



MEMORANDUM

TO: City Council

FROM: Whitney McDonald, City Manager
Bill Robeson, Assistant City Manager/Public Works Director
Nicole Valentine, Administrative Services Director

SUBJECT: Discussion and Consideration of Approval of the Fiscal Year (FY) 2022-23 Mid-Cycle Budget Update Report, the 5-Year Capital Improvement Program Budget, and the Updated Citywide Combined Salary Schedule, Including the Salary Range for a Management Analyst

DATE: June 14, 2022

SUMMARY OF ACTION:

Approval of the detailed budget adjustments listed in the Budget Update Report and adoption of the attached Resolution to approve the Fiscal Year (FY) 2022-23 Budget will allow the City to continue funding all City services after the end of the current fiscal year on June 30, 2022, and to meet Council-directed goals and priorities for the fiscal year. The recommended action includes adoption of a Resolution to approve the 5-Year Capital Improvement Budget and a Resolution to update the Citywide Combined Salary Schedule and salary range for a Management Analyst position. Finally, direction and appropriation of excess reserves toward specific expenditures will provide one-time funding for one-time expenditures that will also help meet the City Council's goals and priorities.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The proposed Mid-Cycle Update for FY 2022-23 Budget recommends approximately \$47.8 million in expenditures, including operating costs such as salaries, benefits, services, supplies, maintenance, debt service, and capital related items. The proposed General Fund budget includes approximately \$21.9 million in expenditures in FY 2022-23. The proposed budget includes funding for two new positions, a Management Analyst and a Maintenance Worker, which will increase expenditures by approximately \$275,370.

The proposed FY 2022-23 Mid-Cycle General Fund budget utilizes excess fund balance reserves to pay for a combination of one-time and ongoing expenditures that will exceed expected revenues in order to address several goals and priorities discussed previously with the City Council. However, as presented, fund balance reserves are expected to remain at 31.8%, well above the adopted 20% goal, and the ongoing expenditures

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proposed in the FY 2022-23 Mid-Cycle General Fund budget are expected to be approximately \$182,100 lower than revenues.

At the end of FY 2022-23, the projected fund balance is approximately \$2,585,000 greater than the 20% goal. Because the act of allocating excess reserves adds to budgeted expenditures, the amount available to spend while keeping the reserve at 20% is \$2,150,000.

The 5-year Capital Improvement Program discussed in detail at the May 24, 2022 City Council meeting allocates \$69.9 million for projects, from various funding sources, over a 5-year period.

RECOMMENDATION:

1) Discuss, consider, and adopt a Resolution approving the FY 2022-23 Mid-Cycle Budget Update and a Resolution approving the 5-Year Capital Improvement Program Budget; 2) Discuss, consider, and appropriate \$2,150,000 of the Reserve Fund Balance toward directed expenditures; and 3) Adopt a Resolution establishing a salary range for a Management Analyst position and approving the updated Citywide Combined Salary Schedule.

BACKGROUND:

Each year the City Council adopts a budget, which commits resources for the next Fiscal Year. The City Council adopted the FY 2021-22 and 2022-23 Biennial Budget on June 8, 2021 (Attachment 6). 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 the FY 2021-22 have been provided on December 14, 2021, February 22, 2022, and May 10, 2022.

On May 10, 2022, the City Council approved updated Goals and Priorities for FY 2022-23 (Attachment 7). Additionally, on May 24, 2022, the City Council provided direction on the 5-year Capital Improvement Program (CIP) budget and the 5-Year Local Sales Tax Fund Expenditures Program (Attachment 8). The prioritization and direction provided by the City Council at these previous meetings have been incorporated into the FY 2022-23 Mid-Cycle Budget Update. The FY 2022-23 Budget was also developed with input from all City departments in a collaborative effort to provide staff's best professional judgment regarding current and future needs of the City, including needs to carry out the Goals and Priorities identified in Attachment 7.

The Capital Improvement Program reviewed by Council on May 24, 2022, was provided to the Planning Commission on June 7, 2022, for a determination of consistency with the

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City's General Plan. A project description is provided for each proposed project in the CIP for FY 2022-23 with information on the funding also being provided.

ANALYSIS OF ISSUES:

General Fund Overview

On November 9, 2021, the City Council reviewed the FY 2020-21 Year-End Financial Status report summarizing the Fund Balance at the end of FY 2020-21. The General Fund Balance at that time was \$8 million. This ending balance for FY 2020-21 then becomes the beginning balance for FY 2021-22. The projected available General Fund Balance at June 30, 2022, is approximately \$8 million. This equates to 39.3% of appropriations, which is higher than the City Council minimum fund balance goal of 20%.

Though General Fund expenditures are expected to outpace revenues in FY 2021-22 by \$64,000, as the table below shows, the year will end with a healthy projected fund balance of \$8 million (see "2021-22 Estimated Actual" column). This projected fund balance is lower than what was originally projected in the adopted FY 2021-23 Biennial Budget due to Council direction provided on July 27, 2021 to allocate excess available Fund Balance towards the Pavement Management Program.

With this Mid-Cycle Budget Update, as proposed, expenditures will out-pace revenues and include the allocation of excess available Fund Balance to proposed adjustments to the adopted FY 2021-23 Biennial Budget. Even with the proposed adjustments and expenditures, FY 2022-23 is projected to end with a fund balance of \$6.9 million, which represents 31.8% of total operating expenditures in the General Fund. This will be \$2.6 million above the reserve policy guideline of 20%.

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General Fund Budget & Available Fund Balance

(thousands)

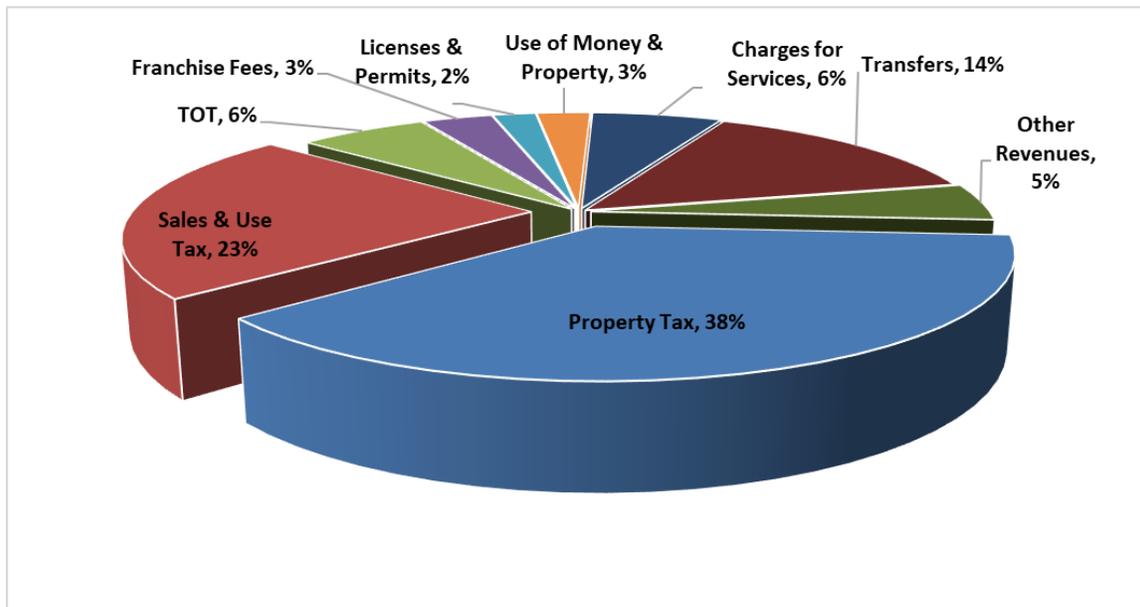
	2020-21 ACTUAL	2021-22			2022-23	
		ADOPTED BUDGET	AMENDED BUDGET	ESTIMATED ACTUAL	CURRENT BUDGET	PROPOSED BUDGET
Beginning Fund Balance	\$5,930	\$8,063	\$8,063	\$8,063	\$7,999	\$7,999
Revenues	16,337	16,414	16,566	17,187	16,969	17,888
Transfers In	2,717	3,047	3,089	3,089	3,013	3,013
Total Revenues	19,054	19,461	19,656	20,277	19,982	20,901
Salaries and Benefits	10,261	11,779	11,971	11,971	11,858	12,774
Services and Supplies	6,048	6,770	6,730	6,565	6,716	7,199
Debt Service	60	130	130	130	198	286
Capital Outlay	24	45	54	54	166	454
Transfers Out	527	466	2,344	1,622	413	1,216
Total Expenditures	16,920	19,189	21,229	20,341	19,352	21,929
Total Operating Incr/(Decr)	2,133	271	(1,574)	(64)	630	(1,028)
Available Fund Balance	\$8,063	\$8,334	\$6,490	\$7,999	\$8,630	\$6,971
Reserve %	47.7%	43.4%	30.6%	39.3%	44.6%	31.8%
\$ Above Reserve Policy	\$4,679	\$4,496	\$2,244	\$3,931	\$4,759	\$2,585

