



CITY OF MENIFEE

SUBJECT: Fiscal Year 2024/2025 Mid-Cycle Budget Amendments and Fund Balance Policy Revision

MEETING DATE: June 5, 2024

TO: Mayor and City Council

PREPARED BY: Margarita Cornejo, Deputy Finance Director

REVIEWED BY: Travis Hickey, Chief Financial Officer

APPROVED BY: Armando G. Villa, City Manager

RECOMMENDED ACTION

1. Approve the revised Fund Balance Policy for the General Fund (Policy No. CC-07); and
2. Adopt a resolution amending the Fiscal Year (FY) 2024/2025 adopted budget; and
3. Adopt a resolution approving the GANN appropriations limit; and
4. Adopt a resolution approving the Classification and Compensation Plan known as the Authorized Position Listing; and
5. Adopt a resolution approving the revised 2023-2028 Five-Year Capital Improvement Program (CIP); and
6. Adopt a resolution designating a committed reserve fund balance account to be used towards periodic contributions for public facilities capital projects with an initial contribution of \$2,000,000.

DISCUSSION

As a municipal government, the City of Menifee currently operates on a fiscal year budget cycle from July 1 through June 30. On June 21, 2023, the City of Menifee formally adopted its first two-year (biennial) budget plan identifying the projected revenues and expenditures for the upcoming two fiscal years (FY2023/2024 and FY2024/2025). The biennial budget is analyzed, organized, and calibrated to best serve the needs of the diverse Menifee community.

Mid-Cycle Budget Review Process Timeline

The biennial budget process incorporates two mid-year reviews at approximately six-month intervals to revisit and recalibrate the budget estimates and projections as necessary, as well as one mid-cycle review at the end of Year 1. The two mid-year and mid-cycle review at the conclusion of Year 1 provide the City Council with an update on revenue and expenditure assumptions, fund balances and possible recommended adjustments to the budget. The various review schedule dates are summarized in Table 1 below.

TABLE 1: MID-YEAR/MID-CYCLE REVIEW MEETINGS/TENTATIVE SCHEDULE

Description	Anticipated Timeline
Year 1 Mid-Year Review (FY2023/2024): Comprehensive review of Year 1 year-to-date actuals for expenditures & revenues, and projections for rest of the fiscal year.	February 2024
Mid-Cycle Review (FY2024/2025): Comprehensive review of adopted Year 2 revenues and expenditures and identify any necessary adjustments beginning for the second fiscal year.	April 2024 – June 2024
Year 2 Mid-Year Review (FY2024/2025): Comprehensive review of Year 2 year-to-date actuals for expenditures & revenues, and projected rest of the fiscal year.	February 2025

Public Engagements and Commission/Committee Recommendations

Incorporated as part of the biennial budget processes are various public meetings, intended to provide the public an opportunity for engagement in the budget development process, and to provide any feedback. In the development of the FY 2024/2025 Mid-Cycle Budget, Table 2 lists all public meetings that were held.

TABLE 2: PUBLIC ENGAGEMENT & COMMISSION/COMMITTEE MEETINGS SUMMARY

Meeting Description & Purpose	Meeting Date	Recommended Action (If Applicable)
Capital Improvement Program (CIP) Workshop Meeting: Provide any recommended updates to the adopted FY2024/2025 CIP Program FY 2023-2028 CIP Plan.	April 17, 2024	N/A
Quality of Life Meeting: Provide proposed adjustments to revenues and expenditures plan for Quality of Life Funds for Year 2 (FY2024/2025)	May 7, 2024	Quality of Life Oversight Committee voted 5-0 to recommend the City Council approve, as proposed, the Quality of Life Budget adjustments for FY 2024/2025.
FY 2024/2025 Mid-Cycle Budget Workshop: Present proposed budget adjustments, including personnel, operating and maintenance, capital outlays, and CIP for City Council and public input.	May 15, 2024	N/A
Planning Commission Review: Present proposed CIP to the Planning Commission for conformance with the City's General Plan.	May 22, 2024	The Planning Commission voted 5-0 to determine the FY 2024/2025 Mid-Cycle Budget CIP is consistent with the City's General Plan.
FY 2024/2025 Mid-Cycle Budget Adoption: Present budget adjustments for final Council consideration/approval.	June 5, 2024	Councils' consideration of formal approval of budget adjustments and FY2024/25 Gann Limit.

FY2024/2025 Mid-Cycle Citywide Budget and Fiduciary Summary

On May 15, 2024, the City Council reviewed the recommended FY 2024/2025 Mid-Cycle Budget adjustments, including adjustments to the Operating Budget and CIP Program for the upcoming

fiscal year. Overall, the FY2024/2025 Mid-Cycle Budget adjustments reflect some revised revenue projections and expenditure adjustments required to meet existing commitments and/or mission critical operations/projects. Expenditures with recommended adjustments include:

- Insurance Premiums/Claims expenses based on updated premium quotes from City's risk pool and current claims activity and revised projections for the upcoming year.
- Dispatch services and animal field services based on updated costs provided by contracting entities.
- Previously approved items approved during the FY2023/2024 year, including the Aquatics program and City Council stipend increases.
- Additional funding for high-priority CIP projects.

The proposed FY2024/2025 Mid-Cycle Budget supports a workforce of 332.5 (300 full-time and 32.5 part-time) positions. At budget adoption in June 2023, the adopted workforce for FY2023/2024 and FY2024/2025 included 330.40 (302 full-time and 28.4 part-time) positions.

Proposed revenue adjustments in general reflect decreases to both sales tax and Quality of Life tax forecasted for the upcoming fiscal year, modest increases in development revenue based on current and forecasted activity, and interest revenue increases based on stronger investment performance experienced over the last year and projected for the upcoming year.

Table 3 provides the details of the City's main fund categories, and the corresponding budget sections impacted by the respective funds. The **Operating Budget** represents annual revenues and expenditures of the General Fund/Quality of Life, and Special Revenue & Other funds, including:

- Personnel
- Operating & Maintenance Costs (including contract services)
- Capital Outlays & One-Time Studies
- Debt Service

The **CIP Budget** represents the City's major infrastructure projects (non-recurring, with a cost of \$50,000 or more and with a useful life of five or more years) and is developed in conjunction with the Operating Budget. Funding sources can include General Fund, Quality of Life, and Special Revenue & Other Funds.

Collectively, the Operating Budget and CIP Budget are referred to as the "**Citywide Budget**".

In addition to the various funds represented in the Operating Budget and/or CIP Budget, the City's FY2024/2025 Budget includes revenue and expenditure appropriations for various **Agency/Custodial Funds (Fiduciary)**. These are fiduciary funds that cannot be used to support government services/programs. Specifically, the City has included appropriations for several bonded Community Facilities Districts (CFDs), to recognize the annual special taxes collected for the respective debt services and corresponding expenditures. It is important to note these Agency/Custodial Funds are not a part of the Operating and/or CIP Budgets. Similar to the Annual Comprehensive Financial Report (ACFR) and financial statements, the associated revenues and expenditures for all Fiduciary are represented fully separate from other funds.

TABLE 3: SUMMARY OF MAIN FUND CATEGORIES

Main Fund Category	Funds Included	Budget Section
General Fund & Quality of Life	General Fund Quality of Life	CITYWIDE BUDGET: Operating Budget & CIP Budget
Special Revenue & Other Funds	Gas Tax & Other Special Revenue Funds (CDBG, LLMs, CSAs, CFDs, DIF/RBBD/Quimby)	CITYWIDE BUDGET: Operating Budget, CIP Budget
Agency/Custodial Funds	Trust Fund and Bonded CFDs	FIDUCIARY: N/A, not a part of Operating Budget, Special Revenue & Other Funds Budget & CIP Budget. Appropriations represent revenues/expenditures separate from the Operating Budget & CIP Budget.

