



Third Quarter Financial Report

Fiscal Year 2021-22

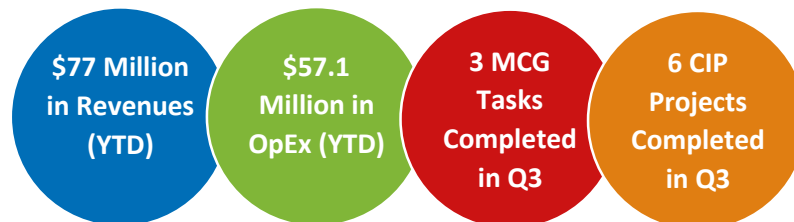
Introduction

This financial report provides an overview of the City's financial position through the third quarter of fiscal year 2021-22 (July 1 - March 31, 2022) for the General Fund and the four enterprise operating funds. It also provides an update on the status of the City's Capital Improvement Program (CIP) projects and City's Major City Goals. Notable milestones or trends within the third quarter are addressed and detailed throughout the document. The report is broken down into the following sections:

1	General Fund Update	3	Major City Goal Update	5	Fund Balances
2	Enterprise Funds Update	4	Capital Improvement Plan Update	6	Outlook and Conclusion

1 General Fund Update

As of March 31, 2022, operating expenditures trend on target with past years' first quarters. Revenues have almost entirely recovered to pre-pandemic levels. Tax revenues continue to benefit from the spike in tourism and consumer spending that began at the end of last fiscal year. While it is unknown how long and to what extent this pent-up demand will last and how it will impact overall revenue, the City is currently on track to meet its overall revenue forecast for 2021-22.



General Fund Revenue

		2020-21		2021-22			Variance from prior year
General Fund Revenues		Q3 Actuals	% Received	Total Budget	Q3 Actuals	% Received	
Tax & Franchise Revenue							
1	Sales and Use Tax (July-Feb only)	\$ 12,992,006	78%	\$ 20,790,779	\$ 14,612,545	70%	12.5%
2	Local Revenue Measure G (July-Feb only)	\$ 5,671,451	50%	\$ 25,810,000	\$ 18,605,007	72%	228.0%
3	Property Tax	\$ 14,328,003	73%	\$ 20,157,153	\$ 15,678,822	78%	9.4%
4	Safety Prop 172	\$ 283,603	90%	\$ 493,000	\$ 397,306	81%	40.1%
5	Transient Occupancy Tax	\$ 4,449,342	71%	\$ 9,051,000	\$ 7,463,904	82%	67.8%
6	Utility User Tax	\$ 3,836,893	69%	\$ 5,383,000	\$ 4,113,205	76%	7.2%
7	Business Tax*	\$ 2,949,239	103%	\$ 2,832,000	\$ 2,883,654	102%	-2.2%
8	Cannabis Tax	\$ 604,408	151%	\$ 1,000,000	\$ 726,989	73%	20.3%
9	Franchise Fees	\$ 1,351,002	88%	\$ 1,575,000	\$ 1,354,911	86%	0.3%
10	Gas Tax (Special Revenue Fund)	\$ 790,471	73%	\$ 1,223,937	\$ 848,619	69%	7.4%
11	SB1 Gas Tax (Special Revenue Fund)	\$ 560,392	70%	\$ 915,000	\$ 612,248	67%	9.3%
12	Total Tax & Franchise Revenue	\$ 47,816,810	68%	\$ 89,230,869	\$ 67,297,208	75%	41%
13	Development Review	\$ 5,491,412	92%	\$ 6,745,770	\$ 4,424,527	65.6%	-19.4%
14	Parks & Recreation	\$ 1,056,468	100%	\$ 1,615,555	\$ 1,054,110	65.2%	-0.2%
15	Fire	\$ 1,130,567	83%	\$ 1,421,460	\$ 1,191,657	83.8%	5.4%
16	Police	\$ 446,475	81%	\$ 611,590	\$ 412,474	67.4%	-7.6%
17	General Government	\$ 1,794,731	103%	\$ 1,712,976	\$ 1,214,451	70.9%	-32.3%
18	Grants & Subventions	\$ 2,836,649	143%	\$ 1,202,883	\$ 1,539,632	128.0%	-45.7%
19	Total	\$ 60,573,112	73%	\$ 101,338,220	\$ 77,134,061	76%	27%

*Business license and tax certificate renewals are due before September 30th, therefore anticipated revenue for the year has been collected.

