



Jovan D. Grogan
City Manager

CITY OF SAN BRUNO
OFFICE OF THE CITY MANAGER

May 31, 2022

Honorable Mayor and Members of the City Council:

It is my privilege to transmit the Proposed Fiscal Year (FY) 2022-23 Operating and Capital Improvements Program (CIP) Budgets for your review, consideration and action to approve.

This transmittal letter provides a comprehensive overview of the Proposed Budget and presents a fiscal summary of the projected results (referred to as “estimated actuals”) for the current fiscal year (FY2021-22) as well as a multi-year forecast for the primary accounts (referred to as “funds”) for the City’s operating budget. Funds and forecasts for the Capital Improvement Program can be found in the Proposed Budget Book. The Proposed Budget was presented for City Council budget deliberations on the following dates and times:

Date	Meeting Start Time	Subject	Purpose
May 31	5:00 pm	Proposed Budget Hearing, 1 st Session	Review and Discussion
June 14	7:00 pm	Proposed Budget Hearing, 2 nd Session	Review and Discussion
June 28	7:00 pm	Budget Adoption	Deliberation and Action

The remainder of this letter is organized into the following sections:

- Executive Summary (pg. 1)
- FY2022-23 Budget Overview (pg. 2)
- FY2022-23 General Fund Operating Budget (pg. 5)
- Long-Range Financial Forecast (pg. 14)
 - General Fund
 - Enterprise Funds
- Internal Service & Equipment Reserve Funds (pg. 23)
- Capital Improvement Program (pg. 23)
- Service Level Enhancements (pg. 25)
- Conclusion & Acknowledgements (pg. 26)

EXECUTIVE SUMMARY

Even as the pandemic continued, the City of San Bruno saw gradual economic recovery in FY 2021-22. With the federal assistance (\$10.2 million) from the American Rescue Plan Act (ARPA), the City was able to aid the San Bruno small business communities and restore some city service. Nine previously frozen positions were restored and nine new positions were added to the City team. ARPA fund is expected to exhaust by December 31, 2024.

With no significant revenue increases sustaining on the horizon, the FY 2022-23 proposed budget is developed with a zero-growth philosophy and maintains the City's status quo as the current fiscal year with inflation adjustments to supplies and services. Staff has included provisions for pending labor negotiations in the proposed budget based on the Council's authorization. Rectified labor agreements are reflected in the budgetary forecasts.

Due to the restraint of revenue resources, limited service enhancements are requested for FY 2022-23. For illustration purpose, the service level enhancements are listed in a separate section in the Proposed Budget document. Record high inflation and tight labor market are the biggest road blocks the City faces at this time. Restoring services to the pre-pandemic level will take a longer time than previously anticipated.

The City has many immediate needs and the backlogs are long. COVID-19 worsened the City's financial status. The road to full economic recovery in San Bruno will be long and windy. The City may experience additional revenue shortfalls in the next few years. Our larger plans to enhance the City organization as well as the services and programs that we provide to the community will take much longer time to implement than we had originally thought.

City staff continue to track and support efforts for financial support from the Federal and State governments to local government. That said, should a version of the bill become law and include direct support to the City of San Bruno, that action will necessitate a change to the City's budget and may reduce the number and/or extent of the budget reduction strategies. Notwithstanding this potential support, the City retains the responsibility to adopt a balanced budget.

As we proceed through the development of the FY2022-23 budget and embark on the year ahead, staff will continue to make progress on current financial initiatives as well as adjust the scope of the project to meet the new challenge that is before us.

FY2022-23 BUDGET OVERVIEW

The proposed budget reflects the City Council's ongoing conservative fiscal policies and the priorities identified through the City Council's goal setting and budget/revenue policy discussions. The Proposed Operating Budget for all General Fund Departments and for the City's Enterprise Funds outlines important initiatives included in the coming year's work program and a financial plan to accomplish key City objectives. The budget provides a comprehensive overview of the City's organization, operations, anticipated revenues and projected expenditures to support operations and projects. It is intended to serve as a strategic tool to communicate, implement and monitor the City Council's direction and priorities for delivery of programs and services.

The Capital Improvements Program Budget outlines an aggressive work program of 93 projects and funding strategies that are intended to assure necessary repair and improvement to the City's facilities and infrastructure that support the delivery of all City programs and services. This year, a specific focus was applied to budgeting for projects that will be started and/or completed in the coming fiscal year. This allows for a more accurate projection of expenditures and is also an illustration of the fact that staff plans to allocate time to make progress on current/open projects that were funded in prior years. This year, staff also reviewed the various funding

sources available to fund the capital improvements and leveraged state, county and grant funding sources to their fullest extent to ensure the City retains adequate available funds in the City's General Fund Capital Reserve Fund in case those resources may be needed for other purposes.

As in previous years, the budget proposes some changes and enhancements to improve operational efficiency and to effectively address operational challenges and certain areas of community priority. A complete list of proposed program and service enhancements and other changes for FY2022-23 is presented in a separate section.

Each departmental section of the Operating Budget outlines specific work program objectives and goals that support the City's overarching priorities established by the City Council to move the community forward in several important directions. These priorities were most recently discussed by the City Council during the City Council's May 10, 2022 Strategic Planning and Goal Setting Session and include:

- Implementation of the Transit Corridor Vision to Revitalize Downtown and Commercial Corridor;
- Assure Rehabilitation & Replacement of Critical Community Facilities and Infrastructure;
- Grow City Revenues to Assure On-Going Fiscal Stability and Economic Vitality;
- Continue to Strengthen Community Connections and Engagement;
- Protect and Improve Community Aesthetics and Safety;
- Continue Proactive Planning for the Future of San Bruno; and
- Organizational Health and Employee Success.

With these initiatives continuing in place, the coming year's work program expressed through the Operating and Capital Improvements Program Budgets, builds upon the progress achieved in prior years and is focused on an organizational commitment for delivery of services consistent with community needs and expectations and a shared vision for the community's future and vitality.

Over the past year, the City made major steps forward in all areas of the City's operation that directly address the City Council's established long-term objectives. These accomplishments set the foundation for continuing City progress. Some of these accomplishments have game changing potential for the community. Just a few of the many accomplishments the City has achieved in the past year are listed below.

- **Constructing a New Recreation and Aquatic Center:** For a few years, key department staff have been collaborating as an internal advisory committee to work with the architecture firm (Group 4) and Construction Management Firm (Griffin Structures) in progressing the new Recreation and Aquatics Center (RAC) Project through design and development of construction drawings and California Environmental Quality Act (CEQA) review. The new facilities will replace Veterans Memorial Recreation Center and the adjacent community swimming pool that have served generations of San Bruno residents for over six decades. The San Bruno Community Foundation has pledged \$50 million in restitution funding to turn the community's vision into reality over the next three

years. The City has selected a contractor to construct the building and the project is expected to complete in 2023.

- **Implementation of the Transit Corridors Plan:** The coming year will see modern transit-oriented residential and commercial project begin construction directly across the street from Caltrain at 111 San Bruno Ave. to anchor the northern gateway to downtown. The City is also working with the developer to bring the Mills Plaza project between El Camino Real and Linden Ave back to the City Council for consideration. This project will begin transformation of the community's commercial corridor and downtown consistent with the City's adopted Transit Corridor Plan.
- **Water and Sewer Infrastructure Maintenance:** As part of the City's ongoing aggressive water and sewer infrastructure replacement and improvement program, the City completed full replacement of the underground water and sewer mainlines throughout the City. These projects were delivered on time and within budget and were completed with minimal disruption to business activity in the downtown and other areas throughout the City and will assure reliable service to an area previously impacted by service failures due to aged, damaged, and deteriorating underground pipelines.
- **Bayhill Specific Plan:** The Bayhill Office Park houses Walmart.com and YouTube, two of the City's largest employers. The Bayhill Specific Plan includes office space expansion, creation of a private multi-modal transportation hub and a housing overlay in areas permitted.
- **Fiber-to-the-Home in Large Multi-unit Developments:** Installation of a new state-of-the-art Fiber-to-the-Home (FTTH) network at the Shelter Creek, Peninsula Place and Crystal Springs Terrance apartment multi-family complexes has shown positive results with a 68% subscriber penetration. FTTH offers a strong, reliable network and data speeds of up to 1 gigabyte available to over 2,400 residences in San Bruno. During the coming year the City Council will need to determine whether to continue this initiative or to pursue an alternative strategy for the future of San Bruno CityNet Services.
- **YouTube Development:** The development plan for YouTube was submitted in April 2019 and it is being reviewed and processed. The plan will build 440,000 square feet of new office space on an existing surface parking lots adjacent to existing buildings at 900 and 1000 Cherry Avenue.
- **Sale of the Crossing Property:** Last year, the City was approached by Cardinale Auto Group with a proposal to develop and construct a new Hyundai/Genesis dealership on the Crossing Property. Following a series of negotiations, the City and Cardinale have agreed on a Purchase and Sale Agreement in April 2021, which will return over \$5 million to the City, netting a profit of approximately \$3.6 million. Once the dealership is built and fully operational, it is estimated to generate \$1 million annually in sales tax, plus property tax on new assessed value.
- **Reimaging Tanforan:** Online shopping altered consumer behavior and contributed to the decline of brick-and-mortar shopping centers. The Shops at Tanforan, like many other shopping centers, have seen reducing consumer traffic over the years. COVID 19 pandemic further worsened the outlook of Tanforan. In early 2022, Alexandria Real

Estate bought the 44-acre Tanforan shopping center cite. A master plan of a modern, mixed-use development plan is under making to include officers, hotels, retail, entertainment and a minimum of 1,000 housing units.

