



FISCAL YEAR 2024-25 BUDGET PUBLIC HEARING

June 11, 2024

AGENDA

- Budget team
- Fiscal year 2023-24 budget update
- City Council priorities
- Proposed fiscal year 2024-25 budget and assumptions
- Five-year General Fund forecast
- Capital Improvement Plan (CIP)
- Budget strategies
- Questions



BUDGET TEAM

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- Stephen Stolte, Assistant City Manager
- Nicole Nagaya, Deputy City Manager
- Brittany Mello, Administrative Services Director
- Jared Hansen, Assistant Administrative Services Director
- Rani Singh, Interim Finance and Budget Manager
- Ying Chen, Senior Accountant
- Adrian Patino, Management Analyst II

BUDGET CONTRIBUTORS

- General Administration
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- Administrative Services
 - Anna Peluffo, Sandy Pimentel
- Community Development
 - Deanna Chow, Vanh Malathong, Adam Patterson, Kyle Perata, Tim Wong
- Library and Community Services
 - Sean Reinhart, Nick Szegda, Ashley Walker
- Police
 - David Norris, Dani O'Connor
- Public Works
 - Azalea Mitch, Eren Romero



FISCAL YEAR 2023-24 GENERAL FUND BUDGET UPDATE

ECONOMIC OVERVIEW

- Economic trends do not indicate a recession, but higher interest rates will restrain growth throughout 2024
 - Real gross domestic product (GDP) increased at an annual rate of 1.3% in the first quarter of 2024 down from 3.4% in the fourth quarter of 2023
 - Primarily reflects an overall slowing of consumer spending
 - California’s GDP grew at a 3.8% compound annual rate from the first to the third quarter of 2023 (the latest data available), faster than the U.S.
 - Federal Reserve not expected to decrease rates until later in the year
 - Higher interest rates will restrain growth
 - Prices in the California housing market continue to rise despite higher rates
 - U.S. labor markets remain strong
 - Potential risk factors include a government shutdown, geopolitical events, and economic policy changes following presidential election

FISCAL YEAR 2023-24 GENERAL FUND YEAR-END PROJECTION

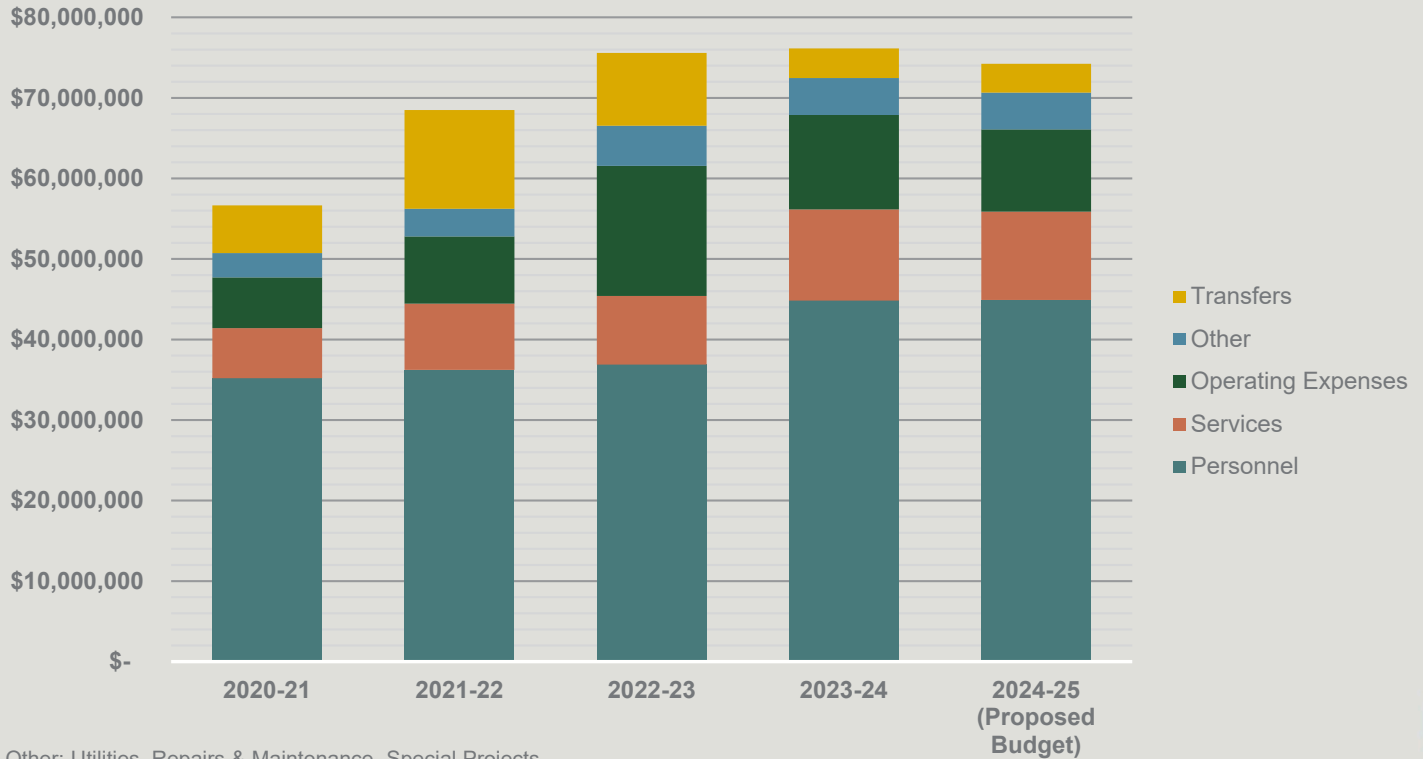
- Fiscal year 2023-24 is projected to have a surplus of \$3.1 million
 - Primarily due to savings from staff turnover and vacant positions
 - Slower spending due to reduced staff capacity

