

CITY OF GRASS VALLEY FISCAL YEAR 2023-24 BUDGET OVERVIEW

Following is a summary of the Fiscal Year 2023-24 Operating Budget, including a comparison with prior year estimated actuals and a discussion of any recommended changes. On May 22, 2023, the City Council adopted a Preliminary Budget for FY 2023-24 consistent with City Charter requirements. The final budget presented herein incorporates any changes to fund schedules previously presented and also includes budgetary information for all citywide funds.

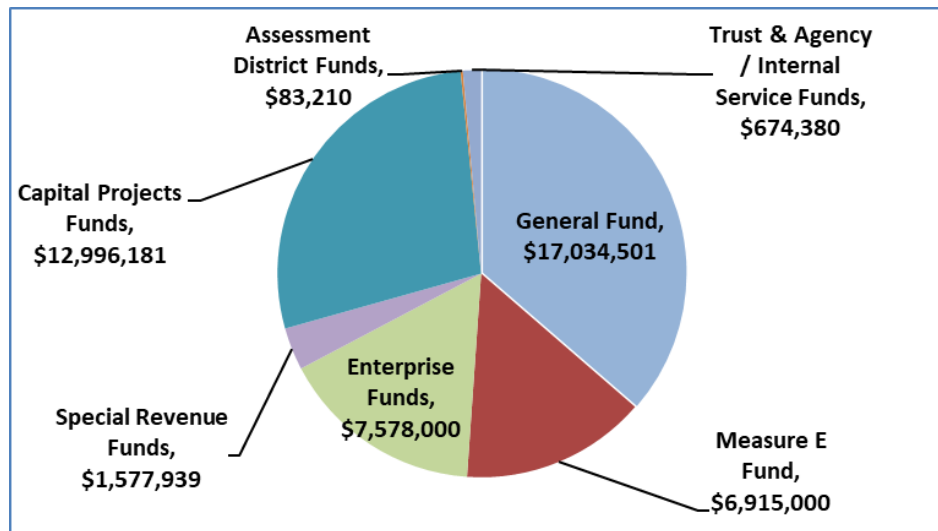
Although forecasts for revenues most impacted by the Pandemic (Sales Tax and Transient Occupancy Tax) have fully recovered from COVID Pandemic lows, factors including continued high inflation, the State budget deficit and general economic uncertainty all impact the City's current and future fiscal framework. As the economy continues to be impacted by these negative externalities, staff will periodically present updates to this budget after its final adoption in June 2023 in a manner consistent with the updates provided during previous fiscal years.

Combined operating budget estimated revenues (net of transfers) for the 2023-24 fiscal year are \$37.0 million, compared to an estimated \$38.7 million for FY 2022-23. Total planned spending for FY 2023-24 is \$50.9 million, compared to \$47.4 million anticipated for FY 2022-23.

Citywide Revenues

Total estimated revenues for FY 2023-24 decrease by approximately \$1.7 million from the FY 2022-23 estimated actuals. This decrease in overall expected revenues can be wholly attributed one-time revenues received in FY 2022-23 related to the combined receipt of approximately \$3.5 million in from the second tranche of American Rescue Plan Act (ARPA) funding; and a one-time payment from the State of California related to relinquishment of a roadway in the City. This decrease in Citywide revenues is offset by expected increases in taxes collected in both the General Fund and the Measure E Fund for FY 2023-24.

