



# CITY COUNCIL STAFF REPORT

**TO:** Honorable Mayor and City Council      **DATE:** February 28, 2022

**FROM:** Matthew Bronson, City Manager

**PREPARED BY:** Deanne Purcell, Administrative Services Director

**SUBJECT:** FY 2021-22 Mid-Year Budget Review and General Fund Forecast

## RECOMMENDATION

Receive information on the FY 2021-22 Mid-Year Budget Review including the City's American Rescue Plan Act allocation and the updated General Fund Financial Forecast and provide input and direction to staff.

## BACKGROUND

Consistent with the Council's adopted financial policies, this report provides an update on the City's current financial condition this fiscal year and financial projections for revenues and expenditures over the next five years. The report begins with the City's mid-year financial status for the General Fund and two Enterprise Funds (Water and Wastewater) and requested consideration of mid-year budget appropriation changes. This report will also update the Council on the City's American Rescue Plan Act (ARPA) funding allocation and recommended changes from staff. Following the mid-year information, staff will provide the results of an updated five-year General Fund financial forecast that builds on previous forecasts. As an overall summary, the City continues to be in a favorable position despite economic uncertainty with revenue projections that continue to allow the City to make substantial progress on addressing community needs.

### FY 2021-22 Mid-Year Financial Report

The General Fund is the City's primary fund with taxes and major user fees funding basic public services such as Police, Fire, Public Works, Community Development, Administration, and Parks and Recreation. The Council adopted a FY 2021-22 General Fund budget of \$19.18 million and included below is a summary of the projected year-end totals based on mid-year actuals that shows an estimated \$590,600 General Fund surplus or \$547,200 more than budgeted:

Table 1

GF Summary	FY 2021-22	
	Budget	Projected
Beginning Reserves	\$ 5,344,745	\$ 5,344,745
Revenues/Transfers In	19,228,267	18,998,030
Expenditures/Transfers Out	19,184,872	18,407,428
<b>Annual Surplus</b>	<b>43,395</b>	<b>590,602</b>
Ending Reserves	\$ 5,388,140	\$ 5,935,347
<b>% of Operating Expenditures</b>	<b>36%</b>	<b>39%</b>

**General Fund Revenues**

For FY 2021-22, the City’s top five revenues (sales tax, property tax, cannabis tax, franchise fees, and transient occupancy tax) comprise 86% of total revenue, excluding transfers in and one-time grant funds. Total General Fund revenues are projected to end the fiscal year at approximately \$19.0 million compared to \$19.2 million budgeted. Projections are determined by various factors that include historical trends, revenue received, anticipated business growth, or consulting with tax revenue experts and could change based on the remainder of the fiscal year.

Due to the diversity of the City’s revenue make-up, the City was not impacted as much as other agencies during the COVID pandemic in FY 2019-20 and FY 2020-21. In FY 2019-20, cannabis tax revenues reported a 25% increase from the prior year and sales tax reported a 16% increase from the prior year, mainly due to the significant increase in cannabis sales activity along with an increase in online shopping. As further explained below, in FY 2021-22 cannabis tax revenues are projected to compare more closely to pre-pandemic levels given a number of factors.

Table 2 below highlights the General Fund revenue for the FY 2021-22 budget compared to projected revenue at year-end. As shown in the table below, total revenues are anticipated to be lower than budget by approximately \$230,000 with additional information about these five main revenue sources:

Table 2

<b>Top 5 GF Revenue</b>	<b>Budget</b>	<b>Projected</b>	<b>Over/ (Under)</b>	<b>% of Budget</b>
1. Sales Tax	\$ 5,364,000	\$ 5,364,000	\$ -	100.0%
2. Property Tax	5,176,000	5,248,000	72,000	101.4%
3. Cannabis Tax	2,448,000	1,800,000	(648,000)	73.5%
4. Franchise Fees	709,000	609,000	(100,000)	85.9%
5. TOT	480,000	800,000	320,000	166.7%
<b>Total Top 5</b>	<b>\$ 14,177,000</b>	<b>\$ 13,821,000</b>	<b>\$ (356,000)</b>	<b>97.5%</b>
All Other & Transfers In	5,051,267	5,177,600	126,333	102.5%
<b>Total GF Revenues</b>	<b>\$ 19,228,267</b>	<b>\$ 18,998,600</b>	<b>\$ (229,667)</b>	<b>98.8%</b>

- *Sales Tax* is estimated to be received as budgeted and is now the City’s largest revenue source. The new 1% sales tax measure (Measure F-20) that passed in November 2020 is projected to bring an additional \$2,230,000 in revenue in the current year. The latest sales tax report shows business activity is up in the transportation area by 25% from the same period last year mainly due to an increase in fuel prices and travel. In addition, more people are eating out and sales tax reported by restaurants is up by 6% and food markets are in line with pre-COVID sales with only a 2.5% increase from the same period in the previous year. Sales tax revenue in the cannabis industry is down from the same period in the prior year by approximately 7% which is related to the decrease in cannabis tax revenue highlighted below.
- *Property Tax* is estimated to be on track with budget, showing a small variance of \$72,000. The County of San Luis Obispo has estimated a 4% increase in property tax revenue from the prior year, which falls in line with the City’s budgeted numbers and continues to reflect the strong housing market in the county.

