



Council Agenda Report

Item 6a

Department Name: Finance
Cost Center: 2002
For Agenda of: 6/1/2021
Placement: Public Hearing
Estimated Time: 180 minutes

FROM: Derek Johnson, City Manager
Prepared By: Brigitte Elke, Finance Director
Natalie Harnett, Principal Budget Analyst

SUBJECT: ADOPTION OF THE 2021-23 FINANCIAL PLAN

RECOMMENDATION

1. Adopt a Resolution entitled, "A Resolution of the Council of the City of San Luis Obispo, California approving the 2021-23 Financial Plan and Fiscal Year 2021-22 Budget"; and
2. Defer budget adoption of the Water and Sewer Funds until June 15, 2021 contingent on the Prop. 218 protest hearing and adoption of the water and sewer rate increases; and
3. Adopt a Resolution entitled, "A Resolution of the City Council of the City of San Luis Obispo, California, establishing Parking Rates for the City's Parking Structures"; and
4. Adopt a Resolution entitled, "A Resolution of the City Council of the City of San Luis Obispo, California, approving modifications to the Parking Citation Penalty Schedule"; and
5. Introduce an Ordinance entitled, "An Ordinance of the City Council of the City of San Luis Obispo, California, amending Title 10 Chapter 52 (Parking Meters) of the San Luis Obispo Municipal Code" to modify parking meter rates and add language referencing the new pay stations; and
6. Introduce an Ordinance entitled, "An Ordinance of the City Council of the City of San Luis Obispo, California, amending Title 10 Chapter 04 (Definitions) of the San Luis Obispo Municipal Code" to add a definition of parking payment center; and
7. Adopt a Resolution entitled, "A Resolution of the Council of the City of San Luis Obispo, California, amending the Water and Sewer Rate Assistance Program for Residential Rate Payers."

REPORT-IN-BRIEF

The City began the development of the two-year financial plan in November 2020 and held numerous public meetings and presentations with the community and Council to "set the stage", receive public input, and lay the budget foundation. Staff presented the draft budget to Council during the April 20, 2021 "Strategic Budget Direction" workshop. Council provided feedback and gave direction that ultimately shaped the preliminary 2021-23 Financial Plan (Attachment A).

The purpose of this public hearing is to adopt the 2021-23 Financial Plan and appropriate the FY 2021-22 budget, with the exception of the Water and Sewer Funds which are contingent on the Prop. 218 protest hearing and subsequent adoption of the water and sewer rate increases. The Resolution (Attachment B) also adopts the updated appropriation limit to guide the budget appropriations as required under Article XIII B of the California Constitution.

This report also brings forward recommendations to establish new parking structure rates and a parking citation penalty schedule. The Parking Fund relies on fees collected through various parking programs to maintain, operate, and construct the City's public parking facilities. The City historically adjusts Parking rates every three years, but the scheduled July 1, 2020 rate increases were deferred due to the COVID-19 pandemic. Parking in the downtown structures is returning to pre-pandemic levels and staff recommends updating the rate structure as outlined in Attachment C. These adjustments will provide the needed revenue for the Parking Fund to construct the Palm-Nipomo parking structure, satisfy its annual debt obligations, and maintain and operate its facilities. Staff recommends adjusting safety-related violation fine amounts which have not been adjusted since 2010. The recommendations in Attachment D will align fine amounts to address the severity of the violations and benefit the public's safety.

Staff is also recommending the introduction of two ordinances amending Title 10 of the Municipal Code. Attachment E includes modifications to the current on-street and surface lot parking rates, adds language referencing the use of the new multi-space pay stations, and allows the City to implement a tier-based pricing strategy in place of timed parking limits. Attachment F outlines the definition for parking payment centers which is the California Vehicle Code's term for a payment device that services multiple parking spaces.

Lastly, staff recommends amendments to the current water and sewer rate assistance program. The proposed rate adjustment increases may be a financial burden to some customers and current State law makes it difficult to directly support customers who are most impacted by rate increases from water and sewer fees. The new program included in Attachment G will broaden the assistance program to more qualifying customers consistent with Proposition 218.

