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**Title:** Fiscal Year 2022-2023 Quarterly Budget Update (Finance Director Charelian).  
 A) RECEIVE REPORT  
 B) APPROPRIATE FUNDS

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. FY 2022-2023 Quarter 1 Comparison

Date	Ver.	Action By	Action	Result
11/15/2022	1	City Council Regular Meeting		

**TO:**  
Honorable Mayor and Members of the City Council

**THROUGH:**  
Bruce Moe, City Manager

**FROM:**  
Steve S. Charelian, Finance Director  
 Libby Bretthauer, Financial Services Manager  
 Julie Bondarchuk, Financial Controller  
 Marcelo Serrano, Budget & Financial Analyst

**SUBJECT:**  
Fiscal Year 2022-2023 Quarterly Budget Update (Finance Director Charelian).  
**A) RECEIVE REPORT**  
**B) APPROPRIATE FUNDS**

**RECOMMENDATION:**  
Staff recommends that the City Council receive the report and: 1) appropriate \$328,815 from the General Fund for staffing costs in the Fire Department; and 2) appropriate \$113,100 from the Fleet Fund for fuel costs.

**FISCAL IMPLICATIONS:**  
Fiscal implications are discussed within this report.

**BACKGROUND:**  
The City Council adopted the FY 2022-2023 Budget on June 7, 2022. In an effort to keep the City Council and community fully informed of the City’s fiscal performance, staff is providing a presentation of financial information to the City Council ahead of the traditional mid-year report that

will be presented in February 2023.

## **DISCUSSION:**

The City Council and staff respond to the community's needs in part through the budget. The budget is both a spending plan for the City's available financial resources and the legal authority for the City's various departments to spend available resources to meet the needs of Manhattan Beach residents.

### **Fiscal Year (FY) 2022-2023 First Quarter Activity**

General Fund cash flows are impacted significantly by the typical pattern of Property Tax revenue received in the months of December, January, April and May. As a result, cash flow in the early months of each Fiscal Year is often negative, indicating that expenditures exceed revenues. This is fully expected and normally, revenues have exceeded expenditures by year-end. Currently, revenues and expenditures are both higher than in the previous fiscal year 2021-2022, with expenditures exceeding revenues as expected.

#### ***Revenues***

Revenues in the first quarter of FY 2022-2023 are greater than pre-pandemic levels and \$726,032 (5.7%) above the previous year (excluding the adjustment for the unrealized investment gain/loss). Generally, the three largest contributors to the City's revenue mix are Property Tax, Sales & Use Tax, and Transient Occupancy Tax.

Property Tax is the strong foundation of the City's General Fund revenues. The City's Property Tax consultant, HdL, has confirmed a 6.7% (about \$1.5 billion) increase in net taxable assessed values for FY 2022-2023. Based on this increase, the City's estimated secured Property Tax revenues are currently expected to total \$33,603,146, which is about \$400,000 above the amount currently budgeted. A combination of high demand for single-family homes, low inventory, and shortages of building materials all contributed to the increase in taxable property values. Total receipts in the first quarter of 2022 are \$54,370 (7.1%) higher than the same period in the previous year.

Sales & Use Tax received in the first quarter is higher than prior years due to robust tax receipts from general consumer goods, all eatery categories, and service stations. Total receipts in July, August and September of 2022 are \$489,508 (20.3%) higher than the same period in the previous year.

Transient Occupancy Tax (TOT) was the most volatile revenue stream during the pandemic. With travel restrictions and the resulting downturn in occupancy rates behind us, TOT is anticipated to exceed the total received in previous fiscal years. Total receipts in July, August and September of 2022 are \$565,972 (43.2%) higher than the same period in the previous year.

Business License Taxes resulted in a large reduction of \$369,227 (46.1%) from the prior year quarter. This fluctuation is a result of the prior year due date extension granted by the City Council in support of local businesses during the pandemic. Overall, tax receipts are trending higher due to higher gross receipts reported by businesses as well as the CPI increase to the tax rate.

Fee schedule changes implemented on new permits after July 1, 2020, including the combination of multiple permits into one combination permit, have made revenue comparisons challenging. The volume of issued permits and plan checks have both increased in the first quarter of FY 2022-2023 from the prior year quarter. Revenues received from building permits is higher than the same period

during the previous fiscal year, but Building Plan Check fees is trending lower than expected due to the changes in the fee schedule. The number of demolition permits is flat with the prior year. Notably, building record requests have decreased 37%, suggesting a lower amount of home sales, which is consistent with nationwide trends due to rising mortgage interest rates.

Revenue from other Service Charges (not including Plan Checks) increased by \$463,114 (17.9%) compared to the same period last year. This category includes service charges for Parks and Recreation registration fees as well as other cost recovery fees for ambulance transports, planning and building services, and public safety reimbursements. Driving this increase are strong enrollments in recreation classes and activities, with the most significant increases in Facility and Park Reservations, Swimming, Tennis Operations, and Special Activity Classes.

