

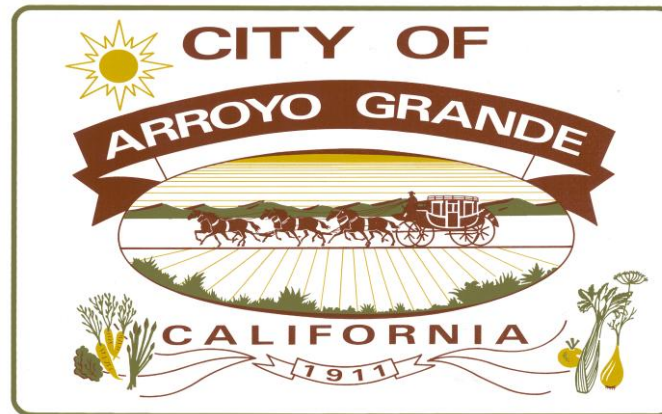
CITY OF ARROYO GRANDE

State of California

Mayor Jim Hill

**Mayor Pro Tem Kristen Barneich
Council Member Barbara Harmon**

**Council Member Jim Guthrie
Council Member Tim Brown**



***FY 2015-16 & FY 2016-17 Biennial Budget Prepared and Submitted by
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June 2015

Honorable Mayor and Members of the City Council:

The staff of the City of Arroyo Grande is pleased to present the Biennial City Budget for FY 2015-16 and FY 2016-17. Budgets for all funds are incorporated into the document. The FY 2015-16 proposed budget is balanced, will continue to fund the high quality of services provided to the community, and will invest in the future through capital improvements and maintenance activities.

Like most municipal agencies in California, the City of Arroyo Grande has experienced tremendous budget challenges over the past few years due to the economic recession, rising pension and health care costs, and loss of redevelopment. The City responded proactively through a comprehensive restructuring of the organization that significantly reduced positions, but maintained critical service levels.

The proposed City budget represents a mixture of both increased financial stability, but also continued challenges and constraints. It includes the addition of four full-time and one part-time position, the reclassification of two supervisors and an Office Assistant

position in the Public Works department. The General Fund budget also relies upon the use of \$250,000 of unspent appropriations from prior years as a short term measure to balance the budget while economic development activities are implemented.

There are a number of challenges that each department in the City will be facing in the near term as well as the long term. Department Directors addressed these in detail in a budget workshop with the City Council at the March 16, 2015 meeting; these challenges were summarized into the following categories:

- Sustainability of operations post recession budget adjustments
- Increased reliance on technology and increased need for technology support
- Recruitment and retention of employees
- Aging equipment/infrastructure and deferred maintenance
- Service level expectations of community
- Facility needs
- Increased regulatory requirements

Despite operational funding constraints, the budget continues the City's commitment to utilize revenue from the 2006 Local Sales Tax Measure for the purposes intended, which primarily consist of capital improvements. In addition, the budget does not rely on General Fund fee or tax increases except inflationary adjustments and minor fees for new services, such as animal impounds at the newly remodeled Police Station.

The recommended Citywide total budget is \$24.9 million for FY 2015-16 and is \$25.5 million for FY 2016-17.

FY 2015-16/ FY 2016-17 Biennial Budget Message

Proposed General Fund expenditures are \$15.3 million in FY 2015-16 and \$15.9 million in FY 2016-17. This represents a modest increase in programs and provides for the following:

- Reduction of various line item accounts totaling approximately \$126,000
- Additional PERS required contributions
- Additional Liability and Worker's Compensation and health premiums
- 2% salary adjustments for employees
- 1-Information Services Technician
- 1-GIS System Technician
- 1-Part time Volunteer Coordinator (partial revenue offset)
- 1-Parks Worker (offset by corresponding contract services reductions)
- Reclassification of 2 Public Works Supervisor positions
- Reclassification of Public Works Office Assistant position
- Five Cities Fire Authority Budget recommendations
- Minor Governmental Accounting Standards Board and technology licensing fees

In addition, the budget relies on an increased focus on economic development activities. These efforts include the creation of a revenue plan, involvement of staff and elected officials in a "development strike team," further assessment of the entitlement process to address obstacles to economic development, and the evaluation of land use opportunities for economic development.

Ongoing property tax revenues have increased over the past year and are projected to continue a modest, but steady increase during the biennial budget period.

Sales tax and transient occupancy tax (TOT) experienced meaningful increases during the past year. Staff projects these sources to maintain that level and further increase slightly during the next two years.

Building related fees have showed healthy increases in most accounts over the past year. These are estimated to continue to increase a modest amount. These revenues could increase more if building activity escalates even more rapidly. However, staff feels it is important to budget these revenues conservatively since they are cyclical and development opportunities continue to diminish. As a result, it would not be prudent to rely on an elevated level of building permit revenue in the future.

The General Fund balance is projected to be at least \$4,026,074 by the end of the biennial budget period. This amount will exceed the City's policy goal of 20% of General Fund expenditures.

Both the Water and Sewer Funds are also balanced and fully fund the projects approved by the City Council in the Water and Wastewater Master Plans. The Water Fund has a projected cash fund balance at the end of FY 2016-17 of \$4.0 million, which remains well above the policy goal of 90 days of operating expenses plus \$500,000, or approximately \$2 million. The ending cash balance for the Sewer Fund is projected to be \$1.9 million, which exceeds the policy goal equal to approximately \$740,000.

FY 2015-16/ FY 2016-17 Biennial Budget Message

The recommended Capital Improvement Program (CIP) includes the funding projected necessary to address many of the major needs identified. These include the annual Pavement Management Program, the Brisco Interchange project, sidewalk repairs, drainage repairs, Phase II of the upgrade of the Corporation Yard offices, purchase of the Le Point Street parking lot property, ongoing Americans with Disabilities Act (ADA) improvements, trenchless sewer rehabilitation, Well No. 11 Construction, Reservoir Nitrification Reduction, and Reservoirs No. 3 and No. 4 Coating and Seismic Evaluation.

The Critical Needs Action Plan for the 2015-17 Biennial budget period includes the following priorities:

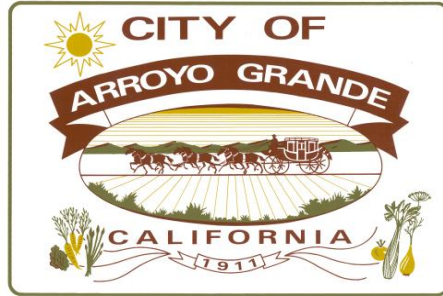
- Refocused comprehensive Economic Development Plan
- Complete design and approval of the Brisco Road Interchange project.
- Fully fund and construct the pavement management program to establish and maintain a schedule of improving all streets in the City on a 7-year cycle.
- Continue an escalated sidewalk repair program.
- Address the Recreation Services Department's facility needs.
- Implement recommendations to address the City's water needs through a combination of conservation measures, potential recycling efforts and additional water supply sources that may become available.
- Prepare asset replacement schedules for all City infrastructure including buildings, drainage facilities,

parks, vehicles, information technology and other infrastructure.

- Develop a long range financial plan with a focus on ensuring operational effectiveness revenue generation opportunities to help ensure long term fiscal sustainability.

The following budget represents the professional expertise of the entire department director team for proposed City services, operations and programs. It reflects both the Fiscal Policy and budget priorities established by the City Council. The overall objective is to meet the community's needs and provide services in the most effective, efficient and responsive manner.

ROBERT MCFALL
INTERIM CITY MANAGER



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