Sales Tax: At the end of March 2022, about 63% of the City's forecasted sales tax revenue for this fiscal year had been collected due to the timing of disbursements from the California Department of Tax and Fee Administration (CDTFA). This accounts for revenue earned July 2021 through February 2022. Like the rest of the nation, the City experienced a surge of consumption that corresponded with the lifting of lockdowns and stimulative fiscal and monetary policy. While the U.S economy has largely recovered from the pandemic-driven downturn, new challenges arose. Higher labor and raw material costs along with inflationary pressures 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 these factors will play into the local economic forecast, but staff expect a weakening of sales tax receipts beginning in 2023.

Property Tax: Most property tax is collected in the third and fourth quarters of the fiscal year. The City relies on the County to provide annual property tax forecasts. Throughout 2021 and into 2022, there was a massive jump in home prices primary due to low inventory and high demand. The pandemic also allowed residents in high-cost urban cores to migrate to lower density, more affordable regions. This phenomenon had a cascading effect throughout the nation, and San Luis Obispo experienced an exceptionally strong real estate market. As the Fed begins to raise interest rates, home sales are expected to decrease as buyers will have less purchasing power in the housing market. Similar to the Sales Tax forecast, staff expect a weakening in property tax growth back to two to three percent annually. The City has received about 68% of its property tax forecast and expects to meet the projection of \$20.1 million by fiscal year-end.

Transient Occupancy Tax (TOT): Tourism along the central coast made a strong comeback as the region re-opened. Monthly TOT receipts continue to reach all-time highs largely driven by high room rates and this trend is expected to continue through the end of the fiscal year as events like the Cal Poly graduation

return to in-person. However, as inflation increases and pent-up demand declines, the City expects to see this growth plateau and possibly decline over the next 12 months. Interestingly, when looking at the Smith travel report data, the region's average daily rate (ADR) sky-rocketed, but its occupancy rate (the number of rooms booked) has actually declined. Although it is hard to analyze the direct correlation between the two, since the room inventory in San Luis Obispo has increased, the data indicates that the increased rates are at the core of overall revenue growth. This will be closely monitored based on national, state, and regional travel trends.

Utility User Tax: Year-to-date UUT revenue is tracking higher than it did in FY 2020-21 because of a change in collection and administrative responsibilities to a third-party vendor, HDL which caused a delay in last year's collection. The transition to HDL took place in February and took a few months for remitters to correctly follow. The City projects to hit the \$5.3 million budget by fiscal year-end. There is a slight seasonality in UUT, resulting in more revenue during the spring and summer periods compared to the fall and winter periods. The City also anticipates increased revenue in Q4 because of its change in remittance frequency. Remitters that expect to remit less than \$10,000 per year now only remit at the end of the year. The City expects to receive a full year's worth of payment for just over 30 service suppliers.

Cannabis Tax: Since April 2021, the monthly cannabis tax revenue collected has stayed very consistent. This suggests that demand for cannabis retail is relatively stable and unlikely to decrease in the fourth quarter. The City's second retail operator opened at the end of March and a non-retail storefront operator may open before the end of the fiscal year. While the new business will lead to additional cannabis revenue, staff expect some cannibalization to partially offset the new revenue.

Development Review: By the third quarter in Fiscal Year 2022, Development Review revenues are 11 percent below the projections included in the 21-23 Financial Plan of what is expected at this point in the year. Development Review revenues tend to be "lumpy", meaning large projects with high fees have a high influence on total revenue collection compared to the projections.

The following summary highlights likely Development Review revenue shortfalls in the current fiscal year:

- Reduced revenues in planning and zoning is a result of fewer planning applications and building permits for new commercial buildings. Updates to the City's Zoning Regulations in 2018 and again in 2021 included substantial efforts to streamline the City's discretionary approval processes. These efforts are working, resulting in fewer planning applications overall, and a shift towards applications for "Director's Action" rather than Minor or Major Use Permits.
- The total number of building permits is trending lower this year. The reduction is across the board and not centered in any one sector, although staff has heard anecdotally that challenges created by COVID-19 with respect to supply chain and workforce constraints has played a role. Looking forward, inflation and increased interest rates may continue to slow growth in building permits. However, there are many large projects with high construction values in the permit process. This includes two hotels, several mixed-use projects, a Porsche and Tesla auto dealership, and new tract housing.
- Code Enforcement revenues are trending low for two reasons. First, the City has realized less revenue from using a debt collection service than projected. The use of a debt collector to recover costs involves substantial lead time and delays associated with legal action when the violator is unresponsive. For many of our smaller cases, this work can represent high effort and low return

for the collection agency. In addition, a retirement and internal promotion in the division resulted in a vacant Code Enforcement Officer II position for the majority of the fiscal year to date.

