



## CITY OF ATASCADERO CITY COUNCIL AGENDA

### **\* COVID-19 NOTICE \***

**Consistent with the SLO County Region 1 – Southern California Regional Stay at Home Order, the City Council Meeting will not be physically open to the public and City Council Members will be teleconferencing into the meeting.**

#### **HOW TO OBSERVE THE MEETING:**

To maximize public safety while still maintaining transparency and public access, the meeting will be live-streamed on SLO-SPAN.org, on Spectrum cable Channel 20 in Atascadero, and on KPRL Radio 1230AM and 99.3FM. The video recording of the meeting will repeat daily on Channel 20 at 1:00 am, 9:00 am, and 6:00 pm and will be available through the City's website or by visiting [https://us02web.zoom.us/webinar/register/WN\\_ZwJ7a031S3KXauEym9ehaA](https://us02web.zoom.us/webinar/register/WN_ZwJ7a031S3KXauEym9ehaA).

#### **HOW TO SUBMIT PUBLIC COMMENT:**

Members of the public are highly encouraged to call **805-538-2888** to listen and provide public comment via phone, or submit written public comments to [cityclerk@atascadero.org](mailto:cityclerk@atascadero.org) by 5:00 pm on the day of the meeting. Such email **comments must identify the Agenda Item Number in the subject line of the email**. The comments will be read into the record, with a maximum allowance of 3 minutes per individual comment, subject to the Mayor's discretion. All comments should be a maximum of 500 words, which corresponds to approximately 3 minutes of speaking time. If a comment is received after the agenda item is heard but before the close of the meeting, the comment will still be included as a part of the record of the meeting but will not be read into the record.

#### **AMERICAN DISABILITY ACT ACCOMMODATIONS:**

Any member of the public who needs accommodations should contact the City Clerk's Office at [cityclerk@atascadero.org](mailto:cityclerk@atascadero.org) or by calling 805-470-3400 at least 48 hours prior to the meeting or time when services are needed. The City will use their best efforts to provide reasonable accommodations to afford as much accessibility as possible while also maintaining public safety in accordance with the City procedure for resolving reasonable accommodation requests.

City Council agendas and minutes may be viewed on the City's website: [www.atascadero.org](http://www.atascadero.org).

Copies of the staff reports or other documentation relating to each item of business referred to on the Agenda are on file in the office of the City Clerk and are available for public inspection on our website, [www.atascadero.org](http://www.atascadero.org). Contracts, Resolutions and Ordinances will be allocated a number once they are approved by the City Council. The Minutes of this meeting will reflect these numbers. All documents submitted by the public during Council meetings that are either read into the record or referred to in their statement will be noted in the Minutes and available for review by contacting the City Clerk's office. All documents will be available for public inspection during City Hall business hours once City Hall is open to the public following the termination of the Shelter at Home Order.



# **CITY OF ATASCADERO CITY COUNCIL**

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## **AGENDA**

**Tuesday, February 9, 2021**

**City Hall Council Chambers, 4th floor  
6500 Palma Avenue, Atascadero, California**

<b><u>City Council Regular Session:</u></b>	<b>6:00 P.M.</b>
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**REGULAR SESSION – CALL TO ORDER: 6:00 P.M.**

**PLEDGE OF ALLEGIANCE:** Council Member Bourbeau

**ROLL CALL:** Mayor Moreno  
Mayor Pro Tem Newsom  
Council Member Bourbeau  
Council Member Dariz  
Council Member Funk

**APPROVAL OF AGENDA:** Roll Call

Recommendation: Council:

1. Approve this agenda; and
2. Waive the reading in full of all ordinances appearing on this agenda, and the titles of the ordinances will be read aloud by the City Clerk at the first reading, after the motion and before the City Council votes.

**PRESENTATIONS:**

1. Proclamation presented to R.I.S.E. recognizing February as Teen Dating Violence Awareness Month
2. Recognition of outgoing Planning Commissioners

**A. CONSENT CALENDAR:** (All items on the consent calendar are considered to be routine and non-controversial by City staff and will be approved by one motion if no member of the Council or public wishes to comment or ask questions. If comment or discussion is desired by anyone, the item will be removed from the Consent Calendar and will be considered in the listed sequence with an opportunity for any member of the public to address the Council concerning the item before action is taken.)

**1. City Council Draft Action Minutes – January 26, 2021**

- Recommendation: Council approve the January 26, 2021 Draft City Council Regular Meeting Minutes. [City Clerk]

**2. Property Acquisition for Santa Lucia Road Bridge Replacement Project**

- Fiscal Impact: The total compensation to be paid at this time is \$25,800, with another approximately \$12,000 expected as part of the final two agreements. The HBRRP grant will cover 100% of the project costs.
- Recommendation: Council adopt Draft Resolution approving compensation payments and Right-of-Way Agreements for property acquisitions located at APNs 054-261-001, 054-261-006, 054-271-003, 054-271-004, and 054-272-016 for the Santa Lucia Road Bridge Replacement Project. [Public Works]

**3. Atascadero Mall Sewer Condition Improvements Award**

- Fiscal Impact: Total project funding of \$456,000.00 in budgeted Wastewater funds.
- Recommendation: Council authorize the City Manager to execute a construction contract for \$271,876.60 with Rob Reynolds Construction, Inc. for the Atascadero Mall Sewer Condition Improvements Project (Project No. C2019W02). [Public Works]

**4. Authorization to Enter the County of San Luis Obispo COVID-19 Vaccination Assistance Agreement**

- Fiscal Impact: Staff estimates unreimbursed costs to be between \$5,000 to \$50,000 through June.
- Recommendations: Council:
  1. Authorize the City Manager to execute the County of San Luis Obispo's COVID-19 Vaccination Assistance Agreement.
  2. Authorize the City Manager to execute any future cooperative agreements necessary to provide reimbursement and support for COVID-19 vaccination distribution. [City Manager]

**UPDATES FROM THE CITY MANAGER:** (The City Manager will give an oral report on any current issues of concern to the City Council.)

**COMMUNITY FORUM:** (This portion of the meeting is reserved for persons wanting to address the Council on any matter not on this agenda and over which the Council has jurisdiction. Speakers are limited to three minutes. Please state your name for the record before making your presentation. Comments made during Community Forum will not be a subject of discussion. A maximum of 30 minutes will be allowed for Community Forum, unless changed by the Council. Any members of the public who have questions or need information may contact the City Clerk's Office, between the hours of 8:30 a.m. and 5:00 p.m. at (805) 470-3400, or [cityclerk@atascadero.org](mailto:cityclerk@atascadero.org).)

**B. PUBLIC HEARINGS:**

**1. Urgency Ordinance Affirming Orders of the State of California, County Emergency Services Director and Public Health Officer**

- Fiscal Impact: The adoption of this Urgency Ordinance would not have a fiscal impact to the City. Enforcement of the Urgency Ordinance would have a financial impact to the City depending upon the extent of enforcement required.
- Recommendation: Council adopt an Urgency Ordinance affirming orders of the State of California and the County Emergency Services Director and Public Health Officer and the City Director of Emergency Services. [City Attorney]

**C. MANAGEMENT REPORTS:**

**1. Comprehensive Financial Strategy**

- Fiscal Impact: None.
- Recommendations: Council:
  1. Review and file the Comprehensive Financial Strategy.
  2. Adopt Draft Resolution approving Financial Policies as documented in Section 6 of the Comprehensive Financial Strategy. [Administrative Services]

**D. DISCUSSION ITEM:** Discussion of COVID 19 issues including oral updates by Mayor Moreno and City Manager Rickard, questions by City Council, public comment and comments by City Council.

1. Coronavirus (COVID-19) update – Mayor Moreno
2. Coronavirus (COVID-19) update – City Manager Rickard

**E. COUNCIL ANNOUNCEMENTS AND COMMITTEE REPORTS:** (On their own initiative, Council Members may make a brief announcement or a brief report on their own activities. The following represent standing committees. Informative status reports will be given, as felt necessary):

Mayor Moreno

1. City Selection Committee
2. County Mayors Round Table
3. Economic Vitality Corporation, Board of Directors (EVC)
4. SLO Council of Governments (SLOCOG)
5. SLO Regional Transit Authority (RTA)

Mayor Pro Tem Newsom

1. City / Schools Committee
2. Design Review Committee
3. League of California Cities – Council Liaison
4. Visit SLO CAL Advisory Committee



Council Member Bourbeau

1. City of Atascadero Finance Committee
2. City / Schools Committee
3. Integrated Waste Management Authority (IWMA)
4. SLO County Water Resources Advisory Committee (WRAC)

Council Member Dariz

1. Air Pollution Control District
2. California Joint Powers Insurance Authority (CJPIA) Board
3. City of Atascadero Finance Committee

Council Member Funk

1. Atascadero Basin Ground Water Sustainability Agency (GSA)
2. Design Review Committee
3. Homeless Services Oversight Council

**F. INDIVIDUAL DETERMINATION AND / OR ACTION:** (Council Members may ask a question for clarification, make a referral to staff or take action to have staff place a matter of business on a future agenda. The Council may take action on items listed on the Agenda.)

1. City Council
2. City Clerk
  - A. Confirm DRC Appointments
3. City Treasurer
4. City Attorney
5. City Manager

**ADJOURN**

**Please note:** Should anyone challenge any proposed development entitlement listed on this Agenda in court, that person may be limited to raising those issues addressed at the public hearing described in this notice, or in written correspondence delivered to the City Council at or prior to this public hearing. Correspondence submitted at this public hearing will be distributed to the Council and available for review in the City Clerk's office.



# **CITY OF ATASCADERO CITY COUNCIL**

## **DRAFT MINUTES**

**Tuesday, January 26, 2021**

**City Hall Council Chambers, 4th floor  
6500 Palma Avenue, Atascadero, California**

**City Council Regular Session:**

**6:00 P.M.**

### **REGULAR SESSION – CALL TO ORDER: 6:00 P.M.**

Mayor Moreno called the meeting to order at 6:00 p.m. and Council Member Dariz led the Pledge of Allegiance.

### **ROLL CALL:**

**Present:** **By Teleconference** - Council Members Bourbeau, Dariz and Funk, Mayor Pro Tem Newsom and Mayor Moreno

**Absent:** None

**Others Present:** Treasurer Gere Sibbach

**Staff Present:** **By Teleconference** – City Manager Rachelle Rickard, Police Chief Bob Masterson, Fire Chief Casey Bryson, Administrative Services Director Jeri Rangel, Public Works Director Nick DeBar, Community Development Director Phil Dunsmore, City Attorney Brian Pierik, Deputy City Manager/City Clerk Lara Christensen, and IT Manager Luke Knight

### **APPROVAL OF AGENDA:**

**MOTION:** **By Council Member Bourbeau and seconded by Council Member Funk to:**

- 1. Approve this agenda; and,**
- 2. Waive the reading in full of all ordinances appearing on this agenda, and the titles of the ordinances will be read aloud by the City Clerk at the first reading, after the motion and before the City Council votes.**

***Motion passed 5:0 by a roll-call vote***

**PRESENTATIONS: None.**

**A. CONSENT CALENDAR:**

**1. City Council Draft Action Minutes – January 12, 2021 & January 19, 2021**

- Recommendation: Council approve the January 12, 2021 Draft City Council Regular Meeting Minutes and the January 19, 2021 Draft City Council Special Meeting Minutes. [City Clerk]

**2. December 2020 Accounts Payable and Payroll**

- Fiscal Impact: \$2,573,066.05
- Recommendation: Council approve certified City accounts payable, payroll and payroll vendor checks for December 2020. [Administrative Services]

**4. Parcel Map AT 18-0111 (7900 Curbaril Avenue)**

- Fiscal Impact: None.
- Recommendations: Council:
  1. Approve Parcel Map AT 18-0111.
  2. Accept, on behalf of the public, the offer of dedication for a six-foot Public Utility Easements (P.U.E.) along Curbaril Avenue. [Public Works]

Mayor Moreno requested Item #A-5 be removed from the Consent Calendar for separate discussion and vote.

Council Member Funk requested Item #A-3 be removed from the Consent Calendar for separate discussion and vote.

**MOTION: By Mayor Pro Tem Newsom and seconded by Council Member Funk to approve Consent Calendar Items #A-1, #A-2, and #A-4.**  
***Motion passed 5:0 by a roll-call vote.***

**3. State Route 41 Cooperative Maintenance Agreement 05-0337**

- Fiscal Impact: The total cost over the next 20 years is expected to be approximately \$40,000, for an annualized cost of approximately \$2,000 per year.
- Recommendation: Council adopt Draft Cooperative Maintenance Agreement 05-0337 and authorize the City Manager to execute Cooperative Maintenance Agreement 05-0337 and Letter of Self Insurance with Caltrans. [Public Works]

Public Works Director DeBar answered questions from the Council.

**PUBLIC COMMENT:**

The following citizens spoke by telephone on this item: Geoff Auslen

***Mayor Moreno closed the Public Comment period.***

**MOTION: By Council Member Funk and seconded by Council Member Bourbeau to adopt Draft Cooperative Maintenance Agreement 05-0337 and authorize the City Manager to execute Cooperative**

**Maintenance Agreement 05-0337 and Letter of Self Insurance with Caltrans. (Contract No. 2021-002)**  
***Motion passed 5:0 by a roll-call vote.***

**5. Adoption of Multi-Jurisdiction Hazard Mitigation Plan (Local Hazard Mitigation Plan update)**

- Fiscal Impact: None.
- Recommendation: Council adopt Draft Resolution, approving the San Luis Obispo County Multi-Jurisdictional Hazard Mitigation Plan and Annex B (City of Atascadero Local Hazard Mitigation Plan). [Fire Department]

City Manager Rickard briefed the Council on the report and answered questions from the Council.

**PUBLIC COMMENT:**

The following citizens spoke on this item: None

***Mayor Moreno closed the Public Comment period.***

**MOTION: By Council Member Funk and seconded by Council Member Bourbeau to adopt Resolution No. 2021-001, approving the San Luis Obispo County Multi-Jurisdictional Hazard Mitigation Plan and Annex B (City of Atascadero Local Hazard Mitigation Plan).**  
***Motion passed 5:0 by a roll-call vote.***

**UPDATES FROM THE CITY MANAGER:**

City Manager Rachelle Rickard gave an update on projects and issues within the City.

Fire Chief Casey Bryson provided an introduction of Zone Haven, the City's new evacuation planning software.

**COMMUNITY FORUM:**

The following citizens spoke during Community Forum: None

***Mayor Moreno closed the COMMUNITY FORUM period.***

**B. PUBLIC HEARINGS: None.**

**C. MANAGEMENT REPORTS:**

**1. Fiscal Year 2019-2020 Audit**

- Fiscal Impact: None.
- Recommendation: Council review and accept the financial audit for the period ended June 30, 2020. [Administrative Services]

Administrative Services Director Rangel gave the staff report and answered questions from the Council. Adam Guise, with Moss, Levy & Hartzheim, LLP, also addressed the Council and answered questions.

Treasurer Sibbach also addressed the Council.

#### **PUBLIC COMMENT:**

The following citizens spoke on this item: None.

***Mayor Moreno closed the Public Comment period.***

**MOTION: By Council Member Funk and seconded by Council Member Bourbeau to review and accept the financial audit for the period ending June 30, 2020.**  
***Motion passed 5:0 by a roll-call vote.***

#### **2. Fiscal Year 2020 Annual Road Report**

- Fiscal Impact: Distribution of the 2020 Community Road Report is estimated to cost about \$5,000 in budgeted General Funds.
- Recommendations: Council:
  1. Approve the Fiscal Year 2020 Annual Road Report.
  2. Approve the 2020 Community Road Report. [Public Works]

Public Works Director DeBar and Administrative Service Director Rangel gave the staff report and answered questions from the Council.

#### **PUBLIC COMMENT:**

The following citizens spoke on this item: None.

***Mayor Moreno closed the Public Comment period.***

**MOTION: By Mayor Pro Tem Newsom and seconded by Council Member Funk to:**  
**1. Approve the Fiscal Year 2020 Annual Road Report.**  
**2. Approve the 2020 Community Road Report.**  
***Motion passed 5:0 by a roll-call vote.***

**D. DISCUSSION ITEM:** Discussion of COVID 19 issues including oral updates by Mayor Moreno and City Manager Rickard, questions by City Council, public comment and comments by City Council.

1. Coronavirus (COVID-19) update – Mayor Moreno
2. Coronavirus (COVID-19) update – City Manager Rickard

Mayor Moreno and City Manager Rickard provided updates on Coronavirus (COVID-19) and answered questions from the Council.

**PUBLIC COMMENT:**

The following citizens spoke on this item: None.

***Mayor Moreno closed the Public Comment period.***

**E. COUNCIL ANNOUNCEMENTS AND COMMITTEE REPORTS:**

The following Council Members made brief announcements and gave brief update reports on their committees since their last Council meeting:

Mayor Moreno

1. County Mayors Round Table

Mayor Pro Tem Newsom

1. Design Review Committee
2. League of California Cities – Council Liaison

Council Member Bourbeau

1. Integrated Waste Management Authority (IWMA)

Council Member Dariz

1. Air Pollution Control District

Council Member Funk

1. Atascadero Basin Ground Water Sustainability Agency (GSA)
2. Design Review Committee
3. Homeless Services Oversight Council

**F. INDIVIDUAL DETERMINATION AND / OR ACTION: None.**

**G. ADJOURN**

Mayor Moreno adjourned the meeting at 8:08 p.m.

**MINUTES PREPARED BY:**

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Lara K. Christensen  
Deputy City Manager/City Clerk

**APPROVED:**



# ***Atascadero City Council***

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## ***Staff Report - Public Works Department***

### **Property Acquisition for Santa Lucia Road Bridge Replacement Project**

#### **RECOMMENDATION:**

Council adopt Draft Resolution approving compensation payments and Right-of-Way Agreements for property acquisitions located at APNs 054-261-001, 054-261-006, 054-271-003, 054-271-004, and 054-272-016 for the Santa Lucia Road Bridge Replacement Project.

#### **DISCUSSION:**

##### Background/Analysis

Santa Lucia Road Bridge over Graves Creek is scheduled for construction replacement in 2022, pending Caltrans authorization of construction funds. This bridge was identified by Caltrans as being functionally obsolete. The City has been successful in securing a Federal Highway Bridge Replacement and Rehabilitation Program grant (HBRRP) that will fund 100% of the project costs.

Quincy Engineering is performing final design and preparing construction plans and specifications for the Project. The preliminary design for the bridge and temporary construction traffic detour route was reviewed with Council in May 2017. The proposed bridge will be widened to allow for standard lane and shoulder widths, and Santa Lucia Road at both the east and west approaches will be widened and minor modifications made to the horizontal alignment to be compliant with current standards.

To accommodate the new roadway and bridge widths and alignment changes, the City is required to acquire portions of adjacent property parcels. In addition, there are temporary construction easements needed from adjacent property parcels to accommodate construction for the new bridge. Hamner, Jewell & Associates has been assisting the City in obtaining property acquisitions for the project, including appraisals, right-of-way agreements, deeds, and negotiating with parcel owners. There are seven adjacent properties to the project that require either property acquisition, permanent easements or temporary easements based upon Quincy Engineering's bridge design layout. A Right-of-Way Exhibit showing the combined permanent and temporary construction easements needed for the bridge replacement is included for reference (Attachment 2).

Hamner, Jewell & Associates has negotiated and prepared right-of-way (R/W) agreements, easement deeds, and other necessary documents for the City to obtain these property acquisitions in preparation for bridge replacement. At this time, five of the seven needed agreements have been finalized and signed by the property owners. Two agreements remain pending and will need to be brought to Council at a later date. However, in the interest of keeping this important project moving forward, staff has elected to bring the five properties with negotiations completed to Council at this time. The following is a discussion of the five properties requiring land acquisition.

William Mehring (APN: 054-261-001) Amount: \$2,200

William Mehring owns the property at the northeast corner of Santa Lucia Road Bridge. A portion of this parcel shall be acquired in fee, totaling 648 square feet along Santa Lucia Road adjacent to the bridge to accommodate the bridge widening. Also needed are two temporary construction easements totaling 555 square feet. Mr. Mehring has executed the R/W Agreement and Easement Deed for \$2,200 in compensation (Attachment 3).

Thomas Berquist (APN: 054-261-006) Amount: \$500

Thomas Berquist owns the creek reservation on the north side of Santa Lucia Road Bridge. A portion of this parcel shall be acquired in fee, totaling 2,826 square feet adjacent to the bridge and along the eastern edge of Llano Road to accommodate the bridge widening. Also needed is a permanent easement containing 9,481 square feet to accommodate the mitigation planting area. Mr. Berquist has executed the R/W Agreement and Easement Deed for \$500 in compensation (Attachment 4). While the square footage of Mr. Berquist's property is significantly larger than the majority of the other properties, due to its location in the creek reservation this area is unbuildable and makes the value of the land significantly less per square foot.

Diego Imana & Karen Beene (APN: 054-271-003) Amount: \$6,600

Diego Imana and Karen Beene jointly own one of the properties west of Santa Lucia Road Bridge. A portion of this parcel shall be acquired in fee, totaling 786 square feet along the Santa Lucia Road frontage to accommodate the roadway widening and realignment. Also needed is a temporary construction easement containing 1,017 square feet. Mr. Imana and Ms. Beene have executed the R/W Agreement and Easement Deed for \$6,600 in compensation (Attachment 5).

Robert Allmon (APN: 054-271-004) Amount: \$15,000

Robert Allmon owns the property at the southwest corner of Santa Lucia Road Bridge. A portion of this parcel shall be acquired in fee, totaling 525 square feet along Santa Lucia Road adjacent to the bridge to accommodate the bridge widening. Also needed is a temporary construction easement containing 4,713 square feet, to accommodate the temporary roadway and one lane bridge needed for traffic detouring during construction. Mr. Allmon has executed the R/W Agreement and Easement Deed for \$15,000 in compensation (Attachment 6).

Bruce and Patricia Navas (APN: 054-272-016) Amount: \$1,500

Bruce and Patricia Navas jointly own one of the properties west of Santa Lucia Road Bridge. A temporary construction easement is needed along the Santa Lucia Road frontage containing 1,178 square feet, to accommodate construction activities during the roadway widening and realignment. Mr and Mrs. Navas have executed the R/W Agreement and Easement Deed for \$1,500 in compensation (Attachment 7).



Conclusion

A Draft Resolution (Attachment 1) has been prepared to approve payment for the above property acquisitions and to authorize the City Manager to execute the R/W Agreements. Once these five agreements and remaining two agreements are complete, Caltrans is expected to certify that right-of-way has been completed so the construction schedule is kept on track and to allow funding to be programmed for project construction in 2022.

**FISCAL IMPACT:**

Compensation for property acquisition, and permanent and temporary construction easements required for the Santa Lucia Road Bridge Replacement Project is covered in the 2020-2021 Santa Lucia Road Bridge Replacement Project budget. The total compensation to be paid at this time is \$25,800, with another approximately \$12,000 expected as part of the final two agreements. The HBRRP grant will cover 100% of the project costs.

**ATTACHMENTS:**

1. Draft Resolution
2. Santa Lucia Road Bridge Replacement Right-of-Way Exhibit
3. R/W Agreement and Grant Deed for William Mehring
4. R/W Agreement and Grant Deed for Thomas Berquist
5. R/W Agreement and Grant Deed for Diego Imana and Karen Beene
6. R/W Agreement and Grant Deed for Robert Allmon
7. Temporary Construction Easement Agreement and Easement Deed for Bruce Navas and Patricia Navas

**DRAFT RESOLUTION**

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF  
ATASCADERO, CALIFORNIA, APPROVING COMPENSATION  
PAYMENTS AND RIGHT-OF-WAY AGREEMENTS WITH ESCROW  
INSTRUCTIONS FOR PROPERTY ACQUISITIONS WITH ATASCADERO  
WILLIAM MEHRING (APN 054-261-001), THOMAS BERQUIST (APN 054-  
261-006), DIEGO IMANA AND KAREN BEENE (APN 054-271-003),  
ROBERT ALLMON (APN 054-271-004) AND BRUCE AND PATRICIA  
NAVAS (APN 054-272-016) FOR THE SANTA LUCIA ROAD BRIDGE  
REPLACEMENT PROJECT**

**WHEREAS**, the proposed layout for the Santa Lucia Road Bridge Replacement Project (“Project”) over Atascadero Creek requires that the City of Atascadero (“City”) acquire property for permanent and temporary construction easements; and

**WHEREAS**, the City and its agent, Hamner, Jewell & Associates, have negotiated compensation amounts for needed easements for the Project with William Mehring (APN 054-261-001), Thomas Berquist (APN 054-261-006), Diego Imana and Karen Beene (APN 054-271-003), Robert Allmon (APN 054-271-004), and Bruce and Patricia Navas (APN 054-272-016), herein collectively referred to as “Property Owners”; and

**WHEREAS**, Right-of-Way Agreements (with Escrow Instructions) and Easement Deeds have been prepared for the City to acquire property from Property Owners for Project easements; and

**WHEREAS**, proposed Right-of-way Agreements (with Escrow Instructions) and Easement Deeds for the property acquisitions have been reviewed by the City Council at its meeting on February 9, 2021.

**NOW, THEREFORE BE IT RESOLVED**, by the City Council of the City of Atascadero:

**SECTION 1. Recitals.** The foregoing Recitals are true and correct and are hereby incorporated by this reference.

**SECTION 2. Approval.** The City Council hereby approves the Right-of-Way Agreements (with Escrow Instructions) for property acquisitions with William Mehring (APN 054-261-001), Thomas Berquist (APN 054-261-006), Diego Imana and Karen Beene (APN 054-271-003), Robert Allmon (APN 054-271-004), and Bruce and Patricia Navas (APN 054-272-016).

**SECTION 3. CEQA.** The City Council hereby finds that the Guidelines of the California Environmental Quality Act (CEQA) (Section 15061.(3), (b)) exempts activities that are covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Approving Right-of-way Agreements for property acquisitions will not have any significant adverse environmental impacts associated with this Resolution.

**SECTION 4.** The City Manager is hereby authorized and directed to take all appropriate actions and execute Right-of-way Agreements and other documents which the City Manager may deem necessary or advisable in order to effectuate the purposes of this Resolution.

**PASSED AND ADOPTED** at a regular meeting of the City Council held on the 9th day of February, 2021.

On motion by Council Member \_\_\_\_\_ and seconded by Council Member \_\_\_\_\_, the foregoing Resolution is hereby adopted in its entirety on the following roll call vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

CITY OF ATASCADERO

\_\_\_\_\_  
Heather Moreno, Mayor

ATTEST:

\_\_\_\_\_  
Lara Christensen, City Clerk

APPROVED AS TO FORM:

\_\_\_\_\_  
Brian Pierik, City Attorney

DIST	COUNTY	PROJECT	SHEET No.	TOTAL SHEETS
05	SLO	GRAVES CREEK BRIDGE AT SANTA LUCIA ROAD	1	

## EXHIBIT 01/26/2021

REGISTERED CIVIL ENGINEER


DATE

PLANS APPROVAL DATE

THE CITY OF ATASCADERO OR ITS OFFICERS  
OR AGENTS SHALL NOT BE RESPONSIBLE FOR  
THE ACCURACY OR COMPLETENESS OF SCANNED  
COPIES OF THIS PLAN SHEET.



**QUINCY**  
ENGINEERING

11017 COBBLELOCK DRIVE, SUITE 100  
RANCHO CORDOVA, CA 95670  
P. 916-368-9181

NOTES:

1. FOR COMPLETE RIGHT OF WAY, SEE RIGHT OF WAY RECORDS MAPS AT THE CITY OFFICE.

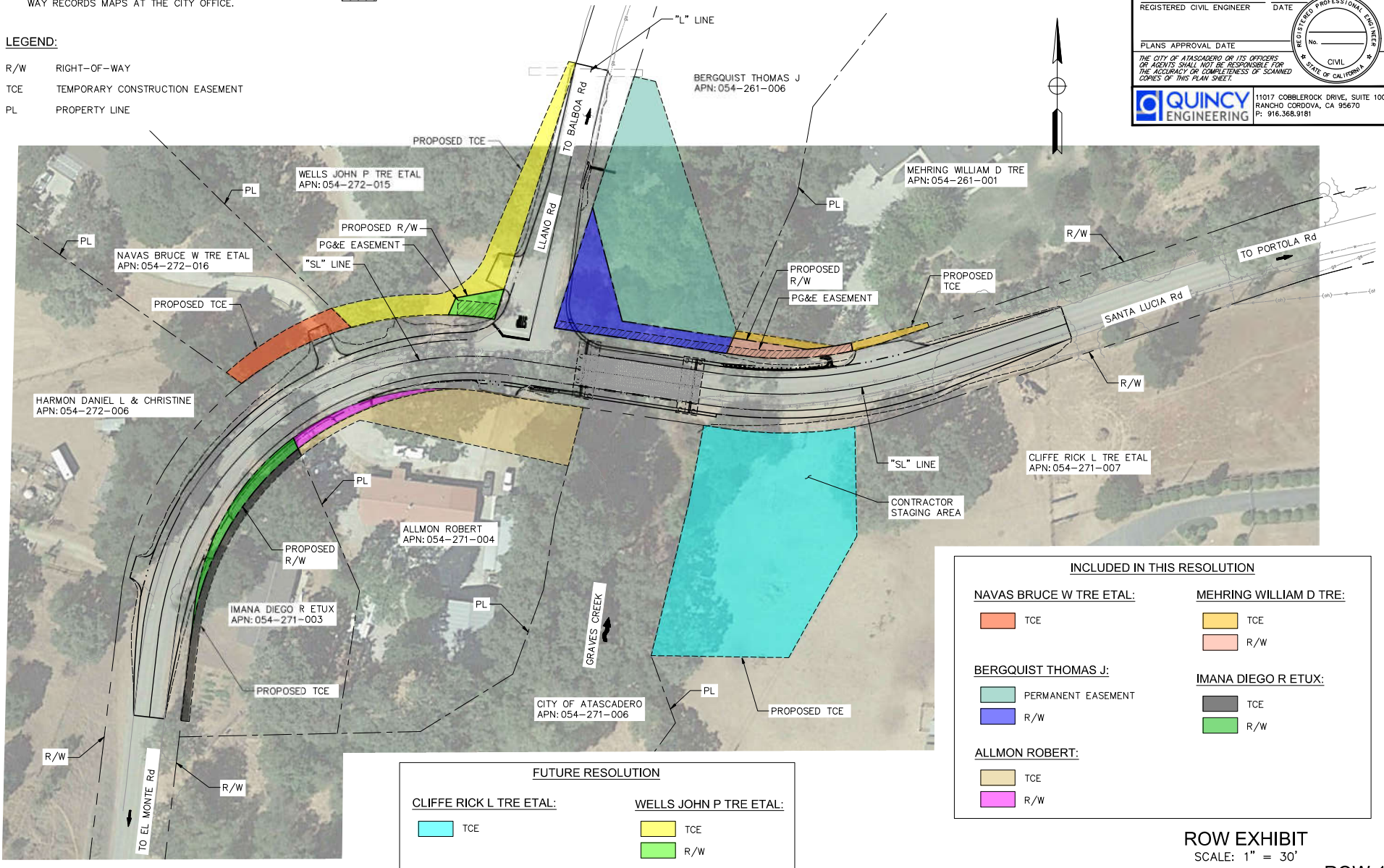
LEGEND:

R/W RIGHT-OF-WAY

TCE TEMPORARY CONSTRUCTION EASEMENT

PL      PROPERTY LINE

PG&E:

 EASEMENT

ROW EXHIBIT  
SCALE: 1" = 30'

ROW-1 LAST ROW



ASSESSOR PARCEL NO.: 054-261-001  
PROJECT: Atascadero-Santa Lucia Road Bridge Replacement  
OWNER: William Dunbrack Mehring Revocable Living Trust

**RIGHT OF WAY AGREEMENT  
(WITH ESCROW INSTRUCTIONS)**

THIS AGREEMENT is made and entered into by and between

William Dunbrack Mehring, Trustee of the William Dunbrack Mehring Revocable Living Trust dated June 1, 2016 (hereinafter called "Grantor"), and

The City of Atascadero, a California municipal corporation, (hereinafter called "City").

An instrument in the form of a Grant Deed ("Deed") covering the property particularly described therein ("Property"), has been executed concurrently with this Agreement and delivered to City representatives.

In consideration of which, and other considerations hereinafter set forth, it is mutually agreed as follows:

1. The parties have herein set forth the whole of their agreement. The performance of this Agreement constitutes the entire consideration for said document and shall relieve the City of all further obligation or claims on this account, or on account of the location, grade or construction of the proposed public improvement, except as stated in Paragraphs 2.E. and 2.F. below.

2. The City shall:

A. PAYMENT - Pay to the order of the Grantor the sum of \$2,200 as consideration in full for the Property, for the loss, replacement and moving of any improvements, and for entering into this Agreement. Said sum shall be paid when title to the Property has vested in City free and clear of all liens, encumbrances, assessments, easements and leases recorded or unrecorded, except for recorded public utility easements and public right of way.

B. RECORDATION OF INSTRUMENT - Accept the Deed and cause the same to be recorded in the office of the San Luis Obispo County Recorder at such time as when clear title can be conveyed.

C. MISCELLANEOUS COSTS - Pay any escrow, title insurance, and recording fees incurred in this transaction.

D. CLEARANCE OF BONDS, ASSESSMENTS, OR DELINQUENT TAXES - Have the authority to deduct and pay from the amount shown in Clause 2.A. above any amount necessary to satisfy any bond demands and delinquent taxes due in any year except the year in which the Deed records, together with penalties and interest thereon, and/or delinquent and unpaid non-delinquent assessments which have become a lien as of the date of recordation of the Deed.



E. CONSTRUCTION AND RESTORATION – Shall, upon completion of construction, generally restore the Temporary Construction Easement area described in the Deed to a comparable or better condition than that which existed prior to City's project construction, to the extent reasonably practical. As part of such restoration, City will replace and relocate the existing redwood vertical slat perimeter fence where it encroaches on the City right of way to the new right of way line on the west side of the driveway; this includes replacement of the fence with redwood materials and painting of the fence if the seller provides a specified color, at City cost. All trees within Grantor's remaining property will be protected in place. In accordance with the Atascadero Native Tree Ordinance, City agrees to plant a 15 gallon replacement tree in place of any tree that dies due to damages caused by the construction activities during the course of City's construction. City will also replace any native trees that die as a result of construction activities within two years of project completion, with cause of death confirmed by professional judgement of both the property owner and City's arborists. Any utility services will be protected in place or, if impacted by the project, will be relocated at City expense.

F. INDEMNIFICATION - Indemnify and hold harmless Grantor from any and all claims, damages, costs, judgments, or liability proximately caused by City or its officers, employees, or agents specifically arising from City construction and restoration work on the Property within the term of the Temporary Construction Easement specified in the Deed.

3. The Grantor:

A. PAYMENT ON MORTGAGE OR DEED OF TRUST - Agrees that any or all monies payable under this Agreement up to and including the total amount of the unpaid principal and interest on the note(s) secured by mortgage(s) or deed(s) of trust, if any, and all other amounts due and payable in accordance with the terms and conditions of said mortgage(s) or deed(s) of trust, shall upon demand(s) be made payable to the mortgagee(s) or beneficiary(s) entitled thereunder. Grantor shall cooperate with the City and/or Escrow Officer in obtaining lien clearance documents from any and all creditors holding liens against the Property.

B. LEASE INDEMNIFICATION - Warrants there are no oral or written leases on all or any portion of the Property, or if there are such leases, Grantor agrees to hold the City harmless and reimburse City for any and all of its losses and expenses occasioned by reason of any lease of said Property held by tenant of Grantor.

C. PERMISSION TO ENTER - Hereby grants to the City, its agents and contractors, permission to enter the Property prior to the close of escrow for the purposes of preparation for the construction of the City's facilities, subject to all applicable terms and conditions contained in this Agreement and the associated Deed.

D. TITLE INDEMNITY AND WARRANTY - To the best of Grantor's knowledge Grantor hereby represents and warrants that he/she/they are the sole vested owners of the Property, holding all ownership and possessory rights, and are the authorized signatories to grant the rights referenced in this Agreement without conflict or claims from other parties.

E. HAZARDOUS SUBSTANCES - Represents and warrants, to the best of Grantor's



knowledge, the following:

During Grantor's ownership of the Property, Grantor knows of no disposal, releases, or threatened releases of hazardous substances on, from, or under the Property or Grantor's remaining adjacent property. Grantor further represents and warrants that Grantor has no knowledge of disposal, release, or threatened release of hazardous substances on, from, or under the Property, or Grantor's remaining adjacent property, which may have occurred prior to Grantor's ownership.

There is no pending claim, lawsuit, agency proceeding, or any administrative challenge concerning the presence or use of hazardous substances on or within the Property or Grantor's remaining adjacent property.

Grantor has not used the Property, or Grantor's remaining adjacent property, for any industrial operations that use hazardous substances. Grantor is not aware of any prior use of such property. Grantor has not installed any underground storage tanks, above ground storage tanks, barrels, sumps, impoundments or other containers used to contain hazardous substances on any part of the Property or Grantor's remaining adjacent property. Grantors are not aware of any such prior installations. The purchase price of the Property being acquired reflects the fair market value of the Property without the presence of contamination. If the Property is found to be contaminated by the presence of hazardous substances which require mitigation under Federal or State law, City may elect to recover its cleanup costs from those who caused or contributed to the contamination.

4. The Parties agree:

A. ESCROW - At City's option, to open an escrow in accordance with this Agreement at an escrow company of City's choice. Opening an escrow shall be at City's sole discretion and City may decide to process this transaction without the use of an escrow agent. However, if an escrow agent is utilized, this Agreement constitutes the joint escrow instructions of City and Grantor, and the escrow agent to whom these instructions are delivered is hereby empowered to act under this Agreement. The parties hereto agree to do all acts necessary to close this escrow in the shortest possible time.

If an escrow is utilized, as soon as possible after opening of escrow, City will deposit the executed Deed by Grantor, with Certificate of Acceptance attached, with the escrow agent on Grantor's behalf. City agrees to deposit the purchase price upon demand of escrow agent. City and Grantor agree to deposit with escrow agent all additional instruments as may be necessary to complete this transaction. All funds received in this escrow shall be deposited with other escrow funds in a general escrow fund account(s) and may be transferred to any other such escrow trust account in any State or National Bank doing business in the State of California. All disbursements shall be made by check or wire transfer from such account.

Any taxes which have been paid by Grantor, prior to opening of this escrow, shall not be pro-rated between City and Grantor, but Grantor shall have the sole right after close of escrow, to apply to the County Tax Collector of said County for any refund of such taxes which may be due Grantor for the period after City's acquisition.



- i) ESCROW AGENT DIRECTIVES - Escrow Agent is authorized to, and shall:
- a) Pay and charge Grantor for any unpaid delinquent taxes and/or any penalties and interest thereon, and for any delinquent assessments or bonds against that portion of Grantor's property subject to this transaction as required to convey clear title.
  - b) Pay and charge City for any escrow fees, charges and costs payable under Paragraph 2.C. of this Agreement;
  - c) Disburse funds and deliver Deed when conditions of this escrow have been fulfilled by City and Grantor.
  - d) Following recording of Deed from Grantor, if requested by City, provide City with a CLTA Standard Coverage Policy of Title Insurance in the amount of \$2,200 issued by a Title Company of City's choice showing that title to the Property is vested in City, subject only to the following exceptions, and the printed exceptions and stipulations in said policy:
    - 1) Real Property Taxes for the fiscal year in which escrow closes;
    - 2) Public utility easements and public rights of way;
    - 3) Items No. 4, 5, 6, 7, 9, 10, 11, and 12 of the preliminary title report issued by First American Title Company, dated June 27, 2018, referenced as Order No. 4001-5232070;
    - 4) Other items that may be approved in writing by City in advance of the close of escrow.
- ii) CLOSE OF ESCROW - The term "close of escrow", if and where written in these instructions, shall mean the date necessary instruments of conveyance are recorded in the office of the County Recorder. Recordation of instruments delivered through this escrow is hereby authorized.

B. JUDGMENT IN LIEU OF DEED - In the event Grantor does not deliver title in a reasonable time under the terms of the Agreement, the City may file an action in eminent domain to pursue the acquisition of the Property, and this Agreement shall constitute a stipulation which may be filed in said proceedings as final and conclusive evidence of the total amount of damages for the taking, including all of the items listed in Section 1260.230 of the Code of Civil Procedure, regarding said property rights.

C. ARTICLE HEADINGS - Article headings in this Agreement are for convenience only and are not intended to be used in interpreting or construing the terms, covenants and conditions of this Agreement.

D. COMPLETE UNDERSTANDING - This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions, and preliminary agreements or understandings, written or oral.



This Agreement may not be amended except in writing by the parties hereto or their successors or assigns.

E. CITY COUNCIL APPROVAL - This Agreement is subject to and conditioned upon approval by the Atascadero City Council. This Agreement is not binding upon the City until executed by the appropriate City official(s) acting in their authorized capacity.

F. SETTLEMENT PROPOSAL - This Agreement represents Grantor's settlement proposal and is expressly subject to and contingent upon City's acceptance and approval. Deposit into escrow of a fully executed copy of this Agreement constitutes acceptance and approval by City.

G. COUNTERPARTS - This Agreement may be executed in counterparts, each of which so executed shall irrespective of the date of its execution and delivery be deemed an original, and all such counterparts together shall constitute one and the same document.

H. ELECTRONIC AND FACSIMILE SIGNATURES - In the event that the parties hereto utilize electronic or facsimile documents which include signatures, such documents shall be accepted as if they bore original signatures provided that documents bearing ORIGINAL SIGNATURES are provided following transmittal of the electronic or facsimile signature. Documents for recordation by the Clerk Recorder must contain original signatures.

---

**No Obligation Other Than Those Set Forth Herein Will Be Recognized.**

**GRANTOR:**

William Dunbrack Mehring, Trustee of the William Dunbrack Mehring Revocable Living Trust dated June 1, 2016

By: 

William Dunbrack Mehring, Trustee

Date: 1-7-2021

**GRANTOR'S MAILING ADDRESS:**

William Dunbrack Mehring, Trustee  
Post Office Box 2555  
Atascadero, CA 93423

CITY OF ATASCADERO

By: \_\_\_\_\_  
Rachelle Rickard  
City Manager

Date: \_\_\_\_\_

MAILING ADDRESS OF CITY:  
The City of Atascadero  
Attn: Deputy Director of Public Works  
6907 El Camino Real  
Atascadero, CA 93422

Recording requested by:  
Hamner, Jewell & Associates  
Government Real Estate Services

When recorded, mail to:

City of Atascadero  
Attn: City Clerk  
6500 Palma Avenue  
Atascadero, CA 93422

Exempt from the S75 Building and Jobs Act Fee per Gov't Code §27388.1(2)(D) Public Agency  
No fee pursuant to Government Code § 6103  
No Documentary Transfer Tax per R&T Code § 11922  
No Recording Fee per Government Code § 27383

**GRANT DEED**  
(To the City of Atascadero)

APN: 054-261-001

For a valuable consideration, receipt of which is hereby acknowledged,

William Dunbrack Mehring, Trustee of the William Dunbrack Mehring Revocable  
Living Trust dated June 1, 2016 (hereinafter referred to as "Grantor"),

hereby grants to the

The City of Atascadero, a California municipal corporation ( "City"),

the following described interests in real property located in the City of Atascadero, County of  
San Luis Obispo, State of California:

In Fee:

All that certain property described in Exhibit "A" and depicted in Exhibit "B", attached  
hereto and incorporated herein; and

Temporary Construction Easement

A temporary easement for the purposes of facilitating construction of adjacent public street  
improvements and related purposes, in, on, over, under, through, along, and across that  
certain parcel of land located in the City of Atascadero, County of San Luis Obispo, State  
of California described in Exhibits "C" and "E" and depicted in Exhibits "D" and "F",  
attached hereto and incorporated herein.



This Temporary Construction Easement shall commence on February 1, 2021, and shall automatically terminate upon completion of City's construction or 36 months after the commencement, whichever occurs first. In any event, this temporary easement shall terminate by or before January 31, 2024.

Upon termination, the Temporary Construction Easement area will be generally restored by City to a comparable or better condition as that which existed prior to City's access and use, to the extent reasonably practical.

GRANTOR represents and warrants it is the owner of the parcel of land described herein and is the authorized signatory to execute this Deed and grant these easement rights to CITY, and that no additional signatures are required to carry out this conveyance.

GRANTOR:

William Dunbrack Mehring, Trustee of the William Dunbrack Mehring Revocable Living Trust dated June 1, 2016

By: [Signature]  
William Dunbrack Mehring, Trustee

Date: 1/27/2021

**ACKNOWLEDGMENT**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California

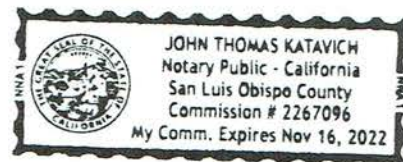
County of San Luis Obispo

On Jan, 7, 2021 before me, John T. Katavich, Notary Public, personally appeared William Dunbrack Mehring, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature [Signature] (Seal)



**CERTIFICATE OF ACCEPTANCE**  
(Gov. Code section 27281)

This is to certify that the interest in real property conveyed by the Grant Deed dated \_\_\_\_\_ from William Dunbrack Mehring, Trustee of the William Dunbrack Mehring Revocable Living Trust dated June 1, 2016, to the City of Atascadero, a municipal corporation government, Grantee therein, is hereby accepted by the undersigned officer or agent on behalf of the City of Atascadero pursuant to the authority conferred by Resolution of the City Counsel of the City of Atascadero adopted on April 28, 1987, and the Grantee consents to the recordation thereof by its duly authorized officer or agent.

In Witness Whereof, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2020.

“GRANTEE”

CITY OF ATASCADERO, a municipal corporation

By \_\_\_\_\_  
Nicholas D. DeBar  
Director of Public Works

ATTEST:

By \_\_\_\_\_  
Lara Christensen, City Clerk

## **EXHIBIT A**

**(APN 054-261-001 Fee Acquisition)**

**Being a portion of Lot 43 in Block 27 of the Atascadero Colony in the City of Atascadero, County of San Luis Obispo, State of California as shown on map recorded in Book 3 of Maps, at Page 33 in the office of the County Recorder of said County, being more particularly described as follows:**

**Beginning at the south common corner of said Lot 43 and the Graves Creek Reservation #6 on the north right-of-way of Santa Lucia Road as shown on said map, said point also being the TRUE POINT OF BEGINNING;**

**Thence, along the southwest line of said Lot 43 North 23°50'00" East 11.18 feet to a point;**

**Thence, leaving said right-of-way South 81°13'38" East 50.56 feet to the beginning of a non-tangent curve concave north having a radius of 208.30 feet;**

**Thence, east along said curve 29.37 feet through a central angle of 08°04'40" to a point at the end of said curve and to which point a radial bears South 12°11'57" East;**

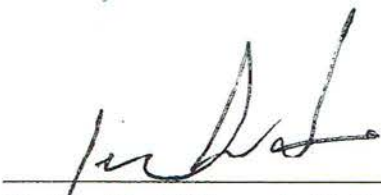
**Thence, South 12°11'57" East 5.50 feet to a point on said north right-of-way, said point also being a point on a tangent curve concave north having a radius of 213.80 feet**

**Thence, west along said north right-of-way and curve 77.11 feet through a central angle of 20°39'57" to the end of said tangent curve;**

**Thence, continuing along said north right-of-way North 81°32'00" West to the TRUE POINT OF BEGINNING.**

**Contains 648.0 square feet.**

**END OF DESCRIPTION.**



**Keith McMillan L.S. 6729**

**8-25-2020 Date**





GRAVES CREEK  
 RESERVATION #6  
 APN 054-261-006

POB DENOTES POINT OF BEGINNING  
 TPOB DENOTES TRUE POINT OF BEGINNING  
 SF DENOTES SQUARE FEET

**LOT 43**  
**3-AC-33**  
**APN 054-261-001**

**EXHIBIT B**  
**FEE-ACQUISITION**

**SANTA LUCIA ROAD**

PTN LOT 9  
 3-AC-57

GRAVES CREEK  
 RESERVATION #7  
 APN 054-271-006

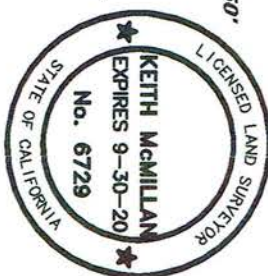
LOT #8  
 3-AC-57  
 APN 054-271-007



2306 BROAD STREET  
 SAN LUIS OBISPO, CA 93401  
 805-541-1663 FAX 541-1664  
 DATE: 08-25-2020 JOB #621-02

**McMillan**  
 LAND SURVEYS

*Keith McMillan* 08-25-2020  
 KEITH McMILLAN L.S. 6729



**EXHIBIT C**  
**(APN 054-261-001 TCE WEST)**

Being a portion of Lot 43 in Block 27 of the Atascadero Colony in the City of Atascadero, County of San Luis Obispo, State of California as shown on map recorded in Book 3 of Maps, at Page 33 in the office of the County Recorder of said County, being more particularly described as follows:

Beginning at the south common corner of said Lot 43 and the Graves Creek Reservation #6 on the north right-of-way of Santa Lucia Road as shown on said map;

Thence, along the southwest line of said Lot 43 North  $23^{\circ}50'00''$  East 11.18 feet to the TRUE POINT OF BEGINNING;

Thence, leaving said right-of-way South  $81^{\circ}13'38''$  East 50.56 feet to the beginning of a non-tangent curve concave north having a radius of 208.30 feet;

Thence, east along said curve 18.75 feet through a central angle of  $05^{\circ}09'25''$  to a point at the end of said curve and to which point a radial bears South  $09^{\circ}16'42''$  East;

Thence, North  $81^{\circ}13'38''$  West 67.28 feet to a point on said southwest line;

Thence, along said southwest line South  $23^{\circ}50'00''$  West 5.18 feet to the TRUE POINT OF BEGINNING.

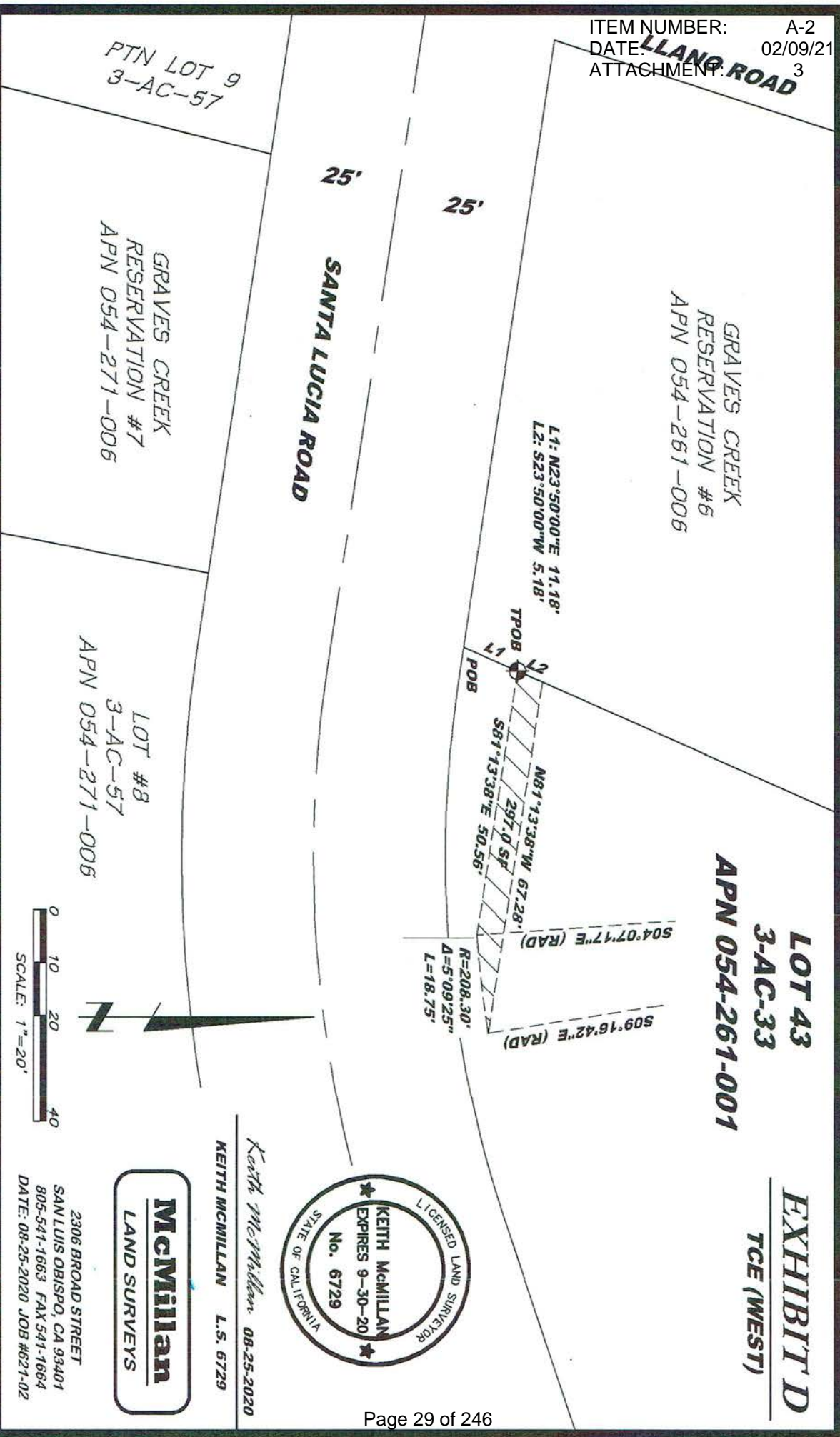
Contains 297.0 square feet.

END OF DESCRIPTION.

  
\_\_\_\_\_  
Keith McMillan L.S. 6729      8-25-2010      Date







**EXHIBIT E**  
(APN 054-261-001 TCE EAST)

Being a portion of Lot 43 in Block 27 of the Atascadero Colony in the City of Atascadero, County of San Luis Obispo, State of California as shown on map recorded in Book 3 of Maps, at Page 33 in the office of the County Recorder of said County, being more particularly described as follows:

Beginning at the south common corner of said Lot 43 and the Graves Creek Reservation #6 on the north right-of-way of Santa Lucia Road as shown on said map;

Thence, along said right-of-way South  $81^{\circ}32'00''$  East 8.13 feet to the beginning of a tangent curve concave north having a radius of 213.80 feet;

Thence, continuing along said curve and right-of-way 77.11 feet through a central angle of  $20^{\circ}39'57''$  to a point on said curve, said point also being the TRUE POINT OF BEGINNING;

Thence, continuing along said curve and right-of-way 23.64 feet through a central angle of  $06^{\circ}20'03''$  to the end of said tangent curve;

Thence, continuing along said right-of-way North  $71^{\circ}28'00''$  East 29.98 feet to a point;

Thence, leaving said right-of-way North  $18^{\circ}32'00''$  West 3.25 feet to a point;

Thence, South  $75^{\circ}16'14''$  West 53.08 feet to a point;

Thence, South  $12^{\circ}11'57''$  East 5.50 feet to the TRUE POINT OF BEGINNING.

Contains 258.0 square feet.

END OF DESCRIPTION.

  
\_\_\_\_\_  
Keith McMillan L.S. 6729      8-25-2020      Date





POB DENOTES POINT OF BEGINNING  
 TPOB DENOTES TRUE POINT OF BEGINNING  
 SF DENOTES SQUARE FEET

GRAVES CREEK  
 RESERVATION #6  
 APN 054-261-006

**LOT 43**  
**3-AC-33**  
**APN 054-261-001**

**EXHIBIT F**  
**TCE (EAST)**

**SANTA LUCIA ROAD**

GRAVES CREEK  
 RESERVATION #7  
 APN 054-271-006

**LOT #8**  
**3-AC-57**  
**APN 054-271-006**



2306 BROAD STREET  
 SAN LUIS OBISPO, CA 93401  
 805-541-1663 FAX 541-1664  
 DATE: 08-25-2020 JOB #621-02

**McMillan**  
 LAND SURVEYS

*Keith McMillan* 08-25-2020  
 KEITH McMILLAN L.S. 6729



ASSESSOR PARCEL NO.: 054-261-006  
PROJECT: Atascadero-Santa Lucia Road Bridge Replacement  
OWNER: Thomas J. Berquist

**RIGHT OF WAY AGREEMENT  
(WITH ESCROW INSTRUCTIONS)**

THIS AGREEMENT is made and entered into by and between

Thomas J. Berquist, an unmarried man (hereinafter called "Grantor"), and

The City of Atascadero, a California municipal corporation, (hereinafter called "City").

An instrument in the form of a Grant Deed ("Deed") covering the property particularly described therein ("Property"), has been executed concurrently with this Agreement and delivered to City representatives.

In consideration of which, and other considerations hereinafter set forth, it is mutually agreed as follows:

1. The parties have herein set forth the whole of their agreement. The performance of this Agreement constitutes the entire consideration for said document and shall relieve the City of all further obligation or claims on this account, or on account of the location, grade or construction of the proposed public improvement, except as stated in Paragraphs 2.E. and 2.F. below.

2. The City shall:

A. PAYMENT - Pay to the order of the Grantor the sum of \$500 as consideration in full for the Property, for the loss, replacement and moving of any improvements, and for entering into this Agreement. Said sum shall be paid when title to the Property has vested in City free and clear of all liens, encumbrances, assessments, easements and leases recorded or unrecorded, except for recorded public utility easements and public right of way.

B. RECORDATION OF INSTRUMENT - Accept the Deed and cause the same to be recorded in the office of the San Luis Obispo County Recorder at such time as when clear title can be conveyed.

C. MISCELLANEOUS COSTS - Pay any escrow, title insurance, and recording fees incurred in this transaction.

D. CLEARANCE OF BONDS, ASSESSMENTS, OR DELINQUENT TAXES - Have the authority to deduct and pay from the amount shown in Clause 2.A. above any amount necessary to satisfy any bond demands and delinquent taxes due in any year except the year in which the Deed records, together with penalties and interest thereon, and/or delinquent and unpaid non-delinquent assessments which have become a lien as of the date of recordation of the Grant Deed.

E. CONSTRUCTION AND RESTORATION – Shall, upon completion of construction, generally restore Grantor's remaining property to a comparable or better condition than that which existed prior to City's project construction, to the extent reasonably practical. Restoration will include revegetation of the creek with native vegetation, at City expense.

F. INDEMNIFICATION - Indemnify and hold harmless Grantor from any and all claims, damages, costs, judgments, or liability proximately caused by City or its officers, employees, or agents specifically arising from City construction and restoration work on the Property.

3. The Grantor:

A. PAYMENT ON MORTGAGE OR DEED OF TRUST - Agrees that any or all monies payable under this Agreement up to and including the total amount of the unpaid principal and interest on the note(s) secured by mortgage(s) or deed(s) of trust, if any, and all other amounts due and payable in accordance with the terms and conditions of said mortgage(s) or deed(s) of trust, shall upon demand(s) be made payable to the mortgagee(s) or beneficiary(s) entitled thereunder. Grantor shall cooperate with the Escrow Officer in obtaining lien clearance documents from any and all creditors holding liens against the Property.

B. LEASE INDEMNIFICATION - Warrants there are no oral or written leases on all or any portion of the Property, or if there are such leases, Grantor agrees to hold the City harmless and reimburse City for any and all of its losses and expenses occasioned by reason of any lease of said Property held by tenant of Grantor.

C. PERMISSION TO ENTER - Hereby grants to the City, its agents and contractors, permission to enter the Property prior to the close of escrow for the purposes of preparation for the construction of the City's facilities, subject to all applicable terms and conditions contained in this Agreement and the associated Deed.

D. TITLE INDEMNITY AND WARRANTY - In consideration of the City waiving the requirements to clear any defects and imperfections in all matters of record title, the Grantor indemnifies and holds the City harmless from any and all claims that other parties may make or assert on the title to the Property. Grantor's obligation to indemnify the City shall not exceed the amount paid to the Grantor under this Agreement. Grantor hereby represents and warrants that he/she/they are the sole vested owners of the Property, holding all ownership and possessory rights, and are the authorized signatories to grant the rights referenced in this Agreement without conflict or claims from other parties.

E. HAZARDOUS SUBSTANCES - Represents and warrants, to the best of Grantor's knowledge, and after reasonable inquiry, the following:

During Grantor's ownership of the Property, Grantor knows of no disposal, releases, or threatened releases of hazardous substances on, from, or under the Property or Grantor's remaining adjacent property. Grantor further represents and warrants that Grantor has no knowledge of disposal, release, or threatened release of hazardous substances on, from, or under



the Property, or Grantor's remaining adjacent property, which may have occurred prior to Grantor's ownership.

There is no pending claim, lawsuit, agency proceeding, or any administrative challenge concerning the presence or use of hazardous substances on or within the Property or Grantor's remaining adjacent property.

Grantor has not used the Property, or Grantor's remaining adjacent property, for any industrial operations that use hazardous substances. Grantor is not aware of any prior use of such property. Grantor has not installed any underground storage tanks, above ground storage tanks, barrels, sumps, impoundments or other containers used to contain hazardous substances on any part of the Property or Grantor's remaining adjacent property. Grantors are not aware of any such prior installations. The purchase price of the Property being acquired reflects the fair market value of the Property without the presence of contamination. If the Property is found to be contaminated by the presence of hazardous substances which require mitigation under Federal or State law, City may elect to recover its cleanup costs from those who caused or contributed to the contamination.

4. The Parties agree:

A. ESCROW - At City's option, to open an escrow in accordance with this Agreement at an escrow company of City's choice. Opening an escrow shall be at City's sole discretion and City may decide to process this transaction without the use of an escrow agent. However, if an escrow agent is utilized, this Agreement constitutes the joint escrow instructions of City and Grantor, and the escrow agent to whom these instructions are delivered is hereby empowered to act under this Agreement. The parties hereto agree to do all acts necessary to close this escrow in the shortest possible time.

If an escrow is utilized, as soon as possible after opening of escrow, City will deposit the executed Deed by Grantor, with Certificate of Acceptance attached, with the escrow agent on Grantor's behalf. City agrees to deposit the purchase price upon demand of escrow agent. City and Grantor agree to deposit with escrow agent all additional instruments as may be necessary to complete this transaction. All funds received in this escrow shall be deposited with other escrow funds in a general escrow fund account(s) and may be transferred to any other such escrow trust account in any State or National Bank doing business in the State of California. All disbursements shall be made by check or wire transfer from such account.

Any taxes which have been paid by Grantor, prior to opening of this escrow, shall not be pro-rated between City and Grantor, but Grantor shall have the sole right after close of escrow, to apply to the County Tax Collector of said County for any refund of such taxes which may be due Grantor for the period after City's acquisition.

i) ESCROW AGENT DIRECTIVES - Escrow Agent is authorized to, and shall:

- a) Pay and charge Grantor for any unpaid delinquent taxes and/or any penalties and interest thereon, and for any delinquent assessments or

bonds against that portion of Grantor's property subject to this transaction as required to convey clear title.

- b) Pay and charge City for any escrow fees, charges and costs payable under Paragraph 2.C. of this Agreement;
  - c) Disburse funds and deliver Deed when conditions of this escrow have been fulfilled by City and Grantor.
  - d) Following recording of Deed from Grantor, if requested by City, provide City with a CLTA Standard Coverage Policy of Title Insurance in the amount of \$500 issued by a Title Company of City's choice showing that title to the Property is vested in City, subject only to the following exceptions, and the printed exceptions and stipulations in said policy:
    - 1) Real Property Taxes for the fiscal year in which escrow closes;
    - 2) Public utility easements and public rights of way;
    - 3) Items No. 2, 3, 4, 5, 6, 9, 10, 11, 12, and 13 of the preliminary title report issued by First American Title Company, dated September 27, 2018, referenced as Order No. 4001-5231593;
    - 4) Other items that may be approved in writing by City in advance of the close of escrow.
- ii) CLOSE OF ESCROW - The term "close of escrow", if and where written in these instructions, shall mean the date necessary instruments of conveyance are recorded in the office of the County Recorder. Recordation of instruments delivered through this escrow is hereby authorized.

B. JUDGMENT IN LIEU OF DEED - In the event Grantor does not deliver title in a reasonable time under the terms of the Agreement, the City may file an action in eminent domain to pursue the acquisition of the Property, and this Agreement shall constitute a stipulation which may be filed in said proceedings as final and conclusive evidence of the total amount of damages for the taking, including all of the items listed in Section 1260.230 of the Code of Civil Procedure, regarding said property rights.

C. ARTICLE HEADINGS - Article headings in this Agreement are for convenience only and are not intended to be used in interpreting or construing the terms, covenants and conditions of this Agreement.

D. COMPLETE UNDERSTANDING - This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions, and preliminary agreements or understandings, written or oral. This Agreement may not be amended except in writing by the parties hereto or their successors or assigns.

E. CITY COUNCIL APPROVAL - This Agreement is subject to and conditioned upon approval by the Atascadero City Council. This Agreement is not binding upon the City until executed by the appropriate City official(s) acting in their authorized capacity.

F. COUNTERPARTS - This Agreement may be executed in counterparts, each of which so executed shall irrespective of the date of its execution and delivery be deemed an original, and all such counterparts together shall constitute one and the same document.


G. ELECTRONIC AND FACSIMILE SIGNATURES - In the event that the parties hereto utilize electronic or facsimile documents which include signatures, such documents shall be accepted as if they bore original signatures provided that documents bearing ORIGINAL SIGNATURES are provided following transmittal of the electronic or facsimile signature. Documents for recordation by the Clerk Recorder must contain original signatures.

