



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** May 8, 2023
FROM: Matthew Bronson, City Manager
PREPARED BY: Deanne Purcell, Administrative Services Director
Kristin Eriksson, Deputy City Manager
SUBJECT: FY 2023-25 Budget Update and Major City Goals Work Programs

RECOMMENDATION

Receive a report on the FY 2023-25 budget development process and draft work programs for Major City Goals and provide input and direction to staff.

BACKGROUND

Staff is finalizing its work on developing the proposed two-year budget for FY 2023-25 which will be provided to the Council in early June prior to a public hearing on June 12. The beginning of the FY 2023-25 budget update began with a five-year General Fund financial forecast presented to Council on February 14, 2023. The forecast showed the City is in a favorable financial position with healthy reserves over the Council goal of 25% of operating costs, although there were financial uncertainties that need to be considered. These include economic headwinds from a potential recession, continued decline in cannabis tax revenues, service needs and costs of fire services with the departure of the Oceano Community Services District from the Five Cities Fire Authority, along with needs in other City services. The forecast also reflected higher than normal inflation projected to continue through 2023.

The Council also participated in a goal-setting workshop on March 6, where the Council reviewed and updated the Council Goals for FY 2023-24 and staff subsequently developed draft work programs for the four Major City Goals for the Council's review. The recommendations that will be included in the proposed budget for FY 2023-25 are intended to continue aligning the City's resources to the Council's priorities as expressed through the Council Goals.

FY 2023-25 Budget Development Update

FY 2023-25 marks the second budget cycle where the City has shifted from an annual budget to a biennial cycle or two-year budget. 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 2024-25) will be a projection and reviewed next year to determine if any additional adjustments are needed for the subsequent fiscal year.

General Fund Revenue

For FY 2023-25, revenues are on track with the five-year General Fund financial forecast in February. The following page shows information on the primary General Fund revenues:

- *Sales Tax* - Projections were determined using the most recent report from the City's sales tax consultant which estimates that sales tax revenues will plateau in FY 2023-24 with a minor increase of 0.6% from the current FY 2022-23 and then return to a more consistent growth level of 3% in FY 2024-25. Sales tax revenue is again anticipated to be the City's largest General Fund revenue source.
- *Property Tax* - The most recent estimates provided in January 2023 by San Luis Obispo County Tax Assessor's Office project a 4% increase next FY 2023-24 from the current FY 2022-23 and a 3% increase in FY 2024-25. Property tax has been a consistent revenue source for the City and average annual increases have been 4.6% over the past five years.
- *Cannabis Tax* – This revenue is projected at \$1,326,000 for FY 2023-24, a 2% increase from the latest FY 2022-23 projection of \$1.3 million which is \$332,000 lower than the \$1.6 million originally budgeted. Staff continues to recommend caution with cannabis tax revenues given market instability.
- *Transient Occupancy Tax (TOT)* - TOT is projected to increase 3% each year based on the added short-term rentals (STRs) and increased travel activity that has picked up considerably over the last two years that were impacted by the pandemic. The projections assume \$900,000 for FY 2023-24 and \$927,000 for FY 2024-25. TOT does not include future hotel projects until construction begins but it should be noted that construction is anticipated to begin on the 950 El Camino Real hotel project in FY 2023-24.
- *Franchise Tax* – Franchise fees for FY 2023-24 of \$735,000 include the new transoceanic fiber optic cable revenue of \$100,000 that was delayed for the last two fiscal years but is expected to be collected next year. For FY 2024-25, the proposed franchise fees of \$948,000 include a total fiber optic cable revenue of \$300,000.

