



Council Agenda Report

Item 6a

Department: Finance
Cost Center: 2002
For Agenda of: 11/15/2022
Placement: Business
Estimated Time: 60 minutes

FROM: Brigitte Elke, Finance Director
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SUBJECT: SETTING THE STAGE FOR THE 2023-25 FINANCIAL PLAN AND THE STRATEGIC SCAN

RECOMMENDATION

1. Receive and discuss the following framework in preparation for the 2023-25 goal-setting and Financial Plan process:
 - a. Review of FY 2022-23 1st quarter results (Attachment A)
 - b. Status of the 2021-23 Adopted Major City Goals; and
 - c. General Plan and Climate Action Plan Update (Attachments B&C); and
 - d. Setting the stage framework including core services and a scan of strategic indicators for all major funds.
 - e. Introduce a recommended approach to the budgeting and management of the Capital Improvement Plan (CIP) and receive Council feedback (Attachment D)
2. Adopt a Draft Resolution entitled, "A Resolution of the City Council of the City of San Luis Obispo, California, approving an amendment to the 2022-23 Budget Allocation" to appropriate \$40,000 of the City's General Fund Unassigned Fund Balance into operating budget to contribute to the Housing Trust Fund and correction to the 2022-23 Appropriations Limit.

POLICY CONTEXT

The City of San Luis Obispo utilizes a two-year financial planning process to create its budgets. The fundamental purpose of the City's budget process is to link, through public engagement and strategic deliberation, the interests of the community to the available financial resources to achieve the desired outcomes. The process allows the City Council to engage the community in identifying Major City Goals for the City while also providing information and education regarding the City's core services and programs, including the day-to-day work and responsibilities carried out by City employees to support residents' quality of life.

REPORT-IN-BRIEF

This “Setting the Stage” meeting is the first of a several meetings designed to help Council create strategic priorities and budget recommendations for the 2023-25 Financial Plan. This report along with the presentation to be provided at the meeting include current work program updates, and useful background information, that may assist decision making down the line.

The report includes an update on the FY 2022-23 first quarter budget results (Attachment A), Major City Goals, the General Plan & Specific Plans (Attachment B), the Climate Action Plan (Attachment C), and an overview of the City’s currently programmed core services provided by all departments. It also supplies an overview on important statistical information and strategic indicators.

The report also introduces proposed changes to the budgeting and management of the CIP. The purpose of the changes is to increase project delivery efficiencies and allow more budget adaptability and flexibility throughout the financial plan period. Attachment D outlines the proposed changes.

Lastly, the report includes a recommendation to adopt a resolution to amend the current year budget (Attachment E). The recommendation will appropriate \$40,000 from the General Fund unassigned fund balance into the Community Development Department budget to fund the City’s contribution to the Housing Trust Fund. This budget line was inadvertently left out during budget development. The draft resolution also makes a minor correction to the 2022-23 Appropriations Limit¹.

DISCUSSION

FY 22-23 Q1 Review

As of September 30, 2022, operating revenues and expenditures trend on target with past years’ first quarters. Except for Cannabis Tax, all - major tax revenues remain very strong and are exceeding projections for the year. Given the waning of consumer confidence and threats of a looming recession, a strong first quarter could help offset a potential slowdown later in the fiscal year. The cannabis tax revenue and operator license fee budgets will need to be lowered by about \$500,000 to reflect fewer businesses in operation than what was assumed in the budget. The City will likely open the 3rd and last retail license following the next round of policy updates in March 2023.

¹Voters approved the Gann Spending-Limitation Initiative on November 6, 1979 and Proposition 111 on June 5, 1990, which establish and define annual appropriation limits on state and local government agencies.