FY2022-23 GENERAL FUND OPERATING BUDGET

The General Fund is the primary source of funding to support most of the services citizens commonly associate with local government. These include public safety, recreation, general administration and maintenance of parks and infrastructure. The General Fund is primarily comprised of tax-generated revenues including property taxes, transient occupancy (hotel/motel) tax, business license tax, and sales tax. These revenues collectively comprise over 50% of total General Fund revenues.

The FY 2022-23 Proposed General Fund Budget projects approximately \$54.9 Million in operating revenues and \$55.5 million in operating expenditures, resulting a deficit of \$0.6 million. To balance the General Fund budget, staff recommend the following strategies to address the deficit.:

Utilize Available Fund Balance in the General Fund (\$634,799): The proposed budget includes the use of available fund balance in the General Fund in order to balance the budget. The proposal will leave the projected ending FY2022-23 fund balance at \$7 million. Although the fund balance is greater than required (\$1.5 million), staff expects to reserve a portion of the fund balance for pending result of CDTFA's review on sales tax distribution as of June 30, 2022. The reserve is estimated to be around \$3.5 million at this time. Staff will update the estimated reserve after all year end accrual entries are recorded.

The following table summarizes proposed General Fund revenues and expenditures compared to the prior year, after adopting the above-mentioned budget balancing strategies.

General Fund Summary	FY2021-22 Adopted Budget	FY2021-22 Amended Budget	FY2021-22 Estimated Actual	FY2022-23 Proposed Budget
Beginning Fund Balance	\$5,485,682	\$5,485,682	\$5,485,682	\$7,663,890
Revenue	49,767,229	50,916,429	53,046,107	54,885,106
Expenditure	50,851,490	52,220,208	50,897,899	55,519,905
Surplus (Deficit)	(1,084,260)	(1,303,779)	2,148,208	(634,799)
Ending Fund Balance	\$4,401,422	\$4,181,904	\$7,663,890	\$6,999,092

The table below compares the General Fund Reserve balances against their policy targets:

Reserve Type	Reserve Policy Target	FY2021-22 Estimated Ending Balance	FY2022-23 Budget Ending Balance
General Fund	\$1,500,000	\$7,633,890	\$6,999,092
General Fund Reserve	25% of annual, budget expenditures	12,338,243	12,338,243
General Fund Capital Reserve	Goal of \$5,000,000	8,008,194	27,902,597
Emergency Disaster Fund	Target of \$3,000,000	2,831,450	2,841,450
Total		\$30,811,777	\$50,081,381

Although General Fund Reserve and Emergency Disaster Reserve are projected to be behind their respective targets, there are excess balances in other reserve accounts. Staff typically make fund transfers as a part of year-end closure procedure to reset reserve balances.

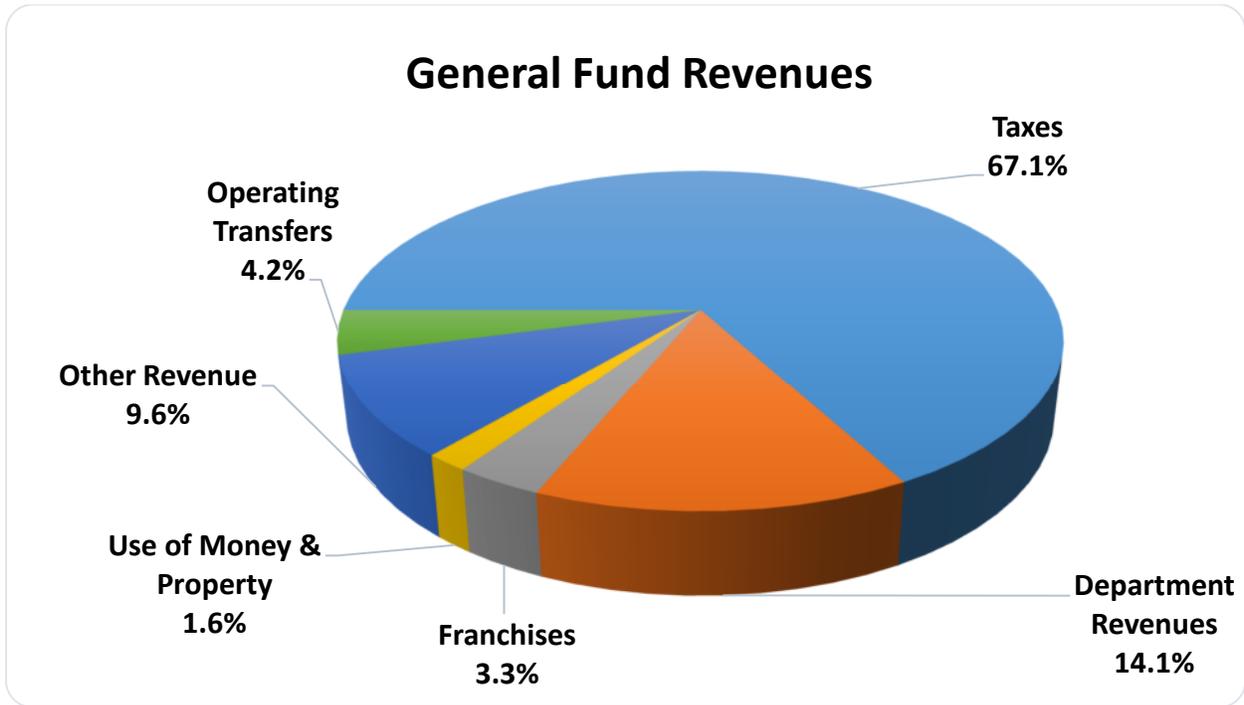
Two of the City’s enterprise funds, CityNet and Stormwater, will be in deficit status in FY2022-23., which posts significant strain on the City’s reserves. Enterprise funds are to self-support. However, when they fall short, General Fund is the only resource to fill the shortfalls. The table below shows the balances in the City’s reserve funds after reduced by the negative balances of CityNet and Stormwater. Although sufficient resource is available in General Fund in FY2022-23, it is not a sustaining model to support enterprise funds with General Fund resources. Staff are exploring opportunities to reduce expenditures and enhance revenues in both enterprise funds in order to erase deficits.

Adjusted General Fund Reserves	FY2022-23 Budget Ending Balance
Total General Fund Reserves	\$50,081,381
Stormwater - Enterprise Fund Deficit	(1,171,255)
City Net Services - Enterprise Fund Deficit	(15,471,571)
General Fund Reserves – Adjusted	\$33,438,555