---

**No Obligation Other Than Those Set Forth Herein Will Be Recognized.**

**GRANTOR:**

Thomas J. Berquist, an unmarried man

  
\_\_\_\_\_  
Thomas J. Berquist

Date: 11-24-20

**GRANTOR'S MAILING ADDRESS:**

Thomas J. Berquist  
Post Office Box 2647  
Atascadero, CA 93423

**CITY OF ATASCADERO**

By: \_\_\_\_\_  
Rachelle Rickard  
City Manager

Date: \_\_\_\_\_

**MAILING ADDRESS OF CITY:**

The City of Atascadero  
Attn: Deputy Director of Public Works  
6907 El Camino Real  
Atascadero, CA 93422



Recording requested by:  
Hamner, Jewell & Associates  
Government Real Estate Services

When recorded, mail to:

City of Atascadero  
Attn: City Clerk  
6500 Palma Avenue  
Atascadero, CA 93422

Exempt from the \$75 Building and Jobs Act Fee per Gov't Code § 27388.1(2)(D) Public Agency  
No fee pursuant to Government Code § 6103  
No Documentary Transfer Tax per R&T Code § 11922  
No Recording Fee per Government Code § 27383

APN: 054-261-006

### **GRANT DEED**

(With Permanent Easement for Access and Vegetation Restoration -To the City of Atascadero)

For a valuable consideration, receipt of which is hereby acknowledged,

Thomas J. Berquist, an unmarried man (hereinafter referred to as "Grantor"),

hereby grants to the

The City of Atascadero, a California municipal corporation, (hereinafter referred to as "Grantee"),

the following described interests in real property located in the City of Atascadero, County of San Luis Obispo, State of California:

#### In Fee

All that certain property described in Exhibit "A" and depicted in Exhibit "B", attached hereto and incorporated herein; and

#### Permanent Easement

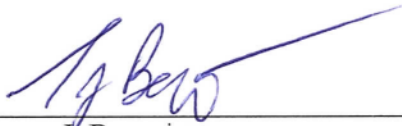
A permanent easement for purposes of facilitating access for bridge construction and maintenance and undertaking native vegetation restoration, including removal of non-native vegetation from the creek and replacing it with native vegetation, and including the right, but not the obligation, to conduct intermittent site visits to monitor the revegetation and conduct vegetation maintenance activities, and all related purposes in, on, over, under, though, along, and across those certain parcel(s) of land located in the City of Atascadero, County of San Luis Obispo, State of California, described in Exhibit "C" and depicted in Exhibit "D", attached hereto and incorporated herein.

GRANTOR represents and warrants it is the owner of the real property described herein and is the authorized signatory to execute this Deed and grant these property rights to GRANTEE, and that no additional signatures are required to carry out this conveyance.

Executed this 24<sup>th</sup> day of November, 2020.

GRANTOR:

Thomas J. Berquist, an unmarried man



Thomas J. Berquist

**ACKNOWLEDGMENT**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

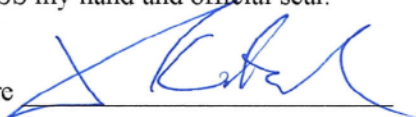
State of California  
County of San Luis Obispo

On November 24, 2020 before me, John T. Katakovich, Notary Public, personally appeared Thomas J. Berquist, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

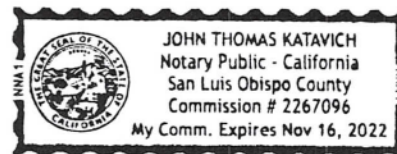
I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature



(Seal)



**CERTIFICATE OF ACCEPTANCE**  
(Gov. Code section 27281)

This is to certify that the interests in real property conveyed by the Grant Deed dated \_\_\_\_\_ from Thomas Bergquist, an unmarried man, to the City of Atascadero, a municipal corporation government, Grantee therein, is hereby accepted by the undersigned officer or agent on behalf of the City of Atascadero pursuant to the authority conferred by Resolution of the City Council of the City of Atascadero adopted on April 28, 1987, and the Grantee consents to the recordation thereof by its duly authorized officer or agent.

In Witness Whereof, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2020.

“GRANTEE”

CITY OF ATASCADERO, a municipal corporation

By \_\_\_\_\_  
Nicholas D. DeBar  
Director of Public Works

ATTEST:

By \_\_\_\_\_  
Lara Christensen, City Clerk

## **EXHIBIT A**

**(APN 054-261-006 Fee Acquisition)**

**Being a portion of the Graves Creek Reservation No. 6 of the Atascadero Colony in the City of Atascadero, County of San Luis Obispo, State of California as shown on map recorded in Book 3 of Maps, at Page 33 in the office of the County Recorder of said County, being more particularly described as follows:**

**Beginning at the southwest corner of said Creek Reservation on the north right-of-way of Santa Lucia Road, also being a point on the east right-of-way of Llano Road in Block 27 as shown on said map, said point also being the TRUE POINT OF BEGINNING;**

**Thence, along the west line of said Creek Reservation and said east right-of-way of Llano Road North 17°58'00" East 84.60 feet to a point;**

**Thence, leaving said right-of-way South 14°18'54" East 78.38 feet to a point;**


**Thence, South 81°13'38" East 75.06 feet to a point on the west line of Lot 43 in said block, as shown on said map;**

**Thence, along said west line South 23°50'00" West 11.18 feet to the southwest corner of said Lot 43, said point also being the southeast corner of said Creek Reservation, also being a point on the north right-of-way of Santa Lucia Road;**

**Thence, along said right-of-way and south line of said Creek Reservation North 81°32'00" West 116.41 feet to the TRUE POINT OF BEGINNING.**

**Contains 2,826.0 square feet.**

**END OF DESCRIPTION.**

  
\_\_\_\_\_  
**Keith McMillan L.S. 6729      Date 8-25-2020**





**EXHIBIT B**  
**FEE-ACQUISITION**

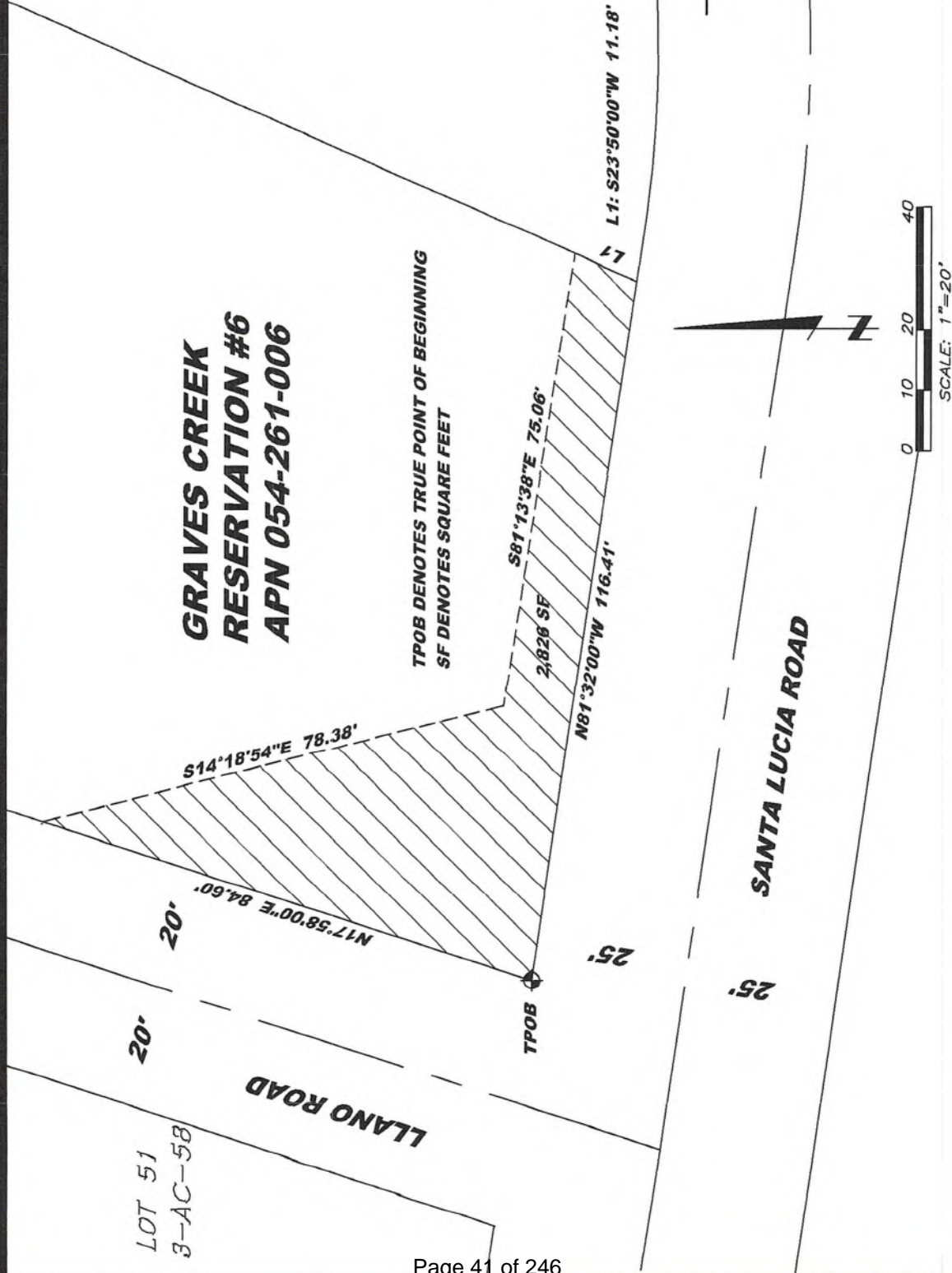
LOT 43  
3-AC-33 APN  
054-261-001

**GRAVES CREEK  
RESERVATION #6  
APN 054-261-006**

TPOB DENOTES TRUE POINT OF BEGINNING  
SF DENOTES SQUARE FEET



ITEM NUMBER: A-2  
DATE: 02/09/21  
ATTACHMENT 4  
*Keith McMillan* 08-19-2020  
KEITH McMILLAN L.S. 6729  
**McMillan**  
LAND SURVEYS  
2306 BROAD STREET  
SAN LUIS OBISPO, CA 93401  
805-541-1663 FAX 541-1664  
DATE: 08-20-2020 JOB #621-02



## **EXHIBIT C**

**(APN 054-261-006 Permanent Easement)**

**Being a portion of the Graves Creek Reservation No. 6 of the Atascadero Colony in the City of Atascadero, County of San Luis Obispo, State of California as shown on map recorded in Book 3 of Maps, at Page 33 in the office of the County Recorder of said County, being more particularly described as follows:**

**Beginning at the southwest corner of said Creek Reservation on the north right-of-way of Santa Lucia Road, also being a point on the east right-of-way of Llano Road in Block 27 as shown on said map;**

**Thence, along the west line of said Creek Reservation and said east right-of-way of Llano Road North 17°58'00" East 84.60 feet to a point, said point also being the TRUE POINT OF BEGINNING;**

**Thence, leaving said right-of-way South 14°18'54" East 78.38 feet to a point;**

**Thence, South 81°13'38" East 75.06 feet to a point on the west line of Lot 43 in said block, as shown on said map;**

**Thence, along said west line North 23°50'00" East 5.40 feet to a point;**

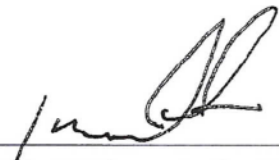
**Thence, leaving said West line North 17°43'15" West 175.11 feet to a point;**

**Thence North 76°46'55" 14.41 feet to a point on said east right-of-way**

**Thence, along said east right-of-way South 17°58'00" West 92.12 feet to the TRUE POINT OF BEGINNING.**

**Contains 9,481.0 square feet.**

**END OF DESCRIPTION.**

  
10-23-2020  
**Keith McMillan L.S. 6729 Date**



LOT 43  
 3-AC-33  
 APN 054-261-001

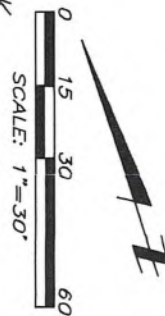
LOT 8  
 3-AC-57

# EXHIBIT D

## PERMANENT EASEMENT

### GRAVES CREEK RESERVATION #6 APN 054-261-006

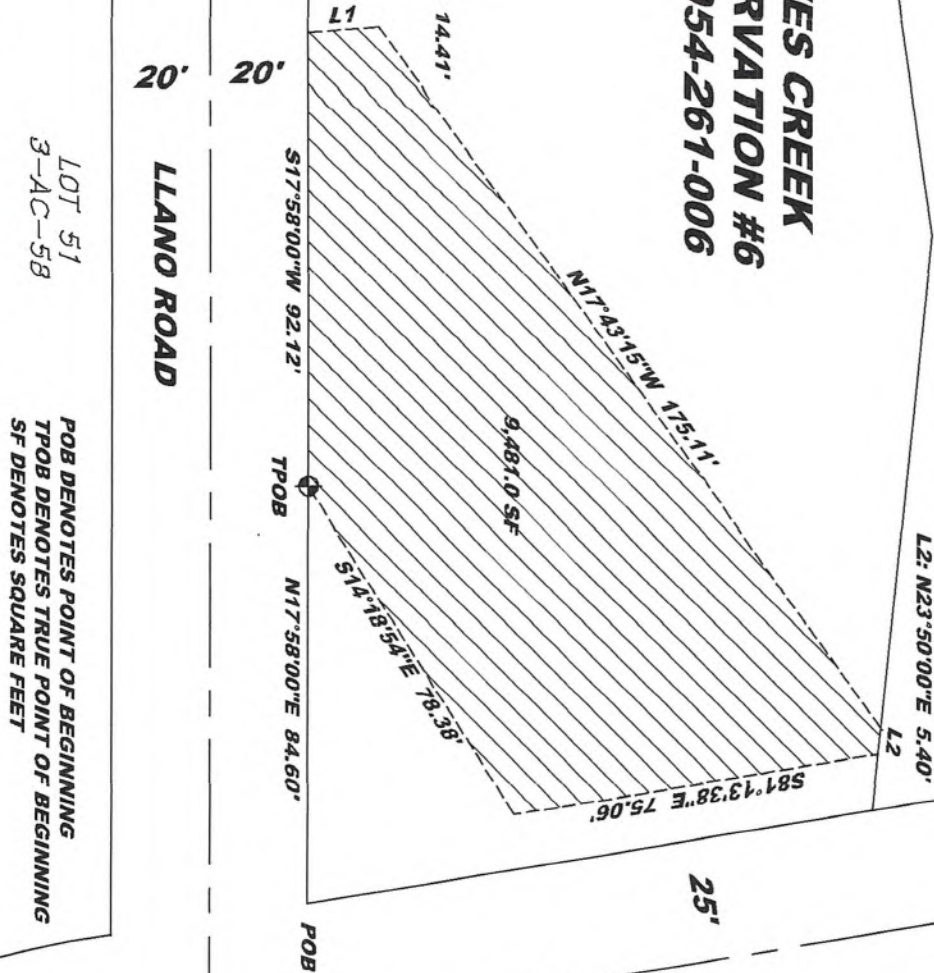
GRAVES CREEK  
 RESERVATION #7



*Keith McMillan* 10-23-2020  
 KEITH McMILLAN L.S. 6729

**McMillan**  
 LAND SURVEYS

2306 BROAD STREET  
 SAN LUIS OBISPO, CA 93401  
 805-541-1663 FAX 541-1664  
 DATE: 10-23-2020 JOB #621-02



LOT 51  
 3-AC-58  
 POB DENOTES POINT OF BEGINNING  
 TPOB DENOTES TRUE POINT OF BEGINNING  
 SF DENOTES SQUARE FEET



ASSESSOR PARCEL NO.: 054-271-003  
PROJECT: Atascadero-Santa Lucia Road Bridge Replacement  
OWNER: Diego R. Imana and Karen L. Beene

**RIGHT OF WAY AGREEMENT  
(WITH ESCROW INSTRUCTIONS)**

THIS AGREEMENT is made and entered into by and between

Diego R. Imana and Karen L. Beene, husband and wife as joint tenants (hereinafter collectively called "Grantor"), and

The City of Atascadero, a California municipal corporation, (hereinafter called "City").

An instrument in the form of a Grant Deed ("Deed") covering the property particularly described therein ("Property"), has been executed concurrently with this Agreement and delivered to City representatives.

In consideration of which, and other considerations hereinafter set forth, it is mutually agreed as follows:

1. The parties have herein set forth the whole of their agreement. The performance of this Agreement constitutes the entire consideration for said document and shall relieve the City of all further obligation or claims on this account, or on account of the location, grade or construction of the proposed public improvement, except as stated in Paragraphs 2.E. and 2.F. below.

2. The City shall:

A. PAYMENT - Pay to the order of the Grantor the sum of \$6,600 as consideration in full for the Property, for the loss, replacement and moving of any improvements, and for entering into this Agreement. Said sum shall be paid when title to the Property has vested in City free and clear of all liens, encumbrances, assessments, easements and leases recorded or unrecorded, except for recorded public utility easements and public right of way.

B. RECORDATION OF INSTRUMENT - Accept the Deed and cause the same to be recorded in the office of the San Luis Obispo County Recorder at such time as when clear title can be conveyed.

C. MISCELLANEOUS COSTS - Pay any escrow, title insurance, and recording fees incurred in this transaction.

D. CLEARANCE OF BONDS, ASSESSMENTS, OR DELINQUENT TAXES - Have the authority to deduct and pay from the amount shown in Clause 2.A. above any amount necessary to satisfy any bond demands and delinquent taxes due in any year except the year in which the Deed records, together with penalties and interest thereon, and/or delinquent and unpaid non-delinquent assessments which have become a lien as of the date of recordation of the Grant Deed.



E. CONSTRUCTION AND RESTORATION – Shall, upon completion of construction, generally restore the Temporary Construction Easement area described in the Deed to a comparable or better condition than that which existed prior to City's project construction, to the extent reasonably practical. Upon commencement of City's construction within the Property, Grantor's existing perimeter wire fencing will be removed by City's contractor and temporary construction fencing will be installed by City along the edge of the Temporary Construction Easement area. An existing Bay Laurel tree will be removed at the southwest corner of Grantor's driveway. Two additional trees at the northerly tip of the property will also be removed. Grantor's mailbox will be relocated to the edge of the new property/right of way line. Upon completion of construction, like-kind perimeter fencing will be reinstalled. All said work shall be completed at City expense, at no cost to Grantor. Access to Grantor's property will be maintained throughout the construction duration.

F. INDEMNIFICATION - Indemnify and hold harmless Grantor from any and all claims, damages, costs, judgments, or liability proximately caused by City or its officers, employees, or agents specifically arising from City construction and restoration work on the Property within the term of the Temporary Construction Easement described in the Deed.

3. The Grantor:

A. PAYMENT ON MORTGAGE OR DEED OF TRUST - Agrees that any or all monies payable under this Agreement up to and including the total amount of the unpaid principal and interest on the note(s) secured by mortgage(s) or deed(s) of trust, if any, and all other amounts due and payable in accordance with the terms and conditions of said mortgage(s) or deed(s) of trust, shall upon demand(s) be made payable to the mortgagee(s) or beneficiary(s) entitled thereunder. Grantor shall cooperate with the City and/or Escrow Officer in obtaining lien clearance documents from any and all creditors holding liens against the Property.

B. LEASE INDEMNIFICATION - Warrants there are no oral or written leases on all or any portion of the Property, or if there are such leases, Grantor agrees to hold the City harmless and reimburse City for any and all of its losses and expenses occasioned by reason of any lease of said Property held by tenant of Grantor.

C. PERMISSION TO ENTER - Hereby grants to the City, its agents and contractors, permission to enter the Property prior to the close of escrow for the purposes of preparation for the construction of the City's facilities, subject to all applicable terms and conditions contained in this Agreement and the associated Deed.

D. TITLE INDEMNITY AND WARRANTY - In consideration of the City waiving the requirements to clear any defects and imperfections in all matters of record title, the Grantor indemnifies and holds the City harmless from any and all claims that other parties may make or assert on the title to the Property. Grantor's obligation to indemnify the City shall not exceed the amount paid to the Grantor under this Agreement. Grantor hereby represents and warrants that he/she/they are the sole vested owners of the Property, holding all ownership and possessory rights, and are the authorized signatories to grant the rights referenced in this Agreement without conflict or claims from other parties.



E. HAZARDOUS SUBSTANCES - Represents and warrants, to the best of Grantor's knowledge, and after reasonable inquiry, the following:

During Grantor's ownership of the Property, Grantor knows of no disposal, releases, or threatened releases of hazardous substances on, from, or under the Property or Grantor's remaining adjacent property. Grantor further represents and warrants that Grantor has no knowledge of disposal, release, or threatened release of hazardous substances on, from, or under the Property, or Grantor's remaining adjacent property, which may have occurred prior to Grantor's ownership.

There is no pending claim, lawsuit, agency proceeding, or any administrative challenge concerning the presence or use of hazardous substances on or within the Property or Grantor's remaining adjacent property.

Grantor has not used the Property, or Grantor's remaining adjacent property, for any industrial operations that use hazardous substances. Grantor is not aware of any prior use of such property. Grantor has not installed any underground storage tanks, above ground storage tanks, barrels, sumps, impoundments or other containers used to contain hazardous substances on any part of the Property or Grantor's remaining adjacent property. Grantors are not aware of any such prior installations. The purchase price of the Property being acquired reflects the fair market value of the Property without the presence of contamination. If the Property is found to be contaminated by the presence of hazardous substances which require mitigation under Federal or State law, City may elect to recover its cleanup costs from those who caused or contributed to the contamination.

4. The Parties agree:

A. ESCROW - At City's option, to open an escrow in accordance with this Agreement at an escrow company of City's choice. Opening an escrow shall be at City's sole discretion and City may decide to process this transaction without the use of an escrow agent. However, if an escrow agent is utilized, this Agreement constitutes the joint escrow instructions of City and Grantor, and the escrow agent to whom these instructions are delivered is hereby empowered to act under this Agreement. The parties hereto agree to do all acts necessary to close this escrow in the shortest possible time.

If an escrow is utilized, as soon as possible after opening of escrow, City will deposit the executed Deed by Grantor, with Certificate of Acceptance attached, with the escrow agent on Grantor's behalf. City agrees to deposit the purchase price upon demand of escrow agent. City and Grantor agree to deposit with escrow agent all additional instruments as may be necessary to complete this transaction. All funds received in this escrow shall be deposited with other escrow funds in a general escrow fund account(s) and may be transferred to any other such escrow trust account in any State or National Bank doing business in the State of California. All disbursements shall be made by check or wire transfer from such account.

Any taxes which have been paid by Grantor, prior to opening of this escrow, shall not be pro-rated between City and Grantor, but Grantor shall have the sole right after close of escrow, to apply to the County Tax Collector of said County for any refund of such taxes which may be due Grantor for the period after City's acquisition.

- i) ESCROW AGENT DIRECTIVES - Escrow Agent is authorized to, and shall:
- a) Pay and charge Grantor for any unpaid delinquent taxes and/or any penalties and interest thereon, and for any delinquent assessments or bonds against that portion of Grantor's property subject to this transaction as required to convey clear title.
  - b) Pay and charge City for any escrow fees, charges and costs payable under Paragraph 2.C. of this Agreement;
  - c) Disburse funds and deliver Deed when conditions of this escrow have been fulfilled by City and Grantor.
  - d) Following recording of Deed from Grantor, if requested by City, provide City with a CLTA Standard Coverage Policy of Title Insurance in the amount of \$6,600 issued by a Title Company of City's choice showing that title to the Property is vested in City, subject only to the following exceptions, and the printed exceptions and stipulations in said policy:
    - 1) Real Property Taxes for the fiscal year in which escrow closes;
    - 2) Public utility easements and public rights of way;
    - 3) Items No. 2, 3, and 5 of the preliminary title report issued by First American Title Company, dated November 20, 2018, referenced as Order No. 4001-5232178;
    - 4) Other items that may be approved in writing by City in advance of the close of escrow.
- ii) CLOSE OF ESCROW - The term "close of escrow", if and where written in these instructions, shall mean the date necessary instruments of conveyance are recorded in the office of the County Recorder. Recordation of instruments delivered through this escrow is hereby authorized.

B. JUDGMENT IN LIEU OF DEED - In the event Grantor does not deliver title in a reasonable time under the terms of the Agreement, the City may file an action in eminent domain to pursue the acquisition of the Property, and this Agreement shall constitute a stipulation which may be filed in said proceedings as final and conclusive evidence of the total amount of damages for the taking, including all of the items listed in Section 1260.230 of the Code of Civil Procedure, regarding said property rights.

C. ARTICLE HEADINGS - Article headings in this Agreement are for convenience only and are not intended to be used in interpreting or construing the terms, covenants and conditions of this Agreement.

D. COMPLETE UNDERSTANDING - This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions, and preliminary agreements or understandings, written or oral.



This Agreement may not be amended except in writing by the parties hereto or their successors or assigns.

E. CITY COUNCIL APPROVAL - This Agreement is subject to and conditioned upon approval by the Atascadero City Council. This Agreement is not binding upon the City until executed by the appropriate City official(s) acting in their authorized capacity.

F. COUNTERPARTS - This Agreement may be executed in counterparts, each of which so executed shall irrespective of the date of its execution and delivery be deemed an original, and all such counterparts together shall constitute one and the same document.

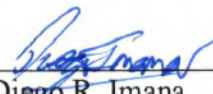
G. ELECTRONIC AND FACSIMILE SIGNATURES – In the event that the parties hereto utilize electronic or facsimile documents which include signatures, such documents shall be accepted as if they bore original signatures provided that documents bearing ORIGINAL SIGNATURES are provided following transmittal of the electronic or facsimile signature. Documents for recordation by the Clerk Recorder must contain original signatures.

---


**No Obligation Other Than Those Set Forth Herein Will Be Recognized.**

GRANTOR:

Diego R. Imana and Karen L. Beene, husband and wife as joint tenants

  
\_\_\_\_\_  
Diego R. Imana

Date: 12/4/2020

  
\_\_\_\_\_  
Karen L. Beene

Date: 12/4/2020

GRANTOR'S MAILING ADDRESS:

Diego R. Imana and Karen L. Beene  
11275 Santa Lucia Road  
Atascadero, CA 93422

CITY OF ATASCADERO

By: \_\_\_\_\_  
Rachelle Rickard  
City Manager

Date: \_\_\_\_\_

MAILING ADDRESS OF CITY:

The City of Atascadero  
Attn: Deputy Director of Public Works  
6907 El Camino Real  
Atascadero, CA 93422



Recording requested by:  
Hamner, Jewell & Associates  
Government Real Estate Services

When recorded, mail to:

City of Atascadero  
Attn: City Clerk  
6500 Palma Avenue  
Atascadero, CA 93422

Exempt from the \$75 Building and Jobs Act Fee per Gov't Code §27388.1(2)(D) Public Agency  
No fee pursuant to Government Code § 6103  
No Documentary Transfer Tax per R&T Code § 11922  
No Recording Fee per Government Code § 27383

**GRANT DEED**  
(To the City of Atascadero)

APN: 054-271-003

For a valuable consideration, receipt of which is hereby acknowledged,

Diego R. Imana and Karen L. Beene, husband and wife as joint tenants (hereinafter collectively referred to as "Grantor"),

hereby grants to the

The City of Atascadero, a California municipal corporation ("City"),

the following described interests in real property located in the City of Atascadero, County of San Luis Obispo, State of California:

In Fee:

All that certain property described in Exhibit "A" and depicted in Exhibit "B", attached hereto and incorporated herein; and

Temporary Construction Easement

A temporary easement for the purposes of facilitating construction of adjacent public street improvements and related purposes, in, on, over, under, through, along, and across that certain parcel of land located in the City of Atascadero, County of San Luis Obispo, State of California described in Exhibit "C" and depicted in Exhibit "D", attached hereto and incorporated herein.

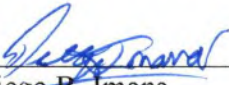
This Temporary Construction Easement shall commence on February 1, 2021, and shall automatically terminate upon completion of City's construction or 36 months after the commencement, whichever occurs first. In any event, this temporary easement shall terminate by or before January 31, 2024.

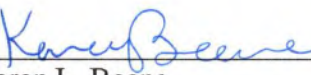
Upon termination, the Temporary Construction Easement area will be generally restored by City to a comparable or better condition as that which existed prior to City's access and use, to the extent reasonably practical.

GRANTOR represents and warrants it is the owner of the parcel of land described herein and is the authorized signatory to execute this Deed and grant these easement rights to CITY, and that no additional signatures are required to carry out this conveyance.

GRANTOR:

Diego R. Imana and Karen L. Beene, husband and wife as joint tenants

  
\_\_\_\_\_  
Diego R. Imana

  
\_\_\_\_\_  
Karen L. Beene

### ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California

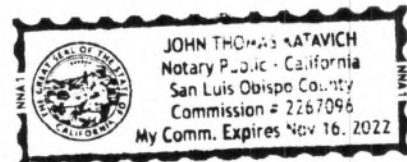
County of San Luis Obispo

On December 4, 2020 before me, John T. Katakovich, Notary Public, personally appeared Diego R. Imana, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature [Signature] (Seal)



### ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California

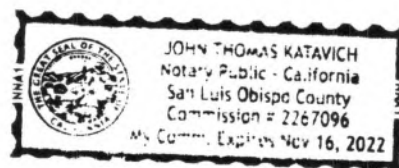
County of San Luis Obispo

On December 4, 2020 before me, John T. Katakovich, Notary Public, personally appeared Karen L. Beene, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature [Signature] (Seal)



**CERTIFICATE OF ACCEPTANCE**  
(Gov. Code section 27281)

This is to certify that the interest in real property conveyed by the Grant Deed dated \_\_\_\_\_ from Diego R. Imana and Karen L. Beene, husband and wife as joint tenants, to the City of Atascadero, a municipal corporation government, Grantee therein, is hereby accepted by the undersigned officer or agent on behalf of the City of Atascadero pursuant to the authority conferred by Resolution of the City Counsel of the City of Atascadero adopted on April 28, 1987, and the Grantee consents to the recordation thereof by its duly authorized officer or agent.

In Witness Whereof, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2020.

“GRANTEE”

CITY OF ATASCADERO, a municipal corporation

By \_\_\_\_\_  
Nicholas D. DeBar  
Director of Public Works

ATTEST:

By \_\_\_\_\_  
Lara Christensen, City Clerk



## **EXHIBIT A**

**(APN 054-271-003 Fee Aquisition)**

**Being a portion of Lot 9 in block 42 of the Atascadero Colony in the City of Atascadero, County of San Luis Obispo, State of California as shown on map recorded in Book 3 of Maps, at Page 57 in the office of the County Recorder of said County, being more particularly described as follows:**

**Beginning at the northeast corner of said Lot 9 on the south right-of-way of Santa Lucia Road, said point also being the northeast corner of that parcel of land described in deed recorded as Document No. 2015-054638 in the office of said County Recorder;**

**Thence, along said right-of-way North 81°32'00" West 71.04 feet to the beginning of a tangent curve concave south and having a radius of 166.10 feet;**

**Thence, continuing along said right-of-way, westerly along said curve 130.85 feet through a central angle of 45°08'07" to a point on said right-of-way, said point also being the northeast corner of said parcel of land, also being the north corner of that parcel of land described in deed recorded as Document No. 2018-028599 and to which point a radial bears North 36°40'07" West, said point also being the TRUE POINT OF BEGINNING;**

**Thence, continuing along said right-of-way and curve southwesterly 135.43 feet through a central angle of 46°42'53" to the end of said curve on said right-of-way;**

**Thence continuing along said right-of-way South 06°37'00" West 21.30 feet to a point on said right-of-way, said point also being the beginning of tangent curve concave southeasterly and having a radius of 191.00 feet;**

**Thence, leaving said right-of-way north along said curve 150.40 feet through a central angle of 45°07'01" to a point on the northeast line of said parcel, and to which point a radial bears North 38°15'59" West;**

**Thence along said northeast line North 23°35'00" West 7.96 feet to the TRUE POINT OF BEGINNING.**

**END OF DESCRIPTION.**

**Contains 786.0 square feet.**

  
**Keith McMillan L.S. 6729      Date**

**8-19-2020**

POB DENOTES POINT OF BEGINNING  
 TPOB DENOTES TRUE POINT OF BEGINNING  
 RAD DENOTES RADIAL  
 PTN DENOTES PORTION  
 SF DENOTES SQUARE FEET

# EXHIBIT B

## FEASIBILITY

SANTA LUCIA ROAD

R=166.10'  
 A=45°08'07"  
 L=130.85'

N08°28'00"E (RAD)

N81°32'00"W 71.04' POB

L2: N23°35'00"W 7.96'

N38°15'59"W (RAD)

R=166.10'  
 A=46°42'53"  
 L=135.43'

R=191.00'  
 A=45°07'01"  
 L=150.40'

N83°23'00"W (RAD)  
 L1: S06°37'00"W 71°  
 21.30'

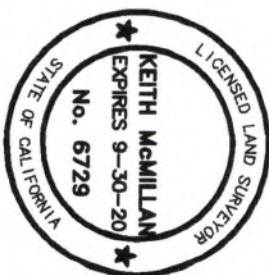
N83°23'00"W (RAD)

**PTN LOT 9 (3-AC-57)**  
**DOC #2018-028599**  
**APN 054-271-003**

APN 054-271-004

PTN LOT 9 (3-AC-57)  
 DOC #2015-054638

GRAVES CREEK  
 RESERVATION #  
 APN 054-271-050



*Keith McMillan*  
 KEITH McMILLAN L.S. 6729



2304 B STREET  
 SAN LUIS OBISPO CA 93401  
 805-541-1664  
 DATE: 08/20/2018 #627-02



**EXHIBIT C**  
**(APN 054-271-003 TCE)**

**Being a portion of Lot 9 in block 42 of the Atascadero Colony in the City of Atascadero, County of San Luis Obispo, State of California as shown on map recorded in Book 3 of Maps, at Page 57 in the office of the County Recorder of said County, being more particularly described as follows:**

**Beginning at the northeast corner of said Lot 9 on the south right-of-way of Santa Lucia Road, said point also being the northeast corner of that parcel of land described in deed recorded as Document No. 2015-054638 in the office of said County Recorder;**

**Thence, along said right-of-way North 81°32'00" West 71.04 feet to the beginning of a tangent curve concave south and having a radius of 166.10 feet;**

**Thence, continuing along said right-of-way, westerly along said curve 130.85 feet through a central angle of 45°08'07" to a point on said right-of-way, said point also being the northeast corner of said parcel of land, also being the north corner of that parcel of land described in deed recorded as Document No. 2018-028599 and to which point a radial bears North 36°40'07" West;**

**Thence, along the northeast line of said parcel of land South 23°35'00" East 7.96 feet to a point on said northeast line, said point also being the TRUE POINT OF BEGINNING;**

**Thence continuing along said northeast line South 23°35'00" East 5.17 feet to the end of a non-tangent curve concave southeasterly and having a radius of 186.00 feet, to which point a radial bears North 38°40'13" West;**

**Thence, southwest along said curve 145.15 feet through a central angle of 44°42'47" to the end of said curve and to which point a radial bears North 83°23'00" West;**

**Thence, South 06°23'21" West 54.43 feet to a point;**

**Thence, North 83°23'00" West 5.22 feet;**

**Thence, North 06°37'00" East 54.43 feet to the beginning of a tangent curve concave southeasterly and having a radius of 191.00 feet;**

**(continued)**



**EXHIBIT C**

**(APN 054-271-003 TCE continued)**

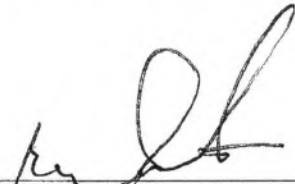
**Thence, northeast along said curve 150.40 feet through a central angle of 45°07'02" to the TRUE POINT OF BEGINNING, to which point a radial bears North 38°15'59" West.**

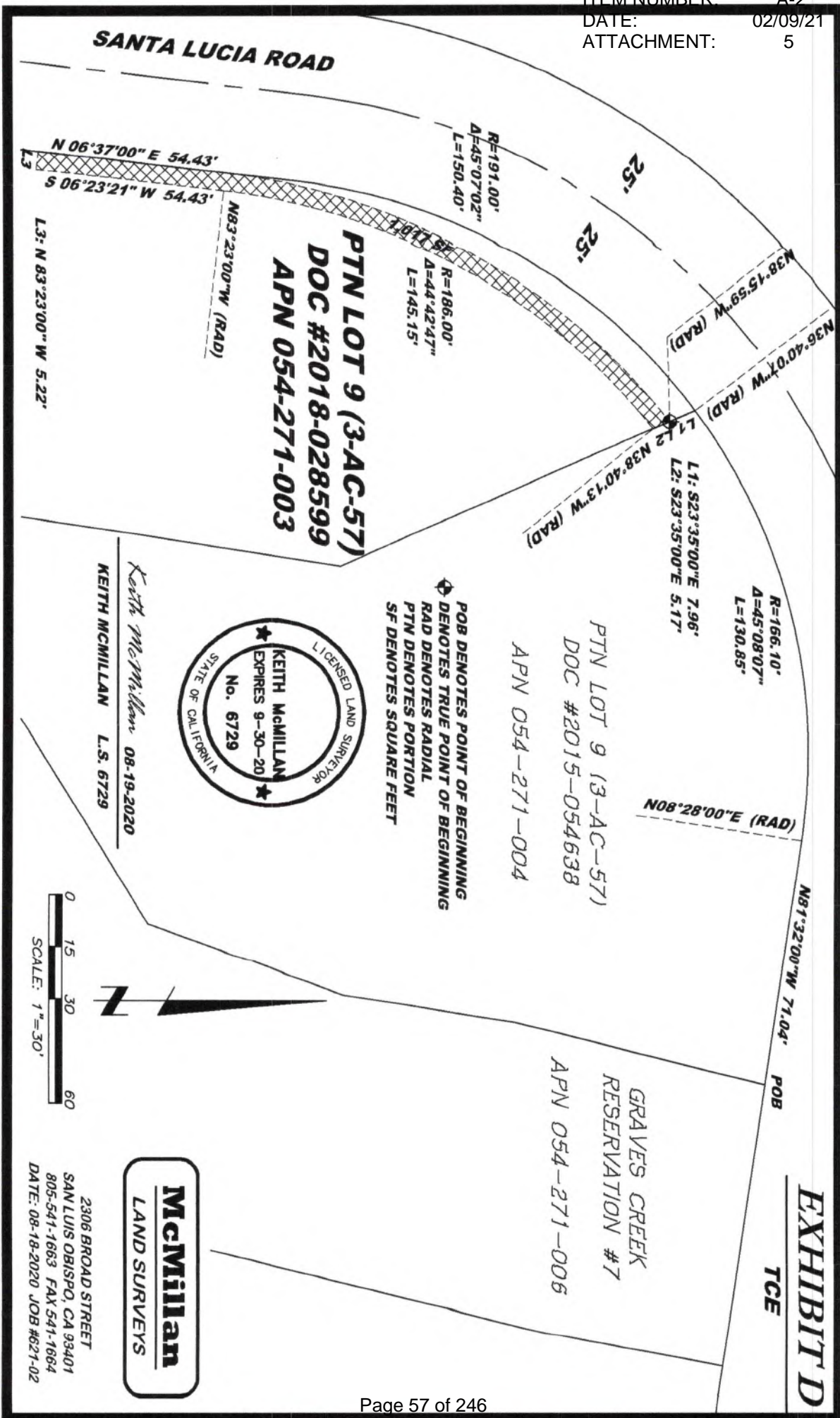
**Thence, leaving said right-of-way north along said curve 150.40 feet through a central angle of 45°07'01" to a point on the northeast line of said parcel, and to which point a radial bears North 38°15'59" West;**

**Thence along said northeast line North 23°35'00" West 7.96 feet to the TRUE POINT OF BEGINNING.**

**Contains 1,017.0 square feet.**

**END OF DESCRIPTION.**

  
\_\_\_\_\_  
**Keith McMillan L.S. 6729      Date**      8-19-2020





ASSESSOR PARCEL NO.: 054-271-004

PROJECT: Atascadero-Santa Lucia Road Bridge Replacement

OWNER: Robert Allmon

**RIGHT OF WAY AGREEMENT  
(WITH ESCROW INSTRUCTIONS)**

THIS AGREEMENT is made and entered into by and between

Robert Allmon, an unmarried man (hereinafter called "Grantor"), and

The City of Atascadero, a California municipal corporation, (hereinafter called "City").

An instrument in the form of a Grant Deed ("Deed") covering the property particularly described therein ("Property"), has been executed concurrently with this Agreement and delivered to City representatives.

In consideration of which, and other considerations hereinafter set forth, it is mutually agreed as follows:

1. The parties have herein set forth the whole of their agreement. The performance of this Agreement constitutes the entire consideration for said document and shall relieve the City of all further obligation or claims on this account, or on account of the location, grade or construction of the proposed public improvement, except as stated in Paragraphs 2.E. and 2.F. below.

2. The City shall:

A. PAYMENT - Pay to the order of the Grantor the sum of \$15,000 as consideration in full for the Property, for the loss, replacement and moving of any improvements, and for entering into this Agreement. Said sum shall be paid when title to the Property has vested in City free and clear of all liens, encumbrances, assessments, easements and leases recorded or unrecorded, except for recorded public utility easements and public right of way.

B. RECORDATION OF INSTRUMENT - Accept the Deed and cause the same to be recorded in the office of the San Luis Obispo County Recorder at such time as when clear title can be conveyed.

C. MISCELLANEOUS COSTS - Pay any escrow, title insurance, and recording fees incurred in this transaction.

D. CLEARANCE OF BONDS, ASSESSMENTS, OR DELINQUENT TAXES - Have the authority to deduct and pay from the amount shown in Clause 2.A. above any amount necessary to satisfy any bond demands and delinquent taxes due in any year except the year in which the Deed records, together with penalties and interest thereon, and/or delinquent and unpaid non-delinquent assessments which have become a lien as of the date of recordation of the Grant Deed.

E. CONSTRUCTION AND RESTORATION - Shall, maintain access to at least one of Grantor's driveways from Santa Lucia Road at all times, and shall restore Grantor's two pre-



existing driveway aprons upon completion of City's project construction. Grantor acknowledges that a portion of the Temporary Construction Easement described in the Deed will be utilized for temporary public street use while the new permanent Santa Lucia Bridge is under construction by City, and that while such temporary public traffic way is in use, Grantor will not be able to utilize his existing easterly driveway. Upon completion of construction, City will generally restore any impacted fencing on Grantor's property to a comparable or better condition than that which existed prior to City's project construction, to the extent reasonably practical. Restoration will include replacement of any removed portion of the existing two rail fencing along the roadway and revegetation along creek bank, at no expense to Grantor. Restoration will also include restoration of any impacted portions of Grantor's pre-existing circular driveway to a comparable or better condition as that which existed prior to City's entry and use of the Temporary Construction Easement on Grantor's property.

F. INDEMNIFICATION - Indemnify and hold harmless Grantor from any and all claims, damages, costs, judgments, or liability proximately caused by City or its officers, employees, or agents specifically arising from City construction and restoration work on the Property within the term of the Temporary Construction Easement described in the Deed.

3. The Grantor:

A. PAYMENT ON MORTGAGE OR DEED OF TRUST - Agrees that any or all monies payable under this Agreement up to and including the total amount of the unpaid principal and interest on the note(s) secured by mortgage(s) or deed(s) of trust, if any, and all other amounts due and payable in accordance with the terms and conditions of said mortgage(s) or deed(s) of trust, shall upon demand(s) be made payable to the mortgagee(s) or beneficiary(s) entitled thereunder. Grantor shall cooperate with the Escrow Officer in obtaining lien clearance documents from any and all creditors holding liens against the Property.

B. LEASE INDEMNIFICATION - Warrants there are no oral or written leases on all or any portion of the Property, or if there are such leases, Grantor agrees to hold the City harmless and reimburse City for any and all of its losses and expenses occasioned by reason of any lease of said Property held by tenant of Grantor.

C. PERMISSION TO ENTER - Hereby grants to the City, its agents and contractors, permission to enter the Property prior to the close of escrow for the purposes of preparation for the construction of the City's facilities, subject to all applicable terms and conditions contained in this Agreement and the associated Deed.

D. TITLE INDEMNITY AND WARRANTY - In consideration of the City waiving the requirements to clear any defects and imperfections in all matters of record title, the Grantor indemnifies and holds the City harmless from any and all claims that other parties may make or assert on the title to the Property. Grantor's obligation to indemnify the City shall not exceed the amount paid to the Grantor under this Agreement. Grantor hereby represents and warrants that he/she/they are the sole vested owners of the Property, holding all ownership and possessory rights, and are the authorized signatories to grant the rights referenced in this Agreement without conflict or claims from other parties.



E. HAZARDOUS SUBSTANCES - Represents and warrants, to the best of Grantor's knowledge, and after reasonable inquiry, the following:

During Grantor's ownership of the Property, Grantor knows of no disposal, releases, or threatened releases of hazardous substances on, from, or under the Property or Grantor's remaining adjacent property. Grantor further represents and warrants that Grantor has no knowledge of disposal, release, or threatened release of hazardous substances on, from, or under the Property, or Grantor's remaining adjacent property, which may have occurred prior to Grantor's ownership.

There is no pending claim, lawsuit, agency proceeding, or any administrative challenge concerning the presence or use of hazardous substances on or within the Property or Grantor's remaining adjacent property.

Grantor has not used the Property, or Grantor's remaining adjacent property, for any industrial operations that use hazardous substances. Grantor is not aware of any prior use of such property. Grantor has not installed any underground storage tanks, above ground storage tanks, barrels, sumps, impoundments or other containers used to contain hazardous substances on any part of the Property or Grantor's remaining adjacent property. Grantors are not aware of any such prior installations. The purchase price of the Property being acquired reflects the fair market value of the Property without the presence of contamination. If the Property is found to be contaminated by the presence of hazardous substances which require mitigation under Federal or State law, City may elect to recover its cleanup costs from those who caused or contributed to the contamination.

4. The Parties agree:

A. ESCROW - At City's option, to open an escrow in accordance with this Agreement at an escrow company of City's choice. Opening an escrow shall be at City's sole discretion and City may decide to process this transaction without the use of an escrow agent. However, if an escrow agent is utilized, this Agreement constitutes the joint escrow instructions of City and Grantor, and the escrow agent to whom these instructions are delivered is hereby empowered to act under this Agreement. The parties hereto agree to do all acts necessary to close this escrow in the shortest possible time.

If an escrow is utilized, as soon as possible after opening of escrow, City will deposit the executed Deed by Grantor, with Certificate of Acceptance attached, with the escrow agent on Grantor's behalf. City agrees to deposit the purchase price upon demand of escrow agent. City and Grantor agree to deposit with escrow agent all additional instruments as may be necessary to complete this transaction. All funds received in this escrow shall be deposited with other escrow funds in a general escrow fund account(s) and may be transferred to any other such escrow trust account in any State or National Bank doing business in the State of California. All disbursements shall be made by check or wire transfer from such account.

Any taxes which have been paid by Grantor, prior to opening of this escrow, shall not be pro-rated between City and Grantor, but Grantor shall have the sole right after close of escrow, to apply to the County Tax Collector of said County for any refund of such taxes which may be due Grantor for the period after City's acquisition.



- i) ESCROW AGENT DIRECTIVES - Escrow Agent is authorized to, and shall:
- a) Pay and charge Grantor for any unpaid delinquent taxes and/or any penalties and interest thereon, and for any delinquent assessments or bonds against that portion of Grantor's property subject to this transaction as required to convey clear title.
  - b) Pay and charge City for any escrow fees, charges and costs payable under Paragraph 2.C. of this Agreement;
  - c) Disburse funds and deliver Deed when conditions of this escrow have been fulfilled by City and Grantor.
  - d) Following recording of Deed from Grantor, if requested by City, provide City with a CLTA Standard Coverage Policy of Title Insurance in the amount of \$15,000 issued by a Title Company of City's choice showing that title to the Property is vested in City, subject only to the following exceptions, and the printed exceptions and stipulations in said policy:
    - 1) Real Property Taxes for the fiscal year in which escrow closes;
    - 2) Public utility easements and public rights of way;
    - 3) Items No. 4-7 of the preliminary title report issued by First American Title Company, dated June 27, 2018, referenced as Order No. 4001-5232168;
    - 4) Other items that may be approved in writing by City in advance of the close of escrow.
- ii) CLOSE OF ESCROW - The term "close of escrow", if and where written in these instructions, shall mean the date necessary instruments of conveyance are recorded in the office of the County Recorder. Recordation of instruments delivered through this escrow is hereby authorized.

B. JUDGMENT IN LIEU OF DEED - In the event Grantor does not deliver title in a reasonable time under the terms of the Agreement, the City may file an action in eminent domain to pursue the acquisition of the Property, and this Agreement shall constitute a stipulation which may be filed in said proceedings as final and conclusive evidence of the total amount of damages for the taking, including all of the items listed in Section 1260.230 of the Code of Civil Procedure, regarding said property rights.

C. ARTICLE HEADINGS - Article headings in this Agreement are for convenience only and are not intended to be used in interpreting or construing the terms, covenants and conditions of this Agreement.

D. COMPLETE UNDERSTANDING - This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions, and preliminary agreements or understandings, written or oral. This Agreement may not be amended except in writing by the parties hereto or their successors or assigns.



E. CITY COUNCIL APPROVAL - This Agreement is subject to and conditioned upon approval by the Atascadero City Council. This Agreement is not binding upon the City until executed by the appropriate City official(s) acting in their authorized capacity.

F. SETTLEMENT PROPOSAL - This Agreement represents Grantor's settlement proposal and is expressly subject to and contingent upon City's acceptance and approval. Deposit into escrow of a fully executed copy of this Agreement constitutes acceptance and approval by City.

G. COUNTERPARTS - This Agreement may be executed in counterparts, each of which so executed shall irrespective of the date of its execution and delivery be deemed an original, and all such counterparts together shall constitute one and the same document.

H. ELECTRONIC AND FACSIMILE SIGNATURES - In the event that the parties hereto utilize electronic or facsimile documents which include signatures, such documents shall be accepted as if they bore original signatures provided that documents bearing ORIGINAL SIGNATURES are provided following transmittal of the electronic or facsimile signature. Documents for recordation by the Clerk Recorder must contain original signatures.

---

**No Obligation Other Than Those Set Forth Herein Will Be Recognized.**

GRANTOR:

Robert Allmon, an unmarried man



Robert Allmon

Date:

12-4-20

GRANTOR'S MAILING ADDRESS:

Robert Allmon  
11255 Santa Lucia Road  
Atascadero, CA 93422

CITY OF ATASCADERO

By:

Rachelle Rickard  
City Manager

Date:

MAILING ADDRESS OF CITY:

The City of Atascadero  
Attn: Deputy Director of Public Works  
6907 El Camino Real  
Atascadero, CA 93422

Recording requested by:  
Hamner, Jewell & Associates  
Government Real Estate Services

When recorded, mail to:

City of Atascadero  
Attn: City Clerk  
6500 Palma Avenue  
Atascadero, CA 93422

Exempt from the S75 Building and Jobs Act Fee per Gov't Code §27388.1(2)(D) Public Agency  
No fee pursuant to Government Code § 6103  
No Documentary Transfer Tax per R&T Code § 11922  
No Recording Fee per Government Code § 27383

**GRANT DEED**  
(To the City of Atascadero)

APN: 054-271-004

For a valuable consideration, receipt of which is hereby acknowledged,

Robert Allmon, an unmarried man (hereinafter referred to as "Grantor"),

hereby grants to the

The City of Atascadero, a California municipal corporation, ("City"),

the following described interests in real property located in the City of Atascadero, County of San Luis Obispo, State of California:

In Fee:

All that certain property described in Exhibit "A" and depicted in Exhibit "B", attached hereto and incorporated herein; and

Temporary Construction Easement

A temporary easement for the purposes of facilitating construction of adjacent public street improvements, including the right to enter said land with personnel, vehicles, and equipment as necessary to construct temporary and permanent public roadway improvements, and use said Temporary Construction Easement for temporary public roadway purposes while the permanent adjacent road and bridge improvements are being constructed, and related purposes, in, on, over, under, through, along, and across that certain parcel of land located in the City of Atascadero, County of San Luis Obispo, State of California described in Exhibit "C" and depicted in Exhibit "D", attached hereto and incorporated herein.




This Temporary Construction Easement shall commence on February 1, 2021 and shall automatically terminate upon completion of City's construction or 36 months after the commencement, whichever occurs first. In any event, this temporary easement shall terminate by or before January 31, 2024.

GRANTOR represents and warrants it is the owner of the parcel of land described herein and is the authorized signatory to execute this Deed and grant these easement rights to CITY, and that no additional signatures are required to carry out this conveyance.

GRANTOR:

Robert Allmon, an unmarried man

  
Robert Allmon

**ACKNOWLEDGMENT**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California

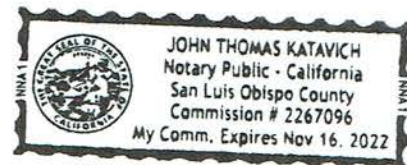
County of San Luis Obispo

On December 4, 2020 before me, John T. Katavich, Notary Public, personally appeared Robert Allmon, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature  (Seal)





**CERTIFICATE OF ACCEPTANCE**  
(Gov. Code section 27281)

This is to certify that the interest in real property conveyed by the Grant Deed dated \_\_\_\_\_ from Robert Allmon, an unmarried man, to the City of Atascadero, a municipal corporation government, Grantee therein, is hereby accepted by the undersigned officer or agent on behalf of the City of Atascadero pursuant to the authority conferred by Resolution of the City Counsel of the City of Atascadero adopted on April 28, 1987, and the Grantee consents to the recordation thereof by its duly authorized officer or agent.

In Witness Whereof, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2020.

“GRANTEE”

CITY OF ATASCADERO, a municipal corporation

By \_\_\_\_\_  
Nicholas D. DeBar  
Director of Public Works

ATTEST:

By \_\_\_\_\_  
Lara Christensen, City Clerk

**EXHIBIT A**

**(APN 054-271-004 Fee Aquisition)**

**Being a portion of Lot 9 in block 42 of the Atascadero Colony in the City of Atascadero, County of San Luis Obispo, State of California as shown on map recorded in Book 3 of Maps, at Page 57 in the office of the County Recorder of said County, being more particularly described as follows:**

**Beginning at the northeast corner of said Lot 9 on the south right-of-way of Santa Lucia Road, said point also being the northeast corner of that parcel of land described in deed recorded as Document No. 2015-054638 in the office of said County Recorder;**

**Thence, along said right-of-way North 81°32'00" West 71.04 feet to the beginning of a tangent curve concave south and having a radius of 166.10 feet;**

**Thence, continuing along said right-of-way, westerly along said curve 20.93 feet through a central angle of 07°13'25" to a point on said right-of-way and to which point a radial bears North 01°14'35" East, said point also being the TRUE POINT OF BEGINNING;**

**Thence, continuing along said right-of-way and curve southwesterly 109.91 feet through a central angle of 37°54'42" to the northwest corner of said parcel of land and to which point a radial bears North 36°40'07" West;**

**Thence, leaving said right-of-way along the west line of said parcel of land South 23°35'00 East 7.96 feet to a the beginning of a non-tangent curve concave southerly and having a radius of 191.00 feet and to which point a radial bears North 38°15'59" West;**

**Thence, leaving said west line, east along said curve 108.86 feet through a central angle of 32°39'17" to the TRUE POINT OF BEGINNING and to which point a radial bears North 05°36'42" West.**

**Contains 525 square feet.**

**END OF DESCRIPTION.**

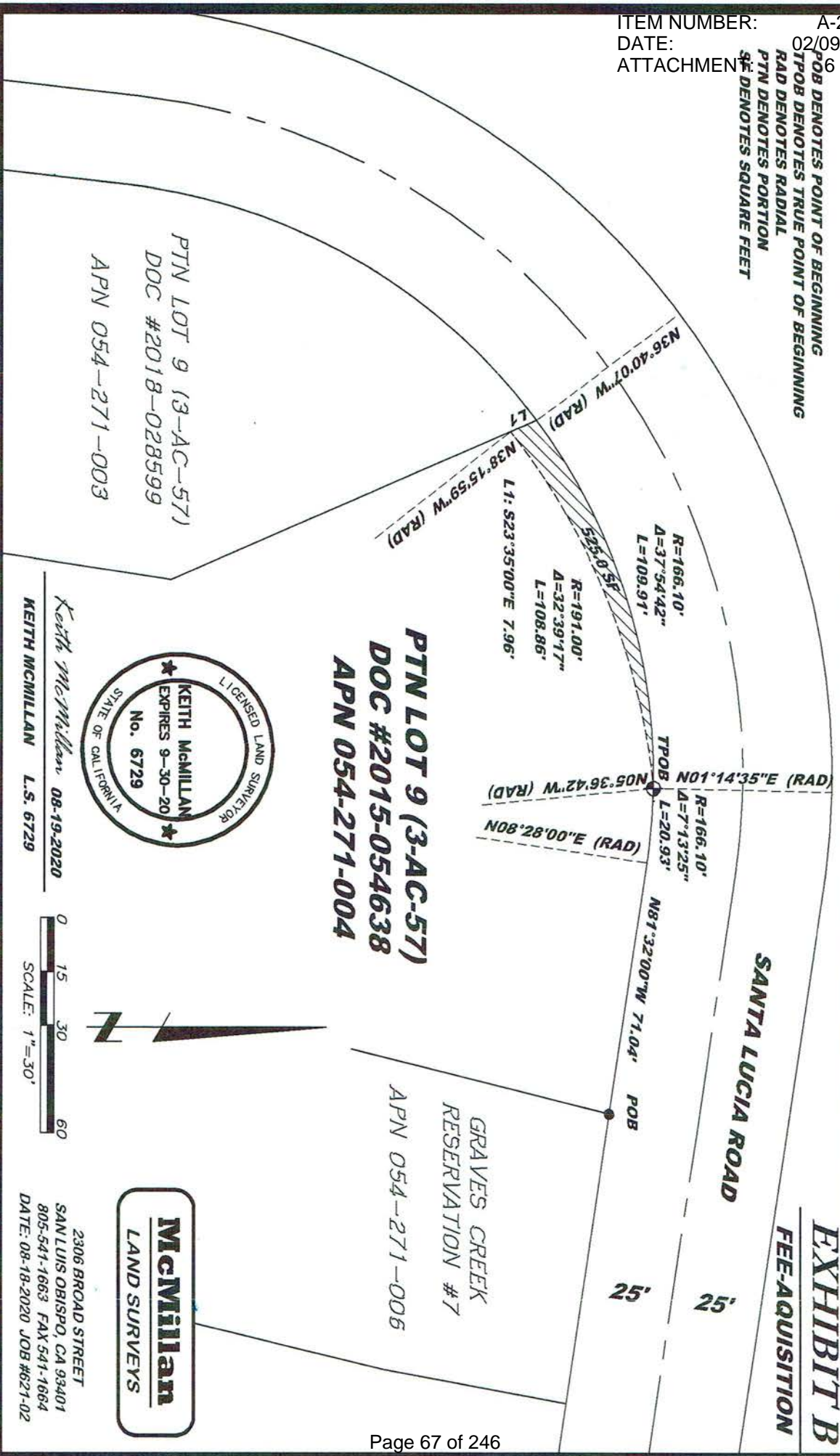


**Keith McMillan L.S. 6729**

*8-19-2022*

**Date**

POB DENOTES POINT OF BEGINNING  
 TPOB DENOTES TRUE POINT OF BEGINNING  
 RAD DENOTES RADIAL  
 PTN DENOTES PORTION  
 SF DENOTES SQUARE FEET



Keith McMillan 08-19-2020  
 KEITH McMILLAN L.S. 6729



**McMillan**  
 LAND SURVEYS

2306 BROAD STREET  
 SAN LUIS OBISPO, CA 93401  
 805-541-1663 FAX 541-1664  
 DATE: 08-18-2020 JOB #621-02



**EXHIBIT C**  
**(APN 054-271-004 TCE)**

Being a portion of Lot 9 in block 42 of the Atascadero Colony in the City of Atascadero, County of San Luis Obispo, State of California as shown on map recorded in Book 3 of Maps, at Page 57 in the office of the County Recorder of said County, being more particularly described as follows:

Beginning at the northeast corner of said Lot 9 on the south right-of-way of Santa Lucia Road, said point also being the northeast corner of that parcel of land described in deed recorded as Document No. 2015-054638 in the office of said County Recorder. Said point also being the **TRUE POINT OF BEGINNING**;

Thence, along said right-of-way North  $81^{\circ}32'00''$  West 71.04 feet to the beginning of a tangent curve concave south and having a radius of 166.10 feet;

Thence, continuing along said right-of-way, westerly along said curve 20.93 feet through a central angle of  $07^{\circ}13'25''$  to a point of compound curvature concave southerly and having a radius of 191.00 feet, to which point a radial bears North  $05^{\circ}36'42''$  West;

Thence, leaving said right-of-way westerly along said curve 108.86 feet through a central angle of  $32^{\circ}39'18''$  to a point on the northwest line of said parcel of land and to which point a radial bears North  $38^{\circ}15'59''$  West;

Thence, along said west line South  $23^{\circ}35'00''$  East 5.17 feet to the beginning of a non-tangent curve concave southerly and having a radius of 186.00 feet and to which point a radial bears North  $38^{\circ}40'13''$  West;

Thence, northeast along said curve 46.40 feet through a central angle of  $14^{\circ}17'34''$  to the end of said curve and to which point a radial bears North  $24^{\circ}22'39''$  West;

Thence, South  $77^{\circ}36'28''$  East 142.72 feet to a point on said east line of said parcel;

Thence, along said east line  $14^{\circ}06'00''$  East 40.28' to the **TRUE POINT OF BEGINNING**.

Contains 4,713 square feet.

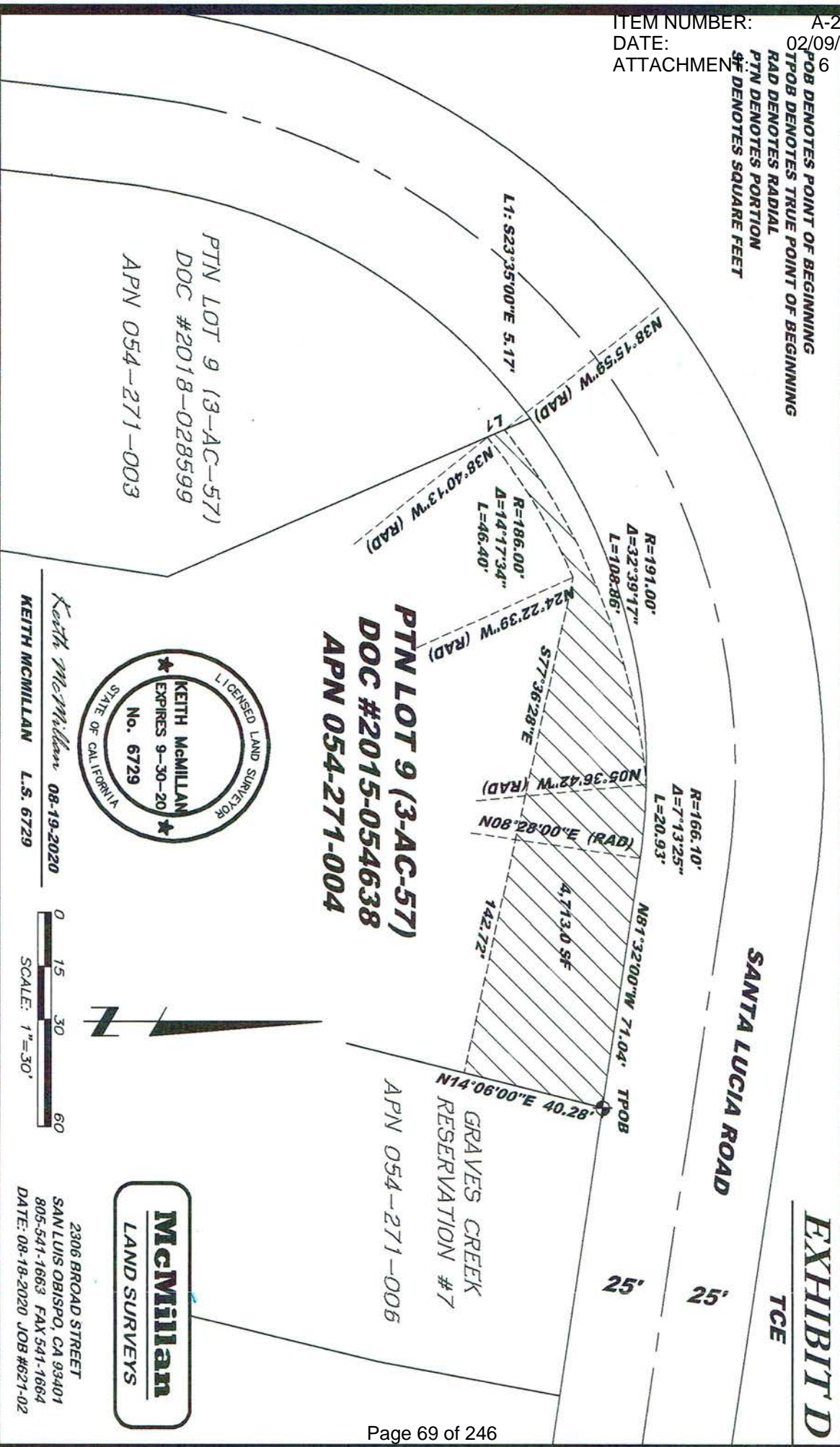
**END OF DESCRIPTION.**

  
Keith McMillan L.S. 6729

Date

8-19-2020

POB DENOTES POINT OF BEGINNING  
 TPOB DENOTES TRUE POINT OF BEGINNING  
 RAD DENOTES RADIAL  
 PTN DENOTES PORTION  
 SF DENOTES SQUARE FEET



Keith McMillan 08-19-2020  
 KEITH McMILLAN L.S. 6729



2306 BROAD STREET  
 SAN LUIS OBISPO, CA 93401  
 805-541-1663 FAX 541-1664  
 DATE: 08-18-2020 JOB #621-02





ASSESSOR PARCEL NO.: 054-272-016  
PROJECT: Atascadero – Santa Lucia Road Bridge Replacement  
OWNER: The Navas Revocable Living Trust

## **AGREEMENT FOR TEMPORARY CONSTRUCTION EASEMENT**

THIS AGREEMENT is made and entered into by and between

Bruce Wayne Navas and Patricia Ann Navas, Trustees of the Bruce Wayne Navas and Patricia Ann Navas Revocable Living Trust dated 10/20/11 (hereinafter collectively called “Grantor”), and

The City of Atascadero, a California municipal corporation, (hereinafter called “City”).

An instrument in the form of a Temporary Construction Easement Deed (“Easement Deed”) covering the property particularly described therein (“Easement Area”), has been executed concurrently with this Agreement and delivered to City representatives.

