CITY COUNCIL AGENDA REPORT

DEPARTMENT: Administrative Services **MEETING DATE:** June 17, 2025

STAFF REFERENCE: Buffy Bullis, Administrative Services Director **AGENDA LOCATION:** AR-1

GOVERNMENT CODE SECTION 84308 APPLIES: No

TITLE: Fiscal Year 2025-27 Budget, Resolution No. 2025-30; Fiscal Year 2025-2026 Schedule of Fees and Charges, Resolution No. 2025-31; and Fiscal Year 2025-27 Authorized Position Listing

OBJECTIVE: To present the City of Monrovia's two-year budget for Fiscal Years 2025-27, appropriate the funds necessary to manage all operating and capital improvement costs, approve the Fiscal Year 2025-26 Schedule of Fees and Charges, and authorize the Fiscal Year 2025-27 Authorized Position Listing

BACKGROUND: The Fiscal Year 2025-27 Biennial Budget, presented for City Council's consideration, incorporates the City's Strategic Goals of Customer Service, Financial Management, Infrastructure, and Relationships and seeks to fund as many priorities in furtherance of these goals as possible, all while supporting the City's mission to serve the people of Monrovia to create a community that offers a premier quality of life. The development of the budget incorporates the five principles of the City's Financial Resiliency Plan, which includes the following objectives:

Financial Resiliency Plan (FRP) Principles:

1. Protect General Fund dollars and minimize subsidies to any funds that should be self-sustaining. This includes ensuring that user fees cover the cost of providing services.
2. Complete the remaining elements of the City's CalPERS Response (CPR) Plan.
3. Facilitate appropriate new development projects to bolster the City's revenue base.
4. Build up General Fund reserve levels in preparation for a possible future recession.
5. Consider contracting out for services if a significant cost savings has been identified and if appropriate.

Both the Citywide Strategic Goals and the FRP Principles have been incorporated into the development of the Fiscal Year 2025-27 Budget, with special emphasis placed on protecting General Fund dollars, building up reserve levels, and addressing infrastructure and maintenance needs, whenever possible.

ANALYSIS: Overall, the City's finances remain strong and stable. The City Council's commitment to building a strong fiscal foundation, supported by sound financial management practices, continues to ensure the stability of the City's finances, and due to the City's investment in competitive wages, the City is not experiencing the high vacancy rates seen in some other agencies. This allows the City to maintain a high level of service to the community.

In preparation for the development of the Fiscal Year 2025-27 Budget, staff has provided ongoing quarterly updates to the City Council throughout the year. These updates keep the City Council informed of key budget considerations and promote ongoing dialogue with both the City Council and the community regarding the City's finances. In developing the Fiscal Year 2025-27 Budget, staff considered the current economic environment and other financial factors that impact the City's budget.

Economic Overview:

While the City remains in a stable financial position, uncertainty exists in the broader economy. Since January 2025, significant changes at the federal level, including potential tariffs, federal funding freezes, closures of federal buildings and operations, and possible layoffs of federal employees have created economic uncertainty, as these developments can impact employment, interest rates, lending, capital investment, and household spending. Additionally, potential tariffs are expected to affect the City's budget for projects that rely on components sourced from Mexico, China, and/or Canada (e.g., the Water Meter Replacement Project).

In recent years, the City's costs for goods and services have been affected by high inflation that has occurred since 2021. However, inflation has slowed over the past year and is now at its lowest level in four years (as of April 2025, inflation was 2.3%). This decrease is expected to positively impact the future price of goods and services procured by the City.

Although most City revenues remain stable and are experiencing modest growth, sales tax revenues continue to decline, particularly due to reduced revenue from new vehicle purchases.

Given the City's stable financial position, the City is well-positioned to remain flexible and adapt to changing economic conditions. Nonetheless, it is important for staff to continue monitoring the budget and the economic environment, closely, to ensure the City can respond and adjust quickly if necessary.

Budget Drivers

Several key budget drivers are impacting the City's bottom line. While revenue growth has slowed over the past several years, the primary cause of deficits is rising costs, as expenses are outpacing revenue growth. The following is a discussion of several budget drivers impacting the City's budget:

1. CalPERS Unfunded Accrued Liability (UAL) – The CalPERS UAL is the largest factor impacting the City's bottom line. The City's annual required payment toward the CalPERS UAL includes significant increases in each year of the two-year budget. The Fiscal Year 2025–27 Budget reflects the following increases:

Description	FY 2024-25	FY 2025-26	FY 2026-27
Total Annual UAL Payment	$1,384,382	$2,734,596	$3,641,078
Increase in Annual UAL Payment	$1,384,382	$1,350,214	$906,482

CalPERS' annual investment returns are a primary driver of the UAL. The extent to which CalPERS meets its investment target rate of return, currently set at 6.8%, directly affects fluctuations in the UAL. As shown in the table below, CalPERS has achieved its target in only two of the past six years, or 33% of the time.

Description	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Target Investment Rate of Return	7.0%	7.0%	7.0%	6.8%	6.8%	6.8%
Actual Investment Rate of Return	6.7%	4.7%	21.3%	(6.1%)	5.8%	9.3%
Difference Between Target and Actual Rate of Return	(0.3%)	(2.3%)	14.3%	(12.9%)	(1.0%)	2.5%

Further, an additional increase of approximately $1 million per year is currently expected in the two years following this two-year budget cycle (i.e., Fiscal Years 2027–28 and 2028–29). Staff is awaiting the annual CalPERS actuarial report, which should be available within the next two months, to determine updated UAL amounts for future years.

