



## City of Grass Valley City Council Agenda Action Sheet

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**Title:** FY 2021-22 Mid-Year Budget Review

**Recommendation:** It is recommended that the City Council, by MOTION, approve the Mid-Year Budget Review and recommended revisions.

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**Prepared by:** Andy Heath

**Council Meeting Date:** 03/08/2022

**Date Prepared:** 02/28/2022

**Agenda:** Administrative

**Discussion:**

The Mid-Year Budget Review is designed to provide a tool for understanding the City's financial condition during the first part of the fiscal year, projecting the financial condition through the end of the fiscal year, and revising the budget to bring the adopted budget in line with expectations based on previously approved budget amendments and current economic conditions.

This year's Mid-Year Budget Review focuses on management's assessment of overall funding impacts likely to result as the economy continues to recover from the COVID-19 Pandemic. Over the course of the last year, management has found that the magnitude of the COVID-related economic impact has waned significantly; and that economic activity has improved to FY 2019-20 (pre-COVID) levels or better. As the recovery continues to take shape, City staff remains actively engaged in the monitoring of all sectors of economic activity and resulting long-term impacts on consumer behavior.

This memorandum provides a snapshot of aggregated Mid-Year adjustments recommended for the balance of FY 2021-22. This memorandum also presents a five-year forecast for the City's General Fund given an array of assumptions as the City recovers from the COVID-19 Pandemic. The information noted below will form the foundation for a PowerPoint presentation to be provided at the City Council Meeting.

**General Fund**

Comparison of current Budget-to-Actual performance:

	<b>Revenues</b>	<b>Expenditures</b>
FY 2021-22 Adopted Budget	\$ 14,545,388	\$ 14,523,885
Estimated Amounts @ 6/30/22	\$ 16,019,904	\$ 15,515,871
Recommended Adjustment	\$ 1,474,516	\$ 991,986

As indicated above, it is anticipated that the City will need to adjust originally budgeted General Fund revenues upward by \$1,474,516 and General Fund expenditures upward by \$991,986. The information presented below, which will be discussed in a presentation to the City Council on this item, includes detailed information regarding the recommended adjustments:

In summary, the proposed net increase of \$1,474,516 to General Fund revenues is comprised of the following:

<b>Revenue Type</b>	<b>Amount</b>	<b>Reason / Rationale</b>
Property Taxes	\$9,700	- Increase in property taxes due to higher-than anticipated growth in FY 2021-22 assessed valuation / supplemental collections
Property Tax in Lieu of MVLF	\$14,985	- True-up of FY 2021-22 anticipated revenues consistent with growth in assessed valuation
Sales Taxes	\$750,000	- Conservative increase in sales taxes due as recovery from COVID Pandemic unfolds - Continued increased distribution from County Pool (Wayfair Decision)
Transient Occupancy Taxes	\$125,000	- Increase in Transient Occupancy Taxes based on collections to date / anticipated continuation of recovery from COVID Pandemic
Real Estate Transfer Taxes	\$25,000	- Increased collections of Real Estate Transfer Taxes based on higher home sales volume in City
Property Tax - HOPTR	\$23,000	- Addition of previously unbudgeted distribution of Homeowner Exemption Tax from State
Franchise - Solid Waste	\$10,000	- Increased collections of Franchise Fees related to solid waste based on increased garbage rates citywide
Franchise - Cable TV	\$55,000	- Addition of PEG Fee portion of Franchise Fee - will be noted as a reserve to the extent unspent

Revenue Type, cont.	Amount	Reason / Rationale
Planning Department Fees / Permits	\$65,000	- Increased activity - one-time collections of Cannabis Permits
Fire Department Fees / Permits / Reimbursements	(\$10,000)	- Slight decrease in Fire Permit activity based on activity to date
Fire Department Assessments	\$5,000	- Increased collections of Fire Assessment based on amounts filed with County / collections to date
Parks Department Fees	\$7,000	- Increase in field facility rentals based on activity to date (Lacrosse)
Interest Earnings	(\$27,500)	- Adjustment to interest earnings based on actuals reported for prior fiscal year
COPS Grant - AB3229	\$232,495	- Increase in COPS Grant to account for four years of growth previously not distributed by County
SB-2 / LEAP Planning Grants	\$167,942	- Increased grant reimbursements based on amount of grant remaining (Southern Sphere Project)
POST Reimbursements	\$7,644	- Collections of POST (Police Officer Standards Training) reimbursements for applicable training
Other Revenues	\$12,750	- Increased collections from insurance reimbursements; room rentals
All Other Revenue Sources	\$1,500	- Net increase in all other revenue sources

