

# ATTACHMENT 1



# Transmittal Letter for the 2023-2025 Operating Budget

Debra Rose, City Manager

June 20, 2023

Staff is pleased to present a balanced two-year operating budget consistent with the overall priorities of the community. The budget is a resource allocation document that serves as the financial plan for the City of Lake Forest, providing policy direction in the areas of desired service level and funding priorities.

Staff presents a proposed budget to the City Council on a biennial basis to be adopted in odd number years preceding the commencement of the two-year budget cycle. Per the City's Financial Management and Budgetary Policy (Policy), the long-range fiscal perspective includes the development of a two-year Operating Budget, a seven-year Capital Improvement Plan, and a Master Financial Plan (MFP) with a seven-year Financial Forecast.

The above-described financial planning documents are prepared to ensure the City's financial integrity and strong financial condition. In developing these documents, staff ensured continual adherence to the Policy to preserve the City's long-term, conservative financial vision. Overall, the financial planning documents and execution of the Strategic Plan initiatives will reinforce the City's financial integrity, safeguard its assets, and ensure the provision of services that address community priorities.

## 2023-2025 Operating Budget Overview

The City of Lake Forest 2023-2025 Operating Budget maintains municipal services at current levels. Total revenues are projected to be \$77.1 million in Fiscal Year 2023-24 and \$78.3 million in Fiscal Year 2024-25. Total expenditures are projected to be \$76.5 million in Fiscal Year 2023-24 and \$74.2 million in Fiscal Year 2024-25. The budget is comprised of the General Fund, Special Revenue Funds, and Capital Projects Funds. The table below summarizes the budgeted expenditures by fund type.

### Summary of Fiscal Year 2023-24 Budgeted Expenditures by Fund

	Operating Budget (in millions)	Capital Budget (in millions)	Total (in millions)	% of Total
General Fund	\$ 59.6	\$ 3.1	\$ 62.7	82 %
Special Revenue Funds	\$ 4.3	\$ 4.8	\$ 9.1	12 %
Capital Projects Funds	\$ 0.0	\$ 4.7	\$ 4.7	6 %
Total	\$ 63.9	\$ 12.6	\$ 76.5	100 %

### Summary of Fiscal Year 2024-25 Budgeted Expenditures by Fund

	Operating Budget (in millions)	Capital Budget (in millions)	Total (in millions)	% of Total
General Fund	\$ 60.8	\$ 3.3	\$ 64.1	86 %
Special Revenue Funds	\$ 3.7	\$ 6.3	\$ 10.0	13 %
Capital Projects Funds	\$ 0.1	\$ 0.0	\$ 0.1	1 %
Total	\$ 64.6	\$ 9.6	\$ 74.2	100 %

## 2021-2023 Review

Due to prudent management of operating funds, the City continued to make significant strides in delivering several important projects. The City's Strategic Business Plan (Strategic Plan) serves as the primary driver for the prioritization of projects and integrates the vision of the community, anticipated needs of the City, and leadership of elected officials. The 2021-2028 Strategic Plan was approved on June 15, 2021. The Strategic Plan was developed through a comprehensive public engagement process that included residents, each commission, and the City Council. This engagement was carried out throughout the course of the 2021-2023 budget development process and informed budgetary decisions and priorities in the biennial budget. During the development process for each biennial budget, the Strategic Plan is revisited and updated to account for accomplished initiatives, updated priorities, and new initiatives identified through the comprehensive public engagement process.

The 2021-2028 Strategic Plan includes three major goals and 66 initiatives categorized under each of the three major goals. Each initiative facilitates progress towards one of the three Strategic Plan goals and helps identify the advances in the pursuit of these goals. For each of the three major goals, the City has completed and made significant progress on the Strategic Plan initiatives in 2021-2023. Some highlights for 2021-2023 include the following listed completed initiatives.

### Goal A - Our livable City is well-planned, attractive, and safe.

The City prioritized Goal A by improving residents' experience and interactions with the City and updating design standards and policies to reflect best practices and comply with state mandates. The City accomplished significant progress and continued investment in the well-planned projects and initiatives included in the 2021-2028 Capital Improvement Plan including park renovations at seven of the City's neighborhood parks, City-wide sidewalk improvements, and five traffic improvement projects. Additionally, the City invested in Automatic License Plate Reader System Cameras and an AM radio station to improve safety and methods of communication during emergency events and other incidents. Following the COVID-19 pandemic and the two wildfires in fall and winter 2020, improved education initiatives and emergency preparedness training remained top of mind for the City. In 2021-2023, the City continued to prioritize improving neighborhood conditions and retaining high quality shops and restaurants to complement the City's attractive housing communities. Through its various resident outreach initiatives and investment in city infrastructure and amenities, the City continues to position itself as an attractive and safe community in which residents can live, work, play, shop, and dine.

