

August 16, 2023

ITEM TITLE: FISCAL YEAR 2022-23 FINANCIAL UPDATE, CONSIDERATION OF RESOLUTION 2023-63 RATIFYING PREVIOUS ACTIONS OF THE CITY COUNCIL IN RELATION TO THE FY 2022-23 BUDGET, AND CONSIDERATION OF AN ADDITIONAL AMENDMENT TO THE FY 2022-23 BUDGET. (0330-30)

ORIGINATING DEPARTMENT:

Finance

EXECUTIVE SUMMARY:

The Fiscal Year ("FY") 2022-23 municipal budget was adopted in May 2021 and represents the second year of a two-year budget cycle. Fiscal Year 2022-23 concluded on June 30, 2023 and staff has analyzed the preliminary (unaudited) revenues and expenditures for the fiscal year. Staff has conducted an analysis of the FY 2022-23 adopted General Fund budget in comparison with authorized modifications in personnel and operational costs and City Council resolutions. Resolution 2023-63 will ratify and consolidate previous actions of the City Council and direct staff to complete an additional FY 2022-23 budget amendment.

Staff is currently preparing for the FY 2022-23 annual audit which is scheduled to take place during the month of September. It is anticipated that final Financial Statements will be prepared and presented to City Council in November 2023.

RECOMMENDATION:

Staff recommends that the City Council receive and file the preliminary financial update report and adopt Resolution 2023-63 ratifying and consolidating previous actions of the City Council related to the City of Imperial Beach Budget and approving additional amendments to the FY 2022-23 Budget.

OPTIONS:

- Receive and file the preliminary financial update report and adopt Resolution 2023-63
- Receive and file the preliminary financial update report and adopt a revised version of Resolution 2022-63
- Provide direction to staff to provide additional information

BACKGROUND/ANALYSIS:

The municipal budget is the primary document that links the priorities of the City Council with the funding necessary to accomplish those goals. Throughout the budget period, the City Council considers various resolutions that serve to amend or modify the anticipated revenues and expenditures in the General Fund as financial needs change over time. Additionally, staff provides periodic budget updates to the City Council during public meetings to educate and maintain transparency. Through a series of previously adopted amendments (resolutions), the City Council has increased the authorized expenditures in the FY 2022-23 General Fund Budget.

Staff is continually committed to monitoring the City's revenues and expenditures with the goal of keeping them in balance. The FY 2022-23 fiscal year ended on June 30, 2023 and staff has been reviewing the finances and preparing the City for its annual audit. As part of the year-end closing, both the revenue and expenditure budgets are reviewed and adjusted as necessary. Additionally, staff desires to provide the Council with a pre-audit look at how the City fared for the fiscal year. Please note, ***the numbers being provided are preliminary, unaudited numbers and are subject to change.***

GENERAL FUND

General Fund Summary

The projections provided in this staff report are preliminary projections only. The totals will change as the fiscal year is closed out and all revenue and expenditures are properly recorded. Final revenue and expenditure amounts will not be certain until the annual audit is completed in September 2023 and staff reports out the results of the audit to the City Council in November/December 2023.

Currently, it is projected that the General Fund will complete FY 2022-23 with revenues exceeding expenditures resulting in approximately a \$2.1 million surplus. Almost 35%, or \$737,000, of the surplus is the result of the recognition of revenue received in the Community Benefit Fund. Additionally, with components of the City's property tax providing slow, but steady growth, the addition of Measure I Sales Tax, and continued growth in Transient Occupancy Tax (TOT), the City's General Fund revenue has remained strong. During the FY 2021-22 and FY 2022-23 budget process, it was unclear what the full results of the additional sales tax (Measure I) and increased TOT from a new hotel would be on the City's revenues. With a lack of history for these sources, staff budgeted General Fund revenues conservatively, and expenditures accordingly, to be sure that spending would not be outside our means. The result of the unanticipated increase in revenues, combined with staff's prudence in spending has allowed the General Fund to complete the fiscal year with revenues over expenditures. While the City has concluded both FY 2021-22 and FY 2022-23 with a relatively generous surplus, this trend will most likely not continue. With the understanding we now have of the flow of the new revenue sources, combined with the increased servicing needs of the community, the revenues and expenditures will be more closely matched in future fiscal years. Various factors adjusting the FY 2022-23 General Fund revenues and expenditures are discussed in the following sections.