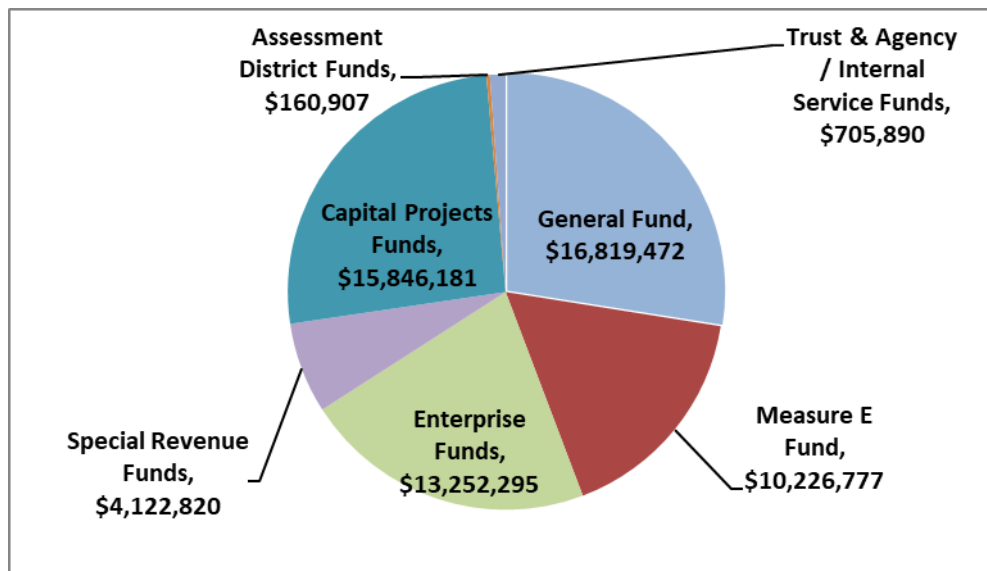
Fiscal Year 2023- Budgeted Operating Revenues **Total Revenues = \$47,224,211 (net of transfers = \$36,987,230)**



Citywide Expenditures

Anticipated expenditures for FY 2023-24 are \$50.9 million (net of transfers), an increase of approximately \$3.5 million from the \$47.4 million anticipated by the end of FY 2022-23. A majority of the increase in overall expenditures can be attributed to the recommended \$22.5 million capital program - including Measure E Parks and Streets projects; and an array of Water and Sewer Enterprise capital projects. Additionally, new capital projects recommended for FY 2023-24 include the Sierra College Field Turf Replacement, Centennial Drive Realignment, S. Auburn Street Renovation and the Condon Skate Park. Finally, it should be mentioned that all positions including those that are currently vacant are budgeted for the entirety of the fiscal year (i.e. no salary savings are built in) to assure adequate levels of appropriation authority consistent with the demand for services. Budgeted expenditures by fund type are shown below:

Fiscal Year 2023-24 Budgeted Operating Expenditures
Total Expenditures = \$61,134,342 (net of transfers = \$50,897,361)



Taken as a whole, the above estimates indicate the City will be spending approximately \$13.9 million more than it will collect in revenue during the coming fiscal year, resulting in uses of carryover monies and fund balance earmarked primarily for capital projects in certain funds.

The budget presented herein reviews citywide operations as accounted for in their respective funds while laying out respective financial plans for the 2023-24 fiscal year consistent with strategies and directives set forth by the City Council.

A brief overview of the City's major funds is presented below:

General Fund

FY 2023-24 General Fund Final Budget:

	Revenues	Expenditures
FY 2022-23 Updated Budget	\$ 16,444,611	\$ 17,502,605
FY 2023-24 Final Budget	\$ 17,034,501	\$ 16,819,472

The FY 2023-24 General Fund Preliminary Budget reflects revenues of \$17,034,501 and expenditures of \$16,819,472. Revenues are higher than expenditures by \$215,029 primarily due to reductions in certain base expenditures and projected discretionary tax collections increases. Specific revenue and expenditure impacts to the City's General Fund for FY 2023-24 are noted below.

FY 2023-24 budgeted revenue of \$17,034,501 reflects an approximate \$590,000 increase from revenues anticipated to be collected in FY 2022-23, primarily due to:

- Anticipated 3.0% increase in Property Taxes consistent with current housing market activity and increase in State CPI;
- Increases in Sales Tax consistent with the forecast provided by HdL (the City's Sales Tax Consultant) and the addition of the new Target to the City's tax base;
- Anticipated 1.5% increase in Transient Occupancy Taxes as room rates are projected to rise due to inflation;
- Increase in Franchise Fees related to garbage collections, cable TV and utilities as these costs continue to increase;
- Increase in Interest Earnings based on the City's active participation in the investment market as interest rates rise; and
- Increase in Worker's Compensation expense reimbursements related to funds held by the City's Worker's Compensation provider due to rebates available from previous years (note: there is approximately \$800,000 available to the City and the City is recommending annual reimbursements of \$200,000 for the next three fiscal years to offset operational costs).