While Interest Earnings and Rents are trending near the prior year levels, the Unrealized Investment Gain/Loss has been identified separately from the category due to big swings in the last few years. At the end of every fiscal year, an accounting entry is required to “mark-to-market” the City’s investments. Governmental Accounting Standards Board (GASB) Statement No. 31 states that “all investment income, *including changes in the fair value of investments*, should be reported as revenue.” As such, on June 30, the City’s investments were “marked-to-market” and a significant loss on Investments of \$1,104,166 was posted in FY 2021-2022. Then, since the City carries investments at cost (“book value”) throughout the year, the June 30 loss was reversed on July 1, which created the significant positive amount in Fiscal Year 2022-2023. This amount will be adjusted at the end of this fiscal year, when investments are again marked to new market values on June 30, 2023.

Operating Service Transfers include the General Fund reimbursement by other funds per the Cost Allocation Plan adopted in February 2020. In addition, Engineering staff time allocated to capital projects and grants is also included in this reimbursement to the General Fund.

Lastly, in the Miscellaneous category, the decrease of \$223,744 or 54.1% was mostly attributable to Workers Compensation Salary Continuation revenues, which is a reimbursement to the General Fund from the Insurance Fund for employees receiving Injury-On-Duty (IOD) leave. In the prior year quarter, more employees were out on IOD leave, resulting in higher reimbursements to the General Fund. Although a positive for the General Fund last year, this also reflected higher costs incurred in the Insurance Fund.

### **Expenditures**

General Fund expenditures are trending as expected, \$304,283 (1.9%) higher than the same period last year.

Salaries and Wages are trending above the prior year by \$82,984 (1.0%) in alignment with approved salary and wage increases per employee labor group Memoranda of Understanding. In the Benefits category, expenditures for Medical/Dental/Vision Insurance, Medicare, and CalPERS “Normal Cost” contributions for active employees are lower by \$132,863 (4.2%) when compared to the prior year.

As of October, the City has about 30 unfilled positions budgeted in the General Fund, which is roughly the same as last year. When budgeted positions remain unfilled, additional budgetary savings will result.

Contract & Professional Services expenditures are higher than the prior year by \$50,978 (2.1%) and

Materials & Services are higher by \$50,988 (12.6%). These trends are indicative of higher costs in labor, materials, and supplies affecting all operations.

Internal Service Charges experienced an increase of \$282,920 (14.5%), due to higher budgeted charge-outs to support the Insurance Fund and Information Technology Fund. Higher insurance premium costs in the Insurance Fund and necessary equipment replacement purchases in the Information Technology Fund contributed to the increases.

With inflationary pressures continuing, cost containment and efficiencies will continue to remain a top priority for staff heading into next year's budget cycle.

### **FY 2022-2023 Budget Adjustments**

#### **Bulk Fuel Costs (\$113,100 - Fleet Fund)**

Due to unprecedented fuel market volatility, the City's fueling expenses have increased to a monthly average of \$42,000 compared to \$34,000 per month in FY 2021-2022. The City continues to purchase an average of 8,000 gallons of fuel per month. Staff has determined that an increase of \$113,100 to the budget is necessary to ensure the continuity of fuel delivery, and to meet the City's fleet management needs.

#### **Fire Department Staffing Adjustments (\$328,815- General Fund)**

On October 18, 2022, the City Council authorized the staffing changes within the Fire Department, including the addition of three full-time positions. The following changes were approved:

- Adding (1) civilian Fire Inspector
- Adding (1) civilian Fire Marshal
- Adding (1) Fire Captain/Paramedic
- Reallocate one Firefighter/Paramedic to Fire Captain

Based on the anticipated hiring timeline for these positions in early 2023, the estimated cost for FY 2022-2023 will be \$328,815. The full year cost is \$657,631 which will be appropriately budgeted in subsequent years.

Staff recommends the City Council receive this quarterly budget update and appropriate the requested funds in support of the operations as described. The next budgetary update for FY 2022-2023 will be with the Mid-Year Report in February 2023. Fiscal results of the prior year will be provided with the presentation of the FY 2021-2022 Annual Comprehensive Financial Report in January 2023.

#### **PUBLIC OUTREACH:**

After analysis, staff determined that public outreach was not required for this issue.

#### **ENVIRONMENTAL REVIEW:**

The recommended action has been determined to be exempt from CEQA pursuant to State CEQA Guidelines Section 15061(b)(3), the common sense exemption (formerly the "general rule") that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question can have a significant effect on the environment, the activity is not subject to CEQA, as is the case with this item.

**LEGAL REVIEW:**

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

**ATTACHMENT:**

1. FY 2022-2023 Quarter 1 Comparison