

COUNCIL AGENDA REPORT

TO: City Council

FROM: Interim City Manager Alex Posada

BY: Public Information Manager Mark van de Kamp

SUBJECT: Adoption of a Resolution Adopting the Budget for 2024-26

Description:

The City Council will receive a presentation on the Proposed 2024-26 Budget, hear public testimony on the proposed biennial budget, and then approve a Resolution adopting the 2024-26 Proposed Budget.

RECOMMENDATION:

Adopt a Resolution adopting the budget for Fiscal Years 2024-2025 and 2025-2026, adopting policy actions, and delegating the City Manager to implement the same.

BACKGROUND:

On May 21, 2024, the City Council held a public meeting to receive the Preliminary Fiscal Year (FY) 2024-2026 Proposed Budget report. At that meeting, the City Council received and provided input on the Preliminary Budget, fund analysis, proposals of City departments, proposed financial policy changes, and proposed fee increases. On June 3, 2024, the City Council held a special meeting to address questions regarding the proposed programs, revenues, and expenditures.

By State law, the City must adopt a balanced budget by June 30th. This budget maintains services, and reflects the City Council's goals and priorities for the next two years:

Goals:

- Long-term financial sustainability
- Community quality of life
- Planning and infrastructure
- Organizational well-being

Priorities:

- New approach to economic development
- Provide youth opportunities
- Provide public safety resources

- Establish a staffing plan

DISCUSSION:

This two-year budget is very challenging with a huge shortfall in revenues, given the slowing growth of tax revenues and substantial expense increases in staff, salaries, and benefits, exorbitant increases in insurance, inflation, and pensions to meet the needs of the growing community.

Although General Fund revenues are projected to continue to grow at a steady pace, they are far outpaced by growth in expenses. This is unsustainable. The projected General Fund budget shortfalls are \$21.3 million in 2024-2025 and \$20.2 million in 2025-2026.

This budget document, which includes the Capital Improvement Plan, serves as a comprehensive statement of programs and policies, financial plans, and operations guide. It reflects the many strategic goals, programs, and service priorities that the City Council and City staff are committed to providing the community with while utilizing available limited resources. Highlights are:

- Overall revenues are not sustaining the ever-increasing operational expenses.
- Heavy reliance upon three reserve funds (General Fund, Measure U, and Local Economic Augmentation Fund) to bridge the structural imbalance budget gap and continue to provide the same level of services the community has come to expect.
- Department Directors have been directed to prepare reductions in their departmental budgets to close the structural budget gap by the end of the Fiscal Year 2024-25.
- Of the 14 new positions shown in the budget only four new full-time and one part-time position are proposed to be funded by the General Fund.
- The proposed budget continues funding an additional seven Police Officer positions authorized during the current fiscal year.
- The General Fund supports 361.52 FTEs or 49.4 percent of the City's workforce. Measure U sales tax revenue supports 137.60 Full-Time Equivalents (FTEs) or 18.8 percent of the City's workforce and Enterprise Funds and other funds support 233.28 FTEs or 31.8 percent of the workforce.
- Proposes 64 capital projects valued at \$115.9 million, however, 105 requested other important capital projects were not able to be funded.

The following actions are recommended to achieve long-term fiscal sustainability in the General Fund (including Measure U).

1. Determine sustainable ongoing expenditures level for the General Fund and Measure U Fund and engage departments to propose recommended modifications to the services and programs to restructure and close the budget gap by the end of 2024-2025.
2. Initiate revenue measure feasibility analysis. Staff recommends approval of \$100,000 in addition to the proposed budget for this effort to engage a consultant.

3. Study the current economic development program to ensure the economic development efforts are closely aligned with the City Council's policies and goals.
4. Initiate regular evaluations and updates to Citywide fees to ensure full cost recovery.
5. Study alternative funding sources to fund the City's future growth (i.e. improve the current Landscape District model), and community facilities districts to meet the needs.
6. Fund a Citywide Salaries and Benefits Compensation Study in the amount of \$125,000.

The following changes to the financial policies are incorporated in the financial policies section of the budget book:

1. Set a target level of reserve in the Local Economic Augmentation Fund (LEAF) at 5 percent of the General Fund and Measure U annual ongoing (excluding Capital Expenditure Program) operating appropriations. The draw from fund balance beyond the 5 percent threshold would require Council approval in alignment with Council set policy for the use of the LEAF.
2. Add cost recovery policy identifying principals for 100 percent user fee recovery unless approved otherwise based on Council policy determination for the public benefit.
3. Update of the General Fund Prudent Reserve will occur annually based on 25 percent of operating appropriations. Should the prudent reserve commitment be used, and its' level falls below the minimum amount, the goal is to replenish the fund within two fiscal years.
4. Set reserves for internal insurance funds to appropriately fund rising insurance premiums, fund at levels established by actual analysis for claims and liabilities, and set aside self-insurance reserves for uninsurable assets.
5. Memorializes the purpose of the LEAF as a reserve fund established in 2000-2001 to be used as the primary financing mechanism to address any potential revenue shortfalls during times of economic downturns or severe State action, so as not to significantly impact the operating budget and service levels of the General Fund.

The proposed budget strives to maintain service levels to the public, invests in needed City infrastructure, and undertakes many projects that will directly benefit residents. This will be a major challenge for departments to achieve given the austerity measures needed to reduce the projected budget deficit.

The proposed budget is posted online for review at www.cityofsantamaria.org/budgets.

Fiscal Considerations

Recommended 2024-2025 General Fund appropriations (including Measure U) are \$139.8 million, an increase of 10.2 percent, from 2023-2024. The proposed appropriation for all operating funds in 2024-2025 is approximately \$291.4 million, an increase of 5.2 percent from 2023-24. The proposed appropriation for all funds (including capital projects, internal service funds, landscape services, mitigation, and grant funds) in 2024-2025 is approximately \$364.0 million, an increase of 1.5 percent from 2023-2024.

Impact to the Community

Adoption of the 2024-2026 Proposed Budget sets the stage for 2023-2024 service levels to remain intact for a significant portion of FY 2024-2025 but will require both service reductions and revenue enhancements for FY 2025-2026 in order to be sustainable.

ATTACHMENT A: City of Santa Maria Proposed FY 2024-2026 Biennial Budget