



Department: Finance
Cost Center: 2002
For Agenda of: 4/15/2025
Placement: Business
Estimated Time: 180 minutes

FROM: Emily Jackson, Finance Director
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SUBJECT: 2025-27 STRATEGIC BUDGET DIRECTION AND DRAFT CIP

RECOMMENDATION

1. Review the Strategic Budget Direction Report; and
2. Review the 2025-27 Major City Goals and Work Plans; and
3. Provide feedback and guidance to the City Manager regarding the recommended strategic budget direction and proposed budget allocations for potential modification before adoption on June 17, 2025

POLICY CONTEXT

Development of the City's budget is required and guided by State law, the City's Municipal Code, City Charter, and the fiscal policies which are reviewed and reaffirmed by the City Council every two years.

California State Law

1. Article XIII B of the California Constitution and California Government Code Sec. 7910 requires that cities establish appropriations limits¹ by resolution annually. The City of San Luis Obispo complies with this requirement through adoption of its annual budget.
2. California Government Code Section 53901 requires each local agency to file its budget with the county auditor within 60 days after the beginning of its fiscal year.

City Charter

1. 801. Fiscal Year – establishes that the City's Fiscal Year commences on July 1 of each year.
2. 802. Annual Budget – requires that the City Manager shall provide the Council a careful estimate, in writing, of the amounts, specifying in detail the objects thereof

¹ The City's appropriation limit is based on the Gann Spending Limit Initiative, a State constitutional amendment adopted by the voters on June 6, 1979, and amended in 1990 with Proposition 111. It is anchored in the State Constitution under Article XIII B. The limit restricts appropriations from tax revenues by State and local governments. Under its provisions, no local agency can appropriate proceeds of taxes in excess of its "appropriation limit". Excess funds may be carried over into the next year. However, any excess funds remaining after the second year must be returned to taxpayers by reducing tax rates or fees; a majority of the voters may approve an override to increase the limit.

required for the business and proper conduct of the various departments, offices, Boards and Commissions of the City, over which the office has control, during the next ensuing year.

3. 803. Public Hearing – sets forth the requirement for a public hearing to adopt the annual budget.
4. 804. Adoption of Budget – requires the Council to adopt the budget and allows that after adoption of the budget, the Council may amend or supplement the budget by motion adopted by a majority vote of the Council.

DISCUSSION

Strategic Budget Direction (Attachment A)

Staff developed the draft budget in parallel with the many public engagement initiatives for the 2025-27 Financial Plan beginning in December 2024 when staff provided the City Council with an overview of City services, an overview of the many Council-adopted plans that guide the work that the City does, and an update on the progress made in addressing Council's identified Major City Goals for 2023-25. Strategic Budget Direction is the first opportunity for Council and the public to review the draft budget and provide feedback for staff to incorporate before adoption in June. Attachment A includes draft budget recommendations for the General Fund and the City's four Enterprise Funds (Water, Sewer, Parking, and Transit). The primary purpose of Strategic Budget Direction is for the Council to provide direction to staff on:

1. Major City Goal Work Programs
2. Significant Operating Budget Changes (SOBCs)
3. Capital Improvement Plan (CIP) projects

Strategic Budget Direction provides the City Council with an early opportunity to review these key budget allocations and proposed work programs to accomplish ongoing services and take action on the Major City Goals established by the City Council in February 2025. This hearing is Council's opportunity to provide direction to staff on any refinements to the work programs and resource allocations to deliver on Council's desired outcomes over the two-year Financial Plan period.

As this report is the first draft in an iterative process, staff expect that minor adjustments will need to be made before adoption to incorporate new information as it becomes available. Any major changes between versions will be highlighted for Council in June.

The attachments to this report provide detailed information for Council and the public's consideration. The various sections of the report and their contents are as follows:

Attachment A: Strategic Budget Direction

1. **General Fund:** This section addresses the economic circumstances impacting budget development, provides insights into how the budget was developed, and includes staff's recommendation on Significant Operating Budget Changes (SOBCs) for the two-year financial plan and a long-term forecast.

2. **Enterprise Funds:** This section includes summaries for each fund, staff's recommendation on SOBCs for the Water, Sewer, Parking, and Transit funds, along with their long-term forecasts.
3. **Local Revenue Measure (LRM) Revenues and Uses:** This section includes contextual information on the local revenue measure including revenue performance and capital allocations. It also details the specific proposed uses of LRM funds.
4. **Capital Improvement Plan (CIP):** This section provides an overview of the recommended CIP.

