



City of Arroyo Grande  
Fiscal Year 2021-22  
Mid-Year Financial Status Report

## INTRODUCTION

The following report is an overview of the City's fiscal position in the middle of Fiscal Year (FY) 2021-22, which will be referred to as Mid-Year. The purpose of this report is to update the public and the City Council on the City's financial position at the end of the second quarter of the fiscal year and compare actual results to the prior year and the budgeted Target, to determine the City's performance. The mid-year report timeframe is July 1 through December 31, 2021.

The financial report is organized in the following sections:

**Section 1** – an overview of City's financial position after the completion of half of FY 2021-22. This includes a comparison of mid-year results between the current and prior year. In addition, mid-year results will be compared to the budgeted Target. As part of the analysis, brief explanations of significant revenue and expenditure variances are included.

**Section 2** – a listing of any personnel changes occurring during the second quarter and a summary of headcount by department. This section also includes the City's calculated vacancy rate.

**Section 3** – an update on the Capital Improvement Projects (CIP) managed by the Public Works and Community Development Departments. This section includes CIP that were completed in the second quarter along with their final costs.

**Section 4** – a listing of Budget Amendment Requests previously approved by Council and completed in the second quarter, as well as a list of additional budget adjustments that are being presented to Council along with the mid-year report for consideration and approval.

### *ENSURING FISCAL STABILITY:*

*In Fall 2020, the City Council established a goal to ensure financial stability for the organization throughout the planning, budgeting, and expenditure process, including preparation and presentation of year-end and quarterly financial reports.*

**SECTION 1: OVERVIEW OF FINANCIAL POSITION**

**CITY FUND STRUCTURE**

The overall City budget is comprised of many individual funds, which are categorized below. This financial report will focus primarily on the General Fund but will also report on all Governmental Funds (i.e. Special Revenue and Debt Service Funds).

**General Fund** – The General Fund is the primary operating fund of the City, which accounts for resources and services traditionally associated with government.

**Special Revenue Funds** – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

**Debt Service Funds** – This fund is used to account for the accumulation of resources and payment of long-term debt principal and interest. This includes the USDA loan issued by the City to finance the relocation of City Hall.

**Enterprise Funds** - An enterprise fund is a separate accounting and financial reporting mechanism for which revenues and expenses are segregated into a fund with financial statements separate from all other governmental activities. These funds include Water and Sewer services provided to City residents.

**Private Purpose Fund** – The private-purpose fund was created to hold the assets of the former Redevelopment Agency of the City of Arroyo Grande until they are distributed.

**Agency Funds** – Agency funds are funds that the City holds on behalf of another entity. Currently, there are two Agency funds. One is the Sanitation District fund, which accounts for the receipt and remittance of wastewater processing fees on behalf of the South San Luis Obispo County Sanitation District. The other is the Downtown Parking Fund, which collects assessments from Arroyo Grande Village merchants within the boundaries of the Parking and Business Improvement Area for maintenance of the Village parking lots.

The following chart below shows an overview of the City’s fund structure.

ALL FUNDS									
GOVERNMENTAL FUNDS				PROPRIETARY FUNDS		FIDUCIARY FUNDS			
General Fund	Legislative & Information Services	Fire Protection Impact Fees	Debt Service Funds	City Hall Debt Service	Enterprise Funds	Private Purpose Fund	Agency Funds		
	Administrative Services	Public Access Television		Sewer				Successor Agency to RDA	Downtown Parking
	Community Development	Police Protection Impact		Sewer Facility					Sanitation Distribution
	Police Department	Park Development		Water					
	Recreation Services	Park Improvement		Water Facility					
	Public Works	Recreation Community Center		Lopez Water					
		Grace Lane Assessment District							
		Parkside Assessment District							
		Street (Gas Tax)							
		Traffic Signalization							
		Traffic Circulation							
		Transportation Facility Impact							
		Transportation							
		In-Lieu Water Neutralization							
		In-Lieu Affordable Housing							
		Tourism Business Improvement Dist.							
		Water Availability							
		CDBG Grant Fund							
	State COPS Block Grant								

## CURRENT YEAR ACTUALS COMPARED TO PRIOR YEAR

Table 1 below reflects revenue and expenditure patterns through mid-year of FY 2021-22 and compares the current mid-year results against the prior year's results for all Governmental Funds as well as the City's General Fund. The calculated percentages in the table reflect the mid-year actuals for both revenue and expenditures, divided by that fiscal year's annual budget.

