



AGENDA REPORT

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

SUBJECT:

Staff Report: Fiscal Year 2022 Budget Review

RECOMMENDATION:

Accept and file this staff report

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 to City Council presents an update on the City's financial operations for the fiscal year ending June 30, 2022.

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 for fiscal year 2022 are a summary of the actual revenues and expenditures, and their impact on fund balance compared to the corresponding budgeted amounts for the year.

Fiscal Year 2022

The fiscal year 2022 adopted budget authorized the use of \$3.8 million of General Fund unassigned fund balance. Through a combination of overall cost savings and unanticipated increases in revenues, however, the unassigned fund balance grew by \$6.5 million. The variances between budgeted and actual revenues and expenditures and the impacts on fund balance are summarized below.

Revenues

The City receives revenues from various sources, some of which, such as taxes and fees, provide unrestricted cash that may be used at the City's discretion. Other revenues are reserved for specified purposes, for example, grant funds received for capital projects. Actual general fund

revenues, including transfers from other funds, for fiscal year 2022, listed by source in the table below, were more than their combined budgeted total by approximately \$9 million.

Fiscal Year-End Revenue Totals

Revenue Source	FY22 Adjusted Budget¹	FY22 Actual³	Variance
Sales & Use Tax	\$ 20,397,106	\$ 23,849,255	\$ 3,452,149
District Transactions & Use Tax	12,654,000	15,246,516	2,592,516
Property Tax ²	2,372,998	2,407,624	34,626
Property Tax in Lieu of VLF	7,741,006	7,895,180	154,174
Other Revenues	14,551,981	15,339,352	787,371
Transfers In	2,065,500	2,065,500	0
Total	\$ 59,782,591	\$ 66,803,428	\$ 7,020,837

¹ adopted budget, plus budget adjustments

² reflects reduction for property tax allocation to the Library and Parks Maintenance funds

³ actual amounts are unaudited

Sales & Use Tax and District Transactions & Use Tax: The budgeted amounts for these two major funding sources were based on projections provided by the City's sales tax consultant. The projections anticipated less robust retail sales due to the COVID-19 pandemic than has turned out to be the case. Retail sales activity resulted in Sales & Use Tax revenues surpassing the actual amounts of last fiscal year, which had also beat expectations. These revenues exceeded the budget by \$3.5 million. The District Transactions & Use Tax is finished the year at \$2.6 million above the budgeted level for similar reasons.

Property Tax and Property Tax in lieu of VLF (vehicle license fee) saw a combined 1.9% increase above the budgeted amount, with a net impact of \$188,000 between the two revenue sources. Both Property Tax and Property tax in lieu of VLF have grown year over year and are projected to continue to steadily grow into the future as property values continue to rise.

Revenues in the "Other Revenues" category ended the year above budget by \$790,000, which is attributable to a combination of projected positive and negative variances in the various individual accounts. The primary contributors to the variance in this category include rental payments for City owned land (\$600,000), pass-through and residual balance payments from the Successor Agency (\$460,000), the transient lodging tax (\$360,000), plan checking fees (\$280,000), and overtime reimbursements (\$200,000). These increases were tempered by unrealized losses on investments (\$1.3 million) and losses in investment earnings (\$960,000).

Expenditures

As of June 31, 2022, General Fund expenditures, including transfers to other funds, totaled \$59.7 million, \$10.0 million less than the adjusted budget of \$69.6 million. Expenditure variances are summarized by category in the table below.

FY 2022 Year-End Expenditure Totals

Expenditure Type	FY22 Adjusted Budget¹	FY22 Actuals²	Variance
Personnel Services	\$ 42,700,962	\$ 39,885,936	\$ 2,815,026
Maintenance & Operations	8,167,730	7,150,805	1,016,925
Capital Projects	7,762,293	1,994,645	5,767,649
Capital Outlay	167,450	151,179	16,271
Internal Service Charges	7,646,142	7,610,451	35,691
Transfers Out	3,194,303	2,883,446	310,857
Total	\$ 69,638,881	\$ 59,676,462	\$9,962,419

1 adopted budget total, plus budget amendments, encumbrances, & capital projects appropriations carried forward from previous fiscal year(s)

2 actuals are unaudited

Personnel costs make up approximately 68% of the General Fund's budget. They ended the fiscal year under budget overall by \$2.8 million. While vacant authorized positions contribute to the savings, costs related to overtime requirements, primarily in the Police and Fire departments, exceeded budgeted amounts by \$900,000. In addition, the costs for worker's compensation insurance, differential pay and allowances and stipends were greater than the budget by a combined \$400,000. Overtime reimbursements for fire and police services exceeded the budgeted amount by approximately \$200,000, offsetting a portion of these costs.

