



Council Agenda Report

From: Ryan Cornell, Administrative Services Director

Subject: Preliminary Budget Overview for Fiscal Years 2024-25 and 2025-26

CEQA Determination: The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

Date: May 7, 2024

Facts

1. The City Council is required to adopt a comprehensive operating and capital expenditure budget to authorize the receipt of revenues and to authorize, guide, and direct City activities no later than June 30 each year. The process to develop a comprehensive annual budget typically takes between four to five months.
2. On March 2, 2024, the City Council held a special meeting to review and update the City Council Goals for the upcoming budget cycle, to receive a preliminary fiscal outlook, and to establish budgetary priorities for the budget cycle.
3. City Council goals provide direction to City staff on the allocation of staff time and fiscal resources; it also communicates to the public and other stakeholders as to the priorities of the community.
4. On March 19, 2024, City Council formally adopted goals for FY 2024-25 and 2025-26. Those goals and priorities have been incorporated into this preliminary budget analysis. Budget development remains ongoing, with preliminary information presented in this report.
5. On April 16, 2024, City Council received a preliminary budget presentation focused mainly on the General Fund as well as the supplemental sales tax funds (i.e., Measures E-12 and J-20). This preliminary budget report focuses on the City's Enterprise Funds (e.g., Water, Wastewater, Airport) and Capital Improvement Program.

Community Outreach

This is the sixth public discussion regarding City goals, priorities, and the fiscal outlook of the City over the next two years. The first was on February 6, 2024, where staff outlined the budget process and timeline; next on March 2, 2024, with the City Council holding a special meeting on a Saturday morning/afternoon to discuss community and council goals and priorities; next on March 19, 2024, the City Council formally adopted the goals and priorities for the next two fiscal years; on March 22, 2024, a Coffee with the City Manager session was held to provide the community with an update on the budget outlook and goals setting process; and on April 16, 2024, at the regular City Council meeting, staff presented the preliminary outlook for the General and Supplemental Sales Tax Funds. Additional outreach has been made in recent months to organizational groups such as, Chamber of Commerce, Main Street Association, Rotary, Travel Paso, etc. in regard to the City road maintenance program and the potential renewal/extension of Measure E-12, the City's half cent supplemental sales tax.

Options

1. Receive and file this report and provide any desired direction on the preparation of the Fiscal Years 2024-25 and 2025-26 budget items outlined within the report;
2. Provide alternative direction to staff.