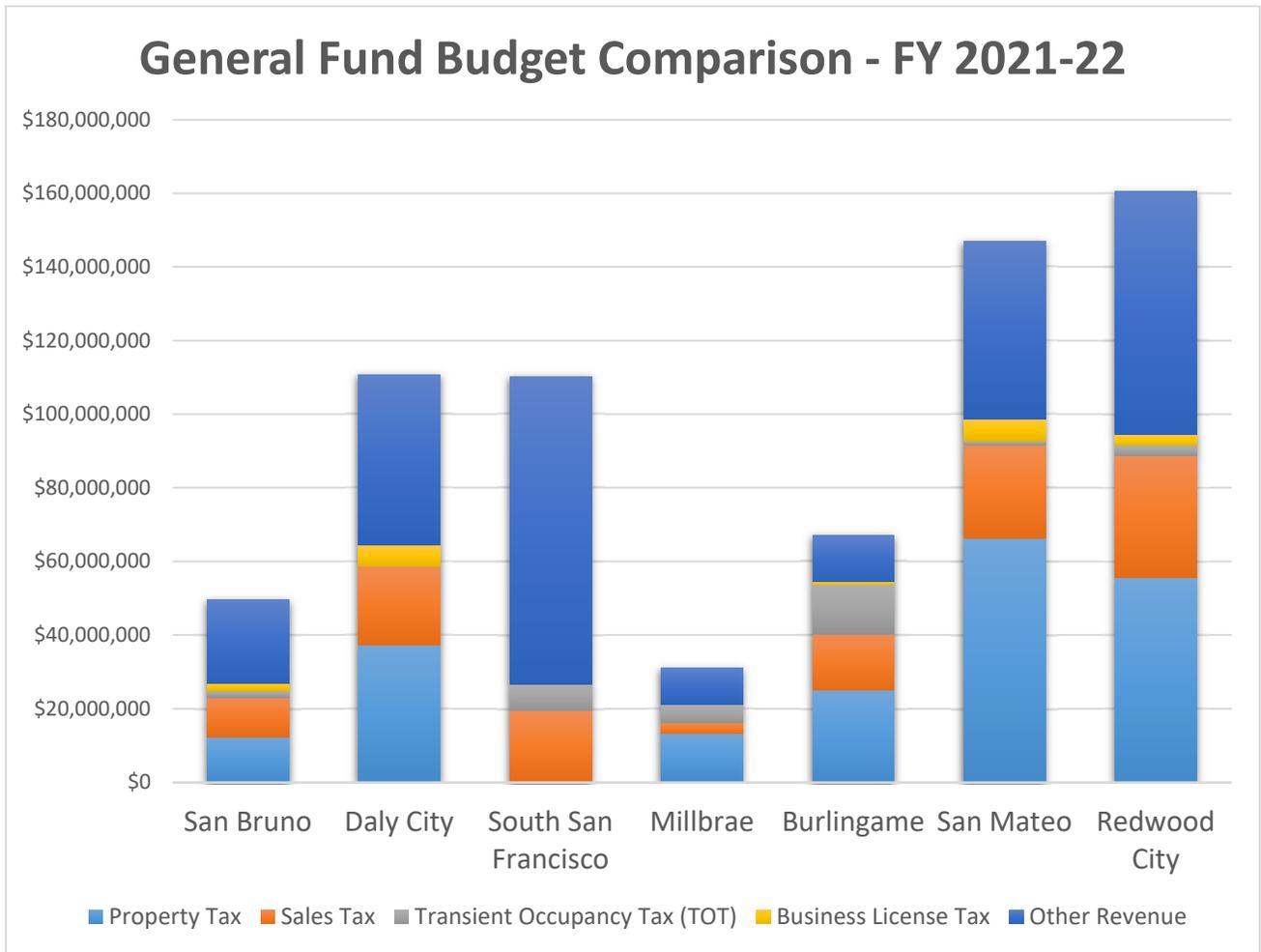
General Fund Revenues

In estimating revenues, staff analyzes actual amounts received in each category historically and makes projections in accordance with the anticipated economic trends. Staff adheres to a conservative budgeting practice when estimating all revenues. This practice offers some protection for the City from risk that an unexpected revenue shortfall will threaten the City’s ability to cover budgeted expenditures. In some years, this practice contributed to the City experiencing a surplus, of revenues over expenditures that the City Council has directed staff to utilize to address budget balancing strategies.

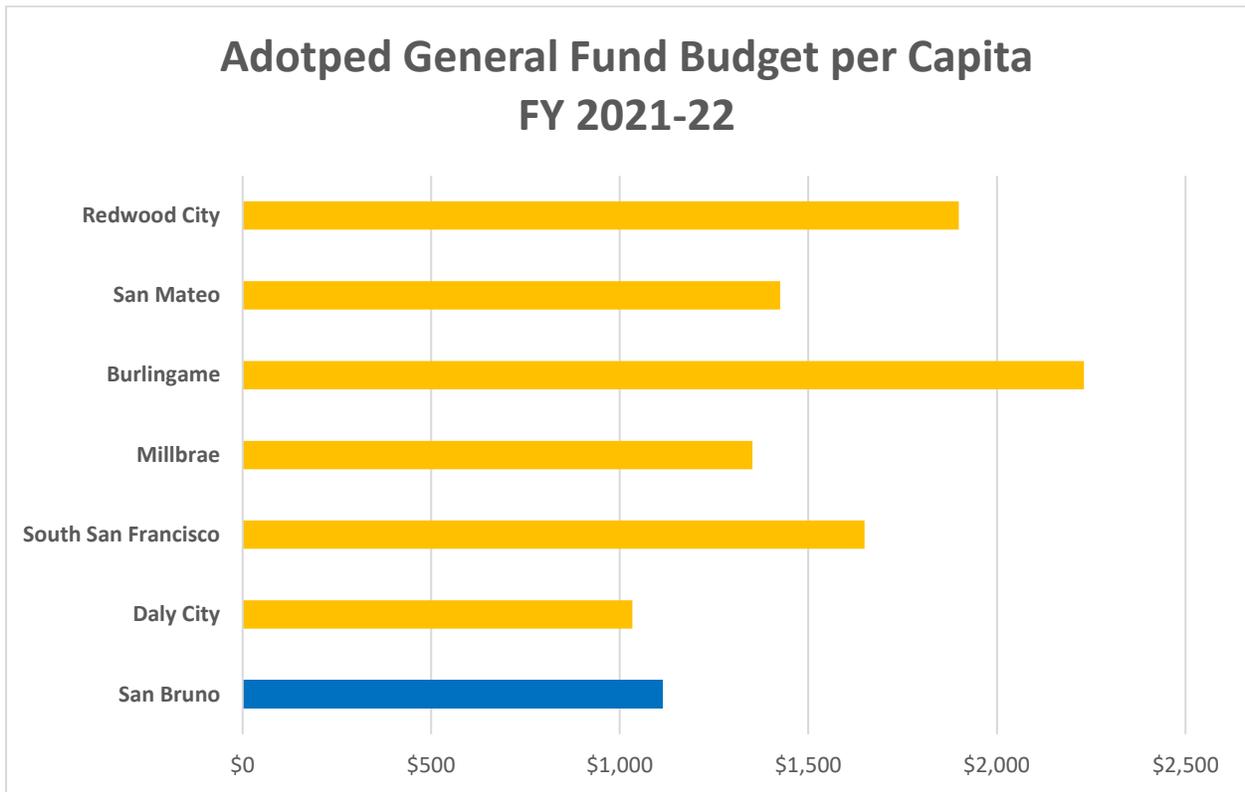
Total General Fund revenues is projected at \$54.9 Million for FY2022-23, reflecting an increase of \$4 million from the FY2021-22 amended budget. Majority of the increases are from hotel/motel tax and vehicle license fees. A detailed summary of each of the primary revenue categories follows below.



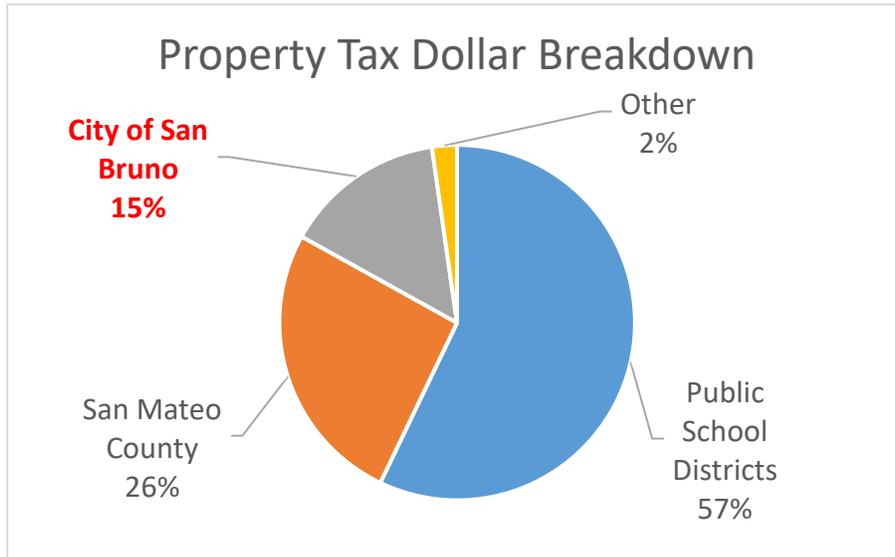
The City of San Bruno has historically had a lower per capita tax base than the majority of its neighboring cities. In comparing the City's FY2021-22 adopted budget to that of other cities in San Mateo County, San Bruno's General Fund revenues were at the low end.



When comparing General Fund revenues for the City’s FY2021-22 adopted budget with population for a “per capita” comparison, San Bruno ranks at the low end as well. San Bruno’s revenue sources are more limited and not as diverse as many other cities in San Mateo County which adds challenges to maintaining current services with rising costs and enhancing services.



Property Tax – Compared to other cities throughout California, San Bruno receives a relatively low amount of the total property tax collected in the City. San Bruno only receives about 12 1/2 cents from every property tax dollar paid in San Bruno. An additional 2 cents of property tax revenue have come to the City in recent years from the Educational Revenue Augmentation Fund, or ERAF, but this is not a consistent or reliable revenue source to fund on-going operations in the long term. The remainder of property taxes paid by property owners in the City goes to San Mateo County, school districts, and special districts. The housing industry and home sales boomed when more and more people work from home because of Coronavirus and stay-at-home directives. Secured property tax revenue is expected to increase by more than 4% over the prior fiscal year budget primarily due to higher property reassessment.