DISCUSSION

After extensive community participation and several Council budget workshops and hearings beginning in November 2020, the 2021-23 Financial Plan is now ready for adoption. Key elements of the Financial Plan include:

1. Focus on long-term fiscal health, aligned with Fiscal and Budget Policies and Financial Responsibility and Sustainability Philosophy.
2. Align budget resources with Council adopted Major City Goal strategies.
3. Meet the minimum fund balance and working capital policy requirements.

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4. Invest in the future and fund maintenance of existing infrastructure and invest in the capital improvement program.
5. Address both required and “pre” payments to unfunded liabilities.
6. Implement Local Revenue Measure priorities.

The 2021-23 Financial Plan includes city-wide budgetary allocations for the two-year period in the amounts summarized below:

Expenditures	2019-20 Actual	2020-21 Budget	2021-22 Budget	2022-23 Budget	% Change
General Fund	\$75,824	\$76,901	\$98,764	\$103,621	5%
Business Activities					
Water Fund	\$39,693	\$35,011	\$25,501	\$27,632	8%
Sewer Fund	\$34,738	\$120,944	\$32,855	\$24,367	-26%
Parking Fund	\$5,287	\$4,748	\$6,547	\$11,520	76%
Transit Fund	\$4,772	\$6,600	\$7,669	\$4,895	-36%
Special Revenue					
Tourism Assessment	\$1,383	\$1,225	\$1,443	\$1,551	7%
Downtown Assessment	\$272	\$253	\$245	\$260	6%
Total	\$161,969	\$245,682	\$173,024	\$173,847	0%

In thousands

Changes to the Preliminary Financial Plan

In preparing for the adoption of the Financial Plan, the City Council held a Strategic Budget Direction workshop at the April 20, 2021, City Council meeting. During that workshop, the City Council provided direction to include changes in the Preliminary Financial Plan as displayed below. These changes were made possible by the reallocation of funding from the Infrastructure Investment Fund.

Task	Major City Goal	Amount
Community Workforce Agreements using the WRRF as a case study	Economic Recovery, Resiliency and Fiscal Sustainability	\$50,000
Feasibility Study for Multi-Cultural Center	Diversity, Equity, Inclusion	\$40,000
Support Development of “Micro Community Collaborative” initiative with the SLO Climate Coalition¹	Climate Action, Open Space, and Sustainable Transportation	\$20,000
Total		\$110,000

¹ Council’s recommendation was to “Look into Climate Coalition initiative”. Based on further follow-up with the SLO Climate Coalition, staff recommend \$20,000 in year one of the financial plan to support this effort.

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In addition to the changes with a fiscal impact, Council directed staff to make the following adjustments which are now reflected in the 2021-23 Preliminary Financial Plan:

1. Crisis Intervention Training – remove from the DEI work program.
2. The police department will implement new federal and state mandates for police reform and update its strategic plan to integrate new requirements and return to Council for a discussion on further integration of the principles of 21st century policing and other actions as determined by the City Council.
3. Move the implementation of Open Space Winter Hours Use from the Climate Action Major City Goal (MCG), into the operating budget with the understanding that the work will continue to be directed by Natural Resources staff.

Additional Changes to the Preliminary Financial Plan

In addition to the changes listed above, staff is recommending several new Significant Operating Budget Changes (SOBCs) or changes to SOBCs as outlined below:

Increase Community Workforce Agreement Study amount: Based on further research into the scope of this recommendation and the resources necessary to complete a thorough study, Staff recommends increasing the budget to \$175,000 with contributions from the Water, Sewer, and Parking funds. The additional General Fund portion of \$55,000 will be re-allocated from the CIP contribution to the Infrastructure Investment Fund and the Enterprise fund portions will come from working capital. If the actual costs come in less than budgeted, then the remaining funds will be returned proportionally to the respective fund balance/working capital.	General Fund: \$55,000 (additional) Water: \$26,250 Sewer: \$26,250 Parking: \$17,500
Transit Fund: Regional Transit Authority Analysis: The RTA is constructing a Regional Transit HUB adjacent to the City's SLO Transit Bus Yard. Much of the infrastructure that supports SLO Transit is aged and nearing the end of its lifespan. All transit providers are required to shift the fleet of transit vehicles to zero emission vehicles. This recommended funding would support the analysis and review of SLO Transit's operations and infrastructure to determine if there may be an advantage to sharing infrastructure, equipment, or centralizing services with RTA.	Transit: \$50,000
Water and Sewer Fund: Increased Funding for Public Outreach in the Utilities Department The Utilities department is implementing a work plan for ongoing outreach related to the City's water supply and resource availability, and other Utilities services. Focus will be on diversifying the outreach approach by utilizing digital and traditional outreach methods and focusing on often underrepresented stakeholder groups.	Water: \$122,000 Sewer: \$50,000

