



Council Agenda Report

From: Tom Frutchey, City Manager
Ryan Cornell, Director of Administrative Services

Subject: Fiscal Year 2021-22 Budget Process and Timeline

Date: December 15, 2020

Facts

1. The City Council is required to adopt a comprehensive operating and capital expenditure budget to authorize the receipt of revenues and to authorize, guide, and direct City activities no later than June 30, each year.
2. In prior years, the City generally adopted a two-year budget, which allows the City to better link long-term strategic plans with the financial planning process. In Spring 2020, however, the Council chose to adopt just a one-year budget, due to the uncertain duration of the coronavirus pandemic and its uncertain impacts on the local economy and the City's fiscal position.
3. In November 2020, the City's fiscal outlook with respect to essential services changed significantly, due to the voters' passage of Measure J-20, the one-cent supplemental sales tax. J-20 has the potential to generate an additional \$10 million in revenue each year for the next twelve years, unless ended earlier by the voters.
4. On [July 21, 2020](#), prior to placing Measure J-20 on the ballot, the Council passed [Resolution 20-118](#) identifying the City Council's initial priorities for J-20 revenues, to include fire and emergency services, police services, and streets repair and maintenance. These initial priorities were established based on the results from a series of surveys and polls, of residents and businesses. The City administered the National Citizen Survey (NCS) in 2017, asking 1,500 Paso Robles residents their opinion on various characteristics of our community, how often they participate in community and civic events or use city services, and how they felt city government was performing overall. In 2018, and again in November 2019, the City updated those results using smaller, more targeted polling samples administered by FM3 (the results of these surveys can be viewed [here](#)).
5. Staff is scheduled to return to the Council early in the new calendar year with more precise estimates of the pandemic's impacts on both revenues and expenses the first six months of this year and projections for the remaining six months.
6. It is critical that the City continue the ongoing process of determining community needs and how best to address them. It also must recognize the responsibility it faces over the next twelve years to utilize the supplemental sales tax revenues judiciously in accord with community priorities.

Analysis and Conclusions

Staff recommends another single-year budget for FY 2021-22 for two main reasons:

1. First, the COVID-19 pandemic has had a significant impact on the economy and the tax revenues the City receives both in the current fiscal year and what now looks like the next fiscal year, as well. However, based on what is known today, is that the recessionary period occurred from March through May 2020, and, economically speaking, things are already starting to improve and bounce back to pre-pandemic norms. The question being, how long will it take to recover? Granted, the more recent State At-Home Orders adopted by Governor Newsom will likely contract the economy again, but it is anticipated that it will not be as severe as the one that occurred last Spring, especially with a vaccine close to being distributed.

2. Second, the new City Manager will likely not start with enough time to fully vest the time necessary to develop appropriate input, let alone learn and understand the uniqueness of Paso Robles. The budget calendar as outlined in this staff report will allow for community and council input while still allowing flexibility and an opportunity for the next manager to lead the financial direction of the City next year.

This year's recommended budget process will require careful balancing of the near and long term. There will also be a need to look at some City programs in great detail, without sacrificing the big picture. There will be three major phases to the process; each phase will not necessarily be fully complete before the next phase begins.

Phase 1: Setting the Stage (January through February 2021)

Goal Setting and Vision Workshop: The Council's last goal-setting session was conducted by Nancy Hetrick of Management Partners, 3 years ago. With the pandemic, Measure J-20, the approval of the Olsen/South Chandler, Beechwood, and Gateway specific plans, the commitment to Fire Station 3, unresolved homeless issues, the opening of the First Step facility, and other changes, it is appropriate to now update the vision.

Development of the Financial Forecast: Many cities use a one-year budget cycle; this provides great flexibility in times of significant economic and/or political change. However, this does tend to lead to near-term financial thinking. To reduce the focus on near-term thinking, on [January 25, 2020](#), the City Council and the community had an opportunity to hear the 10-year financial forecast for the City and help prioritize spending in the next budget cycle. Unfortunately, shortly after this budget workshop occurred, the Coronavirus pandemic struck.

However, the underlying principle of developing budget and spending priorities over the long term is still sound. And that really is the first part of the budget process: to develop a long-term fiscal forecast based on current service levels and costs, including the expansion of police and fire services (with the proceeds from Measure J-20), the capital improvement program (CIP), as well as the need to ensure that the City is making appropriate progress in addressing its unfunded liabilities including: CalPERS, other post-employment benefits (OPEB), the American with Disabilities Act Transition Plan, and deferred facility and infrastructure maintenance.

Development of the financial forecast is already underway, with presentation to City Council either at a regular council meeting or special workshop likely to occur in mid-to-late January.