FY 2023-24 budgeted expenditures of \$16,819,472 reflects an approximate decrease of \$683,000 from anticipated expenditures to be incurred in FY 2022-23, primarily due to:

- Anticipated reduction in legal costs due to one-time case fees incurred in FY 2022-23;
- Reduction in Planning Department personnel costs related to the restructuring of staffing;
- Anticipated reduction in CalPERS Unfunded Liability amortization due to high CalPERS investment return recognized in FY 2020-21;

- Reduction of outside media costs (website / marketing) built into FY 2022-23 base budget (from \$100,000 to \$50,000 annually);
- Lowering the annual contingency appropriation from \$250,000 to \$150,000; and
- A reduction of one-time use of designated reserves / capital appropriations towards the PSPS Fuel Station Project (\$360,000) and the Mill Street Pedestrian Plaza (\$400,000); offset by
- An increase in Police Reserves, Dispatch, Training and Software costs;
- An increase in costs related to the City's Swimming Pool Program due to the expansion of pools available for use;
- The presumed filling of all positions citywide (i.e. no vacancy savings built into the budget);
- The addition of 1.0 Full Time Equivalent (FTE) Maintenance Worker in the Streets Department; and
- A slight increase in debt service costs related to the Pension Obligation Bonds consistent with the prescribed debt service schedule.

It should be mentioned that the FY 2023-24 Preliminary Budget schedules do not include costs for any labor increases that may ultimately be approved by the City Council at the conclusion of labor negotiations currently taking place.

As part of the FY 2023-24 Budget development process, it should be mentioned that the City maintains specific key contingency reserves in the General Fund:

- CalPERS Pension Stabilization Reserve - \$1,500,000
- Other Post-Employment Benefits (OPEB) Reserve - \$500,000
- Capital and Deferred Maintenance Reserve - \$1,000,000
- Economic Contingency Reserve - \$2,500,000

These Assigned Reserves can be used in the future to offset unanticipated pension and/or health benefit cost swings; to offset having to use General Fund discretionary funds for immediate capital outlay and maintenance needs; and to mitigate the exposure of having to significantly reduce service levels in the event of an economic downturn.

Taking into account the above, staff is recommending a preliminary General Fund Budget that currently anticipates a surplus of \$215,029. Total General Fund reserves are anticipated to be approximately \$9.51 million at the end of FY 2023-24. Projected reserve levels as of June 30, 2024 are expected to include:

- \$ 6,180,314	Designated Reserves (See Attachment A for list)
- <u>3,076,849</u>	Undesignated Reserves
- <u>\$ 9,257,163</u>	Total General Fund Reserves

Measure E Fund

FY 2023-24 Measure E Fund Final Budget:

	<u>Revenues</u>	<u>Expenditures</u>
FY 2022-23 Updated Budget	\$ 6,930,000	\$ 7,992,407
FY 2023-24 Final Budget	\$ 7,280,000	\$10,226,777

The Measure E Fund accounts for the City’s voter-approved 1-cent transaction and use tax (general-purpose tax) that is used to support police and fire services; and streets and parks projects.

FY 2023-24 budgeted revenue of \$7,280,000 reflects an approximate \$350,000 increase from FY 2022-23 estimated revenues of \$6,930,000, primarily due to higher sales tax collections forecasted by the City’s Sales Tax Consultant (HdL), which includes a minor upward adjustment due the opening of a Target store in the City.

FY 2023-24 budgeted expenditures of \$10,226,777 reflects an approximate \$2.2 million increase from estimated expenditures for FY 2022-23 primarily due to the one-time use of carryover fund balance from FY 2022-23 towards streets and parks projects and fire apparatus and the addition of 1.0 FTE EMS / Fire Administration Captain. In addition to purchasing and outfitting a new fire truck (purchase authorized in a prior fiscal year), projects anticipated to be funded by Measure E include the Condon Skate Park, E. Daniels Park & Church Parking Lot Restrooms, Wolf Creek Trail Engineering & Environmental costs, partial funding towards the Sierra College Field Turf Replacement, Pavement Management Plan, Mill Street Pedestrian Plaza (funds carried over) and \$1.7 million towards Street Pavement Rehabilitation projects.

It should be mentioned that the Measure E Fund allocates funding for 22.1 FTE (position allocations) – 10.9 FTE in the Police Department and 11.2 FTE in the Fire Department (note: this includes the new position recommended for the EMS Program. All positions allocated to Measure E are funded in the FY 2023-24 budget and assumed filled for the entirety of the fiscal year.

