

**CITY OF ALBANY
CITY COUNCIL AGENDA
STAFF REPORT**

Agenda Date: March 18, 2024
Reviewed by: NA

SUBJECT: Fiscal Year 2023/24 Second Quarter Budget Review and Mid-Year Update

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SUMMARY

This report provides a review of the City's finances compared to budgeted amounts as well as an update on current financial status. This report covers the second quarter of financial year (FY) 2023/24 and provides a mid-year update.

STAFF RECOMMENDATION

Report is for informational purposes only. No action required.

BACKGROUND

Each quarter, staff provides the City Council a review of the City's financial status. The status update includes information and analysis of revenues and expenditures, as well as identifying any needed budget adjustments.

DISCUSSION AND ANALYSIS

The attached Year-to-Date Budget to Actuals reports show revenues and expenditures for the General Fund through the second quarter of FY 2023/24. Expenses ended at 51.5% of the estimated budget while revenues came in at 43.3%. A detailed analysis of the revenues and expenditures to date is provided in the following sections.

Definitions

The following definitions are used to describe amounts in the remainder of the report.

2023/24 Adopted Annual Budget or Estimated Adopted Budget represents the budget adopted by the City Council on June 5, 2023.

2023/24 Estimated Q2 Budget or Estimated Q2 Budget represents the estimated budget calculated for the first two quarters of the current fiscal year which is based on the first two quarters of the prior fiscal year, taking into consideration the timing of certain revenues and expenditures when possible.

2023/24 Second-Quarter Actual or Q2 Actual represents actual revenues or expenditures recorded during the first two quarters of the current fiscal year.

GENERAL FUND

A review of FY 2023/24 actuals through the second quarter compared to the Estimated Budget for the General Fund is as follows:

	<u>2023/24 Adopted Budget</u>	<u>2023/24 Estimated Budget through Q2</u>	<u>2023/24 Actual through Q2</u>	<u>Variance of Estimated Budget to Actual through Q2</u>
Revenues	\$30,144,961	\$14,620,306	\$13,038,421	(\$1,581,885)
Expenditures	\$31,452,849*	\$17,236,161	\$16,204,760	\$1,031,402

* The Fiscal Year 2023/24 Adopted Budget reflects a \$1.3 million budget deficit.

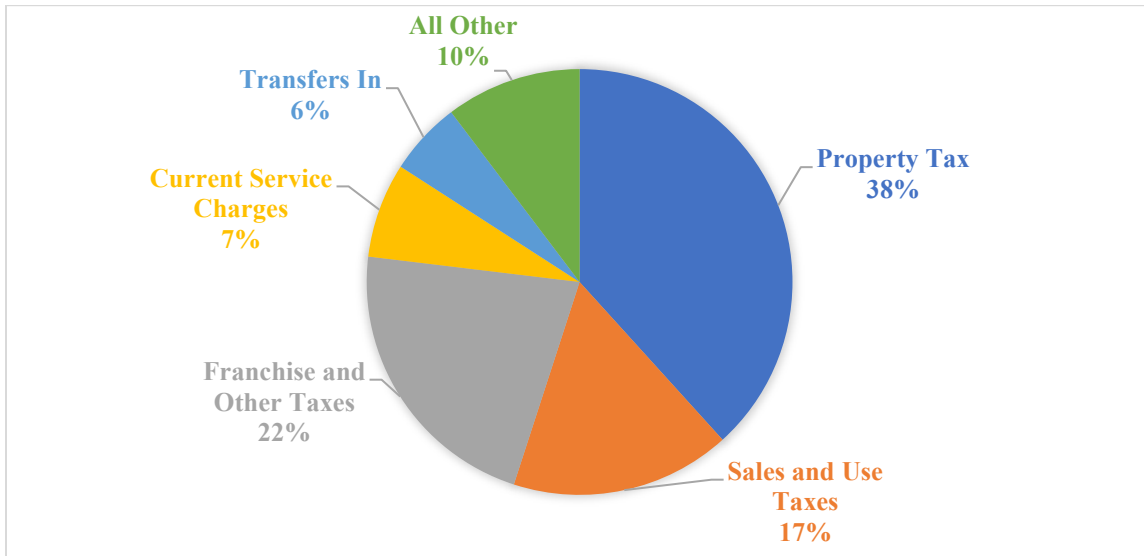
Comparing current-year expenditures to the same point last fiscal year shows that actual expenditures through the second quarter are favorably lower when compared to the same time last year. Departments overall are staying within their budgeted expenditure authority so far this year.