2. Personnel Costs - As a service-based organization, personnel costs make up approximately 66% of the City's General Fund budget and about 31% of the Citywide budget. Annual increases in personnel costs typically range from 3% to 6% and include both CalPERS normal costs and UAL obligations.

   Notably, while programs, projects, and service levels have expanded over the years, staffing levels have remained relatively consistent. As part of its due diligence, staff carefully evaluates each job vacancy before proceeding with the recruitment process. This evaluation considers cost, operational need, the most effective approach, and whether to fill the position, freeze it, or reallocate the responsibilities.

   The Budget includes funding to implement previously negotiated and approved compensation adjustments with each of the City's three (3) labor associations, mid-management and management staff.

3. Maintenance and Operations (M & O) Costs - Budgets have been significantly impacted by high inflation in recent years. The City has experienced rising costs in several areas, such as professional services, contract services, and insurance premiums, ranging from 3% to 20% over the past several years. However, with the recent decline in inflation over the past year, the City anticipates some relief from escalating costs in the future.

4. Sales Tax – Sales tax revenues have been affected by a slowdown in consumer spending, resulting in a decrease of approximately $1 million since Fiscal Year 2022-23, the City's highest year for sales tax collections.

Budget Approach

Overall, the budget was established using a conservative approach to estimating both expenditures and revenues. Expenditure budgets reflect the full cost of salaries and benefits for all 244.75 budgeted positions, less vacancy savings, as well as the full cost of operations, including anticipated inflationary increases. In other words, a "fully loaded" expenditure budget has been developed and incorporated into this proposal.

For revenue estimates, staff analyzed historical trends to ensure estimates aligned with prior year actuals, making adjustments for unique circumstances and anticipated future changes, where appropriate. In cases of uncertainty, staff applied a cautious approach by selecting the more conservative estimate.

The Fiscal Year 2025-27 Budget incorporates the following budget objectives:

1. Incorporates conservative revenue and expenditure projections.
2. Includes a special focus on funding as many CIP projects as possible.
3. Addresses long term liabilities (e.g., pension, OPEB, unfunded leave, etc.) by paying down debt and setting aside funding for future long-term liabilities.
4. Aims to build up reserve levels to prepare for the future.
5. Seeks outside funding, whenever possible, to help fund special projects and programs in the upcoming fiscal year.

Addressing Budget Drivers:

To minimize budget gaps and to mitigate the impacts of the budget drivers discussed earlier in this report, staff applied the following approaches:

1. Fees were extensively reviewed to ensure the City is capturing as much of the cost of providing services as possible (up to 100%, whenever feasible), and some new fees are being proposed to recover costs for the first time.
2. Staff reviewed all budget line items and made adjustments to achieve savings without impacting service levels to the community.
3. Vacancy savings were incorporated into the budget. By holding positions vacant slightly longer than usual, the City can realize savings during the fiscal year.

4. Staff initiated another review of contracts to identify additional savings, where appropriate. Some contract renegotiations will be addressed in the upcoming year.
5. By paying the annual CalPERS UAL as a lump sum at the beginning of each year, instead of over twelve months, the City will save approximately 3.3% annually, equating to approximately $91,000 in Fiscal Year 2025-26 and $121,000 in Fiscal Year 2026-27.
6. Staff continues to set aside funds in the Section 115 Trust to address long-term liabilities. Annual contributions of $1.3 million (Fiscal Year 2025-26) and $2.5 million (Fiscal Year 2026-27) are incorporated into the budget proposal.
7. Staff is evaluating options to best manage CalPERS expenses, including the potential for savings through an Advanced Discretionary Payment (ADP) using Section 115 Trust funds.

By implementing these strategies, staff has been able to reduce deficits in the General Fund and other City funds. Additionally, over the next twelve months, staff will continue to explore further options to close the General Fund budget gap in the second year of the two-year budget.

Citywide Revenues and Expenditures:

In total, the City's overall budgeted appropriations for Fiscal Year 2025-27 are projected to be $151.00M for Fiscal Year 2025-26 and $134.64M for Fiscal Year 2026-27. Below is a summary of Citywide revenues and expenditures, by fund type, which includes CIP expenditures:

Exhibit 1

Citywide
Revenues and Expenditures
(Includes CIP)

Fund Type	Fiscal Year 2024-25 Revised Budget		Fiscal Year 2025-26 Proposed Budget		Fiscal Year 2026-27 Proposed Budget	
	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure
General Fund	$57.68 M	$56.81 M	$64.70 M	$62.36 M	$62.18 M	$64.83 M
General Fund – Other Funds (Emergency Services/ Measure K/ Water Conservation)	$27.32 M	$13.76 M	$22.27 M	$12.77 M	$7.53 M	$0.25 M
Enterprise	$21.90 M	$24.64 M	$22.40 M	$20.10 M	$22.45 M	$20.83 M
Special Purpose	$37.99 M	$43.12 M	$42.14 M	$42.63 M	$36.06 M	$35.42 M
Internal Service	$9.86 M	$12.36 M	$12.23 M	$13.14 M	$12.40 M	$13.31 M
Total Budget	**$154.75 M**	**$150.69 M**	**$163.74 M**	**$151.00 M**	**$140.62 M**	**$134.64 M**

In total, revenues exceed expenditures for both years of the two-year budget.