General Fund Revenues

As shown in the chart below, Sales and Property Taxes comprise the largest source of revenue in the General Fund, together accounting for approximately 61% of revenue in 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. Fortunately, as long as the real estate market stays reasonably strong, property taxes are a relatively stable revenue source.

2022-23 General Fund Revenues

\$20.9 million total



Overall, General Fund tax revenues have been trending upward over the past several years and are expected to continue increasing in FY 2022-23. Based on the latest information provided by the County Auditor-Controller’s Office, Property tax revenues are estimated to increase by 4% or \$163,000 over the estimated FY 2021-22 actual revenue received. This is an increase of \$300,000 from the current FY 2022-23 budget. These increases are 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.

Transiency Occupancy Tax (TOT) revenues have been trending upward compared to revenues received during the COVID-19 pandemic. TOT revenues are estimated to increase \$240,500 over the FY 2022-23 current budget. This is the result of an increase in tourism in Arroyo Grande that has continued to increase back to pre-pandemic levels throughout the past year.

Sales tax receipts continue to increase, up 4% in FY 2021-22. Based on projections from the City’s sales tax consultant, HdL, Sales Tax revenues are estimated to increase by 1.1% or \$89,600 over the FY 2021-22 estimated actual. This is an increase of \$66,700 from the FY 2022-23 current budget.

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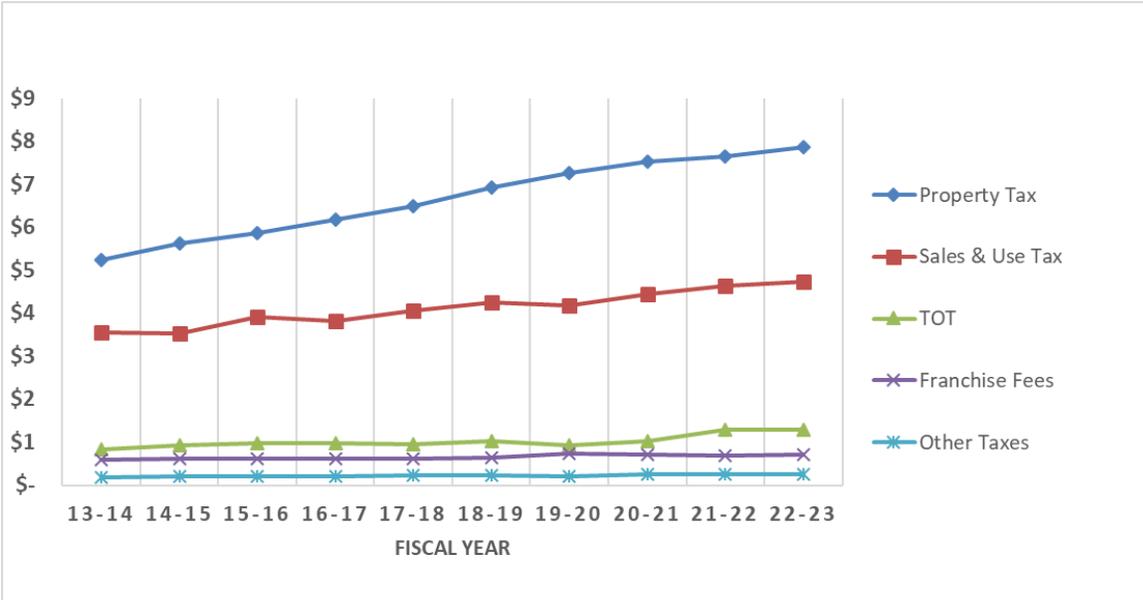
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General Fund Tax Revenues

(millions)



Actual revenue received from Building and Planning fees have been lower than estimated in the adopted budget. Overall, Building and Planning revenues are growing at a steady increase based on current activity levels, but the current budget projections do not reflect actual receipts in previous years. The proposed Mid-Cycle Budget Update for FY 2022-23 decreases the budgeted revenue from Planning and Building fees by approximately \$318,300 to better reflect anticipated actuals.

Recreation revenues for Special Interest Classes are increased by approximately \$96,000 in the proposed Mid-Cycle Budget Update for FY 2022-23 to account for the increased activities that the Recreation Services Department is providing to the community. In 2018, the City Council directed that the Recreation Services Department seek to achieve cost recovery at 100%. During the COVID-19 pandemic, a reduction of Recreation Services revenue occurred due to school closures, social distancing and indoor masking policies, additional cleaning and licensing regulations, as well as, stay-at-home orders. In light of the significant impacts of the pandemic, the current budget for FY 2022-23 projected revenues of \$600,635, which equates to 53% cost recovery. The increase in revenue from Special Interest Classes totaling \$96,000, plus the increase ELOP revenue totaling \$126,000 (discussed further below), will bring projected Recreation revenue to approximately \$822,610 in FY 2022-23, which equates to 67%

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cost recovery. A fee study is planned for the upcoming fiscal year that will include an updated analysis and recommendation on Recreation Cost Recovery moving forward.

Additional revenues variances include:

- Two programs funded by the Lucia Mar Unified School District:
 - Increase of \$7,350 for the School Resource Officer through an MOU based on a 50/50 share of the Police Officer's standard rate of pay.
 - Increase of up to \$126,000 for the Expanded Learning Opportunities Program (ELOP), which provides state grant funding for afterschool and summer school enrichment programs for kindergarten through sixth grade. Equal expenditures were built into the budget. This program should be cost neutral to the City to operate.
- Decrease of \$6,040 in Business License revenue based on current trends.
- Increase of \$17,000 in Sanitation District Billing services the City will continue to provide in FY 2022-23.
- Increase of \$380,000 in Surplus Police Department Vehicle revenue. The majority of this will offset the cost of replacement vehicles and the debt service payment for new patrol services leased vehicles.
- Inclusion of Santa Cop Donation Program totaling \$10,000 in the budget.

