



MEMORANDUM

TO: City Council

FROM: Nicole Valentine, Administrative Services Director

SUBJECT: Consideration of Fiscal Year 2023-24 First Quarter Status Report and Request to Approve Fifteen Budget Adjustment Requests

DATE: December 12, 2023

SUMMARY OF ACTION:

Consider, receive, and file the Fiscal Year (FY) 2023-24 First Quarter Financial Status Report and approve fifteen (15) Budget Adjustment Requests.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

Preparation of the First Quarter Financial Status Report requires staff time within the existing work plan and budget for the Administrative Services Department. At the end of the first quarter, FY 2023-24 revenues for the Consolidated General Fund were \$2.6 million, or two percent (2%), below than the Budget Target ("Target"). Actual Expenditures were \$7 million, and below the Budget Target by approximately \$1.5 million, or six percent (6%).

The City Council is being asked to approve fifteen budget adjustments. The overall impact to the budget is an increase in Consolidated General Fund expenditures of \$180,633, in Water Fund expenditures of \$200,271, and in Water Availability Fund expenditures of \$24,900, as reflected in the following table 1:

City Council**Consideration of Fiscal Year 2023-24 First Quarter Status Report and Request to Approve Fifteen Budget Adjustment Requests****December 12, 2023****Page 2****Table 1 – First Quarter Budget Adjustment Request**

Request	Revenue	Expenditure	General Fund	Water Fund Impact	Water Availability Fund Impact
Carryover OTS Grant for Traffic/DUI Enforcement	22,824	22,824	-	-	-
Carryover Retraining Scholarship Program	21,500	21,500	-	-	-
Carryover F250 Replacement Public Works Truck	-	78,433	78,433	-	-
Carryover User Fees & DIF Contractual Services	-	27,200	27,200	-	-
Carryover Cash for Grass Program	-	24,900	-	-	24,900
CDBG Grant increase	7,958	7,958	-	-	-
Reallocate Vehicle Replacement Funding towards Mower	-	50,000	-	-	-
Reallocate Salary Savings to Contractual Services for CIP	-	60,000	-	-	-
Tree Removal Support	-	50,000	50,000	-	-
Increased need to fill Potholes	-	10,000	10,000	-	-
Village Sign at Traffic Way & Branch	-	15,000	15,000	-	-
Community Development Intern	-	10,000	-	-	-
Central Coast Blue (CCB) Operating Costs	-	28,971	-	28,971	-
Phased Main Replacement at Cornwall Avenue, from Rena to El Camino Real (ECR)	-	171,300	-	171,300	-
Totals	52,282	578,086	180,633	200,271	24,900

RECOMMENDATION:

Consider, receive, and file the FY 2023-24 First Quarter Financial Status Report; and approve fifteen Budget Adjustment Requests.

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 First Quarter Financial Status Report is the first of four financial performance reports that staff will present to Council during the 2023-24 fiscal year. The purpose of the FY 2023-24 First Quarter Financial Status 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

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- 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 2023-24 Budget and represents the 3-month period from July 2023 through September 2023, 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 33% 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 First Quarter 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, individual City Council agenda items. Approval will enable the City to complete important work items and meet the needs of the community.

ANALYSIS OF ISSUES:

First Quarter (Q1) Revenue and Expenditures Compared to Prior Year

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

Consolidated General Fund			
	First Quarter FY 2023-24	First Quarter FY 2022-23	Variance
Revenue	\$ 2,554,661	\$ 2,264,418	\$ 290,243
Expenditures	\$ 7,024,105	\$ 6,557,687	\$ 466,418

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 (ACFR). The Local Sales Tax Fund accounts for the revenues derived from Measure O-06, a local 1/2% sales tax approved by the City's voters in November 2006. Measure O-06 included advisory measures when passed, providing direction on the uses to which

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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. This report will present information for the Consolidated General Fund that includes Local Sales Tax Fund Measure O-06 revenues and expenditures. Consolidated General Fund revenues at the first quarter of this year were approximately \$290,243 higher than the first quarter of the prior year. Expenditures were approximately \$466,418 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. The following is a summary of the first quarter variances between the two fiscal years.