General Fund

As recently discussed during Budget Study Session #2, the General Fund is in a sound fiscal position heading into the two-year budget cycle. Below are several noteworthy comments regarding the General Fund budget:

1. One-time settlement revenues from a class action lawsuit related to Perfluoroalkyl and polyfluoroalkyl substances (PFAS), totaling $3.67 million in Fiscal Year 2025-26 and $0.14 million in Fiscal Year 2026-27, are included in the budget. These revenues will be set aside in a separate restricted General Fund account.

2. While sales tax revenues have been trending downward, other key revenue sources, such as property tax and Transient Occupancy Tax (TOT), which together comprise approximately 33% of the General Fund's revenues, are showing growth. These increases have been incorporated into the budget.
3. As former redevelopment agency debt obligations wind down, additional property tax revenue is expected to return to the City. Fiscal Year 2026-27 includes an additional $1.2 million in residual property tax revenue and an additional $650,000 in retirement override revenues.
4. Contributions to the Section 115 Trust for future PERS and OPEB liabilities continue to be incorporated into the budget. Fiscal Year 2025-26 includes a contribution of $1.3 million, and Fiscal Year 2026-27 includes a contribution of $2.5 million.

Overall, the proposed Fiscal Year 2025-27 General Fund budget incorporates conservative estimates for revenues and expenditures. A surplus of $2.34 million is projected for Fiscal Year 2025-26, and a deficit of $2.65 million is projected for Fiscal Year 2026-27. While a surplus is projected for Fiscal Year 2025-26, the surplus is primarily due to the one-time PFAS revenues mentioned above, totaling $3.67 million, which are expected to be received during the year. A calculation of the operational deficit, after excluding these one-time revenues, is included in **Exhibit 2**.

Additionally, while a deficit is proposed in Fiscal Year 2026-27, over the next twelve months, staff will continue to identify options for closing the budget gap. Projected expenditures and revenues are outlined in **Exhibit 2** below:

Exhibit 2

General Fund
Revenues and Expenditures

Budget Category	Fiscal Year 2024-25 Revised Budget	Fiscal Year 2025-26 Proposed Budget	Fiscal Year 2026-27 Proposed Budget
Revenues	$ 57.68 M	$ 64.70 M	$ 62.18 M
Expenditures	$ 56.81 M	$ 62.36 M	$ 64.83 M
Net GF Surplus/(Deficit) Before One-Time Revenues	**$ 0.87 M**	**$ 2.34 M**	**($ 2.65 M)**
Less: One-Time PFAS Settlement Revenues	($ 0.00 M)	($ 3.67 M)	($ 0.14 M)
Net GF Surplus/(Deficit) After Removing One-Time PFAS Settlement Revenues	$ 0.87 M	($ 1.33 M)	($ 2.79 M)

General Fund Revenues

In preparing the Fiscal Year 2025-27 Budget, staff performed a review of historical actuals, estimated year-end projections for Fiscal Year 2024-25, and evaluated the current economic environment. Based on that review, the total proposed General Fund revenue budget is $64.70M for Fiscal Year 2025-26 and $62.18M for Fiscal Year 2026-27. As in prior years, key General Fund revenues include property tax, sales tax, transient occupancy tax (TOT), and other revenues. General Fund proposed revenues are outlined in **Exhibit 3** below:

Exhibit 3

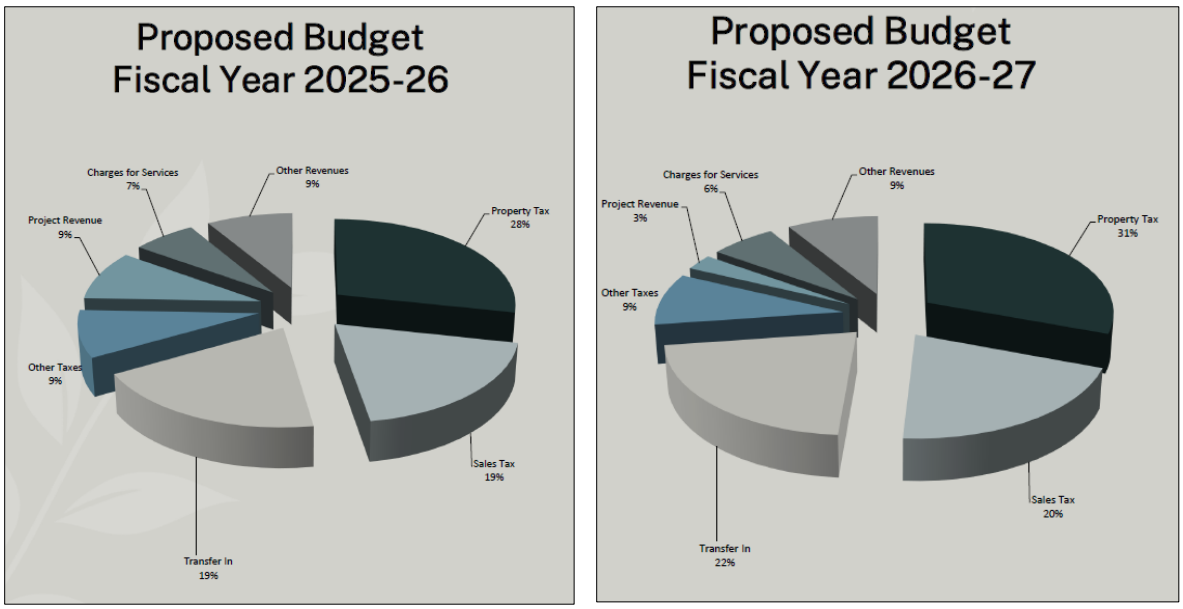
General Fund Revenues

Revenue Source	Fiscal Year 2024-25 Revised Budget	Fiscal Year 2025-26 Proposed Budget	% Increase Decrease	Fiscal Year 2026-27 Proposed Budget	% Increase Decrease
Property Tax	$17.57 M	$18.35 M	4.44%	$19.05 M	3.81%
Sales Tax	$12.08 M	$12.35 M	2.24%	$12.75 M	3.24%
Transfers In	$13.44 M	$12.54 M	(6.70%)	$13.44 M	7.18%
Other Taxes (Includes TOT)	$5.48 M	$5.67 M	3.47%	$5.76 M	1.59%
Project Revenues	$1.40 M	$5.98 M	327.14%	$1.72 M	(71.24%)
Charges for Services	$3.78 M	$4.19 M	10.85%	$3.99 M	(4.77%)
Other Revenues	$3.93 M	$5.62 M	43.00%	$5.47 M	(2.67%)
Total Revenues	**$57.68 M**	**$64.70 M**	**12.17%**	**$62.18 M**	**(3.89%)**

Additionally, **Exhibit 4,** below, illustrates the breakdown of the various General Fund revenue sources represented as percentages of total General Fund revenues. As shown in the charts, the General Fund has a diversified revenue base.

Exhibit 4

General Fund Revenues



A discussion of the City's key revenue sources is outlined below:

Property Tax

Property tax revenue, the City's biggest revenue source in the General Fund, makes up 28-31% of total General Fund revenues. Overall, property values have remained strong in Monrovia and home values continue to grow each year, resulting in growth in this stable revenue source. Revenue projections are $18.35M for Fiscal Year 2025-26 and $19.05M for Fiscal Year 2026-27.

Sales Tax

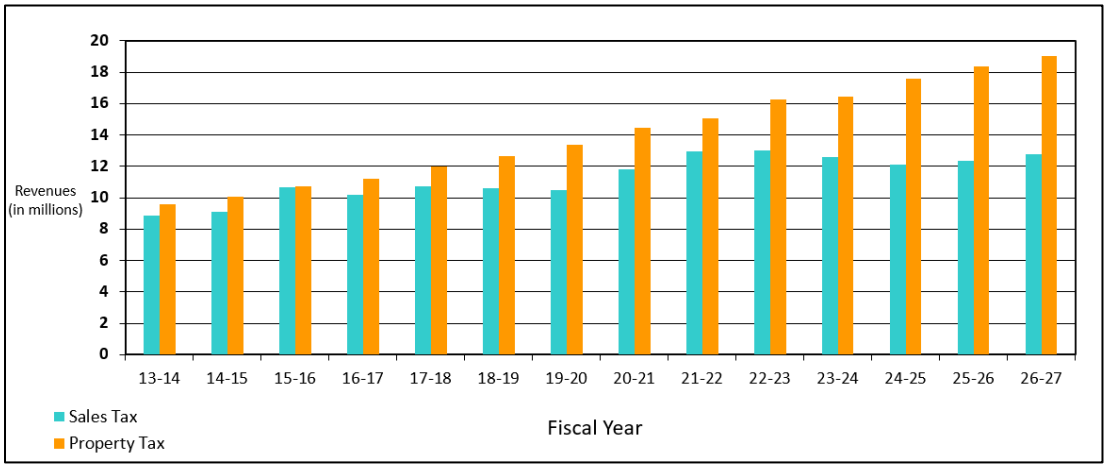
Sales tax revenues continue to decline. While most sales tax categories are experiencing decreases, the City's largest category, Autos and Transportation, has been disproportionately affected. In fact, Monrovia's Autos and Transportation category has seen a reduction in receipts

for the past seven consecutive quarters. This slowdown is not unique to Monrovia, but is occurring statewide. Contributing factors include high vehicle prices and financing costs, as well as potential impacts from tariffs, all of which have led to a slowdown in consumer spending on new vehicles. Revenue projections are $12.35M for Fiscal Year 2025-26 and $12.75M for Fiscal Year 2026-27.

Exhibit 5, below, displays a comparison of Property Tax and Sales Tax revenues from Fiscal Year 2013-14 through Fiscal Year 2026-27. As can be seen in the chart, in recent years, property tax revenues have been outpacing sales tax revenues at a steady pace.