In summary, the proposed Citywide Budget FY 2024/2025 Mid-Cycle total revenues and expenditures adjustments are summarized in Table 4.

TABLE 4: TOTALS SUMMARY FY2024/2025 ADOPTED & PROPOSED ADJUSTED FY2024/2025 MID-CYCLE CITYWIDE BUDGET

Description	Adopted Budget FY 2024/2025	Proposed Adjusted Budget FY 2024/2025	Variance (Adopted vs. Proposed Adjusted)
Total Revenues	\$132,517,315	\$134,877,838	\$2,360,523
Total Expenditures	\$130,782,481	\$136,054,036	\$5,271,555
Fund Balance +/-	\$1,734,834	(\$1,176,198)	(\$2,911,032)

The proposed FY2024/2025 Adjusted Citywide Budget and Fiduciary total revenues and expenditures are summarized in Table 5.

TABLE 5: TOTALS SUMMARY 2024/2025 PROPOSED ADJUSTED CITYWIDE BUDGET AND FIDUCIARY BUDGET

Description	Adopted Budget FY2024/2025	Proposed Adjusted Budget FY2024/2025	Variance (Adopted vs. Proposed Adjusted)
Total Revenues	\$135,674,980	\$139,556,476	\$3,881,496
Total Expenditures	\$132,240,341	\$138,518,237	\$6,277,896
Fund Balance +/-	\$3,434,639	\$1,038,239	(\$2,396,400)

The proposed revised FY2024/2025 Citywide Budget (Operating and CIP) is summarized in Table 6 on the following page.

**TABLE 6: SUMMARY FY2024/2025 PROPOSED ADJUSTED CITYWIDE BUDGET
 TOTAL REVENUE BUDGET (CITYWIDE)**

(Personnel, Operating & Maintenance, One-Time Studies, Capital Outlays, and Transfers & Allocations)

Revenue	Adopted Budget FY2024/2025	Proposed Adjusted Budget FY2024/2025	Variance (Adopted vs. Proposed Adjusted)
General Fund	\$73,083,894	\$74,283,091	\$1,199,197
Quality of Life	\$21,584,750	\$20,851,000	(\$733,750)
GENERAL FUND TOTAL REVENUE	\$94,668,644	\$95,134,091	\$465,447
Special Revenue & Other Funds	\$37,848,671	\$39,743,747	\$1,895,076
TOTAL REVENUE	\$132,517,315	\$134,877,838	\$2,360,523

TOTAL OPERATING EXPENDITURE BUDGET (CITYWIDE):

Expenditures	Adopted Budget FY2024/2025	Proposed Adjusted Budget FY2024/2025	Variance (Adopted vs. Proposed Adjusted)
General Fund	\$73,033,894	\$74,346,965	\$1,313,071
Quality of Life	\$21,188,710	\$20,454,960	(\$733,750)
GENERAL FUND TOTAL EXPENDITURES	\$94,222,604	\$94,801,925	\$579,321
Special Revenue & Other Funds	\$24,207,665	25,674,900	\$1,467,235
TOTAL OPERATING EXPENDITURES	\$118,430,268	\$120,476,825	\$2,046,557
General Fund Revenues over Operating Expenditures	\$446,040*	\$332,166*	(\$113,874)

*Used in Capital (CIP) Budget

TOTAL CIP BUDGET:

(Approved CIP Projects)

Expenditures	Adopted Budget FY2024/2025	Proposed Adjusted Budget FY2024/2025	Variance (Adopted vs. Proposed Adjusted)
General Fund	\$50,000	\$50,000	\$0
Quality of Life	\$396,040	\$1,771,040	\$1,375,000
Special Revenue & Other	\$11,906,172	\$13,756,172	\$1,850,000
TOTAL CIP EXPENDITURES	\$12,352,212	\$15,577,212	\$3,225,000

TOTAL CITYWIDE EXPENDITURES	\$130,782,481	\$136,054,036	\$5,271,555
Citywide Total Revenues over Total Expenditures	\$1,734,834	(\$1,176,198)	(\$2,911,032)

USE OF FUND BALANCE – OPERATING BUDGET

General Fund	\$ -	\$334,792	\$334,792
Quality of Life	\$ -	\$ -	\$ -
Special Revenue & Other	\$ -	\$550,000	\$550,000
TOTAL USE OF FUND BALANCE	\$ -	\$884,792	\$884,792

USE OF FUND BALANCE – CIP BUDGET

Quality of Life	\$ -	\$1,375,000	\$1,375,000
Special Revenue & Other	\$1,696,924	\$3,225,000	\$1,528,154
TOTAL USE OF FUND BALANCE	\$1,696,924	\$4,600,000	\$2,903,154

Table 7 on the following page summarizes the recommended budgets by overall fund type.

TABLE 7: SUMMARY OF CITYWIDE BUDGET BY FUND TYPE FOR PROPOSED FY2024/2025 ADJUSTED BUDGET

Summary of Recommended Revenues by Fund						
Fund Type	FY2022/2023 Actuals	FY2023/2024 Adopted	FY2023/2024 Adjusted	FY2024/2025 Adopted Budget	FY2024/2025 Adjustments	FY2024/2025 Proposed Adjusted Budget
General Fund	\$76,599,567	\$70,722,556	\$74,475,237	\$73,083,894	\$1,199,197	\$74,283,091
Quality of Life	\$19,928,293	\$21,038,120	\$21,088,120	\$21,584,750	(\$733,750)	\$20,851,000
General Fund TOTAL:	\$96,527,860	\$91,760,676	\$95,563,357	\$94,668,644	\$465,447	\$95,134,091
Internal Service Funds (ISFs)	\$8,108,673	\$8,460,614	\$8,488,114	\$9,308,685	(\$121,598)	\$9,187,087
All Other Special Revenue Funds	\$52,621,508	\$27,902,979	\$88,390,473	\$28,539,986	\$2,016,674	\$30,556,660
All Funds TOTAL:	\$157,258,041	\$128,124,269	\$192,441,944	\$132,517,315	\$2,360,523	\$134,877,838
Summary of Recommended Expenditure Appropriations by Fund						
Fund Type	FY2022/2023 Actuals	FY2023/2024 Adopted	FY2023/2024 Adjusted	FY2024/2025 Adopted Budget	FY2024/2025 Adjustments	FY2024/2025 Proposed Adjusted Budget
General Fund	\$64,279,718	\$71,955,477	\$90,274,864	\$73,083,894	\$1,313,071	\$74,396,965
Quality of Life	\$19,461,812	\$25,079,744	\$37,776,430	\$21,584,750	\$641,250	\$22,226,000
General Fund TOTAL:	\$83,741,530	\$97,035,221	\$128,051,294	\$94,668,644	\$1,954,321	\$96,622,965
Internal Service Funds (ISFs)	\$6,950,560	\$9,065,880	\$10,676,757	\$9,308,685	\$495,000	\$9,803,685
All Other Special Revenue Funds	\$45,792,908	\$29,723,971	\$134,020,606	\$26,805,152	\$2,822,234	\$29,627,386
All Funds TOTAL:	\$136,484,998	\$135,825,075	\$272,748,657	\$130,782,481	\$5,271,555	\$136,054,036
Fund Balance +/-	\$20,773,043	(\$7,700,806)	(\$80,306,713)	\$1,734,834	(\$2,911,032)	(\$1,176,198)

TABLE 8: SUMMARY OF PROPOSED FIDUCIARY FY2024/2025 (TRUST FUND/BONDED CFDs)