Revenue (approximately \$290,243 higher)

The majority of the \$290,243 variance between the first quarter of this year and the prior first quarter is related to the increase in User Fees received in the first quarter of FY 2023-24 when compared to the first quarter of FY 2022-23.

Expenditures (approximately \$466,418 higher)

As mentioned, first quarter expenditures compared to the prior year were higher by \$466,418. The majority of the variance between the two fiscal quarters is related to increased costs of one-time payments for Liability and Property Insurance, CalPERS Unfunded Accrued Liability, and Workers Compensation.

First Quarter (Q1) Revenue and Expenditures Compared to Target

Table 3 - Current Year Q1 Actuals Compared to Target			
Consolidated General Fund			
	FY 2023-24 First Quarter Target	FY 2023-24 First Quarter Actuals	Variance
Revenue	\$ 3,059,999	\$ 2,554,661	\$ (505,338)
Expenditures	\$ 8,512,078	\$ 7,024,105	\$ (1,487,973)

Table 3 above compares first quarter actual results to the budgeted Target. First Quarter actual revenue was short of the Target by \$505,338. First Quarter actual expenditures were short of the Target by approximately \$1.5 million. The following is a summary of the first quarter 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 (\$505,338 lower)

The actual first quarter Consolidated General Fund revenue shortfall compared to the Target is not unusual. Revenue realization is typically low in the first quarter of the fiscal

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year due to the time lag involved in billing cycles and the receipt of reimbursements. Some of the larger revenue variances are explained below.

- The largest single source of City revenue is Secured Property Tax. Secured Property Tax is billed by the County to property owners and payable in two (2) installments. Property owners typically receive their second property tax bill at the end of September or early October, with a due date of November 1st. Most of the property tax related to the first installment was received in December, 2022. The second installment is due on April 1st and will be reflected in the fourth quarter report. The revenue Target includes the equivalent of one month of property tax revenue, but actuals were still lower than this conservative revenue assumption by \$490,477.
- Transient Occupancy Tax (TOT) revenue reflects a \$37,349 favorable variance to the Target. The Target and actual TOT revenue represents only two months of TOT receipts due to the timing of payments. Lodging facilities have thirty days after the month's end to make their TOT payments.
- Other revenue is made up of Business License Tax, Fines, Intergovernmental Income, Other Charges for Service, and Other Revenues. The actual revenue in this category is lower than the Target by \$129,853. The largest variance in this category is related to three revenue accounts. The revenue from other government agencies accounts for the SB 1090 funds earmarked for use of the general plan update. Once these funds are spent for this project, the revenue will be recognized at that time.

Expenditures (approximately \$1.5 million lower)

Actual first quarter expenditures were \$1,487,973 under the Target, though all City departments were under their spending Targets, except for Recreation Services and Administrative Services. Some of the more significant savings occurred in the Measure O-06 Sales & Use Tax Fund, City Administration, Police, Public Works, and Community Development Departments. The first quarter report provided in Attachment 1 includes greater detail regarding the causes for the expenditure variances in these departments.

The first quarter report provided in Attachment 1, Section 5, includes a new update on the Goal Status Reports to Council, that includes City's progress towards completing Major City Goals and City's Capital Improvement Plan. This information is provided to keep the Council apprised of the status of the Goal Status Reports and includes progress towards completing Major City Goals and Capital Improvement Plan.