Revenues are below what is estimated for the first half of the fiscal year when compared to the same point last fiscal year. However, the disbursement for both retail and local sales taxes were only received for five months rather than six through the second quarter of the fiscal year resulting in lower than actual revenues compared to the estimated budget through Q2.

More detail on revenues and expenditures is included in the following sections.

REVENUES

FY 2023/24 PERCENT OF TOTAL REVENUES BY TYPE THROUGH Q2

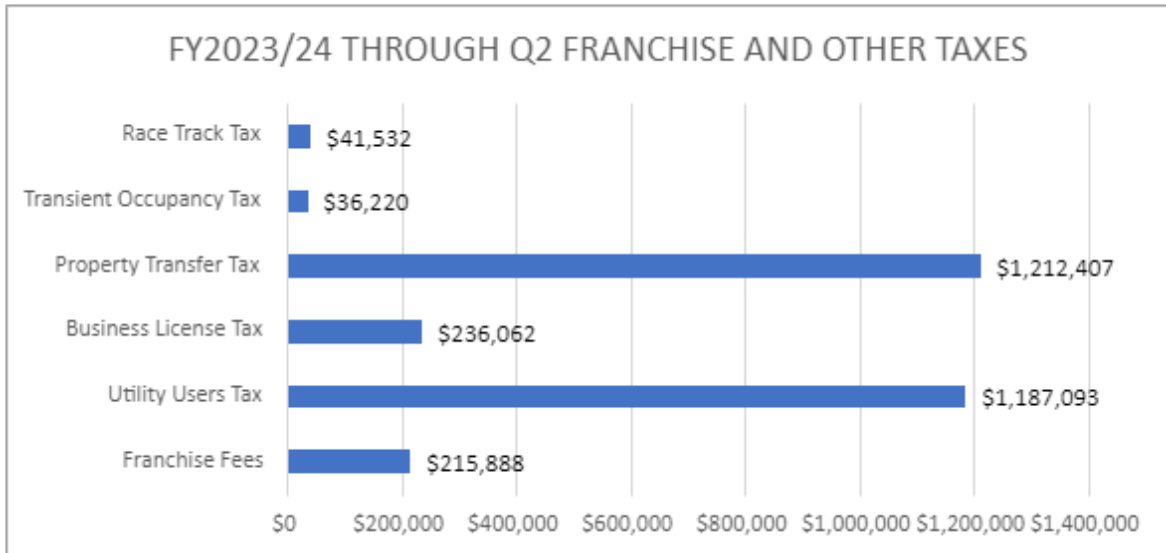


A review of FY 2023/24 actual amounts through Q2 compared to the Estimated Budget (percent of total revenues at the same point in time last fiscal year) for General Fund revenues follows:

