

**CITY OF ALBANY
FINANCIAL ADVISORY COMMITTEE
STAFF REPORT**

Agenda Date: May 4, 2022

SUBJECT: Quarterly Financial Update

REPORT BY: Heather Rowden, Finance Director

SUMMARY

This report provides an update on the City's finances compared to budgeted amounts as well as an update on current financial events. This report covers the third quarter of Fiscal Year (FY) 2021-22, through March 31, 2022.

STAFF RECOMMENDATION

Report is for informational purposes only.

BACKGROUND

Quarterly the Financial Advisory Committee reviews the status of the City's finances prior to the report being presented to the City Council. The status update includes revenues, expenditures, and transfers, compared to the adopted budget for the fiscal year.

DISCUSSION AND ANALYSIS

The attached Year to Date Budget to Actuals report shows revenues and expenditures for the General Fund through third quarter of fiscal year 2021-22. At 75% of the way through the fiscal year, expenses are at 69.42% of budget and revenues are at 63.21%.

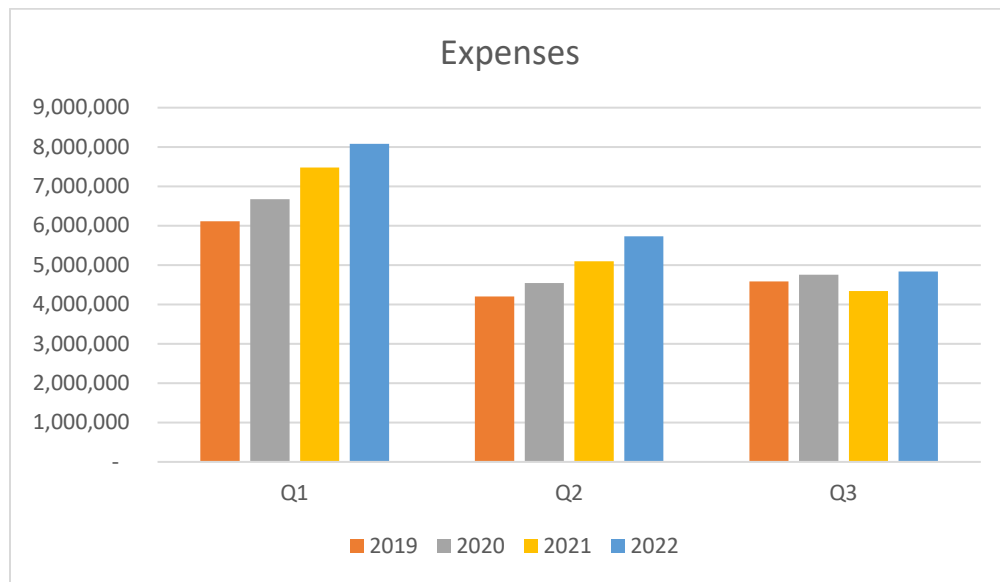
Expenses

The annual operating budget consists of costs associated with the ongoing services offered by the City. On average, 70-75% of the operating budget is made up of staffing costs. On page 2 of Attachment 1, the General Fund summary at the top of the page shows that the City's salary and benefit expense budget is 73.7% spent. All other expenses are at 58.9% of budget.

This is consistent with last year's third quarter update where staffing expenses were at 71.91% of budget and all other expenses were at 54.47%. This shows that the expense budget is continuing to become more in line with actual spending, increasing the chance of recognizing the budgeted deficit. While one could argue that the CalPERS unfunded liability payment, which is included in staffing costs and paid in the first quarter of the year, would

throw off this calculation, staffing costs are still at 69.96% of budget when this payment is removed.

