

**AGENDA
ITEM**


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AGENDA STAFF REPORT

DATE: June 15, 2023

TO: Mayor and City Council

APPROVED BY: Esperanza Colio Warren, City Manager 

PREPARED BY: Sandra L. Fonseca, Interim Finance Director 

SUBJECT: Proposed Annual Budget for Fiscal Year July 1, 2023 to June 30, 2024

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Recommendation:

This report introduces the 2023-24 Proposed Annual Budget. After receiving public and City Council feedback, the budget adoption resolution is scheduled for City Council consideration on June 21, 2023.

Background:

Budget Objectives and Strategic Plan

The 2023-24 budget continues to take positive steps to implement the City's Strategic Plan adopted by the City Council on September 15, 2021. As stated in the Strategic Plan, this budget prioritizes Calexico's fiscal responsibility to ensure its sustainability into the future. The proposed budget resolution adds new details to the City's budget policies and updates the General Fund 5-year target reserve.

The budget also continues to slowly restore services to the community by adding a net 7.5 staff positions for Police, street maintenance, the Solid Waste organic program, and Public Works engineering support for the City's capital improvement program.

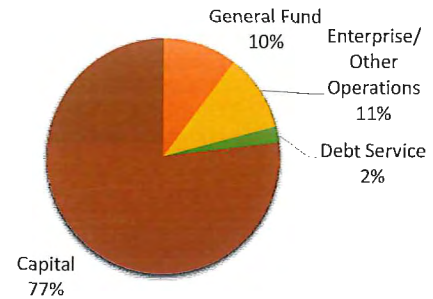
The City can best achieve its General Fund 5-year reserve target by maximizing and implementing its revenue opportunities. Projected revenue growth with the current soft economy does not cover anticipated expenditure growth, particularly with rising CalPERS pension costs. As in prior year budgets, the 5-year forecast relies upon new development revenues. Further, close expenditure control over the past years has resulted in a significant build-up of deferred equipment and capital replacements that cannot be covered at current revenue levels while maintaining current staffing and operations. The 2023-24 General Fund budget is balanced but without investment in ongoing equipment and capital replacements. As a temporary solution, ARPA "Revenue Loss" grant funds were recently allocated in the current 2022-23 budget year to address urgent repairs to City facilities and this 2023-24 budget proposes additional ARPA allocations for key General Fund capital and one-time expenditures. The remaining 5-year unfunded capital replacement list now exceeds \$7 million. Going forward, as ARPA funds are depleted, The General Fund must meet both operating and capital requirements within its available revenues. To support revenue growth, the City continues efforts to focus on Planning, Engineering, and Building operations to maximize development opportunities to strengthen the City's tax revenue base. A report on City user fees is also planned to update City Council on the status of City fees and supporting rate studies to ensure that the fees appropriately cover the cost of services.



City-wide Budget

The 2023-24 Citywide budget proposes annual expenditures of \$190 million. This includes General Fund operating expenditures of \$19 million, enterprise and other operations of \$20 million, debt service of \$4 million, and a capital improvement program of \$146 million.

	2022-23 Projected	2023-24 Budget
General Fund	\$ 18,857,381	\$ 19,625,973
Enterprise/ Other Operations	18,175,192	20,102,692
Debt Service	4,500,243	4,304,644
Capital	8,339,878	146,388,914
	<u>\$ 49,872,694</u>	<u>\$ 190,422,223</u>



Discussion & Analysis:

General and Measure H Funds

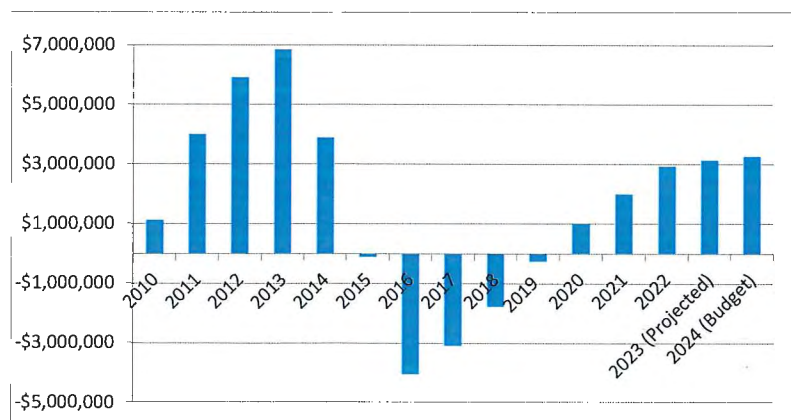
The General Fund is the primary operating fund of the City. Unrestricted property tax, sales tax, and other revenues pay for Police, Fire, Development, Library, Recreation, a portion of Public Works, and City Administration. The proposed General Fund budget for 2023-24 is balanced within current revenues and sustains current services.

In several of the following charts, the General Fund and Measure H Funds are combined to provide the best comparison with the City's audited financial statements. Government Accounting Standards require the consolidation of unrestricted funds such as Measure H into the audited General Fund presentation.

General Fund Balance/Operating Reserve Trend

The combined General and Measure H Fund Balance reserve projected at \$3 million continues an 8th year of improvement. The City has navigated its fiscal recovery and has reached the 60-Day minimum operating reserve target recommend as an industry "Best Practice" by the Government Finance Officers Association.

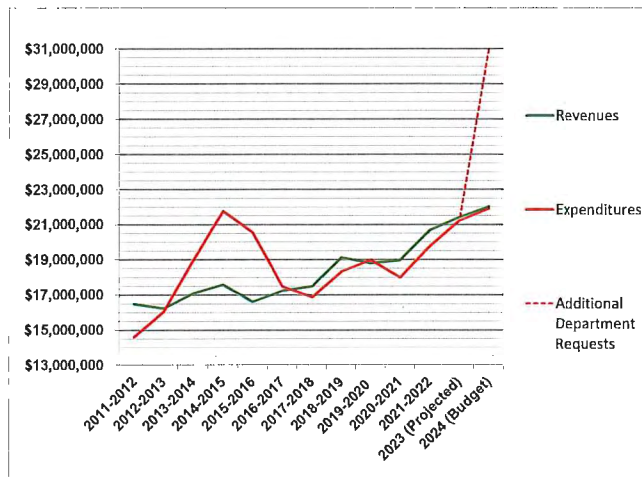
**General Fund Operating Reserve Trend
(Includes Measure H)**



General Fund Revenue/Expenditure Trends

The proposed 2023-24 budget balances expenditures within available revenues which is necessary to preserve the City's newly rebuilt fund balance reserve. However, Departments have identified an additional \$9 million in staffing, operating, and capital expenditures that are not included the proposed budget. These expenditure requests are detailed in the budget but are deferred until sustainable revenues are available to support additional services. The following chart demonstrates the fiscal impact of the new budget along with the fiscal impact if all new department program requests were implemented.

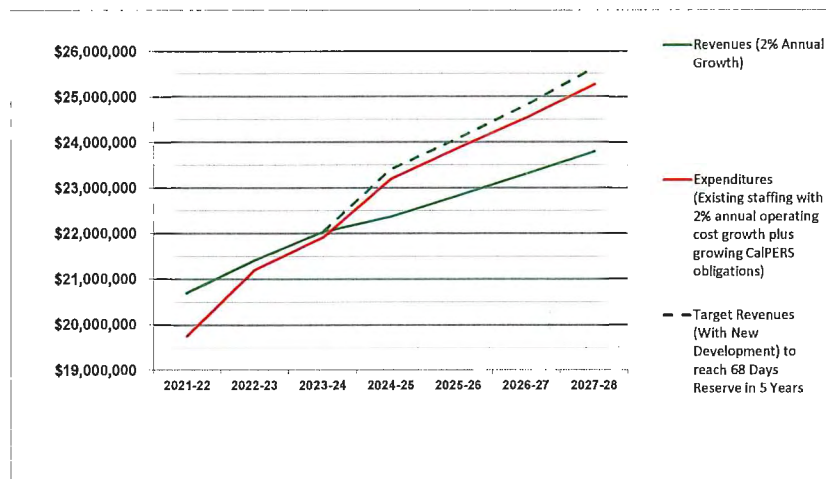
General Fund Revenue/Expenditure Trends
(Includes Measure H)



