

# Quarterly Financial Update

Quarter ended March 31, 2024

## Purpose

This is the quarterly financial update for the Fiscal Year 2023/24, as of March 31, 2024. The purpose of this quarterly report is twofold. First, it ensures that the Town is consistently monitoring its revenues and expenditures, responding to unanticipated events, and preparing for emerging trends. Second, and equally important, these reports increase the transparency of the Town's finances. The Town is ultimately accountable to its residents to use the revenue it brings in efficiently and effectively to provide the highest quality services, and quarterly public reporting provides taxpayers with the information they need to Hold the Town to this standard.

Staff anticipate that this report will evolve over time depending on the present-day issues and to ensure that the public is given access to relevant revenue and spending data.

## Content

This quarterly report presents an overview of the Town's operating revenues and expenditures in the General Fund for the quarter ending March 31, 2024, as compared to previous years, and explains any notable aberrations or trends in these numbers.

This report focuses on General Fund operating revenues and expenditures, as these represent the funds used to provide the bulk of essential Town services and is the Town's biggest fund.

## Timeframe and Limitations

The information in this report is the most accurate and up-to-date information available at the time of the publication. However, this report is not an audited financial statement, and the numbers provided herein are preliminary and subject to change as the year progresses. No data on revenues and expenditures is final until the Town has completed its annual comprehensive audit, which staff plan to release in winter each year for the prior fiscal year.

Staff are currently working to complete the Town's audit for fiscal year 2022/23 and expect to present audited annual comprehensive financial statements to council spring of 2024.

*With respect to revenues:* The Town monitors and adjusts its year-end revenue projections based on revenue performance and other developments that may affect the Town's revenues in order to develop a more accurate picture of the Town's anticipated year-end financial position.

*With respect to expenditures:* The expenditure information in this report is extracted directly from the Town's financial management system, and adjustments are made to account for certain known payments, reimbursements, or transfers between Town departments and funds that have not yet been processed in the system at the time of publication. *It represents a snapshot of Town expenditures at a certain point in time.*

## Quarterly Financial Update - Quarter Ended March 31, 2024

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### Executive Summary

The Town's sales tax auditors have analyzed the collections for the quarter ending December 30, 2023, as of the publication of this report. The Town received \$1,756,051 for the quarter ending September 30, 2023, as compared to \$1,738,317 for the same quarter in fiscal year 2022/23, a 1.0% increase. Sales weakened in multiple sectors in response to the federal policy regarding interest rates forcing consumers to balance rising prices with financing costs associated with household needs. Decreases were offset by an increase in the Town's allocation of pool sales and an increase in collections from building and construction supplies.

Based on these results, as well as expectations for sales tax through the end of fiscal year 2023/24, the Town has revised its expectation for the year to \$6,486,622, a 0.6% decrease over fiscal year 2022/23 and 3.0% decrease from the fiscal year 2023/24 budget.

The Town has received and analyzed the TOT collections for the quarter and year ended December 31, 2023. The Town received \$1.12 million for the quarter ending December 31, 2023, compared to \$1.34 million for the same quarter in 2022, a 21.0% decrease. Collections from hotels were down 26%, individually operated properties were down 13%, and collections from property management companies were down 22% when compared to the same quarter in 2022.

Overall, the Town has expended about 67-68% of the General Fund salaries and supplies budget for the fiscal year 2023/24, which is in-line with spending in previous fiscal years and expectations for this time in the year.

Staff analyzed the impacts of the updated property and sales tax estimates on the General Fund after expenditures data. Also included in the General Fund balance review, are recent budget amendments and the future-year impacts of staffing changes. The updated projection for the Cash Available Undesignated balance for fiscal year 2023/24 is \$25,919,013, \$2,725,447 more than the balance projected in the fiscal year 2023/24 operating budget.

### General Fund – Key Revenue Analysis

The following discussion provides the status of significant General Fund revenue sources based on information received as of the publication of this report. Staff monitors each revenue source closely and may recommend certain revenue adjustments based on revenue actuals or state budget actions or other. A note regarding the Town's current budget practice: Budget conservatively. This means that budgeted expenses are set so as to ensure the Town has the funds necessary to meet all probable and necessary obligations and promises that occur throughout the year. An example of this is the Snow Removal budget which includes staffing to address snow removal needs for a snowfall at 100% of Sierra snowpack levels. This also means that budgeted revenues are set at probable collection levels.

When revenues come in above probable levels or expenses come in lower than budgeted levels, it creates budget surplus, which rolls into the fund balance. Fund balances are available for Council priorities on a one-time basis.

## Quarterly Financial Update - Quarter Ended March 31, 2024

### Taxes

#### Property Tax

Property tax is the Town's largest revenue source for the General Fund, accounting for an estimated 46.5% of the General Fund revenues year-over-year. Property tax is levied by the Nevada County Assessor's Office at 1% of the property's assessed value, of which the Town receives approximately 15 cents per property tax dollar collected from a specific property within the incorporated city limits of the Town of Truckee. Assessments are made on both commercial and residential properties. For every \$30 million assessed property value, the Town receives approximately \$45,000 of property tax annually.

In accordance with Proposition 13, the assessor can increase property values by the lesser of California Consumer Price Index (CPI) or 2% annually. If a property is sold or transferred, the base assessed value is reset at the sale or transfer price (i.e. market value). Proposition 8, which was approved by California voters in 1978, states that if a property's value decreases below the assessed value, then assessed value must also decrease. Proposition 19, which was approved by California voters in 2020, states that certain qualified individuals (e.g. seniors, the severely disabled, and victims of wildfire) may transfer their property tax base to a new property within California if the sale price is less than or equal value than the California property sold.

| Year | Average      | Change |
|------|--------------|--------|
| 2023 | \$ 1,183,516 | -9.8%  |
| 2022 | \$ 1,312,056 | 16.1%  |
| 2021 | \$ 1,130,568 | 41.4%  |
| 2020 | \$ 799,613   | 8.8%   |
| 2019 | \$ 734,669   | 1.1%   |
| 2018 | \$ 726,763   | 9.3%   |
| 2017 | \$ 664,883   | 10.0%  |
| 2016 | \$ 604,210   | 7.2%   |
| 2015 | \$ 563,417   | 0.7%   |
| 2014 | \$ 559,759   | 14.0%  |
| 2013 | \$ 490,888   | 19.7%  |
| 2012 | \$ 410,001   | -5.2%  |
| 2011 | \$ 432,287   | -7.2%  |
| 2010 | \$ 466,072   | -8.1%  |
| 2009 | \$ 506,933   | -14.7% |
| 2008 | \$ 594,054   | -5.5%  |
| 2007 | \$ 628,380   | -1.2%  |
| 2006 | \$ 636,165   | -4.3%  |
| 2005 | \$ 664,967   | 30.7%  |

The table to the left shows the median home price in Truckee. Although the median home price in Truckee fell slightly in 2023, the prices are still drastically higher than five or ten years prior. These high prices had the effect of increasing the Town's assessed value base dramatically and thus led to higher-than-normal increases in annual property tax.

Additionally, the county assessor currently requires 12-18 months to reassess properties following a sale. Thus, this estimated allocation increase discussed below is newly including the re-assessment from sales in fiscal year 2021/22, when Truckee was experiencing record high housing turnover.

**Analysis** – There are no updates on property tax since the last quarterly report. The information below is from the last quarterly report.

The Town receives its first installment of property tax each year in January. The Town participates in the County's Teeter Plan, which is an alternative method of apportionment where the county remits collections to the overlapping agencies at 100% of their secured levies and the county retains ownership of delinquent receivables. Because the Town participates in the

County's Teeter Plan, the Town receives 55% of the assessed taxes with the first installment in January and can make assumptions about the total collections for the year.

Based on the first installment received, the Town expects to receive an estimated \$16.0 million in property tax including supplemental secured and unsecured.

Table 1 shows the median home prices in Truckee

## Quarterly Financial Update - Quarter Ended March 31, 2024

The Town included a moderate 6.4% budget-to-budget revenue increase for secured property tax, \$14.8 million in the budget or \$15.0 million with unsecured and supplemental levies. The \$16.0 million projected to be collected represents a 13% increase over the fiscal year 2022/23 budget and a 4.1% increase over fiscal year 2022/23 actuals.

