

General Fund Financial Outlook

As we embark upon the tactical development of our Fiscal Year 2024 (FY 2024) budget, we do so using a broader lens of sound, accountable investments today that can be used to inform our long-term sustainability tomorrow.

In FY 2016, the Finance Department, in partnership with the City Manager's Office and other City leaders, developed the Fiscal Year 2023 Sustainability Plan. The objective was to develop a roadmap to proactively restructure the General Fund's fiscal outlook with a goal of eliminating the deficits projected through FY 2023. In spite of the global COVID-19 pandemic, we are pleased to report that our FY 2022 audited financials reflect the following General Fund reserve balances:

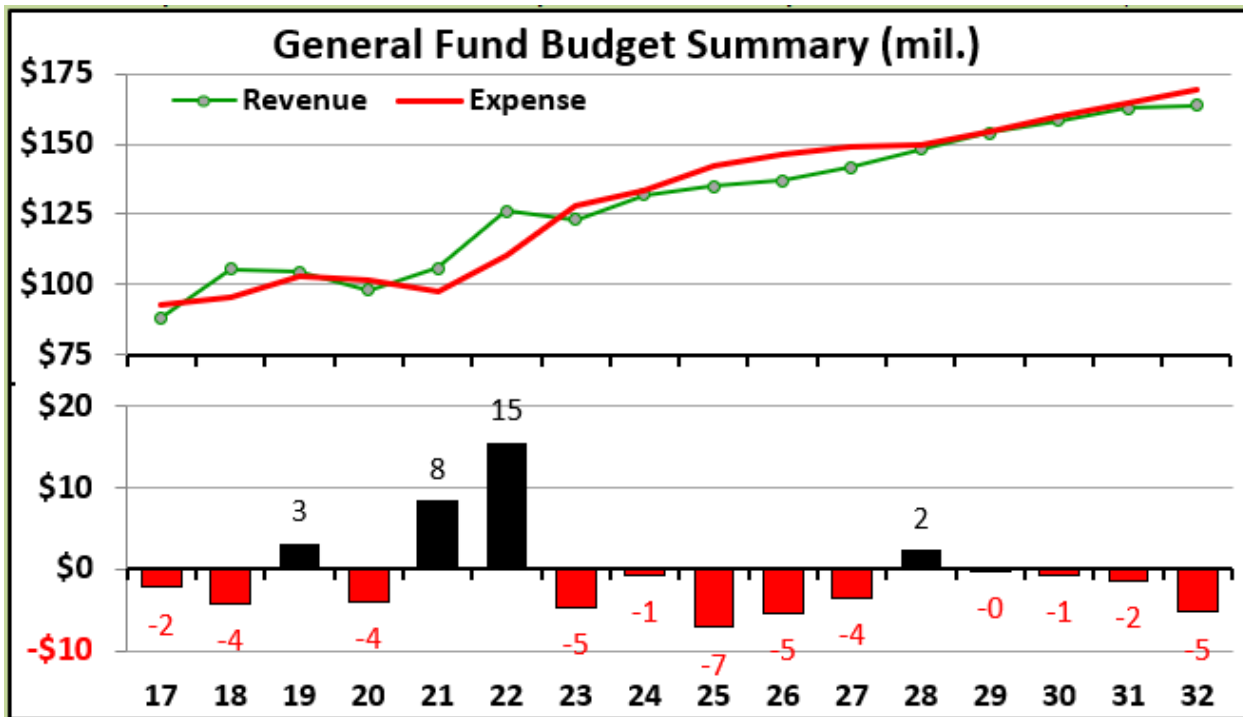
Audited Fund Balances	
Pension Reserve <i>This reserve is restricted. Appropriations require resolution from City Council and can only be used to cover costs associated with our employee pension benefits</i>	\$7,520,033
Emergency Reserve This reserve is used for sustaining General Fund operations in the case of a public emergency such as a natural disaster, economic recession, or other unforeseen catastrophic event. <i>Use of this reserve requires resolution from City Council.</i>	\$7,141,270
Unreserved Fund Balance <i>These funds are set aside to cover unexpected operational and one-time needs</i>	\$5,264,219
Total	\$19,925,522

After ending FY 2020 in a \$4.1M deficit, we have ended the last two fiscal years with a combined surplus of \$23.1M. This is due in large part to \$8.5M in one-time American Rescue Plan Act (ARPA) funding received in the General Fund to cover prior year revenue losses. In addition, as we came out of the pandemic, consumer spending, travel and tourism increased significantly - resulting in sharp increases in sales tax revenue (\$4 million greater than the FY 2022 budget) and Transient Occupancy Tax (TOT) revenue (\$3 million greater than the FY 2022 budget). As we look at the possibility of a recession, increasing interest rates, and high inflation, we do not expect increases in these taxes to continue at this rate. In addition to Sales Tax and TOT, Admissions Tax and Parking revenues returned to pre-pandemic levels in FY 2022, but we expect all tourism/visitor - related taxes to level out in FY 2023 and FY 2024.