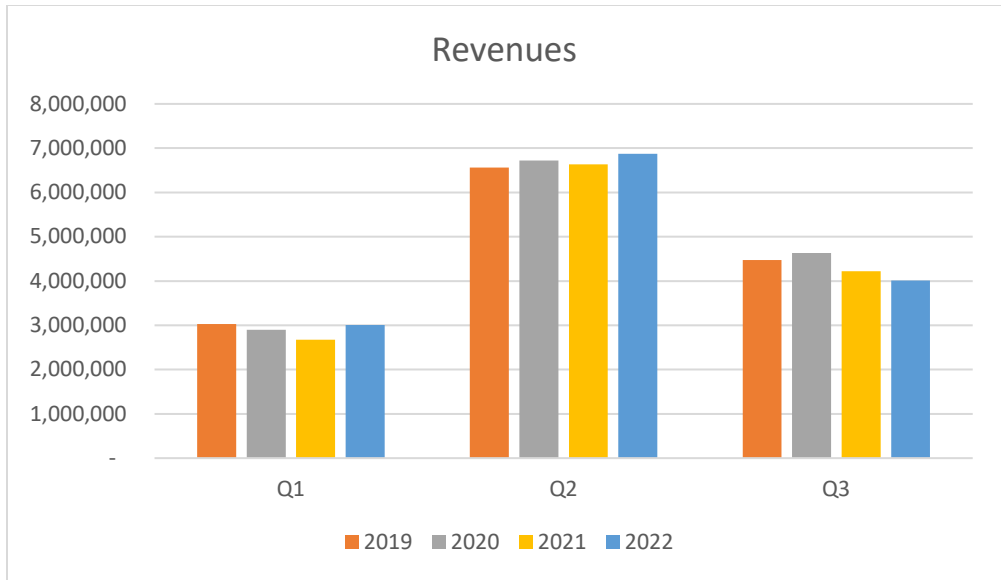
All other expenses are generally budgeted using an average of prior year expenses, known contract and program cost changes, and a cushion for unexpected or “worst case” scenarios. Some budget lines are consistent and easy to plan for, such as cleaning services and office supplies. Others, such as Police forensic services and Public Works building maintenance, can vary drastically from year to year. While staff does not want to over budget, a cushion is required to allow for these unexpected expenses without needing to come back to Council for additional appropriations.



As seen in the chart above, while expenses are increasing year over year, quarter over quarter expenses for fiscal year 2022 are consistent with purchasing trends in prior years. Looking towards year end, it is hard to determine where the City will end the year as fourth quarter expenses have ranged from \$8m in fiscal year 2018 to \$4m in fiscal year 2020. That said, using current spending trends and known encumbrances, staff anticipate ending the year at just over 90% of budgeted expenses.

Revenues

Revenues are coming in as expected at 63.21% of budget compared to 56.18% of budget for quarter three in the prior fiscal year. While this may seem low, fourth quarter revenues generally account for approximately 40% of the actual revenue brought in each year. This is due to year end transfers, such as the pension tax override transfer, and the second half of the property tax payment being made in quarter 4.



As seen in the chart above, fiscal year 2022 revenue trends are consistent with prior years. Over the past few years, tax revenues have exceeded budget projections. This is in part due to decreases in revenue budgets due to the uncertainty of the COVID-19 pandemic while actual revenues came in much higher than expected. In addition, property transfer taxes have far exceeded historical revenues for the past two fiscal years. While this has helped stave off the budgeted deficit, increased property transfer tax cannot be relied upon to continue at the increased rate. Staff continue to look for sustainable ways to increase revenue to the City, including three potential tax measures for the November 2022 ballot, discussed as Item 6-1 on the May 4, 2022, FAC agenda.

The Budget as a Whole

For fiscal year 2021-22, the City has a budgeted deficit of just over \$1.7 million. While the City has budgeted a deficit for the past several years yet ended with a surplus, there were outstanding factors that cannot be relied on for all future budgets. First, understaffing attributed to a significant budget savings in prior years. As explained above, staffing costs are much closer to budgeted this fiscal year, reducing that savings. In addition, sales tax and property transfer tax revenues have exceeded budget, eliminating any realized deficit.

While staff do not anticipate realizing a deficit for fiscal year 2021-22, barring any extraordinary items, no significant surplus is expected.

Cash and Investments

As seen in Attachment 2 – Cash and Investments, the city’s cash holdings have increased significantly compared to this time last year. It is important to remember that these amounts are pooled funds associated with several revenue sources. While revenue and expense cash flows in the General Fund operating budget tend to be fairly consistent year over year, special revenue and capital funds tend to have more fluctuation. For example, several plans and projects require significant funding, as noted in Section 7.2 of the Biennial Budget Booklet, attached to this report, and the City’s Capital Improvement Plan. As such, while

staff plan for these expenses, accumulated assets will grow. When a project is started and payments being to be made, the amount of cash will fall.

