



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of February 27, 2024

TO: Mayor and Members of the City Council

VIA: Dante Hall, City Manager

SUBMITTED BY: Edwin Gato, Director of Finance

SUBJECT: FY 23-24 Midyear Budget Review and Recommended Midyear Budget Appropriations and Adjustments

RECOMMENDED ACTION:

Receive a report on the FY 23-24 midyear budget review and adopt a resolution approving midyear budget appropriations and adjustments as summarized and detailed in Attachment 2.

EXECUTIVE SUMMARY:

The Midyear Budget review allows the City to adjust the current fiscal year budget (FY 23-24) for changes in projected revenues and expenditures levels that may have occurred since the adoption of the Annual Budget on June 13, 2023. The changes are contained in this report.

BACKGROUND:

This report updates the Fiscal Year 23-24 financial projections and proposes the current year budget amendments for various City funds to reflect and respond to the City's current financial condition. Also, this report provides the City Council with updates on the financial status of the City's General Fund by comparing budget projections for revenues and expenditures to actual receipts and expenses as of December 31, 2023.

ANALYSIS:

As part of the budget process, the City staff must report to the City Council at midyear, examining revenues and expenditure and adjustments if necessary. The process provides an opportunity to review the status of the Budget at midyear to adjust the City's planned operations and Budget.

The Midyear Budget Review begins with the good news that at the six-month mark (December 31, 2023), most of the General Fund revenues are at 50%. Expenditures are 49%, slightly lower than the original budget overall.

General Fund

In accordance with the City's Financial Policies, the annual operating budget was conservative when adopted. This was particularly true as we faced the many uncertainties created by the past COVID-19 pandemic and the record inflation and international instabilities. The Policies also call for one-time, non-operating expenditures to be funded from one-time revenues. The City's practice of budgeting conservatively and living within our means remains effective at ensuring that we maintain good fiscal health, and the recommended changes in this Midyear Budget Review remain true to these practices.

I. General Fund Revenues

As of December 31, 2023, the General Fund operating revenues were \$9.1 million or 50% of the FY 23-24 adopted budget. Revenues from business licenses, franchise fees, and other taxes are received bi-annually and towards the end of the fiscal year. This accounts for why revenues are below 50% as of December 31, 2023, in some of these line items. Also, the revenues received from program fees fluctuate each year. However, these revenues are offset by expenditures incurred by fees.

II. General Fund Expenditures

A summary and year-to-date status of General Fund expenditures are presented in Attachment 2. Payments on the insurance premiums are due at the beginning of the fiscal year, which accounts for why expenditures on this line item are higher than 50% as of December 31, 2023.

Typically, the mid-year budget review and adjustments recommended are to make corrections to adopted budget and to address required modifications. New initiatives or programs are not often contemplated unless it's necessary.

Due to prudent fiscal stewardship, the City's financial position continues to remain strong and reaffirms its commitment to sound and conservative financial practices. Based on an evaluation of the FY 23-24 adopted budget and actual expenditures through December 31st, staff is not recommending adjustments to the General Fund budget.

III. General Fund Operating Reserve

Fiscal stability is an essential factor for all cities. Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. The City's operating reserve policy requirement equals 16.66% of total operating expenditures (or two months). The General Fund operating reserve exceeded that requirement and maintained an operating reserve equal to 25% of the total operating budget.

Non-General Fund Programs

These funds are driven by grants or other funding sources for specific purposes, such as transportation, Gas Tax, and Measure C “Street Fund”. Such funding sources are restricted, requiring revenues and expenditures to be tracked differently from the City’s primary operating fund, the General Fund. There is sufficient funding and appropriation to complete current projects or programs and fund the proposed mid-year adjustments as summarized and detailed in Attachment 2, except for Victoria by the Bay Lighting and Landscaping Assessment District (LLAD) and the Stormwater fund, which is projected to end the year with negative fund balances of over \$546K and \$211K, respectively. Staff are working on a strategy to address these deficits.

Next Step

Staff are preparing the FY 24-25 budget with a series of recommended budget workshops. The table below outlines key Council meeting dates on which budget information will be provided.

Date	Action/Topic
February 27, 2024	FY 23-24 Midyear Review & Budget Amendments
March 26, 2024	Budget Workshop to discuss the Five-Year CIP and project priorities.
April 9, 2024	Budget Workshop to discuss the Preliminary draft of the FY 24-25 Sewer Enterprise and Internal Service Funds budgets
April 23, 2024	Budget Workshop to discuss the Preliminary draft of the FY 24-25 General Fund Operating budget and other funds (Special Revenues, Debt Service, Agency and Successor Agency) budget
May 14, 2024	Introduction and First Public Hearing of the FY 24-25 Budget and Five-Year Capital Improvement Plan (CIP)
May 28, 2024	Second Public Hearing and Adoption of the FY 24-25 Budget and Five-Year Capital Improvement Plan (CIP)

Budget Award

The City of Hercules FY 22-23 Budget was awarded the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for the fourth time. This award is the highest form of recognition in government budgeting. Its attainment represents a significant achievement by the organization. Staff submitted the FY 23-24 Budget documents for award consideration.

FISCAL IMPACT:

The proposed budget amendment to the FY 23-24 Budget is summarized and detailed in Attachment 2. There is no net impact to the General Fund for the proposed amendments. Measure J SP grant will reimburse the budget amendment of \$22,000 for the annual reporting/environmental compliance. Please see Attachment 2 for more details.

ATTACHMENTS:

1. Budget Resolution
2. Proposed Budget Amendment
3. General Fund Summary
4. Non-General Fund Summary