



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** April 25, 2022

FROM: Matthew Bronson, City Manager

PREPARED BY: Deanne Purcell, Administrative Services Director
Kristin Eriksson, Deputy City Manager

SUBJECT: FY 2022-23 Budget Update and Major City Goals Work Programs

RECOMMENDATION

Receive a report on the FY 2022-23 budget development process and draft work programs for Major City Goals and provide input and direction to staff.

BACKGROUND

The FY 2021-22 and FY 2022-23 (Two-Year) Operating and Capital Budget for all funds was approved by City Council on June 28, 2021. As the City approaches the beginning of FY 2022-23, staff has reviewed revenue projections to develop updates where needed for the upcoming fiscal year. In addition, each department assessed their FY 2022-23 budgets to see if any changes in appropriations were necessary due to unanticipated items that have arisen since the adoption of the original budget. The beginning of the FY 2022-23 budget update began with a five-year General Fund financial forecast presented to Council on February 28, 2022. The forecast showed the City in a favorable financial position with reserves over the Council goal of 25% of operating costs. However, there are some short-term issues that include sluggish cannabis tax revenues and high inflation that were taken into consideration in the forecast and will be included in the updated FY 2022-23 budget.

The Council also participated in a goal-setting workshop on March 7, 2022 where Council reviewed and updated the Council Goals for FY 2022-23 as shown in Attachment 1. As noted further in this report, the Council provided staff direction to make minor changes to the Council Goals. The recommendations that will be included in the proposed budget are intended to continue aligning the City's resources to the Council's priorities as expressed through the Council Goals.

FY 2022-23 Budget Update

In FY 2021-22, the City shifted from an annual budget to a biennial cycle or two-year budget for FY 2021-22 and FY 2022-23. The process is more consolidated than annual budgeting and still allows for quarterly budget status reporting and a mid-year review provided to the Council. In addition, since budgets can only be appropriated for a single year, the budget for the second year (FY 2022-23) was a projection. The purpose of this report is to provide updated information on the FY 2022-23 budget that will be presented further at the June 13th budget hearing. This update includes both estimated revenues and appropriated expenditures for the General Fund and Enterprise Funds, including the five-year Capital Improvement Program (CIP) that was presented to Council on March 28, 2022.

General Fund Revenue

The original adopted budget for FY 2022-23 was reviewed and compared to the most up-to-date revenue collections through the third quarter of FY 2021-22 and historical trends. The budget update shows a total decrease in revenue of \$174,500, mainly due to a significant decrease in cannabis tax revenues which was partially offset with increases in sales and property tax and transient occupancy tax (TOT).

- *Sales Tax* projections were determined using the most recent report from the City's sales tax consultant with an estimate of an additional \$250,000 in sales tax revenues for FY 2021-22 and a 4% increase or an additional \$354,000 in the updated FY 2022-23 budget.
- *Property Tax* projections for FY 2021-22 year-end are in line with the estimates provided by San Luis Obispo County Tax Assessor's Office. The FY 2022-23 original budget assumed that the City's property tax revenues would increase by 3% in FY 2022-23 from the current FY 2021-22. The most recent estimates provided in January 2022 by San Luis Obispo County Tax Assessor's Office project a 4% increase for next fiscal year 2022-23 or an increase of \$75,000 from the original FY 2022-23 budget.
- *Cannabis Tax* projections for the year-end FY 2021-22 are estimated to be \$1,600,000 or \$848,000 lower than the \$2,448,000 originally budgeted based on revenues received through the third quarter. The FY 2022-23 update is based on the \$1,600,000 year-end estimate with a 2% increase or \$1,632,000. This will decrease the originally budgeted revenue for FY 2022-23 by \$816,000. These estimates represent resetting expectations for cannabis tax revenues given continued uncertainty in the cannabis industry from a heavy degree of State regulation and taxation, number of cannabis businesses operating in nearby cities, and the extent of illegal cannabis businesses.
- *Transient Occupancy Tax* projections are based on the added short-term rentals (STRs) and increased travel activity that has picked up considerably in FY 2021-22 compared to the last two years that were impacted by the pandemic. The projections assume \$850,000 for FY 2021-22 and \$750,000 for FY 2022-23. FY 2021-22 included a one-time collection effort of \$95,000 from prior years where some permitted STRs were not paying required revenues in a timely manner. Staff has worked with these STR permit holders to make sure they are staying current.

