



REPORT TO CITY COUNCIL

To: Honorable Mayor or Members of the City Council

From: Jason Simpson, City Manager

Prepared by: Shannon Buckley, Assistant City Manager

Date: January 24, 2023

Subject: **Fiscal Year 2022-2023 Mid-year Operating Budget Status Report**

Recommendation

1. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, AMENDING THE FY2022-2023 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 FY2022-2023 SCHEDULE OF AUTHORIZED POSITIONS FOR MID-YEAR ADJUSTMENTS.

Background

The City is presenting its FY2022-2023 Mid-Year Budget review of the General Fund. The City's Budget Subcommittee reviewed the FY2022-2023 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 FY2023-2024 Operating Budget and Capital Improvement Plan Budget process.

While the economy shows signs of ongoing improvement and the development activity momentum has built within the City over the recent periods, the inflation pressures over the past 18 months and rising interest rates, have pushed many buyers of homes out of the market and caused homebuilders to enact efforts to reduce costs or wait for improvements in the economy. As such, the City must continue to operate fiscally prudently, 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 this crisis and in the event of any future state of emergency.

Mid-year Operating Budget

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

- 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 is looking forward to engaging feedback from residents during the budget process and reporting back to the public and City Council on needs and priorities. Then, working together, we will ensure our budget and financial policies reflect spending consistent with the community's priorities.

Currently, the FY2022-2023 Mid-Year Operating Budget Status Report proposes maintaining current services through June 30, 2023, except for filling and adding key staffing positions in Planning, Community Support, and Code Enforcement departments. These positions and resources are being funded from increased revenues, as noted below, outside of Measure Z funding.

The City maintains the Uncertainty Reserve at 20% and establishes a path toward developing the FY2022-23 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 FY2022-2023 Mid-Year Budget for the General Fund, as follows:

Attachment 1- A Resolution including financial schedules, Summary of Revenues, Expenditures, and Change in Fund Balances – General Fund - FY2022-2023 Mid-Year Annual Operating Budget

Discussion

Revenues:

At mid-year, the City is anticipating a net increase in recurring operating revenues of \$2,222,410 from \$63,495,100 to \$65,714,510, a 3.50% increase. The estimated revenue adjustments are as follows:

Mid-year Operating Budget

Estimated Adjustments to Revenue:	Amount
Sales Tax	\$ 29,490
Property Tax	60,020
Building Permit Fee	71,700
Licenses & Permits	256,610
Intergovernmental	114,300
Fees	460,130
Fines & Forfeitures	280,280
Reimbursements & Other	949,880
Total Adjustment to Revenues	<u>\$ 2,222,410</u>

The largest revenue increase of \$949,880 in Reimbursements results from ongoing substantial growth in the countywide reimbursements from Special Assessments. All of the remaining revenue adjustments reflect projections to year-end trending as a result of actual activity year-to-date.

Expenditures:

Appropriations: At mid-year, the City is anticipating a net increase in recurring operating expenditures from \$63,495,100 to \$65,717,510. The total increase for mid-year appropriations is \$2,222,410. Departments were requested to reduce or maintain costs within their existing appropriations, except for minor changes within individual line items.

Mid-year Operating Budget

Estimated Appropriations Adjustments:	Amount
City Council	\$ 41,320
Community Support	(92,850)
City Clerk	(1,060)
City Manager	259,040
Finance	139,220
Human Resources	41,570
Fire Services	298,360
Planning	487,260
Building & Safety	69,280
Code Enforcement	39,380
Economic Development	108,830
Fire Prevention	61,280
Engineering	232,260
Public Works	231,630
Park Maintenance	50,000
Lake Maintenance	19,600
Recreation	45,060
Community Center	80,090
Senior Center	34,970
Neighborhood Center	29,920
Total Adjustment to Appropriations	<u>\$ 2,222,410</u>

The FY2022-2023 Mid-Year highlighted changes include:

- Increased health and benefit contributions.
- Increased salary costs from renegotiated salaries based upon a marketplace review of job classifications due to inflationary pressures and economic trends as the nation transitions out of the COVID-19 pandemic
- Adding in-house Economic Development Manager position.

Regarding Police and Fire Services appropriations, the City maintains existing service levels; nevertheless, the modifications noted directly relate to effectively managing the operating expenditures within budget line items, including training, fees, supplies, and other line items. The City Manager will continue working with the departments to closely manage expenditures before June 30, 2023.

Fiscal Impact

The development of 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 in a vulnerable condition, efforts will continue to closely monitor operating activities to ensure the General Fund's resources are programmed appropriately.

The FY2022-2023 Mid-Year Budget Report is one of the first steps in beginning the FY2023-2024 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 FY2022-2023 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	\$ 2,222,410
Appropriations Adjustments	2,222,410
Net change/(impact) from Current Budget	<u>\$ -</u>

General Fund Balance Reserves

The General Fund Balance Reserves at June 30, 2023, 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, 2022 (audited)	<u>17,345,709</u>
Fund Balance, June 30, 2023 (projected-unaudited)	<u><u>\$ 17,345,709</u></u>

Detail of Fund Balance:

Nonspendable:	
Deposits and prepaid items	\$ 25,000
Loans Receivable	1,000,000
Assigned	
Uncertainty reserve (20.0%)	13,143,502
Unassigned	
Unallocated reserve	<u>3,177,207</u>
Total Fund Balance (net)	<u><u>\$ 17,345,709</u></u>

Attachments

Attachment 1 - Operating Budget Resolution

Exhibit A - General Fund Summary

Exhibit B - All Other Funds Summary

Attachment 2 - Schedule of Authorized Positions Resolution

Exhibit A - Staffing Allocation

Exhibit B - Salary Schedule