- *Cannabis Tax* is estimated to be \$648,000 lower than budgeted. This number is based on revenues received through the second quarter ending December 31, 2021, along with expectations for activity in the second half of the fiscal year. There are continued challenges facing the industry including the strength of the illicit market, degree of State taxation and regulations, and competition from businesses in other cities. The City is hopeful that sales will increase over the remainder of the year, but economic reports have shown that the increase in cannabis demand during the initial period of the pandemic has plateaued or decreased recently. However, the fourth retailer business is expected to open in April along with a testing laboratory business which could increase tax revenue this year.
- *Franchise Fees* are projected to be \$100,000 lower than budget due to a delay in the operation of the trans-oceanic fiber optic cable given international boundary disputes affecting the cable. These revenues are now projected to start in FY 2022-23.
- *Transient Occupancy Tax (TOT)* is estimated to be \$320,000 higher than budget. The increase is due to revenue from permitted short-term rentals coming in higher than anticipated along with an increase in travel/tourism to the Central Coast over the course of the pandemic.
- *Other Revenue* includes other taxes, utility users' tax, licenses and permits, service charges and other miscellaneous revenues. The estimated increase of \$126,000 in these other revenues is mainly due to a budget adjustment for a grant award and a projected increase in construction permits and plan check fees that were impacted during the pandemic but showing positive increases in activity during FY 2021-22. City services including special events, recreation classes and recreation rentals that had little to no activity during the pandemic are coming in as projected as activity has picked up again to pre-pandemic levels.

**General Fund Expenditures**

Table 3 below shows that overall General Fund expenditures are projected to end the year under the revised budget by \$864,000. The revised budget includes budget adjustments that were previously approved by Council and include an additional appropriation of \$15,000 for the Deputy City Manager position and \$71,000 for a portable generator connection. The projected budget is based on best estimates using the most current data and historical trends and could change with six months remaining in the fiscal year:

Table 3

<b>GF Expenditures</b>	<b>Budget</b>	<b>Revised</b>	<b>Projected</b>	<b>Variance</b>	<b>% of Budget</b>
Salaries and Benefits	\$ 8,418,643	\$ 8,433,643	\$ 8,433,643	\$ -	100.00%
Supplies and Services	8,258,651	8,330,357	8,330,357	-	100.00%
Debt Service	205,828	205,828	205,828	-	100.00%
CIP/Transfers Out	2,301,750	2,301,750	1,437,600	(864,150)	62.46%
<b>Total GF Expenditures</b>	<b>\$ 19,184,872</b>	<b>\$ 19,271,578</b>	<b>\$ 18,407,428</b>	<b>\$(864,150)</b>	<b>95.95%</b>

The \$864,150 in Capital Improvement Program (CIP) savings is due to \$634,000 in lower costs for several capital projects including South Oak Park Boulevard street repair and Skate Park renovations along with \$230,000 in savings for capital projects that will be delayed this year including property acquisition for the Corporation Yard renovation project and installation of new

streetlights given PG&E processing time. Staff will provide further information on the current status of the CIP and proposed upcoming projects at the March 28<sup>th</sup> Council meeting.

### Water Fund

Water Fund revenues in charges for service are down \$207,000 from this time last year which staff believes is due to a decrease in water consumption with customers trying to conserve water along with the tiered rate structure where customers are charged more for using higher amounts of water. Since water consumption is down, customers save by having a lower rate when using less water. The Water Fund revenues will be monitored closely over the remainder of this fiscal year to see if that trend continues and identify potential funding impacts. Transfers in of \$1.3 million come from the Community Development Block Grant (CDBG) Fund for the 2” and 4” water main project that was funded by the CDBG grant.

Table 4

Water Fund Revenue	FY 2020-21		FY 2021-22	
	Q2 Actual	Actual 7/1-6/30	Q2 Actual	Budget 7/1-6/30
Use of Money and Property	\$ -	\$ 32,759	\$ 5,027	\$ 35,500
Revenue from Other Agencies		72,410	26,269	
Charges for Services	1,717,897	4,311,419	1,511,042	4,162,000
Transfers In		391,878	1,326,304	74,493
<b>Grand Total</b>	<b>\$ 1,717,897</b>	<b>\$ 4,808,466</b>	<b>\$2,868,642</b>	<b>\$ 4,271,993</b>

With Water Fund expenditures, supplies and services are 81% expended to date due to the annual payment at the beginning of the fiscal year for liability insurance and the semi-annual payment made to the County in July and December for the Lopez Water Contract for debt service and routine operations and maintenance. Overall, Water Fund expenditures are above budget for the second quarter with 72% expended to date. This is mainly due to the above mentioned in addition to the capital projects that are near completion including the upgrade of 2” and 4” water mains funded by CDBG grant funding. Below in Table 5 is further information on Water Fund expenditures:

Table 5

Water Fund Expenditures	FY 2020-21		FY 2021-22	
	Q2 Actual	Actual 7/1-6/30	Q2 Actual	Budget 7/1-6/30
Salaries and Benefits	\$ 352,327	\$ 1,024,022	\$ 417,671	\$ 799,633
Supplies and Services	1,616,244	2,051,494	1,656,453	2,047,819
Major Capital		312,721	1,212,267	1,297,443
Debt Service	240,548	105,854	242,930	292,780
Transfers Out		388,210		494,000
<b>Grand Total</b>	<b>\$ 2,209,119</b>	<b>\$ 3,882,301</b>	<b>\$3,529,321</b>	<b>\$ 4,931,675</b>

## Wastewater Fund

Wastewater Fund revenues are up 4% from this time last year which is mainly due to the rate increase implemented on July 1, 2021, with the adopted budget for FY 2021-22. The City is on track to meet the budgeted revenue amounts for this year as shown in Table 6 on the next page which compares to actual amounts from last year:

Table 6

Wastewater Fund Revenue	FY 2020-21		FY 2021-22	
	Q2 Actual	Actual 7/1-6/30	Q2 Actual	Budget 7/1-6/30
Use of Money and Property	\$ -	\$ 14,975	\$ 15,579	\$ 16,000
Revenue from Other Agencies		61,859		
Charges for Services	336,610	1,272,571	351,522	1,301,400
Transfers In		391,878		85,000
<b>Grand Total</b>	<b>\$ 336,610</b>	<b>\$ 1,741,283</b>	<b>\$ 367,101</b>	<b>\$ 1,402,400</b>

In terms of expenditures, Wastewater Fund expenditures are below budget for the second quarter with 26% expended to date. The main reason is due to anticipated capital projects that have not yet started and transfers-out that are reconciled and accounted for annually as a year-end adjustment as shown below in Table 7:

Table 7

Wastewater Fund Expenditures	FY 2020-21		FY 2021-22	
	Q2 Actual	Actual 7/1-6/30	Q2 Actual	Budget 7/1-6/30
Salaries and Benefits	\$ 276,346	\$ 722,503	\$ 349,034	\$ 672,253
Supplies and Services	200,603	550,748	209,462	559,538
Major Capital	224	444,416	26,757	776,000
Debt Service	21,808	1,192	21,808	21,828
Transfers Out		209,600		284,000
<b>Grand Total</b>	<b>\$ 498,981</b>	<b>\$ 1,928,459</b>	<b>\$ 607,060</b>	<b>\$ 2,313,619</b>

## Carry-Over of Capital Project Funding and Authorized Appropriations

Per Council's adopted financial policies, any unused appropriations at the end of fiscal year 2020-21 in active capital improvement projects and multi-year programs are re-appropriated for continued use in fiscal year 2021-22. These carry-overs include \$1,148,504 in the Capital Projects Fund, \$1,152,947 in the Street Rehabilitation and Repair Fund, \$3,511,915 in the Water Fund, and \$983,001 in the Wastewater Fund. A detailed listing is included in Attachment 1.

The financial policies also authorize any remaining balance of one-time authorized appropriations to be carried forward with the approval of the City Manager and Administrative Services Director. Council previously approved FY 2020-21 appropriations for costs that were not expended until FY 2021-22. The list of authorized one-time appropriations that will be carried over to FY 2021-22 for implementation this fiscal year using General Fund reserves include new street signs (\$90,000), tree planting at parks, Oak Park median and West Grand Ave (\$19,347), two City pool

vehicle replacements (\$40,000), replacement of 2 storage sheds (\$16,688), phone system update (\$7,000), building fee study (\$9,000) and emergency back-up power (\$15,227).

### Requested Mid-Year Budget Appropriations and General Fund Impact

With the current fiscal year half-way completed, departments have had the opportunity to re-evaluate their current operations and identify any unforeseen needs that have become known. Staff is requesting the Council's consideration of mid-year budget appropriation changes for the General Fund totaling \$144,938 along with appropriations requested for other funds including Water (\$104,550), Wastewater (\$15,000), COPs (\$39,932), and K-14 (\$660,500) are shown in the detail in Attachment 2 and in Table 8 below:

Table 8

Department	Funding Source	FY 22 Mid-Year Appropriation Request	Description
Public Works	General Fund	\$ 2,620	City pool vehicles replacement-additional appropriation needed to cover balance
Police	General Fund	82,750	Replacement Community Video Cameras and upgraded software
Police	General Fund	34,568	50% Replacement Body Worn Cameras and software-ongoing
Non-Department	General Fund	25,000	To cover California Central Coast Cities Self-Insurance Fund negative balance
<b>Total General Fund</b>		<b>\$ 144,938</b>	
Public Works	Water Fund	\$ 91,050	Project 4004 - Increase construction cost for waterline upgrades
Public Works	Water Fund	10,000	Project 2284 - S. Oak Park rehab change order for water service upgrade
Public Works	Water Fund	3,500	Additional funding due to annual water permit fee increase
<b>Total Water Fund</b>		<b>\$ 104,550</b>	
Public works	<b>Wastewater Fund</b>	<b>\$ 15,000</b>	City sewer inspection - Allocation to fund change order contingency account
Police	COPs	\$ 5,365	Over budget for 2 plastic storage sheds
Police	COPs	34,567	50% Replacement Body Worn Cameras and software-ongoing
<b>Total COPs Fund</b>		<b>\$ 39,932</b>	
Public works	Measure K-14	\$ 400,000	2295-10 - Additional funding to finish project
Public works	Measure K-14	40,500	2295-11 - Funding for unexpected change orders
Public works	Measure K-14	150,000	2295-14 - Move \$150,000 from FY 23 approved due to expedited schedule
Public works	Measure K-14	70,000	2295-14 - Additional design costs for Nacimiento area streets added to scope
<b>Total Measure K-14 Fund</b>		<b>\$ 660,500</b>	