Notable accomplished initiatives under Goal A include:

- Achieved substantial progress on the Lake Forest Transportation Mitigation Program, Meadows Traffic Mitigation Program, Foothill Circulation Phasing Plan by completing infrastructure projects that increase mobility and reduce congestion.
- Achieved substantial progress on new traffic and mobility projects implementing new approaches to traffic circulation and on traffic signal synchronization projects to improve traffic flow.
- Achieved substantial progress in projects with the objective of maintaining "Good" pavement condition of the City's roads and improving traffic safety through the installation of raised arterial medians.
- Procured and implemented parking permit system services to facilitate the issuing of parking permits and improve the resident experience.
- Updated design standards and development requirements to implement Mixed-Use land designations.
- Completed the Housing Element of the General Plan, providing an analysis of housing needs.
- Developed SB 1383 compliant mandatory food waste and commercial recycling program, providing organic waste collection services for all residents and businesses, conducting public outreach, and implementing additional policies and programs to facilitate compliance.
- Developed a public engagement plan related to the National CORE Mountain View affordable housing development.
- Developed a funding program to assist restaurants with economic recovery following the COVID-19 pandemic.
- Launched an interdepartmental task force to address neighborhood concerns identified in the January 2021 Community Satisfaction Survey.
- Achieved substantial progress in improvements to the Arbor Mini Parks and completing park enhancement projects throughout the City to continue to provide high quality park facilities for the community.
- Completed comprehensive assessment of lighting at City facilities to determine if LED retrofitting could provide cost savings and increase light coverage.
- Implemented an engagement plan for Community Choice Aggregation to determine interest in pursuing this energy option, leading to in-depth discussions and a community-driven decision.
- Launched Community Center Craft show and Art Fair.
- Expanded the use of City's Automatic License Plate Reader System Cameras to improve safety.
- Continued and improved public education and crime prevention initiatives, such as "Stay Safe Lake Forest", the Neighborhood Watch program, and the Business Watch program.
- Updated and launched the Lake Forest Leadership Academy.
- Established an AM radio station to communicate with residents during emergency events.
- Procured consultant services and produced a new comprehensive emergency management plan.

## Goal B - Our connected City is engaged, informed, and technologically current.

Major accomplishments under Goal B include leveraging new technologies to update various business processes and digitizing resources to better keep the community connected and optimize operations. In addition to several updates to the City's communication modalities and community events, the city continues to gather community feedback and prioritize resident engagement via initiatives like the Community Satisfaction survey and the Lake Forest Citizens' Leadership Academy program. Through the process of modernizing the City's financial management and accounting system, the City transitioned its accounting and budgeting structures to a program-based budget. As demonstrated in the proposed 2023-2025 Operating Budget for the first time, a program-based budget organizes budget allocations and priorities by programs to illustrate the types of services and initiatives prioritized by the community and to easily see how many resources are dedicated to each program. Additionally, the City leveraged technology to gather data from city assets to create an inventory of the city's assets and begin planning for the City's future needs. The City's procurement and implementation of a new electronic document management system aims to improve current and future accessibility to City records. New technologies play a role in keeping residents connected to City services and in improving internal operations to overall improve services provided by the City.

Notable accomplished initiatives under Goal B include:

- Launched a new City Website.
- Hosted 2021 Fourth of July Fireworks Show and reinstated the Summer Concert Series.
- Launched Lake Forest TV and developed content to increase opportunities for residents to learn about the City's decision-making processes.
- Formed a Performing Arts Center Advisory Committee to advise the Community Services Commission, and build upon the use of the City's Performing Arts Center.
- Engaged the community and completed the redistricting process based upon the 2020 U.S. Census.
- Broadcast city commission meetings on LFTV, enabling residents to view proceedings on COX Channel 851
- Expanded the "Pop Up" City Hall events and promoted these regularly scheduled events in the Leaflet to increase resident outreach and participation.
- Conducted biennial Community Satisfaction Survey and utilized new technologies to perform ad hoc community surveys.
- Developed graduate, continuing studies version of the Lake Forest Citizens' Leadership Academy to promote continued engagement among academy participants.
- Completed an inventory and condition assessment of city-owned assets as a precursor to the development, adoption, and implementation of an Asset Management Plan.
- Procured and implemented a financial management system (ERP) to modernize financial practices.
- Procured and began implementing a new electronic document retention system to increase public access to City records.

