



City of Grass Valley City Council Agenda Action Sheet

Title: FY 2023-24 Mid-Year Budget Review

CEQA: Not a project

Recommendation: It is recommended that the City Council, by MOTION, approve the Mid-Year Budget Review and recommended revisions.

Prepared by: Andy Heath

Council Meeting Date: 04/09/2024

Date Prepared: 04/02/2024

Agenda: Administrative

Discussion:

The Mid-Year Budget Review is designed to provide a tool for understanding the City's financial condition during the first part of the fiscal year, projecting the financial condition through the end of the fiscal year, and revising the budget to bring the adopted budget in line with expectations based on previously approved budget amendments and current economic conditions.

This year's Mid-Year Budget Review focuses on management's assessment of overall funding impacts likely to result over the balance of the current fiscal year to maintain existing service levels, while mitigating the potential impacts of economic and fiscal uncertainty due to inflationary impacts and mandated requirements. Over the course of the last year, management has found that while COVID-related economic impacts have waned, other factors have come into play that significantly impact the City's current and future fiscal wherewithal. Given this high level of economic uncertainty, City staff remains actively engaged in the monitoring of all sectors of economic activity while updating the long-term forecast for the City's General Fund.

This memorandum provides a snapshot of aggregated Mid-Year adjustments recommended for the balance of FY 2023-24. This memorandum also presents a multi-year forecast for the City's General Fund that builds in an array of assumptions. The information noted below will form the foundation for a PowerPoint presentation to be provided at the City Council Meeting.

General Fund

Comparison of current Budget-to-Actual performance:

	<u>Revenues</u>	<u>Expenditures</u>
FY 2023-24 Adopted Budget	\$ 17,034,501	\$ 16,819,472
Estimated Amounts @ 6/30/24	\$ 17,937,153	\$ 18,151,651
Recommended Adjustment	\$ 902,652	\$ 1,332,179

As indicated above, it is anticipated that the City will need to adjust originally budgeted General Fund revenues upward by \$902,652 and General Fund expenditures upward by \$1,332,179. The information presented below, which will be discussed in a presentation to the City Council on this item, includes detailed information regarding the recommended adjustments:

In summary, the proposed net increase of \$902,652 to General Fund revenues is comprised of the following:

Revenue Type	Amount	Reason / Rationale
Property Taxes	\$123,570	- Increase in property taxes due to higher-than anticipated growth in FY 2023-24 assessed valuation ~ 4.9%
Property Tax in Lieu of MVLFF	\$12,931	- True-up of FY 2023-24 anticipated revenues consistent with growth in assessed valuation
RPTTF Residual Property Taxes	\$125,350	- Increase in former redevelopment tax increment as property taxes due to winding down of redevelopment affairs and higher growth in assessed valuation
Sales Taxes	(\$142,710)	- 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
Franchise Payments - Gas & Electric	\$51,000	- Increased collections of PG&E Franchise Fees due to significantly higher PG&E costs statewide (City receives a portion of fees charged through franchise payment)
Franchise Payments - Solid Waste	\$39,700	- Increased collections of Solid Waste Franchise Fees due to higher rates imposed by Waste Management
Animal Shelter Fees / Other Revenues	\$15,294	- Increased Animal Shelter revenues due to increased reimbursement for services provided from Nevada City
Public Works / Engineering Fees & Permits	\$22,500	- Increased Public Works Encroachment Permit Fees due to Mill Street Encroachment Program

Revenue Type, cont.	Amount	Reason / Rationale
Interest Earnings	\$35,000	- Increase in interest earnings as interest rates continue at higher levels and the City focuses on portfolio management
Proposition 64 Grant	\$110,000	- Inclusion of Proposition 64 Public Health and Safety Grant (erroneously excluded from budget at beginning of year)
Transfers In - POB Payments	\$453,855	- Update to budget methodology to account for Measure E / Water / Sewer share of Pension Obligation Bond debt service costs, which is wholly paid by the General Fund
Transfer In - Deere Lease Payments	\$21,278	- Update to budget methodology to account for Water / Sewer share of Deere Lease (Backhoe) debt service costs, which is wholly paid by the General Fund
All Other Revenue Sources	\$34,884	- Residual aggregate increase in all other General Fund revenue sources

