

First Quarter FY 2021-22
Financial Report
(Unaudited)



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INTRODUCTION

This is the first quarterly report for Fiscal Year 2021-22, and comprises results for the three month period ending September 30, 2021. While a few other notable funds are reviewed, this report focuses primarily on the City’s general fund. General Fund operating revenues and expenditures as compared to previous years are presented, and any notable changes or trends in these numbers are explained. The report is presented on a cash basis, which means that revenues are recognized at the time revenues are received and expenditures are recognized at the time payment is processed. The City does not accrue any revenues or expenditures in the first quarter.

The purpose of this report is twofold. First, it ensures that the City is consistently monitoring its revenues and expenditures so that it may proactively respond to unanticipated changes or emerging trends. Second, and equally important, consistent reporting increases the transparency of the City’s finances. Quarterly reporting provides the City Council, City Administration, taxpayers and ratepayers with information that demonstrates the City is meeting this standard.

The information in this report is the most accurate and up-to-date information available at the time of publication. It is not meant to be inclusive of all financial and accounting transactions. It is intended only to provide the Council, Management and the public with an overview of the state of the City’s general fiscal condition. It should be noted that this report is not an audited financial statement, and the numbers provided herein are preliminary and subject to change as the year progresses. No data on revenues and expenditures are final until the City has completed its annual audit and finalized its Annual Financial Report (AFR), which is released in the winter of each year for the prior fiscal year

ECONOMIC OUTLOOK

In March of 2020, the City declared a local emergency in response to the COVID-19 worldwide pandemic. The ensuing statewide shelter in place orders coupled with various levels of “reopening” created financial turmoil in the fourth quarter of FY 2019-20 and continues to wreak havoc on the U.S. and worldwide economies at all levels.

The first quarter of fiscal year 2022 represents the sixth quarter of the COVID-19 pandemic. Till now, the economy has recovered surprisingly well due to two prime factors; the development and distribution of a vaccine for the virus and federal stimulus dollars. Unfortunately as 2021 has progressed, infection, hospitalization, and death rates have fluctuated to the positive with the rollout of the vaccine and then again to the negative with the delta variant surge and vaccine hesitancy. Even with some level of fluctuation and hesitancy, the distribution of highly effective vaccines has considerably reduced the economic risks from COVID-19.

NATIONAL & STATE ECONOMIC OUTLOOK

<p>Hdl (The City’s revenue enhancement consultant) reports the national economy grew 13% in FY20-21, with a forecast of slowing to 4.0% in FY 21-22. The large growth rate is in comparison to FY19-20 which saw the beginning of recovery from recession.</p> <ul style="list-style-type: none">• California’s unemployment rate is expected to continue declining from 7.6% in FY 20-21 to 4.8% in FY 21-22• Sales & Use Tax growth is expected to decrease from 10.2% in FY 20-21 to 4.0% in FY 21-22• California’s median existing home price is expected to increase from \$626k in FY 20-21 to \$669k in FY 21-22

Source: Hdl

Since the start of the pandemic the Federal Government has passed and implemented five economic stimulus packages totaling over \$5 trillion. The Federal Reserve also lowered the Federal Funds rate to between 0% and .25% where it remains today. In many ways the federal stimulus may have slowed the economic damage caused by the health and safety response to the pandemic and stabilized the economy. With some signs of rising inflation the Federal Reserve is expected to begin raising the Federal Funds rate in 2022. Many economists believe inflation in the economy will be short lived and comes as a result of supply chain bottle necks and staffing shortages which will recede with time.

LOCAL ECONOMIC OUTLOOK

At the local level, the City of Seaside unemployment rate increased from 3.1% in March of 2020 to 19.0% in April of 2020 and currently stands at 6.0% . Many of the City’s small businesses continue to struggle due to various factors including staffing shortages and lost revenue during times of required closures. In response, the City of Seaside City Council approved a \$150k façade improvement program to help businesses improve their store fronts and attract more business. Additionally, the City was awarded \$8.9M of American Rescue Plan Act funding and continues to assess ways to further assist local businesses.

Additionally the City will continue to pursue FEMA reimbursement for emergency response costs as appropriate as well as various other grant sources.

