



CITY COUNCIL AGENDA REPORT

Meeting Date: June 29, 2023

From: Carolina Yuen

Subject: Overview of Proposed Budget for Fiscal Year 2023/24

Continued

Community Goal/Result

Fiscally Prudent – Brisbane’s fiscal vitality will reflect sound decisions which also speak to the values of the community

Purpose

To provide a fiscal plan which provides flexibility to City Council and staff to provide for services to the Community during a time of unknown economic circumstances while planning for the long-term recovery.

Recommendation

It is recommended that the City Council receive a general overview and department presentations of the proposed Budget for Fiscal Year (FY) 2023/24 and consider for approval later in this City Council meeting.

Background

For several years, the City has adopted two-year budgets. Most recently the FY2020-22 biennial budget was approved on June 4th, 2020, adopting Resolution 2020-23. Subsequently, the City and local economy were in the midst of the impact of COVID-19, other volatile economic conditions, and City staff were implementing a new Priority Based Budgeting software program for the next year. The City Manager therefore proposed a one-year budget covering the period of July 1, 2022, through June 30, 2023 (FY2022/23) which was approved on June 16, 2022. The City Manager is proposing another one-year budget covering the period of July 1, 2023 through June 30, 2024 (FY2023/24) with the intention of returning to a biennial budget schedule starting the subsequent fiscal year.

On June 15, 2023, Staff presented an overview of the proposed FY2023/24 Budget to the City Council. Staff also initiated Departmental budgets for review. Council requested additional comparative information be included for the budget review and continued the Budget Workshop for June 29, 2023.

Discussion

The City’s budget document contains revenues, appropriations, and other financial information pertaining to all City operating budgets. The Capital Improvement Plan is not included, as it is usually reviewed during the off-years of the biennial budget cycle and will therefore be revisited at a later period. The City’s budget goal is to achieve a balanced budget with

revenues, including reimbursements or transfer from other funds for services provided, equal to or greater than expenditures. At times, the City can plan for revenues to be less than expenses, and therefore the budget is balanced by using its available resources or Fund Balance.

Budgetary control is maintained at the Department/Program level. The City Manager may approve transfer of appropriation from one program, activity, or line item within or across departments. Total appropriation within a fund may be increased by the City Manager up to \$200,000. Anything exceeding this threshold can only be increased with Council approval. Departments monitor and control budgets using the City's financial system, through reports of revenue and expenditure accounts. The financial system monitors expenditures down to the line-item level. The Council is provided with a mid-year financial status report that reflects year-to-date expenditures and revenues compared to budget.

On June 15, 2023, Staff presented an overview of the proposed FY2023/24 Budget to the City Council. Staff also initiated Departmental budgets for review. Council requested additional comparative information be included for the budget review and continued the Budget Workshop for June 29, 2023.

The presentation tonight will focus on the departments in the General Fund which support the City's main operations, funded by a variety of taxes, program fees and service charges. Information will also be presented for departments in the Utility Fund and the Marina Fund which are proprietary funds (business-type activities) that are funded primarily through user charges.

For FY2023/24, staff projects that revenues will increase from the current year by approximately \$451,000 from current year's expected results to a total of \$26,696,000. Overall Expenses from the General Fund are expected to total \$28,599,000, which is an increase of \$3,026,000. Therefore, staff recommends the use of available resources as required to meet the established programs and initiatives.

A copy of the June 15, 2023 staff report is included for reference. There is one change in staff's recommendation to the net use of funds expected in FY2023/24. Instead of accessing the Recession Reserve, we are recommending the use of the Fluctuation Reserve to cover the net use.

Fund Balance:

The net use of Fund Balance for FY2023/24 is anticipated to be \$1,904,000 (difference between revenues and expenditures). As part of the Mid-Year Budget Review, staff identified the ending fund balance for FY2022/23 is expected to be \$15,871,000, where a portion is restricted for existing debt, contract commitments, and encumbrances, leaving an unrestricted and available amount of \$880,000 which we recommend be used in FY2023/24.