Summary of Recommended Revenues by Fund						
Fund Type	FY2022/2023 Actuals	FY2023/2024 Adopted	FY2023/2024 Adjusted	FY2024/2025 Adopted Budget	FY2024/2025 Adjustments	FY2024/2025 Proposed Adjusted Budget
Agency/Custodial Funds:	\$2,432,157	\$3,097,039	\$6,042,218	\$3,157,665	\$1,520,968	\$4,678,633
Agency/Custodial TOTAL:	\$2,432,157	\$3,097,039	\$6,042,218	\$3,157,665	\$1,520,968	\$4,678,633
Summary of Recommended Expenditure Appropriations by Fund						
Fund Type	FY2022/2023 Actuals	FY2023/2024 Adopted	FY2023/2024 Adjusted	FY2024/2025 Adopted Budget	FY2024/2025 Adjustments	FY2024/2025 Proposed Adjusted Budget
Agency/Custodial Funds:	\$918,062	\$1,493,963	\$2,059,104	\$1,457,860	\$1,006,337	\$2,464,197
Agency/Custodial TOTAL:	\$918,062	\$1,493,963	\$2,059,104	\$1,457,860	\$1,006,337	\$2,464,197
Fund Balance +/-	\$1,514,095	\$1,603,076	\$3,983,114	\$1,699,805	\$514,631	\$2,214,436

TOTAL REVENUE & EXPENDITURE APPROPRIATIONS (CITYWIDE BUDGET & FIDUCIARY):

	FY2022/2023 Actuals	FY2023/2024 Adopted	FY 2023/2024 Adjusted	FY2024/2025 Adopted Budget	FY2024/2025 Adjustments	FY2024/2025 Proposed Adjusted Budget
Total Revenues:	\$159,690,168	\$131,221,308	\$198,484,162	\$135,674,980	\$3,881,493	\$139,556,476
Total Expenditures:	\$137,403,060	\$137,319,038	\$274,807,761	\$132,240,341	\$6,277,896	\$138,518,237
Fund Balance +/-	\$22,287,108	(\$6,097,730)	(\$76,323,599)	\$3,434,639	(\$2,396,403)	\$1,038,239

Note: The Proposed Budget includes the deliberate one-time use of the available excess fund balance, primarily for CIP projects. Use of available excess fund balance does not use any City Reserve Funds.

Table 9 on the following page summarizes the recommended appropriations by category according to Fiscal Year.

TABLE 9: SUMMARY OF CITYWIDE BUDGET RECOMMENDED FY2024/2025 BUDGET ADJUSTMENTS BY FUND TYPE & EXPENDITURE CATEGORY

General Fund					
General Fund Proposed FY2024/2025 Adjusted Budget					
Category	FY2022/2023 Actuals	FY2023/2024 Adjusted	FY2024/2025 Adopted Budget	FY2024/2025 Adjustments	FY2024/2025 Proposed Adjusted Budget
Revenue:					
Sales Tax	\$12,287,692	\$12,880,452	\$13,469,380	(\$876,990)	\$12,592,390
Property Tax	\$20,538,212	\$21,480,342	\$22,801,919	\$0	\$22,801,919
Building/Engineering/ Planning/Fire Fees	\$13,694,189	\$12,648,213	\$13,280,624	\$767,696	\$14,048,320
Vehicle License Fee	\$9,687,677	\$10,726,533	\$11,141,656	\$68,456	\$11,210,112
Franchise Fees	\$4,902,176	\$ 4,875,000	\$5,055,000	\$432,753	\$5,487,753
Other	\$15,489,620	\$11,864,697	\$7,335,315	\$807,282	\$8,142,597
Total Revenue:	\$76,599,566	\$74,475,237	\$73,083,894	\$1,199,197	\$74,283,091
Expenditures:					
Personnel	\$31,857,336	\$34,496,303	\$35,476,787	\$265,955	\$35,742,742
Operating & Maintenance	\$22,307,000	\$32,441,985	\$27,770,848	\$888,366	\$28,659,214
Capital Outlays & One-Time Studies	\$258,238	\$1,799,229	\$911,000	(\$400,000)	\$511,000
Transfers & Allocations	\$7,793,987	\$8,041,623	\$8,875,259	\$558,750	\$9,434,009
Capital Projects (CIP)	\$2,063,156	\$13,495,724	\$50,000	\$0	\$50,000
Debt Issuance & Debt Service	\$0	\$0	\$0	\$0	\$0
Total Expenditures:	\$64,279,717	\$90,274,864	\$73,083,894	\$1,313,071	\$74,396,965
Fund Balance +/-	\$12,319,849	(\$15,799,627)	\$0	(\$113,874)	(\$113,874)

Quality of Life					
Quality of Life Proposed FY2024/2025 Adjusted Budget					
Category	FY2022/2023 Actuals	FY 2023/2024 Adjusted	FY 2024/2025 Adopted	FY2024/2025 Adjustments	FY 2024/2025 Proposed Adjusted Budget
Revenue:					
Sales Tax	\$19,634,904	\$20,913,120	\$21,449,750	(\$998,750)	\$20,451,000
Interest Revenue	\$293,389	\$175,000	\$135,000	\$265,000	\$400,000
Total Revenue:	\$19,928,293	\$21,088,120	\$21,584,750	(\$733,750)	\$20,851,000
Expenditures:					
Personnel	\$5,586,116	\$6,994,760	\$7,138,783	\$0	\$7,138,783
Operating & Maintenance	\$12,018,381	\$13,159,172	\$14,049,927	(\$733,750)	\$13,316,177
Capital Outlays & One-Time Studies	\$1,108,873	\$746,603	\$0	\$0	\$0
Transfers & Allocations	\$0	\$0	\$0	\$0	\$0
Capital Projects (CIP)	\$748,442	16,875,896	\$396,040	\$1,375,000	\$1,771,040
Debt Issuance & Debt Service	\$0	\$0	\$0	\$0	\$0
Total Expenditures:	\$19,461,812	\$37,776,431	\$21,584,750	\$641,250	\$22,226,000
Fund Balance +/-	\$466,481	(\$16,688,311)	\$0	(\$1,375,000)	(\$1,375,000)

GENERAL FUND & QUALITY OF LIFE TOTALS

	FY2022/2023 Actuals	FY2023/2024 Adjusted	FY2024/2025 Adopted	FY2024/2025 Adjustments	FY2024/2025 Proposed Adjusted Budget
Revenues	\$96,527,859	\$95,563,357	\$94,668,644	\$465,447	\$95,134,091
Expenditures	\$83,741,529	\$128,051,295	\$94,668,644	\$1,954,321	\$96,622,965
Fund Balance +/-	\$12,786,330	(\$32,487,938)	\$0	(\$1,488,874)	(\$1,488,874)

Gas Tax & Special Tax Revenue Funds					
Gas Tax & Special Tax Revenue Funds Proposed FY2024/2025 Adjusted Budget					
Category	FY2022/2023 Actuals	FY2023/2024 Adjusted	FY2024/2025 Adopted	FY2024/2025 Adjustments	FY2024/2025 Proposed Adjusted Budget
Revenue:					
Internal Service Funds (ISF)	\$8,108,673	\$8,488,114	\$9,308,685	(\$121,598)	\$9,187,087
Gas Tax & Other Special Revenue Funds	\$16,501,932	\$41,046,012	\$10,078,440	\$582,329	\$10,660,769
LLMD Funds	\$897,695	\$899,182	\$886,189	\$44,978	\$931,167
CFD Funds (Maintenance)	\$5,145,961	\$5,912,351	\$5,945,332	\$1,035,367	\$6,980,699
CFD Funds (Infrastructure)	\$11,274,669	\$26,504,883	\$0	\$0	\$0
CSA Funds	\$1,910,939	\$3,507,461	\$1,909,576	\$21,284	\$1,930,860
DIF/Quimby/RBBD Funds	\$14,359,833	\$8,453,839	\$7,702,445	\$269,313	\$7,971,758
Capital Project Fund	\$765,001	\$304,685	\$258,679	\$52,533	\$311,212
Debt Service Fund (Transfer In)	\$1,765,478	\$1,762,060	\$1,759,325	\$10,870	\$1,770,195
Total Revenue:	\$60,730,181	\$96,878,587	\$37,848,671	\$1,895,076	\$39,743,747
Gas Tax & Special Tax Revenue Funds (Continued)					
Gas Tax & Special Tax Revenue Funds Proposed FY2024/2025 Adjusted Budget					
Category	FY2022/2023 Actuals	FY2023/2024 Adjusted	FY2024/2025 Adopted	FY2024/2025 Adjustments	FY2024/2025 Proposed Adjusted Budget
Expenditures:					
Personnel	\$3,963,536	\$6,130,718	\$6,362,543	\$13,609	\$6,376,152
Operating & Maintenance	\$19,991,075	\$45,816,091	\$12,984,631	\$426,285	\$13,410,916
Capital Outlays & One-Time Studies	\$1,385,942	\$2,465,733	\$562,948	\$1,031,250	\$1,594,198
Transfers & Allocations	\$5,080,487	\$4,649,697	\$2,628,218	(\$3,910)	\$2,624,308
Capital Projects (CIP)	\$19,806,179	\$82,578,367	\$11,906,172	\$1,850,000	\$13,756,172
Debt Issuance & Debt Service	\$2,516,248	\$3,056,757	\$1,669,325	\$0	\$1,669,325
Total Expenditures:	\$52,743,467	\$144,697,363	\$36,113,837	\$3,317,234	\$39,431,071
Fund Balance +/-	\$7,986,714	(\$47,818,776)	\$1,734,834	(\$1,422,158)	\$312,676

