

**CITY OF ALBANY
CITY COUNCIL AGENDA
STAFF REPORT**

Agenda Date: September 16, 2024
Reviewed by: NA

SUBJECT: Fiscal Year 2023/24 Fourth Quarter/Unaudited Year-End Budget Review

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SUMMARY

This report provides a review of the City's General Fund compared to budgeted amounts and covers the unaudited fourth quarter and year-end of FY2023/24. This report also provides an update on the City's Cash and Investments.

STAFF RECOMMENDATION

Report is for informational purposes only. No action required.

BACKGROUND

Quarterly, staff provide the City Council with an update on the status of the City's finances over the prior quarter. This status update includes information and analysis of unaudited revenues and expenditures through the fourth quarter of FY2023/24. A similar status report was provided to the Financial Advisory Committee (FAC) on June 4, 2024. Some revenue and expenditure amounts have been updated since that report was prepared reflecting continued year-end financial activity. There were a few significant changes that are discussed in the individual sections below. The bottom-line result is nearly the same even with the changes.

DISCUSSION AND ANALYSIS

The attached Budget to Year-to-Date Actuals reports show unaudited revenues and expenditures for the General Fund through the fourth quarter of FY2023/24. A detailed analysis of the expenditures and revenues to date is provided in the following sections.

Definitions

The following definitions are used to describe amounts in the remainder of the report.

2023/24 Adopted Annual Budget represents the budget adopted by the City Council on June 5, 2023.

2023/24 Fourth-Quarter Actual or Q4 Actual represents actual revenues or expenditures recorded during the fourth quarter of FY2023/24.

2023/24 Unaudited Year to Date represents revenues or expenditures for the full fiscal year based on unaudited actuals through the fourth quarter of the fiscal year. Some additional adjustments may occur based on annual audit activities.

GENERAL FUND

A review of FY 2023/24 unaudited actuals through the fourth quarter/year-end is shown below. It should be noted that the year-end results shown below are not a perfect prediction of where the City will ultimately end the fiscal year; but rather an indication of what is likely to happen barring any unforeseen changes or significant adjustments associated with the annual financial audit. The amounts will also differ from the amounts reported in the City's annual comprehensive financial report (ACFR) as there are adjustments that are required for financial statement purposes that are not recorded for budgetary purposes.

