



# STAFF REPORT

## CITY of YORBA LINDA

### FINANCE DEPARTMENT

**DATE:** MAY 16, 2023

**TO:** HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

**FROM:** DIANNA HONEYWELL, FINANCE DIRECTOR / CITY TREASURER

**SUBJECT:** PRELIMINARY REVIEW OF FISCAL YEAR 2023/24 & FISCAL YEAR 2024/25 TWO-YEAR OPERATING BUDGET

### **RECOMMENDATION**

It is recommended that the City Council:

1. Receive and file staff's presentation regarding the proposed Fiscal Year 2023/24 and 2024/25 Two-Year Operating Budget; and
2. Provide feedback to staff regarding any changes to the proposed Two-Year Operating Budget that the City Council would like to see incorporated into the final version of the budget.

### **BACKGROUND**

On April 4, 2023, staff presented a report to reaffirm the City's Strategic Plan Core Strategies and sought direction from the City Council regarding any specific programs, services, staffing or capital spending that should be prioritized as staff set out to prepare the draft two-year budget for fiscal years 2023/24 and 2024/25. The City Council reiterated its commitment to public safety being a top priority for the City of Yorba Linda. This preliminary operating budget was prepared in line with the six core strategies, thirty separate goals and ninety-seven specific actions outlined in the City's Strategic Plan.

### **DISCUSSION**

The City's operating budget includes the City's General Fund, which is the primary operating fund of the City, as well as all other City funds. The primary funds in addition to the General Fund are the Library Fund, the LMAD fund and the Black Gold Golf Course Fund. Other funds include the Capital Improvement Fund, various funds that are primarily utilized to hold restricted revenues, and the funds for Successor Agency and Affordable Housing expenditures.

The Council's approval of the operating budget provides staff with authorization for all expenditures during the fiscal period that it covers. Pursuant to City Council Policy A-3, the

## **PRELIMINARY REVIEW OF FISCAL YEAR 2023/24 & FISCAL YEAR 2024/25 TWO-YEAR OPERATING BUDGET**

Page | 2

City adopts a Two-Year Budget, and staff prepares the budget as balanced, with revenues equaling or exceeding expenditures and no required usage of General Fund Operating Reserves. Accordingly, the budget presented in this report reflects an operating surplus in each of its two years.

### **Proposed General Fund Revenue Budget**

The City has for several years utilized HdL Companies as its property tax and sales tax consultant. HdL provides the City with a multi-year forecast for both revenue sources, which considers trends in the broader economy as well as unique factors impacting these revenue sources in Yorba Linda. Utilization of this consultant improves the accuracy of the City's revenue forecast on the City's two largest revenue sources. Staff maintains a conservative, yet realistic view on revenues, and in some cases has chosen to reflect a lower number in the proposed revenue budget for certain, more volatile revenue sources such as property transfer tax and building, planning, and engineering permits and fee revenues.

Property tax revenue is the General Fund's largest revenue source, making up 52.7% (in FY 2023/24) and 53.3% (in FY 2024/25) of total General Fund operating revenue. For fiscal year 2023/24, growth is projected at 3.7% and growth of 3.2% is projected for fiscal year 2024/25. It is anticipated that the slowdown in the real estate market that the region has experienced over the last several months will impact the second year of this two-year budget.

HdL is projecting a bit of a slowdown in the economy during the latter half of fiscal year 2023/24 which will impact sales tax revenue. Sales tax revenue is projected to remain flat in fiscal year 2023/24 and increase by 2.3% in fiscal year 2024/25.

Franchise taxes are projected to grow 2.2% for fiscal year 2023/24 and 1.4% for fiscal year 2024/25. Franchise taxes include utility franchise revenues from gas, water, and electric utilities, as well as revenues from the City's cable, trash disposal and pipeline franchises. Other taxes, which include TOT revenue, property transfer taxes and business licenses are expected to remain flat when compared to the current year's revenue.

Building permit revenue is projected to decline in fiscal year 2023/24 and increase slightly in fiscal year 2024/25. The Building Department has seen a slowdown in permit activity during the current fiscal year and anticipates that it will continue into the next fiscal year.

Parks & Recreation revenue is seeing a slight increase in both years. Administrative charges are increasing due to a comprehensive examination of the cost of services provided by General Fund departments to other funds of the City. Other revenue is going up in FY 2023/24 primarily due to one-time money related to a grant for housing element related services and the sale of a property in Town Center. Also included in other revenue is the grant for public safety costs.