A proposed net increase of \$991,986 to General Fund expenditure appropriations is comprised of the following:

Appropriation	Amount	Reason / Rationale
City Manager	\$10,452	- Increase in Personnel Services budget due to addition of previously unbudgeted salary increases
Finance (Administrative Services)	\$4,942	- Increase in Personnel Services budget due to addition of previously unbudgeted salary increases
Information Services	\$45,000	- Increase in appropriation to account for updated IT Service contract; offsetting credit for transfer of costs to Enterprise Funds

Appropriations, cont.	Amount	Reason / Rationale
Police	\$230,529	<ul style="list-style-type: none"> <li>- Increase in Personnel Services to account for previously unbudgeted salary increases effective July 1, 2021</li> <li>- Increased costs related to approved reclassification of certain positions to Public Services Analyst</li> <li>- Higher fuels costs related to increase in prices</li> </ul>
Police - Animal Control	\$28,584	<ul style="list-style-type: none"> <li>- Reclassification of Part-time Animal Control Officer position to Full-time</li> <li>- Increased costs related to painting of the Animal Control building</li> </ul>
Fire	\$375,894	<ul style="list-style-type: none"> <li>- Increase in Personnel Services to account for approved addition of 2.0 FTE Battalion Chiefs</li> <li>- Increase in Personnel Services to account for previously unbudgeted salary increases</li> <li>- Higher overtime costs related to coverage for COVID and workers compensation issues</li> <li>- Increase in vehicle maintenance and fuel costs for Fire apparatus</li> </ul>
Planning	\$51,213	<ul style="list-style-type: none"> <li>- Increase in Personnel Services to account for previously unbudgeted salary increases</li> <li>- Addition of unspent SB-2 / LEAP Grant proceeds related to Southern Sphere Project</li> </ul>
Building	(\$46,862)	<ul style="list-style-type: none"> <li>- Salary savings of not having Building Official offset by increased contractual costs related to building inspection consultants (approved by Council)</li> </ul>
Engineering	\$67,439	<ul style="list-style-type: none"> <li>- Funding provided for a previously frozen Engineer position vacancy</li> </ul>
Fleet Services	(\$8,551)	<ul style="list-style-type: none"> <li>- Decrease in Personnel Services budget to account for vacancy savings incurred to date (vacant Mechanic position); offset by the recommended reclassification of vacant Mechanic position to Fleet Supervisor <b>(requires Council approval)</b></li> </ul>
Streets	\$27,104	<ul style="list-style-type: none"> <li>- Increase in Personnel Services budget to account for updated salary allocations</li> </ul>
Parks Maintenance	\$59,209	<ul style="list-style-type: none"> <li>- Increase in Personnel Services to account for previously unbudgeted salary increases</li> <li>- Increase in equipment costs related to approved purchase of a new truck</li> </ul>

Appropriations, cont.	Amount	Reason / Rationale
Non-Departmental	\$107,847	- Increase in Non-Departmental to account for higher allocation of CalPERS UAL costs - Increase in Liability Insurance costs allocated to General Fund
Debt Service	\$35,463	- Addition of debt service related to approved lease for new Backhoe
All Other Appropriations	\$3,723	- Residual increase in all other General Fund appropriations

At the end of the current fiscal year, General Fund reserves (designated and undesignated) are anticipated to be approximately \$9.80 million. It is anticipated that the General Fund will experience a surplus of approximately \$504,033 for FY 2021-22.

Projected reserve levels as of June 30, 2022 include:

- **\$ 6,089,901** *Designated Reserves (See General Fund Schedule for list)*
- **3,708,778** *Undesignated Reserves*
- **\$ 9,798,679** *Total General Fund Reserves*

#### General Fund Forecast

As previously discussed, development of a multi-year forecast for the City's General Fund is highly contingent on the near-term and longer-term impacts related to the continued recovery from the COVID-19 Pandemic on the local, state and national economies. As such, management will continue to frequently monitor economic activity and update the City Council as adjustments are made to forecasts.