| 0001 - GENERAL FUND | | | | | | | | | |
|--|------------------------|--------------------|--------------------|------------------|------------------|-------------------|--|------------------|-------------------------------|
| | Fiscal Year 2022/23 | Adopted Budget | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | FY 2023/24 Unaudited Year to Date Total | Variance | Percent Surplus/ (Deficit) |
| Revenues | | | | | | | | | |
| Property Tax | 9,492,392 | 10,000,000 | 351,911 | 4,754,725 | 917,976 | 3,962,423 | 9,987,035 | (12,965) | -0.1% |
| Sales and Use Taxes | 5,101,812 | 4,970,000 | 923,495 | 1,221,964 | 1,209,497 | 1,979,603 | 5,334,559 | 364,559 | 7.3% |
| Franchise and Other Taxes | 6,651,687 | 6,070,000 | 1,470,947 | 1,385,546 | 2,189,874 | 2,259,330 | 7,305,697 | 1,235,697 | 20.4% |
| Licenses and Permits | 727,159 | 455,200 | 195,676 | 177,498 | 168,425 | 223,925 | 765,524 | 310,324 | 68.2% |
| Fines and Forfeitures | 239,762 | 270,000 | 77,256 | 49,744 | 54,316 | 75,213 | 256,529 | (13,471) | -5.0% |
| Earnings on Investments | 347,033 | 490,000 | 152,522 | 229,997 | 357,743 | (155,385) | 584,876 | 94,876 | 19.4% |
| Revenues from Other Agencies | 370,451 | 255,000 | 45,712 | 45,007 | 47,823 | 53,099 | 191,640 | (63,360) | -24.8% |
| Current Service Charges | 1,632,671 | 1,408,892 | 623,309 | 321,669 | 380,333 | 449,863 | 1,775,174 | 366,282 | 26.0% |
| Other Revenue | 329,954 | 256,650 | 413,756 | 95,344 | 13,533 | 260,300 | 782,934 | 526,284 | 205.1% |
| Transfers In | 3,832,211 | 5,969,219 | 299,886 | 0 | 3,495,861 | 1,102,521 | 4,898,268 | (1,070,951) | -17.9% |
| Total Revenues | 28,725,132 | 30,144,961 | 4,554,470 | 8,281,494 | 8,835,380 | 10,210,892 | 31,882,235 | 1,737,274 | 5.8% |
| Expenditures | | | | | | | | | |
| General Government | 9,057,644 | 10,128,525 | 5,748,152 | 1,434,769 | 1,556,941 | 2,040,345 | 10,780,207 | 651,682 | -6.4% |
| Police | 7,330,164 | 8,149,497 | 1,680,862 | 2,157,162 | 1,609,291 | 2,290,005 | 7,737,320 | (412,177) | 5.1% |
| Fire | 3,339,045 | 3,755,000 | 744,551 | 891,154 | 827,762 | 996,940 | 3,460,407 | (294,593) | 7.8% |
| Public Works* | 3,215,255 | 4,566,754 | 712,040 | 957,139 | 679,351 | 1,732,894 | 4,081,424 | (485,330) | 10.6% |
| Recreation | 2,577,932 | 2,548,736 | 604,406 | 580,539 | 556,962 | 800,230 | 2,542,138 | (6,598) | 0.3% |
| Community Development | 1,709,394 | 2,304,337 | 411,123 | 498,072 | 539,906 | 688,594 | 2,137,696 | (166,641) | 7.2% |
| Total Expenditures | 27,229,434 | 31,452,849 | 9,901,135 | 6,518,835 | 5,770,213 | 8,549,008 | 30,739,191 | (713,658) | 2.3% |
| Excess (Deficiency) of Revenues | | | | | | | | | |
| Over Expenditures | 1,495,698 | (1,307,888) | (5,346,665) | 1,762,659 | 3,065,166 | 1,661,884 | 1,143,044 | 2,450,932 | |

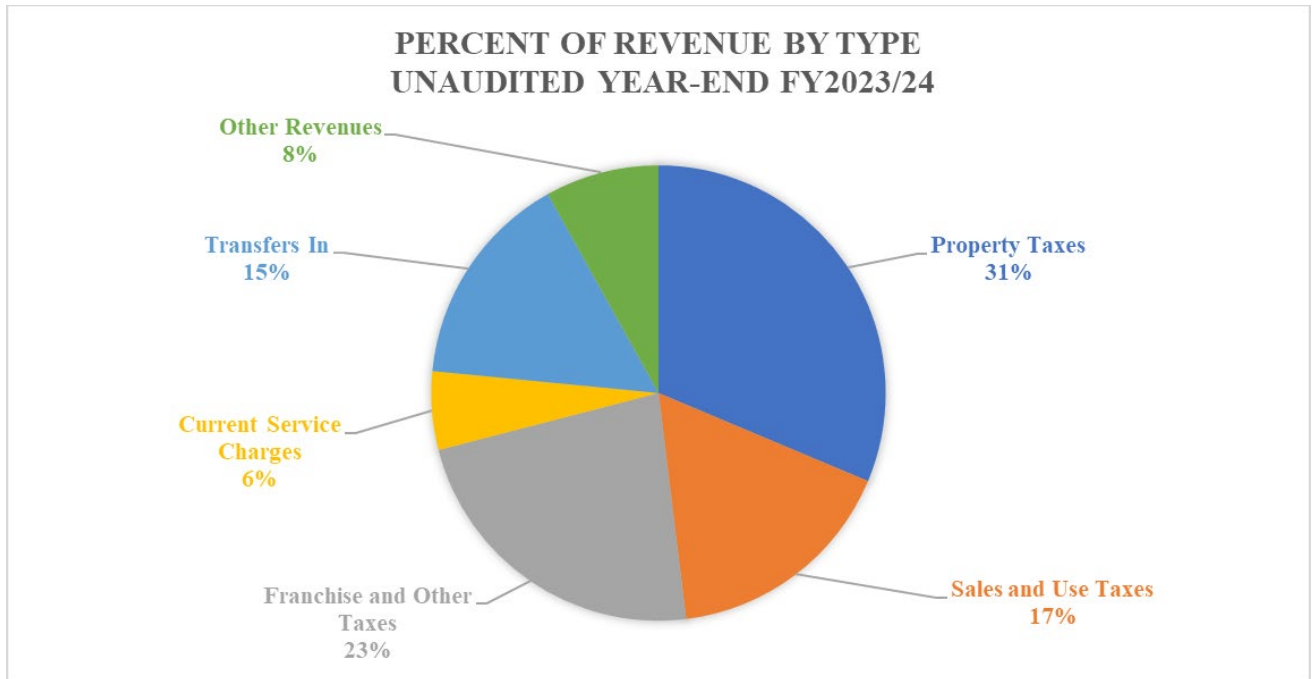
* Beginning in FY2023/24, the Public Works General Fund budget includes the storm drain program which had previously been managed in a separate fund.

