



CITY OF MENIFEE

SUBJECT: Fiscal Year 2022-23 Mid-Year Budget Adjustments and Review, Including a Capital Improvement Program Status Update

MEETING DATE: March 1, 2023

TO: Mayor and City Council

PREPARED BY: Margarita Cornejo, Deputy Finance Director

REVIEWED BY: Regina Funderburk, Chief Financial Officer

APPROVED BY: Armando G. Villa, City Manager

RECOMMENDED ACTION

1. Accept the fiscal year 2022-23 Mid-Year budget review and approve the additional budget revenue and appropriations recognitions as presented; and
2. Approve a Resolution updating the City's Authorized Position Listing approving additional staffing changes; and
3. Receive an update on the fiscal year 2022-23 Capital Improvement Program.

DISCUSSION

Annually, a mid-year budget review is presented to Council as an opportunity for the City Manager and the Finance Department to:

1. Provide an overall update of the City's budget year underway.
2. Present any additional necessary budget adjustments identified during the Mid-Year review process for City Council's consideration and approval.
3. Update City Council on the Capital Improvement Program.

As a part of the mid-year review, the Finance department worked with the various City departments along with the City's Executive Office and reviewed/analyzed the following:

- **Adopted Budget vs. Adjusted Budget** (Summary of Adjustments): Provides a comprehensive summary of the Adopted Budget to Adjusted Budget as of February 1, 2023.
- **Current Economic Outlook & Revenue Analysis** (National, State, Regional and Local): Provides the economic background and analysis for any recommended changes to the City's revenues for the remainder of the fiscal year.

- **General Fund & Quality of Life Funds (Mid-Year Budget Recommendations)**
 - Operating Revenues vs. Operating Expenditures
 - Staffing/Personnel Review
- **Capital Improvement Program (CIP) Review/Update**
- **Special Revenue & Other Funds (Mid-Year Budget Recommendations)**
 - Revenue and/or Expenditure Adjustments
 - American Rescue Plan (ARP) Funds Update
- **Fiscal Policy and Strategic Plan/Long-Term Financial Planning**

Overall performance through the first half of the fiscal year is generally meeting budgeted expectations, but there are some operational matters that will be presented for Council's consideration and there are some variances in several City funds that should be addressed to keep the budget in alignment through the end of the fiscal year, and to place the City in the best possible position for the upcoming budget cycle.

In summary, the City's Executive Office's (CEO) Mid-Year recommendations include an increase in total revenue appropriations of \$15,754,374 and an increase in total expenditure appropriations of \$1,023,651.

The CEO's request includes an increase in revenue of \$1,276,755 for General Fund, \$1,973,000 for Quality of Life, and \$12,504,619 for Special Revenue & Other Funds for a total increase of \$15,754,374.

The CEO's request also includes an increase of three (3) additional staff that are considered critical at this time and one (1) additional staff that is being funded by reducing the department budget. Staffing requests include:

- 1 Detective (Menifee Police)
- 1 School Resource Officer (Menifee Police)
- 1 Field Supervisor (Community Services/Facilities)
- 1 Office Specialist II (Economic Development)

Expenditure appropriation requests from available Quality of Life funds totaling \$813,409, including requests for Menifee PD related personnel vehicles and equipment are included as part of the FY2022-23 Mid-Year review. Additionally, the Fire Services contract is estimated to increase in the amount of \$557,000, due to increases in labor costs resulting from new labor agreements retroactive to July 1, 2022. The increase was anticipated during the FY2022-23 budget development. However, the final amount was not known until negotiations were finalized in the fall. Other operational adjustments such as insurance (general liability, worker's compensation, cyber liability) and part-time wage increases were reviewed and analyzed and will be absorbed within the current year budget through salary savings.

The recommended use of Quality of Life funds was presented at the Quality of Life Committee meeting on February 21, 2023. The Committee reviewed the presented use of available funds and made a motion to recommend use of funds as presented.

Other revenue sources and Special Revenue sources, such as Development Impact Fees (DIF),

have also been reviewed for year-to-date actual and actual tax roll assessments/enrollments for CSAs, LLMDs, and CFDs charges. The City's Executive Office's Mid-Year recommendations for Special Revenue Funds includes expenditure appropriations of \$210,242 to cover some additional technology capital outlays (CCTV and Card access at the Public Works Maintenance and Operations Center (MOC), additional software licenses, annual DIF library reimbursement costs and adjustments in projected utility costs in various special districts (LLMDs, CFDs)).

The following table summarizes the recommended adjustments by fund type:

TABLE 1: SUMMARY OF MID-YEAR RECOMMENDED APPROPRIATIONS

Summary of Mid-Year Appropriation Adjustments by Fund (Revenues)				
Fund Type	Adopted Budget FY 2022-23	Adjusted Budget FY 2022-23 ⁽¹⁾	Mid-Year Adjustments Recommended	Adjusted Budget with Mid-Year Adjustment FY 2022-23
General Fund	\$67,933,273	\$70,440,773	\$1,276,755	\$71,717,528
Quality of Life	18,126,000	18,126,000	1,973,000	20,099,000
General Fund TOTAL:	\$86,059,273	\$88,566,773	\$3,249,755	\$91,816,528
Internal Service Funds (ISFs)	\$8,074,333	\$8,074,333	\$0	\$8,074,333
All Other Special Revenue Funds	29,587,770	49,977,143	12,504,619	62,481,762
All Funds Total:	\$123,721,376	\$146,618,249	\$15,754,374	\$162,372,623