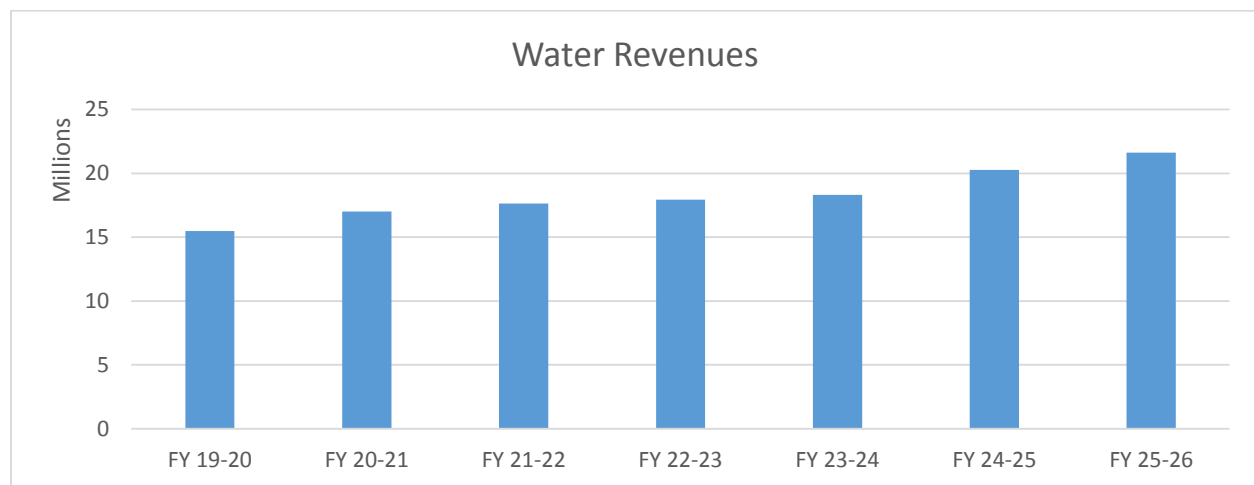
Analysis and Conclusions

The City has four primary priorities in budget development: long-term well-being and economic strength of the community; long-term fiscal stability of the City; nature and scope of the services the City provides; and overall well-being of the organization and its employees, given that the City is a service-based organization that relies heavily on its human capital to provide services to the community. The City must find the path that best promotes all four working together.

For budgeting purposes, the City maintains five enterprise funds: water, wastewater, airport, solid waste, and recycled water. An enterprise fund differs from the general and other governmental funds because enterprise fund activities provide services for a fee that is meant to make the activity self-sustaining, whereas the General Fund requires tax revenues to supplement programs, such as police services. As such, City staff periodically conduct rate studies to ensure that the program is self-sustaining.

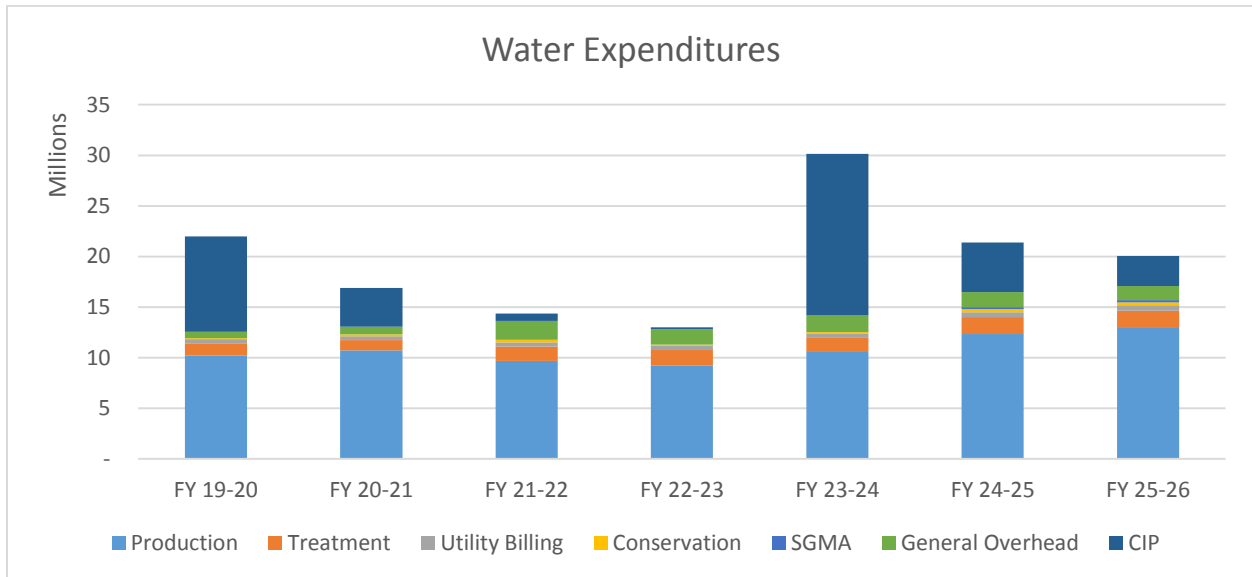
Water Fund

The Water Fund is used to account for the operation and maintenance of the City's water treatment, production, transmission, and distribution system, and includes account for water connections and the Nacimiento water project. In 2022, the City Council adopted new water rates which increase, on average, 5% per year, for FY 2022-23 through 2026-27; the first adjustment went into effect on April 1, 2023. Additionally, this past fiscal year, staff reinstated late and shut-off fees resulting from non-payment of utility service (these protocols were suspended during the COVID-19 pandemic). Taken together, staff anticipates water revenues increasing more significantly over the next two years when compared to previous fiscal years.



