



City of Gainesville Agenda Item Report

File Number: 2023-860

Agenda Date: September 7, 2023

Department: Office of Management and Budget

Title: 2023-860 Adoption of the Tentative FY23-24 Budget Resolution and FY23-24 Financial and Operating Plan (B)

Department: Office of Management and Budget

Description: Resolution No. 2023-860: A Resolution of the City Commission of the City of Gainesville, Florida; relating to its General Government Budget for the 2023-2024 fiscal year beginning October 1, 2023 and ending September 30, 2024; adopting the Final General Government Financial and Operating Plan Budget; and providing an immediate effective date.

Fiscal Note: The proposed FY 2024 Tentative Financial and Operating Plan totals \$455,442,748 and is, as required by Florida Statutes, a balanced Budget. The proposed FY 2024 Tentative and Operating Financial Plan includes the budgets for the General, Special Revenue, Debt Service, Capital, Proprietary, and Fiduciary funds. The authorized position level for FY 2024 is 1,496.0 FTEs across all funds.

Explanation: As outlined in the companion agenda item #2023-858 Tentative Millage Rate for Fiscal Year 2023 - 2024, Florida Statutes Section 200.065 specifies the manner in which budgets are adopted. First, the final millage rate for general operating is adopted, then immediately thereafter, the final budgets are adopted. The attached Resolution that presents the tentative budget for the General, Special Revenue, Debt Service, Capital, Proprietary and Fiduciary Funds for Fiscal Year 2023- 2024 is, therefore, presented to you at this time for adoption.

Fiscal Year 2024 Budget Drivers

The City of Gainesville's FY 2024 Budget Development process began in January 2023 when the City Commission approved the upcoming fiscal year's budget development calendar. This traditional action included scheduling General Government budget workshops to review revenue and expenditure estimates with the City Commission ahead of setting the maximum millage rate for FY 2024 in July 2023 and the two statutorily required public hearings in September.

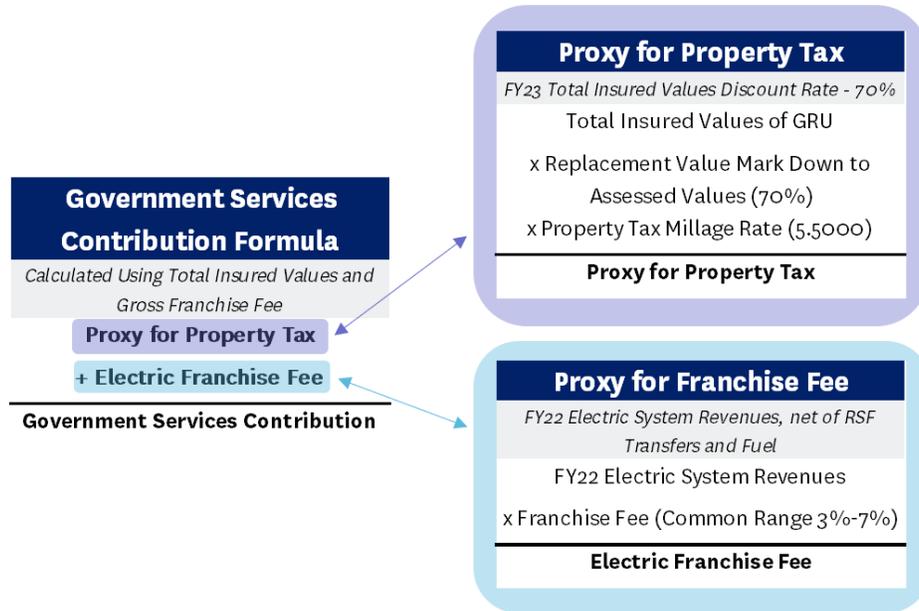
Concurrent to the development of the upcoming fiscal year budget calendar, General Government was addressing stabilization of its financial operations and reporting. Three separate audit reports indicated significant improvements were needed in this area: 1) the most recent completed external audit at the time issued on April 15, 2021 for Fiscal Year 2020 (period ended September 30, 2023), the State of Florida Auditor General Operational Audit Report and the City's Internal Auditor Report on General Government's Internal Control Over Financial Reporting which were issued in January 2022.

