



# Fiscal Year 2022-23 Budget

*A review of the operating and capital budget, fees and charges, and employee memorandums of understanding.*

*June 21, 2022*



# Budget Timeline

Fiscal Year 2021-22 - Quarterly budget updates have been provided to City Council, throughout Fiscal Year 2021-22, to keep the Council apprised of the City's finances.

Study Session # 1 - Review of the Citywide Capital Improvement Program (CIP) and discussion of Fiscal Year 2022-23 projects and funding.

Study Session # 2 - Review of the Fiscal Year 2022-23 Operating Budget and Fees and Charges.

Budget Adoption - Tonight! - Staff will present the Fiscal Year 2022-23 Budget for City Council's approval.

# Fiscal Year 2022-23 Budget Objectives/Strategies

The Fiscal Year 2022-23 Budget proposal incorporates the City's Financial Resiliency Plan Principals and seeks to incorporate the following key budget objectives:

- Addressing infrastructure and maintenance needs by funding the City's Capital Improvement Program (CIP) for Fiscal Year 2022-23.
- Building up General Fund reserve levels to prepare for the future.
- Continuing to address future long term obligations by setting aside funds for CalPERS and OPEB liabilities.
- Seeking outside funding, whenever possible, to help fund special projects and programs.

# Financial Overview

- The City's finances remain strong and continue to improve as we emerge from the pandemic.
- Many revenues have rebounded and are nearing or exceeding pre-pandemic levels.
- Inflationary cost increases will impact Fiscal Year 2022-23. All anticipated increases have been incorporated into the Fiscal Year 2022-23 budget projections.
- There is uncertainty in the economy (e.g., inflationary levels at highs not seen in decades, possible recession on the horizon); however, the overall outlook is cautiously optimistic. Staff will closely monitor the budget and return to City Council with updates, throughout the year, which will allow us to quickly pivot, if needed.

# Budget Overview

## All City Funds (Includes CIP)

Fund Type	FY21-22 Revised Budget		FY22-23 Proposed Budget	
	Revenue	Expenditure	Revenue	Expenditure
General Fund	\$50.03 M	\$47.15 M	\$52.55 M	\$52.72 M
General Fund – Other Funds (Dev. Services/Emergency Services/Measure K)	\$13.47 M	\$8.55 M	\$20.19 M	\$14.98 M
Enterprise Funds	\$25.10 M	\$22.88 M	\$27.37 M	\$30.60 M
Special Purpose Funds	\$40.65 M	\$40.05 M	\$39.17 M	\$43.24 M
Internal Service Funds	<u>\$10.14 M</u>	<u>\$11.49 M</u>	<u>\$12.14 M</u>	<u>\$12.65 M</u>
Total Budget	<u>\$139.39 M</u>	<u>\$130.12 M</u>	<u>\$151.42 M</u>	<u>\$154.19 M</u>





# General Fund Review



# General Fund Revenues and Expenditures (Includes CIP)

- Fiscal Year 2022-23 is expected to close with a slight deficit of -\$170K.
- This deficit will be offset by the \$2.8M surplus expected in Fiscal Year 2021-22.
- This budget proposal includes a set aside of \$1M for the Section 115 Trust.

Budget Category	FY 2021-22 Revised Budget	FY 2022-23 Proposed Budget
Revenues	\$ 50.03 M	\$ 52.55 M
Expenditures	<u>\$ 47.15 M</u>	<u>\$ 52.72 M</u>
<b>Net GF Surplus/(Deficit)</b>	<b>\$ 2.88 M</b>	<b>(\$ 0.17 M)</b>
Less: Funds Set-Aside in the Section 115 Trust	<u>(\$3.62 M)</u>	<u>(\$1.00 M)</u>
<b>Net Remaining Surplus/(Deficit)</b>	<b>(\$0.74 M)</b>	<b>(\$1.17 M)</b>

# General Fund Revenue Overview

- Overall, a conservative approach to revenue estimates has been incorporated into the Fiscal Year 2022-23 budget. Projections are conservative, yet realistic.
- Revenue projections include estimates based on post-pandemic activity.
- A CPI increase in user fees has been reflected in revenue projection estimates.
- Several one-time revenues have been included in the Fiscal Year 2022-23 budget, as follows:
  - \$570K has been included for the repayment of the Richman stipulated judgement, including the repayment of legal fees.
  - American Rescue Plan Act (“ARPA”) funds have been included for the amount of the payment to be received in July 2022 for \$4.34M.



