



CITY OF EASTVALE

## AGENDA STAFF REPORT

City Council Meeting

CITY COUNCIL BUSINESS

Agenda Item No. 13.1

June 14, 2023

## Draft Proposed Fiscal Year 2023-2024 Annual Operating and Capital Improvement Budget Study Session

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### Prepared By:

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### Recommended Action(s)

Staff recommends that the City Council Conduct a Study Session, Review, and Provide Recommendations, as necessary, on the Draft Proposed Fiscal Year 2023-2024 Annual Operating and Capital Improvement Budget.

### Summary

[Draft Fiscal Year 2023-24 Operating and Capital Improvement Budget Book Link](#)

The goal of the Annual Operating and Capital Improvement Budget serves to establish both long-term and short-term financial planning for the City while adhering to regulations set by the Governmental Accounting Standards Board (GASB) and criteria for the Government Finance Officers Association (GFOA) budget award. The comprehensive budget illustrates City Council's commitment to providing cost effective municipal services. City Council adopts an operating and capital improvement budget every year, which commits resources for the accomplishment of the City's Strategic Plan, provision of services to the public, regulatory and statutory requirements, and adherence to policies. The budget report identifies target areas while measuring achievements to ensure departments remain effective, efficient, and perform. An abundant amount of time, analysis, and data from various resources helps establish projections to forecast proper revenue and expenditure budgets. Early financial planning by the City Manager's Office and the Finance Department is followed with the identification of key goals identified by City Council, City departments, stakeholders, and members of the community supporting the determination of how the City should manage its assets and liabilities. The city's budget development timeline can be

found at [this link](#).

The budget is a dynamic document that is amended throughout the year for various reasons, including City Council actions on department requests, actions by third parties which impact the budget plan, or changes in the economy.

This proposed Fiscal-Year 2023-24 Annual Operating and Capital Improvement Budget document represents the City of Eastvale's conservative estimate of the City's financial performance in the coming year. The proposed budget plan includes \$82,771,617 in total revenues and \$100,229,364 in total expenditures (excludes transfers of \$11,539,088). The proposed budget projects General Fund revenues at \$64,717,296, including transfers-in of \$531,786, and expenditures at \$43,942,878, including transfers-out of \$11,007,302. In total the General Fund budget surplus is \$20,774,418. After compiling budget projections, a proposed fiscal-year budget is brought to the full City Council for consideration and adoption. Although the primary emphasis is on the General Fund, the comprehensive budget document includes special revenue funds, capital improvement projects, capital reserves, underlying rationale, long-term forecasts, and investment strategy necessary to meet the projects and policies set fourth by the City Council.

The city's Draft Fiscal Year 2023-24 Operating and Capital Improvement Budget Book can be found at [this link](#). The City Manager's Budget Message can be found at [this link](#).

## Background

### FISCAL YEAR 2023-24 BUDGET ANALYSIS

The city's Draft Fiscal Year 2023-24 Operating and Capital Improvement Budget Book can be found at [this link](#).

#### **GENERAL FUND – REVENUES, EXPENDITURES & AVAILABLE RESOURCES: [General Fund Overview Link](#)**

Overall, general fund revenue projections are \$64,717,296 and expenditures are \$43,942,878 (inclusive of transfers). General fund revenues exceed expenditures by \$20,774,418, creating a budget surplus. Of the \$64.7 million in revenues, \$31.1 are attributable to operating revenues, \$33.6 are non-operating revenues. Of the \$43.9 million in expenditures, \$32.9 are attributable to operating expenditures, \$11.0 are non-operating expenditures. As a result, the city is expected to end the 2023-24 fiscal year with a \$1.9 million operating deficit, however an estimated \$22.6 million in non-operating surplus is available to cover the deficit. Staff is currently working on determining what percentage of the non-operating revenues are likely to continue into the future, this will likely change the operating deficit into a surplus. The fiscal year 2023-24 budget includes \$11,007,302 in transfers out to the General Capital Projects Fund, Capital Replacement Funds and general contribution for special assessment districts.

## **General Fund Revenue Forecast: [General Fund Revenue Summary Link](#)**

Revenues total \$64,717,296; operating revenues total \$29,354,435 and non-operating revenues total \$35,375,000 for the fiscal year 2023-24. Net of transfers, revenues total \$64,185,510.