Further, General Government was still working to resolve issues with its new Enterprise Resource Planning system, Workday, which was implemented in July 2021, and came with its own set of operational and reporting challenges. More importantly, as a new budget was being developed, the City's fund balances and net position were outdated as the annual audit for Fiscal Year 2021 was not yet completed.

Due to these factors, direction was also given by the City Commission in January 2023 for staff to plan and present a one-year budget, not a two-year plan, for Fiscal Year 2024 with the goal to have completed the Fiscal Year 2021 and Fiscal Year 2022 external audits by December 30, 2022 and June 30, 2023, respectively. This would allow for up-to-date status of the City's financial position prior to the adoption of a new budget in September and an opportunity to focus attention on resolving audit findings from both the external auditor and the Auditor General. In addition, staff planned a thorough review of revenues and expenditures for areas of growth and efficiency across all City programs and services.

In February 2023, the City of Gainesville was asked to present before the State of Florida Joint Legislative Auditing Committee (JLAC) on its progress towards addressing the State of Florida Auditor General Operational Audit and addressing repeat audit findings from the external audit. At this meeting, the JLAC expressed concerns over GRU's high debt burden and the General Fund Transfer from GRU to General Government, and the Mayor and Management were asked to return to JLAC with bold actions to continue addressing the General Fund Transfer level and other issues.

Acting immediately upon this request, the City Commission on April 13, 2023 addressed the JLAC's concern with the General Fund Transfer by approving a new Government Services Contribution based on a formula recommended by staff from both General Government and GRU. The new formula-based methodology, shown below, replaced the previously approved multi-year reduction and is calculated using a proxy for property tax and an electric franchise fee.



The new Government Services Contribution would lower the transfer to \$15.3 million in Fiscal Year 2024, a reduction of 55.4% from the FY 2023 Adopted General Fund Transfer of \$34.3 million. This action created an immediate deficit starting position for FY 2024 revenues and significantly impacted the budget development process already underway.

Resetting General Government’s Financial and Operating Plan

On July 1, 2023, HB 1645 became law, paving the way for the Governor to appoint five members to the newly created Gainesville Regional Utilities Authority to operate and control the utilities without oversight from the City Commission.

An initial analysis was conducted that would guide the direction of shared services of GRU and General Government. Staff is actively looking at new service level agreements and changes in business operations, and are examining how these modifications will impact staff who serve both sides of City operations, including Human Resources, Technology, and Government Affairs and Community Relations.

In the midst of these historic changes, we entered a budget season unlike any other. To chart a path forward, department leaders were asked to focus on defining their core services – the work that is the mission of the department. The cost of delivering those services would become the foundation for moving forward. At that point, General Government initiated a strategic hiring freeze, a strategic spending freeze, and introduced the zero-based budget approach.

The goal of zero-based budgeting is to move away from the incremental method, which uses the previous year’s budget as the starting point, to instead begin building from the ground up. With past spending patterns pushed aside, staff set out to assemble a Fiscal Year 2024 budget that emphasized core services and eliminated unnecessary

spending. Departments provided budget proposals in two phases, first with 10% decrements and then with 20% decrements.

