



## City of Grass Valley City Council Agenda Action Sheet

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**Title:** FY 2022-23 Mid-Year Budget Review

**CEQA:** Not a project

**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:** 03/15/2023

**Date Prepared:** 03/08/2023

**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 waning impacts of the COVID-19 Pandemic while mitigating the potential impacts of economic uncertainty due to higher inflation and resulting higher interest rates. 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 such, given this and future economic uncertainty, 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 2022-23. 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 2022-23 Adopted Budget	\$ 16,079,103	\$ 16,465,511
Estimated Amounts @ 6/30/23	\$ 16,444,611	\$ 17,504,515
Recommended Adjustment	\$ 365,508	\$ 1,039,004

As indicated above, it is anticipated that the City will need to adjust originally budgeted General Fund revenues upward by \$365,508 and General Fund expenditures upward by \$1,039,004. 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 \$365,508 to General Fund revenues is comprised of the following:

<b>Revenue Type</b>	<b>Amount</b>	<b>Reason / Rationale</b>
Property Taxes	\$115,100	- Increase in property taxes due to higher-than anticipated growth in FY 2022-23 assessed valuation / supplemental collections
Property Tax in Lieu of MVLFF	\$23,522	- True-up of FY 2022-23 anticipated revenues consistent with growth in assessed valuation
RPTTF Residual Property Taxes	\$23,800	- Increase in former redevelopment tax increment as property taxes due to winding down of redevelopment affairs
Transient Occupancy Taxes	\$86,500	- Increase in Transient Occupancy Taxes based on prior year and actual collections to date / anticipated continuation of recovery from COVID Pandemic
Building Department Fees / Permits	\$35,000	- Increased collections building permits and fees based on continued high current year activity (development continues)
Fire Department Fees / Permits	(\$35,400)	- Lower Fire Department Fees / Permits based on true-up of expected reimbursement from Nevada County for fire operations
Interest Earnings	\$44,000	- Increased expected interest earnings distribution to the General Fund based on higher interest rates and cash balances
POST Reimbursements	\$15,816	- Addition of POST Reimbursements based on actual receipts from State related to Police Department training (amounts received for training reimbursements)
<b>Revenue Type, cont.</b>	<b>Amount</b>	<b>Reason / Rationale</b>

Expense Reimbursements	\$31,000	- Increased reimbursements related to development activity received to date
All Other Revenue Sources	\$26,170	- Net increase in all other revenue sources

A proposed net increase of \$1,039,004 to General Fund expenditure appropriations is comprised of the following:

Appropriation	Amount	Reason / Rationale
City Manager	\$4,524	- Increase in Election Costs (not previously budgeted) offset by minor amount of salary savings
Finance (Administrative Services)	\$9,623	- Increase in Non-Personnel Services related to undertaking of a compensation survey for labor negotiations
City Attorney	\$115,000	- Increase in legal costs related to unforeseen public-safety related legal actions required
Police	\$227,529	- Increase in Police Personnel Services to account for previously unbudgeted salary increases effective July 1, 2022; coupled with increased retirement payouts and overtime related to police actions
Animal Control	(\$11,213)	- Reduction in Animal Control Personnel Services related to salary savings incurred to date offset by additional cost related to HVAC replacement
Fire	\$114,711	- Increase in Fire Personnel Services to account for additional overtime expected as a result of vacancies during first part of year / costs related to providing minimum coverage
Planning	(\$10,676)	- Decrease in Personnel Services costs related to salary savings experienced to date
Building	\$51,621	- Increase in Personnel Services costs related to filling of Building Official position; and minor increase in outside Building Inspection costs due to high volume of activity
Engineering	\$(53,461)	- Decrease in Engineering Personnel Services costs related to vacancy of Assistant Engineer Position (vacancy savings)
Fleet Services	\$27,487	- Increase in Fleet Services Personnel Services costs related to hiring of additional Fleet Supervisor