Table 1: Year-to-date Revenue by Fund

Fund	2021-22		2022-23			Variance from prior year
	Q1 Actuals	% Received	Total Budget	Q1 Actuals	% Received	
General Fund*	\$ 19,324,764	20%	\$ 105,135,342	\$ 22,015,256	21%	13.9%
Water Fund	\$ 5,186,017	21%	\$ 26,036,569	\$ 5,578,487	21%	7.6%
Sewer Fund	\$ 3,918,338	17%	\$ 19,218,757	\$ 3,845,425	20%	-1.9%
Parking Fund	\$ 1,421,963	26%	\$ 5,830,750	\$ 1,866,772	32%	31.3%
Transit Fund	\$ 168,376	4%	\$ 10,436,738	\$ 1,290,946	12%	666.7%
Grand Total	\$ 30,019,459	18%	\$ 166,658,156	\$ 34,596,886	21%	15%

*Includes special revenue funds

Overall expenditures are also tracking as expected. Staffing expenses are the best indicator of budget consumption because they track in a linear function while non-staffing costs are often obligated (via purchase orders) at the beginning of the year and can be quite “lumpy”. First quarter actuals show that staffing budgets for all major funds were on average 20% consumed. This number is slightly below the quarter threshold (25%) and can be attributed to an expired SLOCEA agreement as well as numerous vacancies throughout the departments.

The quarterly reports are also an opportunity for staff to provide important operational or capital project updates. One of the major updates this quarter was the City’s ability to secure the purchase of a 2022 Pierce Arrow Type 1 Pumping Fire Engine to replace Engine 4. The vehicle was originally budgeted in FY 2023-24, but Council approved the accelerated replacement of the vehicle with the 2021-22 Fourth Quarter Financial Report.

The expedited purchase was prudent because the existing engine was having a multitude of mechanical issues and the supplier, South Coast Fire Equipment happened to have the engine available immediately. Many fleet replacements have been delayed over 18 months. Although the cost was over the threshold that requires Council approval, this purchase fell under a “sole source” justification and was subsequently approved by the City Manager on October 25, 2022 and will have saved the City over \$60,000 and accelerating the purchase over \$100,000 compared to purchasing as originally programmed in the 2023-25 Financial Plan. The purchase order was made with South Coast Fire Equipment, the sole provider of Pierce engines in this region.

The 2022-23 first quarter Financial Report (Attachment A) contains a more detailed update for all major funds and Major City Goal and CIP updates.

Major City Goal Update

Economic Recovery, Resiliency and Fiscal Sustainability (ERR&FS): During the first quarter of FY 2022-23, the City continued to make substantial progress on the ERR&F MCG. Some key achievements were:

1. Releasing \$119,000 in grants to non-profit and arts organizations,
2. Providing an additional \$54,000 in funding to incentivize additional childcare start-ups and \$45,000 to help facilitate talent relocation and retention.
3. Conducting a “pulse” survey to gather data to help develop the Economic Development related Diversity, Equity, and Inclusion (DEI) initiatives.
4. A permanent program to support outdoor dining is in the process of being implemented after Council approval at the end of FY 2022-23 with eight complete applications received by deadline and four pending and likely to go forward.
5. Executing a revised agreement to enhance Clean & Safe for FY 2022-23, which includes a commitment for additional fundraising from Downtown SLO to provide additional resources to add a third full-time Ambassador.
6. The Tourism Business Improvement District implemented the Summer mid-weekend promotion to attract visitation to SLO Monday through Thursday (resulted in 421 qualified stays).
7. The creation of the Support Local strategy and paid media plan for FY 2022-23 through the City’s Promotional Coordinating Committee. This program includes the continuation of the neighborhood campaign and five seasonal campaigns to promote local shopping. The initial campaign ran during the first quarter which promoted back to school shopping.

Diversity, Equity, and Inclusion (DEI): The City is committed to supporting diversity, equity, and inclusion in its operations and in the community. The Office of DEI was set up in FY 2021-22 and has taken the lead on the related major city goal work program. Council efforts to embed key tenets of diversity, equity, and inclusion in its Meta Goal and in declaring racism a public health crisis in 2020 have established a pressing need to identify continued efforts to foster a community and workplace where all people feel valued, respected and that they have access to the necessary resources to ensure their success. The Major City Goal workplan was rooted in:

1. Developing and implementing strategies, programs and policies that build a workplace culture and community of inclusion, fairness and belonging for all.
2. Involving marginalized communities and diverse voices in program development and delivery.
3. Partnering with proven community providers and utilize best practice models to maximize effectiveness and impact of initiatives.
4. Identifying and tracking measurable results as the City progresses in maturing diversity and inclusion efforts.