General Fund Expense

For the FY 2022-23 budget update, staff spent a significant amount of time reviewing the existing salaries and benefits budget based on the actual expense through the third quarter of FY 2021-22 and projecting the year-end estimate for FY 2021-22. This estimate was used to compare what was budgeted for FY 2022-23, taking into consideration any adjustments to MOU's, step increases or decreases (due to new hires) and any other adjustments. The FY 2022-23 update to salaries and benefits is \$81,000 or a 1% increase from the FY 2022-23 original budget which was based on a 2% increase and thus this update falls in line with labor agreements.

There is a 1.7% or \$128,000 increase to the total FY 2022-23 supplies and services budget for the General Fund. The original budget was based on a 2% inflationary factor, although inflation rose to 7.5% in January 2022, but is forecast to come down to more normal levels over the coming fiscal year. The adjustment was needed to cover the inflationary increases of \$59,000 including office supplies, fuel, vehicle maintenance and utility cost. Other large items that needed to be adjusted included \$14,000 for computer replacements and \$55,000 for police body cameras.

Overall, the updated General Fund budget for FY 2022-23 will be balanced with revenues of \$18.9 million and expenditures of \$18.8 million for a surplus of approximately \$100,000. The budget also produces ending reserves of approximately 39% of operating expenditures compared with the Council's reserve goal of 25% to provide sufficient reserves for emergencies or unforeseen events or needs.

Update to Major City Goals Work Programs for FY 2022-23

On March 7, 2022, the Council conducted a mid-year Council Goals workshop to determine any updates to the Council Goals for FY 2022-23. At the workshop, the staff lead(s) for each Major City Goal presented an overview of the accomplishments within the respective goal area as well as items that have not yet been achieved or deferred due to staff resource, workload constraints, or other factors. Staff then sought Council input and direction in the following areas:

1. *Are there any changes that the Council would like to make to the current goals?*
2. *Are there any key items to particularly focus on in FY 2022-23 in implementing the Council Goals?*

After consideration of public comment and deliberation the Council directed staff to do the following:

1. Add Water Resiliency as an "Other Important Goal" with an emphasis on working on the Central Coast Blue project; and
2. Revise the existing Environmental Sustainability Goal in the "Address as Resources Permit" category to remove the Central Coast Blue project; and
3. Move the Pedestrian, Bicycle and Traffic Safety Goal from the "Other Important Goals" category and into the "Address as Resources Permit" category.

The updated Council Goals for FY 2022-23 are as follows:

- *Major City Goals.* These represent the most important, highest priority goals for the City to accomplish over the next two years, and as such, resources to achieve them should be included in the FY 2021-23 budget.
 - Economic Development
 - Housing and Homelessness
 - Public Safety
 - Street Improvements
- *Other Important Goals.* Goals in this category are important for the City to accomplish, and resources to achieve them should be made available in the FY 2021-23 budget where feasible.
 - Building and Facility Improvements
 - City Beautification and Public Art
 - Community Engagement
 - Water Resiliency
- *Address as Resources Permit.* While it is desirable to achieve these goals over the next two years, doing so is subject to current resource availability.
 - Code Compliance
 - Environmental Sustainability
 - Pedestrian and Bicycle Safety
 - Recreation and Community Programs

In light of the updated Council goals, staff developed updated work programs for each Major City Goal to identify what staff will focus on next fiscal year. The purpose of the work programs is to define and scope the adopted goal and ensure that staff has a clear understanding of the goal so that appropriate resources are allocated and progress can be measured in achieving it. This is particularly important for goals where full achievement will extend beyond a single fiscal year.

Attachment 2 contains the draft FY 2022-23 work programs for the four Major City Goals as developed by staff. Each work program includes the goal statement, action plan with tasks and due dates, and estimated financial resources required to accomplish these tasks. Financial resources in these draft work programs reflect a combination of funding resources and include both existing funding and recommended changes for next year's budget including items referenced in this staff report.

Summary

Staff is seeking Council's input and direction on the FY 2022-23 budget update and draft FY 2022-23 Major City Goal work programs. This input and direction will be used in finalizing the updated budget for FY 2022-23 which will be presented to the Council at the June 13th budget hearing. Staff will also present a proposed allocation for use of the City's second year of American Rescue Plan Act funds at the budget hearing. The Council's adoption of the final budget in June will serve as the final approval for the Major City Goal work programs which staff will begin implementing in the new fiscal year and report back to Council on progress throughout the year.

FISCAL IMPACT

There is no fiscal impact from this agenda item.

ALTERNATIVES

The Council has the following alternatives to consider:

1. Receive a report on the FY 2022-23 budget update process and draft work programs for the Major City Goals and provide input and direction to staff; or
2. Provide staff with alternative direction.