Appropriations, cont.	Amount	Reason / Rationale
Public Works - Streets	(\$25,335)	- Decrease in Public Works - Streets Personnel Services costs related to vacant positions (salary savings incurred to date)
Recreation - Swimming Pool	\$23,431	- Increase in Swimming Pool Non-Personnel Services costs related to higher pool supply / contractual services costs for Swimming Pool operations
Recreation - Parks Maintenance	\$60,285	- Increase in Parks Maintenance Personnel Services costs related to reallocation of parks-related positions - Increase in Parks Maintenance Non-Personnel costs related to purchase of a new mower and increased maintenance contract costs
Non-Departmental - CalPERS UAAL Costs	\$129,257	- Increase in amount of FY 2022-23 CalPERS UAAL payment consistent with updated Actuarial Report
Non-Departmental - Workers Compensation / Liability Insurance	\$62,318	- Increase in amount of Workers Compensation and General Liability costs related to updated premium information from City's insurance JPA (CIRA)
Appropriation from Designated Reserves	\$320,000	- Appropriation necessary to provide for the expenditure of reserves previously set aside for the Fuel Station (funded by a PSPS Grant previously received and placed in Fund Balance Reserves)
All Other Appropriations	(\$6,097)	- 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 \$9.04 million. It is anticipated that the General Fund will use approximately \$1,059,904 of both designated and undesignated reserves during FY 2022-23 to deliver priority services and projects to the community.

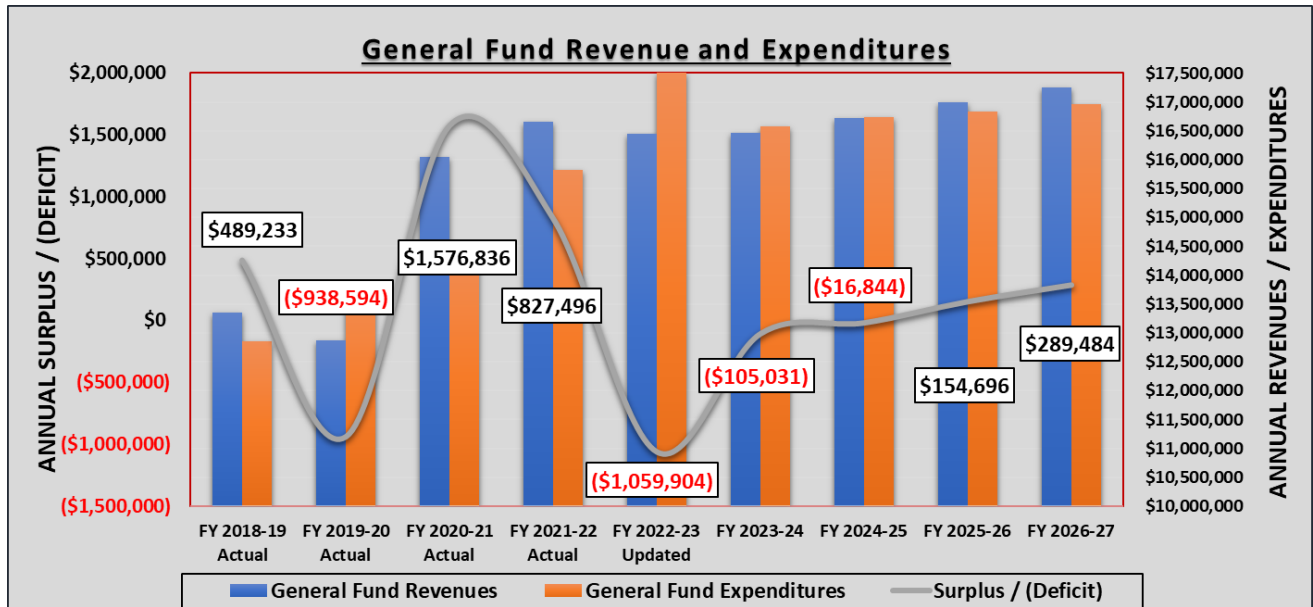
Projected reserve levels as of June 30, 2022 include:

- **\$ 6,180,314** *Designated Reserves (See General Fund Schedule for list)*
- **2,859,910** *Undesignated Reserves*
- **\$ 9,040,224** *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:



For years beginning with FY 2023-24, 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:

<u>Water Fund</u>	<u>Revenues</u>	<u>Expenditures</u>
FY 2022-23 Adopted Budget	\$ 2,300,000	\$ 4,504,768
Estimated Amounts @ 6/30/23	\$ 2,317,319	\$ 4,433,817
Recommended Adjustment	\$ 17,319	(\$ 70,951)

Water Fund revenues are currently projected to be \$17,319 higher than originally budgeted. Increases to Water Fund revenues include recognition of the additional

\$14,319 received in Water Connection Fees; increase in interest earnings by \$10,000 due to higher interest rates; offset by a downward adjustment of \$7,000 for Miscellaneous Revenues. Water Fund expenditures are recommended to be adjusted downward by \$70,951 primarily to account for decreased Personnel Services costs related to vacant positions / salary savings. An additional amount of \$17,928 is also allocated to the Water Fund for the annual CalPERS UAAL amortization. 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 \$1.54 million in Fund Balance at the end of FY 2022-23, \$1.21 million of which is reserved for specific purposes. The \$1.54 million ending Fund Balance assumes all capital projects are completed by the end of the fiscal year.