The total increases in proposed updates to the General Fund Revenue included in the Mid-Cycle Budget Update increase the FY 2022-23 Budget by \$919,207.

General Fund Expenditures

The following two charts show the proposed \$21.9 million General Fund expenditure budget for fiscal year 2022-23, 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 29% of the budget. Community Development and Public Works receive 10% and 11% of 2022-23 General Fund budget resources, respectively. The "Non-Departmental" category represents 20% of the General Fund budget and includes items that affect all departments, such as the annual payment on the City's Unfunded Actuarial Liability, property and general liability insurance, and transfers to the Street and Capital Improvement Project funds.

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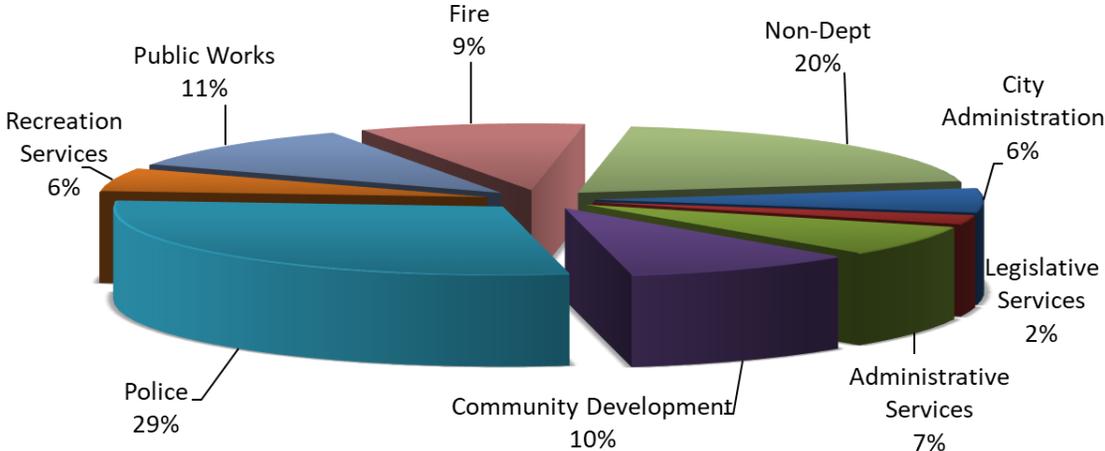
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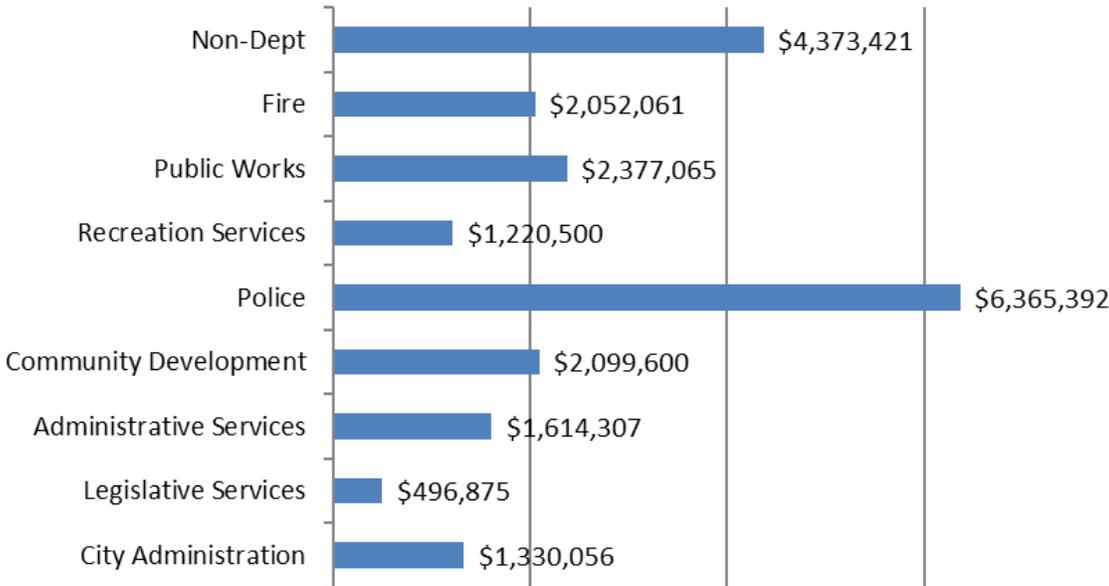
2022-23 General Fund Expenditures by Department

\$21.8 million total



2022-23 General Fund Expenditures by Department

\$21.8 million total



The tables in the following pages identify specific budget request items in the FY 2022-23 Mid-Cycle Budget in the areas of staffing, vehicle and equipment purchases, and other

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expenditure items. The total General Fund Expenditure requests included in the Mid-Cycle Budget Update increase the FY 2022-23 Budget by \$2,577,675.

Proposed Salary and Benefits Requests \$915,900

During the Mid-Year Financial Status report on February 22, 2022 the City Council approved an Associate Engineer position within the Public Works Department to provide additional Capital Improvement Program (CIP) support. With the influx of American Rescue Plan Act (ARPA) Funds, there is a large increase in CIP projects to complete in addition to the growing infrastructure projects that the City has planned to complete in the future. This position was not originally included in the FY 2022-23 budget and accounts for a portion of the proposed staffing requests listed below.

Staff are also requesting to add two additional positions:

- Management Analyst to the City Manager’s Office to support the evaluation and completion of special projects and internal and external projects that have been identified as priorities by the City Council.
- Parks Maintenance Worker to the Public Works Department to provide additional support for the maintenance of a high standard of service at all City park and open space facilities, including services for additional recreation events and offerings to the community.

Proposed Staffing Requests

Position	Budget Increase
Associate Engineer	168,730
Parks Maintenance Worker	99,420
Management Analyst	175,950

Salaries and benefit costs included in the proposed Mid-Cycle Budget Update for FY 2022-23 reflect contractually obligated increases (current bargaining group contracts, which expire June 30, 2024). An Updated Citywide Salary Schedule is proposed for approval in Attachment 5 to implement these changes and to establish a salary range for the proposed Management Analyst position.

This budget proposal also includes funding for a true-up payment to the Five Cities Fire Authority (FCFA) totaling an estimated \$550,000 (\$50,000 per year for 10 years + \$50,000 for FY 2022-23) for the City’s share of accrued actuarial liability for employees who worked for the City before the FCFA was formed. The FCFA was formed in July 2010 as a Joint Powers Authority. At that time, the FCFA became the employer for fire safety personnel previously employed by its member agencies. The City of Grover Beach and the Oceano Community Services District retained the CalPERS liabilities for the past

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service of their employees. No new CalPERS plan was created for the FCFA and instead all FCFA employees have been covered under the City of Arroyo Grande's CalPERS pension plans. As a result, the City's CalPERS plans include liabilities for employees and retirees of the City and of FCFA. Since the JPA was formed, FCFA has paid the full costs of the City's Fire Safety CalPERS plans. As a result, the FCFA has been paying the CalPERS liabilities of City of Arroyo Grande employees that were incurred before the FCFA was formed. The City will be required to pay back these amounts as part of the unwinding process contemplated in the Third Amendment to the JPA, if the unwinding process is triggered. The FCFA retained the actuarial firm Bartel & Associates to calculate the actuarial accrued liability (AAL) for each person in the Fire Safety Classic tier, mirroring CalPERS actuarial valuation methods and assumptions, and estimated that the City's share of CalPERS liabilities for its pre-FCFA employees was approximately \$52,000 for one year. Bartel & Associates will be requested to complete a detailed review of the past ten years to tally the City's total amount owed, which is anticipated to be approximately \$500,000. This amount, plus this upcoming fiscal year's payment, are included in the proposed Mid-Cycle Budget Update for FY 2022-23.