## Goal C - Our healthy City government is sustainable and well-run with committed people.

Long-range planning and financial sustainability have been hallmarks of the City's prudent management of funds, previous growth, and latest accomplishments. Goal C reflects the continued prioritization of long-range planning and sustainability. In addition to prioritizing fiscally responsible policies such as an annual review of services that obligate at least 1% of the General Fund budget. The City also completed a comprehensive update to its purchasing and records retention policies. Updates to these guidelines incorporate the latest best practices, meet state and federal standards, and ensure fairness in city operations. The City also successfully implemented initiatives geared towards the attraction and retention of skilled and committed staff. These initiatives included the implementation of a telecommuting policy, the launch of an employee retention program, marketing efforts to recruit staff, and the completion of the City's biennial classification and compensation study. City efforts to plan for future staffing needs is a key component to planning for the long term and maintaining a practice of prudent management in a fast-changing social and economic environment.

Notable accomplished initiatives under Goal C include:

- Initiated an annual review of services that obligate at least 1% of the General Fund budget, analyzing major programs and managing future costs.
- Allocated federal funds provided through the American Rescue Plan Act (ARPA).
- Completed a comprehensive update to the City's Purchasing Policies and increased staff training to improve the management of contract services.
- Modernized the City's document retention policies and timelines.
- Implemented telecommuting policy with a performance measurement framework.
- Launched "THRIVE", an employee retention program, and an employee satisfaction survey in an effort to develop and retain skilled and committed staff.
- Produced "Join Team Lake Forest" recruitment video and campaign to market Lake Forest as an innovative and high-quality employer.
- Developed comprehensive succession plan that includes training, academy courses, and job shadowing.
- Implemented biennial classification and compensation study to assess the staffing needs of the organization and meet staffing needs with competitive compensation plans.

We are pleased to highlight these few programs and projects conducted during Fiscal Years 2021-2022 and 2022-23. As we close the City's first biennial budget term, staff is proud and pleased to share all of the accomplishments and high-quality services provided in 2021-2023 and looks forward to the future goals outlined in each of the program summaries under the Program Financial Summaries section of the budget.

# 2023-2025 Operating Budget

The City will continue its fiscally conservative approach to budgeting ongoing operations and capital improvement projects.

## Revenues

Total revenues for all funds are projected to be \$77.1 million for FY 2023-24 and \$78.3 million for FY 2024-25. General Fund revenue is projected to be \$63.3 million in FY 2023-24 and \$65.3 million in FY 2024-25, of which 80% is comprised of property, sales and use, and transient occupancy tax revenue. Property tax revenue is expected to grow 5% and 6% in FY 2023-24 and FY 2024-25 respectively. Sales and use tax revenue is expected to grow 4% in FY 2023-24 and 2% in FY 2024-25. Projections for both revenue sources are based on consultant projections. Transient occupancy tax (TOT) revenue is expected to increase by 22% in FY 2023-24, with estimates based on current TOT receipts in FY 2022-23, and 2% in FY 2024-25. Staff believes these revenue projections utilize the best available information and represent a reasonable, yet cautious estimate. Revenues may be realized at higher or lower values and will be closely monitored during the fiscal year and adjustments will be proposed as necessary.

For a more detailed discussion of the revenue received by the City, projections, and assumptions, as well as individual estimates by category and fund, please see the Summary of Financial Reserve Funds, Risk Reserve Analysis, and the Master Financial Plan section of this budget document.

## Expenditures

The proposed 2023-2025 Operating Budget includes budgeted operating expenditures and funding for the Capital Improvement Plan (CIP) projects in Fiscal Year 2023-2024 (FY 2023-24) and Fiscal Year 2024-25 (FY 2024-25).