Maintenance & Operations ("M&O") savings of \$1.0 million were realized across various accounts, but particularly in Contract Services (\$800,000); Street Lights & Signals (\$100,000); and Promotional Activities (\$80,000).

The capital projects category had a variance of \$5.8 million between the budget and actuals. This \$5.8 million does not represent savings. Rather, it is unspent monies on specifically authorized capital improvement projects that are still ongoing. The unspent appropriations were carried over to the fiscal year 2023 budget.

Net Impact on Overall Fund Balance

The table below combines the above revenue and expenditure tables to compare the adjusted budget's impact on fund balance to the actual impact on fund balance. Actual fiscal year 2022 revenues, expenditures, and transfers resulted in an estimated increase of \$9.3 million in the overall fund balance of the General Fund, as compared to the adjusted budgeted usage of \$9.9 million (primarily a combination of the authorized use of \$3.8 million, carry-overs from fiscal year 2021, and budget adjustments authorized during the year). This variance is due to the unspent capital projects appropriations and operational savings discussed above. As discussed further below, fund balance is divided into five categories, non-spendable, restricted, committed, assigned, and unassigned.

Fund Balance Change – Actual vs Budget (Estimated)

	Adjusted Budget	Actual	Variance
Revenues	57,717,091	64,737,928	\$7,020,837
Transfers In	2,065,500	2,065,500	-
Total Revenues & Transfers In	59,782,591	66,803,428	\$7,020,837
Expenditures	\$66,444,578	\$56,793,016	\$(9,651,562)
Transfers Out	3,194,303	2,883,446	\$(310,857)
Total Expenditures & Transfers Out	\$69,638,881	\$59,676,462	\$(9,962,419)
Fund Balance Gain/(Usage)	\$(9,856,290)	\$7,126,966	\$16,983,256
Beginning Fund Balance	\$50,893,051	\$50,893,051	-
Ending Fund Balance	\$60,020,017	\$58,020,017	-

In accordance with Governmental Accounting Standards Board (“GASB”) Statement Number 54, fund balance is classified into the aforementioned categories based primarily on the extent to which its use of resources is constrained. The table below reflects the estimated changes in each category of fund balance within the General Fund from June 30, 2021 to June 30, 2022. The balances are dependent not only upon the results of operations, i.e., revenues and expenditures, but also upon changes in such things as liabilities accrued for employee benefits and unspent appropriations carried over to the succeeding fiscal year.

Components of Fund Balance (Estimated)

	FY 21	FY 22	Change
Non-spendable	\$3,964,435	\$3,966,628	\$2,193
Restricted	\$10,833,351	\$9,546,733	\$(1,286,618)
Committed	\$14,945,000	\$15,680,000	\$735,000
Assigned	\$7,193,969	\$8,400,718	\$1,206,749
Unassigned	\$13,956,296	\$20,425,938	\$6,469,642
Total	\$50,893,051	\$58,020,017	\$7,126,966

Summary of fund balance changes by category:

Non-spendable – fund balance representing assets which are not in spendable form. This is primarily land held for resale.

Restricted – category with spending constraints stipulated either “externally” by the provider of the assets or by law. For the City, the primary components of this category are the Section 115 trusts for pension and other post-employment benefit obligations (OPEB). There is a decrease in the amount of restricted fund balance as a result of investment losses in the two 115 trusts that erased approximately the same amount of gains received in fiscal year 2021.

Committed – total of resources which have internally imposed restrictions mandated by formal action of the City Council. This category comprises the City’s Economic Contingency Reserve, which was increased by City Council action on June 15, 2021 by \$3.1 million to

\$12.2 million, and the Facilities Maintenance Reserve, which was increased as part of that same action by \$345,000 to \$2.7 million.

Assigned – assets constrained by the Council's intent that they be used for specific purposes but not meeting the more strict criteria for classification as restricted or committed. The primary components are amounts set aside for compensated absences and those carried over for capital projects and open purchase orders. The amount of carry-overs can vary from year to year depending upon the projects underway.

Unassigned – total of spendable amounts not allocated to the other fund balance categories and which is available for use at Council's discretion. Unassigned fund balance shows an increase of \$6.5 million to \$20.4 million. City Council Policy #201 specifies maintaining the unassigned fund balance at a target level of 10% of budgeted operating expenditures.

Conclusion

The City's General Fund experienced an increase in fund balance in fiscal year 2022 that will allow the City to maintain or exceed targets for key reserves. The greatest contributors to the increase in fund balance were better than budgeted revenues due to a continued recovery from the COVID-19 pandemic, coupled with operational savings. Per City Council Policy #201, the status of these reserves will be reviewed and presented to the City Council as part of the budget development process for fiscal year 2024.

FINANCIAL STATEMENT:

Not Applicable

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:

None