



## MEMORANDUM

**TO:** City Council

**FROM:** Matthew Downing, City Manager  
Bill Robeson, Assistant City Manager/Director of Public Works  
Nicole Valentine, Administrative Services Director  
Shannon Sweeney, City Engineer

**SUBJECT:** Consideration of the 5-Year Capital Improvement Program Budget and 5-Year Measure O 2006 Sales Tax Fund Expenditure Program

**DATE:** April 23, 2024

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### **SUMMARY OF ACTION:**

Provide direction on the 5-Year Capital Improvement Program (CIP) Budget and the 5-Year Measure O 2006 Sales Tax Fund Expenditures Program.

### **IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:**

The proposed 5-Year CIP Budget allocates \$46.7 million for projects from various funding sources from FY 2024-25 through FY 2028-29. When City Council considers the single Fiscal Year (FY) 2024-25 Mid-Cycle Budget, it is anticipated that \$18.6 million will be allocated for CIP projects for that FY. Of the \$18.6 million, \$2.7 million is from the Measure O 2006 Sales Tax Fund. The CIP projects will be delivered using City staff time, consultants, and contractors. As projects are developed and detailed, the impact to staff resources will be determined and included in future Staff Reports for individual projects.

### **RECOMMENDATION:**

Provide direction on the proposed 5-Year CIP Budget and the expenditures funded by the 5-Year Measure O 2006 Sales Tax Fund Expenditure Program.

### **BACKGROUND:**

The City's budget provides funding for all City services, infrastructure investments, and activities performed during each fiscal year. The two major components of the budget are ongoing operations and capital or one-time expenditures. Capital projects often involve a multi-year approach, with design and survey work occurring in one year, followed by construction in the following year or two. Depending on complexity, capital projects can span several years. Utilizing a five-year plan, the City can identify and fund preliminary phases of a project with the reasonable expectation that future years will fund subsequent project phases. However, identifying a project in future years does not mean it will

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automatically be funded in those years. During each budget cycle, all capital projects are reviewed and prioritized against then-current needs and available funding.

On [May 9, 2023](#), the City Council provided direction on the 5-Year CIP Budget and the 5-Year Measure O 2006 Sales Tax Fund Expenditures Program. On [May 16, 2023](#), the 5-Year CIP Budget was provided to the Planning Commission for determination of consistency with the City's General Plan.

On [June 13, 2023](#), staff presented the FY 2023-25 Biennial Budget and 5-Year CIP Budget for review and public comment during a Public Hearing. On [June 27, 2023](#), the City Council approved a resolution adopting the FY 2023-25 CIP Budget and making appropriations for the amount budgeted.

The City is entering the second year of a two-year budget, referred to as the Mid-Cycle Update. The purpose of this Mid-Cycle Update is to: 1) update revenue projections as economic data becomes available; 2) update expenditures as more accurate costs become available; and 3) to provide adjustments for projects that have been funded through other sources, for example ARPA. After receiving input regarding the updated 5-Year CIP Budget presented in this report, Staff will take the City Councils' direction and incorporate it in the preliminary Mid-Cycle Budget presentation.

Enterprise Funds for water and sewer are included in this report to the degree that their budgets reflect the capital improvement projects necessary to sustain those operations. Enterprise budgets are developed in close coordination with the ten-year water and sewer master plans and the projected revenue generation of the funds based on adopted rates. Enterprise operating budgets will be presented to the City Council with the draft operating budgets of other funds on May 28, 2024.

The Measure O 2006 Sales Tax Fund supports both operating and capital needs relating to transportation, public safety, and infrastructure. Approximately 60% of the revenue funds capital programs, and the other approximately 40% funds public safety programs. The 5-year revenue and expenditure plan provided in Attachment 3 is prepared in order to support the multi-year nature of the capital projects funded with revenue from the 5-Year Measure O 2006 Sales Tax Fund and to provide an opportunity for Council and the public to review and revise the proposed uses of the funding.

