

**CITY OF ALBANY
FINANCIAL ADVISORY COMMITTEE
STAFF REPORT**

Agenda Date: November 2, 2022

SUBJECT: Fiscal Year 2022 Year End Overview and Quarterly Budget Review for Fiscal Year 2023 Q1

REPORT BY: Heather Rowden, Finance & Admin Services Director

SUMMARY

This report provides an update on the City's finances compared to budgeted amounts as well as an update on current financial events. This report covers both the final analysis for Fiscal Year (FY) 2021-22, and the first quarter of FY 2022-23.

STAFF RECOMMENDATION

Report is for informational purposes only.

BACKGROUND

Quarterly the Financial Advisory Committee reviews the status of the City's finances prior to the report being presented to the City Council. The status update includes revenues, expenditures, and transfers, compared to the adopted budget for the fiscal year.

DISCUSSION AND ANALYSIS

The attached Year to Date Budget to Actuals reports show revenues and expenditures for the General Fund through the end of fiscal year 2021-22, as well as for first quarter of fiscal year 2022-23. At the end of FY22, operating expenses came in at 97.09% of budget and revenues came in at 111.85%. For FY23, expenses are at 32.17% of budget which revenues are at 16.43%. Discussion of both of these statistics follows.

Expenses

Operating expenses for fiscal year 2022 came in very close to budget. While not all positions were filled, salaries and benefits came in close to budget due to staffing changes and overtime/temporary staffing utilized to fill those vacancies. In May, Council approved additional general fund appropriations for fiscal year 2023 to cover some of these staffing changes. Staff are working to enter all budget adjustments approved by Council last year into the system and should have those completed by the time the second quarter review is presented.

Another item that has affected staffing costs, specifically overtime, is COVID-19. As part of the State mandated COVID leave offerings, the City has provided eligible employees supplemental COVID leave while sick with COVID, or caring for a family member that has COVID. In FY2022, a total of 2,597.5 hours of COVID leave were coded to this program. In general, a full time, 40 hour per week staff member is assumed to work 2,080 hours a year. This means that the City continued to provide services while essentially down a full staff member. This leave has been extended by the Governor through December 31, 2022 and will continue to effect staffing levels through FY2023.

Fiscal year 2023 spending and collections are as anticipated and similar to last year at this time. The City has several large expenses that come out in the beginning of the year, artificially increasing the percentage of budget spent. These include the CalPERS unfunded liability payment and the City's insurance contributions.

Legal services, shown under the City Attorney division of Administration, came in over budget for FY22 due to ongoing litigation. This category fluctuates year over year depending on need and is budgeted based on average expenditures. As seen in the FY2023 Q1 report, since many of the issues addressed by the City Attorney in fiscal year 2022 are ongoing, this category is expected to be overbudget in FY23 as well. Expenses will be analyzed during the fiscal year 2023 mid-year budget review to see if any changes are needed. This is anticipated to be brought to FAC and then Council in February 2023.

Finance expenditures were overbudget in FY22 due to professional services expenses. During the first quarter of fiscal year 2022, the Finance Department was down several staff members and temporary staffing was brought in to cover until new staff started. Additionally, the Finance Department budget has been covering the cost of the City's grant administration consultant, California Consulting. California Consulting has assisted City staff with several grant applications, as well as ensuring compliance once grants are awarded. While some grant funds can cover this type of cost, other grants do not allow it, however an outside administrator is helpful to ensure compliance with all grant requirements.

For FY23, while Finance expenditures show at 50%, this is due to the City's financial software bill being due in the first quarter of the year. Staff are closely watching Finance expenditures and do not anticipate the overages due to temporary staffing from FY22 to continue into FY23. As with all expenditures, this will be reviewed again prior to the midyear budget update to see if changes are needed.

Effecting both the Finance and Recreation budgets, credit card fees have also been over budget since 2020 and budgets will need to be adjusted in future years. An increase in credit card processing fees was expected when the City began accepting payments over the phone, with the expectation that the number of credit cards processed would decrease when City Hall reopened. Many customers have gotten used to the convenience of paying over the phone and so the expected drop in fees has not been realized.

Finance is in the process of implementing an online payment portal for non-Recreation payments (Recreation already has an online payment portal). As part of this process the credit card processor is being reviewed to see if the City can get better rates.

It is important to note that several transactions were considered expenses in FY2022 but are not considered part of the operating budget. These items will show up on the audit, but not in the attached report. These items consist of additional appropriations from General Fund fund balance made throughout the year and include a \$500,000 CalPERS additional contribution and over \$500,000 in legal settlements.

