



DATE: June 27, 2023
TO: Mayor and Members of the City Council
FROM: Mike Malone, City Manager
SUBJECT: **HOLD A PUBLIC HEARING AND ADOPT RESOLUTION RELATING TO THE ADOPTION OF FY 2023-24 BUDGET**

RECOMMENDATION

Hold a public hearing and take public input for the FY 2023-24 Budget, and adopt a Resolution adopting the FY 2023-24 Budget for the City of Vallejo, as set forth in **Attachment B**.

REASONS FOR RECOMMENDATION

In accordance with the City of Vallejo Charter Section 701, the City Manager is required to annually submit to the City Council the proposed expenditure and revenue estimates for the following fiscal year, at least 45 days prior to the beginning of the new fiscal year. On May 15, 2023, the Proposed FY 2023-24 budget was delivered to the City Council and posted on the City website. On June 6th staff had a budget workshop for the council and the public. On June 13th, the City Council conducted a public hearing on the proposed budget as required by Charter Section 702. Adopting the budget resolution at this time will allow the City to operate and provide services after June 30, 2023, based on the most current projection of revenues and expenditures.

BACKGROUND AND DISCUSSION

In accordance with City Charter Sections 701 and 702, the Proposed Budget for FY 2023-24 was delivered to the City Council on May 15, 2023 and notice of a public hearing and a general summary of the proposed budget were published in the newspaper. On June 6, 2023, staff held a Budget Workshop for the FY 2023-24 proposed budget to receive the Council's direction on the proposed budget and on June 13th, the City Council conducted a public hearing on the proposed budget as required by Charter Section 702. This report, staff recommends that the FY 2023-24 Proposed Budget transmittal letter also be reviewed (see Attachment A).

The city must carefully evaluate expenditure priorities, explore potential revenue sources, and consider adopting proactive measures to mitigate the impact of potential uncertainties. By closely monitoring economic indicators and ensuring prudent fiscal policies, the City of Vallejo can work towards maintaining financial stability and ensuring the delivery of essential public services to its residents. Moving forward, we have taken these uncertainties into account when creating this year's budget book. We strive to maximize the use of the Cities Funds to benefit all members of our community, while maintaining fiscal responsibility. Other key priorities for this budget are public safety, economic development, youth, broadband, housing and homelessness.

The proposed budget reflects these priorities, with a total citywide budget of \$305.0 million, including \$133.93 million in General Fund and \$77.2 million in Water Fund expenditures. Staff presented this proposed budget to council on June 13th, 2023. Council's direction was to amend the proposed budget with the addition of the following items.

Council Requested Amendments on June 13th, 2023

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On June 13th, the Council instructed staff to address funding for several projects. These projects include (1) Marina Dredging, (2) the first phase of PD building design at 111 Amador, (3) Vallejo Main Street, (4) funding for the Empress Theatre capital upgrade, and (5) support for the Naval Museum.

Marina Dredging proposal to add \$500,000

On June 13th, 2023, as per council direction, a budget of \$500,000 is being proposed to be added to the Marina fund from the General Fund. This money will be drawn from the fund balance. \$500,000 will fund a mini-dredge project at the southern entrance to the Marina which will give a reprieve of one year, subject to environmental conditions, to clear the entry way. If budget allows, dredging around the Fuel Dock will also be included in the project. Dredging of the entire marina is estimated to cost about \$8,500,000 followed by a maintenance cycle of about \$1,200,000 annually to provide a healthy rotation of dredging throughout the entire Marina (subject to environmental conditions). A complete infrastructure upgrade of the Marina is estimated at around \$15,000,000.

Police Building Design proposal to add \$600,000

As per council directions, on April 11th, 2023, the city engaged Indigo Hammond and Playle Architects to develop the architectural design for 111 Amador Street Police Building. While the total construction cost is estimated at around \$80,000,000 in today's 2023 cost estimates, the total cost of the architectural proposal to get the project started is \$4,643,300, divided into three phases. The first phase of the project, 35% of the design project, is \$1,653,300. The city had proposed an expenditure of \$700,000 in the proposed budget, to get the project started, along with a project fund balance of \$300,000. As per council request, \$600,000 is being proposed to be added to the project to fully fund the first phase of the design project. This amount will be budgeted from Measure P funds and the expenditure will be approved at the discretion of the Measure P Oversight Committee, once formed.

