



Council Agenda Report

Item 6a

Department: Finance
Cost Center: 2002
For Agenda of: 5/17/2022
Placement: Business
Estimated Time: 10 minutes

FROM: Brigitte Elke, Finance Director
Prepared By: Natalie Harnett, Principal Budget Analyst

SUBJECT: FY 2021-22 THIRD QUARTER BUDGET REVIEW

RECOMMENDATION

1. Receive and file the FY 2021-22 third Quarter Budget report; and
2. Adopt a Resolution entitled, "A Resolution of the City Council of the City of San Luis Obispo, California, approving an amendment to the 2021-22 Budget Allocation" to appropriate \$6,900 of the City's Open Space Protection Fund balance into operating budget.

DISCUSSION

The accompanying Financial Report for the third quarter of FY2021-22 (Attachment A) provides a high-level overview of the City's financial condition as of March 31, 2022. The attached report highlights revenue and expenditure actuals for the first nine months of the fiscal year and an update on the Major City Goal (MCG) tasks. It also includes a CIP update and highlights milestone projects from the third quarter. The report's focus is on the General fund and each of the City's four enterprise funds.

Background

Section 1: General Fund Update: As of March 31, 2022, operating expenditures trend on target with past years' third quarters. Tax revenues continue to benefit from the swell in tourism and consumer spending that began at the end of last fiscal year. Higher labor and raw material costs along with inflationary pressures also drive taxable good prices upward and increase the City's sales tax revenue. However, higher prices reduce consumer demand and increase the City's own expenditure costs. It is still unclear how all of these factors will play into the local economic forecast, but staff expect a weakening of sales tax receipts over the next few years back to a more gradual low-digit growth. While some tax revenues are exceeding projections, this will be offset by Development Review related revenues which are under-performing by about 11% and are not expected to meet the adopted revenue projection come fiscal year end.

Section 2: Enterprise Funds: The enterprise funds are also tracking in line with projected budget and will likely end the year as stated in the adopted budget. Staff will be monitoring expenses closely as inflationary and wage pressures may prompt rate studies so that financial policies and cost recovery objectives can be maintained in the outer years.

Section 3: Major City Goal (MCG) Update: The City has made significant progress on many of its MCG efforts. So far, twelve specific tasks have been completed and most ongoing efforts are in progress.

Section 4: Capital Improvement Plan Update: The City completed six major projects in the first quarter including the Downtown Parking Meter Pole Removal, Jeffrey Street Sewer and Water Infrastructure Replacement, 2021 Downtown Pavement Improvement Project, Energy Efficient Lighting Retrofits at City Hall and Fire Station 1, Emerson Park Equipment Replacement, and the Downtown Crack Sealing Project.

Section 5: Fund Balances: This section provides the current fund balances for all major funds considering Council action to date.

Section 6: Outlook and Conclusion: Based on the third quarter results, the City's financial picture is well on its way to full recovery from Covid-19, but new challenges await with record-high inflation, rising interest rates, supply chain issues, and the war in Ukraine. Uncertainty is the only certainty in economic forecasting during these unprecedented times. Updated long-term forecasts provided at mid-year show a balanced budget but as assumptions change and the future becomes clearer, the long-term outlook is bound to change with it. The City will need to remain nimble and cautious as it moves toward Budget Supplement adoption and beyond.

Allocation of Open Space Fund Balance

In 2016, the City collected \$6,900 as an in-lieu payment from the developer of the Rachel Court project adjacent to Terrace Hill Open Space. The project had originally been conditioned to install a new trailhead, however after further review of the steep topography of the site and conversations with concerned neighbors, it was determined that the proposed trailhead was not feasible. Instead, the project owners made the in-lieu payment for the City to use to make other improvements at Terrace Hill Open Space. At this time, Natural Resources Program and Ranger Service staff seek to utilize these funds for replacement of trailhead fencing along Bishop Street at that trailhead location. Since the funding is currently held in fund balance, the Council has to make the appropriation for use through a resolution (Attachment B).

Policy Context

According to budget policy F, Goal Status Reports of major program objectives will be formally reported to the Council on an ongoing, periodic basis.

Public Engagement

Public comment on the item can be provided to the City Council through written correspondence prior to the meeting and through public testimony at the meeting. The Third Quarter Financial Report for FY 2021-22 (Attachment A) will be posted on the City's website for public review.

CONCURRENCE

Operating departments review and monitor financial results on a regular basis. The respective fiscal officers reviewed the numbers and will be closely monitoring the budget for the remainder of the year.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act does not apply to the recommended action in this report, because the action does not constitute a “Project” under CEQA Guidelines Sec. 15378.

FISCAL IMPACT

Budgeted: No

Budget Year: 2021-22

Funding Identified: Yes

Fiscal Analysis:

Funding Sources	Total Budget Available	Current Funding Request	Remaining Balance	Annual Ongoing Cost
General Fund	\$	\$	\$	\$
State				
Federal				
Fees				
Other (Open Space Protection Fund)	\$6,900	\$6,900		
Total	\$6,900	\$6,900	\$	\$

The quarterly budget review reports on current revenue and expenditure trends to keep the Council and the community informed about the City’s fiscal picture and program efforts as adopted with the annual budget appropriation.

The funding for the Terrace Hill Open Space improvement is available in the Open Space Protection Fund undesignated fund balance and has to be appropriated via Council action.

ALTERNATIVES

Do not appropriate \$6,900 of the City's Open Space Protection Fund balance into operating budget. This is not recommended because the funding was intended to be used for enhancements at the Terrace Hill Open Space.

ATTACHMENTS

A – First Quarter Financial Report for FY 2021-22

B – Draft Resolution amending FY 21-22 Budget Allocations