The expected increase has been factored into the General Fund balance analysis included below.

It is important to note that the record high housing turnover experienced during fiscal year 2021/22 is not considered the new baseline of activity. As indicated in recent data, home price trends and overall sales volume continue to level out. For these purposes, the significant increases in property tax experienced during the last few years are, to a degree, viewed as one-time surges and there is no expectation of ongoing year-over-year increases in property tax. Instead, staff expect that the annual property tax collection increases will return to historical averages of between 1.0-5.0%.

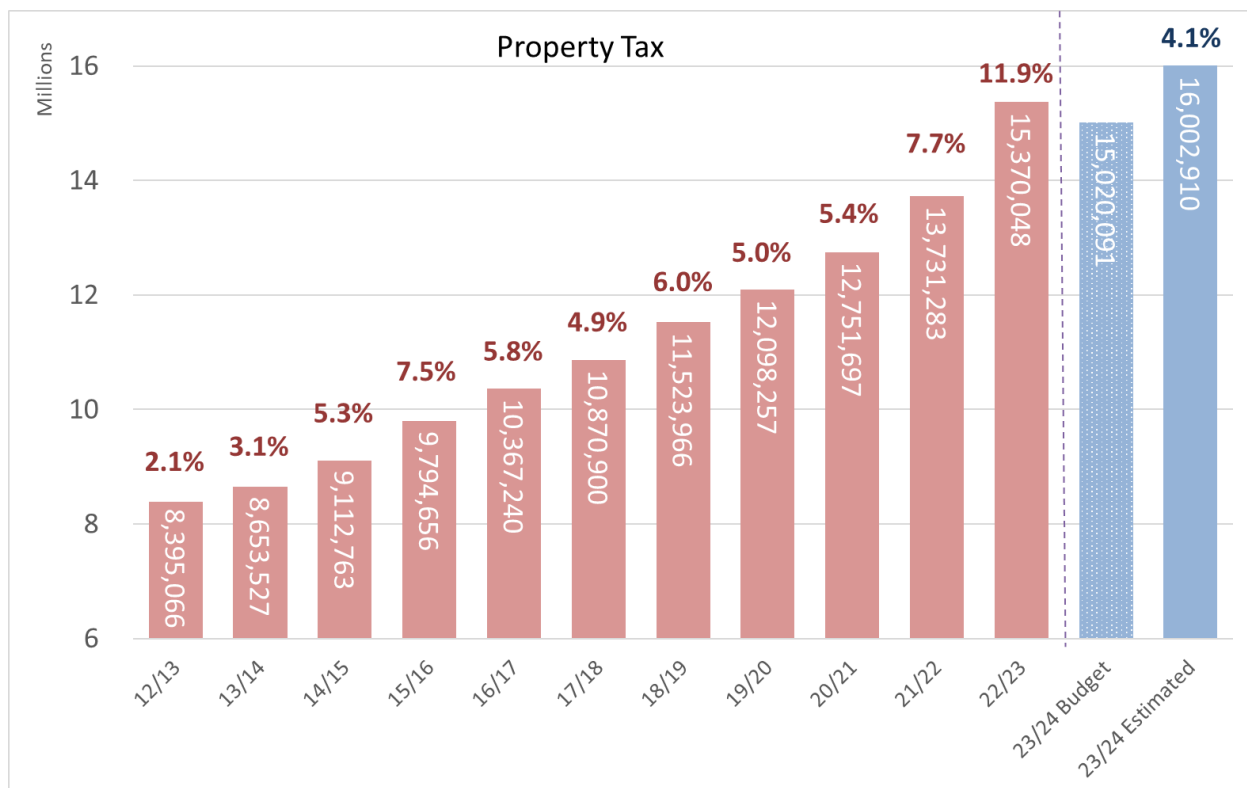


Table 2 shows the property tax allocation to the Town of Truckee

### Sales Tax

Sales tax generates approximately 17.5% of General Fund revenues, the second largest revenue source for the Town's General Fund. The Town's General Fund receives \$12 for \$100 of sales tax collected. The allocation of a sales tax dollar collected is shown below. The budget for sales tax for fiscal year 2023/24 is \$6.69 million. This means that approximately \$676 million worth of taxable goods will need to be sold within the Town or delivered to properties within Truckee.

## Quarterly Financial Update - Quarter Ended March 31, 2024



Figure 1 shows the allocation of \$100 of sales tax in California

**Analysis** – The Town’s sales tax auditors have analyzed the collections for the quarter ending December 31, 2023, as of the publication of this report. The Town received \$1,756,051 for the quarter ending December 31, 2023, as compared to \$1,738,317 for the same quarter in fiscal year 2022/23, a 1.0% increase.

Statewide, sales tax collections decreased for the quarter ending December 31 by 2.5%, but the Town had strong collections for pool sales (internet sales) and for building and construction supplies. The late start to the winter weather allowed contractors to continue work later into the year than in fiscal year 2022/23.

There were two driving factors for the increase in the Town’s allocation from the County and State pools. First, the pool was up 4.8% overall. Second, the Town’s allocation from the pool was up due to a large audit by the CDTFA that boosted the Town’s allocation from the pool.

Restaurants and hotels continue to have steady sales tax. HDL believes that this is being driven by increased prices.

The driving factors for the statewide decreases in sales tax for the quarter included consumers balancing rising prices and financing costs with essential household needs. Higher interest rates impacted several sectors including the auto-transportation sector where dealer inventory increases combined with lowered demand led to a marked decrease in sale prices. Holiday sales were “lackluster” and there were reductions in many sectors including home furnishings, women’s apparel, shoes, and electronic appliances.

## Quarterly Financial Update - Quarter Ended March 31, 2024

### TOP NON-CONFIDENTIAL BUSINESS TYPES

| Truckee<br>Business Type     | Q4 '23* | Change   | County<br>Change | HdL State<br>Change |
|------------------------------|---------|----------|------------------|---------------------|
| Building Materials           | 247.9   | -0.1% ↓  | -0.9% ↓          | -2.0% ↓             |
| Contractors                  | 174.3   | 27.2% ↑  | 39.7% ↑          | 1.3% ↑              |
| Casual Dining                | 140.1   | -2.1% ↓  | 0.0% ↑           | 1.8% ↑              |
| Service Stations             | 102.0   | -7.2% ↓  | -4.0% ↓          | -4.9% ↓             |
| Grocery Stores               | 86.5    | -4.8% ↓  | -6.3% ↓          | -4.6% ↓             |
| Sporting Goods/Bike Stores   | 66.8    | -21.4% ↓ | -21.3% ↓         | -7.2% ↓             |
| Home Furnishings             | 65.9    | -10.2% ↓ | -11.2% ↓         | -10.1% ↓            |
| Automotive Supply Stores     | 32.0    | -12.4% ↓ | -5.5% ↓          | -2.3% ↓             |
| Plumbing/Electrical Supplies | 29.7    | 0.7% ↑   | -3.0% ↓          | -4.2% ↓             |
| Quick-Service Restaurants    | 28.2    | 21.7% ↑  | 8.0% ↑           | 0.4% ↑              |

\*Allocation aberrations have been adjusted to reflect sales activity

\*In thousands of dollars

## TOWN OF TRUCKEE SALES TAX UPDATE 4Q 2023 (OCTOBER - DECEMBER)



### TRUCKEE

TOTAL: \$ 1,756,051

1.0%  
4Q2023



1.3%  
COUNTY



-2.5%  
STATE



\*Allocation aberrations have been adjusted to reflect sales activity

### SALES TAX BY MAJOR BUSINESS GROUP



Table 3 and 4 were provided by HdL Companies for collections for the quarter ended December 31, 2023.

## Quarterly Financial Update - Quarter Ended March 31, 2024

Based on the results of the quarter ended December 31, 2023, sales tax collections, as well as HDL's expectations for sales tax through the end of fiscal year 2023/24, the revised estimated collections for sales tax for fiscal year 2023/24 are \$6,486,622. This is a 0.6% decrease over fiscal year 2022/23 and 3.0% decrease from the fiscal year 2023/24 budget.

The expected decrease has been factored into the General Fund balance analysis included below.