Table 1

<b>Governmental Funds</b>			
	Mid-Year FY 2021-22	Mid-Year FY 2020-21	Variance
Revenue	46%	42%	4%
Expenditures	32%	34%	-2%
<b>General Fund</b>			
	Mid-Year FY 2021-22	Mid-Year FY 2020-21	Variance
Revenue	45%	41%	4%
Expenditures	45%	44%	1%

The following discussion focuses on both the City's Governmental Funds and the General Fund and provides a comparison between mid-year results for the current and prior year for both revenue and expenditures. Governmental Funds and General Fund revenue and expenditures for the first half of this year are generally on Target with the prior year. The Governmental Funds category includes Special Revenue Funds, Debt Service Funds, as well as the General Fund.

**Governmental Funds** – At the end of the first half of FY 2021-22, Governmental Fund revenue was 4%, or \$4.0 million higher than the prior year, and expenditures were lower by 2% or \$1.3 million.

The majority of the revenue and expenditure variances in Governmental Funds were attributed to variances within the General Fund and the newly created American Rescue Plan Act (ARPA) Fund, which is separate from the General Fund and not otherwise addressed in this report. The Governmental Funds category includes the General Fund as well as other Special Revenue Funds. The General Fund and ARPA Fund variances are explained as follows:

**General Fund** – The General Fund is the primary operating fund of the City and accounts for resources and services traditionally associated with government. General Fund revenue in the first half of FY 2021-22 was 4%, or \$1.4 million higher than the first half of the prior year. The largest variances are related to an increase in Property Tax, Sales Tax, and Transient Occupancy Tax. Expenditures were also 1%, or \$1.3 million higher in the first half of this year versus the prior year. The largest variance is due to the timing of allocation of prepayments; in FY 2020-21 this was accounted for each quarter and in FY 2021-22 this is accounted for at time of payment in July.

**ARPA Fund** – The ARPA Fund was created to help separately track funding provided pursuant to the American Rescue Plan Act. This Act is intended to provide financial aid to families, governments, businesses, schools, non-profits and others impacted by the COVID-19 public health crisis. To date the City has received \$2,150,121, which in FY 2021-22 created an increase in governmental revenues. Minimal expenditures related to COVID-19 have been incurred in the first half of this fiscal year.

## GENERAL FUND IMPACTS

The following discussion focuses on the City's General Fund performance. Chart 1 starts off with a simple overview of General Fund performance compared to the Target. Next are expenditures by category (Table 2). This is followed by a summarized look at FY 2021-22 mid-year actual expenditures compared to the Target (Table 3). Lastly, a discussion of General Fund revenue is included, which compares mid-year actual results to the Target (Table 4).

The City's actual mid-year financial results will be compared to both the prior year's mid-year and the budgeted Target. Using the Target as a comparator against actual results provides a simplified method to evaluate performance for mid-year. During FY 2020-21, the Target was calculated as one half (50%) of the FY 2020-21 Budget, or basically six equal months of the budget. For FY 2021-22, staff has revised this approach to more accurately reflect what is expected through December 2021. The Target for expenditures is calculated as one half (50%) of the FY 2021-22 Budget and represents the 6-month period from July 2021 through December 2021, except for the Non-Departmental Annual Payments line that has a Target of the full budget. This approach increased the Target from 50% to 55.5% at mid-year. The Target for revenues does not use the 50% Target but a Target of 40.3% that more accurately reflects the anticipated revenues to be received in the first half of the fiscal year. Revenue realization is typically low at mid-year due to the timing of receipt of major tax revenues, the time lag involved in billing cycles, and the receipt of reimbursements.