<b><u>Sewer Fund</u></b>	<b>Revenues</b>	<b>Expenditures</b>
FY 2022-23 Adopted Budget	\$ 5,110,000	\$ 7,478,540
Estimated Amounts @ 6/30/23	\$ 5,481,351	\$ 7,476,281
Recommended Adjustment	\$ 371,351	(\$ 2,259)

Sewer Fund revenues are currently projected to be \$371,351 higher than originally budgeted. Increases to Sewer Fund revenues include recognition of the additional \$356,351 received in Sewer Connection Fees; increase in interest earnings by \$20,000 due to higher interest rates; offset by a downward adjustment of \$5,000 for Miscellaneous Revenues. Sewer Fund expenditures are recommended to be adjusted downward by \$2,259 primarily to account for decreased Personnel Services costs related to vacant positions / salary savings offset by an additional amount of \$27,844 allocated to the Sewer Fund for the annual CalPERS UAAL amortization. Similar to the 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 Sewer Fund will have approximately \$6.35 million in Fund Balance on June 30, 2023, \$3.65 million of which is reserved for specific purposes. The \$6.35 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 2022-23 Adopted Budget	\$ 6,915,000	\$ 11,209,872
Estimated Amounts @ 6/30/23	\$ 6,930,000	\$ 10,537,407
Recommended Adjustment	\$ 15,000	(\$ 672,465)

Measure E Fund revenues are currently expected to be approximately \$15,000 higher than originally anticipated due to higher amounts of interest earnings expected due to higher interest rates. Measure E Fund expenditures are expected to be approximately \$672,465 lower than originally anticipated due to a \$1,015,000 reduction for a capital Fire Apparatus appropriation begin carried over to a future year (payment required when ultimately delivered); offset by a \$263,269 transfer out increase to the Gas Tax Fund for prior year funds erroneously used (Gas Tax Funds over-used in lieu of Measure E towards street-related purposes). All other 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 \$868,000 in Fund Balance on June 30, 2023. 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 2022-23 Adopted Budget	\$ 839,250	\$ 853,000
Estimated Amounts @ 6/30/23	\$ 970,307	\$ 1,153,000
Recommended Adjustment	\$ 131,057	\$ 300,000

Gas Tax Fund revenues are projected to come in approximately \$131,057 more than originally budgeted due to higher transfers in from the Measure E Fund related to the over-transfer of these funds in a prior year; offset by slightly lower anticipated collections of gas tax and SB-1 revenues. Gas Tax expenditures are projected to be approximately \$300,000 higher than originally anticipated to account for actual Street Rehabilitation expenditures incurred to date. It should be mentioned that any capital amounts budgeted for FY 2022-23 that remain unspent by year-end will likely be carried over into the next fiscal year.

It is anticipated that the Gas Tax Fund will have approximately \$219,746 in Fund Balance on June 30, 2023. 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><u>Revenues</u></b>	<b><u>Expenditures</u></b>
FY 2022-23 Adopted Budget	\$ 160,100	\$ 156,000
Estimated Amounts @ 6/30/23	\$ 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 \$4,100 in Fund Balance on June 30, 2023.

<b><u>Fire Reserve Fund</u></b>	<b><u>Revenues</u></b>	<b><u>Expenditures</u></b>
FY 2022-23 Adopted Budget	\$ 1,500	\$ 50,000
Estimated Amounts @ 6/30/23	\$ 52,000	\$ 100,000
Recommended Adjustment	\$ 50,500	\$ 50,000

Fire Reserve Fund revenues are projected to be approximately \$50,500 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. This increase represents the funds already collected to date; with the expectation that there may be additional funds collected by year-end. These funds may be used for applicable fire equipment replacement costs. Fire Reserve Fund expenditures are recommended to increase by \$50,000 for additional training and other fire operations expenditures that would otherwise be borne by the General Fund.