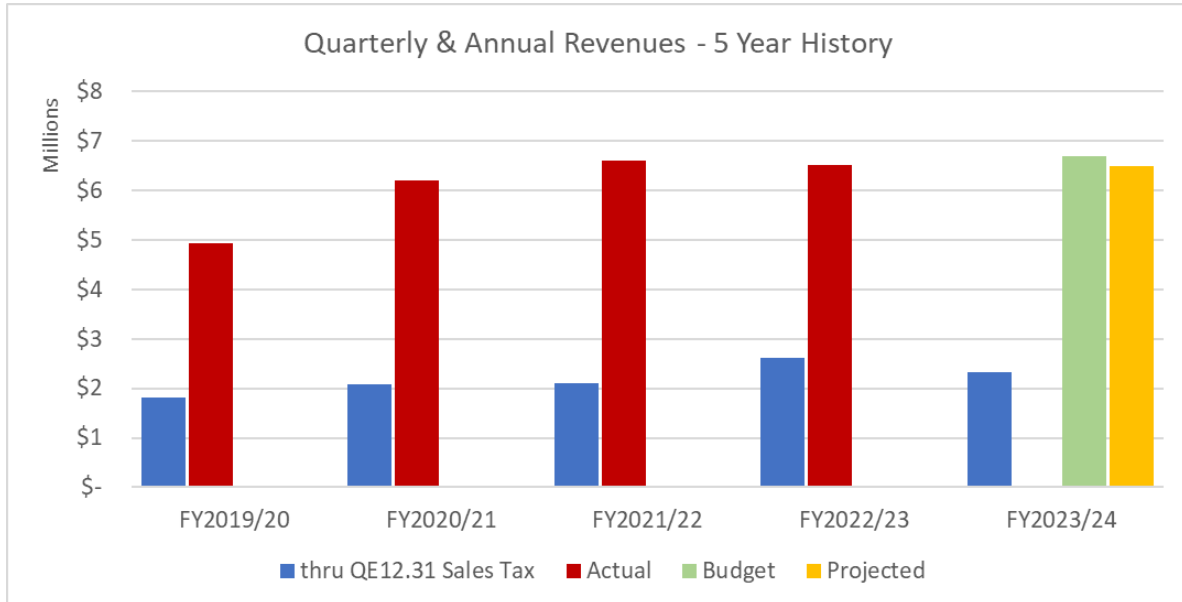


Table 5 shows the General Fund sales tax revenue over the past 5 years, the budget for fiscal year 2023/24, and the estimated collection of sales tax for fiscal year 2023/24

As part of their analysis, HDL has analyzed how online sales may have impacted brick and mortar sales statewide. Although online sales have seen a dramatic increase since 2012, brick and mortar continue to be a big part of sales tax collections state-wide.



## Quarterly Financial Update - Quarter Ended March 31, 2024

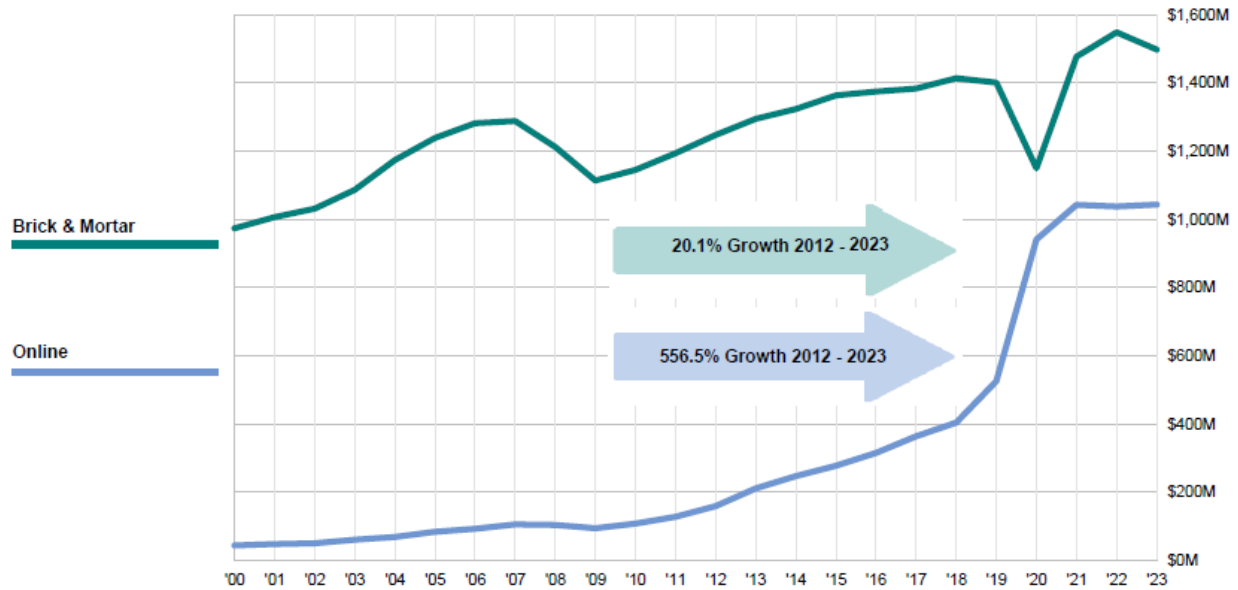


Figure 2 was produced by HDL as part of their quarterly reporting to the Town of Truckee

As part of their work for the Town and for jurisdictions across the state, HDL produces consensus forecasts. Although they do predict that FY23/24 will see a decrease in sales, economists are still optimistic that FY24/25 will see growth in sales across the state.

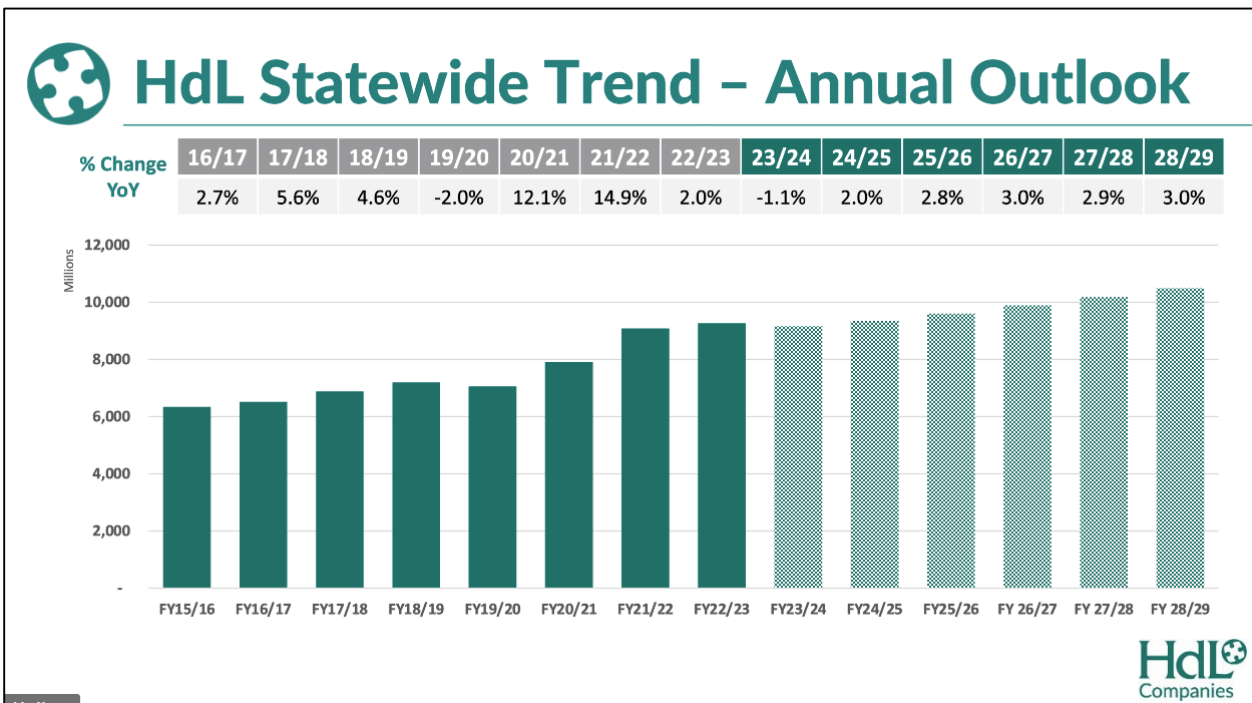


Figure 3 was produced by HDL as part of their Consensus Forecast for statewide sales tax



## Quarterly Financial Update - Quarter Ended March 31, 2024



### *Transient Occupancy Tax*

Transient Occupancy Tax (TOT) accounts for approximately 13.7% of the Town's General Fund revenues and is the third largest source of revenue for the General Fund. TOT is one of the Town's most volatile revenues sources with collections impacted by weather, economic conditions, and health pandemics. The Town has witnessed that TOT collections in the Town of Truckee do not always follow a logical path. During the Great Recession, TOT collections in Truckee went up as San Francisco Bay Area tourist opted for road trips rather than flights to overseas destinations. These conditions make TOT in Truckee difficult to predict with great accuracy year-over-year.