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act.

Attachments

1. FY 2022-23 Updated City Council Goals, adopted March 14, 2022
2. FY 2022-23 Draft Major City Goals Work Programs

MAJOR CITY GOALS

ECONOMIC DEVELOPMENT. Develop and implement economic development initiatives that include COVID-related economic recovery strategies, business retention and attraction, effective and timely permit processing, and tourism promotion including marketing, attracting hotels along Grand Avenue, and ensuring compatible beach uses.

HOUSING AND HOMELESSNESS. Update City codes and standards to encourage housing construction to meet diverse needs; collaborate with developers and non-profits in efforts to increase overall housing stock with a priority on affordable housing availability; and partner with regional agencies and organizations to address homelessness and sheltering issues in the city and region.

PUBLIC SAFETY. Champion contemporary public safety services (police, fire, emergency medical services) by providing leadership and adequate resources, including training, to meet service demands and growing challenges in such areas as homelessness, mental health, vagrancy, and social justice.

STREET IMPROVEMENTS. Continue improvements to major arterials and local streets, incorporating where feasible related improvements, such as utility upgrades and “complete streets” - medians, sidewalks, bicycle lanes, bulb-outs, street trees and other related improvements.

OTHER IMPORTANT GOALS

BUILDING AND FACILITY IMPROVEMENTS. Provide for improvements and enhancements to City buildings, parks, and other facilities through a condition assessment, including disability access needs, followed by a funding and implementation plan to ensure that these public assets meet current and future needs; identify and plan for added facilities where our existing inventory falls short.

CITY BEAUTIFICATION AND PUBLIC ART. Enhance the appearance of the city by improving major entryways, ensuring high signage standards, preserving “legacy trees,” and partnering with the community to pursue new public art projects, such as murals.

COMMUNITY ENGAGEMENT. Continue a strong commitment to transparency and public participation in City government through programs, initiatives and events to encourage citizen engagement in key community decisions; and formalize our practices by adopting a public participation plan and policy.

WATER RESILIENCY. Partner with communities throughout the South County to achieve sustainable water resources through initiatives such as the Central Coast Blue recycled water project and other opportunities, as well as through water conservation efforts.

ADDRESS AS RESOURCES PERMIT

CODE COMPLIANCE. Continue to strengthen the code compliance program and related code sections to be more proactive in inspecting and addressing such issues as, short term rental violations, illegal advertising/business signage, overgrown landscaping and conflicting right-of-way encroachments; continue monitoring the cannabis industry.

ENVIRONMENTAL SUSTAINABILITY. Integrate environmentally sustainable principles, practices and projects into City operations and new development plans and standards; increase resource conservation and reduce carbon emissions through initiatives such as Central Coast Community Energy and other technology opportunities to address and off-set climate impacts.

PEDESTRIAN, BICYCLE AND TRAFFIC SAFETY. Continue efforts to make Grover Beach more pedestrian and bicycle friendly by adding and/or enhancing bicycle lanes, sidewalks, streetlights, street and crosswalk striping, and other traffic calming and safety measures.

RECREATION AND COMMUNITY PROGRAMS. Provide viable recreation, youth, childcare and special event programs designed to meet current and emerging needs, both directly and in partnership with other providers.



MAJOR CITY GOAL FY 2022-23 WORK PROGRAM

ECONOMIC DEVELOPMENT

GOAL STATEMENT

Develop and implement economic development initiatives that include COVID-related economic recovery strategies, business retention and attraction, effective and timely permit processing, and tourism promotion including marketing, attracting hotels along Grand Avenue, and ensuring compatible beach uses.

STAFF LEAD: Matthew Bronson, City Manager; Kristin Eriksson, Deputy City Manager; Bruce Buckingham, Community Development Director

TASK	DATE
Business Retention and Attraction	
1. Work with Chamber to enable businesses to improve their marketing through digital marketing bootcamps in partnership with SLO Partners	June 2023
2. Work with Chamber to conduct outreach with local businesses on key issues facing Grover Beach businesses including periodic meetings and surveys	July 2022
3. Work with Chamber to enable businesses to improve their marketing through digital marketing bootcamps in partnership with SLO Partners	July 2022
4. Continue to collaborate with regional partner agencies to identify economic development strategies to support regional economy	July 2022
5. Work with Digital West and Chamber to promote citywide fiber broadband expansion as part of Digital West implementation	September 2022
6. Work with Chamber to conduct outreach with local businesses on key issues facing Grover Beach businesses including periodic meetings and surveys	December 2022
Tourism Development	
1. Begin oversight and construction management for hotel site at 950 El Camino Real	January 2023
2. Process building permits for 1598 El Camino Real hotel project upon submittal by developer	January 2023
3. Continue involvement in Grover Beach Lodge project in partnership with lead agency State Parks and issue City permits for initial offsite construction upon plan submittal and approval	July 2022
4. Work with Chamber to enhance Visit Grover Beach tourism marketing efforts to promote Grover Beach as a desirable coastal destination for a variety of beach uses	July 2022
Commercial Cannabis Activities	
1. Process development and building applications for commercial cannabis businesses upon submittal	July 2022



