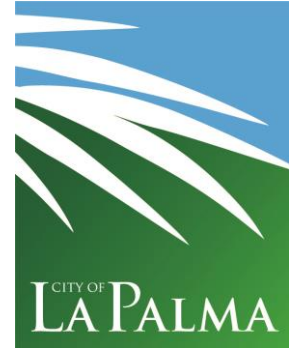


City of La Palma

Agenda Item No. 14



MEETING DATE: May 2, 2023

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Ryan Hallett, Administrative Services Director
Michael Matsumoto, Financial Consultant

AGENDA TITLE: Long-Term Fiscal Status and Draft Fiscal Year 2023-24 Budget

RECOMMENDATION:

It is recommended that the City Council take the following actions:

- 1) Receive the staff presentation on the Long-Term Fiscal Status Update;
- 2) Receive an overview of the Draft Fiscal Year 2023-24 Budget and provide direction for additional materials or information needed for the final budget to be presented on June 6, 2023; and
- 3) Transfer \$3 million from General Fund Unreserved Fund Balance to Emergency Reserve (\$1.5 million) and General Fund Budget Reserve (\$1.5 million) funds.

SUMMARY:

The Economy and La Palma's Economic Outlook

During the early months of 2023, fluctuating key indicators led many experts to draw mixed conclusions regarding the fluid economic outlook. Strong job numbers and low unemployment rates allowed consumption spending to stay solid. However, recent bank closures have tested the stock market, and as a result, both investors and customers are nervous about the security and accessibility of their funds. One of the most vulnerable segments includes taxable discretionary merchandise as consumers closely monitor their financial situation.

On a local level, the City maintains a prudent philosophy regarding its spending. Lessons from prior years indicate that the economy can fluctuate from growth to recession and back again. Fortunately, the City has very healthy reserves that have grown during the pandemic. As of March 31, 2023, the current spendable reserves were approximately \$18.1M, or 133% of FY 2023-24 General Fund expenditures, in the following funds:

General Fund	\$ 3,844,500
Emergency Reserve	6,267,700
General Fund Budget Reserve	1,145,500
Capital Operating Reserve	5,373,800
Civic Center Replacement	<u>1,479,300</u>
Total	\$ <u>18,110,800</u>

The General Fund Budget Reserve, Capital Outlay Reserve, and Civic Center Replacement funds hold General Fund money set aside by the City Council for various reasons, so they are not restricted by an outside agency. At this time, staff is not recommending using these reserves; however, the City Council could use the money for other purposes if needed.

Ten-Year General Fund Financial Forecast

The Ten-Year General Fund Financial Forecast (Attachment 1) indicates operating budget surpluses for the foreseeable future, which will ensure that core services are maintained at the high level that residents expect and deserve.

The following revenue and expenditure assumptions were used in developing the Ten-Year General Fund Forecast. Most revenue accounts are conservatively projected to increase 2% year-over-year except property tax, which is expected to increase 3.75% year-over-year. Most non-personnel expenditure accounts are projected to increase 2% year-over-year. Personnel expenditures, however, are known for FY 2023-24 (4% increase) and FY 2024-25 (5% increase) due to current labor agreements so those increases have been incorporated. After FY 2024-25, personnel expenditures are projected to increase 2% year-over-year.

FY 2023-24 Draft Budget

Projected General Fund Revenues

Estimated FY 2023-24 General Fund revenues are \$14,447,000, a 3.8% increase over projected FY 2022-23 revenues. The City’s five largest revenue categories are Property Tax, Sales Tax, Transaction and Use Tax (Measure JJ), Utility Users Tax, and Transient Occupancy Tax (hotel tax).