Attachment B: Major City Goals and Work Plans: This section includes the 2025-27 Major City Goals (MCG) established by Council and staff's proposed work programs to help achieve the MCGs.

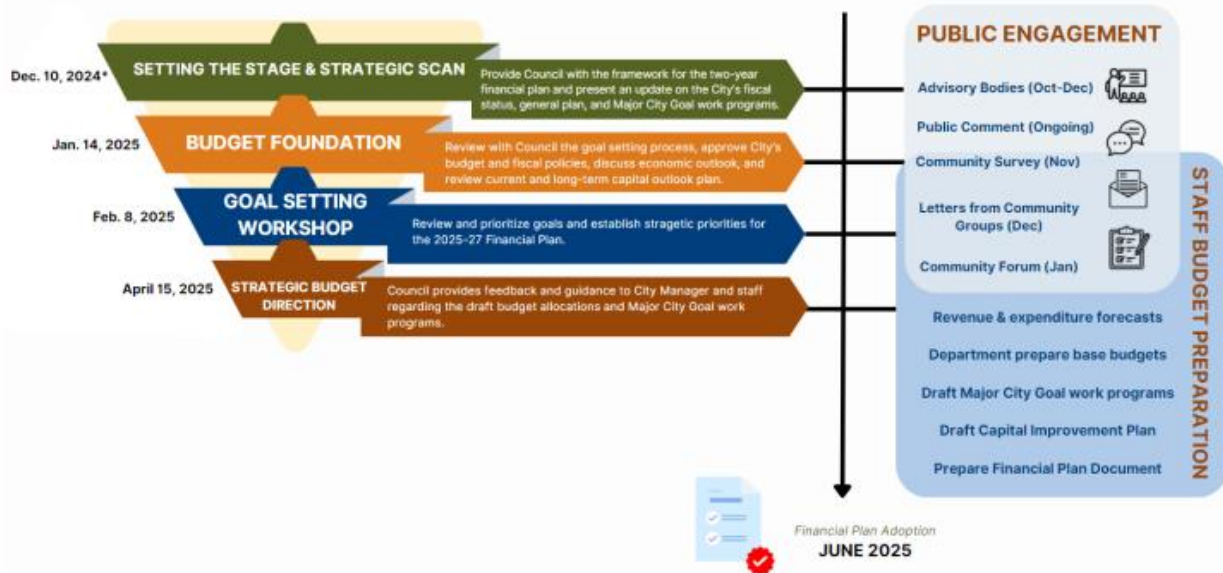
Previous Council or Advisory Body Action

The City Council has held several public hearings to seek input from the public and share feedback with staff to help guide development of the 2025-27 Financial Plan, including Setting the Stage on December 10, 2024, Budget Foundation on January 14, 2025, Community Forum on January 23, 2025, and the Goal Setting Workshop on February 8, 2025.

The Revenue Enhancement Oversight Commission met on March 20, 2025, to review and discuss use of Local Revenue Measure funds.

Public Engagement

Public engagement has been a top priority throughout budget development as detailed in the graphic below:



Item 7a

Public comment on this item can be provided to the City Council through written correspondence prior to the meeting and through public testimony at the meeting.

CONCURRENCE

The Revenue Enhancement Oversight Commission (REOC) met on March 20, 2025, to review the proposed use of Local Revenue Measure funding and concurs with the budget allocations as presented.

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: 2025-27

Funding Identified: Yes

Fiscal Analysis:

Funding Sources	Total Budget Available	Current Funding Request	Remaining Balance	Annual Ongoing Cost
General Fund	\$	\$	\$	\$
State				
Federal				
Fees				
Other:				
Total	\$0	\$0	\$0	\$0

There is no direct fiscal impact from staff's recommendations to provide feedback and guidance to the City Manager regarding the recommended budget allocations and Major City Goal work programs.

ALTERNATIVES

The purpose of this item is to seek input and guidance from Council on staff's preliminary recommendations for the 2025-27 Financial Plan.

Council could direct staff to alter the proposed budget allocations and Major City Goal work plans. Staff's preliminary recommendations present a balanced budget for the two-year financial plan. Should Council pursue this option, trade-offs may need to be identified to offset any additional costs. Staff will make the requested changes and return with the modified budget allocations and work plans in June.

ATTACHMENTS

A - 2025-27 Strategic Budget Direction

B - 2025-27 Major City Goals and Work Plan