TOTAL CITYWIDE BUDGET					
	FY2022/2023 Actuals	FY2023/2024 Adjusted	FY2024/2025 Adopted	FY2024/2025 Adjustments	FY 2024/2025 Proposed Adjusted Budget
Revenues:	\$157,258,040	\$192,441,944	\$132,517,315	\$2,360,523	\$134,877,838
Expenditures:	\$136,484,996	\$272,748,658	\$130,782,481	\$5,271,555	\$136,054,036
Fund Balance +/-	\$20,773,044	(\$80,306,714)	\$1,734,834	(\$2,911,032)	(\$1,176,198)

Strategic Plan Alignment and Implementation:

In the development and review of the proposed FY2024/2025 Mid-Cycle Budget, staff has integrated City Council’s Strategic Plan (2023 - 2028) goals and has addressed them in the following ways:



Connectivity and
Mobility



Unique Identity



Engagement and
Social Infrastructure



Thriving
Economy



Safety
and Vibrant
Community

- ✓ Continued investment in the City infrastructure needs, with a robust CIP proposed for the next two (2) years, and additional staffing to support program delivery.
- ✓ Expanded communication efforts concentrated on meeting the needs of the diverse Menifee community.
- ✓ Strategic Plan specific action items have been incorporated as part of the proposed FY 2024/2025 Adjusted Budget.

Fiscal Year 2023/2024 Budget Update

Year 1, FY2023/2024, of the two-year budget cycle is set to formally complete in June 2024, with final year-end transactions concluding in August/September 2024. Tables 7, 8, and 9 in the sections above reflect the current FY2023/2024 Adjusted Budget, inclusive of the FY2023/2024 Mid-Year review and any subsequent activity. A comprehensive year-end and Budget to Actuals report is tentatively scheduled for October 2024 to provide a year-end status on the following:

- Budget Carryover Activities
- Actual Revenues/Expenditures vs. Adjusted Budget
- Assigned Fund Balance(s) account status
- CIP Program activity completed during the fiscal year ended.

In December 2024/January 2025 City Council will also receive the formal audited year end ACFR.

Current Economic Outlook (National, State, Regional & Local) & Revenue Analysis

The adopted FY 2024/2025 budget reflected a cautiously optimistic fiscal outlook, with steadily increasing revenues against the backdrop of an overall uncertain national and local economy. At a more localized level, the City of Menifee continues to see steady growth. Throughout FY 2022/2023 five of the six top main City revenues (Sales Tax, Quality of Life, Property Tax, Franchise Fees) experienced some growth, however, at a slower pace than the prior two fiscal years. Development related fees experienced a significant decrease in the first half of FY 2022/2023, particularly compared to the last two fiscal years where the City had experienced record revenue receipts in this category, but ended with a stronger performance at the end of the fiscal year.

As discussed during the FY2023/2024 Mid-Year Budget review, going into the second half of Fiscal Year 2023/2024, collectively revenue growth has stabilized to a slower pace, compared to prior years. And while Sales Tax and Quality of Life revenues are still projected to exceed adopted/adjusted revenues for FY2023/2024, this is primarily attributed to one-time sales tax revenue generated from the Nova Park battery storage construction underway in 2024. All other sales transaction activity has performed slightly below original budget projections. Development revenue has been in pace with the original budgeted estimates, but without significant growth. Nationally, statewide and regionally, lingering inflation has stabilized, with a 3.5% March 2024 CPI. Unemployment as of March 2024 was around 3.8% at the national level and 5.3% statewide. However, housing permit activity, consumer confidence and manufacturing data reflect overall slower growth with weaker sales growth. With interest rates forecast to not undergo additional increases, but also gradual decreases, overall economic growth for the upcoming fiscal year is projected to be modest, if at all. Incorporating updates to the overall economic background for the upcoming fiscal year, the FY2024/2025 Mid-Cycle includes several revenue adjustments discussed below.

General Fund & Quality of Life Funds Recommended FY2024/2025 Revenue Adjustments

Revenue Analysis & Recommendation

The adjusted FY 2024/2025 proposed General Fund revenue is \$74,283,091 and the Quality of Life totals \$20,851,000, for a combined total of **\$95,134,091**, representing an overall increase of \$465,447 from the adopted \$94,668,644.

The City’s top six budgeted revenue sources for the General Fund, inclusive of Quality of Life are listed within Table 10. Together, these six revenue sources represent 92.25% of the total General Fund and Quality of Life revenues of the FY2024/2025 Budget. Based on the revenue analysis discussed in the preceding section relative to the City’s top six revenue sources in the upcoming fiscal years, staff is recommending the following revenues adjustments for the General Fund and Quality of Life Funds as reflected in Table 10 on the following page. Other minor revenue adjustments totaling \$57,282 (Charges for Services, Transfers) are included as part of the recommended adjustments.

TABLE 10: TOP 6 CITY REVENUES & INTEREST (FY2024/2025 PROPOSED ADJUSTMENTS)

Revenue Description		FY 2024/2025 Adopted	FY 2024/2025 Proposed Adjustments	FY 2024/2025 Adjusted Budget	Review/Analysis & Recommendations
1.	Sales Tax	\$13,469,380	(\$876,990)	\$12,592,390	Net decrease of \$876,990 based on revised HdL projections for FY2024/2025. While the next 5-year projections for Sales Tax revenue show overall growth, the FY2024/2025 reflects a decrease in projected activity, reflective of overall national, state, regional and local trends.
2.	Quality of Life	\$21,449,750	(\$998,750)	\$20,451,000	Net decrease of \$998,750 based on revised HdL projections for FY2024/2025 offset by interest revenue increases. While the next 5-year projections for Quality of Life revenue show overall growth, the FY2024/2025 reflects a decrease in projected activity, reflective of overall national, state, regional and local trends.

Revenue Description		FY 2024/2025 Adopted	FY 2024/2025 Proposed Adjustments	FY 2024/2025 Adjusted Budget	Review/Analysis & Recommendations
3.	Property Tax	\$22,801,919	\$0	\$22,801,919	No recommended adjustments from FY2024/2025 adopted budget.
4.	Building/Planning/Engineering/Fire Fees (Development Fees)	\$13,280,624	\$767,696	\$14,048,320	Revised projections reflect current active development projects underway and anticipated in FY2024/2025 as well as the application of the annual CPI adjustment (2.87%) to development fees.
5.	Vehicle License Fee (VLF)	\$11,141,656	\$68,456	\$11,210,112	Expecting \$68k increase from adopted projections based on revised HdL Projections.
6.	Franchise Fees	\$5,055,000	\$432,753	\$5,487,753	Proposed increase for waste hauler franchise fees and gas franchise fees based on FY2022/2023 actuals and year-to-date Actuals for FY2023/24.
N/A	Interest Income (General Fund & Quality of Life)	\$635,000	\$1,015,000	\$1,650,000	Proposed increase of \$750k in interest income in the General Fund and \$265k for Quality of Life based on FY2022/2023 actuals and year-to-date actuals for FY2023/24, and projected investment activity in the upcoming year.

