



City of South San Francisco
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Report presenting Fiscal Year (FY) 2023-24 Mid-Year Financial Report as of December 31, 2023, and proposed budget amendments for FY 2023-24 City Operating and Capital Improvement Program (CIP) Budgets (*Karen Chang, Director of Finance*)

RECOMMENDATION

Staff requests that the City Council of the City of South San Francisco (“City”) approve a resolution acknowledging the mid-year financial update for FY 2023-24 and approving the proposed budget amendments for FY 2023-24 as reviewed by Budget Standing Committee.

BACKGROUND/DISCUSSION

The information contained herein was presented to the Budget Standing Committee (“Committee”) of the City Council on February 8, 2024. We have incorporated the changes recommended by the Committee in this report.

The City Council approved the FY 2023-24 General, Enterprise and Internal Service Fund budgets on June 28, 2023. The approved budgets feature the annual expenditure and resource allocation plan that guides the implementation of City Council budget policies and priorities. The budget provides funding direction for the broad range of services that meet the needs of the community in accordance with City Council policy.

This financial review provides the mid-year budget update to the City Council for the current fiscal year. Analysis of the revenues collected and all expenditures through December 31, 2023 measures operational adherence to the budgetary allocation plan.

The adjusted budget incorporates current estimates for revenue and expenditure appropriations for all funds as of December 31, 2023. The Mid-Year Financial Report as of December 31, 2023, provides comparisons to the prior year and focuses on variances from the revenue and expenditure plans and allocations contemplated in the budget.

- I. Current Fiscal Year (FY 2023-24) Update
 - A. General Fund Revenues – 2nd Quarter
 - B. General Fund Expenditures – 2nd Quarter
 - C. Additional General Fund Revenue Amendment Request
 - D. Additional General Fund Appropriations Request
 - E. Additional Non-General Fund Appropriations Request

- F. Additional Capital Improvement Plan Request (CIP)
- G. American Rescue Plan Act (ARPA) Summary
- II. Reserves Overview & Considerations

I. CURRENT FISCAL YEAR (FY2023-24) UPDATE

The General Fund finances the operations of the City and pays for basic municipal services. The adjusted FY 2023-24 General Fund budget projects revenues totaling \$143.1 million, which included \$5 million of one-time resources from the City's American Rescue Plan Act (ARPA) fund, and expenditures totaling \$153.9 million, including purchase order encumbrances from FY 2023-24, approved carryover amounts, \$3 million salary attritions, and several City Council approved appropriation amendments prior to December 2023.

The following sections show the revenue and expenditure results as of December 31, 2023.

A. General Fund Revenues – 2nd Quarter

The following table shows actual revenues as of December 31, 2023, with a comparative view of where the City's revenues were at the same time last year (December 31, 2022):

Table 1: FY 2022-23 vs. FY 2023-24 Revenues as of December 31

	FY 2022-23			FY 2023-24		
	Adjusted Budget	Actual as of 12.31.22	% of Budget	Adjusted Budget	Actual as of 12.31.23	% of Budget
REVENUES						
Taxes						
Property Tax	\$45,804,769	\$25,497,501	55.7%	\$47,980,000	\$26,171,076	54.5%
Sales Tax	22,391,018	7,904,924	35.3%	23,351,500	7,901,633	33.8%
Transient Occupancy Tax	14,160,752	7,355,525	51.9%	14,910,000	5,641,871	37.8%
Other Tax	5,693,252	2,731,923	48.0%	6,950,000	1,672,719	24.1%
Franchise Fees	4,600,000	1,202,178	26.1%	4,600,000	1,274,907	27.7%
License and Permits	19,425,400	11,827,560	60.9%	16,962,894	6,853,938	40.4%
Fines & Forfeitures	710,824	397,865	56.0%	700,000	160,232	22.9%
Intergovernmental	4,337,199	882,432	20.3%	4,442,571	2,275,945	51.2%
Charges for Services						
Planning	250,792	181,919	72.5%	510,000	241,305	47.3%
Fire	2,626,314	1,610,740	61.3%	2,728,000	1,516,191	55.6%
Parks & Recreation	2,846,248	1,696,122	59.6%	3,745,254	1,421,925	38.0%
Police	979,649	521,250	53.2%	1,246,670	538,855	43.2%
City Admin & Other	1,562,094	830,300	53.2%	1,989,347	1,011,078	50.8%
Use of Money & Property	5,453,469	3,496,844	64.1%	3,940,000	1,458,731	37.0%
Other Revenues	278,903	157,519	56.5%	337,826	91,563	27.1%
Transfers In	6,151,400	2,472,702	40.2%	8,704,289	813,414	9.3%
TOTAL REVENUES	\$137,272,083	\$68,767,306	50.1%	\$143,098,351	\$59,045,385	41.3%

