



# STAFF REPORT

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June 19, 2024  
File Number 0430-30

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## **SUBJECT**

### **FISCAL YEAR 2024/25 OPERATING BUDGET ADOPTION**

## **DEPARTMENT**

Finance

## **RECOMMENDATION**

Request the City Council adopt Resolution No. 2024-75 approving the Fiscal Year 2024/25 Annual Operating Budget; adopt Resolution No. 2024-76 approving the Appropriations Limit (“Gann Limit”) for Fiscal Year 2024/25; and adopt Resolution No. 2024-72 approving adjustments to the City’s User Fee Schedule.

Staff Recommendation: Approval (Finance: Christina Holmes, Director of Finance)

Presenter: Christina Holmes, Director of Finance

**ESSENTIAL SERVICE** – Yes, Police Services; Fire/EMS Services; Keep City Clean for Public Health and Safety; Land Use/Development; Clean Water; Sewer; Public Works/Infrastructure; Maintenance of Parks facilities/Open Spaces

**COUNCIL PRIORITY** – Eliminate Structural Deficit; Improve Public Safety; Increase Retention and Attraction of People and Businesses to Escondido; Encourage Housing Development

The proposed FY2024/25 Annual Operating Budget document can be viewed on the City’s website at: <https://www.escondido.gov/361/Current-Budget-Information>

## **PREVIOUS ACTION**

On June 7, 2023, staff provided the FY2023/24 operating budget workshop which presented the projected General Fund budget deficit and provided scenarios for the programs and services to consider for elimination when all available one-time funds and reserve balances are depleted.

On September 27, 2023, City Council participated in a Visioning and Structural Deficit Strategy Workshop where they identified the City’s Essential Services, Council Priorities, and provided direction on revenue options for staff to investigate.

On January 31, 2024, staff presented Fiscal Sustainability, Capital Projects, and American Rescue Plan Act (“ARPA”) which provided a recommended approach for expending American Rescue Plan Act and Park Development funds to support the Council Priority of Eliminating the Structural Deficit.

On May 22, 2024, staff provided the Preliminary FY2024/25 Operating Budget Workshop.



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On June 5, 2024, City Council received the results of a User and Regulatory Fee Study prepared by ClearSource Financial Consulting.

### **ANALYSIS**

The City's annual budget process begins around December each year with an update of the budgetary forecast and the General Fund Multi-Year Financial Plan. The financial forecast takes a look forward at the City's General Fund revenues and expenditures. Its purpose is to identify financial trends, shortfalls, and potential issues so the City can proactively address them. It does so by projecting out into the future the fiscal results of continuing the City's current service levels and policies, which provides a snapshot of what the future will look like as a result of those policies.

Operating revenue has not kept pace with the growing costs of providing City services, and as a result the General Fund long-term financial plan has projected annual deficits creating a structural budget deficit. To address this projected shortfall, the City has maintained a hardline on expenditures and staff are continuously seeking measures that ensure efficiency, while enhancing basic operations. Revenue-generating opportunities have also been explored. In addition, since the Great Recession, the City has controlled costs by annually deferring maintenance and capital project costs. Despite all of these measures, and the City's efforts to fund projects with grants and other sources of one-time funds, it has not been enough to meet growing costs and demand for services.

Last fiscal year, the FY2023/24 General Fund operating budget started with a net operating deficit of \$11,295,840. In order to continue to provide essential City services, staff made recommendations to close the deficit that included a combination of using reserve balances as well as deferring major purchases to future years. Until revenue is increased on an ongoing and structural basis, the City must continue to rely on short-term, one-time resources to continue operations and avoid substantial cuts to City services. With no funding plan or known option for replenishment, the reserves in Internal Service Funds will be depleted in the upcoming fiscal years. As the budget becomes tighter, to ensure budget savings, the Historical Cost Savings Target will be stricter leading to slower hiring of positions. In addition, American Rescue Plan Act funds must be obligated by December 31, 2024, and will no longer be a source of revenue for the General Fund.