A proposed net increase of \$1,332,179 to General Fund expenditure appropriations is comprised of the following:

Appropriation	Amount	Reason / Rationale
City Manager	\$24,987	- Increase in personnel costs due to department promotion and addition of COLA effective after the budget was adopted
Finance (Administrative Services)	(\$36,829)	- Decrease in personnel costs due to allocation updates to other funds offset by addition of COLA effective after the budget was adopted
Information Services	\$20,761	- Increase in information technology appropriations due to increased managed services contract costs net of overhead transfers to other funds
Police	\$336,975	- Increase in Police personnel costs to account for previously unbudgeted salary increases effective July 1, 2023; coupled with increased retirement payouts and overtime related to police actions - Increased dispatch costs not previously built into budget when adopted
Fire	\$551,264	- Increase in Fire personnel costs to account for previously unbudgeted salary increases effective July 1, 2023; coupled with increased overtime related to coverage requirements (minimum staffing / FMLA / Workers Comp)

Appropriations, cont.	Amount	Reason / Rationale
Building	(\$57,780)	- Decrease in Building personnel costs due to staff attrition and updated allocations to other funds
Engineering	(\$31,593)	- Decrease in Engineering personnel costs due to vacancy savings; offset by the shared costs of one-time vehicle purchases
Facilities	\$21,850	- Increase in Facilities capital costs due to shared costs for one-time vehicle purchases offset by lower contractual services costs (based on current activity to date)
Fleet Services	\$131,051	- Increase in Fleet Services personnel costs due to updated allocations to other funds and higher amounts of overtime (note: some overtime may be reimbursed due to participation in eligible Strike Teams)
Streets	(\$45,351)	- Decrease in Streets personnel costs due to vacancy savings and staff allocation transfers; offset by purchase of 2 Snowplow Kits and increased operating materials due to budget right-sizing
Swimming Pool	\$29,974	- Increase in Swimming Pool personnel costs due to increased allocation of staffing costs for this function
Parks / Parks Maintenance	\$160,543	- Increase in Parks / Parks Maintenance personnel costs due to increased allocation of staffing costs for this function
Non-Departmental - PG&E Costs / Capital Costs / Contingency Appropriation	(\$30,000)	<ul style="list-style-type: none"> - Increase in PG&E costs due to continued rate increased imposed statewide - \$20,000 - Increase in capital purchases associated with equipment upgrades for the City's Council Chambers - \$30,000 - Reduction in Contingency Appropriation for balance of fiscal year - (\$80,000)
Pension Obligation Bonds	\$440,119	- Update to budget methodology to account for Measure E / Water / Sewer share of Pension Obligation Bond debt service costs, which is wholly paid by the General Fund (offset by transfers into General Fund)

Appropriations, cont.	Amount	Reason / Rationale
General Fund Capital Projects	(\$200,000)	- Decrease in General Fund capital projects due to elimination of Streetlight Ownership Conversion Project (will seek other funding sources to complete this project)
All Other Appropriations	\$16,208	- Residual increase in all other General Fund appropriations

At the end of the current fiscal year, General Fund reserves (designated and undesignated) are anticipated to be approximately \$8.75 million. It is anticipated that the General Fund will use approximately \$214,498 of undesignated reserves during FY 2023-24 to deliver priority services and projects to the community.