Fiscal year 2023-24 General Fund year-end projection	
Revenues	\$74,788,965
Expenditures	(71,656,264)
Surplus/(Deficit)	\$3,132,701

GENERAL FUND REVENUE TRENDS



GENERAL FUND EXPENDITURE TRENDS



The background image shows a street scene with a "harvest" sign and a "TABAC" sign. A teal and orange graphic is overlaid on the image, with the text "CITY COUNCIL PRIORITIES" centered in the orange section.

CITY COUNCIL PRIORITIES

CITY COUNCIL PRIORITIES

During the annual goal setting workshop on March 12, the City Council identified the following priorities:

- **Climate action – mitigation, adaptation and resilience**
 - Launching the communitywide home electrification program
 - Upgrading City facilities at no cost for solar installation
 - Waiving fees, providing credits, and vouchers for eligible projects
- **Emergency and disaster preparedness**
 - Hired an emergency preparedness coordinator
 - Established an emergency shelter location at Belle Haven Community Campus (BHCC)
 - Continuing partnerships with other agencies and community organizations
- **Housing**
 - Implementing Housing Element programs
 - Finalizing new Environmental Justice Element and updates to Safety Element
 - Continuing development of multiple affordable residential and mixed-use housing projects
- **Safe routes**
 - Adoption of Vision Zero Action Plan
 - Ongoing pavement maintenance with focus on incorporating safety upgrades
 - Collaborating with other agencies, especially local schools



PROPOSED BUDGET

FISCAL YEAR 2024-25

OPERATING BUDGET: REVENUE

- Key revenue assumptions
 - American Rescue Plan Act (ARPA) funds were fully expended in fiscal year 2023-24, resulting in the loss of a \$3.7 million subsidy to the General Fund
 - Property Tax in Lieu of Vehicle License Fee (VLF) shortfall of \$2.0 million anticipated, which is approximately 2-3% of the General Fund
 - Utility Users Tax (UUT) annual revenue loss of \$1.7 million, which is approximately 2% of the General Fund
 - Sales Tax is \$0.5 million lower than the prior fiscal year budget due to the slowing of the economy and reallocation of prior year taxes
 - Development Agreements with Meta of \$1.45 million are now recorded separately in the Developer Special Revenue Fund per City Council direction
 - Planning and building permits are \$1.7 million lower due to less development activity, particularly in large development projects

FISCAL YEAR 2024-25

OPERATING BUDGET: EXPENDITURES

- Key expenditure assumptions
 - Personnel
 - 292.5 full-time equivalent positions (FTEs)
 - General Fund supports an estimated 84% of City staff
 - Factored in a vacancy and turnover rate of 13%
 - Departments conducted a comprehensive review of their operating budgets to minimize expense growth while maintaining delivery of services.
 - Non-spendable operating factor of 10% added based on historical spending rates to account for lower staff capacity
 - Mid-year adjustments may be needed to accommodate expenditure levels
 - Transfer from the General Fund for the CIP of \$3.2 million
 - Additional CalPERS unfunded accrued liability (UAL) payment of \$1.1 million is needed to match the 15-year amortization schedule

