



## Council Agenda Report

From: Ryan Cornell, Administrative Services Director

Subject: Fiscal Year 2022-23 Quarterly Budget Report and Amendments

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

Date: March 21, 2023

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### Facts

1. In accordance with the Council's adopted fiscal policies, no less than semi-annually, there will be a comprehensive review of the operations in comparison to the existing budget. Projections of revenues and expenditures through the end of the fiscal year (FY) will be prepared and reviewed by the City Manager and the Director of Administrative Services with a report and presentation to the City Council.
2. The Mid-Year Financial Report is an opportunity to examine the City's financial activity for the first half of FY 2022-23. The focus of this report is on current year activity. Updates and analysis of the City's 10-Year Fiscal Forecast will be presented to City Council in Spring 2023, prior to the beginning of the next fiscal year.
3. Several assumptions and predictions were used in the budget process in April 2022; therefore, it is important to revisit assumptions to ensure accuracy and solvency.
4. To lessen administrative burdens, the City Council has historically authorized the City Manager to increase service levels and later amend the budget, by council resolution, during quarterly budget reports. This allows multiple service level adjustments to be compiled into one resolution. Detailed recommended budget amendments are discussed in further detail later in this report.

### Options

1. Take no action;
2. Receive and file the report and approve recommended budget amendments and position changes;
3. Provide alternative direction to staff.

### Analysis and Conclusions

#### General Fund

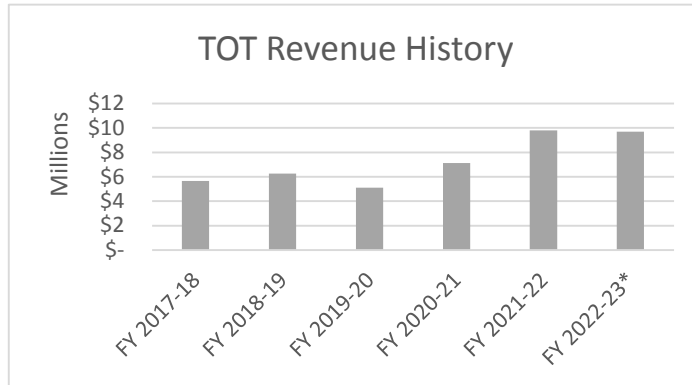
The results of the second-quarter review conclude that actual General Fund revenues and expenditures are being received and expended as anticipated, with revenues now projected to be 103.7% of original estimates, or approximately \$2.0 million more than anticipated, and expenditures are projected to be 96.8% of appropriations, about \$1.9 million under budget. As a result, General Fund reserves are now estimated to be \$25.5 million on June 30, 2023, about \$3.9 million more than anticipated during budget adoption. (Note: there was an intentional withdrawal of general fund reserves in the current year to fund one-time capital project needs).

Table 1: General Fund Income Statement

	Budget	Current Projection	Variance	Projected % Received/ Expended
<u>Revenues</u>				
Sales Tax	\$ 19,938,600	\$ 20,474,494	\$ 535,894	102.7%
Property Tax	12,711,800	13,109,794	397,994	103.1%
Transient Occupancy Tax	9,564,500	9,684,219	119,719	101.3%
All Other Taxes	4,135,000	4,406,823	271,823	106.6%
All Other Revenue	6,019,920	6,646,906	626,986	110.4%
Interfund Transfers In	972,900	972,900	-	100.0%
Total Revenue	53,342,720	55,295,136	1,952,416	103.7%
<u>Expenditures</u>				
City Manager/City Council	2,847,300	2,720,283	127,017	95.5%
Administrative Services	2,486,800	2,459,838	26,962	98.9%
Police	11,476,600	11,592,082	(115,482)	101.0%
Emergency Services	7,775,620	7,269,632	505,988	93.5%
Public Works	6,342,710	5,781,914	560,796	91.2%
Community Services	5,180,657	5,012,432	168,225	96.8%
Community Development	4,303,300	3,651,984	651,316	84.9%
Capital Projects Transfers	14,006,700	14,006,700	-	100.0%
All Other Transfers	6,670,700	6,670,700	-	100.0%
Total Expenditures	61,090,387	59,165,565	\$ 1,924,821	96.8%
Expenditures Over Revenues	\$ (7,747,667)	\$ (3,870,430)		