Summary of Mid-Year Appropriation Adjustments by Fund (Expenditures)				
Fund Type	Adopted Budget FY 2022-23	Adjusted Budget FY 2022-23⁽¹⁾	Mid-Year Adjustments Recommended	Adjusted Budget with Mid-Year Adjustment FY 2022-23
General Fund	\$67,933,273	\$85,537,069	\$ -	\$85,537,069
Quality of Life	18,126,000	32,294,171	813,409	33,107,580
General Fund TOTAL:	\$86,059,273	\$117,831,240	\$813,409	\$118,644,649
Internal Service Funds (ISFs)	9,558,142	10,615,270	48,000	10,663,270
All Other Special Revenue Funds	33,711,532	96,694,708	162,242	96,856,950
All Funds Total:	\$129,328,947	\$225,141,218	\$1,023,651	\$226,164,869

(1) See Attachment 1: Listing of FY2022-23 Budget Amendment Resolutions (BARs) Items through February 1, 2023 to see detail of budget adjustments (carry overs and new appropriations).

Note:

The Adjusted Budget includes the one-time use of available fund balance, primarily for CIP projects carried over from the prior year(s). Use of available fund balance does not use any City Reserve Funds.

Adopted Budget vs. Adjusted Budget (Summary of Adjustments) as of February 1, 2023

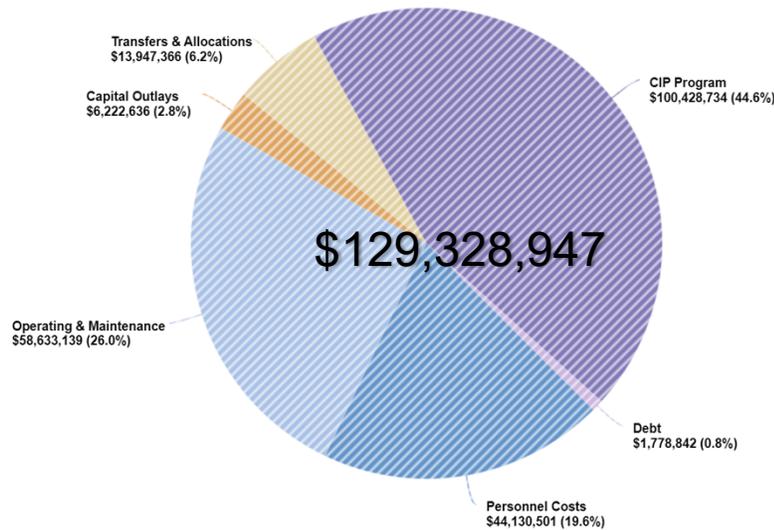
The adopted Citywide Fiscal Year 2022/2023 budget totaled **\$129,328,947** for all funds and supported **315.40 (289 full-time and 26.4 part-time)** positions. The City's General Fund operating budget, inclusive of **Quality of Life Measure**, total projected revenues of **\$86,059,273** and total projected expenditures of **\$86,059,273, resulting in a balanced budget.**

The Adopted Budget is adjusted throughout the year by including appropriations that are carried forward from the prior fiscal year for projects that were planned for and authorized by the City Council, however, not fully completed. In addition, throughout the year the City Council approves adjustments to the Adopted Budget in separate City Council action agenda items. The summary of expenditure adjustments through February 1, 2023, totals **\$95,812,271**, and the total revenue adjustments through February 1, 2023, totaled **\$22,896,873**, which is comprised of the following:

<u>Expenditures</u>		<u>Revenue</u>	
FY21-22 Carry-Over Appropriations	\$ 85,825,125	FY21-22 Carry-Over Appropriations	\$ 16,244,911
FY22-23 Added Appropriations	\$ 9,987,146	FY22-23 Added Appropriations	\$ 6,651,962
	\$ 95,812,271		\$ 22,896,873

Since July 1, 2022, staff presented 28 staff reports requesting to carry-forward and/or increase revenues and appropriations in the General Fund, Quality of Life, and/or other Special Revenues. The following charts summarize the total Adopted Budget vs. the Adjusted Budget with all Funds combined.

FY 2022-23 Adopted Budget as of July 1, 2022 (All Funds)



FY 2022-23 Adjusted Budget as of February 1, 2023 (All Funds)

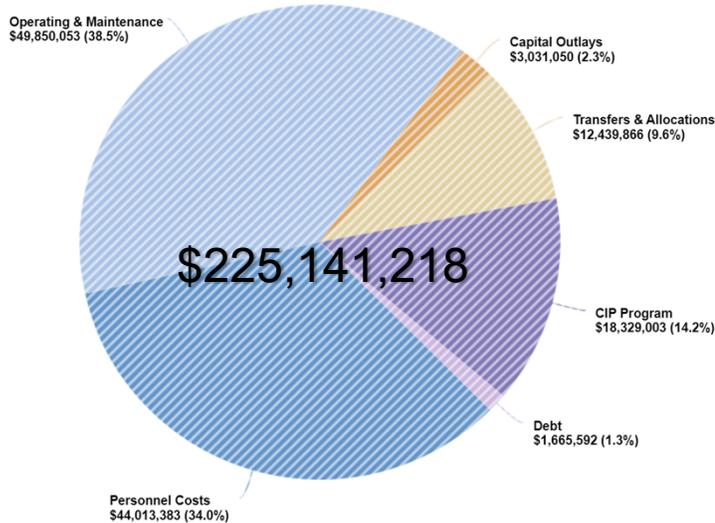


Table 2 provides a br

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TABLE 2: FY2022-23 ADOPTED VS ADJUSTED BUDGET (AS OF FEBRUARY 1, 2023)

