

## **TOWN COUNCIL STAFF REPORT**

Title: Presentation on budget performance through the second quarter of FY22-23 and approval of Budget Amendments.

Meeting Date: March 1, 2023

Prepared by: Rob Patterson – Administrative Services / Finance Director

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### **RECOMMENDATION:**

Receive the second quarter Fiscal Year 22-23 Budget Report and adopt the proposed resolution amending the Fiscal Year 22-23 budget as recommended in Attachment A – Budget Adjustments.

### **BACKGROUND:**

Proper administration of the budget requires regular review of performance against budget expectations. While staff reviews performance on a monthly basis, staff provides Town Council with the opportunity to review our financial performance at the close of each quarter. This report reflects the second quarter performance and provides updates on general operating budget. The analysis primarily focuses on the General Fund and Gas Tax as it is early enough in the year not to see significant shortfall to budget aside from the significant snow impacts, both of which are covered in these two funds. The first review of current year performance typically does not see significant changes to adopted budget unless we have a major project update or other item of significance not captured during the normal budget process. All funds have been reviewed in detail in preparation for this Town Council update. All funds not discussed are operating within the planned budget limits for both revenue and expenditures. The third quarter update, set for early May will likely have more items to cover as we discuss closing out our winter operations and the completion of a number of capital projects.

### **ANALYSIS/DISCUSSION:**

The budget process for FY22-23 was a continued growth of the strong performance the Town enjoyed exiting the challenges faced during the pandemic. The desire for travel and leisure remains high, driving up demand and overall pricing. These high average daily rates, ADR, contribute to Transient Occupancy Tax (TOT) that far exceeds normal visitation increases. In addition to the strong returns for lodging, the region experienced a successful summer / fall season free of smoke and other impacts that have been common for the last several years. Snowfall was early again this year and continued with a series of significant storms that lasted into late January delivering one of the best starts to winter in many years. This significant snow had two impacts that are noted in this report. First, the excitement generated within our visitor base brought visitation to peak numbers over the last few months. The second impact was the increased cost of operations. The Town sets a budget based on a normal amount of snow fall and snow related expense. In years like this one, the additional cost will be seen in staff overtime, fuel and repairs for equipment, and contracts that assist in snow removal. We have all those impacts and expect more to come as we continue through this year.

## Transient Occupancy Tax

The primary revenue driver for the General Fund is Transient Occupancy Tax (TOT). As mentioned in the previous section, winter visitation was very strong. The amount of TOT collected is a factor of both visitation and the nightly rates charged by our lodging facilities. Based on the performance of TOT, there is a significant increase in nightly rates this fiscal year, with a steady pace of visitation, resulting in strong TOT performance. To date, three of the first six months have set records in TOT collection, within each month, and combined the first six months are 3.6% ahead of last year's record setting pace. December set an all-time high of \$4.425M for any individual month, exceeding the previous December record by 10.5% and the previous all-time record (January 2022) by 1.4%. The chart below shows how the adopted budget of \$16.0M was distributed across each month, using a three-year average performance by month. Staff distributes the budgeted revenue to easily assess the current year performance in a volatile revenue stream. The distribution of budgeted TOT revenue is as follows:

### Transient Occupancy Tax

#### Revenue Budget Distribution

Month	Budget Distribution		Actual	Variance	Estimate
July	9.3%	\$ 1,490,000	\$ 2,236,159	\$ 746,159	
August	8.2%	\$ 1,315,000	\$ 1,763,009	\$ 448,009	
September	5.5%	\$ 880,000	\$ 1,235,515	\$ 355,515	
October	3.3%	\$ 520,000	\$ 901,607	\$ 381,607	
November	3.1%	\$ 495,000	\$ 1,359,801	\$ 864,801	
December	13.2%	\$ 2,105,000	\$ 4,425,090	\$ 2,320,090	
January	14.7%	\$ 2,350,000	\$ 4,453,355	\$ 2,103,355	
February	13.1%	\$ 2,100,000			\$ 4,000,000
March	12.4%	\$ 1,990,000			\$ 3,000,000
April	8.1%	\$ 1,300,000			\$ 1,700,000
May	3.7%	\$ 585,000			\$ 900,000
June	5.4%	\$ 870,000			\$ 1,500,000
		\$ 16,000,000	\$ 16,374,536	\$ 7,219,536	\$ 11,100,000
Remaining Budget				\$ 9,195,000	
Total TOT - Actual and Estimated					\$ 27,474,536
Estimated variance to Budget					\$ 11,474,536
Quarter 2 Recommend TOT Increase					\$ 4,000,000

Note: Shading denotes a record for that month.

