MEMORANDUM

TO: VICTOR CARDENAS, INTERIM CITY MANAGER

FROM: CARL JOHNSON, JR. CFO

SUBJECT: FINANCIAL REPORT AS OF DECEMBER 31, 2023

DATE: JANUARY 31, 2024

The purpose of this memorandum is to highlight fiscal year-to-date revenue and expenditure activity through the second quarter ending December 31, 2023 (see attached report for budget-to-actual information prepared by budget category within each fund). The rollover and any other individual budget amendments approved through the January 22, 2024 council meeting are reflected in the attached report. Through the second quarter, generally, revenues and expenditures should represent approximately 50% of the budget.

General Fund

The original approved General Fund budget reflected a use of fund balance by $812,770. The amended budget for the General Fund currently shows a reduction in fund balance in the amount of $4,806,754 due to the following amendments:

- rolling over expenditure budgets in the amount of $3,134,484 related to projects/purchases from fiscal year 2022/23 that were obligated as of June 30, 2023 but not completed.
- Approval of additional funds for public safety DB pension contributions in the amount of $251,000 after approval of the MERS transfer policy.
- Approval of additional funds in the amount of $250,000 to cover salary and fringe benefit costs for the Fire Department after final approval of their collective bargaining agreement.
- $40,000 use of fund balance was approved for the Fire Department for additional radio replacements.
- A use of fund balance was approved for Fire Station #2 and #3 Generators for $163,500 and fire truck repairs for $155,000.

Revenues

Total General Fund revenues for the second quarter are $34,045,436, representing 82% of the $41,548,527 General Fund amended revenue budget. The General Fund revenues are on track through the second quarter with the following items of note:

- **Property Tax Revenue** – Property taxes account for approximately 68% of total General Fund revenue. Revenue is recorded in July at the time property taxes are billed. Most of the penalty and interest collections are received in the third and fourth quarters which is the reason revenue is approximately $212,000 less than budget.

- **Licenses, Permits, and Charges for Services** –Cable franchise revenues lag by a month with only the first quarter being received in October/November. The second quarter cable franchise will be received in January and February. In addition, engineering review fees, plan and landscape review fees and plumbing permits are below expectations at only 25% of budget.

- **State Sources** – The second quarter reflects the October and December distributions as anticipated (August 2023 included in fiscal year 2023 as required). Only two of six payments for the fiscal year have been received in the current fiscal year.

- **Fines and Forfeitures** – Court Fees and Fines revenue (ticket revenue) is received from the 52nd District Court monthly for the prior month. The attached report reflects five payments received through the second quarter as expected: July through November. Revenues continue to lag both budget and prior year.

- **Interest Income (including investment gain/loss)** – Interest income citywide is running ahead of budgeted amounts through the second quarter with overall income significantly more than 50% of budgeted amounts, The City continued to see actual interest earnings at very high levels over the past quarter due to prior increases in Federal interest rates. The interest rate increases by the Fed have leveled off during the last quarter, which has also resulted in the recovery of some of the unrealized losses incurred over the past year. Based on the current interest rate environment, finance anticipates additional favorable results over the remining two quarters of the fiscal year.

Expenditures

Total General Fund expenditures for the second quarter are $21,333,692 representing 46% of the $46,355,281 General Fund amended expenditure budget. While a few departments exceed 50% to date due to capital purchases or annual payments, expenditures in total have not exceeded the 50% mark and are in line through the second quarter with the following items of note:

- Personnel Services may be higher than 50% through December 2023 due to the timing of one-time retirement/separation payouts, annual longevity payments, and annual payouts of PTO time.

- The City Attorney, Insurance, & Claims department is at 81% due to the annual property and liability insurance was paid during the first quarter.

- The City Clerk's Department is at 51%. Election-related expenditures due to new unfunded state mandates (including supplies, other services and charges, and personnel services) have moved the budget slightly above 50% of departmental expenditures.