The forecast for the General Fund is noted below:

FY 2020-21 to FY 2026-27 General Fund Forecast							
	2020-21 Actual	2021-22 Mid-Year	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Revenues	\$15,553,819	\$16,019,904	\$15,860,795	\$16,003,518	\$16,233,809	\$16,488,057	\$16,746,657
Expenditures	\$13,992,552	\$15,515,872	\$15,295,831	\$15,354,622	\$15,455,837	\$15,549,152	\$15,665,581
Surplus/(Deficit)	\$1,561,267	\$504,032	\$564,935	\$648,896	\$777,971	\$938,905	\$1,081,076
Unassigned Fund Balance	\$3,204,745	\$3,708,777	\$4,273,712	\$4,922,608	\$5,700,580	\$6,639,484	\$7,720,560

For years beginning with FY 2022-23, the forecast uses a "Base Budget" concept where essentially all authorized positions are funded; and all one-time revenues and expenditures are excluded. It should be mentioned that the above forecast does not include any unnegotiated salary increases and does include the full recovery of tax-related revenues impacted by COVID-19 by FY 2022-23.

### **Enterprise Funds**

Comparison of Budget-to-Actual performance for the City's two Enterprise Funds follows:

<b><u>Water Fund</u></b>	<b><u>Revenues</u></b>	<b><u>Expenditures</u></b>
FY 2021-22 Adopted Budget	\$ 2,295,000	\$ 4,117,088
Estimated Amounts @ 6/30/22	\$ 2,295,000	\$ 4,162,340
Recommended Adjustment	\$ -	\$ 45,252

Water Fund revenues are currently projected at levels approved with the Adopted Budget. Water Fund expenditures are recommended to be adjusted upward by \$45,252 primarily to account for increased Personnel Services cost allocations in the Administration and Distribution Divisions. This increase can be primarily attributed to the recommended reclassification of the Fleet Mechanic position to Fleet Supervisor and charging a portion (20%) of the position to the City's Water Fund. Although it is unlikely that all capital projects originally budgeted will be completed by the end of the fiscal year, adjustments to capital appropriations are not recommended at this time given appropriations for unfinished projects will be re-budgeted in the upcoming fiscal year.

It is anticipated that the Water Fund will have approximately \$1.7 million in Fund Balance at the end of FY 2021-22, \$1.2 million of which is reserved for specific purposes. The \$1.7 million ending Fund Balance assumes all capital projects are completed by the end of the fiscal year.

<b><u>Sewer Fund</u></b>	<b><u>Revenues</u></b>	<b><u>Expenditures</u></b>
FY 2021-22 Adopted Budget	\$ 5,095,000	\$ 6,966,298
Estimated Amounts @ 6/30/22	\$ 5,095,000	\$ 6,956,486
Recommended Adjustment	\$ -	(\$ 9,812)

Sewer Fund revenues are currently projected at levels approved with the Adopted Budget. Sewer Fund expenditures are recommended to be adjusted downward by \$9,812 to account for decreased staffing cost allocations to the Plant and Collection Divisions; and adding funding for the recommended reclassification of the Fleet Mechanic position to Fleet Supervisor and charging a portion of the position to the Sewer Fund (20%). Similar to the capital projects budgeted in the Water Fund, it is not anticipated that the Sewer Fund will complete all capital projects budgeted in FY 2021-22. Funding for projects appropriated in the Sewer Fund is not recommended to be adjusted; and any unspent funding at year-end likely being re-budgeted in the upcoming fiscal year.

It is anticipated that the Sewer Fund will have approximately \$5.3 million in Fund Balance on June 30, 2022, \$4.8 million of which is reserved for specific purposes. The \$5.3 million ending Fund Balance assumes all capital projects are completed by the end of the fiscal year.

### **Special Revenue Funds**

#### **Measure E Fund**

The City segregates the accounting (revenue and expenditures) for the City's voter-approved one-cent transaction and use tax in Fund 200 (Measure E Fund) in order to ensure this general purpose tax is used for its intended purpose (police and fire services; and streets and parks projects).