## **PRELIMINARY REVIEW OF FISCAL YEAR 2023/24 & FISCAL YEAR 2024/25 TWO-YEAR OPERATING BUDGET**

Page | 3

Interfund transfers into the General Fund include routine transfers from the Gas Tax, Traffic Safety and COPS funds that occur each year. There is also a transfer from the Special Reserve Fund for anticipated payments to Brea for ongoing workers' compensation costs associated with the City's prior Police Services contract, as well as anticipated payouts for accrued leave liabilities.

### **Proposed General Fund Expenditure Budget**

When embarking on the budget preparation process, a thorough review was performed by all departments to determine a realistic work plan over the next two years that supports the City of Yorba Linda Strategic Plan. Although the overall budget is fairly flat, there is no reduction in service in the proposed budget. The following are notable changes to the General Fund expenditures:

1. Administration – The projected increase in FY 2024/25 is due primarily to the General Election and Measure B Election which will occur in November 2024.
2. Parks & Recreation – The projected increase is due to the opening of Adventure Playground. Part-time staffing has been increased by 9,300 hours and costs related to the operation of the park are higher due to year-round operations.
3. Police Services – The projected increase to the existing Sheriff's contract is approximately \$1,396,800 over the two fiscal years this budget covers. Also added to each fiscal year is the inclusion of an additional Community Resource Officer. This adds approximately \$129,500 in FY 2023/24 and \$135,975 in FY 2024/25, which is included in the numbers above. It should be noted that the Orange County Sheriff's Department is currently in negotiations with the various bargaining units and these figures account for potential cost increases due to labor negotiations. Actual costs could change once they are completed. If the change is material, staff will come back to Council with that information. Additionally, the City has learned that the North Orange County Public Safety Collaboration grant has been renewed and is included in this budget for a total of \$325,000 across both years. This grant is used to fund a Deputy Sheriff position targeting youth violence prevention in our local schools that has been included in this budget.

### **Anticipated General Fund Reserve Balance**

Based on the proposed revenue and expenditure budgets, staff are forecasting a surplus of \$796,364 in fiscal year 2023/24 and \$558,377 in fiscal year 2024/25 as outlined in the table below. Operating reserves as shown would be 53.3% in both years. Final uses of General Fund funds for CIP projects are currently being calculated and will be added to the final report presented to Council in June 2023.

**PRELIMINARY REVIEW OF FISCAL YEAR 2023/24 & FISCAL YEAR 2024/25 TWO-YEAR OPERATING BUDGET**

Page | 4

**CITY OF YORBA LINDA**  
**GENERAL FUND BUDGET**  
**FY 2023/24 & FY 2024/25 - PROPOSED BUDGET**

	<b>FY 22/23 ADJUSTED</b>	<b>FY 23/24 PROPOSED</b>	<b>FY 24/25 PROPOSED</b>
<b>RESOURCES</b>			
Property Taxes	\$ 23,784,064	\$ 24,672,395	\$ 25,449,940
Sales & Use Tax	9,000,000	9,030,000	9,236,000
Franchise Tax	2,270,611	2,320,680	2,352,275
Other Taxes	1,612,100	1,613,000	1,614,650
Fees, Charges & Permits	2,451,618	1,982,350	2,159,350
Parks & Recreation Revenue	2,542,074	2,637,202	2,674,451
Administrative Charges	1,795,484	2,810,764	2,865,569
Other Revenue	1,493,951	1,780,882	1,354,571
Total Operating Revenue	<b>44,949,902</b>	<b>46,847,273</b>	<b>47,706,806</b>
Interfund transfers	1,062,964	539,000	539,000
Fd Balance Reserves	9,019,952	-	-
<b>Total Resources</b>	<b>55,032,818</b>	<b>47,386,273</b>	<b>48,245,806</b>
<b>APPROPRIATIONS</b>			
Administration	\$9,250,940	\$9,164,079	\$9,483,106
City Attorney	650,000	650,000	650,000
Community Development	4,003,868	3,769,294	3,721,654
Finance	1,322,961	1,339,221	1,373,221
Non-Departmental	34,800	35,000	35,000
Parks & Recreation	9,213,830	9,771,151	9,993,004
Police Services	14,230,522	14,638,543	15,299,177
Public Works	6,808,324	6,429,059	6,313,366
Vacancy Factor	(241,358)	(354,075)	(363,165)
<b>Total Operating Expenditures</b>	<b>45,273,887</b>	<b>45,442,272</b>	<b>46,505,363</b>
Transfer to Special Reserves	5,000,000		
Transfer to LMAD	943,735	1,147,637	1,182,066
Transfer to Capital Projects Fund	2,999,506		
<b>Total Appropriations</b>	<b>54,217,128</b>	<b>46,589,909</b>	<b>47,687,429</b>
<b>Excess Resources over Appropriations</b>	<b>\$815,690</b>	<b>\$796,364</b>	<b>\$558,377</b>
<b>Est. Beginning Fund Balance Reserves</b>	<b>31,633,612</b>	<b>23,429,350</b>	<b>24,225,714</b>
<b>Less Uses of Fd Bal Reserves</b>	<b>(9,019,952)</b>	<b>-</b>	<b>-</b>
<b>Est. Ending Fund Balance Reserves</b>	<b>23,429,350</b>	<b>24,225,714</b>	<b>24,784,091</b>
<b>Uses of Fund Balance Reserves:</b>			
Transfer out - CIP	\$ 2,940,487		
Zelman Subdivision Impr Agreement	68,268		
Add'l CalPERS payment	305,679		
Add'l OPEB Payment	426,200		
Transfer to Special Reserves	5,000,000		
GF Carryovers from FY 21/22	279,318	-	-
	9,019,952	-	-

