

CITY OF FREMONT

FY 2022/23 Mid-Year Budget Report

March 7, 2023

Overview

- ▶ Economic Update
- ▶ FY 2022/23 Budget Update
- ▶ Preliminary Forecast
- ▶ Recommended Budget Actions
- ▶ Summary and FY 2023/24 Budget Schedule

Economic and Revenue Update

▶ National Economy

- Economy growing and record low unemployment
- High prices and interest rates create uncertainty

▶ Local Revenue

- Property tax growth slowing as real estate market cools
- Continuing strong growth in sales tax from new auto sales
- Hotel tax recovering faster than anticipated

Unbudgeted Revenue of \$43.7 Million

Revenue Category Dollars in Millions	FY 2021/22 Actual	FY 2022/23 Adopted	FY 2022/23 Estimate	FY 2022/23 Estimate vs. Prior Year	FY 2022/23 Estimate vs. Adopted
Property Tax	\$118.9	\$ 126.0	\$ 128.8	8.3%	\$ 2.8
Sales Tax	86.8	68.8	106.4	22.6%	37.6
Business Tax	13.9	12.9	13.7	-1.4%	0.8
Franchise Fees	11.2	11.4	11.7	4.5%	0.3
Hotel Tax	4.7	5.5	6.7	42.6%	1.2
Charges for Services	6.8	6.4	6.7	-1.5%	0.3
Other*	31.6	7.8	8.5	-73.1%	0.7
Revenue Subtotal	273.9	238.8	282.5	3.1%	43.7
Transfers In	6.4	5.8	5.8	-9.4%	0.0
Total Resources	\$280.3	\$244.6	\$288.3	2.9%	\$ 43.7

* Fiscal recovery funds of \$22.1 million received in FY 2021/22 are included in the “Other” revenue category.

Unbudgeted Revenue + Savings = \$56.7M

Dollars in Millions	FY 2021/22 Actual	FY 2022/23 Adjusted	FY 2022/23 Estimate
Sources of funds			
Encumbrance balance	\$ 1.0	\$ 1.4	\$ 1.4
Unreserved fund balance	26.1	43.2	43.2
Revenues and transfers in	280.3	244.6	288.3
Total sources of funds	307.4	289.2	332.9
Uses of funds			
Expenditures and transfers out	255.3	265.8	252.8
Encumbrance balance	1.4	0.0	0.0
Total uses of funds	256.7	265.8	252.8
Addition to Reserves	7.5	5.6	5.6
Unreserved fund balance	\$ 43.2	\$ 17.8	\$ 74.5

Reserves Ensure Service Continuity

- ▶ Contingency Reserve fully funded in Adopted Budget
- ▶ Budget Uncertainty Reserve increased with FY 2021/22 Year-End Report

General Fund Reserves	Budgeted Funding FY 2022/23
Contingency Reserve (16.7%* of expenditures and transfers out - address unforeseen events)	\$41.7 Million
Budget Uncertainty Reserve (Financial risk in 3-year forecast - offset revenue/expenditure uncertainty)	12.5 Million
Total Reserves	\$54.2 Million

*GFOA recommended level is no less than two months of regular operating expenditures (16.7%).

Preliminary Forecast – Base Budget

Dollars in Millions	FY 2021/22 Actual	FY 2022/23 Estimate	FY 2023/24 Projected	FY 2024/25 Projected	FY 2025/26 Projected
Sources of funds					
Encumbrance balance	\$ 1.0	\$ 1.4	\$ 0.0	\$ 0.0	\$ 0.0
Unreserved fund balance	26.1	43.2	0.0	0.0	0.0
Revenues and transfers in	280.3	288.3	283.0	293.8	305.0
Total sources of funds	307.4	332.9	283.0	293.8	305.0
Uses of funds					
Expenditures and transfers out	255.3	252.8	262.7	271.6	273.1
Encumbrance balance	1.4	0.0	0.0	0.0	0.0
Total uses of funds	256.7	252.8	262.7	271.6	273.1
Addition to Reserves	7.5	5.6	2.2	1.5	0.2
Unreserved fund balance	\$ 43.2				
Projected sources over uses		\$ 74.5	\$ 18.1	\$ 20.7	\$ 31.7

Recommended Budget Actions

- ▶ Approve adjustments to bring budgeted revenue and expenditure savings estimates in line with the current projections
 - Increase property tax estimate by \$2.8 million
 - Increase sales tax estimate by \$37.6 million
 - Increase hotel tax estimate by \$1.2 million
 - Increase expenditure savings estimate by \$13 million
- ▶ Approve \$3.5 million transfer to restore the unreserved fund balance in the Risk Management Fund
- ▶ Approve \$15 million transfer to establish a reserve for the City's unfunded accrued leave liability
- ▶ Approve \$25 million transfer to address critical maintenance needs and priority capital projects in the Capital Improvement Program

Summary

- ▶ National economy growing, and revenues are exceeding the budgeted estimate
 - Sales tax revenue reflects continued growth in new auto sales
 - High prices and interest rates could lead to slowdown or recession
- ▶ FY 2022/23 Mid-Year estimate projects \$74.5 million ending unreserved fund balance
 - General Fund reserves for FY 2022/23 funded per City Council policy
- ▶ Preliminary Forecast includes additional ongoing revenue
 - Service level enhancements are not included in the preliminary forecast
 - Proposed budget may recommend increasing Budget Uncertainty Reserve
- ▶ Recommendations
 - Increase revenue and savings estimates to reflect current projections
 - Approve transfers of \$43.5 million to Risk Management, Employee Benefits, and Capital Improvements Funds

FY 2023/24 Operating Budget Schedule

- ▶ May 16, 2023 Proposed Operating Budget Presentation
- ▶ June 6, 2023 First Public Hearing
- ▶ June 13, 2023 Second Public Hearing
Budget Adoption