#### **ANALYSIS OF ISSUES:**

##### **Approach to Analysis and Prioritization of CIP**

A systematic approach to identifying and prioritizing projects was implemented for the proposed 5-Year CIP Budget. Department Directors submitted requests for capital improvement projects, including costs, schedule, and priority (low, medium, and high). A diverse team of City staff from the City Manager's Office, Administrative Services, Engineering, Community Development, Police, and Public Works (the CIP team) attended

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a series of collaborative workshops to discuss the requested capital improvement projects in consideration of many factors including:

- Safety
- Community benefit
- Funding source
- Funding schedule i.e., timeframe for completion before external funding expires
- Staff capacity
- Urgency – consideration of deferred maintenance costs and/or end of useful life
- Number of projects per department i.e., water, streets, parks, fire, police etc.

The CIP team used the factors listed above to evaluate proposed projects. Each project was assigned a score from 1 (highest priority) to 5 (lowest priority). Projects with a score of 5 were moved to the unfunded projects list, which is discussed further below. In some cases, a lower score of 3 or 4 resulted in a project being ‘pushed’ to a later year. In some cases, projects have commenced in FY 2023-24 or earlier, these projects are carried into the FY 2024-29 5-Year CIP Budget and received a score of 1 or 2 (high priority). The workshops resulted in a 5-Year CIP Budget that is provided in Attachment 1.

#### Unfunded CIP

Another outcome of the 5-Year CIP Budget analysis is that 32 projects are not included in the proposed 5-year plan. These lower priority projects are included in the unfunded project list, which will be revisited during future CIP planning and budgeting exercises. The Unfunded CIP list is included in Attachment 2. If alternative funding and staff resources become available, some of the unfunded projects could later be included in the 5-Year CIP Budget.

#### City’s Capacity to Complete CIP

Historically, the City has completed an average of 8-9 capital improvement projects per year. Years affected by the COVID-19 may have skewed this average, and it is estimated that in a normal year, the City will have capacity to complete approximately 10 capital projects per year. Table 1 shows the goal for the number of capital improvement projects to complete per year and the number of projects included in the current 5-Year CIP Budget. The City typically utilizes engineering consultants for planning, design construction management and inspection, and contractors for construction of capital improvement projects. Although consultants balance the workload for City staff, which allows for a higher number of projects to be delivered, significant effort is required to supervise, coordinate, provide direction and information to consultants. City staff have institutional, historic, local, community, and neighborhood insight of projects that consultants do not, and this expertise is necessary to successfully complete each project.

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**Table 1 – Number of Capital Projects Per Year**

	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Number of Projects* - Goal	10	10	10	10	10
Number of Projects - Actual	15	13	12	9	8
*managed by CIP Public Works Engineering Team					

In a typical year, the City encounters 1-2 unforeseen projects, such as natural disasters (e.g. storm event flooding) and infrastructure breakdown/damage (e.g. FCFA generator replacement, and storm drain pipe failures). Although it is difficult to estimate the City staff time needed to respond to unforeseen/emergency projects, it is necessary to retain some staff capacity for this purpose. The proposed 5-Year CIP Budget has been prepared with all of these constraints in mind.

Projects Completed and in advanced stages of activity in FY 2023-24

Many projects in the 5-Year CIP Budget take more than one fiscal year to complete. The following CIPs have been completed or are anticipated to be completed during FY 2023-24:

- Fair Oaks Waterline Replacement
- Permanent Parklets Program
- Lift Station #3 Stabilization
- Arroyo Grande Creek Debris Removal
- 2022 Pavement Management Project
- 2023 Concrete Repairs Project
- 191 Tally Ho Frontage Improvements
- Station 1 Generator Replacement
- Trenchless Sewer Rehabilitation
- Community Safety Camera Network

These multiyear CIPs completed major milestones during FY 2023-24:

- Swinging Bridge - construction begins in May 2024
- 2024 Street Repairs - in final design phase
- Traffic Way Bridge - in final design and right-of-way acquisition phase

Funding Sources

As summarized in Table 2, the City continues to rely on grant funding for a significant portion of capital projects. In particular, the Federal Highway Bridge Program (HBP) will provide over \$12.3 million for the Traffic Way Bridge Project and the California Active Transportation Program (ATP) will fund the Halcyon Complete Streets project with \$7.1

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million in FY 2024-25 and FY 2025-26. Additionally, the Measure O 2006 Sales Tax Fund is the other major funding source for the 5-Year CIP Budget, providing \$10.7 million in funding.

