



Council Agenda Report

From: Ryan Cornell, Administrative Services Director

Subject: Mid-Year Financial and Budget Report Update and Amendments for Fiscal Year 2024-25

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: March 18, 2025

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 for 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. 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.
3. On March 19, 2024, City Council formally adopted goals for FY 2024-25 and 2025-26. 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. The goals and priorities have been incorporated into this budget analysis.
4. Although the budget is formally adopted at a point-in-time, it remains an evolving planning document that is amended throughout the year. Amendments are necessary to recognize changes to revenue streams, the regulatory environment, and the broader economic outlook.
5. In 2018, Senate Bill 1090 was signed by Governor Brown that was aimed to ease the impacts of closing the Diablo Canyon nuclear powerplant. To date, the City has received approximately \$1.5 million in SB 1090 proceeds, with approximately \$225,000 in unappropriated fund reserves.
6. On July 16, 2024, City Council approved the Five-Year Economic Development Strategic Plan (EDSP). The EDSP provides the City with the roadmap for allocating resources, such as SB 1090 proceeds.
7. California Public Employees Retirement System (CalPERS) requires governing bodies of local agencies that contract with CalPERS for retirement benefits to approve and adopt a publicly available pay schedules in accordance with public meeting laws. The pay schedule must identify each position by title, the individual pay rate amount or range for the position, and the time base upon which the pay amounts are calculated and must be posted at the office of the employer or immediately accessible and available for public review from the employer during normal business hours or posted on the employer's website (pursuant to California Code of Regulations, Title 2, Section 570.5).
8. The City's FY 2024-25 list of authorized positions currently includes Development Services Technician, Engineering Technician, and Planning Technician; it also includes the addition of a Recreation Program

Coordinator position. It is recommended that the three community development technicians positions be reclassified to a Permit Technician position.

9. The master pay schedule is being updated to reflect the wage placement of these new positions. Placement was determined based on both the market as well as internal equity and meet and confer with the applicable bargaining unit has been satisfied.

Options

1. Take no action;
2. Receive the financial and budget report, approve the proposed budget amendments and personnel reclassifications, and the master pay schedule;
3. Provide alternative direction to staff.

Analysis and Conclusions

Financial Update

General Fund Revenues

The City’s General Fund original estimated revenues for FY 2024-25 were \$55.7 million. With the completion of half the fiscal year completed, overall estimated revenues are still accurate and are projected to be approximately \$300,000 above budget estimates, at 56.0 million, or 100.5%. This positive outcome is due to charges for services and licenses and permits (these are primarily the fees that the developers pay for Community Development Department services) which are estimated to be 130% of budget estimates. Property taxes, which are projected to exceed original estimates by approximately \$218,000. These increases are offset, in part, with sales and transient occupancy taxes coming in under budget, by approximately \$580,000 and \$690,000, respectively.

| General Fund Revenues Fiscal Year 2024-25 | Budget Estimate | Updated Projected End of Year | Variance | % Variance |
|--|--------------------|-------------------------------------|----------------|---------------|
| Sales Tax | 18,685,500 | 18,104,375 | (581,125) | 96.9% |
| Property Tax | 14,915,400 | 15,133,376 | 217,976 | 101.5% |
| TOT | 10,522,000 | 9,830,821 | (691,179) | 93.4% |
| Other Taxes | 3,277,500 | 3,181,283 | (96,217) | 97.1% |
| Charges for Services | 2,832,000 | 3,815,501 | 983,501 | 134.7% |
| Licenses and Permits | 1,300,000 | 1,582,907 | 282,907 | 121.8% |
| Use of Money and Property | 2,020,900 | 2,194,314 | 173,414 | 108.6% |
| All Other Revenues | 2,166,897 | 2,174,747 | 7,850 | 100.4% |
| Total | 55,720,197 | 56,017,324 | 297,127 | 100.5% |

Sales Tax Revenues: The third quarter traditionally is noted for pleasant weather and statewide tourism; however, taxes fell when compared to a year ago. The City’s sales tax receipts from July through September were down 10.5%; excluding reporting aberrations, actual sales were down 7.6%. Automobiles and transportation industry receipts declined 4.8% statewide and marks the seventh consecutive quarter of downturn for the sector. While used automobiles returns and leasing activity have improved, revenues from new car sales struggled due to sustained high interest rates. As such, inventories for many dealers remain elevated, applying downward pressure on prices and growth into 2025.

