



# City of Grass Valley City Council Agenda Action Sheet

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**Title:** Fiscal Year 2024-2025 Mid-Year Budget Review

**CEQA:** Not a project

**Recommendation:** It is recommended that the City Council approve the Mid-Year Budget Review and the proposed revisions through a motion.

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**Prepared by:** Jennifer Styczynski, Deputy Finance Director

**Council Meeting Date:** 03/25/2025

**Date Prepared:** 03/19/2025

**Agenda:** Administrative

**Discussion:** The mid-year budget review serves as a tool to assess the City’s financial status during the first half of the fiscal year, projects its outlook through the year’s end, and adjusts the budget to align with updated expectations based on prior amendments and current economic conditions.

This year’s review highlights the management’s evaluation of funding impacts that are expected throughout the remainder of the fiscal year, ensuring that existing service levels are maintained while addressing economic and fiscal uncertainties stemming from inflation and mandated requirements. While the economic effects of COVID have lessened over the past year, other factors have emerged, significantly influencing the City’s current and future fiscal health. Considering this heightened uncertainty, the City staff are closely monitoring all sectors of economic activity and updating the long-term forecast for the General and Measure E Funds.

This staff report outlines the recommended mid-year adjustments for the remainder of Fiscal Year 2024-2025 and presents a multi-year forecast for both the City’s General Fund and Measure E Fund, incorporating various assumptions. The information provided here will form the basis for the PowerPoint presentation provided at the upcoming City Council meeting.

## **General Fund (Fund 100)**

Comparison of current Budget-to-Actual performance:

	<u>Revenues</u>	<u>Expenditures</u>
FY 2024-25 Adopted Budget	\$ 18,606,256	\$ 18,606,253
Estimated Amounts 6/30/25	\$ <u>18,491,393</u>	\$ <u>18,500,714</u>
Recommended Adjustment Increase/(Decrease)	\$ (114,863)	\$ (105,539)

The City is expected to reduce the originally budgeted General Fund revenues by \$114,863 and lower General Fund expenditures by \$105,539. Overall, the General Fund is projected to spend about \$9,321 more than its anticipated revenue for Fiscal Year 2024-2025. However, with a \$150,000 contingency included in the expenditures, this \$9,321 shortfall will be covered by the contingency. Any remaining unused contingency will be rolled over into next year's fund balance for future use. The detailed information below, which will be presented to the City Council, outlines the recommended adjustments.

In summary, the proposed net decrease of \$114,863 in General Fund revenues consists of the following:

Revenue Type	Amount	Reason / Rationale
Property Taxes	\$65,500	Increase in property taxes due to higher-than anticipated growth in FY 2024-25
Property Tax in Lieu of MVLFF / MVL Fees	\$50,216	True-up of FY 2024-25 anticipated revenues consistent with growth in assessed valuation
RPTTF Residual Property Taxes	\$58,400	Increase in former redevelopment tax increment as property taxes due to winding down of redevelopment affairs and higher growth in assessed valuation
Sales Taxes	(\$533,918)	Decrease in sales taxes consistent with projections provided by City's Sales Tax consultant (HdL) and offset by reduction in sales tax sharing payment with Nevada County
Transit Occupancy Taxes	\$44,775	Increase due to continued trending increases
Cannabis Excise Tax	\$25,000	Averaging around \$18,500 per month, only second year receiving income source
Franchise Payments - Solid Waste	\$36,750	Increased collections of Solid Waste Franchise Fees due to higher rates imposed by Waste Management
Franchise Payments - Cable TV	(\$69,322)	Removal of collection of PEG fees
Animal Shelter Fees / Other Revenues	\$21,509	Received \$30,000 grant from UC Davis for Animal Shelter services and decrease in revenues for redeemed dogs
Planning / Building / Public Works / Parks / Engineering Fees & Permits	\$63,694	Increased fees collected for building permits, engineering, and facility and building rentals
Fire Department Fees	\$26,315	Increase in fire response reimbursements and fire assessments collected with business licenses
Police Department Fees	(\$45,625)	Removal of parking-related revenue not collected