General Fund: FY2024/2025 Proposed Expenditure Adjustments Recommendations

The proposed FY 2024/2025 General Fund Budget adjustments total \$1,954,321 (General Fund & Quality of Life) for a revised Adjusted Budget of **\$96,622,965 (Adopted FY2024/2025 totaled \$94,668,664).**

The proposed expenditure adjustments are summarized in Table 11 on the following page.

TABLE 11: FY2024/2025 GENERAL FUND & QUALITY OF LIFE RECOMMENDED APPROPRIATIONS

Category	Description	Adjustment Amount (\$)
Operating & Maintenance	Increased insurance premiums* (General Liability, Worker's Compensation Insurance Premiums and/or Claims)	\$341k
Operating & Maintenance	Dispatch Services: Increases for services per labor MOU negotiations for dispatch personnel.	\$150k
Operating & Maintenance	Animal Field Services: Increases for animal field services based on increased service activity.	\$107k
Operating & Maintenance/Personnel	Aquatics Program, Council Stipends Increase, FY2023/2024 Mid-Year Personnel Adjustments: Previously approved items.	\$289k
Operating & Maintenance	Development Software (Accela/Bluebeam) Integration: Integration of Accela/Bluebeam software, offset by Technology Surcharge revenue	\$34k
Operating & Maintenance	Fire Contract Services (Quality of Life to General Fund) Funding Update: To balance the revised revenue projection decrease of \$733,750 in the Quality of Life fund, corresponding expenses in the amount of \$733,750 will be transferred into the General Fund.	\$0 (Expenditure Transfer)
Capital Outlays/One-Time Study	Dispatch Services – Technology System Update: Required dispatch system technology update.	\$50k
Capital Outlays/One-Time Study	Safety Master Plan (Strategic Plan Item)	\$100k
Capital Outlays	Menifee PD Replacement Vehicles (Funding Update to DIF & ARPA)**: Required dispatch system technology update.	(\$664k)
CIP Program	CIP 23-13: Cherry Hills Facility, Phase I	\$1.375M

* As the City's operations and workforce have expanded over the last several years, and the overall insurance market continues to see premium increases, the proposed Adjustment amount reflects the additional cost of the City changing from a \$150k to \$300k Self Insured Retention (SIR) for General Liability and \$50k to \$200K SIR for Workers Compensation. Should the City elect to maintain existing SIR levels, the required adjustment amount would result in additional \$744k adjustment. To mitigate the financial risk to larger claims, staff proposes a dedicated Assigned Fund Balance account for SIR and Insurance Premium increases.

** Funding of \$664k for the purchase of eight (8) Menifee PD patrol vehicles will be replaced with American Rescue Plan (ARP), \$445,472 and DIF 525 (Law Enforcement), \$218,528.

The Fiscal Year 2024/2025 adopted budget of \$19,918,691 for Fire Contract Services is proposed to be maintained as adopted. However, based on communication from the County of Riverside, the city anticipates realizing a one-time savings of approximately \$764,000 from one time state labor savings. That one-time savings will be directed/transferred into an Assigned Fund Balance Fire Equipment Replacement account, as various larger fire equipment/vehicles will need to be purchased in the near future.

In total proposed adjusted FY 2024/2025 General Fund and Quality of Life Budget expenditures is **\$96,622,965**, consisting of the following two (2) main components.

- **Operating Budget (General Fund/Quality of Life), Proposed FY 2024/2025 Adjusted Budget: \$94,801,925**
 - o Operations & Maintenance Costs
 - o Personnel Costs
 - o Contract Services
 - o Capital Outlays & One-Time Studies

- **Capital Budget (General Fund/Quality of Life), Proposed FY 2024/2025 Adjusted Budget: \$1,821,040**
 - o Infrastructure Projects

Deliberate Use of Fund Balance:

The proposed expenditure adjustments include the deliberate use of fund balance in the amount of \$1,709,792 for the following purposes:

- General Fund Unassigned Fund Balance in the amount of \$150,000 for the Safety Master Plan (\$100,000) and for the Dispatch Services Technology Update (\$50,000).
- General Fund Assigned Fund Balance AMR Fees in the amount of \$150,792 for the Purchase 25 automated external defibrillator from AMR Fees; and the purchase of 21 thermal imaging units for fire suppression personnel from AMR Fees. This fund balance is restricted in use and can only be used for specific eligible purposes.
- General Fund Assigned Fund Technology Surcharge in the amount of \$34,000 for the purchase of Accela/Bluebeam software integration. This fund balance is restricted in use and can only be used for specific eligible purposes.
- Quality of Life Unassigned Fund Balance in the amount of \$1,375,000 towards the CIP 23-13 Cherry Hills Facility Phase I Project.

Staffing/Personnel FY2024/2025 Adjustment Recommendations

As part of the FY2024/2025 Mid-Cycle review process, personnel updates/changes were also reviewed. The proposed adjusted FY2024/2025 Budget supports a proposed workforce of **332.5** (300 full-time and 32.5 part-time) positions. At budget adoption in June 2023, the adopted workforce for FY2023/2024 and FY2024/2025 included 330.40 (302 full-time and 28.4 part-time) positions. The net increase in personnel count is represented by the part-time personnel necessary to implement the Aquatics Program as approved in December 2023 and the FY2023/2024 Mid-Year Budget process. FY2024/2025 staffing recommendations include a net decrease of two positions and reclassification of 6 positions. The various personnel requests and corresponding additional fiscal impact is summarized in the following table.

TABLE 11: RECOMMENDED PERSONNEL REQUESTS (FY2024/2025)

No.	Department	Position Title	FTE	FY2024/2025 Additional Personnel Costs	Justification
1	Community Services	Management Analyst II <i>Funding Source: General Fund/Special Districts)</i>	N/A Reclassification	\$10,020	Reclassification Request: Reclassification from Management Analyst I Request based on Classification and Compensation Study recommendations and operational needs.
2	Engineering	Management Aide <i>Funding Source: General Fund/Special Districts)</i>	N/A Reclassification	\$7,527	Reclassification Request: Reclassification from Administrative Assistant. Request based on Classification and Compensation Study and operational needs.
3	Engineering	Public Works Inspector II <i>Funding Source: General Fund</i>	N/A Reclassification	\$10,911	Reclassification Request: Reclassification from Public Works Inspector I. Request based on Classification and Compensation Study and operational needs.

No.	Department	Position Title	FTE	FY2024/2025 Additional Personnel Costs	Justification
4	Menifee PD	Lieutenant <i>Funding Source: General Fund</i>	N/A Reclassification	\$47,655	Reclassification Request: Reclassification from Sergeant. Provides management support to Menifee PD patrol operations.
5	Human Resources**	Human Resources Director <i>Funding Source: General Fund</i>	N/A Reclassification	\$67,745	Reclassification request: Reclassification from Deputy HR Director based on department restructure and operational needs.
6	Economic Development**	Economic Development Manager <i>Funding Source: General Fund</i>	N/A Reclassification	(\$105,192)	Reclassification request: Reclassification from Economic Development Director based on department restructure and operational needs.
7	Fire*	Office Specialist <i>Funding Source: General Fund</i>	(1)	(\$81,908)	Elimination of position as City personnel, absorbed as part of Fire contract personnel.
8	Finance	ERP Administrator <i>Funding Source: General Fund</i>	(1)	\$0 (savings redirected to overall ERP Project)	Update vacant position to unfunded for upcoming fiscal year.
TOTAL			(2)	(\$43,242)	

* Position will be eliminated as City personnel and absorbed as part of existing fire contract. 1x savings of \$81,908 from overall fire contract savings expected for FY2024/2025.