More detail on revenues and expenditures is included in the following sections.

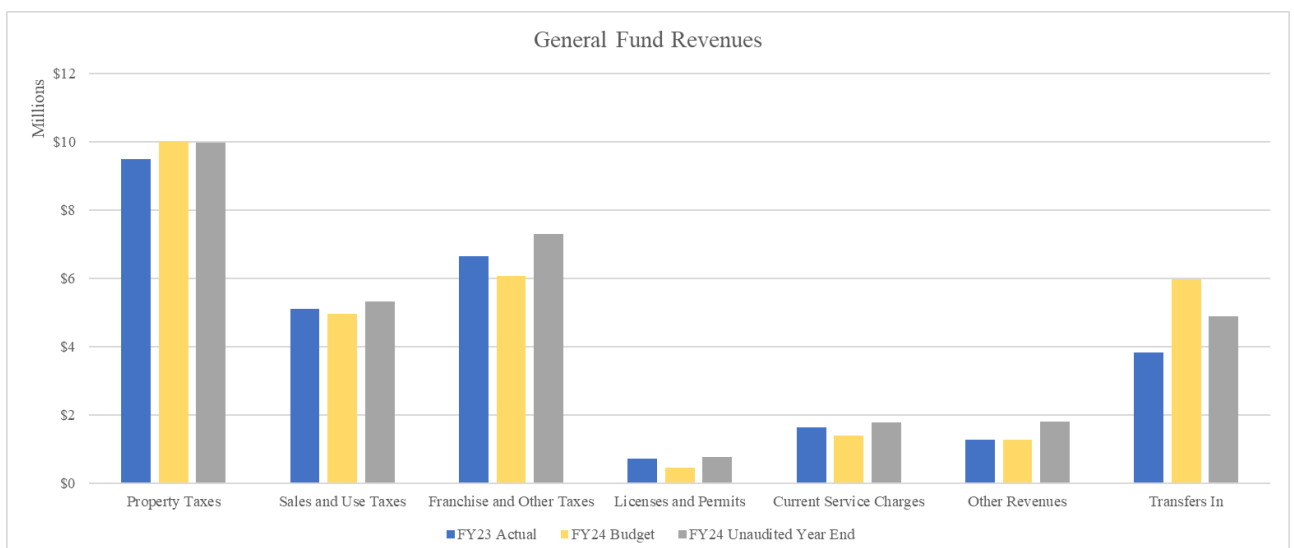
REVENUES

As can be seen in the table above, it appears that General Fund revenues are estimated to end the fiscal year \$1.7 million greater than the amount initially anticipated in the adopted budget for FY2023/24.

For FY2023/24, the following chart shows the percent of total revenues attributable to each type of revenue source. The relative size represented by each type of revenue source varies across the course of the fiscal year, but overall is exceeding expectations for the fiscal year.



