

Folsom City Council Staff Report

MEETING DATE:	12/13/2022
AGENDA SECTION:	Scheduled Presentations
SUBJECT:	City Manager's Financial Update for the First Quarter of Fiscal Year 2022-23
FROM:	Finance Department

RECOMMENDATION / CITY COUNCIL ACTION

It is recommended that the City Council receive and file the City Manager's Financial Update for the First Quarter of Fiscal Year 2022-23.

BACKGROUND / ISSUE

Section 5.05R of the Charter of the City of Folsom requires the City Manager submit to the City Council a financial and management report showing the relationship between budgeted and actual revenues and expenditures and encumbrances on a quarterly basis.

This Financial Update is an analysis of the unaudited financial status of the City's major funds for the first quarter of Fiscal Year (FY) 2022-23, covering the three-month period from July 2022 through September 2022. This report is a narrowed version compared to other quarterly reporting periods due to the lack of data early in the fiscal year. This report was prepared with an emphasis on analysis of projected revenues and expenditures, focusing on the available data.

POLICY / RULE

Section 5.05R of the Charter of the City of Folsom requires the City Manager submit to the City Council a financial and management report showing the relationship between budgeted and actual revenues, and expenditures and encumbrances on a quarterly basis.

Section 3.02.050 (b) of the Folsom Municipal Code states "... within 30 days after the end of each quarter during the fiscal year, and more often if required by the City Council, the City Manager shall submit to the City Council a financial and management report."

ANALYSIS

Unemployment Rates

Unemployment as of September 2022 was 3.7% and 3.6% in California and Sacramento County, respectively, and in Folsom the unemployment rate was 2.4%. The table below shows the unemployment rate over the last three years to illustrate the effects of the pandemic on employment and the ongoing recovery.

Unemployment Rate			
September of each year	2022	2021	2020
California	3.7	6.4	10.7
Sacramento County	3.6	6.1	9.6
Folsom	2.4	3.9	6.1

General Fund Revenues

For FY 2022-23, total General Fund revenues are projected to be \$103.5 million, an increase over budget of \$643,000. The increase is mostly in sales tax and charges for services.

Sales tax revenue for Fiscal Year 2022-23 is projected to end the fiscal year at \$28.38 million, an increase of \$482,000 over budget. In comparison to FY 2021-22, sales tax revenue is projected to increase approximately 1.73% over the FY 2021-22 amount of \$27.90 million.

Through the first quarter, Charges for Services totaled \$3.04 million and the projection for the end of FY 2022-23 is \$11.87 million. The \$11.87 million is an increase from the budgeted amount of \$11.74 million and a decrease of \$3.97 million from FY 2022-23. The increase over the budgeted amount is mostly due to an anticipated increase in Parks and Recreation charges of \$133,000. The decrease in Charges for Services when compared to the prior fiscal year is mostly in development charges of approximately \$1.40 million, Public Works charges of approximately \$738,000, Fire Department charges of approximately \$744,000 and other charges of approximately \$209,000. The reduction in development fees is reflective of slowing development activity compared to prior years. The reduction in Public Works charges is reflective of the decrease in the projected cost recovery for non-project expenditures. The reduction in the Fire Department is a reduction of the reimbursement from California Office of Emergency Services for wildfire strike teams.

Property tax is not received in the first quarter; however, the year-end projection is estimated to be at the budgeted \$36.05 million, an increase of \$2.83 million or 8.50% over the \$33.23 million received in FY 2021-22. A comparison of home sales during the first quarter of FY 2022-23 and FY 2021-22 shows the number of homes sold decreased by 48 or 19.51%. The

average median sales price through the first quarter of FY 2022-23 was \$755,000, an increase of 5.38% over the first quarter of FY 2021-22.