- Less than 30 percent of revenues have been collected from the Infrastructure Plan Check and Inspection projection due to fewer applications than anticipated and infrastructure plan check processing cycles often span fiscal years. Fees are not collected at the time of permit application - only when the permit is issued. Going forward, staff is working with the permitting database to determine if a deposit system can be implemented, which would allow for some cost recovery on the front end of these plan check processes. At this time, staff notes some projects that were anticipated during Fiscal Year 2022 are now slated for Fiscal Year 2023. Over \$2.2 million of total revenue is anticipated in both fiscal years from Infrastructure Plan Check and Inspection if the projects anticipated move forward, which is almost nine percent lower than what was projected in the 2021-23 Financial Plan. It may be prudent to adjust revenue projections downward for the next fiscal year given the anticipated increase in interest rates and other factors in the general economy that may cause projects with significant infrastructure outlays to slow.
- Encroachment Permits, Engineering Development Review Fees (associated with building permits), and Building Permit Plan Check revenues are all on track with projections.

Other Department Revenue (Parks & Rec, Fire, Police): Overall, fee-generating department programs are operating at the level projected. Some programs are facing hurdles related to hiring challenges and related site closures but the decreased revenue is offset by some programs exceeding revenue projections.

General Government/Subventions and Grants: General government and grant revenues fluctuate from year-to-year based on availability and award success. This category also includes miscellaneous “net zero” revenue that is offset by expenditures. Although the year-to-date amount is lower than last year, staff expect to receive the projected revenue by year-end.

General Fund Expenditures

Overall expenditure trends are on track with budget. The graphs below include third quarter consumption for FY 21-22 compared to budget. The “Total Expenditures & Obligations” column includes both costs that have already been incurred and costs that are obligated on purchase orders.

Table 1 - Expenditures by Type:

Expenditure Type	Initial Budget	Budget Adjustments	Total Budget	Total Expenditures & Obligations	% Consumed
Staffing	\$ 59,262,760	\$ 2,333,810	\$ 61,596,570	\$ 42,893,223	70%
Contract Services	\$ 9,506,909	\$ 1,224,717	\$ 10,731,626	\$ 7,233,328	67%
Other Operating Expenses	\$ 6,528,435	\$ 268,839	\$ 6,797,273	\$ 5,084,071	75%
Utilities	\$ 2,865,838	\$ -	\$ 2,865,838	\$ 1,940,482	68%
Total	\$ 78,163,942	\$ 3,827,365	\$ 81,991,307	\$ 57,151,103	70%

There are no significant variances to point out in the General Fund. *It is expected that contract services and other operating expenses may track above 75% because annual purchase orders are set up at the beginning of the year and the funds are considered “Obligated” from that point forward.* Staffing should track at a consistent level and 70% is consistent with expected expenditure levels.

Table 2: Expenditures by Department:

Department	Initial Budget	Budget Adjustments	Total Budget	Total Expenditures & Obligations	% Consumed
Public Safety					
Police	\$ 19,233,231	\$ 142,255	\$ 19,375,486	\$ 14,671,527	76%
Fire	\$ 14,039,098	\$ 732,916	\$ 14,772,014	\$ 11,387,296	77%
Community Services Group (CSG)					
CSG Admin	\$ 685,132	\$ 6,399	\$ 691,532	\$ 490,997	71%
Community Development	\$ 7,061,215	\$ 797,053	\$ 7,858,268	\$ 4,840,712	62%
Parks & Recreation	\$ 5,178,095	\$ 69,721	\$ 5,247,816	\$ 3,328,200	63%
Public Works	\$ 15,229,985	\$ 637,570	\$ 15,867,556	\$ 10,932,466	69%
Utilities - Solid Waste (AB939)	\$ 228,699	\$ 103,572	\$ 332,271	\$ 134,222	40%
Internal Services					
Administration	\$ 10,464,934	\$ 57,313	\$ 10,522,247	\$ 7,117,809	68%
City Attorney	\$ 1,330,474	\$ 170,000	\$ 1,500,474	\$ 954,392	64%
Finance	\$ 2,230,601	\$ 24,500	\$ 2,255,101	\$ 1,608,526	71%
Human Resources	\$ 1,751,860	\$ 54,750	\$ 1,806,610	\$ 1,236,074	68%
Non-Departmental/Support Services	\$ 730,615	\$ 1,031,315	\$ 1,761,930	\$ 446,225	25%
Grand Total	\$ 78,163,942	\$ 3,827,365	\$ 81,991,307	\$ 57,151,103	70%