The City of Seaside unexpectedly experienced strong results in several business sectors throughout the pandemic, including Auto Sales, Online Sales, and Building and Construction Materials. Not all sectors of the local economy fared as well. One major sector of Seaside’s local economy is based on tourism. Early in the pandemic the the local Hotel Tax (Transient Occupancy Tax) dropped off severely and served as a clear indicator of just how hard that sector was hit. With the lifting of many travel restrictions beginning in June of 2021, however, this sector experienced some much needed relief. TOT collections showed strong signs of recovery throughout the 2021 Summer months.

Even as many local small businesses continue to struggle, overall the local economy has recovered from it’s pandemic era lows and is now showing signs of growth beyond it’s pre-pandemic levels.

GENERAL FUND

FY 2021-22 BUDGET RECAP:

General Fund Changes in Fund Balance:	Operating	Capital	Total Budget
	FY22	FY22	FY22
Revenues	\$ 39,306,339	\$ 9,000,000	\$ 46,837,410
Expenditures	(39,199,061)	(5,214,617)	(37,994,160)
Net Transfers	-	-	(4,950,589)
Surplus (Deficit)	<u>\$ 107,278</u>	<u>\$ 3,785,383</u>	<u>\$ 3,892,661</u>

In June of 2021, the City of Seaside City Council adopted the FY 2021-22 annual budget. Due to a projection of significant Revenue recovery and growth, a surplus budget was adopted including an operating surplus of \$107k and a capital budget surplus of \$3.8M.

The operating budget showed a surplus even while planning to re-staff the City's workforce, return pandemic era labor concessions, and provide for a cost of living adjustment. Personnel costs, the City's largest cost, were budgeted to increase by approximately \$5.1M over the previous fiscal year budget. The staffing plan included the addition of 28 positions that were either new or had been frozen in the previous fiscal year. The City also committed to continue recruiting for 17 positions that were budgeted but remained vacant. Budget line items such as equipment, supplies and vehicles were increased to coincide with the staffing ramp up. For a second year running, the City appropriated funds (\$320k) for grants to support community non-profits and also funded the Family and Community Support Program with an allocation of \$179k.

The capital budget likewise showed a surplus. The City expects to receive a one-time land sale revenue of \$9M and will provide funding for the City's CIP (Capital Improvement Program) in the amount of \$5.2M from the City's general fund. Projects in the CIP include government buildings, parks water infrastructure, and stormwater.

RESERVES:

The City's reserve accounts are fully funded in the fiscal year 2021-22 budget at the following amounts:

Emergency Reserve - 15%	\$ 5,879,859
Special Reserve - 10%	3,919,906
Capital Reserve - 5%	1,959,953
Total Reserves	<u>\$ 11,759,718</u>

Q1 GENERAL FUND REVENUES:

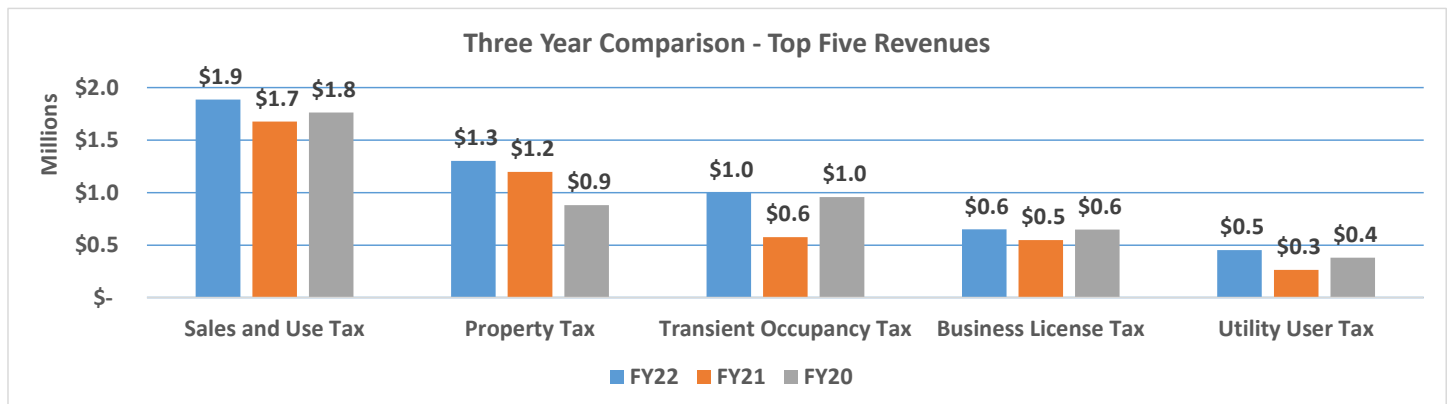
Total budgeted revenues for FY 2021-22 including one-time sales and transfers are \$48.6M. Excluding the one-time sales the budget is \$39.6M. This compares to a FY 2020-21 budget of \$30.7M; a budgeted revenue increase of nearly \$8.9M. When looking at first quarter revenue results, staff believes that a year over year analysis is more effective than an analysis against budget for two reasons:

- Revenues are not received in a uniform manner (often times two months in arrears)
- The City does not accrue revenues in the first quarter

The following table and chart compares first quarter results for FY22 with first quarter results for FY20 and FY21. FY21 is the pandemic year while FY20 may be considered pre-pandemic.

General Fund Revenues:	Budget	Results:			Variances:			
	Q1	Q1			Year over Year Vs. FY21		Year over Year Vs. FY20	
	FY22	FY22	FY21	FY20	\$	%	\$	%
Sales and Use Tax	\$ 4,007,792	\$ 1,886,686	\$ 1,677,622	\$ 1,764,062	\$ 209,064	12%	\$ 122,624	7%
Property Tax	1,384,008	1,303,049	1,198,169	882,049	104,880	9%	421,000	48%
Transient Occupancy Tax	645,687	997,444	575,737	957,905	421,706	73%	39,539	4%
Business License Tax	177,974	649,961	547,347	649,052	102,614	19%	909	0%
Utility User Tax	650,346	452,417	264,617	380,905	187,799	71%	71,512	19%
Transfer In	441,875	367,232	-	-	367,232	n/a	367,232	n/a
Licenses & Permits	99,104	264,272	103,672	117,114	160,601	155%	147,158	126%
Miscellaneous-Other Revenue	156,244	252,249	8,679	204,496	243,570	2806%	47,753	23%
Marijuana Receipts Tax	320,808	235,859	178,299	140,152	57,560	32%	95,707	68%
Fees & Charges	194,750	154,523	44,413	191,069	110,110	248%	(36,546)	-19%
Income from Investments	120,811	81,789	3,500	4,010	78,289	2237%	77,779	1940%
Grant Revenue	163,084	29,740	63,212	152,384	(33,472)	-53%	(122,644)	-80%
Fines & Forfeitures	17,479	12,541	33,357	40,744	(20,816)	-62%	(28,203)	-69%
Other Agency Revenue	122,769	9,617	256,964	69,487	(247,347)	-96%	(59,870)	-86%
Franchise Fees	360,844	-	-	-	-	n/a	-	n/a
Motor Vehicle In-Lieu	1,037,654	-	-	-	-	n/a	-	n/a
Revenues by Source	\$ 9,901,227	\$ 6,697,380	\$ 4,955,588	\$ 5,553,428	\$ 1,741,791	35%	\$ 1,143,951	21%

As can be seen in the table, revenues in the first quarter totaled \$6.7M which is 35% or \$1.7M higher than the first quarter of the previous year and 21% or \$1.1M higher than FY20. The \$6.7M equals 17% of total budgeted revenue. Similarly in the first quarter of the previous year the City had realized 16% of total budgeted revenue. This indicates that actual revenue collections are likely trending slightly better than budgeted revenue.



DISCUSSION OF SIGNIFICANT REVENUE VARIANCES:

➤ **Sales and Use Tax**

In the first Quarter of the fiscal year \$1.9M of sales and use taxes were collected. This equates to a \$209k or 12% increase over the same quarter in the previous year. Sales and Use Tax projections are provided to the City by Hdl, which is a revenue enhancement consultant used widely by Cities throughout California.

