



## REPORT TO CITY COUNCIL

**To:** Honorable Mayor and Members of the City Council

**From:** Jason Simpson, City Manager

**Prepared by:** Brendan Rafferty, Assistant Director of Administrative Services

**Date:** February 11, 2025

**Subject:** Fiscal Year 2024-2025 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 2024-2025 ANNUAL OPERATING BUDGET FOR MID-YEAR ADJUSTMENTS; and
2. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, AMENDING THE FY2024-2025 SCHEDULE OF AUTHORIZED POSITIONS FOR MID-YEAR ADJUSTMENTS.

### **Background**

The City is presenting its FY2024-2025 Mid-Year Budget review of the General Fund. The City's Budget Subcommittee reviewed the FY2024-2025 Mid-Year Revised Budget for the General Fund. Please note that a City-Wide All Funds schedule is included as an Exhibit to the Mid-Year Budget Resolution for informational purposes. An 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. Inflation has begun to moderate, and with a proposed Fed rate cut of 0.5%, the hope is to begin growing the economy without a looming threat of new inflation. With that said, the City must continue to operate fiscally prudent, maintain public safety service levels, and provide the critical recovery and relief services that our citizens expect. In addition, Lake Elsinore must continue to be self-reliant through changes in the economy and in the event of any future state of emergency.

## FY 2024-2025 MID-YEAR OPERATING BUDGET

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

- Improving the Water Quality of the Lake
- 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 City maintains the Uncertainty Reserve at 20% and establishes a path toward developing the FY2025-26 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 FY2024-2025 Mid-Year Budget for the General Fund.

### **Discussion**

#### **Current Condition – State of California – January 2025 Budget Update**

In November, the Legislative Analyst's Office (LAO) found the underlying condition of the state's budget was roughly balanced. This remains true under the Governor's proposed FY 2025-2026 budget. To accomplish this, the state will use approximately \$12.2 billion in Budget Stabilization Funds (BSA) over the next two fiscal years. By the end of FY 2025-2026, the BSA will have a balance of \$10.9 billion.

Over the last few years, the state has seen notable changes in revenue both negatively and positively. Under current laws, the state was unable to set aside additional funds during times of strong revenue growth. The new budget proposes to increase the mandatory deposit levels in the BSA from the current 10 percent to 20 percent of General Fund revenues and exempts these deposits from the State Appropriations Limit.

## FY 2024-2025 MID-YEAR OPERATING BUDGET

### Revenues:

At mid-year, the City is anticipating a net increase in recurring operating revenues of \$1,375,400 from \$71,173,350 to \$72,548,750, a 1.93% increase. The estimated revenue adjustments are as follows:

<b>Estimated Adjustments to Revenue:</b>	<b>Amount</b>
Sales Tax	\$ (400,000)
Property Tax	137,700
Building Permit Fee	349,000
Licenses & Permits	605,000
Intergovernmental	100,000
Fees	(241,200)
Investment Earnings	400,000
Reimbursements & Other	523,900
Total Adjustment to Revenues	<u>\$ 1,375,400</u>

The most significant revenue increase of \$605,000 in Licenses and Permits is mainly attributable to the City's collection of Community Benefit Fees under various Development Agreements. The other significant increase to Reimbursements and Other is primarily attributed to a \$350,000 increase on the contract between the City and Lake Elsinore Unified School District to facilitate the City staffing their Extended Learning Program.

Throughout the state, sales tax revenues are down from the previous fiscal year. Consumers are looking to lower priced items or holding off on purchases until their household economic conditions improve. Because of this, Sales Tax has a negative adjustment of \$400,000.

## FY 2024-2025 MID-YEAR OPERATING BUDGET

### Expenditures:

Appropriations: At mid-year, the City is anticipating a net increase in recurring operating expenditures from \$71,173,350 to \$72,548,750. The total increase for mid-year appropriations is \$1,375,400. Departments were requested to reduce or maintain costs within their existing appropriations.

<b>Estimated Appropriations Adjustment:</b>	<b>Amount</b>
City Council	\$ 31,790
Community Support	41,020
City Clerk	29,880
City Manager	55,810
Finance	100,060
Human Resources	21,220
Police Services	880
Fire Services	40,270
Animal Services	21,000
Emergency Services	9,960
Planning	67,300
Building & Safety	82,710
Code Enforcement	67,670
Economic Development	19,920
Fire Prevention	15,840
Engineering	107,250
Public Works	213,990
Park Maintenance	36,000
Lake Maintenance	57,000
Recreation	86,720
Community Center	53,510
Senior Center	45,750
Neighborhood Center	55,550
Non-Departmental	114,300
Total Adjustment to Appropriations	<u>\$ 1,375,400</u>

The FY2024-2025 Mid-Year highlighted changes include:

- Increase in the City's contribution to employee health benefits
- 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 with the departments to closely manage expenditures before June 30, 2025.

### **Fiscal Impact**

Developing an accurate, balanced, and achievable budget is essential for managing the City's anticipated growth and increasing demand for services. A comprehensive operating budget plan must account for numerous factors influencing the City's operations and financial health and the City staff will continue closely monitoring expenditures to ensure resources are allocated effectively.

The FY2024-2025 Mid-Year Budget Report is one of the first steps in beginning the FY2025-2026 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 FY2025-2026 Budget process. The overall fiscal impact of the FY2024-2025 Mid-Year Operating Budget for the General Fund is as follows:

<b><u>Net Adjustment to Fund Balance from Mid-Year:</u></b>	<b><u>Amount</u></b>
Revenue Adjustments	\$ 1,375,400
Appropriations Adjustments	1,375,400
Net change/(impact) from Current Budget	<u><u>\$ -</u></u>

### **General Fund Balance Reserves**

The General Fund Balance Reserves at June 30, 2025, would reflect the following because of the proposed Mid-Year adjustments, as follows:

<b><u>Analysis of Change in Fund Balance:</u></b>	<b><u>Amount</u></b>
Net Operating Revenues/(Deficit)	\$ -
Net Change/(Impact) @ Mid-Year	-
Net Operating Revenues/(Deficit), as adjusted	\$ -
Fund Balance, July 1, 2024 (audited)	<u>20,841,585</u>
Fund Balance, June 30, 2025 (projected-unaudited)	<u><u>\$ 20,841,585</u></u>

## FY 2024-2025 MID-YEAR OPERATING BUDGET

### Detail of Fund Balance

#### Nonspendable:

Deposits and prepaid items \$ 74,681

Loans Receivable 1,000,000

#### Assigned

Uncertainty reserve (20%) 14,509,750

#### Unassigned

Unallocated reserve 5,257,154

Total Fund Balance (net) \$ 20,841,585

### **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