



Department: Finance
Cost Center: 2002
For Agenda of: 2/7/2023
Placement: Business
Estimated Time: 90 Minutes

FROM: Derek Johnson, City Manager
Emily Jackson, Finance Director
Prepared By: Natalie Harnett, Principal Budget Analyst

SUBJECT: FISCAL YEAR 2022-23 MID-YEAR BUDGET REVIEW

RECOMMENDATION

1. Receive and discuss the Mid-Year Budget report based on revised projections for all major funds at the mid-point of the 2022-23 fiscal year; and
2. Adopt a Draft Resolution entitled, "A Resolution of the Council of the City of San Luis Obispo, California, approving amendments to the adopted 2022-23 Budget Appropriations" and approve the one-time allocations as stated in the Mid-year Budget Report; and
3. Provide direction on whether the one-time budget allocations from the 2021-23 Financial Plan listed in Attachment A – Appendix B should be considered as ongoing expense and included in the base budget for 2023-25.

POLICY CONTEXT

The City's budget policies require that the City Council review the City's budget and financial condition at least every six months. The mid-year review is part of the ongoing quarterly reporting process and fulfills that purpose. The review allows the Council to adjust revenue and expenditure assumptions should the need arise. The accompanying Mid-Year Budget report for 2022-23 provides a comprehensive overview of the City's financial condition half-way through the fiscal year and summarizes current financial trends since the adoption of the 2021-23 Financial Plan Supplement in June 2022.

DISCUSSION

Mid-Year Report Organization

The report's focus is on the General Fund and each of the City's enterprise funds. The mid-year budget report also provides an update on departmental performance measures, work programs, the Capital Improvement Plan, and Major City Goals. The report (included as Attachment A) includes the following sections:

Section A – General Fund Summary: This section provides a narrative overview of the City’s current General Fund financial condition and current revenue and expenditure trends as of December 31, 2022. In summary, major tax revenues are exceeding projections and have been adjusted upward accordingly. Expenditures are on track with where they should be at this point in the year; however the recent storm expenditures are not included in the mid-year financials. The revised five-year forecast is also provided and includes the estimated cost for the projected \$9 million in storm expenditures and the anticipated amount and timing of reimbursement under state and federal programs.

Section B – Mid-Year Recommendations: This section outlines the proposed mid-year expenditure budget changes as well as one-time allocations of the FY 2021-22 unassigned fund balance. All of the budget changes are administrative or mission critical in nature and no new programs or services are being recommended. The recommended additional discretionary payments (ADP) to CalPERS are discussed in the next section of this Council Agenda Report and detailed in the fiscal impact section.

Section C – Enterprise Fund Summary: This section provides a narrative update of the City’s enterprise funds’ financial conditions, including any recommended budget changes. Year-to-date expenditures and revenues are on track for all funds. Revised long-term forecasts are included.

Section D – Department Performance Measures and Work Program Updates: This section provides an evaluation on the performance measures and an update on core objectives of each operating program. All of the 74 total operating programs manage workload within budget and meet core objectives.

Section E – Capital Improvement Plan (CIP) Update: This section provides an update on active and ongoing CIP projects.

Section F – Major City Goal Update: This section provides an update on Major City Goal tasks that were either scheduled for completion in 2022-23 or are listed as “ongoing”. Several tasks were delayed, but most were completed or are scheduled to be completed before year end.

Appendix A – Detailed Financials: This section provides a closer look at year-to-date actuals for the major funds and the recommended revenue budget adjustments.

CalPERS Additional Discretionary Payments (ADP)

With the 2018-19 Budget Adoption, Council adopted the “Fiscal Health Response Plan” to help balance the long-term forecast and begin an ambitious schedule to pay down the City’s pension obligations over 20 years instead of 30 years. This was based on the commitment to use available unassigned fund balance mainly for this purpose. In addition to the planned payment of \$2 million (General Fund portion) for FY 2022-23, staff recommend allocating an additional \$1.3 million of unassigned General Fund balance (due to over realized revenue) which will help offset the 6.1% investment losses that CalPERS experienced last year. For future planned payments above the regular CalPERS contributions, see the updated long-term forecasts.