It is important to note that proposed Department budget appropriations include all Program Enhancements as shown in the "Budget Enhancements" section of the budget document.

Final Documents

After Council adopts the 2021-23 Preliminary Financial Plan, staff will publish a copy of the Adopted 2021-23 Financial Plan and 2021-22 Budget on-line.

Additionally, staff will prepare a *Budget-in-Brief* that highlights the City's budget process, key budget features, Major City Goal investments and basic "budget facts." This budget summary is widely distributed and will be posted on the website and shared through the various communication channels and with community partners.

Ongoing Monitoring

Adoption of the Financial Plan is the beginning of a continuous financial management process. Ongoing monitoring efforts include:

1. Interim Financial Reports. On-line access to up-to-date financial information will guide financial decisions. Concise and comprehensive reports are issued by Staff to the Council and Public on a quarterly basis. These are complemented by special reports such as the quarterly Sales Tax newsletter, quarterly Transient Occupancy Tax newsletter and the Quarterly Investment Report.
2. Goal Status Reports. Staff will provide quarterly Goal Status Reports to the Council that includes progress towards completing Major City Goals and Capital Improvement Plan. These reports present updates and communications about the status of City projects, goals, and performance measures.
3. Transparent Online Budget Portal (OpenBook). City staff are excited to announce the launch of a new online budget platform that presents publicly available budget to actual expenditure and revenue data in addition to Capital Project budget information. The OpenBook application displays the City's budget data in an accessible, easy-to-understand format using charts, tables, and graphs. Enhancements to budget visualizations will be made throughout FY 2021-22.

New Parking Rate Structures (Attachment C)

The Parking Fund collects rates and through various parking programs to maintain, operate, and construct the City's public parking facilities. Historically, parking rates for the public parking structures, surface parking lots, and paid on-street parking have increased approximately every three years depending on the economic climate. In 2017, the City Council approved multi-year rate increases for the parking structures with the last rate increase taking effect July 1, 2020. The Parking Fund deferred rate increases due to the COVID-19 pandemic in order to support economic recovery and downtown economic vitality. After the onset of the COVID-19 pandemic, activity in the downtown area is returning to pre-COVID levels and patrons are once again filling up the parking structures.

The Parking Fund is preparing to construct the City's fourth parking structure, the Palm-Nipomo parking structure, with phase 1 beginning in FY2022-23. The Palm-Nipomo parking structure is a significant financial investment and will require a sizable loan to fund all phases of construction. The Parking Fund must demonstrate an ability to cover annual debt obligations as well as maintenance and operations of the new structure before financing can be secured. Staff is recommending that Council approve the deferred parking structure rate increases and eliminate the first 60 minutes free in all structures effective July 1, 2021, as part of the Parking Fund's revenue enhancement strategies. Staff recommends a reduction to the maximum daily limit in the parking structures to encourage utilization of structures for long-term parking by downtown employees.

Modified Parking Citation Schedule (Attachment D)

The City's parking penalty schedule contains over 90 parking violations and associated penalty amounts. The parking violations can be separated into two categories, 1) safety-related and 2) compliance-related. Safety violations are those that have been established and enforced to ensure the safety of the public-at-large. Compliance violations are those that act as a monetary disincentive for not complying with state or local mandates regarding the use of publicly available parking. The Parking Fund has introduced new payment technology in the form of multi-space pay stations and is pursuing pay-by-phone options for patrons that will likely reduce the number of compliance-related violations written by parking enforcement staff.

As these new technologies are implemented, staff plans to focus more on safety-related violations that serve a greater benefit to the community by reducing opportunities for collisions. Many of the safety-related violations on the penalty schedule have not increased since 2010 when the State and County surcharges were added to the fine amounts and, as a result, these fine amounts are no longer in alignment with the severity of the violation. Staff is recommending an increase to 17 safety-related violations enforced throughout the entire City.