Sales Tax Revenue: The City's largest revenue source is sales tax and with overall sales from July through September 2022 increased by 9.6% when compared to the previous year, the latest model projects revenues coming in about \$536,000 more than originally estimated. This growth is in addition to what the City has already realized coming out of the pandemic: 18% increase from FY 2019-20 to FY 2020-21, and an additional 14% from FY 2020-21 to FY 2021-22. Increased summer tourism helped grow overall sales tax, with restaurants experiencing solid gains as enhanced optional dining areas, continued demand to eat out, and higher menu prices all helped contribute. Additionally, the global cost of crude oil has continued to keep gas prices elevated, resulting in service station revenues increasing by 21%. However, despite these positive results, overall sales tax revenues are not growing at the same pace as in previous fiscal years and is one of the first signs that economic activity is slowing down (again, this was assumed during budget adoption). Experts vary on whether a recession will occur and to what extent. Nevertheless, customer spending continues to remain strong and unemployment low. From a sales tax perspective, the updated forecast reflects a slowdown in taxable merchandise spending, a 1.8% growth in FY 2022-23 and a decline of a little less than 1% in FY 2023-24. A full analysis of the City's sales tax trends can be found online at <https://www.prcity.com/406/Sales-Tax-in-Paso-Robles>.

Transient Occupancy Tax Revenue: The City's third largest revenue source is transient occupancy tax (TOT) and the City will likely see a year over year decline in this revenue source (the model anticipates a 1.2% year-over-year decline); however, because FY 2021-22 projected revenues were underestimated, and because voters approved Measure F-22, increasing the TOT rate by 1%, current year revenues are still projected to be more than what was estimated during budget adoption, and more than it was pre-pandemic (see chart above).



Again, this decline was anticipated, in part, because growth in TOT was 40% and 25% in FY 2020-21 and FY 2021-22, respectively, and that rate simply was not sustainable. For the first part of the fiscal year (July through October), the City saw both elevated occupancy and average daily rates, but since then, the occupancy rates have dropped back down to historical norms, but the daily rate continues to stay elevated, resulting in revenues coming in about 1.3% over initial estimates. Tourism activity in Spring 2023 will be very telling as to whether the City's tourism activity is at a new post-pandemic norm, or if it will return to pre-pandemic averages. As of now, all indicators point to the former.

General Fund expenditures are estimated at \$59.2 million, about 97% of appropriations, or \$1.9 million under budget. Budget savings are not as much in previous fiscal years for a few reasons:

1. Measure J-20, the City's supplemental sales tax, which provides enhanced public safety and road maintenance, is intended to supplement Police, Fire and Public Works budgets, not supplant them. As a result, salary savings are typically realized in the Measure J-20 Fund, not the General Fund, because if a General-funded employee leaves the City, they are first replaced by a J-20-funded employee, and recruitment begins for the vacated J-20-funded employee.
2. On [December 20, 2022](#), City Council approved Memorandum of Understanding (MOU) with each of the City's labor groups as well as the Unrepresented Management and Part-Time Employee Groups. The economic factors proposed in these agreements are significant when compared to years past and much of the wage increases have been "front-loaded" in the first year of the agreements in order to bring the City's wages closer in line with comparator agencies. These wage and benefit increases have been factored in estimated end-of-year projections above, but no budget amendment has been formalized (approving tonight's resolution will do such).
3. As discussed throughout the budget preparation process, staff proposed an organizational restructure impacting the City Manager's Office, Administrative Services, Public Works, and Community Services Departments. City staff is still working on moving all applicable budgets and expenses to the proper department and general ledger accounts. As a result, and as shown in Attachment No. 2, the Community Services operating budget shows over-expended, but the Public Works budget, significantly under-budget. In actuality, both Departments are within their appropriations and staff will continue to move expenses to the proper department. Additionally, it was estimated that the reorganization would cost \$500,000 in order to purchase additional pieces of supplies, equipment and to relocate certain personnel. That is now estimated to be closer to \$150,000.