Table 9 below shows the General Fund impact of these recommended mid-year budget appropriations for the current FY 2021-22 along with the related changes in General Fund reserves from the carry-over of authorized appropriations. There is projected to be a net surplus of \$445,664 for this fiscal year with ending reserves of \$5.5 million or 36% of operating expenditures.

Table 9

GF Summary	FY 2021-22 Projected
Revenues/Transfers In	\$ 18,998,030
Expenditures/Transfers Out	18,407,428
Annual Surplus	\$ 590,602
<b>Less: Mid-Year Requests</b>	<b>144,938</b>
<b>Revised Annual Surplus</b>	<b>\$ 445,664</b>
Beginning Reserves	5,344,745
<b>Less: Carryover Authorized Appropriations</b>	<b>200,637</b>
<b>Less: FY 21 CIP Carryover</b>	<b>69,551</b>
Ending Reserves	\$ 5,520,221
<b>% of Operating Expenditures</b>	<b>36%</b>

**American Rescue Plan Act Allocation**

On September 13, 2021, Council provided direction on the allocation of one-time American Rescue Plan Act (ARPA) funds in which the City was allocated \$3.2 million over a two-year period. The first disbursement of \$1.6 million was received in July 2021 to be spent primarily in FY 2021-22 and the second disbursement of \$1.6 million will be disbursed one year later in FY 2022-23. As part of the FY 2021-23 budget hearing on June 14, Council provided direction to use ARPA funding for programs and activities in the following general categories:

- Homeless services and facilities
- Nonprofit assistance
- Rental and utility assistance
- Business assistance/economic development
- Unfunded water or sewer projects

The ARPA funding is reflected in the FY 2021-23 budget adopted by Council as non-department funding in both FY 2021-22 and FY 2022-23. Total ARPA funding spent through the second quarter (December 31, 2021) totals \$174,510 with \$1,435,330 remaining from the first allocation received in July. Table 10 on the next page shows the funding allocation, year to date expenditures, and projected year-end funding along with notes about these expenditures including additional items to implement based on funding within each category as described on the following page. The City is on track at this point for full expenditure of the initial \$1.6 million allocation with an additional update on these expenditures provided to the Council as part of the FY 2022-23 budget development process.

Table 10

Category	Allocated	YTD Actual	Projected	Notes
<i>Homeless Services and Facilities</i>				
Temporary or permanent shelter spaces	\$500,000	\$0	\$500,000	Funding for potential homeless facility
Homeless outreach and services	\$300,000	\$75,000	\$300,000	Encampment cleaning and outreach and related services and equipment
Subtotal	\$800,000	\$75,000	\$800,000	
<i>Nonprofit Assistance</i>				
Nonprofit assistance grants	\$100,000	\$0	\$100,000	Nonprofit grant process to begin in March
Child care assistance	\$50,000	\$25,000	\$100,000	Child care grants (\$50K) along with BGC and YMCA funding subsidies (\$50K)
Subtotal	\$150,000	\$25,000	\$200,000	
<i>Rent/Utility Assistance</i>				
Low-income utility payment subsidy	\$50,000	\$13,026	\$25,000	Lower usage than anticipated
Subtotal	\$50,000	\$13,026	\$25,000	
<i>Business Assistance/Economic Development</i>				
Business assistance	\$200,000	\$9,819	\$125,000	\$50K for Buy Local program and \$75K for additional business assistance
Chamber Econ Dev contract	\$100,000	\$51,665	\$150,000	Additional \$30K for cowork space and \$20K for Visit Grover Beach marketing
Subtotal	\$300,000	\$61,484	\$275,000	
<i>Water and Sewer Projects</i>				
Front Street Lift Station sewer upgrades	\$100,000	\$0	\$100,000	Anticipated spending by end of fiscal year
Upgrading sewer capacity	\$200,000	\$0	\$200,000	Funding for sewer video analysis to determine future needs
Subtotal	\$300,000	\$0	\$300,000	
<b>Totals</b>	<b>\$1,600,000</b>	<b>\$174,510</b>	<b>\$1,600,000</b>	

