

**MEETING DATE: JUNE 24, 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:**

Each year, the city of Sutter Creek creates and adopts an operating budget to assist staff and Council in tracking the city's fiscal performance and to ensure that we are guiding the city towards short and long-term financial sustainability. In short, the operating budget considers all revenues, expenditures, and capital investments for the following fiscal year and compares them to each other to see if we can expect a surplus or if we will need to tap into our reserves. Through the concerted efforts of the Council and staff, Sutter Creek continues to take intentional steps to guarantee that city services will continue to be available to its residents for many years to come.

This year, we've reviewed the format and structure of the budget itself. In the past, there were many dedicated funds that were not true enterprise funds, really just placeholders within the general fund. We've combined some of those funds to reduce the total number of true enterprise funds. At the same time, several smaller enterprise funds that have existed for someone were not included in the budget in the past. In an effort to increase transparency they are included in this year's budget.

The process of dissolving ARSA added complications to this year's budget. For the first time, ARSA expense details are shown as part of the City of Sutter Creek's expenses. However, the dissolution is still in process and may be for another six months. This year's budget is somewhat of a hybrid – showing the expense as part of the city budget, but ARSA will continue to operate with its own budget for a portion of the fiscal year. In the past, the COSC budget would show

transfer in and out for payment to and from ARSA. This budget largely replaces those transfers – we have added Wastewater Disposal” revenue from AWA and Amador City and then shown ARSA expenses integrated into the budget.

Finally, there have been several wins this year. \$650,000 in disputed debt was removed from ARSA’s books so that Sutter Creek will not be taking on that obligation once ARSA is dissolved. Land valued at \$1.4M next to the WWTP was donated to the city. The passage of the increased wastewater rates enables the city to begin long needed work on major upgrades. And your city staff is very capable of doing things “in house” to keep costs down. The entire staff deserves thanks for all they do to manage costs and keep the city running well.

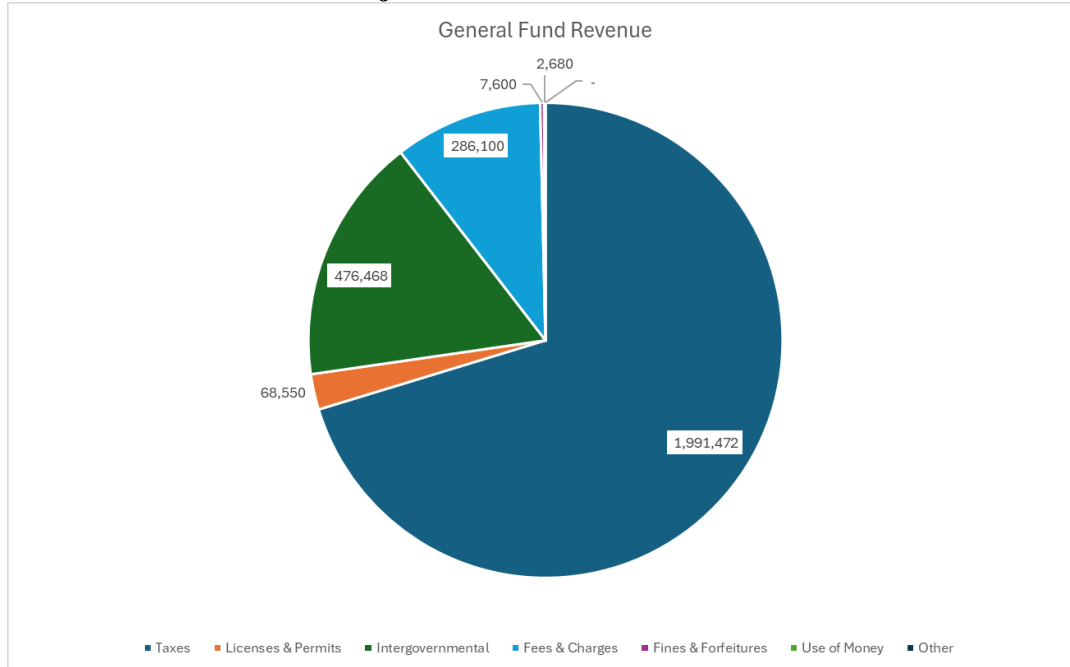
## **DISCUSSION:**

During FY24, Sutter Creek recruited financial consultant Andy Heath to take a comprehensive look at the General Fund and its long-term sustainability. We accumulated data from the past 2-3 fiscal years and using data from the current year, we extrapolated fiscal performance for the General Fund for the next 5 years using conservative growth assumptions as a long-range financial forecast. Based on the information that was collected, we have identified that the budget is unsustainable if we are to fund infrastructure and capital needs. Additional sources of revenue are needed coupled with more strategic financing efforts including loans and grants.