There are also many much-needed items that are not included in the FY2023/24 proposed budget:

- critical infrastructure, equipment and vehicle, and repair needs
- deferred maintenance of current facilities and parks
- ongoing maintenance of new assets being added to the community
- underfunding reserve accounts
- ability to continue supporting community organizations and events
- addressing organizational capacity issues



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In addition to the above, high priorities from the community are not being addressed. The City continues to strive to provide the level of service residents expect and deserve, but given the structural General Fund deficit, it is becoming increasingly more difficult to do so.

In keeping with our commitment to long-term planning, staff will continue to provide financial recommendations based on realistic revenue projections, risk assessments, and prudent spending to ensure a stable financial position.

### **USER AND REGULATORY FEE STUDY**

On June 5, 2024, a User and Regulatory Fee Study Workshop was held. City Council was provided with the results of a User Fee Study prepared by ClearSource Financial Consulting. The fee schedule is attached as Exhibit "A" to Resolution No. 2024-72 and can be adopted by City Council on June 19, 2024. Exhibit "A" includes a three-year phased approach to reach full cost recovery for fees that provide a direct benefit, with the exception of Recreation Program fees which were adjusted to reach 50 percent cost recovery. The new revenue to the General Fund is projected to reach \$1,270,000 in year 1 with these fee adjustments.

Based on feedback from the City Council on June 5, 2024, two additional fee schedules are attached as options for future City Council adoption. With the direction received at this meeting (Budget Public Hearing on June 19), staff will prepare a new Public Hearing Notice with the proposed fee schedule in compliance with noticing requirements under California Government Code:

- 1) Option 1 adjusts all direct benefit user fees to a minimum of 80 percent of full cost recovery in year 1 and 100 percent full cost recovery by year 2. Recreation fees have been adjusted to be closer to full cost recovery, but within the regional comparisons.
- 2) Option 2 adjusts all direct benefit user fees to 100 percent full cost recovery in year 1, including recreation program fees.

### **FY2024/25 PRELIMINARY OPERATING BUDGET**

As noted above, the FY2023/24 General Fund operating budget started with a net operating deficit of \$11,295,84. Staff recommendations to close the budget deficit included a combination of using reserve balances as well as deferring major purchases to future years; however, this did not address the structural budget deficit which was projected to be about \$11.3 million in FY2024/25.

To address the predicted structural budget gap for the upcoming fiscal year, departments were directed to submit their FY2024/25 General Fund operating budget at the same level as the prior year, FY2023/24, while prioritizing the City Council's Essential Services and Council Priorities. As a result of departments minimizing their budgeted expenses and the additional actions described below, the proposed FY2024/25 General Fund Operating Budget is closed without the use of Reserve Funds.



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**Library Management Agreement – (\$3,033,490).** On January 31, 2024, City Council approved the use of American Rescue Plan Act Funds for the FY2024/25 and FY2025/26 Management Agreement with LS&S. This reduced General Fund expenses by \$3,033,490 in FY2024/25 and sustains library operations for two fiscal years during which alternative revenue sources can be sought in order to sustain library operations on a longer-term basis. Beyond this action, there is no future funding for this service.

**California Center for the Arts, Escondido (CCAЕ) Management Agreement – (\$1,837,330).** On January 31, 2024, City Council approved the use of American Rescue Plan Act Funds for the FY2024/25 Management Agreement with the Foundation and Utilities. The allocation of \$1,837,330 will be provided to the CCAЕ to fund their Management Fee and utilities costs. This allows the ad-hoc Council CCAЕ Subcommittee and the CCAЕ Board time to develop a recommendation for how to proceed in future fiscal years. It also eliminates almost \$2 million from FY2025's projected \$11.3 million structural budget deficit. Beyond this action, there is no future funding for this service.

**Humane Society Contract – (\$857,570).** The City has a contract with the San Diego Human Society for animal control services, which expires December 31, 2024. The FY2024/25 operating budget includes resources needed to fund the contract through its expiration date. Staff will return to City Council in August to review options for next steps after expiration of the existing contract.

