



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Jason Simpson, City Manager

Prepared by: Shannon Buckley, Assistant City Manager

Date: February 13, 2024

Subject: Fiscal Year 2023-2024 Mid-year Operating Budget Status Report

Recommendation

1. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, AMENDING THE FY 2023-2024 ANNUAL OPERATING BUDGET FOR MID-YEAR ADJUSTMENTS; and
2. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, REVISING THE SCHEDULE OF AUTHORIZED POSITIONS.

Background

The City is presenting its FY2023-2024 Mid-Year Budget review of the General Fund. The City's Budget Subcommittee reviewed the FY2023-2024 Mid-Year Revised budget for the General Fund. Please note that a City-Wide All Funds schedule is included for review. Further review and update of Special Revenue Funds, Capital Project Funds, and other funds will occur during the FY2024-2025 Operating Budget and Capital Improvement Plan Budget process.

The economy hasn't shown signs of slowing. Development activity is continuing within the City. While all signs point to a better economic future and interest rates are expected to ease over the next 12 months, the City must continue operating fiscally prudently, maintaining public safety service levels and providing the critical recovery and relief services our citizens expect. In addition, Lake Elsinore must continue to be self-reliant through changes in the economy and in the event of a future state of emergency.

Over the last year, the City has been diligent in following the City's spending priorities:

- Improving the Water Quality of the Lake

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- Preparing for any public health or catastrophic emergency
- Having adequate 9-1-1 emergency capacity
- Continuing to address homelessness and supporting residents and families in transition
- Improving fire protection and paramedic services
- Keeping public areas safe, healthy, and clean
- Continuing law enforcement services, including effectively staffed neighborhood patrols

The City is committed to reflecting the community's priorities and ensuring our budget and financial policies reflect spending consistent with the City Council and community's priorities.

The FY2023-2024 Mid-Year Operating Budget Status Report proposes maintaining current services through June 30, 2024, except for filling and adding a Senior Engineer position. Increased revenues will fund this position.

The City maintains the Uncertainty Reserve at 20% and establishes a path toward developing the FY2023-24 Operating Budget and the Five (5) Year General Fund Financial Plan. Included, as attachments to this report, are several schedules that illustrate (in a tabular format) the status of the FY2023-2024 Mid-Year Budget for the General Fund, as follows:

Attachment 1 – Resolution 2024- _____ including the attached financial schedules Summary of Revenues, Expenditures, and Change in Fund Balances – General Fund - FY2023-2024 Mid-Year Annual Operating Budget (Exhibit A) and All Other Funds Summary (Exhibit B).

Discussion

Current Condition – State of California – January 2024 Budget Update

In December, the Legislative Analyst's Office (LAO) reported that revenues were well below prior estimates, leading to a long-term budget deficit projection of \$68 billion. However, the Governor's January budget proposal falls between those numbers, with Newsom predicting a \$37.86 billion shortfall. According to the Governor, this difference boils down to Prop. 98 savings, workload reductions, new revenues, and "less pessimism" about the near future.

This substantial budget deficit is primarily due to extraordinary prior-year revenue shortfalls. The federal government extended tax filing deadlines multiple times last year in response to extreme winter storms, and California followed suit. As a result, the complete picture of 2022-23 tax collections became apparent only after the fiscal year closed and the previous year's budget had passed.

The Governor's proposed budget draws \$13.1 billion from the state's reserve accounts, \$8.5 billion in reductions, \$5.7 billion in internal borrowing, \$5.1 billion in delays, \$3.4 billion in fund shifts, and \$2.1 billion in deferrals. The Governor's proposed budget maintains \$18.4 billion in budgetary reserves.

City Revenues:

At mid-year, the City is anticipating a net increase in recurring operating revenues of \$668,630 from \$68,487,600 to \$69,156,230, a 0.98% increase. The estimated revenue adjustments are as follows:

<u>Estimated Adjustments to Revenue:</u>	<u>Amount</u>
Property Tax	\$ 93,010
Franchise Tax	2,000
Building Permit Fee	200,340
Property Transfer Tax	(150,000)
Other Taxes	50,000
Licenses & Permits	(345,000)
Intergovernmental	250,000
Fees	(49,520)
Investment Earnings	100,000
Reimbursements & Other	517,800
Total Adjustment to Revenues	\$ 668,630

The most significant revenue increase of \$517,800 in Reimbursements is mainly attributable to the Lake Elsinore Unified School District awarding a \$500,000 contract to the City to facilitate their Extended Learning Program.