Vallejo Main Street aka Vallejo First Corporation proposal to add \$30,000

The Vallejo Main Street organization has submitted a funding request of \$140,000 to facilitate economic development activities in Downtown Vallejo. Their objective is to attract more visitors, including both residents and tourists, to the downtown area. Through their proposed initiative, called Downtown Summer Nights, they aim to stimulate sales tax growth and enhance the overall success of businesses in the downtown district. To support this endeavor, the city administration has put forth a budget proposal to allocate \$30,000. Additionally, staff is proposing to allocate the remaining \$110,000 from the American Rescue Plan Act (ARPA) funds at a later date. This funding allocation aims to contribute to the revitalization and prosperity of Downtown Vallejo's economic landscape.

Empress Theatre Capital Upgrade

The Empress Theatre has submitted a proposal to enhance its audio system by upgrading to a higher quality sound system specifically designed for performing artists. The estimated cost of the equipment required for this upgrade is \$100,000. In the proposed budget, there is an allocation of \$30,000 set aside for this project. However, to cover the remaining balance of \$70,000, a separate proposal will be presented to the council at a later date for the reallocation of funds from the American Rescue Plan Act (ARPA). This proposal aims to secure the necessary funding to complete the audio system upgrade, thereby improving the overall sound quality and experience for artists performing at the Empress Theatre.

Naval Museum proposal to add \$20,000

The Vallejo Naval and Historical Museum has submitted a funding request to address several building maintenance and fencing projects. The City's Public Works department has been collaborating with the museum's board to assess and prioritize their needs. To address the most pressing requirements, a proposed expenditure of \$20,000 is being recommended. This allocation aims to provide immediate assistance in fulfilling the urgent needs of the Naval Museum. However, further funding for additional projects will be

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addressed at a later date, specifically during the mid-year review. This approach allows for a thorough evaluation of project costs and timelines.

General Fund Revenues

Our Proposed FY 2023-24 General Fund is anticipated to be \$150.98 million. Excluding Measure P, the revenue is \$132.82 million, a difference of 1.7% when compared to the previous fiscal year's adopted budget. This is due to an increase in some of our revenue sources like property tax, utility users tax, and business license tax. Yet other revenue sources such as cannabis show a continued decline of 21% and sales tax, not including Measure P, declining 2.4% when compared to FY 2022-23 Adopted Budget.

The City is proposing total General Fund revenue that reflects a 15.6% increase or \$20.4 million above the prior-year Adopted Budget mostly due to implementation of Measure P. Measure P was implemented to provide an additional projected revenue of \$18.16 million for FY 2023-24. Measure P increased the 8.375% sales tax to 9.25%, which became effective April 1, 2023. This would bring our Proposed General Fund Revenue to \$150.98 million for the FY 2023-24 Adopted Budget.

The city is proposing an available fund balance of \$45.9 million, which would be 34.3% of the total proposed expenditure. Excluding the Measure P revenues, fund balance would be approximately \$23.8 million, which would be 17.8% of the total proposed expenditure.

(In Millions)	FY 22-23 Adopted	FY 23-24 Proposed	Difference	
			AMT	%
Property Tax	\$ 24.52	\$ 25.83	\$ 1.31	5.3%
Property Tax in-lieu (MVLFF)	12.68	14.12	1.44	11.3%
	37.20	39.94	2.75	7.4%
Sales Tax	19.08	18.22	(0.86)	(4.5%)
Transaction & Use Tax - Measure B	20.85	20.76	(0.09)	(0.4%)
Transaction & Use Tax - Measure P	0.00	18.16	18.16	0.0%
	39.93	57.14	17.21	43.1%
Utility User Tax	12.66	13.37	0.72	5.7%
Cannabis Tax (Measure C)	3.04	2.40	(0.64)	(21.1%)
Business License Tax	1.66	1.67	0.01	0.6%
Other *	16.41	17.80	1.39	8.5%
Subtotal, General				
Unrestricted Revenues	110.89	132.33	21.43	19.3%
Program Revenues	19.71	18.65	(1.06)	(5.4%)
Total (Excluding Measure P)	130.61	132.82	2.21	1.69%
Total (Including Measure P)	\$ 130.61	\$ 150.98	\$ 20.37	15.6%

*Other: TOT, Franchise Tax, Property Transfer Tax, Water Rights, Rentals & Discovery Kingdom

Property Tax (\$39.9 million)

The property tax the City will receive for FY 2023-24 is based on the property's assessed value as of January 1, 2023. Vallejo's median sales price for single-family residential homes increased 4.81% from \$520,000 in 2021 to \$545,000 in 2022. Throughout the 2022 calendar year we have seen an interest rate

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hike that has caused a reduction in home purchases. As we move into 2023, the sales prices of single-family residential properties in Vallejo are down by 0.55% in comparison with last year.

