



## MEMORANDUM

**TO:** City Council

**FROM:** Whitney McDonald, City Manager  
Bill Robeson, Assistant City Manager/Public Works Director

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

**SUBJECT:** Public Hearing to Consider the FY 2023-25 Biennial Budget and 5-Year Capital Improvement Program Budget

**DATE:** June 13, 2023

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### **SUMMARY OF ACTION:**

Conduct a Public Hearing to Consider the FY 2023-25 Proposed Budget and FY 2023-28 Capital Improvement Program and provide direction to staff to finalize the two-year budget for adoption on June 27, 2023.

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

The proposed 2023-25 Biennial Budget recommends approximately \$91.8 million in expenditures, including operating costs such as salaries, benefits, services, supplies, maintenance, debt service, and capital related items, over the next two fiscal years. The Consolidated General Fund budget includes approximately \$55.4 million, or about \$27.7 million in expenditures each year of the Biennial Budget.

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

### **RECOMMENDATION:**

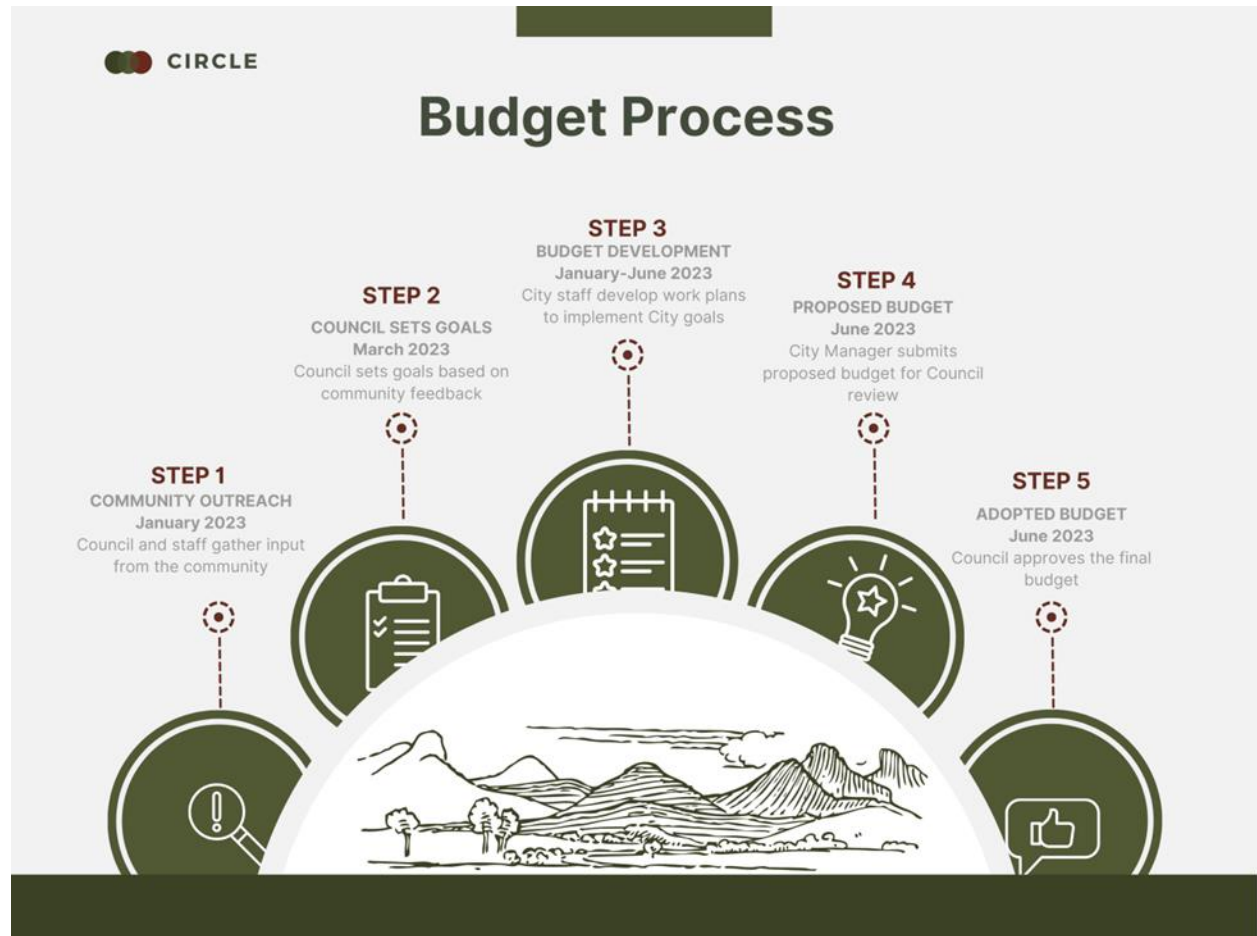
Conduct a Public Hearing to receive public comment regarding the FY 2023-25 Proposed Budget and FY 2023-28 Capital Improvement Program and provide direction to staff to finalize the two-year budget for adoption on June 27, 2023.

