

IBA Review of the FY 2024 First Quarter Budget Monitoring Report

City Council

Item 332

December 12, 2023



Office of the Independent Budget Analyst



Review of FY 2024 First Quarter Report

IBA Report Covers:

- General Fund revenue analysis
 - Variances from Adopted Budget
 - Major revenues: \$4.4M net decrease
 - Cannabis revenue: \$1.1M decrease
- General Fund expenditures
 - Public safety overtime and staffing level issues
 - Funding of Other Post-Employment Benefits (OPEB)



General Fund Revenue

Major Revenues \$4.4M below Adopted Budget

Major General Fund Revenues (\$ in millions)							
	FY 2023 Unaudited Actuals ¹	FY 2024 Adopted Budget	1st Quarter	1st Quarter Projections vs Adopted Budget	Variance from Adopted Budget (%)	1st Quarter Projection vs FY 2023 Actuals	Variance from FY 2023 Actuals (%)
Property Tax	\$ 721.4	\$ 758.6	\$ 771.9	\$ 13.2	1.7%	\$ 50.5	7.0%
Sales Tax	384.7	\$ 401.7	385.2	(16.5)	-4.1%	0.5	0.1%
Transient Occupancy Tax	161.8	\$ 172.6	171.2	(1.4)	-0.8%	9.4	5.8%
Franchise Fees	111.3	\$ 108.5	108.7	0.3	0.2%	(2.6)	-2.3%
Total	\$ 1,379.2	\$ 1,441.4	\$ 1,437.0	\$ (4.4)	-0.3%	\$ 57.8	4.2%

¹ FY 2023 Unaudited Actuals are from the FY 2023 Year-End Financial Performance Report.

Largest Variations:

- Property Tax (+\$13.2M) – Largely related to 1% property tax allocation
- Sales Tax (-\$16.5M) – Lowering of FY 2024 base; significant reduction of discretionary spending

General Fund Revenue

First Quarter Variances to Adopted Budget

- Sales tax decrease: \$16.5M *(FY 2024 year-end: \$385.2 million)*
 - *IBA analysis: potential additional decrease of \$3.1M (FY 2024 year-end: \$382.1M)*
- Transient Occupancy Tax (TOT) decrease: \$1.4M *(FY 2024 year-end: \$171.2M)*
 - *IBA analysis: potential additional decrease of \$4.3M (FY 2024 year-end: \$166.9M)*

General Fund Expenditures

Public Safety Overtime

Police Department

- Overtime projected to be \$7.8M over budget
 - Largely due to staffing shortages; increased calls for service and critical incidents
 - Proactive crime prevention efforts implemented on overtime basis
 - We stress the importance of addressing the Police overtime trends

Fire-Rescue

- Overtime projected to be \$1.7M over budget
 - Majority of projected overtime: staffing shortfalls and backfill overtime

General Fund Expenditures (cont'd)

Other Post-Employment Benefits (OPEB): *Change in Funding Strategy*

- City contributions reduced in earlier years/increased in later years
 - Reduced incrementally through FY 2050, rather than sharp reduction beginning FY 2035
- Diminishes the prefunding of prior strategy and related investment earnings available to pay OPEB costs
 - Causes City contributions to be higher in later years, and higher overall
- FY 2024 budgetary savings: \$15.4M (\$10.2M for General Fund)
 - Strategy change likely appropriate given City's significant projected deficits

Conclusion

- First Quarter Report Property Tax, Franchise Fee, Cannabis Tax projections are reasonable
- We estimate potential additional decreases for Sales Tax (\$3.1M) and TOT (\$4.3M)
- Public Safety overtime needs to be monitored/addressed
- OPEB strategy change likely appropriate given significant projected deficits
- Complete and updated projections in Mid-Year Report
 - Anticipated February 2nd