In consideration of which, and other considerations hereinafter set forth, it is mutually agreed as follows:

1. The parties have herein set forth the whole of their agreement. The performance of this Agreement constitutes the entire consideration for said document and shall relieve the City of all further obligation or claims on this account, or on account of the location, grade or construction of the proposed public improvement.

2. The City shall:

A. PAYMENT - Pay to the order of the Grantor the sum of \$1,500 as consideration in full for the property interests described in the Easement Deed, for the loss, replacement and moving of any improvements, and for entering into this Agreement. Said sum shall be paid within thirty days of the date of City acceptance and execution of this Agreement.

B. RECORDATION OF INSTRUMENT - Accept the Easement Deed and may, at City’s sole discretion, cause the same to be recorded in the office of the San Luis Obispo County Recorder.

C. MISCELLANEOUS COSTS - Pay any and all transactional closing costs and recording fees incurred in this transaction.

D. PROPERTY RESTORATION - Shall, upon completion of construction, generally restore the Easement Area to a comparable or better condition as that which existed prior to City’s project construction, to the extent reasonably practical, in accordance with the provisions of the Easement Deed.



E. INDEMNIFICATION - Indemnify and hold harmless the Grantor from any and all claims, damages, costs, judgments or liability proximately caused by City or its officers, employees, contractors or agents specifically arising from City's construction and restoration work within the Easement Area during the temporary easement period specified in the Easement Deed.

3. The Grantor:

A. LEASE INDEMNIFICATION - Warrants there are no oral or written leases on all or any portion of the Easement Area or if there are such leases, Grantor agrees to hold the City harmless and reimburse City for any and all of its losses and expenses occasioned by reason of any lease encumbering the Easement Area. Grantor shall provide City use of the Easement Area free of any leases that may conflict with City's rights under the Easement Deed provisions.

B. TITLE INDEMNITY AND WARRANTY - In consideration of the City waiving requirements to clear any defects and imperfections in all matters of record title, Grantor indemnifies and holds the City harmless from any and all claims that other parties may make or assert on the title to the Easement Area. Grantor's obligation to indemnify the City shall not exceed the amount paid to the Grantor under this Agreement. Grantor hereby represents and warrants that he/she/they are the sole vested owners of the Easement Area, holding all ownership and possessory rights, and are the authorized signatories to grant the easement rights referenced in this Agreement and the Easement Deed without conflict or claims from other parties.

C. SUPPLEMENTAL FORMS - Agrees to provide all required supplemental forms necessary to complete this transaction, including a W-9 Form required for payment processing.

D. GRANTOR'S KNOWLEDGE OF THE ENVIRONMENTAL CONDITIONS OF THE PROPERTY - Hereby represents and warrants that to the best of Grantor's knowledge and belief, throughout the period of Grantor's ownership, there has been no spill, discharge, release, cleanup or contamination of or by any hazardous or toxic waste or substance used, generated, treated, stored, disposed of or handled by the Grantor, its employees, and/or agents on or around the Easement Area. Further, Grantor agrees to disclose to City, prior to the close of this transaction, all studies, reports, and investigations, known to Grantor, concerning any pollution, toxic building materials or toxic hazardous substances or wastes located at, on, or under the Easement Area.

4. The Parties agree:

A. ARTICLE HEADINGS - Article headings in this Agreement are for convenience only and are not intended to be used in interpreting or construing the terms, covenants and conditions of this Agreement.

B. COMPLETE UNDERSTANDING - This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions, and preliminary agreements or understandings, written or oral. This Agreement may not be amended except in writing by the parties hereto or their successors or assigns.

C. CITY COUNCIL APPROVAL - This Agreement is subject to and conditioned upon approval by the Atascadero City Council. This Agreement is not binding upon the City until executed by the appropriate City official(s) acting in their authorized capacity.

D. COUNTERPARTS - This Agreement may be executed in counterparts, each of which so executed shall irrespective of the date of its execution and delivery be deemed an original, and all such counterparts together shall constitute one and the same document.


E. SUCCESSORS AND ASSIGNS - This Agreement shall apply to and bind the heirs, executors, administrators, assigns and successors of the parties hereto.

G. ELECTRONIC AND FACSIMILE SIGNATURES - In the event that the parties hereto utilize electronic or facsimile documents which include signatures, such documents shall be accepted as if they bore original signatures provided that documents bearing ORIGINAL SIGNATURES are provided following transmittal of the electronic or facsimile signature. Documents for recordation by the Clerk Recorder must contain original signatures.


**No Obligation Other Than Those Set Forth Herein Will Be Recognized.**

GRANTOR:

Bruce Wayne Navas and Patricia Ann Navas, Trustees of the Bruce Wayne Navas and Patricia Ann Navas Revocable Living Trust dated 10/20/11

By:   
Bruce Wayne Navas, Trustee

Date: 1-22-21

By:   
Patricia Ann Navas, Trustee

Date: 1-22-21

GRANTOR'S MAILING ADDRESS:

Bruce Wayne & Patricia Ann Navas  
11260 Santa Lucia Road  
Atascadero, CA 93422

CITY OF ATASCADERO

By: \_\_\_\_\_  
Rachelle Rickard  
City Manager

Date: \_\_\_\_\_

MAILING ADDRESS OF CITY:

The City of Atascadero  
Attn: Deputy Director of Public Works  
6907 El Camino Real  
Atascadero, CA 93422



Recording requested by:  
Hamner, Jewell & Associates  
Government Real Estate Services

When recorded, mail to:

City of Atascadero  
Attn: City Clerk  
6500 Palma Avenue  
Atascadero, CA 93422

Exempt from the S75 Building and Jobs Act Fee per Gov't Code §27388.1(2)(D) Public Agency  
No fee pursuant to Government Code § 6103  
No Documentary Transfer Tax per R&T Code § 11922  
No Recording Fee per Government Code § 27383

## TEMPORARY CONSTRUCTION EASEMENT DEED

(To the City of Atascadero)

APN: 054-272-016

For a valuable consideration, receipt of which is hereby acknowledged,

Bruce Wayne Navas and Patricia Ann Navas, Trustees of the Bruce Wayne Navas and Patricia Ann Navas Revocable Living Trust dated 10/20/11 (hereinafter collectively referred to as "Grantor"),

hereby grants to the

The City of Atascadero, a California municipal corporation ("City"),

A temporary easement for the purposes of facilitating construction of adjacent public street improvements and related purposes, in, on, over, under, through, along, and across that certain parcel of land located in the City of Atascadero, County of San Luis Obispo, State of California described in Exhibit "A" and depicted in Exhibit "B", attached hereto and incorporated herein.

This Temporary Construction Easement shall commence on February 1, 2021, and shall automatically terminate upon completion of City's construction or 36 months after the commencement, whichever occurs first. In any event, this temporary easement shall terminate by or before January 31, 2024.

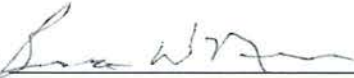
Upon termination, the Temporary Construction Easement area will be generally restored by City to a comparable or better condition as that which existed prior to City's access and use, to the extent reasonably practical.


GRANTOR represents and warrants it is the owner of the parcel of land described herein and is the authorized signatory to execute this Deed and grant these easement rights to CITY, and that no additional signatures are required to carry out this conveyance.



GRANTOR:

Bruce Wayne Navas and Patricia Ann Navas, Trustees of the Bruce Wayne Navas and Patricia Ann Navas Revocable Living Trust dated 10/20/11

By:   
Bruce Wayne Navas, Trustee

By:   
Patricia Ann Navas, Trustee

### ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California

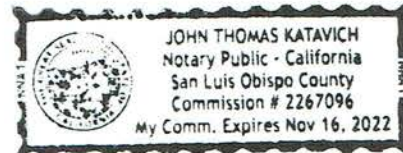
County of San Luis Obispo

On January 22, 2021 before me, John T. Katavich, Notary Public, personally appeared Bruce Wayne Navas, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature [Signature] (Seal)



### ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California

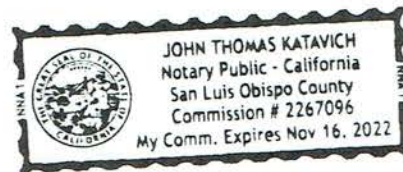
County of San Luis Obispo

On January 22, 2021 before me, John T. Katavich, Notary Public, personally appeared Patricia Ann Navas, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature [Signature] (Seal)



**CERTIFICATE OF ACCEPTANCE**  
(Gov. Code section 27281)

This is to certify that the interest in real property conveyed by the Temporary Construction Easement Deed dated \_\_\_\_\_ from Bruce Wayne Navas and Patricia Ann Navas, Trustees of the Bruce Wayne Navas and Patricia Ann Navas Revocable Living Trust dated 10/20/11, to the City of Atascadero, a municipal corporation government, Grantee therein, is hereby accepted by the undersigned officer or agent on behalf of the City of Atascadero pursuant to the authority conferred by Resolution of the City Counsel of the City of Atascadero adopted on April 28, 1987, and the Grantee consents to the recordation thereof by its duly authorized officer or agent.

In Witness Whereof, I have hereunto set my hand this \_\_\_\_ day of \_\_\_\_\_, 2020.

“GRANTEE”

CITY OF ATASCADERO, a municipal corporation

By \_\_\_\_\_  
Nicholas D. DeBar  
Director of Public Works

ATTEST:

By \_\_\_\_\_  
Lara Christensen, City Clerk



**EXHIBIT A**  
**(APN 054-272-016 TCE)**

Being a portion of Lot 51 in block 43 of the Atascadero Colony in the City of Atascadero, County of San Luis Obispo, State of California as shown on map recorded in Book 3 of Maps, at Page 58 in the office of the County Recorder of said County, being more particularly described as follows:

Beginning at a rebar and cap stamped L.S. 5571 at the south corner of said Lot 51 in said Block on the north right-of-way of Santa Lucia Road, as shown on map recorded in Book 73 of Licensed Surveys, at Page 58 in the office of said County Recorder. Said point also being the TRUE POINT OF BEGINNING.

Thence, along the westerly line of said Lot 51 North 54°46'30" West 12.63 feet to a point, said point being the beginning of a non-tangent curve concave southeast and having a radius of 228.98 feet and to which point a radial bears North 41°46'08" West;

Thence, leaving said westerly line, northeast along said curve 82.98 feet through a central angle of 20°45'53" to a point on the easterly line of said Lot 51 being common to Lot 52 in said Block 43 being the end of said curve, and to which point a radial bears North 21°00'15" West;

Thence, along said common line South 45°43'31" East 18.20 feet to a rebar and cap stamped L.S. 5571 at the south common corner of said Lots 51 and 52 on said north right-of-way. Said point being a point on a curve concave southeast having a radius of 216.10 feet and to which point a radial bears North 16°12'15" West as shown on said Licensed Survey map;

Thence, southwest along said curve and right-of-way 82.75 feet through a central angle of 21°56'24" to the TRUE POINT OF BEGINNING and to which point a radial bears North 38°08'39" West.

Contains 1,178.0 square feet.

END OF DESCRIPTION.

  
\_\_\_\_\_  
Keith McMillan L.S. 6729      9-3-2020      Date



ITEM NUMBER:  
DATE:  
ATTACHMENT:

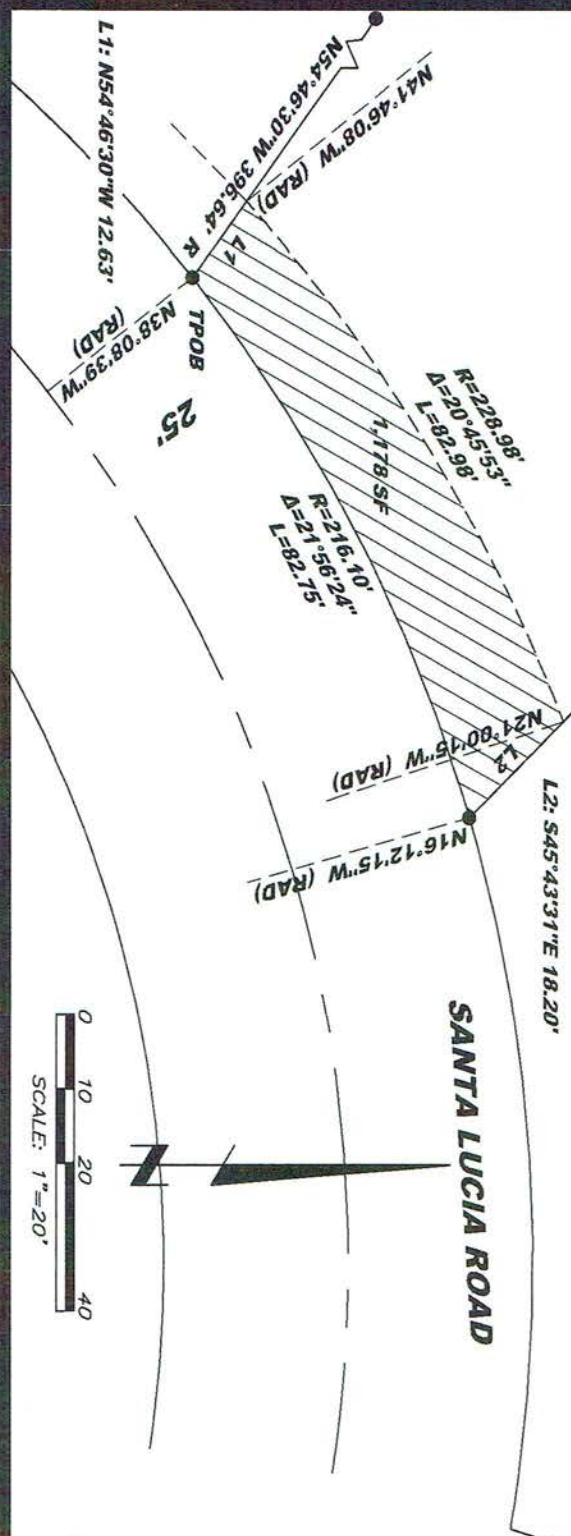
# EXHIBIT B

TCE

**LOT 51**  
**3-AC-58**  
**APN 054-272-016**

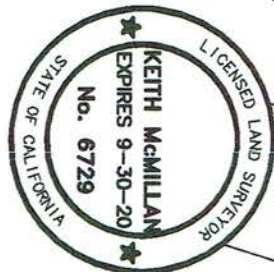
**LOT 52**  
**3-AC-58**  
**APN 054-272-015**

TPOB DENOTES TRUE POINT OF BEGINNING  
RAD DENOTES RADIAL  
R DENOTES RECORD PER 73-LS-58  
SF DENOTES SQUARE FEET  
● DENOTES REBAR & CAP STAMPED LS 5571 PER 73-LS-58



**SANTA LUCIA ROAD**

**LLANO ROAD**



**McMillan**  
LAND SURVEYS

*Keith McMillan* 09-03-2020  
KEITH McMILLAN L.S. 6729  
2306 BROAD STREET  
SAN LUIS OBISPO, CA 93401  
805-541-1663 FAX 541-1664  
DATE: 09-03-2020 JOB #621-02



# ***Atascadero City Council***

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## ***Staff Report – Public Works Department***

### **Atascadero Mall Sewer Condition Improvements Award**

#### **RECOMMENDATION:**

Council authorize the City Manager to execute a construction contract for \$271,876.60 with Rob Reynolds Construction, Inc. for the Atascadero Mall Sewer Condition Improvements Project (Project No. C2019W02).

#### **DISCUSSION:**

##### Background

As part of the 2019-2021 CIP Budget, a “Various Locations Sewer Condition Pipe Improvements” project was included to improve various sewer condition deficiencies, including repairing cracked pipes, displaced pipe joints, non-conforming slopes and sags, and manhole issues. One of the problem locations needing improvement was the section of eight-inch sewer main crossing below State Route 101 (SR 101) between the Ardilla Road/Atascadero Mall intersection and behind the La Plaza development just north of the Atascadero Mall Plaza under construction.

Due to a number of issues, including variable pipe materials, displaced joints, and pipe sags caused by settlement, this 300-foot long sewer main has consistently been one of the most problematic segments of sewer main in the City. Due to the sewer condition, wastewater staff is required to clean the sewer main each month to avoid clogging and failures, compared to annual cleaning for most sewer mains. Replacement of the sewer main is a more urgent matter; not only due to the staff time spent to maintain it, but also since the La Plaza development project is nearing completion. Sewer replacement work will occur in the sewer easement located in the future parking lot behind La Plaza that still needs to be completed. It is staff’s hope to complete the sewer main replacement prior to the parking lot being completed.

##### Design Analysis

Since the section of sewer main is located below SR 101, replacement will be done with trenchless technology known as “jack and boring”. The project will result in a new 8-inch ductile iron pipe inside a 16-inch steel casing. New manholes will be constructed on both sides of the freeway that will allow the majority of the operation to be completed while the existing line remains in service. There will be a brief period when sewer will be bypassed to



allow for connection of the new segment. The existing sewer main will be abandoned in place and could be used as a conduit for broadband or other uses in the future.

Design engineering and preparation of construction plans and specifications was completed by Wallace Group, with a geotechnical investigation and recommendations provided by Yeh & Associates. Since the sewer line, both existing and as proposed, are below SR 101 right-of-way, significant coordination was required as part of the Caltrans encroachment permit process. Wallace Group also completed a review of the City's wastewater flow model data to ensure that the new sewer main is sized appropriately to accommodate both current and potential future flows.

#### Bid Analysis

The project was publicly bid starting December 23, 2020 for a minimum of 30 days in accordance with State Contracting Laws and Atascadero Purchasing Policy. A public bid opening occurred on February 1, 2021 and ten bids were received ranging from \$271,876.60 to \$427,933.00 with the low bid submitted by Rob Reynolds Construction of Creston. The majority of the bids were within a tight range, with the low and high bids as outliers. The bids were reviewed for accuracy and compliance with project bidding requirements, and the City Engineer has determined that Rob Reynolds Construction is the lowest responsive bidder at \$271,876.60. The engineer's estimate of probable construction costs was \$355,500.00 which was in alignment with the majority of the bids.

Staff recommends awarding the project to Rob Reynolds Construction. If approved by Council, staff hopes to commence construction as soon as possible. There will be traffic impacts and inconveniences principally at the Atascadero Avenue/Ardilla Road intersection, but staff and the contractor will provide notifications to affected businesses and motorists throughout construction.

### **ENVIRONMENTAL REVIEW:**

The proposed project is Categorically Exempt (Class 2c) from the provisions of the California Environmental Quality Act (California Public Resources Code §§ 21000, et seq., "CEQA") and CEQA Guidelines (Title 14 California Code of Regulations §§ 15000, et seq.) pursuant to CEQA Guidelines Section 15301, because it is limited to replacement or reconstruction of existing utility systems and/or facilities involving negligible or no expansion of capacity. A finding of exemption is on file in the project records.

## FISCAL IMPACT:

The Project funding sources and uses are as follows:

ESTIMATED EXPENDITURES	
Design and Bid Phase	\$ 92,000
Construction Contract	\$ 271,877
Construction Inspection/Testing/Management (13.8%)	\$ 37,748
Construction Contingency (20%)	\$ 54,375
Total Estimated Expenditures:	\$ 456,000

BUDGETED FUNDING	
Budgeted Wastewater Funds- Various Locations Sewer Condition Improvements	\$ 456,000
Total Funding	\$ 456,000


## ALTERNATIVES:

Council may cancel the project or direct staff to rebid the project. Neither alternative is recommended since bids were determined to be reasonable and fair, and a rebid will likely result in higher bid proposals. Additionally, this project is currently on schedule to be constructed prior to final paving of the La Plaza parking lot improvements. Rebidding the project will result in a delay and greater impacts to the La Plaza development.

## ATTACHMENT:

Bid Summary

***City of Atascadero***  
***Office of the City Clerk***  
***Bid Summary***

TO: Public Works  
FROM: Amanda Muther, Deputy City Clerk   
BID NO.: 2021-001  
OPENED: 2/1/2020  
PROJECT: Atascadero Mall Sewer Condition Improvements, Project No. C2019W02  
10 Bids were received and opened today, as follows:

<u>Name of Bidder</u>	<u>Bid Total</u>
Rob Reynolds Construction, Inc.	\$271,876.60
John Madonna Construction Co., Inc.	\$330,647.00
AAAA Engineering Contracting, Inc.	\$330,957.00
Souza Engineering Contracting, Inc. dba Souza Construction	\$334,652.00
Kies & Son Construction, Inc.	\$337,640.00
Rahminha Construction, Inc.	\$337,976.00
D-Kal Engineering, Inc.	346, 952.00
Leo Tidwell Excavating Corporation	\$362,885.29
Cedro Construction, Inc.	\$387,167.00
Seamair Construction, Inc.	\$427,933.00





## ***Atascadero City Council***

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### ***Staff Report - City Manager's Office***

#### **Authorization to Enter the County of San Luis Obispo COVID-19 Vaccination Assistance Agreement**

#### **RECOMMENDATION:**

Council:

1. Authorize the City Manager to execute the County of San Luis Obispo's COVID-19 Vaccination Assistance Agreement.
2. Authorize the City Manager to execute any future cooperative agreements necessary to provide reimbursement and support for COVID-19 vaccination distribution.

#### **DISCUSSION:**

Throughout the COVID-19 Pandemic the cities and County in San Luis Obispo have taken a unified approach to help protect the health and safety of the community. This same approach will be essential with the COVID-19 vaccination response to protect public health and safety of City of Atascadero and County residents and to fully reopen local businesses and schools to support the economic recovery process for our region and return daily life to as close to that which existed prior to the onset of the COVID-19 pandemic.

The timing and scale of a countywide vaccination effort exceeds the operational capacity of the County and its Public Health function. Through the COVID-19 Vaccination Assistance Agreement (Agreement) (Attachment 1) the City of Atascadero would commit to assist this effort with City resources that would be reimbursable by the County with Federal or State funding they receive that is dedicated to pay for this vaccination effort.

The Agreement outlines eligible versus non-eligible costs for reimbursement and the process in which the County will provide reimbursement to participating agencies. The Agreement, which still requires approval from the County of San Luis Obispo Board of Supervisors, is drafted to initially include the Cities of Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach, San Luis Obispo and the Five Cities Fire Authority. The City's participation in the vaccination effort will likely come from Fire

Department personnel time, as paramedics and EMTs will be tasked with providing vaccines at the various PPOD locations throughout the County.

The agreement calls for the City to be reimbursed for City staff providing assistance in the COVID vaccination effort. The County expects to receive Federal and State funds to reimburse the City for specific incurred costs. If the County does not receive enough State and Federal funding to cover all of the identified costs for the vaccination effort, each City will receive reimbursement at a rate that is proportionate to the overall amount received versus total costs.

In addition to the risk that the City will not receive full reimbursement of their identified costs, the City will be incurring costs that are specifically not reimbursable under the agreement. The City will be reimbursed for the wages for the employee, but the agreement does cover reimbursement for payroll taxes and other allocated costs such as workers compensation and unemployment. Nor are gasoline, mileage and other minor expenses incurred by the City to assist in the vaccination expected to be reimbursed by the County. The City will also be responsible for any liabilities that arise out of the service of our employees.

There is a chance that they City may receive additional funding from State and Federal sources to cover these costs, but at this time, it is prudent to assume that they will come from the General Fund. Changes in available State and Federal funding along with changing future needs may require changes to this agreement. In order to move quickly, staff is asking for Council authorization to execute any future reimbursement agreements that may be necessary to provide staff and facilities to the Countywide vaccination effort.

#### Conclusion

The public distribution of the COVID-19 vaccination is critically important to the health and safety of our residents, as well as the health of our economy. It is a huge undertaking and requires all of us to work together to distribute any available vaccinations in the most efficient and expeditious manner possible. The Countywide Vaccination Effort Assistance Agreement calls for all of the cities and the County to share in the work and to share in a small portion of the costs.

#### **FISCAL IMPACT:**

It is expected that the City will incur costs. The amount of those costs will depend on the amount of personnel provided and the eventual reimbursement from State and Federal sources. Staff estimates unreimbursed costs to be between \$5,000 to \$50,000 through June.

#### **ALTERNATIVES:**

The City could not provide personnel and support for the vaccination efforts. This is not recommended as potential staffing shortages at the vaccination clinics will delay the ability of our residents to get the COVID-19 vaccine.

**ATTACHMENT:**

Draft Agreement between the County Of San Luis Obispo, the Cities of Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach, San Luis Obispo, and the Five Cities Fire Authority for Countywide Covid-19 Vaccination Effort Assistance



**AGREEMENT BETWEEN THE COUNTY OF SAN LUIS OBISPO, THE CITIES OF ARROYO GRANDE, ATASCADERO, GROVER BEACH, MORRO BAY, PASO ROBLES, PISMO BEACH, SAN LUIS OBISPO, AND THE FIVE CITIES FIRE AUTHORITY FOR COUNTYWIDE COVID-19 VACCINATION EFFORT ASSISTANCE**

THIS AGREEMENT ("Agreement") is made and entered into on February 2, 2021 by and between the Cities of Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach, and San Luis Obispo (collectively, the "Cities" or individually, a "City"), the County of San Luis Obispo ("County"), and the Five Cities Fire Authority ("Authority").

**WITNESSETH:**

**WHEREAS**, the Cities, County, and Authority (collectively, the "Parties" or individually, a "Party") agree that a coordinated and cooperative vaccination response to the COVID-19 pandemic is in the best interest of all residents of San Luis Obispo County; and,

**WHEREAS**, the Parties agree that an expedited COVID-19 vaccination effort is essential to protect public health and safety of San Luis Obispo County residents and to fully reopen local businesses and schools to support the economic recovery process for our region and return daily life to as close to that which existed prior to the onset of the COVID-19 pandemic; and,

**WHEREAS**, the Parties understand that the timing and scale of this countywide vaccination effort exceeds the operational capacity of the County and its Public Health function and the Cities and Authority commit to assist this effort with resources that would be reimbursable by the County with Federal and/or State funding received that was dedicated to pay for this vaccination effort; and,

**WHEREAS**, the Consolidated Appropriations Act, 2021 (H.R. 133), which was signed into law on December 27, 2020 by President Trump, includes \$4.5 billion in funding to be allocated to states, localities, and territories to plan, prepare for, administer, monitor, and track coronavirus vaccines and ensure broad distribution and access; and,

**WHEREAS**, in addition to receiving Federal funding from H.R. 133, a Party may receive additional funding for vaccine distribution from the Federal government as well as from State government such as through Governor Newsom's proposed State budget for FY 2021-22, which includes \$350 million for State-sponsored vaccine distribution efforts; and,

**WHEREAS**, President Biden has indicated that additional Federal funding may be made available to states and local agencies to support vaccination efforts and defray or cover all costs; and

**WHEREAS**, the Parties agree to work together to support this significant and historic vaccination effort with resources specified below at the request of the County Public Health Officer and consistent with the "Vaccination Letter of Expectation" approved by the Public Health Officer and the County's Incident Management Team to protect the health and safety of all San Luis Obispo County residents.

**NOW, THEREFORE**, the Parties agree as follows:

1. RECITALS: The above recitals are true and correct and are incorporated hereby by this reference.

2. ASSISTANCE AGREEMENT: The following is an Assistance Agreement between the above-named Parties negotiated specifically for the COVID-19 vaccination of citizens of San Luis Obispo County ("Incident").
3. SCOPE OF ASSISTANCE: The Parties commit to providing necessary resources to carry out the COVID-19 vaccination effort throughout the County as requested in the "Vaccination Letter of Expectation" approved by the County Public Health Department and the County's Incident Management Team and attached hereto as Exhibit A. These resources include staffing and out of pocket expenses such as Personal Protective Equipment that represent marginal costs for the vaccination effort as set forth in Sections 4 and 5 below. Staffing assistance from the Cities and Authority will largely come from each Party's respective fire department, though staffing from other Party departments may also be used if necessary. Necessary resources will be determined by each Party in consultation with the County and the County Incident Management Team based on resource capacity and availability, as some Parties do not have a separate fire department but are served by a multi-agency fire service or are themselves a fire department/authority.
4. REIMBURSABLE COSTS: Additional costs being borne by a Party related to the incident will be included in those considered for reimbursement. The following items are reimbursable costs to a Party by the County for assistance to the County in this COVID-19 vaccination effort which would be similar to reimbursable costs incurred by the County:
  - a. Additional staff hired specifically to support the Incident.
  - b. Additional staff hired to provide substitute/backfill for existing Party staff who are assigned to support the Incident.
  - c. Existing staff that is furloughed or otherwise unable to work due to COVID-19 restrictions or office closures, but brought back to support the Incident.
  - d. Salary (including both base pay and any applicable overtime incentives, but excluding Party overheads such as employee benefits, insurance and payroll taxes) for staff working on the Incident who are not relieved of normal duties.
    - i. Because assignments of hourly personnel are anticipated to be in addition to normal duties, and not instead of, in all cases where staff is eligible for overtime incentives, cost for both base pay and overtime incentives will be included, regardless of whether the individual is being paid overtime.
  - e. Cost for equipment, consumables, and other needs specifically purchased for use while providing support to the Incident including, but not limited to: Personal Protective Equipment (PPE), food, water, paper, pencils, and pens.
  - f. Cost for equipment and consumables taken for use at the Incident that will require replacement at the end of the Incident such as items listed in subsection 4.e above.
5. EXCLUDED FROM REIMBURSABLE COSTS: The following items are Party expenses that will not be eligible for reimbursement by the County with Federal or State funding associated with vaccination efforts. Where appropriate, such expenses will be tracked, and documentation of such expenses will be provided to the County, as they may be reimbursable through the Federal Emergency Management Agency (FEMA) or the State of California and information related to the types of costs will be provided by each Party to the County:
  - a. Staff assigned to the Incident who are relieved of normal duties.
  - b. Agency and management overhead for staff assigned to the Incident.
  - c. Existing equipment and consumables that are not purchased for the Incident and do not

- require replacement at the end of the Incident.
- d. Costs for non-expendable property purchases made by a Party that can be repurposed for non-Incident purposes.
  - e. Costs incurred by a Party not directly related to COVID-19 vaccination activities.
6. REIMBURSEMENT: The County commits to reimburse the Cities and Authority for eligible costs defined in Section 4 using Federal or State funding received by the County dedicated to COVID-19 vaccination efforts. In the event that Federal or State funding does not fully cover the reimbursable costs incurred by the Cities or Authority for the vaccination efforts, the County will reimburse Cities or Authority based on the formula defined below in subsection 6.b. The County agrees it will pursue additional reimbursement from FEMA and the State of California for all such costs on behalf of all the Parties. Where reimbursement is received from FEMA or the State, the County will provide funds to all Parties in accordance with this Agreement.
- a. To ensure timely and accurate cost tracking for reimbursement, all Parties agree to provide the County with documentation of ongoing total eligible costs/expenditures incurred within thirty (30) days of each completed quarter and within thirty (30) days of the termination of the County led vaccination effort, hereinafter referred to as the "Final Cost Reporting." Should a cost be excluded due to untimely submission, such costs will still be included with costs submitted for COVID-19 cost reimbursement through FEMA and/or the State of California.
  - b. In the event that Federal or State funding provided to the County is less than the total costs incurred by all Parties, the County will reimburse each City or the Authority the proportion of the funding received in comparison to the total costs.
    - i. Example: If the County receives 75% of the total costs incurred by Parties, the County will reimburse each Party 75% of their individual agency eligible costs.
      - 1. If the total vaccination effort cost is equal to \$5,000,000 and the total Federal and State funding received by the County is \$3,750,000, a Party with an eligible total cost to provide assistance of \$500,000 would be reimbursed \$375,000 by the County.
  - c. Reimbursement will be issued within sixty (60) days following the receipt by the County of eligible Federal or State funding, or within sixty (60) days of the Final Cost Reporting if Federal or State funding is received by the County prior to the termination of the County led vaccination effort.
  - d. The Parties acknowledge that other eligible funding received for vaccination work will be applied towards reimbursement of eligible costs identified in Section 4.
7. OTHER PARTIES: Should the County seek the assistance from other government agencies located in the San Luis Obispo County in relation to the County-wide vaccination efforts not party to this agreement, including special districts, an amendment of this agreement adding said party should be completed in agreement by all existing Parties.
8. LIABILITY AND INDEMNITY: Nothing in this Agreement shall be deemed to create an employee/employer relationship between the Parties or as between any Party and another Party's respective employees. All third-party claims against any Party shall be adjudicated pursuant to the applicable tort claims act and shall be referred to the agency or agencies whose employees or agents were involved in the incident that gave rise to the claim. Each Party shall be solely responsible for the acts, errors or omissions of its participating employees and agents and shall be solely responsible for any claims or liabilities arising out of the services and activities of its participating employees and agents, including but not limited to worker's compensation. No Party shall seek indemnification from



another Party for, and shall hold each other Party harmless against the acts, errors or omissions of the Party's employees and agents.

9. NON-DISCRIMINATION: All Parties shall not discriminate against any person or class of persons in violation of any and all Federal, State, and local non-discrimination laws.
10. COMPLIANCE WITH ALL LAWS: All Parties agree to abide by all laws and regulations applicable to the expenditure of public funds, including but not limited to, the audit of the expenditure of these funds by Federal, State, or County for compliance with regulations and the inclusion of provisions guaranteeing compliance with all labor laws and regulations pertinent to public funds.
11. SEVERABILITY: The invalidity of any provision of the Agreement shall not affect the validity or enforceability of any other provision of the Agreement.
12. TERM: This Agreement is effective as of the Effective Date above and shall continue in effect until terminated by all the Parties. Any Party may terminate their participation in this Agreement by sending written notice of termination to the other Parties. This Agreement shall automatically terminate upon the successful completion of the vaccination efforts and as determined by the County Public Health Department and the Incident Management Team.
13. NOTICES: Any notices required herein shall be sent to the following individuals:

If to County:

Wade Horton

Administrative Office

1055 Monterey St. D430

San Luis Obispo, CA 93408

If to City of Arroyo Grande:

If to City of Atascadero:

If to City of Grover Beach:

If to City of Morro Bay:

If to City of Paso Robles:

If to City of San Luis Obispo:

If to Five Cities Fire  
Authority:

14. COUNTERPARTS AND EXECUTION: This Agreement may be executed in counterpart signatures and transmitted by electronic mail with the same force and legal effect as an original.

**IN WITNESS WHEREOF**, the Parties have executed this Agreement as of the Effective Date:

SIGNATURES

County of San Luis Obispo:

_____	_____
Signature/Title	Date

City of Arroyo Grande:

_____	_____
Signature/Title	Date

City of Atascadero:

_____	_____
Signature/Title	Date

City of Grover Beach:

_____	_____
Signature/Title	Date

City of Morro Bay:

_____	_____
Signature/Title	Date

City of Paso Robles:

_____	_____
Signature/Title	Date

City of Pismo Beach:

_____	_____
Signature/Title	Date

City of San Luis Obispo:

_____	_____
Signature/Title	Date

Five Cities Fire Authority:

_____	_____
Signature/Title	Date



# ***Atascadero City Council***

## ***Staff Report - City Attorney***

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### **Urgency Ordinance Affirming Orders of the State of California, County Emergency Services Director and Public Health Officer**

#### **RECOMMENDATION:**

Council adopt an Urgency Ordinance affirming orders of the State of California and the County Emergency Services Director and Public Health Officer and the City Director of Emergency Services.

#### **DISCUSSION:**

##### Background

On June 11, 2019 the City appointed the San Luis Obispo County Health Officer as the City Health Officer and further consented to the enforcement of laws relating to the public health by the San Luis Obispo County Health Officer within the City of Atascadero (Resolution No. 2019-038).

On March 14, 2020 the City Manager, in her capacity as the City's Director of Emergency Services, issued a proclamation declaring a Local Emergency due to COVID-19.

On March 17, 2020, the City Council adopted Resolution 2020-005 declaring the existence of a local emergency within the City due to COVID 19.

Since the emergency due to COVID-19 began, there have been multiple Orders issued by Governor Newsom and the State Department of Public Health and the County of San Luis Obispo Emergency Services Director and the County Health Officer and by the City's Director of Emergency Services (collectively "Orders") which have imposed requirements due to COVID-19 including restrictions on both businesses and individuals and the likelihood based on the issuance of past Orders is that there will be further Orders issued in the future.

##### Urgency Ordinance

Based upon the foregoing, attached for consideration by the City Council is an Urgency Ordinance Affirming Orders of the Emergency Services Director and Public Health Officer. This Urgency Ordinance includes several sections including Section 4, which provides as follows:



**SECTION 4.** Orders of Governor Newsom and the State Department of Public Health and the San Luis Obispo County Emergency Services Director, County Public Health Officer and the City Director of Emergency Services (hereafter "Orders") currently in effect or as subsequently amended , and any Orders which may be issued in the future, are hereby expressly acknowledged and declared to be enforceable within the City of Atascadero and violations of Atascadero Municipal Code (AMC) Section 1-3.02.1 as if directly enacted by the City Council or as otherwise allowed by law.

Urgency ordinances are authorized by Government Code Section 36937 when necessary for the immediate preservation of the public peace, health or safety and must contain a declaration of the facts constituting the urgency and is passed by a four-fifths vote of the city council. This Staff Report, and the attached Urgency Ordinance, confirm that the adoption of this Urgency Ordinance is necessary for the immediate preservation of the public peace, health or safety and contain a declaration of the facts constituting the urgency. The Urgency Ordinance would take effect immediately upon adoption.

While the County of San Luis Obispo has concluded that the County has the authority to enforce the Orders of the County Emergency Services Director both in the unincorporated areas of the County as well as within the cities in the County, this Urgency Ordinance provides further support for the enforceability of those Orders within the City of Atascadero.

On April 14, 2020, the City Council adopted Urgency Ordinance No. 637 with similar provisions as the Urgency Ordinance attached to this Staff Report. Urgency Ordinance No. 637 expired on August 31, 2020 per Section 6 of that Ordinance. The attached Urgency Ordinance shall remain in effect until it is repealed by ordinance by the City Council.

The emergency conditions due to COVID-19 continue to the present day and the date when these emergency conditions will no longer exist is unknown. Therefore, the recommendation is that the attached Urgency Ordinance be adopted by the City Council. A vote of 4/5 of the City Council is necessary for the approval of this Urgency Ordinance.

#### **FISCAL IMPACT:**

The adoption of this Urgency Ordinance would not have a fiscal impact to the City. Enforcement of the Urgency Ordinance would have a financial impact to the City depending upon the extent of enforcement required.

#### **ALTERNATIVES:**

Do not adopt the Urgency Ordinance.

#### **ATTACHMENT:**

Urgency Ordinance

## **URGENCY ORDINANCE NO.**

### **URGENCY ORDINANCE OF THE CITY COUNCIL OF THE CITY OF ATASCADERO, CALIFORNIA AFFIRMING ORDERS OF THE STATE OF CALIFORNIA AND THE EMERGENCY SERVICES DIRECTOR AND PUBLIC HEALTH OFFICER OF THE COUNTY OF SAN LUIS OBISPO AND THE CITY DIRECTOR OF EMERGENCY SERVICES RELATED TO THE COVID-19 STATE AND LOCAL EMERGENCY AND EXPRESSLY AFFIRMING SUCH ACTIONS AND ORDERS AS APPLICABLE AND ENFORCEABLE WITHIN CITY JURISDICTION**

**WHEREAS**, the federal Centers for Disease Control and Prevention (“CDC”) has confirmed thousands of cases of individuals who have severe respiratory illness caused by a novel coronavirus, called COVID-19, as well as deaths caused by this illness; and

**WHEREAS**, the World Health Organization declared COVID-19 a pandemic, and the CDC announced that community spread of COVID-19 is likely to occur in the United States; and

**WHEREAS**, the President of the United States has declared a State of National Emergency and, on March 4, 2020, the Governor of the State of California has proclaimed a State of Emergency for the State of California and issued Executive Orders and direction regarding measures to mitigate the spread of cases of COVID-19 within the State of California; and

**WHEREAS**, the increase of reported cases and deaths associated with COVID-19 also prompted the County of San Luis Obispo to proclaim a local public health emergency on March 13, 2020; and

**WHEREAS**, Section 4-4.07 of the Atascadero Municipal Code and the Emergency Service Act (Gov. Code §§ 8550 et seq.) empower the Director of Emergency Services (City Manager) to proclaim a local emergency when the City is affected by extreme peril to the safety of persons and property within the territorial limits of the city caused by such conditions as an epidemic, and on March 14, 2020 the Director issued a proclamation declaring a Local Emergency due to COVID-19; and

**WHEREAS**, on March 17, 2020, the City Council adopted Resolution 2020-005 declaring the existence of a local emergency with the City due to COVID 19

**WHEREAS**, since the emergency due to COVID-19 began, there have been multiple Orders issued by Governor Newsom and the State Department of Public Health and the County of San Luis Obispo Health Officer and by the City’s Director of Emergency Services (collectively “Orders”) which have imposed requirements due to COVID-19 including restrictions on both businesses and individuals and the likelihood based on the issuance of past Orders is that there will be further Orders issued in the future.

**WHEREAS**, on June 11, 2019 the City appointed the San Luis Obispo County Health Officer as the City Health Officer and further consented to the enforcement of laws relating to the public health by the San Luis Obispo County Health Officer within the City of Atascadero (Resolution No. 2019-038); and

**WHEREAS**, the City of Atascadero will be required to help enforce all restrictions imposed by the State of California and by the County of San Luis Obispo acting as the health agency and, to the extent there are conflicts in the State and County home shelter orders, the City intends to adhere to the most restrictive standard, unless otherwise directed by the County Emergency Services Director or Public Health Officer; and

**WHEREAS**, Health & Safety Code Sections 101029 and 120155 authorize the City's peace officers to enforce orders of the State and County Public Health Officers issued for the purpose of preventing the spread of any contagious, infectious, or communicable disease and Government Code Section 41601 further authorizes the City's Chief of Police to enforce local health orders to prevent the spread of disease; and

**WHEREAS**, the COVID-19 pandemic continues to spread rapidly worldwide and in the U.S., continuing to present an immediate and significant risk to public health and safety, and resulting in serious illness or death to vulnerable populations, including the elderly and those with underlying health conditions; and

**WHEREAS**, heightened levels of public health and safety planning and preparedness have been necessitated in preparation for and response to confirmed cases of COVID-19 in the County of San Luis Obispo, and rapid response not lending itself to otherwise applicable notice and approval timelines has been and will be necessary to respond to the rapidly evolving pandemic and to mitigate against the spread of COVID-19 and its resulting public health and safety impacts; and

**WHEREAS**, in the absence of such actions, County wide health services may become overwhelmed and unable to keep up with medical demand for care and availability of hospital or care facility capacity.

**NOW THEREFORE, THE CITY COUNCIL OF THE CITY ATASCADERO HEREBY ORDAINS AS FOLLOWS:**

**SECTION 1.** All recitals set forth above, and all recitals included in support of Federal, State and County and City Orders are adopted as though fully set forth herein as findings in support of this Urgency Ordinance; and

**SECTION 2.** A local emergency continues to exist throughout the City, and the City has been undertaking, and will continue through cessation of this emergency to undertake, necessary measures and incur necessary costs, which are directly related to the prevention of the spread of the COVID-19 Virus and are taken in furtherance of: the Governor's Proclamation of a State of Emergency on March 4, 2020; the President of the United States' Declaration of a National Emergency on March 13, 2020; the City Council Resolution 2020-005 declaring the existence of a local emergency with the City due to COVID 19; and Orders issued by the County Emergency Services Director and the County Public Health Director and the City Director of Emergency Services.



**SECTION 3.** During the existence of said local emergency, the powers, functions, and duties of the Emergency Services Director and the Emergency Organization of this City shall be those prescribed by state law, ordinances, and resolutions of this City and by the Atascadero Emergency Operations Plan, notwithstanding otherwise applicable procedures, timelines or methods of action and the Emergency Services Director is expressly authorized to take any and all actions in furtherance of emergency powers to address the local emergency.

**SECTION 4.** Orders of Governor Newsom and the State Department of Public Health and the San Luis Obispo County Emergency Services Director, County Public Health Officer and the City Director of Emergency Services (hereafter “Orders”) currently in effect or as subsequently amended , and any Orders which may be issued in the future, are hereby expressly acknowledged and declared to be enforceable within the City of Atascadero and violations of Atascadero Municipal Code (AMC) Section 1-3.02.1 as if directly enacted by the City Council or as otherwise allowed by law.

**SECTION 5.** The Emergency Services Director and Administrative Services Director or their designees are hereby directed and authorized to pursue recovery from all available State and Federal agencies for reimbursement for COVID-19 related City costs and expenses from and after the Determination that a Public Health Emergency Exists since January 27, 2020.

**SECTION 6.** This ordinance shall remain in effect until it is repealed by the City Council by ordinance.

**SECTION 7. Severability.** If any section, subsection, sentence, clause, phrase or word of this ordinance is found to be unconstitutional or otherwise invalid by any court of competent jurisdiction, such decision shall not affect the remaining provisions of this Urgency Ordinance.

**SECTION 8. Urgency Declaration; Effective Date.** The City Council finds and declares that the adoption and implementation of this ordinance is necessary for the immediate preservation and protection of the public peace, health and safety as detailed above and as the City and public would suffer potentially irreversible displacement of commercial and residential tenants resulting from evictions and foreclosure for failure to pay rent during the COVID-19 crisis. During this local emergency, and in the interest of protecting the public health and preventing transmission of COVID-19, it is essential to avoid unnecessary housing displacement, to protect the City’s affordable housing stock, and to prevent housed individuals from falling into homelessness, especially given state and county directives to stay at home. Promoting stability amongst commercial tenancies is also conducive to public health, allowing businesses to follow the advice and directives of public health officials to close and allowing employees to avoid public contact during times of a public health crisis without fear of imminent eviction or foreclosure. Loss of income as a result of COVID-19 may inhibit City residents and businesses from fulfilling their financial obligations, including payment of rent and mortgages. Enforcement of State and County State at Home Orders, as stated in the Public Health Officer orders incorporated herein by reference, is further necessary to protect the spread of COVID-19. Under Government Code Section 8634 and PRMC Chapter 2.64, this ordinance is necessary to provide for the protection of life and property for the reasons set out herein. The Council therefore finds and determines that the immediate preservation of the public peace, health and safety, and protection of life and property, require that this Ordinance be enacted as an urgency ordinance pursuant to Government Code section 36937 and take effect immediately upon adoption by four-fifths of the City Council.

**SECTION 9. Publication.** The City Clerk shall certify to the adoption of this Urgency Ordinance no later than fifteen (15) days following the passage of this Urgency Ordinance, the Urgency Ordinance, along with the names of the City Council members voting for and against the Urgency Ordinance, shall be published in a newspaper of general circulation in the City of Atascadero.

**PASSED AND ADOPTED** by the City Council of the City of Atascadero, California, held on the 9<sup>th</sup> day of February, 2021, by a vote of at least four-fifths of the City Council.

CITY OF ATASCADERO

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Heather Moreno, Mayor

ATTEST:

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Lara K. Christensen, City Clerk

APPROVED AS TO FORM:

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Brian A. Pierik, City Attorney



# ***Atascadero City Council***

## ***Staff Report – Administrative Services Department***

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### **Comprehensive Financial Strategy**

#### **RECOMMENDATIONS:**

Council:

1. Review and file the Comprehensive Financial Strategy.
2. Adopt Draft Resolution approving Financial Policies as documented in Section 6 of the Comprehensive Financial Strategy.

#### **DISCUSSION:**

Staff has updated the Comprehensive Financial Strategy. This report includes information on issues relevant to future planning and the upcoming two-year budget process. The report has six main sections:

1. Key Actions
2. Revenues
3. Operating Expenses
4. Long-Term Costs
5. Reserves
6. Financial Policies

The report discusses each of the above topics in detail and can be summarized by the following points:

- The City has a Comprehensive Financial Strategy
- The City's Financial Strategy is reviewed often and remains flexible
- Continued responsible fiscal policy is important now and in the future

Council has been consistently sticking to the Financial Strategy that puts away funds in reserves in the good times for use when the economy dips. That strategy has positioned the City well to maintain consistent levels of service even as the economy goes through periods of expansion and contraction.



Adherence to the Council's fiscal policy will be a key component in moving forward. While the City's finances are stable, economic recovery continues to be gradual and is now impacted by COVID-19, and new opportunities exist with the passage of Sales Tax Measure D-20. Nonetheless, resources continue to be limited, and the attached comprehensive plan keeps the City's focus on Council's top priorities. Ultimately, teamwork and collective efforts to achieve the same goals will keep the City's financial foundation strong, now and into the future.

#### Financial Policies and Practices

Section 6 of the Comprehensive Financial Strategy contains Financial Policies and Practices that guide the City Council, City Manager, and staff through the budget development, decision-making processes, and day-to-day operations. These policies are practical guides for a continued healthy fiscal condition and have helped to keep City operations and service levels stable and continue to provide the community with a sustainable future.

#### **FISCAL IMPACT:**

There is no fiscal impact related to the approval of the Comprehensive Financial Strategy, including the adoption of the Draft Resolution approving the Financial Policies.

#### **ATTACHMENTS:**

1. Atascadero Comprehensive Financial Strategy – February 2021
2. Draft Resolution - Approving the Financial Policies as documented in Section 6 of the Comprehensive Financial Strategy



# ***Atascadero***

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## ***Comprehensive Financial Strategy February 2021***

# City of Atascadero

## *Financial Strategy – February 2021*

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### Introduction:

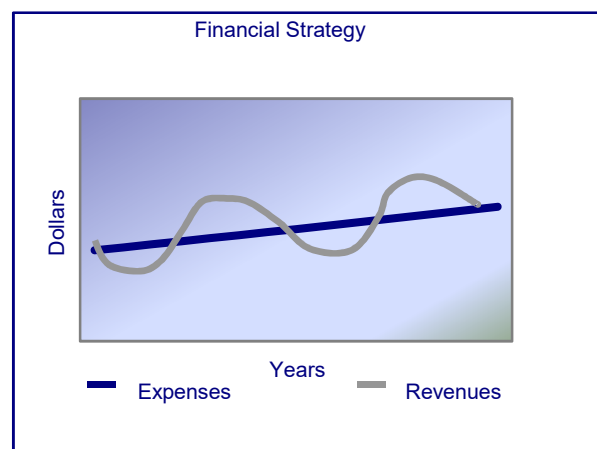
The City of Atascadero has worked hard to maintain fiscal stability through the ups and downs in the economy that have occurred over the years. The effects of the state, national, and worldwide financial environments all have an impact on the local economy. The ability of an organization to navigate through a changing environment is often times directly related to the planning and preparation that was done in advance. Fortunately, through Atascadero's visionary leadership, appropriate policies and strategies have been put in place and continue to be used to help maintain consistent City services, regardless of the state of the economy. Of course, to make this happen, tradeoffs have been, and will continue to need to be agreed upon in order to keep the organization strong and resilient.

The City of Atascadero has experienced its share of financial challenges over the last few decades. In the early 1990s, a sharp slow-down of the economy devastated the City's budget and brought the staff to a skeleton crew. In more recent years, the state budget crisis brought more challenges as the State sought to balance their budget on the backs of local government. Then there was the Great Recession in 2008, the loss of redevelopment in 2012, and, of course, the pandemic-induced recession in 2020. The importance of a well-defined financial strategy to anticipate and conquer difficult issues cannot be understated. Equally as important, is the privilege and responsibility to program the new Sales Tax Measure D-20 Essential Service Tax revenue. The maintenance of a strong organization is shared community wide, but as the City Council and City employees, we agree to be the leaders in this effort. The Council has shown great leadership in its forward-thinking members and continues to look toward ensuring a sustainable future.

As with all successful organizations, the City needs to continue to revisit and update the long-term plan. A current yet fluid Fiscal Strategy is a key element of building a solid foundation upon which to move into the future. The City first adopted a Financial Strategy in 1998 and by focusing its resources, its financial condition has improved dramatically since that time.

The financial plan should outline general strategies and guidelines to mold the City's decisions. The plan should identify actions and describe the current belief of the organizational needs. However, it should also be flexible as the economy or situations change, direction and efforts can be modified to best suit the needs of the City and community. The plan requires periodic updates to ensure the City's financial strategy remains current and reflects the priorities of the citizenry.

The overall strategy has consistently been to maintain a conservative outlook by putting aside reserves in good times and then using





those reserves during down periods to achieve stable operations. By employing this conservative strategy, the City can avoid the undesirable peaks and valleys in services due to revenue fluctuations and can better maintain its long-term financial vitality.

### **Comprehensive Financial Strategy:**

The first section of this plan highlights some of the actions that Council and staff have taken to accomplish Council's Strategic Goals and focus on financial health.

The second section reviews some of the major revenues for the City. This section includes a description of these sources, how they've changed over the years, and what that means to the City now and into the future.

The third section analyzes ongoing operating costs. This includes employee and benefits costs, trends and assumptions. Additionally, this section reviews operating service costs, supplies, and capital expenditures.

The fourth section discusses long-term costs. These include discussions on long-term funding for maintenance and replacement of streets and bridges, storm drains, buildings, technology, vehicles, and equipment. Additionally, employee leave accruals are reviewed and analyzed.

The fifth section discusses reserves. The City has several different types of reserves to serve different purposes. The organization must retain some reserves to deal with cash flow issues, personnel, equipment, liabilities, and other unexpected expenses. Having a prudent plan to deal with ongoing operating costs and reserves will allow the Council and community to understand levels of risk in the City's financial operation.

The sixth and last section reviews the City's fiscal policies. These policies guide our budget process, projects, purchases and general City business. The City has taken a variety of steps over the years to maximize limited resources including economic development, strengthening of reserves, short- and long-term budget reductions, Strategic Planning, and revenue enhancement solutions. Staff continues to search for ideas to better the financial condition of the organization.

As we noted, all organizations must have a plan to succeed. This plan keeps the City's focus on the top priorities. The plan is dynamic and change is always expected. Improvements will occur and good ideas are invited from all sources. The underlying belief is that through our collective knowledge and teamwork, the City will continue to have a strong financial foundation that will withstand adversity.

# ***Atascadero***

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## ***Comprehensive Financial Strategy February 2021***

### ***Section 1- Key Actions***

## **Highlights of Key Actions**

Council and employees have worked as a powerful team to maintain the organization as fiscally nimble as possible. Critical indicators and influences are continuously monitored and analyzed so adjustments and modifications can be made as new information is available. Detailed below are highlights of some of the key actions completed, in progress, or as action plans to move forward Council's priority goals determined during the 2019/21 Budget Cycle.

### **Leverage Place-Making in the Commercial Areas for Long-Term Economic Development**

- Complete the El Camino Corridor Study which shall be used as a basis to guide future policies, updates, and development along the corridor.
- Facilitate downtown infrastructure enhancements.
- Facilitate commercial development near Del Rio.
- Examine future uses of City-owned lots to best facilitate vibrancy in the Downtown.
- Support and adopt legislation that maintains quality public spaces and a vibrant environment in the downtown.
- Explore and investigate potential code options / changes to the code that would promote creative solutions to perceived barriers to re-development.
- In coordination with the El Camino Corridor Plan, focus on other opportunity areas for community place-making.
- Continue to encourage and expect quality development.
- Work to reduce the number of vacant store fronts.
- Build partnerships and alliances with local business interests.

### **Ensure Comprehensive Safety Readiness and Risk Mitigation**

- Develop and implement a comprehensive evacuation and communications plan.
- Target high hazard areas for additional education and resources.
- Reduce the risk and severity of wildland fire by identifying methods of mitigating high hazard fuels.
- Implement a strong public education and outreach program regarding public safety.
- Look for ways to increase public safety resources to better address public safety concerns.
- Develop personnel to take on future leadership roles/next steps within the organization.
- Increase solution based response to issues related to transients and homelessness.

### **Foster Financial Sustainability**

- Consider putting a tax measure on the November 2020 ballot.
- Set fees at rates necessary to provide services at the service-level expected by the public.
- Reduce tax subsidies to City services.
- Consider allowing commercial cannabis activities to increase the City's tax base.
- Embrace "Essentialism" and the decision criteria set by Council.

Although resources were limited, there have been great successes and accomplishments of many aspects of the Council and Community goals as resources were focused on achieving those initiatives that were set in the 2017/19 budget cycle. Some of the accomplishments for those priority goals include:

### **Economic Development**

- Amended the Del Rio Specific Plan to allow for the approval and streamlined process for the development of the Hilton Home2 Suites at Del Rio.
- Amended the Master Plan of Development to allow a hotel to be developed instead of two additional retail pads adjacent to the Springhill Marriott Hotel in the Home Depot shopping center.
- Implemented a new permit software system that will streamline and facilitate project tracking.
- Continued to explore options and paths forward for the area under the Del Rio Specific Plan.
- Continued to improve the City's pro-business reputation.
- Actively promoted the Atascadero's business potential and City's economic development strategies, successes, and tools.
- Continued to participate in regional efforts to stimulate increased economic vitality of the region.
- Updated the Zoning Code annually to reduce uncertainties and improve transparency and streamline the development review process.
- Continued to aggressively complete needed infrastructure projects including road rehabilitation and bridge projects.
- Explored the potential of a small conference center in Atascadero.
- Began work on the El Camino Corridor Project to help strengthen the potential for economic development and establish guidance for a future Citywide General Plan update.

### **Downtown Revitalization**

- Facilitated the addition of many new businesses in the Downtown.
- Re-implemented the Downtown Business Improvement District at the behest of downtown businesses.



- Facilitated growth and success of the Atascadero Farmers Market in the Downtown.
- Grew successful Downtown events such as the Tamale Festival and Dancing in the Streets.
- Facilitated the Chamber of Commerce move to Colony Square, and the establishment of the Chamber's Bridgework co-working space.
- Sold the Creekside Building bringing the Wild Fields Brewery and Movement for Life Offices into the Downtown.
- Completed the Centennial Bridge Project.
- Approved the La Plaza Project, and facilitated the breaking ground of this pivotal mixed-use project in the core of the Downtown.
- Approved a Plaza design to work in harmony with the La Plaza Project.
- Purchased two properties along East Mall to stimulate the type of businesses and developments that the Community would like to see along the Sunken Gardens.
- Approved the entitlements for the proposed Bridgewalk Hotel Project.
- Began looking at potential improvements along El Camino Real in the Downtown to increase pedestrian safety, slow down traffic, improve aesthetics, increase parking and promote vibrancy in the Downtown.
- Adopted a tree re-planting plan for the Sunken Gardens.
- Submitted the Downtown Watershed Plan to allow developers alternatives to meet State Water Quality Control Board regulations in order to facilitate redevelopment of Downtown properties.
- Actively increased traffic to local businesses through a focused promotions program including Restaurant Month, Art & Wine tours, and the Traffic Way events.
- Utilized the assistance of code enforcement to motivate the seismic retrofit and adaptive re-use of vacant buildings.
- Promoted tax credits along with pro-active problem solving to facilitate the occupancy of new restaurants and bars in light of accessibility requirements.

### **Employee Resources**

- Adopted a new tree ordinance, streamlining the process for applicants and City staff, while maintaining preservation of native trees as a priority.
- Adopted a new purchasing ordinance, raising purchasing limits in order to reduce the time spent on purchasing budgeted items.
- Eliminated the Parks and Recreation Commission, to streamline the process to approve park projects and reduce staff time spent on administration necessary to maintain the Commission.

- Approved two-year Memorandums of Understanding with each of the bargaining units, giving salary increases in each of the two-years in order to bring compensation for City employees closer to the Countywide average in an effort to retain the quality employees that serve the Community.

### **Other**

- Adopted the Local Agency Management Plan (LAMP) allowing those parcels not served by sewer to continue to be developed
- In partnership with Parents for Joy, constructed the new Joy Playground at Colony Park
- Replaced the big-kid playground structure at Atascadero Lake Park
- Completed several new Zoo exhibits including the immersive new Thelma Vetter Red Panda Experience.
- Examined and pursued alternatives to costly County animal shelter project, eventually arriving at a collaborative solution with the County.
- Adopted a new ordinance, regulating cannabis business activities.
- Voters approved a new tax for any potential cannabis businesses.
- Worked through several issues regarding the Community's waste stream including sale of the landfill, excessive recycling and greenwaste contamination, and the potential loss of the City's Materials Recycling Facility (MRF) due to changing recycling markets.
- Raised the City's Pavement Condition Index (PCI) from 47 to 50 by aggressively completing road projects using F-14 funds, SB1 funds, grants, and other existing road funding such as LTF.

### **Conclusion**

These actions are but a small sampling of the work that has been done, and continues to be done, to successfully move toward the Council's goals. This will continue to position the City to respond to the ebbs and flows of an uncertain economy and to make the community an even better place to live and visit.

## **Seven Year Projection**

In preparation of the two-year budget process, staff prepared a Seven Year Projection to more fully understand the long-term impacts of the two-year budget. The Seven Year Projection is an excellent planning tool to get a broader perspective of how the organization will fare and to ensure that the level of reserves currently available are appropriate. Similar to the planning horizon for Strategic Planning purposes, the seven year view is generally believed to be a reasonable time frame for projecting the future. Programming of the Sales Tax Measure D-20 is an ongoing discussion between the Community, the Council and the staff. The priorities for these funds have not yet been determined, and therefore, these funds have been excluded from the Seven Year General Fund Projection. Staff have otherwise updated the projection's key revenues and expenses and extended them out to seven years.

A ten-year history and a Seven Year Projection are displayed on the following pages.

