



AGENDA NO: 9.a

MEETING DATE: June 25, 2024

# Staff Report

**TO:** Honorable Mayor and City Council

**DATE:** June 11, 2024

**FROM:** Yvonne Kimball, City Manager

**PREPARED BY:** Emily Conrad, Finance Director  
Melissa Green, Administrative Programs Manager

**SUBJECT:** Resolutions Approving Fiscal Year (FY) 24-25 Operating and Capital Budgets; FY 24-25, FY 25-26 and FY 26-27 Salary Schedules; New Job Classifications; Investment Policy; and FY 24-25 GANN Appropriations Limit

## RECOMMENDED ACTION

Staff recommends the City Council:

1. Adopt Resolution No. 47-24 adopting the Fiscal Year (FY) 2024-25 Operating and Capital Budgets; and
2. Adopt Resolution No. 48-24 approving the FY 2024-25, FY 2025-26, and FY 2026-27 Salary Schedules; and
3. Adopt Resolution No. 49-24 approving Recreation Specialist and Assistant to the City Manager/Public Relations Manager Job Classifications and Job Descriptions; and
4. Adopt Resolution No. 50-24 readopting the City's Investment Policy; and
5. Adopt Resolution No. 51-24 setting the FY 2024-25 GANN Appropriations Limit at \$35,461,193.

## FISCAL IMPACT

The total Citywide revenue budget for FY 2024-25 is \$50.3 million (net of transfers), an increase of 5% over prior year, and the citywide expenditure budget for FY 2024-25 is \$60.6 million (net of transfers), a 24% decrease over the prior year's amended budget. This decrease is due to the substantial completion of the water treatment facility construction. Expenditures in excess of revenue will be covered by available fund balance to be used for one-time capital projects.

## BACKGROUND

The City Council conducted two budget study sessions on May 28 and 29, 2024. During these discussions, the Council reviewed the City's Operating and Capital Budget and provided feedback. On May 21, 2024, the Citizens Finance Advisory Committee (CFAC) reviewed the Proposed Budget, including the Measure E Fund Budget. CFAC provided input that Council considered at the Budget Study Sessions in late May.

Prepared By: EC

Dept Review: MAG

City Manager Review: \_YK

City Attorney Review: \_CFN

## **DISCUSSION**

**Budget Changes:** City Council made several changes to the FY 2024-25 proposed budget as presented during the budget study sessions in May 2024.

Staff has documented all changes from the Proposed budget that the Council reviewed in May to the Revised Proposed version dated June 25, 2025. The changes are summarized below and included in full detail as Exhibit 1 to Resolution No. 47-24 (Attachment 1) with references to the digital budget book sections and page numbers for the printed budget book. In addition to these substantive changes, minor narrative edits were implemented to ensure accurate and clear descriptions of all budget activity.

- Updated citywide personnel budgets in accordance with Council-approved increases for unrepresented groups, as well as tentative agreements with the Service Employees International Union (SEIU), Morro Bay Police Officers Association (MBPOA), and Morro Bay Fire Fighters Association (MBFFA);
- Decreased budget for the contract with the Chamber of Commerce;
- Added revenue and expenditure budget to reflect Visit Morro Bay's donation to the City's 60<sup>th</sup> Anniversary celebrations;
- Added carryforward budget in Measure E for the Standards of Cover Study in progress (approved in the FY 2023-24 budget);
- Decreased the Water Operating Fund budget for water and electricity costs, more in line with actuals;
- Added budget for Utility Discount Program (equal to prior year);
- Added an additional \$25K Community Grants budget and budget for a professional goals facilitator to the City Council budget (both offset by ARPA revenues);
- Updated IT Fund for needed software;
- Added budget for Annual Pavement Management Program for revised total new funding of \$1.6M at the direction of the Council:
  - Reallocated \$350,000 from Sidewalk Improvements and Local Roadway Safety Plan;
  - Allocated \$1,000,000 (\$650,000 from General Fund and \$350,000 from General Fund Capital Accumulation Fund);
  - Maintained an estimated \$269,666 from SB-1/RMRA funding.

The FY 2024-25 operating budget represents a structurally balanced budget with robust reserve levels which will be relied upon in the coming years absent a change in current revenue trends. In the General Fund, ongoing revenues are approximately \$19.2 million. Ongoing General Fund expenditures (net of one-time transfers and capital expenditures) are approximately \$19.1 million. This projected ongoing operating surplus of \$0.1 million (or up to \$1.6 million if capital contributions had to be temporarily paused) will help maintain stability in the General Fund should a mild recession occur.