As shown in the above table, projected revenue for FY 2023-24 is \$143.1 million – approximately \$6.0 million more than the FY2022-23 adjusted budget. Actual revenue collections for the two quarters ending December 31, 2023 is \$10.0 million lower when compared with the prior year.

The following highlights the recommended adjustments to the FY2023-24 revenue budget.

1. **Property Tax.** Bay Area home values experienced a double-digit decline last year as interest rates hit their highest levels since 2000 and tech layoffs rippled through the region. However, property taxes are expected to remain stable due to the passage of Proposition 13 in 1978. Proposition 13 protects homeowners from massive increases as their home value appreciates by capping the increase in assessed value of properties at the lesser of the change in the California Consumer Price Index (CCPI) or 2% per year. Properties are reassessed at market value only when they are sold or renovated. Property tax comprises almost 40% of the General Fund's total revenue. Property tax is allocated to the City in two large installments (December and April). Our records show property tax collections have reached 54.5% of our projection as of December 31, 2023. Due to the October 2023 levy letter from the County Controller's office, the estimated Excess Educational Revenue Augmentation Fund (ERAF) revenue is \$1.6 million higher than budgeted. On the other hand, the unsecured and supplemental property taxes are expected to fall short of the adopted budget. Therefore, staff recommends a \$1.3 million increase in the projections.
2. **Sales Tax.** There is a two-month lag from when sales taxes are remitted by businesses to the California Department of Tax and Fee Administration (CDTFA) and when the CDTFA remits the City's share of sales tax revenues. Similar to the 2nd quarter of FY 2022-23, the City received approximately one-third of the projected sales tax revenue for the entire fiscal year. Since adoption of the FY 2023-24 budget, the City's sales tax consultant revised their projection to reflect a lower sales tax revenue due to reduced consumer demand, potential recession, a large sales tax-generating business leaving the City, lower gas prices and gas volumes from the increase sales in electric vehicles, and other adjustments/reallocation. Please see **Attachment 7** for a copy of the Sales Tax Forecast from Avenu Insights & Analytics. Staff recommends a \$1.4 million decrease to the sales tax category to be aligned with the City's sales tax consultant's revised projection.
3. **Transient Occupancy Tax (TOT).** Post-pandemic travel levels have been strong. As of December 31, 2023, the City recorded TOT revenues of \$5.6 million. There is an additional \$1.4 million that will be posted later this month. Staff expects business travel to pick up in 2024. However, based on current trends, staff recommends a \$0.9 million decrease to the projection.
4. **Other Taxes.** Other taxes include real property transfer tax, business license, and commercial parking tax. Second quarter year-to-date collection of commercial parking tax and business license tax are in-line with prior year amounts. Business license taxes are due on January 31, 2024, so we expect some large businesses to pay their business license tax in the last week of January. Real property transfer tax is projected lower due to slowdown in the real estate market due to the high interest rate climate. Staff recommends a \$0.3 million decrease in our projections.