It is anticipated that the Measure E Fund will have approximately \$465,921 in Fund Balance on June 30, 2024. These funds may be appropriated for any Measure E related purpose in future fiscal years.

Water Fund

FY 2023-24 Water Fund Final Budget:

	Revenues	Expenditures
FY 2022-23 Updated Budget	\$ 2,317,319	\$ 2,868,817
FY 2023-24 Final Budget	\$ 2,303,000	\$ 4,259,913

FY 2023-24 Water Fund revenues are currently projected slightly lower than prior year budgeted amounts, primarily as a result of lower anticipated collections of connection fees offset by higher levels of interest earnings for FY 2023-24. FY 2023-24 Water Fund expenditures are recommended to be approximately \$1.4 million higher than those budgeted in the prior year primarily due to anticipated carryover of Water Fund capital projects. Any capital projects not fully completed by the end of FY 2022-23 are being carried over into FY 2023-24. It should be mentioned although a rate increase is not anticipated at this time for FY 2023-24, the City should be completing a Water (and Sewer) rate study to assure fee structures are in line with operational and capital needs expectations in the coming years.

Also recommended for the Water Fund is the continued funding of a Pension Reserve like the one currently in place in the General Fund. Staff is recommending maintaining the set-aside of \$75,000 from Unobligated Fund Balance into the Pension Reserve, which can be used to offset unanticipated swings in annually required pension obligations and/or reduce the pension unfunded liability related to staff funded by the Water Enterprise Fund.

It is anticipated that the Water Fund will have approximately \$1.14 million in Fund Balance at the end of FY 2023-24, all of which is reserved for specific purposes. The \$1.14 million ending Fund Balance assumes all capital projects are completed by the end of the fiscal year.

Sewer Fund

FY 2023-24 Sewer Fund Final Budget:

	Revenues	Expenditures
FY 2022-23 Updated Budget	\$ 5,481,351	\$ 4,486,281
FY 2023-24 Final Budget	\$ 5,275,000	\$ 8,992,382

FY 2023-24 Sewer Fund revenues are currently projected to be approximately \$200,000 lower than those budgeted in FY 2022-23, primarily due to the reduction in Sewer Connection Fees

offset by an anticipated increase in interest earnings. FY 2023-24 Sewer Fund expenditures are recommended to be \$4.5 million higher than those budgeted in the prior year primarily due to the carryover of projects related to Annual Wastewater Treatment Plant Upgrades and the Slate Creek Lift Station; and the addition of a new project related to Sewer Lining (\$2 million). As mentioned in the discussion for the Water Fund, a Sewer Rate Study should be completed early in the upcoming fiscal year to assure appropriate fee structures are in place.

Similar to the Water Fund, continued funding of a Pension Reserve is recommended for the Sewer Fund. Staff recommends maintaining the set-aside of \$175,000 from Unobligated Fund Balance into the Pension Reserve, which can be used to offset unanticipated swings in annually required pension obligations and/or reduce the pension unfunded liability related to staff funded by the Sewer Enterprise Fund.

It is anticipated that the Sewer Fund will have approximately \$5.63 million in Fund Balance at the end of FY 2023-24, \$3.65 million of which is reserved for specific purposes. The \$5.63 million ending Fund Balance assumes all capital projects are completed by the end of the fiscal year.

Gas Tax Fund

FY 2023-24 Gas Tax Fund Final Budget:

	Revenues	Expenditures
FY 2022-23 Updated Budget	\$ 970,307	\$ 1,153,000
FY 2023-24 Final Budget	\$ 791,514	\$ 1,000,800

The Gas Tax Fund accounts for the receipt of gas tax, SB-1 (RMRA) and NCTC pass-through revenues which may be used towards applicable transportation-related expenditures. Gas Tax revenues anticipated to be collected during FY 2023-24 are expected to approximately \$179,000 lower than those anticipated to be received in FY 2022-23, due to elimination of a one-time transfer from the Measure E Fund (too much Gas Tax funding originally used towards a Street-related project); offset by a higher allocation of Gas Tax and SB-1 funding for the upcoming fiscal year.