### Operating Expenditures

The proposed operating budget for all funds is \$59.6 million in FY 2023-24. Overall, the proposed FY 2023-24 budget for operating expenditures includes an increase of \$3.6 million, or 6.4% over the FY 2022-23 amended budget. This increase is in part driven by increases in contractual services, an increase in the City's law enforcement contract, and increases in total personnel costs. Contractual services are expected to increase \$1.3 million, or 6% in FY 2023-24 over the FY 2022-23 amended operating budget. This is largely due to increasing rates and rising contract costs for ongoing services. Contractual services account for 39% of total General Fund expenditures in FY 2023-24. The City's law enforcement contract with the Orange County Sheriffs Department (OCSD) is expected to increase \$0.8 million, or 4% in FY 2023-24 over the FY 2022-23 amended operating budget. This increase includes an estimated 8% increase in OCSD personnel costs in FY 2023-24. The law enforcement contract makes up 35% of total General Fund expenditures and 47% of total General Fund contract services in FY 2023-24 when all contract services are combined. Personnel services include all salaries, wages, and benefits. Personnel services are expected to increase \$1.4 million, or 14% in FY 2023-24 over the FY 2022-23 amended operating budget. The proposed budget includes the addition of three positions to meet city service needs.

The proposed operating budget for all funds is \$60.8 million in FY 2024-25. Overall, the proposed FY 2024-25 budget for operating expenditures includes an increase of \$1.2 million, or 2% over the FY 2023-24 proposed budget. This increase is in part driven by an increase in the City's law enforcement contract and increases in total personnel costs. Contractual services continue to make up the largest portion of the operating budget at about 39% of total General Fund expenditures and are expected to decrease \$0.5 million or less than 1% from the proposed FY 2023-24 budget. As most contracts are structured as multi-year agreements with fixed amounts over the multi-year contract period, this limits the growth of some contractual rates. Completion of one-time initiatives that utilize contractual services may also limit growth in contractual services or cause slight decreases from year to year. The City's law enforcement contract with the OCSD is expected to increase \$1.2 million, or 6% in FY 2024-25 over the FY 2023-24 proposed operating budget. This anticipated change would bring the law enforcement contract to make up 36% of total General Fund expenditures and 48% of total General Fund contract services in FY 2024-25 when all contract services are combined. Personnel services include all salaries, wages, and benefits. Personnel services are expected to increase \$0.6 million, or 5% in FY 2024-25 over the FY 2023-24 proposed operating budget. The proposed budget includes the addition of one position in FY 2024-25 to meet city service needs.

In addition to the impact of these general trends and increases, the City has identified strategic goals and incorporated funding for these initiatives in the proposed 2023-2025 Operating Budget. Several of these goals arose out of the City's robust public engagement efforts and Community Satisfaction Survey. Notable high impact initiatives include:

- Addressing homelessness via the launch of a pilot "gap" housing program and the addition of a Community Outreach Coordinator as included in the proposed added positions in FY 2023-24.
- Reducing traffic congestion through capital improvement projects that achieve traffic signal synchronization, mitigate traffic impacts, and create left-turn pockets.
- Updating zoning regulations through a Commercial Property Alignment Study.

- Maintaining and improving public safety by expanding the use of automatic license plate reader cameras, developing an emergency notification strategy, and developing neighborhood-based emergency management teams.
- Expanding recreation program offerings by conducting a Pickleball Court Study, seeking further community input via focus groups, and inaugurating new community events.
- Attracting new restaurants and businesses by conducting a Shopping Center Study and furthering Strategic Economic Investment Program initiatives.
- Revitalizing outdated areas in the City through Commercial Property Alignment and Shopping Center studies, and continuing neighborhood improvement efforts.
- Promoting Lake Forest Businesses through hotel marketing campaigns, Strategic Economic Investment Program initiatives, and reinstating a revamped version of the Taste of Lake Forest.

Funding for these goals and initiatives, among other Strategic Business Plan ("Strategic Plan") initiatives, are included in the 2023-2025 Operating Budget and are further discussed in the 2023 update to the strategic plan and in the Program Financial Summaries section of the budget.

As Lake Forest continues its transition to a maintenance city, city goals and priorities shift towards improving the quality of life and current service offerings, improving technologies, and planning the city's financial future. In addition to the Strategic Plan, a discussion of Short-Term Factors and Priorities and Issues is included in the Budget Overview section to consider the City's current concerns and priorities in greater depth.