General Fund Revenue highlights include the following:

- *Sales and Use Tax* – Staff recommends budget for sales tax revenues for fiscal year 2023-24 at \$46.25 million, based on HdL's projections (City's vendor for sales tax projections). Of the sales tax revenues, \$14.00 million is considered operating revenue and \$32.25 is considered non-operating revenue. Staff continues to utilize the non-operating sales tax for one-time non-operating expenditures, such as funding future capital maintenance and replacement projects, future capital projects, and current capital projects. It is unknown how long these non-operating revenues will last, point of sale location for any business could change at any time for a multitude of reasons, as such it is a conservative approach to only use these revenues sparingly for operating costs and utilize a majority of the funding for non-operating capital equipment and infrastructure projects. It is likely that at least a portion of the revenues will become a long term revenue source. Staff is currently working on determining what percentage of the non-operating revenues are likely to continue into the future.
- *Property Tax* – A wave of commercial parcel assessment valuation appeals has been occurring throughout the county for several years and is still continuing. Although home prices have remained steady and the city experienced development of new commercial property, the influx of assessment appeals will keep the city's overall assessed property valuation from growing at the same pace as the housing market. However, staff expects property tax revenues to still increase, almost 6% over the prior year based on projections provided by HdL Coren and Cone.
- *Franchise Fees* – The city expects to see an 15% increase in franchise fees as a natural gas prices have increased. Overall, the category is down 61% due to the final \$4.0 million waste hauler retention fee received in the last fiscal year.
- *Licenses, Fees, and Permits* - Permitting activity remained steady over the past few fiscal years and saw a heavy increase in permits during the pandemic. However, development activity has slowed in the past fiscal year and is expected to slightly decrease in the new year. Staff recommends budgeting building permits, development revenue, and encroachment fees with a 3% decrease from 2022-23 fiscal year projections at \$2.39 million. If the Leal development significantly impacts this revenue category, an appropriation will be included in the mid-year budget.
- *Fines, Penalties, and Forfeitures* - Staff recommends increasing this revenue category to \$784,000 for fiscal year 2023-24, an increase of 32% from the previous year. Although this category was impacted by the COVID-19 pandemic and subsequent economic shutdown, staff expects activities in this category to continue to increase towards 2019-20 levels. Additionally, staff estimates an approximate \$250,000 in new revenues from the newly implemented Commercial Enforcement program through Riverside Sheriff.
- *Intergovernmental* – Intergovernmental revenue consists primarily of Vehicle License Fee Adjustment Account (VLFAA) revenue, resulting from the passing of SB130 in April 2017. VLFAA revenues are based on property valuations, which have continued to steadily increase in the city over the last few years. Intergovernmental revenue is expected to increase from \$5,725,000 in fiscal year 2022-23 to \$6,245,000 in fiscal year 2023-24, an increase of 9%.

## **General Fund Expenditures**

Overall, the total expenditures for the General Fund total \$43,942,878 in fiscal year 2023-24; operating expenditures total \$32,955,216 and non-operating expenditures total \$10,987,662.

### **Personnel Highlights: [General Fund Personnel Summary Link](#)**

- *Salaries and Benefits* costs are projected at \$9,255,470 for fiscal year 2023-24. The personnel projections were prepared based on current pay rates plus 5% merit for all employees. Budget estimates include full benefits, including health and retirement contributions. Vacant positions are budgeted at top step with full benefits. The proposed full-time equivalent (FTE) of City employees is 68.50 for fiscal year 2023-24, an increase of 4.75 positions over the 2022-23 budget. In total, personnel costs increased \$1,280,040 over the prior year. Several positions were added in the 2022-23 mid-year budget. These positions were not budgeted for a full twelve-month period in the prior year, however the full impact to the budget has been included in the calculations for the new fiscal year. Total proposed staffing includes 58 full-time staff and 8.5 part-time staff.
- *Position Changes* for the 2023-24 budget plan include removing two positions, three new full-time classifications and positions, two new full-time existing classification positions, two part-time new classification and positions, and one range change. In total the changes will equate to a \$615,515 impact to the personnel category, offset by \$368,000 in contract savings, as several contract services are transferred to in-house.