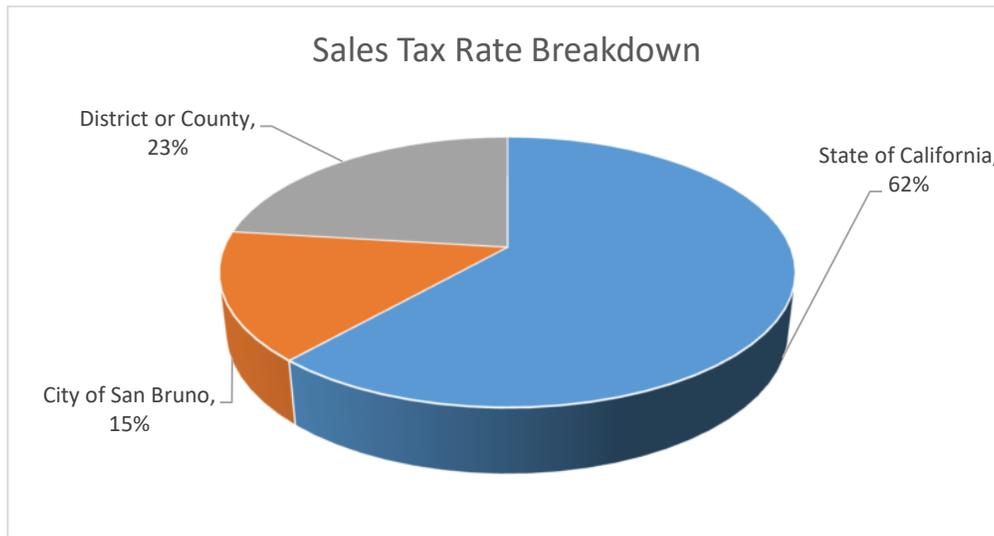


Property Tax revenue the City receives following dissolution of the San Bruno Redevelopment Agency in 2012 is also included in property tax revenue. Distribution from residual Redevelopment Property Tax Trust Fund (RPTTF) decreased by more than \$500,000 in FY2021-22, compared with the prior fiscal year. Staff slashed RPTTF revenue forecast for FY2022-23.

Overall revenue forecast for property tax in FY2022-23 is 1% lower than FY2021-22, due to the decreased forecast of RPTTF.

Sales Tax - Sales Tax of 9.75% is assessed on every taxable sale in San Bruno. Of the 9.75%, the City receives 1.5% or about 15% of the total tax. For FY2022-23 total Sales Tax revenue is anticipated to increase by 1% from the prior year's receipts. The sale of Tanforan Mall will cause reduced sales in the area, although the loss may be offset by other businesses and higher prices due to inflation.

California Department of Tax and Fee Administration (CDTFA) is reviewing its distribution of Bradley Burns Sales and Use Tax to the City. Staff will adjust the forecast of sales tax revenue after CDTFA informs the City of its final decision.



Transient Occupancy Tax - TOT in the amount of 14% is collected on the cost of each room rental at each of the 12 lodging establishments in the City. Occupancy in hotels declined by more than 75% shortly after the coronavirus outbreak. The hospitality industry is on the mend, although has not reached the pre-pandemic level. Staff is projecting continued recovery and an increase of a 60% in TOT revenue in FY2022-23 to \$2.8 million.

Vehicle License Fees (VLF) – The City receives property tax in lieu of vehicle license fees as a part of the revenue swap implemented by the State in 2004. The funding source for VLF is Education Revenue Augmentation Fund(ERAF) and property tax distributions to non-basic aid schools. Over the last few years, the funding for VLF experienced shortfalls annually. The City's VLF revenue had a shortfall of \$2.4 million in FY2020-21, which will be backfilled by the State in FY2022-23. This backfill significantly increased VLF revenue forecast in FY2022-23.

During the May 2022 budget revision in the State, a trailer bill was proposed to cap ERAF and use local tax revenues to pay the State's VLF obligations. If passed, this bill will cause increasing financial damage to local jurisdictions including the City of San Bruno.

Regulatory Card Room Tax – Gambling clubs in San Bruno are required to pay a quarterly tax per table, as required by ordinance. Artichoke Joe's requested to increase gaming tables from 38 to 43, effective June 1, 2021. Table rates are adjusted annually by CPI in the San Francisco area. Card room tax anticipates to increase by 5% in FY 2022-23.

Business License Tax – Business license tax is an annual tax based on prior year gross receipts. The pandemic devastated many sectors of San Bruno's business community and some businesses reported lower gross receipts for FY2021-22. For the next year, businesses will face strong headwinds with escalating inflation, disrupted supply chains and tight labor markets. Therefore, staff reduced business license tax revenue by 7%.

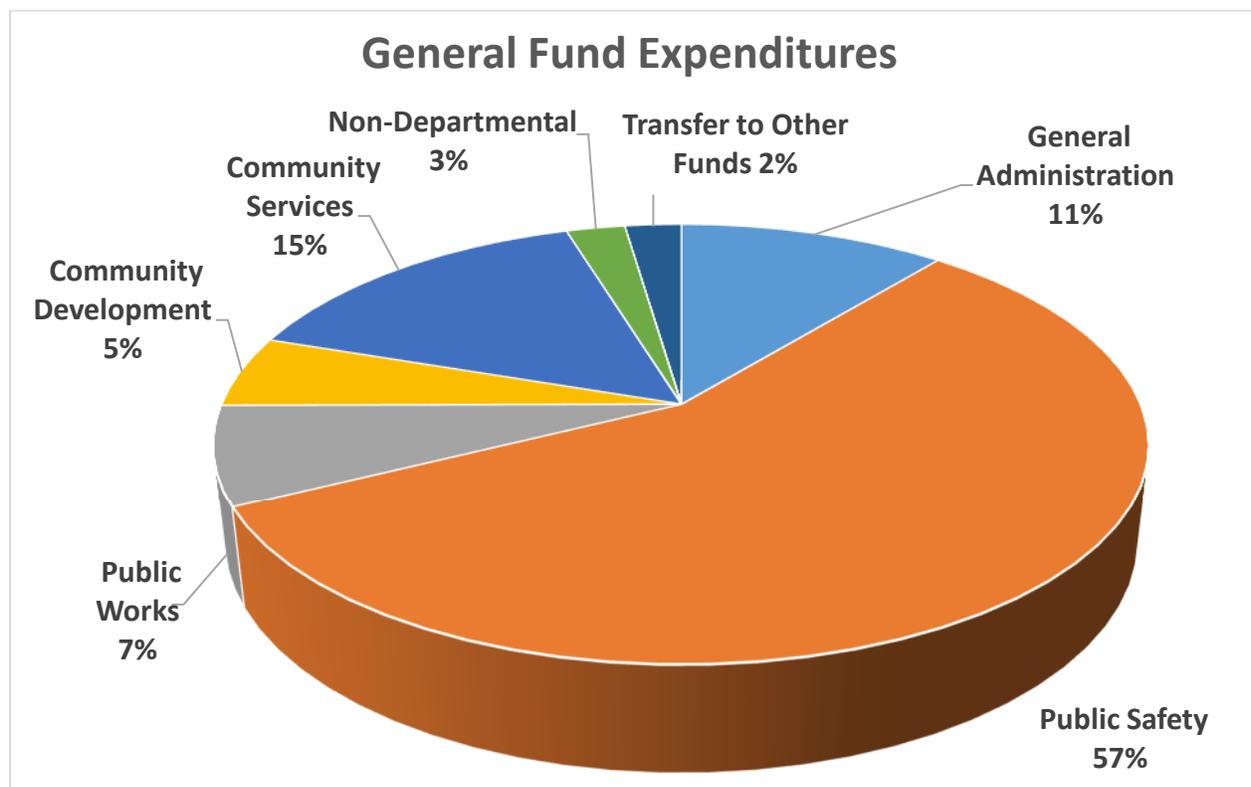
Use of Money & Property – Use of money and property will increase by 8%. With increase in interest rates, investment earnings are expected to increase. Property rentals are also expected to increase slightly.

Departmental Revenue – Total Departmental Revenues are projected to decrease by 6% compared to the FY2021-22 budget. The Building Division of the Community and Economic Development Department (CED) revised its revenue forecast per project pipeline. Some revenues previously anticipated for FY2021-22 will postpone to FY 2022-23.

The City Council approved user fee increases effective July 1, 2022 and the increases are included in the FY 2022-23 departmental revenues forecast. Departments including Police, Public Works and Community Services all anticipate significant revenue increases.

General Fund Expenditures

In developing the budgets, staff across all departments have carefully adhered to the City Council’s budget policy to control and contain costs at the lowest levels possible to allow for continued service delivery. Using a zero-growth based budgeting practice, departments were directed to evaluate on-going expenditure line items for necessity and lower cost alternatives. One-time allowances are excluded from the baseline budget. The following graph illustrates General Fund expenditures by functions.