General Fund 5-year Revenue/Expenditure Forecast

The longer-term General Fund forecast relies upon new annual development revenues growing from \$1 million to \$1.8 million over the next five years to sustain current operations and staffing. The increasing 5-year revenue requirements are primarily due to the \$1+ million growth in annual CalPERS payments over this period to amortize unfunded pension costs. The proposed budget includes resources to focus on Planning, Engineering, and Building operations to maximize revenue opportunities.

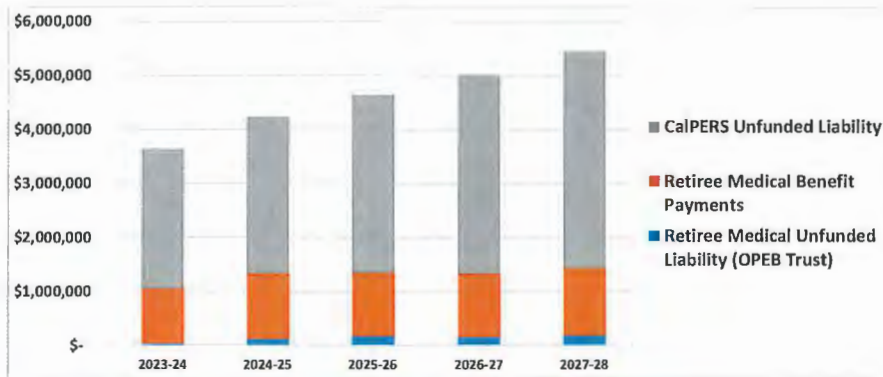
General Fund 5-Year Revenue/Expenditure Forecast
(Includes Measure H)



Long-term Retirement Benefit Obligations

The City has accumulated unfunded pension and retiree medical obligations that have been earned by employees in prior fiscal years. These benefits face growing annual cash flow requirements that constrain the City’s ability to sustain existing service levels and “crowd out” the ability to add new staffing. The CalPERS pension payments will increase annually as CalPERS phases-in the cost of recent investment losses over the next five years. CalPERS payment projections reflect the CalPERS investment market gains in 2021 but also portfolio losses currently estimated at (7%) for 2022 and 0% for 2023, compared to the actuarial assumption of an annual 6.8% gain. The General Fund share of pension costs are projected to increase from \$2 million to over \$3 million during the next five years. During 2022-23, the City took action to establish an OPEB Section 115 Trust designed to lower the long-term cost of retiree medical costs by investing current funds and generating investment income to pay for future benefits, similar to the CalPERS pension structure.

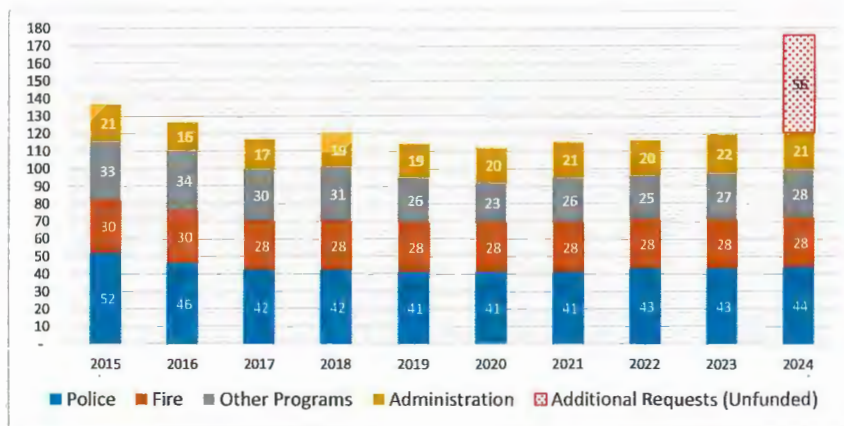
Long-term Retirement Benefit Obligations – Annual Payments
(All Funds)



General Fund Staffing

The following chart shows the General Fund authorized staffing trend since 2015. The 2023-24 budget proposes one net new General Fund position for a grant-funded Police Officer. Program departments have submitted requests for an additional 56 General Fund positions to improve City service levels. However, this staffing level is not feasible with current revenues and benefit obligations.