The following chart provides some comparison data for actual General Fund Revenues for FY2022/23 and FY2023/24 Budget and unaudited year-end amounts.



Additional information on individual revenue categories is provided below.

Property Taxes. Property tax receipts are anticipated to end the year at \$10 million which is on target with the adopted budget.

Sales and Use Taxes. Sales and Use Taxes are anticipated at \$5.3 million at year-end, \$364,559 more than budget. Typically, the year-end estimate of sales and use tax receipts is based on receipts through the end of the fiscal year including any anticipated adjustments in receipts that may occur after the fiscal year records are closed. At the time the report was prepared for the FAC, the final sales tax disbursement had not yet been received, but it has been received now and is included in the reported figures. In addition to receiving the final payment for this fiscal year, the final payment for sales taxes received for the prior fiscal year (FY2022/23) year was not received and recorded until the current fiscal year (FY2023/24). What that means is that for FY2023/24 only, there are 13 months' worth of sales tax revenue contributing toward total revenues. On the flip side, FY2022/23 sales tax revenues were likely under reported since only 11 months of sales tax were recorded that year. Absent the 13th month of sales tax revenue, total sales tax for the year was right at the budget target of \$5 million. For FY2024/25, the City should be able to return to the normal pattern of 12 months of sales tax revenue for each year. Projected sales and use tax revenues for FY 2024/25 were adopted at a lower level because of the anticipated tax losses that will occur now that Golden Gate Fields has ceased operations.

Franchise and Other Taxes. Franchise and Other Taxes are anticipated at \$7.3 million, \$1.2 million (20%) higher than the adopted budget of \$6.1 million. This is primarily due to better-than-anticipated results for utility user taxes (\$600,000), business license taxes (\$200,000) as well as property transfer tax (\$400,000). These results reflect a relatively strong local economic picture which is a positive sign moving forward. The additional utility user tax revenues are discussed more below relative to the increases associated with the Measure DD rate changes.

Licenses and Permits. License and Permit revenues are estimated to end the year at \$765,524, or 68% higher than the adopted budget for FY2023/24. The most significant area of increase is in construction and encroachment/grading permits which are trending nearly 20 percent and 10 percent higher, respectively. This reflects a continued post-pandemic recovery in construction.

Current Service Charges. Current Service Charges at year end are \$1.8 million, 26% higher than the budget of \$1.4 million. This is primarily the result of continued strength in recreation services including facility and field rentals and recreation classes.

Other Revenues. The Other Revenues category (including Fines and Forfeitures, Earnings on Investments, Revenues from Other Agencies and Other Revenue) is forecast at \$782,934 for the fiscal year, significantly higher than budget as a result of receiving the first annual payment of \$400,000 from the City's 2023 agreement with UC Berkeley. This agreement reflects UC Berkeley's shared interest in strengthening projects and programs that are designed to improve the quality of life for Albany residents, including those services and programs that take place

on or near to the University's Albany Village. This funding was not included in the adopted budget because the agreement was not executed until after the FY2023/24 budget was adopted. The budget for FY2024/25 has been adjusted to reflect this new revenue source. The Other Revenues category also includes interest on investments which are anticipated to be about \$95,000 greater than budget. Fiscal Year 2023/24 was the first full year of the City using an investment firm to manage the City's portfolio.

Transfers In. Transfers In to the General Fund from special revenue funds are estimated at just under \$5 million, approximately 18% below the adopted budget of \$6 million. The timing of transfers into the General Fund from special revenue funds (such as the pension property tax override, Parks and Open Space Measures M and R, Gas Tax and others) has been discussed several times over the last fiscal year. Historically, the City had only made those transfers once per year, at the end of each fiscal year. To provide a better picture of the City's financial position across the course of a fiscal year, staff is now completing these transfers quarterly, with a final true-up for any adjustments after the fourth quarter of the fiscal year. The anticipated total for transfers for FY2023/24 is \$4.9 million, approximately \$1.1 million less than the adopted budget. This lower-than-budget amount is consistent with past years actuals. The budget has included an assumption that more revenue would be transferred to the General Fund to cover general overhead associated with programs funded from special revenues. It appears that those overhead amounts have been overstated in the budget for the last several years. While the FY2024/25 transfers budget has not been adjusted to reflect this historical trend of lower-than-budgeted transfer revenues, the FY2025/26 and FY2026/27 budgets should be prepared with more historically appropriate revenues so as not to overstate the impact of special revenue transfers as a revenue source to the General Fund.

