CITY OF ORLAND STAFF REPORT
MEETING DATE: February 4, 2025

TO:	Honorable Mayor and Council
FROM:	Pete Carr, City Manager/Finance Director
SUBJECT:	**Mid-year Budget Review** (Discussion/Direction)

BACKGROUND:

The 2024-25 fiscal year budget was adopted in June 2024 and became effective July 1, 2024. Due to the normal seasonality and limited predictability of some revenue sources and expense categories, as well as uncertain and deferred State allocations of certain tax revenues, it is expected that not all budget categories will be at the ideal 50% at the fiscal year mid-point. Also, we are currently in transition from a legacy accounting system to a new one, and transitioning to a new CPA for accounting services. Hence, several necessary assumptions and projections are included in the analysis.

This review is intended to present our summarized position so far this fiscal year compared to budget, and to provide an opportunity to make course corrections if needed. This discussion will include the General Fund, Measure A and the two major utility funds. This is also typically an opportunity to reconcile outstanding fund balances for recently closed projects.

ANALYSIS:

General Fund Revenues and Expenditures

General Fund operational revenues overall are below budget plan by 5% (-$163k at midpoint).

- Property tax and franchise fees are on track to meet budget.
- Sales tax is lagging by 22% ($133k for the ½ year) although Q3 was slightly better than Q2 and Q4 is likely be turn out better than Q3. Statewide, sales tax revenue is down from last year. The experience of Orland's dominant sales tax producing businesses (fuel sales and vehicle sales) is resulting in a more pronounced downturn.
- ToT (hotel tax) revenue is down about 11%.
- Building Dept revenue is slow, as expected, with reduced residential building activity so far FY25.
- Delayed reimbursements from State on certain projects are hindering fund cash availability.

General Fund operational expenditures overall are also below budget, 3% (-$101k), partially offsetting the lagging revenue.

- This includes a Council-approved post-budget expenditure of $6k for an assistant library director and $5k for the Pioneer Energy feasibility study, which are more than offset by a one-time receipt of $30k from the County for the library. Council approval of $99k for the Carnegie architect engagement and $19k for the hotel demand study have not yet been factored into the mid-year analysis, nor has the County's request for repayment of allocated property tax ($168k).
- Police Dept operations comprise 40% of the General Fund expenses and appear to be running within budget.
- Minimum wage increases are pushing Rec Dept wages higher across the board, while chemical prices are driving pool operational expenses up.

ARPA Funds are being tracked and reported separately. All expected revenue was received at once and expenditures are occurring as authorized by Council.

General Fund Bottom Line

With just over $3.04M in ½ yr revenues against $3.18M in ½ yr expenditures, the net of revenue vs expenditure at mid-point in the year is within 5% of balanced, but at a level of concern. General Fund reserves – to cover emergencies and the impacts of variable economic conditions – should be over $2M but stand at $1.25M before the Carnegie redesign and hotel study, $1.13M after these expenditures.

Wild cards: Car sales, tariffs, fuel prices, potential general economic improvement or decline.

Measure A Public Safety Revenue and Expenditures

Measure A is its own separate fund with its own annual report to the community. Being 100% dependent on sales taxable retail commerce, Measure A is tracking similarly to General Fund for revenue at 46% revenue 50% of the way thru the year, and expenditures 46%. The fund balance is good at $1.5M, most of which is set aside for future Fire Dept capital purchases.

Measure A is significantly affected by the timing of planned capital expenditures for the 12-mo fiscal year, and year-end allocation to future equipment and facility reserves. Public Safety department heads reviewed their budgets as part of this analysis and feel that previously planned expenditures are still needed, but also recognize the lagging revenues; we will plan to balance the budget operationally for the fiscal year.

Measure J Ambulance, Streets, Parks, Recreation Revenue and Expenditures

Measure J will be tracked and reported similarly to Measure A. Revenue will begin to accrue in April although not realized until October. The fund can expect to receive over $300k in October and quarterly going forward.

Expenditures authorized so far include $102k for the Westside Ambulance operations subsidy and $30k for Mill St School sidewalk project cost-share, for a total $132k. Hence, the fund is currently negative $132k.

Water and Sewer Utility Enterprise Funds

- Water Fund (includes water and storm drain utilities) ½-yr revenues of $1.04M are covering water system and storm drainage operating ½-yr expenditures of $.86M while strengthening a healthy fund balance, as expected, to accomplish planned necessary capital projects. The $4.85M fund balance is adjusted downward $348k for the Vac-con cost share to $4.5M.

- More than half of annual Water Fund revenue is typically realized in the first half of the fiscal year (July-November) due to outdoor irrigation during the hot weather of June-September being billed August-November. Rate adjustments are normally effective in January.
- Similarly, the Sewer Fund is covering operational costs – although not by a wide margin -- and is meeting the needs of planned capital improvements. Operational revenue of $706k compares favorably to expenditures of $498k (net positive $208k) but significant improvement projects are needed in addition to better reserves against emergencies.
- This fund operates more consistently on a seasonal basis than the Water Fund, with revenue steady but expenses slightly higher in the winter. One-time capital project expenditures authorized post-budget include $439k for lift stations, $149k for the vac-con, and $30k for ponds analysis. These factors prompted an adjustment of the fund balance downward from $1.19M to $565k. Council may wish to consider allocating 100% of the cost for the vac-con to the Water Fund.

Reconciling of Outstanding Project Fund Balances – None at this time.

RECOMMENDATIONS:

Direct staff to allocate 100% of vac-con expense to the Water Fund, and otherwise continue services and projects for the balance of this fiscal year as previously authorized in the fiscal year budget.

Fiscal Impact of Recommendation: No change to current fiscal year budget.