



**Department:** Finance  
**Cost Center:** 2002  
**For Agenda of:** 2/18/2025  
**Placement:** Business  
**Estimated Time:** 45 minutes

**FROM:** Emily Jackson, Finance Director  
**Prepared By:** Riley Kuhn, Principal Budget Analyst

**SUBJECT:** REVIEW OF FISCAL YEAR 2024-25 2ND QUARTER BUDGET REPORT

### RECOMMENDATION

1. Receive and file the 2<sup>nd</sup> Quarter Budget Report; and
2. Appropriate \$9,167,831 in unassigned FY 2023-24 General Fund Balance as detailed in the report; and
3. Appropriate \$2,000,000 in assigned FY 2023-24 assigned fund balance and authorize an Additional Discretionary Payment to CalPERS of \$3,308,870; and
4. Authorize a transfer of \$274,700 in funding from the "Other Federal Grants" revenue account (101-1005-45305) to the "Other Contract Services" expenditure account (101-1005-61013) to administer of the Department of Energy Buildings UP Prize Phase 2 Award (supporting mobile and manufactured home energy efficiency retrofits).

### POLICY CONTEXT

The City's budget policies require that the City Council review the City's budget and financial condition at least every six months. City Charter Code Section 804 states that at any meeting after the adoption of the budget, the Council may amend or supplement the budget by motion adopted by a majority vote of the Council.

The Second Quarter (Q2) Budget Review is part of the ongoing quarterly reporting process and fulfills these requirements. The review allows the Council to adjust revenue and expenditure assumptions should the need arise. The accompanying Q2 Budget Report for FY 2024-25 provides a detailed review of the City's financial results as compared to the budget half-way through the fiscal year.

### DISCUSSION

#### **Budget Report Organization**

The second quarter budget report is intended to provide a high-level overview of the City's performance against budget during the fiscal year. Additional emphasis is placed on those areas where performance is expected to differ from budget for the full year. The report also includes an update on the Capital Improvement Projects and Major City Goal Tasks active during the quarter. The report (Attachment A) includes the following sections:

## Item 7a

**General Fund Summary:** Halfway through the year, two areas of risk to revenue budget attainment have emerged. Sales tax has not grown as expected and development review fees are in decline. Expenditures are trending broadly in line with expectations and at this point, staff does not see risk to fund balance at year end.

**Use of FY 2023-24 Fund Balance:** The City's Annual Comprehensive Financial Report, including audited financial statements, was presented to Council on January 21, 2025. The ACFR indicated General Fund unassigned fund balance of \$9,167,831 as of June 30, 2024. In addition to funding for CVRA legal fees approved by Council on November 19, 2024, and an increased contribution to the San Luis Obispo Repertory Theater, staff recommend prioritizing pension debt and infrastructure investments with the balance.

**Storm Update:** Consistent with prior quarterly reports, the report includes a summary of costs incurred to date to address damage caused by the Winter 2023 storms. The report also includes an update on the status of reimbursements expected from the Federal Emergency Management Agency and California Office of Emergency Services.

**Water Fund Summary:** Year to date results are generally in line with budget and staff do not expect significant variances to budget for the full year.

**Sewer Fund Summary:** Year to date results are generally in line with budget and staff do not expect significant variances to budget for the full year.

**Parking Fund Summary:** Parking Fund revenue is trending below budget in the first half of the year. This revenue shortfall is attributable to enforcement issues at certain parking structures as a result of ongoing technology implementation efforts. Staff expect a revenue shortfall for the full year, but do not expect any ongoing impact once the technology issues are addressed.

**Transit Fund Summary:** Year to date results reflect lower than planned revenue for federal grants. Certain grants included in the budget were not awarded, and staff will reduce funding for the relevant projects accordingly.

**Special Revenue Fund Summaries:** All special revenue funds are expected to finish the year in line with their budgets.

**CIP Update:** The report provides an update on the tasks ongoing or completed during the second quarter of the year. Completed projects include North Broad St. Park and the 2023 Arterials project. Ongoing projects include the Laguna Lake Dog Park, Mission Plaza Enhancements, and several water and sewer line replacements.

**Major City Goal Update:** The report provides an update on the Major City Goals tasks originally scheduled to be completed during the second quarter of the year. One task was originally scheduled to be completed last quarter, task 4.1c under Climate Action, Open Space, & Sustainable Transportation to install solar panels at several City facilities. A Power Purchase Agreement was signed during the quarter, and the panels are expected to be operational by March of 2026.

