

# ***CITY OF ARROYO GRANDE***



## ***SECTION 1*** ***BUDGET MESSAGE***



May 2013

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 2013-14 and FY 2014-15. Budgets for all funds are incorporated into the document.

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. The City is projected to finish FY 2012-13 with General Fund revenues exceeding expenditures, which is a substantial accomplishment given that the City had initially anticipated use of over \$450,000 in reserves. On the other hand, continued budget shortfalls are projected in

FY 2013-14 and FY 2014-15. However, the ongoing shortfall has been meaningfully reduced. Staff's goal is to achieve a fully balanced budget during the course of the next fiscal year given measures under way to further reduce costs.

Despite these 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 in recognition of the impact economic conditions have had on the community's residents and businesses. This has been the City's approach throughout this difficult economic period.

The recommended Citywide total budget is \$23,955,195 for FY 2013-14 and is \$23,024,212 for FY 2014-15. Proposed General Fund expenditures are \$13,608,385 in FY 2013-14 and \$14,029,090 in FY 2014-15. This represents over a 2.5% decrease in ongoing costs in the General Fund from the prior year budget in FY 2013-14 and an increase of slightly over 3% in FY 2014-15. However, when one-time expenditures and revenues are accounted for, there is an increase of less than 0.2% in FY 2013-14 and less than 2% in FY 2014-15. Therefore, the budget recommendations represent holding General Fund expenditure amounts very steady.

Budget recommendations address projected impacts from the Federal Affordable Health Care Act. Funding is budgeted for part-time positions that have been determined necessary to remain at 30 hours per week

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and above to maintain existing service levels. Other part-time positions are proposed to be maintained below 30 hours per week in order to avoid increased costs.

As part of the budget process, Departments were directed to maintain operational expenses at the same amounts budgeted in FY 2012-13. The recommended budget will fund the goals approved by the City Council in the goal setting process. These include all the major capital project needs identified, as well as the computer network upgrade, update of the General Plan Land Use Element and replacement of the telephone system. Funds for the Land Use Element and telephone system will come from one-time revenues from the City's share of proceeds anticipated from the sale of land previously owned by the Redevelopment Agency.

Ongoing property tax revenues have decreased over the past year when taking into account the portion from one-time funds that came from the court settlement with the County and the distribution of funds that had been taken from dissolution of the Redevelopment Agency. Staff projects the drop in property taxes to level off and begin to increase slightly.

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 fund balance is projected to be at least \$3,205,420 at 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 fund balance at the end of FY 2014-15 of \$12.6 million, which remains well above the policy goal of 60 days of operating expenses plus \$500,000. The ending fund balance for the Sewer Fund is projected to be \$802,000, which also meets the reserve policy for the first time in many years. These recommendations will establish the enterprise budgets in a strong position as the City begins the process of preparing the next water and sewer rate study.

The recommended Capital Improvement Program (CIP) includes the funding projected necessary to address all of the major needs identified. These include the annual pavement management program, the Police Building remodel, the Brisco Interchange project, sidewalk repairs, drainage repairs, upgrade of the Corporation Yard

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offices, purchase of the Le Point Street parking lot property, ongoing Americans with Disabilities (ADA) improvements, lighting at Don Roberts Field, undergrounding utilities on East Grand Avenue, trenchless sewer rehabilitation, Sewer Lift Station No. 4 rehabilitation, Fair Oaks Water Main improvements, Leanna Drive Creek Crossing Water Upgrade, Well No. 11 Construction, and Reservoir No. 3 and No. 4 Coating and Seismic Evaluation.

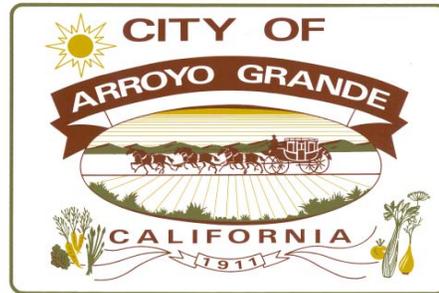
The Long-Range Financial plan includes both 10-year projections for the General Fund, as well as the Local Sales Tax Fund. Modest average revenue growth is now projected. The primary anticipated issue is cost increases projected to the City's pension program. Some of this increase is expected to be reduced through savings from establishing the second and third tier plans for new employees.

The Council recently authorized use of \$250,000 from the Local Sales Tax Fund for operational purposes. Staff has managed to maintain a balanced budget and service levels without utilizing those funds. However, it is projected to potentially be needed to maintain services in the future. The long-range plan for the Local Sales Tax Fund demonstrates that this can be done without impacting funding for the City's capital needs that have been identified, as well as maintaining excess funds for unanticipated project needs. The actual need to use those funds may be avoided if the City continues generating savings each year over what is projected.

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.

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**STEVEN ADAMS**  
**CITY MANAGER**



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