



MEMORANDUM

TO: City Council

FROM: Nicole Valentine, Director of Administrative Services

SUBJECT: Fiscal Year 2024-25 First Quarter Status Report and Budget Adjustment Request Approval

DATE: November 26, 2024

RECOMMENDATION:

Receive and file the Fiscal Year 2024-25 First Quarter Financial Status Report and approve Budget Adjustment Requests.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

Preparation of the Fiscal Year (FY) 2024-25 First Quarter Financial Status Report (the "Q1 Report") requires staff time within the existing work plan and budget for the Administrative Services Department. At the end of the first quarter, FY 2024-25 revenues for the Consolidated General Fund were \$2.7 million, or one percent (1%), lower than the Budget Target ("Target"). Actual Expenditures were \$7.7 million and below the Target by approximately \$1.5 million, or five percent (5%).

The City Council is being asked to approve 12 budget adjustments. The overall impact to the budget is reflected in the following Table 1:

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Table 1: First Quarter Budget Adjustment Request

Request	Revenue	Expenditure	General Fund Impact	Water Fund Impact	Water Availability Fund Impact	COPS Fund
Carryover Affordable Housing Trust Fund Balance to support the development of HASLO's affordable housing project consisting of 63 affordable MF units	448,370	448,370	-	-	-	-
Carryover Retraining Scholarship Program to Reallocate to "Buy Local" program	21,500	21,500	-	-	-	-
Carryover Economic Development Funding	-	37,500	37,500	-	-	-
Carryover Contractual Services related to the General Plan Update	243,900	243,900	-	-	-	-
Carryover related to replacing the pump on Well #3 from the Water Fund		52,200	-	52,200	-	-
Carryover related to replacing the galvanized service replacements from the Water Fund		25,300	-	25,300	-	-
Carryover Cash for Grass Program	-	114,200	-	-	114,200	-
Carryover OTS Grant for Traffic/DUI Enforcement	44,100	44,100	-	-	-	-
Carryover Alcoholic Beverage Control (ABC) Grant	28,047	28,047	-	-	-	-
New Duty Firearms	-	48,900	-	-	-	48,900
Radio Encryption Equipment	-	80,000	-	-	-	80,000
Reallocate ARPA Funds to Governmental Services	276,993	276,993	-	-	-	-
Totals	1,062,910	1,421,010	37,500	77,500	114,200	128,900

BACKGROUND:

Each fiscal year the City Council adopts a budget, which commits government resources and services to accomplish the City's mission of making Arroyo Grande the best place possible for everyone who lives, works, and visits here. The Q1 Report is the first of four financial performance reports that staff will present to Council during the 2024-25 fiscal year. The purpose of the FY 2024-25 Q1 Report is to:

- Compare first quarter revenues received and expenditures incurred to the first quarter of the prior year and to the budgeted Target to determine the City's financial performance;
- Provide explanations for key account variances and identify any potential trends that might impact financial planning; and
- Provide other key first quarter information including headcount statistics, status of Capital Improvement Projects, and requests for City Council's approval of Budget Adjustment Requests that have not previously been approved.

The City's actual first quarter financial results will be compared to both the prior year's first quarter and the budgeted Target. The Target for expenditures is calculated as one fourth (25%) of the FY 2024-25 Budget and represents the 3-month period from July 2024

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through September 2024, except for the Non-Departmental Annual Payments line that has a Target of the full budget. This approach increases the expenditure Target from 25% to 30% for the first quarter. The Target for revenues does not use the 25% Target but a Target of 12.4% that more accurately reflects the anticipated revenues to be received in the first quarter of the fiscal year. Using the Target as a comparator against actual results provides a simplified method to evaluate performance for the quarter.

The Q1 Report also includes a section regarding Budget Adjustments Requests. This section summarizes individual budget adjustments approved by the City Council during the first quarter, as well as administrative adjustments completed by City staff. Additionally, this section of the report includes new Budget Adjustment Requests not otherwise addressed in past City Council agenda items. Approval will enable the City to complete important work items and meet the needs of the community.

ANALYSIS OF ISSUES:

Year-End Revenue and Expenditures Compared to Prior Year

Table 2: Current Year Q1 Actuals Compared to Prior Year Q1 Actuals

	First Quarter FY 2024-25	First Quarter FY 2023-24	Variance
Revenue	2,722,776	2,554,661	168,115
Expenditures	7,673,579	7,024,014	649,565

The Consolidated General Fund shown in Table 2 is the primary operating fund of the City and accounts for resources and services traditionally associated with government. The Consolidated General Fund provides administrative, financial, police protection, community development, public works, fire, and recreation services to the community and other funds. The Consolidated General Fund accounts for revenues that have unrestricted uses and are not required legally or by contractual agreement to be accounted for in another fund. The City has historically reported on the Consolidated General Fund separately from the Local Sales Tax Fund, although the City’s auditors traditionally combine this information in the Annual Comprehensive Financial Report.