Projected reserve levels as of June 30, 2024 include:

- **\$ 6,161,584** *Designated Reserves (See General Fund Schedule for list)*
- **2,586,737** *Undesignated Reserves*
- **\$ 8,748,321** *Total General Fund Reserves*

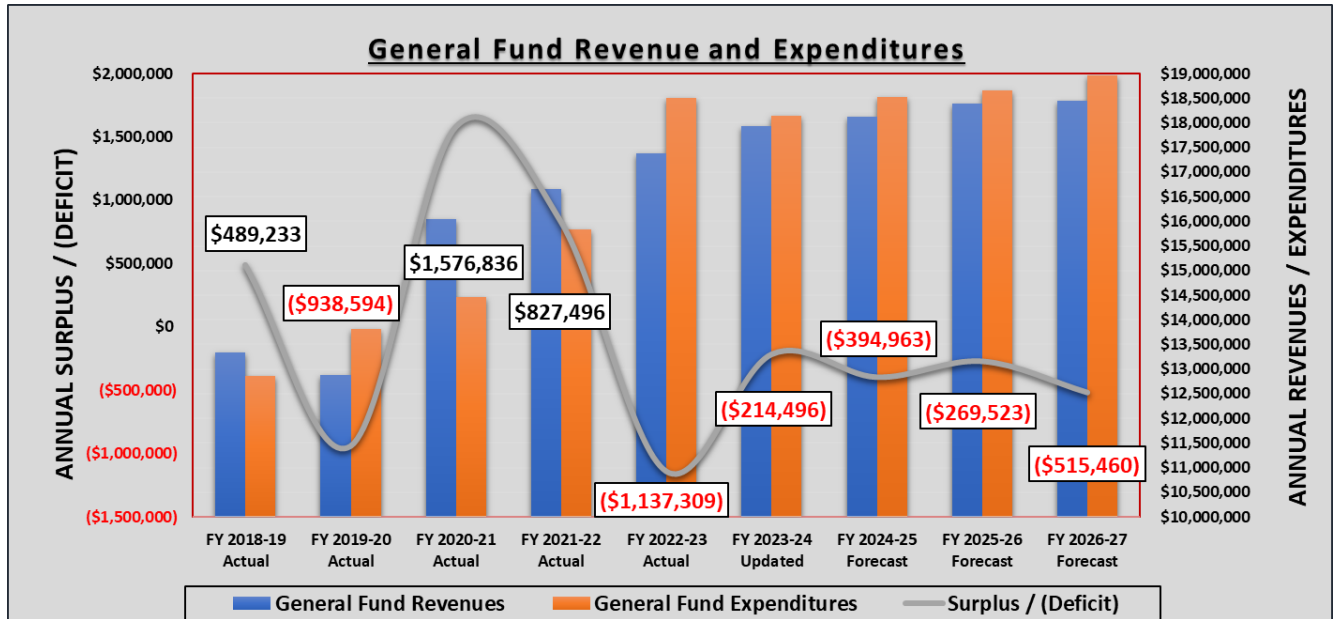
General Fund Forecast

As previously discussed, development of a multi-year forecast for the City’s General Fund continues to be updated. This forecast is based on a “base budget” concept which accounts for the following:

- All current one-time impacts to revenues and expenditures are removed for purposes of forecasting future fiscal activity (note: certain one-time revenues and expenditures may cross multiple fiscal years)
- All currently authorized positions are included in the forecast and assumed filled for entirety of each future fiscal year
- Only approved negotiated salary increases are included in the forecast
- Revenues and expenditures are adjusted each year based on a growth assumption factors

Development of the forecast is slightly complicated by unknown near-term and longer-term impacts to the local, state and national economies; persistent high-than-normal inflation; CalPERS policy and investment return volatility, among other things. As such, management will continue to frequently monitor economic activity and update the City Council as adjustments are made to forecasts.

The multi-year forecast for the City’s General Fund is shown below:



As noted, it is expected that just over \$214,000 of existing fund balance will be required to balance the updated budget for FY 2023-24. This projected use of reserves stems from a conservative revenue projection approach offset by anticipated and known cost increases to maintain existing service levels (police, fire, building, planning, public works, parks, streets, animal control etc.).

The General Fund forecast shows a systemic deficit of between \$395,000 and \$515,000 for the three years beginning with FY 2024-25. This systemic deficit can be wholly attributed to the return of the CalPERS UAL amortization requirement, which will be \$248,000 in FY 2024-25 and forecasted to rise to \$562,000 by FY 2026-27. Ultimately, the City will need to address mitigating future deficits to avoid further exhausting reserve levels.

