



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Jason Simpson, City Manager

Prepared by: Brendan Rafferty, Assistant Administrative Services Director

Date: June 11, 2024

Subject: Adoption of the FY 2024-25 Annual Operating Budget, Schedule of Authorized Positions, and the Gann Limit

Recommendation

1. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ADOPTING THE FY 2024-25 ANNUAL OPERATING BUDGET AND ESTABLISHING THE CONTROLS ON CHANGES IN THE APPROPRIATIONS;
2. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, APPROVING THE 2024-2025 SCHEDULE OF AUTHORIZED POSITIONS; and
3. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ESTABLISHING THE APPROPRIATIONS GANN LIMIT FOR FY 2024-25 AND SELECTING THE POPULATION AND INFLATION FACTOR ACCORDINGLY.

Background

The Proposed FY2024-25 Annual Operating Budget is attached for your review. The budget includes revenue projections and expenditure requests for the General Fund, Special Revenue Funds, Capital Project Funds, and Agency Funds. Also presented with this report are the FY2024-25 proposed authorized position schedule and the Gann Limit Calculation. The budget subcommittee has reviewed and discussed the FY2024-25 Annual Operating Budget and the items noted.

Despite high interest rates and increasing consumer debt, the economy is not expected to fall into recession. Instead, the economy is expected to cool down with economic growth slowing. The City will continue operating in a fiscally prudent manner while maintaining current public safety service levels and providing critical services that our citizens have come to expect.

The City is committed to reflecting the community's priorities in the budget and is looking forward to the ongoing engagement of soliciting resident feedback from residents and reporting to the public and City Council on needs and priorities. The City seeks to keep Lake Elsinore clean and well-maintained to help protect and improve local property values. Working together, we will ensure our budget and financial policies reflect spending consistent with the community's priorities.

As such, the FY2024-25 Annual Operating Budget Status Report proposes maintaining current services through June 30, 2025, and the Uncertainty Reserve at 20%.

Discussion

Current Condition - State of California – May 2024 Revision Budget (Governor Newsom)

Gov. Gavin Newsom unveiled his May revision to the FY2024-25 budget proposal on Friday, May 10, 2024. The revised budget proposal closes this year's remaining \$27.6 billion budget shortfall and next year's projected \$28.4 billion deficit. The May Revision assumes steady but slowing economic growth. It does not anticipate a recession. However, the state is seeing increased unemployment and stubbornly high inflation.

Governor Newsom's revised balanced state budget cuts one-time spending by \$19.1 billion and ongoing spending by \$13.7 billion through 2025-26. Nearly an 8% cut to state operations and a targeted elimination of 10,000 unfilled state positions, improving government efficiency and reducing non-essential spending. Highlights from the budget cuts include:

- **Reductions.** The May Revision reduces funding for various items in addition to the reductions made in the Governor's Budget. Significant solutions in this category include:
 - **Middle-Class Scholarship Program** - Reduce \$510 million in ongoing General Fund support for the Middle-Class Scholarship program. Combined with a technical adjustment, \$100 million in ongoing support for this program would remain.
 - **California Preschool, Transitional Kindergarten, and Full-Day** - Kindergarten Facilities Grant Program—Pull back a planned 2025-26 General Fund investment of \$550 million that would **have** supported the California Preschool, Transitional Kindergarten, and Full-Day Kindergarten Program. Such an investment could be considered for inclusion in education facilities bond proposals contemplated by the Legislature.
 - **Children and Youth Behavioral Health Initiative** - A reduction of one-time \$72.3 million General Fund in 2023-24, \$348.6 million General Fund in 2024-25, and \$5 million General Fund in 2025-26 for **school-linked** health partnerships and capacity grants for higher education institutions, behavioral health services and supports platform, evidence-based and community-defined grants, public education and change campaign, and youth suicide reporting and crisis response pilot.

- **California Department of Corrections and Rehabilitation Housing Unit Deactivations** - An **ongoing** reduction of \$80.6 million General Fund to reflect the deactivation of 46 housing units across 13 prisons, totaling approximately 4,600 beds.
 - **Ongoing Reductions to State Operations** - A reduction to state operations by approximately 7.95 percent beginning in 2024-25 to nearly all department budgets. The planned reduction involves all categories, including personnel, operating costs, and contracting. In the fall, the Department of Finance will work with agencies and departments on the appropriate budget reductions.
- **Revenue/Internal Borrowing.** The May Revision includes additional and adjusted support from revenue sources and borrows internally from special funds. Significant solutions in this category include:
- **Net Operating Loss (NOL) Suspension and Limit Credit to \$5 Million** - The Governor's Budget NOL suspension proposal is modified to begin in 2025-26 and include an opportunity to trigger the suspension if revenues improve, resulting in \$900 million revenue gain (\$558 million net of Proposition 98) in 2024-25 and \$5.5 billion (\$3.4 billion net of Proposition 98) in 2025-26.
 - **Additional Managed Care Organization (MCO) Tax (Medicare Revenue)** - Increase the MCO Tax to achieve additional net state benefit of \$689.9 million in 2024-25, \$950 million in 2025-26, and \$1.3 billion in 2026-27 by including health plan Medicare revenue in the total revenue limit calculation, which increases the allowable size of the tax.
- **Delays and Pauses.** The May Revision minimizes delays to avoid increased future obligations and potential shortfalls, and some delays proposed in the Governor's Budget have been changed to reductions. There are limited exceptions in which funding is spread over a multi-year period. These include:
- **Broadband Last Mile** - Delay \$200 million from 2025-26 to 2027-28.
 - **Child Care Slot Expansion Pause at Current Level** - Approximately 119,000 slots have been added; a pause at the current level until fiscal conditions allow for resuming the expansion will result in a revenue gain of \$489 million in 2024-25 and \$951 million in 2025-26.
 - **Fund Shifts** - The May Revision shifts certain expenditures from the General Fund to other funds in addition to those in the Governor's Budget. Significant solutions in this category include:
 - Capitol Annex Projects—Shift \$450 million in 2024-25 and \$250 million in 2025-26 from cash to bonds.
 - **Cap and Trade Fund Shifts** - Several General Fund commitments are shifted into the Greenhouse Gas Reduction Fund, focusing on equity programs, priorities to help meet climate goals, and programs that support greenhouse gas reductions for a total shift of \$1.7 billion in 2024-25.