Workers' Compensation insurance through CalJPIA is \$872,300 for FY 2022-23. Of that amount, approximately 27% or \$235,000 is allocated to FCFA, leaving \$637,300 allocated to Arroyo Grande. This is an increase of \$71,600 over current budget amounts.

Services and Supplies Requests \$483,487

As discussed in the General Fund revenue section of this report, the ELO Program that provides funding for afterschool and summer school enrichment programs for kindergarten through sixth grade totaling \$126,000 and the Santa Cop Donation Program totaling \$10,000 are both cost neutral, meaning the revenues should cancel out the expenditures. However, these items are included as expenditure variances due to the fact that they were not included in the FY 2022-23 budget adopted in June 2021.

Additionally, staff is requesting to increase Contractual Services totaling \$334,556 within the following departments:

- City Manager's Office totaling \$12,000 for Council goals facilitation services, potential staff retreat support, and services supporting regional efforts;
- Legislative and Information Services Department totaling \$38,900 for public outreach, ballot informational mailer and advertising, and an electronic signature program to provide greater efficiencies when processing important documents;
- Legal Services Agreement totaling \$6,800;
- Animal Services Contract totaling \$12,556;
- Human Resources Division totaling \$30,000 for the salary survey being completed in FY 2022-23, originally budget for FY 2021-22;
- Administrative Services Department totaling \$234,300 including:

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- \$9,000 for GASB 87 and 95 additional requirements,
- \$50,000 for Development Impact Fee study being completed in FY 2022-23, originally budget for FY 2021-22,
- \$75,000 for Accounting and Human Resources Support to help streamline and update outdated policies and procedures,
- \$16,900 for an additional platform for the City's existing human resources software,
- \$38,500 to upgrade to Microsoft Office 365,
- \$24,900 for budget software to streamline processes, reduce redundancies, and create a user-friendly platform for the public to easily navigate the budget document, and
- \$20,000 for IT Support Services to assist in the transition of a new IT Manager when the current staff member retires in August.

The proposed Mid-Cycle Budget Update also includes an increase in the Police Department's budget for minor adjustments to 10 line items, reflecting a total increase of \$38,000. This increase would include:

- Law Enforcement Wellness support to provide resources for officers and staff who are involved in critical incidents;
- Outside background screening for new hires;
- Continuing education opportunities to increase knowledge and expertise in daily operation, including training in de-escalation techniques that are used on a frequent, if not daily, basis that will reduce liability while enhancing the effectiveness and safety of the suspect, the public, and the officer in dealing with potentially violent encounters;
- Increased maintenance of the building and grounds at the Police Station to exemplify professionalism and community pride and janitorial support to provide additional resources due to COVID-19 exposures and contamination at the Police station;
- Funding to cover the rising costs in medical supplies and equipment, such as AED battery packs, Naloxone (Narcan), hemostatic bleeding control, and tourniquets;
- Increase in costs for LIDAR (hand-held laser speed detection device) calibration.
- Add a dedicated server to support digital evidence retention specific to UAV/Drones and a pilot use tracking software program to assist in required monthly FAA reports;

Other requested expenditure variances include:

- Increase in Human Resource division to include \$2,000 for travel and training;
- Increase in Gas and Oil related costs totaling \$12,000;

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- Decrease of \$38,369 in liability insurance costs through CalJPIA compared to current budget amounts.

Vehicle Replacement Requests \$375,503

As detailed in the table below, the proposed budget includes a request for \$1,292,000 in vehicles and equipment. Several City vehicles that were previously leased have reached the end of their useful lives. In some cases, the budget recommends entering into new leases and, where possible, a recommendation is made to purchase with cash to save financing costs. It is important to note that all vehicles due for replacement are evaluated to determine the status of their operating condition and whether or not their replacement can be delayed.

Proposed Vehicle Replacement Requests

Fund	Type	# of units	Lease/Buy	Current	Proposed	Variance
General	Riding Mower	1	Buy	75,900	95,000	19,100
Streets	Wood Chipper	1	Buy	48,100	63,500	15,400
Water	1/2 Ton Pickup	1	Buy	45,000	45,000	-
Water/Streets	Air Compressor	1	Buy	30,000	30,000	-
General	3/4 Ton Pickup w/Utility Bed	1	Buy	61,000	61,000	-
Streets	Dump Truck	1	Buy	100,000	100,000	-
Police	Ford Explorers	9	Lease	377,039	-	(377,039)
Police	Ford Explorers	7	Lease	-	491,900	491,900
Police	Ford Expeditions	2	Lease	-	158,300	158,300
Police	Ford Ranger Crew Cab	2	Buy	-	111,200	111,200
Police	Ford F250	1	Buy	-	73,200	73,200
Police	Ford Transit Van	1	Buy	-	62,900	62,900
				737,039	1,292,000	554,961

The table reflects the total cost of vehicles that will be leased over a four-year term. The FY 2022-23 budget includes principal and interest payments for the first year's payments, and the remaining amounts will be included in future budgets. The 4 proposed Police vehicles for purchase included in the proposed vehicle replacement request total \$247,300 and the estimated lease payment for the 9 leased vehicles is estimated to be \$178,000 totaling \$425,300 in FY 2022-23. The City anticipates receiving \$380,000 in Surplus revenue from the sale of the existing vehicles that will offset this cost, reducing the net impact to \$45,300.

General Fund Transfer to Capital Improvement Program (CIP) \$802,785

On May 24, 2022, the City Council provided direction on the 5-year CIP budget that included an anticipated transfer of \$802,785 from the General Fund to upcoming 5-Year CIP. The proposed Mid-Cycle Update for the FY 2022-23 budget includes the transfer of funding for two projects that are included in the proposed 5-Year CIP as follows:

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- \$764,585 for the Pavement Management Program (PMP). This transfer represents funding previously allocated from excess reserves by the City Council on July 27, 2021, to the 2021 PMP. At that time, the total funding allocated reached \$1,751,000; however, the actual contract price for the project was lower than the budgeted amount by \$764,585. It is proposed that this funding be returned to the new 5-Year CIP to be used for the PMP in FY 2022-23.
- \$30,000 for the design study of the Short Street Plaza. The design portion of this project is proposed to be funded with General Fund monies, requiring a transfer of this funding to the CIP.

APPROPRIATION OF EXCESS AVAILABLE GENERAL FUND BALANCE:

During the FY 2021-23 Biennial Budget hearings, staff recommended bringing forward a future agenda item to address the fund balance above the 20% Fund Balance Goal Limit and to appropriate funds, if applicable, to certain expenditures. It is recommended that this FY 2022-23 Mid-Cycle Budget Update process include consideration of excess General Fund Balance and potential appropriation for expenditures as directed by Council.