**Elimination of 10 Full-Time Vacant Positions – (\$915,000).** The FY2024/25 operating budget also includes the elimination of 10 full-time vacant positions from various departments which reduced employee service expenses by \$915,000.

**Primary Cost Drivers in FY2024/25.** Offsetting these budget reductions are several categories of expenses that impacted all General Fund departments and include the following:

- a. Utility Allocations. As part of the City's ongoing review of how the City allocates expenses to the Utility Funds, allocations out to the Water and Wastewater funds were updated based on each fund's total percentage of the operating budget.
- b. CalPERS Payments. Every year, the City and employees contribute to CalPERS to pay for future retirement benefits. CalPERS expenses for FY2024/25 include a Normal Cost, based on a percentage of employee salaries. CalPERS determines the Normal Cost rate annually based on actuarial assumptions. The percentage contribution rates required by CalPERS decreased slightly from the prior year from 11.55 percent to 11.16 percent for the Miscellaneous Plan and 22.84 percent to 22.13 percent for the Safety Plan. The CalPERS Unfunded Accrued Liability Payment increased this fiscal year by \$1,509,070 for the General Fund.
- c. Insurance Premiums. The City's Property and General Liability Insurance are provided through a risk sharing pooled program with PRISM, Public Risk Innovation Solutions and Management, where annual premiums and assessments are approved by the Board of Directors. Property Insurance premiums are anticipated to increase by \$576,000 and General Liability premiums will



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increase by \$561,000. In addition, all available Reserve funds were used in FY2023/24 resulting in an increase in resources needed from the General Fund in FY2024/25.

**Public Safety Vehicle Replacements.** To help alleviate budget shortages, available resources in the Fleet Fund have been used to balance prior year budgets. Since the Great Recession that began in FY2009/10, the Fleet Services Fund has minimized budgetary impacts to the General Fund by deferring purchases, reducing allocations, and using reserve balances. To address last fiscal year's budget deficit, the Fleet Services Fund reduced the number of vehicles to be replaced and used all available resources from reserves.

In order to replace critical public safety vehicles, the staff recommendation is to utilize GEMT Paramedic Transportation revenue for the purchase of three ambulances at a cost of \$960,000 and to utilize available resources in the Worker's Compensation Fund for the purchase of thirty-nine Police Department vehicles totaling \$2,493,500.

OPTIONAL BUDGET ADDITION – Expansion of the Community Oriented Policing and Problem Solving (“COPPS”) Unit. At the February 28, 2024, City Council meeting, staff provided a Review of City Data Regarding Homelessness. Deputy Mayor Garcia requested information on the resources that would be needed to expand the City's COPPS unit. As reported during the May 22, 2024, Operating Budget Workshop, an expansion of the unit would require the following items, totaling \$1,259,790 in year 1: addition of 4 police officers, 4 patrol cars, safety equipment and patrol supplies, 2 maintenance technicians for the Public Works debris crew, and 1 truck. These expenses have not been included in the FY2024/25 Operating Budget but with City Council approval of the Budget Adjustment listed as Attachment “1” the expenses will be added to the FY2024/25 Operating Budget.

## RESOLUTIONS

- a. Resolution No. 2024-75 Approving the Fiscal Year 2024/25 Annual Operating Budget
- b. Resolution No. 2024-76 Approving the Appropriations Limit (Gann Limit) for Fiscal Year 2024/25
- c. Resolution No. 2024-76 – Exhibit “A” - GANN Calculation
- d. Resolution No. 2024-76 – Exhibit “B” - GANN Limit Calculation
- e. Resolution No. 2024-72 – Adoption of Adjustments to User Fees
- f. Resolution No. 2024-72 – Exhibit “A” Schedule of User and Regulatory Fees

## ATTACHMENTS

- a. Attachment “1” – Option 2 Schedule of User and Regulatory Fees
- b. Attachment “2” – Option 3 Schedule of User and Regulatory Fees
- c. Attachment “3” – Budget Adjustment for Expansion of COPPS Unit