Chart 1



Chart 1 shows a simple comparison of actual revenue and expenditures through mid-year compared to the Target. The actual mid-year General Fund revenue is more than the budgeted Target by \$965,876. Property Tax, Sales Tax and Transient Occupancy Tax are all trending to show positive results when compared to the Target through mid-year. Actual expenditures through mid-year totaled \$9.5 million, or 45% of the

full year's Budget, and are under the Target by \$2,181,184. A more detailed discussion on General Fund revenue and expenditure variances is included later in this report.

Table 2

Expenditure Category	FY 2021-22 Mid-Year Actuals	% of Actuals
Personnel Costs	\$ 6,206,645	65.6%
Operating Costs	2,976,247	31.4%
Debt Service	118,968	1.3%
Capital Outlay	12,673	0.1%
Transfers Out	153,000	1.6%
Total	<u>\$ 9,467,533</u>	

Table 2 reflects major expenditure cost categories within the General Fund. This chart is intended to explain where the City's resources were spent during the first half of the fiscal year. Within the total expenditures of \$6.2 million, 65.6% of the City's costs are

associated with personnel, 31.4% with operating and maintenance, 1.3% for the City's debt service, and 1.7% with transfers to other funds.

Table 3 reflects the mid-year status of all General Fund operating departments. Some departments include multiple divisions. The divisions are consolidated under their respective department, rather than reflected individually within the table.

Table 3 – General Fund Expenditures by Department

General Fund Department Variances - First Quarter					
General Fund Department	2021-22 Budget	2021-22 Mid-Year Target	2021-22 Mid-Year Actuals	Dollar Fav/(Unfav)	% Fav/(Unfav)
City Administration	\$ 1,129,656	\$ 564,828	\$ 434,597	\$ 130,231	12%
Legislative & Information Services	439,875	219,938	166,814	53,124	12%
Administration Services	5,874,405	2,937,203	1,998,834	938,368	16%
Non-Departmental Annual Payments	2,290,692	2,290,692	2,238,295	52,397	2%
Community Development	2,117,900	1,058,950	666,340	392,610	19%
Police Department	6,033,354	3,016,677	2,605,684	410,993	7%
Recreation Services	1,117,500	558,750	524,901	33,849	3%
Public Works	2,003,358	1,001,679	832,067	169,613	8%
<b>TOTAL EXPEDITURES</b>	<b>21,006,740</b>	<b>11,648,716</b>	<b>9,467,533</b>	<b>2,181,184</b>	<b>10%</b>

Overall, mid-year expenditures were \$2,181,184 under the Target. Though all City departments were under their spending Targets, some of the more significant savings occurred in the Administrative Services, Police, and Community Development Departments. The mid-year Target is based on six months or 50% of budgeted expenditures, except for the Non-Departmental Annual Payments line that has a Target of the full budget. This line includes the City's Unfunded Accrued Liability (UAL) retirement payment and the General and Liability Insurance payment. This approach increased the Target from 50% to 55.5% for the first quarter. A more detailed explanation of key expenditure variances by individual department/division is provided below.

## KEY EXPENDITURE VARIANCES FOR INDIVIDUAL DIVISIONS/DEPARTMENTS

Department: Administrative Services	The Administrative Services Department includes the City's Fiscal as well as Information Technology functions. The annual CalPERS UAL retirement payment was budgeted at \$1,571,900 but the actual expenditure was \$1,519,503, resulting in a favorable variance to the budget of \$52,397. The remaining variance is related to CIP Fund Transfers of approximately \$900,000 at mid-year related to the approval of using excess reserve fund balance towards the pavement management program totaling \$1,751,000. This project is still in process and will remain a variance until project completion in Q4 of this fiscal year.
Division: 4120-Administrative Services and 4145-Non Departmental	
Issue: Overall savings CalPERS prepayment and CIP Fund Transfers	
Impact to General Fund: \$938,368 savings	

Police Services includes the functions of Administration, Patrol Services, Support Services and the Office of Traffic Safety (OTS) Grant for Traffic/DUI Enforcement Program. For simplicity, will be analyzed in total rather than by individual divisions. Some of the more significant variances include:

Department: Police Services
Division: Various (4201, 4203, 4204, 4208, 4209)
Issue: Overall savings in salaries and benefits
Impact to General Fund: \$410,993 savings

- The Police Patrol Division currently has two vacancies of its Police Officer positions in the first half of FY 2021-22, resulting in labor savings of approximately \$169,900.