The City's sales and use taxes continue to perform quite well particularly in the areas of auto sales, cannabis retail and online sales. Demand for and sales of new and used vehicles remained high despite rising prices related to supply shortages. This continues the trend that emerged in the previous fiscal year. As the year progresses it is expected that sales and use tax will remain strong but begin to level out.

➤ **Property Tax**

The majority of the City's property tax receipts do not arrive until December and April of the following year. Therefore they are not generally accounted for in the first quarter. One category of property tax, Successor Agency pass through distributions, however is received in the first quarter. FY 2021-22 is showing receipts of \$1.3M, an increase in this revenue source of \$105k or 9% over the previous fiscal year. Similar to auto sales, demand for and sales of homes has remained high. High levels of demand coupled with low interest rates and low inventory has pushed home prices significantly higher. Additionally, as the recognized obligations of the previous Redevelopment Agency are paid down or settled, more property tax becomes available for pass through distribution.

➤ **Transient Occupancy Tax (TOT)**

In the first Quarter of the fiscal year \$997k of TOTs were collected. This equates to a \$421k or 73% increase over the same quarter in the previous year. It is important to note that this increase is in comparison to a time of imposed capacity restrictions as well as a high level of caution (related to perceived level of trust) on the part of potential tourists. When compared to the pre-pandemic year of FY20 the increase is \$39k or 4%. This bodes well for the travel and hospitality sector and may indicate a swifter recovery than expected from the lows of FY21.

➤ **Business License Tax**

In the first quarter of the fiscal year \$650k of Business License Taxes were collected. This represents an increase of \$102k or 19% over the previous fiscal year and is flat as compared to FY20. This indicates that local businesses on the whole are recovering to pre-pandemic levels of gross receipts.

➤ **Utility User Tax (UUT)**

In the first quarter of the fiscal year \$452k of Utility User Taxes were collected. This represents an increase of \$188k or 71% over the previous year. Recently the City's Finance department has taken steps to improve processes and procedures related to administration of the UUT tax program. This has resulted in timelier receipting of UUTs which is reflected in the first quarter results. A clearer trend for this category will emerge as the year progresses.

➤ **Marijuana Receipts Tax**

The Marijuana Receipts Tax was a new tax revenue for the City beginning in FY 2019-20. The first quarter of FY 2019-20 showed a relatively modest \$140k in receipts as operations got under way. The following three quarters ballooned significantly so that the fiscal year total was \$1.2M. First quarter receipts for FY22 were \$235k. This represents a 32% increase over the previous fiscal year first quarter of \$178k. This indicates that this new revenue source is still in a growth phase and has yet to level off.

➤ Fees and Charges

In the first Quarter of the fiscal year \$154k of Fees and Charges were collected. This equates to a \$110k or 248% increase over the same quarter in the previous year. Much of this revenue recovery is due to the lifting of restrictions on gatherings. Programs that were unable to operate when pandemic restrictions were in place such as the community center, swim center and recreational day camps have begun generating revenue. When compared to FY20 it is clear that this revenue source has improved and has yet to fully recover.

Q1 GENERAL FUND EXPENDITURES:

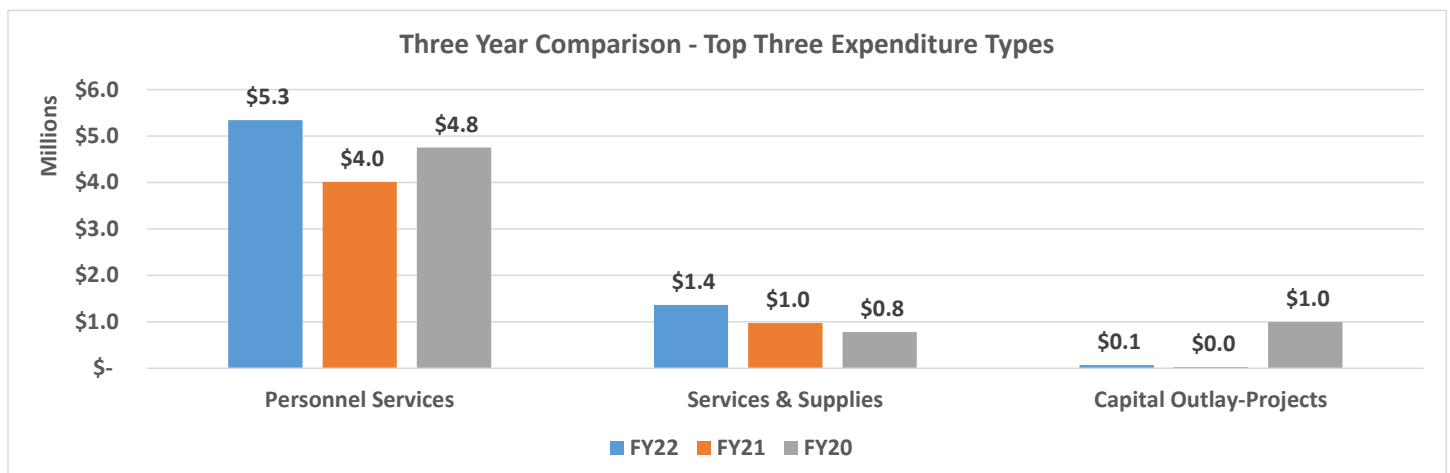
Total budgeted expenditures for FY 2021-22 including transfers are \$44.7M. This compares to a FY 2020-21 budget of \$33.8M; a budgeted expenditure increase of nearly \$10.9M. As mentioned previously personnel cost were increased by approximately \$5.1M on a year over year basis. Additionally, non-personnel costs were increased by \$1.4M.

First quarter expenditures were 16% of the total fiscal year 2021-22 budget. For comparison, first quarter expenditures in the prior year were nearly the same at 15% of the fiscal year 2020-21 budget.

EXPENDITURES BY TYPE:

General Fund Expenditures by Type:	Budget	Results:			Variances:			
	Q1	Q1			Year over Year Vs. FY21		Year over Year Vs. FY20	
	FY22	FY22	FY21	FY20	\$	%	\$	%
Personnel Services	\$ 7,377,351	\$ 5,341,844	\$ 4,010,903	\$ 4,752,668	\$ 1,330,941	33%	\$ 589,176	12%
Services & Supplies	1,513,842	1,364,327	973,905	778,303	390,423	40%	586,024	75%
Capital Outlay-Projects	319,843	68,257	26,152	996,970	42,104	161%	(928,714)	-93%
Debt Service	89,516	14,348	12,668	55,691	1,680	13%	(41,343)	-74%
Internal Service Charge	530,873	530,873	-	-	530,873	n/a	530,873	n/a
Transfer Out	1,679,522	-	-	-	-	n/a	-	n/a
Administrative Allocation	(332,885)	(332,885)	-	-	(332,885)	n/a	(332,885)	n/a
Expenditures by Type	\$ 11,178,062	\$ 6,986,766	\$ 5,023,628	\$ 6,583,632	\$ 1,963,137	28%	\$ 403,133	6%

In previous years, several categories of expenditures were not accounted for in the first quarter and therefore show no activity; Internal Service Charges, Transfers and Administrative Allocations. Going forward these costs will be accounted for quarterly. It should also be noted that Debt Service is dependent on payment schedules and Capital Outlay is dependent on project schedules.



DISCUSSION OF SIGNIFICANT EXPENDITURE VARIANCES BY TYPE:

➤ **Personnel Services**

As was expected, Personnel Services were up \$1.3M or 33% on a year over year basis considering the City’s efforts to rebuild its workforce. Also contributing to the increase are the return of pandemic era labor concessions and a cost of living adjustment. Still, personnel costs were below budget by approximately \$2M. It is anticipated that this cost will come more in line with budget as the year progresses and the City continues to recruit and rebuild its workforce.

➤ **Services & Supplies**

Services and supplies were up 40% on a year over year basis yet under budget by 10%.