The Town levies a 12% TOT on all hotel, motel, vacation rentals, campgrounds, and RV parks within the incorporated city limits of the Town of Truckee. Of the 12%, 10% goes into the General Fund and 2% is assigned by Council to Measure K. In addition to TOT, the Town collects 1.25% on behalf of the Truckee Tourism Business Improvement District, which is used to promote sustainable visitation management and a balanced tourism economy in Truckee.

**Analysis** – The Town has received and analyzed the TOT collections for the quarter ended December 31, 2023.

The Town received \$1.12 million for the quarter ended December 31, 2023, compared to \$1.34 million for the same quarter in 2022, a 21% decrease. While this is a year-over-year decrease, it is still an increase from pre-COVID and an increase from before the Town implemented the more stringent enforcement activities.

Collections from hotels were down 26% during the quarter ending December 31, 2023, when compared to quarter ending December 31, 2022. Individually operated properties were down 13% and collections from property management companies were down 22% when compared to the same quarter in 2022.

The total number of nights rented for hotels was reportedly down 27% but the average daily rental rate was up significantly. For individually operated properties, there was no material change in the number of properties who reported \$0 rents. There was, however, a decrease in the average number of nights rented. Lastly the number of property management properties that filed for \$0 of rents received decreased by 12%. The average number of nights rented for property management properties decreased, but similarly to hotels, the average daily rent was up 12%.

## Quarterly Financial Update - Quarter Ended March 31, 2024

Assuming a 3-year average collection for the remaining two quarters of the fiscal year, the Town will collect \$6.12 million for the year, well above the budget of \$5.25 million. Due to the volatility in the collections for the first two quarters of fiscal year 2023/24, staff have not made any adjustments for Transient Occupancy Tax revenue in the General Fund summary below. Staff will continue to monitor and will provide an update after the next quarter's collections.

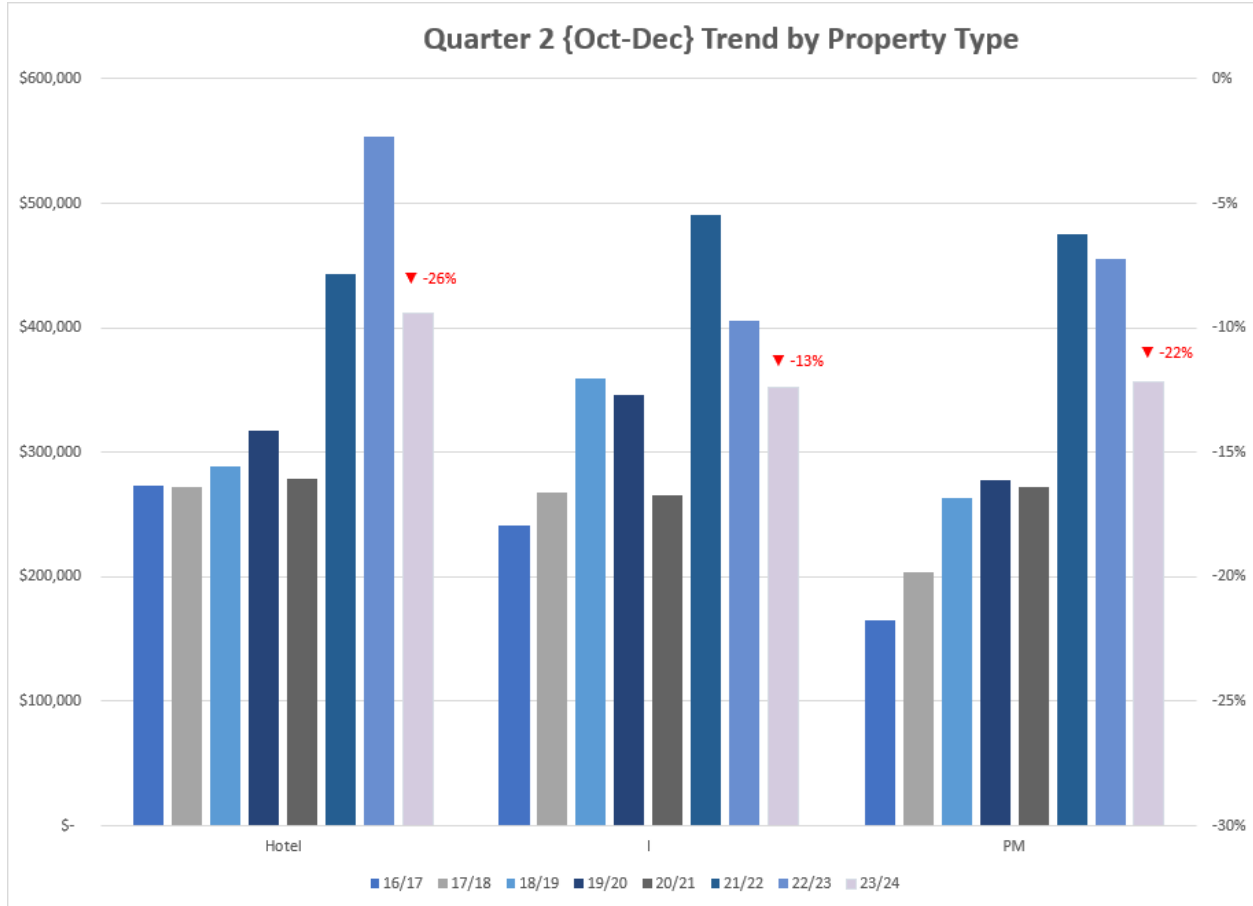


Table 6 was created by Angela Martin, Program Analyst II in the STR Division. It shows the collections by property type for the last seven years.

