



Fiscal Year 2023-24 Q3 Budget Update

*City Council Meeting
June 4, 2024*

Purpose

The purpose of this budget update is to:

- Provide City Council with a budget update and high-level overview of the City's finances as we close out FY 2023-24.
- Present proposed budget adjustments for City Council's consideration.
 - Adjustments will better align the FY 2023-24 budget with staff's latest estimates.
 - This will be the final budget adjustment for the fiscal year. Previous quarterly updates (in November '23 and February '24) allowed staff to adjust the budget throughout the year.
- Provide City Council with a brief CIP update for FY 2023-24-funded projects.
- Propose one fee adjustment for City Council's consideration.

Financial Overview

- State of the economy:
 - Statewide, there continues to be a slowdown in sales tax revenues. However, other revenues, such as property taxes and TOT revenues remain stable.
 - Inflation levels continue to be on a declining trend and are lower than historic highs from recent years. (Inflation for April '24 was 3.36%, compared to 4.93% in April '23 and 8.26% in April '22).
- Overall, the City's finances remain stable as we close out the 2023-24 Fiscal Year.
 - The City has been proactive in getting ahead of potential issues, such as inflationary cost increases, when developing the budget.
 - Close monitoring of revenues in the upcoming year will be a high priority for staff.

Budget Objectives

The Fiscal Year 2023-24 Budget incorporates the City's Financial Resiliency Plan Principals, which includes the following key budget objectives:

1. Incorporates conservative revenue and expenditure projections.
2. Includes a special focus on funding as many CIP projects as possible.
3. Addresses long term liabilities (e.g., pension, OPEB, unfunded leave, etc.) by paying down debt and setting aside funding for future long-term liabilities.
4. Aims to build up reserve levels to prepare for the future.
5. Seeks outside funding, whenever possible, to help fund special projects and programs.

Budget Approach

- A conservative budget was developed for Fiscal Year 2023-24 :
 - Expenditure budgets are fully-loaded:
 - Budgets include the full cost of salaries, benefits and operational costs.
 - Anticipated inflationary cost increases have been incorporated into the Fiscal Year 2023-24 budget projections.
 - Revenue projections are conservative.
- Staff continues to be diligent in managing departmental operating budgets to ensure that we only spend what is absolutely needed.
 - When a vacancy arises, before proceeding with a recruitment, staff evaluates need, along with the cost.
 - Staff evaluates each purchase before proceeding, even though funds have been included in the budget.