General Fund				
General Operating Fund Fiscal Year 2022-23 Budget				
Category	Adopted Budget June 2022	Carry-Over From FY 2021-22	Budget Resolutions FY 2022-23	Adjusted Budget FY 2022-23
Revenue:				
Sales Tax	\$11,573,350	\$-	\$-	\$11,573,350
Property Tax	19,131,508	-	-	19,131,508
Building/Engineering/ Vehicle License Fee	13,890,000	-	-	13,890,000
Franchise Fees	4,390,000	-	-	4,390,000
Other	9,524,738	-	2,507,500	12,032,238
Total Revenue	\$67,933,273		\$2,507,500	\$70,440,773
Expenditures:				
Personnel ⁽¹⁾	\$31,884,335	\$324,213 ⁽¹⁾	\$-	\$32,208,449
Operating Expenses ⁽¹⁾	27,512,701	2,765,340 ⁽¹⁾	2,500,000	32,778,041
Capital Outlays	142,250	151,257	-	293,607
Transfers & Allocations	7,793,987	-	-	7,793,987
Capital Projects (CIP) ⁽²⁾	600,000	11,802,985	60,000	12,462,985
Debt	-	-	-	-
Total Expenditure	\$67,933,273	\$15,043,795	\$2,560,000	\$85,537,069
Use of Fund Balance ⁽²⁾	\$ -	\$15,043,795	\$52,500	\$15,096,295

(1) FY2022-23 Adjusted Budget includes budget for PERS medical benefit expenses of approximately \$325k moved over from Special Dept. Expense Account (Operating Expense) to Personnel Account during year to consolidate with other salary & benefits expenses (Personnel). This was a budget transfer, between Personnel and Operating Expenses, with no increase in overall budget appropriations.

(2) Use of fund balance corresponds to use of revenues previously collected for approved carry-over expenditures and/or new approved appropriations approved by Council. This does not use City Reserve Funds.

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Quality of Life (Measure DD) Fiscal Year 2022-23 Budget				
Category	Adopted Budget June 2022	Carry-Over From FY 2021-22	Budget Resolutions FY 2022-23	Adjusted Budget FY 2022-23
Revenue:				
Sales Tax	\$18,111,000	-	-	\$18,111,000
Interest Earnings	15,000	-	-	15,000
Total Revenue	\$18,126,000	-	-	\$18,126,000
Expenditures:				
Menifee Police Department	\$7,366,217	\$1,357,171	-	\$8,723,388
Fire Department	10,371,976	252,802	-	10,624,778
Code Enforcement	387,807	-	-	387,807
Public Works – Safety Equipment	-	231,545	-	231,545
Capital Projects (CIP) ⁽²⁾	-	10,141,879	2,184,774	12,326,653
Total Expenditure	\$18,126,000	\$11,983,397	\$2,184,774	\$32,294,171
Use of Fund Balance	\$ -	\$11,983,397	\$2,184,774	\$14,168,171
General Fund & Quality of Life Expenditures:	\$86,059,273			\$117,831,240

(2) Includes use of Assigned Reserve for Holland Road \$671,614 (Account #105-4571) used in FY2022-23 for award of construction contract.

Revenue:				
Internal Service Funds (ISF)	\$8,074,333	\$-	\$-	\$8,074,333
Gas Tax & Other Special Revenue Funds	10,778,781	14,516,504	4,125,101	29,420,386
LLMD Funds	922,189	-	-	922,188
CFD Funds (Maintenance)	4,996,533	-	19,361	5,015,894
CFD Funds (Infrastructure)	0	-	-	0
CSA Funds	1,895,007	-	-	1,895,007
DIF/Quimby/RBBD Funds	6,240,668	-	-	6,240,668
Capital Project Fund	2,484,099	1,728,407	-	4,212,506
Debt Service Fund	1,750,825	-	-	1,750,825
Trust Funds	519,668	-	-	519,668
Total Revenue	\$37,662,102	\$16,244,911	\$4,144,462	\$58,051,475
Expenditures:				
Personnel ⁽¹⁾	\$5,373,344	(\$183,996)	\$-	\$5,189,348
Operating Expenses ⁽¹⁾	10,967,056	2,337,931	1,055,837	14,360,824
Capital Outlays ⁽¹⁾	2,888,800	825,747	473,941	4,188,488
Transfers & Allocations	4,645,879	1,507,500	-	6,153,379
Capital Projects (CIP)	17,729,003	54,310,751	3,599,344	75,639,098
Debt	1,665,592	-	113,250	1,778,842
Total Expenditure	\$43,269,674	\$58,797,933	\$5,242,372	\$107,309,979
Use of Fund Balance	\$5,607,572	\$42,553,022	\$1,097,910	\$49,258,504

Overall Budget Grand Total Including All Funds Expenditures:	\$129,328,947			\$225,141,218
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(1) FY2022-23 Adjusted Budget includes budget transfers (Salary Savings) from Personnel category to Operating Expenses and/or capital outlays. This was a budget transfer, between Personnel and other categories, with no increase in overall budget appropriations.