General Fund Authorized Staffing Trend

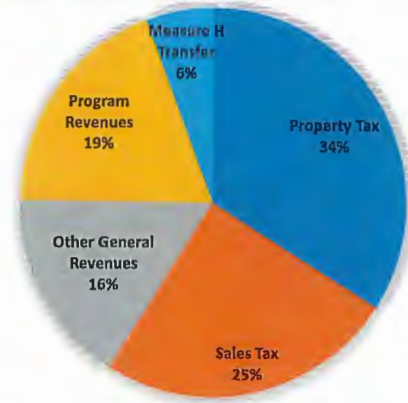


General Fund Revenues

General Fund revenues are substantially derived from property and sales taxes. When combined with Measure H, they comprise 70% of the City's unrestricted revenues. The City's General Fund revenues have increased by over \$3 million (18%) over the last four years. The City's current budget limitations are not due to stagnant or declining revenues.

General Fund Revenues

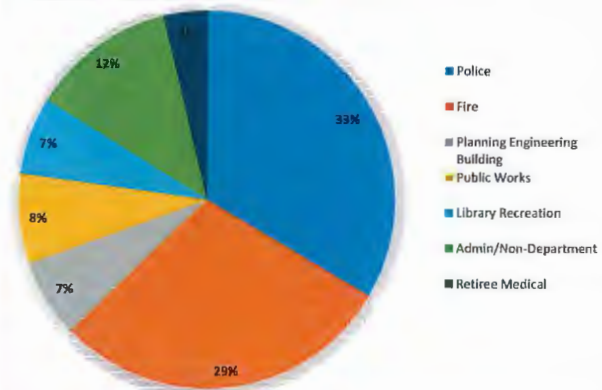
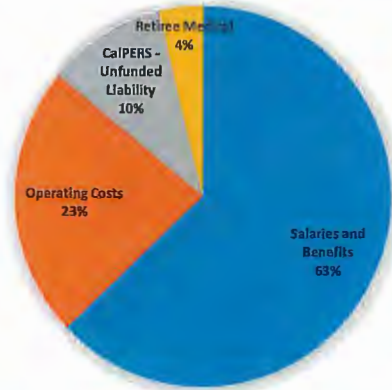
	<u>2022-23</u>	<u>2023-24</u>
Property Tax	\$ 6,536,474	\$ 6,676,000
Sales Tax	4,830,000	4,900,000
Other General Revenues	3,087,575	3,187,220
Program Revenues	3,508,166	3,740,753
Measure H Transfer	1,100,000	1,122,000
	<u>\$ 19,062,215</u>	<u>\$ 19,625,973</u>



General Fund Expenditures

General Fund expenditures are substantially used to pay for employee salaries, benefits, CalPERS pension funding, and retiree medical payments (combined, 77%) while the remainder is for operating expenditures including materials, maintenance, contracts, insurance, and office costs. The proposed budget allocates 62% of expenditures to public safety.