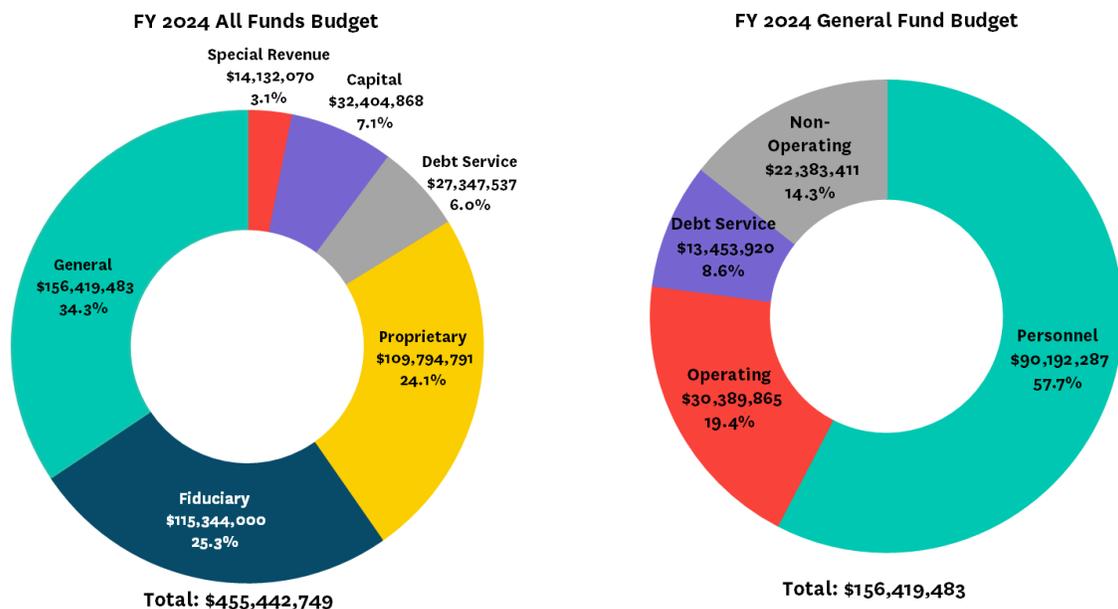
With the creation of a Continuous Improvement Review Committee (CIRC), we had a team to scrutinize those proposed budgets and determine if they met the goal of reducing costs while continuing to deliver the City’s core services and programs. At this stage, the CIRC members also assisted in identifying key areas where realignments could bring new efficiencies and savings.

The final step in resetting General Government’s Financial and Operating Plan involved a thorough assessment of the City’s available revenue sources. A team comprised of members from the Department of Financial Services, the Office of Management and Budget and the Office of the City Manager was established to pore over the finer points of local property taxes, fire assessments, intergovernmental contributions and all other available revenue streams.

The Fiscal Year 2024 budget was intentionally developed via thorough analysis of revenues and expenditures in order to right size General Government operations and secure a more solid footing as we enter the new fiscal year.

Proposed Tentative Financial and Operating Plan

The FY 2024 Proposed Budget for All Funds is \$455,442,748 including balances and transfers. The FY 2024 Proposed Budget for All Funds is \$10.6 million or 2.4% higher than the FY 2023 Adopted Budget of \$444,837,222. The FY 2024 Proposed General Fund Budget is \$156,419,483 including balances and transfers. The FY 2024 Proposed General Fund Budget is \$2.1 million or 1.3% higher than the FY 2023 Adopted Budget of \$154,356,686.



As shown in the following table, the FY 2024 Proposed Budget reflects an adjustment in revenue structure for the General Fund, primarily driven by the shift to a formula based GSC approved by the City Commission, which reduced General Fund revenue by \$18.9 million in FY 2024.