Key accomplishments have included:

1. Managing the DEI high Impact Grant program.
2. Establishing the City’s Diversity Speaker Program.
3. Establishing an MOU with Cal Poly to align the City’s DEI strategies.
4. Embedding DEI into the HRC purpose and mission.
5. Managing the internal DEI committee.

Expanding efforts with economic development to support minority and women owned business, developing expanded educational opportunities across the organization, and Council approved most of the program's current budget as an ongoing resource. Subsequently, the DEI office will continue its work in making the City a more welcoming and equitable City for all, even if it is not included as a MCG in the next financial plan. However, at the state and federal level DEI is increasingly being emphasized as a foundational element in work efforts that impact all departments across the City and it is pertinent that DEI remains a priority in all efforts to continue the momentum built from the initial MCG workplan.

Climate Action, Open Space, and Sustainable Transportation: The Climate Action Major City Goal is a comprehensive collection of programs and projects that includes staff capacity building, community climate action plan implementation, "Lead by Example" carbon neutral municipal operations plan implementation, and related work including open space conservation and maintenance, implementation of the Active Transportation Plan, solid waste innovation, and ongoing climate adaptation and community resilience work.

This Major City Goal (MCG) is generally on track, with substantial policy and project accomplishments including:

1. Clean Energy Program for New Buildings adoption
2. Active transportation project delivery
3. Release of public review drafts of the Climate Adaptation and Safety Element of the General Plan and Climate Action Plan 2023-27 Work Program.

The City's commitment to climate action via Major City Goals has set the stage to rapidly deploy new federal and state financial resources. These resources will allow the City to implement climate solutions at speed and scale over the next four years to make substantial progress towards the adopted goal of carbon neutrality by 2035. More information about Climate Action Plan implementation, which includes open space and sustainable transportation, is available later in the report and in Attachment C.

Housing and Homelessness: This MCG is very broad in scope and includes 11 specific strategies. All of the recent accomplishments and ongoing efforts can be found in the 2022-23 [Budget Supplement](#).

On the housing side, accomplishments include:

1. Adopting Objective Design Standards and amendments to the Zoning Regulations in FY 2021-22.
2. Updating Subdivision Regulations to implement Housing Element Program 6.20. The update will include provisions for innovative and flexible subdivision options, including small lot and common interest options in the R-1 zone and updates to existing flexible subdivision options in commercial and multi-family zoning districts.

On the homelessness side, accomplishments include:

1. Council approval of \$1.7 million from the State and Local Fiscal Recovery Fund allocation for the Anderson hotel.
2. \$300,000 to support Transition Mental Health Association to provide eight homes for homeless individuals.
3. A 25% expansion of the number of beds at 40 Prado Homeless Services Center.
4. A crisis worker paired with an Emergency Medical Technician to provide non-emergency response and care to unhoused community members.

Many of the Housing and Homelessness MCG programs were initially funded as pilot programs for only the two financial plan years. At the 2021-22 Mid Year Review, Council decided to fund some of these programs and services such as the Mobile Crisis Unit and the Homeless Response Manager ongoingly. Given that housing and homelessness continue to be a community priority, staff expect to continue many of its efforts in the 2023-35 Financial Plan.

General Plan Update

Why Report on the Status of General Plan Programs?

The City's General Plan is composed of a "building block" hierarchy of goals, objectives, policies, and programs. Goals and objectives are direction-setting and describe desirable conditions and preferred outcomes as they are applied to specific situations. Policies are typically more specific statements that guide decision-making while the defined programs are actions that implement goals, objectives, and policies. As such, monitoring the City's progress in implementing General Plan programs assists with decision making in ongoing pursuit of the adopted plan and implementation of the City's vision. Attachment B provides a summary of the status of all General Plan Implementation programs by element as well as key "area" plans.