**Table 2 – 5-Year CIP Budget Summary by Funding Source**

Funding Source	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	5-Year Total
Park Improvement	-	65,000	-	50,000	-	115,000
Parkside Assessment District	250,000	-	-	-	-	250,000
Measure O 2006 Sales Tax Fund	2,720,912	2,416,869	1,730,000	1,720,000	2,095,000	10,682,782
General Fund	2,360,000	-	-	-	-	2,360,000
Streets Fund (SB 1)	450,000	450,000	450,000	450,000	450,000	2,250,000
Sewer	100,000	100,000	814,200	100,000	775,000	1,889,200
Water	430,000	100,000	835,000	300,000	500,000	2,165,000
ARPA	204,207	-	-	-	-	204,207
Highway Bridge Program	6,167,352	6,167,352	-	-	-	12,334,703
Other	5,938,351	3,432,500	3,869,000	1,175,000	-	14,414,851
Total	18,620,822	12,731,721	7,698,200	3,795,000	3,820,000	46,665,743

#### American Rescue Plan Act (ARPA) Funding Re-allocation

The City of Arroyo Grande received \$4,300,241 in ARPA funds. Allocations of the ARPA funds were completed at the [July 27, 2021](#), and [October 12, 2021](#) Council meetings. At the time these allocations were made, the U.S. Treasury had issued an Interim Final Rule with guidance on the funding allocation methodology, distribution process, and reporting requirements as well as Frequently Asked Questions to assist jurisdictions in interpreting the policy language. The Interim Final Rule stated that the recipients may use funds for the following uses:

- Support public health expenditures, by funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff;
- Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector;
- Replace lost public sector revenues (referred to as the “revenue loss” use), using this funding to provide government services to the extent of the reduction in revenue experienced during the pandemic;
- Provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors; and
- Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet.

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Additionally, a list of ineligible expenditures include:

- Offset tax cuts implemented during the public health crisis;
- Deposits into pension funds or rainy day funds; and
- Funding debt services and legal services

Reallocations of the City's ARPA funding were approved at the [February 8, 2022](#), [May 24, 2022](#), [September 27, 2022](#), [May 9, 2023](#), and [April 9, 2024](#), City Council meetings. Table 3 identifies the current allocations of the City's ARPA funding:

**Table 3 – ARPA Allocation**

ARPA Funding Allocation	CC Approved Allocation
COVID related City expenditures	42,375
Water Infrastructure Projects	1,350,150
Sewer Infrastructure Projects	549,200
Stormwater Infrastructure Projects	900,842
Public Safety Video Cameras	750,700
Fire Station 1 Apparatus Bay Doors	130,000
Streets Infrastructure Projects	24,958
Homeless Shelter Support	300,000
Non-Profit Assistance/Community Service Grants	114,129
Childcare Assistance - First 5, 5% request	100,000
Smart Share ADU SLO Proposal	37,887
<b>Grand Total</b>	<b>4,300,241</b>

Following the City Council's allocations of ARPA funding in 2021, the US Treasury issued its Final Rule governing eligible expenditures of the ARPA funds. The Final Rule went into effect on April 1, 2022, and included a few major changes, including:

- Broader set of uses that are available to respond to the pandemic's public health and economic impacts on households, small businesses, and others, including capital expenditures;
- Major simplification of the revenue loss use, including an allowance for local governments to utilize a standard presumption of at least \$10 million in revenue losses;
- Greater flexibility in eligible broadband investments to address challenges with access, affordability, and reliability, as well as the addition of numerous eligible water and sewer infrastructure investments; and
- More streamlined options to provide premium pay through broadening the share of eligible workers who can receive premium pay without additional justification.

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Arroyo Grande falls into the group of recipients that, under the Final Rule, may use the ARPA funds as revenue loss and allocate the funds to governmental services. Arroyo Grande has until December 31, 2024, to commit ARPA funds by way of a contract or purchase order. Interim US Treasury rules currently list December 31, 2026, as the deadline to spend these monies. With this new information and approaching deadline for commitment of the funds, staff is recommending that some of the ARPA funds be reallocated towards Priority 1 projects that will be completed and or committed by the ARPA deadline.

