

City of Sacramento  
**Budget and Audit Committee Report**  
915 I Street Sacramento, CA 95814  
www.cityofsacramento.org

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**File ID:** 2023-00367

5/9/2023

**Discussion Item 3.**

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**Fiscal Year (FY) 2022/23 Recommended Budgetary Adjustments**

File ID: 2023-00367

**Location:** Citywide

**Recommendation:** 1) Review the proposed budgetary and administrative authority adjustments; and 2) pass a **Motion** forwarding to the City Council for approval.

**Contact:** Mirthala Santizo, Budget Manager, (916) 808-5078, msantizo@cityofsacramento.org, Leyne Milstein, Interim Director, (916) 996-4065, lmilstein@cityofsacramento.org, Department of Finance

**Presenter:** Mirthala Santizo, Budget Manager, (916) 808-5078, Department of Finance

**Attachments:**

1-Description/Analysis

2-Resolution

3-Revenue Adjustments Details

**Description/Analysis**

**Issue Detail:** The proposed budgetary and administrative authority adjustments amend the FY2022/23 Approved Budget to ensure that the City is able to complete the fiscal year and creates a reserve for future budget development consistent with Council direction.

General/Measure U (G/MU) Fund Balance

As presented in the FY2021/22 Annual Comprehensive Financial Report (ACFR), year-end net results (revenues less expenditures) resulted in one-time G/MU Fund budgetary resources of \$17.6 million. The following table provides a summary of the available fund balance.

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<b>FY22 Year End with FY23 June Budget Reso</b>		\$ in 000's
Prior year carryover into fund balance*		9,245
GFY22 YE Operating Results		12,880
MU FY22 YE Operating Results		11,702
FY22/23 Budget Reso: Library Grant Match		(7,800)
FY22/23 Budget Reso: Riverfront MYOP		(325)
<b>Remaining FY22 with FY23 Expenditures</b>		<b>25,702</b>
<b>Council Approved Actions</b>		
Election Deferral Staff		(569)
Impact Fee Waiver Reimbursement		(9,944)
SCXEA PD/Fire		(379)
L522		(1,693)
L522 FY22 paid in FY23*		(2,612)
<b>Total Council Approved Actions</b>		<b>(15,197)</b>
<b>Remaining FY22 Year End Resources</b>		<b>10,505</b>
<b>FY23 Budgeted Resources</b>		
FY23 Beginning Fund Balance		4,761
FY23 Ending Fund Balance		2,359
	Available as of 3/20/23	<b>17,625</b>

Citywide Revenue and Department Revenue/Expenditure Adjustments

Based on revenue performance through the first half of FY2022/23, staff is recommending several revenue adjustments. These changes, which total \$2.9 million, are reflected in the following table:

Revenue Type (dollars in 000s)	FY2022/23	FY2022/23	\$ Change	% Change
	Approved	Amended		
Property Tax Current Secured Roll	137,099	143,287	6,188	4.5%
Utility User Tax	65,665	68,165	2,500	3.8%
Proposition 172 Public Safety Sales Tax	6,430	8,200	1,770	27.5%
Property Tax In-Lieu of Vehicle License Fee	57,896	58,863	967	1.7%
SHRA Property Tax Pass-Through	1,885	2,757	872	46.3%
Miscellaneous Revenue	24,453	25,179	726	3.0%
Transient Occupancy Tax	5,289	5,850	561	10.6%
General Sales & Use Tax	108,467	108,262	(205)	-0.2%
Cannabis Business Operations Tax	23,592	21,966	(1,626)	-6.9%
Measure U Transactions & Use Tax	135,769	132,270	(3,499)	-2.6%
Real Property Transfer Tax	16,659	11,335	(5,324)	-32.0%
<b>Recommended Revisions</b>	<b>\$ 583,204</b>	<b>\$ 586,134</b>	<b>\$ 2,930</b>	<b>0.5%</b>

Based on revenue performance through the first half of FY2022/23, the City Treasurer's Office, Youth, Parks and Community Enrichment (YPCE) and Convention and Cultural Services (CCS) are recommending several revenue/expenditure adjustments. These revenue and expenditure adjustments, which total \$650K, are reflected in the following table:

Department (dollars in 000s)	General Fund Revenues			General Fund Expenditures			\$ Change
	FY2022/23 Approved	FY2022/23 Amended	Change	FY2022/23 Approved	FY2022/23 Amended	Change	
<b>City Treasurer</b>							
Investment Fees	(3,450)	(4,100)	(650)	-	-	-	(650)
<b>YPCE</b>							
Permitting and Events	(18)	(148)	(130)	18	148	130	-
Aquatics - Revenue	(423)	(923)	(500)	423	923	500	-
Community Recreation Services	(85)	(185)	(100)	85	185	100	-
Community Centers	(366)	(1,216)	(850)	366	1,216	850	-
Camp Sacramento	(340)	(530)	(190)	340	530	190	-
Older Adult Services	(162)	(182)	(20)	162	182	20	-
Total YPCE	(1,394)	(3,184)	(1,790)	1,394	3,184	1,790	-
<b>CCS</b>							
History	(214)	(967)	(753)	214	967	753	-
Total CCS	(214)	(967)	(753)	214	967	753	-
<b>Recommended Revisions</b>	<b>\$ (5,058)</b>	<b>\$ (8,251)</b>	<b>\$ (3,193)</b>	<b>\$ 1,608</b>	<b>\$ 4,151</b>	<b>\$ 2,543</b>	<b>\$ (650)</b>

Detailed information on the citywide revenue and department revenue/expenditure adjustments is included in Attachment 3.

#### Commitment for Future Budget Development

The Proposed FY2023/24 G/MU five-year forecast projects an operating deficit starting in

FY2024/25. Staff recommends reserving \$20.5 million in FY2022/23 year-end resources for future budget development. Additional information regarding the G/MU five-year forecast is discussed in the FY2023/24 Proposed Budget Overview staff report (File No. 2023-00314).

Reallocation of Pandemic Debt Service Support

Council approved one-time General Fund support for several funds whose revenue streams were disrupted by the pandemic as part of the FY2021/22 Midyear Budget. This support was intended to help the funds continue to make their required debt service obligations over the next five years without going negative. The one-time General Fund contribution for these funds totaled approximately \$12.3 million and consisted of the following:

<b>Fund Number</b>	<b>Fund Name</b>	<b>Debt Service Support (\$ in 000s)</b>
2253	Sacramento Tourism Infrastructure District Fund	\$442
6004	Parking Fund	\$5,148
6010	Community Center Fund	\$6,718
<b>Total Debt Service Support</b>		<b>\$12,308</b>

After reviewing the fund conditions of all three funds, staff is recommending that \$7.1 million one-time General Fund support provided to the Sacramento Tourism Infrastructure Fund (\$442K) and the Community Center Fund (\$6.7 million) not needed for debt service be reallocated to address other one-time priorities. These priorities include:

- \$3.5 million for the Citywide Litigation Project (I80310000) to address anticipated litigation needs;
- \$3.0 million for the Affordable Housing Project (I02189050) to support the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program through the end of FY2023/24; and
- \$633,000 in additional General Fund support to the Parking Fund to meet debt service obligations through FY2023/24.

Sacramento Children’s Fund (Measure L) Multi-Year Operating Project (MYOP)

In November 2022, the voters passed Measure L, which established the Sacramento Children’s Fund to support positive youth development and youth violence prevention programs for children and youth less than 25 years old. In order to appropriate FY2023/24 funding and future year funding to the Children’s Fund, staff recommends the approval of the Measure L Youth Funding MYOP (I80000100).

City Manager Administrative Authority Reset

All eleven labor contracts will expire before the end of calendar year 2023. To ensure that Human Resources can manage the workload associated with labor negotiations, the City Manager used

administrative authority to provide the necessary funding in the Citywide Strategic Plan MYOP (I02000400). Staff requests that authority for both Sections 5.4 and 13.9 of the Approved Budget Resolution 2022-0198 be reset for the Citywide Strategic Plan MYOP so that additional funding can be transferred in FY2022/23, if needed.

**Policy Considerations:** This report is consistent with Council's direction to keep the Council informed on the fiscal condition of the City.

