

# CITY OF PALM DESERT STAFF REPORT

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MEETING DATE: February 15, 2024

PREPARED BY: Veronica Chavez, Director of Finance

REQUEST: APPROVAL OF RESOLUTIONS APPROVING 2023-24 MID-YEAR BUDGET ADJUSTMENTS AND REVISED STAFF ALLOCATION SCHEDULE

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## **RECOMMENDATION:**

1. Adopt a Resolution entitled, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM DESERT, CALIFORNIA, AMENDING THE FISCAL YEAR 2023-24 BUDGET AS A RESULT OF MID-YEAR ADJUSTMENTS".
2. Adopt a Resolution entitled, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM DESERT, CALIFORNIA, ADOPTING AUTHORIZED CLASSIFICATIONS AND ALLOCATED POSITIONS INCLUDED HEREIN ATTACHED AS EXHIBIT "A" AND RESCINDING RESOLUTION NO. 2023-022".

## **BACKGROUND/ANALYSIS:**

Throughout the budget cycle, staff actively monitors actual revenues and expenditures and prepares a report to the City Council at mid-year. The update provides staff with the opportunity to advise the City Council on major budget trends (revenue and expenditure) and propose changes where necessary to meet ongoing service demands or modifications related to economic or other factors. This report provides an update for the General Fund Operating Budget for Fiscal Year 2023-24, and outlines proposed budget adjustments for both general and other funds.

Based on staff's analysis, budget revisions are recommended to 1) implement required technical/rebalancing actions to align existing revenue estimates and expenditure budgets with the most current tracking information, 2) reallocate funding among appropriations based on updated needs; 3) implement technical and net-zero adjustments between revenue categories and expenditure appropriations; and 4) account for new or adjusted grants, reimbursements, or fees.

## **DISCUSSION:**

On June 22, 2023, the City Council approved the City's FY 2023-24 budget with an estimated revenue surplus of \$200,482 in the City's General Fund.

At the time the estimates were provided staff was budgeting with the 2023 City Council Goals in mind. With a focus on shoring up deferred facility maintenance. In August, Tropical Storm Hilary presented a new challenge/opportunity to identify weaknesses in the city's aging infrastructure along with other operational changes. Since budget approval in June, staff has requested just over \$9.6 million in appropriations from the various reserve categories, \$5.5 million of which are related to the storm clean up, \$2 million for a new Land Management System, \$1.3M for the library, \$.5

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million for PDAC, and \$230,000 for citywide park improvements. These appropriations affect fund balance but are not part of the operating budget discussion for this request.

As our major revenue source, Sales Tax has begun to normalize as anticipated and is estimated to show an overall decline of approximately -7.5% by June 30, 2024. Although Transient Occupancy Tax remains on track with prior year growth, history has shown it trends with Sales Tax revenue. Permits and fees have seen increases related to current development activity in the City. We have seen a substantial decline in Cannabis Tax (Special Fund) as it relates to the reduced tax rate approved last year, which will reduce the anticipated transfer into the General Fund this year. Interest earnings have increased dramatically this year as we reap the benefits of current economic conditions. Overall, we anticipate an additional increase of approximately \$2.4 Million for a total estimated surplus of \$2,240,039 for FY 2023-24.

	Original Budget	Mid-Year Adjustment Needed	Revised Mid-Year Budget	Appropriations from Reserve Thru 1/25/24	Total 2023/24 Appropriations
General Fund Revenue	75,554,467	2,420,853	77,975,320	9,616,188	87,591,508
General Fund Appropriations 2023-24	75,353,985	381,296	75,735,281	9,616,188	85,351,469
<b>Revised General Fund Revenue Over/(Under) Expenditures</b>	<b>200,482</b>	<b>2,039,557</b>	<b>2,240,039</b>	<b>-</b>	<b>2,240,039</b>

*General Fund Revenues*

The original estimate for FY 2023-24 General Fund revenues was \$75,554,467 which represented an increase of approximately \$4.37 million (6%) over the FY 2022-23 budget. This estimate was based on recovery indicators and anticipated development activity within the City. What was not known at that time was the impact of the current economic factors as they relate to shoppers and visitors.

