



Council Agenda Report

From: Ryan Cornell, Administrative Services Director

Subject: Quarterly Financial and Budget Report Update and Amendments

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: December 3, 2024

Facts

1. In accordance with the Council's adopted fiscal policies, quarterly, but 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. This report provides an overview of the City's projected financial position based on actual transactions incurred for FY's 2023-24 and 2024-25. It should be noted that financial information provided for FY 2023-24 has not been audited. As such, additional adjustment may be required; however, staff does not anticipate that there will be significant changes.
3. On June 18, 2024, City Council adopted the Operating and Capital Budget for FY's 2024-25 and 2025-26. Several assumptions and predictions were used in the budget process; therefore, it is important to revisit assumptions to ensure accuracy and solvency.
4. The Report also provides an opportunity to review past actions and update as needed.

Options

1. Take no action;
2. Receive and file the report and approve the proposed appropriations;
3. Provide alternative direction to staff.

Analysis and Conclusions

This is the first financial report since the budget was adopted in June 2024. It is prudent to examine the projections and assumptions used during the budget process and to ensure they are still accurate. As such, this financial report provides an opportunity to examine the financial activity of the City for the first part of FY 2024-25. As with previous financial reports, the focus of this report is on the General Fund, the main operating account for the City, as well as Capital Improvement Program (CIP) Funds, including street and road repair.

The budget for FY 2024-25 and 2025-26 was approved prior to the close of the fiscal year because State law requires budgets to be adopted prior to the beginning of the year. As such, there are estimates and assumptions made to predict financial activity that occurred after the budget, but before the close of the fiscal year. The General Fund had estimated that ending unappropriated reserves would total \$19.4

million on June 30, 2024. Actual unappropriated reserves on June 30, 2024, totaled \$19.7 million, a positive impact to City finances of approximately \$250,000 (this represents less than 1% of the total General Fund budget). In other words, end of year estimates used during the budget process were accurate and no additional adjustments are warranted.

As discussed throughout the budget process, the City’s General Fund budget is balanced with revenues estimated to be \$55.1 million and operating expenditures of \$53.0 million at the end of the fiscal year; there is an additional \$8.5 million appropriated to fund one-time capital projects. Since then, revenues are now estimated to be approximately 1.4% more than originally estimated and operating expenditures are tracking to be approximately 95% of appropriations. This further validates the accuracy of the budget. The financial activity of the General Fund is summarized below:

	Amended Budget	Q1 Actual	Estimated End of Year	Variance	% Rec’d/ Exp’d
Sales Tax	\$18,685,500	\$1,561,411	\$18,597,885	(87,615)	99.5%
Property Tax	14,915,400	646,322	15,131,556	216,156	101.4%
TOT	10,522,000	2,043,347	10,376,184	(145,816)	98.6%
All Other Revenues	11,512,297	3,728,794	12,314,470	802,173	107.0%
Total Revenues	55,635,197	7,979,874	56,420,095	784,898	101.4%
City Manager’s Office	2,643,200	367,315	2,587,967	55,233	97.9%
Administrative Services	3,098,800	605,872	2,883,705	215,095	93.1%
Police Department	13,482,800	2,732,975	13,326,408	156,392	98.8%
Emergency Services	8,500,189	1,787,825	8,371,576	128,613	98.5%
Public Works	8,149,778	1,313,620	7,281,258	868,520	89.3%
Community Services	6,428,400	1,415,718	6,271,981	156,419	97.6%
Community Development	5,609,800	742,834	4,250,804	1,358,996	75.8%
Capital Projects	8,234,400	-	8,234,400	-	100.0%
Internal Service Funds	6,549,600	-	6,549,600	-	100.0%
All Other	262,500	-	-	262,500	0.0%
Total Expenditures	62,959,467	8,966,159	59,757,699	3,201,768	94.9%
Originally Estimated End of Year Reserves	15,359,047				
Updated Estimated End of Year Reserves	17,644,342				
Variance	1,662,166				