Storm Response and Activation of the Fiscal Health Contingency Plan

The City has done initial damage assessments related to the storms, but identification of the scope of the repairs needed is still in the beginning stages. Staff estimate there will be at least \$2 to \$3 million of operating costs associated with staff overtime, supplies, and contracted services. On top of that, Public Works continues to estimate the cost for Capital repairs which are likely to exceed \$5 to \$8 million. Given the magnitude of damages, the City Manager has activated the Fiscal Health Contingency Plan (Attachment C). The Fiscal Health Contingency Plan is not intended to be a specific “recipe” for expenditure cuts or revenue increases, but a framework in responding to adverse fiscal circumstances, such as natural disasters.

Since the storm related costs were unbudgeted, the City Manager requests authorization through the attached resolution to use the General Fund reserve to pay for storm-related costs through the end of the fiscal year. Given the updated revenue projections, there will likely be revenues over expenditures available at year-end to reimburse the reserve; however these revenues have not yet been realized.

Staff will continue to provide Council with storm-related updates and the broader fiscal impacts will be considered during the 2023-25 Financial Plan development.

2022-2023 One Time Expenses

As part of the development of the 2021-2023 Financial Plan, the City allocated one-time budget to fund critical services in support of Major City Goal objectives. The total amount of expenditures and the details are included as Attachment A – Appendix B. Staff has reviewed the list and reduced it to what staff believes are essential and critical items that support operations and Major City Goal objectives. Staff recommends that the Council provide direction on whether to add some or all of the costs to the ongoing budget. Approximately \$1.8 million has been assumed in the forecast for ongoing expenses related to these or other ongoing needs. Determining whether to include these specific one-time costs in the budget or whether to leave a budget “placeholder” to fund potential other needs will be useful in terms of how to weigh other competing expenditures. If Council elects to put the identified list of costs into the ongoing budget, staff will return with a budget resolution on consent at a future meeting to memorialize Council’s action.

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 Mid-Year Report will also be posted on the City’s website for public review.

CONCURRENCE

The City’s internal Financial Plan Steering Committee has met on multiple occasions and concurs with the recommendations included in this report.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act (CEQA) 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: Yes
Funding Identified: Yes

Budget Year: 2022-23

Table 1: FY 2022-23 Mid-Year Revenue Budget Changes			
Fund	Initial Budget	Revised Budget	Variance
General Fund	\$ 120,576,641	\$ 124,826,187	\$ 4,249,546
Gas Tax Fund	\$ 1,245,024	\$ 1,305,634	\$ 60,610
TDA - Bikeway Fund	\$ 45,000	\$ 76,869	\$ 31,869
Tourism Bid Fund	\$ 1,727,202	\$ 2,122,800	\$ 395,598
SB1 Road Repair 2017	\$ 1,049,877	\$ 1,019,914	\$ (29,963)
Water Fund	\$ 26,036,569	\$ 26,477,592	\$ 441,023
Sewer Fund	\$ 19,645,382	\$ 51,737,274	\$ 32,091,892
Transit Fund	\$ 10,489,921	\$ 15,560,414	\$ 5,070,493
Total	\$ 180,815,616	\$ 223,126,683	\$ 42,311,068

Table 2: FY 2022-23 Mid-Year Expenditure Budget Allocations	
General Fund	\$ 395,000
Water Fund	\$ 377,676
Sewer Fund	\$ 329,471
CASp Fund	\$ (70,823)
TDA Fund	\$ 31,869
Total	\$ 1,063,193

Table 3: Recommended FY 2022-23 CalPERs ADP¹				
	Fund	Planned ADP (per forecast)	One-time ADP (FY 2021-22 Balance)	Total ADP for FY 2022-23
1	General Fund	\$ 2,000,000	\$ 1,300,000	\$ 3,300,000
2	Water	\$ 164,840	\$ 107,146	\$ 271,986
3	Sewer	\$ 169,419	\$ 110,122	\$ 279,542
4	Parking	\$ 61,003	\$ 39,652	\$ 100,654
5	Transit	\$ 12,555	\$ 8,161	\$ 20,716
6	Whale Rock	\$ 21,417	\$ 13,921	\$ 35,339
7	TBID	\$ 7,976	\$ 5,184	\$ 13,161
8	Total All Funds	\$ 2,437,211	\$ 1,584,187	\$ 4,021,398

¹ Payment will be made in April 2023

ALTERNATIVES

The Council could direct staff to not implement the proposed budget change recommendations. Should the adjustments not be approved, the budget will remain unchanged at the adopted budget levels. Staff does not recommend an unchanged budget due changing needs of the community and the City organization.

ATTACHMENTS

A - FY 2022-23 Mid-Year Budget Report

B - Draft Resolution approving an amendment to the 2022-23 Budget Allocation

C - Fiscal Health Contingency Plan