# Ten Year History

ITEM NUMBER: C-1  
DATE: 02/09/21  
ATTACHMENT: 1

## General Fund (excluding Sales Tax Measures F-14 and D-20 Activity)

	Actual 2010/2011	Actual 2011/2012	Actual 2012/2013	Actual 2013/2014	Actual 2014/2015	Actual 2015/2016	Actual 2016/2017	Actual 2017/2018	Actual 2018/2019	Actual 2019/2020
Taxes										
Property Tax (Current Secured & VLF)	\$ 6,859,675	\$ 6,721,593	\$ 6,766,432	\$ 7,183,294	\$ 7,462,645	\$ 7,853,744	\$ 8,308,110	\$ 8,743,471	\$ 9,197,648	\$ 9,480,157
RDA Dissolution Distributions	-	41,254	2,374,020	150,565	131,077	181,523	283,066	759,176	460,501	465,449
Other Property Taxes	188,426	168,673	176,693	218,048	278,887	280,534	336,496	296,515	332,067	396,138
Sales Tax *	2,862,255	3,149,612	3,295,061	3,510,813	3,428,731	3,812,457	3,620,027	4,058,583	4,133,073	4,188,715
Franchise Fees	990,037	989,527	1,009,974	1,058,736	1,041,578	1,047,677	1,168,572	1,099,534	1,117,791	1,146,994
Transient Occupancy Tax	525,530	638,113	703,990	771,019	852,154	1,238,431	1,337,528	1,376,498	1,390,972	1,123,619
Other Taxes	219,319	242,315	270,090	269,684	318,826	313,844	319,124	368,885	350,047	333,635
Permits	209,569	219,517	404,420	648,501	619,182	518,013	542,181	472,398	585,524	614,507
Intergovernmental	231,270	81,288	101,364	100,786	203,137	137,993	139,698	184,415	164,735	1,058,629
Grants	179,167	235,598	269,330	72,451	166,837	103,203	13,455	272,265	180,817	399,587
Service Fees										
Safety Fees	254,876	325,023	239,274	233,012	220,911	191,158	194,113	204,270	213,082	212,763
Mutual Aid	133,051	229,371	688,182	590,311	511,899	758,524	473,670	643,165	342,543	239,292
Development Fees	696,318	510,106	767,005	1,001,012	644,836	596,370	728,993	535,114	697,321	632,008
Recreation Fees	246,156	308,076	312,422	313,738	311,583	339,714	362,792	326,418	332,099	223,025
Administrative Fees	37,621	36,422	49,117	56,175	50,842	47,591	56,654	54,096	58,884	59,118
Pavilion & Other Rental Fees	137,022	138,271	149,811	158,579	108,698	115,140	115,069	148,550	135,392	85,682
Parks Fees	50,375	28,555	36,156	33,304	35,191	32,983	36,980	25,123	50,373	25,747
Zoo Fees	196,506	254,729	334,174	350,179	352,610	376,252	377,732	417,983	438,779	336,927
Fines	90,655	80,309	60,418	66,730	108,839	92,007	76,981	87,647	117,943	90,707
Interest Income	160,435	121,565	51,961	61,127	46,308	105,686	3,231	9,741	270,995	385,548
Other										
Interfund Charges	1,215,906	1,048,924	1,002,650	980,999	923,738	1,056,563	1,189,488	1,088,534	1,055,347	1,113,639
Donations	47,377	178,220	99,337	74,501	791,833	486,556	242,282	48,333	176,967	47,360
Other	70,950	63,133	160,964	112,125	124,665	78,906	45,654	27,818	31,643	66,681
Transfers	412,320	480,443	752,219	363,600	372,470	391,090	494,190	540,250	548,350	690,450
Total Revenues	16,014,816	16,290,637	20,075,064	18,379,289	19,107,477	20,155,959	20,466,086	21,788,782	22,382,893	23,416,377
Employee Services	(11,988,655)	(12,095,047)	(12,926,538)	(12,286,188)	(13,254,966)	(13,429,637)	(14,213,908)	(14,882,845)	(14,886,317)	(15,755,553)
Operations	(3,941,705)	(4,096,834)	(4,946,518)	(4,555,813)	(4,490,717)	(4,834,594)	(4,728,276)	(5,128,887)	(5,373,114)	(5,653,011)
Special Projects & Community										
Funding	(528,545)	(306,509)	(514,586)	(844,797)	(789,322)	(370,934)	(1,351,509)	(338,333)	(1,005,181)	(585,561)
Capital Outlay	(57,617)	(216,813)	(136,425)	(77,967)	(732,778)	(713,773)	(236,948)	(315,252)	(86,124)	(111,428)
Other Uses	(95,379)	(29,316)	(10,491)	(1,080)	(1,020)	(1,400)	(169,400)	(256,343)	(2,690)	(221,426)
Total Expenses	(16,611,901)	(16,744,519)	(18,534,558)	(17,765,845)	(19,268,803)	(19,350,338)	(20,700,041)	(20,921,660)	(21,353,426)	(22,326,979)
NET INCOME / (LOSS)	(597,085)	(453,882)	1,540,506	613,444	(161,326)	805,621	(233,955)	867,122	1,029,467	1,089,398
Fund Balance Beginning of Year	7,517,529	6,920,444	6,466,562	8,007,068	8,620,512	8,459,186	9,264,807	9,030,852	9,897,974	10,927,441
FUND BALANCE END OF YEAR	\$ 6,920,444	\$ 6,466,562	\$ 8,007,068	\$ 8,620,512	\$ 8,459,186	\$ 9,264,807	\$ 9,030,852	\$ 9,897,974	\$ 10,927,441	\$ 12,016,839
Fund Balance as % of Expenses	41.7%	38.6%	43.2%	48.5%	43.9%	47.9%	43.6%	47.3%	51.2%	53.8%



## Seven Year Projection

ITEM NUMBER: C-1  
DATE: 02/09/21  
ATTACHMENT: 1

### General Fund (excluding Sales Tax Measures F-14 and D-20 Activity)

	Adopted Budget 2020/2021	Estimated 2020/2021	Estimated 2021/2022	Estimated 2022/2023	Estimated 2023/2024	Estimated 2024/2025	Estimated 2025/2026	Estimated 2026/2027	Estimated 2027/2028
<b>Taxes</b>									
Property Tax (Current Secured & VLF)	\$ 10,131,800	\$ 9,835,510	\$ 10,236,120	\$ 10,597,430	\$ 10,971,390	\$ 11,421,980	\$ 11,824,800	\$ 12,228,640	\$ 12,646,610
RDA Dissolution Distributions	518,400	573,020	562,900	601,300	642,100	684,800	728,200	728,200	728,200
Other Property Taxes	337,320	426,160	440,150	442,850	445,580	448,340	451,120	453,930	456,770
Sales Tax *	4,226,020	4,217,960	4,454,000	4,632,000	4,748,000	4,867,000	4,989,000	5,114,000	5,241,470
Franchise Fees	1,130,330	1,168,750	1,186,660	1,204,870	1,223,390	1,242,230	1,261,390	1,280,870	1,300,680
Transient Occupancy Tax	1,633,840	1,243,600	1,430,100	1,590,100	1,621,900	1,654,300	1,687,400	1,721,100	1,755,500
Other Taxes	327,250	335,390	335,550	337,140	339,050	340,670	342,580	344,510	346,460
Permits	640,460	638,630	703,900	738,900	739,110	739,330	739,550	739,780	740,010
Intergovernmental	171,350	194,356	201,096	204,906	209,166	213,596	218,086	222,736	182,060
Grants	48,390	400,740	12,280	-	-	-	-	-	-
<b>Service Fees</b>									
Safety Fees	193,670	203,320	205,540	207,790	210,070	212,390	214,740	217,120	219,480
Mutual Aid	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Development Fees	635,170	640,850	671,720	699,620	700,860	702,120	703,400	704,710	706,030
Recreation Fees	313,200	59,070	237,260	311,780	315,100	327,420	327,750	328,080	328,420
Administrative Fees	56,310	58,470	55,490	57,230	57,980	58,930	59,710	60,520	61,340
Pavilion & Other Rental Fees	128,610	4,700	77,160	128,610	130,530	132,490	134,470	136,490	138,540
Parks Fees	36,090	4,130	21,940	22,340	22,740	23,150	23,570	750	770
Zoo Fees	388,470	365,400	465,770	470,840	477,220	484,010	492,140	499,120	506,230
Fines	80,330	56,300	79,200	79,200	79,200	79,200	79,200	79,200	79,200
Interest Income	56,000	56,000	56,000	56,000	56,000	56,000	56,000	56,000	56,000
<b>Other</b>									
Interfund Charges	1,218,920	1,138,980	1,159,910	1,190,160	1,191,340	1,209,700	1,219,150	1,220,360	1,222,280
Donations	24,420	26,100	29,530	29,530	30,090	30,090	30,660	31,240	31,830
Other	24,700	24,700	24,830	24,960	25,090	25,220	25,360	25,500	25,640
Transfers	698,950	698,950	650,540	663,550	676,820	690,360	704,170	718,250	732,620
<b>Total Revenues</b>	<b>23,270,000</b>	<b>22,621,086</b>	<b>23,547,646</b>	<b>24,541,106</b>	<b>25,162,726</b>	<b>25,893,326</b>	<b>26,562,446</b>	<b>27,161,106</b>	<b>27,756,140</b>
<b>Employee Services</b>	<b>(17,267,100)</b>	<b>(17,125,200)</b>	<b>(17,571,600)</b>	<b>(18,351,900)</b>	<b>(18,683,900)</b>	<b>(18,963,800)</b>	<b>(18,919,600)</b>	<b>(19,150,600)</b>	<b>(19,438,300)</b>
Operations	(6,110,190)	(6,110,190)	(6,247,600)	(6,407,900)	(6,491,730)	(6,650,270)	(6,728,750)	(6,863,300)	(7,000,600)
<b>Special Projects &amp; Community</b>									
Funding	(292,960)	(292,960)	(979,670)	(234,250)	(233,350)	(237,850)	(238,170)	(242,900)	(247,800)
Capital Outlay	-	-	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)
Other Uses	(50,250)	(50,250)	(50,250)	(3,250)	(3,230)	(3,230)	(3,230)	(3,230)	(3,230)
<b>Total Expenses</b>	<b>(23,720,500)</b>	<b>(23,578,600)</b>	<b>(24,999,120)</b>	<b>(25,147,300)</b>	<b>(25,562,210)</b>	<b>(26,005,150)</b>	<b>(26,039,750)</b>	<b>(26,410,030)</b>	<b>(26,839,930)</b>
<b>NET INCOME / (LOSS)</b>	<b>(450,500)</b>	<b>(957,514)</b>	<b>(1,451,474)</b>	<b>(606,194)</b>	<b>(399,484)</b>	<b>(111,824)</b>	<b>522,696</b>	<b>751,076</b>	<b>916,210</b>
Fund Balance Beginning of Year	9,659,970	12,016,839	11,059,325	9,607,851	9,001,657	8,602,173	8,490,349	9,013,045	9,764,121
<b>FUND BALANCE END OF YEAR</b>	<b>\$ 9,209,470</b>	<b>\$ 11,059,325</b>	<b>\$ 9,607,851</b>	<b>\$ 9,001,657</b>	<b>\$ 8,602,173</b>	<b>\$ 8,490,349</b>	<b>\$ 9,013,045</b>	<b>\$ 9,764,121</b>	<b>\$ 10,680,331</b>
Fund Balance as % of Expenses	38.8%	46.9%	38.4%	35.8%	33.7%	32.6%	34.6%	37.0%	39.8%

# ***Atascadero***

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## ***Comprehensive Financial Strategy February 2021***

### ***Section 2- Significant Revenues***

## **Significant Revenues**

The General Fund is the City's primary operating fund, providing resources for most of the City's ongoing activities including police, fire, parks, recreation and general government. It is this fund that the Council has the most discretion in directing expenditures and accomplishing Council priorities. For many years, the City's top three General Fund revenues were 1) Property Tax revenue, 2) Sales Tax revenue, and 3) Development Fee revenue, in that order. Property Tax and Sales Tax, while they have evolved over the years, still maintain the top two positions for percentage of General Fund revenue. Transient Occupancy Tax revenue (TOT) is now the third largest source of general fund revenue.

Sales Tax Measure D-20 was passed by Atascadero Voters in November 2020, and will place an additional one cent of sales tax on applicable purchases. Public input and council discussions on what these funds will be used for is still forthcoming, therefore this report will largely exclude Measure D-20 from the narrative. However, revenue is expected to come in at approximately \$4.5 million per year, which would be the second largest individual source of revenue for the City's General Fund, or if combined with the Bradley-Burns base sales tax revenue, would likely make sales tax revenue the top revenue source.

The effects of COVID-19 on local businesses, individuals, and the economy are impacting revenues. Fortunately for Atascadero, the bulk of the General Fund revenue structure is based in Property tax revenue, which is much more stable than other sources. Revenue projections in this discussion are based on information at the time of this writing, and staff will continue to adjust for the economic effects of COVID-19 as more is known.

Following will be a review of all these key income sources in detail, as well as other important, but smaller, revenue sources.

### **Property Tax Revenue**

The City of Atascadero currently receives around 45% of its General Fund revenues from property tax revenues.

#### ***WHAT ARE PROPERTY TAX REVENUES?***

Property tax revenues are taxes imposed on real property (land and permanently attached improvements) and tangible personal property (movable property). The tax is based on the value of the property rather than on a fixed amount or benefit to the property or person. Proposition 13 (Article XIII A of the State Constitution) limits the real property tax rate to 1% of a property's assessed value, plus rates approved by the voters. The amount of the tax is based on an annually determined assessed valuation. The property

tax is paid to the county tax collector and allocated to local taxing agencies pursuant to a statutory allocation formula. The property tax is guaranteed by placing a lien on the real property.

The City of Atascadero participates in the Teeter Plan. This means that the City receives its entire amount of the property tax levy regardless of whether or not the tax has been paid to the County. In exchange, the County is entitled to all future penalties and interest collected on the levy.

In order to understand property taxes, it is important to understand assessed value. Proposition 13 calls for a base year assessed value to be established when the property undergoes a change of ownership (typically a sale) or when new construction occurs. After the base year value is established, the value is factored annually for inflation, which is the lesser of the change in cost of living or 2%. The assessed value may also be adjusted by a Proposition 8 factor. Proposition 8 allows a property to be temporarily reassessed at a lower value. It requires that the lower of either the adjusted base year value or the current market value determine a property's annual assessment. A significant number of property values were written down to market value during the 2008 recession. When the prices recover, the assessed value is adjusted back up to the lower of the new fair market value or the original base value adjusted annually for inflation. The table below illustrates how assessed value would be calculated for a fictional property.

EXAMPLE OF ASSESSED VALUE FOR FICTIONAL HOME							
Date	Description of Changes in Assessed Value	CCPI Factor	Inflation Factor	Base Value <sup>1</sup>	Fair Market Value (FMV)	Assessed Value	Percent Change <sup>2</sup>
1/1/X1	Market Value when Purchased	N/A	N/A	\$ 300,000	\$ 300,000	\$ 300,000	N/A
1/1/X2	Annual 2% inflation applied	2.46%	2.00%	306,000	335,000	306,000	2.00%
1/1/X3	CCPI inflation rate applied	1.85%	2.00%	311,670	375,000	311,670	1.85%
1/1/X4	Declining Real Estate Market	2.10%	2.00%	317,904	290,000	290,000	-6.95%
1/1/X5	Slight Improvement in RE Market	4.37%	2.00%	324,262	300,000	300,000	3.45%
1/1/X6	Drastic Improvement in RE Market	2.08%	2.00%	330,747	350,000	330,747	10.25%
1/1/X7	Annual 2% inflation applied	2.08%	2.00%	337,362	360,000	337,362	2.00%
1/1/X7	Home addition adds \$50,000 to base value	N/A	N/A	380,747	410,000	380,747	12.86%
1/1/X8	CCPI inflation rate applied	1.01%	2.00%	384,592	437,000	384,592	1.01%
1/1/X9	Annual 2% inflation applied	2.76%	2.00%	392,284	450,000	392,284	2.00%

<sup>1</sup> Base Value is calculated on lesser of CCPI or Inflation Factor  
<sup>2</sup> Amount of Change from prior year assessment

The City receives various forms of property tax revenues each with its own distinct issues and trends as follows:

*Current Year Secured* - Current secured revenues usually make up about 65% of the City's property tax revenues and are what most people think of when discussing property taxes. Assessed values are established as of January 1 of each year and taxes are paid to the Tax Collector in two installments, due on December 10 and April 10. As the Tax



Collector receives the funds, they are then allocated and distributed to the various agencies, including the City. Amounts levied but not collected by the County are distributed to the City under the Teeter Plan at the end of the fiscal year.

*Property Tax in Lieu of Vehicle License Fees* - This revenue source grew out of a state-local budget agreement as part of the State 2004 budget package. Under this arrangement, the Vehicle License Fee (VLF) was reduced to Californians and the reduction in city and county revenues was replaced with a like amount of property taxes. Subsequent to the fiscal year 2004/05 base year, the property tax in lieu of VLF fluctuates in proportion to the gross assessed valuation in the City.

*Current Year Unsecured* - Unsecured property tax is collected on items such as mobile homes that are not on a permanent foundation, machinery and equipment owned by businesses, and personal property such as airplanes and watercraft. Unsecured roll taxes are due on August 31.

*Current Year Supplemental* - This property tax is an extra assessment that occurs when new construction is completed on real property or when a property changes ownership. The assessed value of the property is then increased to the current market value as of the date of the title transfer or completion of construction. Supplemental property tax is the amount due on the difference between the pre-event assessed value and the new market value of the property. Because there is a time lag between the change of ownership or completion of construction and the actual change of assessed value to the tax roll, supplemental property taxes are generally collected six months to a year or more after the event.

Total Adjusted Gross Secured and  
Unsecured Assessed Value in  
Atascadero \*

*Redevelopment Property Tax Trust Fund (RPTTF) Distributions*- This revenue category was created as a result of the dissolution of Redevelopment in 2012. As part of the dissolution of redevelopment agencies, all revenues and assets of the former redevelopment agency that are not needed to pay to the required obligations of the former agency must be distributed to the taxing agencies. The City of Atascadero is a taxing agency within the former Atascadero Community Redevelopment Agency and thus is entitled to approximately 18% of the "excess" revenues and assets.

#### WHAT IS THE CURRENT STATUS OF PROPERTY TAXES?

Property taxes are a function of assessed value and assessed value is a function of the base year adjusted for inflation and/or the fair market value. At the end of 2007, the County Assessor began to review properties throughout the county for Proposition 8 assessed valuation reductions. As the recession continued, the

Fiscal Year	Atascadero	% Change in Assessed Value
2003/04	1,964,719,525	9.58%
2004/05	2,166,790,995	10.29%
2005/06	2,424,564,670	11.90%
2006/07	2,796,694,310	15.35%
2007/08	3,090,464,606	10.50%
2008/09	3,153,920,008	2.05%
2009/10	3,048,359,883	-3.35%
2010/11	2,974,274,420	-2.43%
2011/12	2,905,011,491	-2.33%
2012/13	2,911,262,172	0.22%
2013/14	3,016,930,596	3.63%
2014/15	3,194,259,931	5.88%
2015/16	3,378,519,547	5.77%
2016/17	3,578,899,913	5.93%
2017/18	3,775,528,569	5.49%
2018/19	3,990,810,592	5.70%
2019/20	4,172,031,404	4.54%
2020/21	4,361,659,685	4.55%

\* County of San Luis Obispo Auditor Controller's Office

Assessor's office was eventually reviewing the value on over 56,000 properties annually countywide. This resulted in a cumulative reduction in assessed value by more than \$4.66 billion. Most of this value has since been restored throughout the county.

According to the San Luis Obispo Auditor Controller's data, assessed value of adjusted secured and unsecured property has increased more than 4% over the prior year, in each of the last six fiscal years.

The median home price is the midpoint price of homes being sold and is therefore a function of both the value of real estate and number of high end versus low end properties being sold. The median home price in San Luis Obispo County has continued to rise. Record and near-record low mortgage rates have spurred the demand for homes amid limited supplies. Supplies are disproportionately low in the smaller, more affordable, and first-time buyer homes. With a trend of people migrating out of metropolitan areas to more rural ones, employees working from home are redefining their lifestyles and often invest more into their homes. Sales volume is strong as well. In its November 2020 Central Coast Economic Forecast, Beacon Economics reported a year-over-year increase, as of September 2020, of 16% in volume of home sales in San Luis Obispo County.

For the Month of October	SLO County Existing Detached Median Home Price *
2002	\$ 348,684
2003	401,724
2004	492,372
2005	619,949
2006	568,965
2007	584,302
2008	411,956
2009	379,166
2010	371,740
2011	364,540
2012	395,140
2013	440,380
2014	455,660
2015	526,650
2016	538,500
2017	560,000
2018	586,000
2019	627,000
2020	700,500

\* California Association of Realtors

## WHAT ARE PROPERTY TAX REVENUES EXPECTED TO BE FOR THE NEXT SEVEN YEARS?

### *Current Secured Property Tax*

When projecting out future property tax revenues, staff tried to consider the factors that go into assessed value: What will annual inflation factors look like? What impact will COVID-19 have on the real estate market? How much new construction can be expected? What will the real estate market look like? What is the housing demand?

Prior to COVID-19, the nation was in its longest expansion in history. COVID-19 changed that in the first calendar quarter of 2020. During any typical year, medium term economic forecasts are difficult at best, but this task becomes even more challenging in a pandemic-induced recession, the likes of which history has not seen before. There has been much discussion about what recovery might look like- will it be a "V", "U", or "L" shaped recovery? Will the vaccines be a quick and effective tool to mitigate the effects of the virus? What trends and norms will society continue to implore in the "new normal"? What impact will the newly elected political leaders have on the economy? How do we forecast recovery when there isn't a similar reference in history to look back on for context?

At this point, the best we can do is evaluate the current information, listen to leading economists on the relevant issues, and be ready to adjust course as needed. All the pertinent information needed to forecast the future is not available now, but there is a body of data and clues as to which direction we might be heading. The following discussion reviews some of those.

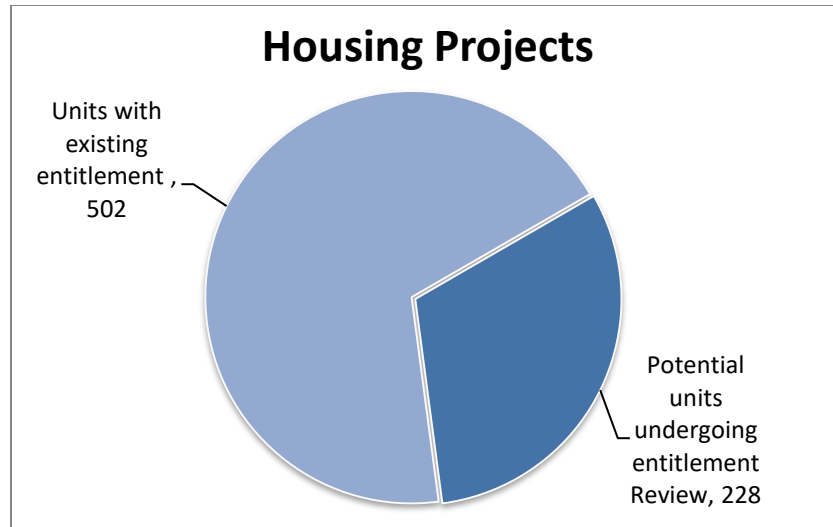
The State Board of Equalization has recently released the inflation factor for the 2021/22 property tax assessments. The California Consumer Price Index (CCPI) is the metric that determines this factor and it has increased by 1.036%, which is less than the 2% Proposition 13 cap. The county of San Luis Obispo, using the 1.036% rate along with other additions and changes to the assessed values, is projecting a 4% countywide increase in current secured assessed values for fiscal year 2021/22.

In the quarterly UCLA Anderson Forecast (December 2020), Senior Economist Leo Feler anticipates that the strong housing market will help move the economy in a positive direction, and expects the housing market to remain strong through at least 2023. In the UCLA Anderson Forecast (December 2020) that focuses on California, the authors project that the recovery in California will be slower in the leisure, hospitality, and retail sectors, but faster in technology, residential construction, and logistics. They project real personal income for Californians to be down 1% in calendar year 2021 as the stimulus income concludes, and grow by 2.1% and 3.4% in 2022 and 2023, respectively. The stay-at-home orders and pandemic- and Zoom-fatigue are suspected to be creating enormous pent-up demand for human interaction and return to normalcy. That being said, there is a potential to recover more quickly than some economists are predicting.

The State Legislative Analyst's Office's (LAO's) 2021/22 California Fiscal Outlook indicates that the COVID-19 brought unprecedented disruption to the state's economy, but the economic impacts to the state were not as catastrophic as anticipated, and recovery has been relatively rapid though uneven. The LAO says the state's spike in unemployment was historic- the highest since the Great Depression- but was less than feared. Unfortunately, low-wage workers have borne most of the job losses during the pandemic. The LAO indicates that the drop in consumer spending in the spring was dramatic, but short lived and improved consistently each month between May 2020 and October 2020.

The LAO anticipated total state revenue collections from the state's largest three revenue sources- personal income, corporation, and sales taxes- would fall 15% from the prior year. However between August 2020 and October 2020, collections from these three taxes were 9% higher than the prior year. This is consistent with the unemployment data- stable employment among high-income earners and a rebound in investments held by wealthy Californians has led to continued state revenue growth. The LAO projects a one-time state revenue windfall in 2021/22 of \$26 billion, concurrent with an operating deficit beginning the same year, and then General Fund revenue growth of about 1% each year after that through 2024/25.

Construction activity is a good indicator of the level of private investment in the community. There is a substantial number of commercial and residential projects in the works, and once built out, will increase the assessed valuation in the City. There are currently 730 housing units in some phase of development as shown in the following graph:



A portion of the City's growth in assessed valuation is due to this significant construction activity. Atascadero's assessed valuation will continue to reflect this added value. For every \$1 million that is added in new construction, \$10,000 a year is paid to the County in property tax, and about \$1,600-\$1,800 of that comes back to Atascadero's General Fund.

Housing trends are often difficult to predict because they are influenced by many factors including income and employment growth, mortgage interest rates, affordability, savings rates, tax policy and consumer confidence. That being said, the demand for housing across the State has picked up and statewide rental rates continue to increase. While some of the factors determining housing values and trends conflict, there continues to be an overriding growth in real estate market values.

When refining property tax for the budget and projecting what the real estate market may hold, staff will continue to consult with experts including real estate professionals, mortgage banks, economists, and the Community Development Department.

### *Assumptions*

Assumptions that went into the projected property tax revenues were as follows:

- 2020/21- Assumed that Current Secured, Redevelopment Agency Pass-Through, and Property Tax in Lieu of Vehicle License Fees are equal to the amounts estimated by the County Auditor's Office as of October 2020 (increase of 4%.) Current Year Supplemental revenues are expected to come in slightly below budgeted levels and should be offset by increased Current Unsecured revenues.



- 2021/22- Assumes that all current secured property tax increases by 4.0% as new residential and commercial construction comes online. Current Year Supplemental revenue and Current Unsecured revenue are expected to see some modest growth, reflecting the residential turnover, additions, and new unsecured purchases. RPTTF will grow slightly with the tax base in the former RDA area.
- 2022/23- Assumes that all current secured property tax increases by 3.5% as new residential and commercial construction comes online. Current Year Supplemental revenue is expected to be fairly flat, and Current Unsecured revenues are expected to see minimal increases. RPTTF will grow slightly with the tax base in the former RDA area.
- 2023/24- Assumes a positive inflation factor. Assumes some continued growth due to new construction. Overall, current secured rolls are increased by 3.5% and supplemental rolls continue to be flat.
- 2024/25- Assumes a stable growth of 4.1%, and assumes some new commercial construction will add to the City's assessed value. As homes sell, supplemental rolls continue to increase.
- 2025/26- Similar assumptions of prior year, including positive inflation factor of 3.5% and assumes new commercial construction will slightly increase the assessed value.
- 2026/27- Assumes a 3.5% inflation factor with adjustment for additional construction and increases in fair market value.
- 2027/28- Assumes a 3.5% inflation factor with adjustment for additional construction and increases in fair market value.

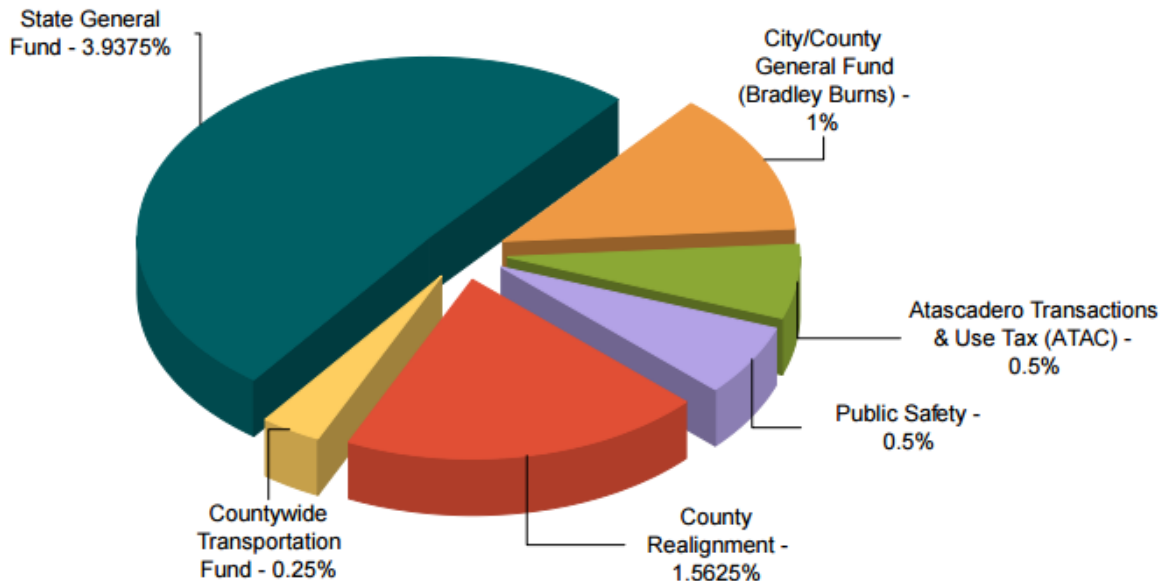
## **Sales Tax Revenue**

The City of Atascadero currently receives 15% - 20% of its General Fund revenues from sales and use tax based revenues.

### ***WHAT ARE SALES AND USE TAXES?***

Under the California Sales and Use Tax Law, the sale of tangible personal property is subject to sales or use tax unless exempt or otherwise excluded. Sales tax is imposed on all retailers for the privilege of selling tangible personal property and is measured by the retailer's gross receipts. Use tax is imposed on the purchaser of tangible personal property from any retailer for storage, use or other consumption in California. As of February 2021, the City's sales tax rate is 7.75%. This includes the State's Bradley Burns base sales tax amount of 7.25% plus the City's Measure F-14 additional tax of 0.5%. On April 1, 2021, Sales Tax Measure D-20 will go into effect and the new rate in Atascadero will be 8.75%.

A breakdown is shown on the next graph:



Sales Tax is distributed to the City by the State in monthly installments which lag significantly behind the period in which the sales occur. The monthly payments are beneficial to cash flow, but until the end of the payment period (in this case late September), the payments are a reflection of statewide formulas and not necessarily a reflection of the City's actual sales.

#### *HOW IS SALES TAX HANDLED ON INTERNET PURCHASES?*

Atascadero has seen a revenue boost following the implementation of Assembly Bill 147 (AB 147), which expanded the collection of sales and use taxes from out-of-state sales via the implementation of the landmark U.S. Supreme Court decision in South Dakota v. Wayfair (2018).

The Wayfair decision addressed a longstanding problem associated with the rapid growth of online sales, resulting in the under-collection of billions in local sales and use tax revenues across the country. Previous court decisions were based on antiquated catalogue sales disputes that pre-dated the internet and required retailers to have physical nexus with each state prior to imposing an obligation on an out-of-state retailer to collect and remit applicable sales and use taxes from customers for remote sales. In Wayfair, the court reversed those decisions.

AB 147 provides important direction in the law for the implementation of Wayfair in California. The bill (1) adds “economic nexus” for retailers with sales for delivery in California that exceed \$500,000 to collect and remit sales tax effective April 1, 2019, and (2) defines a “marketplace facilitator” as the retailer responsible for the collection and remittance of sales and use taxes effective October 1, 2019. Marketplace facilitators contract with sellers to sell goods on their on-line platforms. Facilitators generally list products, process payments, collect receipts, and in some cases, take possession of a seller’s inventory, hold it in warehouses, and ship it to the customers.

Under the California Department of Tax and Fee Administration rules, the revenue collected under AB 147 is distributed through state and countywide “pools” in proportion to the rest of taxable sales within the county. This type of allocation puts Atascadero at a disadvantage. Without significant brick and mortar retail locations in the City, many residents either shop in neighboring communities or online for taxable goods. Shopping outside of city limits lowers Atascadero’s tax base, which in turn lowers the city’s proportionate share of the pools. The allocation of sales tax revenue to jurisdictions has long been considered inequitable and not reflective of what is actually occurring. However, substantive change is difficult and results in winners and losers. In the event that changes did occur to more accurately reflect the purchases of Atascadero residents, the additional funds Atascadero received would reduce the funds that other agencies receive. Often, those agencies with biggest revenues are the current winners and would end up losing revenues if the rules were changed. They have the most money to fight change and are highly motivated to do so.

#### *WHAT IS THE CURRENT STATUS OF SALES TAX REVENUES?*

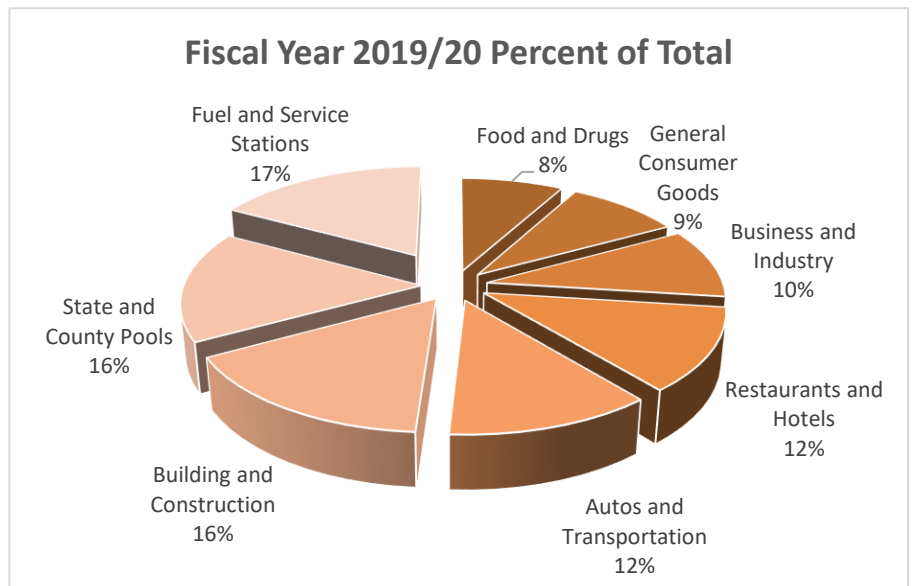
The City’s sales tax consulting firm, The HdL Companies, provides information to the City’s staff periodically to track sales tax revenues. HdL bases their reporting on data from the California Department of Tax and Fee Administration (CDTFA).

HdL has found some surprising data since March 2020. The COVID-19 pandemic closed entire sales tax generating industries so vital for governments, and expectations were that sales tax revenue would be drastically reduced across the board. Unemployment primarily affected lower wage service sector workers that produced a lesser share of total sales tax revenues. Other employees that were able to work from home found they had extra cash due to reduced commutes, cancelled travel plans, and few opportunities overall to spend money due to the stay-at-home orders. Low interest rates and favorable lending practices allowed that extra money to be spent on previously put off items such as autos and home improvement.

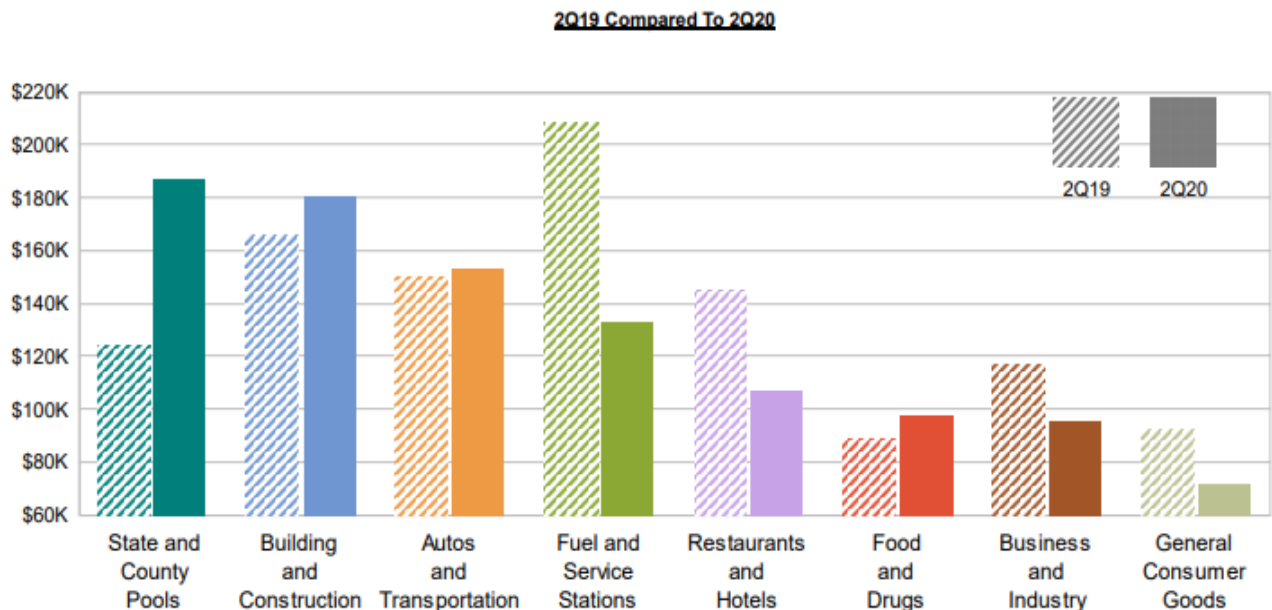
Beacon Economics reported, based on their research and analysis of the data, that the pandemic-induced recession began at the height of the economy in February 2020, and then hit bottom in April 2020, and has been on the rebound since. It has been reported as the deepest and shortest cycle ever. Beacon Economics expects fairly rapid recovery,

dictated, of course, by the speed at which the virus gets under control, both nationally and internationally. Beacon Economics indicates that there is a strong supply of pent-up demand that will likely drive consumer behavior.

Fuel and service stations are the largest sector of Atascadero sales tax, making up about 17% of the sales tax revenue. Sales tax from fuel prices has historically been very volatile in California, and this can have an impact on revenues. COVID-19 struck the Fuel and Service Stations industry hard. People stayed home and did not travel or participate in many road trips. In Atascadero, the Fuel and Service Stations industry group was the most severely impacted and revenue dropped almost \$200,000 in fiscal year 2019/20 from the prior year.



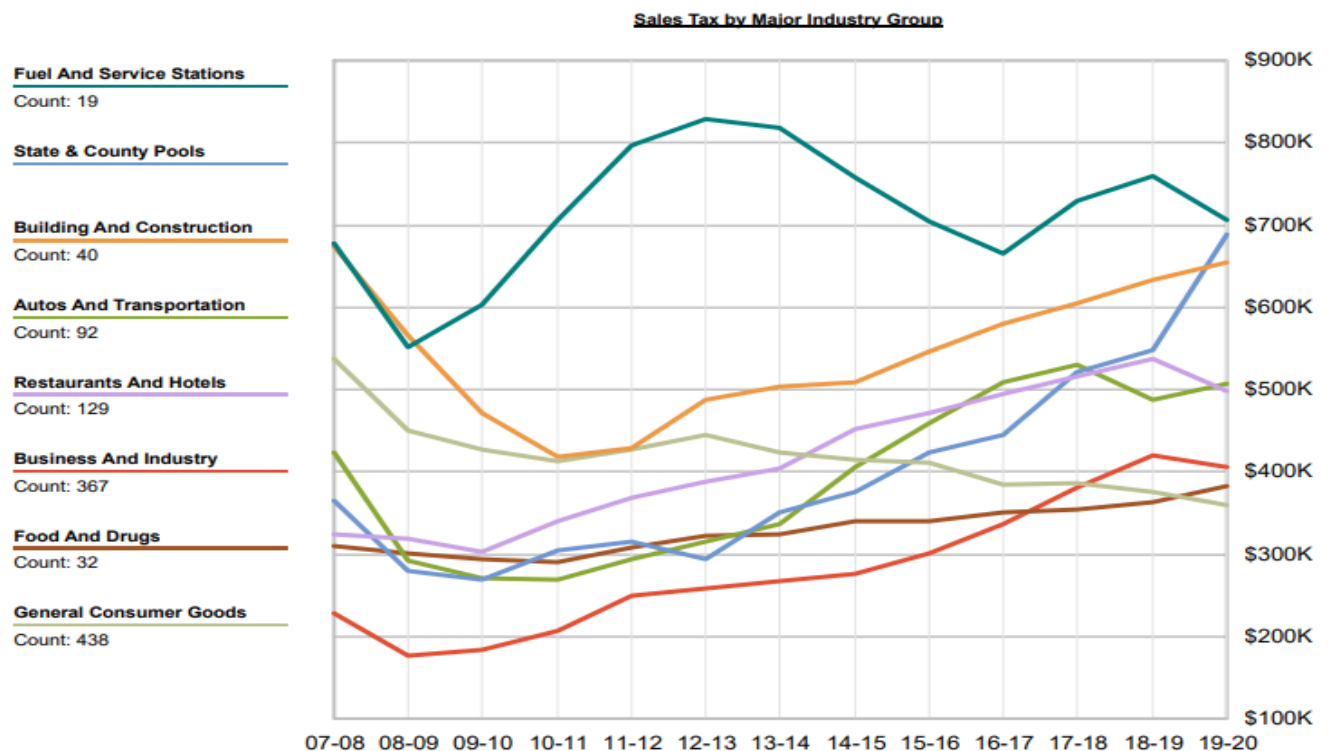
Second quarter 2020 versus 2019 revenue by industry group is illustrated in the following graph.



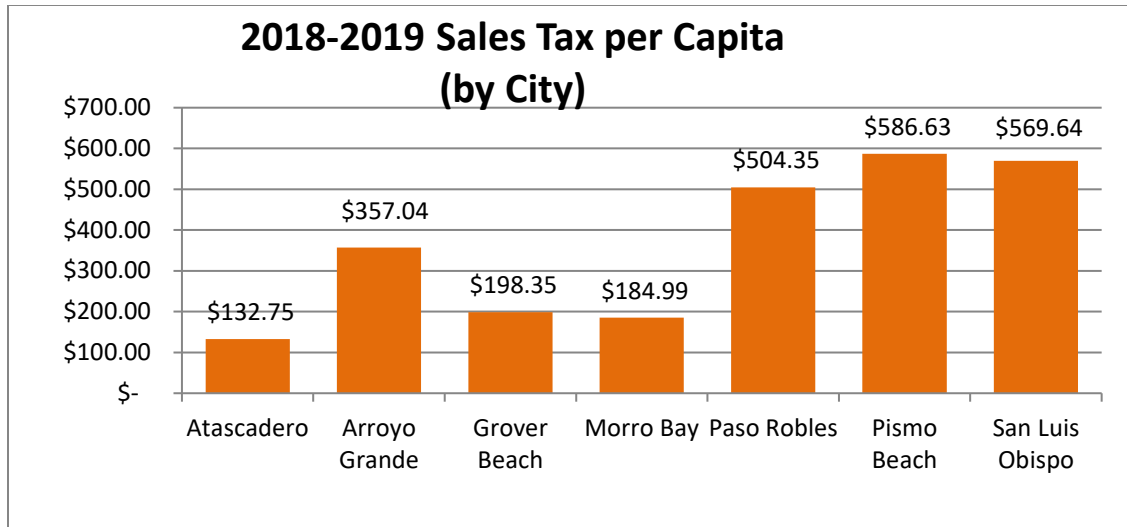
Revenue from the state and county pools are now the second largest contributor to the sales tax base for the City, followed closely by the building and construction industry. Revenue that Atascadero received in 2019/20 from the pools was 25% higher than the



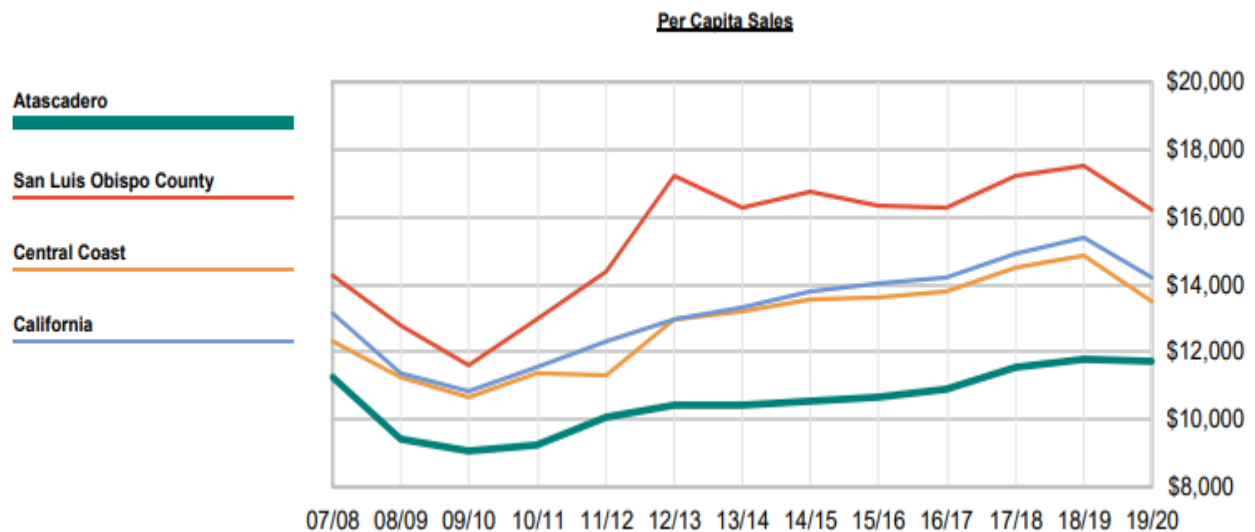
pool revenue from the prior year due to AB 147. Together, the City's top three industries, 1) fuel and service stations, 2) state and countywide pools, and 3) building and construction make up almost half of the City's sales tax revenue base. The new revenue from the pools has largely offset the COVID-19 revenue declines during the 2019/20 fiscal year in other industries such as restaurants and hotels (-8%), fuel and service stations (-7%), and general consumer goods (-5%).



Atascadero's revenue per capita is one of the lowest in the County. As shown on the following graph, the amount that the City earns in sales tax per capita is indicative of some of the reasons why the community can't sustain the same level of services and amenities as some of our neighbors. Atascadero receives just under \$133 per resident compared with the receipts of Pismo Beach at \$587 per resident. This is a significant difference and is important to understand as we continue to address concerns for expansion of City services.



Sales tax revenue per capita is also lower than the county and state averages.



Sales tax overall was down 1.3% in fiscal year 2019/20 versus the prior year. Without the revenue enhancements from AB 147, the COVID-19 impact would have been much greater.

### WHAT ARE SALES TAX REVENUES EXPECTED TO BE FOR THE NEXT SEVEN YEARS?

Sales tax is arguably the most volatile of the major revenues and is therefore the hardest to estimate in the Seven Year Projection. When looked at as a whole, sales tax is closely tied to state and national indicators such as consumer confidence, availability of money,

savings rates, and other trend projections. It can be assumed that a portion of the City's sales tax may follow State projected trends.

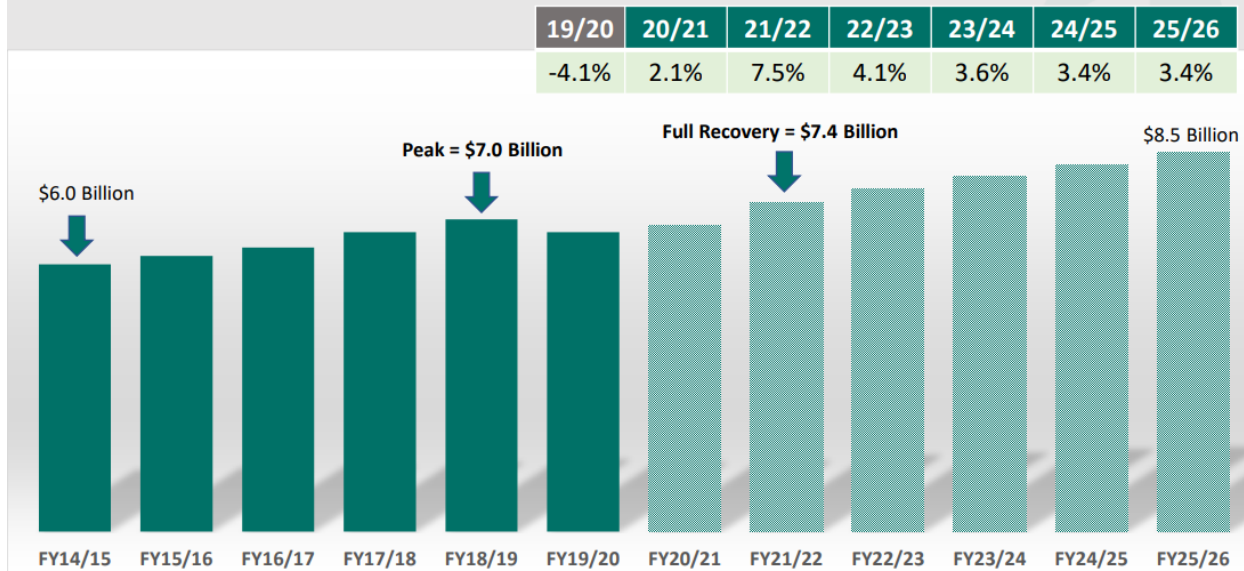
An important component of making sales tax revenue projections is considering the unique business mix here in Atascadero and the Central Coast. Valuable questions to consider are: Which businesses are building? Which are closing? Which sectors are strong or currently being established in Atascadero? Where are competitors opening? What are local businesses expecting? What are the trends in businesses here in Atascadero?

All this information and the ebbs and flows of the City's historic sales tax revenue can help to project future revenue. Sometimes the trends can get clouded with inconsistent data, as what happened with the CDTFA's new reporting software program that was implemented in May 2018. There were significant problems related to the implementation and use of the new program, and as a result, a large number of sales tax returns were not processed in a timely manner. Payments to agencies, Atascadero included, were delayed, and the CDTFA reported revenues in periods they were paid versus in the periods those were actually earned. HdL has done extensive research to match up payments in order to report sales tax revenues accurately and maintain consistency between fiscal years, and these amounts have been reflected in the city's audited financial statements. The CDTFA's timing issues affected both fiscal years 2017/18 and 2018/19, and was largely smoothed out by fiscal year 2019/20. In fiscal year 2019/20, COVID-19 hit and the programs were implemented to allow for the deferral of sales tax payments. This was primarily a timing difference in payments to the City, however, it complicates the historic revenue trend data as CDTFA again reported the revenue as it was received, not for the periods in which it was collected.

The LAO forecasts a decrease in statewide sales tax revenue of -1.2% for fiscal year 2020/21 and -.08% for 2021/22. They then project increases of 2.8%, 3.9%, and 4.1% for the fiscal years 2022/23, 2023/24, and 2024/25, respectively.

HdL has a more positive perspective on near-term sales tax projections. HdL is projecting a mild recovery statewide of 2.1% in fiscal year 2020/21. They expect a full recovery in fiscal year 2021/22, with steady growth through fiscal year 2025/26.

## HdL STATEWIDE TREND – Annual Outlook(FY)



As shown in Attachment C- *HdL's Consensus Forecast – September 2020*, HdL is projecting in 2021/22 statewide increases in Fuel and Service Stations of 12.2%, increases in pool allocations of 8%, and increases in Building and Construction of 5.0%. These are statewide projections, and don't necessarily correspond to Atascadero's particular mix of businesses, but they are positive growth trends in the City's top three revenue producing industries.

For Atascadero specifically, HdL is predicting the start of recovery in fiscal year 2020/21 at 0.7% increase over the prior year, and then return of consumers from the initial economic shutdown periods and sustained growth in 2021/22 and 2022/23 of 5.4% and 4.0%, respectively. These increases include improvements in revenue from Fuel and Service Stations of 8.3% and state and countywide pools of 8.0% in fiscal year 2021/22, and 3.0% and 7.0%, respectively, for fiscal year 2022/23.

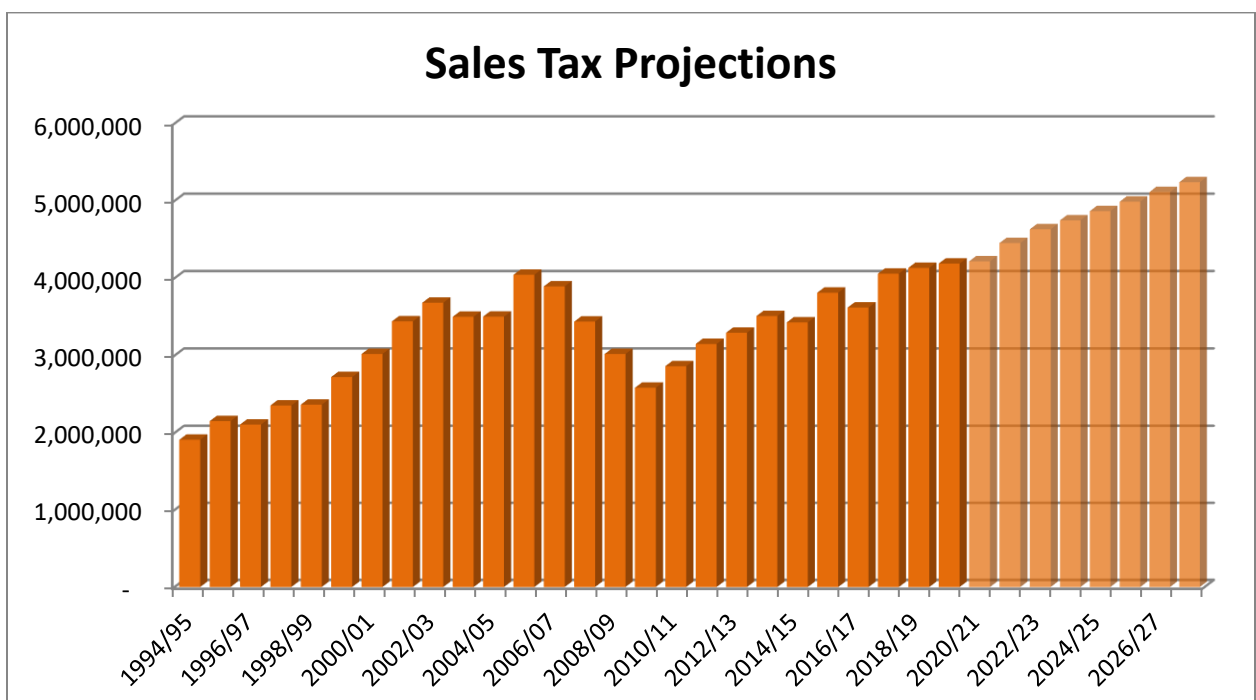
Beacon Economics expects there will be continued challenges until the virus is controlled, but expects a strong rebound in leisure and hospitality and continued strength in housing demand in 2021. Beacon Economics' analysis indicates that the economy was healthy prior to the pandemic, and the virus was the only reason for the contraction in the economy, and once that is resolved, expansion will follow.

In order to update the sales tax projections for the next few years, staff met with HdL Companies sales tax experts, looked at projections from the LAOs office, followed the pandemic updates, discussed building trends, and looked at the expected effects of Council's current economic development policies and strategies. Over the next few months, staff will continue to meet with experts and refine sales tax revenue projections.



Current assumptions that went into the projected sales tax revenues were as follows:

- 2020/21- Assumes the start of recovery and return on consumer confidence and abilities to purchase of 0.7% growth.
- 2021/22- Assumes more complete recovery from COVID-19 at 5.4% growth.
- 2022/23- Assumes additional recovery and strength in economy of 4.0% growth.
- 2023/24- Assumes continuing underlying growth of 2.5%, spurred by Atascadero's economic development efforts.
- 2024/25- Assumes continuing underlying growth of 2.5%, spurred by Atascadero's economic development efforts.
- 2025/26- Assumes continuing underlying growth of 2.5%, spurred by Atascadero's economic development efforts.
- 2026/27- Assumes continuing underlying growth of 2.5%, spurred by Atascadero's economic development efforts.
- 2027/28- Assumes continuing underlying growth of 2.5%, spurred by Atascadero's economic development efforts.



As with all projections, these assumptions are based on the information, policies and actions that are in place today. Changes in Council or State policies and/or additional information could and should adjust these projections. Staff will continue to monitor and update projections as things evolve.

## **Other Revenue**

Property tax and sales tax account for about 60% of the City's General Fund revenues, however there are a couple of other significant revenues that should be discussed.

### **Transient Occupancy Tax (TOT)**

TOT is collected from guests staying at hotels within the City. Prior to COVID-19, the City was seeing significant increases in TOT revenues with the Council's emphasis on promotion and economic growth, and the Atascadero Tourism Business Improvement District (ATBID). TOT revenue was severely affected by the travel restrictions and stay-at-home orders related to COVID-19. Revenues were trending up through February 2020, but then began to decline in March 2020. Third quarter revenue (collected January 2020 through March 2020) was down 13% as compared to the prior year, and fourth quarter was down more than 65% comparatively. Overall, TOT ended fiscal year 2019/20 about 19% less than the prior year, and about 21% less than budgeted.

HdL expects the Restaurant and Hotel industry to increase 10.6% in Atascadero during fiscal year 2021/22, as compared to the prior year. Beacon economics, based on data from California EDD and Visit SLO CAL, indicates that occupancy rates in San Luis Obispo County were 65% in August 2020, which was higher than rates from Napa County (49%), Santa Barbara County (62.4%), California statewide (54.8%), and the U.S. average (48.6%). Beacon Economics expects a strong resurgence in hospitality and leisure in 2021.

California hosts a significant number of international tourists each year. While much of this international and interstate tourism has seen substantial reductions, local tourism seems to be on the rise. Initial numbers from the first and second quarters of 2020/21 are stronger than the industry initially projected. Anecdotally, we've seen the increases around the Central Coast. Particularly in the beach cities, vacationers from Southern California, the Bay Area, and the Central Valley are flocking to San Luis Obispo County to get away, and some hoteliers reported record occupancy rates during the summer. This trend seemed to continue even into the fall months, as families with children were able to log in from any location for remote learning while vacationing on the central coast.

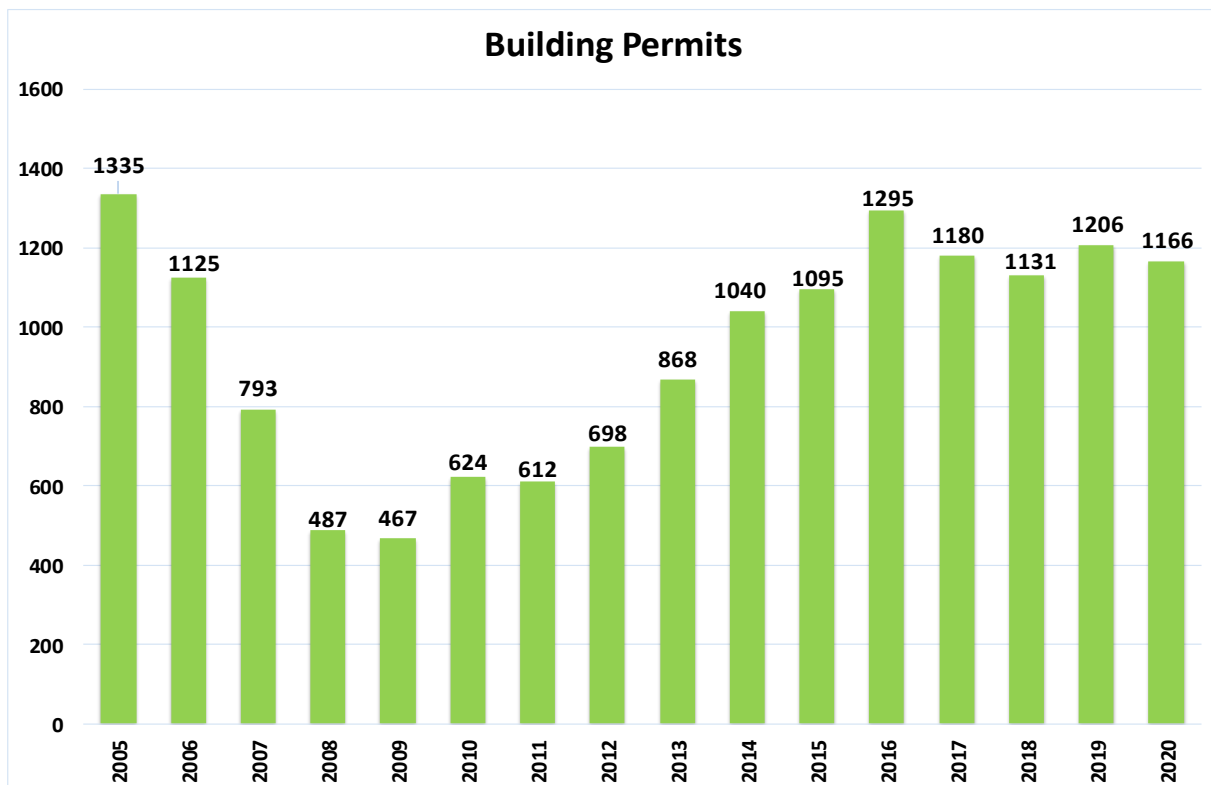
### **Franchise Fees**

The City receives around \$1.1 million a year from franchise fees. These are a tax charged on cable, electric, garbage disposal, gas, wastewater, recycling and the local landfill. These fees are based on the revenues collected by each of the entities charged. These revenues have remained fairly flat over the years and are expected to remain flat. Predicted increases in garbage disposal and electricity franchise fees are expected to be mostly offset by decreases in cable franchise fees and gas franchise fees. It is unclear at this time what affect the closure of Pacific Gas & Electric's Diablo Nuclear Power Plant will have on Franchise Fees.

## Building Permit Activity

Atascadero has seen significant building activity over recent years, although we did see a slight decrease in sheer numbers in fiscal year 2020. In 2020, the Community Development Department received 1,379 building permit applications and issued 1,166 building permits. This is a slight decrease in permit issuance straight numbers when compared to 2019, however, there are a number of large projects in progress. COVID-19 had a slight impact on a few current residential projects due to the tighten of lending associated with the unknowns of the pandemic, but this has resolved and these projects are back on track and are moving forward. Some of the large projects in various level of planning or development include La Plaza project, Emerald Ridge, Dove Creek, and Del Rio area projects and increases in activity is expected into the future.

Over the past decade, building permit activity in Atascadero has been rather volatile, reflecting the real estate boom and bust that occurred nationally. In 2005, the City received 1,335 building permit applications and issued permits for 330 housing units. By 2009, overall permit activity dropped to 467 permits with only 12 housing permits issued. In 2016, building permit activity increased slightly below the pre-real estate boom and bust. In the past five years, the City has seen relatively steady numbers in building permit activity. Staff is currently working with applicants on over 730 housing units that are currently in the development or entitlement process.



### **Other Fees for Service**

The City typically receives over \$2 million a year in various fees for other services (including mutual aid). These fees include many items such as development services, zoo admissions, pavilion rentals, softball field rental fees, park rental charges, weed abatement charges, and vehicle release fees. The closures due to the pandemic reduced or shut down the majority of the recreation-related programs in this category. As a result, revenue for these programs was reduced in fiscal year 2019/20. Development service fees, were largely insulated from COVID-19 impacts as discussed in the previous section. The City's has a Service Fee Study currently budgeted, and was in the midst of completing that when it was delayed due to COVID-19. Staff and the consultant are again working together on this and expect to bring it Council for consideration in late spring in order to adjust fees to reflect costs. Service Fees are adjusted annually by the inflation rate.

### **Interfund Revenues**

The 2019/20 audited financial statements included over \$1 million in interfund revenues. These are typically charges to other funds and departments within the city for services provided by the General Fund (such as legal, finance, capital project management, grant administration, affordable housing services, etc.). Staff has found it more efficient to allocate these charges out as Administrative Fees rather than charging a small portion of each support employee's time or a portion of each invoice to each fund directly.

## **Summary**

The overall revenue projections show a slow but steady climb in revenues over the next seven years. The Sales Tax Measure D-20 – Essential Services Tax will add additional revenue to the General Fund.



# ***Atascadero***

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## ***Comprehensive Financial Strategy February 2021***

### ***Section 3- Operating Costs***

## Operating Costs

A healthy organization needs to review inflows (revenues) and outflows (expenses) on a regular basis in order to achieve balance over the long-run. Certainly, the Council has successfully navigated this balanced path over the years by holding to the fiscal strategy of saving up a little extra in the good years to use in the down years. Just as the City began recovery from the effect of the Great Recession, rising pension costs and other costs continued to limit the City's ability to increase operating budgets to the level they needed to be. Expense reductions were made over the last decade or so to artificially low levels in order to better balance the inflow and outflow equation. Funding from Measure D-20 will certainly provide some needed relief toward better funding for necessary and existing services, but it will most certainly not be enough to provide all of the services, programs, and amenities that people might desire. It is important to set clear priorities on which items need to be addressed first.

The process of collecting feedback for spending priorities for the Measure D-20 from the Council and the Community is ongoing as of the writing of this Financial Strategy, and therefore, no funding impacts due to Measure D-20 will be included in the following discussion.

Operating costs are typically the bulk of the outflow side of the equation. Given the City's relative lack of direct control of the inflow side of the equation (property tax, sales tax, TOT, development revenue), operating costs are an area where the City has more control to determine its own fate.

Operating costs are typically broken into four different categories in the budget document:

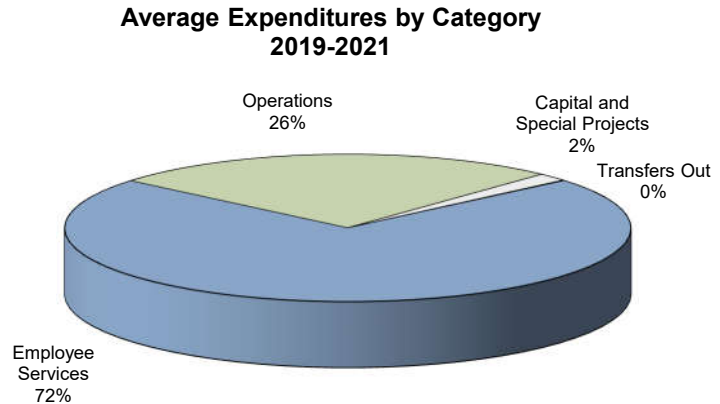
- Employee Services
- Operations
- Special Programs & Projects
- Capital Projects

Each of these categories will be defined in this section, and assumptions of the projected costs of each of these will be reviewed. The effective growth management of these categories is what helps the City to influence the bottom line. For the last 15 years or so, cost growth has been reasonably minimized.

## **EMPLOYEE SERVICES**

### **WHAT ARE EMPLOYEE SERVICES COSTS?**

Employee services are the backbone of the community. The City is a service organization, so the largest portion of General Fund expenditures is dedicated to employee services. In fact, an average of 72% of General Fund expenditures for the budget cycle 2019-2021 were allocated directly toward the cost of employee services. It is critical that the significance of this component to the budget is well understood since it plays such a major role.



Employees are grouped into six different categories or bargaining units. (Atascadero Police Association, Atascadero Firefighters Bargaining Unit, Local 620 Service Employees International Union, Mid Management / Professional Employees, Non-Represented Professional and Management Workers and Confidential Employees, and Non-Represented Part-time employees.) Salaries and benefits for each of the four represented bargaining units are set forth in Memorandums of Understanding (MOUs). Pay and benefits for Management and Confidential employees are governed by a resolution of the Council and pay for part-time employees are governed by administrative policy.

The following are the general categories of labor costs that are found in the City's budget:

- **Salaries-** This base pay figure for full-time City employees represents 54% of the City's total General Fund labor costs.
- **Wages-** This is the pay for part-time or hourly employees such as scorekeepers, recreation workers and fire reserves. (2%)
- **Overtime-** This represents the amount paid in overtime to both full-time and part-time personnel. (4%)
- **Other Pay-** This category includes amounts paid to employees for items other than base pay. Items charged to this category include stand-by pay, holiday pay-off, uniform allowance, pay-off of vacation upon leaving the City and other similar pay types. (1.5%)
- **Benefits, Taxes and Insurance-** This category is made up of the following:
  - **Health Benefits-** Each full-time employee receives health benefits upon employment. The City contributes varying amounts towards medical

- insurance, dental insurance, vision insurance and life insurance. The amounts vary between bargaining units and whether coverage is for the employee only, the employee plus one dependent or for the employee and his/her family. Employees who were hired prior to September 1, 2000 are entitled to a “medical payback” stipend if they elect employee only coverage. The stipends range from \$240.56 - \$319.53 per month. Current MOUs require the City to pick up 100% of the increased health benefits cost for the employee and 50% of the increased cost for dependents annually. (13%)
- *Retirement-* The City and City employees do not contribute to Social Security and are therefore required to participate in another retirement program. For part-time employees who work less than 1,000 hours per year, the City contributes 2.5% to a FICA Substitute / Defined Contribution plan. For full-time employees and part-time employees who work more than 1,000 hours a year, the City participates in CalPERS. The City is now on a three-tiered system for both sworn safety personnel and miscellaneous (non-sworn personnel) as discussed later in this Section. This is a defined benefit plan which means that the City is guaranteeing the benefit that the employee will receive upon retirement (in the case of tier 1 sworn personnel, 3% of the highest year’s salary for each year of service the employee has upon retirement at age 50 or older). Contribution rates for this benefit change annually based on actuarial studies performed by CalPERS. (21%)
  - *Medicare-* The City contributes 1.45% of pay to Medicare. (1%)
  - *Workers Compensation-* The City participates in California Joint Powers Insurance Agency (CJPIA) for workers compensation coverage. Cost of workers’ compensation coverage is a formula based on payroll, the City’s loss experience and the overall loss experience of CJPIA. (3%)
  - *Unemployment-* the City is self-insured for unemployment through the Employment Development Department (EDD). The EDD bills the City quarterly for actual unemployment benefits paid to former employees. (0.25%)
  - *Other Benefits-* There are other minor benefits afforded to employees such as the education reimbursement program and long-term disability. (0.25%)

Payroll is not just a function of salary and benefit amounts, but is also a function of the number of employees. The current budget includes funding for 129 full-time employees. With a few exceptions, part-time employees are budgeted with a lump sum dollar amount, rather than the number of employees. In fiscal year 2019/20, 55 part-time employees worked over 21,000 hours or the equivalent of almost 10 full-time employees. In a typical year, the City uses about 81 part-time employees working over 39,000 hours, or almost 19 full-time equivalents. However, due to the impacts of COVID-19 in fiscal year 2019/20, the number of part-time employees working and programs and services offered were reduced.