(2) Use of fund balance corresponds to use of revenues previously collected for approved carry-over expenditures and/or new approved appropriations approved by Council. This does not use City Reserve Funds.

Note:

General Fund & Quality of Life total budget does not include Mid-Year Adjustment amounts. Total amounts represent adjusted budget to date only.

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

The Fiscal Year 2022-23 budget as adopted in June 2022, reflected a cautiously optimistic fiscal outlook, with steadily increasing revenues against the backdrop of an overall national and local economy moving past the impacts of Covid-19 pandemic. The City's main revenues (Sales Tax, Quality of Life, Property Tax and Development related fees) all experienced healthy growth in the second half of FY2021-22. However, other macro-economic variables, including, but not limited to, geo-political conflict impacting the energy market, supply chain shortages, and growing inflation, also pointed to a potential economic slowdown in the upcoming future.

Between March and December 2022, the Federal Reserve raised rates seven times and indicated its intent to maintain high target rates until historically high inflation is slowed down to around 2%. This in turn has started to impact key sectors of the economy, including housing and consumer spending. Most economists expect on the optimistic side slower growth than prior years and in some forecasts a mild, short-lived recession.

Nationally, the overall economy has generally averaged 2-3% annual GDP growth over the two years but is now showing signs of a slow-down in key sectors. Increased interest rates to help reign in inflation, have also slowed spending. Housing permits, consumer confidence, manufacturing data, and consumer spending reflect a general sentiment of potential recessionary activity in the upcoming months. For instance, the Conference Board Leading Economic Index (LEI) for the U.S. fell by 0.3% in January 2023. The U.S. LEI has maintained a downward trajectory for the last six months. Amongst the leading indicators are, deteriorating manufacturing new orders, consumers' expectations of business conditions, and credit conditions. Nonetheless, other sectors of the economy, in particular the labor market (employment and personal income) continue to stay strong. Overall economic growth is forecast to be minimal in the upcoming months, under a mild recession or even in an optimistic scenario a "soft landing".

State-wide, facing the same historical inflation as the rest of the country, California's labor market has remained strong, reaching a record low of 3.8% in unemployment levels in September 2022 and at 4.1% in January 2023. Non-farm jobs grew by 3.2% annually, representing the largest growth since 2000. However, in development of its upcoming state budget, there is also consensus that the state economy will experience a slow-down in the second half of the fiscal year.

Regionally, the Inland Empire's labor market has been resilient and has fully recovered to pre-pandemic levels. Transportation and warehousing have increased 4.1% since February 2020. Other labor sectors including education and healthcare, administrative support, retail trade, professional, scientific and technical services, and leisure and hospitality have all recovered to pre-pandemic as well. Commercial real estate, including demand for warehousing and distribution space and even office retail space has continued to increase. This in turn has resulted in higher non-residential permitting activity compared to 2021, with the largest activity increases in retail

and industrial. On the residential side, increased mortgage rates have led to less home sales during 2022.

As the City moves through the second half of the current fiscal year, overall recommendations for adjustments are fiscally conservative. Within the City of Menifee, residential permitting activity during the first half of 2022 continued the upward trajectory of the previous fiscal year. However, from July 2022 through December 2022, permitting activity has slowed significantly.

The City's top six (6) budgeted revenue sources for the General Fund, inclusive of Quality of Life (Measure DD) are listed in the table below. Together, these six (6) revenue sources represent 88.91% of the budgeted General Fund including Quality of Life revenues as adopted in June 2022.

TABLE 3: TOP 6 CITY REVENUES

Revenue Description		Mid-Year Review/Analysis & Recommendations
1.	Sales Tax	Strong performance in first half of FY2022-23, month over month. Original adopted amount was conservative, representing modest growth from the FY2021-22 Adjusted budget. Revised projections, incorporating updated HdL projections and higher interest receipts, increase revenue projections by \$1,065,389 (+) .
2.	Quality of Life (Measure DD)	Strong performance in first half of FY 2022-23, month over month. Original adopted amount was conservative, representing modest growth from the FY 2021-22 Adjusted budget. Revised projections, incorporating updated HdL projections and higher interest receipts, increase revenue projections by \$1,973,000 (+) .
3.	Property Tax	Revised HdL projections received in January 2023 indicate property tax revenue for the FY 2022-23 remains strong, with 14.10% appreciation in taxable value from FY 2021-22. An increase of \$230,997 (+) for regular property tax and \$194,326 (+) (Fire tax) are included as part of the FY 2022-23 Mid-Year adjustments.
4.	Building/Planning/Engineering/Fire Fees (Development Fees)	Compared to FY 2021-22, in the first half of FY 2022-23, activity has notably decreased across development activities (Building & Safety, Planning, Engineering and Fire). Accordingly, revenues are proposed to be decreased down by 20%, or \$2,567,000 (-) .
5.	Vehicle License Fee (VLF)	Revised HdL projects reflect a slight increase in FY 2022-23 VLF revenue projection of \$139,560 (+) .
6.	Franchise Fees	Solid Waste Franchise fees received for the first 2 quarters of FY 2022-23 are trending higher than originally forecast. Mid-Year 2022-23 forecast includes increase of \$130,000 (+) . Other franchise revenues (gas and electricity) are collected later in the year. Cable TV franchise revenues are trending slightly lower than projected monthly average.