Exhibit 5

Sales Tax and Property Tax Revenues



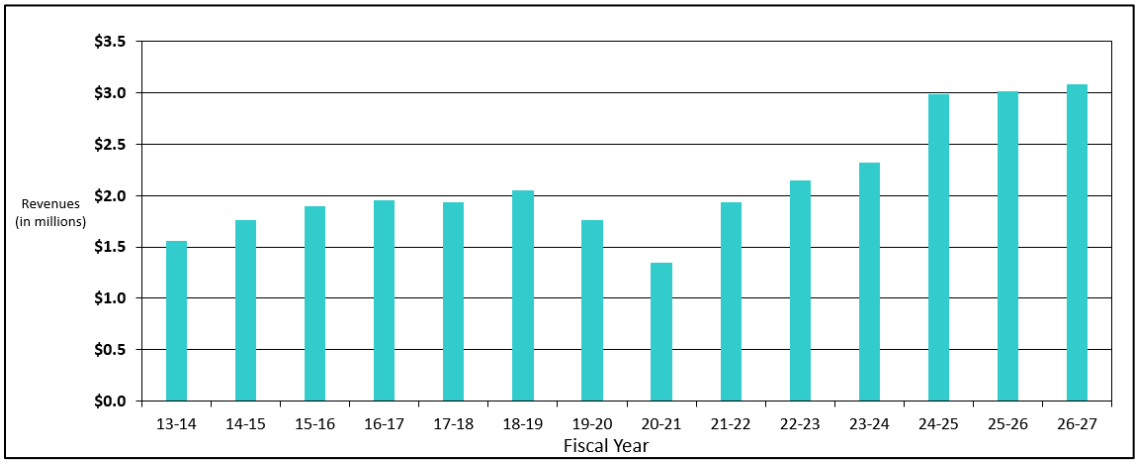
Transient Occupancy Tax (TOT) Revenue:

TOT revenue has outperformed expectations in the current fiscal year (Fiscal Year 2024-25). This increase is attributed to higher-than-expected occupancy levels at the City's hotels, some of which are due to the recent fires. Additionally, the City's newest hotel, the Marriott TownePlace Suites, has also exceeded revenue projections in the current year. Now that the hotel has been operational for a full year, staff was able to prepare projections based on actual collections for a full year. Revenue projections are $3.02M for Fiscal Year 2025-26 and $3.08M for Fiscal Year 2026-27.

Exhibit 6 below displays historical activity for TOT from Fiscal Year 2013-14 through Fiscal Year 2026-27.

Exhibit 6

TOT Revenues



Transfers In

Transfers In revenue constitutes a significant percentage of the General Fund revenue, making up approximately 19-22% of the General Fund. Transfers In revenue is comprised of reimbursements received from other City funds for overhead and pension cost reimbursements (from the Retirement Fund), as well as other various reimbursements.

All Other Revenues

In addition to property tax, sales tax, TOT revenues, and Transfers In, the City also collects General Fund revenues for other taxes, project revenues, charges for services, and other various revenues. Within these categories, some revenue examples include franchise fees, permits, user fees, one-time revenues, and all other revenues that are not classified as property tax, sales, tax, or TOT. Revenue projections include conservative estimates and user fee adjustments based on staff's fee review and update.

General Fund Expenditures*:*

When preparing the General Fund expenditure budget, a conservative approach was taken. A year-over-year comparison of expenditure categories is shown in **Exhibit 7**, below, and reflects an overall increase of 9.76% in Fiscal Year 2025-26 (compared to Fiscal Year 2024-25), and a 3.96% increase in Fiscal Year 2026-27 (compared to Fiscal Year 2025-26). Increases in personnel costs are primarily driven by rising CalPERS obligations, along with other normal annual increases. Maintenance and Operations costs are projected to rise by 12.16% in Fiscal Year 2025-26, largely due to increased internal service fund charges related to vehicle replacements, facilities maintenance, and insurance. Finally, a 68.13% increase in "Transfers Out and Other" expenditures is projected for Fiscal Year 2025-26, primarily due to a $1.7 million increase in transfers from the General Fund to the Retirement Fund to support rising CalPERS UAL costs, as previously noted.

Total proposed General Fund expenditures are $62.36M in Fiscal Year 2025-26 and $64.83M in Fiscal Year 2026-27. A breakdown of the General Fund expenditures is presented in **Exhibit 7** below:

Exhibit 7

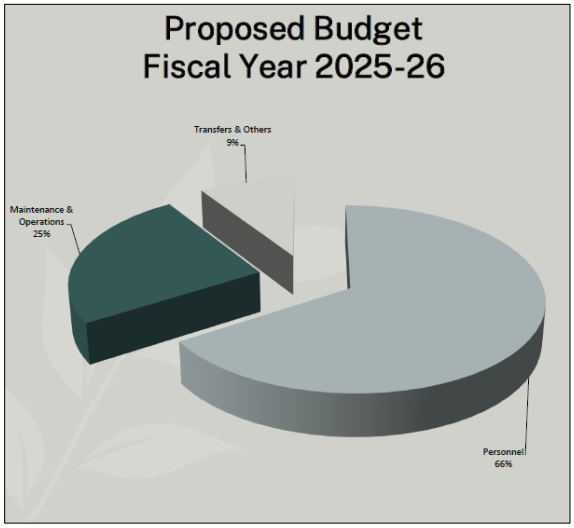
General Fund Expenditures

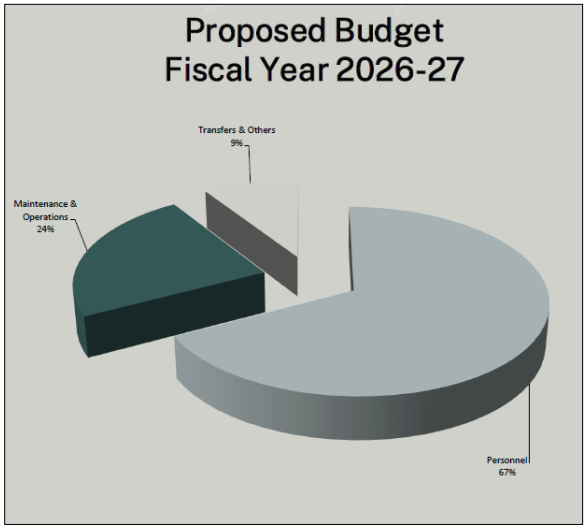
Expenditure Type	Fiscal Year 2024-25 Revised Budget	Fiscal Year 2025-26 Proposed Budget	% Increase Decrease	Fiscal Year 2026-27 Proposed Budget	% Increase Decrease
Personnel Costs (Salary & Benefits)	$39.57 M	$41.11 M	3.89%	$43.62 M	6.11%
Maintenance & Operations (M & O) (Includes I/S Charges)	$13.82 M	$15.50 M	12.16%	$15.24 M	(1.68%)
Transfers & Other (Includes Capital Outlay and Projects)	$ 3.42 M	$5.75 M	68.13%	$5.97 M	3.83%
Total Expenditures	**$56.81 M**	**$62.36 M**	**9.76%**	**$64.83 M**	**3.96%**

General Fund expenditures for the Fiscal Year 2025-27 proposed budget as a percentage of total General Fund expenditures are illustrated in **Exhibit 8** below:

Exhibit 8

General Fund
Expenditures





As an item of note, expenditure percentages are consistent with prior years. Personnel costs constitute 66-67% of total budgeted expenditures, which is below the City's threshold of 75%, as identified in the City's Principals of Employee Compensation.

Other General Operating Funds

In addition to the General Fund, several other City funds are considered part of the General Fund and, as such, are presented as a single fund in the City's Annual Comprehensive Financial Report (ACFR). These funds include:

- *Emergency Events* – This function includes one-time emergency events such as the Bobcat Fire, the COVID-19 pandemic, the two rainstorms that damaged Canyon Park in 2021 and 2023, and the recent windstorms in January 2025. The majority of costs associated with these emergency events are expected to be reimbursed through federal and state funding, as well as insurance claims. Staff is currently working diligently with the Federal Emergency Management Agency (FEMA) and the State to complete reimbursement claims. Additionally, staff is actively seeking funding from other sources, wherever possible, to minimize the City's out-of-pocket expenses.

- *Measure K* – This function accounts for revenues and expenditures related to the City's Measure K sales tax. Expenditures included in the Fiscal Year 2025-27 Budget align with the projects approved by the City Council as part of the 2025 Measure K Spending Plan, based on project timing. It is also important to note that any unused Measure K revenues are added to the fund's reserves and accrue interest annually.

- *Water Conservation* – This is a new function established in Fiscal Year 2024-25. Revenue generated from the water penalty program has been set aside and will be used to support future water conservation initiatives.

Exhibit 9, below, provides a view of the funds that are combined into one fund on the ACFR:

Exhibit 9

General Fund
Combined View

Fund Type	Fiscal Year 2024-25 Revised Budget		Fiscal Year 2025-26 Proposed Budget		Fiscal Year 2026-27 Proposed Budget	
	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure
General Fund	$57.68 M	$56.81 M	$64.70 M	$62.36 M	$62.18 M	$64.83 M
General Fund – Emergency Events	$20.51 M	$10.85 M	$14.97 M	$0.00 M	$0.00 M	$0.00 M
General Fund – Measure K	$6.81 M	$2.92 M	$7.25 M	$12.72 M	$7.48 M	$0.20 M
General Fund – Water Conservation	$0.00 M	$0.00 M	$0.05 M	$0.05M	$0.05 M	$0.05 M
Total General Fund Budget	**$85.00 M**	**$70.58 M**	**$86.97 M**	**$75.13 M**	**$69.71 M**	**$65.08 M**

Other City Funds (Non-General Fund)

In addition to the General Fund, the City also maintains and accounts for more than 50 other funds in its financial records. Each fund is accounted for separately with a self-balancing set of accounts. These funds are established to track both unrestricted and restricted revenue sources and their corresponding expenditures.

Based on the proposed Fiscal Year 2025-27 Budget, all funds are expected to end each fiscal year with positive fund balances, with the exception of the Lighting and Landscape Assessment District Fund, the Park Maintenance Assessment District Fund, the Proposition A Fund, and several grant funds, which will be discussed below.

Total budgeted expenditures for all other (non-General Fund) funds are $75.87 million in Fiscal Year 2025-26 and $69.56 million in Fiscal Year 2026-27. In both years, total revenues are projected to exceed expenditures. **Exhibit 10**, below, provides a summary of revenues and expenditures for these other City funds.