** HR and Economic Development Reclassifications requests overall offset any need for additional budget appropriations. These reclassifications were not included as part of the May 15th workshop. However, these personnel changes were identified as part of the two corresponding departments' restructuring.

Special Revenue & Other Funds Proposed FY2024/2025 Adjustment Recommendations

The City uses Special Revenue Funds & Other Funds to account for restricted revenues received by the City and its component units. Restricted revenues cannot be deposited into the General Fund and must be accounted for separately. Some of these revenues fund ongoing operations, and some of these revenues fund the CIP, or both.

Proposed Revenue FY2024/2025 Adjustments totaling \$1.895 million, include:

- Interest Earnings Adjustments
- Revenue for reprogrammed ARPA projects
- Additional special assessment revenue for CFDs (new development)
- Lighting and Landscape Maintenance (LLMDs), County Service Area (CSAs), Community Facilities Districts (CFDs) annual CPI adjustments, where applicable.

Proposed Expenditure FY2024/2025 Adjustments include:

- Additional funding for Priority CIP Projects (\$1,850,000)
- Grant Fund/ Development Impact Fee (DIF) Fund: Funding update for Menifee PD Patrol Vehicles from General Fund/ISF to ARP Program (\$445,472) & DIF Law Enforcement (\$218,528)
- CFD Funds: Personnel reclassification requests (portion of costs)
- Air Quality Management District (AQMD) Fund: Purchase of Ford Maverick (Fleet)(\$35,000)
- PEG Fund: A/V Hardware/Equipment (Encoder & storage) (\$42,250)

- IT Fund: CS Recreation Software System (\$100,000), Phone System Replacement (\$100,000), Computer/Getac Equipment Replacement (\$350,000). This would include the deliberate use of IT Fund balance in the amount of \$550,000.
- LLMDs, CSAs, CFDs: Property Tax Finder portal (\$24,000)

TABLE 12: TOTALS SUMMARY FY2024/2025 SPECIAL REVENUE & OTHER FUNDS BUDGETS

Description	FY2024/2025 Adopted	FY2024/2025 Proposed Adjusted Budget
Total Revenues	\$37,848,671	\$39,743,747
Total Expenditures	\$36,113,837	\$39,431,072
Fund Balance +/-	\$1,734,834	\$312,675

CIP Program FY2024/2025 Adjustment Recommendations & Five-Year (2023-2028) CIP Program Updates

The proposed adjusted FY 2024/2025 CIP budget includes a total of 27 projects with a proposed budget of \$15,577,212. The proposed projects address high priority infrastructure needs of the community. The following tables summarize the proposed FY 2024/2025 CIP Program adjustments and FY 2023-2028 CIP by Project Category:

TABLE 13: PROPOSED ADJUSTED FY2024/2025 CIP BUDGET

PROJECT CATEGORY	FY2024/2025 Adopted Budget		FY2024/2025 Proposed Adjusted Budget	
	# OF PROJECTS	ADOPTED AMOUNT (\$)	# OF PROJECTS	REQUESTED AMOUNT (\$)
Transportation	3	\$2,859,237	4	\$3,859,237
Traffic Signals	2	\$1,378,094	2	\$1,378,094
Street Improvements	3	\$1,692,000	3	\$1,692,000
Pavement Management (PMP)	4	\$4,132,000	3	\$4,287,000
Drainage	3	\$749,000	3	\$749,000
Streetlights	0	-	0	-
Public Facilities	1	\$108,548	6	\$2,008,548
Parks, Trails, and Recreation	3	\$1,200,000	4	\$1,300,000
Technology Infrastructure	2	\$233,333	2	\$303,333
TOTAL	21	\$12,352,212	27	\$15,577,212

The proposed FY 2024/2025 adjustments were developed within the context of a 2023-2028 CIP Plan. Table 14 on the following page provides the current CIP Budget. In summary, the following projects and/or funding adjustments were added to the FY2024/2025 and 2023-2028 CIP Program.

**TABLE 14: FY2024/2025 AND FY2023-2028 PROPOSED ADJUSTMENTS CIP PROGRAM
 DETAIL**

Project Category	Project Number & Name	FY2024/2025 Adjustment (\$)	Notes
Transportation	CIP 20-01: Scott Road Bundy Canyon Widening	\$1,000,000	Additional funding for design and ROW acquisition.
PMP	CIP 25-07: FY24-25 Local Roads AC Resurfacing Project	\$155,000	Additional funding for construction of ADA ramps and street resurfacing.
Public Facility	CIP 21-04: New Fire Station #5 (Quail Valley)	\$200,000	Additional funding to continue construction management and inspection efforts for the project.
Public Facility	CIP 23-10: Community Center/Recreation Center	\$200,000	Additional funding to leverage matching local funds when applying for grants.
Public Facility	CIP 23-13: Cherry Hills Facility Phase I	\$1,375,000	Additional funding for existing project.
Public Facility	CIP 24-05: Fire Station #76 Living Area Improvements	\$75,000	Additional funding for the construction phase.
Public Facility	Kay Cenicerros Display Sign	\$50,000	New Project. Replacement of existing LED sign.
Parks, Trails & Recreation	CIP 24-22: Sun City Blvd. Street Medians	\$100,000	Additional funding for the construction phase.
IT	CIP 25-02: Axon RMS System	(\$50,000)	Project cancelled at the request of the Police Department.
IT	City Hall Back-Up Generator	\$120,000	New Project. Installation of emergency back-up generators at City's server room.
Parks, Trails & Recreation	Banner Park Playground Enhancement	\$0	New Project. This project would install additional playground/amenities at Banner Park. Estimated Project Cost, \$350,000, Funding Status: Unfunded. Added to 5-Year CIP Program as Priority 3 Project.
Street Improvements	Goetz Road Pedestrian Improvements - Rock Canyon Dr. to Audie Murphy Rd.	\$0	New Project. This project would add 2,300 linear feet of pedestrian/bicycle facilities along one side of Goetz Road. Estimated Project Cost, \$950,000, Funding Status: Unfunded. Added to 5-Year CIP Program as Priority 3 Project
TOTAL		\$3,225,000	

**TABLE 15: CIP 5-YEAR (2023-2028) SUMMARY BY PROJECT CATEGORY PROPOSED
 REVISED SUMMARY**

PROJECT CATEGORY	FY 2023-2028	
	# of Projects	Estimated Cost
Transportation	35	\$403,826,737
Traffic Signals	25	20,433,494
Street Improvements	32	32,884,238
Pavement Management (PMP)	33	33,942,614
Drainage	10	20,140,000
Streetlights	4	2,600,000
Public Facilities	23	177,637,319
Parks, Trails, and Recreation	30	46,252,063
Technology Infrastructure	3	2,003,333
TOTALS	194	\$739,719,798

American Rescue Plan (ARP) Funds

On March 11, 2021, Congress and the executive branch, passed the \$1.9 trillion ARP economic stimulus plan intended to address the on-going impacts of the unprecedented COVID-19 pandemic. All local governments, including the City of Menifee received direct funding to help bridge budget shortfalls and mitigate the impacts of COVID-19. The ARP provides that the funds can be used for COVID-19 related expenses incurred between March 3, 2021, and December 31, 2024.

The City of Menifee has received just over \$13 million in direct federal assistance as part of the ARP Program. Pursuant to the ARP program requirements, all ARP funding must be encumbered no later than December 31, 2024 and fully expended by December 31, 2026. To ensure timely expenditure of this funding, the FY2024/2025 adjustments include reprogramming of remaining funding to one-time capital outlays and/or capital projects.

Table 16 provides a historical summary of all ARP approved expenditures to date.