Revenues

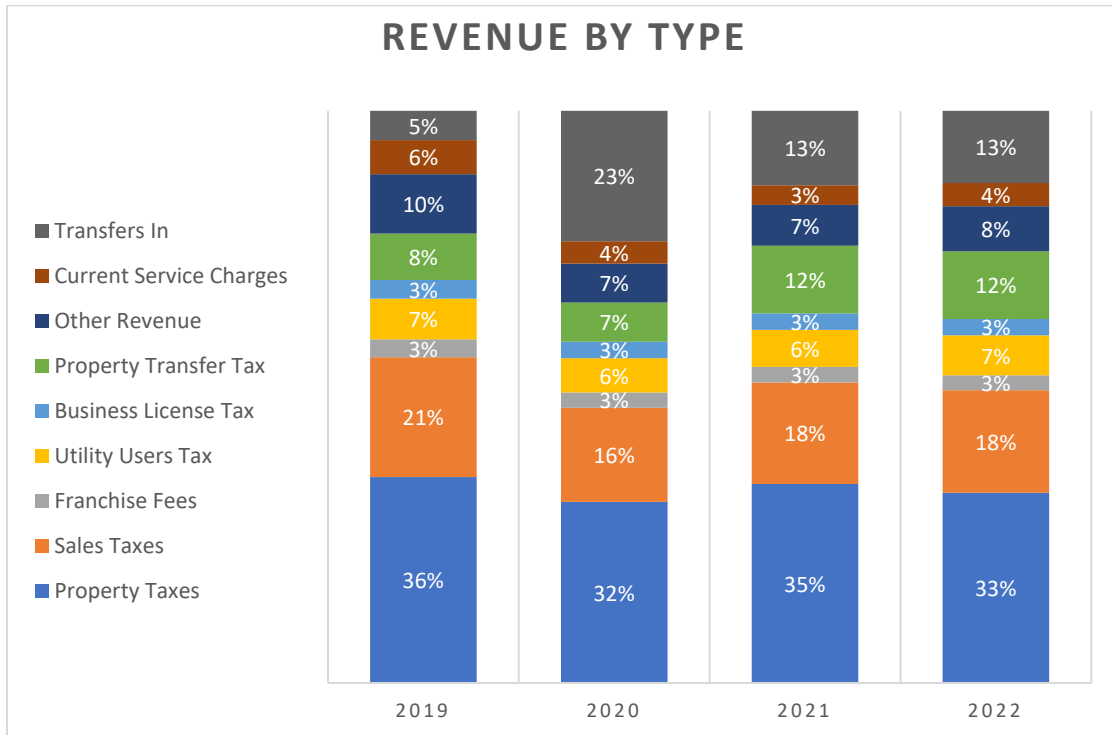
Revenues for FY22 came in higher than expected. Property tax collections will be reviewed prior to the midyear budget update and next biennial budget as they have come in higher than anticipated in the last two years. While the increase was steep the past two years, similar to property transfer taxes, discussed later in this report, the City cannot expect property tax collections to increase at the rate it has over the last few years.

Due to taxation laws in California, property tax increases are capped at a certain percentage each year unless ownership has changed, or renovations are completed. In the past two years, both home prices and home sales have drastically increased over the prior four years. From FY2017 through FY2020 there were an average of 422 home sales in Albany per year (ranging from a low of 391 in FY2019 to a high of 443 in FY2020) and the average home price was \$1,026,991 (ranging from a low of \$946,081 in FY2017 to a high of \$1,080,392 in FY2018)¹. In FY2021, 644 homes were sold with an average price of \$1,254,176. While the number of homes sold in FY2022 went down to slightly above average (454), the average price went up to \$1,417,674.

The number of FY2021 home sales was a clear outlier, resetting the taxable value of more homes than an average year. While FY2022 didn't have as many sales, the sales that did occur had a much higher value than prior years. While Albany has historically had a fairly consistent housing market, recovering from economic downturns faster than neighboring cities, the City cannot expect the volume of sales from FY2021 to continue, and the increase in interest rates generally slows the purchase of houses, as well as effecting prices. The housing market will need to be watched over the next few months to gauge what the anticipated increase in property tax revenue should be budgeted at for the upcoming midyear and biennial budgets.

¹ Average home prices are according to Zillow.com (<https://www.zillow.com/home-values/97840/albany-ca-94706/>)

The chart below shows the different types of revenue as a percentage of total revenue collected for fiscal years 2019 through 2022.



The chart shows that most of the City’s general fund revenues have historically been made up of property and sales taxes, averaging about 50% since fiscal year 2019. Transfers in have fluctuated over the years as adjustments are made from prior periods, and special revenue is utilized to cover expenses coded to the general fund for planning purposes. Transfers In are expected to be fairly consistent from 2021 onward.

Property Transfer Tax

As seen in the Revenues by Type chart, Property Transfer Taxes averaged 7-8% of the City’s general fund revenues in fiscal years 2019 and 2020. This was the same for fiscal years 2017 and 2018 as well. In fiscal years 2021 and 2022 property transfer tax collections increased drastically, coming in at 12% of total revenues and far exceeding budgeted collections, due to the housing sales and price increases discussed previously.

Fiscal year 2017 through fiscal year 2020 collections averaged \$1,700,000 a year. While a tax increase was passed in November 2020, effective January 1, 2021, the increase should have only resulted in an average collection of \$1,955,000. In fiscal year 2021 the City collected \$2,939,500, and in fiscal year 2022 the City collected \$3,227,800.