The next step is negotiation with lawmakers. The California Legislature must sign off on a state budget by June 15.

City General Fund Revenues

The projected General Fund revenues are \$71.17 million for FY2024-25, which reflects a \$2,017,120, or 2.92% increase from FY2023-24. General Fund revenues have increased primarily due to the passing of Measure Z. The most significant revenue increases are identified below:

- Tax Credit - 26.7% (\$1.1 million)
 - Fire Service Tax Credit - \$1.1 million
- Intergovernmental - 16.53% (\$73,310)
 - AMR Fines - \$61,350
- Fees - 6.62% (\$393,230)
 - Planning and building activity.
- Property Tax - 3.36% (\$377,020)
- Sales Tax – Decrease of 2.6% (-\$456,480)
 - Receipts for the 2nd quarter of FY 23/24 were down 1.4%.
 - Inflation continues to burden consumers and businesses as customer spending has been reduced to essential needs.
 - Up \$1.3 million vs. FY 22/23

City General Fund Expenditures

The proposed budget of \$71.17 million reflects an increase in General Fund expenditures of \$2,017,120, or 2.92% from the FY2023-24 projected budget. The primary increases contributing to this increase are:

- Police Services – 4.71% (\$878,810)
 - New union contracts and estimated cost increase of 4.25%.
 - Added 1 Special Enforcement Team BRS Officer
- Fire Services – 10.29% (\$1,132,200)
 - Move from a 72-hour work week to a 66-hour work week.
- Animal Services - 22.8% (\$224,540)
 - Minimum wage increase and contract for Shelter Service.
- Economic Development - 71.1% (\$458,470)
 - Full-year of the new department
- Community Center - 19.7% (\$229,760)
 - Lake Elsinore Unified School District Expanded Learning Program
- City Clerk - 21.5% (\$193,370)
 - Elections
- City Council - 11.8% (\$37,400)
 - Salary Increase.

The City has continued to focus on reorganizing department structures to streamline processes and enhance efficiencies without reducing essential public services to the community.

Schedule of Authorized Positions

Section 37206 of the California Government Code requires the City Council to prescribe the time and method of paying salaries and wages of City officers and employees. Under Government Section 37206, the City Council annually adopts by resolution a schedule of authorized positions for each fiscal year.

"Gann" Appropriations Limit

Under Government Section 7910, the City Council is required, on an annual basis, to adopt by resolution the "Gann" Appropriations Limit. The Appropriations Limit restricts the revenue that can be appropriated in any fiscal year. The Limit is adjusted each year based on the change in the population, the change in non-residential assessed valuation, or the change in California's per capita income. The Limit for the FY2024-25 is based on California's per capita income.

Using population and per capita personal income data provided by the State Department of Finance, the City's Appropriations Limit for FY2024-25 has been computed to be \$133,841,190. Appropriations are subject to the Limit in the proposed FY2024-25 budget, which totals \$48,087,116, or \$85,754,074 less than the computed Limit. Additional appropriations to the budget are funded by non-tax sources such as service charges, restricted revenues from other agencies, grants, or beginning fund balances, which would be unaffected by the Appropriations Limit. However, any supplemental appropriations funded through increased tax sources could not exceed the \$85,754,074 variance indicated above. Further, any overall actual receipts from tax sources greater than \$85,754,074 from the budget estimates will result in proceeds from taxes above the City's Appropriations Limit, requiring refunds of the excess within the next two fiscal years or voter approval to increase the City's Appropriations Limit. taxes above the City's Appropriations Limit, requiring refunds of the excess within the next two fiscal years or voter approval to increase the City's Appropriations Limit.

Fiscal Impact

The Proposed FY2024-25 Annual Operating Budget is balanced while maintaining the 20.0% designation for the economic uncertainty reserve target of \$14,234,670.

Attachments

Attachment 1 - Resolution Operating Budget
Exhibit A - General Fund Summary
Exhibit B - FY 24-25 All Other Funds Summary
Exhibit C - FY 23-24 All Other Funds Summary
Attachment 2 - Resolution Authorized Positions FY 24-25
Exhibit A - Schedule of Authorized Positions
Attachment 3 - Resolution Gann Limit FY 24-25
Exhibit A - Appropriations Limit Calculation
Attachment 4 - Measure Z Spending Plan