Enterprise Funds

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

<u>Water Fund</u>	<u>Revenues</u>	<u>Expenditures</u>
FY 2023-24 Adopted Budget	\$ 2,303,000	\$ 4,259,913
Estimated Amounts @ 6/30/24	\$ 2,459,167	\$ 4,408,197
Recommended Adjustment	\$ 156,167	\$ 148,284

Water Fund revenues are currently projected to be \$156,167 higher than originally budgeted. Increases to Water Fund revenues include recognition of an additional

\$38,167 received in Water Connection Fees; increase in interest earnings by \$110,000 due to higher interest rates; and cell tower lease revenues increase by \$8,000. Water Fund expenditures are recommended to be adjusted upward by \$148,284 primarily to account for increased Personnel Services costs related to updated personnel cost allocations and negotiated COLA's not originally included in the adopted budget. An additional amount of \$46,412 is also allocated to the Water Fund for its share of the annual CalPERS Pension Obligation Bond and John Deere Lease (Backhoe) debt service costs. Finally, an additional \$31,779 is added to appropriations to account for purchase of an MTU / vehicle. Although it is unlikely that all capital projects originally budgeted will be completed by the end of the fiscal year, adjustments to capital appropriations are not recommended at this time given appropriations for unfinished projects will be re-budgeted in the upcoming fiscal year.

It is anticipated that the Water Fund will have approximately \$1.13 million in Fund Balance at the end of FY 2023-24, essentially all of which is reserved for specific purposes. The \$1.13 million ending Fund Balance assumes all capital projects are completed by the end of the fiscal year.

<u>Sewer Fund</u>	<u>Revenues</u>	<u>Expenditures</u>
FY 2023-24 Adopted Budget	\$ 5,275,000	\$ 8,992,382
Estimated Amounts @ 6/30/24	\$ 5,290,990	\$ 9,419,634
Recommended Adjustment	\$ 15,990	\$ 427,252

Sewer Fund revenues are currently projected to be \$15,990 higher than originally budgeted. Increases to Sewer Fund revenues include recognition of the additional \$15,990 received in Sewer Connection Fees. Sewer Fund expenditures are recommended to be adjusted upward by \$427,252 primarily to account for increased Personnel Services costs related to updated personnel cost allocations and negotiated COLA's not originally included in the adopted budget. An additional amount of \$191,104 is also allocated to the Water Fund for its share of the annual CalPERS Pension Obligation Bond and John Deere Lease (Backhoe) debt service costs. Finally, capital outlay appropriations are increased by \$93,175 to account for miscellaneous equipment needed for the Sewer Treatment facility. Although it is unlikely that all capital projects originally budgeted will be completed by the end of the fiscal year, adjustments to capital appropriations are not recommended at this time given appropriations for unfinished projects will be re-budgeted in the upcoming fiscal year.

It is anticipated that the Sewer Fund will have approximately \$5.06 million in Fund Balance on June 30, 2024, \$4.25 million of which is reserved for specific purposes. The \$5.06 million ending Fund Balance assumes all capital projects are completed by the end of the fiscal year.

Special Revenue Funds

Measure E Fund

The City segregates the accounting (revenue and expenditures) for the City's voter-approved one-cent transaction and use tax in Fund 200 (Measure E Fund) in order to ensure this general purpose tax is used for its intended purpose (police and fire services; and streets and parks projects).

	<u>Revenues</u>	<u>Expenditures</u>
FY 2023-24 Adopted Budget	\$ 7,280,000	\$ 10,226,777
Estimated Amounts @ 6/30/24	\$ 7,396,331	\$ 10,259,386
Recommended Adjustment	\$ 116,331	\$ 32,609

Measure E Fund revenues are currently expected to be approximately \$116,331 higher than originally anticipated due to slightly higher sales tax collections by the end of the fiscal year. Measure E Fund expenditures are expected to be approximately \$32,609 higher than originally anticipated due a higher allocation of Pension Obligation Bond costs attributable to the Measure E Fund, offset by a reduction in overall staffing costs related to vacancy savings. Measure E capital projects are adjusted upwards to account for costs related to the Police Radio Infrastructure Update which was previously unbudgeted. All other streets and parks capital projects remain fully budgeted in the Measure E Fund - with work currently underway on many of them.

