



Item Number: 4

City Council / Board of Directors

Public Hearing(s)

Meeting of: February 20, 2024

Submitted By:

Carmen Cun, Finance Director / City Treasurer

Subject:

Mid-Year Budget Review and Amendment Request to the 2023-2024 Revised Fiscal Budget

Recommendation:

That the Honorable City Council and Board of Directors approve the changes reflected in this agenda item along with the included attachments by adopting:

- (1) Resolution No. 24-009 of the City Council of the City of Victorville amending Resolution 23-036, as amended, the budget resolution for the City of Victorville for Fiscal Year 2023-2024, relating to an appropriation of funds.
- (2) Resolution No. VWD 24-001 of the Board of Directors of the Victorville Water District amending Resolution VWD 23-008, as amended, the budget resolution for the Victorville Water District for the Fiscal Year 2023-2024, relating to an appropriation of funds.
- (3) Resolution No. SCLAA 24-002 of the Board of Directors of the Southern California Logistics Airport Authority amending Resolution SCLAA 23-008, as amended, the budget resolution for the Southern California Logistics Airport Authority for the Fiscal Year 2023-2024, relating to an appropriation of funds.
- (4) Resolution No. CHAS 24-002 of the City Council of Victorville as the Housing Asset Successor to the Victorville Redevelopment Agency amending Resolution CHAS 23-002, as amended, the budget resolution for the City as the Housing Asset Successor for Fiscal Year 2023-2024, relating to an appropriation of funds.
- (5) Resolution No. LBT 24-001 of the Board of Directors of the Library Board of Trustees amending Resolution No. LBT 23-001, as amended, the budget resolution for the Library for Fiscal Year 2023-2024, relating to an appropriation of funds.

Fiscal Impact:

A summary of the midyear budget changes are as follows (Attachment A):

- City of Victorville – An appropriation of funds, increasing the expenditures by \$6,534,903.19 and increasing the revenue by \$7,476,702.55.
- Victorville Water District – An appropriation of funds, increasing the expenditures by \$1,963,914.50 and increasing the revenue by \$1,808,100.00.
- Southern California Logistics Airport Authority – An appropriation of funds, increasing expenditures by \$2,223,021.54 and increasing the revenue by \$410,326.55.
- Housing Asset Successor – An appropriation of funds, increasing the expenditures by \$13,711.04.
- Library – An appropriation of funds, increasing the expenditures by \$3,000.

Approval of this agenda item would increase total expenditure citywide budget for the Fiscal Year 2023-2024 by \$6,534,903.19 and increase the total combined revenue budget for the Fiscal Year 2023-24 by \$7,476,702.55.

Strategic Plan Goal:

This item aligns with Goal A: Fiscal Sustainability - Foster fiscal health through disciplined long-term planning, cost control, increased revenues, and cost recovery. A Mid-Year Budget review to appropriately adjust revenue and expenditure projections is appropriate for proper planning.

Background:

The Fiscal Year 2023-2024 Budget, effective July 1, 2023, was adopted by the City Council/Board of Directors on June 06, 2023. The Mid-Year review allows the City to monitor the overall performance of the City's revenues and expenditures, with the intent to proactively respond to unanticipated changes and emerging trends. It also provides an opportunity for departments to re-evaluate their current operations, identify any unforeseen needs and proposed budget amendments that are needed to continue the operations of the City.

Discussion:

The following chart compares the City-wide FY 2023-2024 adopted budget, revised budget and December 2023 year-to-date (YTD) revenue and expenditures totals. The column labeled FY 23/24 Revised Budget is the Council-approved budget in addition to any Council-approved resolutions for additional appropriations through December 31, 2023.

| Citywide | FY23/24 Adopted Budget | FY 23-24 Revised Budget | Actuals Through 12.31.23 | % Received / Expended |
|--------------|---------------------------|----------------------------|-----------------------------|--------------------------|
| Revenue | \$330,119,851 | \$331,050,124 | \$150,812,375 | 46% |
| Expenditures | \$346,027,540 | \$399,782,346 | \$123,000,469 | 31% |

***Note:** These totals include \$51.7 in Capital Improvement Projects rollover funds.

Through December 2023, Citywide, across all funds, the City has received \$150.8 million or 46% of the total revised budgeted revenue of \$331.0 million. The City has expended

\$123.0 million or 31% of the revised budgeted amount. This indicates that revenues and expenditures are tracking as projected or slightly below budget.

Several budget adjustments are needed to reflect the current needs of the departments. Once expenditure in particular, the cost of electricity, impacted the City across all departments. While the consumption of electricity is a bit higher than last year; mainly due to a combination of additional staffing and weather, Southern California Edison's rates have had a couple of large increases in the last year, averaging approximately a 23% increase.