All the General Fund departments are tracking in line with budget. Fire is trending higher than other departments mainly because of unbudgeted overtime costs associated with sending City firefighters to aid with wildfires throughout the state. This cost is offset by mutual aid revenue. The Police department is also trending high because of wage increases that were negotiated after budget adoption and therefore not included in the department budget. Any overage because of this will be offset by the City’s staffing contingency included in the “non-departmental” cost center.

Enterprise Fund Update

Utilities: Water and Sewer Funds

The tables below include third quarter actuals for FY 2021-22 compared to the projection. The “Total Expenditures & Obligations” column includes both costs that have already been incurred and costs that are obligated on purchase orders.

	2020-21		2021-22			
Water/Sewer Fund Revenue	Q3 Actuals	% Received	Total Budget	Q3 Actuals	% Received	Variance from prior year
Water Fund	\$ 15,694,211	74%	\$ 24,452,759	\$ 17,188,341	70%	10%
Sewer Fund	\$ 11,858,132	73%	\$ 22,500,887	\$ 13,849,276	62%	17%
Total	\$ 27,552,343	73%	\$ 46,953,646	\$ 31,037,617	66%	13%

Expense Type by Fund	Initial Budget	Budget Adjustments	Total Budget	Total Expenditures & Obligations	% Consumed
Water Fund					
Staffing	\$ 4,730,739	\$ (6,369)	\$ 4,724,370	\$ 3,198,348	68%
Contract Services	\$ 765,881	\$ -	\$ 765,881	\$ 481,883	63%
Other Operating Expenses	\$ 12,138,663	\$ (13,631)	\$ 12,125,031	\$ 10,592,832	87%
Utilities	\$ 679,072	\$ -	\$ 679,072	\$ 391,747	58%
Water Fund Total	\$ 18,314,354	\$ (20,000)	\$ 18,294,354	\$ 14,664,809	80%
Sewer Fund					
Staffing	\$ 4,816,352	\$ 112,039	\$ 4,928,392	\$ 3,244,928	66%
Contract Services	\$ 1,081,706	\$ -	\$ 1,081,706	\$ 719,466	67%
Other Operating Expenses	\$ 1,921,632	\$ 3,961	\$ 1,925,593	\$ 1,584,137	82%
Utilities	\$ 793,027	\$ -	\$ 793,027	\$ 404,041	51%
Sewer Fund Total	\$ 8,612,717	\$ 116,000	\$ 8,728,717	\$ 5,952,572	68%

Revenue: Revenues are on track for both funds but appear to be trending low in the Sewer Fund because a majority of a \$3.5 million state grant that has not yet been received. Due to utility billing timing, the figures above include revenue through the March 15th billing period. Revenues have increased compared to last fiscal year mainly because of a rate increase of 3.5% which went into effect July 1, 2021. Additionally, there has been an increase in commercial usage associated with the reopening following the pandemic closures, an increase in irrigation driven by the current drought, and a return of Cal Poly students to campus and the community.

The COVID-19 pandemic and resulting California State water shut-off moratorium has resulted in an increase in the past due water accounts. The City received \$263,000 under the CA Water and Wastewater Arrearage Payment Program to provide financial relief for water bill payments to those customers impacted by COVID-19. The program is supported by federal funding allocated by the state legislature to cover past due payments from residential and commercial customers accrued between March 4, 2020 and June 15, 2021.

