



Staff Report

TO: City Council
FROM: Jennifer Ustation, Finance Director
DATE: April 27, 2022
SUBJECT: FY 2023 City Wide Budget - Draft

Background and Analysis:

The City prepares an annual budget that must be completed by June 30, 2022. 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. The budget is scheduled to be in final form for City Council adoption by June 21, 2022.

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 2022 estimated revenue collections to FY 2023 budget for revenues and FY 2022 budgeted expenditures to FY 2023 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 2023 included the evaluation of costs on a program level. City Council, through a survey, ranked City programs by level of criticality. These programs were then 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 service fees and other miscellaneous sources. Expenditures include public safety, community services, public works and street maintenance, community development, economic development, building safety and administration.

The budget for FY 2023 provides for total revenues of \$60,748,780 and total expenditures of \$40,716,471 for a budgeted surplus of \$20,032,309. The City Manager’s recommended budget includes using \$5,175,594 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 \$937,200 of recommended General Fund funding requests for projects programmed within the City’s Capital Improvement Program (CIP). Should City Council decide to fund the recommended enhancements, the budgeted surplus for the General Fund would be \$13,919,515.

General Fund Revenues

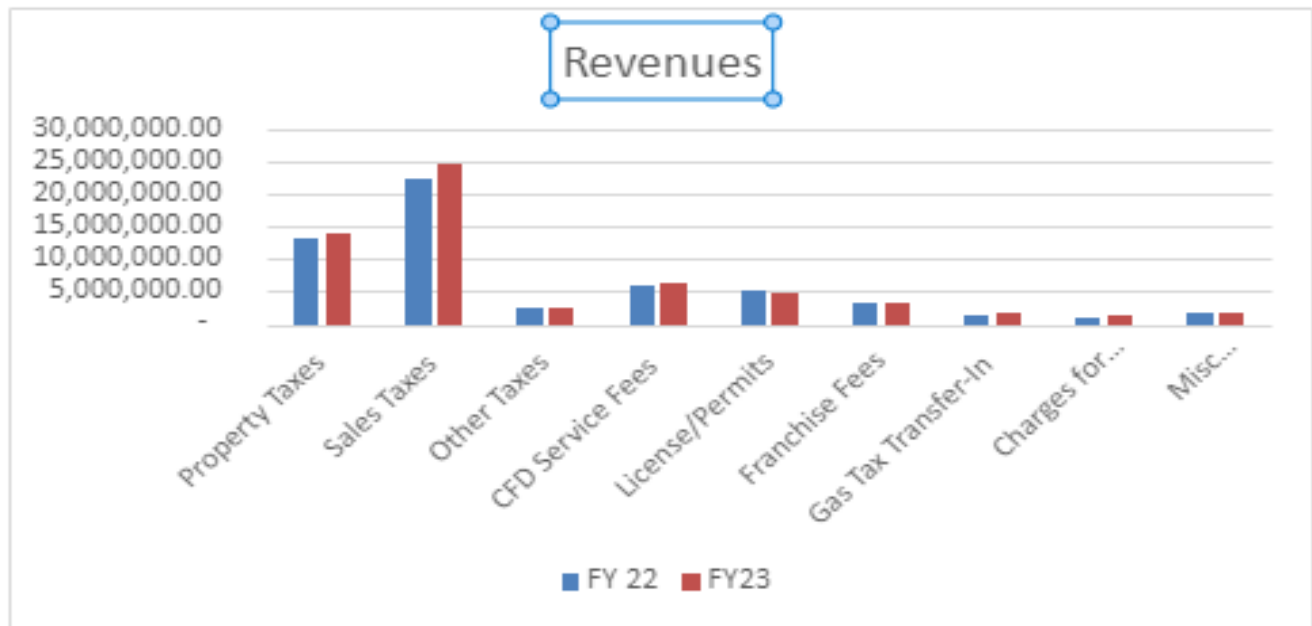
The FY 2023 General Fund revenues are estimated at \$41.5 million and are as follows:

Revenue Type	FY 2023 Budget	% of Total Revenues
Taxes	\$41,542,397	68.38%
CFD Service Fees Transfer-In	\$6,348,162	10.45%
Licenses/Permits	\$4,985,328	8.21%
Franchise Fees	\$3,248,286	5.35%
Gas Tax Transfer-In	\$1,540,466	2.51%
Charges for Services	\$1,272,885	2.1%
Misc Revenues/Transfers	\$1,811,256	3.0%
Total Revenues	\$60,748,780	100%

Revenues have increased from the FY 2022 estimated revenue collections by \$3.9 million or 7%. This is led by projected growth in property tax revenues, sales tax revenues, motor vehicle in-lieu revenues and transfers-in.

Sales tax revenues have seen a significant increase in FY 2022 mostly due to a corporate restructure in the business and industry sector and online sales. The FY 2022 budget for sales tax is \$7,402,550, however, staff is projecting to collect \$22,611,272 which is an increase of 305%. The majority of the 305% increase should be considered one-time and not expected to grow that same rate in future years.

The FY 2023 budget maintains CFD service assessments with no escalation, meaning at the same rate used for FY 2022. City Council can increase the 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 8.59%.



A schedule providing revenues for FY 2021, FY 2022 as well as the proposed FY 2023 budget is included as **Attachment B**.

General Fund Expenses

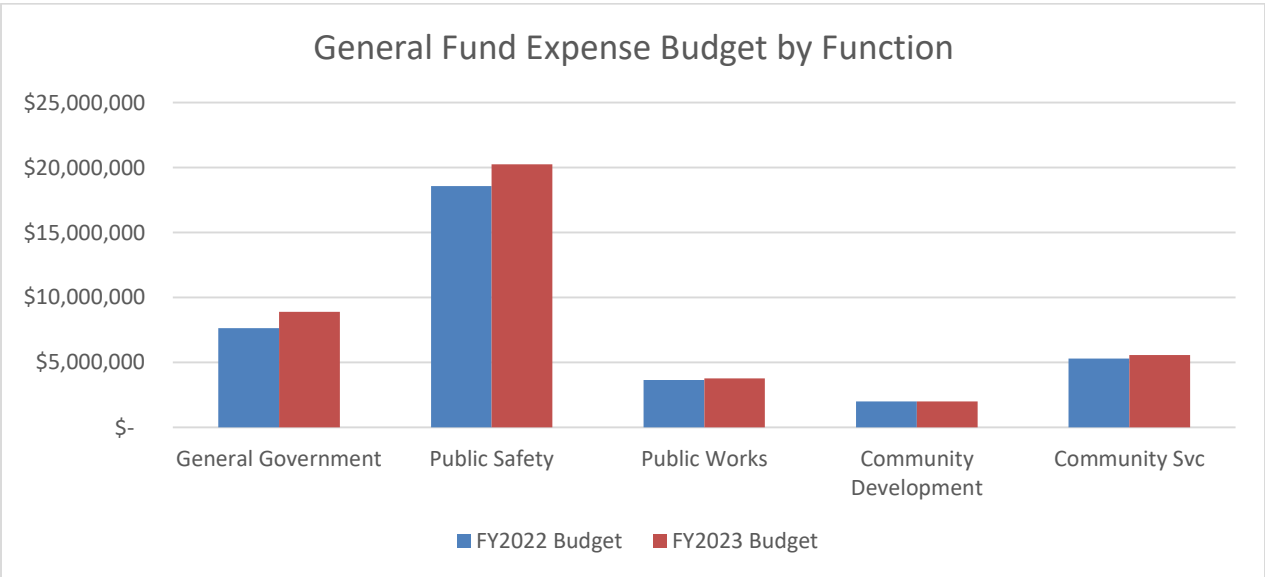
General Fund expenses are budgeted at \$40.7 million *before* consideration of enhancement requests. This represents an increase of \$1.07M or 2.7% over the budget from FY 2022. Comparisons of expense budgets from FY 2022 to FY 2023 results are as follows:

Expenditure Type	FY 2022	FY 2023	Difference	% Increase
Personnel Costs	\$21,801,553	\$22,944,400	\$1,142,847	5.2%
Operating Expenses	\$16,027,182	\$16,379,547	\$352,365	2.1% (1)
Capital Improvements	\$1,193,377	\$1,047,253	\$(146,124)	(12.2%) (2)
Contingency	\$150,000	\$150,000	\$0	0
Transfer-Out	\$449,166	\$195,271	\$(253,895)	(5.65%)
Total	\$39,621,278	\$40,716,471	\$1,095,193	2.7%

- (1) Some expenses decreased within the FY 2023 budget for development due to an accounting change with development deposit accounts. By including that change, the increase for operating expenses would be closer to 4.5%.
- (2) There was a budget amendment of prior year expenditures reappropriated in FY 2022

Explanation of budget changes from FY 2022 to FY 2023 is as follows:

- **Personnel** - The primary drivers of this increase include MOU increases and contribution to pension 115 trust per funding policy.
- **Operating Expenses** – The primary driver is increases for utilities, fleet costs, supplies and special services.
- **Capital Improvements** – Capital improvements have decreased in FY 2023 due to the utilization of the internal service funds.
- **Transfers-out** – Facility ISF contributions are programmed within the departments rather than as a general transfer-out.



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 has proposed the following budget enhancements to address this growth and to allow improvements to services as follows:

New Positions Requested

Police Department – Four (4) additional Officers, three (3) Community Service Officers, and upgraded positions including one (1) Corporal and one (1) Sergeant.

Police Support – Two (2) additional Support Service Specialists.

Public Works – One (1) Senior Engineer and one (1) GIS Analyst.

Building and Safety – One (1) Permit Technician and one (1) Building Inspector.

Community Development – one (1) Assistant Planner.

Code Enforcement – One (1) Assistant Fire Marshal.

Parks and Recreation – Increase part-time Rec Specialist positions and additional time for programs.

Building and Maintenance – Four (4) new Maintenance Worker positions.

HR - One (1) Assistant HR Payroll Technician.

Finance – One (1) Procurement and Contract Specialist.

Information Technology – One (1) IT Analyst I.

Position enhancements total \$3,686,810. 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 has proposed some enhanced spending in operating costs to improve service delivery. These requests, which total \$1,491,284, are also detailed in **Attachment D**.

Capital Improvement Projects

The FY 2023 budget provides for capital project funding for the following projects:

- Michigan Avenue Storm Drain Culvert Crossing \$30,000
- Mid-Year Street Enhancement Program 2022 \$907,200 (1)

Minimal CIP projects were submitted in order to take a conservative approach and to leave for further discussion.

(1) This is a backfill of Measure A revenue loss into the street program.

Beginning in FY 2023, Measure A revenue will be decreased by 60% per the WRCOG Settlement Agreement dated May 2017. The WRCOG share of Measure A revenue shall not exceed \$9,400,000. Estimations of future Measure A revenues have WRCOG reaching the \$9.4 million in FY 2032. This warrants a further discussion.

One-Time Funds

The General Fund budget provides for unprogrammed available resources after enhancements and CIP costs of \$13.92 million. Staff recommends a separate discussion and proposes to provide a list of one-time items to be brought back to Council at another meeting.