Sales Tax (\$57.1 million)

Sales tax growth continues to be one of the catalysts for revenue within the City. The sales tax forecast is provided by the City's sales tax consultant (HdL). After the COVID demand spike in spending, we are seeing brick and mortar retailer's sales starting to slow down. Households have tightened discretionary spending due to continued hikes in Federal interest rates, high inflation, and wavering consumer confidence. This factors into the decrease of \$950,000 or -2.38% for Sales Tax and Use Tax Measure B/V.

On April 1, 2023, the City implemented Measure P to help address community priorities for maintaining critical city services. A 0.875% (less than a penny on the dollar) would add a projected revenue of 18.16 million for the FY 2023-24 proposed budget.

Utility User's Tax (\$13.4 million)

The City imposes a 7.3% utility users tax on charges for telecommunications and video services and a 7.5% utility users tax on charges for electricity usage and natural gas delivered through mains or pipes. Utility users' taxes are expected to modestly increase by 5.38% or \$0.68 million in FY 2023-24. The increase is based on an average of past actuals. Cable TV and Gas/Electric is the largest contributors to the utility user's tax.

Cannabis Tax (\$2.4 million)

Year by year there is a noticeable decline in cannabis tax due to neighboring cities opening dispensaries. There is an anticipated 21% decrease when compared to FY 2022-23 adopted budget.

Business License Tax (\$1.7 million)

Compliance is now collected at a regular tax rate, versus FY 2022-23 which included back taxes. We took our current year trends to have an optimistic estimation of 0.58% grown from FY 2022-23 adopted budget.

Transient Occupancy Tax (\$2.2 million)

As we continue to pick ourselves back up from the pandemic, we can see a steady increase in Transient Occupancy tax. Projections are based on pre-covid actuals to get a conservative proposed FY 2023-24 budget of \$2.23 million.

Franchise Tax (\$5.9 million)

The City imposes charges on cable television, electricity, gas, and garbage services for the use of City streets and rights-of-way. Franchise fees can change when the customer base expands, when additional services are used, when weather impacts the use of the utility, and when consumer rates change. Cable TV shows a decline that may be caused by the popularity of streaming services. Gas and electricity franchise can be seen having a steady increase as more homes are built and more people move in. Garbage is the largest source of revenue within franchise tax and shows an increase as well. Overall Franchise Tax is anticipated to grow 4.38% when compared to FY 2022-23 adopted budget and has a proposed budget of \$5.87 million.

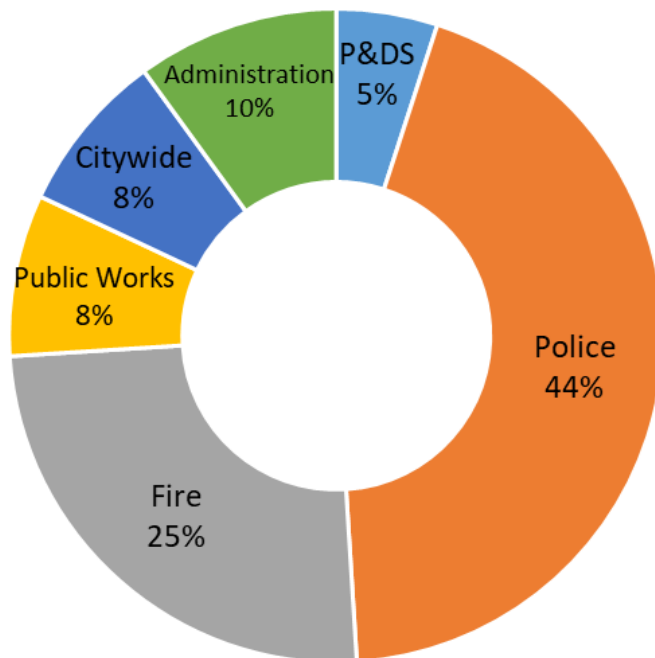
Program Revenue (\$18.7 million)

The program revenue decrease is primarily due to the COPS Grant ending in FY 2022-23, a difference of 1.37 million. Public works fee revenue is anticipated to decrease \$678,000 when compared to FY 2022-23 adopted budget.