General Fund Expense

In terms of expenditures, staff will be recommending a budget for FY 2023-25 that will make significant investments in addressing community needs in alignment with Council Goals. The proposed budget will include a General Fund contribution of approximately \$1.5 million each year in FY 2023-24 and FY 2024-25 for the City's Capital Improvement Program (CIP). The amount for FY 2024-25 is \$176,000 lower than the original \$1.68 million presented to the Council during the CIP presentation on March 27 as this amount will be deferred to FY 2025-26. This CIP funding over the next two years will enable the City to fund high-priority capital projects over the next two years including the West Grand Avenue streetscape project, North 4th Street rehabilitation project, and West Grand Avenue improvements from 11th Street to Oak Park Boulevard. Funding from Measure K-14 street bonds, Water and Wastewater Enterprise Funds, and other funds will also be utilized as part of the City's CIP.

The proposed budget will also include General Fund operating budget augmentation recommendations of \$290,000 in one-time and ongoing net expenses after revenue offsets for FY 2023-24 and \$458,000 in FY 2024-25. Examples of General Fund budget recommendations that will be reflected in the proposed budget are included below and on the following page:

- 1.0 FTE in Public Works for Maintenance Superintendent position (40% funded by the General Fund with the rest by Enterprise Funds)
- 0.5 FTE in Parks and Recreation to increase part-time Administrative Assistant I position to full-time (funding this year previously approved as a mid-year budget adjustment)

- Six new Police patrol vehicles to replace existing vehicles at the end of their useful life
- Three new Public Works fleet trucks to replace outdated existing vehicles
- Vehicle storage rental costs for Police and Public Works vehicles (87% funded by the General Fund with the rest of Police COPS grant funds)
- Technology equipment for Police including additional body cameras and drones
- Health and wellness program expenditures in Police
- Fire Authority station alerting system
- Additional organizational development and training costs

The operating budget also includes a significant increase to the Five Cities Fire Authority (FCFA) of \$755,000 in FY 2023-24 and \$836,000 in FY 2024-25 from the City's current cost of \$2 million. A fire services update was presented to Council on April 24 and included a final report from consultant Baker Tilly outlining the FCFA forecast through FY 2028-29 using various scenarios. The proposed budget includes Staffing Plan A-4 with a City contribution of \$2.77 million for FY 2023-24 and \$2.85 million for FY 2024-25 pursuant to Council direction. The proposed budget also assumes revenue from the Oceano Community Services District and/or the County in each fiscal year for the continued provision of services to Oceano through a contract with the new Joint Powers Authority while the Local Area Formation Commission divestiture process is ongoing.

Overall, the General Fund proposed budget for FY 2023-24 will be balanced with revenues of \$18.5 million, including \$925,000 in remaining American Rescue Plan Act Funds, and expenditures of \$18.1 million for a projected surplus of approximately \$400,000. The budget also produces ending reserves of approximately 42% of operating expenditures compared with the Council's reserve goal of 25% to provide sufficient reserves for emergencies or unforeseen events or needs. However, beginning in FY 2024-25 the General Fund budget will show a deficit with revenues of \$18.2 million and expenditures of \$18.8 million or a gap of approximately \$600,000 that would need to be closed using reserves to balance the budget. Ending reserves of 37% in FY 2024-25 would still be above the Council's reserve goal of 25%. However, long-term projections beyond FY 2024-25 illustrate the need to significantly reduce General Fund operating and/or capital expenditures in order to close the long-term funding gap while maintaining sufficient reserves unless additional revenues were generated to support community needs.

Update to Major City Goals Work Programs for FY 2023-24

On March 6, the Council conducted a goal-setting workshop to determine Council Goals for the next two years. Prior to the workshop, each Council Member was asked to submit up to seven goal suggestions responding to the following question: *Of all the many things that we would like to do for Grover Beach, which are the most important things for the coming two fiscal years?* These suggestions formed the foundation for the goal-setting workshop where individual goal proposals that were similar in nature were captured in synthesized language and stated as one goal while others were revised for clarity. A total of 10 candidate goals were ultimately drafted for consideration by the Council. After carefully reviewing, rating and ranking the candidate goals, the Council adopted a highly focused set of collective goals organized into three priority categories:

- *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 2023-25 budget.
 - Economic Development and Community Promotion
 - Housing and Homelessness
 - Public Safety
 - Street Maintenance and Complete Streets

- *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
 - Community Engagement
 - Water Supply and 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.
 - City and School Partnership
 - Code Compliance
 - Environmental Sustainability

These Council Goals along with descriptive goal statements are shown in Attachment 1. Similar to previous years, the next step in the goal-setting process is development of 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 2023-24 work programs for the four Major City Goals as developed by staff. Each work program includes the goal statement and action plan with tasks and implementation dates. In many cases, the date shown is the start of the fiscal year in July which reflects the beginning of the work associated with the specific task.