### **Operations Highlights: [General Fund Department Summary Link](#)**

- *Law Enforcement* costs are \$14,091,216 as compared to \$12,933,390 for fiscal year 2023-24. The proposed budget includes new Flock Security Cameras, two new Community Service Officers, and implementing a new Commercial Enforcement Program. Additionally, the city continues to fund a \$136,000 line item for special overtime operations within the city. Finally, the Riverside Sheriff Office announced a 2.0 to 2.5% contract increase for the new fiscal year. Budget projections include the higher 2.5%.
- *General Government* includes city wide costs such as copier maintenance, revenue neutrality with Riverside County, transfers out to other funds, and building leases. Riverside County revenue neutrality will continue until 2040; budget projections are \$320,000 for the new year. Total expenditures for the general government category are \$12,312,902 for fiscal year 2023-24, a decrease of \$794,534 from the prior fiscal year. Transfers-out to other funds represent the largest expenditure in this category at \$11,007,302 million. Transfers-out include funding the five capital replacement and maintenance funds for information technology, vehicles, street maintenance, facility maintenance, and storm drain maintenance for a total of \$1,020,000. Capital projects transfers total \$9,967,662 and include new vehicle purchases, civic center design, modular offices construction, the 2040 general plan update, and improvement of trail network connectivity. Finally, \$19,640 of transfers are for general benefit contribution to four special assessment districts.
- *Community Development* expenditures are forecasted at \$2,467,543, an decrease of 18% or \$527,667 from the prior fiscal year. The decrease is primarily attributable to the removal of the city's Business incentive Loan program from the operating budget. Funds totaling \$430,000 are still available for the program, but will be appropriated from reserve when loans are approved by City Council.

- *Public Works* expenditures are forecasted at \$4,324,439, an increase of \$568,526 over the 2022-23 fiscal year. The increase is caused by several budget proposals, including the addition of a Maintenance Coordinator position, additional contracts related to citywide private land development, asset management software, and the movement of facility leases into the General Government category.
- *Community Safety* expenditures are forecasted at \$3,313,796 an increase of 9% or \$268,166 over the prior year. The increase is due to software leases. The Accela Permit Management software leases are now included in this department's budget as Community Safety now administers the contract; the budget was moved from the Community Development Department. Both the Accela annual lease and GreyQuarter software management contract services are now included in this department.

**General Fund Available Resources: [Fund Balance Link](#)**

The beginning balance for the fiscal year 2023-24 budget reflects the projected General Fund ending balances for fiscal year 2022-23. The general fund is anticipated to end the 2022-23 fiscal year with an estimated total fund balance of \$120.1 million and the proposed fiscal year 2023-24 budget includes anticipated fund balance of \$140.9 million as of June 30, 2024.

- Non-spendable:
  - Prepaid items not yet expensed in the new fiscal year total \$260,181 and are considered non-spendable fund balance.
- Assigned reserves:
  - The General Fund Emergency Contingency (based upon 50% of operating expenditure appropriations) is fully funded at \$16,477,608 million and is classified as an assigned reserve.
- Committed reserves:
  - The City continues to also maintain a committed reserve of \$33.0 million for City Hall construction, \$10.0 million for Library construction, \$8.0 million for police substation construction, \$2.0 million committed reserve for pension liabilities, \$1.5 million for a fire truck purchase, and \$1.0 million for public safety rate increase stabilization.
- Committed Appropriations Limit: Qualified Capital Outlay reserves:
  - In the 2020-21, 2021-22, and 2022-23 fiscal years the city had an appropriations limit surplus, staff does not expect to have an appropriations limit surplus in the new fiscal year. The previous years' surpluses may be set aside for qualified capital outlay that exceed \$100,000 and have at least 10 years of useful life. The city has set aside the following surplus amounts for qualified capital outlay projects in addition to the amounts stated above: \$27.4 million City Hall construction and \$17.6 million Library construction.
- Unassigned reserves:
  - Total projected unassigned general fund reserves are projected at approximately \$23.6 million. Staff expects several funds to complete the fiscal year with a negative fund balance, due to reimbursable grants and Transportation Uniform Mitigation Fee reimbursements that will likely occur after the end of the 2023-24 fiscal year. As a result, unassigned balances need to be available for cash flow and to cover the negative fund balances in other funds.