Staff has continued to evaluate the actual year-to-date revenues and determined that the original estimates need to be increased in the amount of \$2.4 million (3%) over the original projected revenues. The net increase includes a substantial increase to interest earnings based on YTD yields. The breakdown on changes to revenue estimates are included below:

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GENERAL FUND	Original Budget	Mid-Year Adjustment Request	Revised Budget Request
3133000 - Sales Tax/Meas A Sales Tx	26,623,447	(1,623,447)	25,000,000
3166000 - Business License Tax	1,300,000	(200,000)	1,100,000
3188300 - Transient Occupancy Tax	18,500,000	1,500,000	20,000,000
3199600 - Business Lic Delinq Fee	20,000	10,000	30,000
3199800 - Transient Occ Tax Delinq	20,000	(10,000)	10,000
3221100 - Building Permits	1,228,300	200,000	1,428,300
3221200 - Grading Permits	25,000	(10,000)	15,000
3221500 - ROW Encroachment Permits	150,000	(50,000)	100,000
3221700 - Miscellaneous Permits	-	800	800
3221800 - Business Regulatory Perm	22,500	(10,000)	12,500
3365600 - Motor Veh In Lieu Fee	24,000	26,000	50,000
3411300 - Zoning Fees	40,000	10,000	50,000
3411400 - Plan Check Fees	307,768	100,000	407,768
3411500 - Sale Of Map/Plan/Public	5,000	(2,500)	2,500
3424500 - Nuisance Abatement Tax	20,000	(10,000)	10,000
3511100 - Vehicle Code Fines Non-Mv	35,000	(10,000)	25,000
3611000 - Interest Income	500,000	2,500,000	3,000,000
		2,420,853	

*General Fund Expenditures*

The original estimate for FY 2023-24 General Fund appropriations was \$75,353,985 which represents an approximate increase of \$4.17 million (6%) compared to FY 2022-23. The original projections included increases in professional services costs, personnel services and benefits related to the MOU negotiations, and the cost of contracts due to anticipated labor increases, supply chain issues, and material costs as well as the effects of increased minimum wage.

An increase in appropriations is being requested for the General Fund. Staff has once again worked dilligently this year to reallocate funds whenever possible to absorb increased costs and maximized use of funds currently allocated. That said, an overall appropriation of \$381,296 is necessary based on updated needs as they relate to the storm recovery, staff re-allocation, and current goals and objectives of the City Council. The summarized table on the next page itemizes the requests by department and includes adjustments for personnel expenses related to MOU and attrition, professional services related to 2023 Goals, engineering, IT licensing, plan check, inspections, real estate services, and design related to the downtown overaly zone.

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	Original Budget	Mid-Year Adjustment Request	Revised Budget Request
Salaries Full Time	13,241,360	271,073	13,512,433
Salaries-Overtime	47,000	92,250	139,250
Meeting Compensation	138,768	(1,982)	136,786
Retirement Contribution	4,574,492	(89,373)	4,485,119
Medicare Contrib Employer	194,015	3,918	197,933
Retiree Health	161,786	41,684	203,470
Employer 457 Contribution	-	98,850	98,850
Ins Prem Long Term Disability	65,471	1,350	66,821
Ins Prem Health	2,837,217	119,643	2,956,860
Ins Prem Dental/Vision	221,813	8,266	230,079
Ins Prem Life	22,342	471	22,813
Office Supplies	7,500	2,500	10,000
Supplies Other	136,500	(6,000)	130,500
Prof Temp Part Time	30,000	25,000	55,000
Prof Architectural/Eng	337,278	(79,000)	258,278
City Produced Events	548,500	10,000	558,500
Prof_other Admin Expense	4,288,340	(302,853)	3,985,487
Mileage Reimb	500	500	1,000
Conf Seminars Workshops	79,250	(1,500)	77,750
Committee Conferences	5,000	(5,000)	-
City Wide Training	122,340	35,000	157,340
Local Meetings	2,000	4,250	6,250
R/M Buildings	207,200	11,500	218,700
R/M Landscape Services	1,398,507	(25,000)	1,373,507
R/M Others	196,500	(5,000)	191,500
R/M Motor Vehicles	170,000	25,000	195,000
R/M Medians	1,732,888	(40,000)	1,692,888
R/M Sport Facilities	176,691	(10,000)	166,691
Utilities Water	17,000	10,500	27,500
Utilities Electric	455,000	111,000	566,000
Printing/Duplicating	9,000	(6,750)	2,250
Software License Fees	1,348,029	250,000	1,598,029
Country Admin Fees	70,000	(5,000)	65,000
Liability/Property Damage	1,144,000	(154,000)	990,000
Contrb Museum	40,000	40,000	80,000
Arbor Day	1,500	1,500	3,000
Holiday Decorations	96,400	(10,000)	86,400
Employee Safety	2,500	10,000	12,500
Entrad del Paseo	216,614	5,000	221,614
Capital Office Equipment	95,083	(56,500)	38,583
		<b>381,296</b>	