The City continues to pursue multiple state and federal grant opportunities to fund various city projects.

General Fund Expenditures

The following chart of Proposed FY 2023-24 General Fund Expenditures indicates the percentage associated with each department:



The General Fund expenditures total \$133.93 million broken down into the following: Police Department, which represents \$57.89 million of expenditures, followed by the Fire Department at \$32.94 million, Administration at \$14.78 million, Public Works at \$10.43 million, Planning & Development Services at \$6.62 million and City-wide at \$11.27 million. City-wide represents cross-departmental expenditures that cannot be attributed or charged to a specific departmental location.

Most General Fund expenses for the city are being held at status quo, except for a few essential one-time expenses.

The increase of 3.3% in General Fund expenditures compared to the previous year is primarily driven by self-insurance costs, and increased cost of fleet and maintenance. \$1.3 million has historically been set aside towards fleet replacement, including specialized public safety vehicles. Due to increasing fleet replacement cost, an additional \$943,000 will be included starting 2023-24. A total of \$1.3 million is budgeted for the first phase of the police building design, of which \$0.6 million is utilizing Measure P. With the increase in general fund revenue, staff is carefully allocating the expenditures to budget areas, focusing on maintaining the service level for the city. The City will continue to operate conservatively due to the financial uncertainty surrounding monetary tightening, and possible recession.

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General Fund Reserves

Staff continues to pursue multiple grants to assist the city in supporting economic growth. Staff is proposing a structurally balanced budget that will provide an estimated \$45.9 million in available fund balance reserve, approximately 34.3% of the General Fund expenditure. Excluding Measure P, approximately \$23.8 million will be available as of June 30, 2024, which is 17.8% of General Fund expenditures.

Measure P

FY 2023-24 proposed budget includes expenditure of \$0.6 million of Measure P to complete the first phase of the Police Building Design. Revenue is directed towards maintaining fire protection, emergency medical response, crime prevention, homelessness, blight, dumping, repairs, and other critical city services. Additional Measure P expenditures will be discussed with council at a future date.

Water Enterprise Fund

The water system is comprised of approximately 600 miles of pipelines. At the current replacement rate, it would take 450 years to replace all City pipelines. (The useful life of a pipe is 70-100 years.) The intent of the proposed budget is to utilize the available fund balance to bring this replacement cycle down to approximately every 100 years (the recommended industry standard). The staff is proposing \$77.2 million in expenditure budget which is \$21.2 million higher than last fiscal year. \$22.3 million of the available fund balance would be utilized to support the expenditure budget. Overall, the City aims to move from a reactive approach to its water main replacement program driven by emergency repairs, to a more proactive and cost-effective strategy. Over the long term, continuing to operate in a reactive mode will be costlier to the City than it would be to invest now in replacing these aged pipelines. In addition, replacing undersized pipelines to today's standards will aid in the long-term economic development of the City, and support water quality, water pressure, and fire suppression.

NEXT STEPS

If approved by the City Council, staff will develop the final Adopted Budget document, incorporating any Council required changes.

FISCAL IMPACT

The Fiscal Year 2023-24 Proposed Budget includes \$298,622,868 in total Revenues across all funds (\$150,979,441 General Fund) and \$304,995,335 in total Expenditures across all funds (\$133,933,328 General Fund). The proposed expenditures will be funded by \$279,084,644 in revenues and \$25,910,691 in beginning fund balance.

Approval of this item accepts the Fiscal Year 2023-24 Proposed Budget and allows staff to continue services for the new fiscal year.

ENVIRONMENTAL REVIEW

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

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ATTACHMENTS

1.	Attachment A - Transmittal Letter
2.	Attachment B - Exhibit 1 Addendum
3.	Attachment B - Res 1 Budget Resolution - FY 23-24 CAO STAMP

CONTACT

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