The City conducts rate studies approximately every five years which essentially act as the blueprint for budgeting purposes. However, because these studies are conducted at a point-in-time, actual activity may vary. But because this water rate study was more recently completed, it remains mostly accurate. There have been some variations such as housing development being constructed slower than anticipated, which is resulting in less connection fee revenue; 2023-2024 has turned out to be a rainier season, which

resulted in less water consumption, resulting in less water revenue; and certain capital projects such as the Water Meter AMI project or the new Utilities office building have been advanced one year than originally anticipated. Even though revenues are lower than anticipated, so too have operating expenditures. The rate study had assumed \$5.5 million in reserves by June 30, 2026; the proposed budget estimates reserves to be approximately \$6.7 million.

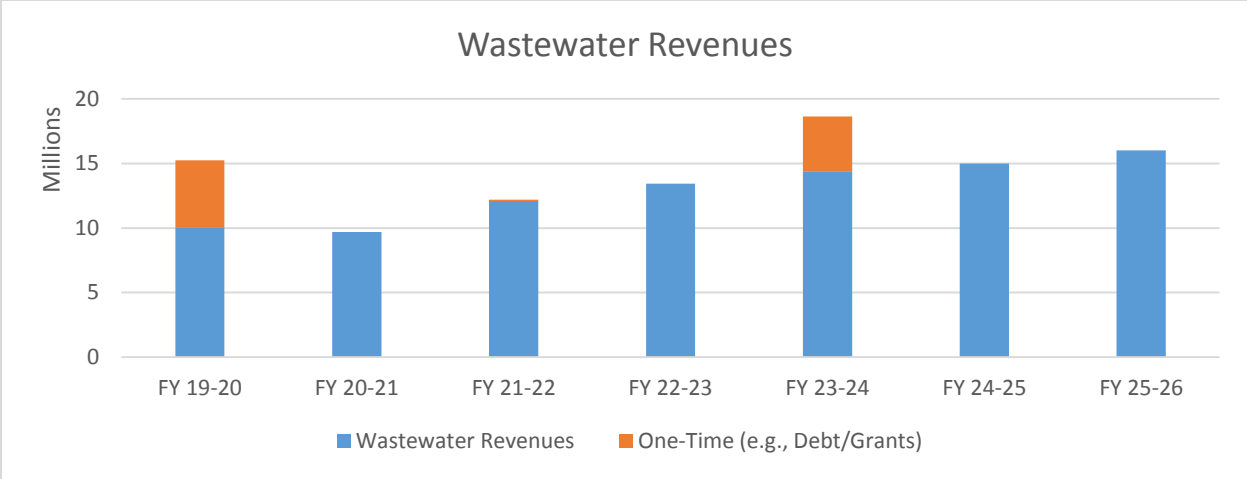


Note: The graph above assumes that 100% of CIP budget appropriations will be expended in FY 23-24 through 25-26, when in reality, these projects will take several years to complete.