Similar to property tax revenue increases, the City cannot rely on property transfer tax collections of \$3 million forever. Staff will continue to watch the housing market to gauge the appropriate budget update, if any, for both the midyear and biennial budgets.

The Budget as a Whole

In general, fiscal year 2022 revenues and expenditures came in close to budget. It is important to note that the FY2022/2023 biennial budget was passed during the height of the COVID-19 pandemic. There were many unknowns with the economy and so revenues were budgeted conservatively, anticipating a drop in spending. This has shown to have not been the case, having actually increased collections during the pandemic.

Expenses were also budgeted conservatively, especially in Recreation. When the budget was originally approved, Recreation was unable to host in person programs, and had shifted to community assistance since this need was increased during the pandemic. While some online classes were offered, there was little need for part time staffing. Now that Recreation is offering in person classes and childcare, part time staffing is ramping up. In addition, residents are requesting events and other activities that were put on hold due to the pandemic. Staff will monitor revenues and expenditures related to Recreation and bring any necessary updates with the midyear budget update.

FY2022 Year End Considerations

Climate Action Plan expenditures

In November 2020 residents passed an increase to the City's Utility Users' Tax (UUT) on Electric and Gas purchase, as well as extending the tax to Water services. While passed as a general tax, the ordinance states, in part:

... the City Council will endeavor to expend at least one-third (1/3) of the additional revenue generated from the increase in the... rate (above 7%) for the following spending priorities:

1. Those Action Items in the City's Climate 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.

For fiscal year 2022, one third of the increase in UUT collected was calculated as \$171,469.

Over the year, Council approved several additional appropriations and fee waivers to reach the one third spending amount indicated by the ordinance. These included waiving the fee for street tree planting, introducing grant programs such as a heat pump rebate and a grant for electronic vehicle charging stations. A total of \$28,000 was spent on street tree planting. While approved in fiscal year 2022, staff needed time to implement the grant and rebate programs and so no expenses were incurred this fiscal year. As such, \$143,469 remains from the one third calculation.

General Fund Surplus

As seen in the fiscal year 2022 report, the year ended with an operating surplus of \$1.9 million. As mentioned previously, there were appropriations made during FY2022 that are not considered part of the operating budget and staff recommend waiting until the audit is

finalized and a fund balance analysis can be done prior to making any additional appropriations, including the potential movement of funds related to the UUT increase.

Cash and Investments

As seen in Attachment 3 – Cash and Investments, the city’s cash holdings have increased significantly compared to this time last year. It is important to remember that these amounts are pooled funds associated with several revenue sources. A second page has been added to the Cash and Investments report detailing how these pooled assets are allocated. It is important to note that not all of these funds are available to spend as they may already be encumbered for current projects or contracts. In some cases, as with the debt holdings associated with the City’s Lighting and Landscaping Districts, a portion of the funds are required to be held as a condition of a bond.

While revenue and expense cash flows in the General Fund operating budget tend to be fairly consistent year over year, setting aside the increasing unfunded pension liability payments, special revenue and capital funds tend to have more fluctuation. For example, several plans and projects require significant funding, as noted in Section 7.2 of the Biennial Budget Booklet, and the City’s Capital Improvement Plan. As such, while staff plan for these expenses, accumulated assets will grow. When a project is started and payments being to be made, the amount of cash will fall.

Aside from planning for future expenses, there are two specific items that account for half of the total increase:

- American Rescue Plan Act: Since July 2021, the City has received just over \$4.7 million related to ARPA funding. The American Rescue Plan Act funds are discussed in the next section of this report.
- Increase in Real Property Transfer Taxes: This increase was detailed in the prior Revenues section of this report.

American Rescue Plan Act (ARPA)

In July of both 2021 and 2022, the City received payments of \$2,355,851 (totaling \$4,711,702) from the federal government for COVID-19 pandemic mitigation and economic relief. Per the US Treasury, the funds must be appropriated by December 31, 2024, and spent by December 31, 2026. At their October 3, 2022 meeting, Council appropriated the remainder of the funds allocated to the City.

The first annual compliance report was due to the United States Treasury by April 30, 2022. Staff submitted the report on April 8, 2022. In addition to reporting the amounts spent to date, the Treasury requires that recipients provide the amount allocated as well as descriptions of the programs funded. Reports will be required annually for each year of the program.

The funds have been appropriated as follows:

Temporary COVID19 Individual Assistance Program	\$2,150,000
COVID Community Engagement Specialist	\$550,000
Homelessness mitigation and housing services	\$285,000
Small business grants	\$1,657,143
ARPA Programs Marketing	\$25,000
IT hardware	\$30,000
<u>Solano Avenue Association Stroll-ish events</u>	<u>\$14,559</u>
Total	\$4,711,702

Staff presented a program update to Council at the October 3, 2022 meeting. The update detailed the work done in each program to date, as well as some new initiatives. As of the date of this report, just over \$1,046,360 of these funds has been spent.

Attachments

1. Fiscal Year 2021-22 Year End Budget to Actuals Report
2. Fiscal Year 2022-23 Quarter 1 Budget to Actuals Report
3. June 30, 2022 and September 30, 2022 Cash and Investments Summary