### Capital Improvement Plan

The 2023-2025 budget cycle of the 2023-2030 Capital Improvement Plan (CIP) includes 34 proposed projects, totaling \$22 million in infrastructure investment. CIP projects are designed to improve safety, ameliorate traffic flow, repair or improve facilities and amenities, and sustain the roadway network. These projects include one environmental project, sixteen park improvement projects, eight street projects, and nine traffic projects, in addition to thirteen ongoing projects that were previously approved by the City Council.

In progress projects include:

- Lake Forest Traffic Mitigation improvements;
- El Toro Raised Medians;
- Street resurfacing throughout the city;
- New street name signs;
- Park Gazebo repairs;
- Portola Park lighting improvements; and,
- Vintage Park improvements.

Capital Improvement Projects for 2023-2025 include the following Park projects:

- Renovations to the Lake Forest Sports Park (LFSP) Recreation Center and LFSP synthetic field turf replacements;
- Etnies Skate Park Improvements including main building renovations and the resurfacing/ remodeling of skateable terrain;
- Additional neighborhood park renovations for the Nature Park, Lake Forest Park, Cavanaugh Park, Peachwood Park, and Vintage Park;
- Heroes Park sport fields renovations;
- Citywide Park Restroom Painting and Renovations;
- Foothill Ranch Box Lacrosse Rink Installation;
- Pickleball Court Analysis and Court Installation; and,
- Barker Ranch Dog Park Synthetic Turf Replacement.

Capital Improvement Projects for 2023-2025 include the following Traffic projects:

- Lake Forest Transportation Mitigation projects;
- Foothill Circulation Phasing Plan (FCPP) projects;
- Installation of Audible Pedestrian Signals; and,
- Traffic synchronization projects at Bake/Rockfield Boulevard and Trabuco/ Irvine Boulevard.

Capital Improvement Projects for 2023-2025 include the following Street projects:

- Street Resurfacing and Slurry Seal Projects; and,
- ADA Ramp Improvements, Phase 15.

The Capital Improvement Projects for 2023-2025 also includes one Environmental project for Aliso Creek Drainage Improvements.

### Fund Balances

A Summary of Revenues, Expenditures, Transfers and Fund Balances for each fiscal year in the 2023-2025 Operating budget can be found in the Budget Overview section of this budget book.

Additionally, staff prepared the General Fund Reserve Risk Analysis per the Risk Based Reserve Policy. The Target Reserve Level is \$56.6 million. General Fund reserves will remain fully funded. For a more detailed discussion of City projections, assumptions, and estimates, please see the Summary of Financial Reserve Funds in the Budget Overview Section and Risk Reserve Analysis in the Supplemental Documents section.

## Long Range Financial Planning

The City's Long range Master Financial Plan (MFP) has been developed and is included in this budget book in the Supplemental Document section. The MFP contains a seven-year General Fund Revenue forecast and expenditure plan which projects revenues, operating expenditures, transfers, funding available for capital projects, and projected reserve balances for the General Fund. Looking forward, the MFP projection reflects the level of General Fund revenues necessary to maintain operating programs and services at current levels.

The 2023-2030 Financial Forecast maintains a balanced operating budget for the upcoming five fiscal years beyond the current budget cycle. Over the projection period, the accumulated projected operating surplus is approximately \$16.8 million. The resulting surplus provides for resources to utilize towards one-time operating projects, capital replacement needs, and maintaining a funded Target Reserve level in accordance with the Risk Reserve Analysis. Staff will continue to work diligently to monitor ongoing revenue and expenditures and make whatever budgetary changes are necessary in order to maintain a balanced budget while keeping General Fund reserves at or above the City Council determined target level.

## Conclusion

Throughout its history, the City of Lake Forest has earned a strong reputation for solid conservative fiscal planning. In FY 2021-22 and FY 2022-23, this philosophy has proven to be an effective tool in continuing to maintain service levels, address strategic priorities, and plan for the future.

The proposed budget for 2023-2025 successfully maintains a level of service and programs that are important to the community and addresses the priority of the City Council. I wish to thank City staff for their time and effort in developing a balanced budget for 2023-2025. The City's forward thinking, strategic planning, and attention to detail in the delivery of daily public services continue to be hallmarks of its pragmatic approach to local governance, which will allow the City to continue providing the high quality of life expected from our community.

Sincerely,

A handwritten signature in dark ink, reading "Debra Rose". The signature is fluid and cursive, with the first name "Debra" and last name "Rose" clearly distinguishable.

Debra Rose  
City Manager