

**MEETING DATE: JULY 22, 2024**

**TO: THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL**

**FROM: TOM DUBOIS, CITY MANAGER**

**RE: 2024-2025 OPERATING BUDGET**

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**RECOMMENDATION:**

- 1) Adopt Resolution 23-24-\* Adopting the 2024-2025 Operating Budget.
- 2) Adopt Resolution 23-24-\* Adopting the Annual Appropriations Limit.

**BACKGROUND:**

In the previous meeting on June 24, Council reviewed the draft budget, heard from the public and asked questions to clarify some of the tradeoffs and increasing costs such as the City's risk management insurance.

Staff was directed to make some minor changes such as prioritizing WIFI in the Grammar school over Camera improvements in council chambers, consider some longer-term projects such as bathrooms in Bryson Park. There was an extensive about labor costs increasing and salary trends in several city departments.

The rest of the background is a recap of the information from the June report for the public who may not have that report. Changes are shown in the DISCUSSION section.

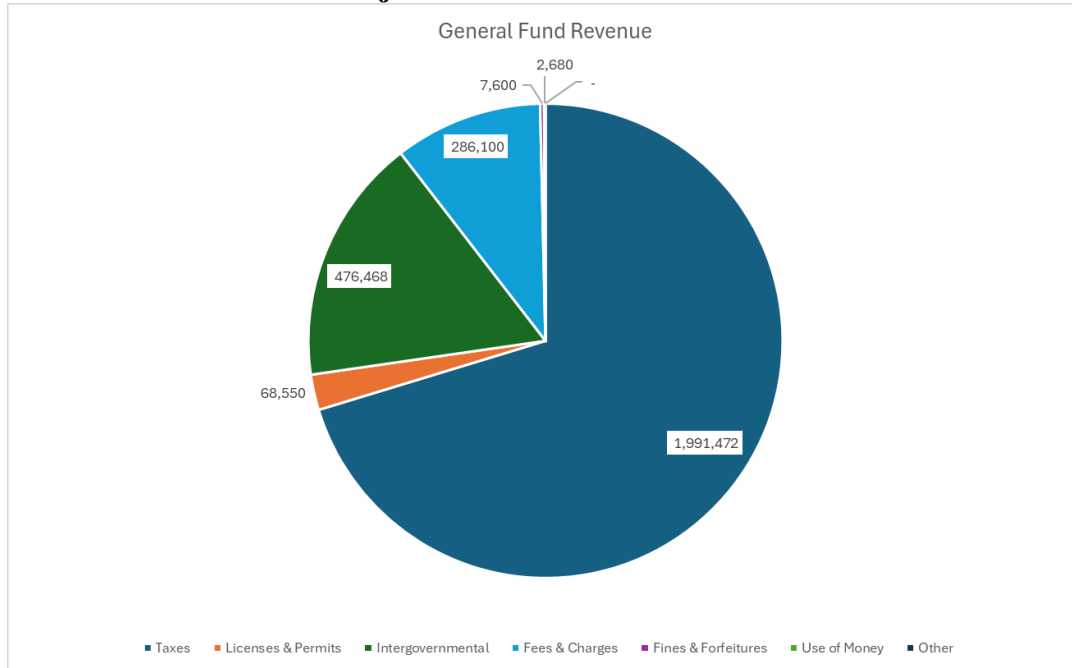
**Staffing**

Staffing is being maintained at the levels of FY2023-2024. The Deputy Supervisor role is shifting to report directly to the City Manager to handle grants, grant administration, project management, and support the administrative and finance team. This is consistent with many of the duties of the current deputy supervisor who is retiring.

The City is currently negotiated a new labor agreement with the Police Officer's association. Given the pace of discussions, the budget should be approved independently from those

discussions.

### General Fund Revenue Projections:



The 2024-2025 is a transitional budget that incorporates a significant increase in Wastewater rates but does not include any increase from a local transaction and use tax (TUT). If the TUT passes, there will be one quarter of additional revenue in this fiscal year. However, we conservatively did not include that revenue in the budget.

Overall, revenue growth is projected to grow at about 2%. We based this year’s budget on actual trends and tied the numbers back to our audit. This resulted in lower revenue amounts than were presented in the budget in past years, which were overly optimistic.

Property tax revenue is expected to grow by around 3%, which is supported by a housing market that continues to march along with strong property values. Interest rates have increased over the last year or two as an inflation reduction measure, but property values have not decreased as much as the market was expecting.

Sales tax revenue is expected to increase by 2.5% compared to last year, which saw some stagnancy between FY23 and FY24. We witnessed a surge in sales tax revenues in FY22 as state restrictions were eased as we transitioned out of the COVID-19 pandemic, and the last couple fiscal years were a correction back to a normal level of activity.