Fuel generating taxpayers had a rough quarter; a combination of consumption declines and falling fuel prices thrust comparisons down by 13%. Although statewide tourism appears to have improved over 2023, revenue from restaurants experienced only a modest gain of 0.7%, which included a dramatic drop

from fine dining establishments – consistent with spending trends in other sectors. State mandated minimum wage requirements remained a challenge, with higher menu prices reducing patron visits. These sluggish results solidify 2024 as a down year. Recent reductions to the Fed Funds Rate aren't considered to help until later in 2025. The City is expecting fiscal year 2024-25 sales taxes to stay relatively flat or decline slightly as sluggish economic conditions leave consumers cautious in their spending patterns, especially for big ticket items and discretionary products. Net of aberrations, taxable sales for all of San Luis Obispo County declined 5.3% over the comparable period; the Central Coast region was down 2.8%.

Property Tax Revenues: Consistent with the previous financial report, 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 \$218,000 more than expected, one of the main reasons for the positive revenue results.

California home sales ended the year with the largest yearly increase since June 2021, but the housing market remained a work in progress toward the end of 2024. December's citywide median home price was \$739,500, slightly below the statewide median price of \$861,020. As anticipated, both sales and price activity were up modestly last year as California wrapped up 2024 with a double-digit sales gain over last December. While the housing market is expected to improve further in 2025 there are some hurdles that could present challenges for the market in the upcoming year, namely inflation and the policy changes under the new White House administration.

Transient Occupancy Tax Revenues: Tourism plays a vital role within the City. At the February 18, 2025 City Council meeting, a presentation was given by Beacon Economics to discuss the Tourism Impact Study that was conducted. That study found that in 2023 \$450.8 million of direct spending was estimated to be spent by visitors, which added an additional \$20.9 million generated tax revenue (which equates to 37% of the General Fund total revenues). Furthermore, without the revenue generated by tourism, each Paso Robles household would need to contribute an additional \$1,779 annually in taxes to maintain the current level of city services and infrastructure.

However, Visit SLO CAL engaged Tourism Economics to prepare lodging forecast of key indicators for Paso Robles and other areas throughout San Luis Obispo County. According to their analysis, transient demand throughout the County is flattening, similar to the sales tax revenue trends. This was not anticipated during the beginning of the budget process. Fortunately for the City, hoteliers have been able to maintain an elevated average daily rate, which has resulted in not as much of a decline in TOT revenues as in other areas of the County. That said, with the additional hotel rooms currently being constructed and anticipated to be online sometime in 2025, it is likely to put downward pressure on the daily rates. For the remainder of the fiscal year, the City is anticipating similar trends as in the previous three years, and totaling \$9.8 million, approximately \$700,000 under budget.

General Fund Expenditures

The City's General Fund budgeted appropriations for FY 2024-25, including budget amendments approved-to-date, totals \$63.6 million. With the completion of half the fiscal year completed, overall City expenditures are trending to be 94% of appropriations, representing budget savings of \$4.3 million. It should be noted that for this fiscal year the City had assumed budget savings of \$2.3 million, so the net

result, is a positive \$2.0 million. The City's General Fund budget and expenditure by department is shown below:

| General Fund Expenses Fiscal Year 2024-25 | Budget | Updated Projected End of Year | Variance | % Variance |
|--|-------------------|-------------------------------------|--------------------|--------------|
| City Manager's Office | 2,643,200 | 2,674,129 | 30,929 | 101.2% |
| Administrative Services | 3,098,800 | 2,862,190 | (236,610) | 92.4% |
| Police | 13,567,800 | 13,598,587 | 30,787 | 100.2% |
| Fire/Emergency Services | 8,712,189 | 8,247,138 | (465,051) | 94.7% |
| Public Works | 8,826,328 | 7,454,399 | (1,371,929) | 84.5% |
| Community Services | 6,428,400 | 6,173,582 | (254,818) | 96.0% |
| Community Development | 5,609,800 | 4,105,297 | (1,504,503) | 73.2% |
| Transfer to CIP | 8,381,705 | 8,121,905 | (259,800) | 96.9% |
| All Other Expense/Transfer | 6,354,595 | 6,079,740 | (274,855) | 95.7% |
| Total | 63,622,817 | 59,316,967 | (4,305,850) | 93.2% |

The most significant budget savings are largely due to fully budgeted, but vacant positions throughout the city. This makes up about \$2.1 million of the overall budget savings shown above. This is also why the Departments of Public Works and Community Development are more under budget than the other departments given the time it takes to recruit. Given the overall positive outlook for City expenditures, staff plans to reallocate budgets from elsewhere to cover the slight over-appropriations in the City Manager's Office and Police Departments.

Overall, the City's General Fund reserve balance at the end of the fiscal year is projected to be \$17.7 million, representing 34% of revenues. The City had adopted a budget that had anticipated reserves to decrease to \$15.4 million, which represents the minimum policy reserve levels of 30%. See Attachment No. 2 for further detail.

Measure E-12 and Measure J-20 Supplemental Sales Taxes

The purpose of Measure E-12 is to fund the City's street maintenance and repair program. Attachment No. 3 provides an overview of the financial activity of E-12 since the City started collecting the additional tax in FY 2012-13. The City has received \$62.2 million since the tax has been in place, with 100% of the funds being spent directly on road rehabilitation.

The City has *completed* the following 29 projects, totaling \$42.9 million, or about \$3.9 million on average per year since the inception of Measure E-12, as shown below:

| Project Name | E-12 SST | Other Sources | Total Project Cost |
|---|------------|------------------|-----------------------|
| Professional Studies | \$ 141,249 | \$ - | \$ 141,249 |
| 21 st St Green Update | 454,300 | - | 454,300 |
| 13 th St Bridge Improvement | 300,000 | - | 300,000 |
| Spring Street (16 th to 24 th Street) | 1,222,338 | - | 1,222,338 |
| Country Club/Rolling Hills/S. River Road/Airport Roads | 1,445,112 | 270,139 | 1,715,251 |
| Walnut Drive/Jackson Dr/Shannon Hill | 802,253 | 24,470 | 826,723 |
| 12 th St (Spring to Fresno) | 1,672,856 | 1,122,389 | 2,795,245 |
| Union Rd/Kleck/Montebello | 285,000 | - | 285,000 |
| Scott St (Creston to Airport) | 1,693,911 | 25,326 | 1,719,237 |
| Creston/Golden Hill/Oak Meadows | 370,425 | - | 370,425 |