Gas Tax Fund appropriations are anticipated to be \$152,200 lower in the upcoming fiscal year; and are recommended primarily for street maintenance & rehabilitation, sidewalk, utility and project costs (Main Street Resealing / Bennett Street Bridge).

It is anticipated the Gas Tax Fund will have \$10,460 in fund balance remaining at the end of the 2023-24 fiscal year.

Traffic Safety Fund

FY 2023-24 Traffic Safety Fund Final Budget:

	Revenues	Expenditures
FY 2022-23 Updated Budget	\$ 160,100	\$ 156,000
FY 2023-24 Final Budget	\$ 156,900	\$ 161,000

The Traffic Safety Fund accounts for the receipt of parking citation revenues and a transfer in from the Gas Tax Fund used to pay for streetlight utilities costs. Traffic Safety Fund revenues anticipated for FY 2023-24 are expected to be slightly lower due to a reduced transfer in from the Gas Tax Fund required to offset utilities costs. Traffic Safety Fund appropriations are also anticipated to increase by \$5,000 due to higher utility costs stemming from higher prices (inflation).

It is anticipated the Traffic Safety Fund will have nothing in fund balance remaining at the end of the 2023-24 fiscal year.

Development Impact Fee Fund

FY 2023-24 Development Impact Fee Fund Final Budget:

	Revenues	Expenditures
FY 2022-23 Updated Budget	\$ 283,190	\$ 841,057
FY 2023-24 Final Budget	\$ 75,000	\$ 2,356,181

The Development Impact Fee Fund accounts for the receipt AB-1600 Development Impact Fees to be used towards nexus-based future projects that mitigate the impacts new development. Development Impact Fee Fund revenues anticipated during FY 2023-24 only include interest earnings of \$75,000. Due to the unpredictability of collections of these fees, the budget will be periodically updated as the fiscal year progresses. At this time, the following projects are anticipated to be funded during FY 2023-24 using development impact fees: Storm Drain Plan, Centennial Drive Realignment, Mill Street Parking Lot and Matson Creek Phase I. To the extent any projects anticipated during FY 2023-24 are not completed, the appropriations will likely be carried over into FY 2024-25.

The Development Impact Fee Fund is expected to have \$500,882 in funds available for specific projects at the end of FY 2023-24.

Capital Projects Fund

FY 2023-24 Capital Projects Fund Final Budget:

	Revenues	Expenditures
FY 2022-23 Updated Budget	\$ 11,654,227	\$ 11,160,100
FY 2023-24 Final Budget	\$ 12,846,181	\$ 12,846,181

The Capital Projects Fund accounts for the majority of non-enterprise Capital Projects citywide (some projects are wholly funded in the General Fund and the Measure E Fund; and are not part of the Capital Projects Fund). Capital projects are typically funded with non-discretionary (grants, fees, etc.) revenue sources and transfers in from other funds. Capital Projects Fund revenues and expenditures are estimated at \$12.85 million for FY 2023-24. Projects were updated consistent with current cost and funding estimates.

New and continuing projects accounted for the in the Capital Projects Fund include the Sierra College Field, Main Street Resealing, Mill Street Parking Lot, McCourtney Road Pedestrian Improvements, Bennett Street Bridge, Centennial Drive Realignment, S. Auburn / Colfax Avenue Roundabout, Bennett & Ophir Recirculation, Matson Creek – Phase I, Condon Skate Park and Mill Street Pedestrian Plaza. As previously mentioned, funding for these projects comes from specific grant sources (CMAQ, ATP, ARPA funding, etc.) and transfers in from other funding sources (General Fund, Measure E, Gas Tax, Mitigation Fees, Special Projects, etc.).

The negative (\$42,221) in fund balance anticipated by the end of Fiscal Year 2023-24 is related to unreimbursed costs for storm damage costs incurred by the City over the past two years. City staff will work to determine how to best fund these unreimbursed expenditures.