Interest Earnings	\$45,000	Increase in interest earnings for current market conditions
Proposition 64 Grant	(\$110,000)	All revenue for Prop 64 grant accounted for in Fund 260, offset for Police Officer covered under grant to be offset by personnel services overhead transfer under expenditures
Prop 172 / POST / Other Reimbursements	\$51,073	POST reimbursements of \$5,290, reimbursable grant from Air Quality District for PW tractor of \$50,000, and \$4,217 reduction to Prop 172 per HdL projections
Transfers In - POB Payments	\$868	Small increase to share of Pension Obligation Bond debt service cost for Measure E / Water / Sewer share, which is wholly paid by the General Fund
Expense Reimbursements	\$85,000	Increase to settlements received by the City
Business Licenses / City Hall Rental Income	\$12,902	Small increases in Business License fees and City Hall rental income
All Other Revenue Sources	\$57,000	Insurance reimbursements received and other miscellaneous revenues

A proposed net decrease of \$105,539 in General Fund expenditure appropriations is broken down as follows:

Appropriation	Amount	Reason / Rationale
City Council	\$19,314	Approved increase to Council stipends and costs to attend conferences
City Manager	(\$18,035)	Decrease in personnel costs for part-time employee and recalculation of health insurance benefit allocation
Finance Department	\$41,576	Increase in personnel costs due to accrued leave payouts due to staff turnover and increase to HdL fees for business license processing
Information Services	\$82,893	Reallocation of IT staffing from Measure E to General / Water / Sewer Funds
City Attorney	\$11,250	To ensure adequate budget to cover the final four months of fiscal year
Police	(\$403,908)	Decrease in Police personnel costs to account for salary savings from funded but unfilled Police Officer trainee position, unfilled part time parking officer, and Police Officer position being reimbursed 100% by Prop 64 Grant

Animal Control	(\$16,394)	Decrease in Animal Control personnel costs due to vacancy savings
Fire	\$44,765	Increase in Fire personnel costs for increased overtime related to coverage requirements (minimum staffing / FMLA / Workers Comp)
Planning	\$3,736	Increase in Planning personnel costs due to COLA effective after the budget was adopted and updated allocations to other funds
Building	\$21,818	Increase in Building personnel costs due to COLA effective after the budget was adopted and updated allocations to other funds
Engineering	\$22,573	Increase in Engineering personnel costs due to COLA effective after the budget was adopted and updated allocations to other funds
Fleet Services	\$45,982	Increase in fuel costs for bulk fuel payments for new citywide fuel station
Streets	(\$97,270)	Decrease in Streets personnel costs due to vacancy savings for unfilled budgeted position
Swimming Pool	\$4,073	Increase in Swimming Pool personnel costs due to COLA effective after budget was adopted
Parks / Parks Maintenance	\$41,905	Purchase of \$50,000 utility tractor reimbursed by grant received by NSAQMD
Non-Departmental - Workers' Compensation / Utilities / Liability Insurance	\$92,307	Increase in Workers' Compensation costs due to increasing rates - \$45,000 Increase in PG&E rates - \$50,000 Increase in citywide liability insurance costs due to increasing rates - \$47,656
Debt Service	(\$12,123)	Final payment made for John Deere lease; no additional amount owed
All Other Appropriations	\$10,000	Potential Dorsey Marketplace expenses

At the end of the current fiscal year, General Fund reserves (both designated and undesignated) are expected to total approximately \$8.49 million.

Projected reserve levels as of June 30, 2025, include:

\$ 5,866,453	Designated Reserves
\$ <u>2,625,337</u>	Undesignated Reserves
\$ <u>8,491,790</u>	Total General Fund Reserves

**Enterprise Funds**

Comparison of Budget-to-Actual performance for the City’s two Enterprise Funds follows:

**Water Fund (Fund 500)**

	<u>Revenues</u>	<u>Expenditures</u>
FY 2024-25 Adopted Budget	\$ 2,338,500	\$ 4,368,824
Estimated Amounts 6/30/25	\$ <u>2,505,335</u>	\$ <u>4,526,799</u>
Recommended Adjustment Increase/(Decrease)	\$ 166,835	\$ 157,975

Water Fund revenues are currently projected to be \$166,835 higher than originally budgeted. This increase includes an additional \$35,835 in Water Connection Fees received to date and an additional \$131,000 in Water Use Fees collected.

Water Fund expenditures are recommended to be adjusted upward by \$157,975, primarily due to increased Personnel Services costs related to updated personnel cost allocations and negotiated COLAs that were not initially included in the adopted budget. This increase also includes an additional \$55,000 allocated to the Water Fund for its share of the rise in the City’s annual liability insurance premiums.