5. **Licenses & Permits.** The Federal Reserve Bank raised interest rates by 5.25% over the past two years to tame inflation. The higher interest rates significantly slowed down economic growth in the housing and construction sectors. The Economic and Community Development Department (ECD) is expecting less projects to apply for permits in FY 2023-24, which will reduce the amount of permit fees paid to the City. Staff recommends a \$4.5 million decrease in our projections.
6. **Service Charges.** This revenue stream includes fee charges by various departments for services provided to the public. Due to the increase in paramedic call volume and changes to the California Department of Health Care Services supplemental program, the Fire Department anticipates an increase of \$1.2 million in paramedic service fees bringing the total to \$3.7 million for FY 2023-24. Staff recommends a \$1.4 million increase in the projections.
7. **Intergovernmental.** The City received \$2.3 million in grants and program reimbursement from other governmental entities for the 2nd quarter year-to-date. Staff recommends a \$1.2 million increase in the projections.
8. **Use of Money and Property.** With the higher interest rate environment, the City projects additional interest earnings from investments. In FY 2022-23, the City sold two properties (100 Longford & 201 Baden Ave) for a total of \$1.8 million. The City does not expect any sale of property in FY 2023-24. Rental income is within budget expectations. Staff recommends a \$0.5 million increase to the projections.

If approved by the Council, the above changes would result in decreasing the overall revenue budget for FY 2023-24 by \$2.8 million from \$143.1 million to \$140.3 million.

B. General Fund Expenditures – 2nd Quarter

The California Public Employees' Retirement System (CalPERS) offers a discount (3.40% for FY 2023-24) to its contracting agencies if City made a lump-sum prepayment of our annual Unfunded Accrued Liability (UAL) in July. This will allow our contributions to be invested early in the fiscal year to give it a better chance of maximizing potential investment returns. The City took advantage of this discount in FY 2023-24 and recorded the expenditure in July 2023. The following table shows the actual expenditures by Department that have been recorded and the pro-rata estimate for the CalPERS UAL allocated through December 31, 2023:

Table 2: FY 2022-23 vs. FY 2023-24 Expenditures as of December 31

Expenditures	FY 2022-23			FY 2023-24			FY 2023-24	
	Adjusted Budget	Actuals as of 12/31	% of budget	Adjusted Budget	Actuals as of 12/31	% of budget	Pro-rata CalPERS	% of budget
City Council								
Payroll	196,886	63,937	32.5%	189,027	78,338	41.4%	76,679	40.6%
Supplies & Services	50,560	29,758	58.9%	36,560	28,483	77.9%	28,483	77.9%
Interdepartmental Charges	13,204	6,390	48.4%	43,900	21,455	48.9%	21,455	48.9%
Total	260,649	100,084	38.4%	269,486	128,276	47.6%	126,617	47.0%
City Clerk								
Payroll	909,334	385,086	42.3%	1,001,300	399,151	39.9%	345,136	34.5%
Supplies & Services	208,428	51,192	24.6%	208,428	36,637	17.6%	36,637	17.6%
Interdepartmental Charges	36,686	17,978	49.0%	55,282	26,789	48.5%	26,789	48.5%
Total	1,154,449	454,256	39.3%	1,265,011	462,578	36.6%	408,562	32.3%
City Treasurer								
Payroll	63,351	11,805	18.6%	31,230	11,680	37.4%	11,680	37.4%
Supplies & Services	102,060	21,198	20.8%	102,060	44,708	43.8%	44,708	43.8%
Interdepartmental Charges	2,493	1,246	50.0%	138	69	50.0%	69	50.0%
Total	167,904	34,249	20.4%	133,428	56,457	42.3%	56,457	42.3%
City Attorney								
Supplies & Services	937,808	489,962	52.2%	1,100,717	377,391	34.3%	377,391	34.3%
Interdepartmental Charges	2,482	1,191	48.0%	8,108	3,939	48.6%	3,939	48.6%
Total	940,290	491,153	52.2%	1,108,825	381,330	34.4%	381,330	34.4%
City Manager								
Payroll	2,863,694	1,513,695	52.9%	3,243,094	1,248,628	38.5%	1,069,143	33.0%
Supplies & Services	2,344,542	392,169	16.7%	1,633,659	282,160	17.3%	282,160	17.3%
Interdepartmental Charges	116,360	57,574	49.5%	144,372	70,771	49.0%	70,771	49.0%
Total	5,324,597	1,963,437	36.9%	5,021,126	1,601,560	31.9%	1,422,074	28.3%
Finance								
Payroll	3,172,557	1,413,781	44.6%	3,333,330	1,323,979	39.7%	1,141,731	34.3%
Supplies & Services	1,096,083	101,111	9.2%	1,047,941	80,267	7.7%	80,267	7.7%
Interdepartmental Charges	136,445	66,605	48.8%	138,463	65,456	47.3%	65,456	47.3%
Total	4,405,085	1,581,496	35.9%	4,519,734	1,469,702	32.5%	1,287,454	28.5%
Non expense/Dept								
Payroll	608,000	-	0.0%	-	-	-	-	-
Supplies & Services	1,544,698	903,046	58.5%	1,394,367	485,196	34.8%	485,196	34.8%
Transfers	700,000	250,000	35.7%	500,000	-	0.0%	-	0.0%
Total Non-Expense/Dept.	2,852,698	1,153,046	40.4%	1,894,367	485,196	25.6%	485,196	25.6%
Human Resources								
Payroll	2,104,444	914,366	43.4%	2,365,049	1,110,781	47.0%	975,636	41.3%
Supplies & Services	513,299	204,604	39.9%	575,111	100,143	17.4%	100,143	17.4%
Interdepartmental Charges	66,366	32,618	49.1%	55,192	26,276	47.6%	26,276	47.6%
Total	2,684,109	1,151,588	42.9%	2,995,351	1,237,200	41.3%	1,102,055	36.8%