Aside from planning for future expenses, there are three specific items that account for half of the total increase:

- American Rescue Plan Act: In July, 2021, the City received \$2,355,851 as the first of two installments from the federal government. To date, the City has spent \$57,043.79, however most of the \$2m received last year has been allocated by Council. The American Rescue Plan Act funds are discussed further in the next section of this report.
- Increase in Real Property Transfer Taxes: In fiscal years 2021 and 2022, the City has collected far more transfer tax than in prior years. From fiscal year 2016 through fiscal year 2020, the City received an average of \$1.7m in transfer taxes each year. In fiscal year 2021 this increased to \$2.9m and the City has collected \$2.3 in transfer taxes so far this year. While the transfer tax rate increased in January 2021, the anticipated increase in revenue was just under \$400,000.
- Sewer Fund: In anticipation of spending on larger projects, funds are accumulating in the Sewer fund. There is approximately \$1m more pooled cash in the sewer fund at the end of quarter three compared to a year ago. The majority of that money is earmarked for future projects.

American Rescue Plan Act (ARPA)

As mentioned above, in July, 2021, the City received \$2,355,851 from the federal government for COVID-19 pandemic mitigation and economic relief. The City is scheduled to receive another \$2,355,851 in July, 2022. The funds must be appropriated by December 31, 2024, and spent by December 31, 2026.

The first annual compliance report is due to the United States Treasury by April 30, 2022. Staff submitted the report on April 8, 2022. In addition to reporting the amounts spent to date, the Treasury requires that recipients provide the amount allocated as well as descriptions of the programs funded. Reports will be required annually for each year of the program.

To date, Council has appropriated \$2,217,000 as follows:

Homelessness mitigation and housing services	\$285,000
IT hardware	\$30,000
Temporary COVID19 Individual Assistance Program	\$900,000
Small business grants	\$1,000,000
Solano Avenue Association Winter Stroll	\$2,000

Individual Assistance

Staff contract with Berkeley Food and Housing Project to provide homelessness mitigation and housing services. The expanded funding has allowed Albany to maintain the services and housing opportunities provided at the beginning of the pandemic.

In March, the City filled the COVID Community Engagement position created with the Temporary COVID19 Individual Assistance Program. This staff member has been working on the implementation of the Individual Assistance Program for residents and businesses that have been impacted by the COVID pandemic. Programs include the monthly grocery program, small business grant program (discussed below) and friendship club subsidies. Staff is also providing assistance helping to connect residents to the resources available through the Albany CARES program.

Business Assistance

To spur economic recovery, Council authorized financial support to the Solano Avenue Association for their Winter Stroll. In addition, Council authorized a grant program to provide relief to small businesses effected by the pandemic. The COVID Small Business Grant Assistance Program began accepting applications on April 8, 2022. The application window for the first round of grants closes May 20, 2022 and can be found online at <https://www.albanyca.org/our-city/business-in-albany/covid-small-business-assistance-grant-program>.

Fiscal Year 2022-23 Budget

In June 2021, Council passed a biennial budget covering fiscal years 2021-22 and 2022-23. The biennial budget booklet is attached to this report. Resolution 2021-57 appropriated funds for both fiscal years. While small changes to a biennial budget may be needed on occasion, staff do not anticipate bringing forward an update to the budget as a whole at this time.

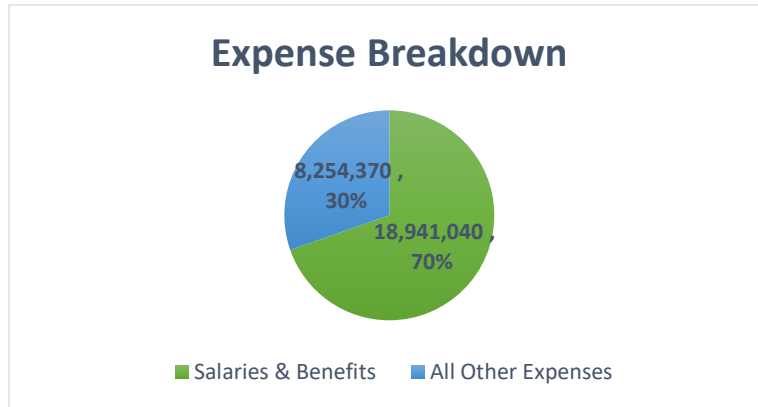
The 2022-23 budget included all applicable union salary increases, as well as anticipated changes to the CalPERS unfunded liability payment and the increase in insurance costs. Overall, the fiscal year 2022-23 budgeted expenses are 4.02% higher than the 2021-22 budget as shown below:

	2022	2023	% Increase
General Government	7,965,454	8,335,762	4.65%
Police Department	7,628,381	7,933,603	4.00%
Fire Department	3,922,371	4,111,837	4.83%
Public Works	3,049,305	3,075,512	0.86%
Recreation	2,042,133	2,079,090	1.81%
Community Development	1,536,860	1,659,606	7.99%

Total General Fund Expenses	26,144,504	27,195,410	4.02%
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Of the \$1,050,906 increase, \$551,050 was due to the anticipated increases to the CalPERS unfunded liability and insurance premiums.