General Fund Revenues

City staff received its financial report for sales tax activity for the second quarter 2024. The City’s receipts from April through June were 1.9% higher than the same period in 2023, however, after adjusting for reporting anomalies, actual sales rose by 0.9%. The flattening of sales tax revenues was anticipated during the budget process as there was an unusual spending surge that occurred coming out of the COVID-19 pandemic. On the downside, new car sales were lower as consumers grew hesitant due to high prices and tight credit conditions. Excluding anomalies, taxable sales across San Luis Obispo County declined by 0.5%, while the Central Coast region saw a modest 0.5% increase over the same period. Halfway through the

current calendar year, revenue trends remain slightly lower than a year ago overall. Although the Federal Reserve recently reduced the Fed Funds Rate helping temper the cost of financing, personal consumption forecasts remain insipid through the remainder of 2024. Consumers are more likely to wait for greater improvement of household economic conditions before extending themselves again, inspiring the next sales tax growth cycle.

Property taxes continue to be a stable revenue source as the City realized a 6.3% change in assessed valuation citywide, whereas the County saw a 4.8% change. The largest increase this past year was due to the construction of Arrive Paso which increased by \$30.7 million. The second largest increased valuation by \$9 million due to the continued construction of the Olsen Ranch/South Chandler Specific Plan. The City can expect to see significant year-over-year property tax growth as residential development continues to grow. As a result, updated property tax revenues are now estimated to be approximately \$200,000 more than expected, the largest reason for the positive revenue results.

That all being said, through the first half of the 2024 calendar year, counties are still experiencing declines in the number of recorded sales from 2023. Home sales pulled back in June as interest rates remained high through the end of the second quarter. Despite this, all major California regions experienced a moderate increase in their median sale prices from a year ago in June. The Central Coast posted the biggest sales jump on a year-over-year basis, increasing 8.9% from a year ago. The Far North (7.6%) and Southern California (7.4%) were a close second and third, respectively, and were followed by the San Francisco Bay Area (5.8%) and the Central Valley (4.8%). The median sale price of Paso Robles detached single-family homes from January through September 2024 was \$751,500, an increase of \$71,500 (10.5%) from 2023's median price.

American Rescue Plan Act of 2021

On September 7, 2021, the City Council approved the budget allocation for the funds received by the City by the American Rescue Plan Act of 2021 (ARPA), which was part of the federal stimulus package in response to the COVID-19 pandemic. The City received approximately \$5.5 million which needs to be obligated no later than December 31, 2024, and expended by December 31, 2026. Since 2021, the ARPA financial activity is summarized as follows:

	Current Budget	Actual Expended-to- Date	Obligated	Remaining Unspent/ Unobligated
ECHO	\$ 500,000	\$ 444,000	\$ 56,000	\$ -
Sherwood Park Upgrades	2,879,463	175,435	2,704,028	-
South Vine Street Bridge	2,120,950	923,632	-	1,197,318
Total	<u>\$ 5,500,413</u>	<u>\$ 1,543,067</u>	<u>\$ 2,760,028</u>	<u>\$ 1,197,318</u>

As shown above, the City has approximately \$1.2 million of unobligated ARPA funding that needs to be expended or, at a minimum, obligated by the end of the year or risk losing these grant dollars. In accordance with the APRA grant requirements, the City’s entire ARPA allocation is categorized as “revenue loss”, which means the City may use these funds “for any governmental purposes.” As such, staff recommends redirecting ARPA funds away from the South Vine Street Bridge project (because that construction contract will not be obligated until the second quarter 2025) and direct them towards the City’s general liability premiums. This will result in a reduction in the General Fund’s contribution towards general liability insurance, but then increase its contribution to the South Vine Street Bridge to make up the difference.