### **Federal Funding Summary**

On January 27, 2025 the Federal Office of Management and Budget issued Memorandum M-25-13, "Temporary Pause of Agency Grant, Loan, and Other Financial Assistance Programs". That memorandum effectively halted a broad variety of federal payments, but temporary restraining orders were issued to two separate U.S. District Judges to prohibit the Executive Order from taking effect until future review and action by the courts. A summary of the federal funding the City receives is included in Attachment B in order to better understand the impact of any future federal action.

### **Department of Energy Green Buildings Upgrade (Buildings Up) Phase 1 Prize**

In 2023, staff identified the Department of Energy (DOE) Buildings Upgrade (Buildings UP) Phase 1 Prize as a funding source to implement the Climate Action Plan's work supporting voluntary energy efficiency and electrification retrofits in low-income households. Staff submitted an application with the Diversity Coalition of San Luis Obispo County (Diversity Coalition) and the Community Action Partnership of San Luis Obispo (CAPSLO) (together, "the team") to the prize and was selected as an award recipient. The Buildings UP Prize is structured so that successful completion of Phase 1 makes the Team eligible for Phase 2. In Fall of 2024, staff submitted an application for Phase 2 funding and after extensive review, DOE staff notified City staff on January 7, 2025, that the City team has been awarded an addition \$400,000 to complete Phase 2, which will transition from initial research and analysis to a pilot phase that includes CAPSLO receiving \$125,300 to electrify space heating and water heating in up to ten additional mobile homes and the City receiving \$274,700 to extend the Green Building Analyst for an additional year to oversee the Green and Healthy Homes program, continue and expand helpline services for the community, provide matching funds for additional home retrofits, extend technical consulting services for ongoing data monitoring and tracking, and provide direct support to Diversity Coalition for ongoing outreach and stakeholder meeting facilitation to ensure the program continues to meet local objectives. Staff's recommendation is to move the \$274,700 of prize money currently in a revenue account to an expense account so that staff may implement the prize and continue the work.

### **Previous Council or Advisory Body Action**

Council adopted the FY 2024-25 Supplemental Budget on June 4, 2024. The First Quarter Budget Review was presented to Council on December 10, 2024. On January 14, 2025, Council directed staff to include an increased Additional Discretionary Payment to CalPERS with the Second Quarter Budget Report.

### **Public Engagement**

Public Engagement on the item can be provided to the City Council through written correspondence prior to the meeting or through public testimony at the meeting. The report will also be posted on the City's website for public review.

**ENVIRONMENTAL REVIEW**

The California Environmental Quality Act (CEQA) does not apply to the recommended action in this report because the action does not constitute a “Project” under CEQA Guidelines Sec. 15378.

**FISCAL IMPACT**

Budgeted: Yes

Budget Year: 2024-25

Funding Identified: Yes

**Fiscal Analysis:**

Staff recommend appropriation of FY 2023-24 General Fund unassigned fund balance of \$9,167,831 according to the audited financial statements as follows:

<b>FY 2023-24 Unassigned Fund Balance*</b>		<b>\$ 9,167,831</b>
Recommended uses:		
CVRA legal fees		75,000
Increased CalPERS ADP amount		660,859
Additional SLO Rep funding		2,760,000
Final 1166 Higuera payment		845,000
Infrastructure Fund investments		4,826,972
<b>Remaining Balance</b>		<b>\$ -</b>

\*After \$2M CalPERS ADP

The amounts above are in addition to the \$2,000,000 in General Fund Assigned Fund Balance. Staff recommend total Additional Discretionary Payments as follows:

<b>CalPERS ADP</b>		
General Fund	\$	2,660,859
Water Fund		245,418
Sewer Fund		250,875
Parking Fund		97,543
Transit Fund		15,973
Whale Rock		27,324
TBID		10,879
<b>Total</b>	<b>\$</b>	<b>3,308,870</b>

Additional information on each of the recommended uses can be found in Attachment A.

**ALTERNATIVES**

***Council could direct staff to use fund balance for another purpose.*** This action is not recommended by staff because the recommendation is in line with policy and prioritizes funding for upcoming infrastructure projects”

**ATTACHMENTS**

A - FY 2024-25 Second Quarter Budget Report

B - Federal Funding Summary