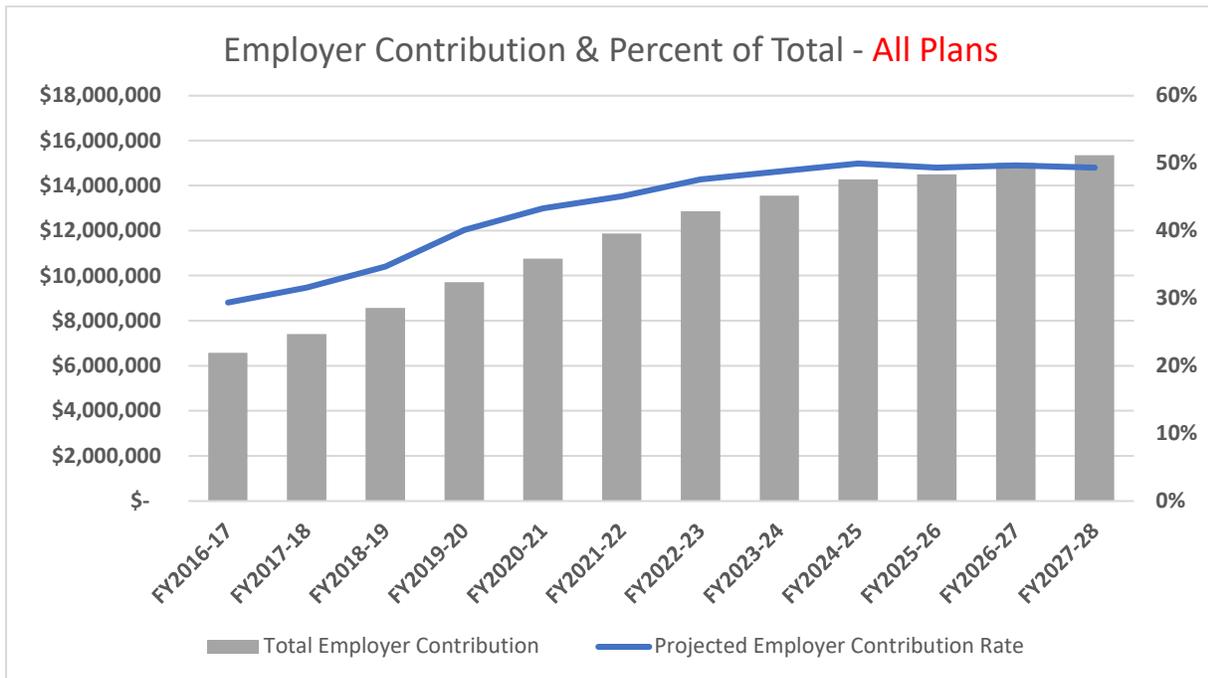
Significant highlights, changes, and comparison of FY2021-22 budgeted expenditures to the FY2022-23 proposed expenditures are described below:

Regular and Part-Time Salaries - Salaries for all full time and part time staff is the single largest category of expenditures in the operating budget at approximately 43% of total General Fund expenditures. The total budget for regular, part-time and overtime salaries across all

General Fund departments is \$24 Million. Pending labor negotiations are not factored into the salary forecasts. Provisions for labor negotiations are made at the fund level.

PERS Retirement - Employee retirement benefits total \$10.7 Million, or 19.2% of the General Fund expenditures. This amount represents an increase of approximately \$1.2 million compared to the FY2021-22 budget. The City continues to experience significant impacts from increasing costs for retirement benefits through the CalPERS system. Beginning in FY2018-19, CalPERS reduced the Discount Rate which is its expected earnings on all investments. The only revenues available to the CalPERS system to fund employee pension costs comes from three sources: investment earnings, employee contributions and employer contributions. As a result, the reduction of available revenue in the investment earnings category must be made up from increases to employer contributions.

As you can see in the graph below, the City's contribution to the CalPERS increases each year through FY2027-28.



As a strategy to control increasing pension cost, State legislation implemented pension reform and changes to retirement benefits through CalPERS, which took effect in 2014 and reduced the defined benefits available to employees who are new to the system. New employees hired in 2014 or later will receive reduced pension benefits; however, the City will not see a tangible effect on the City's retirement benefits costs for several more years until the City's workforce transitions substantially from Classic or tenured CalPERS members to new members. Based on projections from CalPERS, cities and other public agencies throughout the state can expect to continue experiencing retirement cost increases.

Employee Insurance Premiums - Employee insurance benefits (medical, life and long-term disability) are provided through the Teamster's Health and Welfare Trust and amount to \$5.1

Million in FY2022-23. The Trust notifies the City of the projected premium increase at the end of each calendar year.

LONG RANGE FINANCIAL FORECAST

Multi-year budgeting and long-range financial forecasting is a key government best practice. Developing a methodology with conservative revenue and realistic expenditure assumptions to review, as it relates to budget decisions and trade-offs, allows for more fiscally responsible decisions. It also provides additional data and direction for revenue enhancement planning and expenditure controls.

A summary of the long-range financial forecast for the City’s major funds, including major assumptions, can be found below.

General Fund

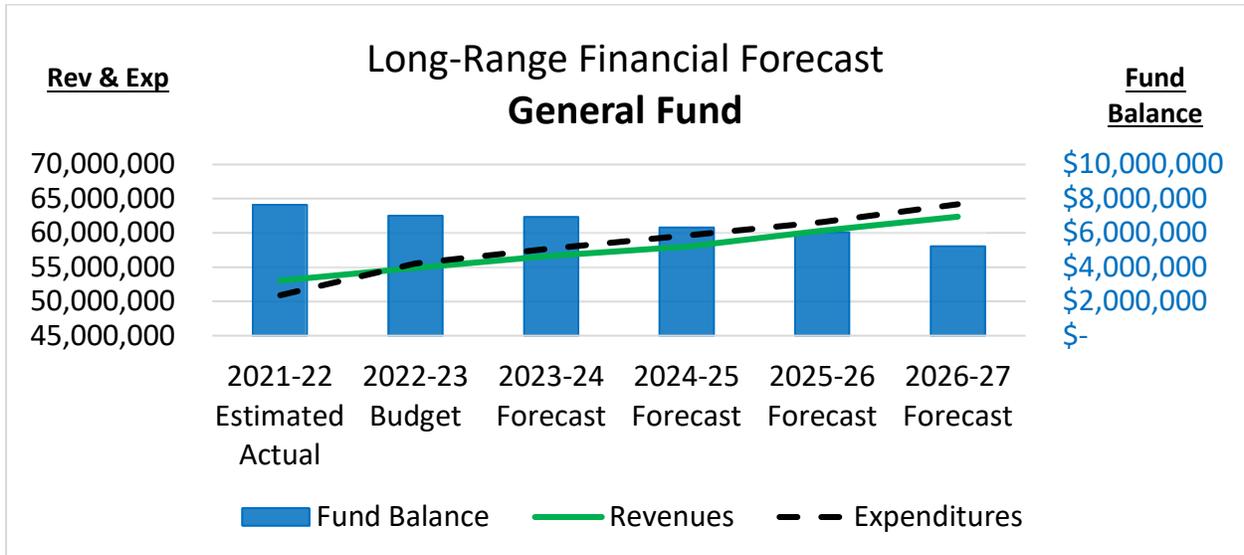
	FY2021-22 Estimated Actual	FY2022-23 Proposed Budget	FY2023-24 Forecast	FY2024-25 Forecast	FY2025-26 Forecast	FY2026-27 Forecast
Revenues	\$53,046,107	\$54,885,106	\$56,928,704	\$57,981,795	\$60,302,607	\$62,376,254
Expenditures	\$50,897,899	\$55,515,905	\$57,699,912	\$59,605,306	\$61,573,966	\$64,195,403
Fund Balance	\$7,633,890	\$6,999,092	\$6,927,884	\$6,304,373	\$6,033,014	\$5,213,865

The General Fund revenue is expected increase moderately in the next few years. Property tax annual increases have been strong in recent years, and the financial forecast assumes low growth in the beginning of the forecast. Considering persistent uncertainties in the economy, staff projects that many tax revenues will grow at low single digits. The City is projecting conservatively for its critical tax revenue sources and monitor the activity closely throughout the operating year to make adjustments when necessary.

A number of large development projects are in various stages of review with the City’s Community and Economic Development Department. The City will recognize both one-time and ongoing revenues from development including Planning and Building permits, as well as water and sewer capacity charges, development impact fees, ongoing water and wastewater utility billing and an annual stormwater assessment, and eventually increased property, sales and business license taxes. Development projects often experience delays and timing issues, so forecasting revenue to occur in a specific fiscal year is challenging. The long-range financial forecast considers revenue assumptions for most revenue sources based on existing timelines but discounted heavily to account for potential delays in development.

The General Fund will continue to experience significant pressure from pension and health insurance costs as well as annual inflationary increases for materials, supplies, equipment and various contracts. The forecast does not assume any additional position increases from what is being adopted in FY2021-22. The forecast assumes future expenditure reductions will be required in order to prevent fast erosions of the General Fund balance. This model will be a tool that staff will use to work with the City Council to evaluate continued revenue enhancement

strategies and on-going expenditure reductions to ensure a balance budget is achieved each year.