Expenditures	FY 2022-23			FY 2023-24			FY 2023-24	
	Adjusted Budget	Actuals as of 12/31	% of budget	Adjusted Budget	Actuals as of 12/31	% of budget	Pro-rata CalPERS	% of budget
Economic & Comm Development								
Payroll	5,749,215	2,930,605	51.0%	5,487,087	3,139,924	57.2%	2,680,128	48.8%
Supplies & Services	9,477,181	2,381,792	25.1%	6,469,550	2,004,384	31.0%	2,004,384	31.0%
Capital Outlay	113,400	-	0.0%	113,381	-		-	0.0%
Interdepartmental Charges	269,834	131,222	48.6%	368,615	175,685	47.7%	175,685	47.7%
Total	15,609,630	5,443,619	34.9%	12,438,633	5,319,993	42.8%	4,860,197	39.1%
Fire								
Payroll	27,312,449	17,439,241	63.9%	28,172,922	17,482,689	62.1%	15,014,506	53.3%
Supplies & Services	3,657,640	632,209	17.3%	2,825,938	1,076,913	38.1%	1,076,913	38.1%
Capital Outlay	400,000	-		400,000	-		-	0.0%
Interdepartmental Charges	2,054,628	943,235	45.9%	2,250,984	1,101,398	48.9%	1,101,398	48.9%
Total	33,424,717	19,014,685	56.9%	33,649,844	19,661,000	58.4%	17,192,817	51.1%
Police								
Payroll	30,438,959	17,656,629	58.0%	32,464,166	18,209,039	56.1%	15,654,095	48.2%
Supplies & Services	1,690,477	616,307	36.5%	1,857,124	730,501	39.3%	730,501	39.3%
Interdepartmental Charges	2,381,864	1,177,860	49.5%	2,630,415	1,284,708	48.8%	1,284,708	48.8%
Total	34,511,300	19,450,797	56.4%	36,951,705	20,224,247	54.7%	17,669,303	47.8%
Public Works								
Payroll	4,496,168	2,219,275	49.4%	4,765,838	2,612,909	54.8%	2,285,387	48.0%
Supplies & Services	2,885,962	809,356	28.0%	7,020,350	1,280,217	18.2%	1,280,217	18.2%
Capital Outlay	312,000	-		271,564	-		-	0.0%
Interdepartmental Charges	909,575	451,538	49.6%	1,763,775	874,306	49.6%	874,306	49.6%
Total	8,603,705	3,480,169	40.4%	13,821,528	4,767,432	34.5%	4,439,910	32.1%
Library								
Payroll	5,930,595	2,838,554	47.9%	6,505,083	3,032,800	46.6%	2,702,626	41.5%
Supplies & Services	1,078,235	367,191	34.1%	1,057,204	553,497	52.4%	553,497	52.4%
Interdepartmental Charges	264,914	118,771	44.8%	743,808	339,970	45.7%	339,970	45.7%
Total	7,273,745	3,324,516	45.7%	8,306,095	3,926,266	47.3%	3,596,092	43.3%
Parks and Recreation								
Payroll	16,382,265	7,959,678	48.6%	19,171,702	8,664,587	45.2%	7,784,474	40.6%
Supplies & Services	5,384,639	1,836,880	34.1%	6,556,908	2,013,711	30.7%	2,013,711	30.7%
Capital Outlay	-	-		79,112	108,750		108,750	137.5%
Interdepartmental Charges	1,106,247	550,569	49.8%	1,301,683	644,880	49.5%	644,880	49.5%
Total	22,873,152	10,347,127	45.2%	27,109,406	11,431,928	42.2%	10,551,815	38.9%
CIP								
Transfers	3,833,270	161,864	4.2%	4,375,873	-	0.0%	-	0.0%
Total	3,833,270	161,864	4.2%	4,375,873	-	0.0%	-	0.0%
Tota General Fund Expenditures	143,919,299	68,152,087	47.4%	153,860,411	71,153,164	46.2%	63,579,879	41.3%
Information Technology*								
Payroll	2,127,121	918,632	43.2%	2,298,886	1,039,228	45.2%	905,176	39.4%
Supplies & Services	3,104,214	766,050	24.7%	2,726,025	1,016,296	37.3%	1,016,296	37.3%
Interdepartmental Charges	10,469	5,235	50.0%	12,889	6,444	50.0%	6,444	50.0%
Total	5,241,804	1,689,917	32.2%	5,037,801	2,061,968	40.9%	1,927,916	38.3%
* Non-General Fund: budgeted as internal service fund in Fund 785								