**Economic Impacts:** None.

**Environmental Considerations:**

**California Environmental Quality Act (CEQA):** This report concerns administrative activities and government fiscal activities that do not constitute a "project" as defined by the CEQA Guidelines sections 15378 and California Public Resources Code section 21080 and are not subject to the provisions of CEQA (CEQA Guidelines section 15060(c)(3)). CEQA review for any project, which utilizes funds allocated in this report, has been or will be performed in conjunction with planning, design, and approval of each specific project as appropriate.

**Sustainability:** Not applicable.

**Rationale for Recommendation:** The actions recommended in this report address the adjustments and authority necessary to implement the City's financial plan for the remainder of the current fiscal year and future fiscal years.

**Financial Considerations:** This report is a companion to the FY2023/24 Proposed Budget Overview staff report (File No. 2023-00314). The proposed budgetary adjustments and authority requests will not only revise the FY2022/23 Approved Budget but is necessary to ensure that FY2023/24 Proposed Budget remains balanced.

**Local Business Enterprise (LBE):** No goods or services are being purchased under this report.

**RESOLUTION NO. 2023-XXXX**

Adopted by the Sacramento City Council

May XX, 2023

**Fiscal Year (FY) 2022/23 Budgetary and Administrative Authority Adjustments**

**BACKGROUND**

- A. Revenue adjustments are recommended based on revenue performance through the first half of FY2022/23. These revenue adjustments include various General Fund citywide revenues, General Fund department revenues, and Measure U revenues.
- B. Council approved one-time General Fund support totaling \$12.3 million in FY2021/22 to support debt service requirements where revenue streams were disrupted by the pandemic. After reviewing the fund conditions of these funds, \$7.1 million of the support can be returned to the General Fund and reallocated to other one-time priorities.
- C. The Citywide Litigation Project (I80310000) is used to provide additional funding for various litigation needs.
- D. The Reduced Residential Development Impact Fees for Affordable Dwelling Units Program is currently funded through the end of FY2022/23 and requires additional funding to continue the program in FY2023/24.
- E. The Parking Fund requires additional General Fund support to ensure it can meet its debt service obligations through FY2023/24.
- F. In November 2022, the voters passed Measure L, which established the Sacramento Children's Fund to support positive youth development and youth violence prevention programs for children and youth less than 25 years old.
- G. The Proposed FY2023/24 G/MU five-year forecast projects an operating deficit beginning in FY2024/25. A reserve from FY2022/23 year-end resources is necessary to balance the budget for future fiscal years.
- H. Section 5.4 of the FY2022/23 Approved Budget Resolution (Resolution 2022-0198) authorizes the City Manager to make appropriation changes (increases or decreases) of less than \$250,000 to any Department or project from Administrative Contingency that established in the General Fund. Appropriation changes (increases and decreases) more than and including \$250,000 to the Department or project require Council approval.
- I. Section 13.9 of Resolution 2022-0198 authorizes the City Manager to increase or decrease MYOP budget appropriations by less than \$250,000 for each project.

Transfers that exceed and include \$250,000 in total for any MYOP require Council approval by resolution.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. The City Manager or the City Manager's designee is authorized to increase the General Fund (Fund 1001) revenue budget in the Fiscal Year (FY) 2022/23 Citywide and Community Support Operating Budget by \$6,429,818.
- Section 2. The City Manager or the City Manager's designee is authorized to increase the General Fund (Fund 1001) revenue budget in the FY2022/23 City Treasurer's Office Operating Budget by \$650,000.
- Section 3. The City Manager or the City Manager's designee is authorized to decrease the Measure U (Fund 2401) revenue budget in the FY2022/23 Citywide and Community Support Operating Budget by \$3,498,754 and decrease the Measure U (Fund 2401) available fund balance by \$3,498,754.
- Section 4. The City Manager or the City Manager's designee is authorized to increase the General Fund (Fund 1001) revenue and expense budgets in the FY2022/23 Youth, Parks, and Community Enrichment Department Operating Budget by \$1,790,000.
- Section 5. The City Manager or the City Manager's designee is authorized to increase the General Fund (Fund 1001) revenue and expense budgets in the FY2022/23 Convention and Cultural Services Department Operating Budget by \$753,000.
- Section 6. The City Manager or the City Manager's designee is authorized to transfer \$6,718,000 from the Community Center Fund (Fund 6010) available fund balance to the General Fund (Fund 1001) and establish the appropriate reimbursements between the funds.
- Section 7. The City Manager or the City Manager's designee is authorized to transfer \$442,000 from the Sacramento Tourism Infrastructure District (Fund 2253) available fund balance to the General Fund (Fund 1001) and establish the appropriate reimbursements between the funds.
- Section 8. The City Manager or the City Manager's designee is authorized to transfer \$3.5 million from the General Fund (Fund 1001) available fund balance to the expenditure budget of the Citywide Litigation Project (180310000).
- Section 9. The City Manager or the City Manager's designee is authorized to transfer \$3.0 million from the General Fund (Fund 1001) available fund balance to the expenditure budget of the Affordable Housing Project (102189050).