Revenues

The FY 2022-23 adopted General Fund revenue budget was \$25,159,345 and the current amended budget is \$25,179,029. The projected General Fund revenue for the fiscal year ended June 30, 2023 is \$29,522,452.

The category of “Taxes” includes property related taxes, sales taxes and franchise fees. Forecasted revenue from Property Tax related items is expected to exceed current budget by approximately \$3.9 million. This continues to largely be a result of the steady increase in the RPTTF Residual (residual tax increment after SA obligations are paid) and VLF (In-Lieu Vehicle License Fees) revenues as well as Sales Tax. Sales Tax (both City and Measure I) is projected to exceed current budget by almost \$2.0 million. The 1% City sales tax was budgeted to be \$1.4 million and is estimated to finish at approximately \$1.8 million after year-end accruals, approximately \$400,000 over budget. Unsure of what to expect from the City’s first couple years of revenue from Measure I, staff budgeted Measure I conservatively at \$1.35 million for FY 2022-23. It appears after the completion of its second fiscal year, Measure I is estimated to finish at approximately \$3.0 million after year-end accruals, much higher than anticipated. With two years of the new sales tax in the books, staff has a better understanding regarding the flow of this revenue and has budgeted a more appropriate amount in the recently adopted FY 2023-24 and FY 2024-25 budget.

The category of “Licenses and Permits” includes business licenses as well as construction related permits. Business Licenses are estimated to finish the year slightly under current budget (\$316,000 compared to a budget of \$382,500) while construction related permits and fees are anticipated to finish approximately \$20,000 over current budget. Building activity is not consistent from year to year, so the quantity of permits, and the associated revenue, often fluctuate from year to year.

“Intergovernmental Revenue” is estimated to complete the year \$175,000 over current budget. This category is driven by reimbursements and grants that flow through the General Fund. Grant revenues vary from year to year and their related budgets carry over until all funds are received and projects/programs are completed. For the fiscal year ended June 30, 2023, “grants” will end up approximately \$175,000 over current budget the result of a grant that was awarded in a prior fiscal year but recorded in FY 2022-23. To avoid the large revenue fluctuations resulting from grant revenue that occur year-over-year in the General Fund, most grants have been removed from the General Fund and placed in a Special Revenue Fund.

“Charges for Services” are expected to finish approximately \$93,000 below budget. This category includes Building Plan Check, Planning and Zoning fees, Port District Charges as well as Recreation, Jr. Lifeguard, and miscellaneous administrative charges. As previously stated, construction activity can fluctuate from year to year which makes budgeting for this area difficult. Another variable in this category was the addition of Parks & Recreation programming in FY 2022-23. Without solid information regarding the timeline for program start-up as well as not having history regarding the flow of revenues for this area, staff could not provide accurate budget numbers. Additionally, the City did not operate its Junior Lifeguard program in FY 2022-23 which accounts for \$40,000 of the above-mentioned variance. All of the above-mentioned items contributed to “Charges for Services” finishing FY 2022-23 below current budget estimates.

The category of “Fines and Forfeitures” comprises less than 1% of the budget and includes parking and traffic fines as well as ordinance civil penalties. “Fines and Forfeitures” is anticipated to finish approximately \$170,000 over current budget as a result of the collection of a large number of civil penalties.

“Use of Money and Property” is projected to be slightly less than budgeted due to the decrease in cell tower lease payments resulting from the termination of a lease. “Miscellaneous Revenue” includes donations and contributions, paramedic billing reimbursement, other miscellaneous reimbursements as well as contributions to the Community Benefit Fund. This category is projected to finish the year exceeding the FY 2022-23 budget by approximately \$850,000. The largest contributor to this increase is the recognition of the FY 2022-23 revenue in the amount of \$736,900 in the Community Benefit Fund.