Amendments to Title 10 of the Municipal Code (Attachment E & F)

Like the parking structure rates, the parking meter rates were deferred at the onset of the COVID-19 pandemic. The meter rate increases were also part of a multi-year rate increase strategy approved by City Council in 2017 to catch up with historical parking rate trends. Staff is recommending that Council approve the deferred parking meter rate increases effective July 1, 2021.

Staff is also recommending the establishment of a tier-based pricing system which will allow parkers to stay beyond the posted hour limit provided an additional hourly fee is paid. Tier-based pricing has been proven in other cities to provide a better public parking experience for customers by reducing the anxiety that goes along with timed parking limits.

The Municipal Code amendments also contain added language which references the newly installed multi-space pay stations to ensure that the City can effectively operate and enforce the new payment option.

Utilities Rate Assistance Program (Attachment G)

Background

The water and sewer utilities continually balance affordability, the need to maintain aging water and sewer infrastructure, and compliance with State law when determining the need for rate increases. Rate increases have been mitigated, to some extent, by securing grant funding and through responsible stewardship of operating expenditures. Despite these efforts, water and sewer rate increases are necessary, and justified, to provide reliable and safe water and sewer service. Despite the necessity, staff recognizes that rate increases are a financial burden to some customers and State law makes it difficult to directly support the customers who are most impacted by rate increases.

Impact of Proposition 218

In 1992, the City Council implemented a low-income water and sewer rate assistance program which consisted of a 15% rate reduction for residential customers receiving Federal and State aid. At that time, the 15% discount was absorbed by the water and sewer funds. Since implementation of this rate assistance program, legislators amended State law making it more difficult to directly subsidize low-income customers and making it illegal for rate assistance programs to be subsidized by water and sewer rates.

In 1996, the State of California passed Proposition 218, now Article XIII C and D of the California Constitution, which restricts local governments' ability to impose assessments and property-related fees by imposing a proportionality requirement: local governments must make sure that no property owner's fee is greater than the proportionate cost to provide the property-related service. Later, the California Supreme Court determined that Article XII C and D apply to water and sewer and this decision restricts local government from reducing water and sewer rates to low-income residents because historically local governments fund lower rates by charging higher rates to other users.

As a result of the Supreme Court's decisions, the City subsidizes water and sewer rate from the City's General Fund, rather than the Water and Sewer funds. Lastly, the City restricts the categories of eligible customers to receive the discount to only those enrolled in one of four specific government subsidies² and those enrolled in another utility (e.g., electric or gas) rate assistance program.

² (1) Temporary Assistance for Needy Families (TANF/CalWORKS); (2) Cal Fresh (Food Stamps); (3) Supplemental Social Security Income; or (4) Veteran Survivor Pension Benefits

In 2012, the General Fund experienced a budget shortfall and a continually rising number of customers enrolling in the rate assistance program and the associated cost. After some investigation, the City learned that other utilities, such as Pacific, Gas & Electric and the Gas Company, do not verify a customer's income prior to enrolling the customer in their rate assistance programs. As a result, the City modified its program to disallow enrollment in another rate assistance program as proof for low-income and only allow eligibility for and enrollment in the four government subsidies to qualify for a water and sewer rate discount.

Late Fees

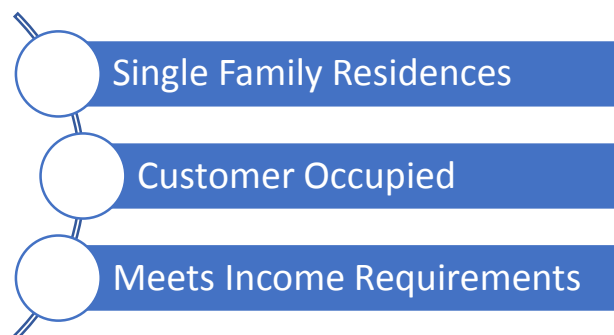
The new rate assistance program will utilize water and sewer late fees, rather than the general fund, to subsidize eligible customers. All water and sewer customers are subject to a \$15 or 1.5% late fee, whichever is greater, if they do not pay their bill by the due date. All customers across the City are subject to the same late fees. This includes, but is not limited to, large corporate customers, other businesses, and all residential customers. Late charges are not fees for service and are not restricted by Proposition 218 so long as they are not considered in the rate's proportionality calculation. Late charges available to subsidize the rate assistance program have historically exceed the needed general fund subsidy and thus the rate assistance program can include a larger range of community members.