Budget Adjustments

One of the purposes of the First Quarter Financial Status report is to recommend the re-appropriation (carryovers) of prior year budgets for services/products that were begun, but not completed, as of June 30, 2023. These requested carryovers do not include capital improvement projects. Each year, the City Council adopts a budget which commits

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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 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 five projects that were budgeted in FY 2022-23 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:

- Police Department: Carryover \$22,824 related to the Office of Traffic Safety (OTS) Grant for Traffic/DUI Enforcement Program. This Grant program operates from October 1, 2022 through September 30, 2023. This carryover is due to the misalignment of the program year ending in September, but budgeted in FY 2022-23. The invoice for July 1 through September 30, 2023, was submitted totaling \$22,824, and is anticipated to be received within the next few weeks.
- City Council: Carryover \$21,500 for 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 is administered by the South County Chamber of Commerce in partnership with SLO Partners. The Chamber is continuing to process scholarships throughout this Fiscal Year as needs arise.
- Public Works Department: Carryover \$78,433 for the purchase of an F250 Replacement Truck. This replacement vehicle purchase was placed in November of 2022, but was not received until July of 2023.
- Administrative Services Department: Carryover \$27,000 for the User Fee and Development Impact Fee studies. The User Fee study was completed in the second quarter of FY 2023-24 and it is anticipated that the Development Impact Fee study will be completed in the third quarter of FY 2023-24.
- Public Works Department: Carryover \$24,971 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 2022-23.

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

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- CDBG: The CDBG allocation from the County was presented to Council totaling \$56,749. The final allocation provided totals \$64,707, an increase of \$7,958 to the City. This budget adjustment request will increase both revenues and expenditures and will not have an impact on the general fund.
- Public Works Department: The proposed includes an increase in the Public Works Department's budget for minor adjustments to 5 line items, reflecting a total increase of \$75,000. This increase would include:
 - Reallocate \$50,000 of budgeted expenditures within the Public Works budget for the Engineering small truck to be used for a replacement riding mower. The mower was originally budgeted for replacement in FY 2024-25 but has become a higher priority replacement, when compared to the requested Engineering small truck. The Engineering small truck will be requested for replacement in FY 2024-25. No funds are being requested from general fund balance.
 - Reallocate \$60,000 of budgeted expenditures within the Public Works Administration Division salary savings, related to staff medical leave, to continue to fund a consultant to provide CIP project management services from October through December of 2023.
 - Appropriate \$50,000 from the general fund to provide additional capacity in the maintenance of City owned trees. Specifically, the emergency removal or trimming of 40 to 60 foot tall City trees. Such maintenance is dangerous for City employees without the specialized equipment needed, such as cranes, tall bucket trucks and a large crew.
 - Appropriate \$10,000 from the general fund to support the Streets team in purchasing a high quality and longer lasting asphalt pothole filler product to support the increased number of potholes each year.
 - Appropriate \$15,000 from the general fund to update the "Welcome to Arroyo Grande" sign and medians at Traffic Way & Branch. This work would include a larger brick pedestal, new Village sign and rock installed at the larger and smaller medians at this location.
- Community Development Department: Reallocate \$10,000 of budgeted expenditures within the Building Division salary savings to fund an intern position within Community Development to assist with research, project renderings, scanning, and organizing project files.
- Water Fund: Appropriate \$28,971 from the Water Enterprise Fund Balance to fund the City's share of the Central Coast Blue (CCB)

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- Appropriate \$3,501 of FY 2022-23 true up costs related to the operating budget. This was reviewed and approved by the CCB Board on September 18, 2023, item 7.a.
- Appropriate \$25,470 associated with the work completed by Urban Futures, Inc. to provide financial support in the application to the Environmental Protection Agency (EPA) for a Water Infrastructure Finance and Innovation Act (WIFIA) loan and S&P Application. The agreement with Urban Futures was reviewed and approved by the CCB Board on June 19, 2023, item 6.b.
- Water Fund: Appropriate \$171,300 to fund the Phased Main Replacement at Cornwall Avenue, from Rena to El Camino Real (ECR). The total project cost is \$750,000, the remaining portion of the project is funded with ARPA funds and discussed in additional detail below.