The last category, “Interfund Transfers”, is anticipated to complete the year approximately \$668,300 below current budget. The primary reason for the variance is related to ARPA Mitigation Plan adopted by City Council in November 2021 and amended in November 2022. The FY 2022-23 Adopted Budget planned for approximately \$675,000 to be transferred to the General Fund as “revenue recovery”. With the adoption and subsequent amendment to the ARPA Mitigation Plan, rather than transferring the funds to the General Fund for revenue replacement, it was determined to keep the funding in the Miscellaneous Grants Fund to track and use the funds for one-time capital expenditures that would benefit the community as a whole. As such, the expected transfer to the General Fund never materialized.

GENERAL FUND REVENUES					
	Original Budget	Current Budget	FY 22-23 Projected	Variance (\$)	Variance (%)
Taxes	\$15,136,400	\$15,136,400	\$19,113,392	\$3,976,992	26.27%
Licenses & Permits	1,044,535	1,044,535	995,155	-49,380	-4.73%
Intergovernmental	60,260	79,944	256,403	176,459	220.73%
Charges for Service	5,691,020	5,691,020	5,597,511	-93,509	-1.64%
Fines & Forfeitures	220,150	220,150	393,194	173,044	78.60%
Use of Money & Property	556,800	556,800	530,967	-25,833	-4.64%
Miscellaneous Revenue	234,080	234,080	1,088,044	853,964	364.82%
Interfund Transfers	2,216,100	2,216,100	1,547,786	-668,314	-30.16%
Revenue Total	\$25,159,345	\$25,179,029	\$29,522,452	\$4,343,423	17.25%

As illustrated above, several budget amendments, both increases and decreases, are needed to the current revenue budget. Staff is proposing an overall increase in the General Fund Revenue budget of \$3.2 million for FY 2022-2023. While the amendment increases and decreases affect multiple accounts, the most prominent adjustments are as follows:

- Increase of \$175,000 to 101-0000-311.6002 (RPTTF Pass-Thru) for higher than anticipated revenues
- Increase of \$650,000 to 101-0000-311.6006 (RPTTF Residual) for higher than anticipated revenues
- Increase of \$300,000 to 101-0000-313.4001 (7.75% Sales Tax – City) for higher than anticipated revenues
- Increase of \$1,150,000 to 101-0000-313.4002 (Measure I Sales Tax) for higher than anticipated revenues
- Increase of \$400,000 to 101-0000-316.7049 (Transient Occupancy Tax) for higher revenues resulting from the passage of Measure R
- Increase of \$735,000 to 103-0000-376.8803 (Community Benefit Contribution) resulting from FY2022-23 revenue recognition
- Decrease of \$640,400 to 101-0000-391.9008 (Transfers In) due to a change in ARPA Fund programming

The full details to the adjustment can be seen in the year-end revenue budget amendment (“Attachment 2”)

Expenditures

The General Fund expenditure budget was approved at \$24.7 million, and the current General Fund budget is \$26.3 million. During FY 2022-23, the City Council approved the following budget amendments using funds from General Fund reserves for one-time expenditures:

- Transfer to Internal Service Funds to replenish reserves - \$450,000
- Transfer to CIP Fund for Sports Park Restroom Project - \$800,000
- Transfer to Facility Maintenance Fund for City Hall Improvements - \$113,200

Additionally, open purchase orders for projects approved in FY 2021-22 as well as budgets for previously approved capital projects totaling approximately \$231,000 were carried over into the FY 2022-23 budget.

GENERAL FUND EXPENDITURES					
	Original Budget	Current Budget	FY 22-23 Projected	Variance \$	Variance %
GG* - Legislative	\$982,375	\$985,448	\$970,638	(\$14,810)	-1.50%
GG* - Mgmt & Support	5,369,475	6,785,967	7,315,864	529,897	7.81%
Public Safety	14,106,040	14,125,724	14,323,198	197,474	1.40%
Parks & Recreation	2,055,250	2,069,725	2,335,003	265,278	12.82%
Public Works	2,222,850	2,279,150	2,394,876	115,726	5.08%
Capital Outlay	-	70,982	46,721	(24,261)	-34.18%
Expenditure Total	\$24,735,990	\$26,316,996	\$27,386,301	\$1,069,305	4.06%
** General Government					

In summary, General Fund expenditures are projected to be \$27.4 million for FY 2022-23 and are above the current budget of \$26.3 million. While total expenditures are projected to be in excess of the current budget, there were areas within the General Fund that saw both decreases and increase in expenditures. Some of the areas of greater variance include:

- Increase of \$176,000 to account 101-1110-412.2808 (City Manager – Community Programs) due to unexpected increases in the costs of several special events put on by the City (4th of July, Symphony by the Sea) as well as new costs (Holiday Lighting) that resulted in greater than budgeted expenditures
- Increase of \$207,200 to salary and benefits accounts in the Administrative Services (Finance) division (101-1210) as a result of the addition of the Finance Manager position (FY 2021-22) that was part of the department's succession planning as well as an unbudgeted contribution to the City's new HRA contribution
- Decrease of \$220,000 to account 101-3010-421.2006 (Sheriff - Professional Services) due to the use of available SLESF (Supplemental Law Enforcement Safety Funding) Funds
- Decrease of \$100,000 to account 101-3030-423.1002 (Marine Safety – Salaries Part-Time) due to position vacancies
- Increase of \$243,000 to account 101-3030-423.5007 (Marine Safety – Port Reimbursable Equipment) to account for equipment purchased and reimbursed through the Port MSA
- Decrease of \$50,500 to salary and benefits accounts in the Public Works Administrative Division (101-5020) resulting from staffing changes
- Increase of \$286,900 to various accounts in the Parks & Recreation (101-6010) division. Being a new division, it was unknown what the budgetary requirements for the division would be. Staffing and programming demands resulted in many of the division line items, both personnel and operational, being overbudget

Staff is requesting General Funds expenditure budget amendments totaling \$874,000. The requested increase in the General Fund revenues will more than offset the requested budgetary increase in General Fund. A full listing of the proposed expenditure budget adjustments can be seen in the year-end expenditure budget amendment ("Attachment 3").

INTERNAL SERVICE FUNDS

Fund 501 – Vehicle Replacement

It is estimated that the Vehicle Replacement Fund will complete the year with revenues equal to expenses. A budget amendment is being requested to ratify a transfer of \$230,000 from the General Fund into the Vehicle Replacement fund to offset increases in unforeseen expenses. Both account number 501-1921-419.2801 (Maintenance & Repair) and 501-1921-419.2816 (Vehicle Operations – Parts) are finishing the year substantially over budget because of unanticipated and extensive repairs necessary for the City's Fire Engines. Account 501-1921-419.2815 (Vehicle Operations – Fuel) is completing the year approximately \$37,000 overbudget due to high fuel costs. Account 501-1921-419.5004 (Equipment) is completing the year \$81,000 over budget due to the necessary purchase of two trucks used by the new park rangers and response teams. These vehicles were in addition to the two trucks that had been approved for purchase in FY 2021-22 that were finally delivered to the City early in FY 2022-23. As a note, the increase in fuels costs is

being offset by the additional revenue received from the Port of San Diego and the County of San Diego for reimbursement of fuel usage.

Fund 502 – Risk Management

The Risk Management Fund is projected to finish the year with revenues ahead of expenses, increasing the fund's net position by approximately \$380,000. While personnel costs were slightly higher than budgeted, Staff continues to be proactive in claims management resulting in reduced expenses overall. The increase in net position will be another step towards staff's goal of maintaining a net position of \$750,000 in the fund.

Fund 503 – Information Technology

The IT Fund is projected to finish FY 2022-23 with revenues exceeding expenses, increasing the fund's net position by \$155,800. The increase in net position is important as several new projects have been approved and appropriated by City Council for the FY 2023-24 fiscal year. A budget amendment is being requested to offset increases in expenses due to new software and increasing licensing and maintenance fees. Staff will continue to strive to structure the funding of the IT Fund with the continued goal of building a reserve for future IT infrastructure and equipment.

Fund 504 – Facility Maintenance

The Facility Maintenance Fund is projected to finish the year with revenues exceeding expenses by \$149,800. Staff is continuing to attempt to maintain or increase the net position in the fund in order to keep up with the ongoing maintenance costs of the City facilities.