Revenues	FY2022-23 Projected	Draft FY 2023-24 Budget	% Change
Property Tax	\$4,436,800	\$4,581,700	3.3%
Sales Tax	1,994,000	1,831,700	-8.1%
Measure JJ	2,136,200	2,263,000	5.9%
Utility Users Tax	915,700	1,000,000	9.2%
TOT	500,000	600,000	20.0%
Licenses & Permits	370,500	429,100	15.8%
Charges for Services	521,600	550,200	5.5%
Interfund Transfers	1,508,800	1,483,000	-1.7%
Other	1,528,300	1,708,300	11.8%
Total	\$13,911,900	\$14,447,000	3.8%

The following is a summary of the five largest revenue categories:

- Property Tax – Property tax revenues have remained strong, and staff anticipates continued modest growth of 3.3%. Property taxes are calculated using the taxable assessed property values, and under Proposition 13, the assessed values are often far below the market values. In addition, the City is on the Teeter plan, so the County pays the City regardless of delinquent payments.
- Sales Tax and Transactions and Use Tax – Staff and sales tax consultants anticipate an audit adjustment that will negatively affect future sales tax revenues starting in FY 2023-24. The economy is experiencing a robust recovery, and sales tax consultants project slower revenue growth ahead but are not anticipating a recession soon.
- Utility Users Tax (UUT) – UUT revenues have remained strong through the pandemic, and staff anticipates a slight increase in FY 2023-24 due to the increased cost of electricity and gas. However, staff anticipates a slight decrease in UUT revenue after FY 2023-24 and beyond.
- Transient Occupancy Tax (TOT or Hotel tax) – Transient Occupancy Tax revenues rebounded substantially in FY 2021-22, and full recovery is anticipated in FY 2023-24. With the recent passage of Measure P, which was supported by more than 70% of voters and increased the Transient Occupancy Tax rate from 8% to 12%, staff estimates an additional \$200,000 in revenue for FY 2023-24.

Projected General Fund Expenditures

Staff has drafted a budget using a status quo approach with similar programs and activities to those planned in the previous budget. Therefore, estimated FY 2023-24 General Fund expenditures and transfers are \$13,992,900, a 3.4% increase over projected FY 2022-23 expenditures and transfers. Consequently, a surplus of \$454,100 is estimated for FY 2023-24.

Expenditures	FY2022-23 Projected	Draft FY 2023-24 Budget	% Change
Personnel	\$8,204,100	\$8,705,200	6.1%
Maintenance and Operations	3,409,000	3,644,500	6.9%
Internal Service Funds	1,305,100	1,243,200	-4.7%
Subtotal Expenditures	12,918,200	13,592,900	5.2%
Transfers	620,000	400,000	-35.5%
Grand Total	\$13,538,200	\$13,993,000	3.4%
Surplus (Deficit)	\$373,700	\$454,100	21.5%

Personnel/Labor Changes

Draft FY 2023-24 Personnel costs comprise 62% of the draft budget and a 6.1% increase from the previous year. Increased personnel costs are directly related to labor agreements approved by the City Council last year. As part of the labor negotiation process, the Council agreed to reopen agreements with two labor groups to consider re-establishing a 40-hour work week with a corresponding increase in base salaries. The 40-hour work week was reduced to a 38-hour work

week when the City was in fiscal uncertainty around 2015-2016, cutting 5% of non-safety employees' take-home pay. The City Council at the time told staff that they would be willing to consider returning to a 40-hour work week when the City's fiscal position improved. The City's fiscal position has significantly improved since 2015-2016 to where the City Council could return staff to a 40-hour work week, which would also mean keeping City Hall open for an additional two hours per week to serve the residents further. Thus, the draft budget includes personnel costs for returning to the 40-hour work week for all non-safety employees (who are already at 40 hours a week).

Additionally, the Council agreed with one of the labor groups to review the salaries of the Lead Maintenance Worker and Maintenance Worker positions to determine whether any equity adjustments were needed. After surveying surrounding cities, it was determined that the City's Lead Maintenance Worker position was nearly 23% below the median salary, and the Maintenance Worker position was 17% below the median salary. Recognizing this, the draft budget includes equity pay to bring these two positions within 2% of the median by FY 2024-25.