Revenues	FY22		FY23	% of FY23	FY24 Proposed	% of FY24	\$ Change	% Change
	Actual	Adopted Budget	Budget	Budget	Budget	Budget	vs. FY23	vs. FY23
Property Taxes	\$ 42,573,635	\$ 47,492,732	30.8%	\$ 62,878,409	40.2%	\$ 15,385,677	32.4%	
Other Taxes	\$ 20,755,618	\$ 21,176,773	13.7%	\$ 22,140,428	14.2%	\$ 963,655	4.6%	
Fire Assessment	\$ 8,973,277	\$ 9,385,729	6.1%	\$ 12,297,476	7.9%	\$ 2,911,747	31.0%	
Miscellaneous Permits	\$ 1,206,629	\$ 1,330,399	0.9%	\$ 111,661	0.1%	\$ (1,218,738)	(91.6%)	
Intergovernmental	\$ 18,952,335	\$ 18,425,830	11.9%	\$ 20,956,078	13.4%	\$ 2,530,248	13.7%	
Charges for Services	\$ 15,575,769	\$ 15,419,045	10.0%	\$ 17,492,570	11.2%	\$ 2,073,525	13.4%	
Fines & Forfeitures	\$ 490,646	\$ 903,184	0.6%	\$ 684,585	0.4%	\$ (218,599)	(24.2%)	
Miscellaneous Revenue	\$ 3,906,454	\$ 1,420,818	0.9%	\$ 2,670,305	1.7%	\$ 1,249,487	87.9%	
Transfers In From Other Funds	\$ 2,523,472	\$ 4,519,176	2.9%	\$ 1,882,747	1.2%	\$ (2,636,429)	(58.3%)	
Government Services Contribution (GSC/GFT)	\$ 36,283,000	\$ 34,283,000	22.2%	\$ 15,305,224	9.8%	\$ (18,977,776)	(55.4%)	
Fund Balance	\$ -	\$ -	0.0%	\$ -	0.0%	\$ -	N/A	
Total General Fund Revenue	\$ 151,240,835	\$ 154,356,686		\$ 156,419,483		\$ 2,062,797	1.3%	

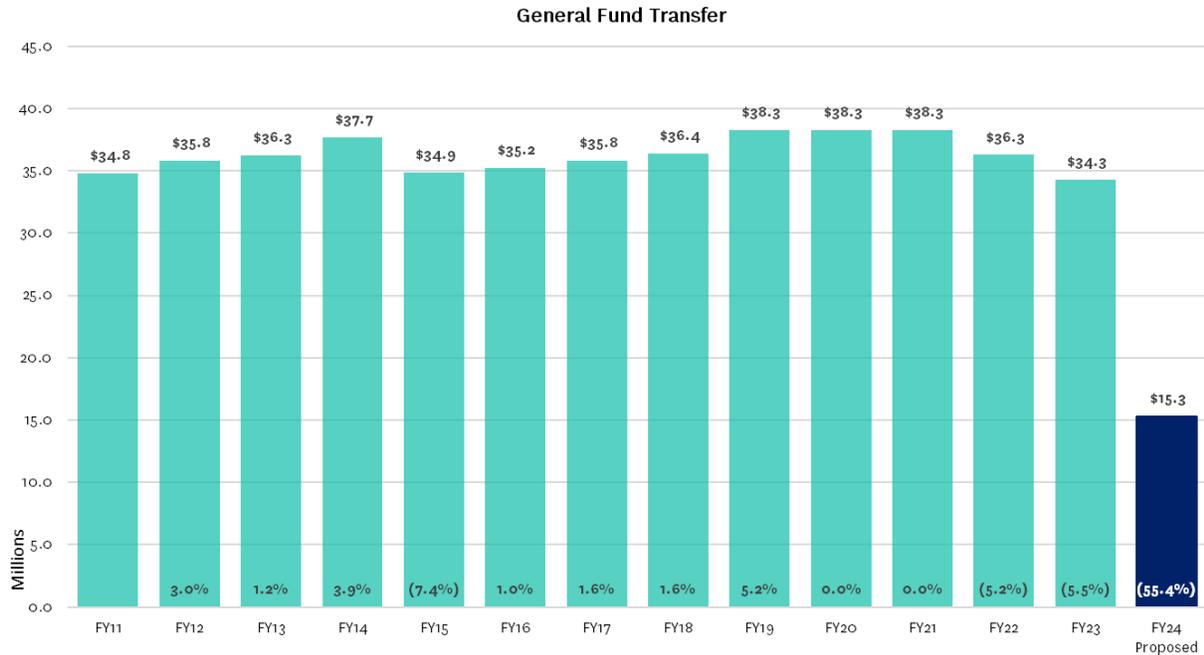
The following table presents the FY 2024 Proposed General Fund Expenditure Budget, which is \$156.4 million, \$2.1 million or 1.3% higher than the FY 2023 Adopted Budget. FY 2024 budget reflects:

- Right sized budgets for Police and Fire for overtime expenditures as well as expenses for Union negotiated salary increases.
- Core service focused budget for all departments after a zero-based and 20% decrement exercise.
- Addition of the one-time \$1 million transfer to the Regional Transit System from the General Fund (Local Option Gas Tax) presented at August 21st Budget Workshop.
- \$1.3 million personnel and operating contingency.
- \$250,000 for At-Risk Youth Program seed funding.
- \$150,000 for Gun Violence Prevention programming.