Beginning in April 2022, Utility Department staff began working with residents, business owners, and community members to “catch up” on past due accounts with the option of payment plans for outstanding account balances. In addition to payment options for outstanding balances, staff highlighted the Customer Assistance Program (CAP) which provides discounted water and sewer rates to

income-eligible customers. Shutoffs for non-payment began in early April with volumes equivalent to pre-pandemic levels and only 54 accounts out of 15,958 subject to discontinued service.

Expenditures: There are no significant variances to point out at this time. It is normal and expected that contract services and other operating expenses track above 75% because annual purchase orders are set up at the beginning of the year and the funds are considered “Obligated” from that point forward. Staffing should track at a consistent level and the actuals seen above are due to staffing vacancies and subsequent savings during staffing transitions. Throughout the fiscal year, Utilities staff experienced major cost increases in the areas of chemicals and electricity rates, largely due to supply chain issues. The true impact of expenditures will be fully realized at the close of year end.

Parking Fund

The tables below include third quarter actuals for FY 2021-22 compared to budget projection. The “Total Expenditures & Obligations” column includes both costs that have already been incurred and costs that are obligated on purchase orders.

Parking Fund Revenue	2020-21		2021-22			Variance from prior year
	Q3 Actuals	% Received	Total Budget	Q3 Actuals	% Received	
Parking Fund	\$ 2,236,603	97%	\$ 4,551,136	\$ 3,999,725	88%	78.8%
Total	\$ 2,236,603	97%	\$ 4,551,136	\$ 3,999,725	88%	79%

Expenditure Type	Initial Budget	Budget Adjustments	Total Budget	Total Expenditures & Obligations	% Consumed
Staffing	\$ 1,666,213	\$ 45,000	\$ 1,711,213	\$ 887,755	52%
Contract Services	\$ 606,806	\$ 145,000	\$ 751,806	\$ 654,139	87%
Other Operating Expenses	\$ 365,917	\$ -	\$ 365,917	\$ 301,259	82%
Utilities	\$ 211,301	\$ -	\$ 211,301	\$ 123,848	59%
Parking Fund Total	\$ 2,850,237	\$ 190,000	\$ 3,040,237	\$ 1,967,001	65%

Revenue: With the implementation of revenue enhancement strategies focused on Parking structures, metered parking, and enforcement, the parking fund is positioned to meet or exceed its revenue projections this fiscal year. Through the first half of the year structure revenues were significantly impacted by lower-than-expected downtown activity, staff vacancies and equipment issues. This revenue stream has picked up over the last quarter. Overall revenue is about 80% higher than it was last year.

Expenditures: The Parking fund is realizing significant savings due to staff vacancies; however, this is partially offset by the need for additional contract services to maintain the workload. Overall, the fund will likely end the year with some expenditure savings which will help replenish the fund balance that was depleted during the pandemic.

Transit Fund

The tables below include third quarter actuals for FY 21-22 compared to the projection. The “Total Expenditures & Obligations” column includes both costs that have already been incurred and costs that are obligated on purchase orders.

	2020-21		2021-22			
Transit Fund Revenue	Q3 Actuals	% Received	Total Budget	Q3 Actuals	% Received	Variance from prior year
Transit Fund	\$ 1,793,868	37%	\$ 7,555,049	\$ 1,838,208	24.3%	2.5%
Total	\$ 1,793,868	37%	\$ 7,555,049	\$ 1,838,208	24.3%	2.5%





Expenditure Type	Initial Budget	Budget Adjustments	Total Budget	Total Expenditures & Obligations	% Consumed
Staffing	\$ 358,181	\$ -	\$ 358,181	\$ 210,503	59%
Contract Services	\$ 904,871	\$ -	\$ 904,871	\$ 254,392	28%
Other Operating Expenses	\$ 3,407,654	\$ -	\$ 3,407,654	\$ 3,380,680	99%
Transit Fund Total	\$ 4,670,706	\$ -	\$ 4,670,706	\$ 3,845,574	82%

Revenue: Most of the Transit Fund revenue is from State and Federal grants that are received at the end of the year. Revenue is on track to meet the projections by the end of the year. Coronavirus Aid, Relief, and Economic Security (CARES) Act funding covered Transit's operating costs in Fiscal Year 2021-22. This freed up formula based federal 5307 dollars that the City received to be used on capital outlay, specifically the purchase of two electric buses. The Transit Program also received American Rescue Plan Act (ARPA) funding that is being used to construct the electric vehicle infrastructure needed to support the City's acquisition of two zero emission buses.