- *Homeless Services and Facilities.* The City has currently expended \$75,000 of the proposed \$800,000 in this category for FY 2021-22 on homeless encampment cleanups and outreach services to connect unhoused individuals with available services. The remaining funding is planned for additional cleaning and outreach, housing assistance, potential property acquisition for a homeless facility, or other support to the Five Cities Homeless Coalition or City departments to provide shelter, services, or outreach for unhoused individuals.
- *Nonprofit Assistance and Child Care.* The City has committed \$100,000 in nonprofit assistance grants for providers who serve residents in Grover Beach. The Council approved a nonprofit grant policy on February 15 and this grant program will begin in March. The City also committed \$50,000 to provide assistance for operating school-age childcare programs at the Boys and Girls Club (BGC) and San Luis Obispo YMCA (YMCA). Each organization received an allocation of \$25,000 in two installments of \$12,500 in FY 2021-22. Staff is also intending to use \$50,000 in funding for a childcare grant program for at-home providers and families in need of assistance. These direct grants would be distributed based on need in partnership with the South County Chambers of Commerce which recently coordinated a similar grant program in Pismo Beach.
- *Rent & Utility Assistance.* The City provides discounts to low-income customers that qualify for the PG&E CAREs program and are enrolled in the City's utility assistance program. This program has provided a total of \$13,026 for thus far in FY 2021-22 and is projected to have lower usage than anticipated.
- *Business Assistance.* The City has expended \$9,819 thus far in this category towards a second iteration of the Buy Local program which began in February. Approximately \$50,000 will be spent on this program in partnership with the South County Chambers of Commerce. Staff also intends to allocate \$75,000 for additional business assistance that is proposed to



be focused on exterior improvements such as façade and signage enhancements along with \$30,000 to match a contribution from the County to help fund a cowork space on Front Street to support local businesses in partnership with the South County Chambers of Commerce and the Cal Poly Center for Innovation and Entrepreneurship (CIE). Staff also plans to increase the funding for the Visit Grover Beach program by \$20,000 from the current level of \$20,000 to expand tourism marketing with this program recently recognized as a finalist for the 2022 Best Overall Destination Brand Poppy Award by Visit California. The remainder of the funding in this category (\$100,000) provides funding for the City's economic development services agreement with the Chamber.

- *Water and Sewer Projects.* This funding will fund a portion of the Front Street lift station sewer upgrade project (\$100,000) and the next phase of the sewer system video evaluation (\$200,000) used to determine future sewer infrastructure needs.

## **General Fund Financial Forecast**

### **Economic Trends**

The General Fund financial forecast is intended to be a valuable tool to help the Council and staff make prudent financial decisions and provide information for future budgets to come. Staff annually updates a five-year General Fund financial forecast to evaluate the City's financial condition and help develop the City's budget.

According to the UCLA Anderson's latest forecast in December 2021, the big story was what will happen with the continued spread of COVID-19 particularly with the omicron variant. Cases surged in January 2022 though the surge is waning and California's indoor mask mandate expired on February 15, 2022, and the County's local order lifted on February 16, 2022. The December 2021 forecast predicted that the growth in first quarter of 2022 would be slower because of continued effects of the omicron variant. Growth has also been slower due to labor shortages and supply constraints for certain goods. The good news is that there is still plenty of room for the economy to grow with labor supply and supply constraints issues projected to ease up throughout 2022 and corresponding GDP growth back to normal by the end of 2023. Overall, confidence is higher with long-term trends and the economic forecast assumes that successive waves of the pandemic are going to have less and less effect on the economy as time goes on.

The forecast anticipates high but slowing inflation, especially as oil prices come down, which is one of the big drivers of inflation. Inflation hit a 40-year high as it rose to 7.5% in January 2022 as price hikes continue to persist, but the UCLA Anderson's latest forecast expects inflation will come down to 3.4 % by the end of 2022 and 2.8% by the end of 2023. One factor that is encouraging for inflation is that consumers are delaying purchases of cars and furniture due to low supply and higher prices. This delay in spending will help drive the inflation rate down as the supply constraints are lifted and the higher prices of these goods, due to shortages, come down.

Statewide, tourism is picking up again, but it is mainly domestic tourism where people are taking shorter trips and closer to home versus international tourism. Imports are up but supply issues remain. In the last half of 2021, some of the ports in Southern California were backlogged due to record-breaking imports which made it extremely difficult to move the containers fast enough to the retailers. Industrial space has become a hot sector due to the need for more warehouses to store these goods, which also contributes to the source of demand for construction workers. The surge in imports combined with labor shortages has put a big strain on moving the goods and driving prices up, although the backlog has been shrinking in recent months. The lack of supply

is also driving housing prices to record highs, but new laws are being passed to help with the housing shortage. Statewide, the unemployment rate was 7.7% in December 2021, compared to 9% in December 2020. Economists expect the state’s unemployment rate to be 5.6% in 2022 and 4.4% in 2023.

Lastly, based on the latest sales tax forecast ending September 30, 2021, statewide revenues are up 18% overall compared with the previous year with the Central Coast up 17% overall. Three major industry groups showing a rebound include 1) Autos & Transportation (+16%), where new car prices are up 10% and used car prices are up 26%; 2) Fuel & Service Stations (+54%) where the average price per gallon of gas is \$4.75 and more people are on the road going to work, school, shopping and traveling; and 3) Restaurants & Hotels (+48%) where people are eating out more and traveling. The Food & Drug group has flattened (+.8%) and includes cannabis and grocery stores. Cannabis businesses did well during the initial period of the pandemic with robust growth but after years of substantial growth, sales in this sector are starting to plateau. Grocery stores are also seeing flat sales mainly due to people wanting to get out of their houses and eat out more since being restricted to stay at home during the pandemic. Consequently, the projection in the Food and Drug sector is continued modest growth at a rate of 2%.