- Section 10. The City Manager or the City Manager's designee is authorized to transfer \$633,000 from the General Fund (Fund 1001) available fund balance to the Parking Fund (Fund 6004) and establish the appropriate reimbursements between the funds.
- Section 11. The City Manager or the City Manager's designee is authorized to increase the Parking Fund (Fund 6004) available fund balance by \$633,000.
- Section 12. The City Manager or the City Manager's designee is authorized to increase the General Fund (Fund 1001) available fund balance by \$7,106,818.
- Section 13. The City Manager or the City Manager's designee is authorized to commit \$20.5 million in FY2022/23 General/Measure U Fund year-end resources for future budget development.
- Section 14. The Measure L Youth Funding Program (I80000100) is established as a new Multi-Year Operating Project.
- Section 15. The City Manager's authority under Sections 5.4 and 13.9 of the Resolution 2022-0198 is reset for the Citywide Strategic Plan MYOP (I02000400).

Adopted by the City of Sacramento City Council on May XX, 2023, by the following vote:

Ayes:

Noes:

Abstain:

Absent:

Attest:



Citywide Revenue Adjustments Details

- A. Property Tax Current Secured Roll, \$6.2 million:** The recommended increase is based on the County Assessor's fiscal year-end report estimating countywide property tax growth for the secured roll which includes land, structures, fixtures, and personal property. The FY2022/23 amended budget will be increased by 4.5% above the FY2022/23 approved budget.
- B. Utility User Tax (UUT), \$2.5 million:** UUT is a usage tax on telecommunication, cable, gas, and electric services. Based on collections through the first five months of FY2022/23 UUT revenue has increased by 8.6% compared to the same period in FY2021/22. Electricity accounts for 60% of UUT revenue compared to 47% five years ago. SMUD and PG&E continue to increase rates, which will continue to offset the loss of revenue from the telecommunications components of UUT and provide additional revenue as people continue to work from home with more flexible work schedules. Based on the year-to-date collections, staff are anticipating an increase of \$2.5 million, or 3.8%, in UUT revenues.
- C. Proposition 172 Public Safety Sales Tax, \$1.8 million:** Proposition 172 was approved in 1992 to maintain public safety funding levels in spite of the Educational Revenue Augmentation Fund property tax shifts. Revenue collections from FY2016/17 through FY2020/21 averaged \$6 million annually, then actuals increased to \$8.2 million in F2021/22. This adjustment increases the budget to \$8.2 million to align with last year's actuals. The General Fund forecast includes 3% annual growth beginning in FY2023/24.
- D. Property Tax In-Lieu of Vehicle License Fees (VLF), \$1.0 million:** The State's 2004 property tax for VLF swap permanently reduced the VLF rate from 2% to 0.65%, shifted the VLF revenue to the state General Fund to make up for reduced property taxes to schools, and shifted property taxes from the school share to property tax in-lieu of VLF to cities/counties. The projected increase is based on recent information provided by the County of Sacramento Audit-Controller Division indicating that the City will receive an additional \$1.0 million, or 1.7%, over the approved budget.
- E. SHRA Property Tax Pass-Through, \$0.9 million:** Redevelopment area property tax revenue averaged \$1.7 million annually from FY2016/17 through FY2018/19 and with the onset of the Pandemic the budget was held static. Now after three additional years of actuals averaging \$2.6 million, the budget is being adjusted with an additional 3% annual growth forecasted in future years.

