



Staff Report

TO: City Council
FROM: Jennifer Ustation, Finance Director
DATE: April 18, 2023
SUBJECT: FY 2024 City Wide Budget

Description First initial review of the proposed FY 2023-2024 City Wide Budget.

Background and Analysis:

The City prepares an annual budget that must be completed by June 30, 2023. The budget estimates the resources that will be available to meet City operational and capital needs. It then allocates those resources to meet those needs across the city operating departments and to meet priority capital projects.

This is the first of two or three meetings to review and discuss the budget. It is contemplated that the budget will be in final form for City Council adoption by June 6, 2023.

This first review of the budget is structured as follows:

- An overview of the primary operating funds – General Fund and Wastewater Fund – including a comparison of the FY 2023 estimated revenue collections to FY 2024 budget for revenues and FY 2023 budgeted expenditures to FY2024 proposed budget to highlight variances.
- A detailed review of requests for enhanced spending to address the growth of the city and to improve service delivery – this includes both new positions and additional operational cost requests.
- A review of the long-term financial forecast which includes the requested enhancements.
- A review of all other funds that support operations and capital projects.
- A review of Internal Service Funds.

Program Costs

The budget process for FY 2024 included evaluating costs on a program level. This is the second year the city has prepared a program-based budget. The programs were

implemented into the budget building process to evaluate costs including Full Time Equivalent (FTE) counts on a program level. The program budgets then rolled up into their respective department. A schedule of programs with their costs and FTEs has been included as **Attachment A**.

General Fund Overview

The General Fund includes most City operations. Revenues supporting the General Fund come from taxes, fees for services, CFD services fees and miscellaneous other sources. Expenditures include public safety, community services, public works and street maintenance, community development, economic development, building safety and administration.

The budget for FY 2024 provides for total revenues of \$67,454,616 and total expenditures of \$51,745,538 for a budgeted surplus of \$15,709,078. The City Manager’s recommended budget includes using \$3,872,556 of budget surplus to support additional positions and operational costs. This allows the City to keep up with growth and to improve service delivery. Additionally, there is \$3,948,254 of recommended General Fund funding requests for projects programmed within the CIP. Should City Council decide to fund the recommended enhancements, the budgeted surplus for the General Fund would \$7,888,268.

General Fund Revenues

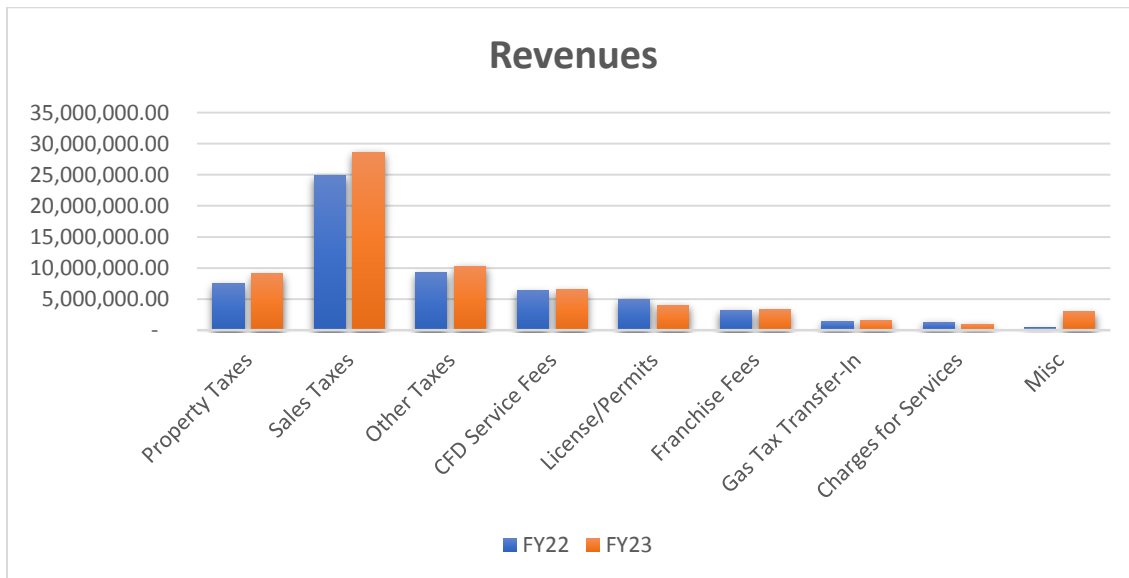
The FY 2024 General Fund revenues are estimated at \$67.5 million and are as follows:

Revenue Type	FY 2023 Budget	% of Total Revenues
Taxes	\$48,020,578	71%
CFD Service Fees Transfer-In	\$6,519,346	10%
Licenses/Permits	\$4,034,217	6%
Franchise Fees	\$3,299,914	5%
Gas Tax Transfer-In	\$1,566,966	2%
Charges for Services	\$ 980,647	1%
Misc Revenues/Transfers	\$3,032,948	4%
Total Revenues	\$67,454,616	100%

Revenues have increased from the FY 2023 estimated revenue collections by \$1.7 million or 2.58%. This is led by projected growth in property tax revenues, sales tax revenues, and motor vehicle in-lieu revenues.

Sales tax revenues have seen a significant increase in FY 2022 and FY2023 mostly due to a corporate restructuring in the business and industry sector and online sales. The FY 2023 budget for sales tax is \$24,680,469, however, staff are projected to collect \$27,888,994 which is an increase of 13%.

The FY 2024 budget escalates CFD service assessments at 2% for Maintenance CFD Services and 5% for Public Safety CFD. The City Council can escalate Maintenance Services CFD assessment at 2% or CPI and the Public Safety CFD assessment at 5% or CPI. It is important to note that the CPI adjustment for this year would be 4.6%.



A schedule providing revenues for FY 2022, FY 2023 as well as the proposed FY 2024 budget is included as **Attachment B**.

General Fund Expenses

General Fund expenses are budgeted at \$51.7million *before* consideration of enhancement requests. This represents an increase of \$5.8M or 12.6% over the proposed budget from FY 2023 not including CIP requests. Comparisons of expense budgets from FY 2023 to FY 2024 results are as follows:

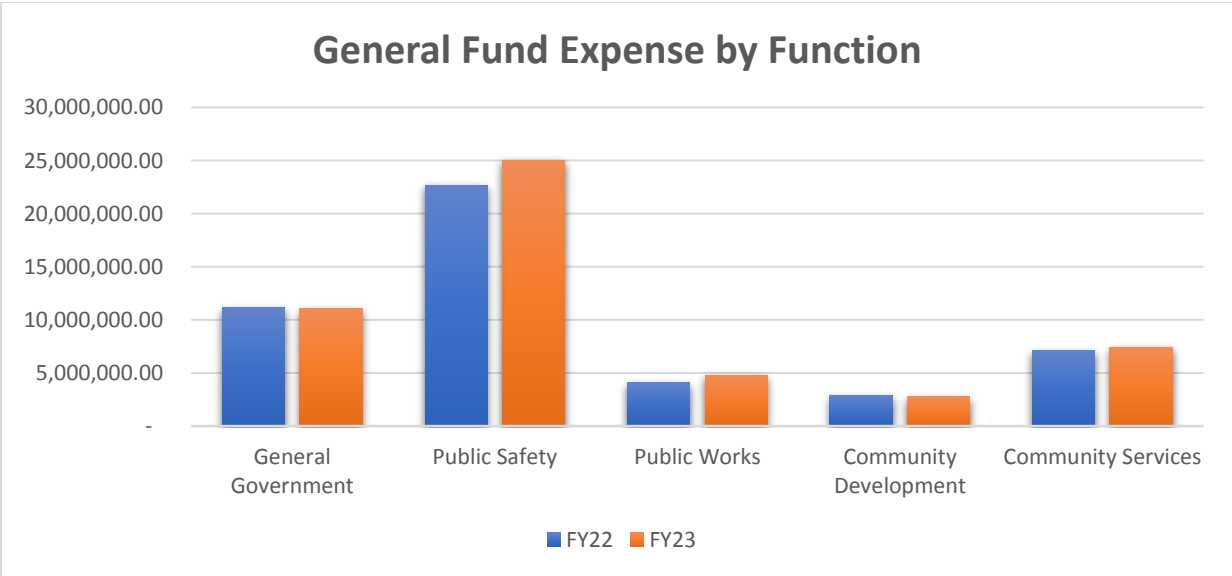
Expenditure Type	FY 2023 (Adj)	FY 2024	Difference	% Increase
Personnel Costs	\$26,239,169	\$27,961,036	\$1,721,867	6.6%

Operating Expenses	\$19,572,360	\$21,822,225	\$2,249,865	11.5%
Capital Improvements	\$1,867,346	\$1,730,085	\$(137,261)	(7.9%)
Contingency	\$150,000	\$150,000	\$0	0
Transfer-Out	\$195,271	\$82,192	\$(22,537)	(21.5%) (1)(2)
Total	\$48,024,160	\$51,745,538	\$3,721,378	7.7%

- (1) One-time Capital Improvement Projects not included.
- (2) FY2023 had a lump sum contribution to the Equipment Internal Service Fund. The equipment schedule was completed, and the contributions are now expenses in the related departments.