It is anticipated that the Measure E Fund will have approximately \$1,023,442 in Fund Balance on June 30, 2024. These funds may be appropriated for any Measure E related purpose in future fiscal years.

<u>Gas Tax Fund</u>	<u>Revenues</u>	<u>Expenditures</u>
FY 2023-24 Adopted Budget	\$ 791,514	\$ 1,000,800
Estimated Amounts @ 6/30/24	\$ 759,338	\$ 1,020,100
Recommended Adjustment	(\$ 32,176)	\$ 19,300

Gas Tax Fund revenues are projected to come in approximately \$32,176 less than originally budgeted due to lower anticipated collections of gas taxes and SB-1 funding consistent with current projections. Gas Tax expenditures are projected to be approximately \$19,300 higher than originally anticipated to account for an increase in the transfer from the Gas Tax Fund to the Traffic Safety Fund towards higher PG&E costs incurred in the Traffic Safety Fund for streetlights. It should be mentioned that any capital amounts budgeted for FY 2023-24 that remain unspent by year-end will likely be carried over into the next fiscal year.

It is anticipated that the Gas Tax Fund will have approximately \$29,623 in Fund Balance on June 30, 2024. These funds are typically used towards the city’s street maintenance and rehabilitation projects and a transfer to the Traffic Safety Fund for streetlight utility and maintenance costs.

<u>Traffic Safety Fund</u>	<u>Revenues</u>	<u>Expenditures</u>
FY 2023-24 Adopted Budget	\$ 156,900	\$ 161,000
Estimated Amounts @ 6/30/24	\$ 186,100	\$ 182,000
Recommended Adjustment	\$ 25,200	\$ 21,000

The Traffic Safety Fund typically funds citywide streetlight electricity and maintenance costs. Revenues are increased by \$25,200 to account for increased traffic citation revenues and an increased transfer from the Gas Tax Fund, which will fund anticipated expenditure increases of \$21,000. As previously mentioned, PG&E costs incurred to maintain the city’s streetlights have increased significantly over the last two years.

It is anticipated that the Traffic Safety Fund will have \$4,100 remaining in Fund Balance at the end of the fiscal year.

<u>Fire Reserve Fund</u>	<u>Revenues</u>	<u>Expenditures</u>
FY 2023-24 Adopted Budget	\$ 52,000	\$ 100,000
Estimated Amounts @ 6/30/24	\$ 79,000	\$ 100,000
Recommended Adjustment	\$ 27,000	\$ -

Fire Reserve Fund revenues are projected to be approximately \$27,000 higher than those originally budgeted based on higher interest earnings and anticipated Fire Strike Team equipment usage and administrative reimbursements for participating in qualifying multiple-agency statewide fire suppression events. This increase represents the funds already collected to date; with the expectation that there may be additional funds collected by year-end. These funds may be used for applicable fire equipment replacement costs. No changes are recommended for Fire Reserve Fund expenditures which include fire operations expenditures that would otherwise be borne by the General Fund.

It is anticipated that the Fire Reserve Fund will have approximately \$152,129 in Fund Balance on June 30, 2024. Of this amount, \$45,000 is reserved for future apparatus purchases related to the Nevada City Fire Services operation (the City contracts with Nevada City to provide Fire Service). Other reserves may be appropriated in future fiscal years towards eligible fire equipment replacement costs.