## WHAT IS THE CURRENT STATUS OF EMPLOYEE SERVICES?

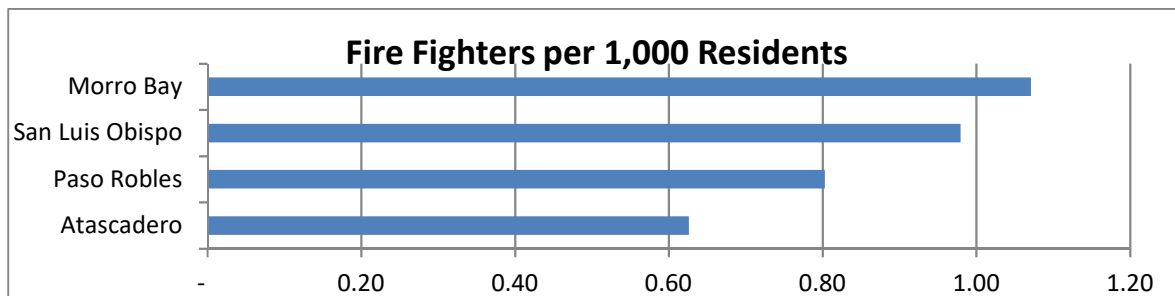
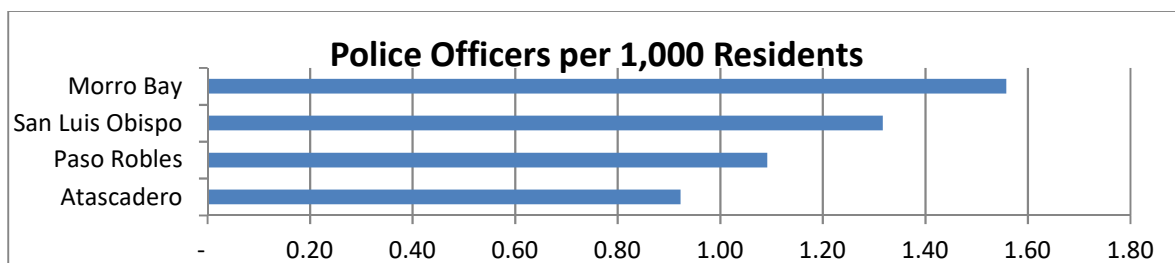
### Staffing Levels

Labor is one of the issues that will be of particular interest with the upcoming budget cycle. There is no group of people that can do more with less than the City staff here in Atascadero. Of course, budgets have always been lean, but starting with the 2009-2011 budget cycle, lean took on a whole new meaning. With the loss of fifteen laid off positions (seven of which were vacant at the time), the remaining staff did their best to carry the load. During the 2011-2013 and 2013-2015 budget cycles, a continuing policy of “hiring chills” was also in place. This was a process where management evaluated each position that became empty due to attrition to determine if that position was a priority in the short run.

While this staffing policy kept costs to a minimum, it also caused staffing levels to be deficient in all departments. With the improvement in the economy, however, the City was able to add six full-time staff members during the 2015-2017 budget cycle. The City also added one full-time staff member during the 2017-2019 budget cycle, and then four more in 2019-2021. This certainly provided some needed relief, and although this is movement in the right direction, the nature of the City’s resources cause the City to continue to lag behind other local jurisdictions when it comes to staffing level metrics.

This leaves many departments frustrated, as coverage becomes an issue. Per capita staffing for both police officers and fire fighters is low compared to surrounding cities, making it difficult to effectively staff these 24/7 operations without using excessive overtime. This situation becomes even more difficult when employees are out on vacation, are sick, or have been injured on the job.

The two charts below show the staffing levels for police officers and fire fighters per capita as of June 30, 2019, in Atascadero compared to other local cities:



The Police Department is a good example of the challenges associated with limited staffing levels. The Department was established in 1980 with 19 sworn officers serving 16,232 residents. The department grew commensurate with the population through the 80s and early 90s. In 1994, the Department reached 29 sworn officers to keep pace with 23,982 residents. The Department peaked at 30 officers in the early 2000's; however, three sworn positions were lost during the great recession in 2007 to 2009. The current population of Atascadero is estimated at 30,305 and the Atascadero Police Department has the same staffing it did in 1994, 29 sworn officers.

The City's financial hardships have impacted the Department's ability to grow with the population and leaves the community with the same staffing as 27 years ago. If the Department had grown commensurate with the population there would be 37 officers for the current population level.

Although 29 sworn officers were adequate in 1994, they are not nearly enough to handle the workload in 2020. Aside from the increased calls associated with a 21% growth in the population, the community has been faced with an opioid epidemic and an influx of homeless related calls for service.

Along with these calls, there are mental health problems associated with these issues, and communities across California, including Atascadero, are also suffering the unintended consequences of the recent trend to decriminalize narcotics and other crimes. In 2011, Assembly Bill 109 shifted much of the prison population to county jails, which were not designed or equipped for this function and quickly caused the jails to become overcrowded. Proposition 47 in 2014 reduced certain theft and drug offenses from felonies to misdemeanors and Proposition 57 in 2016 allowed parole consideration instead of incarceration for nonviolent offenders, which all combined has resulted in a substantial increase in offenders released without incarceration. This has, and will continue to, leave more offenders in the community and increase criminal activity in Atascadero.

Combine this with other recent requirements, such as the new reporting standards which have increased the amount of reports officers are required to take, the change in medical clearance and procedures for mental health detentions and county jail bookings, increased training standards all result in task saturated officers that spend less time on patrol. This directly impacts officers' availability to respond to calls for service and increase response times.

Although this narrative has focused on the police department's staffing shortages, every department in the City is understaffed. When compared to other communities of our size, the staffing history and numbers for Planning, Public Works, Finance, and Administration are all similar to those in the Police Department. This affects staff's ability to provide the expected level of City services across the board.

### *Employee Retention*

The City has been able to stay within its financial constraints with the cooperation of its employees. The employees are used to doing more with less and this often carries over into salaries and wages. There is significant competition from other agencies whom are able to offer more generous salaries than Atascadero is able to. The market for labor is tight and employers are competing. Atascadero has the lowest per capita revenue than all the other cities in the county, making it more difficult to match salaries to other agencies. Below are the current comparisons to other jurisdictions for top step police officer positions:

Jurisdiction	Monthly Salary	
	Officer	Sergeant
City of San Luis Obispo	\$ 8,699	\$ 10,953
County Sheriff	\$ 8,417	\$ 10,221
City of Paso Robles	\$ 7,752	\$ 10,461
City of Pismo Beach	\$ 7,510	\$ 9,854
City of Grover Beach	\$ 7,129	\$ 9,212
City of Arroyo Grande	\$ 6,941	\$ 8,884
City of Morro Bay	\$ 6,929	\$ 8,642
City of Atascadero	\$ 6,693	\$ 8,379

While there are some differences in benefit packages between jurisdictions, the City is consistently amongst the lowest total compensation for most positions at the City. While compensation is often not the only reason an employee chooses to work for an employer, when there are significant differences in pay, it is an important consideration. Because the cost of living is high in the area, and neighboring jurisdictions are able to pay more, the City's low wages are often a barrier to attracting, hiring and most important- retaining professional employees. This has a large effect on City operations as vacancies lead to even lower staffing levels, inefficiencies and additional incurred costs as new employees are trained.

This challenge is not uncommon throughout the City. There have been recruitments in several departments where the City did not receive a single qualified applicant. In these cases, after sometimes two or more recruitments, the City has chosen to re-organize, find a way to contract out, or hire someone at a lower level and provide a lot of training. In 2019, staff did an informal salary survey of the incorporated cities in the County. At that time it was determined that it would cost the City approximately \$850,000 to bring all City positions to the average salary level of cities in the County.

Atascadero's financial hardships have had a devastating effect on employee retention. The inability to offer competitive salaries with neighboring agencies have resulted in the loss of many quality, experienced employees from every department in the City.

The Police Department has lost six officers and two dispatchers within the last two and a half years. This equates to 20% of the sworn officers and 28% of the dispatch staff. Due to the salary disparities between Atascadero and other communities, the dispatch positions have remained unfilled for over two years because of the inability to attract quality applicants at the current pay scale.

The hiring and training of police personnel is very time consuming and intensive, and there is a steep learning curve. It is not uncommon to have to hire an inexperienced officer and send the individual through the police academy. With an extensive recruitment process, the academy training and the field training program it takes more than a year before the officer is competent as a solo officer.

Once on their own, it takes a police employee additional time to become proficient and several years before they are at optimal performance. With the lack of retention, the department often loses employees just when they reach the optimal performance level and the process starts all over. The Department has become a training ground for other community departments. Atascadero spends the money, effort, and risk in getting the employee trained and other agencies benefit from it.

A well-trained and veteran department is efficient and has less liability than when the department has primarily a staff with limited experience. This is again true for all departments in the City. Employee attraction and retention has become a crisis in most departments in the City. Losses of key employees with institutional knowledge cause delays, inefficiencies and additional overtime costs in order to complete the work needed to provide service to our City.

#### *Minimum Wage*

California's minimum wage has seen significant increases in recent years, and is ultimately scheduled to increase to \$15 per hour beginning January 1, 2022. This will continue to have a significant impact on City operations. The beginning rate on the City's part-time employee salary schedule is currently at \$14.36 per hour. The State minimum is now \$14.00. Since part-time employees are budgeted with a lump sum dollar amount, each increase to the hourly rate will affect how many hours the lump sum budget are available, or will require increases to the amount budgeted. Increases are difficult due to the limited resources the City has to work with. This will impact the City's ability to hire part-time staff to provide City services. Many of the part-time employees work in recreation-related activities where additional recovery of costs may not be an option.

**California Minimum Wage Rate 2017-2022**

Date	Minimum Wage for Employers with 26 Employees or More
1/1/2017	\$10.50/hour
1/1/2018	\$11.00/hour
1/1/2019	\$12.00/hour
1/1/2020	\$13.00/hour
1/1/2021	\$14.00/hour
1/1/2022	\$15.00/hour

It is important to understand this will not only affect the City's part-time staff and certain programs. It will also have an impact on staffing salaries in general. As the hourly rate



increases annually, there is wage disparity between the entry-level position wages and the full-time salary schedule. For example in 2018, full-time Employee A earns \$18 per hour and part-time Employee B earns \$11 per hour. If the City increases only those wages necessary to comply with the minimum wage requirements, in 2022, Employee A would continue to make \$18 and Employee B would make \$15 per hour. While Employee A earned \$7 per hour more than Employee B in 2018, Employee A only earns \$3 more than Employee B in 2022. This very well may affect the City's ability to continue to provide all the existing programs, and may have far-reaching effects. This will be an important discussion item going into the 2021-2023 budget process.

### *CalPERS Retirement*

The City is enrolled in CalPERS to provide employees fixed benefit retirement plans. In 2012, the Council adopted pension reform that separates the City's retirement benefits into three different tiers: 1) existing employees, 2) employees hired after 7/14/12, but already part of CalPERS, and 3) employees hired after 1/1/13 not previously part of CalPERS. Each tier has a related formula that is used to calculate future benefits. These changes to retirement are consistent with the California Public Employees' Pension Reform Act (PEPRA).

Details of each of the tiers for Safety and Miscellaneous are in the following tables:

Miscellaneous			
	Tier 1	Tier 2	Tier 3
<b>Employees Affected</b>	Existing employees	PERS members hired after 7/14/12	Non-PERS members hired after 1/1/13
<b>Formula</b>	2.5% @ 55	2.0% @ 55	2% @ 62
<b>Contribution</b>	4.7% of employee contribution rate	4.7% of employee contribution rate	6.5% of employee contribution rate
<b>Salary Factor</b>	single highest year compensation	3 year average compensation	3 year average compensation

Safety			
	Tier 1	Tier 2	Tier 3
<b>Employees Affected</b>	Existing employees	PERS members hired after 7/14/12	Non-PERS members hired after 1/1/13
<b>Formula</b>	3% @ 50	3% @ 55	2.7% @ 57
<b>Contribution</b>	9.0% of employee contribution rate	9.0% of employee contribution rate	11.5% of employee contribution rate
<b>Salary Factor</b>	single highest year compensation	3 year average compensation	3 year average compensation

The calculation of the pension costs is a complicated actuarial process and involves a number of different assumptions and strategies. CalPERS Board of Administration (Board) authorizes changes to the assumptions and structural changes to risk pooling

as they see appropriate to ensure the program remains properly funded. A number of changes have occurred in recent years that affect the City's pension costs including a change in the smoothing policy, changes to the risk pools, changes to the method of allocating the pool's unfunded liability, retiree life expectancy assumptions, and actual investment rates differing from assumed earnings rates. The most dramatic change came in December 2016, when the Board voted to change the discount rate from 7.5% to 7.0% over three years. The discount rate is the assumed rate of return on investments, or essentially, interest earnings. Decreasing the rate means the Board assumes that CalPERS will earn less interest income on its investments each year. As the discount rate is decreased, employers have seen large increases in the costs required to fund the retirement plans.

The City has two components to the CalPERS annual contributions. The first is the "normal rate", or the cost of pension benefits for one year. CalPERS' actuaries determine what the normal cost percentage is for each employer, and the employer pays an amount throughout the year equal to the percentage multiplied by the applicable payroll. The second component is a flat dollar amount known as the Unfunded Accrued Liability, or UAL. The UAL is also determined by CalPERS actuaries and the City pays it as a flat dollar amount at the beginning of the fiscal year.

The decrease of the discount rate was phased in over a three-year period that began in fiscal year 2018/19. The change in the discount rate had a significant impact on the UAL. CalPERS currently estimates that the City's combined Miscellaneous and Safety UAL payment will go from about \$1.97 million in fiscal year 2019/20 to about \$2.83 million in 2024/25. This estimated increased UAL of about \$870,000 over the seven year period is substantial given the General Fund expenditure budget for fiscal year 2019/20 was about \$23 million.

The City's normal rate (excluding any City-paid employee portion) and the annual UAL for each tier for both the Miscellaneous and Safety Pools are listed in the following charts.

#### Miscellaneous

	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Tier 1 - normal rate	12.14%	13.15%	12.99%	13.00%	13.00%	13.00%	13.00%	13.00%
Tier 2 - normal rate	10.33%	11.20%	11.06%	11.10%	11.10%	11.10%	11.10%	11.10%
Tier 3 - normal rate	7.07%	7.87%	7.70%	7.70%	7.70%	7.70%	7.70%	7.70%
Tier 1 - UAL	\$ 823,736	\$ 924,772	\$ 1,098,400	\$ 1,204,000	\$ 1,107,000	\$ 1,174,000	\$ 1,209,000	\$ 1,241,000
Tier 2 - UAL	\$ 630	\$ 7,557	\$ 9,240	\$ 9,200	\$ 9,200	\$ 9,000	\$ 9,000	\$ 9,000
Tier 3 - UAL	\$ 1,773	\$ 40,675	\$ 50,630	\$ 51,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000

#### Safety

	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Tier 1 - normal rate	21.93%	23.67%	23.71%	21.71%	23.70%	23.70%	23.70%	23.70%
Tier 2 - normal rate	18.93%	20.59%	20.64%	20.60%	20.60%	20.60%	20.60%	20.60%
Tier 3 - normal rate	13.03%	13.04%	13.13%	13.10%	13.10%	13.10%	13.10%	13.10%
Tier 1 - UAL	\$ 1,138,375	\$ 1,277,704	\$ 1,516,603	\$ 1,661,000	\$ 1,756,000	\$ 1,520,000	\$ 1,520,000	\$ 1,561,000
Tier 2 - UAL	\$ 889	\$ 2,332	\$ 7,914	\$ 8,100	\$ 8,100	\$ 8,100	\$ 8,100	\$ 8,100
Tier 3 - UAL	\$ 1,457	\$ 21,382	\$ 26,210	\$ 26,000	\$ 26,000	\$ 10,000	\$ 10,000	\$ 10,000

### *Vacation accruals*

Vacation accruals are another issue to consider. Details on vacation and other leave accruals are discussed at length in Section 4 of this document. At this point, it is critical to simply understand that as employees utilize more of their vacation time, there are less people to accomplish the tasks for the vacationing employees. While in some cases the work could be delayed, in most cases, the work still has to get done on schedule and/or works shifts have to be covered. At the end of the day, what this really translates into is additional overtime costs. Overtime is an unavoidable component of spending down the vacation accrual.

### *Health Care*

The City has been on the offense regarding health care costs. Health care benefits are important to the well-being of the employee group. As health care costs continue to be on the rise, the City continues to search for efficient options to meet the employees' health care needs. For example, on January 1, 2015, the City switched from a traditional PPO Policy to a high-deductible policy. The City offers employees a choice of either the high-deductible PPO (HD PPO) or a traditional HMO policy. Anthem Blue Cross is the provider for both. By switching to the HD PPO, overall savings were achieved for employees and they are pleased with the new option. Despite the City efforts to keep costs down, medical insurance rates have increased more than 7% for each of the last five years.

## **WHAT ARE EMPLOYEE SERVICE COSTS EXPECTED TO BE FOR THE NEXT SEVEN YEARS?**

In order to project labor costs, a spreadsheet was developed which details salary and benefits for each employee. Every employee's expected labor costs were developed for each of the seven years. Step increases and other expected pay changes as an employee moves through his/her career were built into the projections.

However, the projections do not include a cost of living salary increase in any of the fiscal years. A one percent cost of living salary increase for the current employees would amount to about \$136,000 of additional ongoing costs annually. This is not to say that staff is recommending a policy of no salary increases for the next seven years. Instead, these projections are intended to illustrate that labor costs will continue to need to be a function of available funding and the market. Currently, the existing Memorandums of Understand with all employee groups expire at the end of fiscal year 2020/21.

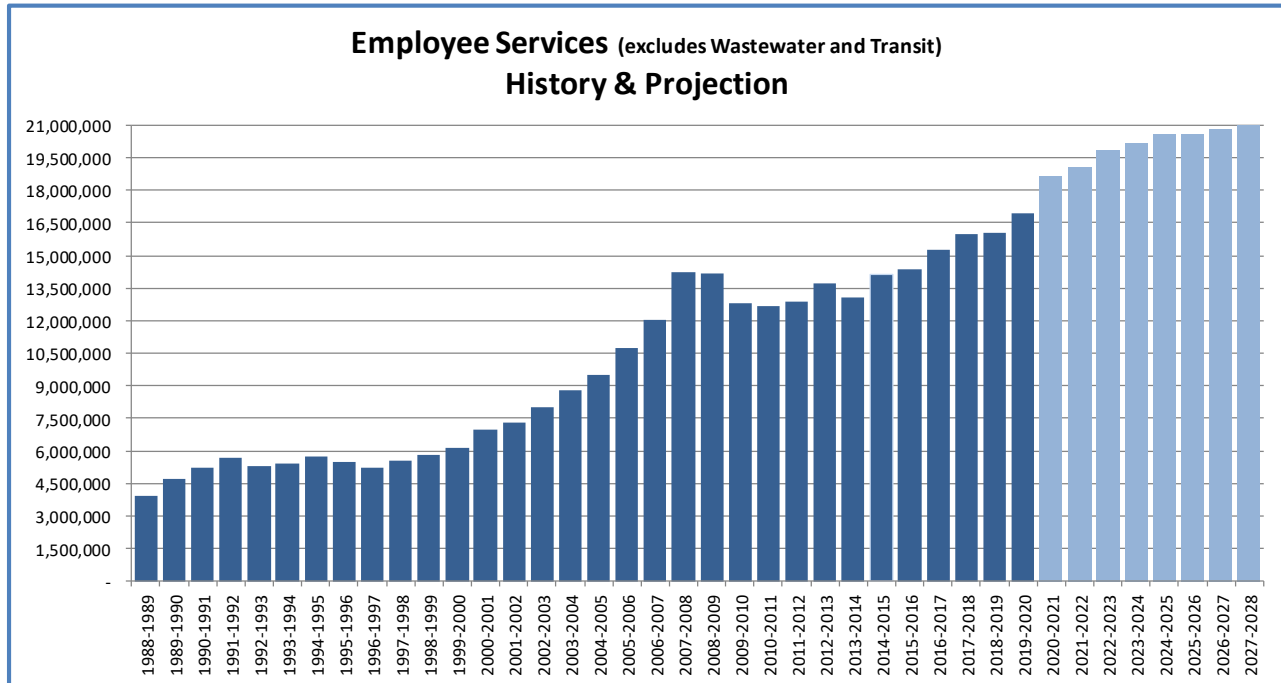
Annual Cost of 1% Salary Increase Fiscal Year 2020/2021	
	Cost of 1%
Police	\$ 41,800
Fire	26,300
SEIU	32,100
Mid Management	4,000
Management and Confidential	31,500
Total	\$ 135,700

Assumptions that went into the projected employee service costs were as follows:

- 2020/21- Assumes that current employees remain in place, step increases are given to eligible employees, and cost of living salary increases are consistent with current Memorandums of Understanding. Only minimal increases were included for the required minimum wage escalation. Assumes medical insurance costs increase by 7%, workers compensation increases 2%, unemployment rates remain flat, CalPERS rates are 7.9%-13.2% for non-sworn employees and 13%-23.7% for sworn safety employees, and UAL payment of \$2.27 million (CalPERS actuarially determined rates). CalPERS rates for vacant positions are assumed to be Tier 2 for most positions.
- 2021/22- Assumes that current employees remain in place, step increases are given to eligible employees, and there are no cost of living salary increases. Only minimal increases were included for the required minimum wage escalation. Assumes medical insurance costs increase by 7%, workers compensation increases 5%, unemployment rates remain flat, CalPERS rates are 7.07%-13% for non-sworn employees and 13.1%-23.7% for sworn safety employees, and UAL payment of \$2.7 million (CalPERS actuarially determined rates). CalPERS rates for vacant positions are assumed to be Tier 2 for most positions.
- 2022/23- Assumes that current employees remain in place, step increases are given to eligible employees, and there are no cost of living salary increases. Assumes medical insurance costs increase by 7%, workers compensation increases 2.5%, unemployment rates remain flat, CalPERS rates are 7.7%-13% for non-sworn employees and 13.1%-21.7% for sworn safety employees, and UAL payment of \$2.96 million.
- 2023/24- Assumes that current employees remain in place, step increases are given to eligible employees, and there are no cost of living salary increases. Assumes medical insurance costs increase by 7%, workers compensation increases 2.5%, unemployment rates remain flat, CalPERS rates are 7.7%-13% for non-sworn employees and 13.1%-23.7% for sworn safety employees, and UAL payment of \$2.91 million.
- 2024/25- Assumes that current employees remain in place, step increases are given to eligible employees, and there are no cost of living salary increases. Assumes medical insurance costs increase by 7%, workers compensation increases 3%, unemployment rates remain flat, CalPERS rates are 7.7%-13% for non-sworn employees and 13.1%-23.7% for sworn safety employees, and UAL payment of \$2.73 million.
- 2025/26- Assumes that current employees remain in place, step increases are given to eligible employees, and there are no cost of living salary increases. Assumes medical insurance costs increase by 7%, workers compensation increases 3.5%, unemployment rates remain flat, CalPERS rates are 7.7%-13% for non-sworn employees and 13.1%-23.7% for sworn safety employees, and UAL payment of \$2.76 million.
- 2026/27- Assumes that current employees remain in place, step increases are given to eligible employees, and there are no cost of living salary increases. Assumes medical insurance costs increase by 7%, workers compensation increases 3%, unemployment rates remain flat, CalPERS rates are 7.7%-13% for non-sworn employees and 13.1%-23.7% f or sworn safety employees, and UAL payment of \$2.83 million.



- 2027/28- Assumes that current employees remain in place, step increases are given to eligible employees, and there are no cost of living salary increases. Assumes medical insurance costs increase by 7%, workers compensation increases 3%, unemployment rates remain flat, CalPERS rates are 7.7%-13% for non-sworn employees and 13.1%-23.7% for sworn safety employees, and UAL payment of \$2.9 million.



## **OPERATIONS COSTS**

### *WHAT ARE OPERATIONS COSTS?*

Operations costs are expenditures related to the regular ongoing operation of the department, including supplies, tools, utilities, insurance, contract services, and other similar expenditures.

Each year as the budget is being prepared, a target is established for the operations category. Even with some expenses increasing at rapid rates, departments were targeting minimal increases of 2% and 2.5% for the budget cycles 2003-2005 through 2007-2009. Due to the recession, departments were asked to *cut* operating expenses by 5% in budget cycle 2009-2011 in order to keep the deficit gap at a minimum. Departments were asked to cut operating budgets *an additional 5%* for budget cycle 2011-2013. These decreases in operations were effective in closing the deficit gaps to an amount that was consistent with Council's strategic plan. Certainly these cuts were not easy, but in the short term were achievable.

As the economy began to recover, operating budgets were increased 4% in budget cycle 2013-2015 (2% in each fiscal year), increased 6% in budget cycle 2015-2017 (4% in 2015-2016 and another 2% in 2016-2017.), and remained flat in budget cycles 2017-2019 and 2019-2021. As the cost of doing business continues to rise, additional increases will be needed to sustain service levels in the long-run.

Overall, the City has been able to keep these costs at a modest level. These operating budgets were exceptionally tight during the Great Recession, with the understanding that the reductions were a temporary solution until the economy regained strength. The employees continue to work hard at keeping costs down and are always looking for better and more cost effective ways to get things done. There are, however, a few areas of particular concern as the 2021-2023 budget cycle approaches:

- Issues Related to Transients and Homelessness - The human impact of the homeless crisis is tragic. While not as visible, there is also a very real impact to government services and in particular local services as cities that were never designed, nor funded to provide social services, deal with the inherent conflicts and problems of people living on the streets. It is important that we point out that staff are not classifying individuals because of their housing status. The reference is to those people who are engaged in behavior that precipitates a call for service for public safety or other City resources.

Atascadero, like many other cities throughout California and the rest of the nation, were not intended or equipped to handle the additional workload associated with the homeless crisis. The influx of people who are living on the streets and in other areas that were never designed to function as someone's home have impacted every department in the City. Many of those living in these areas are suffering from mental health issues and/or addiction problems. Calls

for service include panhandling, public disturbances, public defecation, scavenging, trespassing and camping on sidewalks or other public areas. These issues don't begin to touch the impact to the community.

Many of these individuals have underlying health problems. Our Fire Department is frequently called to treat and assist everything from a minor cut to shortness of breath, a stroke or mental illness. This takes one of the two on-duty engine companies out of service. When further treatment is necessary for the individual, they are transported to a local hospital, taking an ambulance out of service for an extended time.

The impact to the Police Department has also been significant. In 2018, the department received 513 calls for service related to illegal camping and 81 calls for panhandling. The Department coordinated with County Behavioral Health and partnered a County social worker with a department detective to form a part-time Community Action Team. These teams have been highly successful for the San Luis Obispo Police Department and Sheriff's Department. The goal of the team is to identify those individuals who would benefit from available resources and be the intermediary so those services are utilized. The program has been successful; however, the position was unable to be filled due to staffing shortages. Once the staffing is full, the program will be resumed.

The illegal camps throughout the City have a significant impact on the environment and the general quality of life for the neighborhoods. The creeks, rivers, underpasses and other areas of encampment were never designed to be someone's home. The homeless crisis/addiction issues have led people to establish camps where there is no sanitary services, no heat, no water and other basic necessities for life. The camps contain a large amount of trash and personal refuse. Legally, notices must be posted at the camps before cleanup and property removed must be retained for a substantial period of time before disposal. Clean-up of these camps is also a fairly time consuming job as clean-up workers must be extremely cautious as dirty needles and other bio hazards are often found amongst the camp debris. The workload involved in the cleanups and debris removal must be balanced with the workload and primary responsibilities of a Public Works Department that is stretched too thin to maintain the 106 acres of parks, the 140 miles of streets and the many City facilities that are the responsibility of the personnel. The existing budget doesn't include sufficient staff or funding for the additional workload of camps clean-up.

- Underfunded Operating Costs – There are a number of different costs in the operational budgets that have been increasing over the last 15 years or so at a rate much higher than inflation and that of the operational budget increases. Costs such as water to irrigate the parks has more than doubled, animal food at the Charles Paddock Zoo has tripled, and electricity to power the traffic signals/street lights and the exhibits at the Zoo have both doubled. Atascadero Lake Management Plan, implemented to provide for a healthier lake, costs about \$20,000 per year in unbudgeted funds. There is an unfunded need to increase

the number of fleet vehicles available for staff to carry out essential city services. All these costs add up and have not been sufficiently funded in the operational budget due to ongoing limitations on available resources.

- Regulations – While state and federal regulating agencies have good intentions with their various programs, compliance is becoming more burdensome and costly. The Air Pollution Control District, the Regional Water Quality Control Board, the National Fire Protection Association, Occupational Safety and Health Administration and other similar agencies have specific requirements that the City must meet. Programs such as the Storm Water Management Plan, the Storm Water Trash Amendment, Groundwater Monitoring, the National Pollutant Discharge Elimination System, and the Federal Highway Administration's Retro-Reflectivity are just a few of the many regulations that affect the City and its budget. There are also additional requirements of the Public Safety departments, such as the new Police Department reporting standards, changes in medical clearance and procedures for mental health detentions and county jail bookings, increased training standards, radio system/security protocol changes. The trend is toward greater regulation in a number of different areas which increases City costs for permits, monitoring, equipment replacement, training, and compliance.
- COVID-19 Response Costs – The worldwide pandemic has required the need for additional supplies and tools that allows staff to safely and effectively carry out essential duties. Some of these increasing costs are for additional personal protective equipment and supplies, cleaning and sanitizing supplies, barriers, and virtual meeting options, just to name a few. These costs are expected to continue into the short-term future at minimum, and until the COVID-19 necessary response materials can be re-evaluated at a later date.
- Voter approved Propositions – Propositions such as Proposition 47, the Reduced Penalties for Some Crimes Initiative, and Proposition 57, the Public Safety and Rehabilitation Act of 2016, are continuing to have an impact on the City's public safety costs. Proposition 47, approved in 2014, reduced certain theft and drug offenses from felonies to misdemeanors and Proposition 57, approved in 2016, allowed parole consideration instead of incarceration for nonviolent offenders, which all combined has resulted in a substantial increase in offenders released without incarceration. The City's police department works hard to keep the community safe, but when repeat offenders are not incarcerated and continue to engage in criminal activity in our community, the costs to the City and to the community will continue to grow. This has, and will continue to, leave more offenders in the community and increase criminal activity in Atascadero. It is unknown what impacts the City may see from other Propositions like Proposition 64, the legalization of adult-use marijuana. This is still relatively new territory for California, and agencies across the state are continuing to try to determine what affect, positive or negative, this new Proposition will have on the budget.



## ***WHAT ARE OPERATIONS COSTS EXPECTED TO BE FOR THE NEXT SEVEN YEARS?***

The projections assume mild growth in operating. Reduced or flat operations budget are a feasible option over a short course of years, but are no longer sustainable. After cutting operations costs by 5% for each of the budget cycles 2009-2011 and 2011-2013, the City was able to gain 4% for the 2013-2015 budget cycle, and 6% for the 2015-2017 budget cycle (4% in 2015-2016 and 2% in 2016-2017.) For the 2017-2019 and 2019-2021 budget cycles, operations costs remained flat.

The Seven Year Projection assumes modest increases of 1% - 2% in operations costs, and a continued focus on keeping costs lean, smart, and effective.

## **SPECIAL PROJECTS AND PROGRAMS COSTS**

### ***WHAT ARE SPECIAL PROJECTS AND PROGRAMS COSTS?***

Special Projects and Programs are costs that are either atypical expenses or other projects or programs that are not part of the City's regular operations. Included in this category are items such as community promotions, minor equipment, studies, intangible assets, community programs, and infrequent repairs or maintenance. For example, Council increased the budget commitment for community promotions in fiscal year 2014/15 to stimulate the local economy. This is anticipated to create a healthier economy and increase City revenues and is assumed to remain at a consistent rate.

### ***WHAT ARE SPECIAL PROJECTS AND PROGRAMS COSTS EXPECTED TO BE FOR THE NEXT SEVEN YEARS?***

The Seven Year Projection assumes special project costs remain flat across the period.

## **CAPITAL PROJECTS COSTS**

### ***WHAT ARE CAPITAL PROJECTS COSTS?***

Capital Projects Costs are expenditures for new capital equipment with a life in excess of one year and costing over \$2,500, and capital improvement projects. Capital purchases are included in the budget only after supplemental budget requests effectively identify and justify the need for such a purchase. Many capital expenditures have been minimized or alternate solutions have been identified. However, the lives of some assets and equipment may no longer be extended and some items will need to be

replaced in the near future. Staff will continue to pursue grants and effectively use donations when available for the purchase of these and other items as well.

***WHAT ARE CAPITAL PROJECTS COSTS EXPECTED TO BE FOR THE NEXT SEVEN YEARS?***

The Seven Year Projection assumes a flat \$50,000 each year to cover anticipated capital projects and expenses.

## **Summary**

Atascadero has seen some tight economic times over the last decade or so. Prior to COVID-19, the economy was in an expansion period and most indicators pointed to slow and steady growth for the next several years. The effect of COVID-19 on that growth is yet to be seen, but some economist are noting healthy underlying indicators, and believe as soon as the virus gets under control the economy will come back.

Across the last two decades, Council has shown strong leadership in sticking to its financial strategy; tucking away reserves in the good years and judiciously using them as the economy dipped and now continues to improve. The Council and the community will have the privilege and responsibility to carefully budget the funding made available by the voters who approved Sales Tax Measure D-20 funds. While these funds will bring needed relief, they will not be sufficient to fund everything. Prioritization and compromise will be key factors to consider while analyzing the opportunities to come.

# ***Atascadero***

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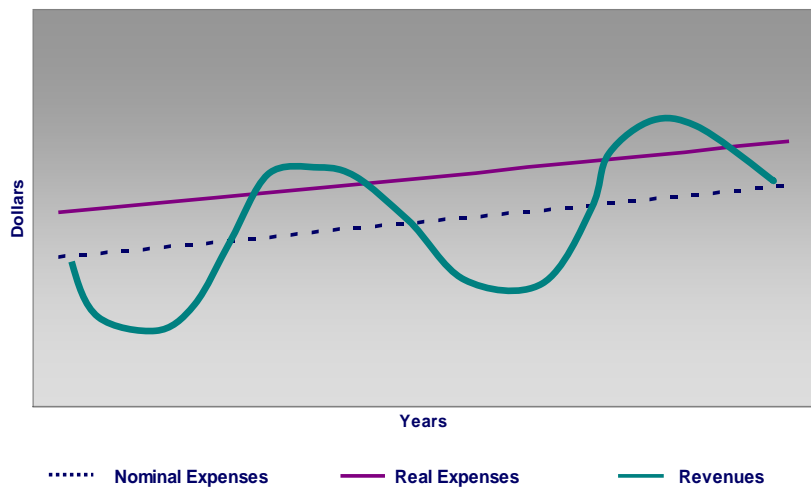
## ***Comprehensive Financial Strategy February 2021***

### ***Section 4- Long-Term Costs***

## Long-Term Costs

In the financial strategy diagram to the right, there are two expenditure trend lines. The lower dotted line represents the strategic plan. That is the limit at which the expenditures are budgeted. However, there are many services that are being consumed that are not included in the bi-annual budget. The upper solid line includes not only the budgeted items, but also all of

the unseen expenses that will eventually come due. The City currently doesn't put any funding into Storm Drain Reserves, yet the storm drains are used constantly, and wear out a little more each day. At some point, they will need replacing and there will be a large price tag associated with this. Similarly, there is no reserve being set aside for replacement of park equipment or building components. The parks in our community are heavily used and are exposed to the elements. Building components like roofs, HVAC units, and plumbing have a life span and will eventually need to be replaced. During the previous economic downturn, there were several additional areas that had historically been funded on some level that are not currently budgeted. Although this expense holiday is helpful to keep the immediate use of reserves to a minimum, these unseen costs continue to incur and escalate each year, and should be understood for thoughtful future planning since the City's infrastructure and facilities will eventually fail and need to be replaced. The economic impacts from COVID-19 will exacerbate the unfunded infrastructure liabilities in the short to mid-term, but the newly passed Measure D-20 could assist in lessening this effect and provide stable funding to address these deferred and unfunded needs.



Let's take the example of a hard-working teenager named Dominic. His parents agree to **give** him his first car as long as he can pay for its expenses. He thinks getting a free car sounds great, so he agrees to the deal and gets a job flipping burgers making \$12.00/hour. He works 10-15 hours a week. He feels good about himself. After taxes, he takes home \$5,800 annually. That's just the right amount to pay for his insurance, gas, minor car repairs, and of course, his girlfriend and a few video games.

Take home pay	\$ 5,800
Insurance	(2,000)
Gas	(2,200)
Repairs	(800)
Girlfriend	(350)
Video Games	(450)
Net	<u>\$ -</u>

Satisfied that he makes enough money to accommodate all of the important things in life, our friend Dominic continues on his merry way.



Time moves on, and eventually Dominic finds himself several years down the road. Feeling successful that he's always been able to take care of himself without getting a loan from mom and dad, he hasn't made any lifestyle changes to improve his ability to earn more income or tuck away extra in savings. Therefore, he still works flipping burgers, an honest living. Thankfully, he gets a cost of living raise each year, so he has been able to keep up with inflation. Tragedy strikes when his beloved car finally breaks down and he has to buy a new one. He has not been saving up any money over the last several years, so he has to apply for a loan. Now, with the new car payment, he is unable to make ends meet. Dominic truly regrets not looking forward to prepare for this day by having made the changes that could have allowed him options now that his car is broken and he still has to get to work.

Take home pay	\$ 6,300
Insurance	(2,100)
Gas	(2,400)
Repairs	(300)
Girlfriend	(400)
Video Games	(520)
Car payment	<u>(1,380)</u>
Net	<u>\$ (800)</u>

It is true that the City is successfully navigating through the recovery after the Great Recession and the pandemic-induced recession. As we plan for the future, understanding some of the unfunded costs will help us to avoid making the same mistake that Dominic made.

This section analyzes some of the annual "hidden" costs facing the City. The information developed within the following pages has been verified to the extent possible. However, as more information becomes known or as experience modifies the facts or assumptions, the information will be modified. The intent is one of information; to provide general facts about significant business concerns facing the City. This information is essential to establishing a practical financial strategy.

This section of the report includes an in-depth discussion of issues surrounding street and bridge maintenance, storm drains, building and component replacement, technology replacement, vehicle replacement, and equipment replacement (collectively referred to as infrastructure); a discussion of long-term leave liability, followed by a general discussion of unfunded liabilities and wastewater assets.

In former editions of the Comprehensive Financial Strategy, estimates were provided in each of the categories for the Reserve Deficit, or the total amount of money that should have been placed aside in the reserve fund to date. These estimates have been eliminated from this edition, they were based on historical costs. The historical cost methodology took the historical cost of each asset when it was built, and then estimated how much of that cost had been used up.

While this is useful information to know for accounting purposes, it is not as useful for planning for future needs of the community. For instance, we know that Fire Station #1 has a historical cost basis of approximately \$177,000 and of that historical investment amount, about \$113,000 has been depreciated or used up. We also know that the City

received preliminary design drawings to bring Fire Station #1 up to Essential Services Building Standards and that the estimated cost of that project is \$10 million to \$15 million. For future funding planning purposes, the \$10-\$15 million figure is more meaningful, as this is what the City needs in order to rehabilitate the 70 year old fire station.

While this data is available for Fire Station #1, it is not as readily available for other City facilities, equipment and infrastructure, as adequate resources have not been available to further update the valuation data. Information is provided, where possible, to give the reader a sense of the magnitude of replacement cost deficits in each category.

### **Infrastructure**

Infrastructure includes the basic facilities and assets needed to run the City. It includes public infrastructure such as roads, storm drains, street lights, traffic signals, sidewalks, bridges, wastewater collection and treatment, and other large capital items needed to support households, businesses, and industries. It includes facilities such as fire stations, police station, parks, the zoo, City Hall and other large capital assets that are needed to provide services to the public. It also includes the basic underlying capital assets needed for the day-to-day operations of the City including computers, software, radios, breathing apparatus, police cars, tractors, fire engines, etc.

The research into these areas illustrates the need for reserve funds to deal with these business costs. The following table summarizes the findings contained in this Section. The Reserve Fund Strategy is the amount set aside in that fiscal year. The Annual Reserve Fund Requirement is the annual need for each of the areas if the City was able to provide full funding.

<b>INFRASTRUCTURE REPLACEMENT</b>		
	Estimated Annual Reserve Requirement	Reserve Fund Strategy
Streets Maintenance	\$ 5,000,000	\$ 4,712,800
Bridge Maintenance	280,000	81,000
Storm Drain Maintenance	390,000	-
Building and Park Replacement	1,698,290	-
Technology Replacement	152,190	152,190
Vehicle Replacement	369,940	222,110
Equipment Replacement	226,050	-
<b>TOTAL</b>	<b>\$ 8,116,470</b>	<b>\$ 5,168,100</b>

The scope of this may seem daunting, however, the City does not need to have all of assets in new condition to function smoothly and provide services to its citizens, and all costs certainly won't come due in the near term or all at the same time. A "fair" condition for the roads might be the realistic targeted service level, and that is a much different reserve than assuming all roads need to be in "excellent" condition. Each infrastructure system needs to be looked at individually and when analyzing infrastructure funding, the City should look at immediate needs, long-term funding needs, when an asset needs to be replaced, what has worked historically, and what are the service levels the City can maintain.

## Street and Bridge Maintenance

### Introduction:

The City of Atascadero is responsible for maintaining a transportation system that involves 145 centerline miles of roadway. While a primary focus of maintaining this system has been on pavement management, other system components include bridges, traffic signals, traffic signs, pavement markings, guardrails, street lights, landscape medians, curbing, sidewalks, pedestrian ramps, and storm drainage. All these components are integrated into the City's transportation system and work in concert to support safety of motorists, pedestrians, and bicyclists. Furthermore, the transportation system is a core function to support residents, businesses, industries, commerce, and public safety (police and fire). This network represents a substantial investment by the City, and has been identified as a critical concern of the community. This section deals with the street, bridge and other similar infrastructure maintenance responsibilities of the City.

### Analysis:

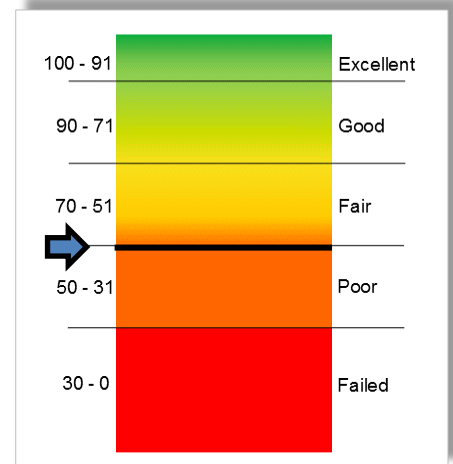
#### *Streets:*

The Atascadero Road Program was developed in 1999 to focus the City's efforts in maintaining and protecting the roads of Atascadero in an organized, efficient and cost-effective manner. With the relatively high miles of road to maintain and the relatively low revenue per capita, keeping the City's roads maintained in a fair or good condition has always been a challenge. Ironically, some of the conditions that make the community so wonderful to live in, such as Atascadero's rural character and relatively low population, make it the most difficult to secure funding. Many federal and state road maintenance funds (i.e. Gas Tax revenue) are derived from population statistics. Similar to many other cities, Atascadero suffers from a funding shortfall for road maintenance due to the aging road system and the City's revenue base. The reality is that funding options from federal and state agencies are limited, leaving the City with fewer options for maintenance and rehabilitation.

Since the inception of the Atascadero Roads Program, significant effort has been made toward repairing the roads and minimizing the maintenance deficit. The Atascadero Road Program is based on local pavement management strategy. Pavement management is the process of planning the maintenance and repair of City streets, in order to optimize pavement conditions over the entire network. Pavement management incorporates life cycle costs into a more systematic approach to minor and major road maintenance and reconstruction projects. The needs of the entire network as well as budget projections are considered before projects are executed. Pavement management encompasses the many aspects and tasks needed to maintain a quality pavement inventory, and ensure that the overall condition of the road network can be maximized to the extent possible.

In March 2015, the City Council endorsed the Critical Point Management methodology for the City's Pavement Management System. The City utilizes a software program called StreetSaver® to manage roadway pavements. This software is one of the most accepted industry leaders in pavement management technology. The road network and GIS information were entered into the program and then streets were field inspected for pavement distresses. The collected data is used to calculate a Pavement Condition Index (PCI) based on the 0 to 100 rating scale, 100 being excellent and 0 representing a failed road. StreetSaver® keeps track of the inspected conditions for each roadway segment (intersection to intersection) and any maintenance and improvement work is logged to keep conditions current. Funding scenarios are run using the critical point management and PCI break points to develop a priority list of roadway segments that are included in the City 5-year Capital Improvement Program.

Visual field inspections were last performed in April 2019 for the 145 miles of municipally maintained and managed roadway system. At that time, the overall weighted PCI was 50 on a 100-point scale, which corresponds to the very upper range of "poor" pavement conditions. This also represents an increase in PCI of three points from the previous field inspections conducted in 2014. At that time, the PCI was projected to decrease three points over a five-year period, even with the new Measure F-14 funding, but actually increased three points. This increase demonstrates that Critical Point Management, coupled with sound engineering decisions, is a successful strategy. It is important to keep in mind that PCI numbers are relevant to one another and used as a planning tool for prioritizing where monies are best spent.



The breakdown by functional road classification is summarized in the following table:

Street Classification	Centerline Miles	Area (Square Feet)	Percent of System	Average PCI
Arterial	37.36	5,928,609	31.2%	59
Collector	21.65	2,895,138	15.2%	50
Residential	85.86	10,199,714	53.6%	46
<b>Total</b>	<b>144.86</b>	<b>19,023,461</b>	<b>100.0%</b>	<b>50</b>

The following table shows the PCI distribution in the street system in 2019:

Condition	PCI Range	Percent of System
Excellent – Very Good	100 - 91	5.73%
Good	90 - 71	14.01%
Fair	70 - 51	25.17%
Poor	50 - 31	30.33%
Failed	30 - 0	24.76%



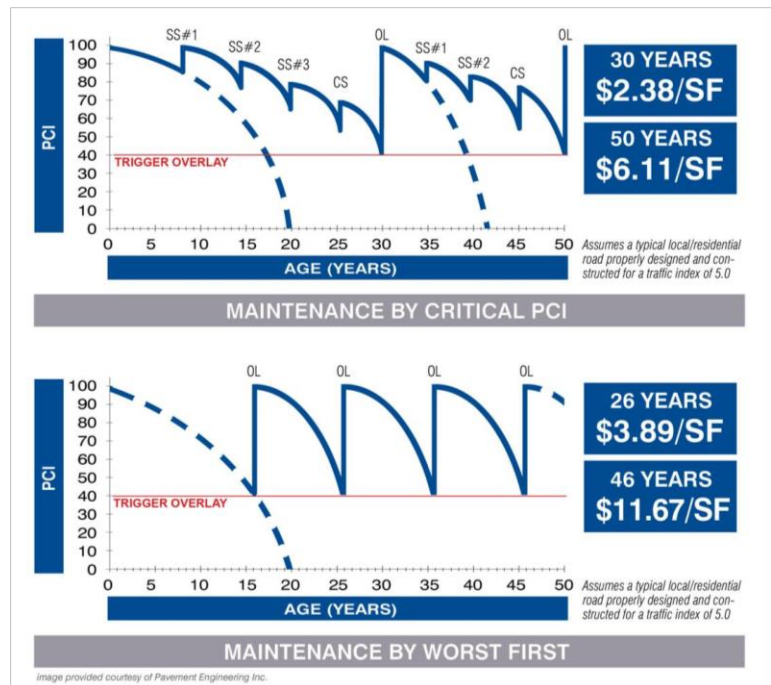
Critical Point Management involves utilizing pavement management strategies, improvement techniques, and prioritization for roadway projects with the available funding that are geared to provide the lowest life cycle costs for the roadway system.

There are three common strategies in pavement management and project prioritization:

1. “Best First” – focuses on keeping best conditioned streets in good condition;
2. “Worst First” – focuses on improving the worst conditioned street; and
3. “Critical Point” – focuses on preventing streets from dropping into PCI ranges that trigger more expensive maintenance and improvements.

There are economical, safety, and social/political considerations in each of the strategies. The first two strategies are short-sighted and will allow roadways to degrade and slip into a more costly PCI range for needed improvements. The critical point strategy is a long-range methodology that focuses on preventing roadways from dropping into PCI ranges that trigger more expensive maintenance and improvements.

Although the unit prices are not current, the charts to the right provide an example of the costs savings by employing the critical point management theory.



State and federal revenue streams for transportation are primarily funded through the fuel tax. Higher fuel efficiency vehicles, increases in electric vehicle use (which do not pay any gas tax) and changes in vehicle use patterns all affect the current revenue stream and foreshadow continuing declines in fuel tax receipts for future transportation investments. Even though vehicle miles traveled in California (prior to COVID-19) have increased by 25 percent and fuel prices have fluctuated significantly in that same time period, the California gas tax can't keep pace with the cost of road maintenance and repairs. The passage of SB-1 accommodates annual adjustments to the gas tax rates, but it will take many years (if ever) to finally intercept the inflated rates and CPI increases that have occurred in the past.

Funding available to the City for road projects has been a challenge. The City continues to maximize the projects that can be completed with the funding that is available, in addition to actively looking for any grant opportunities that may become available. The cost to maintain Atascadero's road system, combined with the declining availability of

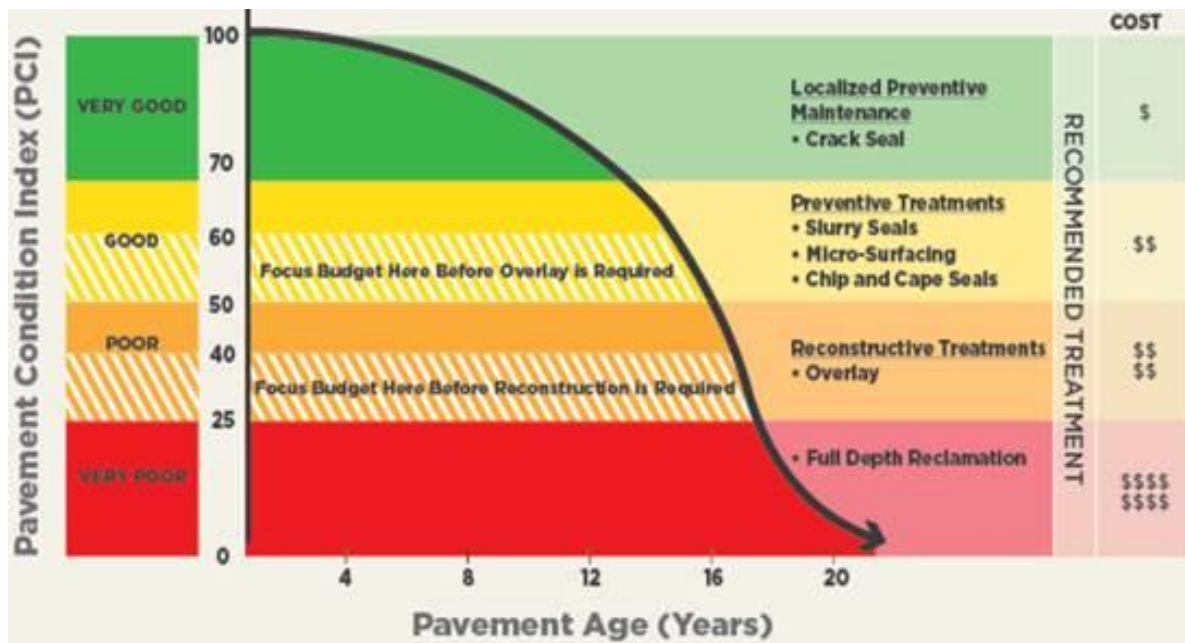
road funds to accomplish this maintenance, were key considerations for a sales tax increase that would primarily fund road projects.

In November 2014, Atascadero voters approved Measure F-14, a half-cent sales tax increase that became effective April 1, 2015. The voters also approved advisory Measure E-14 at the same time, indicating that the community preferred to spend that additional revenue on roads. Measure F-14 provides additional road funding and will work together with the City's existing funding sources to maintain/increase the citywide road conditions. Additionally, the Road Maintenance and Rehabilitation Act (SB1) provides an estimated \$500,000± annually to supplement the City's ongoing maintenance efforts.

The City has developed a 5-year Capital Improvement Program (CIP) for roadway projects, which includes projects funded by both Measure F-14 fund and existing City capital project funds. Over the five-year period, the City anticipates spending over \$23 million to maintain and improve City maintained roads. StreetSaver®, using critical point management, is used to develop a list of roadway segments for consideration each fiscal year. Roadway projects utilizing Measure F-14 funds are typically not combined with other roadway segments utilizing other funding sources. A separate list is generated for Measure F-14 roadway segments and non-Measure F-14 roadway repairs.

The current 5-Year Capital Improvement Plan (FY19/20 – FY23/24) includes over 41 centerline miles of roadway improvements involving rehabilitation or resurfacing. Almost 25 miles are funded with Measure F-14 funding, and the remaining approximate 16 miles have other funding sources, such as LTF and SB-1. While the 41 miles of road improvements translates to nearly 30% of the City's maintained roadway system being improved over five years, this does not translate to mean that the entire system will be improved in the next 15 to 20 years since many of these roads are in a fair to good condition and less costly to repair than those which are not included.

The StreetSaver® pavement management approach will assist the City in optimizing available funding by focusing projects in the highest need ranked areas and performing lower cost preventative maintenance as much as possible to avoid higher cost reconstruction project. Spending funds on preservation (crack filling, seal coating, chip seals, etc.) delays or prevents major restoration projects, and results in lower long-term costs. Well-timed preventative maintenance of a roadways' surface increases its service life and delays the need for expensive rehabilitation or reconstruction. This has been particularly apparent in the last several years as oil prices (the primary cost component of asphalt) have remained low while labor costs have escalated. While resurfacing and overlays have seen costs remain fairly stable, more labor-intensive roadway reconstruction costs have increased substantially. This is illustrated in the cost per square yard for minor maintenance all the way up to major reconstruction in the following chart.



#### *Traffic Signals, Traffic Signs, and Pavement Markings:*

The City owns and operates 12 signalized intersections - two which are located at the Santa Rosa Road/US 101 interchange and the remaining ten located on El Camino Real at Santa Barbara Road, San Rafael Road, Santa Rosa Road, Palomar Avenue, Junipero Avenue, Curbaril Avenue, West Mall, Traffic Way, San Anselmo Road, and Del Rio Road. Many of these traffic signals were constructed as a condition of nearby developments to mitigate traffic impacts generated by the development to the intersections. The most recent traffic signal constructed is over ten years old (Santa Rosa at US 101) and others are much older.

The Master Facilities Plan includes improvements to some of these intersections that will require replacement or upgrades to traffic signals. The cost of these improvements are calculated into the Traffic Impact Fees charged to developments and eligible for use of those funds when improved or upgraded. However, these funds are not eligible for upkeep, repairs, or in-kind replacement of traffic signal components, which often are paid from operational expenditures.

Other critical components to the City's transportation system include traffic signs and pavement markings. There are currently 2,120 traffic signs, 16.5 miles of pavement striping and 24,210 pavement legends in use on City maintained roadways. While these signs and markings may seem to be trivial expenses compared to road improvements and bridge replacements, signs and markings instruct and guide motorists and other roadway users for safe use of the roadways. This is especially important when driving in the dark.

The Federal Highway Administration (FHWA) understands the importance of keeping traffic signs and pavement markings in good condition, and made an amendment in 2012 to the Manual on Uniform Traffic Control Devices (MUTCD) requiring retro-reflectivity

standards. The MUTCD requires the City to have a management plan to inspect and replace traffic signs, which typically need replacement every ten to fifteen years. Pavement markings wear out much quicker depending on type and traffic usage. Painted markings last from one to four years, while new thermoplastic markings may last up to seven years. Pavement markings will become much more important to keep in good condition as vehicle automation with self-driving cars rely on pavement markings for controlling and guiding the vehicle. Replacement of traffic signs and maintenance of pavement markings is currently paid through operational expenditures. Pavement markings are typically replaced with thermoplastic markings with roadway projects on the capital improvement program, but maintenance of others are typically painted.

The annual reserve requirement for streets, including traffic signals, signs and pavement markings, is estimated at \$5 million. Based on information from StreetSaver®, it is estimated that the total accumulated reserve deficit is about \$120 million.

	Estimated Annual Reserve Requirement
<b>Streets Maintenance</b>	<b>\$ (5,000,000)</b>

#### *Bridges:*

The City is also responsible for 20 vehicular bridges and a handful of other non-vehicular bridges such as Centennial Bridge over Atascadero Creek. While some of these bridges are relatively newer, such as Lewis Avenue Bridge over Atascadero Creek, others are in excess of 100 years old. The following table shows the City's vehicular bridge inventory.

Bridge Number	Feature Intersected	Facility Carried	Location	NBI Bridge	SD	Suff Rating	Bridge Health Rating	Year Built
<a href="#">49C0157</a>	ATASCADERO CREEK	SYCAMORE RD	0.05 MI N OF S.R. 41	NBI Bridge		76.0	Fair	1990
<a href="#">49C0158</a>	ATASCADERO CREEK	VIA AVE	0.12 MI E/O TRAFFIC WAY	NBI Bridge	SD	30.1	Fair	1948
<a href="#">49C0159</a>	ATASCADERO CREEK	SAN ANDRES AVE	0.25 MI W S.R. 41	NBI Bridge		97.5	Fair	1993
<a href="#">49C0160</a>	ATASCADERO CREEK	SAN GABRIEL RD	N OF W LINDO AVE	NBI Bridge		74.2	Fair	1969
<a href="#">49C0163</a>	GRAVES CREEK	DEL RIO RD	0.40 MI W OF SR 101	NBI Bridge		58.5	Fair	1957
<a href="#">49C0164</a>	GRAVES CREEK	SANTA LUCIA ROAD	LIANO RD	NBI Bridge	SD	21.4	Poor	1926
<a href="#">49C0277</a>	GRAVES CREEK	MONTEREY RD	AT GRAVES CREEK RD	NBI Bridge		93.8	Fair	1993
<a href="#">49C0295</a>	ATASCADERO CREEK	PORTOLA RD	0.1 MI WEST OF SR 41	NBI Bridge		48.4	Fair	1950
<a href="#">49C0312</a>	ATASCADERO CREEK	ATASCADERO AVE	0.12 MI NW SANTA YNEZ AVE	NBI Bridge		66.4	Fair	1958
<a href="#">49C0313</a>	WEST BRANCH PALOMA CREEK	VIEJO CAMINO	0.4 MI SE EL CAMINO REAL	NBI Bridge		54.3	Fair	1959
<a href="#">49C0364</a>	PALOMA CREEK	VIEJO CAMINO	0.2 MI SE EL CAMINO REAL	NBI Bridge		97.0	Good	1976
<a href="#">49C0365</a>	E BRA ATASCADERO CRK	EL CAMINO REAL	0.12 MI SE OF SR 41	NBI Bridge		83.8	Good	1965
<a href="#">49C0430</a>	ATASCADERO CREEK	EL CAMINO REAL	0.1 MI SW INTX EAST MALL	NBI Bridge		96.1	Good	1915
<a href="#">49C0431</a>	ATASCADERO CREEK	HOSPITAL DRIVE	0.1MI SW INTXCAPISTRANO	NBI Bridge	SD	48.4	Poor	1921
<a href="#">49C0432</a>	CAPISTRANO AVE	UP RR & AMTRAK	0.2MI N FROM INTX VIA AVE	NBI Under				1902
<a href="#">49C0439</a>	GRAVES CREEK	GARCIA ROAD	0.3 MI NORTH OF DEL RIO	NBI Bridge		99.9	Fair	2007
<a href="#">49C0442</a>	ATASCADERO CREEK	LEWIS AVE	0.2 MI WEST OF SR 41	NBI Bridge		93.0	Good	2005
<a href="#">49C0450</a>	GRAVES CREEK	FERROCARRIL RD	0.1 MI W/O EL CAMINO REAL	NBI Bridge		66.5	Good	2007
<a href="#">49C0451</a>	UP RR & AMTRAK	EL CAMINO REAL	0.1 MI N/O SAN RAMON RD	NBI Bridge		76.2	Good	2005
<a href="#">49C0452</a>	EAGLE CREEK	ATASCADERO ROAD	.1 MI E OF SA. BARBARA RD	NBI Bridge		82.2	Good	2005

Caltrans inspects and rates the above bridges every several years. As the table shows, most bridge condition are in the fair and good category rating. There are two bridges with poor ratings, and three that are “Structural Deficient” (SD) or not capable of handling the current design loads. Many others in the table are “Functionally Obsolete” and do not meet current standards for lane configuration, approach alignments, or other geometric requirements.

Historically, bridge maintenance and replacement have largely been funded through the federal Highway Bridge Replacement and Rehabilitation Program (HBRRP). However, recently this funding is looking much less secure and the eligibility requirements for HBRRP funds have tightened as costs escalated for current projects in the federal Program, leaving fewer resources available. This has impacted the City directly on two bridges currently scheduled for replacement (Via Avenue over Atascadero Creek and Santa Lucia Road over Graves Creek), funded through HBRRP. Each of these bridge projects is estimated to cost \$5 million to \$6 million. HBRRP funding for future projects could potentially be postponed or not approved at all.

The annual reserve requirement for bridges is estimated at \$280,000.

	<b>Estimated Annual Reserve Requirement</b>
<b>Bridge Maintenance</b>	\$ (280,000)

### **Conclusion:**

It is the City’s goal to fully fund street maintenance and the Public Works Department has developed a strategy to maximize available road project funding. Measure F-14 and SB1 have been a boost in local roadway funding and will go a long way in improving the PCI of Atascadero’s road system, but the City needs to invest more if the overall pavement condition of the roadway system is to continue to increase and other transportation components are proactively maintained and replaced to ensure the performance, reliability, and safety of all that depend upon it.



## Storm Drain Maintenance

### Introduction:

Atascadero's Storm Drain system has historically been a source of mystery and concern. The collection system is primarily a covert system; its purpose is to quietly collect excess runoff and keep the streets from flooding. Thanks to the efforts of the Public Works department, the storm drain system is fairly effective in keeping the water off the streets and reducing the risk of flooding, but it hasn't always been like that. In the not too distant past, rains typically brought uncontrolled flooding, primarily due to the "organic" nature in which the system was constructed, which relies on surface drainage to convey stormwater runoff. By better understanding the system and evaluating the condition of each of the components, the City is better able to manage the system and be proactive in preventing problems.

### Analysis:

To this end, in 2012, the Public Works Department inventoried the complete drainage system of all pipes, inlets, manholes and bridges, and measured and characterized the location, size, material and general condition of each facility. There are currently over 28-miles of culvert or storm drain piping within City road right-of-way. The study created an initial priority list for future projects, and established a replacement schedule and the funding needs based on conservative lifespan and construction costs so as to not overstate the cost to maintain these facilities.

Using the information collected, a number of immediate maintenance and replacement projects were identified, and carried out within the limitations of the current Operations budget.

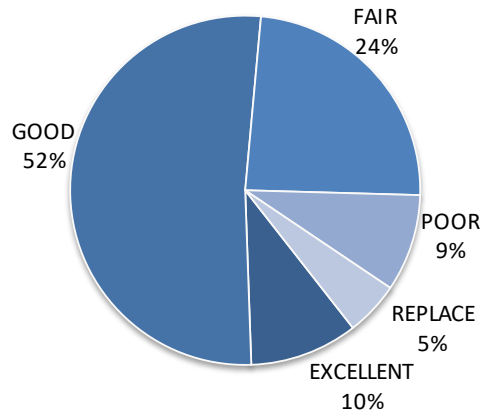
The following are some highlights of the study's findings:

#### Existing Storm Drain Inventory (2012 Study)

- 28 miles of existing culverts within the city's storm drain network
- A total of 1,740 individual pipe segments
  - 1,022 segments are CMP (shortest lifespan)
  - 416 segments are HDPE
  - 238 segments are RCP
  - 60 segments are PVC
  - 4 segments are Steel
- 1,440 segments are City maintained
  - The length of city maintained culverts is 24.4 miles
  - 48% of all city maintained culverts are CMP
  - Currently 3,180 feet of culvert is characterized as needing near term replacement
- 600 drain inlets and structures

The graph below illustrates the condition of the segments in 2012:

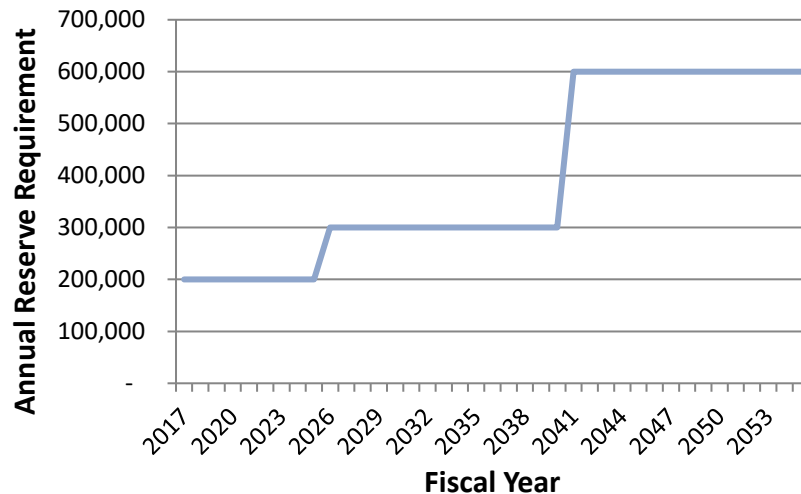
### Storm Drain Segment Condition



The good news is that 86% of pipes in the 2012 Study are considered “Fair” or better. That leaves only 14% in a condition that need replacement in the next 4 to 10-years. There is an immediate need to replace 5% of the culverts and storm drains over the next 5 years. A rough estimate of the annual storm drain replacement needs over a 30-year period is \$200,000 per year through 2025, ultimately increasing to \$600,000 per year.

When possible, the City includes replacement of old storm drain pipes during roadway rehabilitation projects. This significantly lowers storm drain replacement construction costs and minimizes impacts to the travelling public. This also reduces the amount that the City needs to set aside specifically for drainage replacement costs as those costs are included with the road project costs. An updated drainage system evaluation will provide more accurate and detailed information of existing liabilities.