Summary

Staff is seeking Council's input and direction on the FY 2023-25 budget development update and draft FY 2023-24 Major City Goal work programs. This input and direction will be used in finalizing the proposed budget for FY 2023-25 which will be presented to the Council at the June 12th budget hearing. The Council's adoption of the final budget in June will serve as the final approval for work programs for the Major City Goals and staff will then begin implementing these work programs 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 2023-25 budget development 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 2023-25 City Council Goals
2. FY 2023-24 Draft Major City Goals Work Programs

City of Grover Beach
FY 2023-25 City Council Goals

MAJOR CITY GOALS

ECONOMIC DEVELOPMENT AND COMMUNITY PROMOTION. Strengthen and maintain a business-friendly environment, implement strategies that build upon existing efforts in business retention with a focus on vulnerable sectors and populations, pursue business attraction and commercial development especially on West Grand Avenue, expedite permit processing, and promote tourism and hotel development.

HOUSING AND HOMELESSNESS. Work with developers and non-profits in efforts to increase housing availability with a focus on affordable housing; continue partnerships with regional agencies and organizations to address homelessness and related sheltering issues in the city and region, including supporting completion and operation of temporary shelter facilities in the City.

PUBLIC SAFETY. Ensure quality police, fire and emergency medical services by providing proper support, including implementation of a new fire services structure and funding, training and leadership development resources to meet service demands and growing challenges in such areas as homelessness, behavioral health, and social justice; and continue to engage with regional agencies, local businesses and the community in these efforts.

STREET MAINTENANCE AND COMPLETE STREETS. Continue to complete Measure K-14 street improvements on arterials and local streets; create a maintenance plan and related funding for improved streets; pursue opportunities to design and build safer, more pedestrian and bicycle friendly “complete streets” by incorporating where feasible bicycle lanes, sidewalks, street lights, crosswalks, trees/landscaping and other traffic calming design strategies.

OTHER IMPORTANT GOALS

BUILDING AND FACILITY IMPROVEMENTS. Support city programs, operations and assets by ensuring that our public facilities, including parks and buildings, are maintained, improved and expanded to meet community needs into the future; strategically develop priorities and funding plans by evaluating deferred maintenance, safety, health, accessibility, energy, and long-term needs.

COMMUNITY ENGAGEMENT. Continue a strong commitment to transparency and public participation in our city government through existing and new programs, initiatives and events designed to encourage community members, including youth, engagement in key community decisions; formalize our practices by adopting and implementing a public participation plan and policies.

WATER SUPPLY AND RESILIENCY. Meet existing and long-term water needs through the Central Coast Blue recycled ground water project and other regional efforts and by continuing water conservation; identify other feasible strategies to ensure long-term water resiliency.

ADDRESS AS RESOURCES PERMIT

CITY AND SCHOOL PARTNERSHIP. Establish a framework for communication between city officials and local public TK-12 education partners' that operate within the city supporting a Community Schools model that provide benefits for our youth, families, and the community 24/7 through more intentional alignment. Maximize each jurisdiction's existing facilities and programs in partnership that benefits all, and discuss potential parallel policy options for shared adoption.

CODE COMPLIANCE. Prioritize the City's code compliance program to quickly and effectively enforce our existing ordinances, including tree related issues like maintenance and removal permits.

ENVIRONMENTAL SUSTAINABILITY. Pursue carbon neutral solutions to develop a greener Grover Beach through plans, policies and City operations.