Although it is unlikely that all originally budgeted capital projects will be completed by the end of the fiscal year, adjustments to capital appropriations are not recommended at this time, as appropriations for unfinished projects will be re-budgeted in the upcoming fiscal year.

It is anticipated that the Water Fund will have approximately \$879,000 in Fund Balance at the end of Fiscal Year 2024-2025, all of which is reserved for specific purposes. This ending Fund Balance assumes that all capital projects are completed by the end of the fiscal year.

**Sewer Fund (Fund 510)**

	<u>Revenues</u>	<u>Expenditures</u>
FY 2024-25 Adopted Budget	\$ 5,494,000	\$ 10,143,200
Estimated Amounts 6/30/25	\$ <u>5,538,417</u>	\$ <u>10,538,889</u>
Recommended Adjustment Increase/(Decrease)	\$ 44,417	\$ 395,689

Sewer Fund revenues are currently projected to be \$44,417 higher than originally budgeted, primarily due to additional Sewer Connection Fees received to date.

Sewer Fund expenditures are recommended to be increased by \$395,689. Like the Water Fund, these adjustments are due to higher Personnel Services costs, including updated personnel cost allocations and negotiated COLAs that were not initially included in the adopted budget. This increase also includes an additional \$150,000 allocated to the Sewer Fund for its share of the rise in the City’s annual liability insurance premiums. Capital outlay appropriations for equipment will also need to be increased by \$50,000 to cover the additional cost of replacing the grit system. Although it is unlikely that all originally budgeted capital projects will be completed by the end

of the fiscal year, adjustments to capital appropriations are not recommended at this time, as any unfinished projects will be re-budgeted in the upcoming fiscal year.

It is anticipated that the Sewer Fund will have approximately \$4.82 million in Fund Balance as of June 30, 2025, with \$4.28 million of that amount reserved for specific purposes. This ending Fund Balance assumes all capital projects are completed by the end of the fiscal year.

**Special Revenue Funds**

**Measure E Fund (Fund 200)**

The City separates the accounting for revenue and expenditures related to the voter-approved one-cent transaction and use tax into Fund 200 (Measure E Fund) to guarantee that these general-purpose tax funds are used specifically for their intended purposes: police and fire services, as well as streets and parks projects.

	<u>Revenues</u>	<u>Expenditures</u>
FY 2024-25 Adopted Budget	\$ 7,362,500	\$ 11,990,824
Estimated Amounts 6/30/25	<u>\$ 7,065,000</u>	<u>\$ 12,117,084</u>
Recommended Adjustment Increase/(Decrease)	\$ (297,500)	\$ 126,260

Revenues for the Measure E Fund are currently expected to be approximately \$297,500 lower than originally anticipated, due to a decrease in sales tax collections by the end of the fiscal year. This decline is attributed to economic uncertainty and shifting market trends, which are impacting local and statewide sales.

On the expenditure side, Measure E Fund expenditures are expected to be around \$126,000 higher than initially projected, primarily due to increased workers' compensation costs, safety-related expenditures for body cameras and tasers, and a slight rise in overtime for patrols.

If all budgeted street and parks capital projects are fully funded and completed in the current year, the Measure E Fund is projected to have a negative fund balance of approximately \$1,727,216 by June 30, 2025, assuming all capital projects are finished by the end of the fiscal year. To create a more realistic timeline for achieving the goals and projects funded by this measure, several projects will be delayed by one or two years. Any unused funds from the current fiscal year will roll over into the next fiscal year's budget, and staff will present an updated capital project list during the Fiscal Year 2025-2026 budget process.

**Gas Tax Fund (Fund 201)**

	<u>Revenues</u>	<u>Expenditures</u>
FY 2024-25 Adopted Budget	\$ 788,925	\$ 1,152,164
Estimated Amounts 6/30/25	<u>\$ 795,743</u>	<u>\$ 1,165,464</u>
Recommended Adjustment Increase/(Decrease)	\$ 6,818	\$ 13,300

Gas Tax Fund revenues are projected to exceed the original budget by approximately \$6,818, driven by slightly higher anticipated collections of gas taxes and SB-1 funding,

in line with current projections. Gas Tax expenditures are also expected to be around \$13,300 higher than initially budgeted, reflecting an increased transfer from the Gas Tax Fund to the Traffic Safety Fund to cover higher PG&E costs for streetlights. It is important to note that any capital amounts budgeted for Fiscal Year 2024-2025 that remain unspent by year-end will be carried into the next fiscal year.