Long-Term Financial Forecast

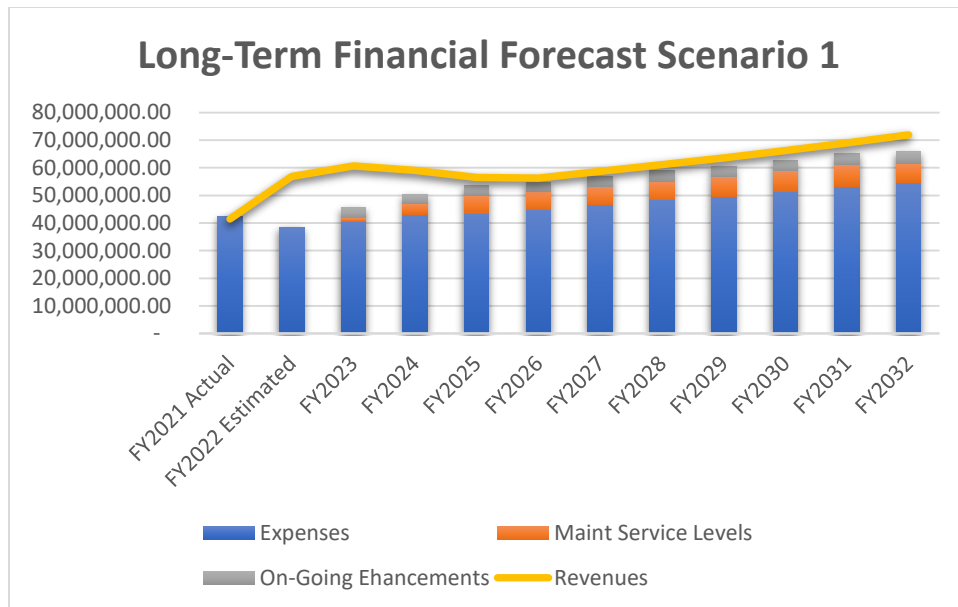
Staff has prepared two long-term financial forecast models. Both models include all requested enhancements and capital improvement project funding with the budget, as well as the following assumptions:

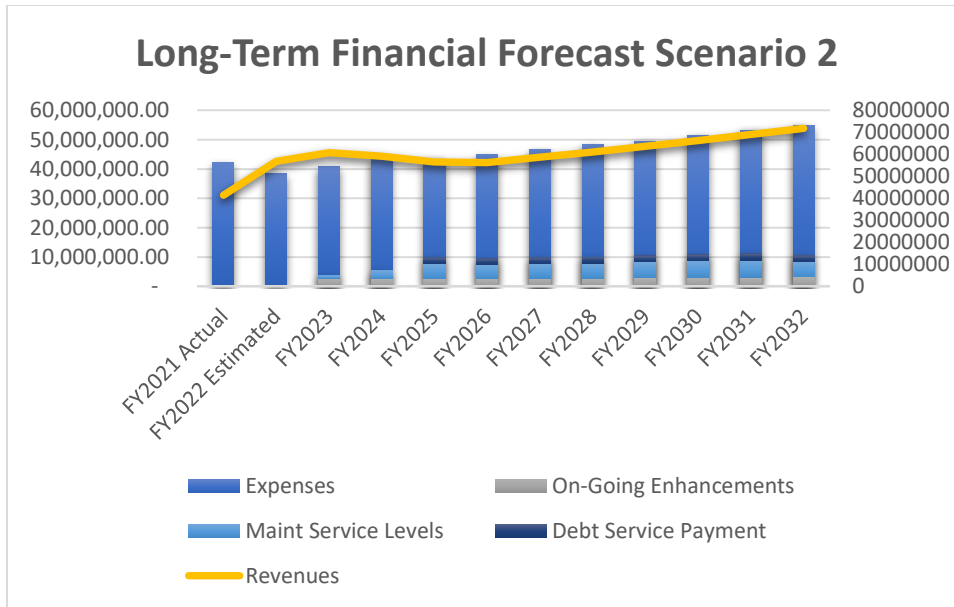
- Recession years – FY 2024-2026;
- Reduction in Gas Tax transfers-in as vehicles move to electric;
- Using the Pension 115 to reduce costs starting FY 2029;
- Beginning FY 2023, General Fund offsetting the loss of Measure A revenues, 60% reduction;
- Beginning FY 2024, full operations of new fire station;
- Beginning FY 2024, two new positions added each fiscal year to maintain current service level; and
- Beginning in FY 2025, debt service payment to fund new police station. (Included in scenario 2 model)

The Long-Term Financial Forecast (LTFF) is a conservative model used to demonstrate future needs of the City and the impacts with lower growth and recession. Two scenarios were modeled to evaluate sustainability of the new enhancements. The

scenario 1 model provides for current service levels with added enhancement requests. Scenario 1 provides that even with a recession the General Fund will be able to sustain the additional enhancement requests. The scenario 2 model adds an option for debt service to fund a new police station. The scenario 2 model, which include a debt service payment, shows deficits starting in FY 2026. The LTFF scenario 1 and scenario 2 has been included as **Attachment E**.