As presented in greater detail in Attachment B, of the 396 individual implementation planning programs in the General Plan, 98% or 392 are completed or have been integrated into the City's ongoing and day-to-day operations. This is a 4% increase since the last update provided as part of the 2021-23 Financial Plan.

Council adopted an update to the City's Housing Element in November 2020. The State requires jurisdictions to establish timeframes for implementation of programs that are needed to comply with State goals for low-income housing and to "affirmatively further fair housing."

Climate Action Plan

The City has been implementing ambitious sustainability and climate action work since the 2017-19 Financial Plan. In 2020, Council adopted the Climate Action Plan (CAP) for Community Recovery, which established the goal of community-wide carbon neutrality by 2035 and adopted supporting sector specific goals. In 2021, the City also adopted the Lead by Example plan, which established the goal of carbon neutral municipal operations by 2030 and describes capital projects and operational programs required to achieve the goal.

Staff and the community have been busy implementing both plans with notable achievements in clean energy, green buildings, active transportation, organic waste diversion, low emissions transit, and nature-based carbon sequestration efforts. As directed in the CAP staff are preparing an update that proposes implementation tasks for the next four years (aligned with the 2023-25 and 2025-27 Financial Plans).²

An overview of the implementation status of the 2020 CAP, a description of the forthcoming 2023-27 CAP Work Plan, and a summary of the opportunities provided by unprecedented Federal and State funding and regulatory alignment are provided in Attachment C.

Other Major Efforts

Other major efforts underway and consistent with the adopted MCGs include the development of a DEI Strategic Plan, an Economic Development Strategic Plan, and a Homelessness Strategic Plan. The DEI strategic plan is in the process of being scoped and is expected to go to Council in April 2023. Staff released the Request for Proposals for the Economic Development Strategic Plan on October 1st and the project is targeted to be completed by the end of April 2023. Staff is actively drafting Homelessness Strategic Plan and plans to present the draft at the February 7, 2023, Council meeting. These strategic planning efforts will be important as the City Council evaluates goals and objectives for the 2023-2025 time period.

Setting the Stage Framework

The City of San Luis Obispo is a full-service city that provides public safety, public utilities, and general government services. Like most municipalities, the City is faced with balancing rising costs with limited resources while continuing to provide excellent levels of service to its residents. After years of “tightening the belt” to face challenges and pension obligations head-on, the 2021-23 Financial Plan allowed the City to allocate much needed resources back into ongoing services, programs, and infrastructure.

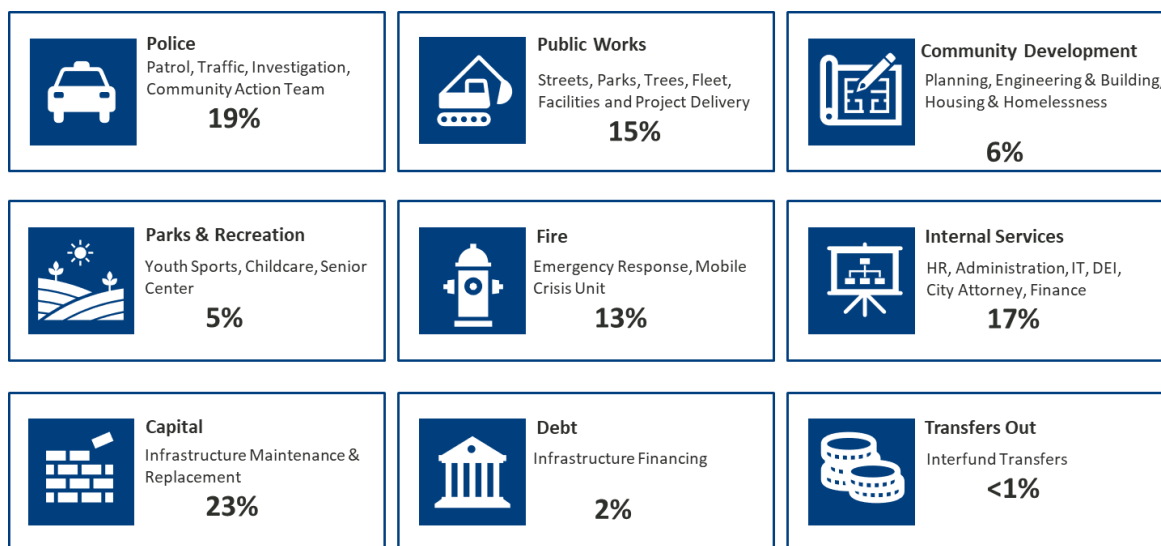
The 2023-25 Financial Plan allocations will depend on the economic forecast. City staff will be attending the Central Coast Economic Forecast on Friday, November 4, 2022. A high-level economic forecast that includes key takeaways from the Central Coast Economic Forecast, the JP Morgan Market update, the City’s sales tax consultant, and other credible sources will be provided during the January 10, 2023 “Budget Foundation” presentation. These forecasts will be harmonized with the 2nd quarter revenue results to create updated five-year forecasts for the City’s major funds and presented to the City Council as part of mid year budget on February 7, 2023.

