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#### STAFF REPORT

**TO:** TOM DUBOIS, CITY MANAGER  
**MEETING DATE:** APRIL 15, 2024  
**FROM:** MASON PETERS, FINANCE SUPERVISOR  
**SUBJECT:** TWO THIRDS BUDGET UPDATE

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#### RECOMMENDATION:

For Information.

#### BACKGROUND:

Historically, the Finance Supervisor provides a periodical fiscal update to educate the Council on what our financial performance looks like when compared to the approved budget. It is key to remember that accounts experience different levels of activity throughout the fiscal year; some see very regular charges/receipts, others see activity once per year. Please keep this in mind as you go through the information provided.

#### DISCUSSION:

For the purposes of this update, we are using February 2025 as our reference point, which is two thirds of the fiscal year. In general, as of the end of February for each year, we can expect to see year-to-date totals for revenues and expenses being in the ballpark of 67% of budgeted annual totals. However, as previously mentioned, there are many instances where some revenues and expenses are received on a more irregular basis (quarterly, annually, etc). I will mention some highlights for revenues and expenses below:

#### Revenues

Property Taxes: The county sends us 2 major payments in Q2 and Q4 each year, with a couple of smaller payments at different points throughout the year. We are anticipating receiving the 2<sup>nd</sup> major portion of our annual Property Tax apportionment in May. I am confident that we are on target to meet our budgeted total Property Tax revenue figure.

TOT: These revenues are performing as we expected, and I am confident that we will see good performance in this category. As events start to pick up around town and people start to visit more, the short-term rentals will start to book more rooms towards mid-spring.

Sales Tax: This years' sales tax performance is not as high as we would like it to be – I am optimistic that we can make up some of this lag as we head towards a busier tourist season, but I am anticipating that we will likely be around 85% of our budgeted revenues for Sales Tax this year. We are not the only ones experiencing a slow down in sales tax revenues – I am aware that

the county is also anticipating lower sales tax revenue than budgeted. Thankfully we saved a bit of money from empty salaried positions this year to cushion this 15% shortfall, or about \$70,000.

Republic Waste Services/Aces Franchise Fees: these revenues historically have been consistent month to month, but over the last few months have gotten inconsistent. We will follow up with Republic Waste Services for an explanation, but we expect it has to do with a process change during the transition between ACES and Republic. Whether that process change is intentional or unintentional is what we are investigating.

PG&E Franchise Fees: we get this payment in one lump sum in April every year, so I am expecting this very soon.

COPS Grant: After reviewing previous years' activity, I am not expecting to reach the budgeted amount for this line item. At this point, I expect that we have received the majority of the funding from this grant for the year, and we should anticipate a shortfall here by about \$50,000. We have updated our anticipated revenues accordingly for the forecasting and future budgets.

LEAP Grant: We received 99% of what we budgeted for, which is great news. This revenue was planned to offset the very high Planner costs that will be discussed in the next section.

ACRA Pool Revenue: We have been in talks with ACRA regarding our outstanding receivable of pool revenues from the Summer 2024 pool season. We are expecting to receive these funds by the end of the fiscal year.

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#### **Fee Recovery**

Fees – Variance & Conditional: we have been getting a lot of these applications this year, and we have received much more fees on this item than expected. However, these fees are meant to offset engineering and planning costs, which are two items that will be discussed later in this report. These are net zero activities.

Plan Check Fees: Similar to the above item, these revenues are net zero after we consider the labor costs of our engineering and planning.

Building Permit Fees: these fees pay for building inspection and administrative costs. They are coming in strong for this time of the year. We are going into springtime, the weather will start to warm up, and projects around the city will start to pick up again. Historically, we issue 10-15 more building permits per month in Q4 of the fiscal year compared to the total number of permits per month in Q3. Based on that historical trend and our performance this year so far in this category, I am confident that we will exceed our annual budgeted total for this item.

Interest Earnings: in the late fall of 2024, we approached our money market account managers at Bank of Marin and asked for a higher interest rate considering the amount of funds we have on deposit with them. We received a significant increase in our interest rate on those accounts, and we have really seen the benefit of that increase. I should note that these interest rates are variable and will fluctuate as the market fluctuates, but overall, we are earning much more interest now than if we had not asked for a better rate. I will be allocating some of these interest earnings to other funds, but this is a solid victory for this fiscal year and going forward.