# PRELIMINARY REVIEW OF FISCAL YEAR 2023/24 & FISCAL YEAR 2024/25 TWO-YEAR OPERATING BUDGET

Page | 5

## Proposed Staffing Changes

Attachment 1 to this report lists all the currently authorized City staff positions and the changes proposed by staff to the City's staffing during the two fiscal years covered by the proposed two-year budget. The proposed changes are summarized in the table below, which reflects the change in total FTEs for each fiscal year.

Department	Proposed Change	FY 2023/24 FTE Change	FY 2024/25 FTE Change
Administration (IT)	IT Technician (Full-Time)	+ 1.00	---
Administration (IT)	IT Technician (Part-Time – 2 positions)	- 0.96	---
Community Development	Senior Building Permit Technician	+ 1.00	---
Community Development	Building Permit Technician	- 1.00	---
Community Development	Building Inspector	- 1.00	---
Parks & Recreation	Office Assistant I (Temp. Part-Time)	+ 0.48	---
Parks & Recreation	Maintenance Worker Trainee (Temp. Part-Time)	- 0.87	---
Parks & Recreation	Senior Recreation Leader (Temp. Part-Time)	+ 0.72	---
Parks & Recreation	Recreation Leader (Temp. Part-Time)	+ 3.26	---
Library	Senior Library Assistant (Full-Time)	+ 1.00	---
Library	Senior Library Assistant (Perm. Part-Time)	- 0.75	---
Library	Library Assistant (Temp. Part-Time)	+ 0.25	---
<b>Total</b>		<b>+3.13</b>	<b>---</b>

The reasons for the proposed position changes are as follows:

1. IT Technician (full time) – Two existing part time IT Technician positions will be eliminated to create a single, full time IT Technician position. A single full-time position will allow for more integrated service provision overall operating hours and will aid in the attraction and retention of candidates.
2. Senior Building Permit Technician (full time) – The reclassification of one existing Building Permit Technician to a Senior Building Permit Technician will allow direct oversight and supervision of the building permit counter staff and allow the Building Official to focus more time on higher level duties. This classification also creates career advancement opportunities for long-term existing staff to aide in retention.
3. Office Assistant I (part time) – The addition of a part time Office Assistant I position to the Parks & Recreation Department will provide public counter coverage at City Hall for a full-time position that will be moved to Recreation operations to provide full time support to new and enhanced programs. There is a reduction in the number of Senior Recreation Leader (part time) hours to offset the cost of adding the Office Assistant I position.
4. Senior Recreation Leader (part time) – Additional hours for Adventure Playground.
5. Recreation Leader (part time) - Additional hours for Adventure Playground.
6. Senior Librarian Assistant (full time) – The reclassification of a Permanent Part Time (30-hour) position to a full-time position is intended to meet the additional programming requirements of the Library due to continuing high demand.

## **PRELIMINARY REVIEW OF FISCAL YEAR 2023/24 & FISCAL YEAR 2024/25 TWO-YEAR OPERATING BUDGET**

Page | 6

7. Library Assistant (part time) – There is an additional 520 hours being added to this existing classification.
8. The following positions are being eliminated as part of a clean-up of the authorized position list because the positions are unfunded and unfilled:
  - a. Building Inspector <1.00>
  - b. Maintenance Worker Trainee <0.87>

### **Proposed Budget for Other Primary Funds**

Since the General Fund is the main operating fund of the City, it has been the primary focus of this report. However, in addition to the General Fund, the Library, LMAD and Black Gold Golf Club Funds merit additional comment. As the CIP budget has not yet been reviewed by the City Council, these attachments do not yet reflect any expenditures or transfers associated with CIP projects. A revised version of these attachments will be provided to the City Council with the final proposed budget at the second Council meeting in June.