	<b>Revenues</b>	<b>Expenditures</b>
FY 2021-22 Adopted Budget	\$ 6,362,500	\$ 7,757,324
Estimated Amounts @ 6/30/22	\$ 6,812,500	\$ 9,256,711
Recommended Adjustment	\$ 450,000	\$ 1,499,387

Measure E Fund revenues are currently expected to be approximately \$450,000 higher than originally anticipated due to increased collections of Sales Tax revenues consistent with waning impacts of the COVID Crisis on overall sales tax. Measure E Fund expenditures are expected to be approximately \$1,499,387 higher than originally anticipated due to labor cost-of-living adjustments provided and effective July 2021; increases in the allocation of pension obligation bond costs related to Measure E staffing levels; and the addition of a \$1.4 million capital project related to Police Radio Dispatch Infrastructure previously approved by the City Council. All streets and parks capital projects remain fully budgeted in the Measure E Fund - with work currently underway on many of them.

It is anticipated that the Measure E Fund will have approximately \$2.0 million in Fund Balance on June 30, 2022. These funds may be appropriated for any Measure E related purpose in future fiscal years.

<b><u>Gas Tax Fund</u></b>	<b>Revenues</b>	<b>Expenditures</b>
FY 2021-22 Adopted Budget	\$ 822,153	\$ 818,000
Estimated Amounts @ 6/30/22	\$ 863,994	\$ 818,000
Recommended Adjustment	\$ 41,841	\$ -

Gas Tax Fund revenues are projected to come in approximately \$41,841 more than originally budgeted due to higher anticipated collections of gas tax and SB-1 revenues. Gas Tax expenditures are projected to be the same as originally budgeted. Capital amounts budgeted for street maintenance and rehabilitation remain

unchanged and will be carried over into next year if unspent by the end of the fiscal year.

It is anticipated that the Gas Tax Fund will have approximately \$141,000 in Fund Balance on June 30, 2022. These funds are typically used to fund the City's street maintenance and rehabilitation projects; and a transfer to the Traffic Safety Fund for streetlight utility and maintenance costs.

<b><u>Traffic Safety Fund</u></b>	<b>Revenues</b>	<b>Expenditures</b>
FY 2021-22 Adopted Budget	\$ 160,100	\$ 156,000
Estimated Amounts @ 6/30/22	\$ 160,100	\$ 156,000
Recommended Adjustment	\$ -	\$ -

The Traffic Safety Fund typically funds citywide streetlight electricity and maintenance costs. There are no changes anticipated for Traffic Safety Fund revenues or expenditures.

It is anticipated that the Traffic Safety Fund will have approximately \$5,600 in Fund Balance on June 30, 2022.

<b><u>Fire Reserve Fund</u></b>	<b>Revenues</b>	<b>Expenditures</b>
FY 2021-22 Adopted Budget	\$ 1,000	\$ 5,000
Estimated Amounts @ 6/30/22	\$ 96,500	\$ 50,000
Recommended Adjustment	\$ 95,500	\$ 45,000

Fire Reserve Fund revenues are projected to be approximately \$95,500 higher than those originally budgeted based on Fire Strike Team equipment usage and administrative reimbursements for participating in qualifying multiple-agency statewide fire suppression events. These funds may be used for applicable fire equipment replacement costs. Fire Reserve Fund expenditures are recommended to increase by \$45,000 to provide funding for Fire Department needs otherwise paid for from the City's General Fund.

It is anticipated that the Fire Reserve Fund will have approximately \$218,000 in Fund Balance on June 30, 2022. These funds may be appropriated in future fiscal years towards eligible fire equipment replacement costs.



<b><u>Developer Impact Fee Fund</u></b>	<b><u>Revenues</u></b>	<b><u>Expenditures</u></b>
FY 2021-22 Adopted Budget	\$ 40,000	\$ -
Estimated Amounts @ 6/30/22	\$ 120,809	\$ 1,120,000
Recommended Adjustment	\$ 80,809	\$ 1,120,000

Developer Impact Fee Fund revenues are projected to be approximately \$80,809 higher than those originally budgeted based on fee collections to date and anticipated interest earnings through the end of the fiscal year. Developer Impact Fee Fund expenditures are projected to be \$1,120,000 higher due to the re-budgeting of unexpended appropriations during FY 2020-21. These funds are expected to be used towards the Storm Drain Plan, East Main Street Improvement and Matson Creek Phase I projects.

It is anticipated that the Developer Impact Fee Fund will have approximately \$2.6 million in Fund Balance on June 30, 2022. These funds may be appropriated in future fiscal years towards eligible development impact / mitigation projects consistent with collection of fees for specific purposes.