Streets Grants: We did not receive as much ACTC reimbursement funding as we had originally expected for the Eureka Rd project, since engineering costs were excluded, so we are expecting to miss the target on this item. We will be \$90,000 under budget on this item. We are making up for this shortfall by pausing some of the other budgeted streets projects so we do not overspend.

#### Expenses

City Clerk: We typically budget an 80 hour vacation cashout for each full time position in the City, as that is the limit set by our employment agreements for all bargaining units. When an employee departs from the City, however, we are required to cash out their entire balance and it causes an overage. However, the cost savings we experienced by not paying a wage and all of the benefits and retirement for this vacant position has more than made up for the overage. As of February 2025, for all payroll-related expenses, we are \$48,000 under budget for this position. This position has been filled as of the end of March, but at a lower salary than previously budgeted for, so we can anticipate savings of around \$59,000 by the end of the fiscal year.

City Manager Department: We budgeted for a Project Manager position for the full year, but it was just filled in late March 2025. Currently we are \$52,000 under budget for all payroll-related items for this department, and I would expect to be around \$72,000 under budget by the end of the fiscal year after we start paying the new Project Manager.

CalPERS UAL: Last year, we paid CalPERS Unfunded Accrued Liability invoices monthly and received no annual savings. This fiscal year, we paid the full annual balance up front in July and saved \$10,000 as a discount for pre-paying. We will continue to do this going forward.

Planning: While the Planner costs look very high upon first glance, \$56,000 of the planner costs were reimbursed with the LEAP Grant mentioned previously. With the grant, we are really seeing that the planner costs are well under what we budgeted for this fiscal year in this department.

Building: As mentioned earlier, although we are seeing a lot of building projects going on around the city and are generating a lot of revenue from the permits, there are costs associated with that increased activity. However, our revenue for the building department activity is outpacing our expenses, so I would view this as an overall positive.

Engineering: These expenses are higher than expected due to ACTC only paying construction costs. This included engineering oversight during construction, but not pre-construction engineering and the Bid process.

Central Services: This department's expense performance is primarily driven by our liability and property insurance premiums. Regarding that item, when we built the budget for this fiscal year, we had our risk management authority's preliminary budget to use as reference for our total expected premiums for FY25. When their final budget was released a few months after the original draft, there were some changes that increased our costs beyond what we had originally thought. We had already approved our budget by the time their final draft was shared with the members participating. These costs will continue to increase year after year, so we will be more thoughtful when considering how much to allocate for our liability and property insurances.

PG&E Expenses: We did not budget nearly enough funds to pay for the power and gas utilities in a few departments, which was an oversight during the budget development process. In FY24, we received a refund from AT&T for the power usage of their antennae that is on the roof of the Auditorium. We applied that credit across different PG&E expense categories and because of

that, the expenses appeared very low for the year. We based the FY25 PG&E expenses on the FY24 performance when we should have reviewed the overall historical performance of that item. Now, our process of receiving reimbursement from AT&T is to invoice them quarterly and they send payment for the power usage of their antennae. We will be presenting a budget amendment at a subsequent meeting to address this oversight, and reallocate budget from other items to take care of this miscalculation.

On a fund-level view rather than a more granular, department-level view, most of the performance looks as we would have expected or done better than expected at this point in the year. The General Fund revenues look slightly low and the expenses look a bit high, but the timing of some of our biggest revenue streams comes in a couple of months and the picture will look better than it does now. We are expecting increased TOT, and our 2<sup>nd</sup> large property tax payment from the county, and both will go straight into the General Fund. Otherwise, our Enterprise Funds look healthy and are performing well, and the FEMA reimbursements that we got earlier in the year help replenish our reserves a bit from the unexpected expenses we experienced a few years ago.

The Transactions and Use Tax (TUT) went into effect at the beginning of April, and we should expect to see our first payments in late June or July. We will follow guidance from the Oversight Committee on how we want to allocate those funds, and what strategies we want to follow to best serve our community.

#### **BUDGET IMPACT**

We will be bringing a handful of budget amendments to a subsequent meeting to address some of the items listed here, as well as some reallocation of budgeted funds to address capital projects that we want to complete over the next few months.