## Quarterly Financial Update - Quarter Ended March 31, 2024

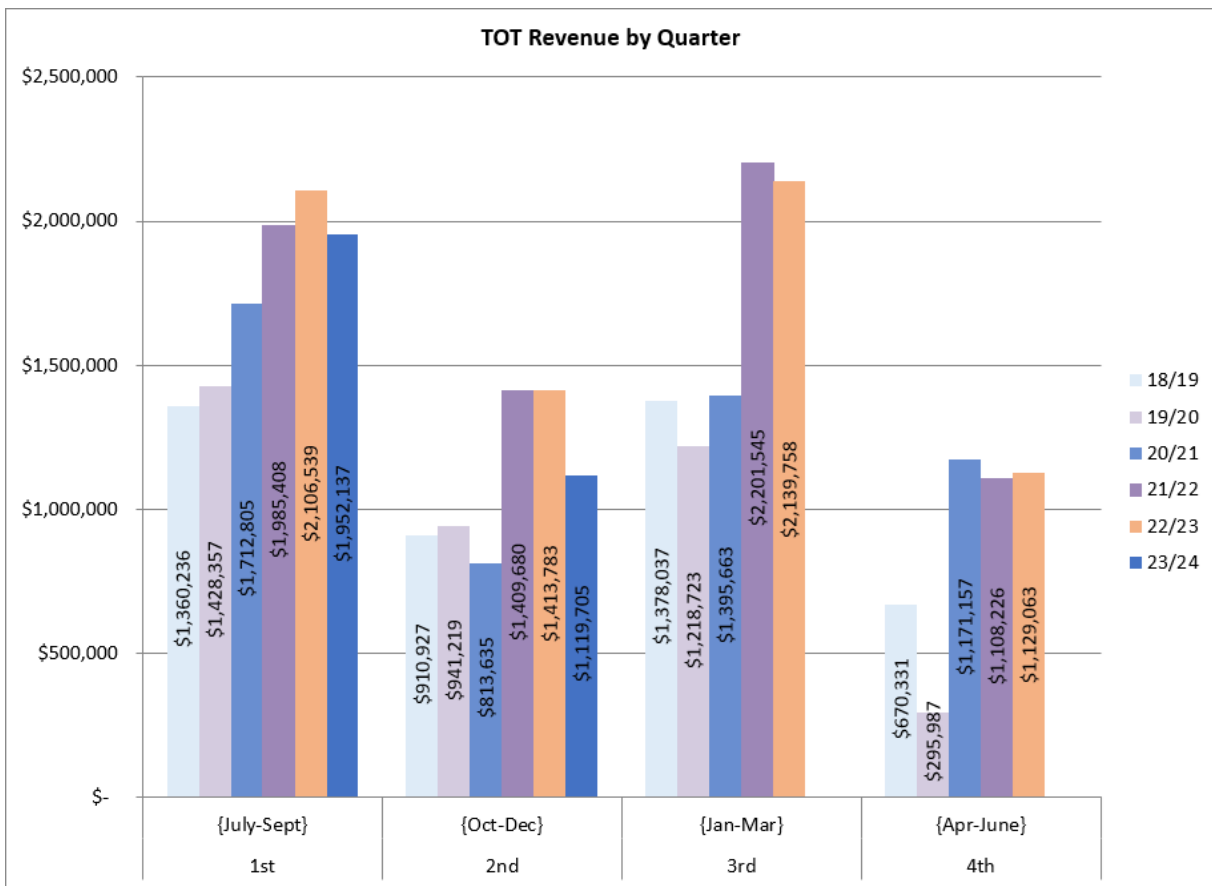


Table 7 was created by Angela Martin, Program Analyst II in the STR Division, which shows the collections by quarter for the past six years. It graphically depicts that while collections for the first two quarters of fiscal year 2023/24 we down when compared to fiscal year 2022/23, they are still well above collection pre-COVID (fiscal years 2018/19 and fiscal year 2019/20).

### Franchise Fees

Franchise fees are collected by the Town for the privilege of operating a private entity (verse public entity) utility service within the Town of Truckee. Franchise fees are currently received for electric transmission for the Town's private electric provider, garbage, cable TV and natural gas. Franchise fees are expected to represent 3.52% of General Fund revenues for fiscal year 2023/24.

**Analysis** – The Town collected \$541,872 in franchise fees through March 31, 2024, when compared \$452,082 collected through March 31, 2023. One of the franchise fee payers had not paid their franchise fees for fiscal year 2022/23 and the \$33 thousand collected in back fees has been included in fiscal year 2023/24 revenues.

## Quarterly Financial Update - Quarter Ended March 31, 2024

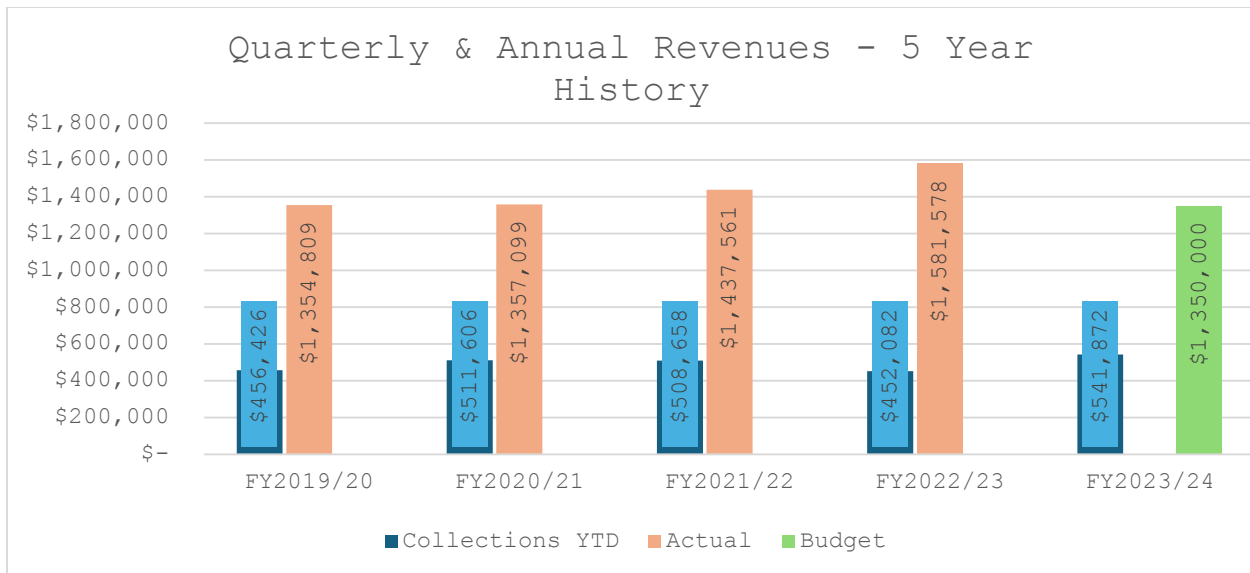


Table 8 depicts Franchise Fee collections through March 31st over the last five years. The numbers are not adjusted for late payments. Said another way, payments are reflected above in the year received.

When adjusting for the late payment described above, the Town had collected \$507,989 in franchise fees through March 31, 2024. This is up 5.0% from the same time frame in fiscal year 2022/23 where the Town had collected an adjusted \$485,963.

The Town has received the first two quarters of franchise fees from its utility cable franchisees for fiscal year 2023/24. They are down 8% when compared to the same time period in fiscal year 2022/23. These decreases are offset by higher collections from the Town's garbage collection franchisees. Overall, the Town appears to be on track to receive the budgeted amount of \$1.35 million.

### Interest

When the Town has latent cash accumulations in the Town's operating checking accounts, the cash is moved out of these checking/operating accounts and into either the Town's savings account held in the State of California's Local Agency Investment Fund (LAIF), or the Town's investment portfolio, managed by Chandler Asset Management (CAM).

LAIF has low investment risk and is also highly liquid, meaning the funds are easily accessible to the Town should there be a cash need. LAIF allocates interest to the Town based on the Town's proportionate share of the total statewide pool. The value of the state-wide LAIF pool was around \$21.0 billion as of March 2024, whereas the Town had about \$66.9 million invested in LAIF. The General Fund is allocated a portion of this quarterly interest based on the average cash balance in the General Fund for that quarter.

The goal of investing public funds is to protect the principal value, as much as possible, while attempting to earn returns and maintain adequate liquidity to meet the Town's ongoing cash needs. The State of California has adopted several laws that local agencies' investment policies must comply with. Each fiscal year, the Town Council adopts an Investment Policy which CAM uses to invest the Town's funds that do not need to be highly liquid.

## Quarterly Financial Update - Quarter Ended March 31, 2024

Similar to LAIF, the Town completes a quarterly allocation for interest earned on the Town's CAM investment portfolio. Each fund, including the General Fund, is allocated a portion of the interest earned based on the funds average monthly cash balance for the quarter.

**Analysis** – The Town has received \$1.2 million in investment interest through the quarter ending March 31, 2024 for fiscal year 2023/24 when compared to \$637,273 for the same time period in fiscal year 2022/23. The Town budgeted \$875,697 for investment interest for the General Fund for fiscal year 2023/24. Conservatively, the Town expects to receive approximately \$800,000 more of investment interest during the remainder of the fiscal year, for an estimated total of \$1.68 million. The General Fund – Fund Balance Review below has been updated to reflect this assumption.