General Fund Expenditures by Department	FY22 Actual	FY23 Adopted	FY24 Proposed	\$ Change vs. FY23 Budget	% Change vs. FY23 Budget
City Attorney	1,541,230	1,606,060	1,633,410	27,350	1.7%
City Auditor	837,854	932,781	909,639	(23,142)	(2.5%)
City Manager's Office	1,854,118	2,091,943	1,664,859	(427,084)	(20.4%)
City Clerk	1,506,228	1,520,449	1,293,628	(226,821)	(14.9%)
City Commission	470,988	490,582	475,360	(15,222)	(3.1%)
Communications and Marketing	976,446	1,127,547	1,012,582	(114,965)	(10.2%)
Equity & Inclusion	1,078,008	1,633,193	1,545,651	(87,542)	(5.4%)
Financial Services	3,513,468	3,788,551	3,921,907	133,356	3.5%
Fire Rescue	20,834,937	22,267,857	27,956,134	5,688,277	25.5%
Housing and Community Development	310,193	304,032	474,153	170,121	56.0%
Human Resources	2,046,863	3,093,822	2,351,593	(742,229)	(24.0%)
Management and Budget	0	2,326,383	1,289,370	(1,037,013)	(44.6%)
Non-Departmental	36,180,922	33,436,845	31,692,011	(1,744,834)	(5.2%)
Parks, Recreation and Cultural Affairs	11,552,522	13,992,413	11,811,736	(2,180,677)	(15.6%)
Police	35,698,524	39,281,087	41,301,910	2,020,823	5.1%
Public Works	13,566,980	15,499,621	17,120,730	1,621,109	10.5%
Risk Management	251,629	228,847	162,827	(66,020)	(28.8%)
Strategy, Planning and Innovation	2,663,698	N/A	N/A	N/A	N/A
Sustainable Development	4,173,610	4,328,740	3,445,996	(882,744)	(20.4%)
Technology	2,215,057	2,292,879	5,009,486	2,716,607	118.5%
Transportation	3,695,637	4,113,053	1,346,501	(2,766,552)	(67.3%)
Total	144,968,910	154,356,686	156,419,483	2,062,797	1.3%

Government Services Contribution (formerly General Fund Transfer)

In FY 2022, in response to concerns about the level of the General Fund Transfer from Gainesville Regional Utilities to General Government, the City Commission approved the first of a multi-year reduction in the transfer amount. The General Fund Transfer for FY 2022 was budgeted at \$36,283,000 and was forecasted to be reduced by \$2 million every fiscal year through FY 2027. In response to requests from JLAC, the City Commission approved a formula based Government Services Contribution in April 2023. The new Government Services Contribution reduced the General Fund Transfer from \$34.3 million in FY 2023 to \$15.3 million in FY 2024, and this revenue category went from being the second largest revenue source for General Government to being the fifth largest. This change represents a 55.4% decrease in revenue year over year. As shown in the following table, the FY 2024 Government Services Contribution is the lowest it has been in more than a decade and this is the largest reduction implemented since FY 2015.

