

8. Discuss the FY 2023 Mid-Year Budget Review and Approve 1) FY 2023 Budget Amendments in Various Funds, and 2) Amendments to the FY 2023 Table of Organization to add 5.25 full-time and 2.43 part-time Full Time Equivalent (FTE) Positions *Supplemental Report*



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City Council Supplemental Report

From: Kiely Nose, Assistant City Manager

Meeting Date: February 13, 2023

Item Number: 8

Report #:2302-0962

TITLE Supplemental Report to Action Item #8, FY 2023 Mid-Year Budget Review: Revised Budget Stabilization Reserve (BSR) Calculation

This supplemental report addresses a correction necessary to the Budget Stabilization Reserve in the FY 2023 Mid-Year Report.

Revised General Fund Budget Stabilization Reserve (BSR) Calculation

In final preparation for City Council discussion of the FY 2023 Midyear Budget Review (staff report #2212-0515), staff identified an error and understatement of the General Fund Budget Stabilization Reserve (BSR) balance by \$3.7 million. After accounting for use of the BSR to balance the FY 2023 Adopted Budget, the reserve established in the FY 2023 Adopted Budget for FY 2023 Service Reinvestments (2-year limited term) was miscalculated when reconciling and accounting for three fiscal years (FY 2022, FY 2023, and FY 2024) with the audited June 30, 2022 BSR balance of \$72.8 million.

This correction does not impact recommended budget adjustments included in the FY 2023 Mid-Year report; these adjustments and the attachments of the staff report remain complete and accurate. However, this does impact the projected ending fund balance as of June 30, 2023. As a result, approval of the amendments outlined in the FY 2023 Mid-Year report will result in a projected BSR balance of \$51.8 million as of the end of FY 2023. This is within the target range of 15% to 20% of the General Fund Budget expense and is above the City Council target level of 18.5%, or \$45.6 million, by \$6.2 million.

Table 1 provides a red-lined correction outlining the status of the Budget Stabilization Reserve based on the adjustments described above.

Table 1: REVISED Budget Stabilization Reserve Funding Status

| | Mid-Year Staff Report | Revised as of 2/9/2023 |
|--|--------------------------|---------------------------|
| General Fund BSR Balance, June 30, 2022 (includes FY22 surplus) | \$72,835 | \$72,835 |
| FY 2023 Approved Adjustments | | |
| FY 2023 Adopted Budget & FY 2023 Service Reinvestments (yr 2) | (\$12,772) | (\$9,072) |

| | | |
|--|----------------------------|-----------------|
| Council Approved Items (Downtown Streets Team, Reappropriations) | (\$267) | (\$267) |
| Subtotal: BSR Balance, After Approved Adjustments | \$59,796 | \$63,496 |
| FY 2023 Mid-year Adjustments | (\$11,686) | (\$11,686) |
| Projected FY 2023 BSR Balance, June 30, 2023 | \$48,110 | \$51,810 |
| BSR (%) | 19.4% | 20.9% |
| BSR (\$) above/(below target) | \$2,509 | \$6,209 |

Based on Council adopted policy to allocate BSR funds in excess of the 18.5% level at the end of a fiscal year, surpluses are typically split between the Capital Improvement Fund Infrastructure Reserve (IR) and the City's Pension 115 Trust Fund at the direction of the City Manager. The remaining funds above the BSR target of 18.5%, including the \$3.7 million may remain in the BSR, or may be allocated. As uncommitted funds, the Council may provide direction on the use of them.

CONCLUSION

The information in this report does not change the recommendations being made in the FY 2023 Mid-Year Report. This report clarifies the estimated General Fund BSR balance based on a correction in accounting for a reserve to fund ongoing services in FY 2024. This clarification ensures the Council has the most up to date information when considering the ability to fund actions in FY 2023 as well as planning for the FY 2024 Budget and beyond.

APPROVED BY:

Kiely Nose, Assistant City Manager