Special Projects Fund

FY 2023-24 Special Projects Fund Final Budget:

	Revenues	Expenditures
FY 2022-23 Updated Budget	\$ 3,483,549	\$ 5,510,329
FY 2023-24 Final Budget	\$ 150,000	\$ 3,000,000

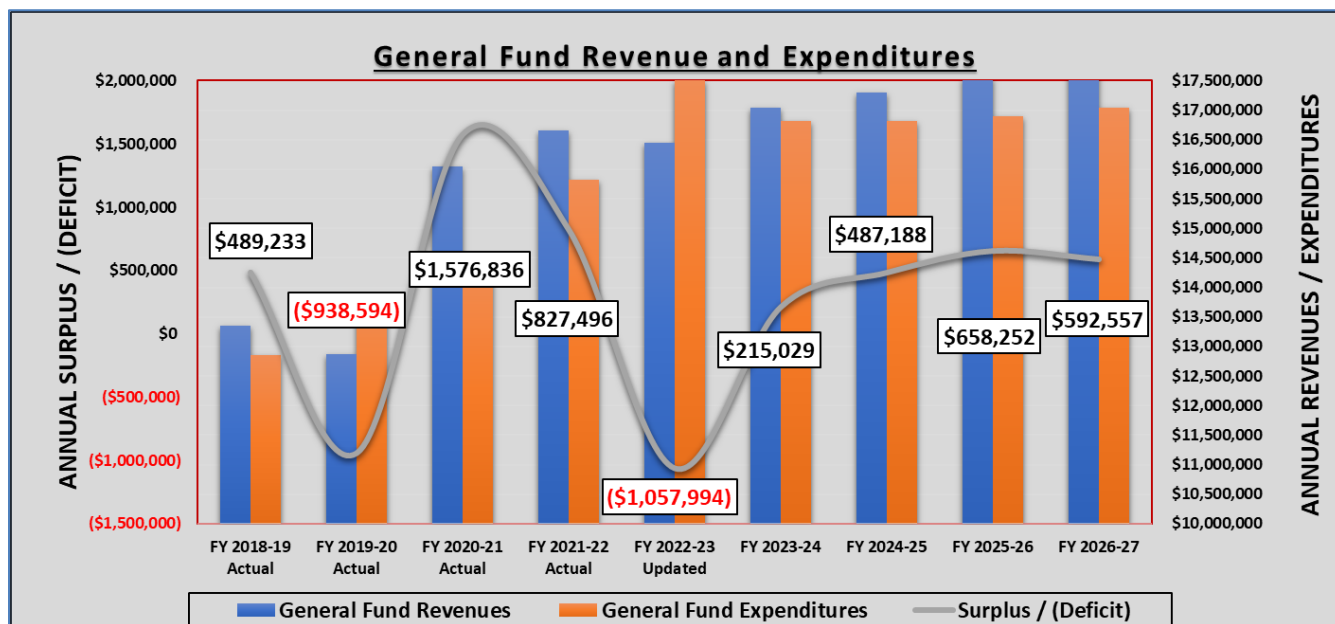
The Special Projects Fund accounts for capital projects funded by other specific revenue sources. For the coming fiscal year, revenues only include anticipated interest earnings in the fund. It should be mentioned that during FY 2021-22, the City issued debt in the amount of \$6 million to be used towards future park projects. To date, \$3 million of this funding has been spent on the Condon / Scotten Turf Project. The remaining \$3 million in debt proceeds is recommended for appropriation in FY 2023-24 towards the Sierra College Field / Turf Project.

It is anticipated that the Special Projects Fund will have approximately \$3.1 million in fund balance on June 30, 2024 which may be used for future projects.