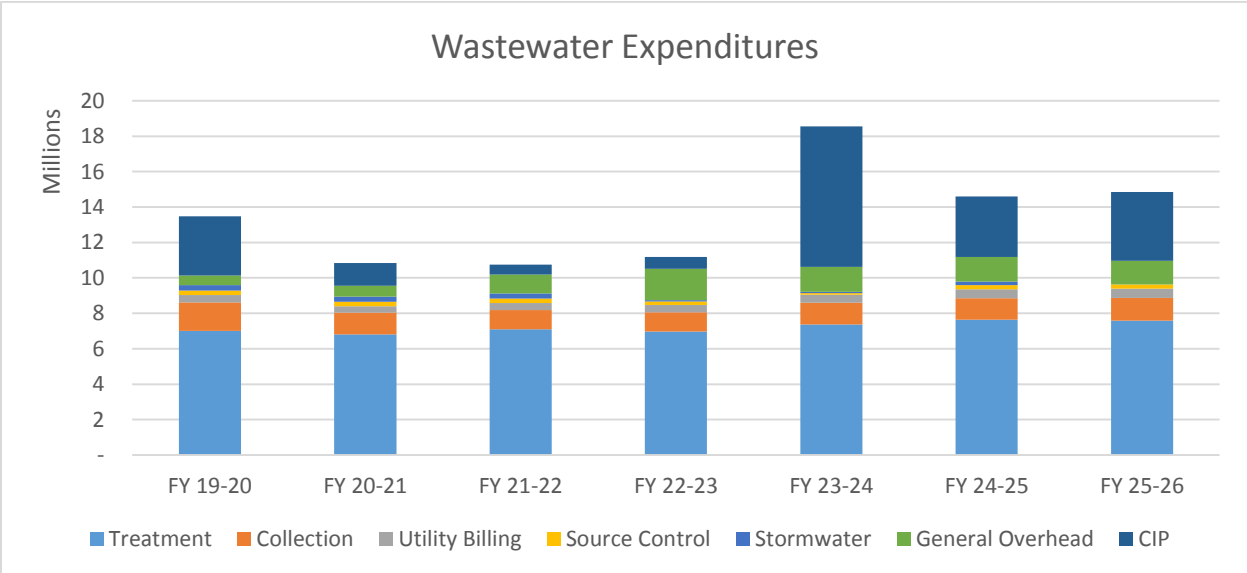
Water maintenance and operations are broken down into six functions: utility billing, water production, water treatment, water conservation, groundwater management (i.e., sustainable groundwater management act (SGMA)), and the Water’s Capital Improvement Program. There are no significant changes in water operations anticipated over the next two years, however, Water Resources Control Board (WRCB) recently notified the City of its intention to reclassify the City’s water distribution system from classification D3 to classification D4. Simply put, the larger and more complex the water system gets, the higher classification agencies are given by the State (D5 is the highest certification). This change was anticipated, albeit not until additional development occurred in the Olsen/South Chandler Ranch and Beechwood were constructed. Regardless, this change will require our staff to hold higher education/certification, as well. The City is in the process of conducting a classification and compensation study, with some comparator agencies currently operating at D4 and D5 levels. This will help identify the potential cost increase for this upgraded certification. Outside of this change, all other operations remain consistent.

Wastewater Fund

The Wastewater Fund is used to account for the operation and maintenance of the City’s sewer collection and treatment system as well as sewer connection fees. In 2021, the City Council adopted new wastewater rates which hadn’t been adjusted previously since 2016. As a result, there was a 24% rate increase approved in FY 2021-22, with additional increases, on average, 8% per year, for FY 2022-23 through 2024-25; the first adjustment went into effect on July 1, 2021. Additionally, this past fiscal year, staff reinstated late and shut-off fees resulting from non-payment of utility service (these protocols were suspended during the COVID-19 pandemic). Taken together, staff anticipates water revenues increasing more significantly over the next two years when compared to previous fiscal years.



The City conducts rate studies approximately every five years which essentially act as the blueprint for budgeting purposes. However, because these studies are conducted at a point-in-time, actual activity may vary. For the wastewater fund, the anticipated reserve balance on June 30, 2024, is estimated to be \$8.8 million; whereas the rate study had projected a \$4.5 million reserve at that time, resulting in \$4.3 million more in reserves than originally anticipated. This variance is due to the City being reimbursed from the State Revolving Fund loan for the recycled water project. The rate study had assumed a \$1.6 million reimbursement, whereas the City actually received \$4.3 million. These loan proceeds pay back the Wastewater Fund the initial investment for the Recycled Water Distribution System. Moving forward, those funds are to be repaid, but from revenues collected from the sale of recycled water.