• The City’s contract with the County Sheriff Department for dispatch services is paid semiannually in the months of January and June. Payments for these services will not be made until the third and fourth quarters, resulting in a mid-year favorable variance to the Target of \$215,000.

- The City’s contract with the County for Animal Control Services is paid quarterly; the October through December payment was made in January, resulting in a mid-year favorable variance to the Target of \$18,600.

Department: Community Development
Division: Various (4301, 4130, 4212)
Issue: Overall savings in salaries and contractual services
Impact to General Fund: \$392,610 savings

The Community Development Department includes the functions of Planning, Engineering, and Building & Safety Divisions. The majority of the favorable variance in this department can be attributed to salary savings and lower spending in contractual services. Salary

savings within Community Development is attributed to a number of staffing variances that occurred through the first half of the fiscal year and include:

- The vacancy of the Building Permit Technician position in the Building division through mid-year resulted in labor savings of approximately \$49,250. During the first half of the fiscal year, this service has been provided by the City’s Building Services contractor until the recruitment is completed.
- The vacancy of the Planning Manager and Community Services Specialist positions in the Planning division in through mid-year resulted in labor savings of approximately \$139,200.
- The vacancy of the part-time Intern position and salary savings from the Permit Tech position being hired at a lower step than budgeted at mid-year resulted in labor savings of approximately \$27,300.
- Minimal contractual services for the Planning Division were incurred through mid-year resulting in \$115,522 of favorability to the Target. The following table will summarize where these savings occurred:

Planning Contractual Services	Budget	Target	Expenditures	Variance
Comprehensive General Plan Update	150,000	75,000	-	75,000
Comprehensive General Plan Studies	10,000	5,000	-	5,000
On-Call Environmental Review Services	50,000	25,000	-	25,000
On-Call Planning Services and Misc. Planning Studies	30,000	15,000	4,478	10,522
	240,000	120,000	4,478	115,522

- Contractual services for the Building division costs were lower than the Target by approximately \$12,400. However, the December invoice had not yet been paid at mid-year; this payment would bring this account over the Target by approximately \$16,000.
- Minimal contractual services for the Engineering Division were incurred through mid-year resulting in \$40,248 of favorability to the Target. The following table will summarize where these savings occurred:

Engineering Contractual Services	Budget	Target	Expenditures	Variance
Stormwater:				
2nd Nature Software	9,000	4,500	-	4,500
Annual Water Quality Testing/Report	15,000	7,500	2,738	4,763
MS4 Permit	7,000	3,500	10,602	(7,102)
On-Call Engineering Services	80,000	40,000	1,913	38,088
	111,000	55,500	15,252	40,248

- The variance for Community Development Travel and Membership Expenditures through mid-year results in \$5,326 of favorability to the Target. This variance is related to the continued COVID-19 pandemic and its impact on trainings being attended in 2021.