### **BACKGROUND:**

Every two years, staff and Council prepare a Biennial Budget document, 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. Work has been underway since January to develop the upcoming biennial budget for Fiscal Years

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2023-25. The anticipated 5-step process and timeline for this budget cycle is depicted below:



On January 3, 2023, an Arroyo Grande Community Priorities Survey was published. This 5-question online survey was posted on the City website and promoted on social media channels. The survey was open for more than one month and closed on February 20th. The survey allowed community members to provide input regarding their thoughts on what the top priorities should be for the City over the next 2-3 years. The survey included a combination of multiple choice and short response questions. A summary of the responses was included in with the [March 2, 2023](#), Special Council Meeting Staff Report.

At the March 2nd Special Council Meeting, Council established four (4) major City goals for staff to prioritize for the upcoming biennial budget cycle. The goals were established considering the results of the community survey and input from the public and staff. This set of priorities has been used by staff to create work plans and a proposed biennial budget. Work Plans to achieve the four major City goals have been incorporated into the FY 2023-25 Biennial Budget included in Attachment 1.

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The four major goals are:

**Goal Statements**



**Funding**

Support a thriving community through fiscal responsibility, economic development efforts, and additional and alternative revenue streams.



**Fire Services**

Implement operational and fire and emergency service delivery improvements through the Five Cities Fire Authority, and complete the transition of services to Oceano due to its exit from the Authority.



**Infrastructure**

Invest in and complete critical infrastructure projects throughout the City through the strategic prioritization of projects based on available resources.



**General Plan Update**

Prioritize and complete major work efforts for the comprehensive General Plan update to provide a vision and framework for future development within the City.

On [March 14, 2023](#), Council received an update on the General Fund Five-Year Financial forecast. The City of Arroyo Grande's Forecast is a long-range fiscal planning tool that has served as the framework for the development of the FY 2023-24 and FY 2024-25 General Fund Biennial Budget.

On [May 9, 2023](#), Council provided direction on the 5-year Capital Improvement Program (CIP) budget and the 5-Year Local Sales Tax Fund Expenditures Program. On [May 16, 2023](#), 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 2023-25 Biennial Budget. The FY 2023-25 Biennial 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. On [May 23, 2023](#), Council reviewed the Preliminary FY 2023-25 Biennial Operating Budget and provided feedback to staff in preparation for the public hearing. The presentation included discussion regarding:

- Proposed Staffing Changes
- Vehicle Replacement Requests

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- Significant Budget Requests related to the Major City Goals and Priorities
- Appropriation of Excess Available Consolidated General Fund Balance
- Review of changes related to Enterprise and Special Review Funds

The FY 2023-25 Biennial Budget described further below and proposed in Attachment 1 incorporates the direction provided by Council during the May 23<sup>rd</sup> discussion.

**ANALYSIS OF ISSUES:**

The FY 2023-24 and FY 2024-25 proposed budgets present a balanced budget, with excess revenues and fund balance sufficient to cover recommended work plan and capital project budget expenditures.