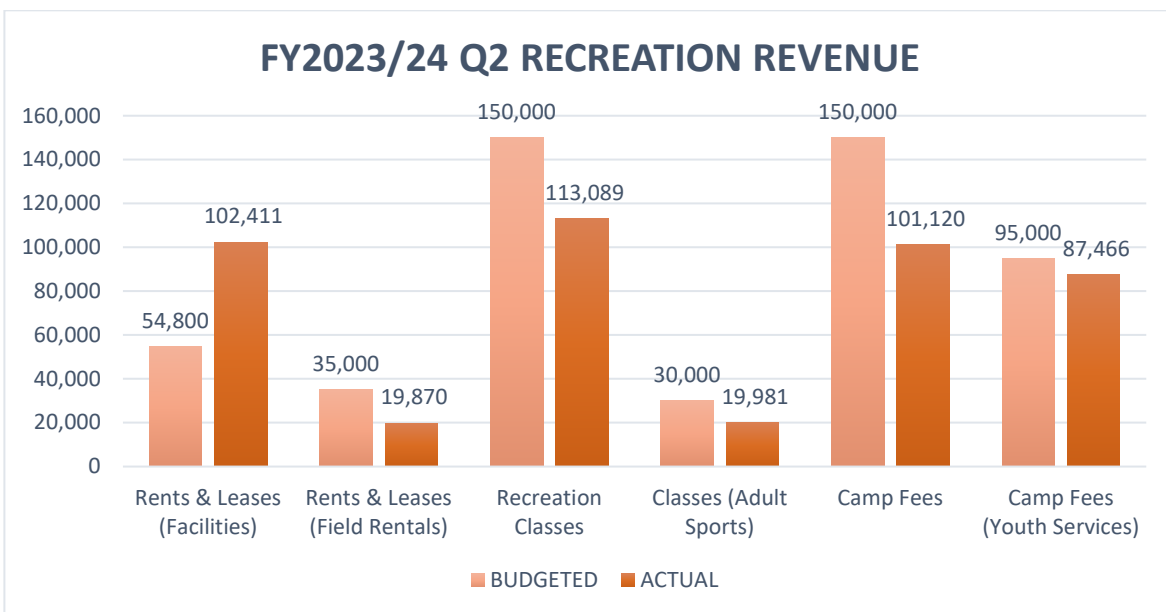
REVENUES	Adopted Budget	Estimated Budget through Q2	Actual through Q2	Percent of Estimated Budget	Variance
Property Tax	\$10,000,000	\$4,850,000	\$4,991,135	102.9%	\$141,135
Sales and Use Taxes	\$4,970,000	\$2,410,450	\$2,179,846	90.4%	(\$230,604)
Franchise & Other Taxes	\$6,070,000	\$2,943,950	\$2,856,493	97.0%	(\$87,457)
Licenses & Permits	\$455,200	\$220,772	\$369,156	167.2%	\$148,384
Fines & Forfeitures	\$270,000	\$130,950	\$127,000	97.0%	(\$3,950)
Earnings on Investments	\$490,000	\$237,650	\$655,555	275.8%	\$417,905
Revenues/Other Agencies	\$255,000	\$123,675	\$90,719	73.4%	(\$32,956)
Current Service Charges	\$1,408,892	\$683,313	\$939,366	137.5%	\$256,053
Other Revenue	\$256,650	\$124,475	\$101,564	81.6%	(\$22,911)
Transfers In	\$5,969,219	\$2,895,071	\$727,587	25.1%	(\$2,167,484)
Total Revenues	\$30,144,961	\$14,620,306	\$13,038,421	89.2%	(\$1,581,885)

Revenues fluctuate more than expenditures throughout the year. By Q2 this fluctuation begins to level out to give a more accurate estimation of how the year will end. Through Q2 Actual total revenues for FY2023/24 are \$1,581,885 less than the Estimated Q2 Budget

totals. Sales and use tax are typically the second largest revenue for the City. To date, the City has received five months of sales tax revenue for both retail sales tax and local tax. This tax is often received on a delay.



Property tax, earnings on investments and current service charges are the revenue categories with the most positive trends in the first half of the fiscal year. Investment earnings are benefiting from the rise in interest rates during the past fiscal year. Revenues earned from programs in the Recreation & Community Services Department are part of the current service charges category. This department’s programs are trending higher than estimated, and staff will continue to monitor as the current fiscal year progresses to determine if this trend continues.



* Budgeted amount shows the total amount budgeted for all of FY2023/24 compared to revenue received through Q2.

Measure DD – Utility User Tax

Measure DD was passed in November 2020 increasing the Utility User Taxes (UUT) on the use of gas and electric utilities in Albany while also adding a new tax for water use. The tax rates were updated per the table below.

Utility	Prior Tax Rate	New Tax Rate
Electricity	7%	9.5%
Gas	7%	9.5%
Water	None	7.5%
Telecommunications	6.5%	6.5%

These changes were anticipated to bring in an additional \$675,000 in revenue annually. The additional revenues through Q2 for FY2023/24 are detailed in the table below.

UUT	Old Rate	New Rate	Difference
Electric	\$444,434	\$603,160	\$158,726
Gas	\$111,091	\$150,766	\$39,675
Water	\$0	\$218,859	\$218,859
TOTAL	\$555,524	\$972,785	\$417,261

Total revenues from affected utility user taxes for FY2023/24 Q2 are \$972,785, with an increase of \$417,261 attributable to the increased rates approved in 2020.