Economic conditions will continue to be closely monitored and factored into the development of the Proposed Operating and Capital Budgets for the upcoming fiscal year, scheduled to be presented for adoption in June 2023. The following table provides an overall summary of some of the Key Economic Indicators incorporated as part of the Mid-Year review process.

TABLE 4: SUMMARY OF KEY ECONOMIC INDICATORS (NATIONAL, STATE, LOCAL)

Indicator	National	State	Regional/Local
GDP (↓)	1% Forecast for FY 2023-24, slower growth	---	---
Unemployment (+)	3.4% Jan. 2023 (lowest rate since 1969)	4.1% Dec. 2022 (record low in Sept. 2022)	4.3% / 3.9% (growing labor force)
Inflation (+)	7.7% (October 2022)/ 9.1% (June 2022)	7.5% (August 2022)/ 8.3% (June 2022)	7.3% (Dec. 2022)/ 9.4% (May 2022)
Residential Permits (↓)	0.1% increase Dec. 2022 to Nov. 2022/ 27.3% decrease from January 2022	20.88% increase Dec. 2022 to Nov. 2022/ 35.15% decrease from June 2022 peak	36.1% (MFR)/ 13.7% (SFR) from 2021 in first half of 2022

Note: Sources include, UCLA Economic Forecast (September 2022), UCR Inland Empire Regional Intelligence Report (Winter 2022), State of CA Budget 2023 (January 2023), U.S. Census Bureau and U.S. Department of Housing and Urban Development Monthly New Residential Construction (January 2023), California Department of Finance Economic Update (February 2023), HdL January 2023 Property Tax and Sales Tax projections.

General Fund & Quality of Life Funds (Mid-Year Budget Recommendations)

Revenue Adjustments

Based on the revenue analysis discussed in the preceding section relative to the City’s top six revenue sources, Staff is recommending the following adjustments to revenues for the General Fund and Quality of Life Funds as reflected in the table below (Table 5).

Expenditure Analysis & Adjustments

Overall, budgetary expenditures within the General Fund, including Quality of Life, are in line with their original budget projections. Mid-Year appropriation requests are reflective of critical positions needed for on-going operations.

The General Fund recommended Mid-Year Budget for Fiscal Year 2022-23 includes Revenue adjustment net increase of \$1,276,755, and no expenditure appropriation adjustments from the 2022-23 Adjusted Budget (Current). The following table depicts the recommended adjustments by category within the General Fund.

TABLE 5: FY2022-23 MID-YEAR ADJUSTMENT RECOMMENDATIONS (GENERAL FUND)

General Operating Budget Year-to-Date (YTD) & Fund Balance					
Fund Type	Adopted Budget 2022-23	Adjusted Budget 2022-23	Mid-Year Adjustments Recommended	Adjusted Budget with Mid-Year Adjustment	YTD Actuals 2022-23 as of 2/22/2023
Revenue:					
Sales Tax	\$11,573,350	\$11,573,350	\$1,065,389	\$12,638,739	\$4,990,624
Property Tax	19,131,508	19,131,508	425,323	19,556,831	10,922,482
Development Fees	13,890,000	13,890,000	(2,567,000)	11,323,000	7,821,445
Vehicle License Fee	9,423,677	9,423,677	139,560	9,563,237	4,789,192
Franchise Fees	4,390,000	4,390,000	130,000	4,520,000	1,478,605
Other	9,524,738	12,032,238	2,083,483	14,115,721	8,912,419
Total Revenue	\$67,933,273	\$70,440,773	\$1,276,755	71,717,528	\$38,914,767
Expenditures:					
Personnel	\$31,884,335	\$32,208,449	\$ -	\$32,208,449	\$18,221,511
Operating Expenses	27,512,701	32,778,041	-	32,778,041	7,928,500
Capital Outlays	142,250	293,607	-	293,607	124,203
Transfers & Allocations	7,793,987	7,793,987	-	7,793,987	7,793,987
Capital Projects (CIP)	600,000	12,462,985	-	12,462,985	1,470,061
Debt	-	-	-	-	-
Total Expenditures	\$67,933,273	\$85,537,069	\$0	\$85,537,069	\$35,538,263
Net Change in Fund Bal. (Estimated)	\$-	(\$15,096,296)	\$1,276,755	(\$13,819,541)	\$3,376,504
Budgetary Fund Bal. July 1, 2022	\$22,047,847	\$22,047,847		\$22,047,847	\$22,047,847
Projection thru 6/30/2023					(\$17,196,045)
Budgetary Fund Bal. June 30, est.	\$6,951,551	\$6,951,551		\$8,228,306	\$8,228,306

Note:

Budgetary Fund Balance total amount of \$6,951,551 does not include reserves in the amount of 35,823,601 encompassing the following: Committed Emergency Contingency, Economic Uncertainty Reserve, Unassigned Fund Balance Reserve, and various Assigned and Committed Reserve.