| Project Name | E-12 SST | Other Sources | Total Project Cost |
|--|----------------------|---------------------|----------------------|
| Union Road (Golden Hill/Hwy 46E) | 264,772 | 734,375 | 999,147 |
| Spring Street (1 st to 15 th) | 4,011,841 | 53,068 | 4,064,909 |
| Sherwood/Creston/Linne | 2,390,119 | - | 2,390,119 |
| Vine Street (1 st to 36 th) | 603,617 | - | 603,617 |
| Various Slurry/Chip Seal | 1,893,896 | - | 1,893,896 |
| 13 th Street Pedestrian Improvements | 183,156 | 1,147,635 | 1,330,791 |
| East Side Street Light Rehabilitation | 1,089,444 | - | 1,089,444 |
| Union Road (along BSP) | 1,672,764 | 196,976 | 1,869,740 |
| Ramada Drive/Vendels Circle | 355,385 | - | 355,385 |
| Spring Street (24 th to 36 th) | 2,779,965 | 44,360 | 2,824,325 |
| Park/6 th /9 th /10 th Streets | 652,378 | 786,860 | 1,439,238 |
| Jardine Road | 366,840 | - | 366,840 |
| Olive/16 th /17 th /18 th /19 th /20 th Streets | 980,000 | 641,471 | 1,621,471 |
| Dry Creek Road | 4,312,381 | 193,309 | 4,505,690 |
| Rambouillet/Nicklaus-area | 1,635,000 | 1,007,851 | 2,642,851 |
| Melody Dr/Patricia Ln | 2,027,513 | - | 2,027,513 |
| Country Club-area | 1,022,000 | 377,459 | 1,399,459 |
| Oak Street, 2 nd , 3 rd , 26 th Streets | - | 582,761 | 582,761 |
| Appaloosa Drive | 500,000 | 173,962 | 673,962 |
| Total Completed Projects | \$ 35,128,515 | \$ 7,382,411 | \$ 42,510,926 |

There are 15 projects *currently underway* and budgeted in FY 2024-25, two of which have been added since the last quarterly update. The additional road segments were made available from one-time budget savings from the Measure J-20 tax. New road segments include Creston Road Phase 2 and a variety of west side streets such as 16th, 18th, 30th, 32nd, 36th Streets from Vine Street to Spring Street. A summary of the active projects is listed below:

| Project Name | Total Project Budget | Expended-to-Date | Budget Remaining | Encumbered Contracts |
|--|----------------------|---------------------|----------------------|----------------------|
| Creston Road Phase 1 | \$ 12,648,551 | \$ 4,975,631 | \$ 7,672,920 | \$ 7,672,920 |
| 24th St Bridge Rehabilitation | 4,059,518 | 1,394,422 | 2,665,096 | 711,923 |
| Rolling Hill Estates | 1,200,000 | 1,111,478 | 88,522 | - |
| 17 th Street (Spring to Chestnut) | 849,706 | 592,353 | 257,353 | - |
| Riverside (17 th to 24 th Street) | 1,200,000 | 48,268 | 1,151,732 | 61,736 |
| Sherwood/Sierra Bonita/Turtle Creek | 7,695,000 | 125,582 | 7,569,418 | 107,894 |
| Sunset/Panorama Neighborhood | 2,600,000 | 28,050 | 2,571,950 | 51,688 |
| Elm Ct/Capitol Hill/Palm Ct | 600,000 | 318,053 | 281,947 | 50,872 |
| Golden Hill (Rolling Hill to Creston) | 3,988,200 | 106,541 | 3,881,659 | 2,344,632 |
| Merry Hill – 15 th St – Terrace Hill | 640,000 | 58,602 | 581,398 | 20,582 |
| Serenade/Holstein-Bahama/St Andrews | 2,583,100 | 137,346 | 2,445,754 | 957,674 |
| Melody Drive (east neighborhood) | 3,094,800 | 45,316 | 3,049,484 | 123,660 |
| 13 th Street/Niblick Bridge Resurface | 310,000 | 2370 | 307,630 | 395,630 |
| Creston Road Phase 2 | 5,000,000 | 538,869 | 4,461,131 | 212,260 |
| 16 th /18 th /30 th /32 nd /36 th Streets | 4,045,000 | 206 | 4,044,794 | 54,400 |
| Total Projects in Progress | \$ 50,513,875 | \$ 9,483,087 | \$ 41,030,788 | \$ 12,765,871 |

Attachment No. 4 provides an overview of the financial activity of J-20 since its inception. The City has received \$47.5 million in supplemental sales tax with \$28.6 million actually expended with an additional \$20.9 million appropriated for public safety and road maintenance and rehabilitation.

Police Department: The Police Department has expended approximately \$7.9 million of Measure J-20 funds since the tax has been implemented. Of which, \$3.2 million has been expended on police equipment, surveillance camera system upgrade, communication/dispatch replacement, automated license plate readers, etc. (roughly 40%), with the remaining \$4.7 million on a variety of additional police positions including police officers, sergeants and commanders, deputy police chief, dispatchers, dispatch supervisor, records supervisor, and the Chief's administrative assistant. Taken together, Measure J-20 has provided funded for an additional 29 positions within the Police Department.