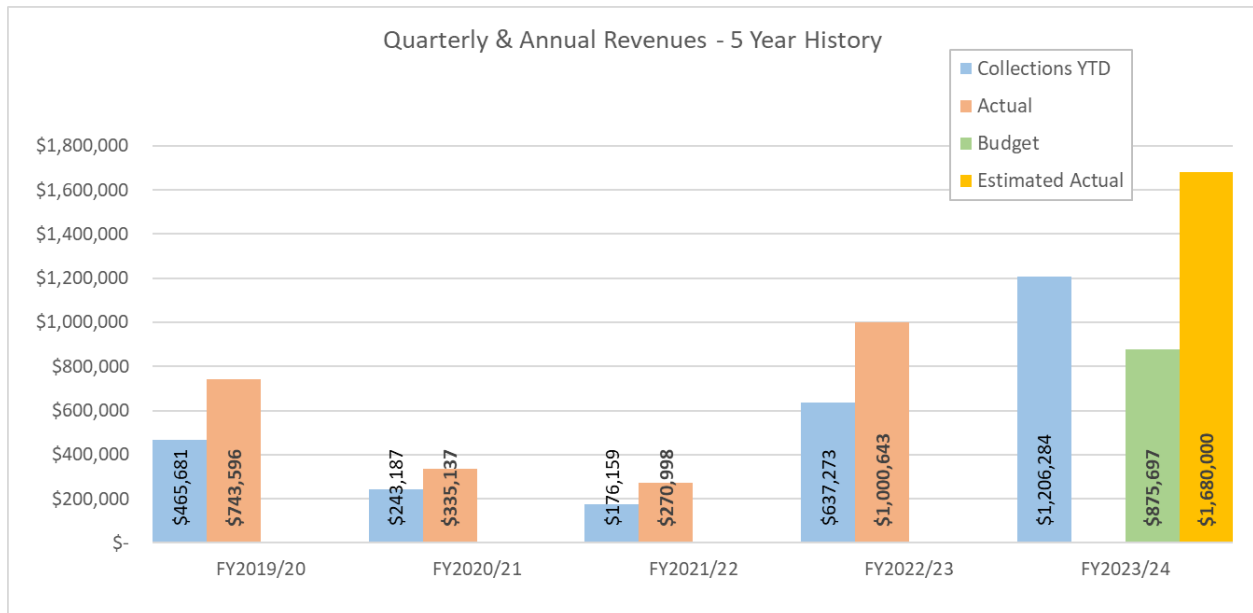


Table 8 shows the General Fund interest receipts for the past five years

## Charges for Services

The biggest categories of charges for services for the Town include Engineering Plan check fees, Planning's plan processing fees, and Public Works snow removal charges. These fees are assessed based on recovery formulas, which reflect approximate costs of providing these services.

**Analysis** – The Town has received \$437,748 in charges for services through March 31, 2024, compared to \$456,102 received through the same period in fiscal year 2022/23. The primary difference was a \$30,000 collection of abandoned vehicle abatement fees received in fiscal year 2022/23. Average collections annually for abandoned vehicle abatement fees are between \$1,000 and \$4,000. The Town did a large one-time catchup effort on abandoned vehicles in fiscal year 2022/23.

The Town feels that collections are on track to meet the budgeted \$687,500 for fiscal year 2023/24.

## Quarterly Financial Update - Quarter Ended March 31, 2024

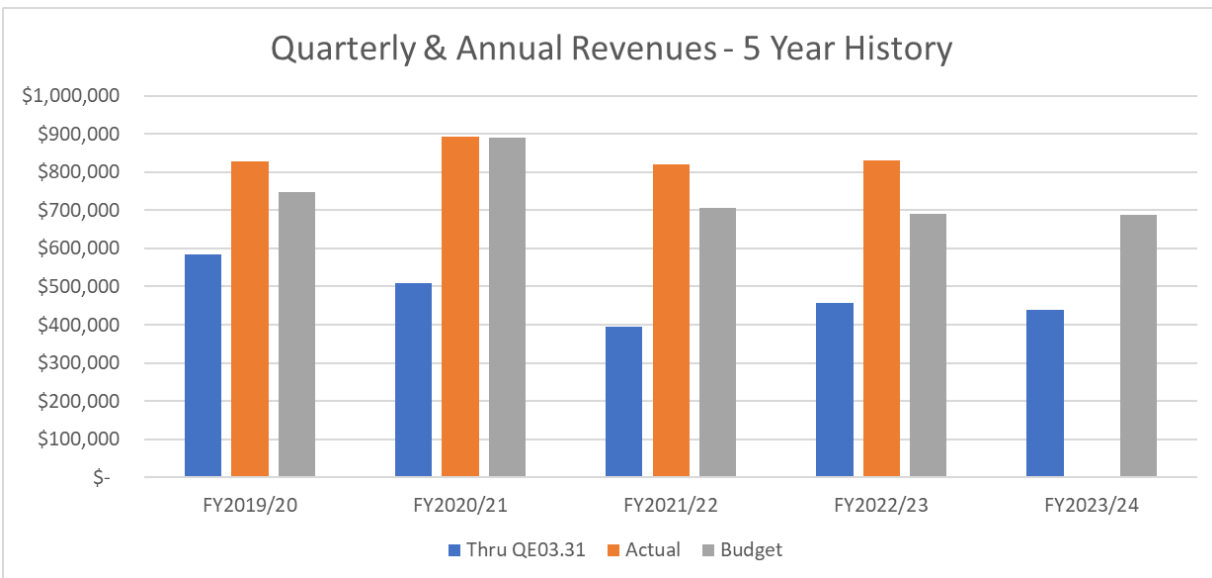


Table 9 shows the Charges for Services revenues over the last five years. The blue line shows the amount collected through March 31 each year.

### General Fund – Key Expenditure Analysis

The following discussion provides a status of significant General Fund expenditures as of the quarter ending March 31, 2024. It is the Town's current practice to budget expenditures conservatively to ensure that there is adequate funding for expected events and to meet the Town's promises and obligations. In practice, staff are encouraged to only spend what is needed to meet their operating obligations. A "use it or lose it" culture, typical of many public agencies is highly discouraged in an attempt to encourage adherence to the practice of only making expenditures when necessary.

The Town's fiscal practices require that each division stay within their division budget, but there is no requirement to adhere to the line-item budget for specific spending categories. This allows some amount of flexibility and nimbleness to respond to the operating realities that may arise. An example of this is allowing a division manager to outsource work to a consultant (Professional Services line item) using savings from a position vacancy (Wages line item). As long as the net impact to the division budget is zero overall, the division managers have budget authority flexibility for such an action.

### Salaries & Benefits

Salaries and benefits include full-time employee salaries, elected official's stipends, part-time and temporary employee pay, overtime pay, other benefits, pension expenses, and health care. Salaries and benefits are expected to increase annually to accommodate the negotiated cost-of-living adjustments and the Town's pay-for-performance increase to employee wages, as well as increases in the cost of benefits.

## Quarterly Financial Update - Quarter Ended March 31, 2024

**Analysis** – The Town has used around 67% of its budget for salaries and benefits through the quarter ended March 31, 2024. This is slightly lower than the same time period in fiscal year 2022/23. This is primarily due to unpaid time under legally protected leave, and some position vacancies.

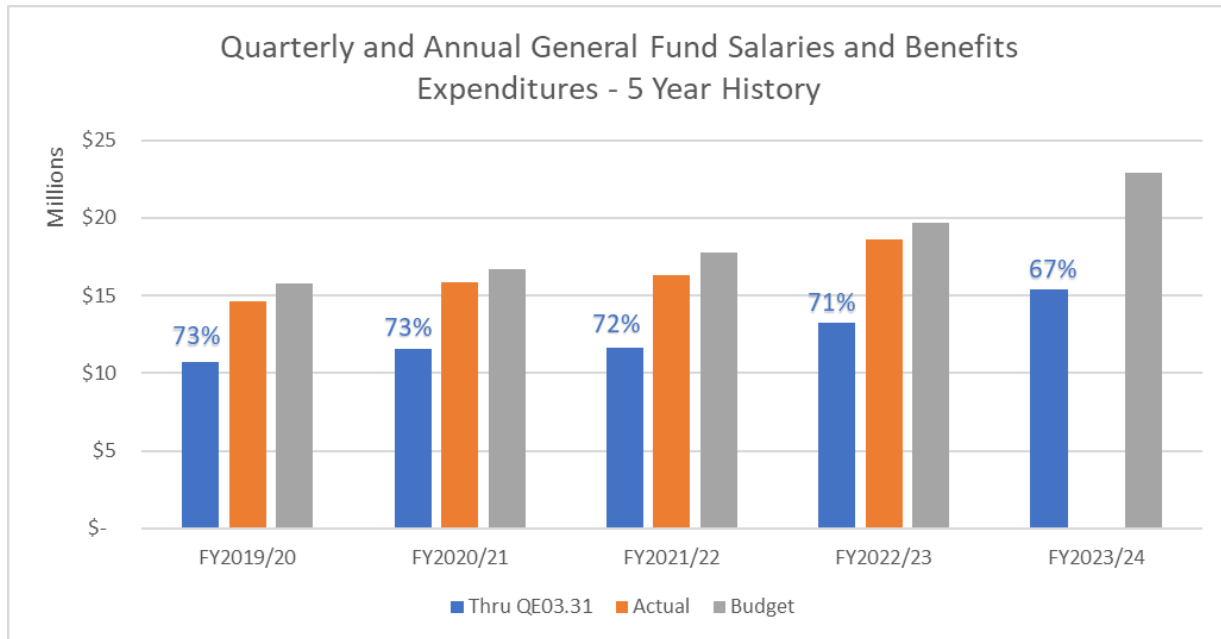


Table 10 shows the Annual Budget for Salaries and Benefits over the past five years compared to the Actuals and the amounts spent through March 31 each year. The percentage shown above the blue bars shows the percentage of budget used to date for the year.