#### **Library**

Almost the entire Library budget is funded from property tax, with minor additional revenue coming from interest earnings, grant funds, fines and other fees charged to Library customers. Revenue for FY 2023/24 totals \$8,236,223 and \$8,498,577 for FY 2024/25. Expenses for the Library include the annual debt service payments on the Lease Revenue Bonds issued in 2018, which total approximately \$1.1 million per year. Also included in the proposed budget is a transfer of \$250,000 in FY 2023/24 and \$300,000 in FY 2024/25 to the Library Capital Reserve Fund in order to fund future repairs and/or capital improvements on the Library building. Expenditures and transfers total \$8,184,199 in FY 2023/24 and \$8,418,740 in FY 2024/25. After accounting for higher operating expenditures, debt service payments and the transfer to reserves, the Library Fund projects a surplus of \$52,024 in FY 2023/24 and \$79,837 in FY 2024/25.

#### **LMAD**

The budget for the LMAD Fund is based on the Engineer's Report that is on the Council agenda this evening. If there are any changes to that report, there will be updates to the budget. Any required changes will be reflected in the final proposed budget presented to Council at the second Council meeting in June. Revenue for FY 2023/24 totals \$10,966,965 and \$11,340,752 in FY 2024/25. Operating expenditures for FY 2023/24 total \$10,677,966 and \$11,212,500 in FY 2024/25. Currently, the LMAD Fund is showing an operating surplus of \$289,000 in FY 2023/24 and \$128,250 in FY 2024/25. Additionally, reserves are being used in the amount of \$1,194,550 in FY 2023/24 and \$1,000,000 in FY 2024/25 for capital improvement projects. These projects include irrigation/smart controllers, fence rehabilitation, trail surface improvements, landscape renovation/drought tolerant upgrades, drains/drainage, median renovation, and electrical upgrades.

#### **Golf Course**

The Black Gold Golf Club Fund is an enterprise fund, which means the financial statements for the golf course are prepared in a similar fashion to a private business with depreciation

## **PRELIMINARY REVIEW OF FISCAL YEAR 2023/24 & FISCAL YEAR 2024/25 TWO-YEAR OPERATING BUDGET**

Page | 7

and other non-cash expenses reflected in the financial statements. The budget for the golf course, however, is prepared on a cash basis and the bottom line generally reflects the anticipated increase or decrease in cash resulting from the golf course's annual operations. Revenue for FY 2023/24 totals \$9,590,977 with operating expenditures totaling \$8,679,032 for a gross profit of \$911,945. Other expenditures including capital improvements and debt service total \$850,000 for a positive cash flow of \$61,945 in fiscal year 2023/24. Revenue for FY 2024/25 totals \$9,883,278 with operating expenditures totaling \$8,939,403 for a gross profit of \$943,875. Other expenditures including capital improvements and debt service total \$868,300 for a positive cash flow of \$75,575 in fiscal year 2024/25. These numbers take into account the golf course operations managed by Kemper, as well as expenses recorded by the City, and are inclusive of any proposed capital improvement projects.

### **Review of Capital Improvement Program and Next Steps**

Staff are currently finalizing the Capital Improvement Program (CIP) for the City Council's preliminary consideration on June 6, 2023. At this time, staff do not anticipate that any additional material impacts on the General Fund will result from approval of the CIP, based on the City's practice of using special revenue funds for capital projects. Approved CIP projects will be incorporated into the budget and staff will return with the final budget for the Council's consideration on June 20, 2023.

Components of the CIP have also been presented to the Parks & Recreation Commission and the Traffic Commission. Additionally, it will be presented to the Planning Commission later this month to determine that the CIP is consistent with the General Plan per the requirements of Government Code Section 65402.

### **FISCAL IMPACT**

As currently presented, the proposed General Fund budget reflects an operating surplus in both fiscal years as do the budgets for the Library, LMAD and Black Gold Golf Club Funds.

### **ALTERNATIVES**

The City Council could choose to modify the budget and/or request additional funding for programs or services of interest to the Council. Staff will return to the Council on June 20, 2023, with any requested changes incorporated into the final proposed budget.

### **ATTACHMENTS**

1. Authorized Positions List
-