Exhibit 10

Other City Funds
(Non-General Fund)

Fund Type	Fiscal Year 2024-25 Revised Budget		Fiscal Year 2025-26 Proposed Budget		Fiscal Year 2026-27 Proposed Budget	
	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure
Enterprise	$21.90 M	$24.64 M	$22.40 M	$20.10 M	$22.45 M	$20.83 M
Special Purpose	$37.99 M	$43.12 M	$42.14 M	$42.63 M	$36.06 M	$35.42 M
Internal Service	$9.86 M	$12.36 M	$12.23 M	$13.14 M	$12.40 M	$13.31 M
Total Budget	**$69.75 M**	**$80.12 M**	**$76.77 M**	**$75.87 M**	**$70.91 M**	**$69.56 M**

Plans for Eliminating Negative Balances

Other City funds with negative fund balances will be addressed as follows:

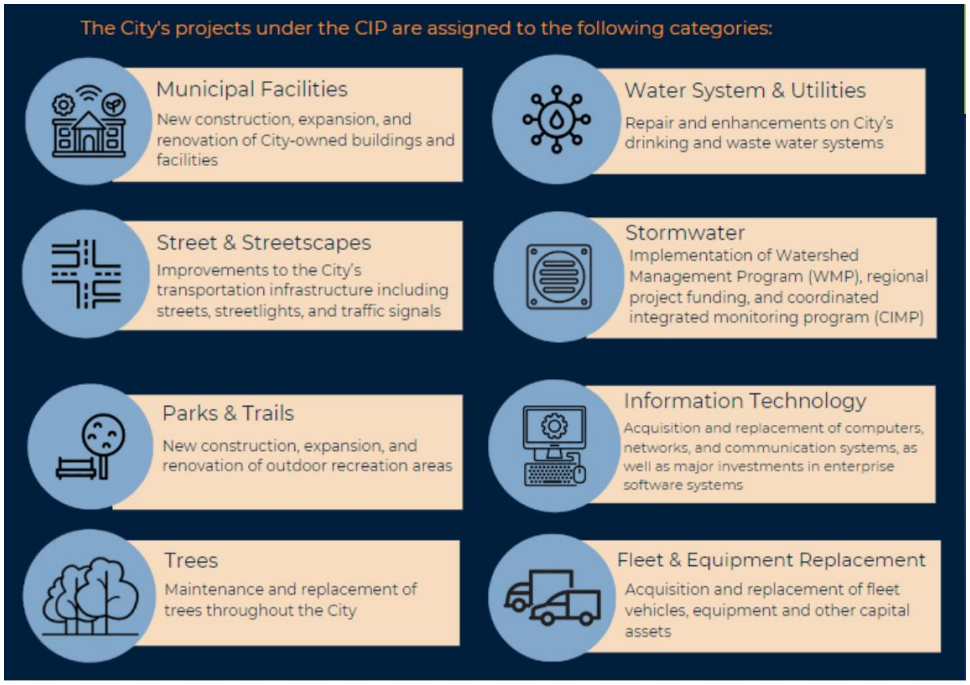
- *Lighting and Landscape Assessment District and Park Maintenance Assessment District Funds:*
  Staff is currently developing an outreach plan for a Prop 218 rate increase proposal for both districts. If approved by voters, rates will be adjusted to appropriate levels and revenues will cover the cost of service in both funds.

- *Proposition A Fund:*
  This fund has a slight negative balance (less than $200K) at the end of Fiscal Year 2026-27. Staff will identify a strategy for balancing this fund over the next twelve-month period.

- *Grant Funds:*
  Most grants are reimbursement-based (i.e., spend first and then receive reimbursement). Due to the timing of receipts, these Grant Funds have temporary negative balances that will clear out over time.

Capital Improvement Program (CIP)

On May 20, 2025, during Budget Study Session #1, staff reviewed the comprehensive CIP Plan with City Council. The CIP Plan is a comprehensive, long-term, five-year capital asset replacement program that endeavors to set aside funds, through the annual budgeting process, to ensure that assets can be replaced based on a predetermined schedule. In addition to replacing capital assets, maintaining capital assets is also an important part of an overall capital asset plan. The CIP identifies eight major infrastructure categories, as follows:



During Study Session #1, staff reviewed the list of projects, budgeted expenditures, and funding sources for the projects scheduled for both years of the two-year budget. The CIP was developed in collaboration with staff, Department Directors, and the City Manager. Projects that are included in the CIP were prioritized based on the following criteria:

- The City Council's strategic goals
- Public Safety
- Legal requirements for public infrastructure
- Maintenance requirements of public infrastructure
- Availability of one-time funds for specific projects

As part of the budget development, all CIP projects were reviewed by staff, with a special focus on project timing and updated costs. Based on this review, staff is proposing CIP Project expenditures totaling $23.16M in Fiscal Year 2025-26 and $3.84M in Fiscal Year 2026-27.

A summarized listing of projects and funding sources is attached as Attachment D to Resolution 2025-30. The schedule includes a listing of ***funded projects***, first, followed by a listing of ***unfunded projects***.

- Funded Projects: This is a list of projects that have available funding for Fiscal Year 2025-27. Funding for these projects has been identified and included in the Fiscal Year 2025-27 Budget.

- Unfunded Projects: This is a list of projects for which funding has not yet been identified. ***These projects are not included in the Fiscal Year 2025-27 Budget.*** Staff will continue to seek funding for these projects.

Regarding additional funding, staff will continue to aggressively pursue outside funding for both funded and unfunded projects included on the list, and will include CIP discussions in the quarterly budget update process.

