



## MEMORANDUM

**TO:** City Council

**FROM:** Matthew Downing, City Manager  
Bill Robeson, Assistant City Manager/Public Works Director

**BY:** Nicole Valentine, Administrative Services Director

**SUBJECT:** Adopt Resolutions of Approval for the Fiscal Year (FY) 2024-25 Mid-Cycle Budget Update Report and the 5-Year Capital Improvement Program Budget FY 2024-29

**DATE:** June 11, 2024

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### RECOMMENDATION:

- 1) Adopt a Resolution approving the Fiscal Year 2024-25 Budget and Making Appropriations for the Amount Budgeted; and
- 2) Adopt a Resolution approving the Fiscal Year 2024-29 Capital Improvement Program Budget and Making Appropriations for the Amount Budgeted.

### IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The proposed Mid-Cycle Update for FY 2024-25 Budget recommends approximately \$48 million in expenditures, including operating costs such as salaries, benefits, services, supplies, maintenance, debt service, and capital related items. The Consolidated General Fund budget includes approximately \$30.4 million. The projected fund balance for the Consolidated General Fund at the end of FY 2024-25 is \$6,762,402 or 22.2%. The 5-year Capital Improvement Program Budget allocates \$46.7 million for projects, from various funding sources, over a 5-year period.

The budget as presented is balanced with the use of reserves, maintains adequate reserves at or above policy levels, and addresses several goals and priorities discussed previously with the City Council.

### BACKGROUND:

Each year the City Council adopts a budget, which commits resources for the next fiscal year. The City Council adopted the FY 2023-24 and 2024-25 Biennial Budget on [June 27, 2023](#). The biennial budget process includes updates each quarter of the first year, a Mid-Cycle Update at the beginning of the second year that also includes appropriation of the second year budget and updates each quarter of the second year. Quarterly updates for

**Item 11.a.**

## City Council

### Adopt Resolutions of Approval for the Fiscal Year (FY) 2024-25 Mid-Cycle Budget Update Report and the 5-Year Capital Improvement Program Budget FY 2024-29 June 11, 2024

#### Page 2

the FY 2023-24 were provided on [December 12, 2023](#), [February 27, 2024](#), and [May 14, 2024](#).

On February 27, 2024, the City Council approved an update on City Council Goals and Priorities for FY 2024-25. Additionally, on [April 23, 2024](#), the City Council provided direction on the 5-year Capital Improvement Program (CIP) budget and the 5-Year Local Sales Tax Fund Expenditures Program. On [May 7, 2024](#), the CIP was provided to the Planning Commission for determination of consistency with the City's General Plan. The prioritization and direction provided by the City Council at these previous meetings have been incorporated into the FY 2024-25 Mid-Cycle Budget Update.

On [May 28, 2024](#), the City Council reviewed the preliminary FY 2024-25 Mid-Cycle Budget Update Report and provided direction to staff regarding proposed staffing requests, services and supplies requests, vehicle replacement requests, the appropriation of excess available consolidated General Fund balance, and changes related to Enterprise and Special Revenue funds. This direction was used in preparation for consideration and approval of the FY 2024-25 Mid-Cycle Budget Update Report (Attachment 1).

