

Capitola City Council

Agenda Report



Meeting: February 22, 2024
From: Finance Department
Subject: FY 2023-24 Mid-Year Budget Report

Recommended Action: Receive the Fiscal Year 2023-24 Mid-Year Budget Report and adopt a resolution amending the Fiscal Year 2023-24 Budget.

Background: The Fiscal Year (FY) 2023-24 Mid-Year Budget Report provides an update on the City's financial status as of December 31, 2023, and recommends budget adjustments for FY 2023-24 that reflect current projections. The City's major revenue sources are currently tracking slightly below budget projections while General Fund expenditures are slightly ahead of projections but are expected to end the year at or below budget.

The City ended FY 2022-23 slightly ahead of budget estimates returning an additional \$46,000 to the General Fund balance. The estimated June 30, 2024, General Fund Balance consists of:

FY 2022-23 City Council Goals	\$400,000
Employee Down Payment Assistance Program	\$100,000
Future Capital Improvement Projects	\$954,000
Operating Contingency Balance	\$546,000
Total Balance	\$2,000,000

Discussion: General Fund revenues are performing below expectations, primarily due to sales tax. All other General Fund revenues are performing as expected but are showing signs of leveling off following the growth experienced over the last few years. Expenditures are tracking consistent with the FY 2023-24 Amended Budget.

Staff has reviewed the data for the first half of the fiscal year's General Fund activities and is recommending budget amendments to revenues as well as expenditures.

Revenues

The FY 2023-24 adopted budget included approximately \$8.6 million of sales tax revenue which is consistent with receipts in the prior fiscal year. At the mid-point of this fiscal year sales tax receipts are below the prior year by \$312,000 (6.8%). Assuming a similar level of economic activity as the prior year for the remainder of this fiscal year, sales tax estimates should be reduced by \$300,000.

Property tax revenues are slightly above budget estimates while TOT is slightly below budget estimates. Licenses and permits, intergovernmental revenues, and service charges are all performing as anticipated, while fines and forfeitures are down \$130,000 (37%) primarily due to decreased parking citation revenue. Staff anticipates that all of these revenues will end the year close to budget projections.

Expenditures

City departments have consistently maintained expenditures within the adopted budget. Through December the General Fund has expended 59% of the budget while being 50% through the year. The primary reason is that the City prepaid the annual \$2.1 million Unfunded Actuarial Pension Liability (UAL) in July 2023 as opposed to making monthly payments, resulting in a savings of approximately \$75,000. This results in personnel costs showing higher as a percentage of the budget as we amortize the payment over the course of the year.

Budget Amendments

Staff is requesting budget amendments in the General Fund due to several unanticipated events as well as unanticipated cost increases. Staff suggests a sales tax revenue reduction of \$300,000 as well as expenditure increases totaling \$130,000.

Expenditure increases are due to additional storage needs for the Museum, additional usage of part-time employees in Police for traffic calming on Bay Avenue, Police Department overtime related to the fatal hit and run investigation, murder investigation, and emergency response during the December storm event, correction of an error in charges for the Police Department T-1-line, additional Police Officer training, repair of parking pay stations damaged during the December storm, additional funding for tree maintenance on Park Avenue, and increased costs related to fleet management as listed below.

Revenue	
Amount	Description
\$ (300,000)	Reduction of Sales Tax Revenue
Expenditures	
\$ 75,000	Personnel – Hit & Run and Murder Investigations, Dec. storm response
\$ 6,000	Training – Catching up following pandemic
\$ 28,000	Administrative budget amendments for supplies
\$ 21,000	Billing error/correction
\$ 130,000	Total

Additionally, staff is requesting budget amendments in Special Revenue Funds for Housing Element updates and legal fees, CDBG grant application expenses, HOME application for rehabilitation of the Dakota Apartments, and replacement pumps for the Lawn Way Pump Station as listed below:

Expenditures	
Amount	Description
\$ 80,000	Emergency Reserve - Storm Damage – possible FEMA/Cal OES reimbursement if emergency declared
\$ 25,000	General Plan Update Fund – Housing Element Implementation

\$ 50,000	General Plan Update Fund – Legal fees – Housing Element
\$ 7,500	CDBG Fund – Grant application
\$ 10,000	HOME Reuse Fund – Dakota Apartments Rehab Project
\$ 30,000	Equipment ISF – Lawn Way Pump Station equipment replacement
\$ 202,500	Total

Fiscal Impact: If approved, the requested budget amendment would reduce the June 30, 2024, estimated General Fund balance to approximately \$1.6 million, a reduction of \$430,000 from previous estimates.

The impact on the Special Revenue Funds would be a reduction of the estimated fund balance within each of the listed funds.

Attachments:

1. Resolution
2. Budget Amendment

Report Prepared By: Jim Malberg, Finance Director

Reviewed By: Julia Gautho, City Clerk; Samantha Zutler, City Attorney

Approved By: Jamie Goldstein, City Manager