<b><u>Capital Projects Fund</u></b>	<b><u>Revenues</u></b>	<b><u>Expenditures</u></b>
FY 2021-22 Adopted Budget	\$ 8,916,046	\$ 8,916,046
Estimated Amounts @ 6/30/22	\$ 11,989,095	\$ 11,984,536
Recommended Adjustment	\$ 3,073,049	\$ 3,068,490

The Capital Projects Fund accounts for non-enterprise Capital Projects citywide. Capital Projects are typically funded with non-discretionary (grants, fees, etc.) revenue sources and transfers in from other funds. Capital Projects Fund revenues are recommended to increase by \$3,073,049 to account for the transfer from the Developer Impact Fee Fund (previously discussed), reimbursements from Cal OES for storm damage costs and the first half of the federal funding received from the American Rescue Plan Act (ARPA) to be used towards eligible expenditures. Capital Projects Fund expenditures are recommended to increase by \$3,068,490 to account for anticipated expenditures towards the Storm Drain Plan, E. Main Improvements, Matson Creek, Mill Street Pedestrian Plaza and Winter Storm Damage cleanup.

<b><u>Special Projects Fund</u></b>	<b><u>Revenues</u></b>	<b><u>Expenditures</u></b>
FY 2021-22 Adopted Budget	\$ 500	\$ -
Estimated Amounts @ 6/30/22	\$ 153,106	\$ 35,828
Recommended Adjustment	\$ 152,606	\$ 35,828

The Special Projects Fund accounts for certain projects funded by development-related / mitigation funding sources. Special Projects Fund revenues are

recommended to increase by \$152,606 to account for Regional Transportation Mitigation Fee (RTMF) revenues received from NCTC to be used towards applicable future projects. Special Projects Fund expenditures are recommended to increase by \$35,828 to account for approved landscaping costs.

Fund Balance in the Special Projects Fund is estimated to be \$583,000 on June 30, 2022.

### **Other Funds**

Fund Schedules for other funds (some with recommended adjustments) are also included with the Mid-Year Report. The funds include the following:

- Vehicle Replacement Fund
- Animal Shelter Fund
- EPA Site Grant Fund
- E. Daniels Park Fund
- DUI Grant Fund
- Grass Valley Successor Agency Fund

CDBG / HOME Grant(s) and Assessment District Funds do not have any recommended adjustments at this time - although it should be mentioned that any program income made available for the CDBG Business Loan Program and/or the HOME First Time Homebuyer Loan Program is eligible to be used towards the Memorial Park Pool Project and new first time homebuyer loans, respectively.

### **FY 2022-23 Budget Development**

As the City begins the budget process for Fiscal Year 2022-23, it is critical to understand the issues impacting the City's finances in the future. Although the impacts of the COVID-19 Pandemic are expected to wane, rising inflation, investment returns and the continued ability to attract and retain top-notch staff are likely to impact future budgets. As such, staff will regularly monitor financial activity and report back to the City Council and the public over the next few months consistent with the annual budget process typically undertaken by staff and leading up the final adoption of the FY 2022-23 budget in June 2022.

Similar to the process used with the development of the Fiscal Year 2021-22 budget, staff will focus on recommending an annual spending plan that addresses community priorities without compromising the efficacy of existing levels of service.

**Council Goals/Objectives:** The consideration and approval of the budgetary mid-year adjustments executes a portion of the work tasks towards achieving Economic Development and Vitality; and High Performance Government and Quality Service.

**Fiscal Impact:** The Fiscal Year 2021-22 recommended budget modifications balance expenditures with anticipated revenues and carryover monies for noted funds.

**Funds Available:** Yes

**Account #:** All City Funds

**Reviewed by:** City Manager

**Attachments:**

Fund Schedules for:

- Fund 100 - General Fund
- Fund 500 - Water Enterprise Fund
- Fund 510 - Sewer Enterprise Fund
- Fund 200 - Measure E Fund
- Fund 201 - Gas Tax Fund
- Fund 202 - Traffic Safety Fund
- Fund 203 - Fire Reserve Fund
- Fund 206 - Developer Impact Fee Fund
- Fund 300 - Capital Projects Fund
- Fund 310 - Special Projects Fund
- Fund 204 - DUI Grant Fund
- Fund 205 - EPA Site Grant Fund
- Fund 225 - Vehicle Replacement Fund
- Fund 450 - E. Daniels Park Fund
- Fund 451 - Animal Shelter Fund
- Fund 780 - Grass Valley Successor Agency Fund