Phase 2: Budget Development (March through April 2021)

J-20 Expenditure Plan: The voters' recognition of the City's inability to continue to provide core services to meet community needs with existing revenues, and their willingness to invest additional resources in these core services during difficult times, is truly noteworthy. The City's message over the past several years has been that our police and firefighter workforce have been at below average levels, resulting in service deficiencies in some areas, and that our roads require even more investment on top of the N-12 revenues that have been fully expended on roads since 2012, to prevent further deterioration. The voters' passage of Measure J-20 confirms that police and emergency services and street and road repair, maintenance, and replacement remain key community priorities. As a result, this year's budget process needs to develop a multi-year J-20 expenditure plan.

Capital Improvement Program: The second phase also requires a comprehensive review of capital improvements needed over the next five years. This development of this phase of the budget should not be as time-consuming as the J-20 Expenditure Plan because there are several significant capital projects that are already in a pre-construction/preliminary design phase; there were several lower-priority capital

projects that were deferred in this last budget cycle; and the [6-Year Street Repair Plan](#) has already been approved. Existing resources may not allow for significant new capital projects to be brought forward for funding this year but having a five-year plan in place will allow for forward-looking planning to ensure adequate funding is available when it is needed for key projects. Existing projects include projects funded by the General Fund as well as projects that are funded by development impact fees, federal, state, and local grants, and a variety of other sources. The timeline for this phase would be like that for the J-20 Expenditure Plan, with a report to City Council at the regular meeting in March 2021.

Development of the Operating Budget: The City’s baseline operating budget includes the minimum resources needed to maintain current service levels. Because the City is a good steward of taxpayer monies, we strive to keep operations as lean as possible, while still being able to meet the needs of the community. In order to keep General Fund operating costs as low as possible, the City must reevaluate what it is we do, how we do it, and, if possible, find a way more cost-effective way of operating.

Based on the fiscal forecast and the visioning process, the City will be in a position to determine what changes are needed or desirable to the baseline budget. The development of baseline budgets would occur throughout the month of March 2021 and first part of April with a report to City Council at the second meeting in April and the first meeting in May.

Given the uncertain future of the pandemic, it may make sense to continue many of the assumptions underlying the past four years’ baseline budgets into this next one-year budget (e.g., current staffing levels, current levels of service to the community). By this time next year, the nature and timing of the pandemic’s demise can be better projected, a new City Manager will be on board, and the City can start the next two-year budget process by looking at ways to improve efficiencies and keep operating costs low while still being effective and providing the services the community expects and deserves.

Phase 3: Budget Adoption (May through June 2021)

The last phase of the budget process includes establishing and recommending departmental supplemental requests, addressing the enterprise funds and other non-General Fund matters. The 5-year Wastewater rate setting process would also occur during this interval.

Similar to the process used for the development of the Measure J-20 Expenditure Plan, staff would develop a plan that addresses each of these areas based on the direction received by the community and City Council, provide the community an opportunity to examine and provide feedback of the plan over a two-week period, and then return to City Council for budget adoption at the second council meeting in June.

Proposed Budget Timeline

The following table provides the recommended timeline for the full budget development process:

Timeline	Action Items
December 15	Regular City Council Meeting: Receive direction on budget process and timeline
December 16–January 20	Staff development of Financial Forecast and Budget Framework; Community Survey on Budget Priorities
Mid-January	City Council Budget Workshop: Saturday Goal and Vision Setting
February 2	Regular City Council Meeting: Staff to present update to the 10-Year Financial Forecast and baseline budget framework
February 5–19	Public review and comment on financial forecast and baseline budget framework

Timeline	Action Items
March 2	Regular City Council Meeting: Debrief results of workshops and surveys, discuss City goals and objectives, and discuss recommended changes to service levels
March 3–April 12	Staff development of baseline budget, supplemental requests, and strategies for addressing unfunded liabilities and deferred maintenance
April 20	Regular City Council Meeting: Preliminary General Fund Budget Presentation
April 21–May 15	Applicable Advisory Board review and comment of the Preliminary Budget Report
May 5	Regular City Council Meeting: Preliminary Enterprise Fund Budget Presentation
June 1–10	Final Budget Report Development
June 15	Regular City Council Meeting: Budget Adoption

Fiscal Impact

While the Coronavirus pandemic, Measure J-20 revenues, and the City’s budget will have fiscal impacts as outlined in this report, receipt of this report, in and of itself, has no fiscal impact.

Recommendation

Direct staff to conduct a multi-phase budget development and adoption process that fully addresses the City’s near- and long-term fiscal realities and includes a spending plan for the Measure J-20 revenues.

Attachments

None.