The future replacement schedule will significantly increase as CMP material culverts (primarily) installed in the '70's, 80's and '90's reach their expected lifespan. The study concludes that replacement costs step up and are estimated as follows:



The annual reserve requirement for storm drains is estimated at \$390,000.

	Estimated Annual Reserve Requirement
Storm Drains	\$ (390,000)

## Conclusion:

The City gained a much better understanding of the Storm Drain system than it ever had before after the 2012 study was performed. The 2012 study, combined with additional data gathered during street inspections, has provided valuable information on the condition and location of each of the many components so the Public Works Department can best focus resources on the issues of highest concern. Although the system is aging, the bulk of it is in relatively good shape. The proactive approach to repairs of the storm drain components protect life and property by reducing or preventing flooding and helping to preserve the adjoining roads and infrastructure. City staff plans to perform an updated evaluation of the storm drains and culvert conditions and costs in the near future.

## Building Replacement

### Introduction:

The City of Atascadero owns a number of different buildings including City Hall, Police and Fire Stations, the Pavilion on the Lake, the Colony Park Community Center, and the City Corporate Yard. This section also encompasses a wide range of assets such as park restrooms, playgrounds, sports areas, building improvements, and Zoo exhibits, just to name a few. Assets of most departments are included in the following discussion, with the exception of the Wastewater Department.

### Analysis:

The City keeps a list of all buildings and improvements within the City. The list estimates the original cost, size, age and remaining life of the assets. The list tracks all buildings, storage structures, park buildings and improvements, and Zoo exhibits along with the corresponding costs and depreciation. The City should be setting aside funds each year in the reserve account to fund replacements and major repairs.

The fire stations are good examples of the City's need to invest in building replacement. Over the decades, the fire stations have housed many firefighters while they work to protect the City of Atascadero. Built in 1952, Station 1 on Lewis Avenue was designed as a station for a mostly volunteer firefighting staff. From volunteer firefighter beginnings, the station morphed into what we have today, which required several remodels and changes along the way. Station 1 now facilitates 24/7 staffing which required the addition of bedrooms, bathrooms and a kitchen. It houses three fire engines, one rescue trailer, one ambulance and several command vehicles. It provides storage for advanced medical equipment and supplies, self-contained breathing apparatus equipment, the firefighter turnout washer, breathing air compressor and so much more.

While staff takes great pride in maintaining the Fire Station, the station is showing signs of its nearly 70-year old age. Water-stained ceiling tiles, masonry cracks throughout the station flooring, driveway and exterior columns, diesel exhaust stained walls, small rooms and limited storage all speak to the underlying issues that the current budget has been unable to fix. Safety items to be addressed include the structural stability and earthquake retrofit of both the roof structure and the hose tower. The station needs updated features to keep firefighters safe. Cancer causing agents such as vehicle exhaust and dirty turnout gear or biohazards on medical equipment need to be isolated from the living quarters to keep firefighters safe and healthy.

Fire Station 2 was built in the mid-1980s and is also showing its age. With one bedroom and a small square footage, it was built to house two firefighters. With four firefighters now on duty at the station during the wildfire season, this small footprint provides for very cramped quarters, especially during this season of COVID-19 and the need for social distancing in the fire station.

Maintenance and enhancement of the Charles Paddock Zoo and the animal exhibits will continue to be a priority. Many of the animal exhibits at the zoo are very old, deteriorated and functionally obsolete. In order to continue to provide for these endangered animals, these exhibits must be replaced in the near future. Many of the Zoo's needs are often met through the generous donations of the community. The Zoo has historically received donations both through the Friends of the Zoo, and directly from members of the community. The Thelma Vetter Red Panda Exhibit is a great example. Staff work diligently to maximize these funding sources by fulfilling the unmet needs of the Zoo, and follow up with City-funded resources when possible.

Park facilities are also deteriorating including parking lots, sidewalks, benches, picnic tables, playgrounds, restrooms, and athletic facilities. The shoreline retaining walls and dock on Atascadero Lake needs significant work, and the lake requires costly periodic dredging to keep it healthy.

Replacing and repairing these assets has been put off in order to make ends meet. Some items like playground equipment, shade structures or picnic benches are removed until donations are made to replace them. Other critical infrastructure that must be replaced or fixed is done as an emergency measure by eliminating or delaying some other service, program, or capital replacement. It is important to find ongoing funding to repair and replace these items as necessary.

Understanding the value of funding these items, the City Council transferred \$1,000,000 in fiscal year 2016/17 from the General Fund to the Building Maintenance and Replacement fund in an effort to offset some of the unfunded portions. This investment was possible due to some one-time occurrences in the General Fund that year, making this amount unexpectedly available.

A valuation of Atascadero City-owned property was recently completed and paid for by the California Joint Powers Insurance Authority (CPJIA), the City's self-insurance pool. The replacement cost of City-owned buildings and improvements was estimated in excess of \$88 million. This doesn't suggest that the City should have that amount tucked away in a reserve account, however it does provide some context as to the level of investment the City has in this category

The estimated annual reserve requirement for building replacement is demonstrated below:



<b>BUILDINGS</b>	
<b>City Department</b>	<b>Estimated Annual Reserve Requirement</b>
Historic City Hall	\$ (962,230)
Fire	(66,830)
Parks	(178,110)
Pavilion	(95,910)
Police	(108,210)
Recreation	(187,720)
Public Works	(31,490)
Zoo	(67,790)
<b>Total Ideal</b>	<b>(1,698,290)</b>
<b>Current Funding Level</b>	<b>-</b>
<b>TOTAL (Deficit) / Surplus</b>	<b>\$ (1,698,290)</b>

**Conclusion:**

It is the City's goal to fully fund building replacement. The City was able to begin partially funding building replacement in fiscal year 2000/01, and continued through 2008/09 until the Great Recession prevented further funding. There is currently just under \$4 million saved up in the fund. Historically, the building reserves were largely used to pay for repair projects and improvements, which prolong the lives of the assets and keep them in good working order. In addition, staff actively looks for grants and other opportunities to augment available funds. The City has been successful with FEMA/OES and California Cultural and Historical Endowment (CCHE) funding for City Hall, grant programs such as the Energy Efficiency Grant for municipal buildings, and local donations. This has been an effective strategy thus far, but eventually costs will come due. Fire station #1 is at that point and will need to be addressed in the upcoming budget cycle.

## **Technology Replacement**

### **Introduction:**

The City has a significant investment and dependence on technology equipment throughout the different departments. The computers and associated software make-up a technology system that is crucial to the day-to-day operations of the City. The system represents a total value of about \$2.4 million including specialized software. This section deals with the current technology replacement responsibilities of the City.

### **Analysis:**

Each department was reviewed for the number of computers and associated software necessary to complete department objectives. Expected useful lives and replacement costs are determined and used to calculate the amount of reserve necessary each year. As technology continues to emerge quickly, it can be difficult to know what the future brings. Technology staff are always on the lookout for newer and more efficient technology that will provide safe and effective computing tools for managing City business. The City has been funding replacement and maintenance reserve for technology for almost 23 years, and as a result, the technology reserve is almost fully funded. Both hardware and software are maximized and best efforts are made to stretch the useful life out as long as possible, while keeping a tight balance with efficiency.

The reserve fund allows for hardware and upgrades as determined necessary. Daily City business functions are dependent on the consistent operation of the City's computers, associated technologies, safety, data backup, and data integrity. The two biggest concerns in the field of technology and data management are data loss and data corruption (through any number of methods.) Data backup and redundancy are critical to protect against these two concerns and are the backbones of the City's technical infrastructure. The City must be prepared in the event of emergencies that may impact the electronic operations of the City, and the City must have security in place to avoid being the target of unwanted data intrusions and ransoms. Therefore, it is critical that the City have a designated reserve for the replacement and upgrade of computers and other technology equipment as it becomes obsolete.

The annual cost to provide for replacement of the technology system is as follows:

<b>TECHNOLOGY</b>	
<b>City Department</b>	<b>Estimated Annual Reserve Requirement</b>
City Council	\$ (900)
City Manager	(3,420)
Administrative Services	(17,850)
Police	(19,450)
Fire	(8,610)
Community Development	(7,700)
Community Services	(6,180)
Public Works	(7,580)
Information Technology	(80,500)
<b>Total Ideal</b>	<b>(152,190)</b>
<b>Current Funding Level</b>	<b>152,190</b>
<b>TOTAL (Deficit) / Surplus</b>	<b>\$ -</b>

### Conclusion:

It is the City's goal to maintain a technology fund that will provide for the replacement and upgrading of technology as needed. Since the City began funding technology replacement in the 1998/99 budget, an adequate reserve exists to fund the City's technology needs in order to keep operations running smoothly and efficiently. Costs to fully fund technology have not been delayed as other reserve funds were. In addition to providing the opportunity to replace items as needed, the technology reserves allow the City to take advantage of newer and more efficient technologies as they become mainstream. That being said, technology is constantly evolving and prices are continuously changing. The amount to fully fund this category of about \$2.4 million in technology assets may change and grow, and will be evaluated again as we move into the new budget cycle.

## Vehicle Replacement

### Introduction:

The City owns many vehicles that are operated in the various City departments, from patrol cars to parks vehicles. The estimated replacement value of this rolling stock is about \$5.2 million. Eventually, all of this equipment must be replaced as it becomes ineffective. Like similar tools addressed previously, vehicles are critical to performance of department objectives and in order to carry out the priorities of the community.

### Analysis:

Ninety-seven percent of the value of the \$5.2 million in vehicles belongs to the police, fire and public works departments. All of these departments require employees to travel throughout the community with very specialized vehicles. Police officers need patrol cars to keep criminal activity in check, fire fighters need fire trucks and engines to fight fires, and public works need tractors, mowers, and service trucks to keep up the infrastructure and the community treasures.

These specialized vehicles are critical to the operations of the departments and are typically higher priced purchases. The Council's goal has been to fully fund the vehicle replacement fund. Vehicles, like technology, are used until they become either inefficient or inoperable. Savings can be achieved when a vehicle's useful life can be stretched out by one or more extra years. Staff has been conscientious about how this affects the City's bottom line and has utilized this technique effectively.

The City has been able to fund the routine replacement of smaller vehicles such as police cars and building inspector vehicles, but has not had the funding since the 2009-2011 budget cycle to fund the replacement of more expensive (longer lasting vehicles) such as fire engines, the ladder truck, backhoes, tractors and dump trucks. Unfortunately, each piece of equipment is deteriorating and will need to be replaced. The City takes exceptionally good care of its major vehicles, but at some point the two 15-year-old fire engines will have to be replaced at an estimated cost of \$500,000 each.

The Fire Department's fleet of emergency vehicles, including all fire engines and the ladder truck, does not currently have a replacement fund in place. Teams at both of the fire stations respond to most emergencies in a structure firefighting engine. This is the engine seen most often because it is equipped with nearly everything needed for a variety of emergencies, including medical calls. There is also a wildland firefighting engine at each station, meaning that if dispatched to a vegetation fire, firefighters will respond in a smaller engine, better suited for narrow streets and off-road terrain.

At Station 2, the aerial ladder truck is housed for large commercial building or multi-family apartment fires. The truck's ladder reaches 100 feet and allows firefighters to quickly access upper floors and rooftops to rescue those trapped by fire. It can also be used for aerial master streams, which means a large volume of water from an elevated position.

The Public Works Department also has concern for aging vehicles critical to their mission. Public Works staff use many types of vehicles including compactors, loaders, backhoes and park mowers for routine daily operations as well as to assist Fire and Police personnel during storms, flooding or other emergencies.

While great care is exercised in maintaining and caring for City owned apparatus and vehicles, these vehicles have a finite life. They are costly and require setting aside funding annually in anticipation of replacement once the vehicle is no longer reliable for its intended use. Unfortunately, the City budget has not been able to contribute to these replacement schedules for many years, causing concern for how the aging apparatus will be replaced. Reliable emergency vehicles are a fundamental component of any City service and funding necessary apparatus is an important part of each department's mission.

Understanding this situation and the need to replace these critical pieces of equipment, the City Council transferred \$500,000 in fiscal year 2018/19 from the General Fund to the Vehicle and Equipment Replacement fund in an effort to offset some of the unfunded portions. This investment was possible due to some one-time occurrences in the General Fund that year, making this amount unexpectedly available.

The estimated annual reserve for vehicle replacement is as follows:

VEHICLES	
City Department	Estimated Annual Reserve Requirement
Police	\$ (136,180)
Fire	(195,450)
Community Development	(5,170)
Recreation	(1,350)
Zoo	-
Public Works	-
Streets	(23,250)
Parks	(2,750)
Building Maintenance	(5,790)
<b>Total Ideal</b>	<b>(369,940)</b>
<b>Current Funding Level</b>	<b>222,110</b>
<b>TOTAL (Deficit) / Surplus</b>	<b>\$ (147,830)</b>

### Conclusion:

As part of the budget cycle, staff will look at the City's fleet of vehicles to determine the appropriate amount of annual funding needed and how much of that can be accommodated in the budget. Thanks to the careful planning of the Council, the City has met its goal to have sufficient funding for the near-term replacement vehicles. Because the City has committed to annual contributing to vehicle replacement, near-term vehicles are replaced as needed. Re-establishing funding for City's fleet of long-life vehicles will continue to be something to consider in the upcoming budget cycle. The amount of delayed contributions for the larger vehicles is currently estimated at about \$1.5 million.



## Equipment Replacement

### Introduction:

The City has a significant amount of equipment, which is essential to the operation of the City. These tools are necessary and allow employees to effectively perform their duties. The ideal strategy would be to work toward a program where replacement is funded annually, allowing the City to stay current with equipment. Wastewater equipment is not included in the estimates for this section.

### Analysis:

Each department has specialized equipment that assists employees in performing their duties as expected. Office staff need office machines such as copiers, police officers need radios and radio repeaters, fire fighters need breathing apparatuses and jaws of life, parks employees need mowers and irrigation equipment.

For example, as an all risk fire department, the firefighters are equipped and trained to respond to not only structure and vegetation fires, but also medical emergencies, traffic collisions, hazardous material incidents, technical rescues, natural disasters and more. Public safety personnel rely on a variety of tools and equipment that are crucial to mitigating these emergencies.

Traffic collisions sometimes require extrication tools, like the Jaws of Life, to remove a trapped occupant from a vehicle. Every medical emergency, fire paramedics use cardiac monitors to assess and treat patients. Firefighters require specialized breathing apparatus to fight structure fires, keeping their airway safe from fatal heat and gases. Both Fire and Police require specialized protection as part of their uniform, like firefighter turnouts and bulletproof vests and helmets. All public safety members rely heavily on radios for communication, which not only means hand-held and mobile radios, but also the towers and equipment that support the radio network. Recent mandates by the State have placed additional requirements on the Police Department radio system. These new requirements are expensive, and currently do not have a funding source.

Also, standby generators are important pieces of equipment throughout the City that allow services to continue uninterrupted during power outages or PG&E power shutdowns. Generators provide back-up power to essential service buildings such as the Police and Fire Stations, but also power essential functions such as radio repeaters sites, wastewater lift stations and Zoo refrigerators, but not all of these facilities have the generators needed in a PG&E widespread shut down.

While Staff does their best to keep existing equipment running for the maximum amount of time, eventually equipment ceases to be effective. Often times, specific items of equipment must be replaced to comply with new regulations or safety requirements. The City's budget has included some contribution to the equipment replacement fund during

most of the fiscal years 2000/01 through 2007/08. However, with the Great Recession, the equipment replacement was one of the reserve contributions that was postponed in order to more closely make ends meet. While all of these tools and equipment are critical to public safety, none has been fully funded through the City budget due to financial constraints. Police, Fire and Public Works have relied many times on grants and donations to fund this equipment, but grants are not always available, and are even more competitive in today's environment.

The estimated annual reserve for equipment replacement is as follows:

<b>EQUIPMENT</b>	
<b>City Department</b>	<b>Estimated Annual Reserve Requirement</b>
Administration	\$ (7,760)
Police	(67,890)
Fire	(130,230)
Recreation	-
Pavilion	(360)
Zoo	-
Public Works	(1,150)
Streets	(2,430)
Parks	(16,230)
<b>Total Ideal</b>	<b>(226,050)</b>
<b>Current Funding Level</b>	<b>-</b>
<b>TOTAL (Deficit) / Surplus</b>	<b>\$ (226,050)</b>

### Conclusion:

It is the City's goal to fully fund equipment replacement; however, this has been a difficult goal to achieve. Equipment replacement was funded from about fiscal year 2000 to fiscal year 2008. City staff has been very successful obtaining grants for critical equipment replacement, and have recently received generous community donations to fund equipment such as a large portion of the breathing apparatus equipment and the Police Department has used special funding and grants for communications equipment and other police equipment. City staff will continue to maximize the equipment life to the extent possible, take advantage of savings opportunities as they arise, and continue to pursue grant funding as an alternative funding source. However, equipment replacement for many items has not been achievable, and there are items that will have to be replaced within the next budget cycle. The current accumulated reserve deficit is estimated to be between \$3 million and \$4 million.

## Leave Accruals

### Introduction:

There are several different types of paid leave that accrue to full-time employees. These include vacation, holiday, administrative leave, sick leave, and compensatory time accruals. The amount of leave employees are eligible to accrue is governed by Memorandum of Understandings (MOUs), personnel contracts, and the Personnel System Rules.

### Analysis:

Each employee is required to record time worked and time off in official attendance records that are recorded with payroll. Depending on the specifics of the governing MOU, contract and Personnel System Rules, employees earn paid time off each year. As the employee earns leave, it is accrued in an appropriate leave bank as leave hours. The employee may take these hours off of work during the year and be paid for their regular rate of pay for the hours, thus decreasing their leave bank hours. When an employee leaves the City, they must also be paid for certain leave hours they have on the books. What is paid off is governed by law, MOUs, Personnel System Rules and past practice. If all City employees left the City on June 30, 2020, the total value of all leave accruals eligible to be paid off would have been just under \$1.8 million.

Leave Accrual	Dollar Value of Accrual
Vacation Leave	\$ 687,780
Holiday Leave	468,830
Administrative Leave	14,440
Sick Leave	413,360
Compensatory Time	179,450
<b>TOTAL AMOUNT FUNDED</b>	<b>\$ 1,763,860</b>

### Vacation Accrual

Typically, the City's vacation accrual balances ebb and flow with the economic tide. As the economy is tight, fewer employees leave the City and thus there are fewer vacation payouts, increasing the liability balance. As the economy perks up, employees take more vacations and the vacation liability balance decreases. Affecting the leave balance to an even greater extent is the tight staffing in each of the departments. Atascadero employees are a loyal group of individuals and are dedicated to getting their work done. Because staffing is tight, overtime budgets are tight and the work doesn't go away, employees tend to forgo taking time off. This increases the leave balances.

Historically, the City has had enough vacancies throughout the course of each year that the cost of paying out the vacation accruals was covered by the payroll savings with the unfilled positions. However, the extended downturn in the economy was increasing the leave liability and this long-term practice was inconsistent with the City's written Personnel System Rules, which required a cap on vacation accruals. In order to achieve more consistency between established practice and written policy, the Council approved changes on June 12, 2012, to the Personnel System Rules affecting the maximum vacation accruals.

Individuals employed with the City prior to July 1, 2012, had their vacation leave split into two banks on October 20, 2012; a historical bank and a current leave bank. All vacation time earned subsequent to that date accrues to the current leave bank and will cease to accrue when that bank balance has reached two times the employee's current annual accrual. After the one-time split into the historic bank, no more time will be accrued into that bank. Time in the historic bank may only be used after all the time in current bank has been exhausted. Employees hired after July 1, 2012, only have a current bank and all employees cease to accumulate vacation once their accrued vacation balance has reached two times their current annual accrual.

Vacation Accrual at 6/30/20	
\$	687,780

The updated vacation accrual policy requires that employees take enough time off to avoid hitting the maximum accrual amount. This new practice has reduced the long-term liability, and is healthier for the employee; but it does not come without operational costs. The operational issue with this is that the work of the vacationing employee doesn't dissolve as the person vacations, and there is still the same number of employees to get the work done. This often means overtime to cover the shift or get the work done. Staff will continue to consider this effect as the new 2021-2023 budget is developed.

#### Holiday Accrual

There are similar staffing issues that result in increasing holiday pay accruals. Employees receive 12 paid holidays per year (Fire receives 5.6 shifts per year). Some employees are unable to take the holidays off when the holiday occurs due to the nature of their position. Primarily, this is a function of the 24/7 scheduling of public safety. Employees of both Police and Fire work regularly on holidays and accrue the paid time off. The MOU between the City and the Police department allows employees to either take the time off or to be paid off annually for the holiday time accrued. (Most eligible employees are paid off annually and this amount is included in the police budget.) The MOU with the Fire department does not include a similar annual payoff. Because the staffing levels of the Fire department are also lean, employees tend to build up paid holiday time off as an alternative to causing the department to pay overtime to backfill their shift. Gradually, the accruals build up. There is no maximum cap for holiday accruals. The value of this

accrued time is paid out to the employee upon termination of employment. Hiring of a replacement employee has historically been postponed until payroll savings on the vacancy is enough to cover the payout amount.

<b>Fire Department Holiday Accrual at 6/30/20</b>	<b>Other Departments Holiday Accrual at 6/30/20</b>	<b>Total Holiday Accrual at 6/30/20</b>
\$ 403,670	\$ 65,160	\$ 468,830

#### Administrative Leave Accrual

Administrative Leave is paid leave granted to certain positions that are exempt from overtime. It is common practice to include administrative leave in compensation packages for salaried positions. The employees in these positions usually work a significant number of extra hours, and receive administrative leave as a benefit in lieu of overtime that is typical of non-exempt employees. Administrative leave functions similar to vacation time except that it is tracked separately and is carried over to the next fiscal year only under specific conditions.

<b>Administrative Leave Accrual at 6/30/20</b>
\$ 14,440

#### Sick Leave Accrual

Sick Leave is provided to employees to minimize the economic hardship that may result from an unexpected personal or dependent illness or injury. It is accrued at the rate of eight hours per month (12.01 for Fire personnel) without a maximum cap. Some employee groups are eligible for an annual Stay Well Bonus that pays out a portion of the employee's sick leave accrual, at the employee's option, up to an established maximum. Additionally, some employee groups are eligible to receive up to one-half of the employee's accrued sick time paid out at termination. The City's policy and practice support an employee's use of his/her entire sick leave accrual bank, as necessary, with an appropriate verification documenting the illness or injury.

<b>Total Sick Leave Accrual at 6/30/20</b>
\$ 413,360



### Compensatory Time Accrual

Non-exempt employees may choose to accumulate compensatory time instead of receiving overtime pay. The compensatory time credit is computed at time and one-half. The maximum hours non-exempt employees may accumulate is determined by the employee's MOU or Compensation Resolution. Compensatory time may be partially or fully paid out at any time at the request of the employee or may be used as paid time off in place of vacation or other similar paid leave. Compensatory time accrual is paid out to the employee at termination.

<b>Total Compensatory Time Accrual at 6/30/20</b>	
\$	179,450

### **Conclusion:**

While the City's leave accruals are real liabilities, they have different characteristics than other long-term liabilities. As an employee terminates employment, the City pays out that person's leave liability. The City then has an option as to how quick to hire a replacement employee for that position and can opt to hold off until sufficient salary savings has been achieved to cover the outgoing employee's payoff. Of course, this can also cause operational issues, as the work does not go away. While often times a department is able to move around shifts or workloads to minimize overtime while a replacement is recruited, there is some level of service reduction during this period.

The City is a service organization and much of the General Fund is spent on labor. The leave liability is a part of doing business. This is not a liability that we would expect to have to payout all at once, but instead it's a liability that grows and contracts by relatively small amounts each year. The balance of the leave liability has often been closely tied to the economy. As the economy booms, leave liability is used or paid off. Employees take vacations when they can afford to go to nice places and as staffing is less of an issue. Employees are also more mobile in a growing economy, not staying with the City for long periods and thus taking earlier payoffs. It is projected that because of the recent issues related to COVID-19, the departures of several long-term employees and the implementation of the vacation policy, that the liability will be contracting for the next few years.

## **Unfunded Infrastructure**

There are other public asset maintenance costs that are not included in this section due to the fact that they are not the responsibility of the City to maintain according to the Atascadero Municipal Code. Instead, these assets are the responsibility of adjacent property owners. Many property owners feel this is unfair, and care for these assets may be worth consideration for City funding.

Property owners are often surprised to find out that sidewalks and street trees in the public way are actually their responsibility. Property owners assume the City takes care of these items, so they do not perform repairs and maintenance causing the sidewalks and trees to fall into a state of disrepair until a problem occurs and the property owner and City are sued. A lot of staff time is spent to notice and explain this responsibility to property owners and it takes funds to defend the City in lawsuits.

There are also over 30 miles of public streets in Atascadero that are not maintained by the City but instead, by property owners that live on the street. Many of these streets were never built to City standards, and others meet standards but were not accepted after completion. These public roads are used like City maintained roads, but the burden to maintain and repair them falls to adjacent property owners – who pay the same taxes as those on City maintained roads.

There is also a Community Facility District that some newer residential units are required to pay an additional tax of about \$700 each year to help offset that home's impact to police, fire, and parks. A new unit that is not allowed by right must pay this additional tax, while other new and existing units do not.

## **Wastewater**

The Wastewater system is a significant part of the City's infrastructure, but is excluded from the analysis in this Section. The Public Works Department recently updated its Wastewater Treatment Plant and Collection System Master Plans. From these studies, the City's current list of necessary Capital Improvement Projects and system upgrades will be updated to meet changing State and Federal regulatory requirements, General Plan modifications since the last master plan update in 2002 that will increase flows to the sewer system, and new system collection and treatment deficiencies identified by staff and consultants.

Wastewater collection and treatment involves year round, 24-hour per day energy intensive and highly mechanical processes. Pumps and equipment are particularly susceptible to constant repair, reconditioning, and replacement. Pipes and manholes are constantly exposed to highly corrosive liquids and gasses and have finite lifespans. Currently, the City has a relatively simple and low cost treatment plant technology compared to some other surrounding communities.

Future increased wastewater treatment plant technology is expensive as evidenced by the recent Paso Robles Wastewater Treatment Plant upgrade that cost \$50 million dollars. The City is currently in the preliminary design stages for the Wastewater Reclamation Facility upgrade project. A new treatment process will be required to meet future wastewater flows as there is no additional area to expand the existing wastewater pond system, and the pond system is incapable of meeting newly adopted State waste discharge requirements. Preliminary estimates for a new wastewater treatment process is roughly \$25-30 million, although this could increase depending upon treatment processes required to meet discharge requirements.

The City's current challenge is to maintain and operate what we have today, keep up with the replacement costs of the equipment and facilities described above, and prepare for future growth to build out as identified in the City's General Plan. Staff recently completed a fee study with a consultant to determine if and by how much those connection fees and annual sewer fees may need to be adjusted. Based on the findings of that study, a rate increase for sewer service charges and connection fees was approved in September 2020, with those increases phased in over the upcoming five years. This additional revenue puts the City in a good position to continue to fund ongoing operations and maintenance while also planning for needed upgrades to the wastewater system.

## **Summary**

While the need for infrastructure reserves discussed in this section may seem daunting, it is not unlike what other cities face. The nature of government, its accounting methods, and citizens' desire for services make the funding of long-term assets very difficult until it becomes critical. Atascadero is ahead of the game by looking at these costs, analyzing them bi-annually, and determining what the horizon looks like.

The City has made incredible strides toward funding long-term assets since 1997 when the City did not have a financial plan and did not have a funding plan for any of its long term assets: vehicles and technology equipment are fully (or almost fully) funded with scheduled replacement of all assets, building reserve deficits have decreased, Measure F-14 and the road program are in place and, along with SB1 funding, have made great strides towards improving roads, and the immediate needs for equipment replacement have been funded through grants, donations and available funding.

Funding of items in this section are items to consider as the City moves forward with programming the Sales Tax Measure D-20 funds. These funds may provide an opportunity that didn't previously exist to pay for essential service infrastructure.

# ***Atascadero***

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## ***Comprehensive Financial Strategy February 2021***

### ***Section 5- Reserves***



## Reserves

### RESERVES

#### *WHAT ARE RESERVES?*

City finances are comprised of various funds, which for legal purposes have to be separated. For example, sewer charges are to be spent on maintaining and operating the wastewater system and may not be used to hire police officers or firefighters. One fund over which the Council may exercise considerable discretion is the General Fund. General taxes and receipts are deposited into this fund and the Council decides on how to spend these general revenues, whether it's for police, fire, parks maintenance, recreation services or other public services. (Of course restricted revenues such as grants or fees for services are also deposited into the General Fund and the City must ensure that these receipts are spent appropriately.) The City must cautiously guard its General Fund to ensure that there are always adequate resources to provide critical services to the public.

The term *reserves* is used quite universally in governmental finance. There are different types of reserves, different purposes, and different legal restrictions on them. Essentially, they are the collective amount of revenues in excess of expenses, or similar to what a company might term *retained earnings*. Typically, the General Fund reserves are the most carefully monitored as these are the most flexible and discretionary of all the funds. In a pinch, however, there are reserves in other City funds that could legally be borrowed if the City found it necessary.

General Fund reserves are often thought to be one indicator of the fiscal stability of an organization. In the early 1990's, the City of Atascadero had a negative General Fund balance, forcing layoffs and service reductions in order to weather the storm. In fiscal year 1995, the collapse of the Orange County Investment Pool hit the City and the General Fund reserves fell to an all-time low of \$-790,360. At that time, the City's audit carried a going concern: in other words, the City's finances were so bad that there was a serious question of ongoing solvency. Around 1998, as the economy was starting to turn around, Council adopted a fiscally conservative reserve policy and began to aggressively go about building reserves in order to avoid history repeating itself.

The General Fund reserves are broken down into different components, each with separate ramifications and costs. The Governmental Accounting Standards Board (GASB) changed how fund balances are classified and reported effective June 30, 2011. While the categories are similar, there are some differences. In the past, the Council, through the budget process, would designate a portion of the fund balance to be used for a specific purpose. This would show up as a designation in the financial statements. Under current GASB guidelines, the Council may still designate a portion of the fund balance for items such as roads, libraries, economic uncertainties, etc; however this has

no legal effect on the funds and thus does not show up in the fund balance designations. The new fund balance (or reserve) designations are as follows:

**Non-spendable-** includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. Because some assets are not easily convertible to cash in a timely manner, the fund balance is designated to show the portion that is non-spendable or can't be spent within a timely manner. For example, the General Fund loaned the Redevelopment Agency \$1,375,175. This is reported as an asset of the General Fund, but since it is tied up in Redevelopment Dissolution, the General Fund will not get paid back on this loan for some time. Thus when taking assets minus liabilities to arrive at fund balance, we must report that \$1,375,175 of the fund-balance is non-spendable.

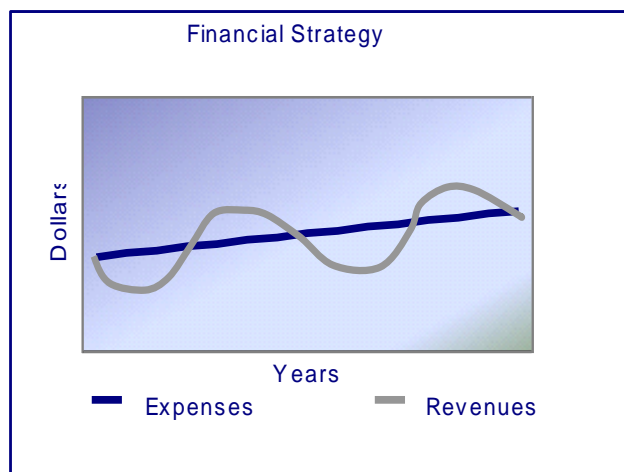
**Restricted-** includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. For the City, these typically include the fund balances of most other funds. For example the fund balance in the Circulation System Impact Fees fund is constrained by state legislation (AB1600) which sets forth specific criteria for collecting and expenditure of these funds. The use of the fund balance is restricted.

**Assigned-** includes fund balance amounts that are constrained for specific purposes by the City through formal action of the City Council and does not lapse at fiscal year end. These amounts typically include encumbrances or amounts that Council has formally set aside by resolution or contract.

**Unassigned-** includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds. These are funds that have not been earmarked for any specific purpose and are available for Council discretionary spending.

## WHAT IS THE CURRENT STATUS OF RESERVES?

The City first adopted a Financial Strategy in 1998 and the results of having such a plan are clear. Over the years, the overall strategy has consistently been to maintain a conservative outlook by putting aside reserves in good times and then using those reserves during down periods to achieve stable operations. By employing this cautious strategy in the past, the City has been able to remain fiscally stable during revenue fluctuations and increases



in operational costs. The City has used reserves along with other fiscal strategies to maintain services and ensure the City's long-term financial viability.

As of June 30, 2020, the General Fund reserve balance, excluding Sales Tax Measure F-14 activity, was about \$12 million. During the 2019-2021 budget process, Council continued to support using reserves annually to close the gap between projected revenues and expenses.

In addition to General Fund reserves, it is equally as important to understand which other accounts there might be within the City that are legally accessible to the General Fund in order to meet its operational needs. There are two other sources of potential funds that could be considered. The first is the internal service account replacement funds and the second is unspent funds transferred to the Capital Projects Fund for road replacement.

***Internal Service Account Replacement Funds*** - The City also has amounts set aside for replacement of vehicles, equipment, buildings and technology. The City has the legal right to transfer these funds back to the General Fund; however, it is not necessarily prudent to do so. Historically, the City has put away amounts annually so that as vehicles, computers, software and buildings become old and no longer function, the City has funds to replace them. These funds are legally available to transfer back to the General Fund; however, it does not change the time frame that roofs will have to be replaced or software will no longer be supportable. The City had just under \$8 million in unrestricted net position in the internal services funds as of June 30, 2020.

***Unspent Capital Project Road Funds*** – In past budgets, the City Council approved transferring City General Funds to the Capital Projects Funds for road projects. While many road projects were accomplished with the transferred funds, approximately \$230,584 of these funds remain unspent. They are a good source of matching funds for capital grants related to projects within the five year capital improvement program; however, they are also available to be transferred back to the City's General Fund if the Council chose to do so instead.

## WHAT SHOULD OUR RESERVES BE?

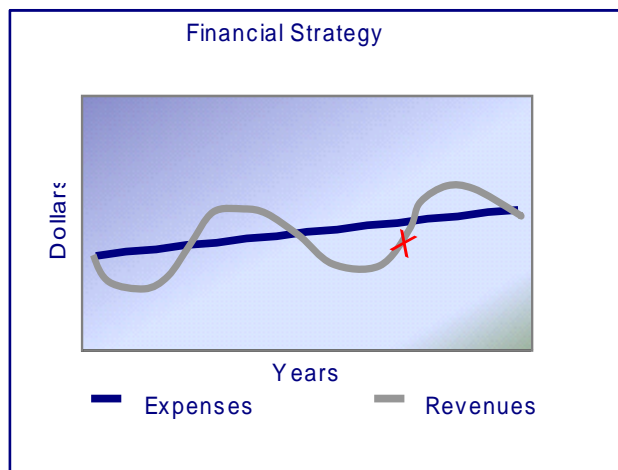
*The Adoption of Reserve Policies in California Cities* by Anita Lawrence asked "What is the amount of fiscally prudent reserve? How much would be enough to cover certain events and develop a sense of security for the organization and the community? At what level would the constituency begin to question it as too much? What is the risk tolerance of the organization and the community? What criteria should be used to make that decision?" There is no easy answer to these questions. Anita's research showed that "...if you asked 100 city finance professionals these questions, very few would provide the same mix of answers. The elements that are right for one city are entirely wrong for another."

The real question is: What is the right amount of reserves for the City of Atascadero, both at this point in time and for the foreseeable future? In order to formulate a reserve policy, it is important to answer the following:

1. State of the Economy
2. The level of diversity in General Fund revenues
3. The stability of the revenue base
4. Potential actions of State and Federal agencies
5. Cash flow needs
6. Costs of potential natural disasters and emergencies
7. Asset replacement requirements
8. The consistency desired in service levels
9. Available opportunities
10. Needs of future commitments
11. Interest income earned on reserves

### Measurement #1 – State of the Economy

In the City's reserve strategy, the largest driver of what should be done with reserves is the state of the economy. Are we in an economic boom?- if so we should be putting away reserves for a rainy day. Are we in a severe recession?- if so, we should be using those



reserves to stabilize services and the organization. Are we in a period of recovery?- if so we may still need reserves to stabilize services, but we need to be looking to the future to ensure that reserves will last. Are we in a stable period of flat growth?- if so, we should neither add to, nor use reserves. Our simple reserve strategy graph tells us what action we should take. So the question becomes, where are we on the graph? Is the economy booming, busting, recovering or somewhere in between?

Prior to COVID-19, the nation was in its longest expansion in history. Beacon Economics reported, based on their research and analysis of the data, that the pandemic-induced recession began at the height of the economy in February 2020, and then hit bottom in April 2020, and has been on the rebound since. It has been reported as the deepest and shortest cycle ever. Beacon Economics expects fairly rapid recovery, dictated, of course, by the speed at which the virus gets under control, both nationally and internationally. Beacon Economics indicates that there is a strong supply of pent-up demand that will likely drive consumer behavior.

In the quarterly UCLA Anderson Forecast (December 2020), Senior Economist Leo Feler anticipates that the strong housing market will help move the economy in a positive direction, and expects the housing market to remain strong through at least 2023.

Assessed property values in Atascadero grew 4.55% in fiscal year 2020/21 versus 2019/20. In addition, there is a substantial number of commercial and residential projects in the works, and once built out, will further increase the assessed valuation in the City. The median home price in San Luis Obispo County has continued to rise. The median home price was up 12% in October 2020 over the prior year. Record and near-record low mortgage rates have spurred the demand for homes amid limited supplies.

Sales volume is strong as well. In its November 2020 Central Coast Economic Forecast, Beacon Economics reported a year-over-year increase, as of September 2020 of 16% in volume of home sales in the county. San Luis Obispo County is projecting countywide current secured growth in assessed value of 4% for 2021/22 over the prior year.

The State Legislative Analyst's Office's (LAO's) 2021/22 California Fiscal Outlook indicates that the COVID-19 brought unprecedented disruption to the state's economy, but the economic impacts to the state were not as catastrophic as anticipated, and recovery has been relatively rapid though uneven. The LAO says the state's spike in unemployment was historic- the highest since the Great Depression- but was less than feared. Unfortunately, low-wage workers have borne most of the job losses during the pandemic. The LAO indicates that the drop in consumer spending in the spring was dramatic, but short lived and improved consistently each month between May 2020 and October 2020.

The LAO anticipated total state revenue collections from the state's largest three revenue sources- personal income, corporation, and sales taxes- would fall 15% from the prior year. However between August 2020 and October 2020, collections from these three taxes were 9% higher than the prior year. This is consistent with the unemployment data- stable employment among high-income earners and a rebound in investments held by wealthy Californians has led to continued state revenue growth. The LAO projects a one-time state revenue windfall in 2021/22 of \$26 billion, concurrent with an operating deficit beginning the same year, and then General Fund revenue growth of about 1% each year after that through 2024/25.

In the UCLA Anderson Forecast (December 2020) that focuses on California, the authors project that the recovery in California will be slower in the leisure, hospitality, and retail sectors, but faster in technology, residential construction, and logistics. They project real personal income for Californians to be down 1% in calendar year 2021 as the stimulus income concludes, and grow by 2.1% and 3.4% in 2022 and 2023, respectively. The stay-at-home orders and pandemic- and Zoom-fatigue are suspected to be creating enormous pent-up demand for human interaction and return to normalcy.

With the COVID-19 shut-downs, expectations were that sales tax revenue would be drastically reduced across the board. After all, the pandemic closed entire sales tax generating industries so vital for governments. Because unemployment primarily affected



lower wage service sector workers that produced a lesser share of total sales tax revenues, sales tax was not affected as severely as original anticipated. Employees that were able to keep their jobs and work from home found they had extra cash due to reduced commutes, cancelled travel plans, and few opportunities overall to spend money. Low interest rates and favorable lending practices allowed that extra money to be spent on previously put off items such as autos and home improvement.

The LAO forecasts a decrease in statewide sales tax revenue of -1.2% for fiscal year 2020/21 and -.08% for 2021/22. They then project increases of 2.8%, 3.9%, and 4.1% for the fiscal years 2022/23, 2023/24, and 2024/25, respectively. Alternatively, HdL has a more positive perspective on near-term sales tax projections. HdL is projecting a mild recovery statewide of 2.1% in fiscal year 2020/21. They expect a full recovery in fiscal year 2021/22, with steady growth through fiscal year 2025/26.

The bottom line is that current economic indicators, while significantly impacted by COVID-19, are steadily improving. Concerns continue to linger regarding a number of issues:

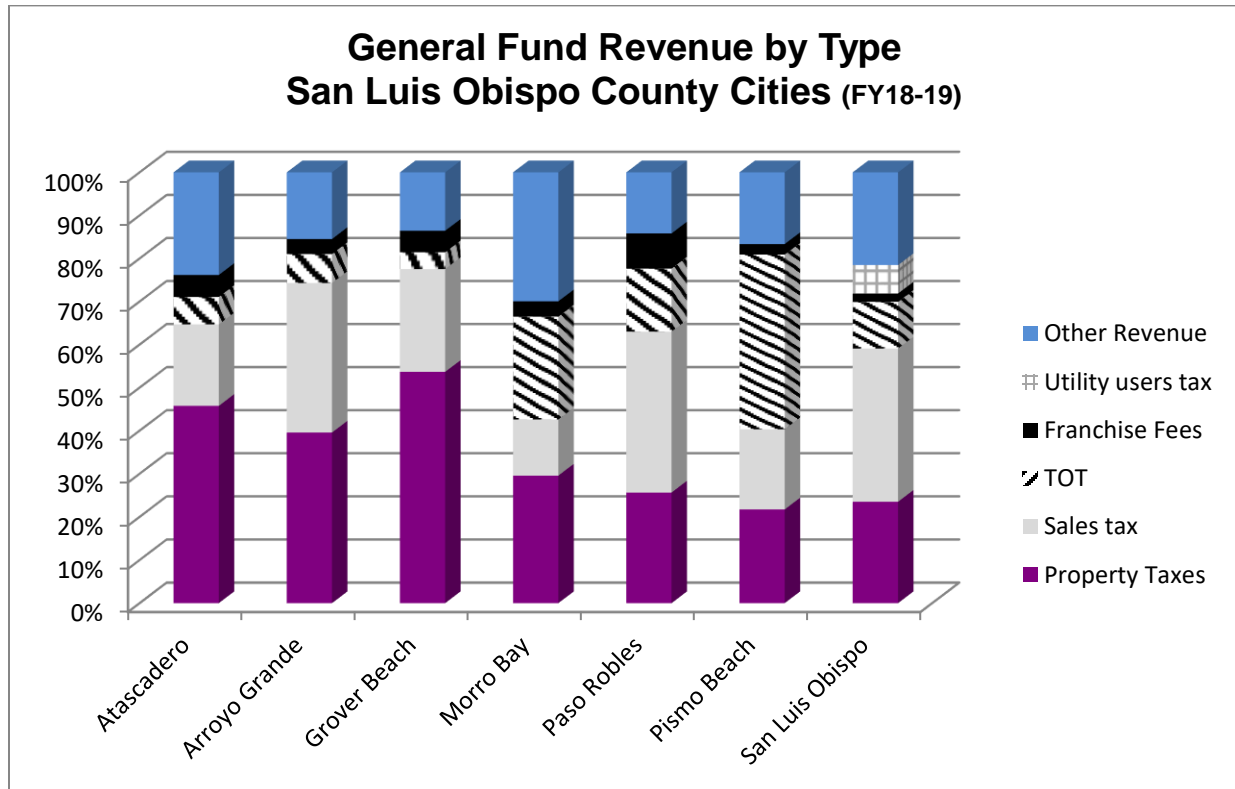
- If and when will the virus be under control?
- What changes are in store due to the new political leaders and administration?
- How will international travel and the trade policy impact the economy?
- Will the high cost of housing be a deterrent to labor force growth and limit business development?
- What is the impact of the closure of Diablo Canyon Nuclear Power Plant and how can it be mitigated?

Based on staff's current estimates, and excluding revenue from Sales Tax Measures F-14 and D-20, the City will still be using reserves in order to maintain service levels through fiscal year 2024/25. At that point, reserves would be 32.6% of General Fund expenditures. Continued monitoring and evaluation of the financial situation, reserves and reserve projections should continue to be used to ensure that reserve levels do not fall below the reserve minimum.

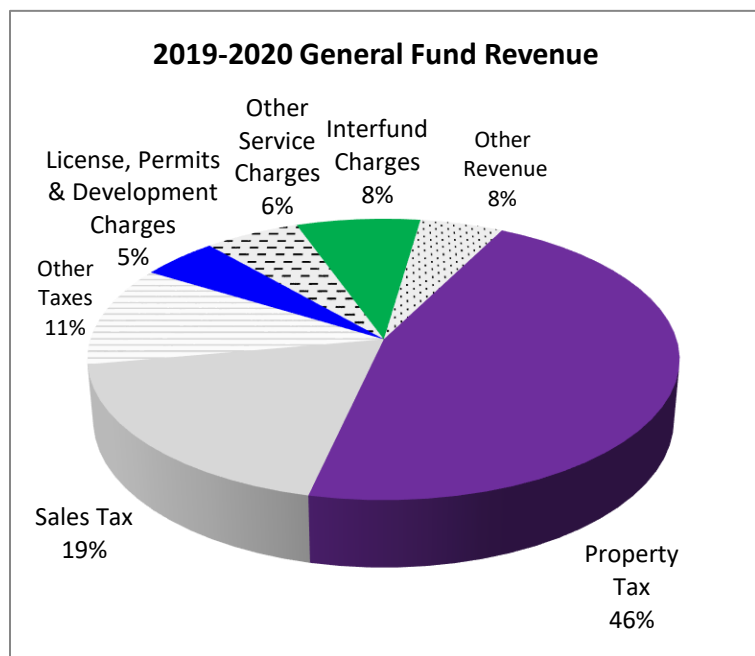
## Measurement #2 – Level of Diversity in General Fund Revenue

One measurement to quantify an appropriate level of reserves concerns how broad a range of General Fund revenues the City receives and what the future holds for such revenue. Some cities have a very broad range of General Fund revenues not associated with fees. For example, Pismo Beach and Morro Bay enjoy a large amount of transient occupancy taxes (hotel tax). Other cities, such as Grover Beach and San Luis Obispo, have a utility user tax. This is a percentage of the cost of all utilities used by citizens of those cities, including gas, electric, phone, cable TV, and even those cities' own utilities of water, sewer, and garbage.

This table shows General Fund revenue by type for Atascadero as compared to other cities in the county:



Cities with fewer sources of General Fund revenue will require a greater amount in reserves in order to successfully weather a downturn in one revenue area. This is true for the City of Atascadero. Property based taxes accounted for 46% of General Fund revenues in 2019/20, with sales tax accounting for an additional 19%. These two revenues sources alone account for 65% of the City's General Fund revenues. In the graph above, you can compare this to the revenue base for a city such as San Luis Obispo, which has a more diverse revenue base.



One reserve methodology dictates that reserve levels should be tied to the broadness of General Fund tax revenues sources. The greater number of revenue sources require fewer layers of reserves. Conversely, the fewer number of revenue sources require

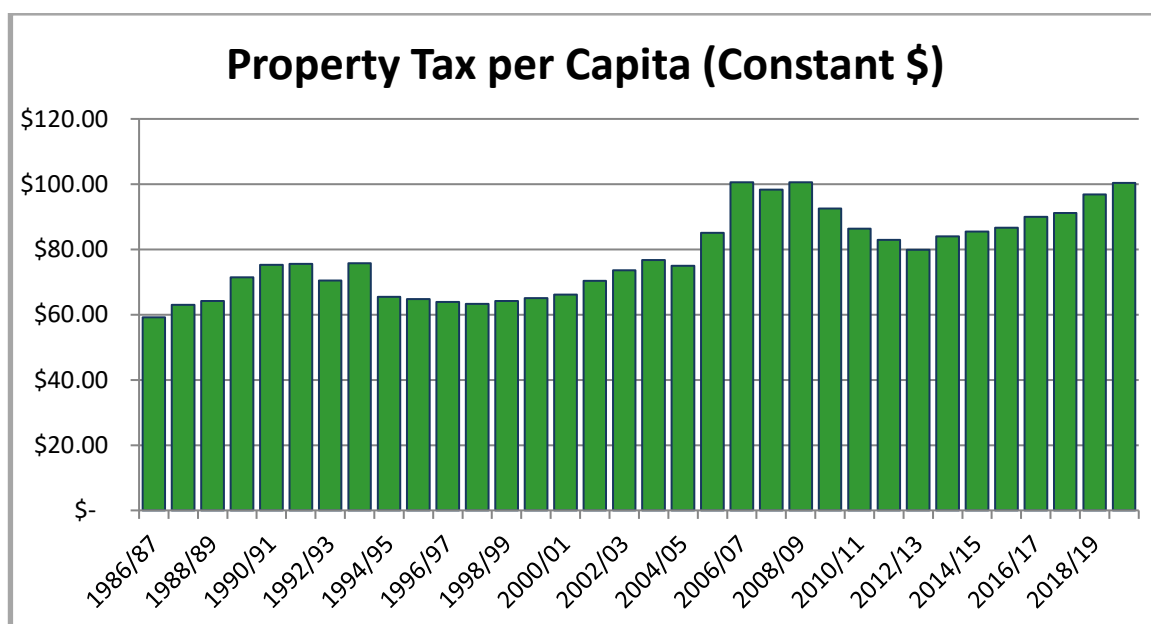
higher levels of reserves. As Atascadero's property tax and sales tax revenues comprise \$14.6 million of the \$23.4 million in General Fund revenues, the City is defined as having a narrow base of revenue-just two significant categories.

### Measurement #3 – Stability of Revenue Base

As discussed above, General Fund revenues (excluding Measure F-14 revenues) for fiscal year 2019/20 were \$23.4 million. Due to effects from COVID-19, sales tax and TOT revenue were abnormally low in fiscal year 2019/20. These reductions were partially offset by two one-time revenues (PG&E Settlement agreement in the amount of \$783,106 and CARES Act funds in the amount of \$123,706), included as "other revenue" for this discussion. In a typical year, about seventy-three percent of General Fund revenue (excluding Measure F-14 revenues) comes from taxes, with the balance coming from fees, grants, and other sources. The fees and grants pay for specific services or projects. To examine the tax base more closely, it is helpful to break it down further. Property tax usually comprises about 46% of the revenues, sales tax typically about 19%, TOT is generally about 6%, other taxes about 7%, development costs and other fees for services usually 13% and other revenues/interfund charges make up the remainder.

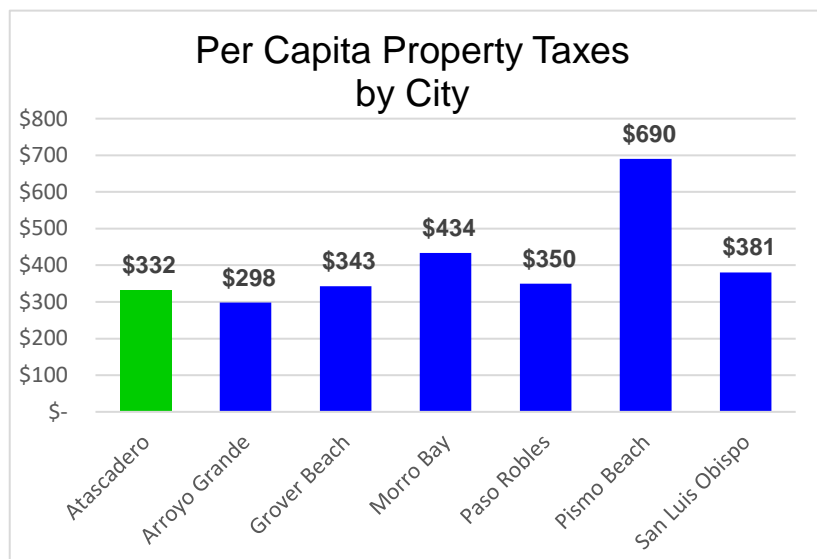
Property tax is considered to be one of the more stable sources of revenue. Historically the property tax revenues have two components: (1) a stable base that does not vary drastically from year to year and (2) a housing market expansion and correction component.

While there is a stable underlying base, this revenue does vary with the strength of the housing market. The table below shows property tax per capita on a constant dollar basis. The constant dollar smooths out changes for normal inflation so that we can see if we are better off than we were in 1987 or worse.



In California in the late 80's/early 90's and then again in the mid-2000's, the housing market did not follow normal inflation. Housing prices and new construction boomed, causing spikes in the property tax revenue base, followed by a smoothing or flat period. Overall the smooth or flat period of revenue is the stable portion of the revenue base and is what the City can count on year after year. The spikes are periods of boom where there are opportunities for the City to sock away reserves and address one-time fixes. It appears that the real estate market has generally corrected itself since the Great Recession, as we are seeing signs of strong residential demand in the properties. It is reasonable to assume that we are now again in the gentle growth period where the entire property tax base is considered very stable. There remains some question regarding the effect of the COVID-19 pandemic on real estate. While home sales dropped off early in the pandemic, demand for residential properties has recovered at the same time that supplies are limited. The effect on commercial property is yet to be seen. Some retail and restaurants are facing permanent closures and many workers have shifted from the commercial office to the home office. It is currently unknown how these changes will affect the value of commercial real estate.

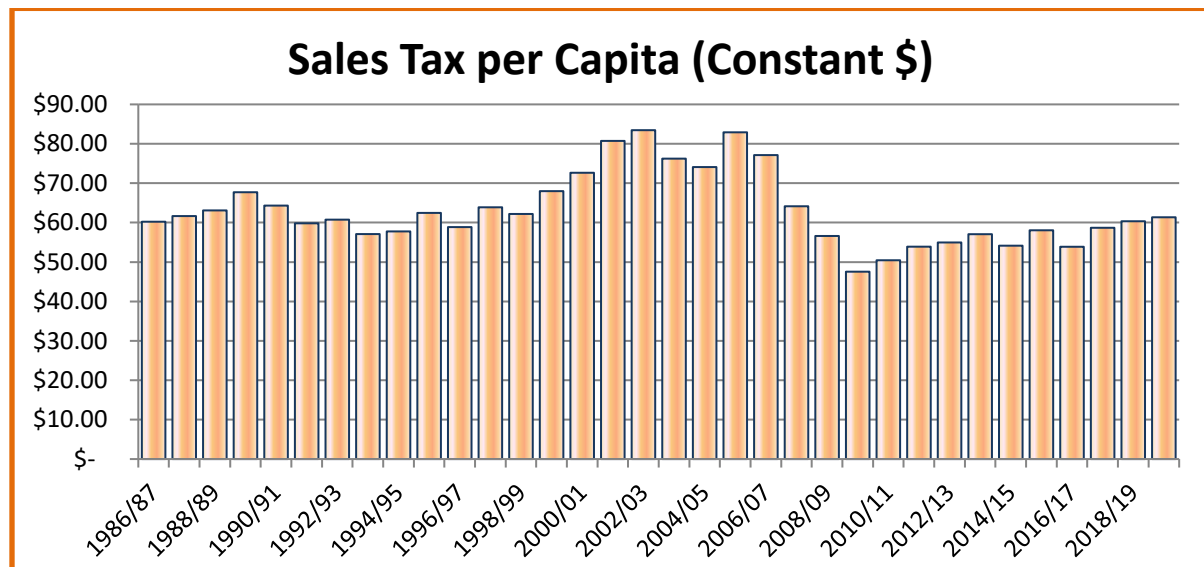
It is also interesting to compare Atascadero's property tax per capita with other cities in the county. The chart to the right shows that our community has the second lowest per capita property tax in the county. It is true that in this county, each city has its own unique characteristics which often make it hard to do comparisons. Even with that in mind, however, this chart does make one thing painfully clear. Atascadero has less



money per person to spend on essential functions such as public safety and parks that are critical to citizens of the community. In other words, the relative strength of our dollars per capita is not as good as that of our neighbors.

Sales tax is much more susceptible than property tax to fluctuations in the economy. During fiscal year 2019/20, 19% of General Fund revenues came from sales tax. There are over 1,100 business outlets that report sales tax within the City of Atascadero, however, the top 25 businesses account for about 49% of the sales tax revenue. The City's sales tax is currently heavily reliant on the continued health of the top 25 businesses listed in *Attachment B- HDL's City of Atascadero Sales Tax Update Q2 2020*.

The following chart depicts sales tax per capita, constant dollar, over the last 30+ years. Like property tax, it too shows evidence of the ebbs and flows of the market, but to a greater extent. Atascadero started experiencing an increase in this revenue after a new retailer came on line in fiscal year 2000/01, but then a sharp decrease with the loss of two new car dealerships. The good news is that the City is seeing overall growth, in good part due to the planned development throughout the City and the aggressive economic development policies of the City Council.



There are also a few external driving factors that influenced sales tax revenue in fiscal year 2019/20, and likely will for years to come. The COVID-19 pandemic has negatively affected the economy. Uncertainty, social distancing, stay-at-home orders, travel restrictions, and unemployment have all affected the purchasing patterns of consumers. Shifts have occurred throughout the economy's different business types; some getting hit hard and some seeing large gains. Industries such as fuel and service stations, dine-in restaurants, and general consumer goods saw decreases in sales, and other industries such as building materials, grocery stores, and fast-casual restaurants experienced increases. Overall, the pandemic had a negative effect on revenue, and will be an important factor to consider looking forward.

Offsetting the COVID-19 effect is the positive affect caused by Assembly Bill 147 (AB 147), also known as the *Wayfair Decision*. AB 147 requires that online retailers meeting a certain volume of in-state sales collect and remit sales tax on those sales effective April 1, 2019. In addition, AB 147 also compels "marketplace facilitators" to collect and remit sales tax on behalf of their sellers beginning October 1, 2019. Sales tax collections resulting from AB 147 are put into the countywide pool, and proportionately allocated to each agency. In fiscal year 2019/20, pool related sales tax revenue in Atascadero increased about 25% over the prior year and made up about 16% of the City's total Bradley-Burns sales tax revenue.



#### Measurement #4 – Potential Actions of Federal and State Agencies or Public Policy

When the State faced fiscal challenges in the early 1990's it simply transferred property tax revenues from cities and counties in effect to itself (known as the ERAF I & II shifts). In addition, the State reduced funding for counties, and in turn allowed counties to recoup these lost revenues by charging cities for services such as collection of property taxes and booking people into county jail. In the late 1990s, the State was in very good financial position and desired to give constituents a tax break. The State did this by reducing one City revenue (VLF) and promising to backfill it with a different one. Further, in 2012, in spite of the passage of two separate local revenue protection measures, the State eliminated Redevelopment Agencies.

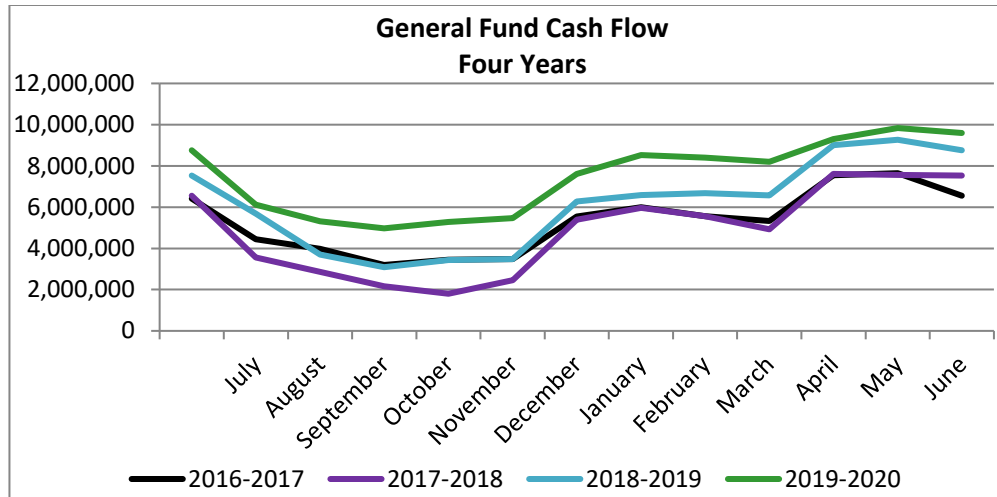
As a subdivision of the State, the City is still vulnerable to continued increased costs due to added regulations and shifting of costs. Unfunded mandates are becoming more typical and apply to regulations concerning water, storm water, housing, homelessness, pollution, employment, reporting/transparency, and law enforcement, just to name a few.

Additionally, propositions that are passed by the taxpayers can often have a fiscal impact on the City. Propositions 47 (2014) and 57 (2016) changed laws related to public safety and while these propositions reduce costs to the State Corrections system, they increase local law enforcement costs.

While the state is experiencing relatively improved financial health, the risk of State revenue raids is lower than it has historically been. However, the City's financial well-being continues to be vulnerable to political action.

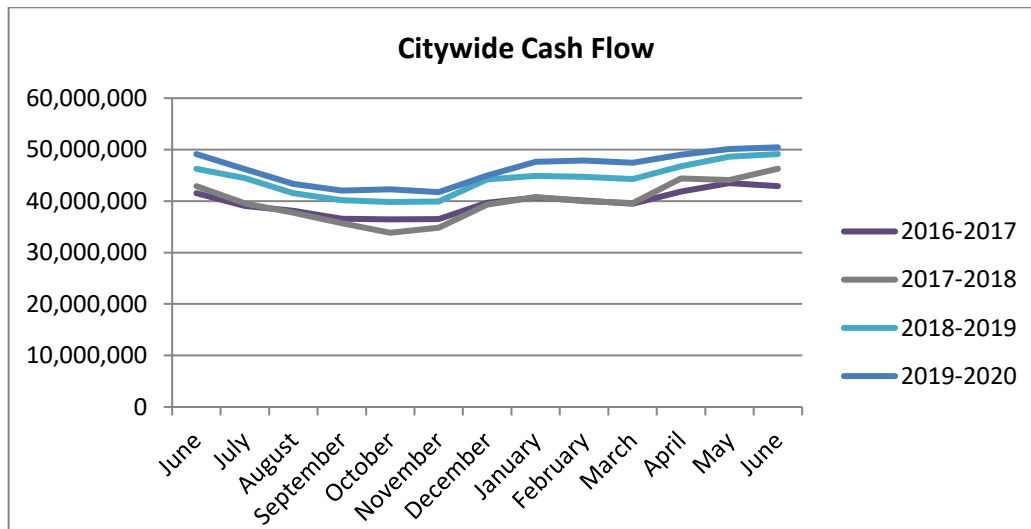
#### Measurement #5 – Cash Flows Needs

The cash flow needs of the City have a direct bearing on the amount of reserves needed. Unlike many private organizations and businesses with a steady cash stream, the City receives large portions of its annual revenues in chunks, twice a year. The fiscal year begins in July and ends in June. During the summer months, the City incurs more expenses for fire reserves, recreation programs, and capital projects than during other months of the year. However, the City does not receive its first fiscal year injection of property tax until late December, and then waits to receive the rest in late April. In other words, the City's general fund receipts go down from April through November while the City's disbursements go up during the same period.



At the current rate of continued use of General Fund reserves, the General Fund is not anywhere near having a negative cash balance. However, in the event the economy has another severe and prolonged downturn that further depletes the General Fund reserves, the City does have a couple of fairly simple options at its disposal.

1. The City overall does NOT have a cash flow issue. The cash and investments balance on hand at June 30, 2020 was about \$51.9 million and the lowest cash balance in the last 3 years was \$45.9 million.



The City's General Fund can borrow funds from other available funds within the City. The City has over 35 funds in total. Some funds, such as the internal service funds mentioned previously, are not restricted at all and may be loaned or transferred back to the General Fund at Council's direction. Other funds may have legal restrictions on how they can be spent. The restricted funds, however, may

be loaned to other funds as long as they receive at least the same interest as they would've received without the loan, and the loan does not interfere with the purpose of the funds (i.e. the monies are not slated to be spent prior to the payback period). The City does have many funds available to loan, especially for the very short period (2 – 3 months). As always, borrowing funds does not come without concerns. Prior to any borrowing, projections of incoming funds and the ability to pay back should be evaluated and assessed.

2. As of June 30, 2020, the General Fund had over \$273,000 in loans that it had made to other funds. Typically loans to other funds are made for expenditures purposefully made in advance of receiving the revenues. This may be for a grant, where the funds must spend funds first and then be reimbursed, or it may be for impact fees, where the Council decides to build a specific project now in order to benefit future development, and then collects the funds as development occurs. These loans have historically been from the General Fund as it has had available funds on hand. Council could determine that these loans would be more appropriate from different funds, thus paying the General Fund back its cash.
3. Historically, the City was one of many cities that issued Tax Revenue Anticipation Notes or TRANs to cover annual General Fund cash shortfalls. The TRANs were issued through the California Statewide Communities Development Authority. Because the TRANs were tax free issuances and the funds were needed for just a short period of the year, it was an opportunity for the City to cover the short period of negative cash, and earn interest on the funds for the rest of the year. The City was not allowed to participate in the TRANs issuance once it had positive General Fund cash flow throughout the year.

Ideally the City General Fund would have enough cash on hand to cover the annual cash ebbs and flows; however the City does have options for these annual fluctuations. A much harder look must be taken though, when the annual negative cash balance is no longer annual, but instead a long-term loan. It would not be consistent with Council's conservative fiscal policy to allow reserves to fall so low that interfund loans are not paid back within the fiscal year. While the current seven year projection does not anticipate such an occurrence, it is something that must be monitored.

#### Measurement #6 – Potential Natural Disasters or Emergencies

Atascadero is subject to potential natural disasters including earthquakes, floods, fires, major auto and train accidents, and hazardous materials spills. Pandemic should now be added to the list of emergency situations. The 2003 San Simeon Earthquake, the 2017 storms, and the COVID-19 pandemic are all proof these events can and will occur in Atascadero. City staff are well trained in responding to emergencies and meeting the needs of the community. Any natural disaster or emergency will undoubtedly cause unbudgeted expenditures, fortunately however, in the event of a declared disaster, agencies such as FEMA and CalOES provide assistance to help the City recover. The funding received from these agencies are reimbursement funds; in other words, the City

spends the funds and then requests reimbursement. The City was recently reimbursed about \$371,000 in CARES Act reimbursement funds for expenditures related to the response to COVID-19. In the event of a disaster or emergency, the number one priority of the City must be to respond to the emergency and protect the community. When looked at as a whole, the City has ample cash on hand to respond to an emergency until assistance funds could be received. It may mean once the emergency is over and the accounting done, that the General Fund cash was negative and it had to borrow from other funds, but the Council's higher priority to ensure the safety of its citizens was attained.