Table 4 Highlights the proposed change in specific projects related to the ARPA funding allocations.

**Table 4 – Updated ARPA Project Allocations**

<b>Misc Infrastructure Projects</b>	<b>Current</b>	<b>Proposed</b>
Public Safety Video Cameras	750,700	546,493
Fire Station 1 Apparatus Bay Doors	130,000	130,000
<b>Misc Infrastructure Total</b>	<b>880,700</b>	<b>676,493</b>

<b>Streets Infrastructure Projects</b>	<b>Current</b>	<b>Proposed</b>
Pedestrian Crossing Improvement	24,958	24,958
2024 Pavement Management Program (PMP)	-	204,207
<b>Streets Infrastructure Total</b>	<b>24,958</b>	<b>229,165</b>

<b>ARPA Project Allocations Total</b>	<b>905,658</b>	<b>905,658</b>
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The shift in the Misc. and Streets Infrastructure Projects is related to the reduced cost of the Public Safety Video Cameras project once bids were received. Allocating the remainder of the funds to the 2024 Pavement Management Program (PMP) project allows staff to use the remaining ARPA funds. With the ARPA deadline approaching and the Final Rule allowing for use of the funding for this type of project, the recommendation is to reallocate ARPA funds to this project as it will be completed within the ARPA allowed timeframe. Table 5 shows the resulting total allocations of ARPA funding if approved as recommended:

**Table 5 – Updated ARPA Allocation:**

<b>ARPA Funding Allocation</b>	<b>CC Approved Allocation</b>
COVID related City expenditures	42,375
Water Infrastructure Projects	1,350,150
Sewer Infrastructure Projects	549,200
Stormwater Infrastructure Projects	900,842
Public Safety Video Cameras	546,493
Fire Station 1 Apparatus Bay Doors	130,000
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<b>Grand Total</b>	<b>4,300,241</b>

Major Capital Improvement Projects Proposed for the 5-Year CIP Budget Beginning FY 2024-25

A full list of all projects with proposed funding in the upcoming 5-Year CIP Budget is included as Attachment 1. Significant projects are discussed below:

Major CIP Starting or Completing in FY 2024-25 and FY 2025-26 (Year 1 and 2)

- ADA Bathrooms Elm Street Park**  
 The proposed 5-Year CIP Budget includes \$235,000 for a restroom at Elm Street Park to replace the restroom that will no longer exist when the Mark M. Mills building is anticipated to be demolished at the end of calendar year 2024. Funding is sufficient for a standalone prefabricated restroom.
- Pavement Management Program (PMP)**  
 The proposed 5-Year CIP Budget includes a total of \$10.3 million for maintaining the City's public streets, alleys, and parking lots. This includes maintenance applications such as digouts, slurry seals, and pavement overlays to the extent that funds are available. This program also includes providing Americans with Disabilities Act (ADA) compliant pedestrian facilities such as curb ramps when triggered by certain maintenance applications that are considered an alteration of a street (e.g., overlays). Table 6 shows a break of the PMP of the 5-Year CIP Budget.



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Project Number	Request Title	Funding Source	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	5-Year Total
<b>STREETS PROJECTS</b>								
350-5638	Pavement Management Program	49XX - Regional SHA	390,000	-	-	-	-	
		44XX - Betterments Grant	570,000	-	-	-	-	
		4910 - General Fund	2,360,000	-	-	-	-	
		4920 - SB1	450,000	450,000	450,000	450,000	450,000	
		4950 - Sales Tax	966,833	1,046,624	-	1,250,000	1,250,000	
		4965 - ARPA	204,207	-	-	-	-	
		4463 - CDBG	58,960	-	-	-	-	10,346,624

- **Sewer and Water Infrastructure**

The proposed 5-Year CIP Budget includes \$4.1 million for the continuation of replacing, rehabilitating, and maintaining the City's water and sewer infrastructure. This includes rehabilitating deteriorating sewer manholes, rehabilitating sewer mains through trenchless lining techniques, replacing, enlarging and installing interconnect water mains, replacing aging water mains, water reservoir recoating, and updating both the water and sewer system master plans.