**SUMMARY OF OTHER GENERAL PURPOSE FUNDS: FIRE FUND**

### [Fire Fund Link](#)

The *Fire Fund* houses general purpose property taxes levied specifically for the purpose of fire protection services and funds are restricted through the City's incorporation procedures and revenue neutrality agreement by the County of Riverside for fire protection services and operations. Revenues are projected at \$8.7 million and expenditures total \$8.9 million; the fund is projected to end the fiscal year with a \$194,350 deficit. The deficit is caused by one factor, which is a non-operational capital improvement project, which will be a one-time and non-recurring cost. The capital improvement project is for the city's third fire station and the budget appropriation of \$1.00 million is for design and architectural services. Considering operational budget only, the fire fund will have a budget surplus of \$805,650; this means that without one-time expenditures, the Fire Fund is generating adequate revenues to cover the current fire protection service levels. The main revenue source for the fund is property tax, which makes up \$8.4 million or 96.6% of the revenue. Main expenditures in the fund are contract fire services at \$7.2 million, building maintenance and operations for the two City owned fire stations at \$251,900, and revenue neutrality with Riverside County at \$320,000. The City contracts for 2 medic engines and one medic squad at the two fire stations.

### **Fire Fund Available Resources**

The Fire Fund is anticipated to end the 2023-24 fiscal year with an estimated total fund balance of \$14.5 million. Fire Fund fund-balance is restricted by the County of Riverside, however City Council has assigned and committed the following fund balances in order to ensure the ability to continue operations in down economic situations and ensure resources are available to purchase apparatus and build vital infrastructure, such as the City's third fire station:

- Assigned reserves:
  - The Fire Fund Emergency Contingency (based upon 75% of expenditure appropriations) is fully funded at \$5.7 million and is classified as an assigned reserve.
- Committed reserves:
  - The City continues to also maintain a committed reserve of \$8.0 million for a third fire station construction, and \$400,000 for apparatus replacement.
- Restricted fund balance:
  - Total projected remaining restricted Fire Fund fund-balance are approximately \$369,611.

### **SUMMARY OF SPECIAL REVENUE FUNDS**

- *Gas Tax Fund* revenues are forecasted at \$2.0 million and expenditures are projected at \$3.4 million, including \$1.1 million in continuing appropriations. Although expenditures exceed revenues, the Gas Tax fund has available fund balance, projected to end the fiscal year at \$171,327. Gas tax revenues are lower than originally anticipated; the Governor's final budget included less Gas Tax allocations for local agencies. The gas tax revenues in this fund are solely utilized to fund vital street infrastructure and maintenance projects.
- *Measure A Fund* revenues are projected at \$2.0 million and expenditures are projected at \$5.7 million, including \$3.9 million in continuing appropriations. Expenditures exceed revenues; however, the Measure A fund has available fund balance, projected to complete fiscal year 2023-24 at \$668,391. Similar to Gas Tax, these funds are solely utilized for street related projects. Riverside County allocates the funding from a 1/2 cent sales tax measure to local agencies.
- *Miscellaneous Grant Fund* revenues are projected at \$2.0 million and expenditures are projected at \$24.5 million, including \$11.1 million in continuing appropriations. The Grants

Fund does not have available fund balance and is projected to end the fiscal year at negative \$29.6 million. This is primarily due to the reimbursement nature of the fund and the Limonite Gap Bridge project which will likely be reimbursed in the following fiscal year. A bulk of the construction is projected to take place in the 2023-24 fiscal year, resulting in grant reimbursements from other government agencies being received in the following 2024-25 fiscal year.

### **Special Revenue Funds Available Resources**

A large majority of the special revenue funds are forecasted to finish the 2023-24 fiscal year with a positive fund balance. Funds with an expected negative fund balance are the miscellaneous grants fund, the TUMF reimbursement fund, a few of the City's landscape and lighting maintenance districts (LLMD), several of the JCSD transferred lighting maintenance districts (LMD), and one community facility district (CFD). Both the miscellaneous grants fund and TUMF fund are reimbursed after projects are completed. The special districts (LLMD, LMD, and CFD) do not generate adequate revenues to offset district expenditures. Any funds with negative fund balances will utilize General Fund unassigned fund balances to bring the funds to zero on the city's Annual Comprehensive Financial Report.

### **SUMMARY OF CAPITAL PROJECT FUND**

#### **[Department and Fund Detail Link](#)**

The *Capital Project Fund* is used to track capital projects funded solely by the General Fund. Funds are transferred into the Capital Projects Fund from the General Fund. For the 2023-24 budget, revenues are projected at \$10.0 million and expenditures are projected at \$15.2 million, plus \$5.2 million in continuing appropriations. The fund is expected to end the 2023-24 fiscal year with \$0 in fund balance. Expenditures for 2023-24 include the Limonite Gap Bridge Construction, Civic Center Design, Modular Offices Project, and Vehicle Purchases for Law Enforcement and Public Works.

