

CITY OF FREMONT

FY 2023/24 Mid-Year Budget Report

March 5, 2024

Overview

- ▶ Economic Update
- ▶ FY 2023/24 Budget Update
- ▶ Preliminary Forecast
- ▶ Recommended Budget Actions
- ▶ Summary and FY 2024/25 Budget Schedule

Economic and Revenue Update

▶ National Economy

- Economy growing and record low unemployment
- International conflicts and political polarization create uncertainty

▶ Local Revenue

- Property tax growth reflects higher prices, but fewer sales
- Sales tax clawback by the State, totaling \$13.9 million this year and \$9.7 million next year
- Ongoing sales tax drop of about \$34 million due to correction of prior year misreporting by businesses
- Hotel tax recovery appears to have slowed

Revenue Shortfall of \$46.0 Million

Revenue Category Dollars in Millions	FY 2022/23 Actual	FY 2023/24 Adopted	FY 2023/24 Estimate	FY 2023/24 Estimate vs. Prior Year	FY 2023/24 Estimate vs. Adopted
Property Tax	\$130.5	\$ 135.7	\$ 141.0	8.0%	\$ 5.3
Sales Tax*	111.6	100.9	50.6	-54.7%	-50.3
Business Tax	14.2	13.9	13.1	-7.7%	-0.8
Franchise Fees	11.8	12.1	11.9	0.8%	-0.2
Hotel Tax	6.0	7.3	6.3	5.0%	-1.0
Charges for Services	7.1	7.1	6.9	-2.8%	-0.2
Other	9.8	8.3	9.5	-3.1%	1.2
Revenue Subtotal	291.0	285.3	239.3	-17.8%	-46.0
Transfers In	5.7	6.0	6.0	5.3%	0.0
Total Resources	\$296.7	\$291.3	\$245.3	-17.3%	\$ -46.0

* FY 2022/23 includes \$23.6 million overpaid by the State. The FY 2023/24 estimate assumes the State recovers \$13.9 million from the City during the year.

Revenue Shortfall Addressed in FY 2023/24

Dollars in Millions	FY 2022/23 Actual	FY 2023/24 Adjusted	FY 2023/24 Estimate
Sources of funds			
Encumbrance balance	\$ 1.4	\$ 1.2	\$ 1.2
Unreserved fund balance	43.2	21.9	21.9
Revenues and transfers in	296.7	291.3	245.3
Total sources of funds	341.3	314.4	268.4
Uses of funds			
Expenditures and transfers out	312.6	282.7	273.9
Encumbrance balance	1.2	0.0	0.0
Total uses of funds	313.8	282.7	273.9
Addition to Reserves*	5.6	8.8	-5.5
Unreserved fund balance*	\$ 21.9	\$ 22.9	\$ 0.0

* FY 2023/24 estimate applies \$22.9 million of unreserved fund balance, \$14.3 million of the Budget Uncertainty Reserve, and \$8.8 million of additional savings to address the \$46.0 million revenue shortfall.

Reserves Ensure Service Continuity

- ▶ Contingency Reserve fully funded in Adopted Budget
 - Reduced by \$3.4 million to repair storm damage
- ▶ Budget Uncertainty Reserve increased to \$20 million with FY 2023/24 Adopted Budget
 - Reduced by \$14.3 million to offset revenue shortfall

General Fund Reserves	Projected Funding FY 2023/24
Contingency Reserve (16.7%* of expenditures and transfers out - address unforeseen events)	\$43.0 Million
Budget Uncertainty Reserve (Financial risk in 3-year forecast - offset revenue/expenditure uncertainty)	5.7 Million
Total Reserves	\$48.7 Million

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

Preliminary Forecast – Base Budget

Dollars in Millions	FY 2022/23 Actual	FY 2023/24 Estimate	FY 2024/25 Projected	FY 2025/26 Projected	FY 2026/27 Projected
Sources of funds					
Encumbrance balance	\$ 1.4	\$ 1.2	\$ 0.0	\$ 0.0	\$ 0.0
Unreserved fund balance	43.2	21.9	0.0	0.0	0.0
Revenues and transfers in	296.7	245.3	261.6	287.1	301.4
Total sources of funds	341.3	268.4	261.6	287.1	301.4
Uses of funds					
Expenditures and transfers out	312.6	273.9	274.0	278.3	279.5
Encumbrance balance	1.2	0.0	0.0	0.0	0.0
Total uses of funds	313.8	273.9	274.0	278.3	279.5
Addition to Reserves	5.6	-5.5	2.8	0.7	0.2
Unreserved fund balance	\$ 21.9				
Projected sources over uses		\$ 0.0	\$ -15.2	\$ 8.1	\$ 21.7

Recommended Budget Actions

- ▶ Approve adjustments to bring budgeted revenues and expenditures in line with the current projections
 - Increase property tax estimate by \$5.3 million
 - Decrease sales tax estimate by \$50.3 million
 - Decrease hotel tax estimate by \$1.0 million
 - Increase expenditure savings estimate by \$4.3 million
 - Suspend \$4.5 million of transfers for streets and building maintenance
- ▶ Partially Restore the Budget Uncertainty Reserve
 - Approve \$10 million transfer from the accrued leave liability reserve to the General Fund

Summary

- ▶ National economy growing, but \$46 million revenue shortfall due to prior-year overpayment of sales tax by State
 - City Council increased Budget Uncertainty Reserve to \$20 million in adopted budget and set aside \$21.9 million unreserved fund balance
- ▶ FY 2023/24 Mid-Year estimate includes half of sales tax reallocation
 - Revenue shortfall offset by use of fund balance, reserves, and savings
- ▶ Preliminary Forecast shows long-term fiscal health
 - Budget balancing challenge in FY 2024/25 due to sales tax reallocation
 - Ongoing sources cover uses beginning in FY 2025/26
- ▶ Recommendations
 - Adjust revenue and savings estimates to reflect current projections
 - Approve suspension of additional transfers for street and building maintenance
 - Transfer \$10 million from the Accrued Leave Liability Reserve to partially restore the Budget Uncertainty Reserve

FY 2024/25 Operating Budget Schedule

- ▶ May 14, 2024 Proposed Operating Budget Presentation
- ▶ June 4, 2024 First Public Hearing
- ▶ June 11, 2024 Second Public Hearing
Budget Adoption