The City is fully insured against property damage and liability claims. Additionally, Atascadero is very aggressive in applying for all applicable grants, when available, particularly to pay for the cost of responding to emergency situations.

#### Measurement #7 – Asset Replacement Requirements

The City of Atascadero owns large amounts of assets that have lives longer than a year such as buildings, infrastructure, technology, and vehicles. Council began back in the late 1990's putting money into the reserves for many of these items so they could be replaced as needed. While not all of these assets reserves are fully funded, many of those that most directly affect community service levels have been funded. These include technology and vehicles. Asset replacement reserves have been evaluated in Section 4 of this report. See Section 4 for more detail on this subject.

#### Measurement #8 – Service Level Consistency

Another issue to consider is how important it is to the organization and residents that services levels are consistently maintained. Looking back more than two decades ago, this was a key concern. A less fiscally conservative policy was in effect during that time, and when the economy became sluggish, reserves were insufficient to carry the City through the tight times. Services were cut. Many families had to seek alternate sources for youth recreational activities. Parks and Public Safety services were at a bare minimum. Employees were laid off. The few employees that remained to run the City were overworked and frustrated. Morale was at an all-time low. Recruitment during the recovery period was difficult at best.

Fortunately, as the Council put the fiscal sustainability policy in place, things began to turn around. This strategy of putting aside reserves in good times and then using those reserves during down periods to achieve stable operations has allowed the City to maintain fairly consistent operations. Instead of burdening the ongoing operations budget with significant new purchases and programs when times were good, the Council kept level heads and tucked away some extra funds. As the economy started to turn south, instead of cutting programs and staff to uncomfortable levels, Council was again able to maintain services to the public by utilizing some of the reserves that were saved up. The

ability to maintain level and consistent services is important to consider when evaluating reserve levels.

Maintaining a service level consistency is even more of a delicate balance when there is an expansion of revenue due to growth in the economy or a new revenue source such as the new Sales Tax Measure D-20. The wants of the citizens, employees and other constituents are immediate. Over the years with very constricted revenues, people understood why services may have been somewhat minimized. Now that the economy is expanding and there is a new revenue source, it is a natural reaction to want service levels to improve. Things are better; the City is receiving more revenue, so services should be better. However, the cornerstone of the fiscal policy is to set aside money in good times for use in bad times so that service levels remain constant. This means that in the bad times, while the City did cut back where possible, in most areas, the service levels remained constant. In addition, many “hidden” expenses were going completely unfunded. The City was providing services at a level higher than revenues could afford, and budgets didn’t allow to put funds away for replacement of assets like storm drains, equipment, and buildings. Consistent with the Council’s Fiscal Strategy, the City was using, and continues to use in the current fiscal year, reserves to maintain service levels. In order for this strategy to work, the City has to continue to maintain flat service levels during the periods of revenue growth. While the next few years will bring higher revenues, there is a much higher level of need than there are revenues. The reserve policy will be even more difficult to adhere to as public pressure mounts to increase service levels and being new programs, however the current service levels are already at the top end of what the City can afford in the long run.

#### Measurement #9 – Available Opportunities

Previous Councils have wanted the flexibility to take advantage of opportunities as they arose, and used reserves at times as a tool to achieve such goals. Beginning with the economic downturn and since then, the focus was directed not at new programs or services, but ways to improve and streamline existing programs and services to better serve the public and attract businesses and visitors in an even more efficient manner. Available reserves can be used for these opportunities. Alternatively, if it makes fiscal sense, financing can be another option to achieve identified goals or pursue opportunities.

#### Measurement #10 – Needs of Future Commitments

It is important to consider the City’s future commitments when discussing reserves. The City has made financial obligations that will affect future budget cycles. One example is CalPERS and the City’s Unfunded Accrued Liability (UAL). Cal PERS board decisions affect the cities without much recourse. The Cal PERS board decision to reduce the discount rate to 7% over three years has had pronounced financial implications for all cities. It is highly likely that CalPERS will make similar decisions in the future that will affect the level of City funding required.



The City continues its commitment toward the Council's three priority goals, and has built the 2019/21 budget cycle around these goals:

1. Leverage place-making in the commercial areas for long-term economic development
2. Ensure comprehensive safety readiness and risk mitigation
3. Foster financial sustainability

#### Measurement #11 – Interest Income Earned on Reserves

The City's reserve policy is in place to provide guidelines for the prudent investment of the City's temporary idle cash. Investing the City's temporary idle cash to earn interest income will enhance the economic status of the City. Reserves provide an opportunity to further increase investment income for the City that will fund important services to residents.

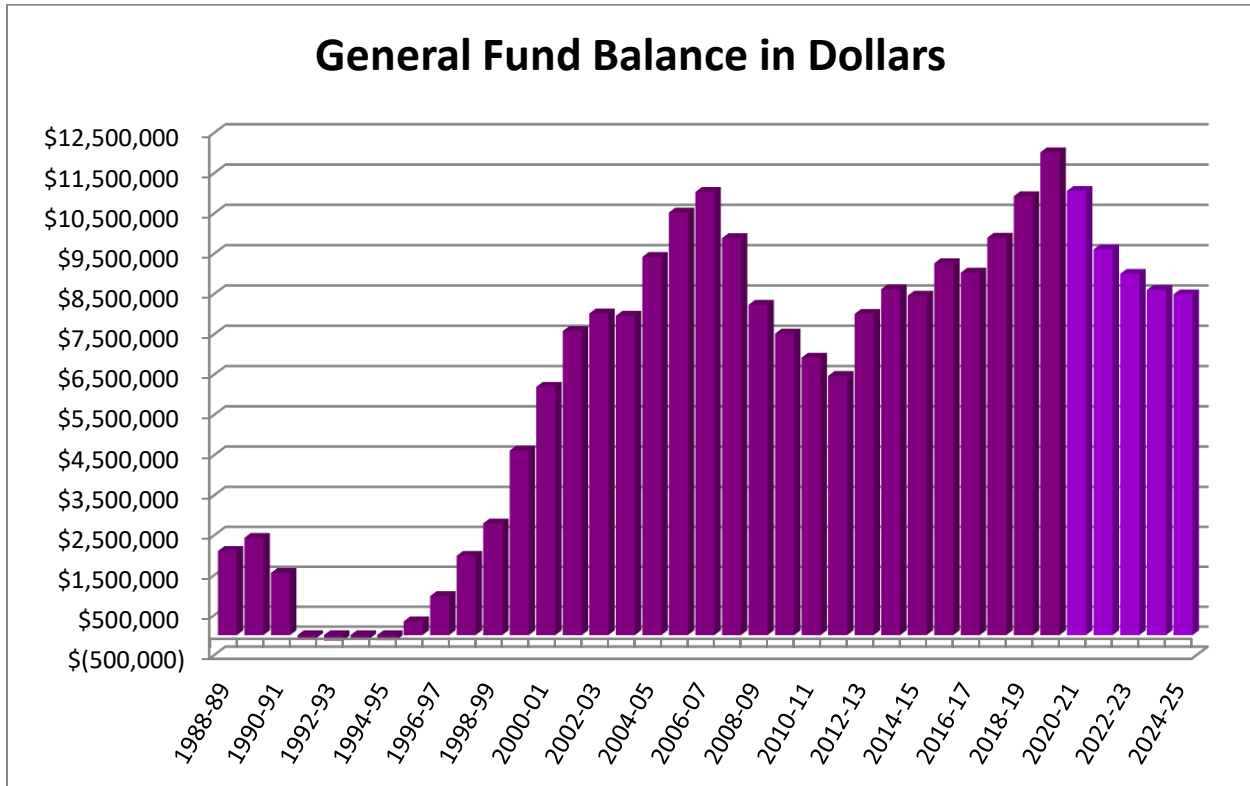
#### Looking at the Big Picture

Eleven criteria have been analyzed in order to ascertain what constitutes a prudent reserve for the City of Atascadero. While each of these is an important measurement, they should not be looked at individually but instead as a whole. They must also be considered within the framework of the financial picture for the entire organization rather than just the General Fund.

If each reserve was to be considered individually, it might be recommended that the City reserve 10% of sales tax in case a major sales tax provider closes its doors, plus three months' worth of expenditures for natural disasters, plus \$4 million for annual cash flow needs, plus \$2 million on hand just in case an opportunity comes up, etc. Each item listed is an individual event, and, in theory, could all happen at the same time, but the risk of that happening is minimal. It would be irresponsible to the residents to keep the cumulative amount of what would otherwise be prudent individual reserves. These are funds that could be used to fund City services. Instead, as looked at above, it is sensible to analyze each potential use of reserves and determine what risk and use level is acceptable to the City and what other options are available.

As of June 30, 2020 the City's General Fund had a reserve balance (excluding Sales Tax Measure F-14 funds) of \$12 million. This represents a healthy 54% of General Fund expenditures. The reserve levels are very consistent with the financial strategy set by the City Council.

The General Fund reserve balance in dollars is depicted in the following graph:



The financial policy has worked for the City in the past, and if we stick to it, it appears that it will work through this next financial planning horizon. Current projections show that using current assumptions and strategies in place, reserves will fall to a low of \$8.5 million. During this outlook period, reserves as a percentage of General Fund expenditures do not dip below 32%. This is well above 20% that the Council has set as the “norm” in our historical financial strategy. In prior strategic planning sessions, the Council agreed that it was critical to maintain service levels and felt that it was prudent to cut a little bit deeper into reserves with the mindset to turn to building reserves again as soon as possible. It is important that as we continue to recover from the pandemic-induced recession that the organization is intact and ready to take advantage of opportunities including those that will come with Sales Tax Measure D-20 revenue. The general financial plan laid out in the Seven Year Projection ensures that we are not borrowing against our future and that there are sufficient reserves on hand to address the needs of the City throughout this downturn and recovery.

## Summary

It is important that the City maintain an appropriate level of reserves. The fiscal strategy has been an effective tool to keep the City in a respectable financial position. Council has agreed that reserves should not drop below 20% of General Fund expenses.

Through careful planning and many years of belt tightening through the worst of it, this continues to be an achievable goal. While it will continue to be a slow and steady climb toward increased revenues, overall the City is in a respectable position. Staff will continue to monitor actual figures as they come in and compare them to the projected numbers. With consistent monitoring, the Council has been, and will continue to be, alert and effective leaders guiding the City toward future abundance.

# ***Atascadero***

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## ***Comprehensive Financial Strategy February 2021***

### ***Section 6- Policies***

## **Review of Fiscal Policies**

The budget document allocates City resources such as personnel, materials, and equipment in tangible ways to achieve the general goals of the community. It is prudent, therefore, for the City to have in place fiscal policies and practices to guide the City Manager and City Council through the budget decision-making process. These policies and practices are:

### **Operational Efficiencies:**

- ◆ Implement and practice ongoing operational efficiencies to the extent reasonable;
- ◆ Enter into joint operating arrangements with other organizations so as to provide services more cost effectively;
- ◆ Continue the use of valuable volunteers.

### **Staffing:**

- ◆ Continue to have the Department Head team evaluate key personnel needs of the City. A supplemental request is submitted by each Department Head for staffing needs within the department, and these are evaluated, discussed and prioritized. Tough decisions are made as part of the budget process based on Council priorities, safety concerns, and work volume changes;
- ◆ Utilize private contractors when the same or higher level of service can be obtained at lower total cost;
- ◆ Utilize consultants and temporary help instead of hiring staff for special projects or peak workload periods.
- ◆ Attract and retain competent employees by providing a professional work environment, competitive salaries, safe working conditions, and adequate training opportunities;
- ◆ Base salary increases on individual merit and job performance levels;
- ◆ Strive toward maintaining above competitive compensation packages in order to recruit and maintain the best and the brightest;
- ◆ Work toward adequate staffing for the service levels being provided;
- ◆ Be aware of and plan for state, federal and OSHA mandates which might have an effect on staffing levels;
- ◆ Be aware of, monitor and avoid the “hidden” costs of employee turnover, burnout, and stress due to overwork;
- ◆ Look for staff-level streamline opportunities and reductions in areas where there will be minimal impacts to citizens, thus “freeing” employee time.



### **Education and Communication:**

- ◆ Dissemination of important financial information to staff through City Manager roundtables, meetings, emails, and other means of communication;
- ◆ Encourage employee ideas for efficiency, reduction in costs, or increases in revenues;
- ◆ Provide Council and public with information regarding the City's financial outlook through both the audit and budget process, and continue to update with any changes that occur.

### **Economic Development:**

- ◆ Provide a climate that encourages healthy commercial areas that capture more of the purchasing power of the community and creates more destination commercial activities to capture regional money;
- ◆ Aggressively pursue new developments and businesses which are consistent with the community's quality of life and add to the City's economic base, particularly those that generate sales tax revenue or provide head of household jobs;
- ◆ Promote a mix of businesses that contributes to a balanced community;
- ◆ Continue to improve programs to enhance and retain existing businesses;
- ◆ Continue the promotion and tourism programs as a key component of the economic development strategy.

### **Community Development:**

- ◆ Ensure that adequate funding is in place to provide essential services to new residents without diluting services for existing residents by:
  - Supporting the Community Facilities District to fund the addition of the necessary police, fire and parks personnel needed to provide services to these new residents;
  - Continuing to the fullest extent possible to annex projects into the Community Facilities District, by requiring all residential projects that consist of five or more residential units to annex into the Community Facilities District;
  - Discontinue the use of Assessment Districts in lieu of Homeowner's Associations or other similar mechanisms required of new development to provide ongoing revenue source for the maintenance of development-related infrastructure. These Homeowner's Associations or other mechanisms would be privately managed to avoid City staff time otherwise required of mechanisms such as Assessment Districts.
- ◆ Require that new growth pay for the expansion of facilities and infrastructure necessary to serve the expanding population;
- ◆ Plan community growth with service and maintenance funding requirements in mind.

**Infrastructure:**

- ◆ Fully fund technology replacement funds;
- ◆ Work toward fully funding vehicles, equipment, buildings, and other infrastructure;
- ◆ Continue to determine and implement strategies to reduce the current backlog of deferred maintenance projects;
- ◆ Provide sufficient routine maintenance each year to avoid increasing the deferred maintenance backlog;
- ◆ Determine a maintenance plan and funding strategy prior to the construction, improvement or acceptance of new infrastructure.

**New Services:**

- ◆ New or expanded programs should only be implemented when a new funding source has been developed or when an equal or greater cost program has been eliminated;
- ◆ Require agreements for specific services and monitor effectiveness on an ongoing basis.

**Construction of New Facilities:**

- ◆ Plan for new facilities only if construction and maintenance costs will not negatively impact the operating budget.

**Cash Investment:**

- ◆ Follow adopted Investment Policy guidelines for the prudent investment of City funds not required for the immediate needs of the City;
- ◆ Maximize the efficiency of the City's cash management system;
- ◆ Enhance the economic status of the City while protecting its pooled cash.

**Fiscal Management:**

- ◆ Maintain appropriate reserve levels;
- ◆ Consider the long-term and the short-term when making financial decisions;
- ◆ Continuously monitor operations and make adjustments as necessary;
- ◆ Take full advantage of opportunities to receive reimbursement funding at maximum rates possible;
- ◆ Generate additional revenue by marketing City services to other agencies on a contract basis;
- ◆ Maximize revenues by utilizing grants from other agencies to the fullest extent possible;

- ◆ Charge fees for services that reflect the true cost of providing such services and to review fee schedules on a regular basis;
- ◆ Fully account for the cost of enterprise operations to avoid any subsidy by the General Fund and to charge all enterprise funds their fair share of the cost of City support services;
- ◆ Maintain accurate accounting records to keep the City Manager, City Council and public informed of the financial condition of the City at all times;
- ◆ Think outside of the box to achieve revenue opportunities that wouldn't otherwise exist;
- ◆ Consider partnerships and taxing opportunities when appropriate.

## **Conclusion**

The policies and practices listed in this section have been practical guides toward a consistently healthy fiscal condition. The importance of these and a well-defined financial strategy to anticipate and conquer difficult issues cannot be understated. The responsibility to maintain a strong organization is shared community wide, but as the City Council and City employees, we agree to be the leaders in this effort. Council has shown integrity in the decisions made to maintain the conservative fiscal strategy. When resources are tight and needs are plenty, it is difficult to commit to saving some of those precious resources for the future. Those reserves are most appreciated now as the City continues to recover and expand revenues. Certainly, the fiscal strategy is working. The recovery is slow and steady, given the economic conditions over recent years. Decisions will continue to be difficult, especially as public pressure continues to build to increase one-time and on-going spending. The fiscal strategy has provided the option to keep operations and service level stable and continues to provide the City with a sustainable future.

### **ATTACHMENTS:**

*Attachment A- The State Legislative Analyst's Office's (LAO's) California's Fiscal Outlook, November 2020*

*Attachment B- HDL's City of Atascadero Sales Tax Update Q2 2020*

*Attachment C- HDL's California Forecast: Sales Tax Trends and Economic Drivers, September 2020*

*Attachment D- UCLA Anderson Forecast, California, December 2020*

# ***Atascadero***

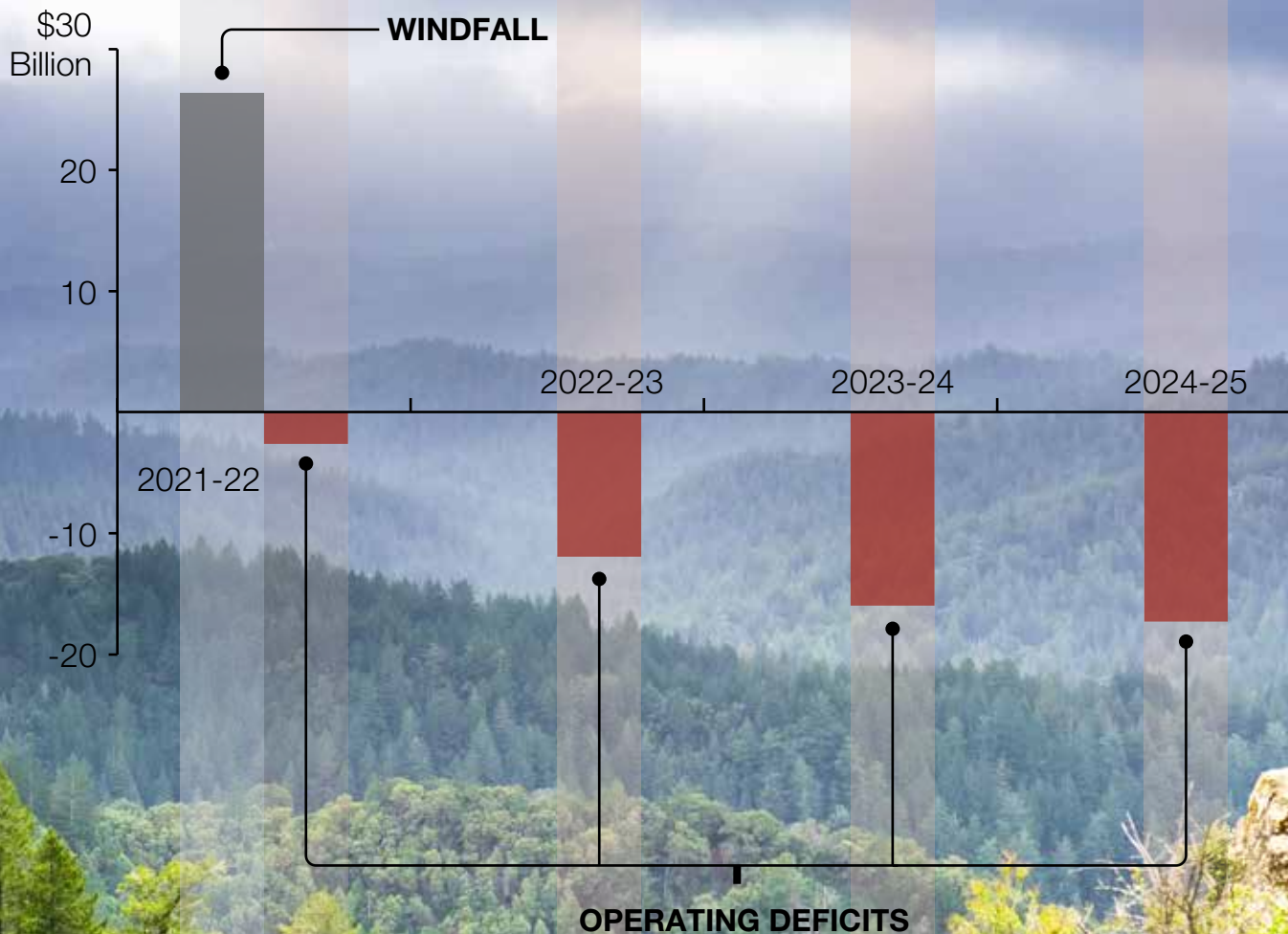
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## ***Comprehensive Financial Strategy February 2021***

### ***Attachment A:***

*The State Legislative Analyst's Office  
California's Fiscal Outlook, November 2020*

# The 2021-22 Budget: **California's Fiscal Outlook**







# Executive Summary

**State Economy Has Undergone Rapid but Uneven Recovery.** Although the state economy abruptly ground to a halt in the spring with the emergence of coronavirus disease 2019, it has experienced a quicker rebound than expected. While negative economic consequences of the pandemic have been severe, they do not appear to have been as catastrophic from a fiscal standpoint as the budget anticipated. But, the recovery has been uneven. Many low-income Californians remain out of work, while most high-income workers have been spared.

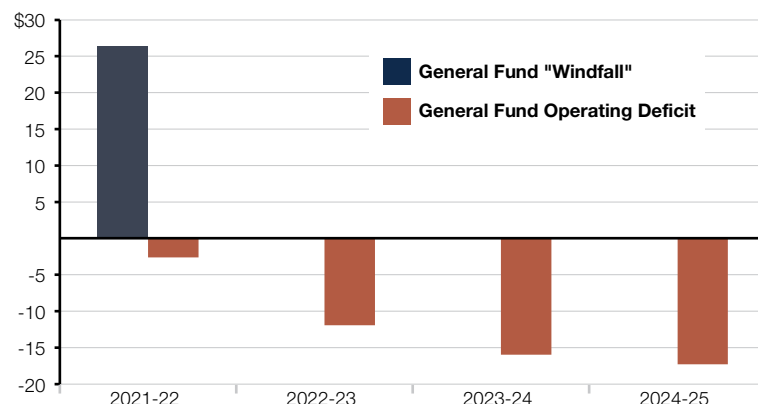
**Recent Data on Tax Collections and Expenditures Consistent With Economic Picture.** Recent data on actual tax collections and program caseloads have been consistent with a more positive economic picture, especially among high-income Californians. For example, between August and October, collections from the state's three largest taxes so far in 2020-21 have been 22 percent (\$11 billion) ahead of budget act assumptions. Simultaneously, data on new applications for safety net programs, like Medi-Cal and CalFresh, in the first few months of 2020-21 show that new applications for these programs have been below 2019-20 levels.

**Estimated Windfall of \$26 Billion in 2021-22...** Under our main forecast, we estimate the Legislature has a windfall of \$26 billion to allocate in the upcoming budget process. This windfall—or one-time surplus—results from revisions in prior- and current-year budget estimates and is *entirely* one time. Current unknowns about the economic outlook create an unprecedented amount of uncertainty about this fiscal picture. Our analysis suggests revenues easily could end up \$10 billion or more above or below our main forecast in 2021-22. Over the budget window, the cumulative effect of these revenue differences means the windfall is more likely than not to lie between \$12 billion and \$40 billion.

**...But State Also Faces an Operating Deficit Beginning in 2021-22.** Under our main forecast, General Fund revenues from the state's three largest sources would grow at an average annual rate of less than 1 percent. Meanwhile, General Fund expenditures under current law and policy grow at an average 4.4 percent per year. The net result is that the state faces an operating deficit, which is relatively small in 2021-22, but grows to around \$17 billion by 2024-25 (see figure).

**Budget for Schools and Community Colleges Is More Positive.** The budget picture for schools and community colleges is more positive—the minimum funding level required by Proposition 98 (1988) is projected to grow more quickly than school and community college programs. A new statutory requirement to provide

**Under Main Forecast,  
Operating Deficits Grow Over Multiyear Period**  
(In Billions)



LAO

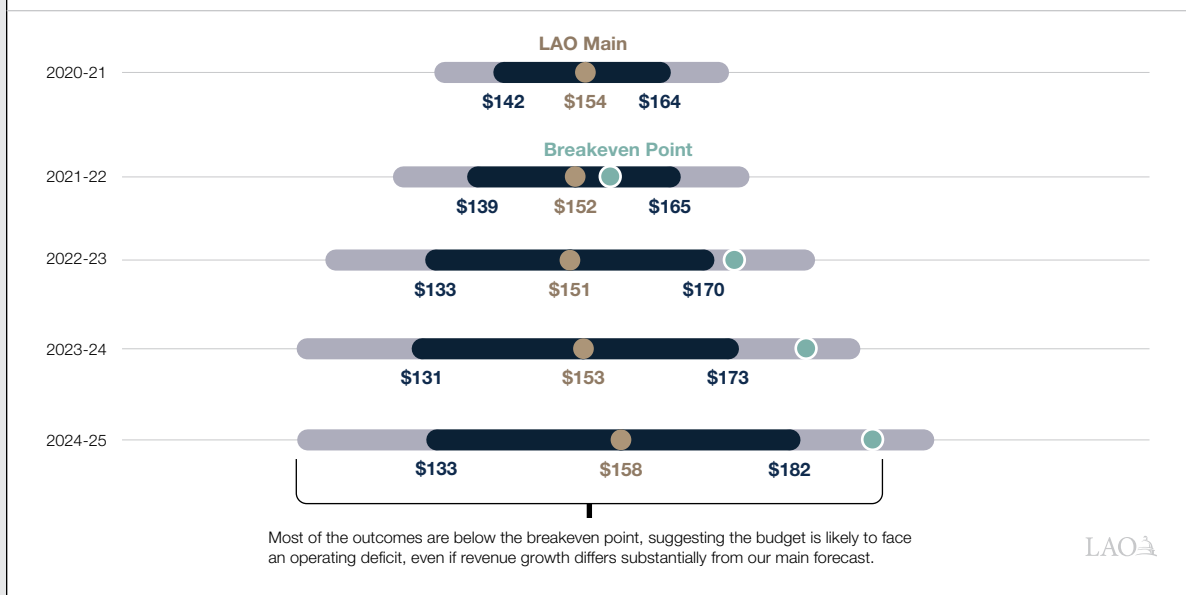
supplemental payments on top of the minimum level makes even more funding available for schools and community colleges but contributes to the state's operating deficit.

**What Revenue Level Would Balance the Budget?** We also estimate how much faster revenues would need to grow in order to erase the operating deficit. Revenues would need to beat our expectations by \$5 billion in 2021-22 and \$35 billion in 2024-25 for the budget to break even. The figure below shows where the breakeven point falls in our likely range of revenue outcomes. The bulk of likely outcomes are below the breakeven point, suggesting the budget is quite likely to face an operating deficit under current law and policy.

### How Likely Is the Budget to Break Even?

#### General Fund Revenue (In Billions)

The shaded regions on this graph show our estimates of how much revenues might differ from our **main forecast**. Our estimates suggest revenues are more likely than not to be in the **inner shaded area**. Revenues in the **outer shaded area** are less likely. Revenues beyond that are very unlikely. The **breakeven point** shows the amount of revenue needed for the budget to stay balanced without further solutions.



**Comments and Recommendations.** We conclude the report with our comments and we recommend the Legislature:

- **Restore Budget Resilience.** We recommend the Legislature use half of the windfall—about \$13 billion—to restore the budget's fiscal resilience. For example, the Legislature could make an optional deposit into a state reserve, like the Safety Net Reserve, to help maintain services when demands on the state's safety net programs increase.
- **Address One-Time Pandemic Needs.** The significant windfall provides the Legislature with an opportunity to develop a robust COVID-19 response that was not feasible when facing a \$54 billion budget problem in the spring. We recommend the Legislature use the other half of the windfall—about \$13 billion—on one-time purposes, focusing on activities that mitigate the adverse economic and health consequences of the public health emergency.
- **Begin Multiyear Effort to Address Ongoing Deficit Now.** The budget cannot afford any new ongoing augmentations. Moreover, we recommend the Legislature use the 2021-22 budget process to begin to address the state's ongoing deficit through spending reductions or revenue increases. The significant budget windfall in 2021-22 buys the Legislature time to enact or phase-in changes over the longer term.

## INTRODUCTION

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Each year, our office publishes the *Fiscal Outlook* in anticipation of the upcoming state budget process. In this report, we provide our assessment of the state's fiscal situation for the budget year and over a multiyear period.

The fiscal situation has continued to rapidly evolve since the beginning of the coronavirus disease 2019 (COVID-19) pandemic earlier this year. As such, the first section of this report describes how the budget situation has changed since lawmakers passed the *2020-21 Budget Act* in June.

In the second section of this report, we aim to help lawmakers understand whether—and to what extent—the budget has sufficient resources to fund government services authorized under current law (at both the state and federal levels). We address this issue both for the upcoming fiscal year and over the longer term.

We conclude the report with our comments on the state's fiscal condition and our recommendations for the Legislature as it begins constructing the 2021-22 budget. Throughout this report, our analysis depends on assumptions about the future of the state economy, its revenues, and its expenditures. Consequently, our analysis and conclusions are not definitive, but rather reflect our best guidance to the Legislature based on our current professional assessment.

## WHAT HAS HAPPENED SINCE THE BUDGET PASSED?

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### Economy

**Rapid Rebound Results in Incomplete, Uneven Economic Recovery.** The COVID-19 pandemic has been an unprecedented disruption to California's economy. In the spring, the economy abruptly ground to a halt: millions of Californians lost their jobs, businesses closed, and consumers deeply curtailed spending. Almost as quickly, Californians began to adjust to the realities of the pandemic. With this adjustment, and accompanying major federal actions to support the economy, came a rapid rebound in economic activity over the summer. This recovery, however, has been incomplete and uneven. Many low-wage, less-educated workers remain out of work, while few high-wage, highly educated workers have faced job losses. Certain sectors—such as leisure and hospitality—remain severely depressed, while others—such as technology—remain strong. Reaching full recovery will be a slow process that will depend heavily on continued progress on management and treatment of the virus. Below, we highlight a few key economic developments with particular importance to the state's fiscal situation.

**Spike in Unemployment Was Historic, but Less Than Feared.** This spring, the state's unemployment rate peaked at 16 percent—the highest since the Great Depression. Despite this surge, unemployment fortunately did not reach the 25 percent rate assumed by the *2020-21 Budget Act*. The unemployment rate has since improved, but remains at 11 percent as of September—a level comparable to the Great Recession. Low-wage workers have borne most of the job losses during the pandemic, as workers earning less than \$20 per hour (slightly below the state average) make up the vast majority of job losses as of September. In contrast, employment among workers earning over \$60 per hour remains at pre-pandemic levels.

**Drop in Consumer Spending Was Very Large, but Short-Lived.** The spring job losses coincided with a dramatic drop in consumer spending. One measure of consumer spending in California was roughly one-third lower in April than immediately before the pandemic. Spending has since rebounded, improving consistently in each month between May and October. As of October, spending had risen to within roughly 10 percent of pre-pandemic levels.

**Stock Market and Technology Sector Doing Particularly Well.** Like other parts of the economy, stock markets experienced a rapid decline and recovery earlier this year. Unlike most areas of economic activity,

however, stock prices have seen such a dramatic rebound that they have reached historic highs. A key driver of rising stock prices has been the continued success of many companies in the technology sector—including several headquartered in California—throughout the pandemic.

## Revenues

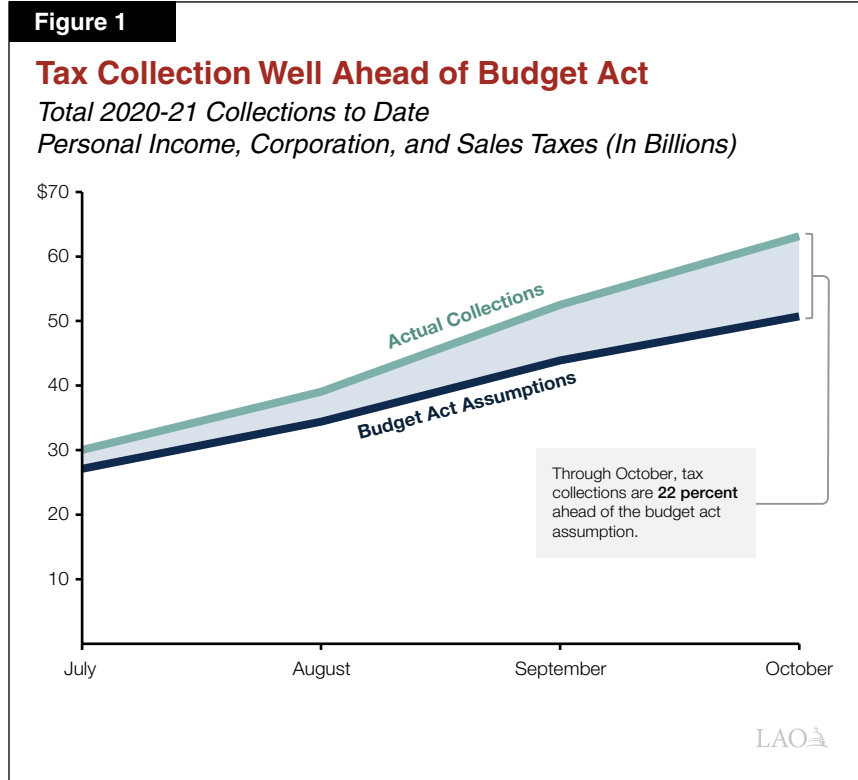
***Tax Collections Have Been Much Better Than Anticipated.*** The budget act assumed the state would face a historic revenue decline in 2020-21. In particular, it anticipated total collections from the state's three largest taxes—personal income, corporation, and sales taxes—would fall 15 percent from the prior year. Actual collections in recent months, however, have been much better than anticipated. Between August and October, collections from the three largest taxes were 9 percent higher than the prior year. As a result, actual collections so far in 2020-21 are 22 percent (\$11 billion) ahead of budget act assumptions, as can be seen in **Figure 1**.

***Higher-Than-Expected Collections Consistent With Economic Picture.*** At first blush, strong tax collections may seem at odds with widespread unemployment and the continued struggles of many businesses. These strong collections, however, are consistent with the relatively good economic outcomes experienced by high-income Californians, who account for a large share of state tax payments. Stable employment among high-income earners and a rebound in investments held by wealthy Californians has led to continued growth in tax payments from these taxpayers.

## Program Caseload

***Safety Net Caseload Increases Have Not Materialized as Anticipated.*** The budget anticipated the state's safety net programs—in particular, Medi-Cal, CalFresh, and California Work Opportunity and Responsibility to Kids (CalWORKs)—would experience significant caseload increases at the end of 2019-20 and into 2020-21. For each of these programs, our data lags by a few months, meaning we currently only have data on actual caseloads through June or July of 2020 (and the most recent months are preliminary estimates). To date, actual caseload figures through the end of 2019-20 have come in significantly below budget act projections. In addition, preliminary data from safety-net program applications in 2020-21 do not suggest a major upturn. In particular:

- **Medi-Cal.** The budget act assumed average monthly caseload of about 13 million in 2019-20, but preliminary data reveal this number is closer to 12.6 million. Moreover, initial data from 2020-21 shows new applications for the program have been below 2019-20 levels. For example, for July through October 2020, new applications have been down 15.6 percent relative to the same period in





2019. Without an upturn in new applications, 2020-21 Medi-Cal caseload is unlikely to reach the levels assumed in the budget act.

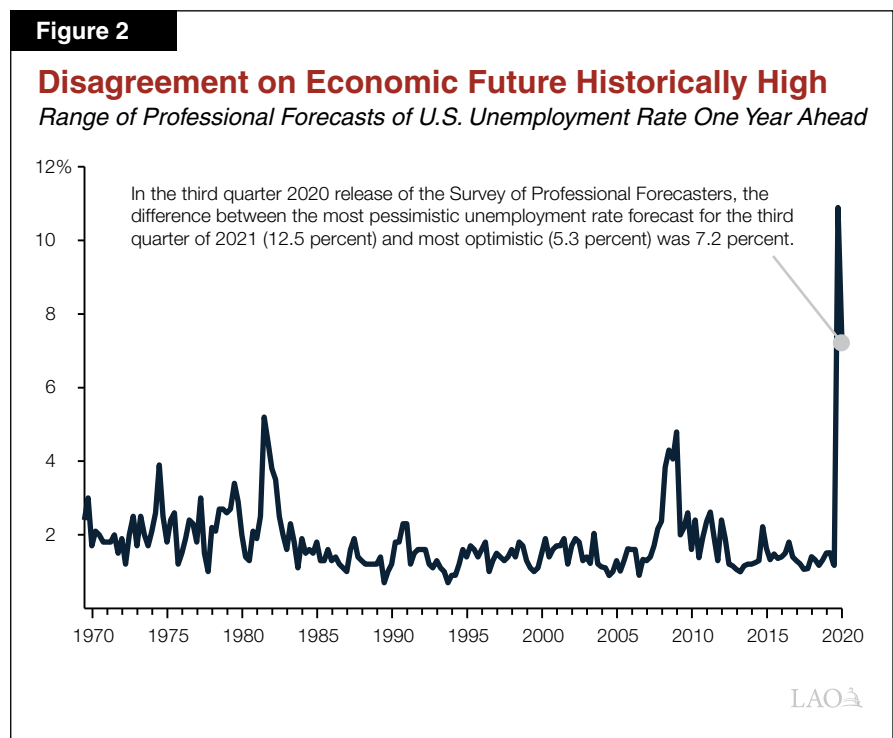
- **CalFresh.** The budget act assumed average monthly caseload of about 2.3 million in 2019-20, but preliminary data show a number closer to 2.2 million. Also, initial data on total applications for CalFresh from July through October 2020 shows new applications have been below the corresponding period in 2019 by 13.3 percent.
- **CalWORKs.** Although the budget act assumed average monthly caseload of about 412,000 participating families, preliminary data show a number closer to 365,000. Also, initial data on total applications for CalWORKs from July through October 2020 shows new applications have been below the corresponding period in 2019 by 24.7 percent.

As we will discuss later, we anticipate caseloads for Medi-Cal and CalWORKs to rise in the future given the severe economic impact of the pandemic on lower-income workers. To date, however, other economic mitigation interventions—like expanded unemployment insurance and federal stimulus payments—likely have delayed enrollment in these programs.

## DOES THE STATE HAVE ENOUGH RESOURCES TO PAY FOR ITS CURRENT COMMITMENTS?

### Economic Uncertainty Clouds Outlook

**Unprecedented Amount of Uncertainty About Economic Future.** A host of unknowns cloud the state's economic outlook. Will virus cases worsen further over the fall and winter? How soon will effective treatments or vaccines be widely available? Can businesses continue to withstand diminished revenues in the face of rising debts? Will the federal government take additional actions to support the economy? Could the pandemic create a permanent shift toward remote work and, if so, will this shift change people's and businesses' decisions about locating in California? These unknowns create an unprecedented degree of uncertainty about the economic outlook. This uncertainty is evidenced by the wide range of opinions among economists about where the economy is heading. For example, as **Figure 2** shows, divergence among economists' forecasts of what the unemployment rate will be a year from now is at a



50-year high. This uncertain environment presents a significant challenge for the Legislature as it enters the 2021-22 budget process.

**Main Forecast Is Our Best Assessment...** Despite an uncertain future, the Legislature will need to select a revenue assumption around which to build the 2021-22 budget. Given this reality, our *Fiscal Outlook* presents a main revenue forecast, which is our office's best assessment of the most likely outcome. The economic assumptions underlying our main revenue forecast reflect the average of forecasts from various professional economists (collected in October). Our main forecast is the gold line in **Figure 3**.

**...But Revenues Will Deviate From Our Main Forecast.** Despite being our best assessment, our main forecast will be wrong to some extent. A wide range of outcomes is possible. Because of this, in addition to our main forecast, we also estimated how much actual revenues might end up above or below our main forecast. To do so, we looked at how much forecasts tended to differ from actual revenues over the last 50 years. We then estimated the relationship between these past forecast errors and the range of disagreement among professional economic forecasts at the time. Finally, we used this relationship to estimate the likely forecast errors for our current forecast.

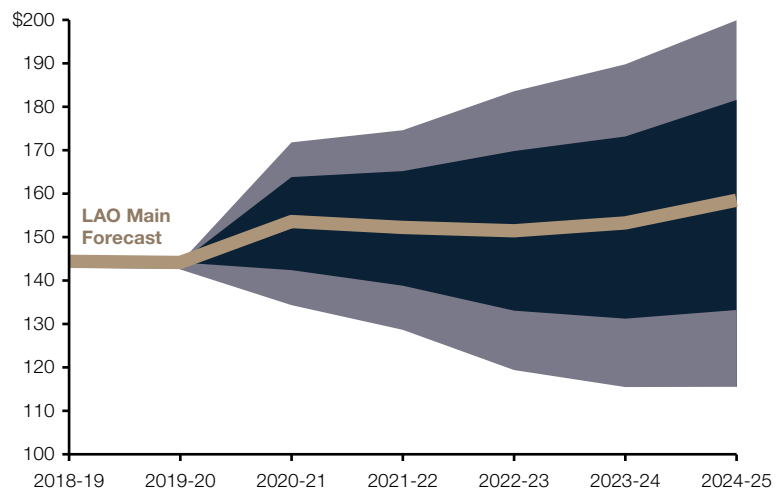
Our analysis groups alternative revenue outcomes into three categories based on the chances that they might occur. These three categories, illustrated with the shaded areas in Figure 3, are:

- **Most Likely (Darker Shaded Area).** These outcomes are most similar to our main forecast. Within this category, unforeseen developments could alter the economic trajectory somewhat, but would not lead to a major departure or paradigm shift. We estimate that revenues are more likely than not to be within this category. For example, we estimate it is more likely than not that 2021-22 General Fund revenues will be somewhere between \$139 billion and \$165 billion.
- **Less Likely (Lighter Shaded Area).** These outcomes represent more significant departures from our main forecast. For example, a combination of negative developments (such as delayed vaccine deployment, widespread business failures, or instability in housing markets) could push revenues into the lower part of this category. Similarly, a combination of positive developments (such as a surge in consumer spending from pent-up demand, a smooth transition of unemployed workers back to their jobs, or substantial new federal fiscal stimulus) could push revenues into the upper part of this category.
- **Very Unlikely (Outside of Lighter Shaded Area).** These outcomes are associated with major unforeseen events that dramatically shift the state's

**Figure 3**

### Estimating Uncertainty in Our Main Outlook General Fund Revenue (In Billions)

The shaded regions on this graph show our estimates of how much revenues might differ from our **main forecast**. Our estimates suggest revenues are more likely than not to be in the **inner shaded area**. Revenues in the **outer shaded area** are less likely. Revenues beyond that are very unlikely.



LAO

economic situation—such as the COVID-19 pandemic from the vantage point of 2019 or the housing crisis from the vantage point of 2005.

## Likely Significant One-Time Budget Windfall in the Upcoming Year

**Estimated Windfall of \$26 Billion in 2021-22.** Figure 4 shows our estimate of the General Fund condition under our main forecast. As the figure shows, the state would have a windfall of \$26 billion to allocate in the upcoming budget process. In Figure 4, the windfall is shown as the balance of the Special Fund for Economic Uncertainties (SFEU) in 2021-22. The windfall is the net effect of three main factors driven by prior- and current-year trends:

- **Higher Revenues.** Revenue collections to date have been much better than anticipated and are consistent with the economic picture. As such, under our main forecast, we estimate tax revenues are higher by \$38.5 billion across 2019-20 and 2020-21 compared to budget act estimates.
- **Higher Spending on Schools and Community Colleges.** General Fund spending on schools and community colleges is determined by a set of constitutional formulas under Proposition 98 (1988), as well as recently enacted statute that creates a new supplemental payment obligation beginning in 2021-22. Under our outlook, the state allocates about 40 percent of General Fund revenue to K-14 education each year of the budget window. As such, with General Fund tax revenue increases, our estimate of required General Fund spending on schools and community colleges for 2019-20 and 2020-21 correspondingly increases by \$14.4 billion.
- **Lower Caseload Related Costs.** The budget anticipated caseload-related costs, for example in Medi-Cal and CalWORKs, would increase substantially. However, as discussed above, these substantial increases have not materialized yet. For those two programs, caseload-related costs are lower in 2020-21 (compared to budget estimates) by \$2.9 billion.

**Despite Windfall, Budget Also Faces an Operating Deficit in 2021-22.** Despite the windfall, the SFEU balance *declines* from 2020-21 to 2021-22 under our estimates (also shown in Figure 4). This has two important implications. First, it means the state faces an operating deficit in 2021-22. That is, the projected revenue collections in 2021-22 are less than the projected expenditures in that year. Second, it means the windfall is *one time* because it is entirely attributable to current- and prior-year revisions, not budget-year conditions. (We estimate the multiyear operating deficit in the next section. In the box on the next page, we discuss how it is possible for the state to have a windfall and an operating deficit simultaneously.)

**Approach Assumes Current Policy and Maintains Current Service Levels.** The estimates throughout this report rely on a number of important assumptions. For example, we assume: (1) the state makes a constitutional deposit into the Budget Stabilization Account in 2021-22, bringing the balance of that account to \$10.9 billion; (2) state employee compensation reductions are not in effect in 2021-22; (3) possible program expenditure suspensions

**Figure 4**

### General Fund Condition Under Fiscal Outlook (In Millions)

	2019-20	2020-21	2021-22
Prior-year fund balances	\$11,280	\$5,550	\$32,159
Revenues and transfers	141,851	173,464	151,725
Expenditures	147,581	146,855	154,360
Ending fund balances	5,550	32,159	29,523
Encumbrances	3,175	3,175	3,175
<b>SFEU Balances</b>	<b>\$2,375</b>	<b>\$28,984</b>	<b>\$26,348</b>
<b>Reserves</b>			
BSA balances	\$16,489	\$8,683	\$10,871
Safety Net Reserves	450	450	450
<b>Total Reserves</b>	<b>\$16,939</b>	<b>\$9,133</b>	<b>\$11,321</b>

SFEU = Special Fund for Economic Uncertainty and BSA = Budget Stabilization Account.

## Windfall and Operating Deficit

**What Do We Mean by “Windfall”?** The main goal of our *Fiscal Outlook* is to assess how much capacity the budget has to pay for existing and—potentially—new commitments. To answer this question, we compare our projections of revenues to spending under current law and policy. When projected revenues exceed those expenditures, we ordinarily use the term “surplus” to describe the difference. This year, we are using a different term to describe this dynamic: windfall. We use this term for two reasons. First, because the estimated resources available in 2021-22 are only the result of revisions in prior- and current-year budget estimates. And second, because the available resources are *entirely* one time under our main forecast.

**What Do We Mean by “Operating Deficit”?** The windfall is the amount available to allocate in the budget year (2021-22), whereas an operating deficit occurs over a multiyear period. An operating deficit results when annual revenues are lower than expenditures under current law and policy, causing a year-over-year decrease in the Special Fund for Economic Uncertainties. An operating surplus occurs when the reverse is true.

**How Can There Be an Operating Deficit and Windfall in 2021-22?** When the Legislature passed the 2020-21 budget, the state faced a sudden and unknown budget problem. The Legislature took \$54 billion in actions to address that problem (for example, it withdrew funds from reserves, shifted costs, reduced spending, and increased revenues). Based on new information learned since the budget was passed, the actual budget problem that needed to be solved in 2020-21 will be much lower than initially estimated. In short, the Legislature took more actions—predominantly one-time actions—than were needed to balance the budget this year. However, we continue to project that expenditure growth outpaces revenue growth. This means that, on an ongoing basis, the budget does not have sufficient revenues in each year to cover the cost of current commitments. That is, the state has an operating deficit. (Notably, the multiyear estimates by the Department of Finance at the time of the budget act also showed an operating deficit.)

included in recent budgets are not operative; and (4) the state maintains spending on COVID-19 response efforts in 2020-21 and 2021-22. Under our current law assumption, we do not assume the state receives any new federal funding and the budget solutions passed subject to receipt of additional federal funding are not reauthorized (the “trigger reductions”). These expenditure assumptions, and others, are described in more detail in “Appendix 1.”

**Windfall Could Be Higher or Lower Depending on Revenue and Economic Conditions.** The state has a \$26 billion windfall under our main forecast. However, as discussed earlier, revenues easily could end up \$10 billion or more above or below our main forecast. If revenues in 2020-21 and 2021-22 are at the lower end of our most likely alternative outcomes, the windfall would be about \$12 billion in 2021-22. If revenues are at the higher end, the windfall would be closer to \$40 billion.

## Costs Very Likely to Quickly Exceed Revenues in Future Years

In this section, we describe the budget’s condition over the multiyear period in our outlook—until 2024-25. First we address trends in revenues and expenditures over this multiyear period and then give our assessment of the budget’s condition under a range of possible outcomes for state revenue collections.

**Tax Revenue Growth Is Projected to Grow Slowly Over the Period.** Under our main forecast, General Fund revenues from the state’s three major tax revenues would grow from \$148 billion in 2021-22 to \$152 billion in 2024-25. This represents average annual growth of less than 1 percent. While this growth is

still positive, it is much slower than our projections for revenue growth before the onset of COVID-19. For example, in our *Fiscal Outlook* released in November 2019, we estimated annual revenue growth from these taxes would average 3.7 percent over a similar period. Slower revenue growth puts significant pressure on the budget's bottom line.

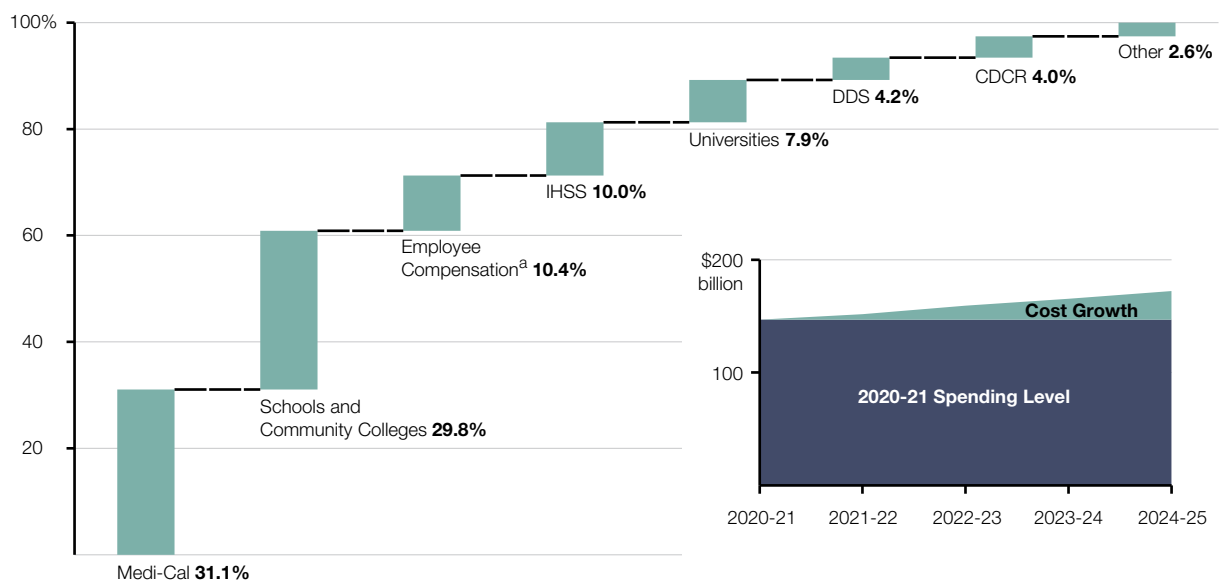
**Ongoing General Fund Expenditure Growth of 4.4 Percent.** Expenditures, conversely, are expected to grow faster over the next four years compared to our forecasts before COVID-19. This outlook anticipates overall General Fund expenditures would grow at an average annual rate of 4.4 percent between 2020-21 and 2024-25, representing total cost growth of \$27.9 billion. In the following paragraphs, we discuss some notable areas of spending growth, which also are shown in **Figure 5**.

**Medi-Cal.** Under our estimates, General Fund spending on Medi-Cal would increase by \$8.6 billion over the period, representing 31 percent of the total cost increase. There are several major drivers of this increase including: (1) lower federal funding for Medi-Cal when the enhanced federal match for Medicaid programs expires (which we assume occurs the end of 2021); (2) the expiration (without reauthorization) of the managed care organization tax, which occurs midway through 2022-23 under current law; and (3) underlying cost growth from caseload changes and per capita cost increases.

**K-14 Education.** Annual growth in Proposition 98 General Fund spending on K-14 averages 3.4 percent over the period. Although schools and community colleges represent nearly 40 percent of the General Fund budget, they represent only 30 percent of the total growth in state expenditures. The largest single factor in the increase is the new ongoing statutory supplemental payment for schools, created as part of the 2020-21 budget. Over the multiyear period, General Fund spending on schools and community colleges grows 3.4 percent per year on average, but absent the supplemental payments, would average 0.8 percent per year (the rate of growth of General Fund revenues). As discussed in the box on page 12, growth in

**Figure 5**

### Major Drivers of Cost Growth From 2020-21 to 2024-25



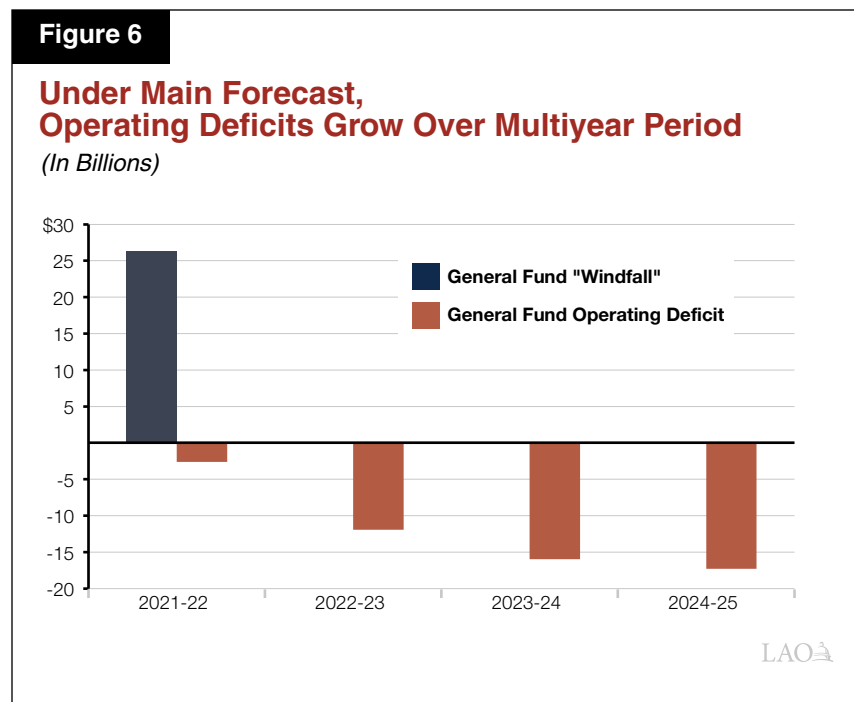


school and community college funding exceeds statutory program cost growth through the outlook period both with and without the supplemental payment.

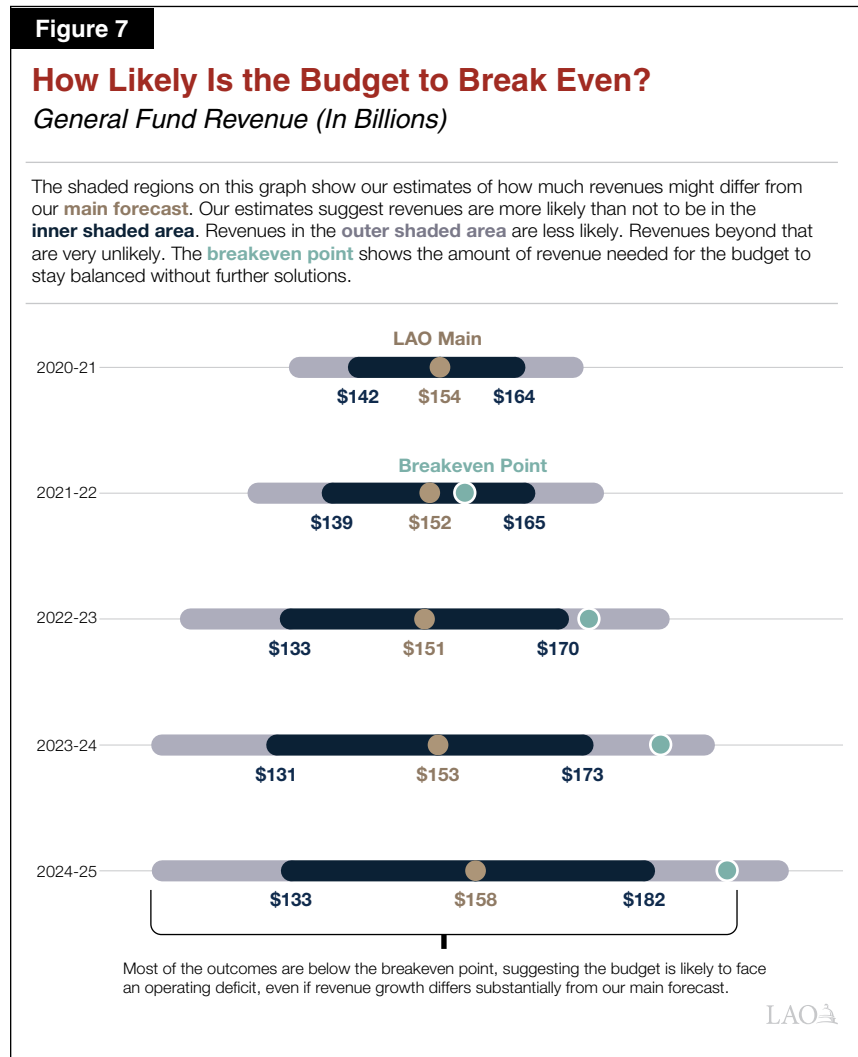
**Corrections.** General Fund spending on the California Department of Corrections and Rehabilitation (CDCR) increases by about \$1 billion over the period. This represents only 4 percent of total cost increases, although CDCR is nearly 8 percent of the General Fund budget. Low cost growth for CDCR is primarily the net result of two opposing factors. On the one hand, declines in the inmate population due to several policy changes that will reduce prison terms are expected to lower state costs by allowing the state to reduce the number of prisons it operates. On the other hand, we assume employee compensation costs continue to grow, which offsets these declines. (We discuss our assumptions about employee compensation and CDCR spending in more detail in “Appendix 1.”)

**Growth in Safety Net Program Costs Expected Through 2022-23.** While anticipated safety net program caseload growth has not materialized thus far, we do anticipate it to do so in the coming years. For the state’s two major safety net programs described earlier—Medi-Cal and CalWORKs—we anticipate there will be notable caseload-related cost growth in 2021-22 and 2022-23. For example, in Medi-Cal, caseload-related costs result in increased General Fund expenditures of \$1.2 billion in 2021-22 (compared to our estimates in 2020-21). In CalWORKs caseload-related costs would increase by nearly \$400 million in 2022-23 (compared to our estimates in 2020-21).

**Operating Deficits Begin in 2021-22 and Persist Over Multiyear Period.** The result of these two trends—faster growth in costs and slower growth in revenues—is that the state faces large and growing operating deficits over our outlook period. As **Figure 6** shows, although the budget is expected to have a windfall in 2021-22, it is also expected to have an operating deficit in that year. The operating deficit is relatively small in 2021-22, but would grow to around \$17 billion by 2024-25.



**What Revenue Level Would Balance the Budget?** While our main forecast suggests the state faces an operating deficit, revenues could differ substantially from our main forecast. What are the chances that revenues could beat our main forecast by enough to erase the operating deficit? For this to happen, revenues would need to be nearly \$5 billion higher in 2021-22. Further, revenues would need to be \$35 billion higher in 2024-25. (These figures exceed the size of the operating deficit due to the requirements of Proposition 2 and Proposition 98, which require increased reserve deposits and school and community college spending with higher revenues.) Our analysis suggests this level of revenue growth is unlikely. **Figure 7** shows where the budget “breakeven point” (the point at which revenues are enough for a balanced budget under current law and policy) falls in our range of revenue outcomes (first shown in Figure 3 on page 6). As the graphic shows, the bulk of likely outcomes are below the breakeven point. This suggests that it is unlikely the budget will break even under current law and policy.



## Outlook for Schools and Community Colleges

### Funding Changes

**Dramatic Upward Revision to Current-Year Funding Estimates.** The state meets the Proposition 98 guarantee through a combination of General Fund and local property tax revenue. Our estimate of the guarantee in 2020-21 is \$84 billion, an increase of \$13.1 billion (18.5 percent) over the June 2020 estimate. This increase is the largest change relative to the enacted budget since the passage of Proposition 98 in 1988. Nearly all of the increase is due to our higher General Fund revenue estimates, though a small portion reflects higher property tax estimates.

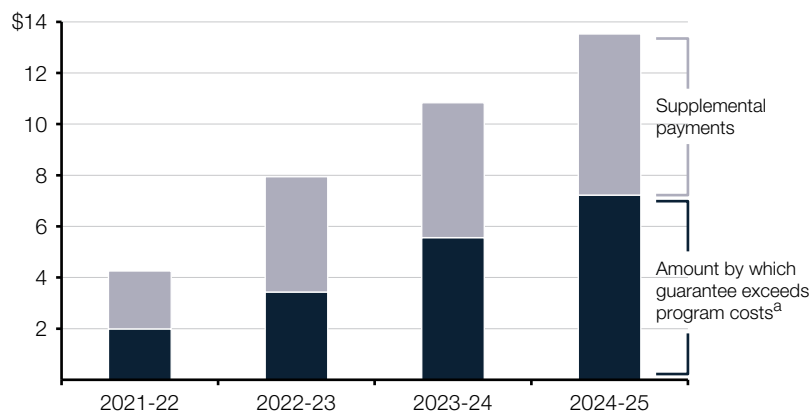
**Growth in 2021-22 Mainly Attributable to New Supplemental Payments.** Under our outlook, the 2021-22 guarantee grows \$595 million (0.7 percent) over our revised 2020-21 estimates. In addition, the state makes its first supplemental payment (\$2.3 billion) on top of the guarantee. The state created the supplemental payments in the June 2020 budget plan to accelerate growth in funding following the anticipated drop in the guarantee.

**Significant Ongoing and One-Time Funds Available.** After accounting for a 1.14 percent statutory cost-of-living adjustment (COLA) and various other adjustments, we estimate the Legislature has \$4.2 billion in ongoing funds available for new commitments. In addition, after accounting for the higher 2020-21 guarantee and various prior-year adjustments, we estimate the Legislature has \$13.7 billion in one-time funds available.

**Guarantee Growing Faster Than Program Costs.** Under our outlook, the statutory COLA hovers around 1.5 percent per year after 2021-22. We also project declines in student attendance. Due to these factors, school and community college programs grow relatively slowly compared with the Proposition 98 guarantee. As shown in the figure, under our main forecast the state has a growing amount of funds available for new commitments. The supplemental payments, which grow to \$6.3 billion by 2024-25, make the difference even larger.

#### Funding for New Commitments Grows Over Time

(In Billions)



<sup>a</sup> Assumes existing programs are adjusted for the statutory cost-of-living adjustment and attendance changes.

LAO

### Comments

**Legislature Could Pay Down All Existing Deferrals.** The 2020-21 budget deferred \$12.5 billion in payments to schools and community colleges. Using one-time funds to eliminate these deferrals would improve local cash flow and remove pressure on future Proposition 98 funding. Since the deferrals are scheduled to begin in February 2021, the Legislature would need to take early budget action

if it wanted to rescind them this year. (If the Legislature does not take early action, it could eliminate the deferrals starting in 2021-22.)

***Rebound in Funding Warrants a Reassessment of the Supplemental Payments.*** Under our outlook, the Proposition 98 guarantee no longer experiences declines and instead grows more quickly than the COLA over the next several years. Based on these developments, we think the Legislature should reassess the supplemental payments after reviewing all of its budget priorities. The supplemental payments involve long-term trade-offs with other parts of the state budget and increase the size of the operating deficit over the multiyear period. To the extent the Legislature remains interested in providing funding on top of the guarantee, it has many options—such as providing a larger one-time payment without committing to long-term increases.

## COMMENTS AND RECOMMENDATIONS

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### Near-Term Considerations

**Budget “Overcorrected” in 2020-21 in Response to Unprecedented Uncertainty.** Compared to Governor’s budget estimates in early 2020, revenue estimates in June were lower by \$42 billion—a historic decline. In light of the unprecedented uncertainty around the state budget, those estimates were reasonable at the time. However, in hindsight, they were too pessimistic. This means the state took a number of almost entirely one-time and temporary actions to balance the budget—like making withdrawals from reserves, shifting costs, increasing revenues, and reducing spending—that were larger than ultimately necessary. These overcorrections are the reason the state has a significant windfall in 2021-22.

**In Light of Coming Budget Problems and Safety Net Needs, Recommend Restoring Budget Resilience.** Just over one-third of the solutions used to balance last year’s budget (excluding Proposition 98-related solutions) were tools—like reserves, internal borrowing, and other cost shifts—that the state will need in the coming years. Consequently, we recommend the Legislature use half of the windfall—about \$13 billion—for restoring the budget’s fiscal resilience. For example, the Legislature could: make an optional deposit into a state reserve, like the Safety Net Reserve; make a supplemental pension payment; or repay special fund loans made to the General Fund. Each of these actions would allow the state to maintain services in future years when the Legislature is likely to face a budget problem as a result of the projected operating deficits. Making a deposit into the Safety Net Reserve, in particular, would help the state maintain services when demands on the state’s safety net programs increase.