Measure DD

Measure DD was passed in November 2020 increasing the Utility User Taxes (UUT) on the use of gas and electric utilities in Albany while also adding a new tax for water use. The tax rates were updated per the table below.

| Utility | Prior Tax Rate | New Tax Rate |
|--------------------|----------------|--------------|
| Electricity | 7% | 9.5% |
| Gas | 7% | 9.5% |
| Water | None | 7.5% |
| Telecommunications | 6.5% | 6.5% |

These changes were anticipated to bring in an additional \$675,000 in revenue annually. The estimate for revenues for FY 2023/24 is detailed in the table below.

| UUT | Old Rate | New Rate | Difference |
|----------|-------------|-------------|------------|
| Electric | \$995,775 | \$1,351,409 | \$355,634 |
| Gas | \$372,624 | \$505,704 | \$133,080 |
| Water | \$0 | \$448,507 | \$448,507 |
| TOTAL | \$1,368,399 | \$2,305,620 | \$937,221 |

Total revenues from affected utility user taxes are estimated to be \$2.3 million for FY2023/24, with an increase of \$937,221 attributable to the increased rates approved in 2020. Utility User Tax revenues can be more difficult to estimate since not only are they affected by consumer behavior, but as utility rates increase, City UUT revenues also increase.

This tax was passed as a general tax requiring a simple majority approval rather than a special tax which would have required a two-thirds approval threshold. Measure DD included language stating that the *City Council will endeavor to expend at least one-third (1/3) of the additional revenue generated from the increase in the maximum electricity users' tax rate (above 7%) for the following spending priorities:*

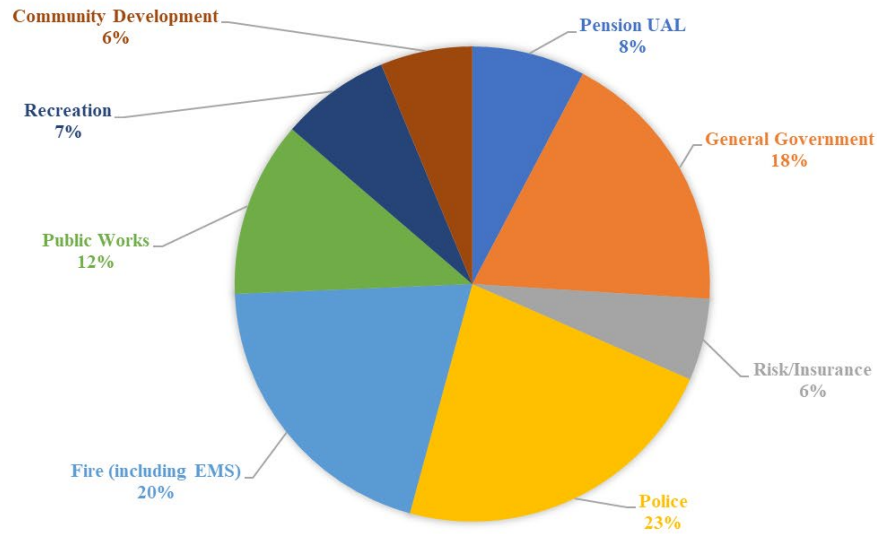
1. *Those Action Items in the City's Climate Action and Adaptation Plan, approved by the City Council on December 2, 2019, and as it may be amended from time to time by the City Council.*
2. *Additional environmental sustainability programs as may be authorized by the City Council.*

Over the last two fiscal years, the City has continued to invest significantly in climate action programs aligned with the goals of Measure DD. A summary of recent projects and programs can be found on the [City's website](#). Additionally, the Council has set aside \$143,469 from Measure DD funds (see Resolution 2023-27) in a Climate Action and Adaptation Reserve Fund for further spending in support of Measure DD goals. It should be noted, however, that since the measure was passed as a general tax, revenues may be budgeted by Council to pay for any valid expenditures of the City.

