



CITY OF ORLAND STAFF REPORT

MEETING DATE: February 6, 2024

TO: Honorable Mayor and Council

FROM: Pete Carr, City Manager/Finance Director

SUBJECT: **Mid-year Budget Review** (Discussion/Action)

BACKGROUND:

The 2023-24 fiscal year budget was adopted in June 2023 and became effective July 1, 2023. 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. Several necessary assumptions and projections are included in the analysis.

This review is intended to summarize our 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 two major utility funds. This is also an opportunity to reconcile outstanding project funds.

ANALYSIS:

General Fund Revenues and Expenditures

General Fund revenues overall are below budget plan by 8%.

- Property tax is on track to meet budget or exceed by up to 3%
- Sales tax is lagging by 12% (\$160k) although Q3 was better than Q2 and Q4 is likely positive.
- Statewide, sales tax revenue is down 2.8% from last year. The nature of Orland's dominant sales tax producing businesses resulted in a more pronounced downturn.
- Building Dept revenue is way down with reduced residential building activity.

General Fund expenditures overall are about even with budget at this point.

- This includes a Council-approved post-budget expenditure of \$45,000 for grant writing, and a reimbursable \$25,000 in Public Health library materials support. Outstanding invoicing of partnership agencies accounts for a portion of the receivables.
- Police Dept operations comprise 40% of the General Fund expenses and are running 8% below budgeted expenditure.

ARPA Funds are being tracked separately and will be reported at fiscal year-end. All expected revenue was received at once and expenditures are occurring as authorized by Council.

General Fund Bottom Line

With \$2.8M in ½ yr revenues against \$3.1M in ½ yr expenditures, the net of revenue vs expenditure at mid-point in the year is negative by nearly \$309k, typically suggesting the need to look for ways to increase revenue, decrease expenditures, or accept the impact on reserves. However, staff analysis of anticipated actual revenue, given the many seasonal and economic variables, is closer to budget, not more than \$26k below target (< -1%). Total revenue vs expenditure at fiscal year-end would be -\$166k. This is the first time in many years that the General Fund budget has not been positive at mid-year. Wild cards: Maverik net revenue impact, potential general economic improvement.

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 7% (\$78k) below budget target. Measure A expenditures as of 31 December were 48% (\$471k) below budget. Measure A is significantly affected by the timing of planned equipment purchases 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, and we will end up close to budget for the fiscal year.

Water and Sewer Utility Enterprise Funds

- Water Fund ½-yr revenues of \$1.13M are covering water system and storm drainage operating ½-yr expenditures of \$.92M while strengthening a fund balance as expected to accomplish planned necessary capital projects (net positive \$207k). Revenue so far this fiscal year is 12% better than planned budget, expenditures 4% under budget – very similar to last year. More than half of annual 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 building slowly to meet the needs of planned capital improvements. Revenue of \$687k compares favorably to expenditures of \$657k (net positive \$30k). This fund operates more consistently on a seasonal basis than the Water Fund, with revenue steady but expenses slightly higher in the winter.

Reconciling of Outstanding Project Fund Balances

It is more than rare for any substantial project – especially grant-funded projects – to be estimated, bid, funded, executed, invoiced and reimbursed in perfect balance. Normally, project scope changes, actual costs of construction and expected City match leave a residual that is the City's responsibility. Positive or negative balances in closed project funds are applied to primary funds when the projects are closed out.

Our internal audit of closed project accounts suggests a deferred reconciliation of seven projects that should be accounted for at this time. Even so, another dozen open accounts for active projects, each with its own purpose, funding source[s], timeframe, and budget vs actual, will generate a need for continued reconciliation. Staff suggests this become a regular part of the mid-year review process.

This proposed reconciliation requires the following summarized transfers:

<u>Project</u>	<u>Account Balance</u>	<u>Transfer From</u>	<u>Transfer To</u>
Tehama Street	- \$216,321	Fund 25	DIF – Transportation Fund 35
Sixth Street	- \$ 76,858	Fund 37	DIF – Transportation Fund 35
Streetscapes Plan	- \$ 30,714	Fund 95	General Fund 00
BCSS Police Grant	+ \$ 5,933	Fund 68	General Fund 00
USDA Police Grant	+ \$ 2,763	Fund 87	General Fund 00
OTS STEP Grant	+ \$ 6,838	Fund 94	General Fund 00
USDA Park Meters	+ \$ 51,105	Fund 70	Water Fund 26

Net impact on DIF Fund: - \$293,179
Net impact on General Fund: - \$ 15,180
Net impact on Water Fund: + \$ 51,105

Attachments (3):

- Mid-year General Fund and Measure A Revenue Summary
- Mid-year General Fund and Measure A Expenditure Summary
- Mid-year Utility Funds (Water and Sewer) Summary

RECOMMENDATIONS:

Approve fund balance transfers as outlined.

Direct staff to continue services and projects for the balance of this fiscal year as previously authorized.

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