At the end of FY 2022-23, the projected fund balance is approximately \$2,585,000 greater than the 20% goal. Because the act of allocating excess reserves adds to budgeted expenditures, the amount available to spend while keeping the reserve at 20% is \$2,150,000. This is the amount staff recommends discussing and potentially appropriating as part of this item.

In general, the funding available as excess reserves at this time result from a combination of one-time events. For instance, when the COVID-19 pandemic began, staff proposed and the City Council approved a number of cost-saving measures to reduce expenditures more than \$1.2 million below the approved FY 2019-20 budget in light of anticipated reductions in revenue. For instance, vacant Police and Community Development positions were not filled, training and consultant services budgets were reduced, and planned vehicle replacements were delayed. As the pandemic continued, revenue projections for FYs 2020-21 and 2021-23 conservatively estimated only modest increases due to the many unknown economic impacts of the public health crisis. However, actual revenue received exceeded estimates for unexpected reasons, such as federal COVID relief funding, sales tax revenue resulting from a large one-time equipment purchase by a local vendor, and increases in property tax revenues above the County's projections. The proposed Mid-Cycle Budget for FY 2022-23 accounts for the newly projected increases in ongoing revenue, but the other causes of the current General Fund Balance are not anticipated to be replicated in future years.

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There are many options available for spending excess general fund reserves. However, because the excess reserves are one-time funds and do not represent an ongoing funding source, it is recommended that they be allocated to one-time items rather than to fund ongoing costs, such as new positions or programs. Spending options include an additional UAL payment to CalPERS, an Employee Retention Incentive, and infrastructure projects, such as pavement maintenance, sidewalk improvements or other capital improvement projects. Decisions regarding projects funded using excess reserves should also consider staff resource constraints.

Infrastructure Projects

Infrastructure projects include pavement maintenance, sidewalk improvements or other capital improvement projects that are not currently funded in the proposed 5-Year CIP. Infrastructure needs were discussed on April 26, 2022 during the Discussion of Infrastructure Financing Options (Attachment 8).

The 5-Year CIP Budget includes \$4,786,548 in the FY 2022-23 Budget for the Pavement Management Program (PMP). To maintain the City's current Pavement Condition Index (PCI) of 56, which borders on the Poor Condition, approximately \$6.25 million needs to be spent annually. The City's pavement management consultant, PEI Consultants, Inc., has indicated that larger pavement projects have the potential to attract larger contractors who have their own asphalt plants that can often lead to a lower cost per square foot than smaller projects that often attract small firms that are reliant on others for their asphalt supply. Additional allocations of funding from General Fund Reserves to the PMP may result in greater efficiencies for the FY 2022-23 project.

The 5-Year CIP Budget includes \$240,000 in the FY 2022-23 Budget for Sidewalk Improvements. Current sidewalk repair costs are estimated at \$15/square foot. Additional funding for the sidewalk repair program would increase the number of sidewalk panels that could be repaired in the City and may enable the City to install new sidewalks to close existing gaps in one or two locations.

The City has a number of CIP projects that are not currently funded at this time. For example, the City proposes to complete studies on the Short Street Plaza Project and Recreation Services/Mark M. Millis Community Center Building projects. While funding has been included in the 5-Year CIP for these studies, both projects will require significant investments for construction and current funding sources are unknown. If Council wishes to retain excess General Fund Balance for these CIP projects that are not currently funded, the funding will remain in fund balance and included in the next 5-Year Capital Improvement Program Budget in Spring 2023.

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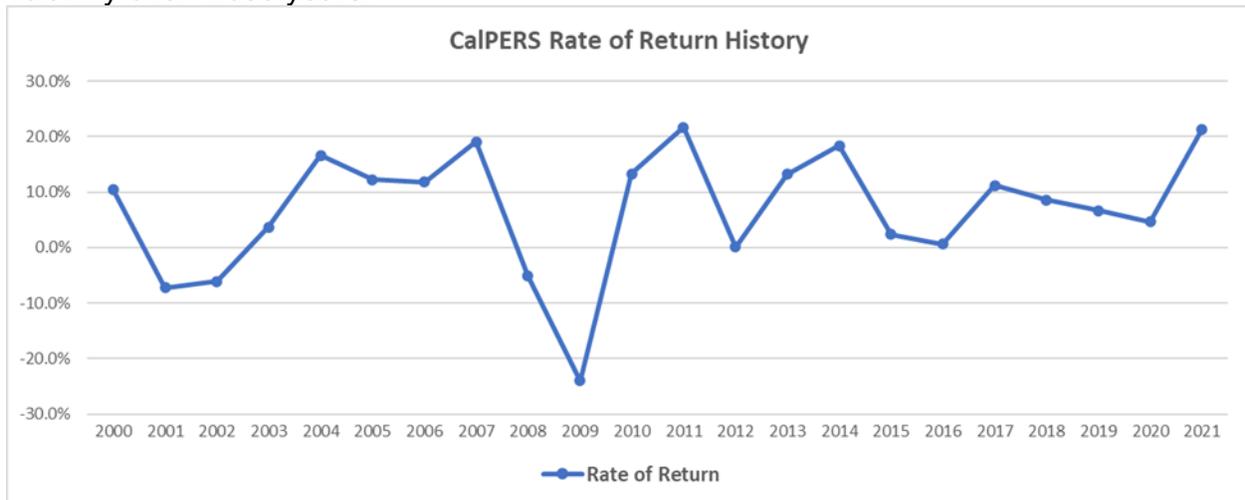
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Reducing the City's CalPERS Unfunded Accrued Liability (UAL)

Because past earnings have not matched assumptions used by CalPERS to determine the amount of funding needed to cover pension obligations for member agencies, most CalPERS pension plans have liabilities that exceed the market value of assets in the plan, creating an Unfunded Actuarial Liability (UAL). The chart below shows historical rates of return on CalPERS investments over the last twenty years, indicating tremendous volatility over those years.



During the time period of the above chart, the expected rate of return has ranged from a high of 8.25% to the current expectation of 6.8%. In any year that the rate of return falls below these earnings expectations, the UAL will likely increase. This factor has been the primary driver of the increasing UAL over the years. Additionally, other factors, such as changes to mortality assumptions and shorter amortization of gains and losses, have also increased the UAL.

The City has a projected UAL of \$17.9 million as of June 30, 2021. This total includes amounts from all six City pension plans, though primarily from the Tier 1 Plans, as follows:

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<u>Unfunded Liability of each Plan at 6/30/21</u>		
		<u>Unfunded Liability</u>
Miscellaneous Plan	Tier 1	\$ 13,129,725
Miscellaneous Plan	Tier 2	15,265
Miscellaneous Plan	PEPRA	28,733
Safety Police Plan	Tier 1	4,654,970
Safety Police Plan	Tier 2	48,898
Safety Police Plan	PEPRA	13,007
		<u>\$ 17,890,598</u>

In an effort to reduce the City’s CalPERS UAL, the City Council decided during the FY 2018-2020 Biennial Budget hearings to make two prepayments on the UAL. The first prepayment of \$3 million was made in July 2018 and a second prepayment of \$2 million was made in July 2019. The future realized savings from these investments will be approximately \$423,000 annually on average for the next 29 years. This represents a rate of return on investment from the \$5 million paid to CalPERS of 7.1%. The City Council may choose to allocate some or all of the \$2.15 million of excess General Fund Balance to pay down the UAL further in FY 2022-23. A payment of \$2.15 million to CalPERS would be anticipated to provide \$170,000 in savings annually beginning in FY 2024-25.