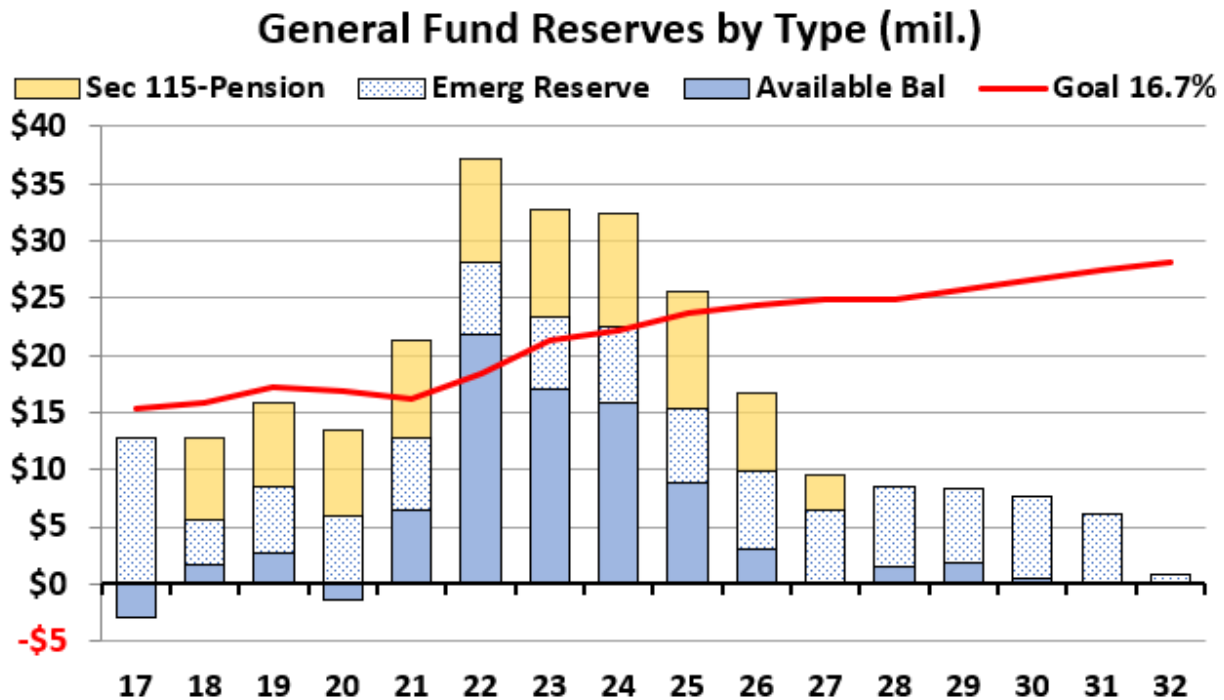
General Fund expenditures have not experienced the same volatility as revenues and, after slight decreases in FY 2020 and FY 2021, they increased by \$8M between FY 2019 and FY 2022. We expect increases in personnel costs to continue in FY 2023 and beyond due to higher pension costs as well as our continued efforts to invest in our personnel, address staffing vacancy challenges, and invest in staff safety needs.

We expect inflationary increases in the costs of materials and supplies across all departments, and as one-time state and federal funding for homelessness response efforts are depleted, this

is the first fiscal year that some of the homelessness response program expenditures are moving from those one-time sources to the General Fund (\$2.7M in FY 2024). Despite positive recovery trends, the City's cost to deliver all of its General Fund services are increasing and expense growth will outpace forecasted revenue over the next 10 years.



This will result in us falling below our reserve target by 2026 and completely depleting our reserves by 2032.



To address this, we continue to seek innovative opportunities and sound investment approaches to ensure the City's vibrancy and stability into the future. We have begun the development of a long-range financial plan that will provide a framework for evaluating investment strategies and pension cost financing, as well as a plan for citywide capital needs, prioritization, and financing. The City Council's Budget and Revenue Ad Hoc Committee continues to explore new revenue resources, and staff continues to work on greater cost recovery. The City must actively pursue new revenue streams to keep up with the growing service needs of our community. The City will work with the community on key initiatives such as aligning fees to more fully recover city costs, bond measure, sales tax, and long-term capital funding.

The budget process began over six months ago and is a partnership between our community, our elected officials, City leadership, and City staff to produce a comprehensive and detailed budget plan for the next year. The focus in preparing the FY 2024 budget was to maintain a status quo budget while considering priorities that are in alignment with the City Council's policy direction and draft strategic plan. I applaud the creativity and outside the box thinking of departments as they focused on maximizing resources to deliver new programs and absorb costs in current programs without significant increases in staffing, equipment, and infrastructure.

I want to personally thank the members of the region's strongest Finance Department who have worked for many months planning for and producing this document to inform all who read it, and who will continue to lead us through budget adoption. In particular, I want to acknowledge the outstanding work of our budget team: Tracy Cole, Budget Manager; Jillian Morales, Accountant; and Emily Burton, Management Analyst. Their energy, creativity, and desire for improvement led to us raising the bar with improvements to the format and content such as Capital Investment Program (CIP) Fact Sheets and an explanation and reconciliation between the budget document and our Annual Comprehensive Financial Report.

I am very proud to, once again, be a part of this amazing organization and look forward to continued success in the years ahead.

Elizabeth Cabell, Finance Director