MAJOR CITY GOAL FY 2022-23 WORK PROGRAM

ECONOMIC DEVELOPMENT

2. Process onsite consumption area applications upon submittal by retailers pending adoption of ordinance allowing use	July 2022
West Grand Avenue Improvements	
1. Process development applications for West Grand Avenue housing and mixed-use projects upon submittal by property owners	July 2022
2. Pursue streetscape and other infrastructure improvements to improve the appearance and functionality of the commercial corridor	July 2022
3. Work with Chamber and businesses along West Grand Avenue on outreach and marketing to enhance economic vitality of the corridor.	July 2022

KEY POLICY/OPERATIONAL ISSUES

- Continuation of economic development services contract with the South County Chambers of Commerce to improve business retention, recruitment, and marketing
- Continued focus on commercial cannabis industry and hotel development projects given economic activity and development opportunities along with additional tax revenues.
- Continue working with Digital West to maximize potential of citywide fiber broadband expansion for attraction of businesses and residents
- Continue City’s involvement in regional economic development strategies to ensure community economic vitality in the future
- Provide greater focus on West Grand Avenue improvements given the level of development interest in housing and mixed-use projects

FINANCIAL RESOURCES REQUIRED

FY 2022-23 Cost Summary	
Economic development agreement with South County Chambers of Commerce	\$70,000
Total	\$70,000

FY 2022-23 Funding Sources	
American Rescue Plan Act funding	\$70,000
Total	\$70,000



MAJOR CITY GOAL FY 2022-23 WORK PROGRAM

HOUSING AND HOMELESSNESS

GOAL STATEMENT

Update City codes and standards to encourage housing construction to meet diverse needs; collaborate with developers and non-profits in efforts to increase overall housing stock with a priority on affordable housing availability; and partner with regional agencies and organizations to address homelessness and sheltering issues in the city and region.

STAFF LEAD: **Bruce Buckingham, Community Development Director; Matthew Bronson, City Manager**

TASK	DATE
1. Process development applications for West Grand Avenue housing and mixed-use projects upon submittal by property owners	July 2022
2. Oversee the start of the building permit process for the development of affordable housing project on South 13 th Street (Cleaver property)	July 2022
3. Work with 5CHC on the development of a homeless housing facility on City-owned property on South 4 th Street	July 2022
4. Continue to work with 5CHC and surrounding cities to increase the supply of supportive and transitional housing and programs to assist the homeless	July 2022
5. Continue periodic homeless encampment outreach and cleaning activities at affected locations	July 2022
6. Receive Coastal Commission approval of the Local Coastal Program amendments related to the Land Use Element and Development Code updates	October 2022
7. Implement Land Use Element and Development Code updates including development of checklists, website update, staff training, and developer outreach	October 2022
8. Apply for "Pro-Housing Designation" from State Department of Housing and Development to assist with securing State grant assistance	June 2023

KEY POLICY/OPERATIONAL ISSUES

Implementing the updated Development Code and Land Use Element will be a major area of focus for FY 2022-23.

- Housing availability is a significant challenge throughout the region and the City has limitations in responding to this need given staffing and funding, as well as the extent to which local government can address the housing market. Changes in housing will take time given the work involved in private sector housing production along with the development of the People's Self-Help Housing/HASLO affordable housing project on on South 13th Street.
- Homelessness is one of the most difficult issues facing local government and is an issue that extends beyond the role of cities in addressing it. However, additional funding and City and County focus on



MAJOR CITY GOAL FY 2022-23 WORK PROGRAM

HOUSING AND HOMELESSNESS

homelessness initiatives could lead to tangible results despite difficulty with the complexity and regional nature of this issue.

FINANCIAL RESOURCES REQUIRED

FY 2022-23 Cost Summary	
Winter Warming Center and Homeless Support Services	\$400,000
Total	\$400,000

FY 2022-23 Funding Sources	
ARPA funding	\$400,000
Total	\$400,000



MAJOR CITY GOAL FY 2022-23 WORK PROGRAM

PUBLIC SAFETY

GOAL STATEMENT

Champion contemporary public safety services (police, fire, emergency medical services) by providing leadership and adequate resources, including training, to meet service demands and growing challenges in such areas as homelessness, mental health, vagrancy, and social justice.