Moreover, the departments' budget adjustment needs add \$7,476,702.55 to revenue and \$6,534,903.19 to expenditures across all funds. Each major change is detailed by fund type (General Fund, Measure P, Special Revenue Funds also known as Other Governmental Funds, and Enterprise Funds) herein.

Overview of Major Changes and Recommended Adjustments by Fund Type:

General Fund (Fund 100):

| General Fund | FY23/24 Revised Budget | Request Increase (Decrease) | Mid-Year Proposed Budget |
|--------------|---------------------------|--------------------------------|-----------------------------|
| Revenue | \$93,110,353 | \$1,015,992 | \$94,126,345 |
| Expenditures | \$99,910,876 | \$1,841,625 | \$101,752,501 |

Revenues are expected to increase by \$1,015,992 and details are below:

- Sales Tax receipts are tracking in line with the budget this fiscal year. However, the City's sales tax consultant HdL Companies (HdL) projected a decrease of \$1,007,228 for the second half of FY 2023-24.
- Interest income has been revised to \$1,700,000 primarily due to projected higher interest rates on cash balances not originally anticipated.
- A reduction in permitting fees of \$60,218.97, plan check fees for \$100,000 and subdivision fees of \$50,000 which were caused by lower rates in the newly adopted fee schedule.
- A revenue increase of \$435,000 in General Court Fines for an unexpected large payment received from San Bernardino County Auditor-Controller for vehicle fines the court collected on behalf of the City.

Expenditures are expected to increase by \$1,841,625 for the following reasons:

- The expenditure increase of \$100,000 in the Economic Development budget is due to a new agreement the City is pursuing with the Auto Park Association to cover part of the reader board sign maintenance.
- There are several factors that account for the Increase of \$834,975.70 in the Fire Department. The most significant contribution to this increase is the PPE equipment and the increase in personnel costs.
- Human Resources is requesting an increase in Contract Services of \$150,000 to pay for a classification study that will be initiated in the next couple of months.

- To ensure the continued welfare and efficient operations of the animal shelter, IT is requesting an increase of \$185,000 to install a new networking infrastructure, switches and routers at animal control's location.
- The remaining expenditures are spread throughout the other departments that rely on the general fund.

With the recommended adjustments, the cash flow is projected to be at 46% of the General Fund Reserve (required 17%).

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| Projected | \$46,44,906 |
| Required | \$17,297,925 |

Overall, the Mid-Year report projects a General Fund year-end budgetary deficit of approximately \$7,626,156. Due to the annual payment received from VMUS for their outstanding loan (plus interest earned) of \$1,066,667.08, only \$6,559,818.67 million will be covered by fund reserves.

The original FY 2023 -24 budget was adopted with a budget deficit of \$3,652,026. The difference between the original deficit amount and the projected Mid-Year Deficit is due to \$2,167,306.88 in roll over capital from prior FY 2022-23, plus a Mid-Year adjustment in the amount of \$825,633, less unanticipated revenue during the current FY of \$85,147.21. The City has greatly exceeded its General fund Reserve requirement in recent fiscal years, this unforeseen deficit can be absorbed by reserve funding, which is the specific purpose of the reserves.

Measure P (Fund 105):

| Measure P | FY23/24 Revised Budget | Request Increase (Decrease) | Mid-Year Proposed Budget |
|--------------|---------------------------|--------------------------------|-----------------------------|
| Revenue | \$32,422,176 | \$287,233 | \$32,709,409 |
| Expenditures | \$37,571,223 | \$137,555 | \$37,708,777 |

- Measure P revenue is projected to increase by \$975,000 driven by an increase in interest income. However, this increase will be partially offset by a decrease of \$687,737 due to lower than anticipated tax projections from HdL.
- The expenditures are projected to increase by \$137,555 for expenses related to the animal control shelter and fire department.

With the recommended adjustments, the cash flow is projected to be at 93% of the Measure P Fund Reserve (required 17%).

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| Projected | \$34,801,444 |
| Required | \$ 6,410,492 |

Special Revenue Funds:

The following list includes the most significant adjustments to the City's special revenue funds.

- The decrease in revenue of \$179,422 is mostly attributed to the latest HUTA estimates for Gas Tax from January 2024.
- The rise in expenditure is mainly attributed to Special Revenue funds (Funds 202, 250 & 352) partially funding three emergency capital improvement projects, resulting in an increase in expenditure of \$910,000.