**City’s Five-Year Forecast**

Fortunately, the City went through the pandemic with little impact to City finances in large part to the diversified economy in Grover Beach. In the current FY 2021-22, the City is seeing more sluggish activity in the cannabis area although this is being offset by the TOT increases that is showing more activity than projected. The City is also facing additional short-term impacts from the uncertainty of the pandemic, higher than normal fuel costs, low supply, both in labor and goods, which is driving up the inflation rate and creating higher prices. Recent geopolitical and military actions in Europe could further increase prices in the short term. However, the long-term forecast is that these trends will be temporary and the inflation rate will come down by the end of 2022 and normalize by the end of 2023. Table 11 below shows a summary of this updated five-year forecast with a more detailed version shown in Attachment 3:

Table 11

<b>General Fund</b>	<b>FY 2022-23 REVISED</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2025-26</b>
Revenues	\$ 18,924,600	\$ 17,805,000	\$ 18,390,000	\$ 18,980,000	\$ 19,577,000
Expenditures	18,831,759	17,280,000	17,672,700	18,005,500	18,541,100
<b>Annual Surplus</b>	<b>92,841</b>	<b>525,000</b>	<b>717,300</b>	<b>974,500</b>	<b>1,035,900</b>
*Beginning Reserves	5,519,700	5,470,541	5,853,541	6,428,841	7,261,341
Less: Wastewater Fund Repay	(142,000)	(142,000)	(142,000)	(142,000)	(178,000)
Ending Reserves	\$ 5,470,541	\$ 5,853,541	\$ 6,428,841	\$ 7,261,341	\$ 8,119,241
<b>Percent of Operating Expenditures</b>	<b>38%</b>	<b>40%</b>	<b>43%</b>	<b>47%</b>	<b>52%</b>

Overall, the forecast indicates the General Fund is in a positive position over the five-year period given projected revenue increases described below while acknowledging the degree of forecast uncertainty particularly in the later years of the forecast:

- *Sales Tax.* Using the estimates provided by the City’s sales tax consultant, this year’s forecast assumes that sales tax revenues will also increase by 4% from the current FY 2021-22. The City saw a significant increase of 15.9% in sales tax in FY 2020-21 due to the strong sales in

the cannabis industry and an increase in online sales, although the decrease in cannabis sales in FY 2021-22 as conveyed previously is projected to have some impact on future sales tax revenues in the forecast. The forecast includes an additional \$2.3 million from Measure F-20 approved in November 2020.

- *Property Tax.* Using the County's revenue estimates, this year's forecast assumes that the City's property tax revenues will increase by 4% next year from the current fiscal year FY 2021-22 given the continued strong real estate market. Low inventory and steady demand from home buyers have boosted home values across California and in the County as home prices rose sharply in 2021.
- *Cannabis Tax.* The forecast assumes that the City will receive \$1.9 million for FY 2022-23, or a 5% increase over what was estimated for FY 2021-22. For FY 2021-22, cannabis sales have been sluggish when compared to the prior year and are estimated to be almost \$650,000 lower than what was budgeted to establish a new baseline revenue amount given the industry challenges conveyed previously. This forecast assumes that sales will stay steady with new businesses coming online and possible cannabis lounges, but the forecast takes a conservative approach of not estimating additional revenues as the City has seen in the last three years. Staff continues to recommend caution with these relatively new general revenues and continues to recommend additional general revenues in general for one-time uses such as capital projects.
- *Transient Occupancy Tax (TOT).* TOT revenues were the most impacted tax revenue during the pandemic, due to a significant decrease in travel for business or pleasure. However current year projections are estimating that TOT will be around \$800,000 or \$320,000 over the budgeted \$480,000. This is partly due to the rebound from the pandemic but also due to the collection of TOT revenue for permitted short-term rentals (STRs). A portion of the TOT collected from the STRs was the result of a collection attempt made for prior years where some STRs were not paying required revenues in a timely manner. Staff has worked with these individuals to make sure they are staying current. TOT is estimated to be \$750,000 for FY 2022-23, or \$250,000 than originally budgeted. The forecast does not include TOT for future hotel projects until construction begins.

## **FISCAL IMPACT**

The General Fund appropriations requested for the current FY 2020-21 budget total \$144,938 while the Water, Wastewater and COPs and Measure K-14 Fund appropriations requested total \$104,550, \$15,000, \$39,932, and \$660,500 respectively. These appropriations will be brought to the Council for approval on March 14 pending Council direction. Total FY 2020-21 carryover of special one-time authorized General Fund appropriations total \$200,637 and will come out of General Fund reserves.

## **ALTERNATIVES**

The Council has the following alternatives to consider:

1. Receive information on the FY 2021-22 Mid-Year Budget Review including the City's American Rescue Plan Act allocation and the updated General Fund Financial Forecast and provide input and direction to staff; or
2. Provide staff with alternate direction.

**PUBLIC NOTIFICATION**

The agenda was posted in accordance with the Brown Act.