Over the past decade the City has built up its reserves to be able to continue to provide necessary services during times of economic stress. The City Council has looked at a three-pronged reserve policy:

- Recession Reserve – To be used during times of national economic downturns, set at \$2.5 million.
- Emergency Reserve for Unanticipated Events – To be used during times of local events which increases the City’s need to spend or decreases the City’s ability to collect anticipated revenues, set at \$3.5 million.
- Annual Fluctuation Reserve – To be used for one-time events which either increase expenditures or decreases revenues, set at 5% of Budgeted Revenues plus 5% of Budgeted Expenses. For FY2023/24, the expected amount based on the proposed budget is \$2,765,000.

The City’s reserve policy has resulted in a healthy fund balance and the City fared well through the COVID-19 event, increase in fuel and supply costs, and recent volatile markets. However, building activity within the City continues to grow and programs have not slowed down. Although historically the City has earned more than projected and spent less than budgeted, Staff recommends tapping into the Annual Fluctuation Reserve to meet the objectives outlined above if necessary.

Based on the recent actual results and budgeted projects, staff anticipates the available reserves as shown below if these reserves are used:

Reserve	Actual 6/30/2021	Actual 6/30/2022	Projected 6/30/2023	Projected 6/30/2024
Recession Reserve	\$2,500,000	\$164,000	\$2,500,000	\$2,500,000
Emergency Reserve	\$3,500,000	\$3,500,000	\$3,500,000	\$3,500,000
Annual Fluctuation Reserve	\$2,504,000	\$2,438,000	\$2,591,000	\$ 861,000

Financial stability remains a high priority for the City of Brisbane. Staff looks forward to working with the Council and the community to address the financial challenges that lie ahead. Staff will continue to seek ways to provide services to the community as efficiently as possible. The City will continue to consider appropriate economic development and tax revenue generation projects that are viable for our City.

Fiscal Impact

There are no fiscal implications to receive this report. Recommendations related to the FY2023/24 Budget will be presented later in this City Council meeting.

Measure of Success

Council will accept proposed budget for additional review and consider for approval later in this City Council meeting.

Attachments

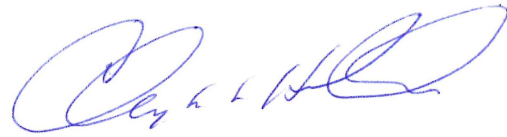
Attachment 1 Budget Overview Summary

Attachment 2 Copy of June 15, 2023 Budget Overview Staff Report

Attachment 3 Proposed Department Expenses

Carolina Yuen

Carolina Yuen, Finance Director



Clay Holstine, City Manager

Attachment 1

General Fund

	FY21/22	FY22/23	FY23/24
Budgeted Revenue	20,212,958	21,816,001	26,695,707
Budgeted Expenses	22,593,103	25,013,662	28,599,443
Anticipated Surplus (Use of Fund Balance)	(2,380,145)	(3,197,661)	(1,903,736)
Actual / Anticipated Revenues	23,211,199	26,244,277	26,695,707
Actual / Anticipated Expenses, net of transfers	25,547,047 *	25,573,882	28,599,443
Actual / Reprojected Surplus (Use of Fund Balance)	(2,335,848)	670,395	(1,903,736)
Beginning Fund Balance	17,536,138	15,200,290	15,870,685
Ending Fund Balance	15,200,290	15,870,685	13,966,949
Reserve Policy:			
Recession Reserve	2,500,000	2,500,000	2,500,000
Unanticipated Events	3,500,000	3,500,000	3,500,000
Annual Fluctuation (5% Revenues/5% Expenses)	2,437,912	2,590,908	2,764,757
Total Required Reserve	8,437,912	8,590,908	8,764,757
Fund Balance Above Required Balance	6,762,378	7,279,777	5,202,191
Additional Restrictions on Fund Balance	5,818,773	6,400,000	6,400,000
Available Fund Balance	943,605	879,777	(1,197,809)

* includes one-time proceeds from long term debt

Attachment 2



CITY COUNCIL AGENDA REPORT

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From: Carolina Yuen

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Community Goal/Result

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Purpose

To provide a fiscal plan which provides flexibility to City Council and the Community to provide for services during the time of unknown economic circumstances while planning for the long-term recovery.