FISCAL YEAR 2024-25 OPERATING BUDGET: RESULTS

- Proposed fiscal year 2024-25 General Fund budget results in a deficit of \$0.82 million achieving operational efficiency while minimizing the use of reserves
 - Balanced using \$0.82 million in unassigned fund balance

Proposed fiscal year 2024-25 budget		
	General Fund	All other funds
Revenues	\$73,412,487	\$98,155,055
Expenditures	(74,231,260)	(97,819,049)
Surplus/(Deficit)	\$(818,773)	\$336,006



FISCAL YEAR 2024-25 OPERATING BUDGET: RESERVES

- Projected General Fund Reserve Levels
 - Strategic pension: \$0.2 million
 - Emergency Contingency Reserve: \$11.1 million at 15% (meets policy minimum)
 - Economic Stabilization Reserve: \$14.8 million at 20% (meets policy minimum)
 - Unassigned: \$10.7 million

Fund Balance	2023-24 ending fund balance	2024-25 proposed budget	2024-25 ending fund balance
Strategic Pension Funding	\$1,326,164	\$(1,140,023)	\$186,141
Emergency Contingencies (15%)	\$11,307,250	\$(172,561)	\$11,134,689
Economic Stabilization (20%)	\$15,076,333	\$(230,081)	\$14,846,252
Unassigned	\$10,006,759	\$723,892	\$10,730,651
Total Fund Balance	\$37,716,506	\$(818,773)	\$36,897,733

SERVICE LEVEL ENHANCEMENTS

- Considering the challenges facing the General Fund, staff are proposing a limited number of service level enhancements:
 - Additional part-time benefited overnight parking enforcement position
 - Addition of 0.5 FTE
 - Annual recurring cost of \$40,013
 - Flock fixed license plate readers
 - Included based on City Council direction from May 7 study session
 - Annual recurring costs of \$112,500



GENERAL FUND FIVE-YEAR FORECAST

GENERAL FUND FIVE-YEAR FORECAST

- Revenue assumptions – Property tax
 - Property Tax grows at an average of 4.5%
 - Assumes the shortfall from Property Tax in Lieu of Vehicle License Fee is repaid two years in arrears as historically has been the case
 - Educational Revenue Augmentation Fund (ERAF) rebate is held flat with the assumption that growth in the ERAF rebate will be used to pay the VLF
 - The State currently uses ERAF for its obligation to pay VLF to cities

GENERAL FUND FIVE-YEAR FORECAST

- Revenue assumptions – Other revenues
 - Transient Occupancy Tax grows at an average of 3.4%
 - Sales Tax grows at an average of 2.6%
 - Licenses & Permits increase an average of 3.0%, plus an additional \$0.5 million as development activity increases
 - Approximately \$1 million annual use of California Employers' Retiree Benefit Trust for retiree premiums
 - Transfers of \$1 million from the Developer Special Revenue Fund for BHCC operations for 5 years per City Council direction