Expenditures: There are no significant variances to point out at this time. For the first half of the year the Transit Program realized significant savings as it was temporarily operating at reduced service levels based on current ridership demand. The department also had a vacant Transit Manager, backfilled with an interim position, for several months which explains the savings in staffing. It is normal and expected that contract services and other operating expenses track above 75% because annual purchase orders are set up at the beginning of the year and the funds are considered "Obligated" from that point forward. In the case of the Transit fund, the majority of the Contract Services budget is for the annual transportation services contract with First Transit, Inc. Staffing should track at a consistent level and the actuals seen above are consistent with where the City should be.

3 Major City Goal Update

Table 3a: Major City Goal Tasks with Completion Dates in FY 2021-22 Q3

	Strategy	Task	Department	Original Completion Date	Updated Completion Date
	1.1 - For all members of the community	a. Establish a process for the City to recognize and promote Minority-owned businesses.	ADM (ED/DEI)	FY22 Q3	FY23 Q2
	1.1 - For all members of the community	b. Implement protocols within the City's Office of Economic Development to reach out to existing and new Minority-owned/operated businesses to learn of their experiences operating in SLO, and to identify ways the City can be of support.	ADM (ED/DEI)	FY22 Q3	FY23 Q2
	2.1 - Establish Office of DEI	a. Design DEI Administration, Function, and Operations of the Office	Admin-DEI	FY22 Q3	Completed
	2.1 - Establish Office of DEI	b. Develop DEI Base Operating Budget	Admin-DEI	FY22 Q3	Completed
	2.1 - Establish Office of DEI	d. Develop positions; Hire Staff	Admin-DEI	FY22 Q3	Completed
	2.1 - Establish Office of DEI	h. Hire Interns - Cal Poly, Cuesta, community candidates - .25 FTE - 2 positions Y1 @ midyear / 2 - Y2, full year	Admin-DEI	FY22 Q3	FY23 Q1
	2.4 - Inclusive & Equitable Workplace	a. Develop and Adopt Diversity Statement for the Organization	Admin-DEI	FY22 Q3	FY 23 Q1
	3.6 - City Homelessness Team Coordination	b. Develop a Strategic Plan to guide a sustained effort of engagement by regional partners, non-profit partners, and community members to identify and implement coordinated solutions to chronic homelessness.	CDD	FY22 Q3	FY23 Q1
	3.10 - Mobile Crisis Unit (MCU) Pilot Program Implementation	a. Pair a crisis worker with an Emergency Medical Technician (EMT) to provide non-emergency response and care to unhoused community members.	FD/CDD	FY22 Q3	FY22 Q4
	4.4 - Alternative and Sustainable Transportation	a. Establish consistent mode split tracking and reporting method, consistent with performance monitoring recommendations as called for in the Active Transportation Plan and CAP Connected Communities task 1.1.	PW	FY22 Q3	FY23 Q2
	4.4 - Alternative and Sustainable Transportation	i. Complete construction of the Orcutt Road/Tank Farm Road Roundabout, reducing congestion and auto emissions and improving access and safety for bicycles, pedestrians and drivers.	PW	FY22 Q3	FY23 Q1