Other personnel changes include reclassifying positions to meet further the organization's current needs as well as a City Council goal of succession planning:

1. Reclassifying one Recreation Coordinator position to Recreation Supervisor in the Public Works/Community Services Department.
2. Reclassifying on Administrative Secretary position to Management Assistant in the Public Works/Community Services Department.
3. Reclassifying one Human Resources Specialist position to Human Resources Analyst in the Administrative Services Department.
4. Reclassifying one Administrative Services Director position to Assistant City Manager/ Administrative Services Director in the General Government and Administrative Services Departments.

It is important to note that these changes do not add additional employees and are already built into the draft budget. Below is a summary of the personnel changes and costs:

Positions	Draft FY 2023-24 Budget Increase (Decrease)
Lead Maintenance Worker Equity Pay	\$8,200
Maintenance Worker Equity Pay	4,200
Recreation Supervisor Reclass	11,400
Management Assistant Reclass	2,000
Human Resources Analyst Reclass	13,100
Assistant City Manager/ Administrative Services Director Reclass	0
Subtotal	\$38,900
Ongoing personnel cost savings	(20,700)
Net Increase	\$18,200

Maintenance and Operations Changes

Draft FY 2023-24 Maintenance and Operation costs comprise 26% of the draft budget and a 6.9% increase from the previous year. Although this is a status quo budget, the following are highlights to point out either a new expense or other changes worth noting in the draft FY 2023-24 Budget:

- Increasing the City Council training budget from \$2,000 per Councilmember to \$3,000 to foster continued learning and professional development.
- An \$80,000 placeholder in the City Manager division for a possible community survey and/or strategic planning.
- Decreasing the Legal Services budget from \$120,000 to \$100,000.
- Adding \$25,000 for Council Chamber audio maintenance of new sound system if needed.
- Increasing the City’s animal control services contract to \$123,200.
- Adding a \$129,300 placeholder for an increasing crossing guard contract while staff evaluates whether there are other potential options.
- Adding \$25,000 for a potential dispatch services contract with Buena Park to assist if coverage is needed.
- Adding \$15,000 for holiday lights in the Special Events division.
- Increasing entry fees from \$19,500 to \$40,500 to return to pre-pandemic programming for summer programs like Day Camp.
- Increasing utilities like gas and electricity as well as office supplies due to general cost increases.
- Increasing training budgets for all divisions.

Internal Service Funds Changes

Draft FY 2023-24 Internal Service Fund charges comprise 9% of the draft budget and a 4.7% decrease from the previous year due to a decrease in the City’s insurance premiums.

Internal Service Funds	FY2022-23 Projected	Draft FY 2023-24 Budget	% Change
Insurance	\$905,400	\$817,000	-9.8%
Vehicle Replacement	221,100	236,800	7.1%
Technology Replacement	168,600	176,900	4.9%
Capital Outlay	10,000	12,500	25.0%
Total	\$1,305,100	\$1,243,200	-4.7%

Transfers Changes

The draft FY 2023-24 Budget includes transfers out of the General Fund totaling \$400,000, which includes \$350,000 to the Capital Outlay Reserve Fund (COR) for future capital projects and \$50,000 to the Civic Center Replacement Fund. The draft budget does not include a transfer out to the Emergency Reserve Fund because staff recommends that the City Council appropriate funding from its General Fund unreserved fund balance to the Emergency Reserve Fund (see section below) in a separate action.

Transfers Out	FY2022-23 Projected	Draft FY 2023- 24 Budget	% Change
Capital Outlay Reserve Fund	\$350,000	\$350,000	0%
Civic Center Replacement Fund	50,000	50,000	0%
Emergency Reserve Fund	220,000	0	-100%
Total	\$620,000	\$400,000	-35.5%

Capital Improvement Program

As part of the annual budget process, staff develops a ten-year Capital Improvement Plan (CIP) with a five-year CIP included in the draft and adopted budget. The CIP lists the major infrastructure projects planned for the subsequent fiscal year and four additional future years. In addition to listing the specific projects and their estimated cost, funding sources are identified. Generally, the City focuses its CIP on arterial and residential roadway rehabilitation (i.e., paving projects). However, the CIP also lists major projects such as water and sewer system upgrades, intersection improvements, or major repairs to City facilities (e.g., roof replacement, Americans with Disability Act required improvements, seismic improvements, etc.).