- Facility Management's department is 54% of total department expenditure budget to actual. The timing of capital expenditures accounts for the slightly greater than 50% budget to actual results to date.

- The Human Resources budget is at 56% due to fire and police recruiting costs.

- Community Relations is at 57% mostly due to annual payments for the calendar and Engage magazine, citizens survey and the evening of appreciation taking place in the first half of the fiscal year.

Special Revenue Funds

The various special revenue funds' revenues and expenditures are in-line with budget through the second quarter ending December 31, 2023. Items of note are included within certain Special Revenue Funds on the following pages:

Major, Local, & Municipal Street Funds

Property Tax Revenue is at the 100% mark in the Municipal Street Fund due to the recording of property tax revenue as of July 1st, at the time the tax bills are issued. Also, chargebacks from the County are lower than anticipated.

As expected, the Act 51 revenue recorded in the Major and Local Street funds represent four months of revenue through the second quarter since there is a two-month lag in receiving the payments from the State. The budget anticipates $8.1 million of Act 51 revenue and is on track for the first half of the fiscal year.

The Local Street Fund fully expended the budgets for spray patch, concrete panel and concrete curb through December 2023 causing the other services and charges budget to be at 74%. Also, construction has begun for the Drakes Bay Drive reconstruction and the Neighborhood Road Program causing the capital outlay budget to be at 45%. Maintenance and construction are lower than budget through December as expected for the Major and Municipal Street funds. Winter maintenance will pick up over the next couple months and construction will pick up in the spring/summer.

Parks, Recreation, & Cultural Services Fund
The revenues for this fund continue to rebound after the COVID-19 pandemic and remain on track with budget. Program revenue and older adult program revenue average 40% through the second quarter. Program expenditures, including older adult programs, average 44%. The seasonal nature of the programs lends to greater (or lessor) revenues and expenditures depending on the time of year.

Tree Fund
Similar to the building licenses and permits revenue in the General Fund, Tree Fund revenues continue to be hit hard from the construction slow down due to inflation and supply chain issues. The budget will continue to be monitored and significant revenue amendments will be needed. Most of the maintenance (pruning) as well as the fall plantings have been completed through the second quarter.

Forfeiture Fund
The fines and forfeiture revenue are approximately $78,000 through the second quarter compared to last fiscal year's total revenue of $228,810. The fund will continue to be amended based on activity since we do not know when forfeiture funds will be released by the courts to the city.

Capital Project Funds

The Capital Project Funds revenue and expenditures are in line with expectations through the second quarter of fiscal year 2024.

Enterprise Funds

The enterprise funds' revenues and expenditures are anticipated to be in-line with budget. All enterprise funds will continue to be monitored and amended as needed. The Water and Sewer Fund has significant capital expenditures that were rolled over from fiscal year 22/23 and will resume in the spring along with the new 23/24 projects. An adopted budget is not required, per the State Budget Act, for enterprise funds and the information is primarily presented for informational purposes only. There are no other significant items to highlight at this time.

Internal Service Fund

Self-Insurance Healthcare Fund
This Fund was created in January 2020 to track the costs associated with the HAP healthcare program. The City is required to pay all claims and gets reimbursed for claims by case over $125,000. An adopted budget is not required, per the State Budget Act, for internal service funds and the information is primarily presented for informational purposes only. There are no other significant items to highlight at this time.

Fiduciary Fund

Retiree Healthcare Benefits Fund
The second quarter investment results have improved with part of the improvement being the reduction of the unrealized investment losses from previous quarters (see General Fund). Through the first half of the year, the overall returns have been better than expected. An adopted budget is not required for the Retiree Healthcare Benefits

Fund, per the State Budget Act since it is a fiduciary fund. The fund is primarily presented for informational purposes only. This fund invests all available resources in instruments similar to the pension funds which include stocks, bonds and other long-term financial investments.