### Other Funds

Like the General Fund, the Other Governmental Funds require adjustments to 1) implement required technical/rebalancing actions to align existing revenue estimates and expenditure budgets with the most current tracking information, 2) reallocate funding among appropriations based on updated needs; and 3) implement a number of technical and net-zero adjustments between revenue categories and expenditure appropriations.



Other governmental funds include transportation, signalization, parks, drainage, fire facility fees, housing mitigation, art in public places, childcare facilities, grant funds, recycling, aquatic center, enterprise funds (including Desert Willow and Parkview Office Complex), capital improvement funds, internal service funds, debt service, assessment districts, landscape and lighting districts and housing authority funds. Estimated revenues for FY 2023-24 for Other Funds were approved at \$72,025,944 with an appropriation of \$146,913,035. The variance was to be covered by Fund Balance. Following staff's analysis, we anticipate an additional amount of \$2,161,266 to be

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covered by Fund Balance in Other Funds. Most of the net increase is related to the addition of SARDA budgets to the overall budget. In all prior years, the approved ROPS has served as the budget for SARDA.

	Original Budget	Mid-Year Adjustment Needed	Revised Mid-Year Budget	Appropriations from Reserve Thru 1/25/24	Total 2023/24 Appropriations
Other Funds Revenue	72,025,944	25,210,948	97,236,892		97,236,892
Anticipated Use of Fund Balance	74,887,091		74,887,091		74,887,091
Other Funds Appropriations	146,913,035	27,372,214	174,285,249		174,285,249
<b>Revised Other Fund Revenue Over/(Under) Expenditures</b>	<b>-</b>	<b>(2,161,266)</b>	<b>(2,161,266)</b>	<b>-</b>	<b>(2,161,266)</b>

Below is the breakdown of the adjustments being requested for Other Funds. Other adjustments are based on YTD Actuals.

Other Revenue:

OTHER FUNDS		Original Budget	Mid-Year Adjustment Request	Revised Budget Request
2340000 - Traffic Signals	3122500 - Signalization Fees	20,000	16,000	36,000
2370000 - Energy Independence Loan	3611500 - Int-Int Fr Loan/Notes Rec	-	1,200	1,200
2430000 - Cannabis Compliance Fund	3184200 - Cannabis Tax Sales	1,200,000	(300,000)	900,000
2430000 - Cannabis Compliance Fund	3184201 - Cannabis Tax Manufacturing	2,000	23,000	25,000
2430000 - Cannabis Compliance Fund	3184202 - Cannabis Tax Cultivation	8,000	500	8,500
2430000 - Cannabis Compliance Fund	3199900 - Cannabis Tax Delinq	-	1,200	1,200
2710000 - El Paseo Assessm District	3553000 - Special Assessment Levied	-	161,770	161,770
2770000 - Zone #1 Prs.Plaza/Parking	3553000 - Special Assessment Levied	-	38,000	38,000
4250000 - Economic Development Proj	3790000 - Miscellaneous Revenue	-	1,500	1,500
5100000 - PD Office Complex Ent Fd	3790000 - Miscellaneous Revenue	-	15,000	15,000
5200000 - Desert Willow Golf Course	3799900 - Misc Revenue-Others	-	12,000	12,000
7030000 - RDA Successor Agency	3171000 - Tax Increment-Consolidated	-	23,797,450	23,797,450
7030000 - RDA Successor Agency	3611400 - Int-On Inv Trustee Sp/Esc	-	10,000	10,000
8710000 - Palm Desert Housing Auth	3611400 - Int-On Inv Trustee Sp/Esc	20,000	445,000	465,000
8730000 - Housing Asset Fund	3611400 - Int-On Inv Trustee Sp/Esc	-	987,828	987,828
8730000 - Housing Asset Fund	3611500 - Int-Int Fr Loan/Notes Rec	-	500	500
			<b>25,210,948</b>	