Explanation of budget changes from FY 2023 to FY 2024 is as follows:

- **Personnel**- the primary drivers of this increase include **MOU** increases.
- **Operating Expenses** – the primary driver is increases for utilities, fleet costs, supplies and contractual services.
- **Capital Improvements** – Capital improvements have decreased in FY 2024 due to the utilization of the internal service funds.
- **Transfers-out** – All ISF schedules have been created and each department is charged their share of ISF contributions. The only exception is Wastewater and Transit’s portion come from overhead charged and then transferred to ISF fund.



A new department (Communications) was added to the General Government function for the FY2024 budget. A summary of General Fund expenditures by department is included as **Attachment C**.

General Fund Recommended Enhancements

The City Manager recommends budgeting several new positions and increases in operating costs to help the city manage growth and to improve delivery of services. Over the past couple of years, the city has seen a growth in population, parks to manage, and city streets to maintain. City staff have proposed the following budget enhancements to address this growth and to allow improvements to services as follows:

New Positions Requested

Police department – two (2) new Police Officers, one (1) School Resource Officer, two (2) Community Service Officers.

Police support – one (1) Budget Analyst, one (1) Executive Assistant, upgrade of Support Services Specialist to Support Services Lead.

Public Works – One (1) Project Manager.

Street Maintenance – two (2) Street Crew Leaders.

Parks and Recreation – 2 (1) (.5 FTE) Part-Time Recreation Specialists

Parks and Grounds – one (1) Maintenance Worker Supervisor, one (1) Building and Grounds Maintenance Worker, .5 (1/2) of a Management Analyst

Building and Maintenance – upgrade of Building and Grounds Maintenance Worker to Lead position.

Administration – one (1) Press Information Officer

City Clerk – one (1) Administrative Assistant

HR- one (1) Safety & Risk Analyst

Finance – one (1) Accounting Technician II, one (1) Grants Administrator

Position enhancements total \$2,757,797. The costs of these new positions/position upgrades and explanation of the needs for these are included as **Attachment D**.

Operating Cost Enhancements

City staff have proposed some enhanced spending on operating costs to improve service delivery. These requests, which total \$1,425,651, are also detailed in **Attachment D**.

Capital Improvement Projects

The FY 2024 budget provides for capital project funding of \$3,948,254 for the following projects:

PD Fleet Additional Vehicle #5 - CSO #2 Enhancement	\$74,115.00
PD Fleet Additional Vehicle #4 - CSO #1 Enhancement	\$74,115.00
PD Fleet Additional Vehicle #3 - COPPS Sergeant	\$74,115.00
PD Fleet Additional Vehicle #2 - CSU	\$74,115.00
PD Fleet Additional Vehicle #1 - Officer Enhancement	\$74,115.00
New Vehicle for New Position Enhancement - Supervisor	\$55,000.00
3rd Street to California Ave Storm Drain	\$650,000.00
New Position Vehicle Enhancement - Crew Lead	\$55,000.00
Ground Crew Box Truck	\$120,000.00
Pavement Management Study	\$250,000.00
Modular Pump Track at the CRC	\$55,000.00
Purchase Skid Steer Grader Attachment	\$40,000.00
Purchase Jet/Vactor Truck	\$430,000.00
Purchase Tandem Vibratory Roller	\$58,000.00
Purchase Thermoplastic Equipment	\$195,000.00
Purchase 12-Yard Dump Truck	\$160,000.00
Purchase GPS Survey Equipment	\$77,000.00
6th Street & Palm Storm Drain	\$113,000.00
Ford F-150	\$50,000.00
Public Safety Radio System Upgrade	\$344,479.00
Annual Citywide Street Rehabilitation and Maintenance 23/24	\$925,200.00

One-Time Funds

The General Fund budget provides for unprogrammed available resources after enhancements and CIP of \$7.57 million. Staff recommends a separate discussion and proposes bringing back to the City Council a plan for the use of the remaining funds based on the priorities given to staff within the strategic plan.