Additional budget amendments are recommended and discussed later in this report; those amendments will explain the remaining variances shown above.

### Enterprise Funds

Attachment No.'s 3-5 are the income statements for the water, sewer, and the newly established solid waste funds. There are not any anomalies that has occurred in this fiscal year, so funds, for the most part, are receiving revenues as anticipated, and expenditures and capital projects being spent and constructed as planned. Because the organizational restructure heavily impacted the Utilities Department, there is adequate salary savings in these funds to cover the cost of the new MOU's approved by Council in December.

#### Parking Fund

As of February 28, 2023, the General Fund loan to the Parking Fund (to cover the initial startup and operating costs of the parking program) was \$602,485. Over the past several City Council meetings, City Council approved changes to the downtown parking program. As part of the February 21, 2023 Council action, Council directed staff to bring back the program for review in 90 days. As part of that review process, staff will provide Council with an updated set of financial statements for the parking program.

#### Measures E-12 & J-20 Supplemental Sales Tax

The purpose of E-12 is to fund the City's street maintenance and repair program. Attachment No. 6 provides an overview of the financial activity of E-12 since the City started collecting the additional tax in FY 2012-13. There are 13 projects currently underway and budgeted in FY 2022-23:

Project Name	Total Project Budget	Expended-to-Date	Budget Remaining
Creston Road <sup>1</sup>	\$ 10,252,500	\$ 1,998,524	\$ 8,253,976
24th St Bridge Rehabilitation <sup>2</sup>	19,259,518	979,253	18,280,265
Dry Creek Road	5,674,969	4,482,673	1,192,296
13th St/Niblick Bridges Resurfacing <sup>3</sup>	2,006,500	-	2,006,500
Rambouillet/Nicklaus Area	3,111,500	2,642,851	468,649
Olive/16th-20 <sup>th</sup>	1,903,500	1,605,971	297,529
Appaloosa Dr	750,000	722,030	27,970
Melody Dr/Patricia Ln	2,400,000	1,702,174	697,826
Rolling Hill Estates	840,000	24,365	815,635
County Club Area	3,550,500	248,864	3,301,636
17 <sup>th</sup> Street (Spring to Chestnut)	800,000	10,300	789,700
Sherwood/Sierra Bonita/Turtle Creek	7,695,000	60,896	7,634,104
Riverside (17 <sup>th</sup> to 24 <sup>th</sup> )	1,200,000	-	1,200,000
Sunset/Panorama Neighborhood <sup>4</sup>	2,600,000	-	2,600,000
West Side Streets Maintenance Treatment <sup>5</sup>	900,000	-	900,000
<b>Total Projects in Progress</b>	<b>\$ 62,943,987</b>	<b>\$ 14,477,901</b>	<b>\$ 48,466,086</b>

Notes to the Table Above:

1. Creston Road: This project will begin at the conclusion of the construction of the roundabout located at Golden Hill Road and Union Road, in FY 2023-24. An additional budget allocation will also be made at that time, adding \$4.2 million to the budget, for a \$8.3 million project budget.
2. 24th Street Bridge Rehabilitation: FY 2022-23 budget appropriations cover the preliminary and final design and other soft costs of the project. However, construction of the new bridge is predicated on receiving federal funding. As such, for budgeting purposes, it is assumed that the City receives a federal grant of \$14 million and the City's local match (i.e., Measure E-12) is \$2 million. Should the City be unsuccessful in obtaining a grant for the bridge, the project will not move forward due to lack of funding.
3. 13th Street and Niblick Road Bridges Deck Resurfacing: The budget is predicated on receiving a \$1.7 million State Grant, with a \$348,000 local match (i.e., Measure E-12). This project is on-hold until the results of the grant award is known.