As shown in the following chart, 70% of the City’s expenses are staff costs:



While expenses are expected to increase by \$1 million, revenues are only budgeted to increase \$409,079. This increases the budgeted deficit to \$2,376,445. While the City has not realized budgeted deficits in prior years, this cannot be relied on moving forward. Staffing of budgeted positions has been evening out, removing the surplus previously recognized due to budget savings. This is shown by the fact that Police salaries, previously a category where the City recognized a significant budget savings, are on track to be over 90% spent. In addition, the past two years the City has seen a significant spike in property transfer tax revenues, increasing by almost \$1.2 million from fiscal year 2019-20 to 2020-21. Transfer taxes are on track to bring in this much again for FY2021-22. While generally an increased revenue trend like this may be something to rely on moving forward, home sales cannot be expected to continue at this rate.

In addition to the work being done by the Financial Advisory Subcommittee on revenue generating measures. Council has directed staff to draft potential ballot measures addressing changes to the EMS/ALS parcel taxes, the business license tax, and a tax on vacant commercial property. If passed by Council, these measures would be on the November 2022 ballot and revenue from these changes would generally not be realized until fiscal year 2023-24.

The City must also begin planning for capital asset repair and replacement. While routine wear and tear maintenance is budgeted for in the operating budget, larger asset repair and replacement is not. These costs are generally accounted for in reserve funds that are funded in several ways to even out larger expenses that do not happen every year. This idea is discussed in Section 7.2 of the Biennial Budget Booklet.

To meet these needs, staff recommend allocating surplus revenue from fiscal year 2020-21 to reserve funds per the General Fund Reserve Policy, adopted by Council in June, 2019. The Policy, shown in section 1.3.1 of the attached Biennial Budget Booklet, details what excess fund balance should be allocated to in Section 5. Capital improvements and equipment purchases are listed directly after unfunded pension liabilities.

Council has already authorized \$1 million in additional payments to CalPERS for fiscal year 2021-22. At the February 22, 2022 Council meeting, staff recommended allocating the remaining \$1,225,000 above the 25% General Fund Reserve Policy amount to Capital Reserve funds as follows:

Reserve Fund	Minimum Funding Level	Current Balance	Suggested Contribution	Proposed Ending Balance
Community Development Reserve Funds (0004/2208/2401)	\$100,000	\$580,475	\$100,000	\$680,475
Emergency Medical Services (EMS) Reserve Fund (2204)	\$100,000	\$220,500	\$100,000	\$320,500
Fire Department Reserve Fund (2203)	\$100,000	\$407,635	\$250,000	\$657,635
General City Building Reserve Fund (2007)	\$250,000	\$402,616	\$150,000	\$552,616
IT Equipment Reserve Fund (2207)	\$50,000	\$365,000	\$250,000	\$615,000
KALB Equipment Reserve Fund (2209)	\$50,000	\$50,000	\$0	\$50,000
Police Department Reserve Fund (2202)	\$100,000	\$57,810	\$175,000	\$232,810
Public Works Reserve Fund (2210)	\$100,000	\$250,000	\$100,000	\$350,000
Recreation Reserve Fund (2211)	\$100,000	\$166,372	\$100,000	\$266,372

Council directed staff to bring this item to the Financial Advisory Committee for consideration prior to voting at the Council level.

Uses of these reserves are dictated in the Capital Reserve Fund Policy, Section 1.3.2 of the attached Biennial Budget Booklet, and larger needs over the next 4 years are listed in Section 7.2. General fund monies allocated to reserve funds are used for planning purposes and may be reallocated by Council at any time. Capital reserve funds are not meant to fully fund larger asset replacements or acquisitions, such as building renovations or fire apparatus, which are generally funded through debt issuance. Capital reserve funds are used for smaller repairs and replacement as well as to offset the need to borrow 100% of larger purchases.

Attachments

1. Fiscal Year 2021-22 Year to Date Budget to Actuals Report
2. March 31, 2022 Cash and Investments Summary
3. Biennial Budget Booklet