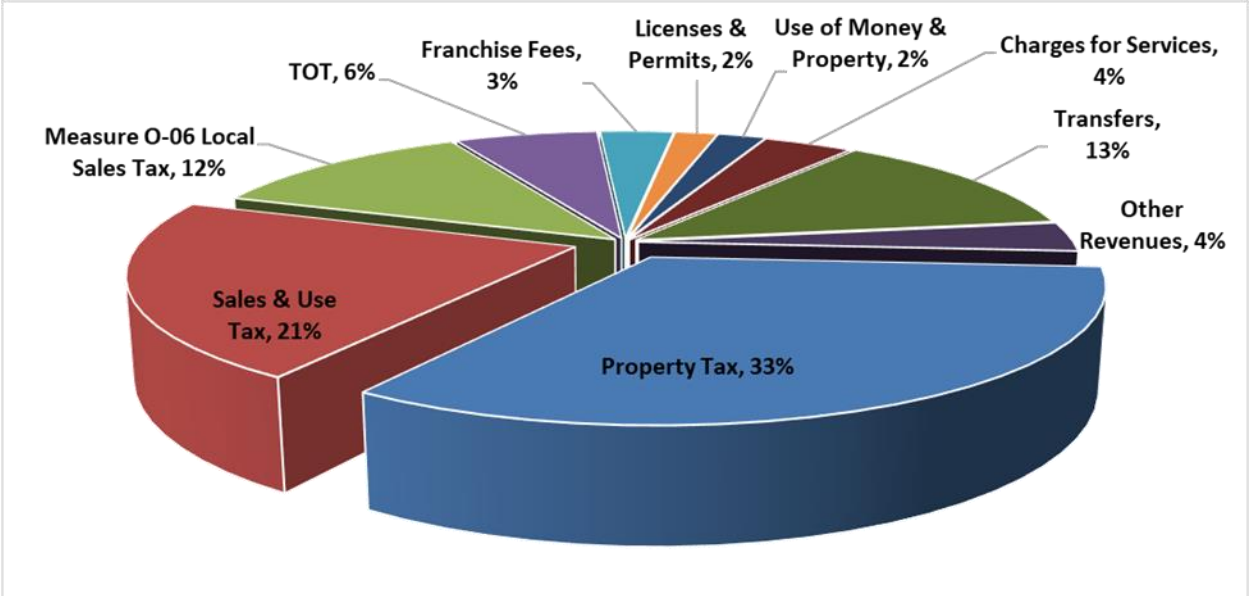
The FY 2023-24 proposed budget includes a total of \$24.6 million in revenues and \$25.3 million in operating and capital budget for a net of \$720,000 more expenditures than revenues. The operating budget is balanced, with a \$6.3 million net operating surplus. The expenditures that exceed revenues are for one-time projects that the City has been anticipating. Fund balances accumulated over time offset the additional expenditures.

The FY 2024-25 proposed budget includes a total of \$25.2 million in revenues and \$30.1 million in operating and capital expenditures for a net of \$4.9 million more expenditures than revenues. The operating budget is balanced, with a \$493,851 net operating surplus.

Consolidated 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 66% 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.

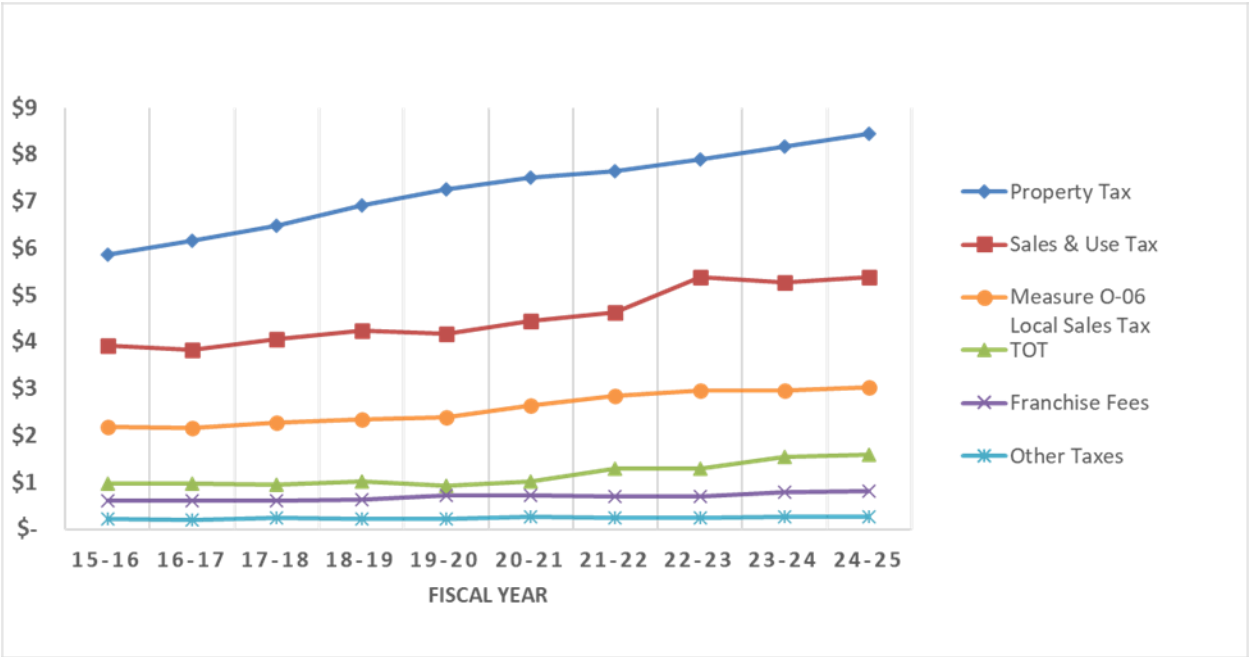
**Chart 1 – FY 2023-24 Consolidated General Fund Revenues - \$24.6 million total**



