



## MEMORANDUM

**TO: CITY COUNCIL**

**FROM: DEBBIE MALICOAT, DIRECTOR OF ADMINISTRATIVE SERVICES**

**SUBJECT: CONSIDERATION OF FY 2016-17 BUDGET**

**DATE: JUNE 14, 2016**

### **RECOMMENDATION:**

It is recommended the City Council:

- Approve detailed budget adjustments listed in the Budget Update Report; and
- Adopt the attached Resolution approving the FY 2016-17 Budget.

### **FINANCIAL IMPACT:**

The total citywide expenditure budget for FY 2015-16 is \$42.5 million. The total General Fund expenditure budget is \$16.3 million for FY 2016-17.

### **BACKGROUND:**

The City Council adopted the FY 2015-16/FY 2016-17 biennial budget on June 9, 2015. The budget process includes updates at the midpoint of the first year, at the beginning of the second year (along with the appropriation of the second year budget) and at the midpoint of the second year. As presented at the FY 2015-16 Mid-Year Budget Update, the City is facing a mixed fiscal picture. Revenues in many General Fund categories are increasing and economic indicators are generally favorable. However, there are significant revenue challenges in the Water and Sewer enterprise funds as well as the Gas Tax Fund. In addition, expenditures continue to rise and there are significant unmet needs, including infrastructure and maintenance costs that are underfunded.

The projected available General Fund Balance at June 30, 2017 is approximately \$5.2 million, which equates to 32% of appropriations. This is based on revenue and expenditure assumptions that are detailed in the attached Budget Update Report, including recommended adjustments for FY 2016-17.

As the City experiences economic recovery, it will be important to determine the highest priority uses of financial resources. Over the past year, staff has worked to identify important priorities for funding and has identified deficiencies in service, maintenance

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and/or investment that will require attention in the short and long-term. The data gathered and analyzed during this Biennial Budget will provide for the Council to make well-informed decisions in the next Biennial Budget. The list of unmet needs far exceeds the City's current ability to fund. Therefore, the following items are recommended as priorities, listed in order of importance: addressing salary inequities necessary to attract and retain a quality workforce, support and implementation of information technology needs, parks and facility infrastructure maintenance and improvements, and stormwater program implementation.

**ANALYSIS OF ISSUES:**

Budget summaries for all funds are incorporated into the document. The FY 2016-17 proposed budget will continue to fund high quality services provided to the community, and will invest in the future through capital improvements and maintenance activities.

General Fund

The General Fund balance is projected to be approximately \$5.2 million by the end of the biennial budget period. This amount will exceed the City's policy goal of 20% of General Fund expenditures. Staff has requested additional appropriations of \$339,600 to provide for a compensation study, economic development assistance, matching funds for a grant to assist with transportation funding, evaluation and repair of the Swinging Bridge, and part-time staff to assist with tournaments at the Soto Sports Fields (offset by user fees). In addition, the FY 2016-17 budget addresses changes in minimum wage laws for part-time employees, increased costs for fire services, and decreased costs for workers compensation insurance.

Enterprise Funds

Both the Water and Sewer Fund revenues assume that a rate increase will take effect in August 2016 to mitigate loss of revenue due to drought conditions. The Water Fund has a projected available fund balance at the end of FY 2016-17 of \$3.9 million, which remains above the minimum policy goal. The ending fund balance for the Sewer Fund is projected to be \$1.4 million, which also meets the minimum fund balance policy goal. Additional appropriation requests include \$15,000 in the Water Fund and \$12,100 in the Sewer Fund as detailed in the attached report.

Capital Improvement Program

The recommended Capital Improvement Program (CIP) includes the addition of \$57,000 for stormwater and/or drainage improvement projects, a reduction of \$100,000 for the Le Point Street Parking Lot and the appropriation of \$200,000 from the General Fund reserve for the Swinging Bridge. Additional information is provided in the attached report.

Local Sales Tax Fund

Along with recommended changes to the FY 2016-17 Capital Improvement Program mentioned above, an appropriation of \$17,500 is requested for annual stormwater

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stream monitoring and \$96,700 is recommended to augment Gas Tax revenue losses in FY 2016-17.

**ALTERNATIVES:**

The following alternatives are provided for the Council's consideration:

1. Adopt the Resolution approving the FY 2016-17 Budget;
2. Modify and approve FY 2016-17 Budget;
3. Do not approve the FY 2016-17 Budget;
4. Provide direction to staff.

**ADVANTAGES:**

The recommendations in the Budget reflect revenue and expenditure strategies that will accomplish the following:

- Maintain key service levels;
- Maintain a substantial investment in improvements to the City's infrastructure and facilities;
- Maintain reserves at or above the City's policy levels; and
- Limit reliance on one-time revenues.

**DISADVANTAGES:**

The budget does not address all unmet needs and a number of uncertainties exist that could negatively impact revenue projections and status of the proposed budget. These uncertainties include the following:

- Transportation funding from the State
- Transportation funding provided through a local sales tax measure;
- Costs for County animal control facility; and
- Overall economic development activity.

**ENVIRONMENTAL REVIEW:**

No environmental review is required for this item.

**PUBLIC NOTIFICATION AND COMMENTS:**

The Agenda was posted in front of City Hall on Thursday, June 9, 2016 and on the City's website on Friday, June 10, 2016. No comments were received.

Attachment:

1. City of Arroyo Grande Budget Update Report (distributed to Council under separate cover; document available for viewing on the City's website)

**RESOLUTION NO.**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ARROYO GRANDE ADOPTING FISCAL YEAR 2016-17 OF THE FISCAL YEAR 2015-16 & 2016-17 BIENNIAL BUDGET AND MAKING APPROPRIATIONS FOR THE AMOUNT BUDGETED**

**WHEREAS**, a proposed Biennial Budget for the City of Arroyo Grande for the Fiscal Years commencing July 1, 2015 and ending June 30, 2016 and commencing July 1, 2016 and ending June 30, 2017 was submitted to the City Council and is on file with the Director of Administrative Services; and

**WHEREAS**, the City Council also serves as the Board of Directors of the Successor Agency to the Dissolved Arroyo Grande Redevelopment Agency; and

**WHEREAS**, proceedings for adoption of said Budget have been duly taken; and

**WHEREAS**, the total Budget for FY 2016-17 is \$42,481,082.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF ARROYO GRANDE DOES RESOLVE AS FOLLOWS:**

**SECTION 1.** The Budget is adopted as the Biennial Budget for the City of Arroyo Grande for the Fiscal Year commencing July 1, 2016 and ending June 30, 2017.

**SECTION 2.** At the close of each Fiscal Year, unexpended appropriations in the Operating Budget will be carried forward to the next fiscal year as necessary to underwrite the expense of outstanding purchase commitments. Unexpended appropriations for authorized, but uncompleted projects as approved by the City Council may be carried forward to the next succeeding Budget upon recommendation by the Administrative Services Director and approval of the City Manager.

On motion of Council Member \_\_\_\_\_, seconded by Council Member \_\_\_\_\_, and on the following roll call vote, to wit:

**AYES:** Council Members

**NOES:** Council Members

**ABSENT:** Council Members

the foregoing Resolution was passed and adopted this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

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\_\_\_\_\_  
**JIM HILL, MAYOR**

**ATTEST:**

\_\_\_\_\_  
**KELLY WETMORE, CITY CLERK**

**APPROVED AS TO CONTENT:**

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**DIANNE THOMPSON, CITY MANAGER**

**APPROVED AS TO FORM:**

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**HEATHER WHITHAM, CITY ATTORNEY**

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