General Fund Multi-Year Forecast

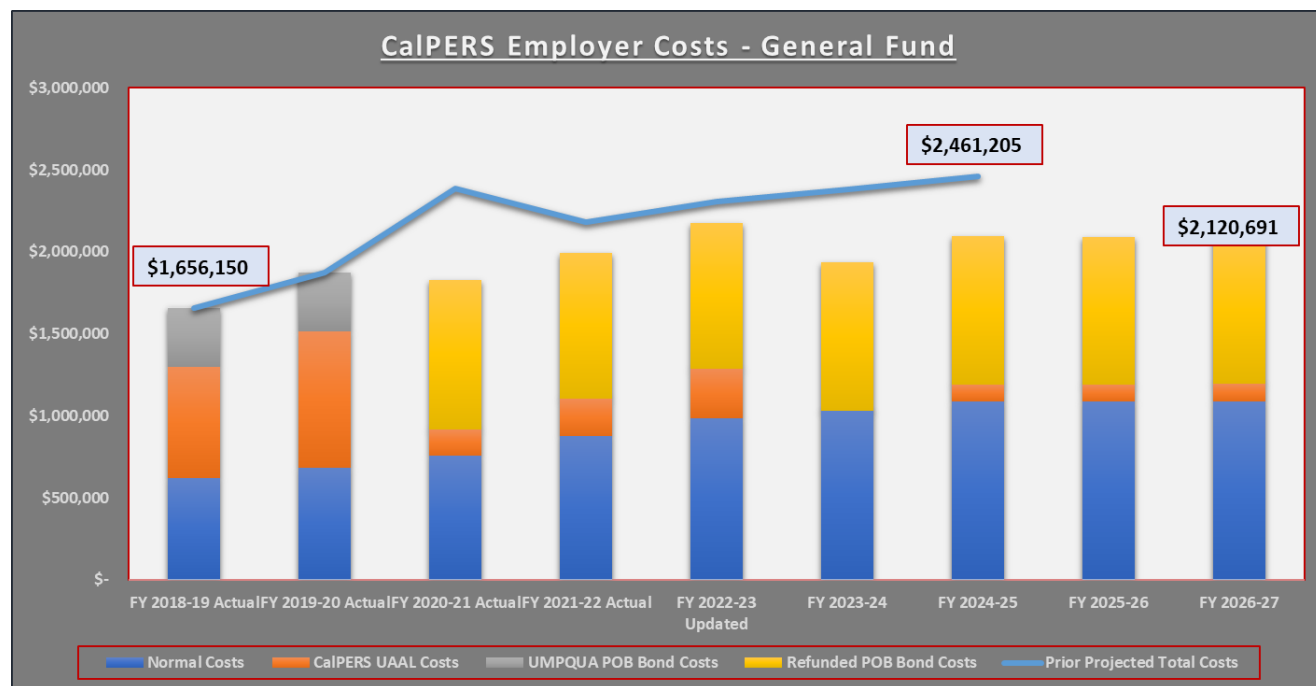
As a means to gauge the future ability to provide a consistent level of citywide services and programs, a Multi-Year Forecast has been developed for the City's General Fund – the fund where the vast majority of non-enterprise services are accounted for.

The Multi-year forecast is meant to serve as only one tool to measure fiscal sustainability into the future. The model below incorporates known cost drivers, including any negotiated salary increases, CalPERS retirement cost increases, annual appropriations for capital projects and recurring capital maintenance, and a conservative increase in all other operating expenditures. The model also assumes conservative growth in discretionary revenue sources, including property tax, sales tax, transient occupancy tax and franchise fees. The model is developed to demonstrate the ability to sustain the existing levels of service provided citywide.



As indicated in the model above, a surplus of \$215,029 is anticipated for FY 2023-24. All future years beginning in FY 2024-25 indicate a surplus is likely under the assumptions used to generate the activity in the forecast. These surpluses take into account increased collections of revenues in the as the City recovers from the COVID-19 crisis and positive fiscal impacts associated with the issuance of a pension obligation bond; offset by conservative increases in general expenditures and staffing costs and one-time set-asides for a corporation yard update and parks program management. The forecast also includes a \$150,000 contingency appropriation for the current and future years. It should also be mentioned that amounts budgeted and forecasted beginning in FY 2023-24 do not include labor increases expected to be negotiated for each year (none are approved at this time).

Baseline revenues are anticipated to be higher than baseline expenditures forecasted for each year beginning in FY 2024-25 as effects of the COVID-19 Crisis continue to wane and as the financial impacts of issuing a Pension Obligation Bond to fund a majority of the CalPERS Unfunded Liability continue to be realized. As shown in the graph below, total expenditures for CalPERS-related costs are anticipated to be approximately \$2.1 million annually through FY 2026-27 (note: salary increases other than those approved by the City Council are not built in) versus nearly \$2.5 million annually had the bonds not been issued.



Although the forecast indicates the likelihood of a surplus with each year beginning in FY 2024-25, it should be mentioned that economic forces and anticipated volatility in personnel-related cost drivers could significantly impact forecasts for future years. Additionally, this forecast does not include the 22.1 public safety positions; and extensive street reahabilitation and parks projects funded by the Measure E Transactions Tax. To the extent Measure E funds were not available, approximately \$3.8 million in ongoing annual costs related to Measure E staffing only would likely be requirued to be borne by the General Fund.