The City's reserves in FY 2024-25 will protect the City's ability to continue to deliver core services in the event of an emergency, such as a natural disaster or significant fiscal distress. This budget projects that the City will have a total of over \$16 million in reserves at the conclusion of the budget year, which equates to approximately 40% of the Citywide operating budget in FY 2024-25.

### **Salary Schedule and New Classifications:**

To implement pay changes consistent with the FY 2024-25 operating budget, staff recommends that the Council approve the FY 2024-25, FY 2025-26, and FY 2026-27 Salary Schedules by adopting Resolution No. 48-24. The proposed salary schedules include the Cost-of-Living Adjustments (COLAs) and market/equity adjustments outlined in the tentative agreements and memorandums of understanding presented to the Council this evening in Consent Agenda Item 7d. The Salary Schedule also includes title changes for the following classifications:

- Consolidated Maintenance Superintendent → Maintenance Division Manager
- Senior Administrative Services Analyst → Administrative Programs Manager
- Information Systems Technician → Information Technology Manager
- Finance Manager → Accounting Manager
- Fire Marshal/Division Chief → Deputy Chief/Fire Marshal

These new titles better reflect the work being performed by the incumbents and are consistent with local government classification titles within our county. The Maintenance Division Manager and Administrative Programs Manager classifications will remain in their current scale, increased by COLA. The remaining classifications are proposed to move to higher scales, reflecting equity adjustments recommended by the City's Classification & Compensation Study and Human Resources.

Staff also recommends the Council adopt Resolution No. 49-24 approving the Recreation Specialist job classifications, job descriptions, and establishing the salary range. The City and Service Employees International Union Local 620 (SEIU Local 620) met and conferred regarding the addition of this classification to the City's Miscellaneous Employees Unit and regarding compensation and job description for this classification. At the Proposed Budget Study Sessions on May 28 and May 29, 2024, the Council approved two new full-time Recreation Specialist positions to replace two long-term part-time positions, Aquatics Coordinator and Kids Club Director. Additionally, Council approved a new position in the City Manager's Office. The Assistant to the City Manager/Public Relations Manager job classification, job description, and salary range is also recommended for adoption via Resolution No. 49-24. Following approval at the City Council Budget Study sessions, city staff proceeded with the development of the job classifications/descriptions and salary placement. These are now being presented to Council for review and approval.

**Fiscal Policies:** In preparing this budget, staff took its primary direction from the guidelines established in the City of Morro Bay Fiscal Policies. There are several key fiscal policies that rise to the level of Council review and approval standards and are reviewed regularly by City Council. These policies are referenced and summarized in the City's Budget document and posted in full on the City's website. This report includes a resolution (Resolution No. 50-24) for Council to readopt the City's Investment Policy as is required annually by State law. There are only minor technical updates to the policy. The policy delegates to specific positions and corresponding City personnel the authority to invest City funds. The previously approved title changes of two of the Finance Department's positions required that this section be updated in the policy (page two). "Assistant City Manager/Administrative Services Director/Treasurer" was updated to "Finance Director/Treasurer", and "Finance Manager" was updated to "Accounting Manager. The updated policy is included in Attachment 4.

Fiscal policies that City Council has reviewed recently but do not require changes at this time include the following, which were last reviewed and updated with the Council resolutions noted: Fund Balance Reserve Policies (Resolution No. 37-22), Revenue and Expenditure Policy (Resolution Nos. 52-21 and 53-21), Debt Management Policy (Resolution No. 43-18), Short-Term Fiscal Emergency Plan (Resolution No. 97-18), Long-Term Financial Planning Policy (Resolution No. 09-19), Financial Policies Related to Capital Assets (Resolution No. 59-19), and Donations and Grant Management Policies (Resolution No. 61-19). These policies are available in full on the [City's website](#).

**GANN Limit:** State law requires the adoption of an annual appropriations limit, which restricts the growth of tax-funded programs and services by limiting the appropriation of proceeds of taxes. For FY 2024-25, the City of Morro Bay remains well under its appropriations limit. Proposition 4, known as the Gann Initiative, was approved by the California electorate in 1979. It is intended to restrict the growth of tax-funded programs and services by limiting the appropriation of the proceeds of taxes to the 1978-79 base year limit, as adjusted annually for changes in population and inflation. Proceeds of taxes in excess of the appropriations limit, with some exceptions, must be returned to the taxpayers by refund or reduction in tax rates unless an extension of the limit is approved by a majority popular vote. Proceeds of taxes include tax revenues and investment earnings related to those tax revenues, proceeds from licenses and users/charges to the extent that they exceed the cost to cover those services, and discretionary tax funds used for contingency, emergency, unemployment, reserve and retirement sinking funds, trust, or similar funds.