**Recommend Using Other Half of Windfall to Address One-Time Pandemic-Related Needs.** As noted earlier, the COVID-19 pandemic has had severe health and economic consequences for many Californians. The upcoming budget process provides the Legislature an opportunity to determine how the state could further mitigate those adverse effects. Moreover, the significant windfall provides the Legislature with an opportunity to develop a robust COVID-19 response that was not feasible when facing a \$54 billion budget problem in the spring. As such, we recommend the Legislature use the other half of the windfall—about \$13 billion—on one-time purposes, focusing on activities that mitigate the adverse economic and health consequences of the public health emergency.

**Some Early Actions Would Be Reasonable.** There is some uncertainty about the size of the windfall that will ultimately materialize. However, given its size, we think it would be reasonable for the Legislature to take early action to use several billion dollars to address some of the state’s immediate needs. Similarly, we think taking early action to undo most of the school-related deferrals would be reasonable.

### Long-Term Challenges

**State Faces Sizeable and Growing Operating Deficits.** The state should expect to face an operating deficit during a recession and the years that follow. The existence of an operating deficit during an economic downturn is not inherently a cause for concern, especially if the state also has enough resources (like reserves) to cover the ensuing budget deficits. However, some features of the operating deficits estimated here make them concerning. First, even if the state saved the entire \$26 billion windfall in 2021-22, the savings would be insufficient to cover the operating deficits over the multiyear period. Second, our estimates of the operating deficits grow with each year of the outlook, suggesting they will continue past the multiyear period shown here. Third, our breakeven analysis found it is quite unlikely revenues will end up growing fast enough to cover the growth in costs necessary to maintain current levels of government services.

**Recommend Legislature Begin Multiyear Effort to Address Ongoing Deficit Now.** Given the multiyear deficits, the budget cannot afford any new ongoing augmentations. In fact, in light of the concerning nature of these operating deficits, we recommend the Legislature use the 2021-22 budget process to begin to

address the state's ongoing deficit. This could mean, for example, identifying ways to reduce spending or increase revenues in future years. However, the Legislature need not necessarily take these actions this year. Rather, the significant budget windfall in 2021-22 buys the Legislature time to enact or phase-in longer-term changes. For example, reductions to the state's workforce and some revenue increases can take years before their fiscal effects are fully captured. The Legislature also could consider permanently reauthorizing the MCO tax, which would reduce the budget problem in both 2023-24 and 2024-25 by about \$2 billion. Lastly, in light of improved Proposition 98 estimates, the Legislature could reassess the planned supplemental payments to schools. (We discuss this in more detail in our report, *The 2021-22 Budget: The Fiscal Outlook for Schools and Community Colleges*) Overall, we strongly encourage the Legislature to engage in long-term planning and consider what needs to be done today to address the budget problem over the multiyear period.



## APPENDIX 1

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This section describes the major expenditure-related assumptions made in our outlook.

**State Makes 2021-22 BSA Deposit.** The state is required to make annual deposits into the Budget Stabilization Account (BSA) unless the withdrawal is reduced or suspended under a budget emergency. In 2020-21, the state suspended the required BSA deposit and withdrew \$7.8 billion from the BSA. (We assume the state does not make a “true up” deposit related to 2020-21.) Because of the anticipated windfall, we assume the state makes its constitutionally required deposit for 2021-22, which is \$2.2 billion under our revenue estimates, and each subsequent year of the outlook period.

**Suspensions Are Not Operative.** Similar to action taken in 2019-20, the 2020-21 spending plan made some spending subject to suspension in 2021-22. In these cases, statute directs the Department of Finance (DOF) to calculate whether General Fund revenues will exceed General Fund expenditures—without suspensions—in 2021-22 and 2022-23. If DOF determines revenues will exceed expenditures, then the programs’ ongoing spending amounts will continue and not be suspended. Otherwise, the expenditures are automatically suspended. Because the state has substantial resources available in 2021-22 and 2022-23 under current law and policy, we assume these suspensions are not operative in 2021-22 and subsequent years.

**State Does Not Receive New Federal Funding.** Our outlook assumes no major changes in federal policy over the outlook period. Various decisions by the federal government, however, could influence future state General Fund costs, for example, if the federal government provided the state with broad-based budgetary assistance, resulting in lower General Fund costs. We also assume the state does not reinstate any spending reductions included in the budget act that were subject to federal “trigger” legislation.

**Enhanced Federal Match for Medicaid Ends Midway Through 2021-22.** Medicaid is an entitlement program whose costs generally are shared between the federal government and states. Earlier this year, Congress approved a temporary 6.2 percentage point increase in the federal government’s share of cost for state Medicaid programs until the end of the national public health emergency declaration. We assume the declaration expires at the end of calendar year 2021, resulting in an increase in General Fund costs of Medicaid programs midway through 2021-22. If the federal executive branch allowed the declaration to expire earlier, costs would be higher, and vice versa.

**Spending on Disasters Continues Through 2021-22.** The state has been spending money to respond to coronavirus disease 2019 (COVID-19) mainly through the Governor’s disaster and emergency authorities, for example, under the Disaster Response and Emergency Operations Account. We assume COVID-19 response efforts continue on their current trajectory in 2020-21 and that there is additional spending, but it is roughly half as large, in 2021-22. The state also is likely to incur additional disaster-related costs, for example, for debris removal and other remediation activities as a result of the fires that began this summer. We have adjusted state expenditures for these efforts and assume the state receives 75 percent reimbursement from the federal government for these disaster-related activities.

**Managed Care Organization (MCO) Tax Expires.** For a number of years, the state has imposed a tax on MCOs’ Medi-Cal and commercial lines of business. We assume the state’s MCO tax expires midway through 2022-23, consistent with current law. The MCO tax leverages significant federal funding. Annually, revenues from the MCO tax offset almost \$2 billion in General Fund Medi-Cal spending, which means our estimate of the General Fund cost of Medi-Cal increases by this amount in 2023-24.

**General Fund Salary Increases for State Employees.** As part of the 2020-21 spending plan, the Legislature ratified labor agreements that reduce state employee compensation costs by up to 10 percent. The predominant cost saving policy implemented by these labor agreements is the Personal Leave Program (PLP) whereby employees accept reduced salaries in exchange for time off. For a majority of state employees, labor agreements establish PLP in 2020-21 and allow PLP in 2021-22 in the event that the state

withdraws funds from the BSA in 2021-22. We assume that PLP is in effect for all of 2020-21 but is not in effect in 2021-22 because our outlook does not assume that the state will need to withdraw funds from the BSA in 2021-22. Beginning in 2021-22, we assume that state employees receive General Salary Increases based on our compensation index.

**General Fund Costs for the Universities Increase.** General Fund spending for the California State University and University of California is more discretionary than many other areas of the budget, with no major federal or state spending requirements. Our university outlook assumes the state maintains existing services at the universities by funding certain expected cost increases. Specifically, we assume cost increases for salaries, benefits, scheduled debt service, and demographically driven enrollment growth. We assume the state bears the full cost of these increases, with tuition held flat. (Tuition has not been raised in the past nine years, and the governing boards of the universities have not signaled potential tuition increases in 2021-22.) Because General Fund spending for the university is discretionary, different assumptions reasonably could be made.

**State Closes Five Prisons Due to Decline in Inmate Population.** We estimate that—due to the effects of the COVID-19 pandemic and several policy changes that will reduce prison terms—the inmate population will remain around 100,000 throughout the forecast period. This is about 20,000 inmates below the 2019-20 level. Our forecast assumes that the state will accommodate a portion of this decline by closing one prison in 2021-22 and a second prison in 2022-23, consistent with the administration’s current plans. However, our forecast also reflects the closure of three additional prisons—for a total of five closures—by 2024-25, given the size of decline in the population.

## APPENDIX 2

### Appendix 2, Figure 1

#### LAO Fiscal Outlook Main Revenue Forecast

(In Billions)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Personal income tax	\$99.5	\$106.6	\$104.0	\$104.6	\$106.6	\$109.9
Sales and use tax	25.7	25.4	25.2	25.9	26.9	28.0
Corporation tax	13.6	16.1	17.4	15.3	13.8	14.4
Subtotals, Big Three Revenues	(\$138.8)	(\$148.0)	(\$146.7)	(\$145.7)	(\$147.3)	(\$152.3)
BSA transfer	-\$2.5	\$7.8	-\$2.2	-\$1.6	-\$1.3	-\$1.3
Federal cost recovery	2.1	7.6	1.6	0.4	0.1	0.1
All other revenues	5.3	5.5	5.6	5.7	6.0	6.2
All other transfers	-1.9	4.5	0.1	-0.6	-0.3	—
<b>Total Revenues and Transfers</b>	<b>\$141.9</b>	<b>\$173.5</b>	<b>\$151.7</b>	<b>\$149.6</b>	<b>\$151.7</b>	<b>\$157.2</b>

BSA = Budget Stabilization Account.

### Appendix 2, Figure 2

#### Spending Through 2021-22

LAO Baseline Expenditure Estimates (In Millions)

	Estimates		Outlook	
	2019-20	2020-21	2021-22	Change From 2020-21
<b>Major Education Programs</b>				
Schools and community colleges <sup>a</sup>	\$54,310	\$57,818	\$59,547	3.0%
California State University <sup>b</sup>	4,702	4,047	4,281	5.8
University of California	3,938	3,466	3,714	7.2
Child care	1,710	1,644	1,868	13.6
Financial aid	1,389	2,137	2,237	4.7
<b>Major Health and Human Services Programs</b>				
Medi-Cal <sup>c</sup>	\$22,413	\$22,703	\$25,925	14.2%
Department of Developmental Services <sup>c</sup>	5,014	5,846	6,038	3.3
In-Home Supportive Services <sup>c</sup>	4,298	4,485	5,595	24.8
SSI/SSP	2,732	2,705	2,679	-0.9
Department of State Hospitals	1,767	1,877	1,893	0.8
CalWORKs	650	1,135	1,422	25.3
<b>Major Criminal Justice Programs</b>				
Corrections and Rehabilitation	\$12,465	\$11,212	\$11,318	0.9%
Judiciary	2,254	2,135	1,974	-7.5
<b>Debt Service on State Bonds</b>	\$5,092	\$5,309	\$5,779	8.8%
<b>Other Programs</b>	\$24,846	\$20,337	\$20,090	-1.2%
<b>Totals</b>	<b>\$147,581</b>	<b>\$146,855</b>	<b>\$154,360</b>	<b>5.1%</b>

<sup>a</sup> Reflects General Fund component of the Proposition 98 minimum guarantee, including statutory supplemental payments.

<sup>b</sup> Includes state contributions for CSU retiree health.

<sup>c</sup> Program costs in 2021-22 reflect expiration of enhanced federal share of cost for Medicaid-funded programs at the end of 2021, which results in General Fund cost growth that is higher than it would be otherwise.

Appendix 2, Figure 3

**Spending by Major Area Through 2024-25**

*LAO Baseline Expenditure Estimates (In Billions)*

	Estimates		Outlook				Average Annual Growth <sup>a</sup>
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	
<b>Education</b>							
Schools and community colleges <sup>b</sup>	\$54.3	\$57.8	\$59.5	\$61.5	\$63.0	\$66.1	3.4%
Other major education programs	11.7	11.3	12.1	13.0	13.7	14.5	6.5
<b>Health and Human Services</b>	36.9	38.8	43.6	47.4	49.6	51.4	7.3
<b>Criminal Justice</b>	14.7	13.3	13.3	14.4	14.7	14.5	2.1
<b>Debt service on state bonds</b>	5.1	5.3	5.8	5.6	5.8	5.9	2.8
<b>Other programs</b>	24.8	20.3	20.1	19.8	21.0	22.4	2.4
<b>Totals</b>	<b>\$147.6</b>	<b>\$146.9</b>	<b>\$154.4</b>	<b>\$161.7</b>	<b>\$167.8</b>	<b>\$174.7</b>	<b>4.4%</b>
Percent change		-0.5%	5.1%	4.7%	3.8%	4.1%	

<sup>a</sup> From 2020-21 to 2024-25.

<sup>b</sup> Reflects General Fund component of the Proposition 98 minimum guarantee, including statutory supplemental payments.

Note: Program groups are defined to include departments listed in Appendix 2, Figure 2.

**LEGISLATIVE ANALYST'S OFFICE**

WWW.LAO.CA.GOV (916) 445-4656

**Legislative Analyst**

Gabriel Petek

**Chief Deputy Legislative Analyst**

Carolyn Chu

**State Budget Condition**Ann Hollingshead<sup>a</sup>**Economy, Taxes, and Labor**

Brian Uhler, Deputy

Chas Alamo

Justin Garosi

Seth Kerstein

Brian Weatherford

**Health, Developmental Services, and IT**

Mark C. Newton, Deputy

Corey Hashida

Ben Johnson

Brian Metzker

Sonja Petek

Ned Resnikoff

**Human Services and Governance**

Ginni Bella Navarre, Deputy

Ryan Anderson

Jackie Barocio

Lourdes Morales

Nick Schroeder

Angela Short

**Administration, Information Services, and Support**

Sarah Kleinberg

Sarah Barkman

Tamara Lockhart

Michael Greer

Vu Chu

Mohammed Saeed

Rima Seilova-Olson

**Chief Deputy Legislative Analyst**

Anthony Simbol

**K-12 Education**

Edgar Cabral, Deputy

Michael Alferes

Sara Cortez

Kenneth Kapphahn

Amy Li

**Higher Education**

Jennifer Kuhn Pacella, Deputy

Jason Constantouros

Lisa Qing

Paul Steenhausen

**Environment and Transportation**

Brian Brown, Deputy

Ross Brown

Rachel Ehlers

Frank Jimenez

Helen Kerstein

Eunice Roh

**Public Safety and Business Regulation**

Drew Soderborg, Deputy

Luke Koushmaro

Anita Lee

Caitlin O'Neil

Jessica Peters

Sarah Scanlon

Terry Gough

Jim Stahley

Anthony Lucero

<sup>a</sup> General Fund Condition analyst, *Fiscal Outlook* coordinator.

## LAO PUBLICATIONS

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This report was prepared by Ann Hollingshead, with contributions from others across the office, and reviewed by Carolyn Chu and Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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# ***Atascadero***

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## ***Comprehensive Financial Strategy February 2021***

### ***Attachment B:***

*HdL's City of Atascadero Sales Tax Update  
Quarter 2, 2020*

# Q2 2020



## City of Atascadero Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2020)

ITEM NUMBER: C-1  
DATE: 02/09/21  
ATTACHMENT: 1

### Atascadero In Brief

Atascadero's receipts from April through June were 7.7% above the second sales period in 2019. Excluding reporting aberrations, actual sales were down 5.6%.

Double payments from businesses that had missing/partial payments in 1Q20 was the main cause of the variance between cash receipts and actual sales. Actual sales in most industry groups declined due to Covid-19 impacts, although the losses were less than expected and again partially offset by continued robust growth from the county pool resulting from the Wayfair decision. The City's allocation from the countywide use tax pool increased 51.0%.

The largest decline in actual sales came from a 36.0% drop in fuel sales. Restaurant sales decreased 25.6%. Business and industry and general retail sales were down 17.4% and 21.7%, respectively.

Bright spots included a 12.9% gain in building material sales and a 10.5% increase from the food and drugs group. The automotive sector was 2.6% higher.

The Measure F-14 transaction tax generated an additional \$602,065, down 3.7% from the prior year.

Net of aberrations, taxable sales for all of San Luis Obispo County declined 15.8% over the comparable time period; the Central Coast region was down 17.8%.

### SALES TAX BY MAJOR BUSINESS GROUP



\*Allocation aberrations have been adjusted to reflect sales activity

### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

777 Enterprises	Klem Gas
Atascadero 76	McDonalds
Atascadero Chevron	Miners Ace Hardware
Big Lots	Pacific Coast RV
Chalk Mountain Liquor & Deli	Rite Aid
Circle K Union 76	Smart & Final
El Camino Building Supply	Speedway
Farwest Line Specialties	Ted Miles Motors
Food 4 Less	Trinity Services Group
Grocery Outlet	Valley Speed & Marine
Hitching Post Shell	Vons
Home Depot	Walgreens
In N Out Burger	

### REVENUE COMPARISON

Four Quarters – Fiscal Year To Date (Q3 to Q2)

	2018-19	2019-20
Point-of-Sale	\$3,835,840	\$3,542,200
County Pool	547,573	685,022
State Pool	1,909	1,827
Gross Receipts	\$4,385,321	\$4,229,049
Measure F14	\$2,517,604	\$2,507,163

## Statewide Results

Local sales and use tax receipts from April through June sales were 16.3% lower than the same quarter of 2019 after factoring for accounting anomalies and back payments from previous quarters.

This was the largest quarter to quarter decline since 2009. The drops were deepest in the San Francisco Bay Area, Central Coast and Southern California where declines in revenues from fuel, automobiles, general consumer goods and restaurants/hotels were the most severe.

However, despite a 14.9% unemployment rate that eclipsed the previous high of 12.3% during the great recession of 2010 and temporary business closures, the drop in sales was less than previously projected by most analysts including HdL.

The high second quarter unemployment rates primarily affected lower wage service sectors which generate a smaller share of sales tax revenues. Internet connected knowledge workers continued to work but locked at home, found that they had extra cash to spend because of reduced commute and work-related expenses and few entertainment or travel options. Additionally, though much of the quarter's government relief payments were spent largely on rents, utilities and necessities, the money was not distributed proportionally to income losses thereby adding temporary discretionary income gains for some recipients.

Low interest rates and longer term lending practices allowed the extra money to be spent on previously delayed purchases such as autos and home improvements. New car registrations dropped 48.9% in the second quarter, but sales tax receipts dropped only 15.8% as buyers who did purchase, opted for more expensive SUV's, trucks and luxury vehicles. As cabin fever set in, sales of RV's, boats and Motorcycles also began to rise.

With restaurants and many brick and mortar stores closed or restricted to limited occupancy, buyers shifted to online shopping with tax revenues from in-state fulfillment centers rising 142.7% over the

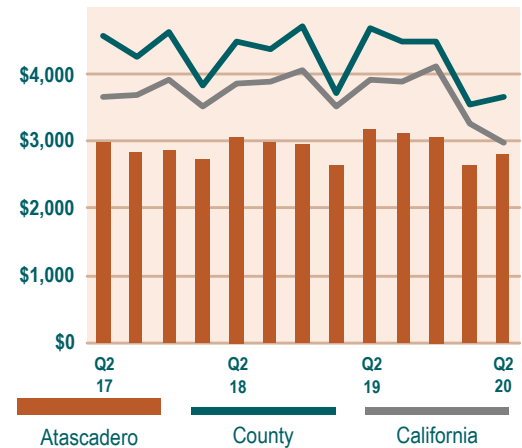
second quarter of 2019 and county pools where tax receipts from out-of-state goods are allocated, rising 28.9%. Online sales accounted for 52.0% of this quarter's tax revenues from the general consumer goods group.

Working at home eventually morphed into working on home thereby boosting related improvement purchases. Grocers, cannabis, liquor and sporting goods further helped offset losses in other segments.

Strong demand for warehouse and shipping technology, equipment and supplies to accommodate the increase in online shopping as well as home offices and virtual classrooms helped offset declines in the business/industrial group. Unanticipated gains in agriculture related purchases and transit spending further added to the offset.

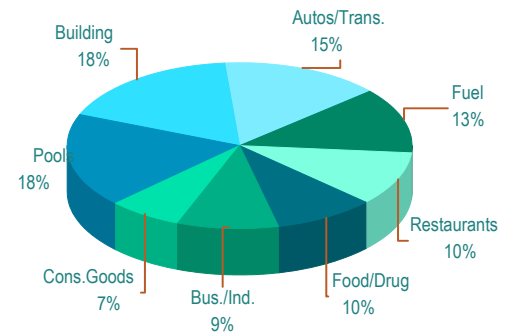
Pandemic uncertainties, fires, childcare issues and bankruptcies are expected to result in uneven gains through 2020-21 with each jurisdiction's experience differing according to the scope and character of their individual tax bases. Overall recovery and improvement in statewide receipts is not expected to begin until 2021-22.

## SALES PER CAPITA\*



\*Allocation aberrations have been adjusted to reflect sales activity

## REVENUE BY BUSINESS GROUP Atascadero This Quarter\*



\*Allocation aberrations have been adjusted to reflect sales activity

## ATASCADERO TOP 15 BUSINESS TYPES\*\*

Business Type	Atascadero		County	HdL State
	Q2 '20	Change	Change	Change
Auto Repair Shops	12,524	-32.7%	-27.0%	-28.2%
Automotive Supply Stores	22,878	-2.1%	-9.7%	-4.7%
Boats/Motorcycles	— CONFIDENTIAL —	—	30.9%	9.2%
Building Materials	163,202	12.9%	15.9%	7.0%
Casual Dining	32,115	-43.9%	-49.8%	-53.2%
Drug Stores	25,169	7.1%	2.1%	0.1%
Food Service Equip./Supplies	— CONFIDENTIAL —	—	-11.1%	-27.0%
Garden/Agricultural Supplies	20,363	6.1%	6.6%	5.6%
Grocery Stores	62,575	14.5%	8.5%	7.8%
Heavy Industrial	— CONFIDENTIAL —	—	7.5%	-10.3%
Quick-Service Restaurants	65,782	-15.8%	-18.7%	-22.0%
Service Stations	133,242	-36.0%	-43.5%	-45.2%
Trailers/RVs	— CONFIDENTIAL —	—	9.5%	7.0%
Used Automotive Dealers	31,995	2.3%	-26.5%	-20.6%
Variety Stores	17,053	16.6%	-1.2%	2.5%
<b>Total All Accounts</b>	<b>843,489</b>	<b>-12.9%</b>	<b>-21.9%</b>	<b>-24.0%</b>
<b>County &amp; State Pool Allocation</b>	<b>187,662</b>	<b>51.0%</b>	<b>29.4%</b>	<b>28.2%</b>
<b>Gross Receipts</b>	<b>1,031,151</b>	<b>-5.6%</b>	<b>-15.8%</b>	<b>-16.4%</b>

\*\* Accounting for 2020's Q2 late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.

# ***Atascadero***

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## ***Comprehensive Financial Strategy February 2021***

### ***Attachment C:***

*HdL's California Forecast: Sales Tax Trends and  
Economic Drivers, September 2020*



# CALIFORNIA FORECAST

## SALES TAX TRENDS AND ECONOMIC DRIVERS



Yosemite National Park, California

HdL provides relevant information and analyses on the economic forces affecting California's local government agencies. In addition, HdL's Revenue Enhancement and Economic Development Services help clients to maximize revenues.

**HdL serves over 500 cities, counties and special districts in California and across the nation.**

**HdL** Companies

Delivering Revenue, Insight and Efficiency to Local Government Since 1983



# HdL<sup>®</sup> Companies

## FY 20/21 & 21/22 FORECAST

ITEM NUMBER: C-1  
DATE: 02/09/21  
ATTACHMENT: 1

As California continues to address all aspects of COVID-19, we have modified the September 2020 HdL Economic Forecast. Given the dramatic onset of the pandemic, we are sharing explanations about how second quarter 2020 sales tax results compared to our forecast for this time period. Information is summarized by major industry groups. It is our hope these explanations not only capture what occurred this past spring but will be helpful in explaining how fiscal year 2019/2020 sales and transactions tax results were affected by this public health crisis.

### HdL 2Q20: Forecast vs Results

As part of preparing our April and June economic forecasts earlier this year, we acknowledged the second quarter of 2020 (April to June period) would be the bottoming out months for sales tax revenues. Beginning in March, shelter in place orders coupled with county-based health and safety decisions triggered immediate closure of businesses, a spike in unemployment and much uncertainty about economy recovery. Unlike prior calamities in our nation's history, the COVID-19 pandemic was unique for many reasons, not the least of which was closing entire industries that generate sales and transaction taxes so vital for governments to deliver public services.

The high second quarter unemployment rates were primarily felt in the lower wage service sectors which produced a lesser share of total sales tax revenues. Knowledge workers including professionals, analysts and marketers continued to work at home; they found extra cash to spend because of reduced commute and work-related costs as well as less entertainment/travel options. Though much of the quarter's government relief payments were spent largely on rents, utilities, debt, and savings, the money was not distributed proportionally to income losses, thereby also triggering temporary increases in discretionary income for some beneficiaries. Low interest rates and favorable lending practices allowed the extra money to be spent on previously put off items such as autos and home improvements.

To our surprise, the Autos/Transportation results were better than expected in the second quarter of 2020. While new vehicle sales were reported to be down 34% nationally, auto-related tax receipts dropped only 17% in California. Car dealers proved adept at transitioning to online sales; unprecedented government stimulus and rock-bottom interest rates were effective in avoiding worst-case possible outcomes. Furthermore, consumers had more disposable income to spend after the cancellation of vacation plans. Many thought it could be a good time to find a deal, taking advantage of attractive manufacturer incentives. Some bought a new car to avoid public transportation and ride hailing services. Others justified their purchase as an escape, wanting a new vehicle for road-trips. Recreational vehicle and boat sales were especially strong as families looked for new activities to share. Finally, car pricing has hit record levels after automotive production was curtailed earlier this year while manufacturers worked to make assembly-lines safe and, in some cases, temporarily transitioned to the fabrication of medical equipment.

Second quarter results from Building/Construction were 3.3% lower than this time last year, right in line with forecast assumptions. Activity temporarily dipped following two months of job site shutdowns ordered in six Bay Area counties and a 5% decline in Los Angeles county output. Around the interior of the State, from Central California to the far northern areas, construction spending increased. Meanwhile, statewide consumer spending on home improvements drove up returns at outlets which posted record gains as home improvements occurred at a robust pace.



The Business/Industrial group reduction was slightly less than projected because of unanticipated increases in agricultural related expenditures and demand for equipment, supplies and technology to accommodate work and school at home conversions. One-time transit projects also produced temporary gains for the group overall.

Lack of dining opportunities along with stay at home mandates drove sales from full-service grocery stores up by 8%. Cannabis retailers were deemed essential; the addition of new merchants partially contributed to the 40% growth by this sector. Overall performance of the Food/Drugs group was slightly better than our estimates.

The full brunt of COVID-19 struck the Fuel and Service Stations industry hard during this time. While regular and diesel gas pump prices in California began to go back up at the beginning of the quarter, this did not translate into an increase in sales tax associated with fuel. People stayed home and did not travel or participate in many road trips. The airline and travel industries were hit hard, and this translated to lower sales tax on jet fuel. Total sales tax in the industry dropped 47% in the quarter completely attributable to lack of demand and consumption of fuel. Results varied in different parts of the State, depending upon the severity of shelter in place orders, local reliance on workers and facilities that supplied diesel fuel for the trucking industry.

General consumer goods receipts did better than projected declines, coming in 38% lower than the same period in 2019. Categories that exceeded expectations included electronics, home furnishings, sporting goods, and specialty stores. Statewide, these categories still reported extreme losses ranging from declines of 36% to 51%. Sporting goods/bike stores decreased only 11%. As households became local offices and learning centers it was clear spending shifted to categories that improved these spaces like home furnishings. Discount department stores, expected to perform well, grew market share and accounted for over 43% of revenue in from this group. Overall big box retailers declined which is attributed to reduced fuel consumption/prices that are combined with store transactions reported by some companies.

Restaurant spending hit a low point in April. The varying levels of restrictions across the state resulted in varying performance for restaurants in the second quarter. Restaurants in the Far North, Sacramento region and San Joaquin Valley were not hit as hard as the rest of the State. These areas boosted the statewide losses. Diners were anxious to return to restaurants and rushed to eat out during the re-opening in June. This behavior proved to be a momentary lift on restrictions, but provided a much needed, albeit small boost to casual and fine dining at the end of the quarter.

Our forecast for State and County Pools was inclusive of the Wayfair decision for both remote sellers plus newer marketplace facilitator taxpayers. Expectations were housebound families would be more judicious in spending, focusing on essential products and limiting discretionary spending. However, robust shopping pushed this group up 29%. Record numbers of online customer accounts were created during the shelter weeks. Online sales from segments like shoes, furniture, leisure wear and exercise equipment were beyond expectations. The largest impact emerged from general retailers who exceeded estimates; revenues from this sector rose \$71 million, a 264% improvement. Significant store closures across the State along with generous temporary unemployment benefits helped spur a greater than anticipated growth by the pools.

Pandemic based sales tax outcomes over the last two quarters of fiscal year 2020/21 have influenced our most recent September economic forecast. While these projections are a statewide perspectives, we remained focused on fine tuning budget estimates and addressing unique concerns based upon the expectations and needs of each client.





# HDL CONSENSUS FORECAST – SEPTEMBER 2020

## STATEWIDE SALES TAX TRENDS

ITEM NUMBER: C-1  
DATE: 02/09/21  
ATTACHMENT: 1

HdL Companies

 **TOTAL** 2020/21 | 2021/22  
0.6% | 8.4%

### **Autos/Transportation** 2020/21 | 2021/22 0.7% | 4.4%

Vehicle sales have bottomed and are beginning a recovery that will take 2-3 years, according to forecasts from WardsAuto and the Center for Automotive Research. High consumer debt and work-from-home policies are likely headwinds, but sales will be pushed forward by strong natural demand. Recent surveys indicate the biggest concern for car dealers is not economic issues but a shortfall of popular SUV and truck models on dealership lots after production was disrupted earlier this year. Consequently, vehicle pricing is at record levels. While lack of choice and fewer incentives may temporarily hamper sales, the higher pricing will be supportive of tax receipts going forward. Production issues should also be resolved in time, with WardsAuto reporting that North American factories recently reached 100% capacity utilization for the first time since 2005.

### **Building/Construction** 2020/21 | 2021/22 1.6% | 5.0%

Despite seven straight quarters of declining construction permit issuance, delays caused by Covid-19 workplace standards slowed projects enough to create a backlog that will mask the decrease of future development inventory through November for the Bay Area and Southern California regions. Between January and June, expect Bay Area and Southern California total construction levels to remain static while outlying areas will see growth because of the continuing need for affordable housing. Reconstruction of fire damaged structures should begin within 6 months after the fires are completely extinguished.

### **Business/Industry** 2020/21 | 2021/22 0.4% | 6.0%

Initial recovery is primarily related to accommodation of pandemic and climate-related changes. Strong demand for warehouse and shipping technology and equipment support the shift to online shopping in addition to home offices and virtual classrooms. Climate induced investment in irrigation and agricultural technology remains. Anticipate a strong rebound in medical equipment and pharmaceuticals once pandemic controls allows return of elective and non-emergency medical procedures. Unprecedented fires and hurricanes may temporarily close some production capacities and cause new supply chain interruptions. Expect uneven gains through fiscal year 2020-21 with overall improvement not until 2021-22. Each jurisdiction's experience will differ according to the size and character of its specific business/industrial base.

### **Food/Drugs** 2020/21 | 2021/22 3.5% | 3.0%

Most entities within this group remained open as essential businesses during the shelter in place orders. As such, people had to adapt to eating at home more often; this trend should continue for grocers and food sellers who have ramped up home delivery in a big way. Cannabis companies are adding new tax revenues as more establishments become open with approval from local jurisdictions. Drug store consolidations or reductions are likely in over-saturated markets.

### **Fuel/Service Stations** 2020/21 | 2021/22 -5.9% | 12.2%

Oil demand and consumption has plummeted throughout the globe. OPEC eased back production by two million barrels per day in early August. Saudi Arabia sees fuel demand wavering among the coronavirus flare-ups around the globe; they cut pricing for October oil sales. Inventory levels for U.S, European and Asian producers are above levels for what is typical right now. United States production slowed from a year ago. COVID-19 has significantly curtailed demand for jet fuel. With economic signs reflecting downward pressure on the fuel industry, we forecast taxes declining for the next three quarters with recovery beginning in the spring of 2021.

### **General Consumer Goods** 2020/21 | 2021/22 1.5% | 9.4%

Brick & mortar's turbulence lingers as merchants navigate economic headwinds while trying to balance reopening stores with public health and safety concerns. Consumer spending saw a quick recovery in June as retailers began opening doors but has leveled off since July at just under 15% of pre-COVID levels. New demand for electronics, appliances, and home furnishings spurred by the need to create work from home and virtual learning environments are anticipated in the short term. Federal stimulus combined with a lack of outlays on fuel and entertainment allowed households to make use of excess discretionary income. Initial third quarter reports show spending being tempered as unemployment benefits expired and consumer confidence staggered to a six-year low. Our projections have tax volumes staying below the pre-pandemic peak through fiscal year 2021-22.

# HDL CONSENSUS FORECAST – SEPTEMBER 2020

## STATEWIDE SALES TAX TRENDS



2020/21 | 2021/22

**TOTAL** 0.6% | 6.4%

ITEM NUMBER: C-1

DATE:

02/09/21

ATTACHMENT:

1

HdL Companies



### Restaurants/Hotels

2020/21 | 2021/22

**-15.5% | 20.1%**

Restaurant spending has slowly started improving, but the Governor's Blueprint for a Safer Economy imposes capacity limits for indoor dining with the best scenario allowing indoor dining at 50% capacity. The CDC has released a study that is leading health officials to state that eating out is one of the riskiest activities for COVID. Large gatherings are still not allowed. As Paycheck Protection Program (PPP) loans run out, many types of restaurants are facing dire situations; the forecast assumes that 20% will not survive the restrictions. Restaurants with drive-thrus are a valuable asset and are performing better. The unknown timing for indoor dining and the changing weather ahead present the next obstacles for restaurants. The industry is being hit hard and the recovery will lag far behind other industry groups.



### State and County Pools

2020/21 | 2021/22

**12.9% | 8.0%**

Thrust forward by the pandemic, online sales still dominate a growth pattern in contrast to most of the on-the-ground retailer's short-term declines noted above. Recent shelter in place mandates created some category winners, especially from direct to consumer and marketplace facilitator companies. The coronavirus spurred many more customers shopping on the web while much of the retail industry addresses location closures, layoffs and bankruptcy. The final implementation of the Wayfair decision in California occurs in the first months of fiscal year 2020-21 and will influence the forecast for that year. Thereafter, consumer's behavior continues a steady ascent into more essential and discretionary spending away from stores; next year's increase reflects this trend.

Proposition 172 projections vary from statewide Bradley-Burns calculations due to the state's utilization of differing collection periods in its allocation to counties. HdL forecasts a statewide increase of 0.32% for Fiscal Year 2020/2021 and 8.42% for 2021/2022.





## U.S. Real GDP Growth

2020/21 | 2021/22

12.4% | 2.4%

One month the economy was fine, the next it was in complete freefall. With the second quarter behind us, we have a good idea of the damage generated by the pandemic – output dropped almost 12% from the fourth quarter of 2019 to the second quarter of 2020, the sharpest decline ever recorded. The big question is where does the economy go from here? A collapse in consumer spending occurred, but not because people couldn't spend money (driven by a collapse of wealth), but because fear and caution surrounding the disease itself prevented them from spending. A prime example is the healthcare industry. Over one-third of the decline in consumer spending occurred from a drop in healthcare consumption. Healthcare is not a cyclical sector and did not experience a single quarter of lower spending in previous cycles. Therefore, the hit this time was not driven by reduced demand but because the healthcare system deferred non-essential visits until the virus was brought under control. So to answer the big question – there will be a bounce in economic activity in the second half of 2020, aided by the resumption of delayed spending.



## U.S. Unemployment Rate

7.2% | 5.1%

As dramatic as the second quarter numbers have been, there is plenty of evidence indicating that the shocks to the economy are largely transitory. The enormous surge in unemployment was not driven by true job losses but by temporary layoffs. At 14.7% in April 2020, the U.S. unemployment rate reached a post-WWII high. However, in the subsequent months, the unemployment rate has steadily and consistently declined to 8.4% as of August 2020, as businesses continue to reopen and economic activity continues to resume. Additionally, the share of the labor force that was truly unemployed – either lost their job permanently or have entered the labor market and are looking for work – was roughly 3% in April, substantially lower than the 8% plus rate seen back at the peak of the Great Recession. In a less positive sign, the unemployment rate for those who are truly unemployed increased in the following months, reaching 4.1% in July.



## CA Total Nonfarm Employment Growth

-2.3% | 4.4%

California's labor market began to recover from the effects of the COVID-19 pandemic in May and has continued that recovery through August, adding 885,000 jobs. There was a slowing of job growth through July and August, but that was in large part a reaction to the resurgence of the virus in the form of renewed public health mandates. Yet, even with this moderation in employment growth, the previous four months account for some of the strongest month-over-month job gains in the state's history. Notwithstanding these record-breaking gains, California has only regained 33% of the jobs that were lost in March and April. Considering the trauma sustained by the state's economy, the key question centers on how long it will take the labor market to recover. Simply put, the roughly 2.6 million jobs lost in March and April will not return over night, even after the spread of the virus is fully contained. Indeed, about 100,000 jobs were added to the state's economy in August, and while this is a positive sign, if the state continues to add jobs at this rate, it will take until the second half of 2021 to reach February 2020 levels.



## CA Unemployment Rate

2020/21 | 2021/22

9.9% | 7.4%

One ostensibly positive sign is that the state's unemployment rate fell to 11.4% in August, a 4.1-percentage-point decline relative to April, although this remains a far cry from the 3.9% rate enjoyed one year ago. It could be the case that the month-over-month decline was driven more by a decline in the state's labor force than by an increase in employment. California's labor force – the sum of the state's employed and unemployed – contracted for the second consecutive month, losing 117,100 workers in August. From a year-over-year perspective, the labor force has declined by 3.7% – a steeper drop relative to the 1.9% decline in the nation overall. Since February, the number of people looking for work in the state has fallen by 807,000, a sign that many workers have become discouraged and have stopped actively looking for employment. A possibly better sign is that 50% of the state's unemployed workers report their layoff as temporary, and that they should be returning to work in the coming months. Notably, however, in April more than 70% of the state's workers described their unemployment in these terms. The shrinking number of people who identify as being temporarily unemployed creates concern that many existing layoffs are turning permanent.



## CA Median Existing Home Price

\$505,006 | \$527,356

While the impact of the pandemic has been broad-based throughout the economy, the impact on the residential housing market has been relatively mild. Homebuyer sentiment took a hit in the early months of the pandemic, as buyers and sellers grappled with the new constraints of homebuying in a pandemic. Statewide, year-over-year home price appreciation fell to 0.7% in the second quarter of 2020, the lowest rate recorded since the 2008-09 recession. Meanwhile, home price growth tracked into negative territory on a quarterly basis, falling 4.1% from the first quarter to the second quarter of 2020. Fortunately, California's housing market is recovering swiftly, in tandem with the nation as a whole.

Monthly data show home sales in a high growth climate, with significant activity occurring in more rural parts of the state such as the Central Coast, Sierra/Gold Country, and north Bay Area counties. Prices are recovering as well. The resumption of sales at higher ends of the market is helping prices increase overall, while the persistence of low housing inventory adds upward price pressure in response to the surge in demand.



## CA Residential Building Permits

92,879 | 108,215

The COVID-19 pandemic has had less of an impact on the residential housing market than most other sectors of the economy. The quintessential V-shape recovery seen in home prices and sales testify to this dynamic. Residential construction activity in California declined in the second quarter of 2020, (despite most construction activity being deemed "essential"), and the state permitted roughly 5,000 fewer permits relative to the first quarter of the year. Thereafter, residential permitting has recovered rapidly, returning to pre-COVID levels in July. Beacon Economics considers housing to be among the least affected sectors going forward.

## HdL Companies

120 S. State College Blvd., Suite 200  
Brea, CA 92821  
Telephone: 714.879.5000 • 888.861.0220  
Fax: 909.861.7726

California's allocation data trails actual sales activity by three to six months. HdL compensates for the lack of current information by reviewing the latest reports, statistics and perspectives from fifty or more economists, analysts and trade associations to reach a consensus on probable trends for coming quarters. The forecast is used to help project revenues based on statewide formulas and for reference in tailoring sales tax estimates appropriate to each client's specific demographics, tax base and regional trends.

## Beacon Economics LLC

5777 West Century Boulevard, Suite 895  
Los Angeles, CA 90045  
Telephone: 310.571.3399  
Fax: 424.646.4660

Beacon Economics has proven to be one of the most thorough and accurate economic research/analytical forecasting firms in the country. Their evaluation of the key drivers impacting local economies and tax revenues provides additional perspective to HdL's quarterly consensus updates. The collaboration between Beacon and HdL helps both companies enhance the accuracy of the work they perform for their clients. In addition to forecasting, Beacon specializes in economic impact analysis, sustainable growth and development, housing and land use, and regional economics.



**HdL** Companies

714.879.5000 | [hdlcompanies.com](http://hdlcompanies.com)



# ***Atascadero***

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## ***Comprehensive Financial Strategy February 2021***

### ***Attachment D:***

*UCLA's Anderson Forecast, California  
December 2020*

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# The Economic/Pandemic Question: To Close or Not to Close?

Jerry Nickelsburg  
Director, UCLA Anderson Forecast  
Leila Bengali  
Economist, UCLA Anderson Forecast  
December 2020

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## Summary

- As 2020 draws to a close, labor markets in California are weaker than those in the U.S. overall.
- Non-pharmaceutical interventions (such as mask mandates and restrictions on business operations) tend to be more restrictive in CA than elsewhere.
- Across the U.S. in October 2020, states with more restrictive non-pharmaceutical interventions tended to have higher unemployment rates, though historical evidence suggests that more restrictive non-pharmaceutical interventions may not significantly affect economic activity in the near term and may help in the long term.
- Looking to the future, the forecast for the state is for the technology sectors, residential construction, and logistics to lead the recovery, and for California post-pandemic to grow faster than the U.S.

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## Introduction

Since the pandemic-induced recession began last March, we have said that the course of the pandemic, and the public health policy response to it, is critical to the economic forecast. As well, we have pointed out that we do not know what the future will bring with respect to the pandemic. What we do know is that the pandemic is raging across the

country once again. California has responded, as before, with more restrictive non-pharmaceutical interventions (NPI) via mask mandates, closures, and gathering restrictions. We expect that to continue, particularly through the holiday season as significant traveling by Americans has thus far presaged further increases in COVID cases.<sup>1</sup> We also know that at least three vaccines are in the latter stages of testing and approval. Does this mean that we are out of

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1. Though total domestic and foreign air travel remained significantly below a year ago, from the last week in October to the last week in November, the total number of passengers processed by TSA increased by 16%. A year previous the increase was 8%. <https://www.tsa.gov/coronavirus/passenger-throughput>

the woods soon? The answer is maybe. There is still much that is unknown, however for purposes of our forecast, we are assuming that by summer a large number of people will have received one of the vaccines. In this California report we ask two questions: where are we now? And what are the likely future effects of the more restrictive NPIs on the state's economy? The short answer is that the state has higher unemployment than in the U.S. overall, and the state is due to grow faster than the U.S. once restrictions are lifted and the pandemic is in the rear view mirror.

## Sectoral employment retrospective

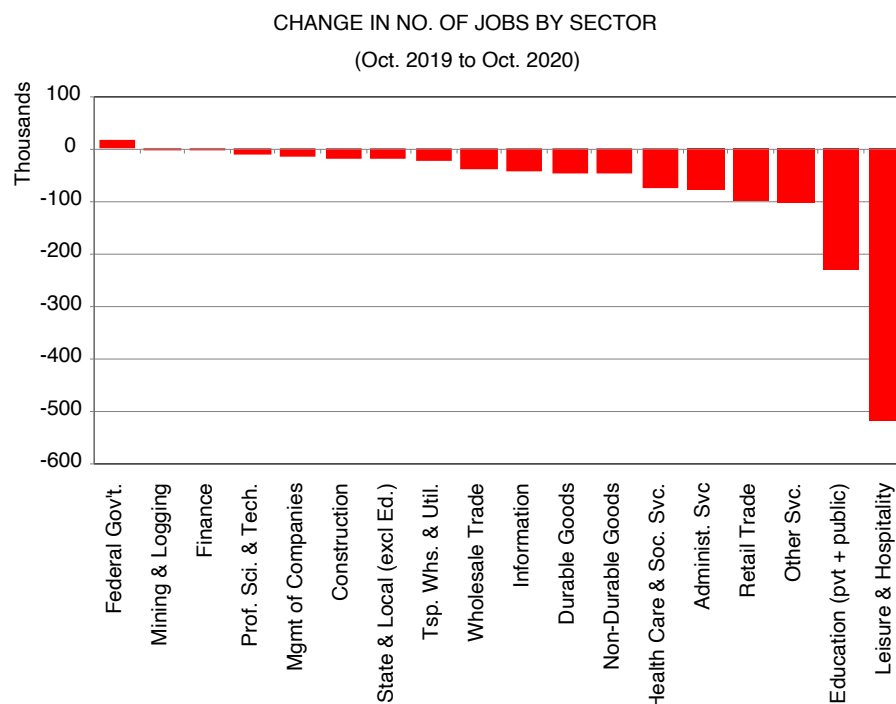
The near-term recovery in employment in the state depends critically on the course of the pandemic. As we move through Thanksgiving to New Year's Eve and usher 2020 out, we are confronting new highs in COVID cases and changing restrictions on economic activity. How this plays out is an open question, however, to make our forecast we must first make an assumption about the pandemic and the policy response. Our assumption is that the elevated number of cases will remain for the balance of the year, and households will remain cautious when it comes to holiday activities including in-store shopping. This will mean a weak growth rate

through the balance of the year and into early 2021. With at least three vaccines in the latter stages of testing and approval, for the purposes of our forecast we also assume that a large number of people will have received one of the vaccines by summer, ushering in the beginning of a return to normalcy.

## In the 2020 recession a few sectors have been shouldering the brunt of the job loss.

On a year over year basis, including the recovery of some of the lost employment occurring between April and October, leisure and hospitality, retail, and education remain the weakest (Figure 1). Since October 2019, 1.37 million non-farm payroll jobs in California have been lost. Leisure and hospitality and education account for 55% of the job loss, with almost 80% of the education employment decline in the public sector. Another 15% of the job loss is in retail and other services for a total of 70% of all unemployment in the state. These sectors will also be impacted by the rate of recovery as they each involve a higher level of human contact than other economic activity.

Figure 1 Change in Number of Jobs by Sector

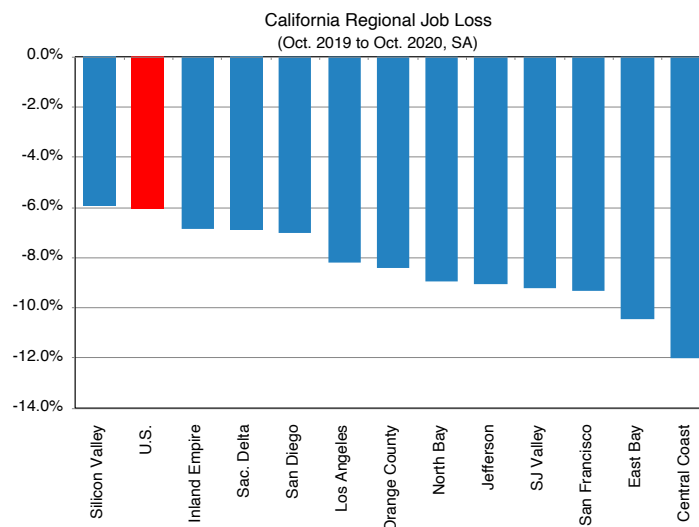


Source: California EDD

Regionally the recession has been uneven as well (Figure 2). However, unlike the great recession, there is not the bifurcated impact of inland vs coastal California. San Francisco, the North and East Bay, the Great State of Jefferson, and the San Joaquin Valley have all contracted by about the same percentage. The Inland Empire, Silicon Valley, San Diego, Sacramento and the Delta have fared better and contracted less. Some of this is due to the impact of a shut-down in tourism. San Francisco is a major destination for international tourists, and Napa and Sonoma for domestic tourists. The Inland Empire has been rebounding with residential construction and logistics, and Silicon Valley with the demand for new software technologies for the new way in which business and socializing are being conducted today. Also important in understanding regional differences is the way in which commuters appear in the data. The data on unemployment are from the CPS (Current Population Survey also known as the Survey of Households). This survey polls individuals by their domicile. The payroll employment data shown here in Charts 1 and 2 are from the Current

Employment Statistics survey which collects data on payroll jobs by the employer’s location. For example, the Inland Empire lost 6.9% of its payroll jobs from October 2019 to October 2020 while Orange County lost 8.39%. However the unemployment rate in both places rose about the same amount, about 5 percentage points (3.9% to 9.0% in the IE and 2.6% to 7.5% in Orange County). The differential stems from the fact that commuters into Orange County from the less expensive communities in the Inland Empire, particularly those working in the northern parts of the county’s leisure and hospitality industry, are counted as unemployed in Riverside County and not in Orange County. We find the same pattern with San Joaquin and the East Bay relative to Silicon Valley and San Francisco in Northern California. Since lower income sectors are projected to grow slower than higher income sectors, and commuters from inland counties are more likely to be lower income, the spillover effects of the growth of technology, advanced manufacturing, and professional services in the coastal cities may be less pronounced than in previous recessions.

Figure 2 California Regional Jobs Loss



Source: California EDD

## Human contact sectors: How long until recovery

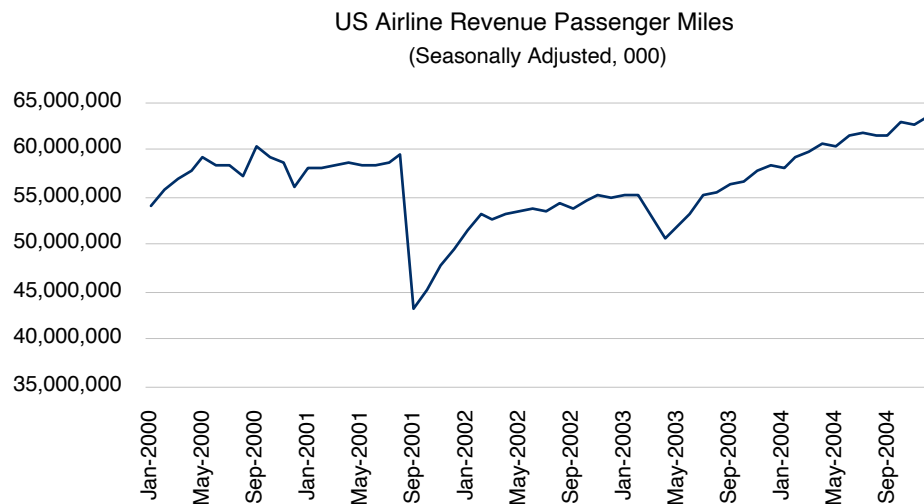
In previous California reports we wrote about our analysis of fear-of-flying data and how that informs our forecast for the current downturn. It bears repeating as it is an important element of the forecast. What is different now from last June when we did this analysis is the new, more acute, wave of infections. It is possible that we are in for a long winter and that the pandemic will not cease to have a major impact on the leisure and hospitality, retail, other services, and education sectors until widespread vaccination occurs. In our national forecast we assume that this is late spring to early summer 2021. What that means for the recovery of the human contact intensive sectors is that their recovery, which began in June, will experience a hiatus until the coming June.

To understand how long it will take, we turned to an analysis of the loss in passengers from the 9/11 attacks on American aviation. Though quite different than a pandemic, it is similar in two respects. First, the demand for domestic air travel is discretionary, and second, the decline in demand was a consequence of safety concerns. Figure 3 shows the decline

in traffic and the return to the previous peak. There is a 31 month recovery in commercial airline domestic travel as measured by revenue-passenger-miles. However, the decline and recovery, then as now, is confounded with a recession. Beginning in March of 2001 and extending through November of the same year the economy contracted. It was a mild recession, however that loss of income affected the demand for passenger traffic as well.

In a 2004 study by Ito and Lee,<sup>2</sup> these and other factors affecting the demand for air traffic were separated out. They found that while there was a 30% instantaneous decline in demand right after 9/11, there was a relatively rapid recovery of all but 7.5% of that decline. That residual persisted through the extent their data. This result is consistent with other studies of the economic impact of accidents on air traffic (see for example Barnett and LoFazo (1983) and Squalli (2005)<sup>3</sup>). Applying their model to the leisure and hospitality demand in California presents a somewhat gloomy picture. Specifically, the sector remains at 20% below its previous peak at the end of our forecast horizon (2023) due to both the safety and income effects. That translates to 200,000 relatively low-income Californians with long-term unemployment for 30 months following the end of the pandemic.

Figure 3 U.S. Airline Revenue Passenger Miles



Source: U.S. Department of Transportation

2. Harumi Ito and Darin Lee. 2005. "Assessing the Impact of the September 11 terrorist attacks on US airline demand." *Journal of Economics and Business*. Vol:57 (1). Pp:75-95.

3. Barnett, A. and LoFazo, A. J. 1983. "After the Crash: The Passenger Response to the DC-10 Disaster." *Management Science*. Vol:29. Pp:1225-1236.

Squalli, J. 2005. "Do Consumers Have Imperfect Recollection about Airline Safety?" *Applied Economics Letters*. Vol:12. Pp:169-176.

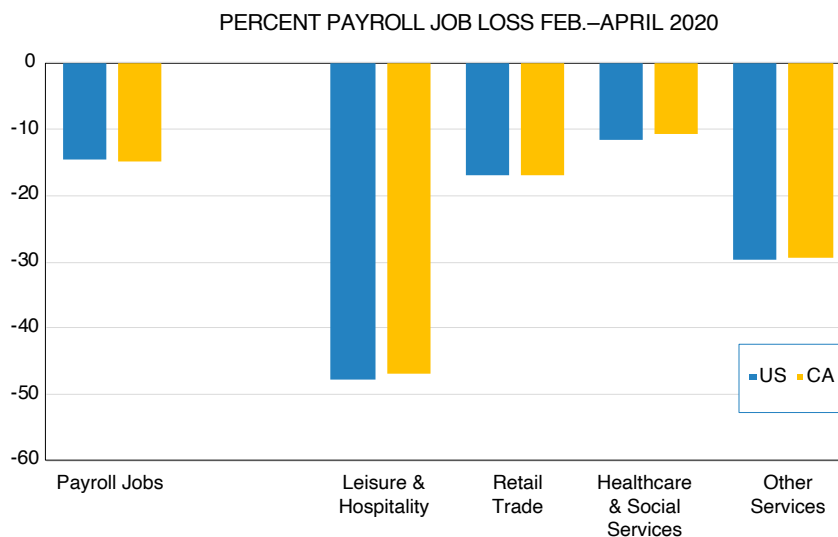


To be sure, some will find employment in other sectors, but in an economy that is demanding technical skills, it will be challenging. There is one important caveat. Our shelter-in-place and zoom-fatigue has been said to create an enormous pent-up demand for human interaction. That being the case, we can expect a little more rapid recovery than suggested by this fear-of-flying analysis. Nevertheless, 2024 remains the most likely return-to-previous peak employment in these sectors.

## Is California Falling Behind?

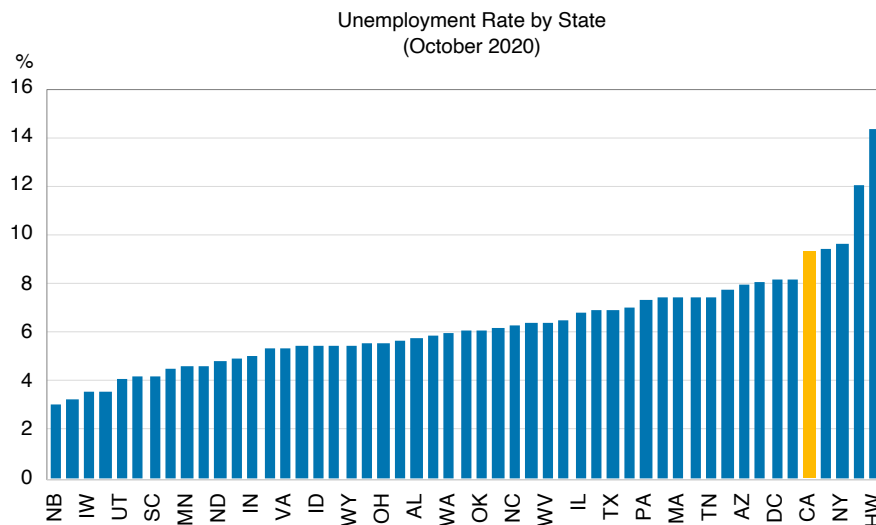
Through the initial phase of the recession, March/April 2020, the contraction in employment in California looked much like the contraction nationwide (Figure 4). One would expect California to recover *pari passu* with the national economy based on these data. The differences would be in the faster growth from the tech sectors and the slower growth from the sectors serving international tourists. Otherwise, for a

Figure 4 Percent Payroll Job Loss Feb–April 2020



Source: EDD.ca.gov, BLS.gov

Figure 5 Unemployment Rate by State



Source: BLS.gov

change, California looked to be quite average in the recessions impact.

However, the expansions in the state and in the U.S. overall look a bit different (Figure 5). California has one of the highest unemployment rates in the U.S. Tourism is one reason. Another is that the extent of the government intervention in California via NPI compared to other states is somewhat different, and that raises the question, what are the near term and long term economic impacts of the NPI policies in California?

## Economic implications of closures

To begin to answer the question we look at the relationship between non-pharmaceutical interventions (NPI), a fancy way of saying shutdowns, gathering restrictions and mask mandates, and indicators of the labor market (the unemployment rate and employment growth rates). To analyze the relationship between labor markets and NPIs, we culled data gathered by the University of Oxford and aggregated by the New York Times.<sup>4</sup> From these data we assigned each state a value with 0 indicating the least restrictive NPIs, 1 moderate, and 2 most restrictive during the month of October 2020.

In a regression of unemployment rates on this measure of public health policy, policy variation explained just under a quarter of the unemployment rate differences between states (as measured by the regression's R-squared). Using this model, we derived an unemployment for each state as if all states were at the least restrictive NPI level (Figure 6). While California is not in the middle of the pack, it is not far off, about 1.3 percentage points higher than the average. A higher implied unemployment rate in the state is due, at least in part, to the fact that California is host to over 20% of all foreign tourists coming to the U.S.; tourists who are no longer making the journey. If we repeat this exercise using a model that includes an indicator control for states with significant international tourism (California, Nevada, Hawaii, New York and Florida), California's implied unemployment rate is lower than the average for all other states.

We can also look at the relationship between payroll employment and NPIs. Using the same NPI variable as before in a

regression to explain the change in total non-farm payroll employment by state from October 2019 to October 2020, we find similar results (Figure 7). The NPI variable explains a third of the variation in growth rates in employment across states. Moreover, in this regression, the counterfactual growth of employment in California with all states set to have the least restrictive level of NPIs rests squarely in the middle of the pack.

From these simple regressions we learn two things about the forecast. First, since California, as a matter of public health policy, tends towards more restrictive NPIs than many other states, so long as the pandemic rages, employment growth will be slower and the unemployment rate higher than in the rest of the nation. Second, the underlying economy is not necessarily weaker than other states in the U.S., though each state has its own labor market idiosyncrasies.

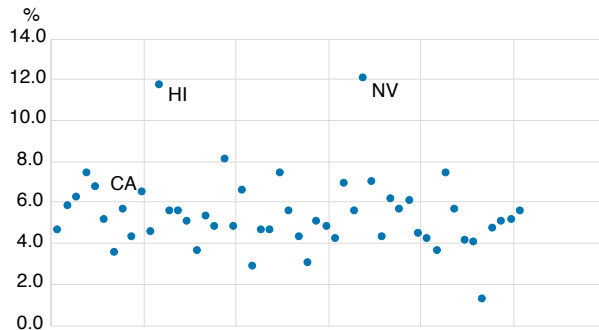
Will more restrictive NPIs have longer term adverse effects on the California economy? There is not a lot of evidence to work with, but recent studies of the 1918/1919 Influenza Pandemic suggest the opposite. For example, a research project by economists at the Federal Reserve and MIT found that over the course of the influenza pandemic, NPIs had no statistically significant impact on economic activity.<sup>5</sup> The reason for this was twofold. First, in cities with less restrictive NPIs, more employees were sick and therefore produced less output. Second, because health outcomes were worse, consumers were more reticent to purchase goods and services involving higher degrees of human contact. Thus there was both a demand and supply consequence for those cities with less restrictive NPIs. Subsequent to the pandemic, and adjusting for population size and migration, they found that cities with more restrictive NPIs experienced faster post-pandemic growth. To be sure, the economy of 2020 is quite different than that of 1918. It is less rural, more urbanized, more globalized, and more mobile between regions. Nevertheless, the results are informative. Thus, with the expectation that the tech sectors along with residential construction and logistics will be leading the recovery, our forecast has California, post-pandemic, once again growing faster than the U.S.

4. <https://covidtracker.bsg.ox.ac.uk>, [https://www.nytimes.com/interactive/2020/11/18/us/covid-state-restrictions.html?name=styl-coronavirus&region=TOP\\_BANNER&block=storyline\\_menu\\_recirc&action=click&pgtype=Interactive&impression\\_id=6b50d752-2b45-11eb-be08-77c2b2e224fa&variant=1\\_Show](https://www.nytimes.com/interactive/2020/11/18/us/covid-state-restrictions.html?name=styl-coronavirus&region=TOP_BANNER&block=storyline_menu_recirc&action=click&pgtype=Interactive&impression_id=6b50d752-2b45-11eb-be08-77c2b2e224fa&variant=1_Show)

5. Correia, Sergio and Luck, Stephan and Verner, Emil, *Pandemics Depress the Economy, Public Health Interventions Do Not: Evidence from the 1918 Flu* (June 5, 2020).

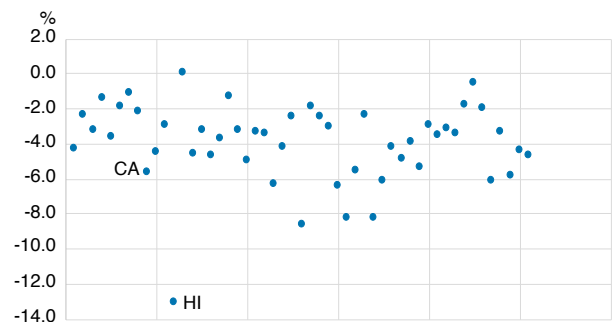
<http://dx.doi.org/10.2139/ssrn.3561560>

Figure 6 Implied October 2020 U-Rate With Less Restrictive NPI for All States



Sources: New York Times, Oxford University, UCLA Anderson Forecast

Figure 7 Implied Oct 2019 to Oct 2020 Growth Rate With Less Restrictive NPI, Non-Farm Payroll Jobs



Sources: New York Times, Oxford University, UCLA Anderson Forecast

## The Forecast

Although the timing may be offset with California beginning a significant recovery later than some other states, we expect the California recovery to ultimately look very much like the U.S.<sup>6</sup> The recovery in CA will be slower in the leisure and hospitality and retail sectors due to the disproportionate reliance on international tourism<sup>7</sup>, and mixed in transportation and warehousing due to the shift to online shopping on the one hand and the expected continuation of the trade war with China in a Biden administration on the other<sup>8</sup>, but faster in business, scientific and technical services and in the information sector due to the demand for new technologies for the new way we are working and socializing, and faster in residential construction as California's shortage of housing relative to demand drives new developments.

The unemployment rate for the 4th quarter of this year is expected to be 8.9%, and for the entire years 2021, 2022

and 2023 we expect average unemployment rates of 6.9%, 5.2% and 4.4% respectively.

Our forecast for 2021, 2022 and 2023 is for total employment growth rates to be 6.1%, 3.4% and 2.2%. Non-farm payroll jobs are expected to grow 3.6%, 3.8% and 2.5% during the same three years. Real personal income is forecast to fall by -1.0% in 2021 as transfers from the stimulus packages expire and grow by 2.1% and 3.4% in 2022 and 2023. In spite of the recession, the continued demand for a limited housing stock coupled with low interest rates leads to a forecast of a relatively rapid return of homebuilding. Our expectation is for 123K net new units in 2021; a 16.2% increase from 2020 and continuing to grow to 132K for 2023. Needless to say, this level of home building means that the prospect for the private sector building out of the housing affordability problem over the next three years is nil.

6. Leo Feler, "A gloomy COVID winter and an exuberant vaccine spring" UCLA Anderson Forecast, December 2020.

7. California's share of international tourists to the United States in 2018 was 21.39%. U.S. National Travel and Tourism Office. [https://travel.trade.gov/outreachpages/inbound\\_general\\_information.inbound\\_overview.asp](https://travel.trade.gov/outreachpages/inbound_general_information.inbound_overview.asp)

8. William Yu and Jerry Nickelsburg. "The Pandemic and the Trade Agreement." Cathay Bank, March 2020. And "The Economic implications of the National Security Law" Cathay Bank, May 2020.

## **DRAFT RESOLUTION**

### **RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ATASCADERO, CALIFORNIA, APPROVING FINANCIAL POLICIES AS DOCUMENTED IN SECTION 6 OF THE COMPREHENSIVE FINANCIAL STRATEGY**

**WHEREAS**, the City Council has reviewed the Comprehensive Financial Strategy as updated February 2021; and

**WHEREAS**, the City Council desires for financial wellness for the Community and City operations; and

**WHEREAS**, the Comprehensive Financial Strategy updated February 2021 provides Policies and Practices that, when adopted, will enhance the financial wellness of the Community and the City operations; and

**WHEREAS**, the City Council hereby wishes to approve the financial policies and practices as documented in Section 6 of the Comprehensive Financial Strategy.

**NOW, THEREFORE BE IT RESOLVED**, by the City Council of the City of Atascadero:

**SECTION 1.** The above recitals are true and correct.

**SECTION 2.** The policies and practices detailed in Section 6-Policies, of the Comprehensive Financial Strategy updated February 2021, attached as Exhibit A to this Resolution and incorporated herein by this reference, are approved as presented.

**SECTION 3.** These policies are effective immediately upon adoption of this resolution.

ITEM NUMBER: C-1  
DATE: 02/09/21  
ATTACHMENT: 2

**PASSED AND ADOPTED** at a regular meeting of the City Council held on the \_\_\_\_th day of\_\_\_\_\_, 2020.

On motion by Council Member \_\_\_\_\_ and seconded by Council Member \_\_\_\_\_, the foregoing Resolution is hereby adopted in its entirety on the following roll call vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

CITY OF ATASCADERO

\_\_\_\_\_  
Heather Moreno, Mayor

ATTEST:

\_\_\_\_\_  
Lara K. Christensen, City Clerk

APPROVED AS TO FORM:

\_\_\_\_\_  
Brian A. Pierik, City Attorney