The Quality of Life recommended Mid-Year Budget revenue adjustment for Fiscal Year 2022-23 is \$20,099,000, a total increase of \$1,973,000, and a recommended \$813,000 increase in expenditure appropriations for a revised expenditure budget of \$33,107,580 from the 2022-23 Adjusted Budget (Current). The following table depicts the recommended adjustments by category within the Quality of Life Fund:

TABLE 6: FY2022-23 MID-YEAR ADJUSTMENT RECOMMENDATIONS (QUALITY OF LIFE)

Quality of Life Budget Year-to-Date (YTD) & Fund Balance					
Fund Type	Adopted Budget 2022-23	Adjusted Budget 2022-23	Mid-Year Adjustments Recommended	Adjusted Budget with Mid-Year Adjustment 2022-23	YTD Actuals 2022-23 as of 2/22/23
Revenue:					

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Sales Tax	\$18,111,000	\$18,111,000	\$1,863,000	\$19,974,000	\$7,934,050
Interest	15,000	15,000	110,000	125,000	103,616
Total Revenue	\$18,126,000	\$18,126,000	\$1,973,000	\$20,099,000	\$8,037,666
Expenditures:					
Personnel	\$6,755,704	\$6,755,704	\$ -	\$6,755,705	\$3,412,255
Operating Expenses	11,370,296	11,471,274	557,000	12,028,274	61,004
Capital Outlays	-	1,740,541	256,409	1,996,950	385,855
Transfers & Allocations	-	-	-	-	-
Capital Projects (CIP)	-	12,326,651	-	12,326,651	116,492
Debt	-	-	-	-	-
Total Expenditures	\$18,126,000	\$32,294,171	\$813,409	\$33,107,580	\$3,975,606
Net Change in Fund Bal. (Estimated)	-	(14,168,171)	\$1,159,591	(13,008,580)	4,062,060
Budgetary Fund Bal. July 1, 2022	17,122,824	17,122,824		17,122,824	17,122,824
Year End Projection thru 6/30/2023					(17,070,640)
Budgetary Fund Bal. June 30, est.	\$17,122,824	\$2,954,653		\$4,114,244	\$4,114,244

Note: Budgetary Fund Bal. includes Assigned Reserve for CIP 13-04 Bradley Bridge in the amount of \$223,873, to be used once construction of project begins. Estimated unassigned balance at 6/30/2023 is \$3,890,371.

Personnel/Mid-Year Requests:

Personnel expenditures year-to-date actuals are 55.56% of the Adjusted Budget for General Fund and Quality of Life.

The Fiscal Year 2022-23 budget currently includes a total of 316.40 full-time equivalent personnel. From July 2022 through January 2022 total of one (1) additional position was added and nine (9) were reclassified/updated under the authority of the City Manager, as personnel changes within the approved budget funding.

As part of the Mid-Year process, departments reviewed organizational structure and operations to identify critical staffing needs. Staff is requesting approval of an additional four (4) positions at this time.

TABLE 7: FY2022-23 MID-YEAR PERSONNEL REQUESTS

No.	Department	Position Title	FY2022-23 Mid-Year Appropriation Request	Prorated FY2022-23 Total Personnel Costs ⁽¹⁾	Justification
1	Community Services/ Facilities (ISF) ⁽¹⁾	Field Supervisor	\$ -	\$ 43,798	Operational Need – increase oversight of City facilities. City’s facilities have expanded, including fire stations and PD sites. Full Year Cost FY2023-24: \$145,147.

No.	Department	Position Title	FY2022-23 Mid-Year Appropriation Request	Prorated FY2022-23 Total Personnel Costs ⁽¹⁾	Justification
2	Police	Detective	-	54,306	Operational Need – increase investigative support. Full Year Cost FY2023-24: \$193,929.
3	Police	School Resource Officer (SRO)	-	54,306	Existing MOU with Perris Union High School District. A total of 2 SRO positions are included with the MOU. PUHSD reimburses the City for one of the SRO position. Full Year Cost FY2023-24: \$193,929.
4	Economic Development ⁽¹⁾	Office Specialist II	-	27,071	Provide necessary administrative support to Economic Development to accommodate increased department operations/programs and replacement of current interns. Full Year Cost FY2023-24: \$88,601.
TOTAL			\$ -	\$ 179,481	

Note:

- (1) No additional expenditure appropriation needed in the current year, as other budget savings accomplished during the year accommodate the additional expenses needed for the balance of the year. On-going revenue increases in General Fund and Quality of Life revenues include capacity to absorb these additional four (4) positions in the upcoming years.

Operations & Maintenance/Mid-Year Requests:

Budgeted costs are trending within budget. Operations & Maintenance expenditures year-to-date actuals are 18.21% of the Adjusted Budget for General Fund and Quality of Life. Larger expenses, such as Dispatch Services and Fire Services are anticipated to be received later in the fiscal year, and are therefore not yet realized. There are no requests for appropriations from the General Fund at this time. There is an appropriation request for \$557,000 from Quality of Life funds to cover the additional increase in the Fire Services Agreement pursuant to the labor negotiations completed between Fire personnel and the State in 2022.

TABLE 8: FY2022-23 MID-YEAR OPERATIONS & MAINTENANCE REQUESTS

No.	Department	Position Title	Increase/(Decrease)	Justification
1	Fire	Fire Services Contract Increases	\$ 557,000	Increase from State Labor Negotiations for FY 2022-23
TOTAL			\$ 557,000	

Other Operational Adjustments:

Other operational adjustments such as insurance and part-time wage increases were reviewed and analyzed and will be absorbed within the current year budget through salary savings. Items will also be incorporated within the next fiscal year’s budget 2023-24.

