



AGENDA REPORT

Department: Finance
Prepared by: Paul Valadez, Budget Manager
Meeting Date: Tuesday, June 20, 2023
Approved by: Armando Vergara, Interim City Manager

SUBJECT:

Fiscal Year 2023 Third Quarter Budget Review

RECOMMENDATION:

Accept and File this Report, and Adopt a Resolution Entitled, "Resolution of the City Council of the City of National City, California, Authorizing Various Fiscal Year 2023 3rd Quarter Budget Adjustments."

BOARD/COMMISSION/COMMITTEE PRIOR ACTION:

Not Applicable.

EXPLANATION:

Summary

This report provides a look at the status of the City's fiscal year 2023 General Fund Budget through March 31, 2023. A mid-year status report was provided on April 18, 2023. The report also recommends various budget adjustments for fiscal year 2023.

The adopted fiscal year 2023 General Fund budget was balanced with no use of unassigned fund balance for the first time in several years. In fact, budgeted revenues exceeded expenditures by \$364,000, which means that if all of the budgeted expenditures and revenues were realized as adopted, \$364,000 would be added to the City's General Fund unassigned fund balance at year end. Instead, based on an analysis of year-to-date actual revenues and expenditures and projected financial activity through year-end, approximately \$1.6 million is projected to be added to the unassigned fund balance at year end. The following sections of this report will discuss the significant factors leading to this outcome.

Revenues

For fiscal year 2023, General Fund revenues are expected to be greater overall than amounts budgeted by \$2.0 million. The projected variances by revenue category are shown in Table A.

Table A
General Fund Revenues Fiscal Year 2023

Revenue Category	Adopted Budget	Adjusted Budget	Projected Actuals	Variance Above/(below) Adjusted Budget
Sales & Use Tax	\$ 23,905,000	\$ 23,905,000	\$ 24,159,613	\$ 254,613
District Transactions & Use Tax	14,951,000	14,951,000	15,058,867	107,867
Property Tax	2,497,353	2,497,353	2,504,003	6,650
Property Tax in Lieu of VLF	8,223,000	8,223,000	8,202,134	(20,866)
Other Revenues	14,997,724	15,503,750	17,191,230	1,687,480
Transfers In	2,005,500	2,005,500	2,005,500	-
Total	\$ 66,579,577	\$ 67,085,603	\$ 69,121,347	\$ 2,035,744

Note: The Adjusted Budget equals the Adopted Budget plus any year to date amendments to the budget, as well as adjustments to match appropriations carried over for revenue offset capital projects.

The General Fund's primary sources of revenue are the sales & use tax, the district transactions & use tax, property tax in lieu of vehicle license fees, and property taxes. Projections are based on a combination of year-to-date and historical data, input from the City's sales tax consultant, and information obtained from the State of California and County of San Diego:

- Sales & Use Tax and District Transactions & Use Tax: The adopted budget for these two major funding sources anticipated moderate growth during the post-pandemic period. Retail sales are trending as anticipated, resulting in these revenues projecting to within 1% of the budget. Based on projections provided by the City's sales tax consultant, Sales Tax revenues are expected to exceed the adopted budget by \$0.3 million. The District Transactions & Use Tax is currently expected to finish the year at \$0.1 million above the budgeted level. Staff is working on a continuing basis with the City's sales tax consultant to ensure that we have the latest information for each of these funding sources.
- Property Tax revenue is expected to be above budget by approximately \$7,000. Assessed values that apply to the General Fund are in line with the assumptions in the adopted budget.
- Property Tax in Lieu of Vehicle License Fees (VLF) is based on a formula that applies the City-wide increase in assessed property values to the prior year's allocation. The exact increase in assessed values was not known at the time the budget was prepared, but the actual amount will be \$21,000 less than budgeted.

Revenues in the "Other Revenues" category are expected to end the year above budget by \$1.7 million, which is attributable to a combination of projected positive and negative variances in the various individual accounts. Contributing significantly to the positive variance are amounts expected to be received from the transient lodging tax, Successor Agency residual balance and pass-through distributions, school resource officer contracts, investment earnings and rents received from the use of City-owned property.

Expenditures

Expenditure totals at year-end are currently projected to exceed the adjusted budget by \$469,000. The variances by expenditure category are shown in Table B. Budget adjustments, which are discussed below and detailed in Exhibit A, are being recommended as part of this report to ensure that expenditures stay within authorized appropriations.