Recommendation

It is recommended that the City Council receive a general overview and department presentations of the proposed Budget for Fiscal Year (FY) 2023/24 and consider for approval at the next City Council meeting scheduled for June 29, 2023.

Background

For several years, the City has adopted two-year budgets. Most recently the FY2020-22 biennial budget was approved on June 4th, 2020, adopting Resolution 2020-23. Subsequently, the City and local economy were in the midst of the impact of COVID-19, other volatile economic conditions, and City staff were implementing a new Priority Based Budgeting software program for the next year. The City Manager therefore proposed a one-year budget covering the period of July 1, 2022, through June 30, 2023 (FY2022/23) which was approved on June 16, 2022. The City Manager is proposing another one-year budget covering the period of July 1, 2023 through June 30, 2024 (FY2023/24) with the intention of returning to a biennial budget schedule starting the subsequent fiscal year.

Discussion

The City’s budget document contains revenues, appropriations, and other financial information pertaining to all City operating budgets. The Capital Improvement Plan is not included, as it is usually reviewed during the off-years of the biennial budget cycle and will therefore be revisited at a later period. The City’s budget goal is to achieve a balanced budget with revenues, including reimbursements or transfer from other funds for services provided, equal to or greater than expenditures. At times, the City can plan for revenues to be less than expenses, and therefore the budget is balanced by using its available resources or Fund Balance.

Budgetary control is maintained at the Department/Program level. The City Manager may approve transfer of appropriation from one program, activity, or line item within or across departments. Total appropriation within a fund may be increased by the City Manager up to \$200,000. Anything exceeding this threshold can only be increased with Council approval. Departments monitor and control budgets using the City’s financial system, through reports of revenue and expenditure accounts. The financial system monitors expenditures down to the line-item level. The Council is provided with a mid-year financial status report that reflects year-to-date expenditures and revenues compared to budget.

The presentation tonight will focus on the General Fund which supports the City’s main operations, funded by a variety of taxes, program fees and service charges. Information will also be presented for two proprietary funds (business-type activities) that are funded primarily through user charges -- the Utility Fund and the Marina Fund.

General Fund Revenues:

For FY2023/24, staff is projecting that revenues will increase from the current year by approximately \$451,000 from current year’s expected results.

The City expects Property Taxes, Sales Taxes and Transient Occupancy Tax (TOT) to grow over the current year. Sierra Point construction continues to positively impact our property taxes which remain strong overall. Sales Taxes are expected to continue to increase from current year, and FY2023/24 will usher in a full year of the newly enacted Transaction and Use Sales Tax. Although we are projecting an increase in Transient Occupancy Tax (TOT) by \$90,000 to \$1.9 million, this revenue source is still projected to be well below our pre-COVID-19 average of \$3 million as the hotel sector has not fully recovered. Business License revenue had several catch-up payments in FY2023, so we are expecting a drop, but FY2023/24 will also provide a full year of the new business license tax on hotels, raising our Business License revenue to \$5,283,000. Offsetting these increases are an expected decrease in program service fees of approximately \$1,163,000 as FY2023/24 most likely will lead to a reduction in building and permitting fees, and our expected decrease in Other Revenues by approximately \$385,000.

Major Revenue Source	Actual FY2020/21 mid COVID19	Actual FY2021/22 Recovery	Projected FY2022/23 Recovery	Projected FY2023/24
Property Tax	\$5,513,000	\$5,242,000	\$5,562,000	\$5,6001,000
Sales Tax	\$7,652,000	\$5,792,000	\$6,366,000	\$7,942,000
TOT	\$850,000	\$1,653,000	\$1,812,000	\$1,902,000
Business License	\$4,582,000	\$4,348,000	\$5,698,000	\$5,283,000

General Fund Expenses:

Considering the revenues are growing slightly, staff is making the following recommendations regarding expenses:

- Continue to provide necessary services for FY2023/24
- Normal operations resumed in FY2021/22 and therefore open positions should continue to be actively filled. Include position levels that make room for career path advancements within certain departments to minimize turnover
- Proceed with the City Hall expansion project and tenant improvements at the leased property located at 25 Park Place
- Proceed with the Building Permitting system approved in prior year as part of the organization-wide technology project
- Delay funding pension reserves until year-end results are known, except for savings as a result of paying the required Unfunded Liability amount as charged by CalPERS in lump sum instead of monthly payments

With these considerations, overall Expenses from the General Fund are expected to total \$28,599,000. Therefore, staff recommends the use of available resources as required to meet the established programs and initiatives.