Capital Outlay/Mid-Year Requests:

Capital Outlays expenditures year-to-date actuals are 25.07% of the Adjusted Budget for General Fund and Quality of Life. Larger capital outlays, such as vehicle purchases, have seen a delayed realization of expenditures due to supply shortages. This Mid-Year includes corresponding capital costs associated with the personnel requests discussed within the Personnel section of the report.

TABLE 9: FY2022-23 MID-YEAR PERSONNEL REQUESTS (CAPITAL OUTLAYS/EQUIPMENT)

No.	Department	Position Title	FY22/23 Mid-Year Request	FY22/23 Total Capital Costs	Justification
2	Police	Detective	\$129,771	\$129,771	Equipment (Vehicle, Body Worn Camera, etc)
3	Police	School Resource Officer (SRO)	126,638	126,638	Equipment (Vehicle, Body Worn Camera, etc)
TOTAL			\$ 256,409	\$ 256,409	

Special Revenue & Other Funds (Mid-Year Budget Recommendations)

Special Revenue and Other Funds sources recommended FY2022-23 Mid-Year Budget adjustments include increases of \$12,504,619 in revenues and \$210,242 in additional expenditure appropriations. The expenditure appropriation requests include the following:

- Additional appropriations of \$48,000 for technology capital outlays (CCTV and Card access at the Public Works Maintenance and Operations Center (MOC), additional software licenses.)
- Annual Library Fee reimbursements costs of \$50,000 due to the County of Riverside
- Additional appropriations of \$112,242 to accommodate increased utility costs projected across various special districts (LLMDs, CFDs) for the balance of fiscal year based on year-to-date trends.

With respect to recommended revenue adjustment increases, the two (2) largest increases are represented by the following:

- Corresponding carry-overs of TUMF related revenues (\$8.4 million) to align with previously carried over expenditures; and
- Increased Development Impact Fees (DIF) revenue (\$3.1 million increase) based on year-to-date trends.

The following table details the various the recommended adjustments (revenues and/or expenditure appropriations) for the Special Revenue and Other Funds:

**TABLE 10: FY2022-23 MID-YEAR ADJUSTMENT RECOMMENDATIONS
 (SPECIAL REVENUE & OTHER FUNDS)**

Fund Category Type	Revenue Adjustment (\$)	Expenditure Adjustment (\$)	Justification/Explanation
Internal Service Funds (ISF)	\$12,010	\$48,000	Higher interest revenue, and appropriations for Technology capital outlays (CCTV and Card Access for PW MOC) and software licenses.
Gas Tax & Other Special Revenue Funds	8,424,480	-	Corresponding carry-overs of TUMF related revenues to align with previously carried over expenditures (Budget and encumbrances)
LLMD Funds	14,360	78,403	Higher interest revenue receipts based on YTD actuals. Additional appropriations in several special districts for higher year to date actuals on utilities.
CFD Funds (Maintenance)	26,328	33,839	Higher interest revenue receipts based on YTD actuals. Additional appropriations in several special districts for higher YTD actuals on utilities.
CFD Funds (Infrastructure)	849,139	-	Based on YTD Actuals
CSA Funds	5,426	-	Higher interest revenue receipts based on YTD actuals.
DIF/Quimby/RBBD Funds	3,172,875	50,000	Overall YTD actuals. revenues are trending higher than budgeted. Additional appropriation in Fund 513 Library DIF for annual library reimbursement costs due.
TOTAL:	\$12,504,619	\$210,242	

Capital Improvement Program (CIP) Review & Update

At budget adoption, the Fiscal Year 2022-23 CIP program included a total of twenty-five (25) projects and a funding totaling \$18,329,003. Including Fiscal Year 2022-23 Mid-Year Requests,

the CIP Budget would be updated to reflect the following:

TABLE 11: FY 2022-23 ADOPTED vs. FY 2022-23 ADJUSTED BUDGET (CIP) UPDATE

No.	Project Category	No. of Original Projects	FY2022-23 Adopted Budget: Project Costs	No. of Active Projects	FY2022-23 Adjusted Budget: Project Costs
1	Transportation	6	\$10,626,766	11	\$59,287,335
2	Traffic Signals	2	304,201	7	4,351,208
3	Street Improvements	3	500,626	8	2,653,574
4	Pavement Management	6	4,284,410	9	9,814,857
5	Drainage	-	-	-	-
6	Streetlight	1	100,000	1	100,000
7	Public Facilities	3	1,963,000	12	17,712,006
8	Parks, Trails and Recreation	4	550,000	15	5,346,827
9	Reports & Plans	-	-	1	37,926
10	Information Technology	-	-	1	1,125,000
	Total	25	\$18,329,003	65	\$100,428,734

In total, the Fiscal Year 2022-23 CIP Budget, inclusive of: (1) the current year adopted budget funding, (2) additional appropriations requests since July 1, 2022, (3) Fiscal Year 2022-23 Mid-Year requests discussed above and prior year budget carry-over and (4) additional appropriations for on-going projects will be \$100,428,734.