# General Fund Revenue

General Fund Revenues			
Year-Over-Year Comparison			
Revenue Source	FY 2021-22 Revised Budget	FY 2022-23 Proposed Budget	% Increase / Decrease
Property Tax	\$14.88 M	\$15.69 M	5.44%
Sales Tax	\$12.68 M	\$12.87 M	1.50%
Transfers In	\$9.39 M	\$9.78 M	4.15%
Other Taxes	\$3.90 M	\$4.16 M	6.67%
Project Revenues	\$0.49 M	\$0.68 M	38.77%
Charges for Services	\$1.32 M	\$1.45 M	9.84%
Other Revenues	<u>\$7.37 M</u>	<u>\$7.92 M</u>	7.46%
<b>TOTAL REVENUES</b>	<b><u>\$50.03 M</u></b>	<b><u>\$52.55 M</u></b>	<b>5.03%</b>

# General Fund Key Revenues

Property Tax	<ul style="list-style-type: none"><li>• Makes up 30% of General Fund revenue.</li><li>• Continues to be strong and reliable.</li><li>• Growth factor of 5.44% has been incorporated into projections.</li><li>• Fiscal Year 2022-23 Budget projection = \$15.69M</li></ul>
Sales Tax	<ul style="list-style-type: none"><li>• Makes up 24% of General Fund revenue.</li><li>• Sales tax revenues continue to outperform expectations.</li><li>• Growth factor of 1.50% has been incorporated into Fiscal Year 2022-23 projections.</li><li>• Fiscal Year 2022-23 Budget projection = \$12.87M</li></ul>
Transient Occupancy Tax (TOT)	<ul style="list-style-type: none"><li>• Makes up 3.5% of General Fund revenue.</li><li>• Is showing moderate growth as we emerge from the pandemic.</li><li>• Revenues have been included for Marriott TownPlace Suites (for the 4<sup>th</sup> quarter of the fiscal year)</li><li>• Fiscal Year 2022-23 Budget projection = \$1.87M</li></ul>

# General Fund Expenditures Overview

- This budget proposal includes filling previously frozen positions, which returns staffing to pre-COVID levels.
  - A thorough review of operational staffing needs, based on current operations, was performed.
  - One additional Community Services Officer position included (shared position with Bradbury).
  - All employee memorandums of understanding have been included in the projections (will be discussed later).
- Inflationary impacts in City vendor contracts have been incorporated into this budget proposal.
  - Increases ranging from 1%-20% are expected in various contracts.
  - Some increases are the result of vendors readjusting contracts after temporarily reducing pricing during COVID. Some increases are due to inflation.
- A thorough review of each operating department's M & O budgetary needs was performed. Each line item was reviewed and evaluated for need and appropriate cost.

# General Fund Expenditures By Type (Includes CIP)

Expenditure Type	FY 2021-22 Revised Budget	FY 2022-23 Proposed Budget	% Increase / Decrease
Personnel Costs	\$31.31 M	\$34.87 M	11.37%
Maintenance & Operations	\$6.06 M	\$6.58 M	8.58%
Transfers & Other	\$9.78 M	\$11.27 M	15.32%
<b>EXPENDITURES SUBTOTAL</b>	<b>\$47.15 M</b>	<b>\$52.72 M</b>	<b>11.81%</b>
Funds Set Aside for Section 115 Trust	<u>\$3.62 M</u>	<u>\$1.00 M</u>	-72.37%
<b>TOTAL EXPENDITURES &amp; SET ASIDE</b>	<b><u>\$50.77 M</u></b>	<b><u>\$53.72 M</u></b>	<b>5.81%</b>

*M & O and Transfers and Other revised after Study Session #2*

# General Fund Combined Fund View (Includes CIP)

- Several other funds are part of the General Fund and are presented as one fund on the City’s Annual Financial Report. This includes the Development Services Fund, the Emergency Services Fund, and the Measure K Fund.
- When all funds are combined, the General Fund has a positive ending fund balance, and combined revenues exceed expenditures, as seen below.