Need for New Revenues

This budget proposes to utilize available fund balance to balance revenues and expenditures and to assure continuation of all necessary program and service delivery in the coming year. Continuing cost increases to support necessary services creates a situation where there is insufficient revenue available to support existing service levels in the next three years. In addition, substantial revenues will be required to fund service level improvements desired by residents including traffic and code enforcement, street maintenance and rehabilitation, infrastructure replacement including streetlight poles and Stormwater infrastructure as well as improvement/replacement of critical community facilities such as the library, fire stations and park facilities.

The City Council continued focused discussion on strategies to address this situation will continue further focused evaluation over the coming year. During FY 2021-22, the City continued on its effort to on revenue enhancements.

- **Short Term Rental** – Staff has issued letters to short-term rental operators/platforms in an effort to collect taxes related to short-term rentals. Multiple discussions were held between staff and online platforms and the City has achieved meaningful progress.
- **Cannabis Business Tax** – In 2020, the City Council adopted an ordinance on commercial cannabis business tax, up to 10%. Staff continues to refine zoning codes and anticipates an ordinance adoption in the fall of 2022.
- **Bayhill Specific Plan Area Development Impact Fee** – Bayhill Specific Plan Policy requires the City to establish an area development impact fee program to address the applicable costs to fund the expansion of infrastructure and public facilities necessary to

serve the area. The fee will be updated periodically to account for changes in infrastructure needs and costs. The fees must be based on a “rational nexus” to demonstrate relationship between the fee amount and the impact caused by the development. The nexus study is near completion and will be submitted to the City Council for approval and adoption during the fall of 2022.

- **Various Ballot Measures** – The City Council is considering various ballot measure for November election. Polling is under way to collect feedbacks from San Bruno residents.

These successful efforts will result in additional revenue to the City over time; however, the additional revenue will not be adequate to fund all priority projects and strategic initiatives approved by the City Council and articulated in the Operating and Capital Budgets.

Enterprise Funds

The City’s four Enterprise operations provide business-type services that are rate and fee supported. To cover the cost of administrative and other services provided through the General Fund operating departments including the City Manager, Finance and Human Resources, each Enterprise Fund Budget shows an administrative allocation to the General Fund.

The same zero-growth budgeting approach to build expenditure proposals contained in the General Fund applies to Enterprise Fund Budgets. This approach, which requires careful review of each expenditure item, relieves some pressure for further customer rate increases that might otherwise be required to cover cost increases associated with staff time and acquisition of necessary supplies, contract services, and other operating expenses.

The City Council adopted a multi-year Water and Wastewater rate program in May 2017, provides for an annual 5% rate increase through FY2021-22. The program was based on a comprehensive review of operating and capital needs in the Water and Wastewater Enterprises. A new rate study is necessary to evaluate current operational costs and the planned capital improvement projects to replace and rehabilitate the City’s aging water and wastewater system infrastructure. While a new study is under way, there is no increase for the water and wastewater rate in FY2022-23.

The following table shows a comparison of the FY2021-22 revenues and operating expenditures (less capital outlay, equipment and debt service payments) for the City’s Enterprise Funds to the proposed amounts for FY2022-23.

Fund	FY2021-22 Amended Budget	FY2021-22 Estimated Actual	FY2022-23 Proposed Budget
Water			
Revenue	\$17,077,121	\$15,957,000	\$15,976,000
Expenditure	\$10,490,155	\$9,643,991	\$11,194,165
Wastewater			
Revenue	\$17,459,376	\$17,937,000	\$16,677,000
Expenditure	\$9,858,895	\$8,887,812	\$10,649,139
Stormwater			
Revenue	\$659,500	\$642,300	\$650,000
Expenditure	\$1,496,138	\$1,309,434	\$1,563,953
CityNet Services			
Revenue	\$9,810,775	\$8,462,511	\$8,937,164
Expenditure	\$9,852,227	\$8,806,358	\$8,712,432

Water Enterprise

The Water Enterprise supplies potable water to residents and business customers from the City's own groundwater pumping operations and from water purchased through the San Francisco Public Utilities Commission (SFPUC). The City's water system includes five production wells and eight storage tanks in six locations throughout the City. The City's average annual water production capacity is 1,900,000 gallons per day.

Under the terms of the Groundwater Storage and Recovery Agreement among the San Francisco Public Utilities Commission (SFPUC), San Bruno, Daly City and California Water Company the City curtails pumping from its wells to allow replenishment of groundwater levels during periods of time that surface water available through the SFPUC is sufficient to supply the City's entire water delivery requirement. The City does not pay an additional cost for this in lieu water but continues to incur well operating and maintenance costs to regularly exercise the wells and to assure that the wells remain fully operational and can be put into regular service when needed.

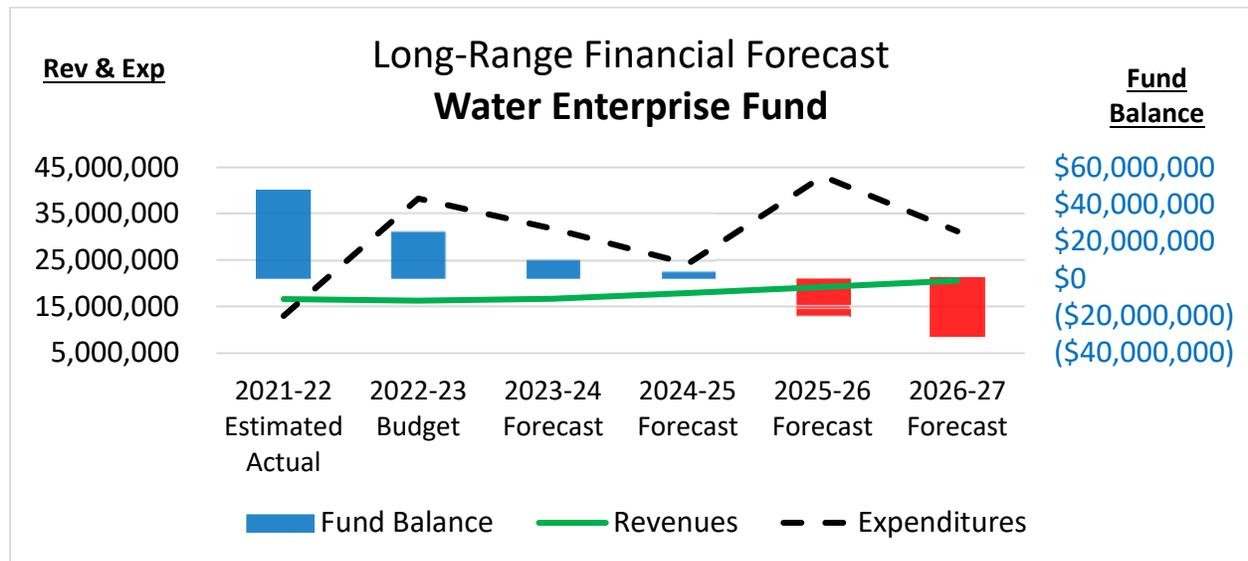
For FY2022-23, Water Enterprise costs are anticipated to increase compared to the prior year budget with total operating expenditures of \$11.3 Million. Once operating expenditures are covered, the remaining revenue amount of \$4.8 Million is invested in the Water Fund Capital Improvement Program to fund the City's system infrastructure replacement and rehabilitation program. That program includes a comprehensive plan and schedule for replacement and rehabilitation of the City's 50-100-year-old Water system pumps, storage tanks, pipelines and other facilities in order to support their ongoing service reliability.

In 2017 the City's Public Financing Authority issued Water Revenue Bonds to finance acquisition of water system improvements to assure sufficient funds are available to complete

critical capital projects on schedule. The bonds are payable solely from the revenues of the water system.

Priority water system capital projects planned for significant work and delivery during the coming year include the Main Improvement and Replacement Program that will replace Water main lines throughout a large area of the residential neighborhoods in “the Avenues” east of El Camino Real and the Water Tank Improvement and Replacement Program that will begin construction of the new Cunningham Water Tank. The several infrastructure capital projects planned for significant work during the next 5-years are discussed in detail in the FY2022-27 Capital Improvement Program.

The long-range financial forecast for the Water fund is strong in the near term but faces challenges starting in FY 2025-26. Rates are held flat in FY2021-22 and FY2022-23. Continued draught in California reduces water consumptions. Rate increases in future years are needed to yield additional, annual revenues to support ongoing operations and priority capital improvements. The capital projects are large and complex and require multi-million-dollar investments in a short period of time. Capital improvement projects will be evaluated annually and some may be delayed during the forecast period to sustain the fund’s self-supporting status.



Wastewater Enterprise

The Wastewater Enterprise operates and maintains the wastewater collection system throughout the City and provides for the City’s 33% shared cost of operating the South San Francisco/San Bruno Wastewater Treatment Plant located in South San Francisco.

The City’s operating and capital work programs in the Wastewater Enterprise have continued to be guided in large measure by the requirements of the Regional Water Quality Control Board compliance order and the settlement requirements of the lawsuit brought by San Francisco Baykeepers in 2010. These actions resulted from the City’s violations of the stringent

requirements of the Federal Clean Water Act prohibiting any release of untreated wastewater making its way to the Bay or another waterway. Those violations occurred in 2008 and prior. The corrective actions are directed at achieving significant and sustainable reduction in Sanitary Sewer Overflows (SSO's).

