



AGENDA REPORT

Department: Administrative Services - Finance
Prepared by: Paul Valadez, Budget Manager
Meeting Date: Tuesday, February 7, 2023
Approved by: Brad Raulston, City Manager

SUBJECT:

Resolution of the City Council of the City of National City, California authorizing various fiscal year 2023 first quarter budget adjustments

RECOMMENDATION:

Accept the staff report and adopt the resolution authorizing fiscal year 2023 supplemental budget appropriations.

BOARD/COMMISSION/COMMITTEE PRIOR ACTION:

Not Applicable.

EXPLANATION:

BACKGROUND

As part of the City of National City's Strategic Plan objective to provide consistent financial reports, this staff report presents an update on the City's financial operations for the first quarter of fiscal year 2022-2023.

DISCUSSION

Budgets are projections based on known and anticipated future revenues and expenditures. Throughout the year, staff monitor and analyze revenues and expenditures, develop projections, and provide periodic financial reports to the City Council, City Manager, and department directors. The totals presented herein reflect revenue and expenditure totals for the period of July 1st through September 30th for the current and prior years.

1st Quarter Fiscal Year 2023

The fiscal year 2023 adopted budget estimated an increase in the General Fund unassigned fund balance of \$364,000. Since it is early in the fiscal year, the ability to project year-end revenue and expenditure totals and actual use of fund balance is limited. The most useful information at the end of the first quarter is a comparison of the fiscal-year-to-date totals of the City's major revenue sources and expenditure categories for the period for the current and prior fiscal years. This information is summarized in the tables below.

Revenues

Revenue Source	FY 23	FY 22	change
Sales & Use Tax	\$ 1,966,351	\$ 1,727,081	\$239,270
District Transactions & Use Tax	\$ 1,221,101	\$ 974,972	\$246,129
Property Tax	\$60,077	\$ 44,614	\$15,463
Property Tax in Lieu of VLF	-	-	-
Other Revenues	\$2,888,487	\$1,080,661	\$1,807,826
Total	\$ 6,136,016	\$ 3,827,328	\$2,308,688

The sales & use tax and district transactions & use tax revenue amounts shown are those distributed to the City by the State in September for July sales activity. Fiscal year 2023 sales & use tax and district transaction & use tax revenues are \$485,000 higher than fiscal year 2022's through the end of the first quarter. Although it is too early to draw definitive conclusions from this limited data, this aligns with the latest outlook provided by the City's sales tax consultant for a continued modest growth for sales tax. The two largest categories of sales tax revenue for National City are auto sales & transportation and general consumer goods.

Fiscal year 2023 property tax revenue for the first quarter, consisting primarily of payments related to unsecured and supplemental property tax bills, is \$15,000 higher than that of fiscal year 2022 for the period. While the revenue is low for both years, this is normal at this point of the year, as the largest portions of property tax revenues are typically received in December and April, corresponding to tax payment due dates. Early reports from the County indicate that secured property taxes, the most significant component of the Property Tax category, will be in line with the City's adopted budget.

Because the distribution of property tax in lieu of VLF revenue occurs in January and May, no allocation of this revenue was received in the first quarter of the current or previous fiscal year. However, staff estimates this revenue will be \$8.2 million in fiscal year 2023 compared to \$7.7 million in fiscal year 2022.

First quarter fiscal year 2023 revenues in the "Other Revenues" category are \$1.8 million higher than for fiscal year 2022 at the same point in time. The increase is primarily due to the posting of \$1.1 million of unrealized gains on investments, as well as increases of \$280,000 in Transient Lodging Tax and \$150,000 in Plan Checking Fees.

Expenditures

Expenditure Type	FY 23	FY 22	change
Personnel Services	\$9,617,253	\$15,301,085	\$(5,683,833)
Maintenance & Operations (M&O)	\$730,472	\$739,288	\$(8,816)
Capital Projects	\$10,861	\$220,770	\$(209,910)
Internal Service Charges	\$2,095,456	\$1,909,594	\$185,861
Total	\$18,138,887	\$ 18,100,633	\$(5,716,697)

Although Personnel Services costs in the General Fund are \$5.7 million less than fiscal year 2022's through the first quarter, the primary driver of this is the refinancing of the unfunded accrued liability ("UAL") portion of the City's annual pension contribution into the Pension Obligation Bonds. Previously the annual UAL payment was due to CalPERS each July, while the debt service for the Pension Obligation Bonds are due each November and May. Beyond the changes to the UAL payment, standard personnel expenditures saw a combined increase of \$1.5 million due to compensation increases authorized as part of the labor group agreements in 2022, as well as increases to health care and retirement rates. These costs are being continuously monitored and projections will be compared to the budget in the mid-year budget status report.

Fiscal-year-to-date 2023 Maintenance & Operations (M&O) expenditures as of September 30th are \$9,000 lower than in fiscal year 2022. Although there are increases and decreases across the various accounts within the category, overall year-to-date expenditures are in line with prior fiscal years.

Capital outlay expenditures are \$210,000 less than first quarter 2022 due to miscellaneous facilities upgrades, traffic system improvements, and expenditures on the Paradise Creek Park Remediation project that took place in the first quarter of 2022.

Internal service charges for the first quarter of fiscal year 2023 are \$185,861 higher than the same point last fiscal year. This is due to the increase in annual budgeted building services charges and information systems maintenance charges.

Conclusion / Budgetary Outlook

As noted above, the adopted fiscal year 2023 estimated an increase of General Fund unassigned fund balance of \$364,000. At such an early point in the fiscal year, the ability to project year-end revenue and expenditure totals and actual use of fund balance is limited. A clearer picture can be drawn mid-year when the City will have received multiple months of sales tax receipts and received our initial secured property tax allocation in December.

Staff will continue to monitor revenues and expenditures and will provide information regarding comparisons to the budget and the prior year in future staff reports to the City Council. The next report will be the mid-year budget status report which includes projections to year-end for revenues and expenditures and their combined estimated impact on unassigned fund balance.

BUDGET ADJUSTMENTS

During the quarterly budget review process, the Finance Department, in conjunction with City department staff, identified budget adjustments necessary due to expenses unanticipated during the annual budgeting process. The attached schedule ("Exhibit A") details the recommended adjustments. The recommendation section below provides a summary of those adjustments by account group and fund.

RECOMMENDATION

Authorize the City Manager to approve budget adjustments up to the following amounts:

- **General Fund**
Expenditures
 - \$228,600 Maintenance & Operations
 - \$ 3,822 Transfers Out

- **Transportation DIF**
Revenues
 - \$ 3,822 Transfers In

- **Sewer Service Fund**
Revenues
 - \$1,718,088 Other Revenue

- **IT Fund**
Expenditures
 - \$10,000 Personnel Services
 - \$ 12,288 Maintenance & Operations

FINANCIAL STATEMENT:

Approval of the recommended General Fund budget adjustments will result in additional General Fund appropriations of \$232,422.

RELATED CITY COUNCIL 2020-2025 STRATEGIC PLAN GOAL:

Balanced Budget and Economic Development

ENVIRONMENTAL REVIEW:

This is not a project under CEQA and is therefore not subject to environmental review.CCR15378; PRC 21065.

PUBLIC NOTIFICATION:

Agenda Report posted within 72 hours of meeting date and time in accordance with Brown Act.

ORDINANCE:

Not Applicable

EXHIBITS:

Exhibit A – Supplemental Appropriation Requests

Exhibit B - Resolution