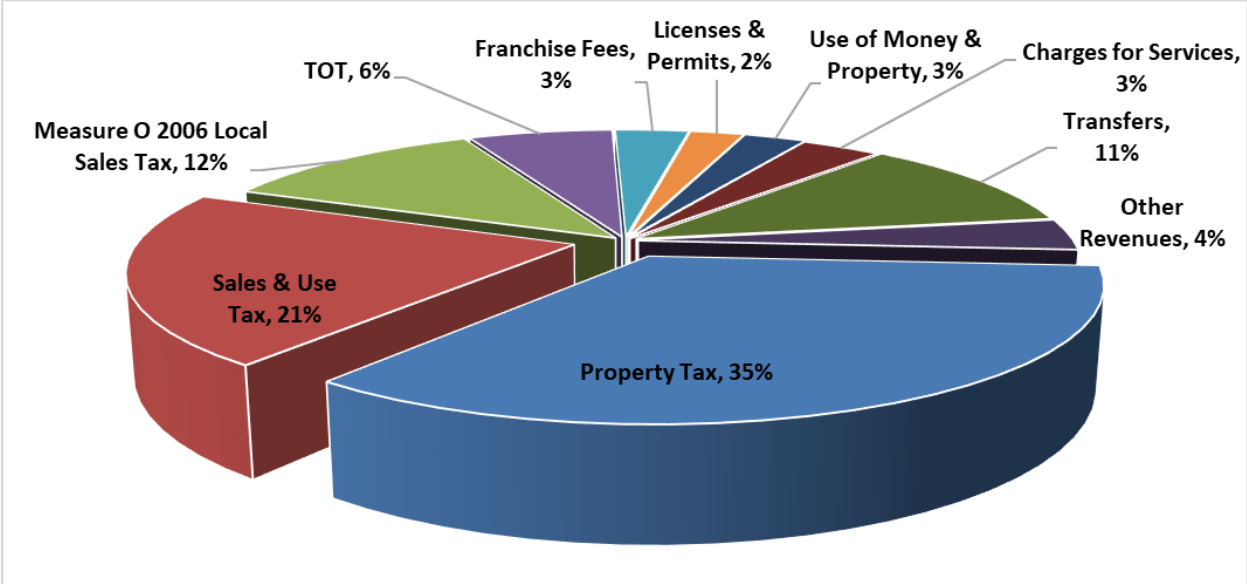
#### **ANALYSIS OF ISSUES:**

The proposed FY 2024-25 Mid-Cycle Budget Update Report presents a balanced budget, with excess revenues and fund balance sufficient to cover recommended work plan and capital project budget expenditures. The proposed budget includes a total of \$25.1 million in revenues and \$30.4 million in operating and capital budget for a net of \$5.3 million more expenditures than revenues. The operating budget is balanced, with a \$677,913 net operating surplus. The expenditures that exceed revenues are for one-time projects that the City has been anticipating. Fund balances accumulated over time offset the additional expenditures.

#### **Consolidated General Fund Revenues**

As shown in Chart 1, Sales and Property Taxes comprise the largest sources of revenue in the General Fund, together accounting for approximately 68% of revenue for that fund. Given this dependence on just two revenue sources, fluctuations in the amount of taxes received can have profound impacts on the City's ability to provide services. As long as the real estate market stays reasonably strong, property taxes are a relatively stable revenue source.

**Chart 1: FY 2024-25 Consolidated General Fund Revenues – \$25.1 Million Total**



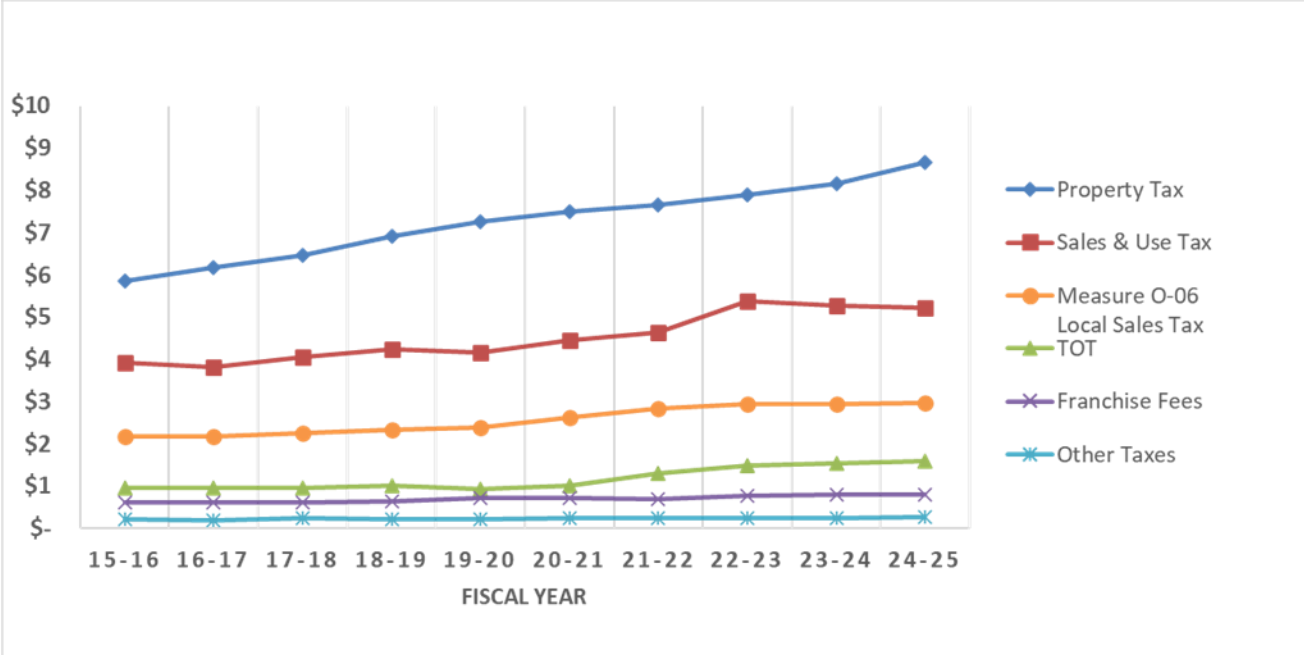
Overall, General Fund tax revenues have been trending upward over the past several years and are projected to increase in FY 2024-25. Based on the latest information provided by the County Auditor-Controller’s Office, property taxes are projected to increase 4% in FY 2024-25. This is the result of an increase in the assessed valuation of properties in Arroyo Grande and a housing market that has remained robust throughout the past year.