4 CIP Update – Completed and Ongoing

Completed & Ongoing Construction Capital Projects (July 2021 - March 2022)					
ID#	Spec#	Fund	Project	Current Construction Status	Approximate Project Budget Expended
1	91425	Water	Terrace Hill Pipeline and Pressure Reducing Valve Rehabilitation	Completed Q1 FY22	\$ 775,000
2	91647	General	Fire Station 1 HVAC Replacement	Completed Q1 FY22	\$ 170,000
3	1000066	Water	Bee Bee/Cuesta/Loomis Waterline Replacement	Completed Q1 FY22	\$ 1,275,000
4	1000198	General	Silt Removal 2021	Completed Q2 FY22	\$ 110,000
5	91385	General	Sinsheimer Irrigation and Stadium Drainage	Completed Q2 FY22	\$ 425,000
6	91609	General	Broad Street/Woodbridge Pedestrian Hybrid Beacon	Completed Q2 FY22	\$ 450,000
7	1000196	General	Mission Plaza Railing Upgrades	Completed Q2 FY22	\$ 80,000
8	1000021	General	Meadow Park Pathway Maintenance	Completed Q2 FY22	\$ 400,000
9	91392	General	Laguna Lake 2021 Maintenance Dredging Project	Completed Q2 FY22	\$ 605,000
10	90742	General	Meinecke Strom Drain Repair	Completed Q2 FY22	\$ 30,000
11	1000111	General	Swim Center Therapy Pool Boiler Replacement	Completed Q2 FY22	\$ 60,000
12	1000163	Parking	Downtown Parking Meter Pole Removal	Completed Q3 FY22	\$ 150,000
13	1000090	Water/Sewer	Jeffrey Sewer and Water Replacement	Completed Q3 FY22	\$ 1,875,000
14	1000167	General	2021 Downtown Pavement Improvement	Completed Q3 FY22	\$ 3,980,000
15	1000060	General	Energy Efficient Lighting Retrofits - City Hall and Fire Station 1	Completed Q3 FY22	\$ 15,000
16	1000190	General	Emerson Fitness Park Equipment Replacement	Completed Q3 FY22	\$ 300,000
17	1000180	Parking	Downtown Crack Sealing	Completed Q3 FY22	\$ 43,900
18	1000184	Parking	Monterey and Broad Improvements	Construction Ongoing	\$ 67,000
19	91385-16	General	Sinsheimer Court Entrance Hardscape	Construction Ongoing	\$ 163,000
20	1000034	Water	Reservoir 1 Cover Replacement	Construction Ongoing	\$ 700,000
21	91375	General	Railroad Safety Trail Taft to Pepper	Construction Ongoing	\$ 3,980,000
22	1000034	General	French Park Parking Lot	Construction Ongoing	\$ 97,000
23	91611	General	Tank Farm Road and Orcutt Roundabout	Construction Ongoing	\$ 3,510,000
24	91562	General	Parks and Recreation Office Rehabilitation	Construction Ongoing	\$ 605,000
25	91506A	Water	Groundwater Contamination Characterization Project	Construction Ongoing	\$ 825,000
26	91118A	Sewer	Calle Joaquin Lift Station Replacement	Construction Ongoing	\$ 8,534,000
27	91219	Sewer	Wastewater Resource Recovery Facility Upgrade	Construction Ongoing	\$ 123,331,000

Completed in Q3

5 Fund Balances

The fund balance is the fund balance at the beginning of the fiscal year plus the difference between revenues and expenditures. The beginning fund balance represents the residual funds brought forward from the previous year (ending balance). In the case of the enterprise funds, the “Working Capital” is shown below. Working Capital is equal to the fund’s current assets minus current liabilities. The total balance includes reserved or restricted amounts.

Fund Balance/Working Capital by Fund	
101 - General Fund	\$ 42,576,722
601 - Water Fund	\$ 32,342,869
602 - Sewer Fund	\$ 33,856,317
611 - Parking Fund	\$ 13,169,906
621 - Transit Fund	\$ 2,713,366

6 Outlook and Conclusion

Based on the third quarter data, the City’s financial picture is well on its way back to full recovery from COVID-19, but new challenges include record-high inflation, rising interest rates, supply chain issues, and the war in Ukraine. Uncertainty is the only certainty in economic forecasting right now which will be considered for the 2022-23 Budget Supplement.

While inflation causes revenue trends to look favorable, it is also important to consider the impact on the City’s own expenditures. The cost of services, construction, utilities, and supplies are all rising. Not to mention, the City is experiencing the same labor market challenges that the nation is facing. In order to ensure its competitive standing as an employer, the City embarked on a compensation study that found that the City’s base salaries are about 8.55% below the median. 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 as well. The City will need to remain nimble and cautious as it moves forward.

CalPERs Update

In July 2021, CalPERs reported a 21.3% net return on investments for the 12-month period that ended June 30, 2021. Under the Funding Risk Mitigation Policy, approved by the CalPERS Board of Administration in 2015, the double-digit return triggered a reduction in the discount rate used to calculate employer and Public Employees’ Pension Reform Act (PEPRA) members contributions. The discount rate, or assumed rate of return, will drop from 7% to 6.8% on ongoing basis. The lowering of the discount rate will increase both employee and employer normal cost and also influence the unfunded liability. However, the double-digit gains should offset the impact of the lower discount rate on the unfunded liability.