4. Sunset and Panorama Neighborhood: On January 17, 2023, City Council approved the use of unappropriated J-20 reserve funds towards two additional street and road repairs, this project being one of them. This is one of the older neighborhoods on the west side of the city and needs repairs. The payment condition index (“PCI”) in this neighborhood ranges from 18 to 34 (out of a range of 100). Proposed treatment repair is heavy rehabilitation. There are no curbs, gutters, or sidewalks in the neighborhood, so upgrades are not required. The waterlines in this tract were upgraded in 2010.
5. West Side Streets Maintenance Treatment: This project was the second project approved by City Council on January 17, 2023, to be funded by the use of unappropriated J-20 reserve funds. This project would use and apply experimental treatment (fiberized slurry or rubberized chip seal), as was applied at Tower Road. This would be considered “maintenance” and preclude the need to upgrade the curb ramps. It should also be noted that maintenance at Oak, 2nd, and 3rd Streets were performed in 2021. This scope continues to complete maintenance on those blocks of streets. Proposed streets: 26th Street, from the west end to Riverside; 2nd Street, from Vine to Spring; 3rd Street, from Vine to the east end; Oak Street, from 1st to 2nd Street; and Oak Street, from 7th to 10th Street.

Attachment No. 7 provides the overview of the financial activity of J-20 since inception. The FY 2021-22 budget reflects the first full year of revenues received under Measure J-20 and the City received approximately \$13.1 million, \$2.6 million more than originally estimated. As part of the measure implementation plan, City Council approved:

- Police Department: One Commander, one Sergeant, 14 Officers, one Dispatch Supervisor, two Dispatchers, and one Administrative Assistant within the Police Department;
- Fire and Emergency Services: One Deputy Fire Chief, one Administrative Captain, 12 Firefighters, and one Fire Prevention Specialists within the Fire and Emergency Services Department; and
- Public Works: Two Maintenance Specialists positions within the Street Maintenance Division.

Additional one-time investments were made in public safety facilities, such as construction of Fire Station No. 3; technology upgrading the police department’s data 9-1-1 communications system; construction of a new substation and evidence storage facility; and supplementing the City’s 6-Year Street Maintenance and Repair Plan. But because it has taken some time to recruit for these additional positions, Measure J-20 has a reserve balance of \$10.9 million on June 30, 2022.

#### Status of Police Department:

1. Commander: Recruitment for this position was on hold until additional officers are hired with the City; however, department priorities have changed, and the department recently promoted a Police Sergeant as an Interim Police Commander.
2. Sergeant: Recruitment for this position is on hold until additional officers are hired with the City.
3. Police Officers: City Council authorized seven additional police officer positions in FY 2021-22, and an additional seven positions in FY 2022-23, for a total of 14 authorized positions. To-date, three positions have been hired, with one recently graduating from the academy this past January; one is currently the next academy, with an anticipation graduation of July; and two lateral officers are in background. To summarize, out of the 14 authorized positions, three were hired; three are in some sort of stage of recruitment; and eight positions remain unfilled.

Officer recruitment continues to be challenging—not just within our City—but statewide. City management has been proactive in trying to find solutions to this problem. As mentioned in previous reports, the City added a Corporal job classification, implemented a hiring incentive program, including a housing loan assistance, and the City recently met with a marketing firm to see how the City can better connect to those lateral officers from other agencies. More recently, City Council approved a

new labor agreement with the Police Officer's Association which calls for wage and benefit increases of approximately 21% over the next three years. As a result, an entry-level, recently graduated police cadet, will have a starting salary of approximately \$86,000 (not including any overtime or incentive pays) and a salary of \$109,000 after approximately five years of experience. Should the economic triggers be met in the second and third year of agreements, those amounts increase to \$96,000 and \$121,800, respectively, by the end of the contract term. This better aligns the City amongst its comparison agencies.

3. Administrative Assistant (Records Clerk): For FY 2022-23, City Council authorized converting one Records Clerk position to the Police Chief's Administrative Assistant. Recruitment for this position is complete, the employee began at the end of September.
5. Police Substation/Evidence Storage: Design work on the Police Substation/Evidence storage project is in its final stages. 4305 Second Wind Way (SWW) has been reconfigured to meet the police departments needs and now includes a reception area, locker room, offices for a commander and sergeants and conference room. Designs for evidence storage in the adjacent aircraft hangar are complete. To-date, the City has spent approximately \$246,500 on this project, with an additional \$2.3 million estimated to be spent on the construction of improvements.