² The Public Review Draft progress report is available for review and comment from November 2 through November 22 at www.slocity.org/climateactionplan

The General Fund

With the infusion of American Rescue Plan Act's State and Local Fiscal Recovery Fund allocations and new revenue from Measure G-20, the City's General Fund was able to maintain a healthy financial condition throughout the pandemic and to date. Moving into the 2023-25 Financial Plan, the City now faces the uncertainties with a looming recession, record high inflation, CalPERS losses, supply shortages, and labor market challenges.

The City's annual operating budget for the General Fund totals about \$83 million and includes 54 programs spanning from Building and Safety, Development Review, Emergency Response, Aquatics, Youth and Senior Services, Police Patrol, Traffic Safety, Streets & Sidewalk Maintenance, Transportation Planning and the Urban Forest to Accounting, Purchasing and City Administration. Many of these work programs are multifaceted – they provide core services to the community, execute General Plan programs, and also contribute to Major City Goals that are determined by the City with each financial plan. The General Fund's budget is divided into those programs as illustrated below:



The “Setting the Stage” phase of goal setting is meant to provide Council with an update on the available resources and the cost of providing services to the community at current levels. This will help prepare Council and the community in its decision-making process for potential trade-offs from current core services to adjust for new programs and services with the new Financial Plan. Updated long-term forecasts based on 2021-22 audited year-end results and the first six-month activity of the current fiscal year will be provided at the Mid-Year review on February 7th, 2023.

Water Fund – Setting the Stage

The Water Fund supports the infrastructure and operations necessary to provide high quality water services with minimal service disruption. Nearly 60% of the Water Fund's operating budget goes to water supply related costs. The remaining operating budget supports water treatment, water distribution, water administration and engineering, water resources, and utility billing functions.

In all, the Water division delivers about 1.87 billion gallons of potable water each year to the City and Cal Poly. These services support the community's health, well-being, and quality of life. To maintain adequate levels of service, rates must be sufficient to cover operations, capital asset maintenance, and improvements as well as debt obligations, and prudent reserve levels for unforeseen funding needs.

What lies ahead:

There are two primary challenges in the Water Fund's immediate future. First, the County of San Luis Obispo is currently on pace for the [fourth driest year](#) of 128 years on record. While water supplies are secure, ongoing drought conditions can result in decreased water use within the community and can result in loss of revenue. Staff is closely monitoring revenues and expenditures to this fund on a monthly basis. Second, inflation and resulting rises in industry-specific material costs are significantly, driving up the costs of operating these facilities. Specifically, chemical costs, electricity costs, and capital project delivery costs have all increased rapidly in the past few years and are expected to remain high during the next budget cycle.

On March 28, 2022, Governor Newsom enacted [Executive Order N-7-22](#), which activates drought contingency measures for local water suppliers. In the next year the City should anticipate the following:

1. A reduction in water sales revenue as the community curtails water consumption.
2. Increased advertising and educational costs associated with increased public outreach around water conservation and drought.
3. The hiring of additional supplemental staff, which was approved as part of the budget supplement, to support increased workloads related to the mandated drought response.