**Attachments**

1. FY 2020-21 CIP Carryover to FY 2021-22
2. Mid-Year Appropriation Requests
3. General Fund Five Year Financial Forecast

City of Grover Beach  
 FY 2020-21 CIP Budget Carried Forward to FY 2021-22

	<b>Expenditure</b>	<b>Revenue/ Transfers from Other Funds</b>	
<b>CAPITAL PROJECTS FUND (11)</b>			
1004-16th St Park Rehab	\$ 286,050	\$ 286,050	
2283-Local Street Rehabilitation Program	147,071	147,071	
2284-Local Street Rehabilitation Program	476,299	476,299	
3002-Citi Corp Yard Improvements	75,000	75,000	
3003-Citywide Disability Access Improvements	82,533	82,533	
3263-Facility Improvements	31,552	31,552	
3393-Ramona Square Lot	50,000	50,000	
<b>Total Capital Projects Fund</b>	<b>\$ 1,148,504</b>	<b>\$ 1,148,504</b>	See recon below
<b>STREET REHABILITATION and REPAIR FUND (20)</b>			
2295-10-Street Rehabilitation and Repair	\$ 785,411		
2295-11-Street Rehabilitation and Repair	367,536		
<b>Total Street Rehabilitation and Repair Fund</b>	<b>\$ 1,152,947</b>		
<b>WATER FUND (81)</b>			
4001 - Regional Groundwater Sustainability Project	\$ 1,067,361		
4004 - Water Main Upgrades	162,951		
4265 - Water Delivery Upgrades	74,826		
4267-2 - Upgrade of 2" and 4" Water Mains	2,206,777	2,206,777	CDBG
<b>Total Water Fund</b>	<b>\$ 3,511,915</b>	<b>\$ 2,206,777</b>	
<b>WASTEWATER FUND (80)</b>			
5001 - Sewer System Upgrades	\$ 901,380	\$ 511,122	Fund 55
5003 - Front Street Lift Station Upgrades	81,621		
<b>Total Wastewater Fund</b>	<b>\$ 983,001</b>	<b>\$ 511,122</b>	

Attachment 2

Department	Funding Source	FY 22 Mid-Year Appropriation Request	Description
Public Works	General Fund	\$ 2,620	City pool vehicles replacement-additional appropriation needed to cover balance
Police	General Fund	82,750	Replacement Community Video Cameras and upgraded software
Police	General Fund	34,568	50% Replacement Body Worn Cameras and software-ongoing
Non-Department	General Fund	25,000	To cover California Central Coast Cities Self-Insurance Fund negative balance
<b>Total General Fund</b>		<b>\$ 144,938</b>	
Public Works	Water Fund	\$ 91,050	Project 4004 - Increase construction cost for waterline upgrades
Public Works	Water Fund	10,000	Project 2284 - S. Oak Park rehab change order for water service upgrade
Public Works	Water Fund	3,500	Additional funding due to annual water permit fee increase
<b>Total Water Fund</b>		<b>\$ 104,550</b>	
Public works	<b>Wastewater Fund</b>	<b>\$ 15,000</b>	City sewer inspection - Allocation to fund change order contingency account
Police	COPs	\$ 5,365	Over budget for 2 plastic storage sheds
Police	COPs	34,567	50% Replacement Body Worn Cameras and software-ongoing
<b>Total COPs Fund</b>		<b>\$ 39,932</b>	
Public works	Measure K-14	\$ 400,000	2295-10 - Additional funding to finish project
Public works	Measure K-14	40,500	2295-11 - Funding for unexpected change orders
Public works	Measure K-14	150,000	2295-14 - Move \$150,000 from FY 23 approved due to expedited schedule
Public works	Measure K-14	70,000	2295-14 - Additional design costs for Nacimiento area streets added to scope
<b>Total Measure K-14 Fund</b>		<b>\$ 660,500</b>	