As of June 30, 2025, the Gas Tax Fund is expected to have a Fund Balance of approximately \$192,478. These funds are typically allocated towards the City’s street maintenance and rehabilitation projects, as well as for transferring to the Traffic Safety Fund to cover streetlight utility and maintenance costs.

**Traffic Safety Fund (Fund 202)**

	<u>Revenues</u>	<u>Expenditures</u>
FY 2024-25 Adopted Budget	\$ 185,000	\$ 185,000
Estimated Amounts 6/30/25	\$ <u>208,300</u>	\$ <u>208,300</u>
Recommended Adjustment Increase/(Decrease)	\$ 23,300	\$ 23,300

The Traffic Safety Fund primarily covers citywide streetlight electricity and maintenance costs. Revenues are projected to increase by \$23,300, reflecting higher traffic citation revenues and an increased transfer from the Gas Tax Fund, which will support anticipated expenditure increases of the same amount. As noted earlier, PG&E costs for maintaining the city’s streetlights have risen significantly over the past two years, along with associated maintenance expenditures.

At the end of the fiscal year, the Traffic Safety Fund is expected to have a zero Fund Balance.

**Fire Reserve Fund (Fund 203)**

	<u>Revenues</u>	<u>Expenditures</u>
FY 2024-25 Adopted Budget	\$ 54,000	\$ 100,000
Estimated Amounts 6/30/25	\$ <u>130,378</u>	\$ <u>106,000</u>
Recommended Adjustment Increase/(Decrease)	\$ 76,378	\$ 6,000

Revenues for the Fire Reserve Fund are projected to be approximately \$76,000 higher than originally budgeted, driven by increased fire strike team equipment usage and administrative reimbursements for participation in qualifying multi-agency statewide fire suppression events. This increase reflects funds already collected, with the possibility of additional funds being received by year-end. These funds may be used for fire equipment replacement costs. Additionally, a request for \$6,000 in expenditures is being made for the purchase of additional tactical hoses, which would typically be covered by the General Fund if this reserve fund did not exist.

The Fire Reserve Fund is expected to have a Fund Balance of approximately \$155,466 as of June 30, 2025. Of this amount, \$60,000 is reserved for future apparatus purchases related to the Nevada City Fire Services operation (for which the City contracts with Nevada City to provide fire services). Additional reserves may be appropriated in future fiscal years to cover eligible fire equipment replacement costs.

**Developer Impact Fund (Fund 206)**

	<u>Revenues</u>	<u>Expenditures</u>
FY 2024-25 Adopted Budget	\$ 75,000	\$ 1,850,000
Estimated Amounts 6/30/25	\$ <u>100,429</u>	\$ <u>1,850,000</u>
Recommended Adjustment Increase/(Decrease)	\$ 25,429	\$ 0

Revenues for the Developer Impact Fee Fund are projected to be approximately \$25,429 higher than originally budgeted, based on collecting fees to date. Expenditures for the fund are expected to remain unchanged, as they include transfers to the Capital Project Fund for various street projects, such as the Centennial Drive realignment and a storm drain plan. It's important to note that any capital amounts budgeted for Fiscal Year 2024-2025 that remain unspent by year end will be carried over into the next fiscal year.

The Developer Impact Fee Fund is expected to have a Fund Balance of approximately \$415,636 as of June 30, 2025. These funds may be allocated in future fiscal years for eligible development impact or mitigation projects, in line with the fees collected for specific purposes.

**Capital Project Fund (Fund 300)**

	<u>Revenues</u>	<u>Expenditures</u>
FY 2024-25 Adopted Budget	\$ 14,634,164	\$ 14,634,164
Estimated Amounts 6/30/25	\$ <u>14,634,164</u>	\$ <u>14,524,967</u>
Recommended Adjustment Increase/(Decrease)	\$ 0	\$ (109,197)

The Capital Projects Fund accounts for non-enterprise Capital Projects citywide. Capital Projects are typically funded with non-discretionary (grants, fees, etc.) revenue sources and transfers in from other funds. Capital Projects Fund revenues are recommended to remain unchanged as they are brought in on a reimbursed basis and will be carried forward to the following fiscal year.