- **SCADA Software/Electronics Upgrade**

The City supervisory control and data acquisition (SCADA) system is in need of upgrades. The system controls and monitors the water production and distribution system, and sewer collection lift stations. The system software, some radios, and the computer station are all outdated and no longer supported by vendors. The new software and hardware will bring the system to present day technology including remote access to make operational changes and alarm acknowledgement. The current estimated cost for the project is \$330,000, the Water Fund will fully fund this project. This project is included in the Sewer and Water Infrastructure 5-Year CIP Budget of \$4.1 million.

- **Halcyon Complete Streets Plan**

The Halcyon Complete Streets Plan is a concept plan to develop an improved transportation corridor on Halcyon Road that provides for safe mobility and accessibility for all users, including bicyclists, pedestrians, transit vehicles, trucks, and motorists. The Plan proposes multimodal transportation enhancements to address a lack of bicycle lanes, sidewalks, unsignalized crossings, and intersections with poor visibility. Construction of the project is funded with \$250,000 in Highway Safety Improvement Program (HSIP) funds, \$750,000 in Community Betterment Grant funds, and \$8.1 million in Active Transportation Program (ATP) funds. The key milestone of completion of design, environmental determination, and permitting is expected to be completed in FY 2025-26, and construction is anticipated in FY 2025-26.

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- **Traffic Way Bridge**

The Traffic Way Bridge was built in 1932 and has been evaluated for structural and functional integrity. The Caltrans Bridge Inspection Program has determined that the bridge needs replacement. Of the \$13.8 million total project cost, the City has secured HBP grant funding that will pay \$12.2 million of the project costs. The City will need to fund the remaining \$1.6 million to pay for the remainder of the costs. The key milestone of design, environmental determination, and permitting was completed in FY 2023-24, and construction commencing in FY 2024-25, completing in FY 2025-26.

#### Major CIP Starting or Completing in FY 2026-29 (Year 3-5)

- **Mark M. Millis Community Center (MMMCC)**

The MMMCC is currently identified as a Capital Improvement Project to evaluate the potential design and cost of a replacement community center due to its age and continued deterioration. The City has obtained a survey of the site from a licensed surveyor and will complete a conceptual design with the assistance of a local architect in the upcoming fiscal year. Additionally, potential partnership opportunities will be explored with local non-profit service providers, such as the Boys and Girls Club, to determine whether the MMMCC may be replaced with a structure that could serve multiple community needs while also minimizing costs to the City. The overall cost of site, parking lot, and building design, construction documents, site construction and building construction are anticipated to reach the \$6 million range. An estimated time frame for final design and construction documents is FY 2024-25 with fundraising into late FY 2025-26 and construction of the \$6 million Community Center beginning in FY 2026-27 and FY 2027-28.

#### Measure O 2006 Sales Tax Fund

As previously discussed, the City prepares a 5-Year CIP Budget for the Measure O 2006 Sales Tax Fund. The City has been diligent in using the Measure O 2006 Sales Tax funds for the four purposes originally identified: infrastructure improvements, including the street, drainage, and creek systems; transportation projects; public safety needs; and Facility upgrades to meet Americans with Disabilities Act requirements. In 2015, the City Council confirmed that Information Technology (IT) infrastructure is included within the list of infrastructure systems supported by the Measure O 2006 Sales Tax Fund. To ensure accountability, Measure O-06 required: 1) the City to publish and distribute an annual report to each household on the revenues and expenditures from the sales tax proceeds; and 2) a review and public hearing by the City Council every five years to determine whether the sales tax is necessary to remain in effect. The proposed 5-year plan for the Measure O 2006 Sales Tax Fund is provided as Attachment 3.