The budget of \$16.0M did represent a return to normal visitation without closures or other pandemic effects. As stated earlier, staff did expect to exceed this budget during the fiscal year. One important element of our conservative budgeting is the willingness to make adjusts throughout the year, realizing the additional revenue and putting it to work on special projects within the Town. Staff is using the estimate above to recommend \$4.0M in additional TOT revenue for the second quarter review. Staff believes this trend will continue and could deliver similar revenue increases in quarter 3 and 4 if the estimates current trend continues through year end.

The recommended increase to Transient Occupancy Tax revenue will result in additional contributions to reserve accounts for Tourism, Housing, and Transit based on Council direction and political commitments. Based on the second quarter recommendation of \$4.0M, the following adjustments will be made to reserve accounts, rounded to the nearest \$100.

<b>Reserve Components</b>	<b>Amount</b>
<b>Tourism Reserve - 2.35 Points or 18.0769% of TOT</b>	<b>\$ 723,100</b>
<b>Transit Reserve - .85 Points or 6.5385% of TOT</b>	<b>\$ 261,500</b>
<b>Housing Reserve - .85 Points or 6.5385% of TOT</b>	<b>\$ 261,500</b>
	<b>\$ 1,246,100</b>

The second quarter budget presentation usually has very few adjustments to budget outside of TOT in stronger years. This year is no different and we have only one other revenue increase to address. With recent interest rate hikes, our interest revenue has exceeded budget so far this year. We do anticipate this revenue item to over perform on subsequent quarterly presentations as we have recently invested in CAMP which has returns above 4.5%. This new investment pool should provide much better returns and staff is recommending an increase of \$150,000 in interest revenue. In total, staff is recommending an increase in budgeted revenue of \$4,150,000 for the 2<sup>nd</sup> quarter FY22-23. The political commitments, outlined above, will be removed from this increased revenue leaving \$2,903,900 for expenses and staff recommendations.

## Other Revenue

Through December 31, 2022

<b>Item</b>	<b>Current</b>	<b>Budget</b>	<b>Requested Change</b>	<b>Amended Budget</b>
<b>Interest</b>	<b>\$</b>	<b>65,000</b>	<b>\$ 150,000</b>	<b>\$ 215,000</b>
<b>Total Other Revenue adjustments</b>			<b>\$ 150,000</b>	

## General Fund

<b>Item</b>	<b>Amount</b>	<b>Notes</b>
<b>Revenue</b>		
Transient Occupancy Tax	\$ 4,000,000	Approximately 1/3 of expected adjustment FY22-23, Q3, Q4 coming
Interest	\$ 150,000	More expected with recent changes to CAMP investments
	<u>\$ 4,150,000</u>	

<b>Political Commitments</b>		
Tourism Reserve- 2.35 Points or 18.0769% of TOT	\$ 723,100	Based on \$4M additional TOT realized above
Transit Reserve - .85 Points or 6.5385% of TOT	\$ 261,500	
Housing Reserve - .85 Points or 6.5385% of TOT	\$ 261,500	
	<u>\$ 1,246,100</u>	
Funds Available for allocation	\$ 2,903,900	

## General Fund - Expenditures

The second quarter update is early enough in the year, that there are very few expenditure items that have exceeded their expected budgets, usually due to some extenuating circumstance or unanticipated need, like this year's snow fall. Staff has done a review of all General Fund expenditures to date and have the following recommended updates:

## General Fund - Expenditure

Through December 31, 2022

Item	Current	Budget	Requested Change	Amended Budget
Police Department - Overtime	\$	125,000	\$ 50,000	\$ 175,000
General Services - Facility Lease	\$	420,000	\$ 75,000	\$ 495,000
Total Expenditure Adjustments			\$ 125,000	

The expenditure updates listed above and those later in the report under Gas Tax, are mainly due to the significance of winter storms experienced this year. These storms have required additional overtime, contract expense, and equipment fuel and maintenance. The police overtime listed above include storm impacts and some staff and schedule changes. The department has experienced a number of injuries and other approved time off, requiring the use of overtime. The department has also suffered the loss of 1 officer, dropping staffing below the minimum required to maintain 24/7 coverage. The temporary adjustment to the schedule will require some additional on-call overtime expenses. This is a short-term requirement, and the Town is working to bring staffing levels to a level that will get back on the preferred schedule as soon as possible. The additional expense for Facility Lease is our common area maintenance (CAM) charges for snow removal in the parking lot. This is an estimated increase so adjustments may be necessary when actual bill and distribution is received.

Covering these additional expenses will reduce available funds to \$2,778,900.