<u>Developer Impact Fee Fund</u>	Revenues	Expenditures
FY 2023-24 Adopted Budget	\$ 75,000	\$ 2,356,181
Estimated Amounts @ 6/30/24	\$ 136,760	\$ 2,136,608
Recommended Adjustment	\$ 61,760	(\$ 219,573)

Developer Impact Fee Fund revenues are projected to be approximately \$61,760 higher than those originally budgeted based on fee collections to date. Developer Impact Fee Fund expenditures are projected to be \$219,573 lower due to account for a reduction in funding available for the Mill Street Parking Lot Project offset by an increase in allocated costs towards upgrades to the City Council Chambers.

It is anticipated that the Developer Impact Fee Fund will have approximately \$314,215 in Fund Balance on June 30, 2024. These funds may be appropriated in future fiscal years towards eligible development impact / mitigation projects consistent with collection of fees for specific purposes.

<u>Capital Projects Fund</u>	Revenues	Expenditures
FY 2023-24 Adopted Budget	\$ 12,846,181	\$ 12,846,181
Estimated Amounts @ 6/30/24	\$ 13,024,363	\$ 12,376,608
Recommended Adjustment	\$ 178,182	(\$ 469,573)

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 increase by \$178,182 to account for decreased transfers from other funds to cover project costs, offset by increased anticipated reimbursements from state and federal sources for various projects.

Capital Projects Fund expenditures are recommended to decrease by \$469,573 to account for a reduction in the appropriation for the Mill Street Parking Lot (not enough funding is available in the Developer Impact Fee Fund) and the elimination of the Streetlight Ownership Conversion Project which was originally funded by the General Fund.

<u>Special Projects Fund</u>	Revenues	Expenditures
FY 2023-24 Adopted Budget	\$ 150,000	\$ 3,000,000
Estimated Amounts @ 6/30/24	\$ 182,793	\$ 3,000,000
Recommended Adjustment	\$ 32,793	\$ -

The Special Projects Fund accounts for certain projects funded by development-related and special funding sources. Special Projects Fund revenues are recommended to increase by \$32,793 to account for the Regional Transportation Mitigation Fees received from the Nevada County Transportation Commission.

Special Projects Fund expenditures are recommended to remain unchanged at \$3 million, which is currently appropriated for the Sierra College Field Upgrades and funded by the remaining debt proceeds received in FY 2021-22 for the City's Parks.

Fund Balance in the Special Projects Fund is projected to be approximately \$3.60 million on June 30, 2024.

Other Funds

Fund Schedules for other funds (some with recommended adjustments) are also included with the Mid-Year Report. The funds include the following:

- Vehicle Replacement Fund
- Animal Shelter Fund
- EPA Site Grant Fund
- E. Daniels Park Fund
- DUI Grant Fund

The Successor Agency Fund, CDBG / HOME Grant(s) and Assessment District Funds do not have any recommended adjustments with the mid-year update.

FY 2024-25 Budget Development

As the City begins the budget process for Fiscal Year 2024-25, it is critical to understand the issues impacting the City's finances in the future. Although the impacts of the COVID-19 Pandemic are expected to be completely mitigated, rising inflation, CalPERS investment return volatility and increasing unfunded liability amortization costs, citywide insurance costs and the continued ability to attract and retain top-notch staff are likely to impact future budgets. As such, staff will regularly monitor financial activity and report back to the City Council and the public over the next few months consistent with the annual budget process typically undertaken by staff and leading up to the Preliminary FY 2024-25 to be considered by the City Council in May 2024 and ultimately the final adoption of the FY 2024-25 budget in June 2024.

Similar to the process used with the development of the Fiscal Year 2023-24 budget, staff will focus on recommending an annual spending plan that addresses community priorities without compromising the efficacy of existing levels of service.

Council Goals/Objectives: The consideration and approval of the budgetary mid-year adjustments executes a portion of the work tasks towards achieving Economic Development and Vitality; and High-Performance Government and Quality Service.

Fiscal Impact: The Fiscal Year 2023-24 recommended budget modifications balance expenditures with anticipated revenues and carryover monies for noted funds.

Funds Available: Yes

Account #: All City Funds

CEQA: Not a Project subject to CEQA requirements.

Reviewed by: City Manager

Attachments:

Fund Schedules for:

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