



AGENDA REPORT

Department: Finance
Prepared by: Paul Valadez, Budget Manager
Meeting Date: Tuesday, April 2, 2024
Approved by: Benjamin A. Martinez, City Manager

SUBJECT:

Fiscal Year 2024 Mid-Year Budget Status Report

RECOMMENDATION:

Accept the Report and Adopt the Resolution Entitled: "Resolution of the City Council of the City of National City, California, Authorizing Various Fiscal Year 2024 Budget Adjustments"

BOARD/COMMISSION/COMMITTEE PRIOR ACTION:

Not Applicable.

EXPLANATION:

Summary

This report provides a mid-year look at the status of the City's fiscal year 2024 General Fund Budget. A first quarter status report was provided on November 7, 2023. This report also recommends various budget adjustments for fiscal year 2024.

The adopted fiscal year 2024 General Fund budget estimated a use of General Fund unassigned fund balance of \$1.0 million. Based on a revised analysis of year-to-date actual revenues and expenditures and projected financial activity through year-end, \$498,000 is now the estimated use of 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 2024, General Fund revenues are expected to be lower overall than amounts budgeted by \$0.3 million. The projected variances by revenue category are shown in Table A.

**Table A
General Fund Revenues Fiscal Year 2024**

Revenue Category	Adopted Budget	Adjusted Budget	Projected Actuals	Variance
				Above/(below) Adjusted Budget
Sales & Use Tax	\$ 24,394,000	\$ 24,394,000	\$ 23,064,000	\$ (1,330,000)
District Transactions & Use Tax	15,004,000	15,004,000	15,759,000	755,000
Property Tax	2,598,287	2,598,287	2,653,030	54,743
Property Tax in Lieu of VLF	8,599,000	8,599,000	8,744,000	145,000
Other Revenues	17,156,742	17,235,478	17,292,277	56,799
Transfers In	2,005,500	2,005,500	2,005,500	-
Total	\$ 69,757,529	\$ 69,836,265	\$ 69,517,807	\$ (318,458)

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.

General Fund Revenues Fiscal Year 2024

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:

- The budgeted amounts for Sales & Use Tax were based on projections provided by the City's sales tax consultant. Projections included in this report are based on sales receipts through September 2023. Retail sales activity in Sales & Use Tax is projected to fall short of the original estimate by \$1.3 million due to several industry groups experiencing lower than expected receipts. For the fourth consecutive quarter the autos-transportation group declined, dropping 10% as new and used car spending slowed. The City's share of the countywide use tax pool shrunk by 3.6% due to waning third-party auto and internet sales. In-store shopping and dining outside the home also slowed as wary consumers purchased less.

Although not reflected in these projections, recent sales receipts have seen a moderate uptick and may be indicative of a reversal in the recent downward trend in sales tax revenue. Staff is scheduled to meet with the City's sales tax consultant in April, where the latest information will be incorporated into updated projections which will be included in the third quarter budget report.

The sales tax shortfall is partially mitigated by the District Transactions & Use Tax, which is projected to finish \$0.8 million above the budgeted level, boosted by a one-time taxpayer payment in the business-industry group. Combined, retail sales related revenues are projected \$0.6 million below budget.

- Property Tax revenue is expected to be above budget by approximately \$55,000. 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 final amount is estimated to be \$145,000 more than budgeted.

Revenues in the “Other Revenues” category are expected to end the year above budget by \$57,000, which is attributable to a combination of projected positive and negative variances in the various individual accounts. Contributing significantly to the positive variance are anticipated above budgeted amounts of \$164,000 from the transient lodging tax, and \$159,000 in residual balance distributions from the Successor Agency. These increases are partially offset by anticipated shortfalls in various development services revenues, investment earnings, and licenses and permits.

Expenditures

Expenditure totals at year-end are currently projected to be below budget by \$1.5 million. The variances by expenditure category are shown in Table B.