Transient occupancy taxes (TOT) will likely see a 1% growth in revenues in FY25. Historically, this revenue stream has been hard to budget for, as it has bounced around quite a bit in the last few years. Part of this is due to COVID-19 and the restrictions that were placed because of it. After the restrictions were lifted, there was a spike in tourist activity, and we saw large surges in revenue related to tourism. With the formation of the Vintner Special Business District, which will be funding the marketing of Amador County, we will monitor TOT during this upcoming

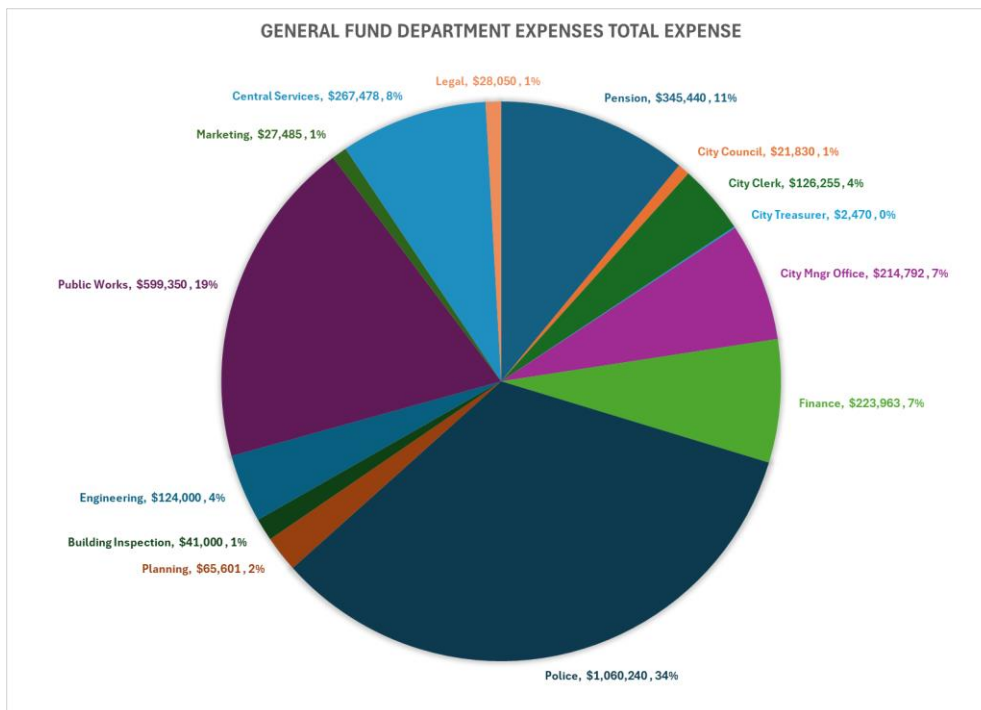
fiscal year to try to develop better forecasting.

### Sewer Revenue Projections:

Sutter Creek is expecting to absorb Amador Regional Sanitation Authority (ARSA) sometime in FY25. This includes all revenues, expenses, and obligations we have with other agencies associated with the JPA. This has been a long-standing goal that Sutter Creek has tried to accomplish, and we are well on our way to completing the dissolution of ARSA.

In June 2024, a new rate schedule for sewer rates was approved. This approval starts us on the path to upgrading our entire wastewater system, which needs many repairs and improvements. We are allocating funds to sewer main repairs and monitoring to systematically reduce our inflow and infiltration (I&I) in the system. We have also budgeted for critical repairs at the wastewater treatment plant and the ARSA pipeline. We are not able to fund the Henderson underdrain this year but are building up the reserve to be able to fund the work in FY 25-26.

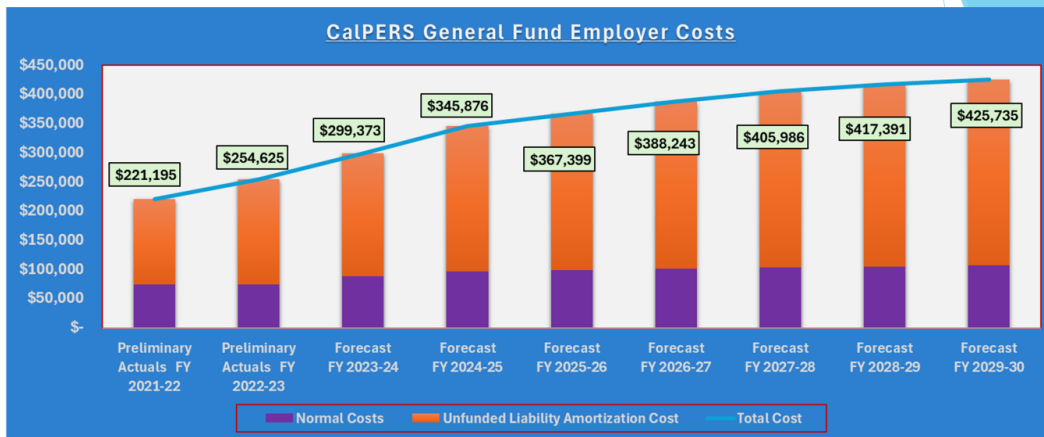
### Overall Expense Projections:



There are notable expenditure changes that we need to be acutely aware of as we navigate into FY25. Some we had expected, while others came as a surprise in the past few months.