- F. Miscellaneous Revenue, \$0.7 million:** This category summarizes several smaller revenue adjustments to right size the budgets compared to actuals collected over the past three fiscal years. The revenue sources include Residential Development Property Tax, Business Operations Tax, In-Lieu Franchise Fees, Unsecured Property Tax, Redevelopment Agency Services, Cable Commission Franchise Fees, and Interest on Investments.
- G. Transient Occupancy Tax (TOT), \$0.6 million:** TOT is a general tax imposed on occupants of hotels, motels, inns, etc. The City's TOT is 12%, of which the General Fund receives two percent of the 12% (or 1/6th). The remaining 10% (or 5/6th) is deposited in the Community Center Fund. Based on collections through the first seven months of FY2022/23, TOT revenue has increased by 11% compared to the same period in FY2021/22. Staff is recommending an 11% increase above the FY2022/23 budget.
- H. General Fund Sales and Use Tax (Bradley Burns), -\$0.2 million:** The estimates for FY2022/23 are updated to reflect recent trends in revenue collections and are based on sales tax projections from Avenu Insights & Analytics, the City's sales tax consultant. General sales tax is expected to slightly decline as inflationary pressures continue to diminish disposable income for consumers. The change will have a negative impact on the City's pro-rata share of the county sales tax pool beginning in FY2022/23 as well.
- I. Cannabis Business Operations Tax (BOT) Revenues, -\$1.6 million:**  
The California Department of Tax and Fee Administration reported an 8.2% decrease in cannabis sales in 2022 compared to 2021, the first decrease since state legalization five years ago. California is now considered a mature market for cannabis and without federal legalization to export to other states, growth potential remains slim. In addition, higher taxes and increased regulation are pushing customers away. Cannabis tax revenue is generated from cultivation, manufacturing, testing, delivery, microbusiness, dispensary, and distribution. FY2021/22 CBOT revenue decreased by \$1.7 million or -6.8%. Based on collections through the first seven months of FY2022/23, revenue collections are projected to be \$22.0 million, \$1.6 below the FY2022/23 Approved Budget.
- J. Measure U Transaction & Use Tax, -\$3.5 million:** The estimates for FY2022/23 have been updated to reflect recent trends in revenue collections and are based on sales tax projections from Avenu Insights & Analytics, the City's sales tax consultant. Measure U Transactions and Use Tax is expected to decline as

inflationary pressures continue to decrease disposal income for consumers across all sectors.

- K. Property Transfer Taxes, -\$5.3 million:** Property transfer tax is a charge imposed by the City upon the passing of title from one owner to another. The City charges \$2.75 for every \$1,000 of the property's sale price. During the first seven months of FY2022/23, real estate transactions decreased by 40% and the value of these transactions has also decreased by 32% when compared to the same period in the prior year. January 2023 transaction volume was the lowest in the past ten years. As inflation continues to erode disposable income and interest rates hover around 6-7% for a 30-year mortgage, buyers are reluctant to pull the trigger and sellers aren't in a rush to sell if they're locked in lower interest rates and have few options for an affordable mortgage upon the sale of their current property. FY2021/22 was an all-time high of \$19.0 million for transfer tax collections, however activity has come to a grinding halt with current FY2022/23 projections in the \$11-12 million range based on collections through the first seven months of the fiscal year.

#### Department Revenue/Expenditure Adjustments Details

Based on revenue performance through the first half of FY2022/23, the City Treasurer's Office, Youth, Parks and Community Enrichment (YPCE) and Convention and Cultural Services (CCS) are recommending several revenue/expenditure adjustments. The increase in the City Treasurer's Office is due to Pool A interest earnings from American Rescue Plan 2021 funds, Delta Shores, and Railyards Bond Proceeds. As the City continues to recover from the fiscal challenges resulting from the pandemic, YPCE has seen increases to community services fees, facility use fees, registration fees, swimming pool fees, concessions, and special event permits. CCS has also seen revenue increases in film revenues and in rental property revenues due to rental back pay that was put on hold due to the pandemic. The overall change to YPCE and CCS will be cost neutral as there will be an increase to Other Cost reimbursements in the same amount. These revenue and expenditure adjustments total \$650K.