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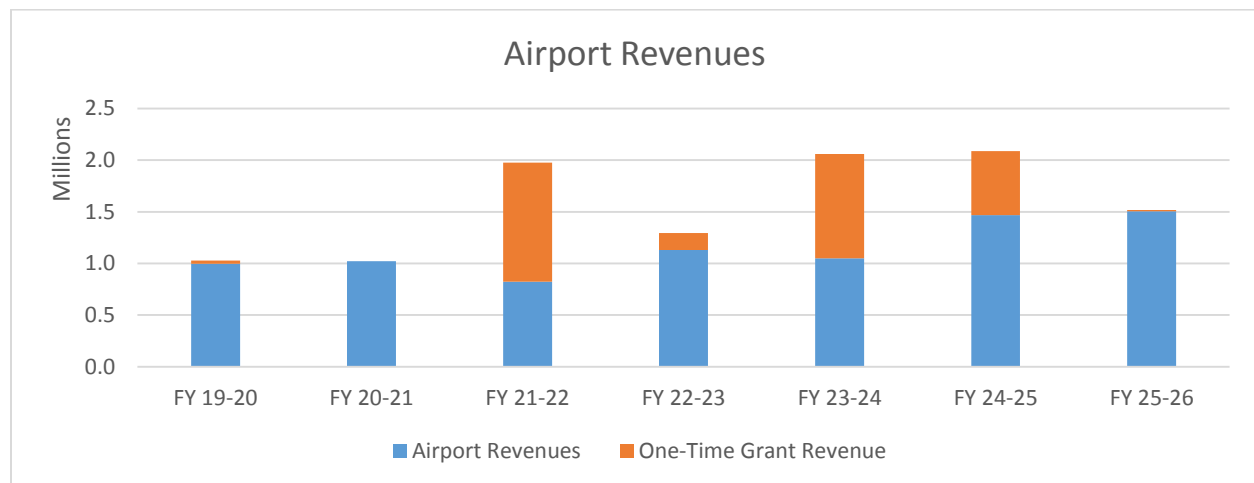
Wastewater maintenance and operations are broken down into six functions: utility billing, collection, treatment, source control (e.g., fats, oils, grease program), stormwater management (note: the prior Biannual Budget began account for stormwater-related expenditures in the General Fund, however certain costs are maintained in the Wastewater Fund), and the Wastewater’s Capital Improvement Program. There are no significant changes in water operations anticipated over the next two years.

Because the last rate study was conducted in 2021, the upcoming budget includes appropriations to conduct an updated rate study.