Highlights of the draft FY 2023-24 Capital Improvement Plan include:

- Continued progress on the City Yard renovation.
- Interior refurbishment of the Police Department
- Continued focus on the citywide streets median project in which the City received \$2 million in federal appropriations.
- Exterior painting of the Civic Center and Community Center
- Rehabilitation of La Palma Avenue and Fresca Drive/Marlin Circle as well as a portion of Valley View Street from Orangethorpe Avenue to 183 Street.
- Zone 6 residential paving project (the area south of La Palma Avenue and West of Moody Street)
- Central Park Updates
 - Softball field fencing replacement
 - Shade covering
 - Basketball/Tennis court resurfacing
 - Potential pickleball court

Options for General Fund unreserved fund balance

As presented at the Council's meeting on March 7, 2023, the General Fund unreserved fund balance (over and above the \$1,500,000 needed for cash flow) has been increasing over the past few years to \$3,844,500 at March 30, 2023. The City Council may wish to consider transfers for some or all of the money.

- Additional money could be transferred to the Emergency Reserve fund. Additional money could provide a better cushion in the event of a major reduction in revenue, natural disaster, or other unforeseen events. Also, this would eliminate the need for annual transfers into the Emergency Reserve fund from the General Fund.
- Additional money could be transferred to the General Fund Budget Reserve fund. This fund is holding unrestricted General Fund money, allowing the Council to see whether some excess funds from prior years might be needed to balance future year operations due to an economic downturn or if the City no longer receives sales tax revenue from bulk fuel sales.
- Additional money could pay down the CalPERS unfunded pension obligation. Additional payments toward the unfunded pension obligation now can reduce future payment amounts by the City.
- Additional money could be transferred to the Capital Outlay Reserve account to fund future capital projects.

Staff is recommending that the City Council transfer \$3 million from the General Fund Unreserved Fund Balance to Emergency Reserve (\$1.5 million) and General Fund Budget Reserve (\$1.5 million) funds for reasons stated above.

FISCAL IMPACT:

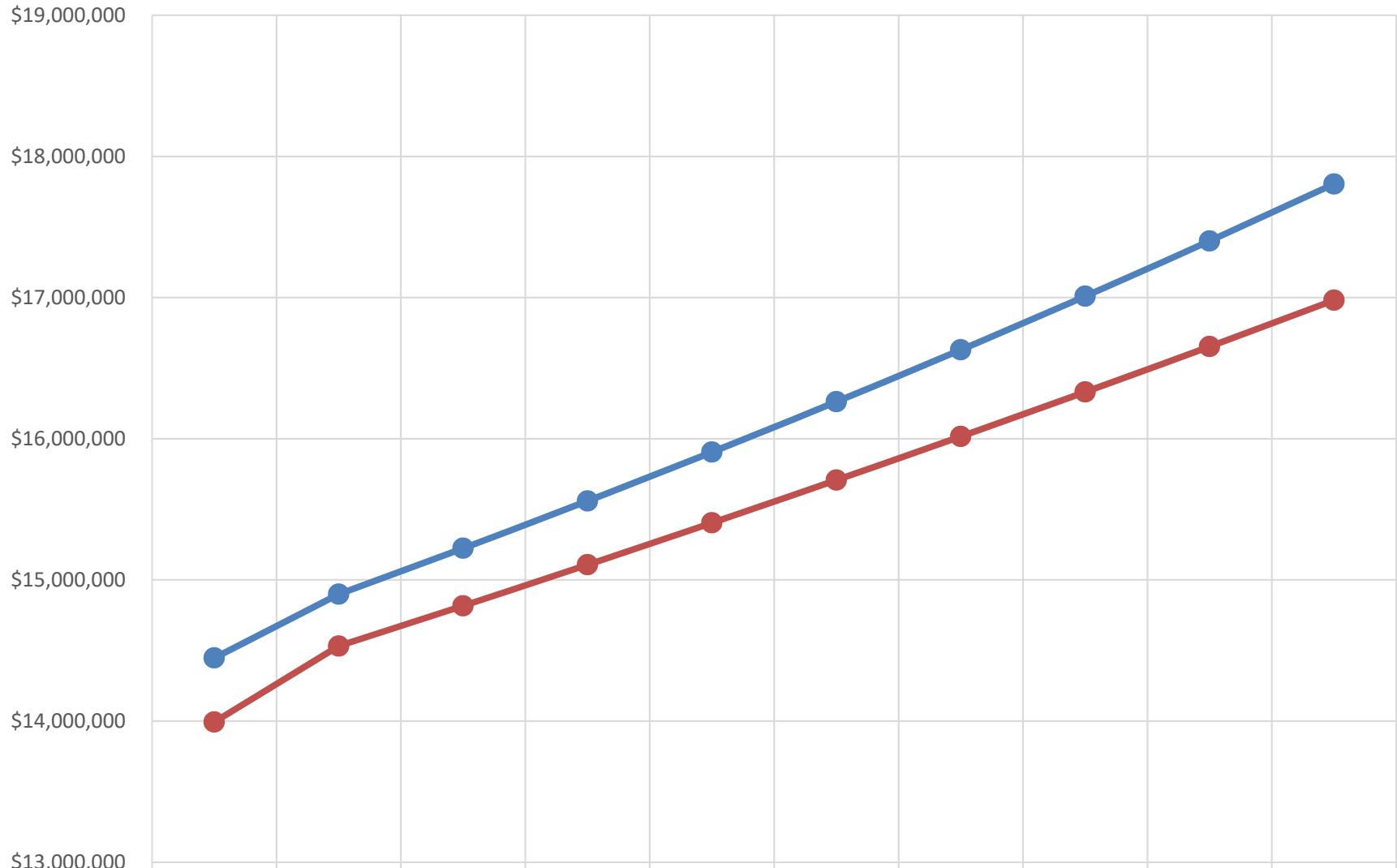
The only fiscal impact would be the transferring of funds from the General Fund Unreserved Fund Balance to Emergency Reserve (\$1.5 million) and General Fund Budget Reserve (\$1.5 million) funds. Other than that, there is no fiscal impact in discussing the financial situation or the elements presented in this plan. Direction given, however, will be incorporated into budget preparation and other financial processes.

APPROVED:

 <hr style="width: 100%;"/> Administrative Services Director	 <hr style="width: 100%;"/> Financial Consultant	 <hr style="width: 100%;"/> City Manager
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- Attachments:
1. Ten-Year General Fund Financial Forecast
 2. FY 2023-24 Draft Budget Summary

Ten-Year General Fund Forecast



	FY 23/24	FY 24/25	FY 25/26	FY 26/27	FY 27/28	FY 28/29	FY 29/30	FY 30/31	FY 31/32	FY 32/33
● Revenues	\$14,447,00	\$14,898,64	\$15,223,82	\$15,559,21	\$15,905,14	\$16,261,93	\$16,629,92	\$17,009,45	\$17,400,89	\$17,804,61
● Expenditures	13,992,965	14,531,354	14,816,405	15,107,274	15,404,077	15,706,916	16,015,910	16,331,228	16,652,966	16,981,241
Surplus	\$454,035	\$367,289	\$407,416	\$451,943	\$501,070	\$555,020	\$614,013	\$678,228	\$747,930	\$823,370