Sales tax receipts have remained consistent throughout the past year. The City’s sales tax consultant projected a reduction in sales tax revenues of 1.9% in FY 2023-24 due to an anticipated minor economic slowdown. These projections reflect anticipated declines in categories like automobiles and transportation, fuel and service stations, and general consumer goods. The lower projections in these categories are the result of lower expected consumer demand in the short-term. This budget is projecting a decrease in sales tax revenues of 2% in FY 2024-25, as the economy is only anticipating a minor slowdown.

**City Council**

**Adopt Resolutions of Approval for the Fiscal Year (FY) 2024-25 Mid-Cycle Budget Update Report and the 5-Year Capital Improvement Program Budget FY 2024-29**  
**June 11, 2024**

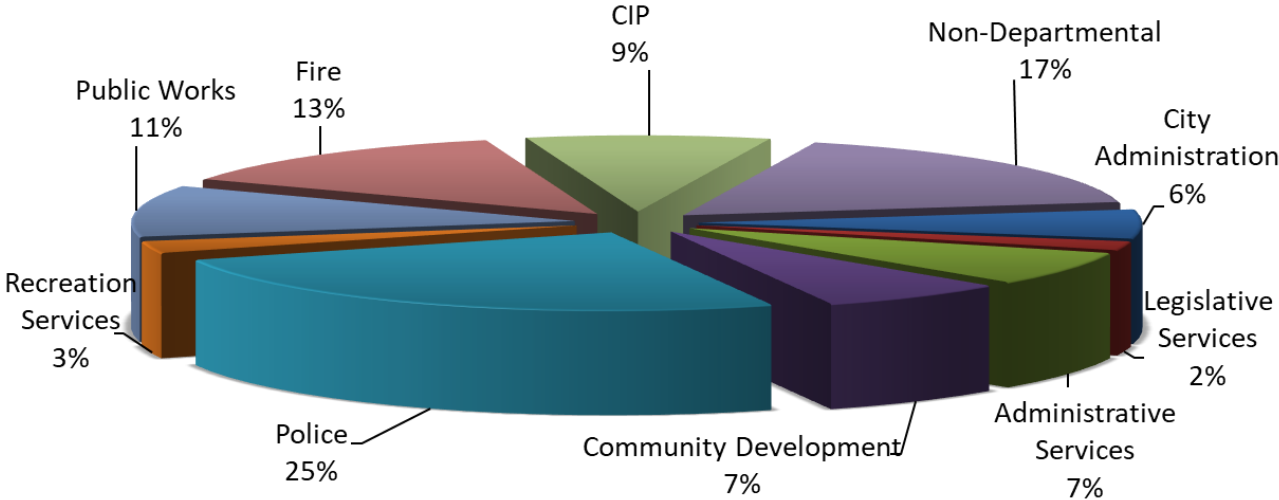
**Chart 2: Consolidated General Fund Tax Revenues \$19.5 Million**