## Staff Recommendations

Item	Amount	Notes
Fund 245 - Housing Now! - Programs	\$ 1,000,000	Commitment to housing
General Fund Transfer to Gas Tax	\$ 400,000	Additional snow removal costs, supported by General Fund
Child Care - Foundation Property	\$ 300,000	Additional capital for implementation of acquired units
Restroom - Foundation Property	\$ 300,000	Dog Park, Amphitheater double unit - 90 per hour
Future Capital	\$ 213,900	Undesignated capital
Restroom - Park at the Parcel	\$ 200,000	Single unit - 45 per hour
Additions to the Fleet - Trackless	\$ 165,000	Snow removal operations - Parcel and amenities
Police Recruitments - Wage and Academy Costs - FY22-23	\$ 100,000	Two Recruits through the academy
Airport Maintenance	\$ 100,000	Snow impacts and facility updates
<b>Total Staff Recommendations</b>	<b>\$ 2,778,900</b>	
<b>Undesignated General Fund Balance</b>	<b>\$ -</b>	

### Housing Programs

One of the Town Council's Strategic Priorities is to "Expand availability and affordability of Community Housing". Staff has identified opportunity to invest in both short and long-term strategies to make this priority a reality. Success for this strategic priority requires a multi-pronged approach using both immediate housing through direct purchase of existing units, additional funding for future phases of The Parcel project, partnerships on new development and potential land acquisitions for future projects. Staff is recommending the allocation of \$1,784,600 from the following sources:

<b>General Fund</b>	<b>\$ 1,000,000</b>
<b>Tourism Reserve</b>	<b>\$ 523,100</b>
<b>Housing Reserve</b>	<b>\$ 261,500</b>
	<b>\$ 1,784,600</b>

These funds will be transferred to Fund 245 Housing Now! undesignated to a specific program but available for ongoing investments in housing solutions.

### General Fund Transfer to Gas Tax

Gas Tax is the fund where all road maintenance and snow removal expenses are reported. The revenue for this fund includes taxes collected on fuel sales in California, restricted portion of the fund, and support from the Town's General Fund. In heavy snow years, General Fund must make up any budget shortfall incurred, cash flow until gas tax is received in the following year covering 50% of this expense. Below is an update of anticipated expenses related to snow removal in FY22-23.

## Gas Tax- Expenditure

Through December 31, 2022

### Dept 450 - Street Maintenance

Item	Current	Budget	Requested Change	Amended Budget	Notes
Overtime Wages	\$	-	\$ 20,000	\$ 20,000	
Public Utilities	\$	15,000	\$ 15,000	\$ 30,000	
Total Expenditure adjustments			\$ 35,000		

### Dept 452 - Snow Removal

Item	Current	Budget	Requested Change	Amended Budget	Notes
Overtime Wages	\$	125,000	\$ 100,000	\$ 225,000	Staff costs related to incremental
Special Operational	\$	3,000	\$ 17,000	\$ 20,000	snow removal
Contractual Services			\$ 88,000		Contracted Snow Removal
Total Expenditure adjustments			\$ 205,000		

### Dept 455 - Winter Equipment Garage

Item	Current	Budget	Requested Change	Amended Budget	Notes
Gasoline & Diesel	\$	90,000	\$ 110,000	\$ 200,000	Vehicle costs related to incremental
Vehicle Repair & Maintenance	\$	210,000	\$ 50,000	\$ 260,000	snow removal
Total Expenditure adjustments			\$ 160,000		

### Summary Gas Tax Expenditures

Item	Amount
Street Maintenance	\$ 35,000
Snow Removal	\$ 205,000
Winter Equipment Garage	\$ 160,000
<b>Gas Tax Expense Adjustments</b>	<b>\$ 400,000</b>

## Childcare Facility – Foundation Property

The Town has been working on a plan to expand childcare facilities for the community. Last year, the Town identified an opportunity to repurpose the portable classrooms that are to be disposed of by MUSD as part of the High School Remodel. At the time, the Town set aside \$1.65M for the project. The details of the project are still the same, with a possible delay based on the availability of the units. Staff is proposing an additional \$300,000 to contribute to the implementation of this project. This includes additional site work, playground, and some interior improvements.

## Restroom Facilities – Foundation Property

Adjacent to the new childcare facility on the Foundation property, the Town has plans for a dog park and outdoor amphitheater. These facilities will need public restroom facilities to support the new amenities. The Town is considering modular units similar to those planned for the Park at the Parcel, with two units planned to accommodate up to 90 people per hour. Staff is recommending allocation of \$300,000 for this project.

### **Future Capital – Fund 990**

The staff recommendations to cover both Town Council priorities and Town needs total \$2,565,000 leaving a remaining balance of \$213,900. Staff is recommending these funds be transferred to Fund 990 as undesignated fund balance for future projects or to supplement the above projects if needed. This process will ensure the funds are available when a project is identified and will not be expended through normal operations of the Town.