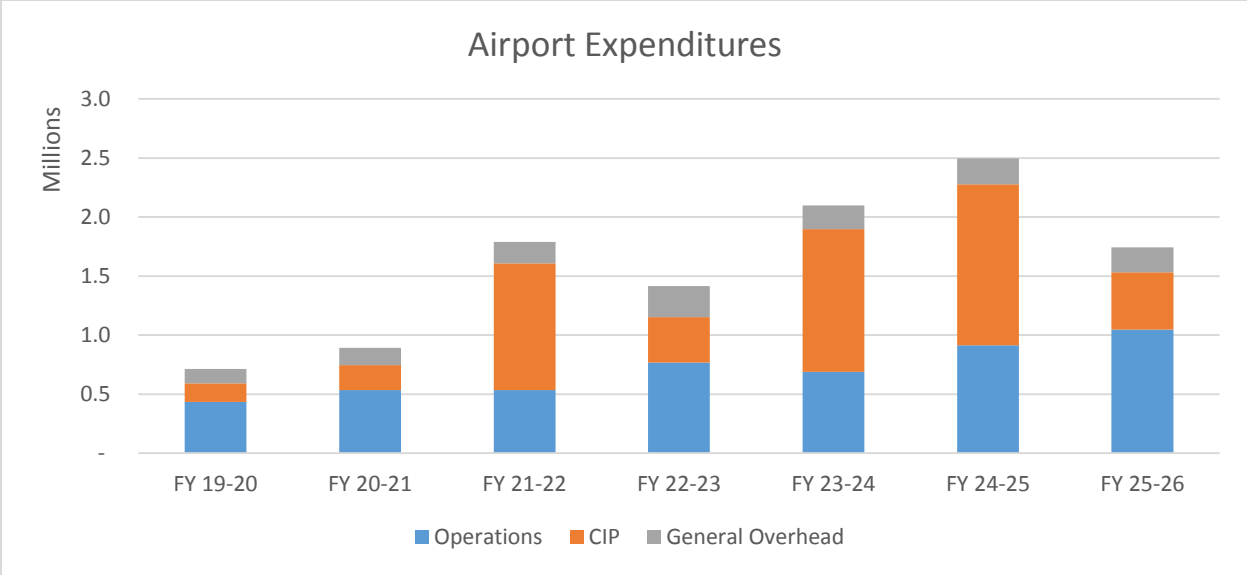
Airport Fund

Since 1973, the City has owned and operated the Paso Robles Municipal Airport (hereinafter referred to as the “Airport”). The Airport has continued to grow in nearly all aspects, from acreage, to revenue generation, lease site number, aircraft operations, regulatory burden, and security requirements. These factors have contributed to an increase in the Airport’s overall complexity. Today, the Airport is 1,300 acres and supports more than 44,000 operations per year, over 220 based aircraft, and an estimated 700 individual jobs supported on over 40 lease sites. Due to recent changes in the future vision for the Airport, including the spaceport license designation, and the “Tech Corridor” concept, this past year the City contracted with AMCG Aviation Management Consulting Group to conduct an Airport Assessment. This assessment and recommended finding were received and adopted by City Council on January 16, 2024.

The City charges fees for certain services that are deemed to be those for which a particular individual or group is the primary beneficiary, as opposed to the public at large. On August 1, 2023, City Council approved updates to airport-related fees to include transient aircraft parking, terminal building use, testing site and usage and landing fees. These new fees were added to capture gaps that existed in the current fee structure. While the current structure includes parking fees for single and twin-engine aircraft, there are several other aircraft categories now included as the operations at the Airport have expanded. As a result of this action, staff does anticipate more significant airport revenue growth than what has been realized in previous years.



Airport staff currently consists of one airport manager and two maintenance workers (City Council approved the second maintenance worker more recently on November 7, 2023). As explained in the Airport Assessment Report, these staffing levels are not sufficient for an airport of the City’s size. As such, and consistent with the revenue enhancements, the budget includes two additional positions over the next two years. The first is a maintenance specialist lead position in FY 2024-25. As the number of maintenance workers expands, so will the need to provide leadership and guidance. This position will provide such guidance but is not a supervisor. The second position, budgeted in FY 2025-26 is for an Airport Operations Technician position. The responsibilities and expanded services this position be handling are explained in further detail in the Airport Assessment Report.



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Solid Waste Fund

In 2022, the City created a new standalone Utilities Department due to the evolving regulatory environments and growth the water and wastewater utilities are experiencing. Furthermore, a component of the newly created department was the creation of a Solid Waste Fund and Division. This was a byproduct of Senate Bill (SB) 1383 which requires that jurisdictions, such as the City, to conduct education and outreach on organics recycling to all residents, businesses (including those that generate edible food that can be donated) haulers, solid waste facilities, and local food banks and other food recovery organizations, and much more. This legislation created the need to expand in this service area.

Before the organization restructuring, landfill maintenance and operations were part of the City’s General Fund, with net tipping revenues (i.e., net of the operator costs) being deposited there. Over the past two years, maintenance and operation activity has been accounted for in this new Solid Waste Fund, with transfers from the General Fund and proceeds from Paso Robles Waste and Recycle funding those costs. Moving forward, staff recommends accounting for the tipping fee revenues directly in this new standalone fund and apart from General Fund activities, which will reduce revenues going to the General Fund. However, this will allow for landfill-related revenues to pay directly for solid waste-related expenditures.