Recruiting for police officer positions has been very successful over the past three months. Even though more recently it has been challenging and slow, the City has had great success in sponsoring cadets through the police academy as well as attracting lateral officers. Measure J-20 funds 20 police officer positions, of which, nine (9) are currently working; five are currently in the academy, or is anticipated to go into the academy, with graduation expected through the first and second quarter of 2025; and one additional lateral officer working their way through the recruitment process including background checks, psych exams, and the like. Taken together, that leaves five positions remaining (assuming all cadets and candidates mentioned above pass the academy and/or other recruiting items), an increase of two since the last quarterly check-in.

Fire and Emergency Services: The Fire and Emergency Services Department has expended \$15.5 million in Measure J-20 funds since inception, of which, approximately \$5.5 million has been spent on expanding fire and emergency services through the 16 additional positions authorized. The Staffing for Adequate Fire and Emergency Response (SAFER) grant—the grant that assisted the City in initially hiring nine firefighters has ended—so Measure J-20 is fully funding these positions moving forward. And lastly, the Department has expended a little more than \$7.0 million towards Fire Station No. 3.

For the upcoming year, the department added one Training Officer position which will be a specialty assignment for a current Fire Captain. And now that Fire Station No. 3 is fully operational, the staff is working on the design and construction of a training tower adjacent to the new fire station.

Street and Road Maintenance: Measure J-20 provides funding for two street maintenance personnel (in addition to the five positions funded with the General Fund)—and with the recent passage of I-24, Measure E-12's renewal measure, an additional three street maintenance personnel are authorized and anticipated to be onboard within the next three to six months.

Lastly, given the significant increases in construction pricing, Measure J-20 has allowed for already approved projects to be fully funded, even though most projects exceed engineer's estimates. That being said, the City has appropriated \$14 million of Measure J-20 funds toward the City's Road Maintenance Projects (as discussed earlier in the report). Two additional projects have been added to the Council approved schedule since the last check-in. The first is Creston Road Phase 2. This \$5 million project is funded in two parts: the first was a direct allocation from California Senator Lairds office in the amount of \$3 million; and the second was an additional Measure J-20 allocation for \$2 million. The second road project includes a variety of numbered streets on the west side including 16th, 18th, 30th, 32nd, and 36th Streets from Vine Street to Spring Street. These streets were identified because of the road conditions with no need to repair or rehabilitate the underground utilities. This will ensure that funds are expended timely.

Open Finance

The City is committed to open and transparent government and strives to consistently meet its community's expectations by providing excellent service in a positive, timely, and transparent manner. In an effort to provide greater financial transparency, the City Council adopted the goal of implementing an online fiscal transparency tool to provide real time revenue and expenditure data to all community stakeholders.

The online fiscal transparency tool (Open Finance) is now available by going to <https://www.prcity.com/152/Financial-Reports>. The portal allows users to navigate through highly interactive functionality to gain a better understanding of the revenues collected and how those revenues are utilized in providing the best public service to our citizens. The site is updated at the end of each business week and includes prior fiscal years of data for comparative purposes. It includes information on expenditures, revenue sources, vendor payments and payroll records. Staff will provide a brief demonstration of the program during the City Council presentation.

Budget Amendment

In 2018, the City received funds under SB 1090, earmarked due to the impending closure of the Diablo Canyon Power Plant. These funds are legally bound for use in qualified economic development activities. In July 2024, City Council approved the Economic Development Strategic Plan (EDSP) which includes a list of initiatives for City staff to meet related to economic development objectives over the next five years. Based on industry best-practices, these initiatives communicate a focused, targeted effort to support local businesses, increase the labor pool, and diversify the local economy. All proposed expenditures outlined in the EDSP utilizing SB 1090 funds are eligible. As such, staff recommends formally appropriating the remaining SB 1090 funds to kickstart various initiatives and action items detailed in the EDSP.