### **SUMMARY OF CAPITAL REPLACEMENT FUNDS**

#### **[Department and Fund Detail Link](#)**

Staff established five capital replacement and maintenance funds in the prior fiscal year. Each was seeded by the General Fund with an estimated amount of fund balance to start fund balance accumulation in the funds. Finance staff is creating replacement schedules and will calculate annual contribution amounts for each of the funds, depending on the type of future maintenance and replacement the fund will supply. The expectation is to build adequate fund balance to prepare the city to replace and maintain public equipment and infrastructure as a means to support the General Fund during lean economic periods.

### **CAPITAL IMPROVEMENT BUDGET**

#### **[Capital Improvement Budget Link](#)**

The five-year capital improvement budget identifies the highest priority capital needs that can be addressed with available and forecasted revenues. These capital needs are matched with the previous year's continuing appropriations and five-year revenue projections identified by the Finance department. Additionally, capital needs are delineated to eligible funding sources and programs available to the City's capital improvements.

Over the next five-years of this capital improvement budget, Eastvale will utilize the approximately \$88.6 million of revenues to provide City Street Improvements, Maintenance, Roadway and Traffic Safety Improvements, and future Civic Center plans. For the fiscal year 2023-242 the City will commit \$58.1 million to fund projects within the categories listed above.

Major capital projects for fiscal year 2023-24 include the Annual Overlay and Slurry Seal, Limonite Gap Bridge, Civic Center Design, Fire Station Design, Traffic Signal Dilemma Zone Detection and Mitigation, Schleisman Road Mobility, Safety, and Connectivity Project, Southeast Safe Routes to School, Citywide Traffic Signal Synchronization, Modular Offices, and Citywide Branding at Entryways and Medians.

### **GFOA AWARD**

The city has been awarded the Government Finance Officer's Association (GFOA) Distinguished Budget Award for three consecutive years. Over the past several years GFOA has made changes to the award criteria. As a result, the city's budget document continues to be adjusted. Long range operational financial plans must now incorporate all appropriated funds, of which the city has 134 funds. In an effort to expand long-range planning, staff will prepare plans for the city's two major funds and five additional funds. At the time of the publication of this agenda, staff is still compiling information for the long range planning section of the budget document. The long range plans are expected to be completed in time for the final budget adoption on June 28, 2028. Staff will submit the 2023-24 budget document for the GFOA distinguished budget award.

### **BUDGET DOCUMENT**

In February 2022, staff began implementation with OpenGov budgeting software. The software provides a budgeting platform for departments to submit budget proposals, personnel budgeting tools, reporting, and online portals. Staff has utilized the online portal to create an online budget book, which appears similar to a website. The online budget book allows for a more interactive experience for the public, as reports and graphics can be drilled down to line item detail. As this is the first online budget book for the city and still a draft version, staff is still working through issues and the book may reflect some errors such as broken links or graphs that do not return data. Staff is working diligently to update the online book. The landing page for the book can be found here: [Online Budget Book](#).

### **Environmental**

Government fiscal activities and budget adoption are not considered a Project as defined by the California Environmental Quality Act (CEQA) and no environmental review is required.

**Strategic Plan Action - Priority Level: 3 | Target #: C | Goal #: H**

Target: Financial Planning; Goal: Ensure that city revenues align with expenditures.

### **Fiscal Impact**

Overall, the proposed resolutions and reports are technical in nature and will enable the City Council to direct staff in making necessary budget adjustments to the accounts to reflect the adopted City of Eastvale Fiscal Year 2023-24.

### **Prior City Council/Commission Action**

City Council conducted a budget workshop on April 26, 2023 and adopted an updated strategic plan on May 10, 2023. Since the draft budget workshop, no major program changes have been incorporated into the budget plan.

### **Attachment(s)**

[Attachment 1 - Draft Resolution: Appropriations Limit](#)

[Attachment 2 - Draft Resolution: Operating Budget](#)

[Attachment 3 - Draft Resolution: Commitment of Fund Balance](#)

[Attachment 4 - Draft Resolution: Range and Salary](#)

[Attachment 5 - Exhibit A: Range Table Effective 01.01.2023](#)

[Attachment 6 - Exhibit B: Salary Schedule Effective 07.01.2023](#)

[Attachment 7 - Draft Resolution: Authorized Positions](#)

[Attachment 8 - Authorized Position List](#)