



STAFF REPORT

May 22, 2024

File Number 0430-30

SUBJECT

FISCAL YEAR 2024/25 OPERATING BUDGET BRIEFING

DEPARTMENT

Finance

RECOMMENDATION

Request the City Council provide direction regarding the Fiscal Year 2024/25 General Fund Operating Budget.

Staff Recommendation: Provide Direction (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 Preliminary 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.



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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, providing 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.

Recognizing that reserve funds and one-time sources of funds will not be available in future fiscal years without a new ongoing source of revenue, a Budget Workshop was held on June 7, 2023, that provided scenarios for the programs and services that the City will need to consider eliminating when all available one-time funds and reserve balances are depleted. Attachment "1" to this agenda item presents those scenarios.



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In addition, City Council held a Visioning and Structural Deficit Strategy Workshop on September 27, 2023, where City Council identified the following Essential Services and Council Priorities that now guide staff:

ESSENTIAL SERVICES



COUNCIL PRIORITIES



FY2024/25 PRELIMINARY OPERATING BUDGET

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 noted above. The May 22, 2024 Operating Budget Workshop will present actions taken to propose a flat budget, preserve General Fund Reserve balances, and sustain current City services.

ATTACHMENTS

- a. Attachment "1" – General Fund Budget Scenarios