



## AGENDA REPORT SUMMARY

**Meeting Date:** June 13, 2023

**Subject:** Los Altos FY23-24 Budget

**Prepared by:** June Du, Finance Director

**Reviewed by:** Jon Maginot, Assistant City Manager

**Approved by:** Gabriel Engeland, City Manager

**Attachment(s):**

1. City of Los Altos Resolution No. 2023-XX Financial Policy
2. City of Los Altos Resolution No. 2023-XX FY23-24 Appropriations Limit
3. City of Los Altos Resolution No. 2023-XX FY23-24 Fee Schedule
4. City of Los Altos Resolution No. 2023-XX FY23-24 Salary Schedule
5. City of Los Altos Resolution No. 2023-XX FY23-24 Utility User Tax
6. City of Los Altos Resolution No. 2023-XX FY23-24 Transient Occupancy Tax
7. City of Los Altos Resolution No. 2023-XX FY23-24 Operating Budget
8. City of Los Altos Resolution No. 2023-XX FY24-28 Capital Improvement and Major Maintenance Program
9. [FY23-24 Operating Budget and FY24-28 Five-Year Capital Improvement and Major Maintenance Program](#)

**Initiated by:**

City staff

**Previous Council Consideration:**

None

**Fiscal Impact:**

None

**Environmental Review:**

These resolutions are exempt from environmental review pursuant to Section 15061(b)(3) of the State Guidelines implementing the California Environmental Quality Act of 1970, as amended.

**Policy Question(s) for Council Consideration:**

- Does the City Council wish to adopt the Financial Policy?
- Does the City Council wish to adopt the Appropriations Limit?
- Does the City Council wish to adopt the FY23-24 Fee Schedule?
- Does the City Council wish to adopt the FY23-24 Salary Schedule?

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City Manager

GE

**Reviewed By:**

City Attorney

JH

Finance Director

JD

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**Subject:** FY23-24 Budget

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- Does the City Council wish to adopt the FY23-24 Utility User Tax?
  - Does the City Council wish to adopt the FY23-24 Transient Occupancy Tax?
  - Does the City Council wish to adopt the FY23-24 Operating Budget?
  - Does the City Council wish to adopt the FY24 FY24-28 Capital Improvement and Major Maintenance Program?

**Summary:**

- The City continues to focus on fiscal sustainability while balancing the need to increase levels of services throughout the City by creating a balanced budget with a \$0.24 million surplus from the General Fund.
- Auditors have conferred an “Unmodified Audit Opinion” on the City financial statements, which is the highest rating that can be obtained.
- General Fund reserves are set at the minimum required level and Internal Services Funds are replenished from previous years’ drawdowns.

**Staff Recommendation:**

- Staff recommends adoption of the following items:
  - City of Los Altos Resolution - Financial Policy
  - City of Los Altos Resolution - Appropriations Limit
  - City of Los Altos Resolution - FY23-24 Fee Schedule
  - City of Los Altos Resolution - FY23-24 Salary Schedule
  - City of Los Altos Resolution - FY23-24 Utility User Tax
  - City of Los Altos Resolution - FY23-24 Transient Occupancy Tax
  - City of Los Altos Resolution - FY23-24 Operating Budget
  - City of Los Altos Resolution - FY24-28 Capital Improvement and Major Maintenance Program

**Purpose**

City Council will consider the attached resolutions that will approve the Financial Policy, the Appropriations Limit, the FY23-24 Fee Schedule, the FY23-24 Salary Schedule, FY23-24 Utility User Tax, FY23-24 Transient Occupancy Tax, FY23-24 Operating Budget, and FY24-28 Capital Improvement and Major Maintenance Program that allows the City to continue operations in the new fiscal year.



**Subject:** FY23-24 Budget

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## **Background**

The FY23-24 Operating Budgets and five-year FY 2024-28 Capital Improvement and Major Maintenance Plan (CIMMP) are the result of months of preparation by the Council, Finance Commission, and staff.

The proposed budget is a one-year budget as opposed to previous years that were biennial budgets, which will allow the City to react more expeditiously to changing conditions within the City. This budget is also a zero-based budget where the Executive team met weekly over the course of several months in preparation for the budget adoption. Every proposed expenditure was presented to the Executive team to verify that the expenditure was both necessary and financially-prudent for the City.

On May 30, 2023, City staff presented the budget book to the Finance Commission, where the commission members unanimously recommended approval of the budget by City Council.

## **Discussion/Analysis**

### **Citywide Revenues**

The FY23-24 proposed Citywide revenue is \$71.11 million, of which, \$53.6 million, 75%, are from the General Fund. The top five revenues for the City are property tax, utility user fee, charges for services, sales tax, and licenses and permits totaling 79.64% of the total City's revenues.

**Property Tax** – Property tax, the largest source of revenue for the City, is estimated to increase 2% compared to the previous fiscal year at \$33.3 million in FY23-24, including secured and unsecured property tax, Supplemental property tax, homeowner tax relief, ERAF, and document transfer tax.

**Utility User Fee** – The City provides sewer services for both residential and commercial customers within the City's limits and is expected to receive \$9.7 million in revenue, including the charges on the property tax roll, not on the property tax roll, and sewer connection fee.