Fund Type	FY21-22 Revised Budget		FY22-23 Proposed Budget	
	Revenue	Expenditure	Revenue	Expenditure
General Fund	\$50.03 M	\$47.15 M	\$52.55 M	\$52.72 M
General Fund – Development Services	\$4.49 M	\$4.85 M	\$4.72 M	\$4.98 M
General Fund – Emergency Services	\$2.27 M	\$2.54 M	\$9.00 M	\$9.00 M
General Fund – Measure K	<u>\$6.71 M</u>	<u>\$1.16 M</u>	<u>\$6.47 M</u>	<u>\$1.00 M</u>
Total General Fund Budget	<u>\$63.50 M</u>	<u>\$55.70 M</u>	<u>\$72.74 M</u>	<u>\$67.70 M</u>





# Other City Funds



# Other City Funds

## Revenues and Expenditures (Includes CIP)

- The City has over 50 other funds (in addition to the General Fund) covering all unrestricted and restricted revenue sources and expenditures.
- The excess of expenditures over revenues is a planned use of reserves set aside in prior years that will be used for the CIP.

Fund Type	FY 2021-22 Revised Budget		FY 2022-23 Proposed Budget	
	Revenue	Expenditure	Revenue	Expenditure
Enterprise Funds	\$25.10 M	\$22.88 M	\$27.37 M	\$30.60 M
Special Purpose Funds	\$40.65 M	\$40.05 M	\$39.17 M	\$43.24 M
Internal Service Funds	<u>\$10.14 M</u>	<u>\$11.49 M</u>	<u>\$12.14 M</u>	<u>\$12.65 M</u>
Total Budget	<u>\$75.89 M</u>	<u>\$74.42 M</u>	<u>\$78.68 M</u>	<u>\$86.49 M</u>

# Funds of Concern: Assessment District Funds

- One of the key objectives of the City's Financial Resiliency Plan is to Protect General Fund dollars and minimize subsidies to other funds.
- In past years and in Fiscal Year 2022-23, there are several City funds that are not self-sustaining and require subsidies. Two of these are the Assessment District Funds, as follows:
  - Lighting and Landscape Assessment District Fund - Based on the most recent Engineer's Report, the operation is being subsidized by over \$800,000 / year. For FY 2022-23, an excess of expenditures over revenues has resulted in an annual deficit of approximately -\$156K.
  - Park Maintenance Assessment District Fund - Based on the most recent Engineer's Report, the operation is being subsidized by over \$850,000 / year. FY 2022-23 allows for a 7.506% CPI increase, which has helped better sustain the fund. However, in the past five years, CPI has ranged from 0.87% - 3.5%, so revenue growth has been minimal.
- A long-term solution for sustainability will need to be identified in the future.





# Measure K



# Measure K Budget Review

- Measure K revenues continue to show consistent growth year-over-year. Budgeted revenues for Fiscal Year 2022-23 are \$6,449,000.
- An initial Fiscal Year 2022-23 budget of \$1.085M was approved by City Council in June 2021, which includes:
  - \$500K transfer to the Worker's Compensation Fund – ***Still included in the Measure K budget.***
  - \$500K transfer to General Fund Reserves – ***Still included in the Measure K budget.***
  - \$85K in annual server replacement and storage area networking (SAN) costs at City Hall. - ***Staff was able to identify alternative funding for this item in the City's Central Services Fund, so these expenditures have been removed from the Measure K budget and have been moved to the Central Services Fund budget.***
- Based on City Council's direction, no additional Measure K Funds have been obligated for Fiscal Year 2022-23. Excess revenues will be held in reserves until City Council formally appropriates the funds for use.
  - Fund balance is estimated to be \$16.7M at the end of Fiscal Year 2022-23.





# Section 115 Trust



# Section 115 Trust

- A conservative estimate of \$1,000,000 in RPTTF revenue has been included in the Fiscal Year 2022-23 Budget, and a corresponding transfer of funds to the Section 115 Trust is being proposed.
- With this \$1,000,000 contribution, a total of \$5,122,000 will be set aside in the Trust by the end of FY 22-23. A breakdown of that amount can be found below.