Capital Improvement Projects:

The Fiscal Year 2023-2024 Capital Improvement Projects (CIP) include 80 projects that equate to total appropriations of \$51,718,507.54 for the revised budget. Staff recommends that seven capital projects are added, and additional funding be provided for two existing capital projects. This will increase the revised budget by \$3,991,080.75 for a total Fiscal year 2023-2024 CIP revised budget of \$55,709,847.29.

| Capital Improvement Projects (CIP) | Existing Project Additional Amt. | New Project Amount | Total Amount Requested |
|---|----------------------------------|--------------------|------------------------|
| AIRPORT BLDG 553-Roof Replacement | | 260,000 | 260,000 |
| AIRPORT BLDG 720-Roof Replacement | | 650,000 | 650,000 |
| AIRPORT BLDG 756-Roof Replacement | | 950,000 | 950,000 |
| MEAS I - ENGR SVCS-Infrastructure- Eucalyptus Street Storm Drain | | 325,000 | 325,000 |
| ROAD DIF-ENGINEERING SVCS-Infrastructure- Roadway/Pavement-Bear Valley Road Mojave River Bridge | | 460,000 | 460,000 |
| SEWER - ENGINEERING- Sewer-Old Town Septic to Sewer Conversion | 357,316 | | 357,316 |
| STORM DRAIN-ENGINEERING SVCS-Infrastructure - Storm Drain-Doris Davies Park-Oro Grande Wash | | 125,000 | 125,000 |
| WATER-ENGINEERING SVCS-Infrastructure Improvements- Pipeline - Area 07 | 578,765 | | 578,765 |
| WATER-ENGINEERING SVCS-Infrastructure - Water Transmission Distribution - Eucalyptus Street Storm Drain | | 285,000 | 285,000 |
| Grand Total | \$ 936,081 | \$ 3,055,000 | \$ 3,991,081 |

Enterprise Funds:

Victorville Water (Funds 410-413,416):

- The revenue increase of \$783,130 in Water (Fund 410) is attributable to improved interest income received in the first and second quarter; however, the fund is also decreasing revenue by \$162,500 in late fees waived, primarily due to the technical issues impacting the City's utility billing system.
- The revenue increase of \$700,000 in the Industrial Wastewater Treatment Plant (IWWTP) Capacity Charge (Fund 416) is a result of the upsurge in connection fees received year-to-date.
- The Wastewater Treatment expenditures (Fund 412) rose by \$2,116,650 due to an increase in unanticipated costs from Victor Valley Wastewater Reclamation Authority (VWVRA) for the treatment of the City's Industrial Wastewater Treatment Plant's discharge of treated water.
- Expenditures decreased by \$1,021,000 for Water (Fund 410) contract services attributed to services that won't be required until fiscal year 2025, which will be budgeted for that period.

Solid Waste Management (Funds 426-427):

- Revenue increase of \$3,968,973 in Solid Waste Fund 426 is mainly a result of November 2023 rate increases for Solid Waste fees.
- Solid Waste division is decreasing expenditures by \$1,059,173 primarily due to a revision of SB1383 collection costs.

Southern California Logistics Airport (Funds 450-457):

- Net revenue growth of \$410,000 is primarily driven by the increase in interest income generated during the current fiscal year and includes a decrease in revenue of \$120,000 for tenant occupancy as a result of the tenant in Building 686 postponing the occupancy date to June 2024.
- Total operating expenses increased by \$363,022 largely due to infrastructure repairs, building expansion costs, fence repairs, and additional personnel.

Conclusion

Despite facing a deficit in the General Fund, the overall financial health of the City remains positive. The Enterprise Funds are exceeding expectations with an increase in revenue over expenditures of approximately \$2.5 million, contributing to Citywide stability.

While utilizing the fund reserve to address the General Fund deficit is necessary, continued monitoring and potential adjustments through the rest of the fiscal year are crucial to ensure long-term sustainability. The Finance department remains committed to providing ongoing monitoring and support to ensure the responsible management of all City funds. This includes the continued monitoring of the General Fund, coupled with comprehensive training initiatives for departments to strengthen their understanding of their budgetary allocations and empower them to make informed financial decisions.

Furthermore, the City continues to diligently search for additional revenue sources to help not only the community, but to also maintain fiscal stability and help ensure availability of future resources.

Staff remain available for any questions the Council may have.

Attachments:

- A. Mid-Year Budget Summary
- B. Resolution No. 24-009
- C. Resolution No. VWD 24-001
- D. Resolution No. SCLAA 24-002
- E. Resolution No. CHAS 24-002
- F. Resolution No. LBT 24-001