TABLE 16: ARP SUMMARY OF APPROVED EXPENDITURES THROUGH FY 2023/2024 MID-YEAR

CATEGORY	PROJECT DESCRIPTION	PROJECT STATUS	AMOUNT ALLOCATED (\$)	AVAILABLE TO REPROGRAM
Support Public Health Response	Menifee PD: Micro-Robots	Completed	\$9,999	\$0
Replace Public Sector Revenue Loss (Government Services)	FY 21/22 Salaries (Personnel Costs)	Completed	\$3,616,644	\$0
Replace Public Sector Revenue Loss (Government Services)	Human Resources: Neo-Gov Training Module	Completed	\$61,513	\$0
Replace Public Sector Revenue Loss (Government Services)	Information Technology: Smart Cities & Broadband Master Plan	Completed (Reprogram Balance)	\$162,050	\$5,000
Support Public Health Response	Mass Notification System - Would provide a dedicated system/solution to communicate with public regarding public health (Covid-19) updates and other emergency alerts	Completed (Reprogram Balance)	\$120,000	\$495
Water & Sewer Infrastructure	Holland Road Sewer & Recycled Water Improvements - Adding recycled water/sewer components for existing properties.	Completed	\$500,000	\$0
Replace Public Sector Revenue Loss (Government Services)	M.E.N.U Grant Program - Provides direct economic support to start-up businesses	Reprogram Funding	\$500,000	\$470,000
Support Public Health Response	City Hall/PD HQ Enhanced Cleaning Services, PPE, Masks, Covid-19 Testing etc.	Completed (Reprogram Funding)	\$157,459	\$119,807
Replace Public Sector Revenue Loss (Government Services)	FY 21/22 Salaries (Personnel Costs) & Home Repair Program (\$500k)	Completed	\$2,010,210	\$0
Replace Public Sector Revenue Loss (Government Services)	Fire Station #68 Tenant Improvements Project	Completed (Reprogram Balance)	\$329,429	\$170
Replace Public Sector Revenue Loss (Government Services)	New Fire Station #5 Construction	Underway	\$1,000,000	\$0

CATEGORY	PROJECT DESCRIPTION	PROJECT STATUS	AMOUNT ALLOCATED (\$)	AVAILABLE TO REPROGRAM
Replace Public Sector Revenue Loss (Government Services)	Purchase of Sun City Property - Provides an opportunity to use funding as one-time use to help address/alleviate spacing needs.	Underway	\$2,215,000	\$0
Replace Public Sector Revenue Loss (Government Services)	JOBS Program (Economic Development)	Underway	\$158,334	\$0
Replace Public Sector Revenue Loss (Government Services)	CIP Program: Paloma Pedestrian Bridge	Underway	\$531,369	\$0
Replace Public Sector Revenue Loss (Government Services)	CIP Program: Central Park Amphitheater	Underway	\$1,841,667	\$0
TOTAL			\$13,213,674	\$595,472

As part of the FY 2024/2025 Mid-Cycle, staff is recommending using ARP funds for the following high priorities:

TABLE 17: ARP FUNDING RECOMMENDATIONS SUMMARY FOR FY 2024/2025 MID-CYCLE

CATEGORY	PROJECT DESCRIPTION	AMOUNT (\$)
Replace Public Sector Revenue Loss (Government Services)	CIP Program: Kay Cenicerros Display Sign	\$50,000
Replace Public Sector Revenue Loss (Government Services)	CIP Program: Sun City Boulevard Street Medians Project	100,000
Replace Public Sector Revenue Loss (Government Services)	Menifee PD Patrol Vehicles Purchase	445,472
TOTAL		\$595,472

Agency/Custodial Funds (Fiduciary) Proposed FY2024/2025 Adjustments:

Included as part of the proposed overall revenue and expenditure appropriations are applicable agency/custodial funds, which represent Fiduciary appropriations. Specific to 2024/2025 Fiduciary appropriations adjustments are the revenues and expenditures for various bonded CFDs (Facilities). Revenues represent the annual special tax levies collected to pay all related expenditures for the CFDs, including administration costs, annual enrollment costs, and annual debt service payments. Proposed adjustments include revenue adjustments of \$1,520,968 and expenditure adjustments of \$1,006,337.

FY2024/2025 Gann Initiative Appropriation Limit and Appropriations Subject to Limit:

The City is required by state law to establish an appropriation limit each fiscal year. The appropriations limitation imposed by the state, otherwise known as the Gann Limit, creates a restriction on the amount of revenue that can be appropriated. Only those revenues received from proceeds of taxes are subject to this limit. Assessment on real property or persons, such as LLMDs, CFDs assessments etc., for special benefit conferred are not considered “proceeds of taxes” for purposes of the Gann Limit calculation. This means that only certain revenues from funds such as the General Fund, Quality of Life Measure, etc. are subject to the appropriation limit. Certain items, such as certain types of debt service costs, and qualified outlays are excluded from the Appropriations Subject to Limitation.

Utilizing the most current price factor and population data provided by the State of California, the City’s FY 2024/2025 appropriation limit is estimated to be **\$64,469,288** (Attachment 3). The actual amount of appropriations subject to the limit is **\$63,552,336**. The difference between the City’s appropriation limit and the amount proposed to be appropriated that is subject to the limit is **\$916,952**. As a result, the City, in accordance with State law, is below its appropriation limit.

Pursuant to state law the following actions must be completed with respect to the Gann Limit:

TABLE 18: GANN LIMIT ADOPTION PROCEDURES & ANNUAL REVIEW

Category	Description	Status
Adoption Procedures	1. 15 days prior to establishing the Appropriations Limit, make available to public, documentation used in the determination of the Appropriation Limit.	Completed. Appropriations Limit for FY 2024/2025 made available May 2024.
	2. By resolution of the governing board at a regularly scheduled meeting, establish its Appropriations Limit	Included as part of recommended actions to Mid-Cycle Budget Adoption (FY 2024/2025).
	3. Publish the Appropriations Limit and the Appropriations Subject to Limitation in the annual budget of the government entity.	Included as part of FY 2024/2025 Proposed Adjusted Budget (staff report & budget).
Annual Review	4. Provide the Appropriations Limit and Appropriations Subject to Limitation to the State Controller’s Office, included with filing of the Annual Statement of Financial Transactions.	To be completed with corresponding year-end/ACFR/State Controller’s Reports.

General Fund Reserve Fund Policy (CC-07) Update and Annual Budget Resolution:

Policy No. CC-07, *Fund Balance Policy for the General Fund*, as initially adopted June 21, 2011 and most recently updated in September 2021, provides a formal policy outlining the City’s minimum levels of unrestricted fund balance to address protection from and unexpected situations that require financial resources. As part of the city’s overall financial management and long-term planning efforts, reviewing the existing fund balance policy periodically provides an opportunity to assess if the existing structure and thresholds provides the agency with adequate reserves to support municipal operations.

In September 2021, the City Council adopted an updated Reserve Fund Balance Policy to set aside funds for future emergencies. The Policy established a minimum 12.5% Fund balance reserve for natural disasters and catastrophic events; a 12.5% reserve for economic slowdown due to the onset of a recession or other economic crisis; and a 10% reserve to offset the timing of grant reimbursements and the collections of property taxes. Pursuant to the adopted Policy, the City plans to review the Policy every three (3) years and reviewed the option of increasing the Reserve Fund percentage to 40% in FY2024/2025 as part of the Mid-Cycle analysis and review process. Based on the projected fund balance within the General Fund for June 30, 2024, the City would be able to increase the Reserve Fund Balance from 35% to 40%. Table 19 on the following page, reflects the proposed revised Reserve Requirement at 40% and based on the proposed additional expenditure adjustments.