Overall, General Fund tax revenues have been trending upward over the past several years and are expected to increase in both years of the Biennial Budget. Based on the latest information provided by the County Auditor-Controller’s Office, Property taxes are expected to rebound 3.3% during FY 2023-24 and another 3.5% during 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. As discussed during the Fiscal Outlook presentation in March and during the preliminary budget discussion on May 23, 2023, the City’s sales tax consultant (HdL) projected a reduction in sales tax revenues of 1.1% in FY 2023-24 due to an anticipated minor economic slowdown. These projections reflect expected 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 and, in the case of fuel, lower prices at the pump. This budget is projecting an increase in sales tax revenues of 2.8% in FY 2024-25, as the economy is only anticipating a minor slowdown.

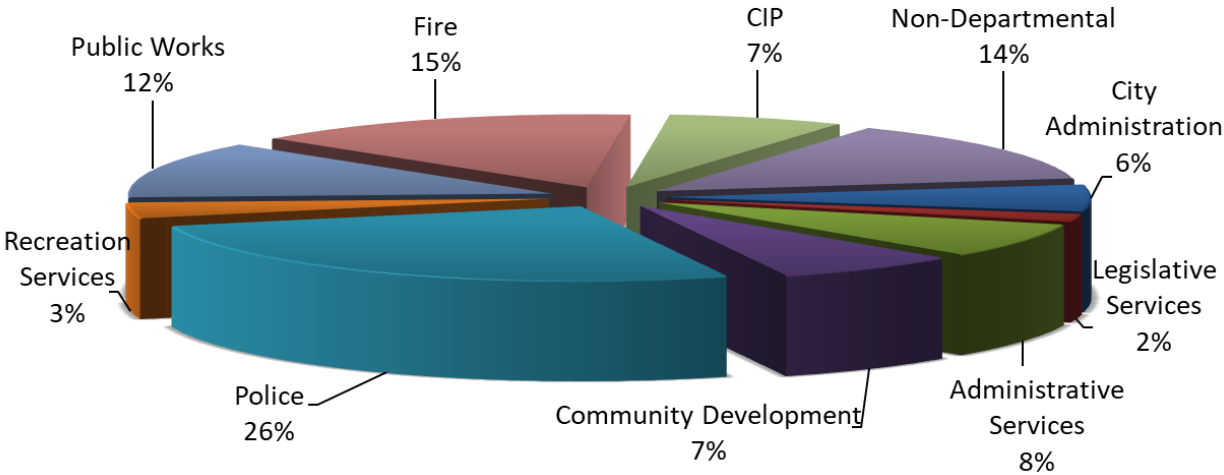
Chart 2 – Consolidated General Fund Tax Revenues \$24.6 million