## KEY REVENUE VARIANCES BY ACCOUNT

Table 4 – General Fund Revenue

General Fund Revenue Variances - Mid-Year					
REVENUE BY CATEGORY	2021-22	FY 2021-22	FY 2021-22	Dollar	%
	Budget	Mid-Year Target	Mid-Year Actuals	(Unfav)/Fav	Fav/(Unfav)
Property Tax	\$ 5,665,926	\$ 2,832,963	\$ 3,521,293	\$ 688,330	12%
Sales Tax	4,487,142	1,495,714	1,599,225	103,511	2%
Transient Occ. Tax	972,000	405,000	682,691	277,691	29%
Property Tax in Lieu of VLF	1,895,649	-	-	-	0%
Franchise Fees	696,900	232,300	211,978	(20,322)	-3%
License & Permit Fees	571,200	285,600	203,094	(82,506)	-14%
User Fees	504,000	252,000	289,179	37,179	7%
Planning Fees	510,500	255,250	203,962	(51,288)	-10%
Recreation Fees	512,595	256,298	330,026	73,728	14%
Transfers In	3,089,400	1,544,700	1,523,514	(21,186)	-1%
Other Revenue	677,305	338,653	299,392	(39,260)	-6%
<b>TOTAL</b>	<b>19,582,617</b>	<b>7,898,477</b>	<b>8,864,353</b>	<b>965,876</b>	<b>5%</b>

As reflected in Table 4, mid-year actual revenue was over the Target by \$965,876. This table uses a Target of 40.3% that more accurately reflects the anticipated revenues to be received in the first half of the fiscal year. A more detailed discussion is included below to help explain actual revenue variances through mid-year compared to the Target.

**Property Tax** –The majority of the City’s property tax revenue comes from Secured Property Taxes. This tax is billed on a fiscal year (July 1- June 30) basis and is payable in two (2) annual installments. Property owners typically receive their first property tax bills at the end of September or early October, with a due date of November 1<sup>st</sup>. The majority of property tax related to the first installment was received in December 2021. The second property tax bill installment is received in April 2022 and will be included in the fourth quarter report. Property tax typically represents around 31% of the City’s annual revenue. The Target is based on six months of Property Tax revenue. Actual revenue received in this category was higher than this Target in part because many taxpayers make the full payment in December.

**Sales Tax** – Sales tax realization through mid-year is higher than the Target. Actual sales tax revenue received through mid-year was \$1,599,225 and represents four months of payments (Jul – Oct). The Target is also based on four months of revenue, taking into account the timing of anticipated payments.

**Transient Occupancy Tax (TOT)** – TOT revenue is reflecting an \$277,691 favorable variance to the Target. The Target and actual TOT revenue represents only five months of TOT receipts due to the timing of payments. Lodging facilities have thirty days after the month's end to make their TOT payments.

**Property Tax in Lieu of Vehicle License Fees (VLF)** – Property tax in lieu of VLF is received in two installments during the fiscal year. Typically, the revenue is received in the months of January (3<sup>rd</sup> quarter) and June (4<sup>th</sup> quarter). The Target for this revenue is zero at mid-year.

**Franchise Fees** – Five months of Waste Water Connection franchise fees were received through mid-year. In addition, Charter Communications franchise fees earned in the second quarter will not be paid and received until the third quarter. In light of the timing of payments, the Target is based on 4 months of revenue. Without the Charter Communications franchise fee receipts, the actual revenue at the end of the second quarter is lower than the Target by \$20,322.

**License & Permit Fees and Planning Fees**– License and permit revenue fell short of the Target by \$82,506. Planning revenue fell short of the Target by \$51,288. The majority of the variance is due to fewer permits being issued through mid-year than estimated in the Target. The Target is based on 50% or 6 months of the fiscal year's total budget. Revenue in this category is customer driven and fluctuates over the course of a year as well as year over year based on demand.

**Recreation Fees**– Recreation revenue is reflecting a \$73,728 favorable variance to the Target. The Target is based on 6 months of the fiscal year's total budget. The recreation revenue budget estimates were conservative due to the many unknowns related to childcare activities and the COVID-19 pandemic.

## **POSITION ALLOCATION CHANGES MADE BY THE CITY COUNCIL (2nd Quarter)**

None made during this quarter.

## **FULL TIME EQUIVALENT (FTE) BY DEPARTMENT – PERMANENT STAFF ONLY**

The following table reflects FTE staffing by department as of December 31, 2021. The table only includes permanent staff and does not include part-time or temporary staffing. While departments may hire part-time staff on a regular or seasonal basis, they are not included in the analysis below.