EXPENDITURES

In addition to the table above which shows departmental expenditure performance, the charts below show the percent of total expenditures through FY 2023/24 by department in the General Fund as well as the FY 2022/23 actuals, FY 2023/24 budget and unaudited year-end expenditures for the major categories of spending (salaries and benefits, and other expenses). Similar to the revenue amounts, there have been some changes to the expenditure totals shown in this report relative to the report provided to the FAC on September 4, 2024. These changes are the result of additional expenditures being recorded in FY2023/24 as they reflect services and products received during the 2023/24 fiscal year.

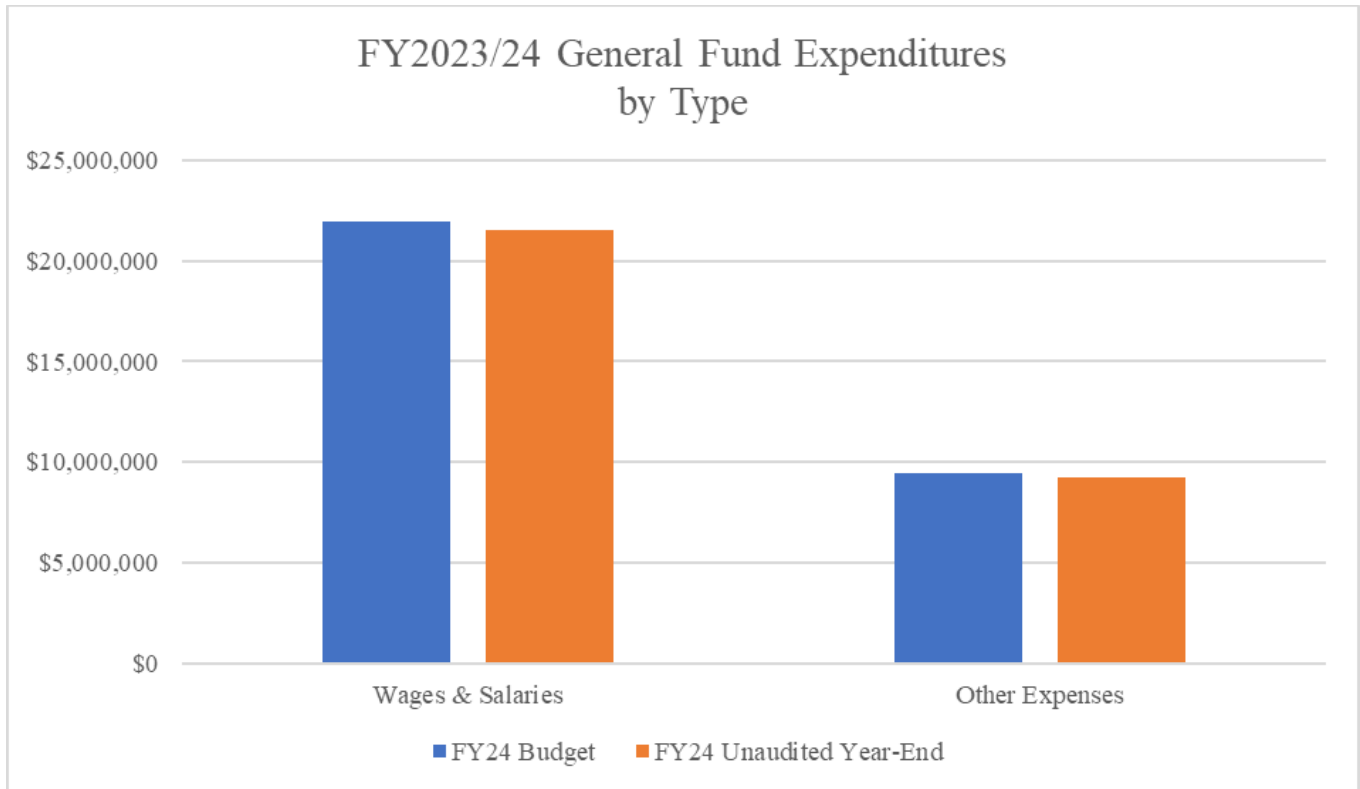
**PERCENT OF EXPENDITURES BY DEPARTMENT
UNAUDITED YEAR-END FY2023/24**



| | FY23 actuals | FY24 budget | Unaudited Year-End | Variance | Percentage |
|-----------------------|---------------|---------------|--------------------|-----------|------------|
| Salaries and Benefits | \$ 19,166,794 | \$ 21,998,355 | \$ 21,514,113 | (484,242) | -2.2% |
| Other Expenses | \$ 8,062,640 | \$ 9,454,494 | \$ 9,225,078 | (229,416) | -2.4% |
| | \$ 27,229,434 | \$ 31,452,849 | \$ 30,739,191 | (713,658) | -2.3% |

Total unaudited expenditures are \$30.7 million or 2.3 percent less than the adopted budget of \$31.5 million. Across the individual departments, most departments are anticipated to be between two and ten percent below budget at year-end. While some of this is driven by vacancies, the departments are also working diligently to ensure that other expenses stay within budget during the fiscal year.

The departmental group “General Government”, which includes City Council, Administration, City Clerk, City Attorney and Finance is projected to be over budget. This is largely due to a few unanticipated expenditures outside of departmental control.



FINANCIAL ADVISORY COMMITTEE REVIEW

On September 4, 2024, the Financial Advisory Committee (FAC) received a presentation on the City's unaudited finances for the end of FY2023/24. The FAC expressed concern regarding the estimation of year end presented for third quarter and how it varied from the estimated unaudited year-end. The FAC also discussed what will be done with the surplus that is currently being reported, and whether the amount would be used to pay down the Unfunded Accrued Liability incurred by the pension plans.