INTERNAL SERVICE FUNDS					
	Revenue Budget	Projected Revenue	Expenditure Budget	Projected Expenditures	FY 22-23 Surplus (Deficit)
Vehicle Maintenance	\$ 506,800	\$ 818,312	\$ 584,220	\$ 818,779	\$ (467)
Risk Management	756,950	1,146,794	756,950	764,684	382,110
Information Technology	833,350	861,232	641,702	705,445	155,787
Facilities Maintenance	323,700	327,653	187,424	177,860	149,793

While the majority of the Internal Service Funds are projected to complete FY 2022-23 with revenues exceeding expenses, staff is continuing to work to fund the reserves in each fund to an acceptable level. As the fiscal year is closed out and final revenue and expenditure amounts are known, staff may once again recommend transfers to the Internal Service funds in order to increase fund balances and allow for future unanticipated and capital expenditures.

Recommended budget amendments for the Internal Service Funds have been included as Attachment 4 to this report.

SEWER ENTERPRISE FUND

Fund 601 – Sewer Enterprise Fund

The FY 2022-23 adopted revenue budget for the Sewer Enterprise fund was \$6,358,000. The projected revenues for the fund are estimated at \$7,025,000, \$667,000 above the adopted budget. The primary driver of the increased revenue was a \$580,000 refund from the FY 2018-19 Metro Wastewater reconciliation. The adopted expenditure budget was \$5,442,945 and the current budget is \$7,526,300. The amended budget is inclusive of \$2.0 million of CIP projects approved by City Council during the previous and current budget cycles. It is anticipated that \$1.2 million of anticipated CIP expenditures will be carried over into FY 2023-24. At year end, Sewer Fund revenues are projected to be approximately \$1.4 million over expenses.

Recommended budget amendments for the Sewer Enterprise fund have been included as “Attachment 4” to this report.

SPECIAL REVENUE FUNDS

Fund 202 – Proposition “A” (Transnet) Fund

The FY 2022-23 amended revenue budget for the Proposition “A” (Transnet) Fund was \$458,000 and the amended expenditure budget was \$1,192,035. Several budget adjustments are being requested in order to “true-up” actual Prop “A” revenues received as well as to adjust the budget for the FY 2022-23 commercial paper activity. The requested budget adjustments are included on “Attachment 5” to this report.

Fund 210 –CDBG-Federal Assistance Fund

FY 2022-23 budgeted revenues and expenditures in the CDBG fund need amending in order to account for revenues received as well as to reflect related project expenditures. CDBG grant applications and associated expenditures are brought to Council for approval on an on-going (usually annual) basis. Several projects have been approved by City Council, but the related budget amendments were not completed. As a result, budget amendments, both the revenues and expenditures, related to CDBG assistance are included on “Attachment 5.”

Fund 212 – SLESF (Supplemental Law Enforcement Services Fund) Fund

A minimum of \$100,000 of funds (per City) are allocated annually from the State through the Citizens’ Option for Public Safety (COPS) program. Imperial Beach budgets for the minimum \$100,000 in revenue, but often receives a greater amount. A budget amendment, as shown in “Attachment 5”, is being requested to true-up the SLESF funding received, and the actual FY 2022-23 expenditures recorded.

Fund 216 – Housing Authority

Fund 216 accounts for activity within City’s housing fund. Activity is sporadic and minimal and, as a result, the fund usually does not have an approved budget. Recently, there has been legal oversight for a potential housing project within the City. As such, the City has incurred expenses within the fund. Staff is requesting a budget amendment to true-up FY 2022-23 expenditures. The budget amendment is included in “Attachment 5”.

ENVIRONMENTAL DETERMINATION:

Not a project as defined by CEQA.

FISCAL IMPACT:

FISCAL YEAR:	FY 2022-23
BUDGETED:	No
BUDGET AMENDMENT	Yes
ACCOUNT NO(S).:	Various
PROJECT NO(S).:	N/A
FISCAL ANALYSIS:	Resolution 2023-63 ratifies previous budget adjustments approved by City Council and proposes year-end budget amendments
CURRENT BUDGET:	N/A
ANTICIPATED EXPENDITURE:	N/A

ATTACHMENTS:

- ATT 1 – Resolution 2023-63
- ATT 2 – General Fund Revenue Budget Amendments
- ATT 3 – General Fund Expenditure Budget Amendments
- ATT 4 – Internal Service and Sewer Fund Budget Amendments
- ATT 5 – Special Revenue Funds Budget Amendments