EXPENDITURES BY DEPARTMENT:

General Fund Expenditures by Department:	Budget	Results:			Variances:			
	Q1	Q1			Year over Year Vs. FY21		Year over Year Vs. FY20	
	FY22	FY22	FY21	FY20	\$	%	\$	%
Legislative Body	\$ 37,859	\$ 38,183	\$ 69,422	\$ 155,875	\$ (31,239)	-45%	\$ (117,692)	-76%
Administration	57,675	114,207	83,748	75,039	30,459	36%	39,169	52%
City Clerk	43,783	15,205	107,772	124,558	(92,567)	-86%	(109,353)	-88%
City Attorney	115,134	245	67,216	112,722	(66,972)	-100%	(112,478)	-100%
Human Resources	62,574	(24,636)	84,305	113,838	(108,941)	-129%	(138,474)	-122%
Finance Department	(5,601)	(58,403)	165,843	235,073	(224,246)	-135%	(293,477)	-125%
Police Department	3,951,293	2,780,267	1,946,804	2,051,555	833,463	43%	728,712	36%
Fire Department	2,492,888	1,988,868	1,195,518	2,173,137	793,351	66%	(184,269)	-8%
Building and Code Enforcement	309,873	215,511	113,739	80,260	101,772	89%	135,250	169%
Community Development Administration	6,743	(8,748)	21,044	44,945	(29,791)	n/a	(53,693)	n/a
Planning	175,766	95,213	58,440	123,964	36,774	63%	(28,750)	-23%
Economic Development	231,813	401,201	123,716	106,190	277,485	224%	295,011	278%
Public Works/Engineering	882,937	527,467	761,788	672,738	(234,321)	-31%	(145,271)	-22%
Public Works/Engineering (Transfers)	1,679,522	-	-	-	-	#DIV/0!	-	n/a
Recreation	1,135,802	902,186	224,275	513,738	677,911	3	388,448	1
Expenditures by Department	\$ 11,178,062	\$ 6,986,766	\$ 5,023,628	\$ 6,583,632	\$ 1,963,137	28%	\$ 403,133	6%

As can be seen in the table above, nearly all departments were under budget in the first quarter of the year. As the year progresses and vacant positions are filled this variance is likely to decrease as a percentage of total budget.

DISCUSSION OF SIGNIFICANT EXPENDITURE VARIANCES BY DEPARTMENT:

➤ **Administration**

The administration department is approximately \$57k above the amount that would be expected as of the first quarter of the year. This is largely due to the unforeseen departure of the City Manager and the resulting payout of accrued leave. This budget overage is offset by personnel cost savings of \$48k in the Human Resources/Risk Management department as the HR director fill the position of Acting City Manager.

➤ **Economic Development**

The Economic Development department is approximately \$169k above the amount that would be expected as of the first quarter of the year when compared to the adopted budget. This is largely due to the recent increase in funding for the United Way Rent and Utility Assistance program. This program accounts for \$167k of the variance and will be reimbursed with grant funds which have been awarded for approximately \$1M.

BUDGET AMENDMENTS:

Below is a summary of budget amendments appropriated by the City Council in the first quarter of the year:

**City of Seaside
FY 22 Budget Amendments
As of 10/07/2021**

Operating Budget		Approval Date
MCWD Application	\$ 40,000	8/19/2021
Forklift	35,027	9/2/2021
Disaster Kleenup	50,000	10/7/2021

Running total: \$ 125,027

Capital Budget		Approval Date
Highland Otis Park	\$ 62,669	8/19/2021
Ellis Park	390,818	10/7/2021
Parking Lot	1,240,000	10/7/2021

Running total: \$ 1,693,487

While some of the amendments were needed due to unforeseen costs or costs that were inadvertently omitted from the FY 2021-22 budget, others were needed due to increased construction costs (Highland Otis Park and Ellis Park). As will be seen later in the report, use of fund balance will have an effect on the City's five year forecast.

LONG TERM FORECAST

On the following page may be found the City's five year long-term forecast (LTF). The forecast provides 5 years of historical data as context, the amended budget for FY 2021-22 and five years of forward looking projections. The LTF was developed at a high level (low level of detail). The City's major sources of revenue were grouped into categories and projected. Likewise, the City's major expenditures were grouped into categories and projected. The majority of the assumptions used in the report were based on a five-year historical trend or provided by outside consultants. Some projections however are based on known payment or increase percentages. Pension costs for example are expected to increase 14% each year for the next four years. This is due to the decreased discount rate adopted by CalPERS. Likewise, the City's capital costs were input according to the five-year CIP.