STAFF LEAD: John Peters, Chief of Police; Stephen Lieberman, Five Cities Fire Chief

TASK	DATE
1. Continue exploration of more unified approach between public safety departments, County agencies, and homeless service providers on outreach for homeless individuals with mental health issues	July 2022
2. Work with Five Cities Fire Authority member agencies on future service delivery and governance structure for fire and emergency medical services to implement beginning July 1, 2023.	July 2022
3. Expand the Police Department Community Services Technician program through vacant position reclassification to enhance use of non-sworn personnel on certain tasks	October 2022
4. Enhance the City's emergency management efforts through updating the City's Emergency Operations Plans, implementing staff and Council training and collaborating with other agencies on emergency preparedness and response	December 2022

KEY POLICY/OPERATIONAL ISSUES

- Importance of working with member communities for long-term planning related to the Five Cities Fire Authority and the future service delivery needs and governance structure.
- Need for coordination with other agencies on outreach services to those individuals with mental health issues and homelessness.
- Need to bolster citywide emergency management and preparedness work.
- Finding opportunities to expand Police Department services within existing budget allocation

FINANCIAL RESOURCES REQUIRED

FY 2022-23 Cost Summary	
Emergency Operations Plans Update and Training	\$50,000
Total	\$50,000

FY 2022-23 Funding Sources	
NNP Funding/General Fund	\$50,000
Total	\$50,000



MAJOR CITY GOAL FY 2022-23 WORK PROGRAM

STREET IMPROVEMENTS

GOAL STATEMENT

Continue improvements to major arterials and local streets, incorporating where feasible related improvements, such as utility upgrades and “complete streets” - medians, sidewalks, bicycle lanes, bulb-outs, street trees and other related improvements.

STAFF LEAD: Greg Ray, Public Works Director/City Engineer; Erin Wiggin, Capital Improvement Projects Manager; Gabriel Munoz-Morris, Senior Engineer

TASK	DATE
1. Complete application package to PG&E for the Street Lighting Project (CIP 2003). The first phase is for North Oak Park Boulevard.	July 2022
2. Complete construction of the sidewalk infill with the cost sharing program with the two Measure K-14 projects (CIP 2295-14 and 2295-15) listed below (CIP 2274).	June 2023
3. Complete design and begin construction of the West Grand Avenue Streetscape project from 4 th to 8 th Streets (CIP 2287)	January 2023
4. Complete design and begin construction of CIP 2295-14 (portions of Trouville, S. 7th, Ocean View, Nacimiento, Mono, Owens, Margarita and Angello Terrace)	August 2022
5. Complete design and begin construction of CIP 2295-15 (portions of S. 7th Street, S.10 th , Manhattan Avenue, Seabright Avenue, Charles Street, N. 2 nd Street and N. 6 th Street)	February 2023

KEY POLICY/OPERATIONAL ISSUES

- Continuing to achieve accelerated pace of projects within the City’s relatively small footprint of approximately two square miles without significant inconvenience to residents and with limited field staff available to provide project utility support.
- Improved funding availability for improving arterials and major streets given higher General Fund contribution for capital projects and increase in Local Transportation Funds derived from Gas Taxes though additional funding is still needed given the extent of arterials and major streets that need repair.
- Incorporating sidewalk infill, traffic calming, and other safety enhancements desired with street improvement work.
- Need to continue planning for street maintenance work in future Capital Improvement Programs to maintain the City’s streets rehabilitated in recent years.



MAJOR CITY GOAL FY 2022-23 WORK PROGRAM

STREET IMPROVEMENTS

FINANCIAL RESOURCES REQUIRED

FY 2022-23 Cost Summary	
CIP 2003	\$100,000
CIP 2274	\$50,000
CIP 2287	\$2,415,000
CIP 2295-14	\$2,620,000
CIP 2295-15	\$680,000
Total	\$5,865,000

FY 2022-23 Funding Sources *	
01 General Fund	\$2,075,000
17 Gas Tax Fund	\$150,000
18 Local Transportation Fund	\$100,000
19 Gas Tax Fund (RMRA)	\$240,000
20 Street Rehab Bond Fund (K-14)	\$3,230,000
81 Water Enterprise Fund	\$70,000
Total	\$5,865,000

*Includes FY 2021-22 Carry Over