available at the end of FY 2022-23 for the City Council to allocate towards their priority Goals. The availability of these funds is an estimate, and the amounts are subject to change, as the City is currently in the process of closing the books for fiscal year ending June 30, 2023.

Please note that during the City's Quarter 3 (Q3) Budget Review on May 16, 2023, the City Council allocated \$15,000,000 towards the Main Library Renovation project from the estimated unspent funds anticipated to remain in the General Fund on June 30, 2023.

## Reserve Level

On June 27, 2023, the City Council approved the General Fund reserve minimum requirements level at 21 percent of the next year's Budgeted General Fund expenditures. Please note, the previous Reserve Policy was a range of fifteen percent to twenty percent (15-20) of the next year's budgeted total expenditures, including transfers out. Table 8 below illustrates the FY2022-23 Reserve beginning balance and the required additional \$2,393,278 contribution to meet the policy target of 21 percent reserve level. This is extremely prudent given unknown financial headwinds related to events such as turmoil in the U.S. Congress, war in Ukraine, and significant interest rate hikes.

Table 8: General Fund Reserve Level

Line Item	Amount
FY 22-23 Beginning Reserve Level	44,935,389
FY 23-24 General Fund Budget	225,374,607
FY23-24 Target Reserve Level @ 21%	47,328,667
<b>Additional Funds Needed</b>	<b>2,393,278</b>

## Other Post Employment Benefits (OPEB) and Pension Funding Policies

On June 27, 2023, the City Council also approved OPEB and Pension funding policies, which requires the City to contribute 10 percent of the year-end General Fund Surplus/Unspent funds into the respective 115 Trust accounts. Table 9 below illustrates the estimated contributions after meeting the General Fund Reserve Policy Target Reserve Level and remaining balance of the unspent funds for City Council priority goals.

Table 9: Unspent Funds Calculation

Item	Estimated Amount
FY22-23 Unspent Balance	14,293,551
Contribution to Reserve	(2,393,278)
<b>Available Unspent Funds</b>	<b>11,900,273</b>
Contribution to OPEB @10%	1,190,027
Contribution to CalPERS @10%	1,190,027
<b>Remaining Unspent Funds</b>	<b>9,520,218</b>

## Capital Improvement Projects Update

Attachment 5 details the existing Capital Projects that are included in the FY 2023-24 Capital Improvement Plan with the estimated total cost and potential funding shortfall. The amount of the identified funding shortfall across these projects is approximately \$15.83 M. Several of the listed projects have grants as a partial funding source and require additional funding to complete these projects. The grant funded projects have an estimated funding shortfall of \$5,460,000 in FY 2023-24, \$5,065,000 shortfall in FY 2024-25, and \$3,656,717 shortfall in FY 2025-26 (see Attachment 5). City staff recommend that the City Council consider funding projects from the unspent funds \$9,520,218 as follows:

- \$5,460,000 - FY 23-24 CIP Shortfall
- \$3,261,717 - FY 24-25 CIP Shortfall (Partial Funding)

In addition, City staff recommends allocating unspent General Funds as follows:

- \$520,000 - Stenmark Cottages for recently identified asbestos and lead abatement
- \$278,501 - Richmond Fire Department Emergency Operations Center (EOC) Information Technology equipment upgrades Table 10

Table 10: Richmond Fire Department EOC IT Equipment Upgrades

EOC Equipment	Amount
Radio Communication, Basement Upgrade	55,049
Cabling, Conduit and Services	49,170
EOC Desktops with Conference Audio Video	83,103
EOC Laptops	16,999
Printer/Scanner/Copier	4,247
Smart Board	18,133
Plotter	24,000

Cell Phones	3,200
Cellular Hot Spots	600
Portable Radio	24,000
<b>Total</b>	<b>278,501</b>

Please note FY 2023-24 Capital Improvement Plan can be accessed online, <https://www.ci.richmond.ca.us/183/Budget-Documents>.

**Next Step**

City staff will continue working with the auditors to complete the FY 2022-23 year-end audit and publish the Annual Comprehensive Financial Report (ACFR). City staff will present the year-end audit results and ACFR to the City Council in January or February 2024.

**DOCUMENTS ATTACHED:**

- Attachment 1 – Estimated Fiscal Year 2022-23 General Fund and Non-General Funds Revenues and Expenditures.
- Attachment 2 – Fiscal Year 2022-23 Administrative Budget Adjustments
- Attachment 3 – Resolution – Administrative Budget Adjustments
- Attachment 4 – Resolution – Appropriations for Capital Projects Funding Shortfall
- Attachment 5 – Capital Improvement Projects with Projected Shortfall
- Attachment 6 – Draft Q4 Presentation