One-Time Measure J-20 Appropriations

On June 30, 2024, there was approximately \$8.8 million in unspent and unappropriated Measure J-20 funds. This is mainly due to police and fire personnel recruitment and the timing that it takes to get these positions hired. This creates a one-time salary savings from for these positions that have been put into fund reserves and are available for programming. As such, staff recommends appropriating \$4 million to be programmed toward street repair and maintenance as shown below (half of the available reserve balance, with the remaining being retained for future unexpected public safety and/or road maintenance needs). Staff prioritized road segments that not only require maintenance, but also does not require retrofitting of utility lines, because including utility lines as part of the construction delays the actual road rehabilitation.

<u>Street Segment</u>	<u>Budget</u>
16 th Street (from Chestnut Street to Spring Street)	\$ 1,500,000
18 th Street (from Vine Street to Spring Street)	350,000
30 th Street (from Vine Street to Spring Street)	700,000
32 nd Street (from Vine Street to Spring Street)	785,000
36 th Street (from Vine Street to Spring Street)	710,000
Total	<u>\$ 4,045,000</u>

Other Miscellaneous Adjustments

Fire and Emergency Services Department recently expanded its notification systems to include the Zone Haven and Pulse Point applications software. These free mobile applications notify the community when there is an emergency, including notifying CPR-trained individuals when there is a cardiac emergency. The applications goal is to help save lives by connecting bystanders with victims before emergency responders can arrive. These programs come with an annual subscription of \$12,000 per year, which was adversely omitted from base line budget amounts.

The City has entered into several agreements with Hamner, Jewell & Associates to provide appraisal services for the parcels throughout the City that is needed for right-of-way. Many of these parcels will be reimbursed by developers and their development impact fees; some parcels are needed to install upgrade wastewater facilities. In either case, staff did not formally appropriate funds for these purposes. The entry below will correct this error.

<u>Right-of-Way Location</u>	<u>Funding Source</u>	<u>Budget</u>
RV Links Road	General	\$ 5,600
Huer Huero Creek Bridge/Road	TIF	26,000
Olsen Ranch/South Chandler Niblick Right Turn	TIF	25,800
Beechwood ARCO Right Turn	TIF	4,100
Flag Way Sewer Easement	Sewer	54,000
Total		<u>\$ 115,500</u>

TIF: Transportation Impact Fees Fund

Lastly, road maintenance costs have increased significantly primarily driven by rising inflation and construction costs, particularly related to labor, materials like asphalt and concrete, and transportation expenses. For the upcoming fiscal year, Merry Hill Road is scheduled for road maintenance, however, preliminary engineer's estimates anticipate the project to be underbudget by \$300,000. As of June 30, 2024, there was approximately \$1.7 million of unappropriated Measure E-12 funds. This reserve balance

was caused by one-time project savings from other road maintenance projects coming in under-budget. This will reduce the fund reserves to \$1.4 million. Further discussions with City Council and the community on road maintenance are anticipated in the upcoming with the passage of Measure I-24 this past November. This will address future funding as well as the remaining reserve amount.

Fiscal Impact

Recommended budget amendments, as discussed above, total \$4.5 million and is summarized as follows:

Item	Funding Source	Budget
American Rescue Plan Act Reclass	Risk	\$ -
Measure J-20 Additional Road Maintenance	J-20	4,045,000
Emergency Services Notification Application	General	12,000
Right-of-Way Acquisitions Appraisal Services	General	5,600
Developer-funded ROW Acquisitions Appraisal	TIF	55,900
Sewer Easement Appraisal Services	Sewer	54,000
Measure E-12 Additional Road Maintenance	E-12	300,000
Total		\$ 4,472,500

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 (Option 2)

Receive and file this report and approve Resolution 24-XXX, amending budget appropriations, as presented.

Attachments

1. Resolution 24-XXX – Amending Budget Appropriations
2. General Fund Budget Report
3. Measure E-12 Road Maintenance Expenditure Report
4. Measure J-20 Budget Report
5. Capital Improvement Program Budget Report