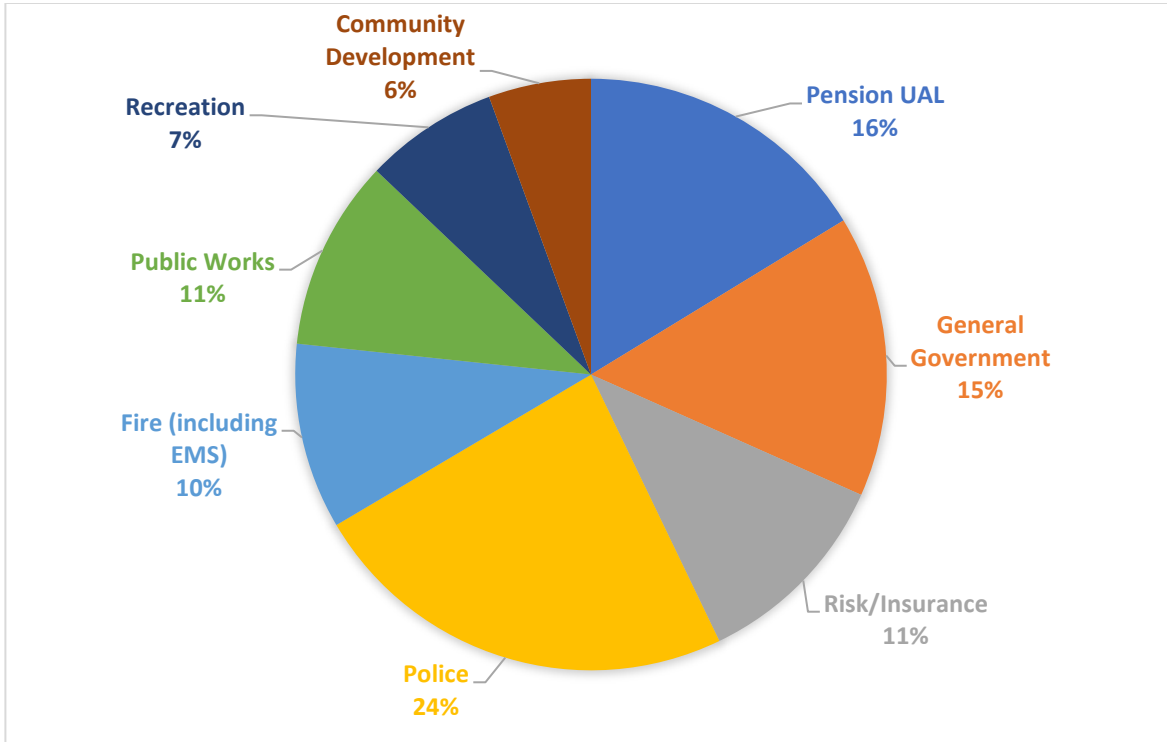
This tax was passed as a general tax with more than 50% of the vote rather than a special tax which would require a two-thirds threshold. Measure DD included language stating that the *City Council will endeavor to expend at least one-third (1/3) of the additional revenue generated from the increase in the maximum electricity users' tax rate (above 7%) for the following spending priorities:*

1. *Those Action Items in the City's Climate Action and Adaptation Plan, approved by the City Council on December 2, 2019, and as it may be amended from time to time by the City Council.*
2. *Additional environmental sustainability programs as may be authorized by the City Council.*

It should be noted, however that since the measure was passed as a general tax, revenues may be budgeted by Council to pay for any valid expenditures of the City.

EXPENDITURES

**FY 2023/24 PERCENT OF TOTAL EXPENDITURES THROUGH Q2
BY DEPARTMENT**



A review of the actual expenditures through the second quarter of FY2023/24 compared to the Estimated Budget for General Fund expenditures shows:

	2023/24 Adopted Budget	2023/24 Estimated Budget through Q2	2023/24 Actual through Q2	Variance of Estimated Q2 Budget to Actual
Expenditures:				
Salaries and Benefits	\$21,998,355	\$12,055,099	\$11,459,739	\$595,360
Other Expenses	<u>9,454,494</u>	<u>\$5,181,063</u>	<u>\$4,745,021</u>	<u>\$436,042</u>
Total Expenditures	<u>\$31,452,849</u>	<u>\$17,236,161</u>	<u>\$16,204,760</u>	<u>\$1,031,402</u>

Salaries and benefits for staff make up 70% of the budgeted expenditures for the City in FY2023/24. Overall, salaries and benefits were \$595,360 under the Estimated Q2 Budget.

A few large expenditures are regularly paid in the first half of each fiscal year. For this reason, comparing the Estimated Q2 Budget to the Q2 Actual provides a clearer picture if the City is on track than if the budget was divided into equal quarters.