<b>Source of Section 115 Trust Deposits</b>	<b>Amount</b>
Section 115 Trust Balance at End of FY 2021-22	\$4,122,000
Budgeted RPTTF Revenues – FY 2022-23	\$1,000,000
Section 115 Trust Balance at the End of FY 2022-23	<u>\$5,122,000</u>





# Capital Improvement Program (CIP)



# CIP Program

- The CIP Program was developed as a planning tool that formalizes the City's objective to maintain and improve its infrastructure and assets over time.
  - The CIP Serves as a short-term and long-term infrastructure planning tool.
- The CIP is a working/living document that will continue to be updated, on a periodic basis, as part of the budget. Annual appropriations for projects will be included, each year, as part of the annual budgeting process.
- Staff will return to City Council for formal approval of each project prior to implementation and award of contract.

# CIP Program

The CIP Program classifies projects into the 8 distinct categories.



## Municipal Facilities

New construction, expansion, and renovation of City-owned buildings and facilities



## Street & Streetscapes

Improvements to the City's transportation infrastructure including streets, streetlights, and traffic signals



## Parks & Trails

New construction, expansion, and renovation of outdoor recreation areas



## Trees

Maintenance and replacement of trees throughout the City



## Water System & Utilities

Repair and enhancements on City's drinking and waste water systems



## Stormwater

Implementation of Watershed Management Program (WMP), regional project funding, and coordinated integrated monitoring program (CIMP)



## Information Technology

Acquisition and replacement of computers, networks, and communication systems, as well as major investments in enterprise software systems



## Fleet & Equipment Replacement

Acquisition and replacement of fleet vehicles, equipment and other capital assets



# CIP Timeline

- October 19, 2021 – A CIP Study Session was held, and staff presented an initial draft of the City’s first Five-Year CIP for City Council’s review and feedback.
- November 16, 2021 - Based on City Council’s feedback, revisions were made and a revised Five-Year CIP was presented to City Council.
- May 3, 2022 – Several additional revisions have been made to update the timing of projects and to update expenditure projections for Fiscal Year 2022-23, and the revised plan was presented to City Council for discussion during CIP Budget Study Session #1.
- Based on the revised CIP discussed on May 3<sup>rd</sup>, \$34.71M in capital project appropriations have been included in the Fiscal Year 2022-23 Budget. The listing of projects and funding amounts are included as Attachment D to Resolution 2022-37.



# Fees and Charges



# Fees & Charges Methodology

- Each year, departments conduct a review of key fees that are charged for services:
  - The goal of the fee review is to analyze the extent to which costs are recovered for specific non-general services provided by the City.
  - Based on actual costs, a reasonable and recommended fee schedule is proposed for consideration.
- Fees are typically established either by statute, survey results, and / or a comprehensive service delivery cost analysis.

# Fees & Charges Methodology

- To keep up with the cost of providing services, the City has incorporated an annual CPI factor in prior years:
  - FY 2019-20 = 0%
  - FY 2020-21 = 3%
  - FY 2021-22 = 0%
- CPI has been increasing significantly over the past 12 months and is currently at unprecedented levels (i.e., greater than 8%).
  - While preparing the budget for Fiscal Year 2022-23, the City is experiencing increases in vendor contracts for the cost of goods and services.
- Staff is proposing a 5% CPI increase for many fees.

# Fee Adjustment Summary

- Staff assumed a base 5% increase across-the-board for all fees, and then individually reviewed each fee to determine the applicability of the proposed change.
- Based on our assessment, a summary of the adjustments includes the following:
  - No Change – 35% of all fees (257 fees total)
  - 5% Increase – 60% of all fees (437 fees total)
  - >5% Increase – 1% of all fees (8 fees total)
  - Eliminated – 1% of all fees (7 fees total)
  - New – 1% of all fees (7 fees total)
  - Restructured – 2% of all fees (13 fees total)
- All fee adjustments being proposed are projected to result in approximately \$130K in new revenue collection.