Personnel Changes

The authorized positions within the Community Development Department include Development Services Technician, Planning Technician, and Engineering Technician, all of which are currently vacant. The City is reclassifying these three separate classifications into the standalone classification of Permit Technician. Each of the Permit Technicians will focus primarily on a particular division, however, they will be cross trained across all divisions. The goal of this reclassification is to improve coordination, scheduling, and customer service within the three divisions within the department. With this reclassification, the prior working titles will be removed from the City's list of authorized positions and master pay schedule. In addition to Permit Technician, the City is also adding the working title of Recreation Program Coordinator (a position approved by Council for the 24-25 fiscal year) to the master pay schedule. There is no additional cost as a result of these changes.

In 2023, the City entered into a professional services agreement with Baker Tilly US, LLP to conduct a Classification and Compensation Study. A classification and compensation system—which defines the types of jobs in an organization and how much those types of jobs will pay—is the framework organizations set up to make sure job classifications and employees' compensation is fair, strategic, and competitive within a given market. This project is currently underway and staff anticipates the results to be presented to the City Council later in the year. That being said, staff has received preliminary results and there is a significant pay disparity in the City Clerk position. The City Clerk is a critical position for the organization as it serves as the liaison between the public and City Council, is the custodian of City records, and oversees elections. The market comparison indicates that the average minimum salary for the

position is \$107,800 with a maximum salary of \$133,700, whereas our current salary placement is \$85,400 and \$108,400, respectively, resulting in the position being 23% to 26% behind market. As such, staff recommends a 22% equity adjustment of this position as shown below, with wages similar to that of the Airport Manager, Homeless Services Manager, Economic Development Manager, and Maintenance Superintendent. It should be noted that despite the equity adjustment, the position still falls below market averages. As such, additional adjustment may be recommended when the Class/Comp Study is completed and presented to City Council.

| Step | Current | Average Market | Recommended | % Increase | % Market |
|------|------------|----------------|-------------|------------|----------|
| 1 | 85,363.72 | 107,778.02 | 103,914.98 | 22% | (4%) |
| 2 | 90,615.46 | - | 110,342.18 | 22% | - |
| 3 | 96,179.46 | 120,730.22 | 117,126.36 | 22% | (3%) |
| 4 | 102,085.36 | - | 124,340.58 | 22% | - |
| 5 | 108,363.32 | 133,682.42 | 132,002.78 | 22% | (1%) |

City Council Goals and Strategic Priorities

The 2024-2026 budget reflects the City’s commitment to its new “SMART” goals concept, that is Specific, Measurable, Achievable, Relevant, and Time-Bound. The goals, as outlined throughout the Budget Report, reflect a reformatted structure that streamlines the goals framework and links measurable outcomes. These new goals include overhauled goals categories, as well as specific action items and initiatives that will drive the workplan of staff over the next two fiscal years. The 2024-2026 budget allocates resources based on these updated set of goals and objectives that the City Council adopted during the spring of 2024. The reformatted goals provide the City Council and public with a more comprehensive understanding of what specifically the City seeks to achieve for the next two years. With more than half of one fiscal year complete, this is an opportunity for staff to provide an update on each one of the City Council goals and priorities. Please see Attachment No. 5 for more information.

Fiscal Impact

Recommended budget amendments, as discussed above, total \$225,000 out of the Economic Vitality Fund to fund the components of the Economic Development Strategic Plan.

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

Approve Resolution 25-XXX, amending budget appropriations and the master pay schedule, as presented.

Attachments

1. Resolution 25-XXX – Amending Budget Appropriations and the Master Pay Schedule
 - a. Exhibit A – Master Pay Schedule
2. General Fund Budget Report
3. Measure E-12 Road Maintenance Expenditure Report
4. Measure J-20 Budget Report
5. Status of City Council Goals and Strategic Priorities