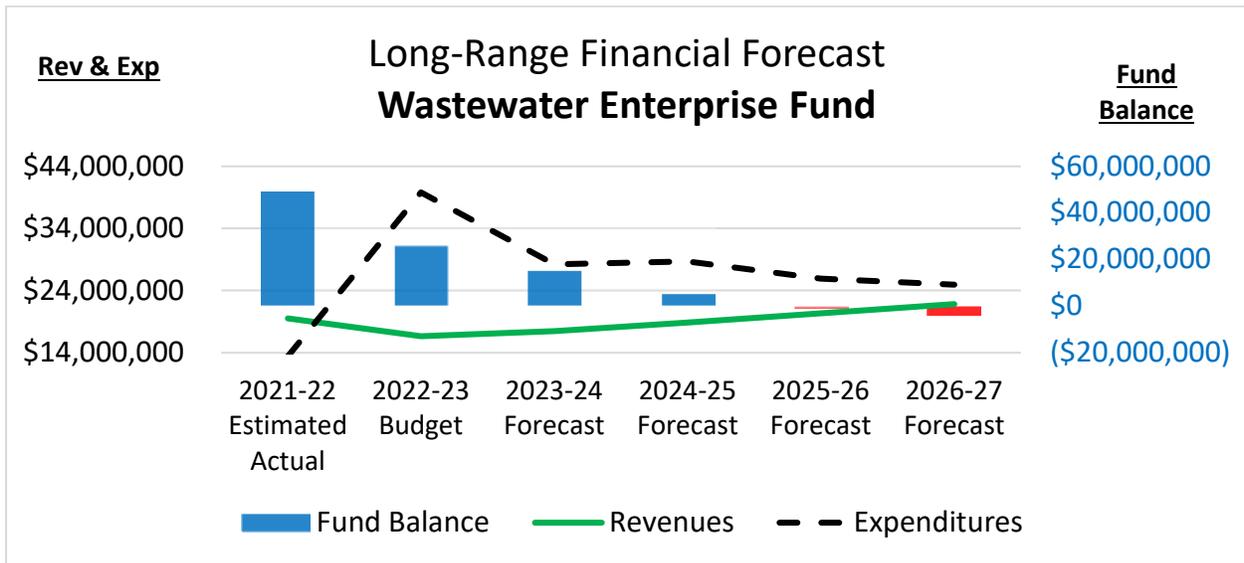
The City has re-tooled its regular wastewater system maintenance and operational procedures to improve system performance, reduce system overflows and the meet the specific requirements and targets of the City's compliance agreements. These revised operational practices include regular video inspection of mainlines to identify locations of potential failure, a spot repair program that provides timely repair to short line segments that are not scheduled for a more comprehensive pipeline replacement and a robust line cleaning program addressing known areas of root intrusion and other potential blockages.

The effort of City staff in implementing improved maintenance and operation practices along with the City's substantial investment in equipment including a dedicated video inspection vehicle and high pressure vector vehicles have been successful. So much so that the City has exceeded the specific requirements of the compliance orders in each of the last three years, reducing the number of SSO's from a high of fifty-four in calendar year 2008 to only two in 2017. In an email dated April 2021, San Francisco Baykeepers informed the City of September termination of the compliance orders.

The City's established five-year wastewater rate program took effect July 1, 2017 and provides for annual 5% rate increases through June 30, 2022. The City Council has decided not to increase wastewater rate in both FY2021-22 and FY2022-23 to lessen the burden on residents after COVID. Total system revenues for FY2022-23 are projected to be \$16.6 Million and operating costs are budgeted at \$10.6 Million.

The rate program as well as the 2017 issuance of Wastewater Revenue Bonds in conjunction with the Water Enterprise debt issuance assures adequate funding will be available for all Wastewater operations and to fund continuation of the City's aggressive capital improvement program to replace and rehabilitate the collection system facilities and main lines throughout the City. The Wastewater Enterprise also funds the City's share of costs associated with a comprehensive program to upgrade the shared South San Francisco Wastewater Treatment Plant facilities. During the coming year, Wastewater system capital project priorities will focus on Main Improvement and Replacement projects along 1st Avenue, Crystal Springs Road, Crestwood Drive and in the Avenues east of El Camino Real as well as Pump Station Improvement and Replacement projects at the Spyglass, Crestwood, Crestmoor and Lomita Pump Stations. The FY2022-27 Capital Improvement Program discusses planned infrastructure capital projects in detail.

The long-range financial forecast for the Wastewater fund is strong in the near term and demonstrates shortfalls starting FY2025-26. Like the water enterprise fund, the annual rate increases in future years are necessary to yield additional, annual revenues to support ongoing operations and priority capital improvements. Wastewater capital projects are large and complex and required multi-million-dollar investments in a short period of time. Capital improvement projects will be evaluated annually and some may be delayed during the forecast period to sustain the fund's self-supporting status.

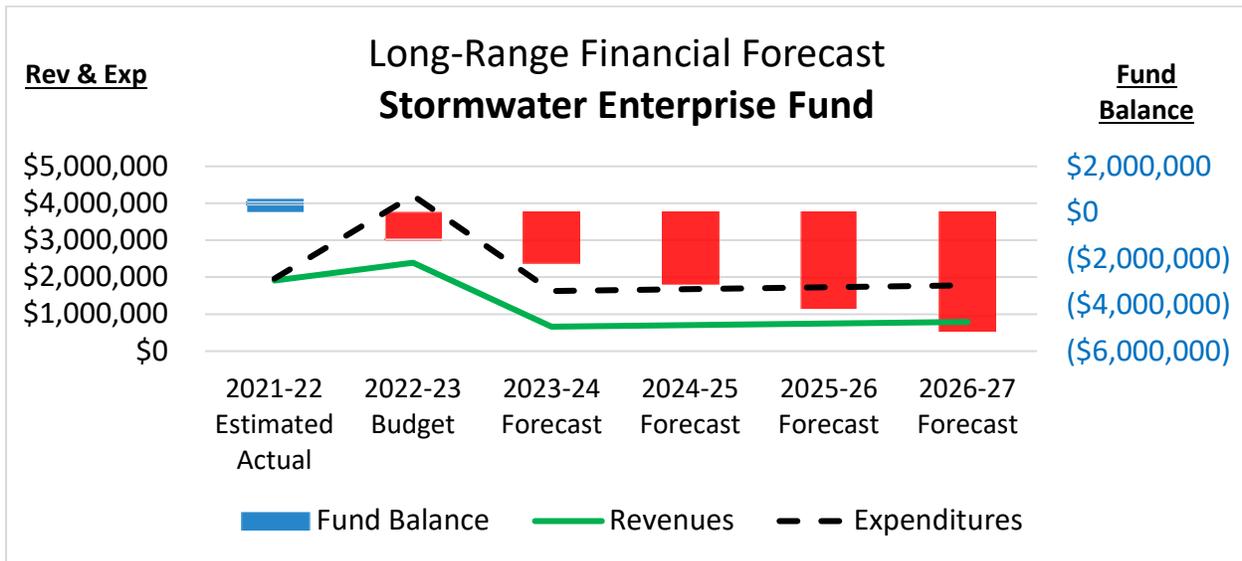


Stormwater Enterprise

The Stormwater Division of the Department of Public Works is responsible for maintaining the Stormwater conveyance system, as well as adhering to the requirements outlined in the National Pollutant Discharge Elimination System (NPDES) permit. Stormwater fees are collected through the County property tax, and a minimum of \$46.16 per assessor parcel number (APN) is assessed for most properties in San Bruno. The City has not been able to collect sufficient revenue to replace/repair the aging stormwater system.

In recent years, many cities have asked voters to approve of a dedicated funding source as the annual property tax assessment has proven to be inadequate to fund ongoing operations and necessary equipment and capital investments to meet federal requirements. In June 2021, the City held a mail ballot property-owner election to increase Storm Drainage and Flood Protection Fee. The initiative was rejected by voters overwhelmingly. Without additional revenues, staff are making every effort to minimize operation expenses and selectively delay improvement projects.

Stormwater fund balance stayed positive in FY2021-22 only because the City transferred \$1 million from ARPA to fund the enterprise. The financial forecast projects a negative fund balance in FY2022-23 with the negative fund balance increasing each year thereafter. The planned stormwater system capital improvement projects are to be funded by the General Fund due to the lack of dedicated stormwater fees.



CityNet Services Enterprise

The City provides a broad range of broadband video, data and voice services to residential and business customers over a cable network consisting of over one hundred miles of fiber optic and coaxial cable throughout the entire San Bruno community. The CityNet Services Enterprise also operates San Bruno Cable Channel 1 which covers all local City meetings, events, local programming, and informational public service programming and announcements. San Bruno Cable Channel 1 remains one of the most readily available and used informational resources for the San Bruno community and has proven to be a vital mode of communication particularly during the COVID-19 pandemic to inform citizens of services available to them.