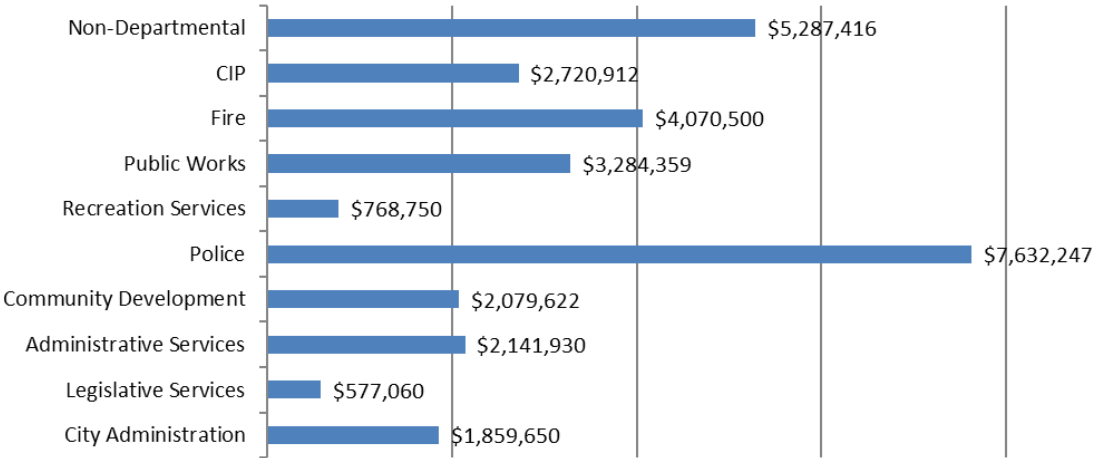
**Consolidated General Fund Expenditures**

The following two charts show the proposed \$30.4 million Consolidated General Fund expenditure budget for FY 2024-25, both in terms of the relative size of each department as well as the total dollars budgeted for each department. As the charts show, the Police Department is the City’s largest function, with 25% of the budget. Fire services for the FCFA will receive 13% of the budget. Public Works and Community Development will receive 11% and 7% of FY 2024-25 budget resources, respectively. The “Non-Departmental” category represents 17% of the General Fund budget and includes items that affect all departments, such as the annual payment on the City’s Unfunded Actuarial Liability (UAL), property and general liability insurance, and transfers to the Street and Capital Improvement Project funds.

**Chart 3: FY 2023-24 Consolidated General Fund Expenditures by Department**  
**\$30.4 Million**



**Chart 4: FY 2023-24 Consolidated General Fund Expenditures by Department**  
**\$30.4 Million**



**Summary**

The proposed FY 2024-25 Mid-Cycle Budget Update recommends approximately \$48 million in expenditures, including operating costs such as salaries, benefits, services, supplies, maintenance, debt service, and capital related items as shown in the consolidated fund summary Table 1 shown below:

**City Council**  
**Adopt Resolutions of Approval for the Fiscal Year (FY) 2024-25 Mid-Cycle Budget**  
**Update Report and the 5-Year Capital Improvement Program Budget FY 2024-29**  
**June 11, 2024**  
**Page 6**