C. ADDITIONAL GENERAL FUND REVENUE AMENDMENT REQUEST

The following are additional General Fund revenue amendment requests totaling \$1,426,238

- **Economic and Community Development** **\$150,000**
 - Increase in Building Permit collected fee (Master Fee No. 6.57)
- **Fire Department** **\$1,275,000**
 - Paramedic Service Fee Increase- \$1,200,000
 - Fire Plan Check Fee \$75,000
- **Transfer In from ARPA** **\$ 1,238**
 - Residual balance for revenue loss category

D. ADDITIONAL GENERAL FUND APPROPRIATIONS REQUEST

The following are additional General Fund expenditure appropriations requests totaling \$1,049,600:

- **Economic and Community Development** **\$75,000**
 - Construction Coordination Consultant (2-year contract)- \$75,000
- **Fire Department** **\$689,600**
 - Contracts for Fire Plan Reviews- \$175,000
 - Department of Health Care Services program- \$506,000
 - Ambulance billing fees- \$8,600

Payroll (position change request):

 - Upgrade 1.0 FTE Administrative Assistant I to Management Analyst I with no fiscal impact in FY2023-24.
- **Parks and Recreation Department** **\$285,000**
 - One-Time Contractual landscape services (Oakmont Dr. & Olympic Dr.) \$125,000
 - Ongoing Contractual landscape services (Oakmont Dr. & Olympic Dr.) \$10,000
 - Police Department building window washing services \$40,000
 - Purchase of Westborough Blvd privately owned parcels along eastbound shoulders \$110,000

The ongoing impact of the mid-year requests beyond FY2023-24 has been estimated to be an additional \$639,600 in supplies and professional services.