One large payment due early in the fiscal year is the Unfunded Actuarial Liability (UAL) for pensions; this payment is an obligation the City must pay to fully fund the pension of staff. This year the City paid \$2.6 million for the UAL; this expenditure is budgeted under the Salaries and Benefits of Administration. It should be noted that there is no updated information regarding the City's UAL at the mid-point of a fiscal year as CalPERS generally only provides updates one time per year. However, the same cautions that existed at the time of the budget regarding significant increases in the required UAL payments over the next eight to ten years still exist. Between FY2023/24 and FY2031/32 the UAL payment is expected to nearly double, rising by an estimated \$2.5 million. While the actual number will depend in part on investment returns for CalPERS, it is unlikely that those required contributions will be reduced over that timeframe. Albany, like most cities in the state, will need to develop funding strategies that allow the overall budget to remain balanced.

The annual contribution to the City's insurance provider of \$1.8 million is also paid in the first quarter of the fiscal year and is budgeted under Other Expenses for Administration. Finance utilizes a higher portion of the department's budget for Other Expenditures for charges related to audit services and the annual payment for the current financial system.

Summary

Overall, the City ended the second quarter of FY2023/24 somewhat behind on revenue collections although the second half of the year will include a significant number of transfers in of revenue from other funds (special revenue funds) that have been budgeted but the transfers have not yet been made. Expenditures are trending well through the first half of the year, with departments generally staying within budgeted amounts.

A deficit of \$1.3 million was anticipated with the adopted FY2023/24 budget. If revenues do not pick up as expected in the second half of the year, the City may experience a deficit or a larger deficit than anticipated this fiscal year. It should also be reiterated that in FY2024/25, the City anticipates a potential decrease in sales tax or other revenue due to the intended closure of Golden Gate Fields later this year.

Mid-Year Analysis/Recommendations

Typically, at mid-year, staff look to identify if there are any extraordinary budget adjustments that need to be made based on trends through the first two quarters or other unanticipated items. While there are a few areas that may require adjustments prior to the end of the year, there are no immediate adjustments required at this time. Departments will continue to monitor their budgets and if adjustments are needed prior to year-end, those will be brought to the City Council in May or June. By that time, staff will have a clearer sense of where there may need to be adjustments based on nearly a full fiscal year.

Cash and Investments

Attachment 2 – Cash and Investments shows the City’s cash and investment holdings as of December 31, 2023. 3 So far, \$33.5 million has been invested in CAMP, a municipal investment clearing authority currently paying 4.5% on their money market account with the balance invested in compliance with the City’s Investment Policy.

FINANCIAL ADVISORY COMMITTEE REVIEW

On [March 6, 2024, the Financial Advisory Committee \(FAC\) received a presentation](#) on the status of the City’s finances at the end of the second quarter of FY2023/24, mid-way through the year. The FAC discussed a number of items in the report and in particular wanted perspective on the budgeted deficits. It has been expressed in the prior meetings that consistent budgeted deficits that are not realized may cause a false sense of security that a deficit will not occur. The Committee was also interested in the methods of handling a potential budget deficit. Staff outlined conservative budgeting of revenues. In addition, budgeting a deficit could include an explicit appropriation of reserves by Council to both balance the budget and highlight the fact that there is not sufficient revenue to cover operating expenses. If the appropriation is utilized at year end this serves as an indicator that there is a structural imbalance to address.

The Committee also asked about transfers of revenue into the General Fund and the timing of reporting from restricted funds to the general fund to gain an understanding of the revenue. The overall sentiment of the Committee after the mid-year review is that while the City is not in a dire financial situation, the potential of realizing a deficit this fiscal year and next fiscal year raises the need for caution and evaluation of the City’s revenues and expenses.