Employee Retention Incentive Program

Council’s adopted Goals and Priorities for FY 2022-23 were grouped under three main categories: Investing in the Future, Investing in the City’s Infrastructure and Facilities, and Investing in People. An Employee Retention Incentive Program could be approved that would fall under the category of Investing in People. Salaries and benefits costs in the FY 2022-23 Mid-Cycle Budget Update reflect contractually obligated increases (current bargaining group contracts, which expire June 30, 2024). With rising inflation and cost of living increases, the retention of current employees during the completion of a salary survey continues to be a concern.

Excess General Fund Balance may be used to support a program that may provide one-time retention incentive pay to staff in two equal payments to incentivize retention. Full-time employees who worked from January 1, 2022, to June 30, 2022, could be provided the first half of the one-time incentive and the second half could be provided to those who have worked from July 1, 2022, to December 31, 2022. Employees who worked less than full-time would receive payment on a prorated amount. An alternative could provide the same payment over a 12-month time frame, for example the first payment would remain in July 2022 and the second payment would be in July 2023. These amounts would not

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be retirement reportable and would not be included in the regular rate of pay for overtime purposes.

The City of Arroyo Grande currently has 70 Full time employees and approximately 7 FTE part time employees. Additionally, FCFA staff are City employees but are paid through FCFA. If the City Council would like to consider this program for FCFA employees, FCFA currently has 25 Full time employees and approximately 1 FTE part time employees. The following table provides the cost comparison of a one-time incentive (paid over two installments to continue to incentivize retention) of \$5,000, \$7,500, and \$10,000:

Costs	\$5,000 Retention Incentive Pay	\$7,500 Retention Incentive Pay	\$10,000 Retention Incentive Pay
City	385,000	577,500	770,000
FCFA	130,000	195,000	260,000
	515,000	772,500	1,030,000

OTHER BUDGET ISSUES:

Enterprise Fund

Though the focus of this report has been on the City's General Fund, it is important to point out that the City's two enterprise fund programs, Water and Sewer, are proposed to be updated to reflect the rate adjustment approved by the City Council on March 8, 2022, based on the Water and Wastewater Rate Study. The table below details a consolidated look at these enterprise funds.

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	2020-21 ACTUAL	2021-22			2022-23		Increase/ (Decrease)
		ADOPTED BUDGET	AMENDED BUDGET	ESTIMATED ACTUAL	CURRENT BUDGET	PROPOSED BUDGET	
Beginning Working Capital	\$ 8,480,795	\$ 8,039,345	\$ 8,039,345	\$ 8,039,345	\$ 5,421,118	\$ 5,421,118	\$ -
Revenues:							
Revenues	7,979,505	7,936,488	7,995,530	7,881,445	7,936,488	9,057,997	1,121,509
Transfers In	3,460,975	3,740,113	5,357,463	5,310,500	4,085,066	4,245,605	160,539
Total Revenues	11,440,480	11,676,601	13,352,993	13,191,944	12,021,554	13,303,602	1,282,048
Expenses:							
Salaries and Benefits	921,206	1,040,100	1,049,300	1,054,300	1,017,800	1,077,900	60,100
Services and Supplies	4,129,427	4,662,103	4,700,503	4,656,540	4,761,296	4,804,835	43,539
Debt Service	1,305	22,000	22,000	22,000	-	-	-
Capital Outlay	1,023,255	71,000	71,000	71,000	3,700	3,700	-
Capital Improvement Program	42,937	609,180	2,913,467	3,572,362	1,430,662	1,591,450	160,788
Transfers Out	5,763,799	6,424,993	6,480,933	6,433,970	6,857,766	6,870,805	13,039
Total Expenditures	11,881,930	12,829,376	15,237,203	15,810,171	14,071,224	14,348,690	277,466
Revenues over/(under) Expenses	(441,450)	(1,152,775)	(1,884,210)	(2,618,227)	(2,049,670)	(1,045,088)	1,004,582
Ending Working Capital	\$ 8,039,345	\$ 6,886,570	\$ 6,155,135	\$ 5,421,118	\$ 3,371,448	\$ 4,376,030	\$ 1,004,582

Special Revenue Funds

Special Revenue Funds are a governmental fund type used to account for specific revenues that are legally restricted to expenditures for particular purposes. The Mid-Cycle Budget Update for FY 2022-23 proposes changes to 8 of the 24 Special Revenue Funds. Only the Special Revenue Funds with changes will be highlighted in this section.

Fund 214 Park Improvement

The Fund 214 Park Improvement Fund includes impact fees collected from developers for park improvements and are to be used to maintain the adopted level of service for neighborhood and community parks of 4.0 acres per thousand population. The anticipated revenues decreased by \$20,000 compared to the current budget. The expenditure budget also decreased by \$66,000 due to the Ash Street Restroom Roof replacement being reprogrammed to be completed in FY 2023-24. The anticipated fund balance at the end of FY 2022-23 is \$155,096 as shown in the table below:

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ITEM	2020-21 ACTUAL	2021-22			2022-23		Increase/ (Decrease)
		ADOPTED BUDGET	AMENDED BUDGET	ESTIMATED ACTUAL	CURRENT BUDGET	PROPOSED BUDGET	
Beginning Fund Balance	\$ 331,858	\$ 308,247	\$ 308,247	\$ 308,247	\$ 164,196	\$ 164,196	-
Revenues:							
Revenues	24,311	70,900	70,900	25,900	70,900	50,900	(20,000)
Transfers In	-	-	-	-	-	-	-
Total Revenues	24,311	70,900	70,900	25,900	70,900	50,900	(20,000)
Expenditures:							
Salaries and Benefits	-	-	-	-	-	-	-
Services and Supplies	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Transfers Out	47,921	116,000	169,951	169,951	126,000	60,000	(66,000)
Total Expenditures	47,921	116,000	169,951	169,951	126,000	60,000	(66,000)
Change in Fund Balance	(23,611)	(45,100)	(99,051)	(144,051)	(55,100)	(9,100)	46,000
Ending Fund Balance	\$ 308,247	\$ 263,147	\$ 209,196	\$ 164,196	\$ 109,096	\$ 155,096	46,000

Fund 218 Local Sales Tax Fund

Fund 218 Local Sales Tax Fund accounts for the revenues derived from Measure O-06, a local 0.5% sales tax approved by the City's voters in November 2006. The Local Sales Tax Fund provides for both operating and capital needs, with approximately 85% of the revenue generated by this half-percent tax allocated for capital projects. The 5-Year Local Sales Tax Fund Expenditures Program was discussed on April 26, 2022 (Attachment 8). The anticipated revenues increased by \$259,500 and the expenditure budget increased by \$3,094,956 compared to the current budget. The anticipated fund balance at the end of FY 2022-23 is \$1.3 million as shown in the table below:

ITEM	2020-21 ACTUAL	2021-22			2022-23		Increase/ (Decrease)
		ADOPTED BUDGET	AMENDED BUDGET	ESTIMATED ACTUAL	CURRENT BUDGET	PROPOSED BUDGET	
Beginning Fund Balance	\$ 3,823,112	\$ 4,820,703	\$ 4,820,703	\$ 4,820,703	\$ 4,462,466	\$ 4,462,466	-
Revenues:							
Revenues	2,696,852	2,489,500	2,489,500	2,737,790	2,586,500	2,846,000	259,500
Transfers In	-	-	-	-	-	-	-
Total Revenues	2,696,852	2,489,500	2,489,500	2,737,790	2,586,500	2,846,000	259,500
Expenditures:							
Salaries and Benefits	-	-	-	-	-	-	-
Services and Supplies	633,440	561,394	561,394	615,219	585,394	645,394	60,000
Capital Outlay	-	-	-	-	-	-	-
Transfers Out	1,065,821	1,394,130	3,629,376	2,480,808	2,304,331	5,339,287	3,034,956
Total Expenditures	1,699,261	1,955,524	4,190,770	3,096,027	2,889,725	5,984,681	3,094,956
Change in Fund Balance	997,591	533,976	(1,701,270)	(358,237)	(303,225)	(3,138,681)	(2,835,456)
Ending Fund Balance	\$ 4,820,703	\$ 5,354,679	\$ 3,119,433	\$ 4,462,466	\$ 4,159,241	\$ 1,323,785	(2,835,456)

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Fund 220 Streets

Fund 220 Streets accounts for receipts and expenditures of money apportioned by the State under Streets and Highway Code. The use of gas tax revenues can only be used to construct and maintain streets, roads and highways. The anticipated revenues increased by \$91,714 compared to the current budget due to more consumers driving and the increase in gas costs. The expenditure budget also increased by \$10,601 related to increased employee costs. The anticipated fund balance at the end of FY 2022-23 is \$79,698 as shown in the table below:

ITEM	2020-21 ACTUAL	2021-22			2022-23		Increase/ (Decrease)
		ADOPTED BUDGET	AMENDED BUDGET	ESTIMATED ACTUAL	CURRENT BUDGET	PROPOSED BUDGET	
Beginning Fund Balance	\$ 90,322	\$ 90,339	\$ 90,339	\$ 90,339	\$ 0	\$ 0	-
Revenues:							
Revenues	551,990	783,678	783,678	802,131	799,352	891,066	91,714
Transfers In	463,890	491,000	491,000	536,806	576,000	576,000	-
Total Revenues	1,015,881	1,274,678	1,274,678	1,338,937	1,375,352	1,467,066	91,714
Expenditures:							
Salaries and Benefits	484,278	495,200	499,700	499,700	483,700	523,100	39,400
Services and Supplies	254,959	294,500	294,500	294,500	436,900	447,168	10,268
Debt Service	40,899	53,704	53,704	53,704	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Transfers Out	235,728	453,072	613,944	581,372	456,167	417,100	(39,067)
Total Expenditures	1,015,863	1,296,476	1,461,848	1,429,276	1,376,767	1,387,368	10,601
Change in Fund Balance	17	(21,798)	(187,170)	(90,339)	(1,416)	79,698	81,114
Ending Fund Balance	\$ 90,339	\$ 68,541	\$ (96,831)	\$ 0	\$ (1,416)	\$ 79,698	81,114

Fund 224 Transportation Facility Impact

Fund 224 Transportation Facility Impact accounts for developer impact fees paid to protect the public health, safety, and welfare by maintaining the existing level of public transportation facility services for existing and future residents within the City of Arroyo Grande. The anticipated revenues are unchanged compared to the current budget, however, the expenditure budget decreased by \$241,219 related to a change in the Brisco Road/US 101 Interchange funding in FY 2022-23. The anticipated fund balance at the end of FY 2022-23 is \$1.4 million as shown in the table below:

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ITEM	2020-21 ACTUAL	2021-22			2022-23		Increase/ (Decrease)
		ADOPTED BUDGET	AMENDED BUDGET	ESTIMATED ACTUAL	CURRENT BUDGET	PROPOSED BUDGET	
Beginning Fund Balance	\$ 2,446,874	\$ 2,601,057	\$ 2,601,057	\$ 2,601,057	\$ 1,848,589	\$ 1,848,589	-
Revenues:							
Revenues	156,715	150,000	150,000	35,000	150,000	150,000	-
Transfers In	-	-	-	-	-	-	-
Total Revenues	156,715	150,000	150,000	35,000	150,000	150,000	-
Expenditures:							
Salaries and Benefits	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Transfers Out	2,532	107,124	787,468	787,468	831,219	590,000	(241,219)
Total Expenditures	2,532	107,124	787,468	787,468	831,219	590,000	(241,219)
Change in Fund Balance	154,183	42,876	(637,468)	(752,468)	(681,219)	(440,000)	241,219
Ending Fund Balance	\$ 2,601,057	\$ 2,643,933	\$ 1,963,589	\$ 1,848,589	\$ 1,167,370	\$ 1,408,589	241,219

Fund 225 Transportation

Fund 225 Transportation revenue is provided by the San Luis Obispo County of Government’s (SLOCOG) Local Transportation Fund (LTF). The annual appropriation is restricted to transportation systems, including transit, pedestrian, street and road maintenance. The anticipated revenues increased by \$150,000 compared to the current budget, reflecting more consumers driving and the increase in gas costs. The expenditure budget remains unchanged. The anticipated fund balance at the end of FY 2022-23 is \$1.2 million as shown in the table below:

ITEM	2020-21 ACTUAL	2021-22			2022-23		Increase/ (Decrease)
		ADOPTED BUDGET	AMENDED BUDGET	ESTIMATED ACTUAL	CURRENT BUDGET	PROPOSED BUDGET	
Beginning Fund Balance	\$ 321,241	\$ 540,130	\$ 540,130	\$ 540,130	\$ 965,130	\$ 965,130	-
Revenues:							
Revenues	461,948	364,000	364,000	673,000	364,000	514,000	150,000
Transfers In	-	-	-	-	-	-	-
Total Revenues	461,948	364,000	364,000	673,000	364,000	514,000	150,000
Expenditures:							
Salaries and Benefits	-	-	-	-	-	-	-
Services and Supplies	2,363	15,000	15,000	15,000	15,000	15,000	-
Debt Service	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Transfers Out	240,696	233,000	233,000	233,000	233,000	233,000	-
Total Expenditures	243,059	248,000	248,000	248,000	248,000	248,000	-
Change in Fund Balance	218,889	116,000	116,000	425,000	116,000	266,000	150,000
Ending Fund Balance	\$ 540,130	\$ 656,130	\$ 656,130	\$ 965,130	\$ 1,081,130	\$ 1,231,130	150,000

Fund 240 Tourism Business Improvement District (TBID)

Fund 240 TBID provides projects, programs and activities that benefit lodging businesses located and operating within the City of Arroyo Grande. A two percent (2%) assessment

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is levied on all lodging businesses of the rent charged by the operator per occupied room per night for all transient occupancies. Revenue collected is used to promote the lodging industry within the City. The anticipated revenues increased by \$97,100 compared to the current budget. The expenditure budget is proposed to increase by \$63,500 compared to the current budget. The TBID budget has been included in the consent agenda as item 8.g. The anticipated fund balance at the end of FY 2022-23 is \$276,825 as shown in the table below:

ITEM	2020-21 ACTUAL	2021-22			2022-23		Increase/ (Decrease)
		ADOPTED BUDGET	AMENDED BUDGET	ESTIMATED ACTUAL	CURRENT BUDGET	PROPOSED BUDGET	
Beginning Fund Balance	\$ 308,374	\$ 328,349	\$ 328,349	\$ 328,349	\$ 325,075	\$ 325,075	-
Revenues:							
Revenues	205,466	136,750	136,750	246,200	147,650	244,750	97,100
Transfers In	-	-	-	-	-	-	-
Total Revenues	205,466	136,750	136,750	246,200	147,650	244,750	97,100
Salaries and Benefits	-	-	-	-	-	-	-
Services and Supplies	185,491	221,500	221,500	241,474	221,500	285,000	63,500
Debt Service	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Transfers Out	-	8,000	8,000	8,000	8,000	8,000	-
Total Expenditures	185,491	229,500	229,500	249,474	229,500	293,000	63,500
Change in Fund Balance	19,975	(92,750)	(92,750)	(3,274)	(81,850)	(48,250)	33,600
Ending Fund Balance	\$ 328,349	\$ 235,599	\$ 235,599	\$ 325,075	\$ 243,225	\$ 276,825	33,600

Fund 241 Water Availability Fund

Fund 241 Water Availability Fund represents funding received from a charge that was enacted pursuant to the provision of Section 38743 of the Government Code, and Section 13.04.040 of the City Municipal Code. Water availability charges are imposed upon each parcel of property not served with city water and are restricted for the purpose of expanding water supply such as desalination plant, recycled water, scalping plant, etc. The anticipated revenues are unchanged compared to the current budget, however, the expenditure budget is proposed to decrease by \$576,050 in order to spend the remainder of the fund balance towards Central Coast Blue (CCB) pre-construction costs. All transfers out shown from FY 2020-21 through FY 2022-23 are related to CCB pre-construction costs. The anticipated fund balance at the end of FY 2022-23 is \$0 as shown in the table below:

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ITEM	2020-21 ACTUAL	2021-22			2022-23		Increase/ (Decrease)
		ADOPTED BUDGET	AMENDED BUDGET	ESTIMATED ACTUAL	CURRENT BUDGET	PROPOSED BUDGET	
Beginning Fund Balance	\$ 1,555,872	\$ 1,601,902	\$ 1,601,902	\$ 1,601,902	\$ 45,950	\$ 45,950	-
Revenues:							
Revenues	51,088	78,000	78,000	18,000	78,000	78,000	-
Transfers In	-	-	-	-	-	-	-
Total Revenues	51,088	78,000	78,000	18,000	78,000	78,000	-
Expenditures:							
Services and Supplies	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Transfers Out	5,059	20,100	787,812	1,573,952	700,000	123,950	(576,050)
Total Expenditures	5,059	20,100	787,812	1,573,952	700,000	123,950	(576,050)
Change in Fund Balance	46,029	57,900	(709,812)	(1,555,952)	(622,000)	(45,950)	576,050
Ending Fund Balance	\$ 1,601,902	\$ 1,659,802	\$ 892,090	\$ 45,950	\$ (576,050)	\$ (0)	576,050

Summary

The proposed Mid-Cycle Update for FY 2022-23 Budget recommends approximately \$47.8 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 shown below:

	Special					Total
	General Fund	Enterprise Funds	Revenue Funds	Agency Funds		
Beginning Fund Balance	\$ 7,999,075	\$ 5,421,118	\$ 14,626,396	\$ (747,612)		\$ 27,298,976
Revenues:						
Revenues	17,888,444	9,057,997	7,479,237	421,444		34,847,122
Transfers In	3,012,700	4,245,605	576,000	-		7,834,305
Total Revenues	20,901,144	13,303,602	8,055,237	421,444		42,681,427
Expenditures:						
Salaries and Benefits	12,774,135	1,077,900	523,100	-		14,375,135
Services and Supplies	7,199,231	4,804,835	1,596,897	7,800		13,608,763
Debt Service	286,261	-	-	382,944		669,205
Capital Outlay	453,865	3,700	-	-		457,565
Transfers Out	1,215,785	8,462,255	8,556,107	35,900		18,270,047
Total Expenditures	21,929,277	14,348,690	10,676,104	426,644		47,380,715
Total Operating Incr/(Decr)	(1,028,133)	(1,045,088)	(2,620,868)	(5,200)		(4,699,289)
Available Fund Balance	\$ 6,970,942	\$ 4,376,030	\$ 12,005,529	\$ (752,812)		\$ 22,599,688

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The 5-Year CIP presented to Council on May 24, 2022, is ready for approval along with the updated FY 2022 operating budget. Direction is being sought on potential appropriation of up to \$2,150,000 in excess General Fund Reserves at the discretion of Council. Finally, updates to the Citywide Combined Salary Schedule are proposed for adoption to implement previously approved cost of living adjustments, and a salary range for a new Management Analyst position.

ALTERNATIVES:

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

1. Discuss, consider and adopt a Resolution approving the FY 2022-23 Mid-Cycle Budget Update, a Resolution approving the 5-Year Capital Improvement Program Budget, and a Resolution approving the Updated Citywide Combined Salary Schedule and establishing a salary range for a Management Analyst position; and discuss, consider, and direct the appropriation of up to \$2,150,000 of the Reserve Fund Balance for uses identified by Council;
2. Discuss, consider and modify the Resolution approving the FY 2022-23 Mid-Cycle Budget Update, the Resolution approving the 5-Year Capital Improvement Program Budget, and/or the Resolution approving the Updated Citywide Combined Salary Schedule and establishing a salary range for a Management Analyst position; and discuss, consider, and direct the appropriation of up to \$2,150,000 of the Reserve Fund Balance for uses identified by Council;
3. Do not appropriate Reserve Fund Balance at this time or direct staff to return with further analyses of potential uses; or
4. Provide other direction to staff.

ADVANTAGES:

The recommendations in the Mid-Cycle Budget Update for FY 2022-23 and described in the staff report concerning potential spending options for excess General Fund Balance include spending strategies that will support Council's adopted FY 2022-23 Goals of Investing in the Future, Investing in City Infrastructure and Facilities, and Investing in People and will accomplish the following:

- Maintain a substantial investment in improvements to the City's infrastructure and facilities through the CIP Budget;
- Maintain reserves at or above the City's policy levels; and
- Supports employee retention

The Mid-Cycle Budget Report provides an updated review of the City's finances in the current fiscal year, allocates additional funding to meet previously unanticipated needs, and maintains key service levels.

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DISADVANTAGES:

The recommendations do not fully address the long-term replacement needs of all City equipment and infrastructure, including the City's streets, sidewalks, and stormwater facilities. Limited staffing levels continue to be a challenge for 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. Mid-Cycle Budget Report
2. 5-Year Capital Improvement Program Budget
3. Proposed Resolution Approving the FY 2022-23 Mid-Cycle Budget Update
4. Proposed Resolution Approving the 5-Year Capital Improvement Program Budget
5. Proposed Resolution Establishing a Salary Range for Management Analyst and approving the Updated Citywide Combined Salary Schedule
6. June 8, 2021 Staff Report and Attachments
7. May 10, 2022 Staff Report and Attachments
8. April 26, 2022 Staff Report and Attachments
9. May 24, 2022 Staff Report and Attachments