



AGENDA REPORT

Department: City Manager's Office
Prepared by: Brad Raulston, City Manager
Meeting Date: Tuesday, February 21, 2023
Approved by: Brad Raulston, City Manager

SUBJECT:

2023 Goal Setting and Budgeting Kick-Off

RECOMMENDATION:

Confirm process and proposed dates and provide direction to staff on initial City Council Priorities.

BOARD/COMMISSION/COMMITTEE PRIOR ACTION:

Not Applicable.

EXPLANATION:

Each year the City must forecast the revenues it will receive and the expenditures it will incur for the upcoming fiscal year (FY) which runs from July 1st through June 30th. This is done through the annual budget development process and resulting budget document. Because the City is limited by the amount of resources available, the budget aids the City Manager in planning how these resources will be used to operate and maintain the City.

The budget process begins in November with the planning of the budget schedule for the following fiscal year. In January, development of the operating and capital budgets begins with analysis of revenues, costing of personnel services, and the call to departments to submit appropriation requests for their baseline budgets, as well as any enhancement requests. Meetings are then held with departments and the City Manager in order to refine the budget and consider enhancement requests.

Public budget workshops are held in April and May to present the preliminary budget, discuss budget priorities, and seek input from the City Council and community. Additions and modifications decided on as a result of these meetings are then incorporated into the proposed budget, which is brought to City Council for adoption in May or early June.

For Fiscal Year 2023-2024, the calendar of Council activity is listed in the table below.

Date	Description
February 21st	Budget and Goal-Setting Kick-off
March 21st	Presentation of Existing Priorities & 5-Year Forecast
March 24th	Goal Setting Workshop 9am-4pm (Library Community Room)
April 18th	Preliminary Budget Workshop
May 16th	Additional Budget Workshop, if needed
June 13th	Budget Adoption

Budget 101

Governments use fund accounting to organize and record our revenue and expenditures in line with the Governmental Accounting Standards Board (GASB). The majority of general revenue and of expenditures for core City services are reflected in the General Fund. Beyond the General Fund, most of the other funds are used to track revenue and expenditures that are restricted in nature. For example, the Section 8 Fund and the Sewer Fund. Approximately half of the City's annual financial activity occurs in the General Fund. The annual budget process includes all funds, but the main focus is the General Fund, since most of the resources in the City's other funds are restricted to be spent on eligible expenditures. Most of the General Fund revenue is considered general revenue, such as sales and property taxes, which can be used to pay for any government service.

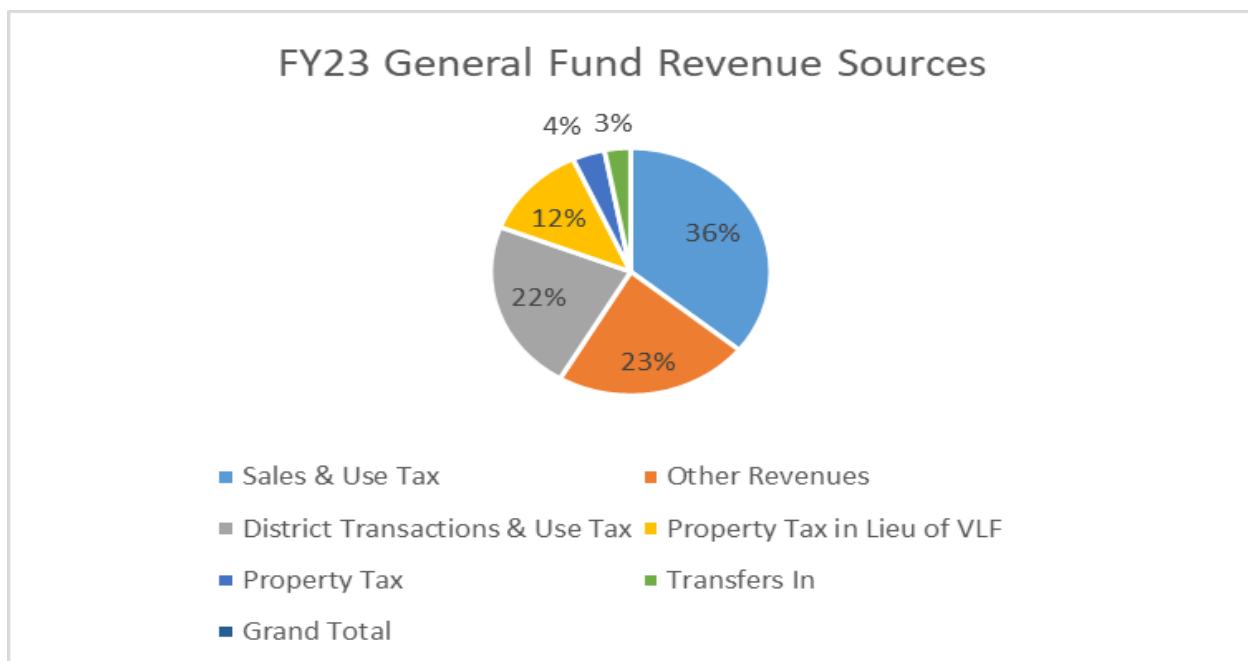
When annual revenues equal or exceed budgeted expenditures within a fund, the budget is balanced. It is best fiscal practice to fund annual operations with the operating revenue generated during the same period, while using one-time money for one-time expenditures (capital improvement projects or special projects rather than ongoing personnel or program enhancements). It is critical to distinguish one-time and ongoing funding sources and budget accordingly.