MAJOR CITY GOAL FY 2023-24 WORK PROGRAM

ECONOMIC DEVELOPMENT

GOAL STATEMENT

Strengthen and maintain a business-friendly environment, implement strategies that build upon existing efforts in business retention with a focus on vulnerable sectors and populations, pursue business attraction and commercial development especially on West Grand Avenue, expedite permit processing, and promote tourism and hotel development.

STAFF LEAD(S): Matthew Bronson, City Manager; Kristin Eriksson, Deputy City Manager; Megan Martin, Community Development Director

TASK	DATE
1. Continue to work with the Chamber to enhance the Visit Grover Beach tourism brand, website and social media outreach	July 2023
2. Continue to collaborate with regional partner agencies to identify economic development strategies to support the regional economy	July 2023
3. Work with Chamber to conduct outreach with local businesses on key issues particularly along West Grand Avenue corridor	July 2023
4. Facilitate development opportunities to help recruit and retain businesses	July 2023
5. Begin oversight of construction for hotel project at 950 El Camino Real upon initiation of construction	July 2023
6. Process building permits for the 1598 El Camino Real hotel project upon submittal by the developer	July 2024
7. Continue involvement in Grover Beach Lodge hotel project with lead permitting agency State Parks and issue City permits for initial offsite construction upon plan submittal and approval	July 2023
8. Continue to conduct outreach and regulatory oversight of commercial cannabis industry and process development applications including onsite consumption areas upon submittal	July 2023

KEY POLICY/OPERATIONAL ISSUES

- Revising the economic development services contract with the South County Chambers for Commerce to focus on tourism marketing
- Continued focus on hotel development projects and the commercial cannabis industry give economic activity and development opportunities along with additional tax revenues
- Continued City's involvement with regional economic development strategies to ensure community economic vitality in the future
- Improvements to the West Grand Avenue to revitalize and enhance the City's main commercial corridor



MAJOR CITY GOAL FY 2023-24 WORK PROGRAM

HOUSING AND HOMELESSNESS

GOAL STATEMENT

Work with developers and non-profits in efforts to increase housing availability with a focus on affordable housing; continue partnerships with regional agencies and organizations to address homelessness and related sheltering issues in the city and region, including supporting completion and operation of temporary shelter facilities in the City.

STAFF LEAD(S): Megan Martin, Community Development Director; Matthew Bronson, City Manager; John Peters, Chief of Police

TASK	DATE
1. Process development applications for West Grand Avenue housing and mixed-use projects upon submittal by property owners	July 2023
2. Coordinate with People's Self-Help Housing and Housing Authority of San Luis Obispo on permitting of Cleaver & Clark Commons affordable housing project	July 2023
3. Educate developers on options for density bonuses to increase housing availability and provide for affordable housing	July 2023
4. Continue to publicize the City's Pre-Designed Accessory Dwelling Unit (ADU) program using social media, local newspapers, and community events	July 2023
5. Monitor and evaluate the effectiveness of the ADU program and make adjustments as needed	July 2023
6. Seek Prohousing Designation from the California Department of Housing and Community Development	July 2023
7. Coordinate with 5Cities Homeless Coalition on development and permitting of a new homeless housing facility on Barca Street.	July 2023
8. Work with 5Cities Homeless Coalition, County, and other agencies on securing one-time and ongoing funding for homeless facilities and services	July 2023
9. Provide enforcement for updated homeless camping ordinance and present review of initial results to Council by late 2023	July 2023
10. Conduct cleanings and implement access limitations related to homeless encampments on public property	July 2023



MAJOR CITY GOAL FY 2023-24 WORK PROGRAM

HOUSING AND HOMELESSNESS

KEY POLICY/OPERATIONAL ISSUES

- Continue to follow State and regional housing and homelessness related policies to ensure General Plan and Development Code supports development of affordable housing in the community.
- Complete improvements to West Grand Avenue to enable additional housing and mixed-use opportunities along the City's main commercial corridor.
- Strengthen relationships with developers, 5Cities Homeless Coalition, and other non-profits to address regional affordable housing and homelessness initiatives.