Department	Adopted Budget Headcount (FTE's)	Vacancies (Mid-Year)	% of Total Staffing	Vacant Positions
<b>City Manager &amp; Human Resources</b>	2	-	3%	
<b>Administrative Services</b>	7	-	9%	
<b>Community Development</b>	10	3	13%	Planning Manager, Community Services Specialist, Building Permit Technician
<b>Legislative &amp; Info Services</b>	2	-	3%	
<b>Police Services</b>	29	2	39%	Police Officer (2)
<b>Public Works</b>	22	1	29%	Maintenance Worker I
<b>Recreation Services</b>	3	-	4%	
<b>Total</b>	75	6	100%	

## **EMPLOYEE VACANCY RATE**

The City's employee vacancy rate at the end of the second quarter of FY 2021-22 was 8%. This equates to six (6) vacant positions. The vacancy rate tracks the number of permanent vacant positions at the end of the quarter in comparison to the total number of permanent positions available. Unlike a turnover rate, which tracks employees that separated during the period, the vacancy rate only looks at vacancies at the end of period. The costs associated with turnover includes the cost of advertising new positions, training, overtime, lowered productivity, and workload balance.

This information is provided to keep the Council apprised of the status of the City's Capital Improvement Projects (CIP). No CIP projects were completed in the second quarter of FY 2021-22.

## SECTION 4: APPROPRIATION TRANSFERS AND BUDGET ADJUSTMENTS

### **Administrative and Previously-Approved Second Quarter Budget Adjustments**

The following second quarter budget adjustments were previously approved by Council or are classified as administrative and not requiring Council approval.

\$15,000 Capital Improvement: Appropriated Sales Tax funding of \$15,000 for the Castillo Del Mar Extension Project. Approved on 09/28/2021 Council meeting, item 8.f., and completed as of 09/28/2021, but not included in the First Quarter Financial Status Report.

\$29,730 Police Department: Administrative Carryover of \$29,730 for the Department of Justice -Tobacco Grant. Council accepted this grant April 27, 2021 as part of a 3-year program. This program operates on the Federal fiscal year from October 1, 2021, through September 30, 2022, and was added to the budget on October 1, 2021. This grant funding will continue to support local efforts to reduce the illegal sale of tobacco products in the City.

\$4,280 Capital Improvement: Appropriated General Fund of \$4,280 to complete the design and obtain construction support services for the Five Cities Fire Authority (FCFA) Station 1 Emergency Generator Replacement Project. Approved on 10/12/2021 Council meeting, item 8.e.

\$4,000 Water and Sewer Funds: Appropriated Water Fund of \$2,800 and Sewer Fund of \$1,200 for mailing of water baseline letters for mandatory water use reductions associated with the Stage 1 Water Shortage Emergency. Approved on 10/12/2021 Council meeting, item 9.a.

\$1,806,291 Administrative Services Department: Appropriated American Rescue Plan Act (ARPA) Funds to COVID related City expenditures, infrastructure projects, and qualified ARPA Projects (non-infrastructure). Approved on 10/12/2021 Council meeting, item 10.a.

\$136,426 Capital Improvement: Appropriated Sales Tax funding of \$136,426 for the Inclusive Elm Street Park Playground Replacement Project. Approved on 10/26/2021 Council meeting, item 11.a.

\$20,000 Capital Improvement: Appropriated Sales Tax funding of \$20,000 for the Castillo Del Mar Extension Project. Approved on 11/23/2021 Council meeting, item 8.h.

### **Additional Requested First Quarter Budget Adjustments**

One new budget adjustment is proposed for approval along with the review and receipt of this report. The additional budget adjustment is requested as described in more detail below:

- \$27,550 Public Works Department: It is recommended that the Public Works Administration Division add an Associate Engineer position to provide additional Capital Improvement Program (CIP) support. With the influx of American Rescue Plan Act (ARPA) Funds, there is a large increase in CIP projects to complete, in addition to the growing infrastructure projects that the City has planned for the future. If approved, this will increase the FTE count within the Public Works Department by 1 to a total of 23.