**Charges for Services** – The City charges for services provided through a plan review fee, engineering review fee, building inspection fee, traffic impact fee, in lieu park land fee, public art fee, and other miscellaneous fees on forecasted housing and development projects, which is expected to include \$6.67 million in revenue, \$3.01 million from General Fund, and \$3.61 million from Special Revenue Funds. The General Fund revenue projection decreased by \$1 million by comparing with the previous fiscal year mainly due to the catch-up from the two years during the pandemic.



**Subject:** FY23-24 Budget

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Sales Tax – Sales tax is projected at \$3.6 million in FY23-24, where the City receives a full 1% Bradley Burns share out the 9.125% sales tax rate. This revenue source is fully recovered from the pandemic and fairly flat by comparison to the previous fiscal year.

Licenses and Permits – Licenses and Permits are expected to generate \$3.32 million, representing 4.67% of total revenue. This revenue is the main source for the City’s General Fund and is tied to forecasted housing and development projects. This projection is lower than previous fiscal years due to the catch-up from the two years during the pandemic.

**Citywide Expenditures**

Salary and Benefit – The cost of salaries and benefits is projected at \$29.2 million, representing 44.89% of the operating expenditure budget, which is a \$2.12 million increase from the previous fiscal year.

Insurance – The City participates in the Bay Cities Join Power Insurance risk pool for general liability insurance and workers compensation premium totaling \$2.185 million, which is an increase of \$0.52 million from the previous fiscal year.

CalPERS unfunded accrual liability (UAL) and other post-employment benefits (OPEB) – Los Altos is striving to lower UAL and OPEB costs by contributing additional discretionary payments to CalPERS. Starting this past year, the City established a separate fund reserve for future additional payments. The current funding status for UAL is 103% for PEPRA plans (Safety and Miscellaneous), and 76% for Classic plans (Safety and Miscellaneous). In FY23-24, the City’s UAL payment is \$3.24 million and the City’s General Fund will also contribute \$0.5 million to the reserve.

Non-Profit and Civic Organization Contribution – At the May 23 City Council meeting, City Council approved contributions to the following organizations totaling \$237,708:

- CHAC- \$60,208
- CSA (Directed to develop contract) - \$25,000
- Chamber of Commerce (Directed to develop contract) - \$67,500
- History Museum (Contract) - \$65,000
- Women SV - \$20,000

**General Fund**

The proposed General Fund revenue is \$53.67 million and the proposed expenditure is \$51.16 million, with the transfer out of \$0.76 million to the internal services fund creating a \$1.74 million



**Subject:** FY23-24 Budget

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net change. The City's fiscal policy reserve requirement is 20% of the General Fund operating expenditures. After meeting the fiscal policy reserve requirement, the General Fund has a surplus of 0.24 million.

The estimated unassigned unrestricted General Fund beginning balance is \$7.3 million, with \$0.24 million surpluses, and the available unassigned unrestricted General Fund balance on June 30, 2024, is \$7.54 million. The staff is proposing to fund a facility reserve for the aging city facilities and replenish the Internal Services fund and Equipment Replacement Fund with the list below. The total of those transfers is \$3 million, and the estimated General Fund unassigned unrestricted ending balance after the transfers is \$4.5 million.

- Facility Reserve: \$1 million
- PERS & OPEB Reserve: \$0.5 million
- Dental Fund: \$0.5 million
- General liability Fund: \$0.5 million
- Equipment Replacement Fund: \$0.5 million

### **FY24-28 Capital Improvement and Major Maintenance Program**

The City of Los Altos prepares the Capital Budget as part of the Operating Budget, which appropriates funds for specific programs and projects and is reviewed annually to enable the City Council to reassess projects in the program.

A capital project typically involves the purchase or construction of major fixed assets such as land, buildings, and any permanent improvement including additions, replacements, and major alterations having a long-life expectancy. Additionally, capital projects may apply to: 1) expenditures that take place over two or more years and require continuing appropriations beyond a single fiscal year; 2) systematic acquisitions over an extended period of time, or 3) scheduled replacement of specific elements of physical assets. Generally, only those items costing \$10,000 or more are considered as capital projects.

In FY23-24, the City also identifies projects in the Major Maintenance Program. Those projects mainly apply to: 1) upgrading and maintaining buildings & transportation corridors at current, competitive standards; 2) addressing code and safety issues, mechanical, electrical, and plumbing systems, exterior and structural shortcomings, cosmetics, and immediate landscape issues; 3) dollars needed to extend the life of whatever is being corrected for the cycle of life designated for the building (typically ten years).



**Subject:** FY23-24 Budget

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All Capital Improvement projects are nonrecurring capital expenditures, and all Major Maintenance Projects are recurring expenditures. In FY23-24, the City plans to appropriate \$29.8 million for 71 projects in Capital Improvement and Major Maintenance Program under the below categories with more detailed project listings in the program resolution:

- Civic Facilities-Buildings
- Civic Facilities-Parks and Trails
- Community Development
- Downtown Development
- Equipment & Vehicles
- Infrastructure
- Studies
- Technology
- Transportation-Pedestrian/Bicycle Safety
- Transportation-Streets/Roadways
- Wastewater Systems

**Staff Recommendation:**

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