### **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.

## 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.

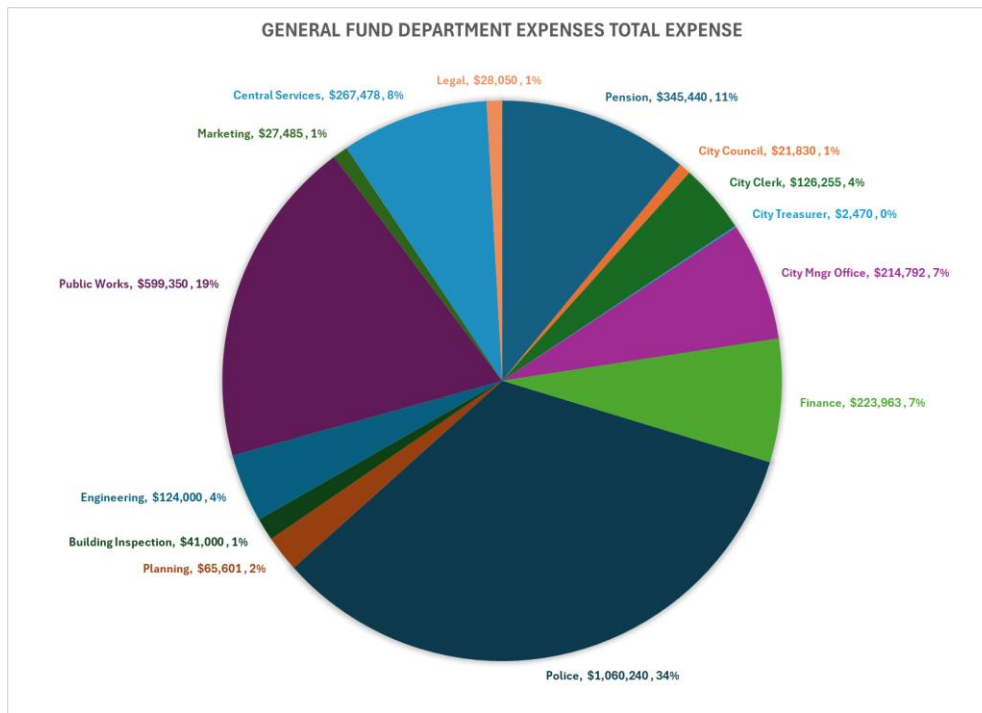
Transient occupancy taxes (TOT) will likely see a 1% growth in revenues in FY25. Historically, this revenue stream has been hard to budget for, as it has bounced around quite a bit in the last few years. Part of this is due to COVID-19 and the restrictions that were placed because of it. After the restrictions 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.

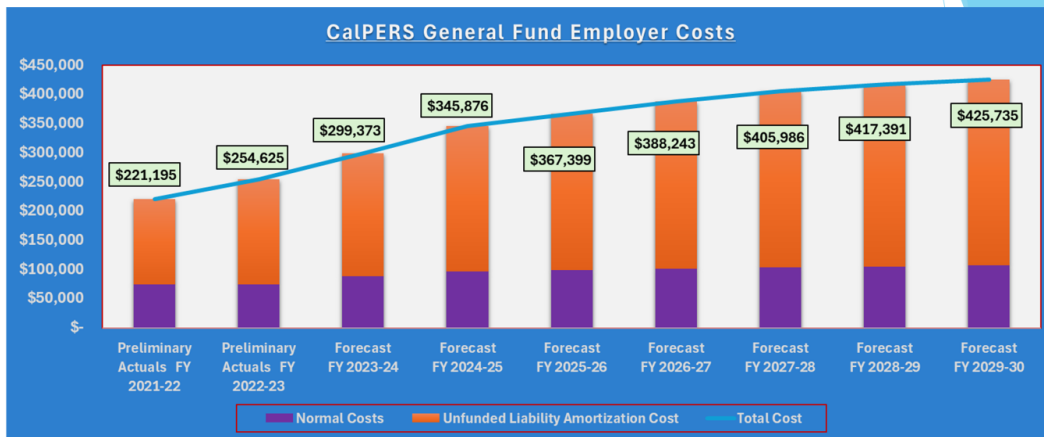
## Overall Expense Projections:



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.

## **Summary**

This will be an exciting year for Sutter Creek – the dissolution of ARSA will be complete, street and sewer capital projects will take place, and we will see what comes of the TUT ballot measure in November.

We are reaching out to ARSA members to create new, fair agreements between Sutter Creek and each agency to update antiquated contract language and create a relationship that is more symbiotic than what ARSA currently has. Everyone agrees that we need to work together to establish a successful wastewater disposal system that can accommodate current and future needs of every agency involved. On top of that, the wastewater and streets projects that are on the docket for FY25 are crucial to the long-term goals and needs for Sutter Creek. Our streets are in dire need of repair, and as we plan for a new wastewater treatment plant, the sewer collection system needs to be evaluated and taken care of to reduce the I&I that would flow into the future treatment plant.

Finally, a TUT ballot measure gives Sutter Creek the opportunity to expand its General Fund revenues and expand on our charge to repair roads and keep a strong police force within our city. We value these services and infrastructure just as much as residents, and we need funds to continue to maintain and improve what we have.

We will continue to prioritize the overall wellbeing of the city and its residents, and through the work we plan to accomplish in the next fiscal year, which will be clearly seen. There is a lot of work ahead of us, and with the support of residents, staff, and council, we will march forward and continue to see greatness in Sutter Creek.