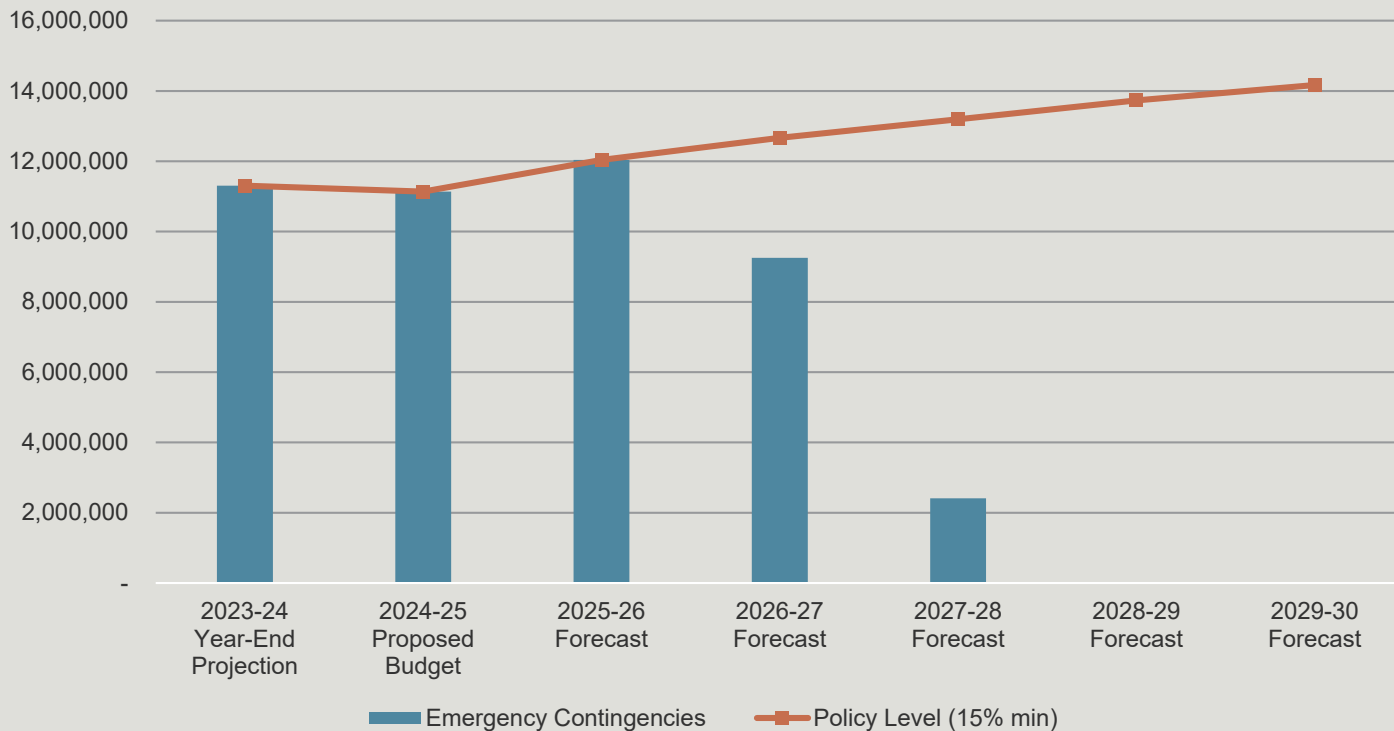
GENERAL FUND FIVE-YEAR FORECAST

- Expense assumptions
 - Personnel costs forecasted using CalPERS actuarial data
 - 242 FTE total full-time equivalents (FTEs)
 - Includes vacancy and turnover rate assumption
 - Other benefits anticipated average growth of 7% annually
 - Additional UAL payment is approximately \$0.95 million annually
 - Calculated annually based on the value of the future benefits members are projected to receive that are not covered by current plan assets
 - Occurs when past actuarial assumptions are not met
 - Early payments increase the amount of investment earnings available to pay benefits and reduce the total contributions required by the City
 - Pension reserve will be will be depleted by the end of fiscal year 2025-26
 - Transfer for the CIP of approximately \$3.2 million, increased by an inflationary factor of 5% every 5 years