Other Expenditures

The adjustments being requested below are also based on YTD Actuals and interest earnings. There is sufficient fund balance to cover the variance.

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OTHER FUNDS		Original Budget	Mid-Year Adjustment Request	Revised Budget Request
2114311 - Public Works -Street Resurfac	4332000 - Repair & Maintenance Streets	4,535,406	3,420,491	7,955,897
2134317 - Road Safety Improvements	5000908 - Road Safety Improvements	2,091,361	721,735	2,813,096
2134565 - Neighborhood Traffic Control	5000909 - Haystack Traffic Calming	940,211	668,665	1,608,876
2204649 - Palma Village Park	4400100 - Capital Project	212,000	100,000	312,000
2204800 - Other Classifications -Contrib		625,920	541,974	1,167,894
2304220 - Public Safety - Fire Services	4331000 - R/M-Buildings	326,141	(10,000)	316,141
2304220 - Public Safety - Fire Services	4351000 - Utilities-Water	10,000	5,000	15,000
2304220 - Public Safety - Fire Services	4351200 - Utilities-Gas	5,000	5,000	10,000
2364195 - General Government - Administr	4219000 - Supplies-Other	55,000	8,000	63,000
2364195 - General Government - Administr	42190000	55,000	8,000	63,000
2384195 - General Government - Administr	4390301 - Rideshare	1,000	1,000	2,000
2384515 - HW- Air Quality Management	4363000 - Dues	55,000	10,000	65,000
2424549 - HW- Aquatic Facility	4219000 - Supplies-Other	20,000	5,000	25,000
2424549 - HW- Aquatic Facility	4331100 - Replacement Expenditures	15,000	(5,000)	10,000
2424549 - HW- Aquatic Facility	4331101 - Contracted Pool Maintenance	258,582	(30,000)	228,582
2424549 - HW- Aquatic Facility	4351000 - Utilities-Water	40,000	(10,000)	30,000
2424549 - HW- Aquatic Facility	4351400 - Utilities-Electric	140,000	40,000	180,000
2524662 - Library Services	4112100 - Ins Prem - Health	150,000	145,870	295,870
2714491 - CD - Promotion Benefit AD	4321500 - Other Advertising	248,500	40,000	288,500
2714491 - CD - Promotion Benefit AD	4321500 - Other Advertising	248,500	40,000	288,500
2724374 - PW - Landscape & Lighting Dist	4351400 - Utilities-Electric	3,500	1,100	4,600
2734681 - CR- Landscape/Lght-Subzone B	4351400 - Utilities-Electric	966	700	1,666
2754683 - CR-Landscape/Lght-Subzone D	4332100 - Repair Maintenance	2,000	500	2,500
2764374 - Landscape & Light-Haystack&Cyn	4309500 - Prof-Palm Tree Trimming	18,000	1,000	19,000
2764374 - Landscape & Light-Haystack&Cyn	4332100 - Repair Maintenance	16,000	4,000	20,000
2774373 - PW - Parking Lot Improvements	4309103 - Prof-Parking Lot Sweeping	6,300	1,000	7,300
2864374 - Landscape & Light Crest Z15	4309500 - Prof-Palm Tree Trimming	1,638	250	1,888
4004430 - Economic Development Project	5000912 - Lupine Plaza	1,026,115	436,708	1,462,823
4204370 - Public Works - Drainage	5000454 - Haystack Channel Rehab	3,465,315	100,000	3,565,315
4254430 - Community Development - Busine	4369603 - CAM-SEARS BUILDING	-	36,847	36,847
4254430 - Community Development - Busine	4400100 - Capital Project	-	15,000	15,000
4504161 - General Government - R/M-City	4400100 - Capital Project	1,870,106	192,474	2,062,580
5304331 - Public Works -Auto Fleet/Equip	4344000 - Annual Lease Payment	210,223	8,718	218,941
7034121 - General Government - Legal Spe	4301500 - Prof - Legal	-	50,000	50,000
7034121 - General Government - Legal Spe	4374000 - Damage Settle/Deductible	2,188,208	139,674	2,327,882
7034195 - General Government - Administr	4302000 - Prof-Accounting/Auditing	3,590	15,000	18,590
7034195 - General Government - Administr	4309000 - Prof - Other	-	729,035	729,035
7034195 - General Government - Administr	4602300 - Debt Service 22 07M	-	1,639,631	1,639,631
7034195 - General Government - Administr	4605300 - Debt Service 52.390M	-	5,474,875	5,474,875
7034195 - General Government - Administr	4605400 - Debt Service 140.130M	-	12,052,400	12,052,400
7034195 - General Government - Administr	4605500 - Debt Service 7.365M	-	681,144	681,144
7034627 - Culture/Recreation - Rda Proje	4400100 - Capital Project	-	113,500	113,500
8704195 - General Government - Administr	4100100 - Salaries-Full Time	308,112	25,437	333,549
8704195 - General Government - Administr	4111500 - Retirement Contribution	57,371	(13,270)	44,101
8704195 - General Government - Administr	4111600 - Medicare Contrb-Employer	6,292	(1,455)	4,837
8704195 - General Government - Administr	4111700 - Retiree Health	7,742	(2,033)	5,709
8704195 - General Government - Administr	4111800 - Employer 457 Contribution	-	1,900	1,900
8704195 - General Government - Administr	4112000 - Ins Prem - Long Term Disab.	2,145	(495)	1,650
8704195 - General Government - Administr	4112100 - Ins Prem - Health	96,379	(36,505)	59,874
8704195 - General Government - Administr	4112200 - Ins Prem-Dental/Vision	6,510	(718)	5,792
8704195 - General Government - Administr	4112400 - Ins Prem - Life	521	62	583
			<b>27,372,214</b>	