The following updates were made to the LTF for the Q1 report:

- FY2020-21 projections were updated with preliminary (unaudited) results
- FY2021-22 budget amendments were added

The LTF indicates that the City is in a good financial position in the short term. There is a steady decrease in fund balance projected over the next five years however. If the City stays on the current trajectory, within four years fund balance is likely to dip below the rainy day reserve levels set by Council. Due to the exceptionally strong (preliminary) results for FY2020-21, the long term forecast has improved since it was first presented to the City Council in the spring of 2021. This is true even with the \$1.2M appropriation in FY2021-22 for the downtown parking lot and increases to two parks capital projects. Staff will continue to update the forecast and present it to Council as specific information becomes available.

GENERAL FUND NET RESULTS & BUDGET OUTLOOK:

Overall, the first quarter showed expenditures of \$7M (16% of the annual budget) in comparison with revenues of \$6.7M resulting in a small decrease to fund balance of \$289k. This is not a cause for concern in light of the fact that certain revenues are not received at all in the first quarter (Franchise Fees and Motor Vehicle in-Lieu Fees) and others run two months in arrears (Sales, Use & Transaction Taxes). Still, first quarter results can provide some insights:

- Fiscal year 2020-21 likely **realized a greater surplus** than projected at time of budget preparation
- Sales and Use taxes **continue to outpace budget and prior year results**
- TOTs **are recovering** from pandemic era lows
- Marijuana Receipts tax continue to **outpace budget** forecasts
- Personnel costs **are up** as expected with the City rebuilding its workforce

General Fund Changes in	Projected Budget	
Fund Balance:	FY22	
Beginning Fund Balance		\$ 29,820,740
Revenues	46,837,410	
Expenditures	(39,359,187)	
Net Transfers	(5,024,765)	
Surplus (Deficit)		2,453,458
Ending Fund Balance		\$ 32,274,198

As can be seen, the results of the first quarter indicate that to date the economic impacts of the coronavirus pandemic have not been as bad as imagined in 2020 and the City’s general fund is projected to increase in FY2021-22.

Headwinds:

- The nation is currently experiencing high inflation rates. Many economists, however, believe inflation will recede once temporary supply chain bottlenecks unwind.
- PERS unfunded liabilities could climb even higher if Pension Fund PERS further reduces its discount rate.

OTHER FUNDS

In addition to the General Fund, the budget includes funds from a range of restricted sources as well as business-type activities that are used to provide specific services, including:

WATER FUND:

Water Enterprise Q1 Results	Budget	Results:		Variances:	
	Q1	Q1		Year over Year	
	FY22	FY22	FY21	\$	%
Revenues	\$ 319,264	\$301,529	\$281,190	\$ 20,339	7%
Expenditures	(238,341)	(120,869)	(76,056)	44,813	59%
Net Revenues	\$ 80,923	180,660	\$205,134	\$(24,474)	-12%

The Water Enterprise Fund appears to be functioning as designed. Recent rate increases have greatly increased revenues putting the enterprise in a much better position. Per the City's approved rate structure, rates will increase 15% on January 1, 2022. Staff are exploring debt financing for the Enterprise's capital needs in the years to come. First quarter results indicate the fund is on track to collect revenues in line with budget and expenditures are within budget as well.

STORM WATER FUND:

The Storm Water fund expenditures in the first quarter were \$105k consisting mostly of personnel costs (\$71k). The total personnel cost budget for the year is \$311k indicating first quarter results are within budget. Currently the primary source of funding for the Storm Water fund is the City's General Fund. City staff continues to seek grant funding when available as well.

SANITATION DISTRICT (COMPONENT UNIT):

First quarter expenditures were \$351k in comparison to an annual budget of \$3.8M. This year the Sanitation District will undertake the Fremont Bl. Sewer Main Upgrade project, budgeted at \$2.9M.

Requests for additional financial information may be directed to:

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