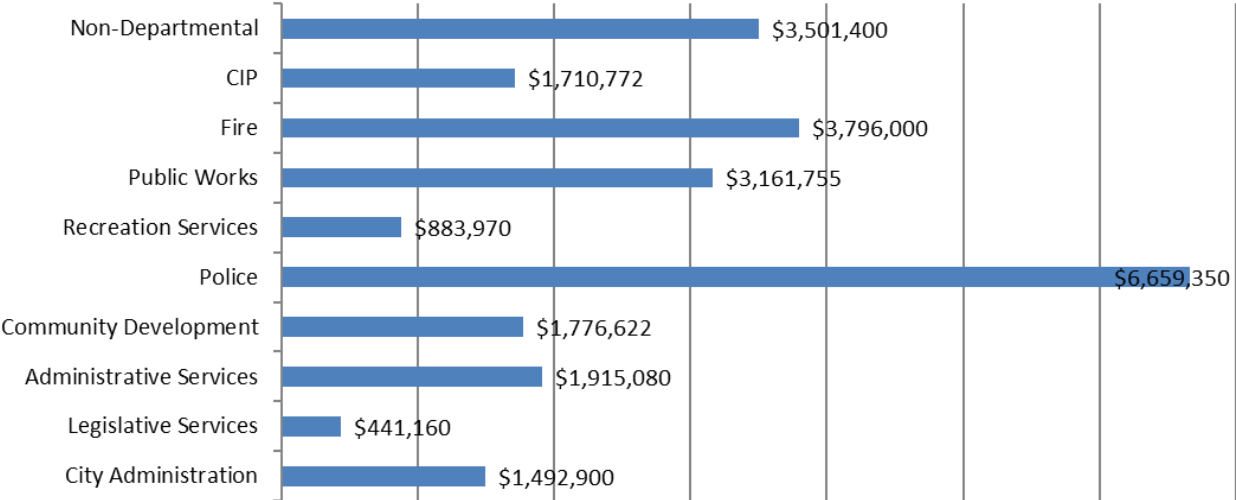
Consolidated General Fund Expenditures

The following two charts show the proposed \$25.3 million Consolidated General Fund expenditure budget for FY 2023-24, 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 26% of the budget. Fire services for the FCFA will receive 15% of the Consolidated General Fund and Local Sales Tax Fund budget. Public Works and Community Development will receive 12% and 7% of FY 2023-24 budget resources, respectively. The “Non-Departmental” category represents 14% 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**  
**\$25.3 million**



**Chart 4 – FY 2023-24 Consolidated General Fund Expenditures by Department**  
**\$25.3 million**



**Summary**  
 The proposed FY 2023-24 Budget recommends approximately \$44.1 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:

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**Table 1 - FY 2023-24 All Funds Operating Budget**

	General Fund	Local Sales Tax Fund	Enterprise Funds	Special Revenue	Agency Funds	Total
Beginning Fund Balance	\$ 8,992,955	\$ 3,092,620	\$ 7,429,554	\$ 10,730,087	\$ (607,613)	\$ 29,637,603
Revenues:						
Revenues	18,544,027	2,962,000	10,012,543	2,433,985	423,944	34,376,500
Transfers In	3,114,066	-	4,299,371	475,000	-	7,888,437
Total Revenues	21,658,093	2,962,000	14,311,914	2,908,985	423,944	42,264,937
Expenditures:						
Salaries and Benefits	12,089,400	-	1,146,000	547,200	-	13,782,600
Services and Supplies	9,434,771	1,041,500	6,404,221	1,091,965	7,900	17,980,357
Debt Service	309,566	-	-	8,369	382,944	700,879
Capital Outlay	239,500	-	82,000	-	-	321,500
Transfers Out	115,000	2,109,272	6,439,421	2,568,800	35,900	11,268,393
Total Expenditures	22,188,237	3,150,772	14,071,642	4,216,334	426,744	44,053,729
Total Operating Incr/(Dec)	(530,144)	(188,772)	240,272	(1,307,349)	(2,800)	(1,788,792)
Available Fund Balance	\$ 8,462,811	\$ 2,903,848	\$ 7,669,826	\$ 9,422,738	\$ (610,413)	\$ 27,848,811

The proposed FY 2024-25 Budget recommends approximately \$47.7 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 2 shown below:

**Table 2 - FY 2024-25 All Funds Operating Budget**

	General Fund	Local Sales Tax Fund	Enterprise Funds	Special Revenue	Agency Funds	Total
Beginning Fund Balance	\$ 8,462,811	\$ 2,903,848	\$ 7,669,826	\$ 9,422,738	\$ (610,413)	\$ 27,848,811
Revenues:						
Revenues	18,999,668	3,033,000	9,881,840	2,484,950	423,944	34,823,402
Transfers In	3,185,100	-	4,080,985	500,000	-	7,766,085
Total Revenues	22,184,769	3,033,000	13,962,825	2,984,950	423,944	42,589,487
Expenditures:						
Salaries and Benefits	12,437,200	-	1,182,900	565,000	-	14,185,100
Services and Supplies	9,774,816	1,087,000	6,575,184	1,090,015	7,900	18,534,915
Debt Service	294,386	-	-	8,369	382,944	685,699
Capital Outlay	149,500	-	47,500	-	-	197,000
Transfers Out	2,475,000	3,857,579	6,485,585	1,291,400	35,900	14,145,463
Total Expenditures	25,130,902	4,944,579	14,291,169	2,954,784	426,744	47,748,177
Total Operating Incr/(Dec)	(2,946,133)	(1,911,579)	(328,344)	30,166	(2,800)	(5,158,690)
Available Fund Balance	\$ 5,516,678	\$ 992,269	\$ 7,341,482	\$ 9,452,904	\$ (613,213)	\$ 22,690,121

**Revisions to the May 23, 2023 Preliminary Budget**

During the May 23, 2023 preliminary budget discussion, Council provided direction to appropriate \$3,100,000 of Excess Available Consolidated General Fund Balance to certain expenditures, as follows:

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- \$100,000 to increase the Community Services Grant program in both fiscal years, \$50,000 per fiscal year. This increase will adjust each fiscal year from \$25,000 to \$75,000.
- \$3,000,000 towards the Pavement Management Program (PMP) budget.

These appropriations have been incorporated into the proposed FY 2023-25 Biennial Budget described above and shown in Attachment 1 and to the 5-Year CIP described further below and shown in Attachment 2.

Revisions to the 5-Year CIP Presented on May 9, 2023

The PMP is included in the City's 5-year CIP budget and has been updated to include a total of \$11.4 million for maintaining the City's public streets, alleys, and parking lots over the five-year period. 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).

The PMP CIP budget presented on May 9th included \$8.4 million over the 5-year period, with \$1,336,250 allocated to FY 2023-24 and \$2,200,000 allocated to FY 2024-25. The proposed revised CIP now includes \$11.4 million for PMP, \$1,663,380 for FY 2023-24 and \$4,872,870 for FY 2024-25. The proposed revised PMP CIP budget reflects an increase of \$3,000,000 over both fiscal years as shown in Table 3.

**Table 3 – 5-Year PMP Plan**

<b>Funding Source</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>5-Year Total</b>
4910 - General Fund	-	2,310,000	-	-	-	
4920 - SB1	453,300	450,000	450,000	450,000	450,000	
4950 - Sales Tax	1,210,080	2,112,870	1,250,000	1,000,000	1,250,000	11,386,250

The proposed CIP budget for FY 2023-24 also includes an increase of \$327,130 to be allocated to the 2022 Street Repair and 2022 Slurry Seal Projects that are planned to be completed during the summer of 2023. This additional allocation is needed to fully fund the 2022 PMP project based on the bids received and discussed in Agenda item 9.i. FY 2023-24 also includes \$300,000 to fund the design of the FY 2024-25 PMP project so that construction can begin in Summer of 2024.

Additionally, staff has incorporated 2 additional changes to the 5-Year CIP Budget. The Fire Station 1 Apparatus Bay Doors were originally included in the budget with funding for FY 2026-27, as staff's initial review of projects inadvertently identified this project at a lower priority level than it should have been. The Fire Station 1 Apparatus Bay Doors are a priority 1 safety related CIP project and have been moved to FY 2023-24. To maintain

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staff capacity, the City Hall Second Story Patio Repair project was shifted from FY 2023-24 to FY 2024-25. The changes to PMP, Fire Station 1 Apparatus Bay Doors, and City Hall Second Story Patio Repair projects also impact the 5-year plan for the Local Sales Tax Fund (Attachment 3), resulting in lower budgets for PMP and Sidewalks in FY 2026-27 to adjust for available fund balance.

The updated 5-Year CIP and 5-year plan for the Local Sales Tax Fund is included in the FY 2023-25 Biennial Budget Report (Attachment 1). The 5-Year CIP budget has also been included as a separate Attachment 2.

To provide Council and the community the full picture of the City revenues, expenditures, and ending fund balance, after incorporating these changes, the updated Consolidated General Fund is shown in Table 4.