New Rate Assistance Program

Simply stated, the revised rate assistance program will extend a 15% discount on a customer's water and sewer bill and, with revised requirements, more customers will qualify.

Qualifications

The revised rate assistance program is available to all Single-Family Residential (SFR) customers who occupy the residence for which they pay the bill. SFR customers are defined as individually metered, residential properties. If a single dwelling unit, whether it is an apartment, condominium, or other type of dwelling, has its own meter, it is considered an SFR. For example, an apartment complex with many dwelling units but only one water meter and one water and sewer bill are not eligible. However, an individually metered condominium for which the bill is paid by the resident, is eligible.



In addition, a customer must demonstrate that they meet household income requirements. Customers receiving government subsidies listed above are eligible. In addition, customers whose household income is less than twice the federal poverty rate³ are also eligible.

Customers must complete a short (less than one-page) application and provide documentation that they receive one of the aforementioned subsidies or declare that they earn less than the minimum household income.

Outreach

Upon adoption of the rate assistance program, the Utilities department will publicize the new program, including requirements and how to apply, via social media, utility bill insert, and on the City's website.

Fiscal Impact

The current rate assistance program, before these changes, costs the general fund approximately \$20,000 per year. The Utilities department collects approximately \$250,000 in late fees per year, split evenly between the water and sewer funds. It is expected that the new rate assistance program will cost less than \$100,000 per fund per year. The Utilities department will closely monitor the actual cost of the program to ensure that it remains within budget. This additional expense was considered during the recent rate confirmation study and excluded from the rate increases that will be presented to the City Council on June 15, 2021.

Previous Council or Advisory Body Action

The draft budget was presented to Council during the Strategic Budget Direction meeting on April 20, 2021. Council's direction from that meeting were incorporated into the attached preliminary Financial Plan.

Policy Context

Although the City adopts a two-year Financial Plan, the budget (also known as appropriations) is adopted annually under this process. Pursuant to Section 804 of the City Charter, the City Council must adopt the 2021-22 Budget by June 30, 2021 in order for the appropriations to be in place when the 2021-22 fiscal year begins on July 1, 2021. This action is accomplished by Resolution and a Budget Resolution is provided as Attachment A to this report.

Public Engagement

The City's two-year Financial Plan process includes a high degree of public engagement and input ranging from community surveys, outreach to community groups and organization, a Community Forum and several public hearings prior to adoption.

³ <https://aspe.hhs.gov/poverty-guidelines>

CONCURRENCE

All departments participated in the development of the 2021-23 financial plan and concur with the information and budgets presented in the financial plan.

ENVIRONMENTAL REVIEW

Adoption of a budget is not a project as defined under the California Environmental Quality Act.

FISCAL IMPACT

Budgeted: Yes

Budget Year: 2021-23

Funding Identified: Yes

Fiscal Analysis:

As outlined in detail in the Financial Plan, the City is appropriating \$173 million in the 2021-22 fiscal year and budgeted \$174 million in the 2022-23 fiscal year. Revenue and expenditures for all funds are balanced for the duration of the Financial Plan period.

ALTERNATIVES

Do not adopt the budget and give direction to the City Manager on desired changes and budget reallocations. This guidance will then be incorporated into the Financial Plan and presented on June 15, 2021 for adoption.

ATTACHMENTS

A – Preliminary 21-23 Financial Plan

B – Draft Resolution - Budget

C – Draft Resolution - Establishing Parking Structure Rates

D – Draft Resolution - Modifying Parking Citation Penalty Schedule

E – Draft Ordinance - Amending Title 10 Chapter 52 of the Municipal Code

F – Draft Ordinance - Amending Title 10 Chapter 04 of the Municipal Code

G – Draft Resolution - Amending Water and Sewer Rate Assistance Program