**DRAFT FY 2023-24
GENERAL FUND BUDGET SUMMARY**

Attachment 2

Name		2023 Projected	FY24 (In Progress)	% Change
Revenue Source				
	Property Tax	\$4,436,800	\$4,581,700	3.3%
	Sales Tax	\$1,994,000	\$1,831,700	-8.1%
	Transaction & Use Tax	\$2,136,200	\$2,263,000	5.9%
	Utility Users Tax	\$915,700	\$1,000,000	9.2%
	Other Revenues	\$269,900	\$261,500	-3.1%
	Residual Property Tax	\$320,000	\$331,000	3.4%
	Franchise Fees	\$426,600	\$430,000	0.8%
	Transient Occupancy Tax	\$500,000	\$600,000	20.0%
	Licenses and Permits	\$370,500	\$429,100	15.8%
	Intergovernmental	\$33,500	\$8,500	-74.6%
	Charges for Services	\$521,600	\$550,200	5.5%
	Fines & Forfeitures	\$100,900	\$100,100	-0.8%
	Use of Money and Property	\$377,400	\$577,200	52.9%
	Interfund Transfers	\$1,508,800	\$1,483,000	-1.7%
Total Revenue Source:		\$13,911,900	\$14,447,000	3.8%

Name		2023 Projected	FY24 (In Progress)	% Change
General Government				
	City Council	\$109,300	\$94,700	-13.3%
	City Manager	\$409,000	\$631,600	54.4%
	Legal Services	\$239,100	\$219,000	-8.4%
	City Clerk	\$162,800	\$123,900	-23.9%
Total General Government:		\$920,200	\$1,069,200	16.2%
Administrative Services				
	Administrative Services-Administration	\$265,900	\$261,700	-1.6%
	Fiscal Services	\$478,600	\$476,200	-0.5%
	Human Resources	\$2,329,900	\$2,384,700	2.4%
	Technology And Communications	\$329,700	\$361,200	9.5%
Total Administrative Services:		\$3,404,000	\$3,483,800	2.3%

**DRAFT FY 2023-24
GENERAL FUND BUDGET SUMMARY**

Name		2023 Projected	FY24 (In Progress)	% Change
Police				
	Police Administration	\$650,400	\$711,500	9.4%
	Operations	\$372,100	\$419,700	12.8%
	Patrol	\$2,688,900	\$2,718,500	1.1%
	Services	\$347,500	\$392,200	12.9%
	Community Education	\$81,700	\$83,800	2.6%
	Investigations	\$730,500	\$749,600	2.6%
	Records And Communications	\$775,300	\$810,600	4.6%
Total Police:		\$5,646,400	\$5,886,000	4.2%
Community Services				
	Community Services Administration	\$419,700	\$426,100	1.5%
	Health And Wellness	\$156,600	\$150,800	-3.7%
	Recreation Facility Operations	\$283,900	\$311,200	9.6%
	Special Events	\$187,100	\$243,400	30.1%
	Youth And Family	\$211,500	\$238,800	12.9%
	Citywide Maintenance	\$311,800	\$342,300	9.8%
	Engineering	\$55,100	\$59,700	8.3%
	Parks And Medians	\$319,100	\$318,400	-0.2%
	Streets	\$357,000	\$390,400	9.3%
	Capital Projects	\$0	\$0	
Total Community Services:		\$2,301,800	\$2,481,000	7.8%
Community Development				
	Community Development Administration	\$53,000	\$53,400	0.7%
	Building & Safety	\$266,500	\$274,600	3.0%
	Code Enforcement And Business Licenses	\$133,100	\$146,300	9.9%
	Planning	\$193,200	\$198,700	2.9%
Total Community Development:		\$645,800	\$673,000	4.2%
Transfers Out				
	Transfers Out	\$620,000	\$400,000	-35.5%
Total Transfers Out:		\$620,000	\$400,000	-35.5%
Total Expenditures:		\$13,538,200	\$13,993,000	3.4%