Attachments

1. Fiscal Year 2023/24 Second Quarter Budget to Actuals Report
2. December 31, 2023 Cash and Investments Summary



Fiscal Year 2023/24

Quarter 2

Budget to Actual Review

0001 - GENERAL FUND						
	Fiscal Year 2022-23	Adopted Budget	Quarter 1	Quarter 2	FY 2023-24 Year to Date	YTD Adopted Budget %
Revenues						
Property Tax	9,492,392	10,000,000	293,994	4,697,142	4,991,135	49.91%
Sales and Use Taxes	5,101,812	4,970,000	957,882	1,221,964	2,179,846	43.86%
Franchise and Other Taxes	6,651,687	6,070,000	1,470,947	1,385,546	2,856,493	47.06%
Licenses and Permits	727,159	455,200	191,658	177,498	369,156	81.10%
Fines and Forfeitures	239,762	270,000	77,256	49,744	127,000	47.04%
Earnings on Investments	347,033	490,000	37,874	617,681	655,555	133.79%
Revenues from Other Agencies	370,451	255,000	45,712	45,007	90,719	35.58%
Current Service Charges	1,632,671	1,408,892	618,969	320,396	939,366	66.67%
Other Revenue	329,954	256,650	8,720	92,844	101,564	39.57%
Transfers In	3,832,211	5,969,219	288,508	439,079	727,587	12.19%
Total Revenues	28,725,132	30,144,961	3,991,519	9,046,902	13,038,421	43.25%
Expenditures						
General Government	9,057,644	10,128,525	5,529,521	1,415,023	6,944,544	68.56%
Police	7,330,164	8,149,497	1,679,103	2,153,008	3,832,111	47.02%
Fire	3,339,045	3,755,000	740,030	906,861	1,646,891	43.86%
Public Works	3,215,255	4,566,754	744,768	944,853	1,689,621	37.00%
Recreation	2,577,932	2,548,736	604,105	579,826	1,183,931	46.45%
Community Development	1,709,394	2,304,337	410,321	497,340	907,661	39.39%
Total Expenditures	27,229,434	31,452,849	9,707,848	6,496,912	16,204,760	51.52%
Excess (Deficiency) of Revenues Over Expenditures	1,495,698	(1,307,888)	(5,716,329)	2,549,990	(3,166,339)	

Summary by Department

	2023 Actuals	Approved 2024 Budget	FY 2023-24 Quarter 1 Actuals	FY 2023-24 Quarter 2 Actuals	FY 2023-24 Year to Date	% of Budget
0001 - GENERAL FUND	1,496,843	111,635	(5,716,329)	2,549,990	(3,166,339)	
Expenses	27,228,289	31,447,849	9,707,848	6,496,912	16,204,760	51.5%
Salaries and Benefits	19,165,649	18,998,355	3,940,926	4,880,659	8,821,585	46.4%
Pension UAL		3,000,000	2,638,154	0	2,638,154	87.9%
Other Expenses	8,062,640	9,449,494	3,128,767	1,616,253	4,745,021	50.2%
Revenues	28,725,132	30,144,961	3,991,519	9,046,902	13,038,421	43.3%
11 - CITY COUNCIL	84,234	135,312	29,343	19,621	48,964	36.2%
Expenses	84,234	135,312	29,343	19,621	48,964	36.2%
Salaries and Benefits	65,871	43,312	18,361	18,361	36,723	84.8%
Other Expenses	18,363	92,000	10,982	1,259	12,241	13.3%
12 - ADMINISTRATION	(17,653,909)	(17,886,790)	2,102,106	(7,188,537)	(5,086,431)	28.4%
Expenses	6,774,422	7,471,327	4,914,132	785,583	5,699,715	76.3%
Salaries and Benefits	3,841,498	4,393,437	2,904,465	418,816	3,323,281	75.6%
Other Expenses	2,932,924	3,077,890	2,009,667	366,767	2,376,434	77.2%
Revenues	24,428,331	25,358,117	2,812,026	7,974,120	10,786,146	42.5%
122 - HUMAN RESOURCES	495,257	615,121	96,265	153,886	252,311	41.0%
Expenses	495,257	615,121	96,265	153,886	252,311	41.0%
Salaries and Benefits	302,720	426,360	62,401	105,075	169,636	39.8%
Citywide Benefits	91,282	90,911	13,977	21,666	35,643	39.2%
Other Expenses	101,255	97,850	19,887	27,145	47,032	48.1%
13 - CITY CLERK	444,822	472,290	49,693	143,375	193,068	40.9%
Expenses	444,941	472,440	98,383	143,375	241,758	51.2%
Salaries and Benefits	394,955	424,690	91,832	135,922	227,755	53.6%
Other Expenses	49,986	47,750	6,551	7,452	14,003	29.3%
Revenues	119	150	48,690	0	48,690	32459.9%
17 - FINANCE	1,255,130	1,392,325	390,850	309,915	700,766	50.3%
Expenses	1,258,790	1,434,325	391,397	312,559	703,956	49.1%
Salaries and Benefits	971,719	1,114,275	224,555	238,768	463,323	41.6%
Other Expenses	287,071	320,050	166,842	73,791	240,633	75.2%
Revenues	3,660	42,000	546	2,644	3,190	7.6%