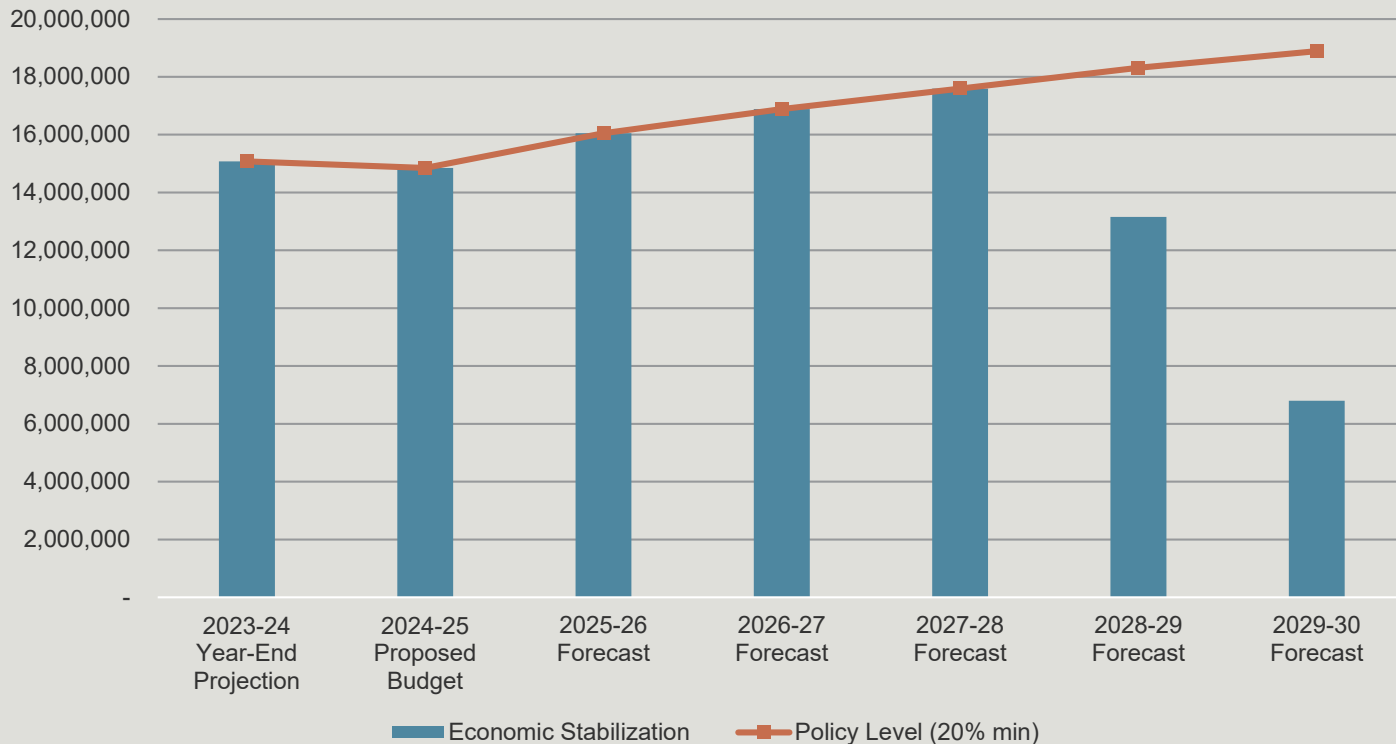
GENERAL FUND FIVE-YEAR FORECAST

- Surplus/(Deficit) and Impacts to the Reserve
 - Total fund balance trends downward from \$36.9 million in the proposed fiscal year 2024-25 budget to \$6.8 million in fiscal year 2029-30 forecast
 - Emergency Contingency Reserve (15% minimum policy level)
 - Falls below the minimum in fiscal year 2026-27
 - No longer funded in fiscal year 2028-29
 - Economic Stabilization Reserve (20% minimum policy level)
 - Falls below the minimum in fiscal year 2028-29

GENERAL FUND RESERVE: EMERGENCY CONTINGENCY



GENERAL FUND RESERVE: ECONOMIC STABILIZATION





DEPARTMENT BUDGETS

FISCAL YEAR 2024-25

GENERAL FUND DEPARTMENT BUDGETS

Department	Revenues	Expenditures	FTEs
Police	\$449,000	\$(25,386,758)	69.5
Public Works	\$1,155,700	\$(17,332,995)	47.74
Library and Community Services	\$4,248,500	\$(14,284,305)	55.25
Community Development	\$3,723,050	\$(11,109,082)	33.5
General Administration	\$300	\$(7,022,248)	17.36
Administrative Services	-	\$(5,438,280)	18.75
Non-Departmental*	\$63,835,937	\$6,342,408	-
Total	\$73,412,487	\$(74,231,260)	242.1

*Non-Departmental includes items not attributable to a specific department. Revenues include taxes, franchise fees, business licenses, and investment income. Expenditures include the vacancy and turnover factor, operating factor, and transfers to other funds.



CAPITAL IMPROVEMENT PLAN

CAPITAL IMPROVEMENT PLAN (CIP)

- \$97 million CIP budget for 64 projects in the following areas:
 - City buildings and systems: \$8.9 million
 - Environment: \$3.2 million
 - Parks and Recreation: \$9.5 million
 - Aquatic center maintenance and park improvements
 - Sport field renovations and court maintenance
 - Stormwater: \$12.4 million
 - Streets and sidewalks: \$16.7 million
 - Street resurfacing
 - Transportation: \$31.0 million
 - Traffic signal modifications
 - Transportation projects
 - Water: \$15.7 million
 - Water main replacement
 - Water system improvements

CAPITAL IMPROVEMENT PLAN (CIP)

- Funding for the CIP comes from the following sources:
 - Special Revenue Funds: \$48.7 million
 - General Capital Projects Fund: \$32.6 million
 - Average annual transfer from the General Fund: \$4.7 million
 - City Municipal Water Fund: \$15.7 million
 - Grant Reimbursements

- \$11 million in ongoing needs each year
 - Streets, buildings, aquatics, water, traffic
 - Stormwater
 - \$67 million for the SAFER Bay project (2026-29)
 - Transportation
 - \$4 million quiet zone (2025-26)
 - \$17.5 million grade separation (2025-27)
 - Water
 - \$27 million for water storage (2026-27)



NEXT STEPS

FISCAL YEAR 2024-25 NEXT STEPS

- Staff requests direction from the City Council after considering the budget assumptions, the proposed budget including SLEs, and the five-year forecast
- Feedback received from the City Council will be incorporated into the proposed budget for adoption on June 25
- Proposed budget available on OpenGov: menlopark.gov/budget



QUESTIONS