# New Fees

Service Description	New Fee	Comments
<p><b><u>Community Development:</u></b></p> <ul style="list-style-type: none"> <li>• Small Cell Wireless Collocation Facilities (SWF)               <ul style="list-style-type: none"> <li>• Application for 1-5 installations \$500</li> <li>• Application for each additional installation \$100</li> <li>• New Pole for SWF \$1,000</li> <li>• SWF Annual ROW Access Fee \$270</li> </ul> </li> <li>• Preliminary Application Fee (SB 330) (added after 5/17/22 Study Session) \$1,000</li> </ul>		<p>Safe Harbor Fees established by FCC "2018 Ruling and Order"</p> <p>Fee for staff review of a preliminary application for completeness, pursuant to SB 330.</p>
<p><b><u>Fire:</u></b></p> <ul style="list-style-type: none"> <li>• AB-38 Defensible Space Inspections and Compliance Report Fee \$60</li> <li>• Fire -Technology Cost Recovery Fee \$7</li> </ul>		<p>AB-38 triggers inspections not associated with the annual brush inspection program</p> <p>Per application/permit fee. This fee is charged to support the cost of technology associated with providing service (e.g., TRAKit Software System).</p>



# Eliminated Fees

Fee Type	Department	Current Fee
Foothill Transit Bus Pass (Senior/Disabilities Local)	Recreation	Foothill Transit established rate of \$30 with \$9 subsidy from the City
Foothill Transit Bus Pass (Student Local)	Recreation	Foothill Transit established rate of \$40 with \$11 subsidy from the City
Foothill Transit Bus Pass (Adult Local)	Recreation	Foothill Transit established rate \$60 with \$10 subsidy from the City
MTA EZ Senior / Disable	Recreation	MTA established rate of \$42 with \$9 subsidy from the City
MTA Senior 62+ 30 Day Pass	Recreation	MTA established rate of \$20 with \$9 subsidy from the City
MTA College Vocational 30 Day Pass	Recreation	MTA established rate of \$43 with \$11 subsidy from the City
New Years' Eve Child Care (Per Child)	Recreation	Non Resident / Resident \$51 / \$25.50



# Employee Memorandums of Understanding (MOU's)



# Employee MOU's

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- Current Memorandums of Understanding (MOUs) with MFA, MMEA, MPOA, Mid-Management, Management, and E&AO are all set to expire on June 30, 2022.
- During the past several months, staff has been engaged in the meet and confer process with all of the City's represented bargaining units in an effort to negotiate updated, long-term, labor agreements.
  - One of our highest priorities was to continue to create uniformity among all association contracts.
- Based on our progress made to date, the City has been able to reach tentative agreements with all bargaining units on new labor agreements for a five-year period through June 30, 2027.

# Employee MOU's

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- The negotiated agreements achieve key priorities identified by both the City and by our employee groups, and include the following key proposed changes:
  - Five-year agreements with all employee groups effective July 1, 2022, through June 30, 2027.
  - An updated Fiscal Year 2022-23 Citywide Compensation Program, with 2 compensation studies in Fiscal Years 2023-24 and 2025-26
  - Adjustment to the Citywide Part-Time Classification and Compensation Program
  - Adjustments to the City's contribution towards the cafeteria plan for all employee groups
  - Adjustments to ancillary benefits, including the educational incentive pay program, POST Certification pay, Fire Certification pay, vacation banked leave conversion program and deferred compensation monthly contribution and incentive pay.

# Employee MOU's

- The proposed MOUs under consideration increase personnel costs, on average, by approximately 3% of payroll, annually. The expenditures have been included in the Fiscal Year 2022-23 Budget and are included in future year budget forecasts:

<b>MOU Costs</b>	
FY 22/23	\$ 684,418.69
FY 23/24	\$ 935,105.37
FY 24/25	\$ 1,348,606.80
FY 25/26	\$ 1,535,806.80
FY 26/27	\$ 1,812,508.24
Total	\$ 6,316,445.90



# Next Steps

- The City and Associations also agree to reconsider agreement terms if the City experiences any severe financial hardship through reductions in the operating budget and or increases in employer costs during the term of this Agreement.
- If the budget is approved this evening, staff will continue to monitor the City's financial situation closely and will return to City Council with any updates as needed.

**Thank you for your time!**



**Questions?**