It is anticipated that the Fire Reserve Fund will have approximately \$162,459 in Fund Balance on June 30, 2023. Of this amount, \$15,000 is reserved for future apparatus purchases related to the Nevada City Fire Services operation (the City contracts with Nevada City to provide Fire Service). Other reserves may be appropriated in future fiscal years towards eligible fire equipment replacement costs.



<b><u>Developer Impact Fee Fund</u></b>	<b>Revenues</b>	<b>Expenditures</b>
FY 2022-23 Adopted Budget	\$ 50,000	\$ 2,148,589
Estimated Amounts @ 6/30/23	\$ 283,190	\$ 2,451,232
Recommended Adjustment	\$ 233,190	\$ 302,643

Developer Impact Fee Fund revenues are projected to be approximately \$233,190 higher than those originally budgeted based on fee collections to date and increased interest earnings anticipated through the end of the fiscal year. Developer Impact Fee Fund expenditures are projected to be \$302,643 higher due to account for a property purchase using Parks Impact Fees approved by the City Council during FY 2022-23; offset by minor adjustments to certain budgeted projects to account for lower fee availability (Mill Street Parking Lot / Matson Creek Phase I) and higher allocations of funding used towards expenditures for the Mill Street Pedestrian Mall.

It is anticipated that the Developer Impact Fee Fund will have approximately \$1.17 million in Fund Balance on June 30, 2023. 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>Revenues</b>	<b>Expenditures</b>
FY 2022-23 Adopted Budget	\$ 17,018,684	\$ 18,790,635
Estimated Amounts @ 6/30/23	\$ 19,850,708	\$ 19,407,171
Recommended Adjustment	\$ 2,832,024	\$ 616,536

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 \$2,832,024 to account for increased transfers from other funds to cover project costs, reimbursements from Cal OES for storm damage costs from January 2022, a direct allocation of \$400,000 from the General Fund to pay for a portion of the Mill Street Pedestrian Plaza (these funds were budgeted, but inadvertently left out of the schedule); offset by a reduction in CARES Act ARPA Funding which is actually tracked and accounted for in the Special Projects Fund (Fund 310).

Capital Projects Fund expenditures are recommended to increase by \$616,536 to account for anticipated expenditures towards the Street Rehabilitation Project (see Gas Tax Fund) and re-budgeted carryover costs incurred towards the CDBG Memorial Park Pool Project (these costs are covered by a CDBG Grant and CDBG Program Income).

<b><u>Special Projects Fund</u></b>	<b>Revenues</b>	<b>Expenditures</b>
FY 2022-23 Adopted Budget	\$ 5,000	\$ 6,000,000
Estimated Amounts @ 6/30/23	\$ 3,483,549	\$ 8,510,329
Recommended Adjustment	\$ 3,478,549	\$ 2,510,329

The Special Projects Fund accounts for certain projects funded by development-related and special funding sources. Special Projects Fund revenues are recommended to increase by \$3,478,549 to account for the second tranche of the CARES Act (ARPA) funding being used towards the Mill Street Pedestrian Plaza and a \$1.95 million payment from the State of California related to a relinquishment of roadway to the City of Grass Valley (the City must now pay for future costs associated with this road).

Special Projects Fund expenditures are recommended to increase by \$2,510,329 to account for a re-budget the remaining ARPA funding to be used towards the Mill Street Pedestrian Plaza Project.

Fund Balance in the Special Projects Fund is projected to be approximately \$2.99 million on June 30, 2023.

### **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

The Successor Agency Fund and the CDBG / HOME Grant(s) and Assessment District Funds do not have any recommended adjustments at this time. 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 2023-24 Budget Development**

As the City begins the budget process for Fiscal Year 2023-24, 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 be completely mitigated, rising inflation, CalPERS investment return volatility, citywide insurance costs 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 to the Preliminary FY

2023-24 to be considered by the City Council in May 2023 and ultimately the final adoption of the FY 2023-24 budget in June 2022.

Similar to the process used with the development of the Fiscal Year 2022-23 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 2022-23 recommended budget modifications balance expenditures with anticipated revenues and carryover monies for noted funds.

**Funds Available:** Yes

**Account #:** All City Funds

**CEQA:** Not a Project subject to CEQA requirements.

**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