The Measure O 2006 Sales Tax Fund accounts for the revenues derived from Measure O 2006, a local 1/2% sales tax approved by the City's voters in November 2006. Measure O 2006 included advisory measures when passed, providing direction on the uses to which the funding should be allocated. To ensure accountability, the measure included a provision requiring the City to publish and distribute an annual report to each household on the revenues and expenditures from the sales tax proceeds. To aid in the collection and reporting of this information, the City has accounted for this fund in a separate account.

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This report presents information for the Consolidated General Fund that includes Measure O 2006 Tax Fund revenues and expenditures. Consolidated General Fund revenues at the first quarter of this year were approximately \$168,115 higher than the first quarter of the prior year. Expenditures were approximately \$649,565 higher at the end of the first quarter of the current fiscal year versus the first quarter of the prior year. A more thorough explanation of first quarter variances is set forth in the attached financial report (Attachment 1). The following is a summary of the first quarter variances between the two fiscal years.

Q1 Revenue and Expenditures Compared to Target

Table 3: Current Year Q1 Actuals Compared to Target

	FY 2024-25 First Quarter	FY 2024-25 First Quarter	Variance
Revenue	3,048,496	2,722,776	(325,720)
Expenditures	9,224,991	7,673,579	(1,551,412)

Table 3 above compares first quarter actual results to the budgeted Target. Q1 actual revenue was short of the Target by \$325,720. Q1 actual expenditures were short of the Target by approximately \$1.5 million. The following is a summary of the Q1 revenue and expenditure variances compared to the budgeted Target. A more thorough explanation of first quarter variances is set forth in the attached financial report.

Revenue (\$325,720 lower)

General Fund revenue for FY 2023-24 is more than the Adjusted Budget by \$325,720. The majority of the variance is related to increased Property Tax, Measure O-2006 Sales Tax, User Fees, and Franchise Fees revenues that exceeded the Adjusted Budget. The Q1 Report includes greater detail regarding the causes for the revenue variances.

Expenditures (approximately \$1.5 million lower)

Actual expenditures were \$1,551,412 under the Target. Some of the more significant savings occurred in the Police, Administrative Services, Community Development, and Public Works Departments. The Q1 Report includes greater detail regarding the causes for the expenditure variances in these departments.

Budget Adjustments

One of the purposes of the First Quarter Financial Status report is to recommend the reappropriation (carryovers) of prior year budgets for services/products that were begun, but not completed, as of June 30, 2024. These requested carryovers do not include capital improvement projects. Each year, the City Council adopts a budget which commits resources to the Capital Improvement Program (CIP) that addresses infrastructure maintenance and improvements throughout the City. The CIP is funded through a variety of sources, including significant grants and transfers from other funds. CIP funds do not

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have annual appropriated budgets. Control over capital projects is maintained by a project-length CIP budget. This project-length budget authorizes total expenditures over the duration of a construction project, rather than year by year. A detailed accounting by Project is included in Attachment 1 for information purposes.

Staff identified nine projects that were budgeted in FY 2023-24 and were not completed in that fiscal year but are expected to be completed in the current fiscal year. It is requested that the following carryover budget adjustments be approved:

- Affordable Housing Trust Fund: Appropriate \$448,370.37 from the Affordable Housing Trust Fund Balance to support the development of Housing Authority of San Luis Obispo (HASLO)'s affordable housing project consisting of 63 affordable multi-family units located at 700 Oak Park Blvd. Approved on 07/25/2023 City Council meeting, Item 9.m.
- City Council: Reallocate \$21,500 from the retraining scholarship program funded using SB 1090 funds. This program was approved at the March 9, 2021, City Council meeting, item 10.a., The original approval was for \$40,000. In FY 2021-22, \$15,000 was spent and in FY 2022-23, \$3,500 was spent. This program has now ended. The reallocation of \$21,500 would support a future "buy local" program for business impacted by the Traffic Way Bridge CIP project that will be brought to the City Council in early 2025.
- City Manager's Office: Carryover \$37,500 related to Economic Development Consultant. This work effort was delayed during the recruitment and hiring process of the City Manager and this project is currently underway.
- Community Development Department: Carryover \$243,900 from contractual services related to the General Plan Update. This is an on-going project like a CIP that spans over multiple fiscal years but is budgeted within the Community Development department budget.
- Public Works Department: Carryover \$52,200 for replacing the pump on Well #3 from the Water Fund. This project was not completed in FY 2034-24, creating the need to carryover these funds while the contractor completes the replacement.
- Public Works Department: Carryover \$25,300 for replacing the galvanized service replacements from the Water Fund. This project is an ongoing work effort within the Water Division to upgrade as many as practical each fiscal year.
- Public Works Department: Carryover \$114,200 for the Cash for Grass program from the Water Availability Special Revenue Fund that has been allocated to residents participating in the program but has not been processed for payment related to completion of work in FY 2023-24.
- Police Department: Carryover \$44,100 related to the Office of Traffic Safety (OTS) Grant for Traffic/DUI Enforcement Program. This Grant program operates from October 1, 2023, through September 30, 2024. This carryover is due to the misalignment of the program year ending in September but budgeted in FY 2023-24.