	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Revenues				
Net Tipping Sales	\$ -	\$ -	\$ 1,200,000	\$ 1,200,000
All Other Charges	-	190,000	190,000	190,000
Transfers from Landfill Closure Fund	-	-	1,627,500	1,554,000
Transfers from General Fund	414,556	831,194	-	-
Total	414,556	1,021,194	3,017,500	2,944,000

	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Expenditures				
Recycling/Waste Reduction	29,783	233,893	190,400	202,300
Landfill Maintenance	384,773	607,301	571,600	441,600
Capital Improvements	-	-	2,452,500	1,754,000
IT Central Service	-	-	6,200	6,200
Landfill Closure Set-aside	-	180,000	250,000	250,000
Total	\$ 414,556	\$ 1,021,194	\$ 3,470,700	\$ 2,654,100

As shown above, the net tipping fees the City collects will go directly into the Solid Waste Fund as well as the revenues received from Pacific Waste and Recycling for the implementation of SB 1383. Taken together, it will fund the maintenance, operations, compliance of all solid waste activities for the City; it will also fully fund the City's requirement to set funds aside each year for the closure, post closure and/or corrective action costs.

The Landfill is also anticipating partial closures in the upcoming years over a few different phases. As such, there will be withdrawals from the Landfill Closure, Postclosure, Correct Action Fund to fund those closure costs (which is the whole intent of that fund). The City is required to monitor and test the landfill for 30 years after it is officially closed. Partial closure allows this post-closure monitoring to begin now (or after construction completion) rather than waiting for the entire landfill to become inoperable.

Recycled Water Fund

The Recycled Water Fund is a newly created fund with activity beginning in FY 2022-23. Previously, recycled water costs were accounted for as part of the Wastewater Fund. However, since the City has received approval from the State Revolving Fund loan for construction of the overall distribution system as well as our first recycled water customer, CalTrans, staff created this standalone fund to account for this activity, with the Wastewater Fund filling any funding shortfalls. The Recycled Water Fund accounts for two expenditures: 1) funds one Recycled Water Manager position, the project manager for the distribution project, and 2) the actual Recycled Water Distribution Project. In other words, the project is funded with proceeds from the State loan, and the Recycled Water Manager funded with Wastewater Funds, as shown below:

	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Revenues				
Sale of Recycled Water	\$ 3,080	\$ 11,246	\$ 10,600	\$ 10,600
Proceeds from Debt	-	9,368,600	12,761,400	-
Grant Revenues	-	-	-	13,230,000
Transfers from Wastewater	67,274	209,058	262,300	265,100
Total	70,354	9,588,904	13,034,300	13,505,700
Expenditures				
Recycled Water Operations	75,110	209,508	267,300	270,100
RW Distribution Project	-	9,368,600	12,761,400	13,230,000
Total	\$ 75,110	\$ 9,577,658	\$ 13,028,700	\$ 13,500,100

Capital Improvement Program

The Capital Improvement Program (CIP) Fund accounts for the City's large capital and infrastructure projects, usually taking multiple years to complete and/or has multiple funding sources. These projects include Road Maintenance, Transportation, Stormwater, Parks and Recreation, and Facility projects. Attachment No. 2 provides the draft CIP budget section of the Biannual Budget Report that includes project descriptions and funding sources anticipated for the next five years (with year 3 through 5 being considered preliminary strategy).

Fiscal Impact

There are no fiscal impacts by receiving and filing this presentation.

CEQA

The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

Recommendation

Receive and file this report and provide any desired direction on the presentation of the Fiscal Year 2024-25 and 2025-26 budget items outlined within this report.

Attachments

1. Preliminary Budget Schedules – Enterprise Funds
2. Preliminary Capital Improvement Program Budget Report