### Supplies, Materials, & Services

Operating expenditure consists of all General Fund costs to provide services, including supplies and materials, consulting services, and contract services. The category of supplies, materials, and services should trend around 75% for the first three quarters of the fiscal year. Many expenditures such as utility payments are monthly costs. Because some expenses do not occur in semi-equal installments, such as contract payments or annual payments which are paid in a lump sum, the actual level of expenditures generally does not tie similarly with the percentage of the year that has passed.

**Analysis** - The Town has utilized approximately 68% of its General Fund Supplies, Materials, and Services budgets for the fiscal year 2023/24 through quarter ending March 31, 2024. At this time last year, the Town had utilized 61% of its budget.



## Quarterly Financial Update - Quarter Ended March 31, 2024

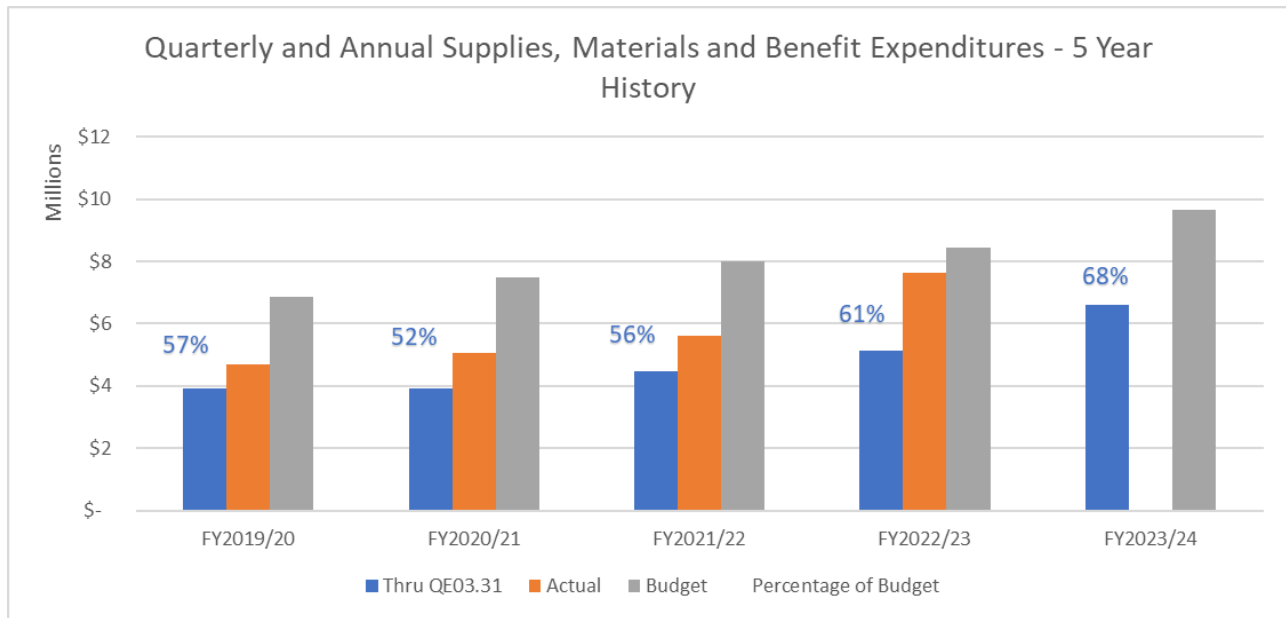


Table 11 shows the Annual Budget for supplies, materials, and services over the past five years compared to the actuals and amounts spent through March 31 each year. The percentage shown above the blue bars shows the percentage of budget used to date for the year.

### General Fund – Fund Balance Review

The following discussion provides the status of the General Fund as a whole. This review shows the projected fund balance over the normal five-year budget horizon.

Several assumptions were used in this analysis. The Beginning Fund Balance is the unaudited balance from fiscal year 2022/23. This number could change between now and when the Town releases its audited annual comprehensive financial statement for the same period.

As a reminder, staff are currently working with the Town's independent financial auditors to complete the audit process and publish the annual comprehensive financial statement. The statements are expected to be presented to Council within the next month.

The Revenues and Expenses were taken directly from the annual operating budget, without any allowance for expected changes. The projections for debt service, capital transfers, loan repayments, designation spending, and fund balance types were also pulled from the fiscal year 2023/24 annual operating budget. Although these numbers are expected to change as the Town embarks on the fiscal year 2024/25 annual operating budget process, these numbers provide a good starting point to benchmark the Town's current and projected financial position.

Extra lines were added under revenues to show the updated revenue projections for both property tax and sales tax. For property tax, it is assumed that the additional amount collected this year will be added to the Town's base for each of the outgoing years and as such, has been included in each of the five-years projected. The outyear changes to sales tax were provided by the Town's sales tax auditors, HDL companies. The Town took the current projection for sales tax and found the difference between the existing projection and HDL's updated projections.

## Quarterly Financial Update - Quarter Ended March 31, 2024

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No adjustments have been included for transient occupancy tax as the Town has only analyzed collections through December 31, 2023. Due to the limited data and the significant volatility in collections, no changes have been made between budgeted and estimated actual.

Extra lines were added under expenditures to show the additional projected cost associated with items previously presented to Council for approval. The projection for the additional Senior Planner position has been increased by 5% each year to represent the probable cost increases associated with the position. The LPR Amendment is the outyear cost associated with the Police Departments License Plate Reader cameras.

Extra lines were also added under Capital Transfers and Designated Spending to show budget amendments that were approved by Council at previous council meetings.

Staff also showed adjustments to the fund balance types. For Nonspendable, staff showed the reduction to Nonspendable balance projected based on the fiscal year 2022/23 unaudited balances. The reduction to Assigned fund balance is due to the budget amendments previously approved for additional designation spending described above.

Based on these changes, combined with the unaudited, actual results from fiscal year 2022/23, the updated projection for the Cash Available Undesignated balance for fiscal year 2023/24 is projected to be \$25,919,013, \$2,725,447 more than the projected balance. The Cash Available Undesignated balance increased from \$4,947,772 to \$9,652,917 in the fifth year, an increase of \$4,705,145.