Recession planning is extremely difficult to predict; however, the City currently has projected estimated unrestricted fund balance (reserves) at the end of FY 2022 of \$30.6 million or 50.4% of FY 2023 projected revenues. As a reminder, the adopted City policy for fund balance is to have a minimum of 25% of annual operating expenses. Therefore, in the event of a future budget shortfall, City Council could elect to use these funds.





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 **\$12,858,001** and expenditures of **\$12,532,234** for a net surplus of **\$325,767**. The City Manager has recommended funding operating enhancement requests totaling **\$219,899**. There are no personnel enhancement requests in the Wastewater Operating Fund budget.

Wastewater Revenues

Budgeted revenues for the wastewater system from \$12,335,500 in FY 2022 to \$12,858,001 in FY 2023. This is driven by a 5% increase in rates that begins July 1, 2022, and an estimated 2% growth factor related to new residences and businesses being added to the system for a total increase of 7%.

Wastewater Expenses

Budgeted expenses for the wastewater system increase from \$12,335,500 in FY 2022 to \$12,532,234 in FY 2023. This represents an increase of \$196,734 or 1.6% and is as follows:

Type of Expense	FY 2022	FY 2023	Increase/(Decrease)	% Increase
Personnel	\$2,427,707	\$2,566,797	\$139,090	5.7%
Operating	\$3,521,113	\$3,861,586	\$340,473	9.6%
Capital Improvement	\$500,582	\$178,638	\$(321,944)	(64.3%) (1)
Contingency	\$263,693	\$200,000	\$(63,693)	(24.1%) (2)
Transfer-Out	\$5,622,405	\$5,725,213	\$102,808	1.8%
Total	\$12,335,500	\$12,532,234	\$196,734	1.6%

(1) FY 2022 Capital improvement includes CIP projects which have been eliminated in FY 2023 for further discussion.

(2) FY 2022 Contingency includes a budget amendment for \$163,693 for emergency repairs.

Explanation of change in expenses:

- **Personnel costs** – Increases in wages and pension costs as well as contribution to pension 115 trust.
- **Operating costs** – Increases in utilities, fleet costs and supplies.
- **Capital** – Ongoing vactor truck loan payment and equipment needs.
- **Transfer-out** – Debt service costs slightly increased, however, these payments have been partially supported by transfers from development impact fees in prior years. FY 2022 included a transfer from the DIF of \$500,583. The FY 2023 budget does not transfer-in funds from DIF to support these costs.

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

Wastewater Recommended Budget Enhancements

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

- Instrument calibration services \$24,999
- Replace Brine Line monitoring equipment \$34,000
- GIS based collection tracking software \$70,000
- Mechanical maintenance services \$25,000
- Restoration & addition of electric actuated gates \$65,900

Total \$218,899

Wastewater Capital Projects Request

The capital project requests for Wastewater include the following projects:

- | | |
|--|-----------|
| • 4 th Street Manhole Replacement | \$200,000 |
| • Oak Valley Lift Station Access Point | \$210,000 |
| • Vactor Dump Station | \$450,000 |
| • Lift Station Spare Pump Program | \$300,000 |
| • Variable Frequency Drive | \$250,000 |

The available revenues after enhancement requests added are \$105,868. With capital projects totaling \$1,400,000 there is \$1,304,132 of unfunded capital project requests. The estimated FY 2022 ending fund balance is \$6.5 million which is 50.3% of FY 2023 revenues. City Council can elect to use fund balance as a planned drawdown. The remaining fund balance, after enhancements and capital projects, would then be \$4.2 million or 32.7% of the FY 2023 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 first meeting regarding the FY 2023 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 2023 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 2023 General Fund Enhancement Requests
- E. Long-Term Financial Forecast Scenario 1 and 2
- F. Wastewater Comparison Schedule
- G. All Funds Summary
- H. Draft CIP