#### Status of Fire and Emergency Services Department:

1. Firefighters: For FY 2022-23, 12 Firefighter positions are authorized utilizing Measure J-20 funds; all 12 positions are filled and on board. It should be noted that three positions are funded with a second Staffing for Adequate Fire and Emergency Response (SAFER) grant. As such, grant revenues will offset these personnel cost until FY 2022-23, and at which Measure J-20 will provide 100% funding for these positions.
2. Deputy Fire Chief: Randy Harris, the City's previous Fire Marshal, was promoted to Deputy Fire Chief in the beginning of October. Interviews for a new Fire Marshal are scheduled for February 2023.
3. Fire Prevention Specialist: This recruitment has not been started.
4. Fire Station No. 3: Steady progress has been made on the construction of Fire Station No. 3 and is now closer to 60% complete. However, manufacturing is delayed, despite staff's effort to order the electrical equipment before the start of the project. This is an industry-wide problem with delays noted of more than six months. Currently, the equipment is not scheduled to arrive until June 2023. Completion of the fire station is contingent not only on equipment arrival, but PG&E schedules. A firm completion date is to be determined. Approximately \$3.8 million has been spent (out of the \$6.95 million project budget).

#### Public Works Street and Road Maintenance:

1. Two Street Personnel: At the last quarterly report, two general-funded street maintenance personnel left, creating vacancies in Measure J-20. Since then, both positions are on board, one of them starting at the end of October 2022, and the other in January 2023.
2. On February 4, 2020, City Council approved an Updated Six-Year Street Maintenance and Repair Plan which outlines specific street segments anticipated to be constructed over the remaining four years of the Measure E-12 SST (the measure has an automatic expiration date of March 31, 2025, unless voters approve its extension beforehand). Unfortunately, the consumer price index (CPI)—the rate at which costs increase over time—has increased at a higher rate than anticipated in February 2020. To mitigate these impacts, City Council directed the use of Measure J-20 to bridge the funding shortfall, approximately \$2.3 million, for the existing Six-Year Plan through FY 2024-25. See Measure E-12 section of this report for further information on the street maintenance and repair program.

### Staffing and Budget Amendments

To lessen the administrative burden of producing and retaining City Council resolutions for all budget adjustments made throughout the year, the City Council provides authorization to increase service levels and officially amend the budget by resolution during these quarterly budget reports. This authorization allows multiple service level adjustments to be compiled into one resolution. Additionally, budgets are plans, and plans may be modified as new information comes to light and/or as the City's operational environment changes. Below are recommended budget adjustments:

1. The Adopted Budget for FY 2022-23 and 2023-24 added several positions throughout the organization. Specifically, the Library division—consistent with the 5-Year Library Strategic Plan endorsed by City Council on [February 15, 2022](#)—added two Librarian positions: one Technical Services Librarian, who will be responsible for adopting cutting-edge technology and innovative means of providing library to the community, including the development of a virtual staff training academy and improvements for the City Library app and website; and one Outreach Services Librarian who will play a key role in increasing community awareness of library service and positioning the City Library as a community hub. One of these positions was anticipated in the first year of the budget, and the second position in the second year.

In December, City staff conducted a recruitment for the Technical Services Librarian. And even though recruitments have been challenging recently, this recruitment generated two viable candidates, both of which will be assets to the City, both of which will be able to fill either role successfully. As a result, staff is requesting advancement of the Outreach Services Librarian (by three months) so that both candidates can be hired at the same time. This increase in costs will be offset, in part, by not needing to conduct another recruitment next fiscal year, especially since next year budget also calls for additional positions, as well.