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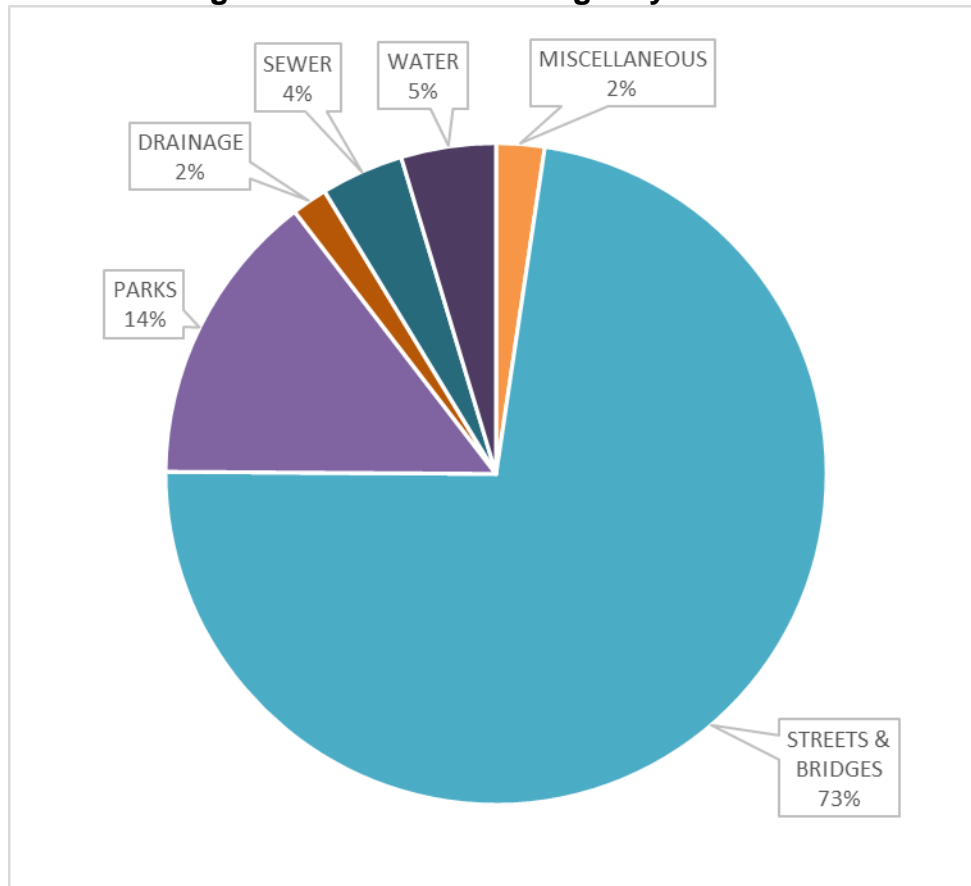
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Summary of 5-Year CIP Budget

As shown in Figure 1, the largest focus of the 5-Year CIP Budget will be related to streets and bridges.

**Figure 1 – 5-Year CIP Budget by Function**



Next Steps

The proposed 5-Year CIP Budget and 5-Year Measure O 2006 Sales Tax Fund expenditure plans are being provided for discussion and direction from Council on any requested changes. Following this direction, the 5-Year CIP Budget will be presented to the Planning Commission for confirmation that the plan conforms with the City's General Plan. The updated 5-Year CIP Budget will then be included in the proposed Mid-Cycle FY 2024-25 Budget that will be presented for consideration and approval by the City Council on June 11, 2024.

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**ALTERNATIVES:**

The following alternatives are provided for the Council's consideration:

1. Review and provide direction on the 5-Year CIP Budget and 5-Year Measure O 2006 Sales Tax Fund expenditure program;
2. Provide other direction to staff.

**ADVANTAGES:**

Providing direction will assist staff in developing a 5-Year CIP Budget and 5-Year Measure O 2006 Sales Tax Fund Expenditure Program that is responsive to the City Council and community priorities, while maintaining economic feasibility.

**DISADVANTAGES:**

There are no disadvantages to providing information for the community, City Council, or staff regarding the 5-Year CIP Budget and 5-Year Measure O 2006 Sales Tax Fund budget priorities.

**ENVIRONMENTAL REVIEW:**

The development of the 5-Year CIP Budget and 5-Year Measure O 2006 Sales Tax Fund Expenditure Program is not a project, as defined in the California Environmental Quality Act, and an environmental review is not required. Individual projects listed herein may be subject to CEQA and environmental reviews will be conducted at the appropriate time during implementation of those projects.

**PUBLIC NOTIFICATION AND COMMENTS:**

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

**ATTACHMENTS:**

1. 5-Year CIP Budget for FY 2024-25 through FY 2028-29
2. Unfunded Capital Improvement Projects
3. 5-Year Measure O 2006 Sales Tax Fund Expenditure Program