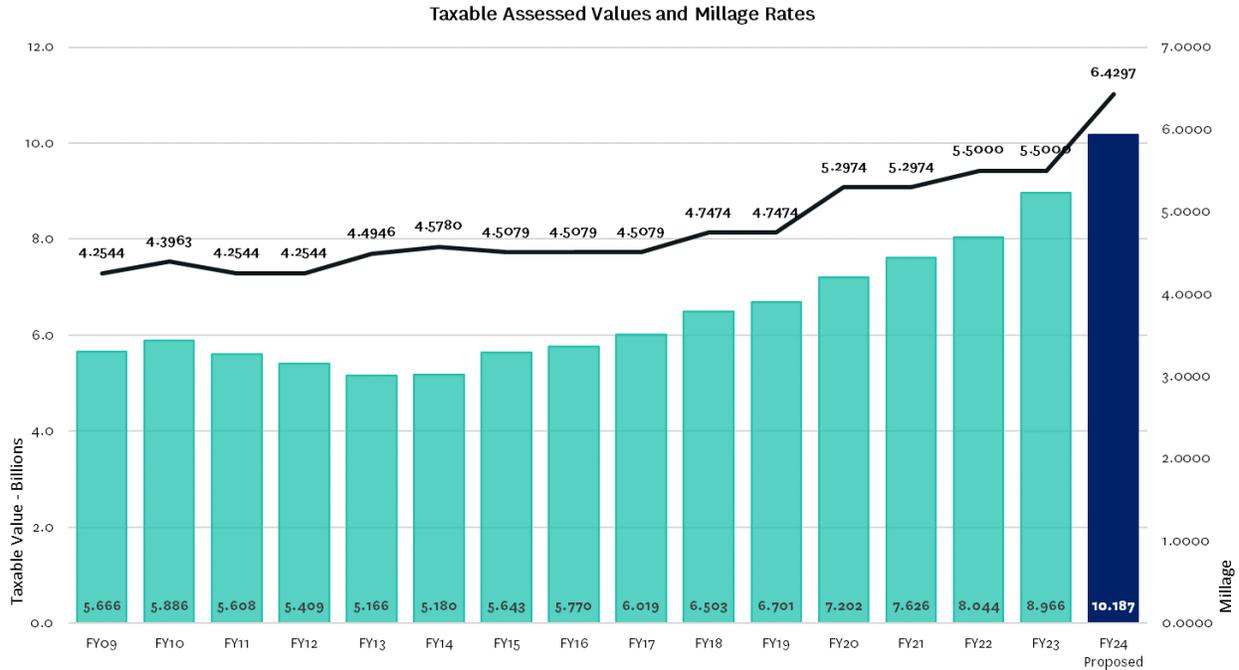


Property Tax Values

The taxable valuation for the City of Gainesville for tax year 2023 (as of July 1st), for which the proposed FY 2024 budget is based on, is \$10,186,842,781 and represents an 13.6% increase over the tax year 2022 final valuation of \$8,965,992,444. This is the eleventh year in a row where the City has experienced growth in its taxable value. New construction assessed value for the tax year 2023 totaled \$277,383,518, an increase over the new construction value of \$207,659,249 over tax year 2022.

Millage Rate

The FY 2024 Proposed Budget increases the millage rate to 6.4297 mills from 5.5000 mills. The increase in property values and millage rate is projected to generate an additional \$15.4 million in property tax revenue in FY 2024. Property tax revenue represents 40.2% of the General Fund revenues. The following table provides a historical overview of property tax valuations and corresponding millage rates for the City. After years of declining property valuations, FY 2015 reversed the trend and property tax values have grown by \$4.5 billion or 80.5% since.



Fire Assessment

The FY 2024 Proposed Budget reflects an updated fire assessment methodology based on historical demand approved by the City Commission on June 15, 2023, which recoups 51.68% of the assessable Fire services budget. The Fire Assessment is estimated to generate \$12.3 million in revenue, an increase of \$2.9 million or 31.0% over the FY 2023 Adopted Budget.

Position Levels

The FY 2024 Proposed Budget funds 1,496.0 FTEs across General Government. The FY 2024 Proposed Budget eliminates 125.5 full-time positions. The total value of all eliminated positions is estimated to be \$8.3 million.

The following table provides the list of eliminated positions by Department.