While revenues are tracking with previous fiscal years, recent inflation and rising material costs have also increased the cost of providing water services. The department implemented an approved 3.5% rate increase on July 1, 2022 ([Resolution No. 11257](#)) and is currently conducting a rate cost of services study (consistent with the Financial Plan planning cycle) to determine the rates that will be required to maintain essential water operations. In the 2021-23 Financial Plan, an additional 3.5% rate increase was projected for July 2023, but given inflationary increases and other industry specific cost increases, this is likely too low.

Sewer Fund – Setting the Stage

The Sewer Fund supports the infrastructure and operations necessary to provide high quality sewer services with minimal service disruption. The operating budget supports water resource recovery, wastewater collection, wastewater administration and engineering, environmental programs, and utility billing.

In all, the Sewer division treats over 1.09 billion gallons of wastewater and delivers about 90 million gallons of recycled water. To maintain adequate levels of service, rates must be sufficient to cover operations, capital asset maintenance and improvements, debt obligations, and prudent reserve levels for unforeseen funding needs.

What lies ahead

There are two primary challenges in the Sewer Fund's immediate future. First, the completion of the Water Resource Recovery Facility (WRRF) upgrade will substantially change day-to-day operations. New baseline budgetary and operating parameters are being established and will need to be refined over time to operate the new plant with both opportunities and needs given new systems and technology. Second, inflation and more extreme rises in industry-specific material costs have increased the costs of conducting operations. Specifically, chemical costs, electricity costs, and capital project delivery costs have all increased rapidly in the past few years and are expected to remain high during the next budget cycle.

The completion of the Water Resource Recovery Facility (SLO Water Plus) upgrade will change the how the City treats wastewater. Staff have worked diligently to predict changes in costs and operations, but the extent of changes will not be fully realized until the facility is online and is ultimately licensed by the State of California. For example, the new facility will utilize ultraviolet light to disinfect wastewater, increasing electricity demands but significantly reducing chemical needs. During the upcoming transition to the upgraded WRRF, an increase of operational staff demands may be needed. A full organizational assessment will be conducted to align operational and capital needs with staffing.

While revenues are tracking with previous fiscal years, recent inflation and rising material costs have also increased the cost of providing wastewater services. The department implemented an approved 3.5% rate increase on July 1, 2022 ([Resolution No. 11257](#)) and is currently conducting a rate cost of services study to determine the rates that will be required to maintain essential water operations. In the 2021-23 Financial Plan, an additional 3.5% rate increase was projected for July 2023, but given inflationary increases and other industry specific cost increases, this is likely too low.

Parking Fund – Setting the Stage

The Parking Program has been working to “catch up” on many capital projects and programmatic efforts that were deferred during the pandemic due to revenue shortfalls and the reprioritization of resources. Beginning in Fiscal Year 2022-23, staff anticipate revenue levels to return to pre-pandemic levels. As a result, the Parking Fund will be supporting many capital projects as well as the day-to-day activities of the program.

Major projects and work efforts over the next couple of years include the ground-breaking of the Cultural Arts District Parking Structure. After many years of planning, it is anticipated that the Phase 1A of the project will break ground in December of 2022, with vertical construction beginning in fall of 2023. While the parking fund has experienced construction cost increases, staff will be working to secure funding (loan) to offset the upfront cost of the structure. To balance the uptick in service delivery and capital projects, rate increase have been adopted and will go into effect January 2023, with additional rate increase in future years ([R-11334](#)). Consistent with prior Council direction, any rate increases will be evaluated along with the Parking and Access Studies and determine

how best to approach Council's stated goal if possible, of preserving a portion of "free" time for cars in the parking structure. As a reminder, the 75 minute "free" parking is set to expire on July 1, 2023.