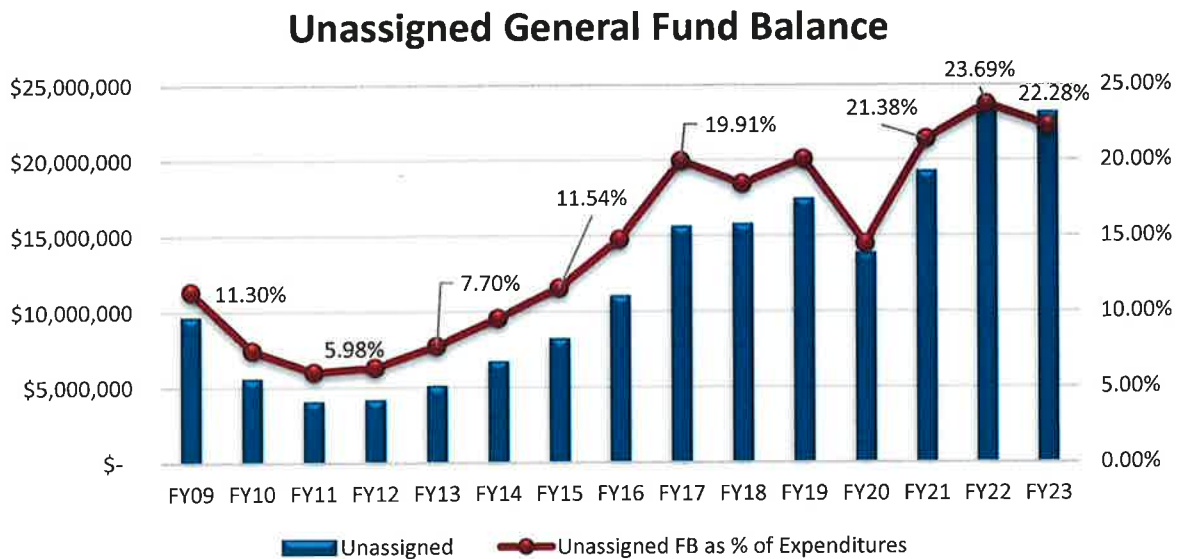
General Fund Expenditures

Total FY 2022-23 expenditures are projected to be \$103.65 million, an increase of \$809,000, or 0.79%, over the budgeted amount of \$102.84 million. The projection includes an increase in salaries and benefits of \$930,000 for the Fire Department, due to changes in the Memorandum of Understanding (MOU) between the City and Firefighters Local 522 adopted at the September 27, 2022, City Council meeting. The projection also includes Fire Department overtime costs coming in \$1.6 million over budget. These increases are partially offset by savings due to vacant positions in both the Fire and Police Departments.

It is also projected that expenses will exceed the budget in the Community Development Department by about \$448,500 mainly due to plan check and building inspection support.

General Fund Unassigned Fund Balance

For FY 2022-23, total expenditures are projected to exceed revenues by \$165,000 and the General Fund is projected to end the year with an unassigned fund balance of \$23.1 million. As a comparison, the unassigned fund balance in FY 2020-21 was \$19.20 million (audited) and the final FY 2021-22 amount is estimated to be \$23.3 million (unaudited and currently incomplete). The unrestricted fund balance as a percentage of expenditures is projected at 22.28% for FY 2022-23 and an unaudited estimate of 23.69% for FY 2021-22, an increase from the FY 2020-21 amount of 21.38%. A chart displaying the past and projected unassigned fund balance is below:



Enterprise Operating Funds

The Solid Waste, Water and Wastewater Utility Operating Funds are all projected to end the fiscal year with operating revenues exceeding operating expenses. Net assets in all three funds are projected to decrease after capital expenses are included. In the case of Water and Wastewater, the capital expenses are for capital projects and in Solid Waste it is the purchase of replacement vehicles.

A comparison of the current fiscal year-end projection to FY 2022-23 budgeted revenues and expenses shows charges for service revenues in Water are currently projected to increase by \$100,000 (0.53%) and operating expenses are projected to decrease by \$350,000 (2.89%). Decreases in expenses are mainly due to salaries and benefit savings related to position vacancies for part of the year.

Wastewater Operating charges for services revenues are projected to remain unchanged compared to the budget and operating expenses are projected to increase by \$180,000 (3.35%).

Solid Waste Operating charges for services revenues are projected to increase by \$500,000 (2.43%) and operating expenses are projected to increase by \$155,000 (0.94%).

Expenses for capital outlay are currently projected to increase across all three proprietary funds compared to FY 2021-22 due to budgeted project and vehicle replacement costs.

Internal Service Fund

The Compensated Leaves Fund ended Fiscal Year 2021-22 with a negative unrestricted fund balance of \$11,548. The current projection is for the unrestricted fund balance to recover only slightly during Fiscal Year 2022-23.

Submitted,



Elaine Andersen
City Manager



Stacey Tamagni
Finance Director/CFO