Summary by Department

	2023 Actuals	Approved 2024 Budget	FY 2023-24 Quarter 1 Actuals	FY 2023-24 Quarter 2 Actuals	FY 2023-24 Year to Date	% of Budget
19 - POLICE	6,972,340	7,761,655	1,481,345	2,102,361	3,583,706	46.2%
Expenses	7,330,164	8,149,497	1,679,103	2,153,008	3,832,111	47.0%
Salaries and Benefits	6,464,755	7,535,897	1,511,627	1,962,067	3,473,694	46.1%
Other Expenses	865,409	613,600	167,476	190,941	358,417	58.4%
Revenues	357,824	387,842	197,758	50,646	248,404	64.0%
20 - FIRE	2,937,742	3,456,750	721,860	893,355	1,615,215	46.7%
Expenses	3,339,045	3,755,000	740,030	906,861	1,646,891	43.9%
Salaries and Benefits	2,750,558	2,930,306	641,010	825,921	1,466,932	50.1%
Other Expenses	588,487	824,694	99,020	80,940	179,960	21.8%
Revenues	401,303	298,250	18,169	13,507	31,676	10.6%
21 - PUBLIC WORKS	1,792,789	2,203,452	463,760	505,545	965,974	43.8%
Expenses	3,214,110	4,566,754	744,768	944,853	1,686,290	36.9%
Salaries and Benefits	1,418,312	1,860,354	377,377	331,788	705,834	37.9%
Other Expenses	1,795,798	2,706,400	367,391	613,065	980,456	36.2%
Revenues	1,421,322	2,363,302	281,008	439,308	720,316	30.5%
22 - RECREATION	1,405,078	1,533,736	231,768	294,308	526,075	34.3%
Expenses	2,577,932	2,548,736	604,105	579,826	1,183,931	46.5%
Salaries and Benefits	1,763,359	1,746,126	419,036	464,716	883,751	50.6%
Other Expenses	814,573	802,610	185,069	115,111	300,180	37.4%
Revenues	1,172,854	1,015,000	372,337	285,519	657,856	64.8%
23 - COMMUNITY DEV	769,674	1,624,037	149,336	216,182	365,518	22.5%
Expenses	1,709,394	2,304,337	410,321	497,340	907,661	39.4%
Salaries and Benefits	1,100,619	1,432,687	314,438	357,559	671,998	46.9%
Other Expenses	608,775	871,650	95,883	139,781	235,664	27.0%
Revenues	939,720	680,300	260,985	281,158	542,143	79.7%
1002 - EMS Fund	(473)	0	292,292	597,126	889,418	
Expenses	2,727,165	3,259,667	635,966	908,544	1,544,510	47.4%
Salaries and Benefits	2,412,421	2,935,527	567,278	792,038	1,359,316	46.3%
Other Expenses	314,744	324,140	68,688	116,506	185,194	57.1%
Revenues	2,727,638	3,259,667	343,674	311,418	655,092	20.1%



December 31,
2023 Balances

Combined City Accounts (Pooled Cash)

Mechanics' Bank

Main Account	1,076,891
Employee Flex Spending Account	14,292
Money Market	8,970,424
Total Mechanics' Bank	10,061,607

Local Agency Investment Fund (LAIF)

Main Account	90,242
1999 Limited Obligation Bond	1,929,707
Total LAIF	2,019,949

CalTRUST

CalTRUST Short Term Fund	64,777
Total CalTRUST	64,777

BNY Mellon

1999 LLD Bond Reserve Account	0
Storm Drain Note Reserve Account	0
Total BNY Mellon	0

California Asset Management Plan (CAMP)

CAMP Pool	300,514
CAMP Managed	33,248,625
Total CAMP	33,549,139

Total Cash and Investments **45,695,473**

Closed Police and Fire Pension Plan Accounts

Mechanics' Bank

Pension Account	593,667
Total Mechanics' Bank	593,667

Local Agency Investment Fund (LAIF)

Pension Account	33,004
Total LAIF	33,004

Charles Schwab

Cash and Bank Sweep	45,714
Money Market Funds	240,000
Bond Funds	945,590
Equity Funds	1,092,709
Total Charles Schwab	2,324,012

Total Cash and Investments **2,950,683**