Fiscal Year 2023-24 Budget Review

Citywide Cash Balances

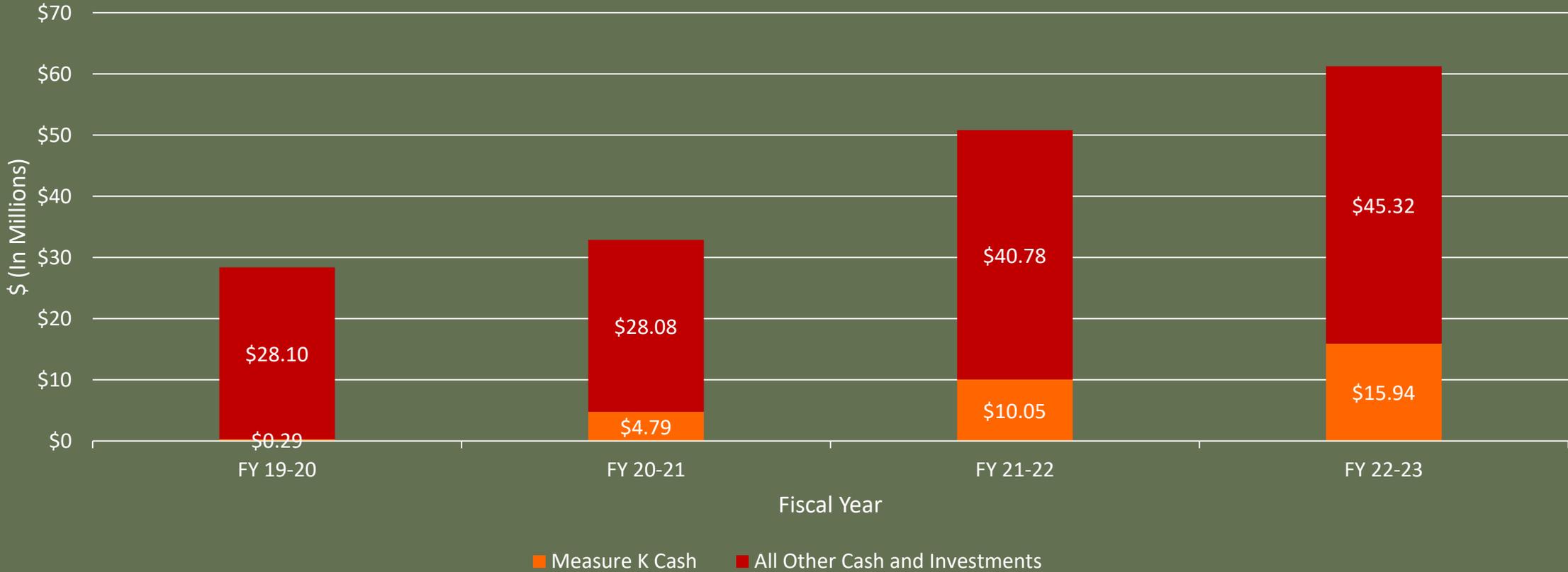
City-wide cash balances continue to grow annually.

In FY 22-23 (most recently completed audit year), the City's Cash and Investment balances increased by \$10.43 million, or 21%, over the prior year.

These balances do not include reimbursements yet to be received from grantors and federal and state agencies for the City's recent emergency events and grant-related expenditures.

Citywide Cash Balances (All Funds)

Cash and Investment Balances (All Funds)
\$ (In Millions)



FY 2023-24 Budget Overview

All City Funds (Includes CIP)

| Fund Type | FY23-24 Original Budget | | FY23-24 Revised Budget | |
|--|-------------------------|-------------------|------------------------|-------------------|
| | Revenue | Expenditure | Revenue | Expenditure |
| General Fund | \$49.80 M | \$50.25 M | \$49.01 M | \$50.09 M |
| General Fund – Other Funds (Dev. Services/Emergency Services/Measure K) | \$23.00 M | \$16.71 M | \$17.86 M | \$11.35 M |
| Enterprise Funds | \$22.12 M | \$27.02 M | \$20.67 M | \$24.04 M |
| Special Purpose Funds | \$35.08 M | \$42.72 M | \$34.39 M | \$39.93 M |
| Internal Service Funds | <u>\$10.87 M</u> | <u>\$11.79 M</u> | <u>\$10.87 M</u> | <u>\$11.96 M</u> |
| Total Budget | <u>\$140.87 M</u> | <u>\$148.49 M</u> | <u>\$132.80 M</u> | <u>\$138.18 M</u> |

FY 2023-24 General Fund Overview

- General Fund revenues have been stable. A net reduction of \$125,560 is being proposed.
 - Most revenues are tracking to budget.
 - One negative adjustment, totaling \$94,660, is proposed to Property Tax In-Lieu revenue.
 - Statewide, we are continuing to see a slowdown in sales tax receipts, largely attributed to Autos and Transportation sales. Sales tax was adjusted at Q2, so no additional adjustment is proposed at this time.
 - Other minor adjustments, totaling \$30,900, are being proposed (mainly due to changes in the level of participation in various programs during the year).
- A net decrease of \$9,507 is proposed in General Fund expenditure budgets, which includes increases and decreases in expenditure budgets.
 - Decreases in M & O expenditures, such as printing and postage costs, are being proposed.
 - Increases are included for sponsorships with community partners (\$20K) and for participation in the 2024 All-America City event (\$65K).
- The total net adjustment to the General Fund is a net decrease of \$116,053. Attachment A includes a full list.