MAJOR CITY GOAL FY 2023-24 WORK PROGRAM

PUBLIC SAFETY

GOAL STATEMENT

Ensure quality police, fire and emergency medical services by providing proper support, including implementation of a new fire services structure and funding, training and leadership development resources to meet service demands and growing challenges in such areas as homelessness, behavioral health, and social justice; and continue to engage with regional agencies, local businesses and the community in these efforts.

STAFF LEAD(S): John Peters, Chief of Police; Steven Lieberman, Five Cities Fire Chief

TASK	DATE
1. Start a dynamic Health and Wellness Program for Police employees by developing a peer support team and critical incident stress response model	June 2024
2. Create a regional Major Accident Investigation Team (MAIT) with the Police Departments of Arroyo Grande and Pismo Beach	July 2023
3. Conduct recruitment of new Police Officers to fill current vacancies	July 2023
4. Explore regional partnership opportunities to create a dedicated Mental Health profession position within the South County	January 202
5. Add enhanced technologies (hardware and software) to improve patrol vehicle cameras, license plate readers, community cameras and police radios	June 2024
6. Implement new Five Cities Fire Authority (FCFA) Joint Powers Authority Agreement including formation of new governance and executive management structure along with temporary service contract with Oceano Community Services District	July 2023
7. Implement FCFA service level changes including recruitment of new positions and contract fire prevention services by Community Development Department	July 2023
8. Work with Arroyo Grande and County on Local Area Formation Commission review of Oceano fire services divestiture request and potential service impacts to FCFA	July 2023
9. Work with Arroyo Grande to update FCFA service level and budget for FY 2024-25 following completion of LAFCO divestiture review process.	January 2024



MAJOR CITY GOAL FY 2023-24 WORK PROGRAM

PUBLIC SAFETY

KEY POLICY/OPERATIONAL ISSUES

- Fill vacant Police Officer positions to ensure sufficient staffing levels.
- Work toward accomplishing FY 2023-24 metrics of Police Department Strategic Plan.
- Significant time and resources needed in implementing Five Cities Fire Authority changes related to service level and governance.
- Need to continue resolving long-term service and funding issues with fire services including potential County funding for Oceano service.

**MAJOR CITY GOAL FY 2023-24 WORK PROGRAM****STREET MAINTENANCE AND COMPLETE STREETS****GOAL STATEMENT**

Continue to complete Measure K-14 street improvements on arterials and local streets; create a maintenance plan and related funding for improved streets; pursue opportunities to design and build safer, more pedestrian and bicycle friendly “complete streets” by incorporating where feasible bicycle lanes, sidewalks, streetlights, crosswalks, trees/landscaping and other traffic calming design strategies.

STAFF LEAD(S): Greg Ray, Public Works Director; Erin Wiggin, Capital Projects Manager; Gabriel Munoz-Morris, Senior Engineer

TASK	DATE
1. Continue to work with PG&E to implement the Street Lighting Project (CIP 2003). The first phase is for North Oak Park Boulevard.	November 2023
2. Complete design and start construction of the sidewalk infill cost sharing program (CIP 2274) for two Measure K-14 projects (CIPs 2295-17 and 2295-17) listed below	February 2023
3. Complete design and start construction of the West Grand Avenue Streetscape Project (CIP 2287)	September 2023
4. Start construction of N. 4 th Street repair project (CIP 2285)	April 2024
5. Complete design and start construction of Measure K-14 project on portions of Ramona, Front, Saratoga, Beckett, and N. 2 nd (2295-16)	October 2023
6. Complete design of Measure K-14 project on portions of N. 9 th , N. 11 th , N. 12 th , Brighton, Ramona, Alma Ct, Moss Ct (CIP 2296-17)	January 2024

KEY POLICY/OPERATIONAL ISSUES

- Need to continue 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.
- Need to continue planning for street maintenance work in future Capital Improvement Programs to maintain the City’s streets rehabilitated in recent years.
- Incorporating sidewalk infill, traffic calming, and other safety enhancements desired with street improvement work.