2. The adopted budget also called for similar staffing expansion in the Fire Department's Prevention unit. This expansion is needed in meeting the demands of development and services to our community. As such, a second Fire Prevention Specialist I position was authorized in the current year's budget; however, after review of the needs of the division, staff recommends bringing commercial-related inspections back in-house (currently, the division utilizes a retired annuitant professional services contract), and in order to do such, additional educational certificates are required that exceeds the scope and responsibilities of a Fire Prevention Specialist I position. As a result, the attach resolution would change the added position's classification from a Fire Prevention Specialist I to a Fire Prevention Specialist II. This results in approximately \$15,000 in additional personnel cost per year, which is offset, in-part, with eliminating the professional services contract. Furthermore, it also provides growth opportunities in the prevention unit, allowing for better succession planning.

That all being said, the position is currently classified in the Coordinator series, but in order to be better aligned with other positions within the City, such as the building and engineering inspectors, staff is recommending changing this position's classification to the Technician series. This type of change not only requires City Council approval, but also requires meet and confer with the Service Employees International Union group. This resolution is written to get City Council authorization prior to meet and confer obligations but will not be formalized until after all protocols are met.

Additionally, with this, comes the need for additional workspace since the Department has already outgrown the available workspace in the Public Safety Center. After an internal assessment of options to accommodate the growing organizational needs, staff recommends revitalizing the unused space inside the City-owned Airport Fire Station. Facility improvements, furniture and equipment is estimated to cost \$45,000.

3. As previously mentioned, on [December 20, 2022](#), City Council approved Memorandum of Understanding (MOU) with each of the City's labor groups as well as the Unrepresented Management and Part-Time Employee Groups. These wage and benefit increases have been factored in estimated end-of-year projections above, but no budget amendment has been formalized (approving tonight's resolution will do such). It is estimated that the total cost of the agreement for FY 2022-23 was approximately \$1.4 million.
4. Airport Mentorship Program/Assessment: Spaceport license efforts and the push to establish a technology corridor have put a spotlight on the Paso Robles Municipal Airport. That, coupled with a change in management after a 30-year tenure, made it clear that an in-depth assessment of all aspects of airport operations was necessary to position the facility to meet future needs. Aviation Management Consultants Group (AMCG) began a three month long onsite assessment and mentorship program in mid-January at a total cost of \$96,750. Additionally, AMCG has been contracted to prepare the Request for Proposals for a Fixed Base Operator at the Airport for an additional \$7,500, for a total cost of approximately \$105,000.
5. On [October 5, 2021](#), the City Council approved the conceptual design for the Uptown Family Park water feature, with funding for this project coming solely from a state grant program. Unfortunately, and as discussed with City Council regularly during the capital project update presentations each month, the actual cost of the project—even after value engineering the scope of the project down—is anticipated to exceed grant revenues by approximately \$25,000. However, the City's Development Impact Fee Program Needs List for Parks and Recreation facilities includes this project, and as such, funding this shortfall is recommended to come from the restricted Impact Fee Fund, and not the General Fund.

### **Fiscal Impact**

The recommended budget and staffing amendments, as discussed above, are as follows:

Item	Fund	Total Cost	Budget Adjustment
1. Outreach Services Librarian	General	\$25,000	None
2. Fire Prevention Specialists Reclass	J-20	\$15,000	None
3. Tenant Improvements Fire Station Airport	J-20	\$45,000	None
4. Memorandums of Understanding	General	\$1,400,000	\$500,000
5. Airport Mentorship Program	Airport	\$105,000	\$105,000
6. Uptown Family Park Water Feature	Development Fees	\$203,000	\$25,000

Both the Outreach Services Librarian and the Fire Prevention Specialist, and the related tenant improvements, additional cost can be absorbed with current year budget savings. However, since staff recommends changes to the authorized position listing, City Council approval is specifically required.

### **Recommendation**

Approve Resolution 23-XXX, amending the budget for Fiscal Year 2022-23, to reflect the updates as discussed, and amending the Authorized Position Listing by adding one Outreach Services Librarian and one Fire Prevention Specialist II, and removing one Fire Prevention Specialist I position.

### **Attachments**

1. Resolution 23-XXX
2. Financial Statements – General Fund
3. Financial Statements – Water Fund
4. Financial Statements – Wastewater Fund



5. Financial Statements – Solid Waste Fund
6. Financial Statements – Measure E-12 Activity
7. Financial Statements – Measure J-20 Fund