FY 2023-24 General Fund Revenue

| General Fund Revenues | | | |
|-----------------------------|----------------------------|---------------------------|------------------------|
| Original vs. Revised Budget | | | |
| Revenue Source | FY 2023-24 Original Budget | FY 2023-24 Revised Budget | Increase / (Decrease) |
| Property Tax | \$16.90 M | \$16.81 M | \$0.09 M |
| Sales Tax | \$13.44 M | \$12.54 M | (\$0.90 M) |
| Transient Occupancy Tax | \$2.14 M | \$2.21 M | \$0.07 M |
| Other Taxes | \$2.42 M | \$2.42 M | \$0.00 M |
| All Other Revenues | <u>\$14.90 M</u> | <u>\$15.03 M</u> | <u>(\$0.13 M)</u> |
| TOTAL REVENUES | <u>\$49.80 M</u> | <u>\$49.01 M</u> | <u>(0.79 M)</u> |

FY 2023-24 General Fund Expenditures

| General Fund Expenditures | | | |
|------------------------------------|----------------------------------|---------------------------------|--------------------------|
| Original vs. Revised Budget | | | |
| Expenditure Category | FY 2023-24 Original Budget | FY 2023-24 Revised Budget | Increase / (Decrease) |
| Personnel (Salary and Benefits) | \$35.25 M | \$35.38 M | \$0.13 M |
| Maintenance and Operations (M & O) | \$12.99 M | \$12.66 M | \$0.33 M |
| Project/Program Expenditures | \$0.72 M | \$0.91 M | \$0.19 M |
| Transfers Out | <u>\$1.29 M</u> | <u>\$1.95 M</u> | <u>\$0.66 M</u> |
| TOTAL EXPENDITURES | <u>\$50.25 M</u> | <u>\$50.90 M*</u> | <u>\$0.65 M</u> |

**Excludes one-time purchase of building for \$6.0M.*

FY 2023-24 General Fund Deficit

| General Fund Budget Item | Amount (\$) |
|--|------------------------|
| FY 2023-24 Budgeted Revenues (includes Q1, Q2, and Q3 adjustments) | \$ 49,010,788 |
| FY 2023-24 Budgeted Expenditures (includes Q1, Q2, and Q3 adjustments) <i>(Excludes one-time purchase of building for \$6.0M)</i> | <u>(\$ 50,896,663)</u> |
| Net FY 2023-24 General Fund Estimated Surplus/(Deficit) <i>(Excludes one-time purchase of building for \$6.0M)</i> | <u>(\$1,885,875)</u> |

General Fund Deficit – Two-Year View

Given the proposed adjustments, Fiscal Year 2023-24 is expected to close with a deficit of \$1.88M.

This deficit will be offset by a \$1.09M surplus from Fiscal Year 2022-23, resulting in a two-year total deficit of \$789K.

Of note, the General Fund has closed the year better than projected for the last 3 fiscal years (\$2.13M, \$3.79M, and \$2.84M).

| General Fund Item | Amount (\$) |
|--|----------------------|
| FY 2022-23 GF Ending Surplus | \$ 1,096,469 |
| FY 2023-24 GF Estimated Year-End Deficit * | <u>(\$1,885,875)</u> |
| Net Two-Year Deficit | <u>(\$ 789,406)</u> |

**Excludes one-time purchase of building for \$6.0M.*

Other Adjustments

- Staff is proposing adjustments to other non-General Fund accounts. Items > \$50,000 include:
 - Measure K – An increase of \$68,000 is being proposed to Measure K revenues. Revenues have been strong and have shown consistent growth year-over-year.
 - Development Services – A decrease of \$90,000 is being proposed for a reduction in professional inspection services costs through the remainder of the year.
- A complete listing of all operating budget adjustments, by fund, is included as Attachment A to Resolution 2024-34.