Long-Term Financial Forecast

Staff worked with GovInvest consultants on a long-term forecast with two recession scenarios. The assumptions used and different scenarios were reviewed by the Finance

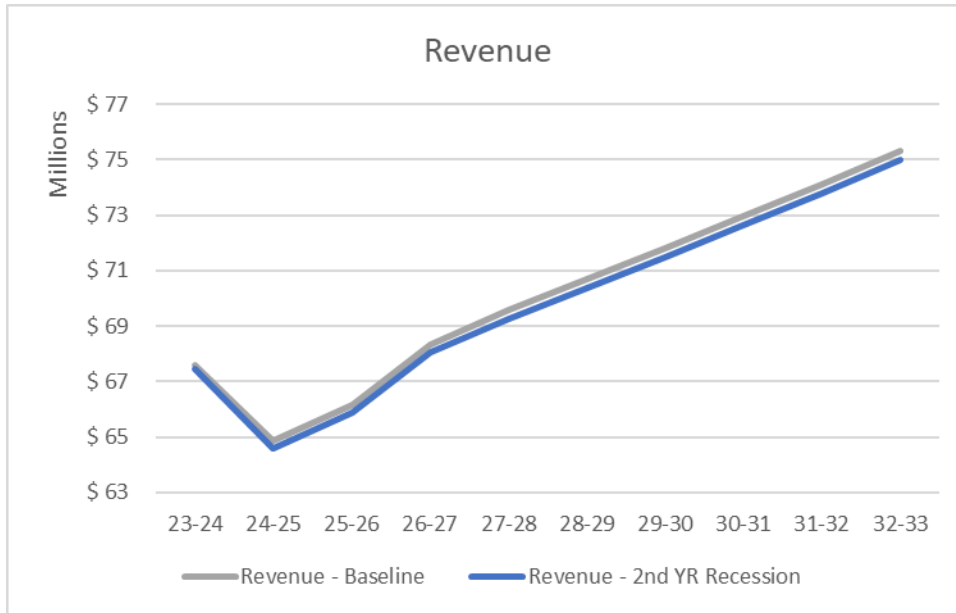
and Audit Committee on April 10, 2023. The Finance and Audit Committee confirmed the assumptions used and recommended using the recession scenario in the years 2024-2025. The model includes enhancement requests to determine if there was capacity for them in future years.

- Recession year – FY2024-2025.
- Beginning FY2024, operations of new fire station, half-year for FY2024
- In FY2024, a slowing down of development.
- FY2024-2025 one new position, FY2025-2026 and beyond one new position every other year.

The LTFF is a conservative model used to demonstrate the future needs of the city and the impacts with lower growth and recession. The model was used to evaluate sustainability of the new enhancements including capital projects with a potential recession. The model provides for current service levels with added enhancement and CIP requests. The model provides that even with a recession the General Fund will be able to sustain the additional enhancement requests and there is remaining capacity for future capital improvement projects.

Recession planning is extremely difficult to predict; however, the city currently has projected estimated unrestricted fund balance (reserves) at the end of FY 2023 of \$28.8 million or 42.7% of FY 2024 projected revenues. As a reminder, the adopted city policy for fund balance is to have a minimum of 16% of annual operating expenses, \$5 for budget stabilization, and \$1M emergency disaster reserve. After the minimum reserves, there is an estimated \$14M of unassigned fund balance. Therefore, in the event of a future budget shortfall, the City Council could elect to use these funds.

Year	Revenue	Expenses	Surplus w/enhancements
23-24	\$ 67,454,616	\$ 59,877,240	\$ 7,577,376.00
24-25	\$ 64,570,243	\$ 58,116,889	\$ 6,453,354.51
25-26	\$ 65,876,715	\$ 59,805,893	\$ 6,070,822.35
26-27	\$ 68,057,807	\$ 61,307,109	\$ 6,750,697.39
27-28	\$ 69,278,129	\$ 62,723,021	\$ 6,555,107.95
28-29	\$ 70,379,858	\$ 63,085,899	\$ 7,293,958.56
29-30	\$ 71,503,045	\$ 64,569,357	\$ 6,933,688.31
30-31	\$ 72,648,721	\$ 65,996,334	\$ 6,652,386.57
31-32	\$ 73,816,072	\$ 67,462,447	\$ 6,353,625.16
32-33	\$ 75,006,246	\$ 68,859,987	\$ 6,146,258.31



Wastewater Fund Overview

The Wastewater Operating Fund provides for the day-to-day operations of the sewer system, equipment needs and the payment of debt service. Revenues supporting wastewater operations come primarily from sewer fee payments. Expenses include personnel costs, operating costs, equipment related costs, transfers to support capital projects, debt service payments and an overhead transfer to the General Fund.