E. ADDITIONAL NON-GENERAL FUND APPROPRIATIONS REQUEST

The following are the additional non-General Fund expenditure appropriations requests totaling \$2,514,908 from various sources.

- 1. American Rescue Plan Act Fund (201)** **\$1,238**
 - Transfer the residual balance for Revenue Loss category to General Fund
- 2. West Park Maintenance District Fund (Fund 231)** **\$370,700**
 - Adjustment to full-time payroll salaries calculation- \$159,800
 - Adjustment to part-time payroll salaries calculation- \$11,100
 - Adjustment to benefit calculation- \$199,800
- 3. Stonegate Ridger Maintenance Fund (Fund 232)** **\$20,170**
 - Adjustment to full-time payroll salaries calculation- \$630
 - Adjustment to benefit calculation- \$19,540
- 4. Willow Gardens Maintenance Fund (Fund 233)** **\$4,350**
 - Adjustment to full-time payroll salaries calculation- \$1,450
 - Adjustment to benefit calculation- \$2,900
- 5. West Park Maintenance District 1 & 2 Fund (Fund 234)** **\$21,450**
 - Adjustment to full-time payroll salaries calculation- \$1,240
 - Adjustment to benefit calculation- \$20,210
- 6. Developer Deposits Fund (Fund 270)** **\$125,000**
 - ECD- TDM Enforcement and Trip Cap Implementation- \$50,000
 - ECD- Objective Architectural Standards Updates- \$75,000
- 7. Sewer Enterprise Fund (Fund 710)** **\$999,000**
 - Adjustment to full-time payroll salaries calculation- \$573,800
 - Adjustment to benefit calculation- \$425,200
- 8. Parking District Fund (Fund 720)** **\$ 69,000**
 - Adjustment to full-time payroll salaries calculation- \$40,000
 - Adjustment to benefit calculation- \$29,000
- 9. Commercial Linkage Fee (Fund 823)** **\$300,000**
 - ECD-Preparing sites for housing suitability-\$100,000
 - ECD-Property acquisition due diligence and negotiations- \$200,000

10. **Storm Water Fund (Fund 740)** **\$449,000**
- Public Works- Storm line repairs identified in Storm Drain Master Plan- \$150,000
 - Adjustment to full-time payroll salaries calculation- \$172,000
 - Adjustment to benefit calculation- \$127,000
11. **Park Acquisition Fund (Fund 805)** **\$100,000**
- Parks and Rec-Parkland acquisition due diligence- \$100,000
12. **PEG Equipment & Access Fund (Fund 786)** **\$55,000**
- Upgrade City Manager conference room for Special City Council meetings- \$30,000
 - Closed caption services for City Council meetings- \$25,000

F. MID-YEAR CAPITAL IMPROVEMENT PLAN REQUEST (CIP)

The following are the additional CIP project appropriation requests with their corresponding funding sources, amounting to (\$610,668):

- 1. SSF Shoreline Protection and Connectivity (New project sd2402) \$30,000**
Funding Source: East of 101 Traffic Impact Fee
Funding request is for the pre-design phase of this project to fund consultant for Caltrans grant application.
- 2. Storm Drain Master Plan (Existing project sd2301) \$500,000**
Funding Source: Infrastructure Reserve
These funds are needed for additional storm drain cleaning required for conditional assessment.
- 3. Parking District Lot Rehabilitation (Existing project pf2402) \$100,000**
Funding Source: Parking District Fund
Additional funds to rehabilitate parking lots based on engineering estimates. This is for rehabilitation (surface seal asphalt pavement treatment and new striping) of six (6) City Public Parking lots in the downtown area.
- 4. Adaptive Traffic Control System (Existing project tr1901) \$100,000**
Funding Source: Citywide Traffic Impact Fee
Additional funds requested for plan, design, and implementation of adaptive traffic control in West of 101.
- 5. Junipero Serra Class 4 Bike Lanes (New project tr2414) \$50,000**
Funding Source: Citywide Traffic Impact Fee
Additional funding is required for the TDA Grant match.
- 6. Colma/SSF: El Camino Real Bicycle and Pedestrian Improvement Project (PSR_PDS) and (PAED) (New project tr2415) \$100,000**
Funding Source: Citywide Traffic Impact Fee
Opportunity to follow through on part of the Bike/Ped Master Plan. Colma is leading the project and has secured a TA Grant. Caltrans asked to further previous project extends to Hickey Blvd & ECR for project effectiveness/continuity.
- 7. Caltrain Station Enhancement/Karyl Matsumoto Plaza (Existing project st1603) \$120,000**
New Funding Source: Park Construction Fees
Benefits Agreement for 200 Airport. It includes ongoing maintenance of the new plaza and contributions to construction that included \$120,000 payment for plaza improvements.