Parking is currently working to adopt and implement the Access and Parking Management Plan that establishes the parking policies and programs that will be applied across the City. The community input phases took place during October 2022, and final adoption is anticipated in March 2023. Parking is also focused on additional centralized pay station installations in the Railroad and Upper Monterey areas, as well as the implementation of credit card capable street meters.

Transit Fund – Setting the Stage

The Transit Fund has more recently seen an increase in ridership following the COVID-19 pandemic and anticipates a return to a more normal level of ridership in the coming years. The program is working to complete and implement a Transit Innovations Study which will address the feasibility of new technology, bus stop enhancements, and will evaluate innovative service delivery methods as well as the feasibility, benefits, operating and capital costs and funding sources of enhanced service. Following consultant analysis, the Transit program is continuing to carry out services above and beyond other service providers in the region.

The Transit Fund will be managing increased capital projects and expenditures due to significant grant funding (\$12.3 million in American Rescue Plan Act funds for operations and \$4.9 million in funding from the San Luis Obispo Regional Transit Authority for bus replacements). This will result in electric bus purchases, EV infrastructure construction, transit center rehabilitation and improved bus stops, office space remodel, and street improvements to support the transit system. Two busses will be electrified by January and six more are anticipated. Electric buses are anticipated to begin service in Spring 2023.

In addition, Transit will be focused on negotiations and contract management with First Transit and Cal Poly, the ongoing management of complex fiscal analysis including fund forecasting, grant reporting, and farebox studies as well as increased communications and customer service support to rebuild and increase ridership levels consistent with City's long term mobility goals and objectives.

The Strategic Scan

The "Strategic Scan" was introduced as part of the financial planning process in FY 2018-19. The scan provides an in-depth presentation of important statistical information pertaining to social, economic, and environmental factors. It addresses issues pertinent to the delivery of City services and provides important context for decision making through the budget process. The scan is not exhaustive of all data relevant to the City and its program and service delivery but is intended to illustrate indicators that should be considered when establishing the new two-year budget. The presentation will be provided via will cover:

- Basic demographics
- Public safety statistics
- Partnerships: Local, Federal, State
- The City as an employer
- The local job market & unemployment data
- Department workload and trends
- Development services activity
- Industry forecasts
- Housing and homelessness data
- Emergent economic, social, or environmental information
- CalPERS update

The “Setting the Stage” presentation, including the strategic scan, will be published as agenda correspondence prior to the Council meeting on November 15th.

CIP Budgeting and Management – Recommended Changes (Attachment D)

As discussed in the FY 2022-23 Budget Supplement, supply chain issues and cost escalation have significantly impacted the delivery of the City’s capital projects. The actual project costs have varied greatly from the adopted budgets. To provide staff with flexibility to adjust the budgets of individual capital projects, staff is recommending that the City Council appropriate funding for Asset Maintenance and Asset Replacement costs in the CIP budget at a ‘funding bucket’ level, rather than at the individual project level.

The new approach addresses two main challenges with delivering CIP projects:

1. ***Reduces staff time required to shift budget between projects.*** The CIP project budgets shown in the Financial Plan are estimates developed during the biennial financial planning process and are based on a conceptual project that is subject to design, permitting, field testing, etc. Developing project budgets closer to when they are initiated allows for more accurate cost estimates for actual delivery. Currently, if a project is under-funded, staff must seek Council approval to reappropriate budget from other projects or from the Capital Reserve or postpone or eliminate the project.
2. ***Promotes getting projects done.*** Project budgets will be appropriated when the project is ready to start as opposed to at budget adoption, thus prioritizing the delivery of projects. CIP delivery is currently constrained (and will be for the foreseeable future) by several different factors, including staffing constraints, supply chain issues, and construction cost escalation. Having \$300,000 assigned to a delayed project is not only a poor investment of City funds but also hobbles other projects that are ready to begin but may not have sufficient budget allocated.