### **Capital Project - Park at the Parcel**

Staff is recommending \$200,000 to fund acquisition of restroom facilities at the Park at the Parcel. Last fiscal year, the Town was able to provide funding for construction of the Park at The Parcel as part of the overall buildout of the 25-acre affordable workforce housing site. The first 80 units will be available for renters in Fall 2023. The addition of the restroom facilities will address needs of the patrons and community alike. The units being considered are modular construction and this single unit can accommodate up to 45 people per hour.

### **Additions to the Fleet – Trackless**

Staff has identified the need for additional equipment for clearing around facilities, CRC, and in the Parcel. The trackless machine is what we currently use to clear sidewalks and multi-use paths within Town. They are capable of keeping up with the snow accumulation we see on large winters but much more maneuverable and affordable than our larger blowers. Since this is incremental equipment, it is called an addition to the fleet, meaning no replacement funds are available to purchase the unit. Staff is recommending allocation of \$165,000 to cover the cost of unit and blower head.

### **Police Recruits**

Staffing levels within the Police Department have always been right at the minimum required to maintain the schedule the Town desires. This minimum staffing does not allow for any long-term absences, due to illness or otherwise. We have the potential to lose 1 to 2 officers to other agencies as they consider the career opportunities and specific locations where they want to work. Town has been seeking a lateral position, one which is an existing Police Officer who will transfer from another organization to the Town. In the past we have been very successful in attracting lateral transfers. However, we have received only 1 qualified candidate in the last two months. The decision to seek the position of Police Recruit will have many benefits. We are able to look at local candidates who may already have deep connections to the community and likely already have local housing. They also obtain training for a career; one they may not be able to obtain on their own and they would remain committed to our organization for the opportunity. The process takes approximately 1 year to complete academy training and finish on the job training with our Field Training Officers. This is not a quick process to solve our staffing issues, but an approach we believe will build stability in the Department. Staff is recommending \$100,000 be allocated to this process which will include a portion of the wages and academy costs for two recruits, related to FY22-23 budget cycle. Staff will include the remaining cost in the next operational budget.

### **Airport Capital & Maintenance**

The Airport has a number of projects that will support continuation of the facility and the visitor experience. In addition to these maintenance needs, we are in the process of bidding our new Aircraft Rescue and Firefighting (ARFF) building. This is an \$8.3M project with primary funding received from FAA grant. The Town has matching grant requirements of approximately \$810,000 which will come from current capital reserves. Staff anticipates additional contingency funding may be needed to finalize construction. Staff is recommending \$100,000 allocation to airport capital and maintenance projects.

## Tourism Reserve

The tourism reserve was established to provide funding for tourism expenditures and is based on the normal allocation of TOT for tourism which is 2.35 points or 18.08% of TOT collected. This is considered a political commitment established by the Town Council to ensure tourism related activities, and more recently housing activities have a stable funding source. The allocation from the excess TOT was \$723,100 for the second quarter. Staff has recommended \$523,100 be allocated to Housing Now! programs, listed above. Staff is also recommending \$200,000 allocated to Town supported Air Subsidies for Advanced Air flying into Mammoth Yosemite Airport. This additional subsidy is used to cover special pricing and promotional packs, designed to allow locals to utilize the service and increase enplanements, seeking to achieve our 10,000 enplanement goals.

### Tourism Reserve

Item	Amount	Notes
<b>Revenue</b>		
Allocated Reserve Elements - 2nd Qtr.	\$ 723,100	
	\$ 723,100	
<b>Staff Recommendations</b>		
Fund 245 - Housing Now! - Programs	\$ 523,100	Commitment to housing
Air Subsidy - Town (Advanced Air - MMH)	\$ 200,000	Town Contribution to Pricing and promotions
Remaining Reserves from 2nd quarter allocation	\$ -	

## Housing Reserve

The housing reserve was established to provide funding for housing expenditures and is based on the normal allocation of TOT for housing which is .85 points or 6.54% of TOT collected. This is considered a political commitment established by the Town Council to ensure housing activities have a stable funding source. The allocation from the excess TOT was \$261,500 for the second quarter. Staff has recommended \$261,500 be allocated to Housing Now! programs, listed in the writeup above.

### Housing Reserves

Item	Amount	Notes
<b>Revenue</b>		
Allocated Reserve Elements - 2nd Qtr.	\$ 261,500	Commitment to housing
	\$ 261,500	
<b>Staff Recommendations</b>		
Fund 245 - Housing Now! - Programs	\$ 261,500	
Remaining Reserves from 2nd quarter allocation	\$ -	

## Other Funds

Staff has reviewed all funds in preparation for this Town Council update. In all other funds, there are no adjustments that require attention at this time.



## **OPTIONS ANALYSIS**

**Option 1:** Receive the second quarter Fiscal Year 22-23 Budget Report and adopt the proposed resolution amending the Fiscal Year 22-23 budget as recommended in Attachment A – Budget Adjustments.

**Option 2:** Provide staff with alternate direction on the proposed budget amendments.