The budget for FY 2023 provides for revenues of **\$13,422,801** and expenditures of **\$13,044,942** for a net surplus of **\$377,859**. The City Manager has recommended funding operating enhancement requests totaling **\$558,618**.

Wastewater Revenues

Budgeted revenues for the wastewater system from \$13,048,788 in FY 2023 to \$13,422,801 in FY 2024. This is driven by a growth factor applied for new connections to the system. There are no rate increases included in the proposed budget currently as the sewer rate study is currently on-going.

Wastewater Expenses

Budgeted expenses for the wastewater system increase from \$12,752,132 in FY 2023 (not including the use of funds for capital projects) to \$13,044,942 in FY 2024. This represents an increase of \$292,810 or 2.3% and is as follows:

Type of Expense	FY 2023 (adj)	FY 2024	Increase/(Decrease)	% Increase
Personnel	\$2,579,882	\$2,248,121	\$(331,761)	(12.86%) (1)
Operating	\$4,055,585	\$5,458,608	\$1,403,023	34.59%
Capital Improvement	\$358,023	\$62,500	\$(295,523)	(82.54%) (2)
Contingency	\$200,000	\$200,000	\$0	0%
Transfer-Out	\$5,558,642	\$5,075,713	\$(482,929)	(8.69%) (3)(4)
Total	\$12,752,132	\$13,044,942	\$292,810	2.3%

- (1) Wastewater had position costs from Public Works that were removed in the FY 2024 budget. The Chief Plant Operator position was also removed.
- (2) FY 2023 had the purchase of vehicles which were not needed in FY 2024.
- (3) Capital Improvements have been removed for like comparison.
- (4) Administrative overhead has been moved into the operating category creating a larger increase in the percentage of operating and a decrease in transfers.

Explanation of change in expenses:

- **Personnel costs** – decrease from the removal of Public Works positions and Chief Plant Operator.
- **Operating costs** – increases in contractual services, supplies, and fleet costs.
- **Capital** – decrease in vehicle capital purchases.

A schedule summarizing the revenues and expenses in the Wastewater Fund is included in **Attachment F**.

Wastewater Recommended Budget Enhancements

The enhancement requests for the Wastewater Fund include equipment and operating costs as follows:

New Positions Requested

Principal Engineer

Operating Cost Enhancements

- Costs for lease of office and storage space
- Emergency Lighting

The capital project requests for Wastewater include the following projects:

- Huber 4MM Coarse Screen Retrofit
- RovverX Main Line Inspection System on 2023 Ford Transit T350 HR RWD with Studio Build Out

The available revenues after enhancement requests added are \$99,682. With capital projects totaling \$280,440 there is \$180,758 of unfunded capital project requests. The estimated FY 2023 ending fund balance is \$5.2 million which is 38.8% of FY 2024 revenues. The City Council can elect to use the fund balance as a planned drawdown. The remaining fund balance, after enhancements and capital projects, would then be \$5.0 million or 38.05% of the FY 2024 proposed budget, which is still in compliance with the adopted policy.

Other Funds Budget Review

A summary of all funds has been attached as **Attachment G**.

Fiscal Impact:

The estimated cost to prepare this report is \$3,600.

The first meeting regarding the FY 2024 budget is intended to seek guidance from City Council regarding the proposed budget. No fiscal impact is anticipated from this discussion.

Recommended Action:

Review the proposed FY 2024 budget and provide guidance to staff prior to bringing the budget back for Council consideration and adoption.

Attachments:

- A. Program Costs Schedule
- B. General Fund Revenue Comparison Schedule
- C. General Fund Expenditure Comparison Schedule by Department
- D. FY 2024 General Fund Enhancement Requests

- E. FY 2024 Summary of All Funds Budget Enhancement Requests
- F. Wastewater Comparison Schedule
- G. All Funds Summary
- H. Draft CIP