Finally, the reallocation of ARPA funds is included as a budget request. Previous reallocations of the City's ARPA funds were approved at the February 8, 2022; May 24, 2022; September 27, 2022; and May 9, 2023 City Council meetings. As projects are completed and project estimates are confirmed, allocation funding numbers in Table 4 provide the City Council approved allocations spent through the end of FY 2022-23. The third column of Table 4 shows expected spending of funds through the allotted ARPA deadline of December 31, 2024. ARPA funds must be committed by way of a contract or purchase order and spend these monies no later than December 31, 2026. The final column shows funds that need to be reallocated as a result of budgeted project savings.

Table 4 – ARPA Allocation

ARPA Funding Allocation	CC Approved Allocation	Spent through 06/30/2023	Expected to Spend	Amount to Reallocate
COVID related City expenditures	42,375	69,624	-	(27,249)
Water Infrastructure Projects	1,350,150	51,400	1,298,750	-
Sewer Infrastructure Projects	549,200	165,534	383,666	-
Stormwater Infrastructure Projects	900,842	881,502	-	19,340
Public Safety Video Cameras	880,700	-	516,493	364,207
Streets Infrastructure Projects	24,958	24,958	-	-
Homeless Shelter Support	300,000	-	300,000	-
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	-	37,887	-
Grand Total	4,300,241	1,407,148	2,536,796	356,297

Staff reviewed the 5-year Capital Improvement Project Plan, accessed any other outstanding projects that were prioritized due to public health and safety related issues, and reviewed the most recent US Treasury Final Rule governing eligible expenditures of the ARPA funds. During this review the Swinging Bridge Reinforcement project was identified because the timeframe for completion of this project makes it eligible for ARPA

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funding. The budget request of ARPA funds is to reallocate the \$356,297 to the Swinging Bridge Reinforcement project. This project is currently out to bid and is anticipated to be completed by December 31, 2024.

Through the review process it was noted that the Phased Main Replacement at Cornwall Avenue project, from Rena to El Camino Real (ECR), is funded with the Water Infrastructure Project funds but was inadvertently budgeted in FY 2026-27 with an estimated total project cost of \$1 million. The Council previously approved this project to be funded with an ARPA allocation of \$578,700. The phased main replacement in Cornwall Avenue, from Rena to ECR, is not anticipated to cost \$1 million. The main replacement on Fair Oaks, from Elm to Alder, was 2,000 feet with more services and had a total cost of \$741,841.17. The main to be replaced in Cornwall Avenue is only 1,400 feet with fewer services and considerably less traffic. The anticipated project budget is now being set at \$750,000, for these reasons.

Table 5 below shows the resulting total allocations of ARPA funding if approved as recommended by the Council, after which City staff would confirm eligibility and ensure the appropriate ARPA funding conditions are attached to each project:

Table 5 – Updated ARPA Allocation

ARPA Funding Allocation	CC Approved Allocation
COVID related City expenditures	69,624
Water Infrastructure Projects	1,350,150
Sewer Infrastructure Projects	549,200
Stormwater Infrastructure Projects	881,502
Public Safety Video Cameras	516,493
Streets Infrastructure Projects	24,958
Homeless Shelter Support	300,000
Non-Profit Assistance/Community Service Grants	114,129
Childcare Assistance - First 5, 5% request	100,000
Smart Share ADU SLO Proposal	37,887
Swinging Bridge Reinforcement	356,297
Grand Total	4,300,241

ALTERNATIVES:

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

1. Receive and file the Fiscal Year 2023-24 First Quarter Financial Status Report and approve fifteen Budget Adjustment Requests;
2. Provide other direction to staff regarding the FY 2023-24 First Quarter Financial Status Report and the fifteen Budget Adjustment Requests;

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3. Receive and file the FY 2023-24 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 2023-24. 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 2023-24 First Quarter Financial Status Report