FY23 General Fund Adopted Budget at a Glance

As we begin the FY24 budget development process, it is helpful to understand the General Fund's main revenue sources and how the resources are spent.

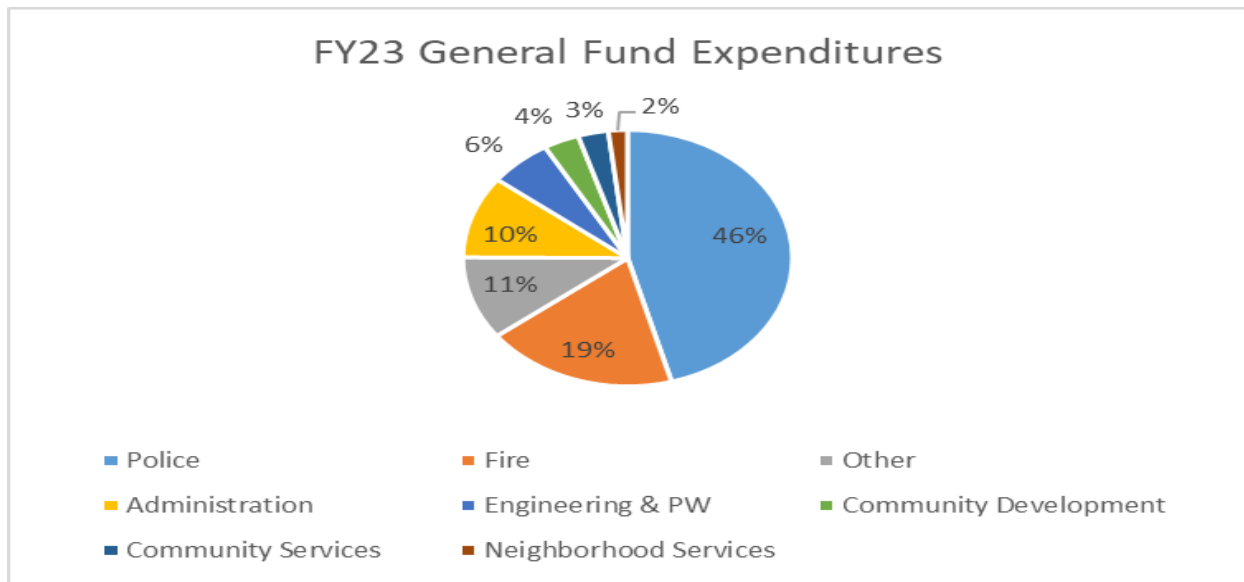
General Fund Resources

The graph below illustrates General Fund FY23 budgeted revenue by source and is representative of a typical year. If there was a severe recession, sales tax and district transaction and use tax revenue would significantly decline.



The most significant General Fund revenues are retail sales-related taxes, the property tax in lieu of vehicle license fees, and property taxes. The main revenues in the "Other" category include Transient Occupancy Tax, Franchise Fees, and Successor Agency distributions.

General Fund Expenditures by Department



The General Fund is the primary operating fund of the City. Police, Fire, Planning, Community services, and Neighborhood Services are examples of departments whose activities are funded primarily from the General Fund. About 65% of General Fund expenditures are for public safety (police and fire).

Operating a City is a people centered activity, therefore total personnel costs account for about 70% of General Fund expenditures.

Fund Balance & Reserves

Fund balance is the total accumulation of operating surpluses and deficits since the beginning of the fund's existence. Fund balance amounts are reported in the City's Annual Comprehensive Financial Report and estimates for the General Fund are provided during the budget development process and updated during the mid-year budget review. In accordance with City Council policy #201, a portion of General Fund fund balance has been designated for specific reserves. General Fund unassigned fund balance is available money that has no restrictions on how it can be spent and has not been committed to specific projects or programs by prior Council action. Council policy #201 states that General Fund unassigned fund balance shall be maintained at an amount equal to 10% of annual budgeted operating expenditures. The policy states, "amounts in excess of the target level will be used to increase or replenish other reserves (with priority given to the Economic Contingency and Facilities Maintenance reserves), to set aside resources for specific one-time uses, or as a funding source for one-time expenditures included in the annual budget or for needs that arise subsequent to budget adoption." The City's current reserves with estimated balances as of 6/30/22 are listed in the table as follows.