We are seeing personnel costs increase in FY25, most notably the CalPERS Unfunded Accrued Liability. We are anticipating a \$31,000 increase in UAL costs for the Miscellaneous CalPERS category, and a \$31,000 increase for the Safety CalPERS category, totaling an increase of \$62,000 for UAL costs city-wide. We should continue to anticipate increases in UAL costs.

## General Fund Overview / Multi-Year Financial Forecast Baseline Financial Forecast - Results



CalPERS General Fund costs rise over time due to UAAL Amortization

### General Fund Changes / New Expenses of Note

Based on community and Council feedback, the Marketing budget for FY25 focuses on local events, business support, online media and city beautification.

Over the last couple of years, overtime costs peaked but have been brought down to reasonable levels again. This budget assumes that we will continue to maintain reasonable amounts of worked overtime for relevant departments.

There are a couple of significant items to note in the Police budget: dispatch costs county-wide are going up by a substantial amount. Sutter Creek's portion of the dispatch fees increased from \$101,000 in FY24 to \$156,000 in FY25; a 54% increase. On top of that, Amador County is now charging separately for Animal Control services, which is an additional \$43,000 burden on our city.

The City's general liability insurance has gone up 40% to \$452,000 per year.

Sutter Creek currently uses antiquated financial/ERP software that limits transparency and readability with council and the public and makes it difficult to track spending vs budget throughout the year. We are looking for new software to transition to in FY25. We are expecting implementation costs to be around \$40,000 - \$50,000 and the transition could take a little under a year to complete. This means that staff will continue to use the legacy software while also building out the new program. Annual software costs will decrease by 15,000 annually with a payback in 3.5 years though we expect the increase in productivity to lower that time dramatically.

To find, apply and administer grant funding, we are budgeting funds for a grant consultant. This is a monthly amount that can be terminated if we find the consultants are not paying for themselves in grants obtained.

Money using impact fees (these funds must be used for specific things) are being tapped to improve the cameras in the community building so that council meetings can be seen remotely by the public, for some improvement to our parks, for secure police DOJ data access, and a new police vehicle (to match a grant).

We have budgeted for one pickup truck and money to rent a dump truck when needed. A new dump truck was prohibitively expensive, and we think renting is the best course.

### **Capital Projects**

Sutter Creek has been building up reserves to take on some capital projects in FY25. Regarding the General Fund, the main projects are Eureka Street, Oro Madre, and storm drain improvements. Eureka Street improvements are being funded thanks to ACTC funding, which has helped Sutter Creek immensely in regard to street repairs and upgrades. Oro Madre and miscellaneous storm drain repairs are being funded with reserves and Gas Tax funding we receive each year. We are excited to get these projects started and get some roads repaired that have long needed some maintenance.

Impact fees plus a grant from the air district are budgeted to fund EV chargers in the parking lot (\$36,000).

As previously mentioned, the Wastewater System is undertaking multiple capital improvement projects in FY25. At the Treatment Plant, we are planning on installing new roto-strainers, a chlorine contact chamber, and a new chlorine tank to name a few. The Collections system will undergo I&I repairs in locations across the city, including Greenstone, El Terrado, Spanish St, and Church St. Disposal (ARSA pipeline) projects include a flow meter, the freshwater diversion required by CDCR, and \$400,000 reserved for the Henderson reservoir underdrain replacement, now targeted for 2025.

### **Reserves**

During the city manager transition, very few projects occurred, and some reserves accumulated. This proposed budget is spending reserves in both the general fund and the wastewater enterprise fund. Reserve level of the general fund will be at 35% of annual revenue. This is a reasonable cushion for dealing with unforeseen emergencies. Staff intends to bring a reserve policy to council for future discussion and we anticipate aiming for a 40% reserve, slightly more than will be in this year's budget.

We are anticipating large capital projects in the Wastewater fund and while taking on several capital projects in this budget we are also building up reserves for projects in future years. The reserve will be 63% of annual wastewater revenues.

**DISCUSSION:**

Several changes have been made to the draft budget based on Council discussion and some changes since the last meeting

1. Risk Management / Insurance costs came in slightly lower than the initial estimate, a reduction of about \$25,000.
2. We reduced capital spending in the general fund by about \$100,000 removing some planned storm drain projects
3. Vacation reserve was removed from the base salary calculation in the spreadsheet and moved to total compensation. Fixing this made some of the benefit calculations more accurate slightly reducing FICA, SUI, and other cost calculations across the board
4. General fund savings are in the general fund reserve, increasing reserves to our target of 40% of total general fund expenses

Staff feels that these changes, particularly reducing the general fund capital spending will give us more flexibility throughout the year. Council unanimously approved putting a 1% local transaction and use tax on the November ballot. If the ballot measure passes and we have additional capital projects we can complete, Staff will return with a budget amendment in the second half of the fiscal year to suggest moving forward with those projects. If it does not pass, our reserves will be stronger going into the next fiscal year.

**Summary**

Staff is confident we can manage the city and accomplish major priorities with this budget.