Item 9.b.

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- Police Department: Carryover \$28,047 related to the Alcoholic Beverage Control (ABC) 4207 Grant for implementing public awareness, minor decoy operations, shoulder tap operations, Informed Merchants preventing Alcohol-Related Crime Tendencies (IMPACT), and generally, implementation of ABC Alcohol Policing Partnership program. This Grant program operates from October 1, 2023, through September 30, 2024. This carryover is due to the misalignment of the program year ending in September but budgeted in FY 2023-24.

Three additional budget adjustments are requested as described in more detail below:

- Police Department: The proposed includes an increase in the Police Department’s COPS Grant Fund 271 budget to add 2 line items, reflecting a total increase of \$128,900. This increase would include:
 - Appropriate \$48,900 from the COPS Grant Fund balance to purchase 19 Staccato firearms, these are the agencies new duty pistols.
 - Appropriate \$80,000 from the COPS Grant Fund balance to purchase radio encryption equipment.

Finally, the reallocation of ARPA funds is included as a request. Reallocations of the City’s ARPA funding were approved at the February 8, 2022, May 24, 2022, September 27, 2022, May 9, 2023, April 9, 2024, and April 23, 2024 City Council meetings. As projects are completed and total costs are submitted Table 4 was prepared to demonstrate a total overview of the City’s ARPA allocations. The first column in Table 4 shows the City Council Approved Allocation. The second column in Table 4 shows the spending through the end of FY 2023-24. The third column in Table 4 shows the anticipated spending of funds through the allotted ARPA deadline of December 31, 2024, to commit ARPA funds by way of a contract or purchase order and spend these monies no later than December 31, 2026. The final column in Table 4 shows funds that need to be reallocated, related to project savings.

Table 4 – ARPA Allocation

ARPA Funding Allocation	CC Approved Allocation	Spent through 06/30/2024	Expected to Spend	Amount to Reallocate
COVID related City expenditures	42,375	42,375	-	-
Water Infrastructure Projects	1,350,150	756,931	578,700	14,519
Sewer Infrastructure Projects	549,200	353,912	-	195,288
Stormwater Infrastructure Projects	900,842	881,502	-	19,340
Public Safety Video Cameras	546,493	162,076	352,296	32,121
Fire Station 1 Apparatus Bay Doors	130,000	-	123,275	6,725
Streets Infrastructure Projects	229,165	24,958	204,207	-
Homeless Shelter Support	300,000	33,746	266,254	-
Non-Profit Assistance/Community Service Grants	114,129	114,129	-	-
Childcare Assistance - First 5, 5% request	100,000	100,000	-	-
Smart Share ADU SLO Proposal	37,887	32,000	5,887	-
Grand Total	4,300,241	2,501,630	1,530,619	267,993

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Staff reviewed the 5-year Capital Improvement Project Plan, accessed any other outstanding projects that have risen as health and safety related issued, and reviewed the US Treasury issued its Final Rule governing eligible expenditures of the ARPA funds. With the timeframe to obligate all ARPA funds before December 31, 2024, staff recommends moving the remaining \$267,993 to the revenue loss category. The revenue loss category can be used towards the provision of government services by the City and will be obligated in line with the U.S. Department of Treasury rules of obligation before December 31, 2024 (which requires a contract or agreement to further commit the funds).

ALTERNATIVES:

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

1. Receive and file the Fiscal Year 2024-25 First Quarter Financial Status Report and approve twelve Budget Adjustment Requests;
2. Provide other direction to staff regarding the FY 20234-5 First Quarter Financial Status Report and the twelve Budget Adjustment Requests;
3. Receive and file the FY 2024-25 First Quarter Financial Status Report and do not approve the Budget Adjustment Requests and provide further direction to staff; or
4. Provide other direction to staff.

ADVANTAGES:

The financial report presents an updated review of the City's financial performance in the first quarter of FY 2024-25. Approval of the requested budget adjustments will enable staff to continue providing high quality services to the organization and to the public.

DISADVANTAGES:

No disadvantages have been identified at this time.

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. Fiscal Year 2024-25 First Quarter Financial Status Report