**Table 1: FY 2024-25 All Funds Operating Budget**

	General Fund	Local Sales Tax Fund	Enterprise Funds	Special Revenue	Agency Funds	Total
Beginning Fund Balance	\$ 10,274,662	\$ 1,759,416	\$ 4,535,607	\$ 10,958,995	\$ (610,413)	\$ 26,918,267
Revenues:						
Revenues	19,388,470	2,966,000	9,871,840	2,443,011	423,944	35,093,265
Transfers In	2,796,300	-	3,889,750	655,000	-	7,341,050
<b>Total Revenues</b>	<b>22,184,770</b>	<b>2,966,000</b>	<b>13,761,590</b>	<b>3,098,011</b>	<b>423,944</b>	<b>42,434,315</b>
Expenditures:						
Salaries and Benefits	13,538,725	-	1,278,500	600,300	-	15,417,525
Services and Supplies	9,932,023	1,087,000	5,732,850	1,025,406	7,900	17,785,179
Debt Service	294,386	-	47,500	8,369	382,944	733,199
Capital Outlay	129,500	-	530,000	140,000	-	799,500
Transfers Out	2,475,000	2,965,812	6,341,850	1,446,400	35,900	13,264,962
<b>Total Expenditures</b>	<b>26,369,634</b>	<b>4,052,812</b>	<b>13,930,700</b>	<b>3,220,475</b>	<b>426,744</b>	<b>48,000,365</b>
<b>Total Operating Incr/(Dec)</b>	<b>(4,184,864)</b>	<b>(1,086,812)</b>	<b>(169,110)</b>	<b>(122,464)</b>	<b>(2,800)</b>	<b>(5,566,050)</b>
Available Fund Balance	\$ 6,089,798	\$ 672,604	\$ 4,366,497	\$ 10,836,532	\$ (613,213)	\$ 21,352,217

**Revisions to the May 28, 2024 Preliminary Budget**

During the May 28, 2024, preliminary budget discussion, the City Council provided direction to appropriate \$560,000 of Excess Available Consolidated General Fund Balance to the three replacement/repairs reserves:

- Information Technology Reserve
- Fleet Replacement Reserve
- Facility Repairs Reserve

These new reserves will be established with funds appropriated as of July 1, 2024. No changes have been made to the budget that was presented to the City Council. The budget also maintains sufficient ending reserves in the General fund that exceed the City Council’s goal of at least 20% of operating expenditures to continue protecting the City’s financial position.

Staff recommends that the City Council adopt the attached Resolutions to approve final budget and personnel allocations for FY 2024-25 Mid-Cycle Budget Update and to approve the CIP Budget for FY 2024-29 (Attachment 2). After the City Council adopts the FY 2024-25 Mid-Cycle Budget Update, staff will publish a copy of the Adopted FY 2024-25 Mid-Cycle Budget Update on the City’s website.

**ALTERNATIVES:**

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

1. Adopt (1) a Resolution approving the FY 2024-25 Mid-Cycle Budget Update Report and (2) a Resolution approving the 5-Year Capital Improvement Program Budget FY 2024-29;

**City Council**

**Adopt Resolutions of Approval for the Fiscal Year (FY) 2024-25 Mid-Cycle Budget Update Report and the 5-Year Capital Improvement Program Budget FY 2024-29  
June 11, 2024**

**Page 7**

2. Amend and Adopt (1) a Resolution approving the FY 2024-25 Mid-Cycle Budget Update Report and (2) a Resolution approving the 5-Year Capital Improvement Program Budget FY 2024-29; or
3. Provide other direction to staff.

**ADVANTAGES:**

Adoption of the FY 2024-25 Mid-Cycle Budget Update Report, and 5-year Capital Improvement Budget will allow the City to continue funding all City services after the end of the current fiscal year on June 30, 2024, and meet Council directed goals and priorities for the fiscal year. The recommendations in the proposed budget reflect revenue and expenditure strategies that will accomplish the following:

- Maintain and, in certain cases, increase key service levels;
- Maintain a substantial investment in improvements to the City’s infrastructure and facilities;
- Address operational sustainability concerns; and
- Maintain reserves at or above the City’s policy levels.

**DISADVANTAGES:**

The recommendations do not fully address the long-term replacement needs of all City equipment and infrastructure. Limited staffing levels continue to be a challenge in regard to accomplishing all desired City priorities in a timely manner. Significant cost increases related to pensions and insurance are still threats that will require close monitoring. The performance of the economy in general, and the impacts of specific economic development activities will also affect the financial condition and sustainability of City operations.

**ENVIRONMENTAL REVIEW:**

No environmental review is required for this item.

**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. FY 2024-25 Mid-Cycle Budget Update Report
2. Proposed Resolution Approving the FY 2024-25 Mid-Cycle Budget Update
3. Proposed Resolution Approving the 5-Year Capital Improvement Program Budget