In June 1990, California voters approved Proposition 111, amending the Gann Initiative to provide local agencies with the option of using either the city or county population change percentage (whichever is greater). Another provision of the amendment states that the Gann limit would be triggered only if tax proceeds exceed the limit for two consecutive fiscal years. Additionally, the proposition requires an annual review of the appropriations limit calculation by a qualified independent auditor in conjunction with the annual financial audit.

The City is calculating this limit using the San Luis Obispo County population change and the California Per Capita Personal Income, referred to as the Price Factor (explained in exhibits to Attachment 5). According to the California Department of Finance, the population of San Luis Obispo County decreased by 0.08 percent between January 1, 2023, and January 1, 2024. The Per Capita Cost of Living increased by 3.62 percent. Applying these factors results in the following:

2024-25 Population and Per Capita Cost of Living Change Calculation:

- Per Capita Cost of Living Change = 3.62 percent
- Population Change = -0.08 percent
- Per Capita Cost of Living converted to a ratio: (3.62 + 100) divided by 100 = 1.0362
- Population converted to a ratio: (-0.08 + 100)/100 = 0.9992

Calculation Factor for FY 2024-25: 1.0362 x 0.9992 = 1.0353710

Prior year limit		\$34,249,744
Calculation Factor per DOF guidance	x	<u>1.0353710</u>
Equals Appropriation Limit	=	<u><u>\$35,461,193</u></u>

The FY 2024-25 budget estimate of revenues from the proceeds of taxes is \$17,735,310, which is well below the appropriations limit (by \$17,725,883 or 49.99%). Thus, the City's finances are not

impacted by the appropriation limit. The calculation of estimated proceeds of taxes for FY 2024-25 is shown in detail in Exhibit 1 of Resolution 51-24. The calculation of FY 2024-25 Appropriations Limit is shown in Exhibit 2 of Resolution 51-24, along with a historical listing of prior year limits. Exhibit 3 of Resolution 51-24 is a copy of the California Department of Finance's change in population estimates between January 1, 2023 and January 1, 2024 and the California Department of Finance's published price factor.

## **CONCLUSION**

Staff recommends adopting Resolution No. 47-24, which adopts the Fiscal Year 2024-25 Operating and Capital Budget, including the changes presented as an exhibit to the resolution. Staff also recommends approval of Resolution Nos. 48-24, 49-24, 50-24, and 51-24 associated with the FY 2024-25, FY 2025-26, and FY 2026-27 Salary Schedules, new job classifications, readopted investment policy, and the GANN appropriations limit.

## **ATTACHMENTS**

1. Resolution No. 47-24 Adopting the FY 2024-25 Operating and Capital Budget as amended by changes contained in Exhibit 1.
  - a. Exhibit 1 – Changes since May 28-29 Budget Study Sessions (Errata)
  - b. Exhibit 2 – Link to the Final Budget for FY 2024-25
    - i. Both the Digital Budget Book and the printable PDF version are available on the City's website at <https://www.morrobayca.gov/827/Budget>.
2. Resolution No. 48-24 Adopting FY25-FY27 Salary Schedules
  - a. Exhibit 1 – 2024-25 Salary Schedule
  - b. Exhibit 2 – 2025-26 Salary Schedule
  - c. Exhibit 3 – 2026-27 Salary Schedule
3. Resolution No. 49-24 Adopting Recreation Specialist Job Classification and Assistant to the City Manager/Public Relations Manager Job Classification
  - a. Exhibit 1 – Recreation Specialist - Aquatics Job Description
  - b. Exhibit 2 – Recreation Specialist – Youth Services Job Description
  - c. Exhibit 3 – Assistant to the City Manager/Public Relations Manager Job Description
4. Resolution No. 50-24 Readopting the Investment Policy
  - a. Exhibit 1 – 2024 Investment Policy
5. Resolution No. 51-24 Adopting the GANN Appropriations Limit for FY 2024-25
  - a. Exhibit 1 – 2024-25 Calculation of Estimated Proceeds of Taxes
  - b. Exhibit 2 – 2024-25 Calculation of Appropriations Limit
  - c. Exhibit 3 – 2024-25 California Department of Finance Price Factor and Population Estimates
6. Staff Presentation