Reserves	Target	Balance*	Policy Level
Unassigned Fund Balance	\$ 6,400,000	\$13,956,000	10% General Fund Op Bdgt
Economic Contingency Reserve	\$ 12,800,000	\$ 12,800,000	20% General Fund Op Bdgt
Liability Reserve	\$ 13,264,000	\$ 16,615,000	80% confidence level
Facilities Maintenance	\$ 2,880,000	\$ 2,880,000	4.5% General Fund exp
Vehicle Replacement	\$ 3,141,900	\$ 2,770,265	30% book value of vehicles
Pension Trust (115)	\$ 18,400,000	\$ 6,393,549	2 years UAL payments
OPEB Trust	\$ 4,821,000	\$ 3,133,184	80% OPEB liability

*All balances are as of June 30, 2022 (unaudited) except for unassigned fund balance, which is as of June 30, 2021. Unassigned fund balance at June 30, 2022 is expected to be higher. Reserve targets will also be increased based on final budgeted expenditures.

Five-Year Financial Forecast

The Five-Year Forecast is an informal planning tool designed to review the long-term outlook of the City's major cost drivers, service needs, and available funding sources. Typically, it is updated annually after the budget adoption to help identify opportunities or issues and serves as the foundation to guide decision making during the development of the following fiscal year's budget. The intent of the Five-Year Forecast is not to create a five-year budget, but rather to be used a tool to indicate whether projected revenues will be adequate to maintain services at current or enhanced levels.

The forecast is developed by first applying known and anticipated changes to salaries and benefits, operating costs, and revenues. Other factors considered include changes to required services, economic indicators, and federal and State policy changes.

At the March 21st City Council meeting, Finance staff will present the FY24-FY28 Five-Year Forecast. The forecast data will be useful to model what levels of service enhancements can be provided based on the City's projected resources.

Strategic Planning and Goal Setting

Strategic planning is a structured and coordinated process for fostering decision-making. A strategic plan communicates an organization's long-term goals and the objectives which must be met to achieve them. In order to remain useful, the strategic plan must be a dynamic, not static, document, consistently updated to address the most challenging issues facing the organization. The City of National City's strategic plan is adopted by the City Council for a five-year period and the most recent update of the strategic plan occurred in 2019. To develop the strategic plan, City staff works with all departments, to assess needs and establish priorities for implementing policies, programs, plans, and projects. Staff then presents its recommendations to the City Council during a series of City Council meetings and workshops, where the strategic plan is refined and approved. The 2020-2025 Strategic Plan was developed in late 2019. It was adopted by the City Council at its regular meeting of December 3, 2019. It is attached to this report.

Due to COVID and other factors, the process was cancelled for 2021 and the Council agreed to move forward with the existing strategic plan. Recently, the Council expressed a desire to restart the process with an opportunity to get more specific about the expectations and goals they have

for the organization. In response, staff contracted with professional facilitators (Jan Perkins and Magda Gonzalez with Baker Tilly) to help organize process where we can reconsider the strategic plan and expand the scope into more specific goal setting.

City Council Priorities

Based on interviews conducted by the facilitator, an overall summary list of policy priorities suggested by Councilmembers is as follows and attached. Council direction will be provided on what will move forward as priorities in the upcoming fiscal year based on discussion/direction at regular meetings on February 21 and March 21, and finally on March 24 at the goal-setting workshop. After the workshop, staff will develop implementation plans and prepare budgets based on the Council priorities, including updating the Strategic Plan document.

The overall summary list of policy priorities derived from the Council interviews is listed here with a more specific table with staff comments in attached report.

- **Address future deficit and maintain a balanced budget**
- **Improve overall communication and outreach and tailor some communications by district**
- **Increase home ownership opportunities and the ratio of ownership to rental housing**
- **Improve permitting and development process for greater efficiency**
- **Address homelessness through partnerships with other agencies**
- **Interest in rent stabilization**
- **Enhance public safety through short- and long-term solutions to crime involving youth**
- **Maintain and improve infrastructure**
- **Provide and maintain basic City services that impact quality of life (e.g., cleanliness)**

The attached table list priorities noted by Councilmembers have been placed into the categories of the City's adopted Strategic Plan. All categories within the Strategic Plan were cited as important priorities by two or more members of Council. Bullet points below each topic in the first column are explanatory notes provided by Councilmembers. The City Manager's notes provided in the second column provide information for each of the categories to aid in discussions at the goal-setting workshop.

FINANCIAL STATEMENT:

RELATED CITY COUNCIL 2020-2025 STRATEGIC PLAN GOAL:

Not Applicable

ENVIRONMENTAL REVIEW:

This is not a project under CEQA and is therefore not subject to environmental review.CCR15378; PRC 21065.

PUBLIC NOTIFICATION:

Agenda Report posted within 72 hours of meeting date and time in accordance with Brown Act.

ORDINANCE:

Not Applicable

EXHIBITS:

Exhibit A – City Council 2023 Initial Priorities Worksheet

Exhibit B – 2020-2025 Strategic Plan

Exhibit C – 2023 Goal Setting and Budgeting Kick-Off Powerpoint Presentation