GENERAL FUND FIVE YEAR FISCAL FORECAST: 2022-2027										
	2019-20	2020-21	2021-22		FIVE YEAR-FORECAST					
	Actual	Actual	Budget	Revised	2022-23 Budget	2022-23 Revised	2023-24	2024-25	2025-26	2026-27
<b>REVENUES</b>										
Taxes and Franchise Fees										
Property Tax	4,725,500	4,881,500	5,176,000	5,248,000	5,331,000	5,458,000	5,676,000	5,846,000	6,021,000	6,202,000
Sales Tax										
General: 1%	1,802,100	2,089,100	2,019,000	2,019,000	2,109,000	2,109,000	2,210,000	2,309,000	2,406,000	2,502,000
Measure X: 1/2%	1,017,800	1,185,100	1,115,000	1,115,000	1,151,000	1,151,000	1,206,000	1,260,000	1,313,000	1,366,000
Measure F-20: 1%		572,800	2,230,000	2,230,000	2,302,000	2,302,000	2,412,000	2,521,000	2,627,000	2,732,000
Franchise Fees	585,000	600,200	609,000	609,000	623,000	623,000	635,000	648,000	661,000	674,000
Fiber Optic Cable (4 @ \$100K)			100,000	-	100,000	100,000	102,000	104,000	106,000	108,000
Transient Occupancy Tax	433,500	580,400	480,000	800,000	500,000	750,000	773,000	796,000	820,000	845,000
Utility Users Tax	172,600	184,900	183,000	189,000	186,000	193,000	197,000	201,000	205,000	209,000
Cannabis Tax	1,936,700	2,424,900	2,448,000	1,800,000	2,448,000	1,900,000	1,938,000	1,977,000	2,017,000	2,057,000
Business Tax	165,500	154,600	172,000	172,000	175,000	175,000	179,000	183,000	187,000	191,000
Other Taxes	146,300	189,600	165,000	193,000	168,000	200,000	206,000	212,000	218,000	225,000
<b>Total Taxes and Franchises</b>	<b>10,985,000</b>	<b>12,863,100</b>	<b>14,697,000</b>	<b>14,375,000</b>	<b>15,093,000</b>	<b>14,961,000</b>	<b>15,534,000</b>	<b>16,057,000</b>	<b>16,581,000</b>	<b>17,111,000</b>
From Other Governments	616,800	340,400	2,053,000	2,114,000	1,795,000	1,795,000	31,000	32,000	33,000	34,000
Licenses and Permits	241,000	181,100	175,000	235,000	225,000	240,000	245,000	250,000	258,000	266,000
Service Charges	719,200	624,200	879,000	879,000	937,000	937,000	965,000	994,000	1,024,000	1,055,000
Use of Money and Property	207,800	72,400	216,000	186,000	227,000	186,000	192,000	198,000	204,000	210,000
Other Revenues	57,200	40,800	53,000	53,000	54,000	54,000	64,000	69,000	74,000	79,000
<b>Total Revenues</b>	<b>12,827,000</b>	<b>14,122,000</b>	<b>18,073,000</b>	<b>17,842,000</b>	<b>18,331,000</b>	<b>18,173,000</b>	<b>17,031,000</b>	<b>17,600,000</b>	<b>18,174,000</b>	<b>18,755,000</b>
<b>EXPENDITURES</b>										
Operating Programs	12,131,200	13,534,500	16,679,000	16,764,000	15,958,000	16,195,159	14,695,000	15,057,000	15,386,000	15,717,700
Debt Service	155,400	154,600	206,000	206,000	181,000	181,000	99,000	26,000	26,000	26,000
CIP (Tr Out Fund 11 start in FY 21)	54,700	229,000	2,071,000	1,207,000	2,275,000	2,275,000	2,300,000	2,400,000	2,400,000	2,600,000
<b>Total Expenditures</b>	<b>12,341,300</b>	<b>13,918,100</b>	<b>18,956,000</b>	<b>18,177,000</b>	<b>18,414,000</b>	<b>18,651,159</b>	<b>17,094,000</b>	<b>17,483,000</b>	<b>17,812,000</b>	<b>18,343,700</b>
<b>OTHER SOURCES (USES)</b>										
Transfers In										
Cost Allocation Transfers	470,000	486,000	500,000	500,000	515,000	515,000	530,000	541,000	552,000	563,000
Other Transfers In	101,600	92,000	326,600	326,600	236,600	236,600	244,000	249,000	254,000	259,000
Transfers Out			(230,600)	(230,600)	(180,600)	(180,600)	(186,000)	(189,700)	(193,500)	(197,400)
Long-Term Debt Issued			330,000	330,000	-	-	-	-	-	-
<b>Total Other Sources (Uses)</b>	<b>571,600</b>	<b>578,000</b>	<b>926,000</b>	<b>926,000</b>	<b>571,000</b>	<b>571,000</b>	<b>588,000</b>	<b>600,300</b>	<b>612,500</b>	<b>624,600</b>
<b>Sources Over (Under) Uses</b>	<b>1,057,300</b>	<b>781,900</b>	<b>43,000</b>	<b>591,000</b>	<b>488,000</b>	<b>92,841</b>	<b>525,000</b>	<b>717,300</b>	<b>974,500</b>	<b>1,035,900</b>
<b>Less: Mid-Yr Requests (See Attachment 2)</b>				(145,000)						
<b>Revised Sources Over Uses</b>				<b>446,000</b>						
Reserves, Start of Year *	3,647,500	4,704,800	5,486,700	5,486,700	5,519,700	5,519,700	5,470,541	5,853,541	6,428,841	7,261,341
Wastewater Fund Repayment			(142,000)	(142,000)	(142,000)	(142,000)	(142,000)	(142,000)	(142,000)	(178,000)
				(201,000)						
				(70,000)						
<b>Reserves, End of Year</b>	<b>4,704,800</b>	<b>5,486,700</b>	<b>5,387,700</b>	<b>5,519,700</b>	<b>5,865,700</b>	<b>5,470,541</b>	<b>5,853,541</b>	<b>6,428,841</b>	<b>7,261,341</b>	<b>8,119,241</b>
* 2019-20 reserves at start of the year is net of the advance payable to Wastewater Fund of \$1,435,700, each year starting with FY 22 reflects deduction for WW fund repayment with end of yr reserves.										
Reserve % Operating Costs	39%	41%	36%	36%	41%	38%	40%	43%	47%	52%

Minimum reserve policy is 15% of operating costs, with a goal of 25%.

excludes ARPA for reserve calculation