Fiscal Year 2023-24 Capital Improvement Program (CIP) Update

CIP Update

- As part of the quarterly budget update, staff reviewed all CIP projects, with a special focus on project timelines and updated costs.
 - Given the number of projects included on the CIP Plan and the staff time required to manage and oversee each project, some projects have been deferred to Fiscal Year 2024-25 or a future year.
- Based on this review, staff is proposing the following adjustments:
 - A decrease of \$9.30M in CIP revenues
 - A decrease of \$14.99M in CIP expenditures
- The proposed adjustments will allow the budget to closely align with updated project timelines and cost estimates. A detailed listing of CIP projects budgeted for Fiscal Year 2023-24 is attached as Exhibit 1. A total of 53 projects include budgeted expenditures for FY 2023-24.

CIP Update

- Most adjustments will reduce the budget for unused amounts.
 - Amounts will be rolled from FY 2023-24 to FY 2024-25 (or a future year) for project work that has shifted fiscal years.
 - \$5.4M in Canyon Park Repair expenditures will be rolled to FY 2024-25, due to the timing of project completion (estimated to be December 2024).
 - Other large projects that will be shifted to future year(s) include Huntington Drive & 5th Project, Wellfield Electrical Project, Station Square Transit Village Booster Pump Project, and Encanto Park Stormwater Capture Project
- Proposed adjustments for Fiscal Year 2023-24 are included on Attachment B (Resolution 2024-34)
- A thorough CIP review and discussion of projects scheduled for FY 2024-25 will be performed during our upcoming FY 24-25 budget study session.

CIP – Projects to Be Completed Before Fiscal Year-End

- Well No. 3 Rehabilitation Project
- FY23-24 Valve Replacement Project
- Emerson Reservoir Painting Project
- Emerson Reservoir Booster Pump 5-2 Rehabilitation
- Upper Cloverleaf Reservoir Booster Pump 4-4 Rehabilitation Project
- Canyon Park Debris Removal Project (Completed in March 2024)
- Canyon Park Infrastructure Improvements Project (estimated completion by Winter 2024)
- FY23-24 Comprehensive Street Improvements Project (estimated completion in July 2024)
- FY23-24 Tree Planting Project

FY 2023-24 Fee Adjustments

- Staff is proposing fee adjustments to the City's Brush Defensible Space Inspection Fee.
- 1st & 2nd inspections will continue to be performed at no charge.
- If violations are not corrected after 2nd or 3rd inspection, a fee will be charged.
- Most residents are able to complete brush removal in 1st or 2nd inspection, so fee assessment will be rare.

| Service Description (Fire Department) | Old Fee | New Fee | Cost Recovery % | Comments |
|--|----------|----------|-----------------|--|
| <i>Brush Defensible Space Inspection</i> | | | | |
| First Inspection | \$0.00 | \$0.00 | N/A | No charge. |
| Second Inspection | \$0.00 | \$140.00 | 100% | Assessed only if violation is not corrected. |
| Third Inspection | \$117.00 | \$203.00 | 100% | Assessed only if violation is not corrected. Fee includes cost recovery for third inspection and final inspection. |
| AB-38 Defensible Space Inspections and Compliance Report Fee | \$64.00 | \$105.00 | 100% | Updated fee to cover cost of providing service. |
| <i>Brush Abatement</i> | | | | |
| Second Re-Inspect (Engine or Fire Inspector) | \$117.00 | \$0.00 | N/A | Remove. |

Next Steps

- This is the final budget update for Fiscal Year 2023-24.
- Staff is currently working on the Fiscal Year 2024-25 Budget update:
 - Budget Study Session (CIP Overview, Operating Budget, and Fees and Charges) – June 18 (*tentative*)
 - Formal Budget Approval – July 2 (*tentative*)

Thank you for your time!



Questions?