City Expenditures:

Appropriations: At mid-year, the City anticipates a net increase in recurring operating expenditures from \$68,487,600 to \$69,156,230. The total increase for mid-year appropriations is \$668,630. Departments were requested to reduce or maintain costs within their existing appropriations, except for the community service department, which started the Extended Learning Program funded by the Lake Elsinore Unified School District.

<u>Estimated Appropriations Adjustment:</u>	<u>Amount</u>
Community Support	\$ 370
City Clerk	550
City Manager	92,740
Finance	1,170
Human Resources	430
Animal Services	(3,000)
Emergency Services	180
Planning	(96,870)
Building & Safety	1,290
Code Enforcement	51,030
Economic Development	370

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Fire Prevention	740
Engineering	2,580
Public Works	6,270
Recreation	501,240
Community Center	52,210
Senior Center	31,110
Neighborhood Center	26,220
Total Adjustment to Appropriations	<u>\$ 668,630</u>

The FY2023-2024 Mid-Year highlighted changes include:

- Paying down the City's Public Employee Retirement System (PERS) liability.
- Increased salary costs for certain part-time positions due to the increase in minimum wage.
- Increased salary and supply costs for Recreation due to the Expanded Learning Opportunities Program.

The City Manager will continue working closely with the departments to manage expenditures before June 30, 2024.

Fiscal Impact

Developing an accurate, balanced, and achievable budget is critical to establishing a solid foundation to manage the anticipated growth and demand for services within and by the community. In developing and implementing a comprehensive operating budget plan, the factors affecting the City's operations and financial condition are numerous. While the City's General Fund is still vulnerable, efforts will be made to closely monitor operating activities to ensure the General Fund's resources are programmed appropriately.

The FY2023-2024 Mid-Year Budget Report is one of the first steps in beginning the FY2024-2025 budget preparation process, which includes programming what Lake Elsinore's voters decided when they approved Measure Z, a 1 cent local transactions and use tax to generate unrestricted general fund dollars for municipal services, such as police and fire services, road maintenance, and homelessness solutions.

The City Manager will proactively work with each department to develop and present a balanced budget to the Mayor and City Council that moves the City forward in achieving its financial goals as part of the FY2023-2024 Budget process. The overall fiscal impact of the FY2023-2024 Mid-Year Operating Budget for the General Fund is as follows:

<u>Net Adjustment to Fund Balance from Mid-Year:</u>	<u>Amount</u>
Revenue Adjustments	\$ 668,630
Appropriations Adjustments	668,630
Net change/(impact) from Current Budget	<u>\$ -</u>

General Fund Balance Reserves

The General Fund Balance Reserves on June 30, 2024, would reflect the following because of the proposed Mid-Year adjustments, as follows:

<u>Analysis of Change in Fund Balance:</u>	<u>Amount</u>
Net Operating Revenues/(Deficit)	\$ -
Net Change/(Impact) @ Mid-Year	-
Net Operating Revenues/(Deficit), as adjusted	\$ -
Fund Balance, July 1, 2023 (audited)	19,268,716
Fund Balance, June 30, 2024 (projected-unaudited)	<u>\$ 19,268,716</u>

Detail of Fund Balance

Nonspendable:

Deposits and prepaid items	\$ 33,177
Loans Receivable	1,000,000

Assigned

Uncertainty reserve (20%)	13,831,246
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Unassigned

Unallocated reserve	4,404,293
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Total Fund Balance (net)	<u>\$ 19,268,716</u>
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Attachments

Attachment 1 - Resolution Operating Budget

Exhibit A - General Fund Summary

Exhibit B - All Other Funds Summary

Attachment 2 - Resolution Schedule of Authorized Positions

Exhibit A - Schedule of Authorized Positions

Exhibit B - Salary Schedule