

# IBA Review of the FY 2023 Third Quarter Budget Monitoring Report

City Council

Item 201

June 12, 2023



Office of the Independent Budget Analyst



# Overview

- IBA Report covers:
  - General Fund Revenues
  - General Fund Expenditures
    - Focus on Salaries and Wages: Police Overtime and Fire-Rescue Overtime
    - Status of City's General Fund Reserve and Excess Equity
  - Homelessness Updates
  - Proposed Appropriation Adjustments

# General Fund Revenues

Continued Robust Revenue Growth, though sales tax and TOT are too high

- Major GF Revenues projected to increase by \$36.4m from Mid-Year

FY 2023 PROJECTED GENERAL FUND REVENUES (\$ in millions)					
	Adopted Budget	Mid-Year Projection	Third-Quarter Projection	Variance: Adopted to Third-Quarter	Variance: Mid-Year to Third-Quarter
<b>Major General Fund Revenues</b>	<b>\$ 1,416.6</b>	<b>\$ 1,460.7</b>	<b>\$ 1,497.1</b>	<b>\$ 80.5</b>	<b>\$ 36.4</b>
Property Tax	706.2	715.7	715.5	9.2	(0.2)
Sales Tax	380.2	384.6	395.7	15.5	11.1
Transient Occupancy Tax	135.2	155.8	163.6	28.4	7.8
Franchise Fees	93.8	91.8	110.9	17.1	19.1
Other Major Revenues	101.2	112.8	111.4	10.2	(1.4)
<b>Other General Fund Revenues</b>	<b>\$ 532.2</b>	<b>\$ 521.3</b>	<b>\$ 519.1</b>	<b>\$ (13.1)</b>	<b>\$ (2.2)</b>
American Rescue Plan Act Funds	147.6	147.6	147.6	-	-
Other Revenues	384.6	373.7	371.5	(13.1)	(2.2)
<b>Total Revenue</b>	<b>\$ 1,948.8</b>	<b>\$ 1,982.0</b>	<b>\$ 2,016.2</b>	<b>\$ 67.4</b>	<b>\$ 34.3</b>

Table may not total due to rounding

# General Fund Revenues

## Sales Tax and Transient Occupancy Tax (TOT)

- Sales Tax
  - Projection increased by \$11.1m from Mid-Year, but we anticipate revenues to come in \$6.6m lower
    - Steady decline in year-over-year quarterly growth: 8.3%, 4.0%, 0.3%
    - Actual May payment \$5.1m lower than projected
    - IBA suggests lower fourth quarter growth rate of 1.8% (vs. 3.4%)
- TOT
  - Total TOT projection increased by \$14.9 million from Mid-Year
    - There are risks to projection due to declining pace of growth
    - April actual disbursement came in \$1.1 million lower than projected

# General Fund Expenditures

## Salaries and Wages Projected to be \$2.5m Under Adopted Budget

FY 2023 Salaries and Wages Expenditures - General Fund (\$ in millions)						
	Adopted Budget	Mid-Year Projection	3rd Quarter Projection	Variance: Mid-Year to 3rd Quarter	Variance: Adopted to 3rd Quarter	Variance %: Adopted to 3rd Quarter
Salaries	\$ 620.3	\$ 581.3	\$ 577.0	\$ 4.3	\$ 43.3	7.0%
Special Pay	47.5	52.0	54.2	(2.2)	(6.7)	(14.2%)
Overtime	77.6	106.7	109.7	(3.0)	(32.1)	(41.3%)
Hourly	13.1	13.1	12.3	0.9	0.8	6.1%
Vacation Pay in Lieu/Termination Pay	8.5	11.2	11.2	(0.0)	(2.7)	(32.1%)
<b>Total Salaries and Wages</b>	<b>\$ 767.0</b>	<b>\$ 764.5</b>	<b>\$ 764.4</b>	<b>\$ 0.0</b>	<b>\$ 2.5</b>	<b>0.3%</b>

Notes: Table may not total due to rounding.

Positive variances are spending below budget (or mid-year) levels. Negative variances are overages, or spending above budget (or mid-year) levels.

# General Fund Expenditures

## Fire-Rescue and Police Departments comprise 90% of total General Fund overtime costs

- Fire-Rescue
  - \$49.8m total projected overtime expenditures; \$17.1m over budget
  - Primarily due to Fire suppression staffing shortfalls and backfill overtime
- Police
  - \$49.2m total projected overtime expenditures; \$9.0m over budget
  - Significant sworn staffing shortages

# General Fund (GF) Reserve

- \$1.5m FY 2023 contribution increased GF Reserve to \$207.1m
- Excess Equity
  - Estimated at \$123.0m in Third Quarter Report, an increase of \$19.0m from Mid-Year
  - However, new information results in revenue projection changes (shown below)

<b>Updated Excess Equity Estimate (in millions)</b>	
	<b>Amount</b>
<i>Excess Equity in Third Quarter Report</i>	<b>\$ 123.0</b>
Updated Sales Tax Impacts	(6.6)
Updated TOT Impacts	(0.7)
Updated FY 2023 Residual RPTTF Impacts	1.8
Additional Environmental Growth Fund Reimbursements	1.6
Portable Shower Settlement	0.9
<b>Updated Excess Equity Estimate</b>	<b>\$ 120.1</b>

- With the planned use of \$63.0m of Excess Equity in FY 2024 (as of the May Revision), the remaining available balance for FY 2025 is estimated to be \$57.1 million.

# Homelessness

- Projected year-end savings of \$2.3M
  - Largely due to shelter start-up time, lower than anticipated costs
- LGBTQ+ Youth Shelter
  - Projected \$800,000 unspent, redirected to Multidisciplinary Outreach Team for FY 2024
- Coordinated Outreach
  - Projected savings of \$850,000, due to time needed to hire new outreach staff



# Proposed Appropriation Adjustments

- Includes \$12.9m for the General Fund, as well as several appropriation adjustments for non-general funds
- Community Development Block Grant Program (CDBG) Refund
  - City needs to refund CDBG program – related to prior expenditures for smart streetlights that have not been placed in service

# Conclusion

## Our Office Supports Recommended Adjustments

- Year-end expenditures and appropriation requests are reasonable
- Sales tax and TOT projections
  - Our office projects sales tax revenue to be \$6.6 million lower than Third Quarter Projections
  - Recent TOT receipts came in \$1.1 million lower than revised projections
- We recommend approval of the FY 2023 appropriation adjustments and authorities as proposed