TABLE 19: FY 2024/2025 ADJUSTED BUDGER RESERVE REQUIREMENT SUMMARY

FY2024/25 Adopted Budget (35% Reserve)	FY2024/25 Proposed Adjusted Budget (35% Reserve)	FY2024/25 Proposed Adjusted Budget (40% Reservel
Operating Stabilization Reserve (12.5%) = \$11,687,701	Operating Stabilization Reserve (12.5%) = \$11,822,616	Operating Stabilization Reserve (15%) = \$14,187,139
Operating Stabilization Reserve (12.5%) = \$11,687,701	Operating Stabilization Reserve (12.5%) = \$11,822,616	Operating Stabilization Reserve (15%) = \$14,187,139
Unassigned Fund Balance (10%) = \$9,350,160	Unassigned Fund Balance (10%) = \$9,458,093	Unassigned Fund Balance (10%) = \$9,458,093
Total: \$32,725,562	Total: \$33,103,324	Total: \$37,832,370

*Calculated based on Operating Expenditures.

Additionally, as part of the overall review, staff received feedback on potential updates at the May 7, 2024 Finance Committee and May 15, 2024 Budget Workshop. Based on the review completed and feedback received, the following updates are recommended:

- 1. Reserves as Insurance:** Dedicated reserves intended to guard the City against risks such as revenue instability, catastrophic events, and cashflow instability. Collectively, this represents the City’s current 35% Reserve Requirement, as discussed above. In the proposed update, staff is recommending increasing the City’s Reserve Requirement from 35% to 40%.

For general reference surrounding agencies have reserve requirements ranging from 17.5% to 35% of annual budgeted expenditures. However, each city has unique revenue and expenditure composition, with the corresponding fund policy developed upon such structure. As a newer and fast-growing city, Menifee has different financial and operational risks than a longer established City. By increasing its current Reserve Fund to 40%, the City can financially prepare for larger unforeseen conditions, including economic downturns, with more opportunities to make deliberate financial decisions. Further, the current policy only considers excess/available for use fund balance more than 40%, effectively maintaining 40% in reserves.

- 2. Assigned Fund Balances (Dedicated Savings):** The second main update to the Reserve Policy includes incorporating the addition of dedicated Assigned/Committed/Restricted Fund Balance accounts intended to support larger expenditures not readily affordable within a single year’s budget. This will also allow for budget stabilization, to help mitigate significant increases from one year to the next and support larger capital projects. The proposed Assigned/Committed/Restricted Fund Balances include the following:

- a. Self-Insured Retention (SIR) & Insurance Premium Assigned Fund Balance:** Funded at a minimum of \$500k and intended to cover large General Liability and/or Workers Compensation Claims received in any given year. Additionally, this is meant to help cover significant increases in insurance premiums from one year to the next. This is proposed to have any unused Insurance Premiums and/or claims expenses budget remaining at the close of each year, be moved to this account. Additionally, other expenditure savings may also be considered for deposit into this fund. The proposed FY2024/2025 Mid-Cycle review includes a recommendation to transfer at least \$500k towards this fund balance. Contributions would be approved by the City Manager and reported to Council annually.

- b. Fleet Replacement Assigned Fund Balance:** Funded at a minimum of \$1 million to support replacement of city vehicles from year to year. The proposed FY2024/2025 Mid-Cycle review includes a recommendation to transfer at least \$1 million towards this fund balance. Contributions would be approved by the City Manager and reported to Council annually.
- c. Pension Liability Assigned Fund Balance:** Intended to help mitigate significant increases in the City's unfunded pension liability from year to year. This is proposed to have any unused annual Unfunded Liability budget remaining at the close of each year, be moved to this account beginning with Fiscal Year 2023/2024. Additionally, other expenditure savings may also be considered for deposit into this fund. Contributions would be approved by the City Manager and reported to Council annually.
- d. Public Facilities Assigned Fund Balance:** Incorporating funding of the 40% Reserve Requirement (including 10% as Unassigned Reserves), the SIR, Fleet Replacement, and Pension Liability Assigned Fund Balance accounts, any excess fund balance remaining at the end of close of each fiscal year would be directed to a Public Facilities Assigned Fund Balance account. This account would be intended to provide periodic and deliberate contributions towards high priority public facility projects, including but not limited to the future City Hall, PD Headquarters, Public Works MOC Headquarters, and community center(s). Contributions would be approved by the City Manager and reported to Council annually.
- e. Public Facilities Committed Fund Balance:** Periodic contributions approved by City Council to transferred from Public Facilities Assigned Fund Balance to support multi-year funding strategy for public facilities projects.

As of April 30, 2024 the projected surplus Fund Balance for General Fund is \$5,356,685, incorporating a 40% Reserve Requirement based on the proposed Adjusted FY2024/2025 budget. This reflects fund balances inclusive of formally closing FY2022/2023, and any appropriation activity through April 2024. \$150,000 of the projected surplus is recommended to be used in FY2024/2025 proposed expenditure adjustments (Safety Master Plan and Dispatch Services Technology Update). The remaining \$5.2 million is recommended to fund: \$500,000 towards the SIR & Insurance Premium Assigned Fund Balance Account, \$1 million towards the Fleet Replacement Assigned Fund Balance Account, \$3.7 million towards the Public Facilities Assigned Fund Balance Account, with \$2 million of this transferred to the Public Facilities Committed Fund Balance.

Adjusted Budget Resolution Adoption:

In addition to the standard budget appropriations approval of the budget resolution formally adopting the proposed Adjusted FY2024/2025 Budget, the following items are recommended for inclusion:

1. **Vehicle Purchases:** To mitigate the continued operational challenge of vehicle purchases, the proposed Budget adoption resolution requests authorization for the City Manager to execute agreements and/or issue Purchase Orders for vehicle purchases and/or leases provided that:
 - The vehicles purchases/leases are part of the approved budget appropriations.
 - All applicable purchasing requirements, such as bidding, are satisfied.

As part of the Mid-Year review process and in June of each year, staff would present a summary of vehicles purchased.

- 2. Budget Carry-Overs:** Historically, the following items are eligible for carry-over:
- a. Purchase Orders (PO)/Encumbrances representing contractual obligations.
 - b. Unexpended appropriations for authorized, ongoing but incomplete projects, including the CIP Program and grant-funded programs/projects.

The proposed resolution clarifies carry-overs to include associated revenues, such as grant, TUMF program, and/or CEQA revenues not yet received, but expected to be received as expenses are realized. Additionally, authorized, ongoing but incomplete projects, is clarified to include: projects funded with restricted/specific Assigned Fund balance, including but not limited to, General Plan Maintenance Fee, Technology Surcharge, vehicle purchases, and/or one-time Council approved projects, including but not limited to, Strategic Plan projects/items, City Council approved community programs. For FY2024/2025 some of the larger recommended one-time projects include the following Strategic Plan and/or community programs items recommended to carry-forward: Placemaking, Identity Master Plan (\$120,000) and the Special District Annexation Fiscal Impact Analysis (\$60,000), and SB1383 Small Business Assistance Program (\$161,770).

STRATEGIC PLAN OBJECTIVE

Regular City Business

FISCAL IMPACT

The Budget, when adopted, establishes a financial plan of expenditures based on the goals set by City Council. The proposed revised Citywide Budget and Fiduciary Funds budget is for FY 2024/2025 \$139,556,476 in revenues and transfers-in and \$138,515,237 in expenditures and transfers-out. Citywide budget expenditures, in particular with respect to CIP related expenditures, reflect deliberate use of fund balance(s) for larger projects.

ATTACHMENTS

1. Revised Policy (CC-07)
2. Revised Policy (CC-07) Redlined
3. Resolution – Budget Adoption
4. Resolution – FY 2024/2025 GANN Limit
5. Exhibit A – GANN Appropriation Limit Calculation
6. Resolution – Class and Comp
7. Exhibit A – Authorized Position Listing
8. Resolution – Revised CIP Adoption
9. Resolution - Public Facilities Committed Fund Balance
10. FY2024/2025 Mid-Cycle Summary Report