8. **Sewer Master Plan (Existing Project ss1801)** **\$100,000**

Funding Source: East of 101 Sewer Impact Fees

These funds will be used for additional design costs to update sewer model and report.

9. **Broadband Fiber Optic Expansion (Existing Project pf2210)** **\$289,332**

Funding Source: American Rescue Plan Act (ARPA)

These funds will be used for installation of fiber optic cables in new City-owned conduits from 550 North Canal to Skyline Blvd in the Westborough Area to provide the middle mile for the carriers to connect to the last mile in the Westborough area.

The following is a request for consolidating projects:

10. **Citywide School Traffic Calming Improvement Project** **(\$600,000)**

Original- existing project tr2405

Funding Source: Citywide Traffic Impact Fee

This project will be combined with existing project st2402. The funding source will still be Citywide Traffic Impact Fee. This will be an additional funding source to existing project st2402 (2024 Surface Seal Project).

11. **2024 Surface Seal Project (Existing project st2402)** **\$600,000**

New/Additional Funding Source: Citywide Traffic Impact Fee

Requesting Citywide Traffic Impact Fee as an additional funding source for this project. Combining tr2405 (Citywide School Traffic Calming Improvement project) to st2402. The funds will be utilized for the traffic calming improvements and tracked accordingly.

The following is a request to remove funding from existing project:

12. **Transit Village Park (Existing project pk2101)** **(\$2,000,000)**

Funding Sources: Park Land Acquisition Fee and Park Land Construction

Alternative sites for a park are still being considered. Funding is not needed currently. Should a site be found, funding will be requested from the City Council separately.

G. AMERICAN RESCUE PLAN ACT (ARPA)

In June 2022, the City received the second half tranche of its \$12.3 million American Rescue Plan Act financial award. The first half was received in June 2021. Table 3 below shows the progress of allocation of these funds to various projects and purposes:

Table 3: ARPA Funded Project Summary

Projects	Total Appropriations to date	Expenditures to date thru 12-31-2023	Remaining Unspent Funds (appropriated)	FY2023-24 Mid Year Proposed budget	Total
General Government Services	9,517,373	9,380,645	136,728	1,238	9,518,611
Guaranteed Income Program	1,000,000	1,000,000			1,000,000
Broadband Expansion - Westborough Neighborhood (CIP)	1,000,000	10,391	989,609	289,332	1,289,332
The Spit/Oyster Point Sea Level Rise Protection (CIP)	110,000	110,000			110,000
SAMCEDA Restaurant Grants	260,000	260,000			260,000
Jobs for Youth Program (summer 2021)	36,495	36,495			36,495
Shop Local Gift Cards	64,503	64,503			64,503
TOTAL	11,988,371	10,862,034	1,126,337	290,570	12,278,941

The table above shows that, to date, \$11.99 million of ARPA funds has been appropriated. The cells highlighted in yellow is the request for the mid-year review – 1) to allocate \$1,238 to General Government services to fully utilize the \$10 million under the Revenue Loss Category and 2) to add \$289,332 ARPA funding to the Broadband Expansion project.