Fund Balance:

The net use of Fund Balance for FY2023/24 is therefore anticipated to be \$1,904,000 (difference between revenues and expenditures). As part of the Mid-Year Budget Review, staff identified the ending fund balance for FY2022/23 is expected to be \$15,871,000, where a portion is restricted for existing debt, contract commitments, and encumbrances, leaving an unrestricted and available amount of \$880,000 which we recommend be used in FY2023/24.

Over the past decade the City has built up its reserves to be able to continue to provide necessary services during times of economic stress. The City Council has looked at a three-pronged reserve policy:

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The City’s reserve policy has resulted in a healthy fund balance and the City fared well through the COVID-19 event, increase in fuel costs, supply-chain shortages, and recent volatile markets. However, building activity within the City continues to grow and programs have not slowed down. Although historically the City has earned more than projected and spent less than budgeted, Staff recommends tapping into the Recession Reserve to meet the objectives outlined above if necessary.

Based on the recent actual results and budgeted projects, staff anticipates the available reserves as shown below if these reserves are used:

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Annual Reserve	\$2,504,000	\$2,438,000	\$2,591,000	\$2,765,000

The above projections are based on conservative estimates due to uncertainties in the local, national and global economy and markets.

Other Considerations and Budget Threats:

As the City continues to fully financially recover from local economy slowdowns, there are some long-term financial implications to consider:

- The City Manager announced his retirement for late 2023. There are recruitment costs incorporated in the budget, but delays in hire may add unforeseen transitional costs.
- The City completed labor negotiations with all bargaining groups in late December. To encourage retention and attract quality candidates for open positions, the contract was extended to a fourth year and included new incentives which are reflected in the proposed budget.
- The tenant improvements to the property located at 25 Park Place will commence in 2023 and are expected to be completed in mid-2024. Funding is being sought to cover the costs that are expected to be as high as \$5,000,000.
- PERS rates – in July 2021, CalPERS announced their investment return for FY2020-21 was 21.3% which triggered a reduction in their discount rate from 7% to 6.8%. In November 2021, the CalPERS Board voted to maintain the 6.8% discount rate target for its investment portfolio. This discount rate is the long-term interest rate used to fund future pension benefits. The less earned by the CalPERS investment portfolio, the more the City must cover to fund the pension liability, also known as the unfunded liability.

- Pension Trust Fund Reserves – Staff recommends resuming funding this in FY2023/24. The goal was to reach \$5M which would cover two years’ worth of our unfunded liability payment. With the anticipated growth in our Unfunded Liability payment, staff will recommend this Trust Fund grow accordingly as well. At a minimum any savings from a prepayment of the annual cost versus monthly payments should be considered for transfer to the Pension Trust. Resuming annual funding would be at \$500,000 for the next ten years.
- Healthcare, Liability Insurance and Workers’ Compensation costs have been rising in recent years. Any additional increases will need to immediately be implemented.
- The two new taxes will be implemented for a full year in FY2023/24 but it is too soon to tell if the initial projections will be on target. The proposed budget includes the original projections of \$2 million for Transaction and Use Sales Tax and \$250,000 for the Hotel Business License Tax.

Any one or combination of these items will continue to have impacts on our ability to begin new programs going forward and add stress to our bottom line.

Financial stability remains a high priority for the City of Brisbane. Staff looks forward to working with the Council and the community to address the financial challenges that lay ahead. Staff will continue to seek ways to as efficient as possible in providing services to the community. The City will continue to consider appropriate economic development and tax revenue generation projects that are viable for our City.

Fiscal Impact

There are no fiscal implications to receive this report. Recommendations related to the FY2023/24 Budget will be presented at a future City Council meeting.

Measure of Success

Council will accept proposed budget for additional review and consider for approval at future meeting.

Attachments

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Attachment 2 Proposed Department Expenses



Carolina Yuen, Finance Director



Clay Holstine, City Manager