Table B
General Fund Expenditures Fiscal Year 2024

Expenditure Category	Adopted Budget	Adjusted Budget	Projected Actuals	Variance Above/(below) Adjusted Budget
Personnel	\$ 46,159,564	\$ 46,236,064	\$ 45,874,459	\$ (361,605)
Maintenance & Operations	8,828,402	9,942,173	9,017,579	(924,594)
Capital Outlay	160,000	179,287	179,287	-
Capital Improvement Program	3,150,000	8,421,384	8,421,384	-
Internal Serv Charges & Reserve	9,506,304	9,585,040	9,585,040	-
Transfers Out	2,999,446	2,999,446	3,272,946	273,500
Total	\$ 70,803,716	\$ 77,363,394	\$ 76,350,695	\$ (1,012,699)

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 65% of the General Fund’s adopted budget. At fiscal-year-end they are projected to be less than budgeted by approximately \$0.4 million. The projection is the result of a combination of savings of approximately \$2.6 million associated with vacant authorized positions 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 \$0.9 million below budget overall, due to a combination of anticipated savings in various accounts partially offset by unanticipated expenses in others. Unanticipated costs are summarized in the Budget Adjustments section below and detailed in Exhibit A.

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, 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. In Transfers Out, an additional cost of \$273,500 is projected in order

to support the Nutrition Program. The actual requirement will be reviewed at year-end along with those of the Parks Maintenance and Library funds to determine whether there are savings that would enable a portion of the budgeted transfer amounts to be reduced.

Staff will continue to monitor all revenues and expenditures and will provide updates in the third quarter budget status report and in conjunction with the fiscal year 2025 budget development process.

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 2024 adopted budget anticipated the use of \$1.0 million of unassigned fund balance. The adjusted budget column, however, shows a use of \$7.5 million in fund balance, but that is a combination of both assigned and unassigned fund balances. Assigned fund balance is the sum of non-revenue offset appropriations that were carried over from unspent amounts from the prior fiscal year for contracts for work that was in progress in the prior year as well as for unspent appropriations for capital projects. For fiscal year 2024 that amount is \$6.3 million. The adjusted budget column shows a use of unassigned fund balance of \$1.2 million, which is about \$146,000 greater than the adopted use of fund balance. The difference is due to budget adjustments that were approved as part of the first quarter budget status report. Focusing on the Projected Actuals column, 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 \$498,000 (shown in bold in the Projected Actuals column) use of unassigned fund balance at fiscal year-end compared to the \$1.0 million approved in the adopted budget.

Table C
General Fund Impact on Fund Balance Fiscal Year 2024

	Adopted Budget	Adjusted Budget	Projected Actuals	Variance Above/(below) Adjusted Budget
Total Revenues	\$ 69,757,529	\$ 69,836,265	\$ 69,517,807	\$ (318,458)
Total Expenditures	70,803,716	77,363,394	76,350,695	(1,012,699)
Gain in (Use of) Fund Balance	\$ (1,046,187)	\$ (7,527,129)	\$ (6,832,888)	\$ 694,241
Fund Balance (FB) by Category				
Gain in (Use of) Assigned FB		\$ (6,335,129)	\$ (6,335,129)	\$ -
Gain in (Use of) Unassigned FB	(1,046,187)	(1,192,000)	(497,759)	\$ 694,241
Total	\$ (1,046,187)	\$ (7,527,129)	\$ (6,832,888)	\$ 694,241

BUDGET ADJUSTMENTS

During the mid-year 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. These adjustments have been taken into account in the projections discussed above. The attached schedule ("Exhibit 'A'") details the recommended adjustments. A summary of those adjustments by fund is shown below.

- **General Fund**
Expenditures
 - + \$700,640
 - Personnel costs: \$143,485
 - Maintenance & Operations: \$283,655
 - Transfers Out: \$273,500

- **Nutrition Fund**
Expenditures
 - + \$273,500
 - Maintenance & Operations: \$273,500

FINANCIAL STATEMENT:

If approved, the recommended budget adjustments are expected to be able to be absorbed within the use of the \$1.0 million in unassigned fund balance that was approved with the adoption of the Fiscal Year 2024 Budget.

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:

The Agenda Report was posted within 72 hours of the meeting date and time in accordance with the Ralph M. Brown Act.

ORDINANCE:

Not Applicable

EXHIBITS:

Exhibit A – Budget Adjustment Detail FY24 Q2
Exhibit B – Resolution