General Fund Expenditures



	<u>2022-23</u>	<u>2023-24</u>
Salaries and Benefits	\$ 11,666,371	\$ 12,344,818
Operating, Capital, and Leases	4,205,540	4,520,486
CalPERS - Unfunded Liability	2,098,541	2,025,824
Retiree Medical	886,930	734,845
	<u>\$ 18,857,381</u>	<u>\$ 19,625,973</u>

	<u>2022-23</u>	<u>2023-24</u>
Police	\$ 6,103,858	\$ 6,562,928
Fire	5,711,999	5,773,093
Planning Engineering Building	864,640	1,309,420
Public Works	1,171,638	1,506,399
Library Recreation	1,109,209	1,292,235
Housing	149,900	-
Admin/Non-Department	2,859,207	2,447,053
Retiree Medical	886,930	734,845
	<u>\$ 18,857,381</u>	<u>\$ 19,625,973</u>

Operating Grant Funds

The City administers a series of funds that operate with revenues that are restricted for specific programs, including State grants for the Library, Gas Tax, and Public Safety programs; Solid Waste fees, PBID, and other one-time grants and donations.

The Solid Waste Fund budget anticipates a user rate increase on January 1, 2024. The rates are under discussion with the operator and will be separately presented to City Council for consideration.

New staff positions are proposed for the Gas Tax and Solid Waste Funds. The Gas Tax fund adds 3.5 Street Maintenance workers and shares the cost of these employees with the RMMA fund. The Solid Waste Fund adds staff to support the organics program.

Housing Funds

The City administers revolving housing loan programs that have generated program income available for future reinvestment by the City. Three of these programs (CDBG, HOME, and CalHOME) are controlled by the State of California's Department of Housing and Community Development (HCD) and will become available for future use when the City is compliant with Federal and State guidelines. The Housing Successor holds housing loans and cash balances transferred to the City in 2011 at the time of Statewide Redevelopment dissolution. This program is under local control and has funds available for programming as projects are identified.

One new project is proposed for the Local Housing Fund. The budget adds new spending for the abatement of blighted properties.

Water/Wastewater Enterprise Funds

The 2023-24 Water/Wastewater budgets operate from customer user fees. The budget anticipates a user rate increase for these programs on January 1, 2024. New rates are under development and will be separately presented to City Council for consideration. Revenues are first pledged to the 2020 Water/Wastewater bonds issued to fund water/wastewater treatment plant improvements and other capital projects. The balance of user fees pay for operations and ongoing capital requirements.

The budget adds a net two positions to support the \$60 million Water/Wastewater capital program. With proposed revenue, staffing, and operating budget updates, both programs retain the net revenue/debt service coverage ratios required through the City's pledge to bond holders. The proposed budget maintains the existing \$3 million operating reserve for each program. The budget resolution updates this reserve target to 50% of annual operations at the time of adoption of new user fees. This would be an increase for the Water program and a decrease for the Wastewater program.

Capital Program

The proposed 2022-23 capital program invests \$146 million into the community through over 60 capital projects. The 5-year capital program totals \$195 million. Funding is from water/wastewater bonds, customer fees, grants, and development fees. These projects support City Council objectives of maintaining and improving the key infrastructure and facilities of the City.

2023-24 Capital Improvement Program

Street/Transportation	\$	23,898,852
General Government		16,909,015
New River/REACH		45,755,047
Water		15,134,500
Wastewater		19,640,500
Wastewater Treatment Plant		25,051,000
	\$	<u>146,388,914</u>

The capital program includes the City's Federal ARPA grant. The budget proposes revised allocations for General Fund equipment replacement, the 2024 summer swimming program, and construction funds for drainage basin valve repair. The proposed budget includes a detailed listing of inception-to-date ARPA grant allocations.

2022-23 Budget Updates

The proposed budget resolution includes an update to the current 2022-23 budget to reflect current trends. Several departments have updated the program revenue projections based upon year-to-date trends. Also, the March quarterly sales tax results were slightly favorable to the prior HDL projection. The net General Fund impact of the proposed adjustments is positive, and offsets a drop in Measure H sales tax. The combined budget impact maintains the General Fund's 60-day fund balance target. Updating the 2022-23 budget provides the best available baseline and fund balance projection to start the new 2023-24 fiscal year.

We look forward to discussing this budget proposal with the City Council and receiving feedback on City Council priorities during the upcoming budget presentation.

Coordinated With:

All City Departments.

Attachments:

1. Fiscal Year 2023-24 Proposed Annual Budget.