**Table 4 – FY 2023-25 Consolidated General Fund Budget & Available Fund Balance in Thousands**

	FY 2023-24			FY 2024-25		
	General Fund	Local Sales	Consolidated Total	General Fund	Local Sales	Consolidated Total
<b>Beginning Fund Balance</b>	\$8,993	\$3,093	\$12,086	\$8,462	\$2,904	\$11,366
<b>Revenues:</b>						
Revenues	18,544	2,962	21,506	19,000	3,033	22,033
Transfers In	3,114	-	3,114	3,185	-	3,185
<b>Total Revenues</b>	<b>21,658</b>	<b>2,962</b>	<b>24,620</b>	<b>22,185</b>	<b>3,033</b>	<b>25,218</b>
<b>Expenditures:</b>						
Salaries and Benefits	12,089	-	12,089	12,437	-	12,437
Services and Supplies	9,435	1,042	10,477	9,775	1,087	10,862
Debt Service	310	-	310	294	-	294
Capital Outlay	240	-	240	150	-	150
Transfers Out	115	2,109	2,224	2,475	3,858	6,333
<b>Total Expenditures</b>	<b>22,189</b>	<b>3,151</b>	<b>25,340</b>	<b>25,131</b>	<b>4,945</b>	<b>30,076</b>
<b>Total Operating Incr/(Decr)</b>	<b>(531)</b>	<b>(189)</b>	<b>(720)</b>	<b>(2,946)</b>	<b>(1,912)</b>	<b>(4,858)</b>
<b>Available Fund Balance</b>	<b>\$8,462</b>	<b>\$2,904</b>	<b>\$11,366</b>	<b>\$5,516</b>	<b>\$992</b>	<b>\$6,508</b>
<b>Reserve %</b>	38.1%	92.2%	44.9%	22.0%	20.1%	21.6%
<b>\$ Above Reserve Policy</b>	4,025	2,274	6,299	491	3	494
<b>Funds Available to Allocate</b>	3,500	1,695	5,195	400	-	400

The projected fund balance for the Consolidated General Fund at the end of FY 2024-25 is \$6,508,947 or 21.6%.

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#### Next Steps

The FY 2023-25 Biennial Budget and the 5-Year CIP will be presented to the City Council for formal adoption on June 27, 2023. Once approved by Council, the FY 2023-25 Biennial budget, FY 2023-24 funds will be appropriated on July 1, 2023.

After Council adopts the FY 2023-25 Biennial Budget, staff will publish a copy of the Adopted FY 2023-25 Biennial Budget online. Additionally, staff will prepare a Budget-in-Brief that highlights the City's budget process, key budget features, Major City Goal investments and basic "budget facts." This budget summary is widely distributed and will be posted on the website and shared through the various communication channels and with community partners.

Adoption of the FY 2023-25 Biennial Budget is the beginning of a continuous financial management process. Ongoing monitoring efforts include:

1. Quarterly Financial Status Reports: Concise and comprehensive reports are issued by Staff to the Council and Public on a quarterly basis.
2. Goal Status Reports: Staff will provide quarterly Goal Status Reports to the Council that includes progress towards completing Major City Goals and Capital Improvement Plan. These reports present updates and communications about the status of City projects, goals, and performance measures.
3. Transparent Online Budget Portal (ClearGov): City staff are excited to announce the launch of a new online budget platform that presents publicly available budget expenditure and revenue data in addition to Capital Project budget information. The ClearGov application displays the City's budget data in an accessible, easy-to-understand format using charts, tables, and graphs. Enhancements to budget visualizations will be made throughout FY 2023-24.

#### **ALTERNATIVES:**

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

1. Conduct a Public Hearing to receive public comment regarding the FY 2023-25 Proposed Budget and FY 2023-28 Capital Improvement Program and provide direction to staff to finalize the two-year budget for adoption on June 27, 2023; or
2. Provide other direction to staff, including any direction regarding alterations to the FY 2023-25 Proposed Budget and FY 2023-28 Capital Improvement Program.

#### **ADVANTAGES:**

The recommendations in the 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.

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**DISADVANTAGES:**

There are no disadvantages to providing information for the community, City Council, or staff regarding the FY 2023-25 Proposed Budget and FY 2023-28 Capital Improvement Program.

**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 2023-25 Biennial Budget Report
2. 5-Year Capital Improvement Program Budget
3. Local Sales Tax 5-Year Revenue and Expenditure Plan