## Quarterly Financial Update - Quarter Ended March 31, 2024

| Fiscal Year                                  | 2022/23               | 2023/24            | 2024/25              | 2025/26   | 2026/27              | 2027/28            |
|--|-----------------------|--------------------|----------------------|---|----------------------|--------------------|
|  | Unaudited<br>Balances | Budgeted           | Updated<br>Projected | Updated<br>Projected                                | Updated<br>Projected | Projected          |
| Beginning Balance                            | 50,143,385            | 55,580,506         | 47,062,795           | 41,728,216  | 37,186,814           | 31,674,915         |
| Revenues                                     | 39,739,128            | 38,380,723         | 38,574,380           | 39,550,386  | 40,349,119           | 41,118,910         |
| Updated Revenue Estimates                    |                       |                    |                      |   |                      |                    |
| Property Tax                                 |                       | 982,819            | 982,819              | 982,819   | 982,819              | 982,819            |
| Sales Tax (from HDL)                         |                       | (415,652)          | (533,402)            | (596,354)   |                      |                    |
| Interest                                     |                       | 804,303            |                      |   |                      |                    |
| Less: Expenditures                           | (26,991,557)          | (32,269,785)       | (34,183,892)         | (35,107,519)  | (36,514,340)         | (38,065,547)       |
| Changes to Projections                       |                       |                    |                      |   |                      |                    |
| LPR Amendment                                |                       |                    | (11,500)             | (11,500)  | (11,500)             | (11,500)           |
| Add'l Senior Planner                         |                       |                    | (180,000)            | (189,000)   | (198,450)            | (208,373)          |
| <b>Net Operating Revenue/(Expense)</b>       | <b>12,747,571</b>     | <b>7,482,408</b>   | <b>4,648,405</b>     | <b>4,628,832</b>                                    | <b>4,607,648</b>     | <b>3,816,309</b>   |
| Less: Debt Service                           | (934,037)             | (951,397)          | (943,710)            | (949,307)   | (948,593)            | (943,601)          |
| Repayment of Loans                           | 132,200               | 100,000            | 100,000              | 100,000   | 100,000              | 100,000            |
| Capital Transfers                            | (1,389,311)           | (9,592,182)        | (6,619,274)          | (6,155,466)   | (7,215,954)          | (4,758,592)        |
| Budget Amendments -                          |                       |                    |                      |   |                      |                    |
| C2403 DEI Action Plan                        |                       | (71,700)           |                      |   |                      |                    |
| C2414 Dark Skies                             |                       | (25,000)           |                      |   |                      |                    |
| Designation Spending                         | (5,119,302)           | (4,990,953)        | (2,520,000)          | (2,165,461)   | (2,055,000)          | (1,055,000)        |
| Budget Amendments -                          |                       |                    |                      |   |                      |                    |
| C2302 2023 Paving & Drainage                 |                       | (280,000)          |                      |   |                      |                    |
| Sustainability Designation                   |                       | (5,500)            |                      |   |                      |                    |
| C2414 Dark Skies                             |                       | (166,720)          |                      |   |                      |                    |
| C2314 Climate Partnerships                   |                       | (16,667)           |                      |   |                      |                    |
| <b>Net Change</b>                            | <b>5,437,121</b>      | <b>(8,517,711)</b> | <b>(5,334,579)</b>   | <b>(4,541,402)</b>                                  | <b>(5,511,899)</b>   | <b>(2,840,884)</b> |
| <b>Total Ending Fund Balance</b>             | <b>55,580,506</b>     | <b>47,062,795</b>  | <b>41,728,216</b>    | <b>37,186,814</b>                                   | <b>31,674,915</b>    | <b>28,834,031</b>  |
| Less: Nonspendable                           | 476,499               | 568,316            | 568,316              | 568,316   | 568,316              | 568,316            |
| Adjustment                                   |                       | (91,817)           | (91,817)             | (91,817)  | (91,817)             | (91,817)           |
| Less: Assigned                               | 25,276,037            | 20,911,170         | 19,641,170           | 18,931,093  | 18,445,586           | 18,948,502         |
| Adjustment for Amendments                    |                       |                    |                      |   |                      |                    |
| Above  |                       | (468,887)          | (468,887)            | (468,887)   | (468,887)            | (468,887)          |
| Less: Restricted                             | 225,000               | 225,000            | 225,000              | 225,000   | 225,000              | 225,000            |
| <b>Total Undesignated (Cash Available)</b>   | <b>25,977,536</b>     | <b>25,919,013</b>  | <b>21,854,434</b>    | <b>18,023,109</b>                                   | <b>12,996,717</b>    | <b>9,652,917</b>   |
| <i>Projection in FY2023/24 Budget</i>        |                       | <i>23,193,566</i>  | <i>18,871,070</i>    | <i>14,853,780</i>                                   | <i>9,054,518</i>     | <i>4,947,772</i>   |
| Previously adopted amendments or projections |                       |                    |                      | Updated projections a part of this Financial Update |                      |                    |

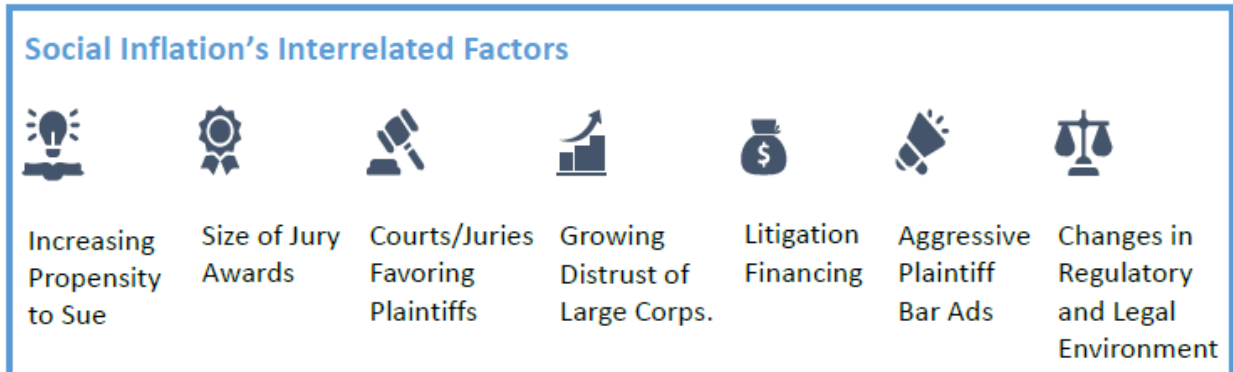
Table 12 shows the General Fund balance for the previous fiscal year and over the five-year projection period included in the annual operating budget. It has been adjusted with updated revenue projections and expenditure budget amendments.

### Risk Management Update

The Town participates in the California Intergovernmental Risk Authority Joint Powers Arrangement (CIRA) to pool resources with other California public agencies for comprehensive coverage. The Town procures general liability coverage, vehicle liability, errors and omissions, workers' compensation, and employers' liability coverage. The Town pays an annual premium to CIRA for this insurance coverage. The purpose of CIRA is to create a self-sustaining risk-pool funded through member premiums that will reinsure through commercial companies for excess coverage.

In recent years, there has been an exodus of companies willing to fund the excess coverage layers across California. The United States, and California in particular, has seen extremely large verdicts. These verdicts are sometimes referred to as nuclear verdicts. Claims that used to settle for around \$5-10 million in 2013-2021 are now resolving for \$20-30 million or more.

The risk market uses the term social inflation to describe this phenomenon of nuclear verdicts, which essentially means that the size of settlements is increasing faster than inflation or actuarial assumptions. The specific factors that are believed to be leading to these nuclear verdicts include the increasing propensity to sue, courts and juries favoring plaintiffs, growing distrust of large corporations, aggressive advertising by attorneys to encourage litigious behavior, and changes in the regulatory and legal environment. These factors work in conjunction with each other. As plaintiff counsel is able to secure larger and larger settlements, it creates an incentive for more attorneys to keep seeking cases and pushing for larger and larger outcomes. If you have ever seen a commercial or a billboard advertising a law firm to help you recover damages following an auto accident, you have seen this social inflation in action.



Social inflation, or the increase of settlements over and above expectations of inflation, has created issues for the carriers who fund those coverage layers. These carriers priced their products at a level below the true exposure line because their prices were based on actuarial assumptions of inflation. As such, they are leaving the market, reducing the amount they are willing to put at risk, restricting coverage with additional exclusionary language, and/or dramatically increasing prices.

Why is this information important to the Town? These changes impact the rates the Town must pay to obtain appropriate levels of coverage through its membership in CIRA. CIRA has provided preliminary estimates of cost for FY2024/25, and the Town is budgeting for a 20% increase for General Liability. This could result in an additional \$100,000 of premium for general liability annually. This has been included in the Town's draft operating budget while CIRA awaits a formal proposal.

## Quarterly Financial Update - Quarter Ended March 31, 2024

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The best way the Town can combat these issues is to prevent claims before they happen. The CIRA board has taken this approach seriously and has invested in a variety of programs to help agencies prevent and reduce risk. One of the major steps CIRA took was hiring a second risk manager to work on the CIRA team, completing annual site visits with each member agency to identify risk areas, and help the agency develop mitigation strategies. The Town received their first risk assessment under this program last July.

CIRA also changed the contract with the pool's claims administration company to provide member agencies with claims managers to investigate and process every claim against the member agencies. Other examples include a pooled contract for DMV pull notices on employee driving records, a workers compensation consultant to help employees return to work faster, an ergonomic specialist that any member-agency employees can access virtually, a pooled contract for sworn-officer mental health products, and cyber risk identification assistance.