It is recommended that Capital Projects Fund expenditures be reduced by \$109,197, as the HSIP Pedestrian Crossing Improvement Project has been completed, and these budgeted costs were incurred and accounted for in previous fiscal years. All other capital projects will remain fully funded.

If all budgeted capital projects were fully expended and completed in the current year, the Capital Projects Fund would have a negative fund balance of approximately \$512,364 by June 30, 2025, assuming all projects are completed by the end of the fiscal year. Since not all projects have been initiated, any unused funds from the current fiscal year will roll over into the next fiscal year's budget. Staff will present an updated list of capital projects along with a realistic timeline during the Fiscal Year 2025-2026 budget process.



### **Special Project Fund (Fund 310)**

	<u>Revenues</u>	<u>Expenditures</u>
FY 2024-25 Adopted Budget	\$ 182,793	\$ 3,985,000
Estimated Amounts 6/30/25	\$ <u>197,213</u>	\$ <u>3,985,000</u>
Recommended Adjustment Increase/(Decrease)	\$ 14,420	\$ 0

The Special Projects Fund is used to account for projects funded by development-related and special funding sources. Revenues for the Special Projects Fund are recommended to increase by \$14,420 to reflect the Regional Transportation Mitigation Fees received from the Nevada County Transportation Commission.

Expenditures for the Special Projects Fund are recommended to remain unchanged at \$3.98 million, with \$3.00 million currently allocated for various park projects, which will be determined and funded by the remaining debt proceeds from Fiscal Year 2021-2022 designated for the City's parks.

The Fund Balance in the Special Projects Fund is projected to be approximately \$3.44 million as of June 30, 2025.

### **Other Funds**

The mid-year report also includes fund schedules for other funds, some of which have recommended adjustments. These funds are as follows:

- DUI Grant Fund - Fund 204
- EPA Site Grant Fund - Fund 205
- Vehicle Replacement Fund - Fund 225
- E. Daniels Park Fund - Fund 450
- Animal Shelter Fund - Fund 451

There are no recommended adjustments for the Successor Agency Fund, CDBG/HOME Grant(s), or Assessment District Funds in this mid-year update.

### **FY 2025-2026 Budget Development**

As the City begins the budget process for Fiscal Year 2025-2026, it is crucial to understand the factors that will shape the City's finances in the coming years. This will include utilizing the updated seven-year model to guide both current and long-term financial decisions. Challenges such as economic uncertainty and rising inflation have slowed growth, causing consumers to adopt more cautious spending habits, which have resulted in a decline in sales tax revenues. CalPERS' investment returns remain volatile, citywide insurance costs continue to rise, and the ongoing effort to attract and retain top-tier staff will all influence future budgets. The most significant and unpredictable impact on future budgets is the continued increase in unfunded liability amortization costs, which have been rising rapidly.

To address these concerns, staff will regularly monitor financial activity and provide updates to the City Council and the public over the next few months, in alignment with the typical annual budget process. This will lead to the preliminary Fiscal Year 2025-

2026 budget to be reviewed by the City Council in May 2025, and the final adoption of the Fiscal Year 2025-2026 budget in June 2025.

Similar to the approach taken during the development of the Fiscal Year 2024-2025 budget, staff will focus on recommending an annual spending plan that meets community priorities while maintaining the effectiveness of existing services.

**Council Goals/Objectives:** The review and approval of the mid-year budget adjustments contribute to advancing Economic Development and Vitality, as well as High-Performance Government and Quality Service.

**Fiscal Impact:** The recommended budget modifications for Fiscal Year 2024-2025 align expenditures with anticipated revenues and carryover funds for the identified accounts.

**Funds Available:** Yes

**Account #:** All City Funds

**CEQA:** Not a Project subject to CEQA requirements.

**Reviewed by:** City Manager

**Attachments:**

Fund Schedules for:

- General Fund - Fund 100
- Water Enterprise Fund - Fund 500
- Sewer Enterprise Fund - Fund 510
- Measure E Fund - Fund 200
- Gas Tax Fund - Fund 201
- Traffic Safety Fund - Fund 202
- Fire Reserve Fund - Fund 203
- Developer Impact Fee Fund - Fund 206
- Capital Projects Fund - Fund 300
- Special Projects Fund - Fund 310
- DUI Grant Fund - Fund 204
- EPA Site Grant Fund - Fund 205
- Vehicle Replacement Fund - Fund 225
- E. Daniels Park Fund - Fund 450
- Animal Shelter Fund - Fund 451