

Capitola City Council

Agenda Report



Meeting: March 1, 2023

From: Finance Department

Subject: FY 2022-23 Mid-Year Budget Report

Recommended Action: Adopt the proposed resolution amending the Fiscal Year 2022-23 Budget.

Background: The Fiscal Year (FY) 2022-23 mid-year budget report provides an update on the City's financial status as of December 31, 2022, and recommends budget adjustments for FY 2022-23 that better reflect current projections. The City's major revenue sources continue to perform well and are currently tracking on budget. General Fund expenditures are also expected to end the year at, or below, budget.

The FY 2021-22 adopted budget returned revenues close to pre-pandemic levels, however, sales tax and transient occupancy tax (TOT) continued to outpace projections throughout the fiscal year. Additionally, the City received a settlement payment related to the utilities on the Capitola Library project and returned \$750,000 to the general fund in June 2022. This has resulted in an additional \$1 million of available one-time funding within the general fund.

Discussion: General fund revenues have performed as expected. Sales tax and TOT continue to perform well but are showing signs of leveling off following the growth experienced over the last two years. Expenditures are tracking consistent with the FY 2022-23 Amended Budget.

Staff originally projected a general fund balance of approximately \$4.4 million for June 30, 2022, with \$385,000 set aside as a resiliency account. The City Council programmed \$3.7 million in FY 2022-23 towards priorities and goals while maintaining a target balance of \$1.7 million on June 30, 2023. Due to better than anticipated revenue receipts during the fourth quarter of FY 2021-22 and the return of \$750,000 to the general fund from the Library project, we ended the fiscal year with a general fund balance of \$5.4 million, which included the \$385,000 resiliency account. The projected general fund balance on June 30, 2023, is now \$2.7 million. In addition, Capitola was awarded a \$3.5 million federal grant for the Wharf Rehabilitation Project, essentially freeing up approximately \$2.75 million for other priorities. Together, the projected fund balance and wharf funding combine to approximately \$5.5 million.

Staff has reviewed the data for the first half of the fiscal year's general fund activities and is not recommending any amendments to on-going revenues or expenditures. However, staff is recommending several one-time budget amendments to the general fund including a couple of administrative clean-up items.

Revenues

Sales Tax:

The FY 2022-23 adopted budget included approximately \$8.7 million of sales tax revenue which is about 2.5% above receipts in the prior fiscal year. At the mid-point of this fiscal year sales tax receipts exceed last year's receipts by \$102,000 or 2.29%. Assuming a similar level of economic activity for the remainder of the fiscal year, sales tax receipts should be close to budget projections.

Transient Occupancy Tax (TOT):

The FY 2022-23 adopted budget included \$2.1 million of TOT revenue which is consistent with TOT receipts in the prior fiscal year. At the mid-point of this fiscal year, the City has received approximately \$1.4 million of TOT revenue which is slightly above the prior year. TOT revenues in the Village are about \$140,000 above the prior year due to an increase in the number of submitters, while TOT revenues in the rest of the City are down about \$130,000.

Expenditures

City departments have consistently maintained expenditures within the adopted budget. Through December, the General Fund has expended 55% of the budget while being 50% through the year. The reason is that the City prepaid the annual \$2.2 million Unfunded Actuarial Pension Liability (UAL) in July 2022 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 budget as we amortize the payment over the course of the year.

One-Time Expenditures:

As previously mentioned, during the adoption of the FY 2022-23 budget City Council set a general fund balance target of \$1.7 million on June 30, 2023. Since adoption of the budget, actual revenues received in addition to the \$750,000 from the Library project has increased the estimated June 30th balance to \$2.7 million. In addition, the City's receipt of the \$3.5 million Wharf Rehabilitation grant increases available resources to approximately \$5.5 million.

Staff is requesting several one-time budget amendments, including a couple of administrative clean-up items. Staff requests totaling \$232,000, as detailed on Attachment 2, include additional consulting services in Community Development and Public Works, additional training for City Manager Department staff, increased budget for ergonomic equipment, the Prospect Path storm damage repair, and ratification of the Lifeguard Services payment to the City of Santa Cruz. This would provide approximately \$5.3 million of one-time funding available to be programmed to Council goals and priorities in FY 2023-24.

Fiscal Impact: If approved, the requested budget amendment utilizes approximately \$232,000 of the \$5.5 million of one-time general fund balance.

Attachments:

1. Attachment 1: Resolution
2. Attachment 2: Budget Amendment

Report Prepared By: Report Prepared By: Jim Malberg, Finance Director

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Approved By: Jamie Goldstein, City Manager