As a reminder, although a project is budgeted, staff will return to Council for formal approval of each project prior to implementation and award of contract.

Fees and Charges

An important part of the budget adoption is the calculation of the cost of providing fee-based services to individuals, businesses, or groups. For this two-year budget cycle, staff performed an extensive review of user fees. The goal of the fee review was to analyze the extent to which costs are recovered for specific non-general services provided by the City. While fees are typically established either by statute, survey results, and / or a comprehensive service delivery cost analysis, a key objective is to minimize subsidies as much as possible.

One important consideration for adjusting fees is the impact of growing inflation on City costs. Fortunately, CPI continues to slow, and as such, staff is recommending a CPI adjustment of 3.3% for Fiscal Year 2025-26, based on the average percentage change in CPI over the prior year, according to the Bureau of Labor Statistics. Due to this increase, staff assumed a 3.3% across-the-board increase for all fees, and then individually reviewed each fee to determine whether costs for the service are fully recovered. This annual fee update process is intended to keep the City on pace with rising costs for services and to limit subsidies from other available revenues, which aligns with FRP Principle #1, which seeks to "Protect General Fund dollars and minimize subsidies to any funds that should be self-sustaining. This includes ensuring that user fees cover the cost of providing services." When setting fees, the City may not charge a fee that is more than the cost of providing the service. In some cases, for policy reasons, the City Council has decided to maintain fees at a level that is somewhat less than the City's actual cost for providing services.

The table below summarizes changes bring proposed to the Fiscal Year 2025-26 fees and charges:

No Change	28.9% of all fees
Decreased	0.2% of all fees
Less than 3.3% Increase	0.2% of all fees
3.3% Increase	56.9% of all fees
Greater than 3.3% Increase	10.0% of all fees
Eliminated	0.7% of all fees
New	1.9% of all fees
Restructured	1.2% of all fees

A comprehensive listing of all fees, including the proposed change over the prior year, is attached to Resolution 2025-31 as Attachment A.

Authorized Position Listing

Attachment G includes a list of the authorized positions incorporated into the Fiscal Year 2025-27 Budget. The fully loaded cost of salaries and benefits for these positions has been included in the budget proposal. Additionally, vacancy savings of approximately $1.4 million have been factored into the budget. By holding vacant positions open longer than usual, the City expects to achieve cost savings throughout the year.

Future Considerations

Several future priority considerations will be incorporated into staff's work plans for the upcoming year, as outlined below:

- Community Center Project Funding – Identifying funding sources for the upcoming Community Center Legacy Project will be a priority. Staff will continue to pursue external funding opportunities and will analyze the financial implications of bond financing versus using cash reserves and will return to City Council with options for consideration.
- Resiliency and Emergency Preparedness – Evaluating emergency operations and establishing contingency plans will be a high-priority work plan item to ensure the City is well-prepared for future major emergency events.
- Expenses Outpacing Revenues – As expenditures continue to outpace revenues, potentially leading to future deficits, staff will continue to actively assess and identify cost-saving opportunities that do not impact service levels to the community.

Summary

In summary, this budget proposal incorporates conservative revenue and expenditure projections, with a focused effort on funding as many CIP projects as possible. The budget also prioritizes building reserves, addressing long-term liabilities, completing key infrastructure projects, providing competitive compensation, and delivering high-quality programs, services, and events for the community.

While there is some uncertainty in the broader economy, the City is well-positioned to manage future challenges. The City Council's long-standing commitment to sound financial management has helped establish a strong financial foundation.

As we move into Fiscal Year 2025-26, staff will continue to closely monitor the budget and provide quarterly updates to the City Council on both the operating and CIP budgets. Maintaining cost controls will remain an ongoing priority.

ENVIRONMENTAL IMPACT: There is no environmental impact associated with approving the recommended adjustments.

FISCAL IMPACT: In developing the Fiscal Year 2025-27 Budget, staff has determined that the City is in a stable financial position. Attached to Resolution No. 2025-30 are the following key budget documents:

- Attachment A - Revenues by Fund Schedule
- Attachment B - Appropriations by Fund Schedule
- Attachment C - Combined Funds Statement
- Attachment D – Capital Projects
- Attachment E – Authorized Positions Listing

These documents illustrate the total budgeted revenues and expenditures for all City funds for Fiscal Years 2025-26 and 2026-27. Total Citywide budgeted appropriations are $150,998,801 for Fiscal Year 2025-26 and $134,640,072 for Fiscal Year 2026-27.

Additionally, the Comprehensive Fiscal Year 2025-26 Schedule of Fees and Charges is included as Attachment A to Resolution No. 2025-31.

OPTIONS: The following options are presented for consideration:

1. Adopt the Fiscal Year 2025-27 Budget, establish the Fiscal Year 2025-26 Schedule of Fees and Charges, and approve the Fiscal Year 2025-27 Authorized Position Listing. As part of the procedures of the overall annual budget process, staff will return to the City Council, throughout the year, with updates on the status of revenues and expenditures for all City funds.

2. Direct staff to make changes to the items included in the proposed budget.

RECOMMENDATION: Staff recommends that the City Council select Option 1.

COUNCIL ACTION REQUIRED: If the City Council concurs, the appropriate action would be a motion to adopt Resolution Nos. 2025-30 and 2025-31, and approve the Fiscal Year 2025-27 Authorized Position Listing.