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Finally, staff is also updating the staff allocation resolution in order to reflect changes made by the City Manager throughout the current fiscal year to meet City Council goals. Staff is requesting amendment to Section 1 of the resolution to facilitate such changes in a more flexible manner.

**Legal Review:**

This report has been reviewed by the City Attorney’s office.

**FINANCIAL IMPACT:**

<b>REVISED GENERAL FUND REVENUE AND EXPENDITURES</b>		<b>REVISED OTHER FUND REVENUE AND EXPENDITURES</b>	
Original General Fund Revenue Budget	75,554,467	Original Other Fund Revenue Budget	72,025,944
Requested Adjustments	2,420,853	Anticipated Use of Fund Balance	74,887,091
		Requested Adjustments	25,210,948
Revised General Fund Revenue	<b>77,975,320</b>	Revised Other Fund Revenue	<b>172,123,983</b>
Original General Fund Appropriations	75,353,985	Original Other Fund Appropriations	146,913,035
Requested Adjustments	381,296	Requested Adjustments	27,372,214
Revised General Fund Appropriations	<b>75,735,281</b>	Revised Other Fund Appropriations	<b>174,285,249</b>
Revised General fund Revenue Over/(Under) Expenditures	<b>2,240,039</b>	Revised Other fund Revenue Over/(Under) Expenditures	<b>(2,161,266)</b>

Pursuant to the Reserve Policy, any positive general fund balance at year end must be used to replenish funds expended during the prior fiscal year. Therefore, the estimated \$2.2M will be used to replenish the appropriations requests as needed throughout 2023-24 and applied to the appropriate General Fund reserve category.

**Attachments**

1. Resolution Approving 2023-24 Midyear Budget Adjustments
2. Resolution Approving Revised Staff Allocation
3. Exhibit A to Resolution – Revised Staff Allocation