Department	FTE	Department	FTE
City Attorney	1	Office of Equity & Inclusion	1
City Auditor	1	Office of Management & Budget	5
City Clerk	2	Parks, Recreation & Cultural Affairs	9
City Manager	5	Police	3
Communications & Marketing	1.5	Public Works	10
Fire Rescue	1	Risk Management	1.5
Human Resources	4	Sustainable Development	17
Juvenile Justice & Community Support Programs	20.5	Transportation	43

Of the 125.5 positions, 82.7 FTEs are funded by the General Fund. This includes the 12.0 FTE affected by the closure of Gainesville’s rental unit inspection program due to State Legislation (HB 1417) that went into effect on July 1, 2023 that prohibits local municipalities from regulating any aspect of the residential rental tenancy law. Outside of the General Fund, 42.8 FTEs are proposed for elimination; of those, 40.0 FTEs are paid for by the Regional Transit System (RTS) Fund and no longer needed due scaled back services, as public transit ridership has not bounced back since the COVID-19 pandemic.

The remaining positions are vacant. These vacant positions exist in large part due to a strategic hiring freeze initiated by the City Manager in early March, when the City Commission first committed to make bold moves to reduce utility debt. Over the past six months, many existing vacancies have stayed unfilled and new ones have accumulated. In this way, the City has saved money on recruitment, candidate-screening costs, salaries and benefits. These intentional vacancies also made it possible to propose cutting a larger number of positions without affecting employees in filled positions.

However, some people are impacted. To help them transition, the City Manager empaneled a Pipeline Committee managed by the Department of Human Resources. Its mission is to match staffers in eliminated roles with essential jobs slated to continue through the next fiscal year. This Pipeline Committee reports a 75% success rate assisting staff with finding new jobs, including placing all twelve rental inspectors in new roles within the City.

Fund Balance

The fund balance in the General Fund provides a measure of the financial resources available for future spending or appropriation. These funds should be adequate to support potential unanticipated costs, like natural disasters, pandemics and emergency repairs to City infrastructure. Additionally, a Fund Balance Policy provides for a stable financial environment that allows the City to provide quality services to its neighbors in a fiscally responsible manner. The FY 2024 Proposed Budget **does not** include the use of General Fund fund balance. Based on the most recent completed annual audit for the period ended September 30, 2022 (Fiscal Year 2022), the City has \$31.3 million in unassigned fund balance which meets and exceeds the minimum Fund Balance Policy reserve requirement of two months of operating expenditures.

Requirements		
Emergency Fund Level:	0.015%	of TAV (per Fund Balance Policy adopted Sept. 2021)
Minimum Fund Balance:	16.7%	of following fiscal year's operating expenditures
Maximum Fund Balance:	25.0%	of following fiscal year's operating expenditures

Fiscal Year	TAV (July 1, 2023)	Expenditures	Unassigned Fund Balance	Emergency Fund Level	Emergency Fund Level Met?	Minimum Fund Balance Requirement	Minimum Fund Balance Requirement Met?	Maximum Fund Balance Requirement	Maximum Fund Balance Requirement Exceeded?	Available to Appropriation
2024 (Proposed)	\$10,186,842,781	\$156,419,483	\$31,318,476	\$1,528,026	Yes	\$26,122,054	Yes	\$39,104,871	No	\$0
								Amount needed to meet maximum requirement:	\$7,786,395	
								Amount over minimum requirement:	\$5,196,422	

Compliance with Florida Statutes

In accordance with Florida Statutes, the FY 2024 Tentative Financial and Operating Plan is a balanced budget where projected revenues equal estimated expenditures.

The FY 2024 Tentative Financial and Operating Plan is hereby presented to City Commission at the first public hearing on September 7, 2023.

Strategic Connection:

- Goal 1: Equitable Community
- Goal 2: More Sustainable Community
- Goal 3: A Great Place to Live and Experience
- Goal 4: Resilient Local Economy
- Goal 5: “Best in Class” Neighbor Services

Recommendation: The City Commission adopt the proposed resolution and the Financial and Operating Plan.