Summary

Although the City adopted an FY 2023/24 budget with a deficit of revenues to expenditures of \$1.3 million, it appears that the actual results for FY2023/24 will be positive, with a positive unaudited operating result (revenues over expenditures) of \$1.1 million. This reflects stronger-than-anticipated revenues in franchise and other taxes, permits, charges for services as well as the receipt of the first year of a \$400,000 payment from UC Berkeley. The payment from UC Berkeley is associated with a memorandum of understanding with the University related to the redevelopment of Albany Village and the new Graduate Housing Facility. On the expenditure side, departments are doing a good job controlling expenditures while balancing service demands and programmatic desires.

While positive, the unaudited year-end results that are previewed in this report are still subject to final revisions after all year-end close and audit activities are completed. In particular, potential audit adjustments can impact how much funding is truly available for future spending or reserve allocations.

Additional analysis of the City's overall financial picture, including evaluation of liabilities (such as pension and other post-employment benefits) and reserve amounts will be presented along with the annual financial audit later this year.

Cash and Investments

Attachment 2 – Combined City Accounts Monthly Balances through June 30, 2024 shows the City's cash and investment holdings as of June 30, 2024.

So far, almost \$34 million has been invested in CAMP, a municipal investment clearing authority currently paying 4.5% on their money market account with the balance invested in compliance with the City's Investment Policy. The majority of these funds have been invested in securities as of July, 2023 shown on the CAMP Managed line of the attached investments summary. Funds are also held in a Mechanics Money Market, Local Agency Investment Fund (LAIF) and CalTrust accounts, which are similar to the CAMP Pool as funds can be made available for operations with a quick turnaround. Staff monitors the balances in the more liquid accounts against operational expenses to ensure City business is funded and potential investment earnings are maximized.

Attachments

1. Fiscal Year 2023/24 Unaudited Year-End Budget to Actuals Report
2. Combined City Accounts Monthly Balances through June 30, 2024