



STAFF REPORT – CITY COUNCIL MEETING

June 07, 2023

TO: Honorable Mayor and City Council Members

FROM: Tabatha Miller, Finance Director

PREPARER: Tabatha Miller, Finance Director

DATE: May 31, 2023

TITLE: **Review Proposed Budget for Fiscal Year 2023-24.**

RECOMMENDATION:

It is recommended that the City Council receive a presentation on the City Manager's Proposed FY 2023-24 Budget and provide direction to staff as appropriate.

INTRODUCTION:

Section 2305 of the Arcata Municipal Code requires that a current annual operating budget be adopted by the City on or before the first day of July of each year. This agenda item provides the City Council with an opportunity to review the City Manager's Proposed Budget and provide direction to staff as appropriate. The Public Hearing on the FY 2023-24 Budget and FY 2023-24 Appropriation Limit is scheduled for June 21, 2023, after which the City Council may consider adoption.

BACKGROUND/DISCUSSION:

Adoption of the annual budget generally includes adoption of the City Council Goals and Priority Projects, projected revenues and expenditures, the City's Capital Improvement Program (CIP) projects and the annual Appropriations Limit (Gann Limit). In prior years, adoption of the Master Fee Schedule was incorporated into the budget adoption, however, the FY 2023-24 Fee Schedule was adopted on April 19, 2023, and will be effective July 1, 2023.

Attached to this staff report is a complete 104-page FY 2023-24 Proposed Budget document, which follows the format of prior budget submittals and provides the elements listed above. The introduction memorandum at the beginning of the document provides a good narrative of the budget, including a list of a few of the year's priority programs on page 5 (*of the budget document not agenda packet lower right corner*). The City Council Goals, Objectives and Priority Projects are set forth on pages 14-23 and are adopted as part of the annual budget. The Fund overview starting on page 27, provides a summary of the estimated revenues, expenditures and fund balances for the current FY 2022-23 and a summary of how the FY 2023-24 Proposed Budget will impact total revenues, expenditures and fund balances for next year.

The City's projected revenues are set forth in detail starting on page 40 and the detailed workplans and activity budgets for departments begin on page 54. A summary of American Rescue Plan Act (ARPA) projects is on the last page – 104.

The Fiscal Year (FY) 2023-24 Proposed Budget is \$80.5 million. This one-year package includes \$43.7 million in capital and infrastructure, most of which is funded from grants and other outside sources. The focus of this year's budget is investment, building reserves and long-term financial sustainability. The City's Proposed FY 2023-24 expenditure budget continues the trend from FY 2022-23 of making significant investments in capital.

As set forth in the memo on page 7, an important part of financial sustainability is reducing the City's pension debt. Staff recommends the Council invest more than \$7.5 million to reduce the CalPERS unfunded pension liability. These proposed payments are included in the Fund Overview on page 39-40 and would be funded from General Fund, Water and Wastewater accumulated and unreserved fund balances. Staff also recommends that Council increase its General Fund Operating Reserve from 25% of annual expenditures (excluding one-time capital) to 30%. This recommendation is also reflected in the Fund Overview on page 39.

Each year, the governing body of the state and each local governmental must establish and is subject to an Appropriations Limit, also referred to as the Gann Limit. The Appropriations Limit for any year is the Appropriations Limit from the previous fiscal year increased by inflation and population changes. Government Code § 7910 requires that 15 days prior to adopting its annual Appropriations Limit, a local government make available to the public the documentation used to determine the Appropriations Limit. By including that calculation as Attachment B to this agenda item, it is available for public review. After a public hearing on June 21, 2023, the Council may consider adopting the Gann Limit along with the FY 2023-24 Proposed Budget.

ATTACHMENTS:

- A. FY 2023-2024 Proposed Budget Document (PDF)
- B. FY 2023-24 Appropriation Limit (Gann Limit) Calculation (PDF)