Table B
General Fund Expenditures Fiscal Year 2023

Expenditure Category	Adopted Budget	Adjusted Budget	Projected Actuals	Variance Above/(below) Adjusted Budget
Personnel	\$ 45,410,886	\$ 44,839,890	\$ 44,631,928	\$ (207,962)
Maintenance & Operations	7,697,495	9,654,941	9,837,825	182,884
Capital Outlay	143,500	338,743	338,743	-
Capital Improvement Program	1,900,000	7,667,649	7,667,649	-
Internal Serv Charges & Reserve	8,506,822	8,506,822	8,506,822	-
Transfers Out	2,557,210	2,561,032	3,055,511	494,479
Total	\$ 66,215,913	\$ 73,569,077	\$ 74,038,478	\$ 469,401

Note: The Adjusted Budget equals the Adopted Budget plus any year to date amendments to the budget, as well as appropriations carried over from the prior year for contracts and capital projects.

Personnel costs make up about 68% of the General Fund's adopted budget. At fiscal-year-end they are projected to be less than budgeted by approximately \$0.2 million. The projection is result of a combination of savings of approximately \$2.4 million (\$1.7 million in Police and Fire) associated with employee attrition and vacant authorized positions. These savings are offset by costs for overtime requirements, primarily in the Police and Fire departments, which are expected to exceed budgeted amounts by \$2.2 million.

Maintenance & Operations expenditures are projected to be \$0.2 million over budget overall, due to a combination of anticipated savings in various accounts partially offset by unanticipated expenses in others. An additional \$0.6 million in M&O appropriations are being recommended as part of this report as detailed in Exhibit A. These additional appropriations are partially offset by \$0.4 million in revenues.

All appropriations for Capital Outlay and Capital Improvements are being projected as being entirely spent, because none of the current projects are expected to yield any savings from the amounts budgeted. It is likely, however, that some portion of the current year's appropriations will be unspent at year-end and will be carried over to next fiscal year.

For Internal Service Charges and Transfers Out, all amounts budgeted are projected to be spent, although at year-end actual expenditures of the service provider funds will be reviewed for savings and charges will be adjusted accordingly. The \$494,479 variance in the transfer out category reflects the need to adjust payments to the Facilities Maintenance Fund this year to cure a shortfall in the internal service fund charges paid to that fund in FY22.

Net Impact on Unassigned Fund Balance

Table C below combines the revenue and expenditure projections discussed above to display the impact of those projections on unassigned fund balance. Unassigned fund balance is considered to be one of the City's reserves and has a maintenance target level of 10% of the City's General Fund operating budget. Amounts above the target level may be used to augment other reserves or for one-time expenditures.

As noted in the summary at the beginning of this report, the FY 2023 adopted budget was balanced with no use of unassigned fund balance. The projected column, however, shows a use of \$4.9 million in fund balance, but that is a combination of both assigned and unassigned fund balances. Assigned fund balance is the sum of appropriations that were carried over from unspent amounts from the prior fiscal year for work that was in progress and from unspent appropriations for capital projects. For fiscal year 2023, that amount is \$6.5 million. After adjusting for the difference between the projected actual revenues and expenditures for those appropriations offset by assigned fund balance, the result is a projected \$1.6 million (shown in bold) augmentation of unassigned fund balance at fiscal year-end.

Table C
General Fund Impact on Fund Balance Fiscal Year 2023

	Adopted Budget	Adjusted Budget	Projected Actuals	Variance Above/(below) Adjusted Budget
Total Revenues	\$ 66,579,577	\$ 67,085,603	\$ 69,121,347	\$ 2,035,744
Total Expenditures	66,215,913	73,569,077	74,038,478	469,401
Gain in (Use of) Fund Balance	\$ 363,664	\$ (6,483,474)	\$ (4,917,131)	\$ 1,566,343
Fund Balance (FB) by Category				
Gain in (Use of) Assigned FB		\$ (6,518,177)	\$ (6,518,177)	\$ -
Gain in (Use of) Unassigned FB	363,664	34,703	1,601,046	\$ 1,566,343
Total	\$ 363,664	\$ (6,483,474)	\$ (4,917,131)	\$ 1,566,343

BUDGET ADJUSTMENTS

During the 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 fund.

RECOMMENDATIONS

1. Authorize the City Manager to approve budget adjustments up to the following amounts:
 - **General Fund**
 - \$1,118,979 Expenditures
 - \$368,000 Revenues

- **Facilities Maintenance Fund**
 - \$494,479 Revenues
- **Gas Taxes Fund**
 - \$205,000 Expenditures
- **Library Fund**
 - \$24,000 Expenditures
- **Motor Vehicle Fund**
 - \$210,000 Expenditures
- **Nutrition Fund**
 - \$79,123 Expenditures
- **Sewer Service Fund**
 - \$215,000 Expenditures

FINANCIAL STATEMENT:

The recommended General Fund budget adjustments have been reflected in the projections of total revenues and expenditures to fiscal year end. If approved, they will result in additional General Fund appropriations of \$1.1 million with offsetting revenue of \$0.4 million. The appropriation adjustments for the other funds combined total \$0.7 million funded by available fund balances in the respective funds.

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 – Budget Adjustment Detail

Exhibit B – Resolution