II. RESERVES OVERVIEW & CONSIDERATIONS

In FY 2022-23, General Fund revenues, excluding Measure W, were \$146.5 million. In keeping with the City's Reserve Policy of maintaining a minimum of 20 percent of operating revenues and following the Government Finance Officers Association's (GFOA) best practice, the City's General Fund reserves levels were increased by approximately \$4.2 million, from \$25.1 million to \$29.3 million. This General Reserve amount does not change during the fiscal year. The Pension Stabilization Reserve was established by Council and does not change unless further action is taken. It remains invested and managed by the City's third-party investment manager.

After meeting the reserves requirement noted above, Table 4 below shows a summary of the City's official reserves as of June 30, 2023:

Table 4: City Reserves Summary as of 6-30-2023

General Reserves (20%)	\$29,298,000
Pension Stabilization Reserves	5,596,000
Infrastructure Reserves	8,194,000
Total Reserve Levels	\$43,088,000
Available Unassigned GF Fund Balance	20,344,000
Reserves & Surplus Fund Balance	\$63,432,000

Table 5 below shows a breakdown of FY 2023-24 Infrastructure Reserve appropriations to date as well as inflows of revenues. It also includes additional mid-year requests, detailed in previous sections of this report:

Table 5: FY2023-24 Infrastructure Reserve Activities & Balance

Item	Amount
FY2022-23 Balance	\$20,229,000
<i>Add: Developer Contributions</i>	250,000
Total	\$20,479,000
<i>Less: YTD Appropriation</i>	
FY 2023-24 CIP project funding	\$4,050,000
Downpayment Assistance Program	1,617,000
Previously funded CIP projects	10,186,000
Mini-Sweeper	250,000
Restroom at the Park	200,000
Total appropriation	\$16,303,000
Mid-year Requests	\$500,000
Net IR activities after Mid-year	\$16,803,000
Available Reserve Balance after Mid-Year	\$3,676,000

Table 6 below shows the impact of the General Fund budget for FY 2023-24, the effect of year-to-date budget amendments already approved by Council, the mid-year appropriations requests and revenue updates detailed in this report. The recommended revenue and expenditure budget updates are projected to result in a deficit of approximately \$2.1 million.

Table 6: Projected General Fund Revenue and Expenditure Summary

Reserve for Encumbrances rollover	\$8,661,000
Reserve for Capital Projects	\$3,776,000
Adopted Budget Surplus	\$9,000
- FY 2023-24 Net Budget Adjustments	(10,771,000)
+ Mid-Year Revenue Adjustments	(2,749,000)
- Mid-Year Appropriation Requests	(1,050,000)
Total Adjustments	(14,561,000)
FY 2023-24 Projected Deficit	\$(2,124,000)

Conclusion

The Federal Reserve bank continues to raise interest rates to tame inflation and slow-down economic spending. With the higher interest rate environment, the City is experiencing a decrease in General Fund revenues in the 1st half of FY 2023-24. Revenues from licensing and permits, sales tax, and transient occupancy tax are significantly lower than projected while other categories are coming in-line or slightly better than expected. As a result, staff consider it necessary to reduce the overall revenue budget for FY 2023-24 by \$2.8 million from \$143.1 million to \$140.3 million by making the adjustments detailed in this report.

Economists are projecting the Federal Reserve Bank will start cutting rates as soon as May 2024. Staff remains cautiously optimistic and believe some revenue streams may level off somewhat from the current continued downward trajectory, particularly in TOT and sales tax. Finance has communicated to the other departments to close purchase orders for projects that have already been completed, review existing encumbrances, and use salary savings from vacancies to monitor department expenditures.

The City has healthy financial reserves, as well as an unassigned fund balance available in the General Fund which can be used to fund one-time projects and the short-term shortfall. Staff will continue to closely monitor the revenue and expenditure status in the coming months. Finance will further evaluate the business license tax revenue enhancement option as directed by the City Council during its retreat in January 2024 and cost cutting measures that can help to achieve long-term fiscal sustainability. Staff will incorporate the findings into the FY 2024-25 budget preparation.

Staff recommends that the City Council accept the FY 2023-24 Mid-year financial update and budget amendment requests.