



## City Council Agenda Item

**City Council Meeting Date:** June 20, 2023

**TO:** Dean Albro, City Manager

**FROM:** Christie Donnelly, Management Services Director  
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**SUBJECT:** Adoption of Resolution No. 6587(23) Adopting a Biennial Budget for Fiscal Years 2023-24 and 2024-25 and Capital Improvement Program for Fiscal Years 2023-24 to 2028-29; Introduction of Ordinance No. 1706(23) Amending Chapter 3.24 of the Municipal Code to Reference a Biennial Budget

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### **Recommendation:**

Staff recommends the City Council:

- 1) Adopt Resolution No. 6587(23) adopting the Biennial Budget Fiscal Years (FY) 2023-25 and Capital Improvement Program for Fiscal Years 2023-29, as described herein (Attachment 1); and
- 2) Introduce, for first reading by title only with further reading waived, Ordinance No. 1706(23) amending the Lompoc Municipal Code to reference a biennial budget (Attachment 2); or
- 3) Give alternate direction for the development of the annual budget.

### **Background:**

On January 16, 2023, staff presented the results of the FY 2022 Annual Comprehensive Finance Report (ACFR) to update the City Council on the current budget status. On March 16, 2023, during a special meeting for the first of three budget workshops, the City Council set its goals for FYs 2023-25 as follows:

- Develop and equip effective Public Safety;
- Enhance economic vitality;
- Ensure long-term fiscal health; and
- Improve quality of life.

On May 9, 2023, a special meeting was held for the second budget workshop for the purpose of reviewing operating expenses, program changes and expanded services for

the Biennial Budget FYs 2023-25. Staff presented a brief overview of the current changes in revenues compared to prior year actuals. The discussion also covered additional expenditure items proposed in the Biennial Budget FYs 2023-25.

On June 2, 2023, the City Council received an online link as well as a pdf electronic copy of the City's Draft Proposed Digital Budget Book for FYs 2023-25. The City Council also received a link and pdf electronic copy of the City's Draft FYs 2023-29 Capital Improvement Program (CIP) publication. Both publications were posted on the Management Services, Finance webpage.

On June 6, 2023, following the release of the draft budget and CIP publications, and during the third budget workshop, staff presented a review of several of the CIPs requested for FYs 2023-25. In addition, staff demonstrated the online Budget Book and its functionality. This provided City Council, staff, and all Lompoc residents two weeks to review both publications before the scheduled adoption during the June 20, 2023, meeting. On June 20, 2023, during the regular City Council meeting and prior to budget adoption, further discussion will be held for the Biennial Budget FYs 2023-25.

The proposed Biennial Budget FYs 2023-25 reflects General Fund surplus over both years of approximately \$88k. This would result in an approximate \$11 million projected fund balance for June 30, 2025. This positive fund balance takes into consideration key program changes and expanded services as reviewed in the May 9<sup>th</sup> budget workshop, implementation of the use of police body cameras, ongoing service costs of grant-provided police CAD/RMS upgrade, 14 necessary public safety and other fleet vehicle replacements, front-line breathing apparatus equipment for fire personnel; and repairs and remodels of multiple older City buildings that had been deferred in prior years. Total General Fund investment in CIPs totals approximately \$2M each fiscal year. It should be noted that while the General Fund is capable of funding this level of capital improvement projects in the current budget cycle, the funding used for those one-time expenditures is not expected to be available for use in future budget cycles due to the scheduled increases in CalPERS<sup>1</sup> unfunded liability required payments. The funding of these CIPs is in addition to regular operating expenditures including expanded personnel and services, participation in the Santa Barbara County regional fire dispatch program, maintaining and improving Lompoc Streets, and implementation of funding for future critical vehicle and equipment replacements.

## **Discussion:**

### **General Fund**

Revenues in the General Fund, for the Biennial Budget FYs 2023-25, are estimated to increase \$7.88 million or 22.4%, mainly attributed to higher than expected 1% transaction sales tax from measure I2020, as well as the continued growth of property tax revenues and the post-pandemic recovery of transient occupancy taxes (TOT). A

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<sup>1</sup> California Public Employees' Retirement System.

portion of the increase is also attributable to a modest increase in cannabis manufacturing taxes collected.

As a service-driven organization, salaries and benefits represent 64% of total General Fund expenses. In total, net positions in the General Fund increased by 1.75 compared with FYs 2021-23.

### Pensions

The City's pension costs continue to escalate due to circumstances beyond the City's control. CalPERS has taken several steps over the past few years that are intended to mitigate future impacts to cities even as they result in more significant near-term costs.

The city entered into a "fresh start" program with CalPERS in July 2020, which set the payment schedule for the unfunded accrued liability (UAL) at a fixed 15-year schedule versus the previous variable 30-year repayment schedule. The proposed Biennial Budget FYs 2023-25 takes increased CalPERS costs into account, however costs to the General Fund are anticipated to continue to increase approximately \$605k each year until FY 2028-29, and then approximately \$200k annually until FY 2033-34; so it is important to note that many one-time expenditures in FYs 2023-25 will not be funded in future years.

### Retiree Healthcare

In 2009, Lompoc moved away from the pay-as-you-go methodology and started to pre-fund its retiree healthcare. In January 2019, Lompoc switched health benefit providers, significantly reducing its liability for retiree healthcare from previous years. The funding status for the retiree healthcare program reached 100% in the FYs 2021-23 budget cycle, and is expected to remain at 90% or greater during FYs 2023-25. Funding status will fluctuate as investment returns impact discount rates.

### City-Wide Expenditures

The Biennial Budget FYs 2023-25 provides additional funding to complete the following:

- Electric Fund Rate Study;
- Wastewater Fund Rate Study;
- Capital Infrastructure Reviews for the Public Utilities; and
- Multiple Capital Improvement Projects as outlined in the CIP publication.

The proposed Biennial Budget FYs 2023-25 represents the efforts and best professional judgment of City staff in attempting to provide a plan to allow the City to meet the goals and priorities of the City Council.

Lompoc Municipal Code Amendment

Lompoc Municipal Code (LMC) Chapter 3.24.010 requires the City to be operated under an annual budget. Since FYs 1981-83, the City Council has chosen to adopt a biennial budget by resolution. Adoption of Ordinance No. 1705(23) (Attachment 2) will update the LMC to be consistent with past practices and allow the City to continue to adopt biennial budgets in the future.

**Fiscal Impact:**

This report presents a Biennial Budget FYs 2023-25 for the City Council to review and, if the City Council wishes, adopt.

**Conclusion:**

June 30, 2023, is the end of Biennial Budget FYs 2021-23. No funds have been allocated for operation of the City past that date. The City Council may choose to either adopt the Biennial Budget FYs 2023-25 by adopting Resolution No. 6587(23), or provide alternate direction.

Respectfully submitted,

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Christie Donnelly, Management Services Director

**APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:**

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Dean Albro, City Manager

Attachments: 1) Resolution No. 6587(23)  
2) Ordinance No. 1706(23)