Since most of the CIP is Local Revenue Measure funded, staff met with the Revenue Enhancement Oversight Commission (REOC) to introduce the proposed changes on September 22, 2022. They were generally supportive of the changes but requested follow-up information about the “checks and balances” and some examples of what future reports might look like. Staff will be returning to the REOC on December 8, 2022, with that information. The purpose of introducing this with Setting the Stage is to receive Council feedback on the approach. *If Council and the Revenue Enhancement Oversight Commission (REOC) are supportive, a finalized policy recommendation will be prepared for adoption at the January 10th Budget Foundation meeting.*

Recommendation – Amendment to 2022-23 Budget (Attachment E)

The City Council identified Housing as a Major City Goal and one of the action items identified in the work plan was the continued use of the City's Affordable Housing Fund (AHF) to support the San Luis Obispo County Housing Trust Fund's (HTF) operating expenses. The HTF is a Community Development Financial Institution that provides financing, technical assistance, and advocacy to increase the supply of affordable housing in the City.

The HTF provides funding for affordable housing projects, including property acquisition, construction, and refinancing. HTF staff also serve as a resource to City staff working with developers on affordable housing projects. In the 2019-21 Financial Plan, the City Council approved an ongoing transfer of \$40,000 from the AHF to General Fund to be used to support the operating expenses of the HTF. Although the \$40,000 was transferred from the AHF to the General Fund in FY 2022-23, the corresponding expenditure budget was not allocated; therefore, the funding currently resides in General Fund Unassigned Fund Balance.

Correction to 2022-23 Appropriation Limit

Under Article XIII B of the California Constitution, the City is required to calculate and adopt an appropriation limit to guide the budget appropriations. The 2022-23 Appropriation was calculated and adopted by Council on June 7, 2022 with the 2021-23 Financial Plan Supplement. During the City's annual audit, the auditors found that the Consumer Price Index (CPI) used to calculate the limit was incorrectly rounded. The CPI used was 7.5% when it should have been 7.55%. Staff recalculated number and City appropriated proceeds of taxes remain well below the appropriation limit.

Previously adopted Appropriations Limit 2022-23 (R-11332)	\$85,666,375
<u>Corrected Calculation</u>	
Appropriations Limit 2021-22	\$79,470,558
<i>Consumer Price Index (revised)</i>	7.55%
Population Factor: County Population Growth	0.28%
Compounded Percentage Factor (multiplicative not additive)	1.025%
<i>Appropriations Limit 2022-23 (revised)</i>	<i>\$85,706,220</i>

Previous Council or Advisory Body Action

Council reviewed and approved the 2023-25 Financial Plan calendar in preparation for the 2023-25 goal-setting process on October 4, 2022.

Public Engagement

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 City's internal Financial Plan Steering Committee concurs with the recommendations included in this report.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act 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: No

Budget Year: 2022-23

Funding Identified: Yes

Fiscal Analysis:

Funding Sources	Total Budget Available	Current Funding Request	Remaining Balance	Annual Ongoing Cost
General Fund Unassigned Fund Balance ³	\$301,000	\$40,000	\$261,000	\$40,000
State				
Federal				
Fees				
Other:				
Total	\$301,000	\$40,000	\$261,000	\$40,000

The only recommendation that has a fiscal impact in this agenda item is Recommendation #2. The City transfers \$40,000 from Affordable Housing Fund to the General Fund annually for the purpose of funding the HTF. Because staff excluded the corresponding expenditure budget line in the 2022-23 adopted budget, the funding is still in the General Fund unassigned fund balance. Although, appropriating the expenditure budget now will reduce the unassigned fund balance to \$261,000, the five-year forecast is still balanced.

ALTERNATIVES

The Council could direct staff not to adopt the budget amendment for 2022-23 Budget Allocation. This is not recommended because supporting the Housing Trust Fund is in line with current Major City Goals and was already approved as an ongoing expense with the 2019-21 Financial Plan.

³ 2022-23 Supplemental Budget: Table G-5 General Fund Long Term Forecast (Page 23, line 43).

ATTACHMENTS

- A - FY 2022-23 Q1 Report
- B - General Plan & Specific Plan Update
- C - Climate Action Plan Update
- D - Capital Improvement Plan Process Improvements
- E - Draft Resolution – Amendment to the 2022-23 Adopted Budget