In summary, the following updates have occurred from July 2022 through February 2023:

- Budget Carryover of \$75,583,999 (encumbrances and appropriated budget) for previously approved CIP projects underway.
- Formal addition of CIP 23-14: ERP Project Implementation as approved by City Council on 2/15/23. Previous budget of \$1,125,000 was previously carried forward.
- Additional budget appropriations totaling \$6,515,732, for the following Projects (listed in the following table):

TABLE 12: ADDITIONAL CIP APPROPRIATIONS THRU FEBRUARY 1, 2023

Council Date	Project	Appropriation Amount (\$)
9/21/2022	CIP 17-01: Evans Pump Track	\$304,344
9/21/2022	Leon Rd PMP (Micro-surfacing Project)	60,000
10/19/2022	CIP 13-03: Holland Rd. Overpass	671,614
10/19/2022	CIP 21-04: Fire Station #5	3,184,774
11/16/2022	CIP 22-06: Murrieta Rd Resurfacing Project	80,000
2/1/2023	CIP 23-13: Bank of America Property Acquisition and Tenant Improvements	2,215,000
	TOTAL	\$6,515,732

American Rescue Plan (ARP) Funds

As presented in June 2022, the City has received just over \$13 million in direct federal assistance as part of the American Rescue Plan (ARP) program. Funding is to be used to address the impacts of Covid-19.

As of February 1, 2023, the remaining available balance of ARP funds is \$2,531,369. The FY2022-23 Mid-Year recommendations do not include recommended use of additional ARP funds. As the City navigates the impacts of Covid-19, short and long-term, the City's plan and strategy for the use of these funds is a phased-in approach/plan and to maximize the use of the funding that truly meets the needs of the community. Cognizant of the requirements to expend all funding by December 2024, the City's approach is fiscally conservative.

Fiscal Policy and Strategic Plan/Long-Term Financial Planning

Year to Year, and even in times of economic prosperity, the City's concerted approach to its spending plans has been that of fiscal prudence and thinking of the needs of the Menifee community now and in the future. Long-term financial planning essentially combines (1) financial forecasting with financial strategy to identify future challenges and opportunities, (2) fiscal imbalances and (3) strategies to secure financial sustainability. Therefore, in the City's budgetary oversight and implementation of the City's vision to build a safe, thriving and premier place to live, work and call home, the city consciously budgets with key strategies, policies and tools in mind.

- **Structurally Balanced Budget / Strategic Plan:** The City aims to develop a structurally balanced budget where recurring revenues match recurring expenditures. The City also develops an over-all budget that reflects and aligns with the strategic plan, objectives, goals and priorities, provides conservative estimates of revenue and expenditures, and provides actual revenue/expenditure history to assist with future forecasts and projections anchored to a 5-year financial forecast. A budget forecast is essentially a financial plan projecting revenue and expenditures for a defined period of time.
- **10-year Financial Forecast** - The City has recently expanded efforts in using analytics to take a long-view through the lens of a rolling 10-year financial forecast model. Taking the longer view will help the City better respond to an unforeseen financial crisis, bring financial perspective to planning, stimulate long-term thinking, address a particular issue or proposal, and heighten financial discipline and sustainability.
- **Reserve Policy:** In September 2021, the City Council adopted an updated reserve fund balance policy to set aside funds for future emergencies. This policy establishes 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 tentatively has considered increasing the reserve fund percentage to 40% in FY 2024-25.

- **Unfunded Pension Liability:** The City proactively pays off any annual unfunded pension liability adjustments and currently does not have any outstanding unfunded pension liability balance.
- **Infrastructure Needs:** With an adopted five (5) year CIP Program which identifies over 150 projects, estimated at nearly \$577 million, the City continues to strategize on funding the wide range of infrastructure needs, year by year.

Capital Asset Financing: The City enters into long-term financing arrangements only in the case where funding may be necessary to purchase or lease a long-term strategic asset.

STRATEGIC PLAN OBJECTIVE

Regular City Business

FISCAL IMPACT

Summary of Revenue & Expenditures by Fund Type

Table 13 provides an overall summary of all revenue and expenditure Mid-Year Adjustments requests by fund type and amount.

TABLE 13: FY2022-23 MID-YEAR ADJUSTMENT RECOMMENDATIONS

Fund Category	Proposed FY2022-23 Revenue Adjustments	Proposed FY2022-23 Expenditure Adjustments
General Fund	1,276,755	-
Quality of Life Fund	1,973,000	813,409
Internal Service Funds (ISF)	12,010	48,000
Gas Tax & Other Special Revenue Funds	8,424,480	-
LLMD Funds	14,360	78,403
CFD Funds (Maintenance)	26,328	33,839
CFD Funds (Infrastructure)	849,139	-
CSA Funds	5,426	-
DIF/Quimby/RBBD Funds	3,172,875	50,000
TOTAL	\$15,754,374	\$1,023,651

ATTACHMENTS

1. Attachment 1: Listing of FY2022-23 Budget Amendment Resolutions (BARs) Items through February 1, 2023
2. Attachment 2: Listing of FY2022-23 Budget Amendments Resolutions (BARs) Item thru 2-1-2023
2. A Resolution approving the Authorized Position Listing as of 3/1/2023
3. Budget Amendment Resolution (BAR) approving FY2022-23 Mid-Year Adjustments