The City took a bold step forward in the early 1970’s when it initiated building a state-of-the-art coaxial cable television system to serve the San Bruno community. Over the years as technology has evolved and additional types of programming and services could be delivered to homes over the system, San Bruno CityNet Services has continued a regular program of upgrades and adoption of new technologies to assure that services remain robust and competitive in what has become an increasingly competitive market environment. No other cable television provider has operated inside San Bruno in direct competition with San Bruno CityNet Services. San Bruno CityNet Services remains one of only a small handful of incumbent municipal technology providers in the nation.

Over the last decade, as new technologies have emerged and evolved at a rapid pace, the CityNet Services Enterprise has become increasingly subject to competitive pressure from outside operators using wireless and other technologies to deliver video, voice and internet services. The environment of rapidly changing technology is dramatically shaping and affecting the way San Bruno CityNet Services and others do business. Where basic cable services were previously the “bread and butter” of the cable industry business, San Bruno CityNet Services, like all of the biggest companies in the business including Comcast and others, has seen substantial decline in basic cable subscriber counts and revenues. At the same time, the

Enterprise is experiencing moderate revenue growth in its residential and commercial internet service revenues.

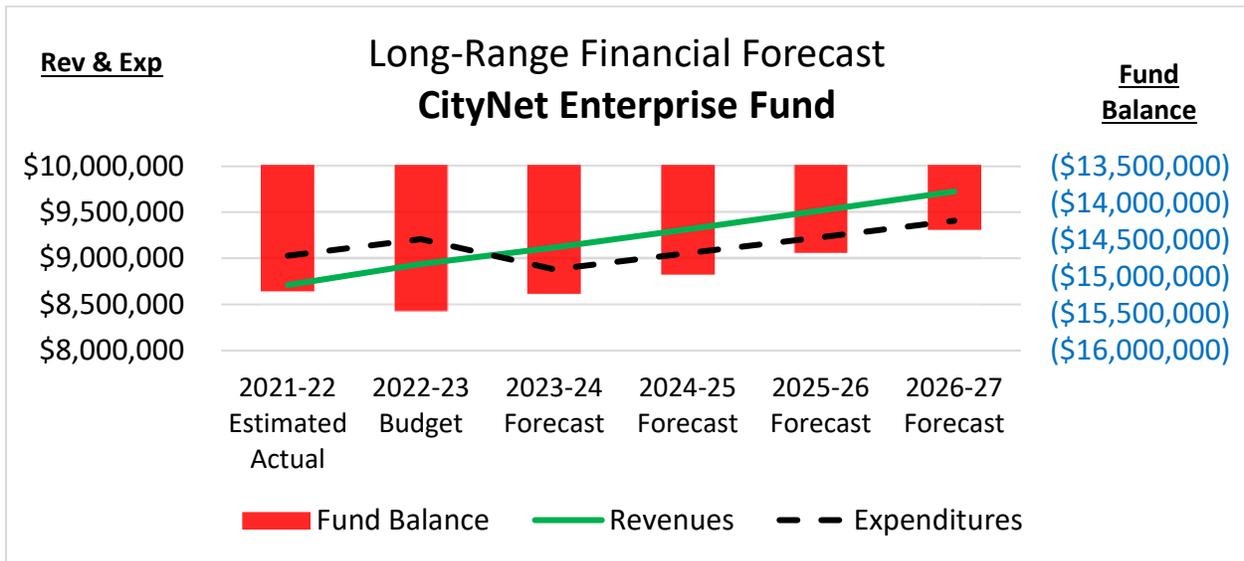
Over the past several years, subscriber revenues, the only source of Enterprise revenues, have not kept pace and have fallen far short of the capital investment required to stay current and to retain customers. As a result, the CityNet Services Fund has gradually developed a financial deficit that is estimated to reach approximately \$15.5 Million by the end of FY2021-22.

As an initial effort to address the deficit, the City Council approved a proactive, multi-year staged reduction of Enterprise costs by gradually eliminating the “equity transfer” amounts the Enterprise paid annually for over 40 years since its inception to support the General Fund Operating Budget. (At 10% of the Enterprise’s gross subscriber revenues, the equity transfer reached nearly \$1,000,000 annually.) Beginning in FY2015-16, these transfer amounts have gradually been reduced and eventually eliminated in the FY2019-20. In addition, the Enterprise historically paid a 5% franchise fee not only on video services as allowed by federal law, but on all revenues including the growing internet business revenues. In recent years, the franchise fee is only applied to TV subscription revenues.

The future vitality of San Bruno CityNet Services requires a costly investment to build a fiber to the home (FTTH) system throughout the entire community. FTTH would afford the City a very stable and nearly maintenance-free infrastructure for delivery of an even wider spectrum of technology services – importantly including internet speeds up to 1 gigabit. Some multi-family complexes have already implemented fiber technology in a pilot program. A city-wide deployment of FTTH is projected to cost approximately \$12,400,000. This amount would need to be provided upfront and would increase the Enterprise deficit for a period of years until subscriber counts and associated revenues increase sufficiently to generate adequate funds to cover the cost.

The cost of doing business with television channel providers and equipment vendors in the pay-tv industry have made it imperative that CityNet raise the rates to pay operational costs. A rate increase took effect on April 1, 2020. With the spread of Coronavirus, some customers have fallen behind on their payments. CityNet took great strides to control expenses and focus on higher margin business. Despite of loss of revenues due to delinquency, its operating revenues are expected to yield a slight surplus over operating expenditures in FY2022-23. However, there is no excess funding for debt services and General Fund will need to cover the payment. In the long-range financial forecast, the negative fund balance is expected to grow to \$15.5 million in FY 2022-23 and decrease gradually in the years after.

As long as the Enterprise remains in a financial deficit position, the impact falls on the City’s General Fund to backfill the Cable Fund shortfall. The City will need to quickly determine whether continued investment by the General Fund is desirable given the variety of other pressing General Fund needs or whether it is necessary for the City to outsource CityNet Services operations and system improvements or sell the system outright in order to protect the investment already made by the City. The City has engaged a consultant to study the feasibility of CityNet’s business plan and the first report is expected in June 2022.



INTERNAL SERVICE AND EQUIPMENT RESERVE FUNDS

Internal Service Fund operations provide direct services to support all City departments and City Enterprise Fund operations. The City maintains four Internal Service Funds including the Central Garage and the Building and Facilities Division operated through the Public Works Department, Technology and Self-Insurance. These Internal Service operations are funded through an expenditure allocation that is charged to each user department and enterprise. For FY2022-23, the Internal Service Allocation transfer amounts to 7.3 Million. This amount covers the cost of expenditures required to support operations of the Central Garage, Building & Facilities Division and the Information Technology Division. All internal service funds are anticipated to have a minimum fund balance at the end of FY2022-23 equal to 15% of annual, operating expenses – the target set in the City’s reserve policy.

In prior years, General Fund departments would contribute annually into the City’s Equipment Reserve Fund in order to fund equipment and vehicle purchases. In FY2020-21 the City Council eliminated the annual equipment reserve allocation as a budget balancing strategy. The FY2022-23 proposed budget continues to delay the reinvestment of funds into the Equipment Reserve Fund until additional financial resources have been identified.

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program (CIP) is designed to identify, plan and develop projects using a long-term vision for the community’s facilities and infrastructure needs. The CIP Budget outlines work programs, project descriptions, and funding needed projects to be undertaken in the next 5-years. The CIP Budget covers a one-year period and includes adopted funding allocations to each project for work that is expected to occur during the budget year. Changes to existing projects, as well as the addition of new projects, may occur during the 5-year planning period as new needs requiring attention and allocation of resources are identified. The

work program is updated every year as part of the CIP Budget development and review process.

Overall, the FY2022-23 Capital Improvement Program identifies 93 funded and underfunded projects/programs organized in 10 categories. \$283.2 Million in capital investment is programmed through the 5-year CIP to assure rehabilitation, replacement, and improvement of City facilities and infrastructure. \$180.7 Million of this amount is the expected cost of scheduled improvements to the City’s water and wastewater systems.

The following summarizes the total capital plan for all approved capital projects over the next 5 fiscal years in each of the established project categories.

Project Categories	Total Capital Plan
Water	\$103,737,980
Wastewater	76,918,279
Stormwater	2,462,052
CityNet Services	117,000
Parks	6,532,044
Fire	3,577,431
Police	722,681
Facilities	51,579,997
Streets	34,643,166
Technology	2,939,295
Total	\$283,229,925

Many projects appearing in the CIP are scheduled for completion over a multi-year period. In each year, some projects are completed, closed out and removed from the program. A total of 7 projects in the adopted Capital Improvement Program were completed during FY2021-22. These projects have all contributed to extending the useful life of critical infrastructure and facilities and several of them provide visible improvement to safety and aesthetics in the community. The following projects have been completed and removed from the CIP:

- San Antonio Ave Water Main
- San Antonio Ave Sewer Main
- Tom Lara Grandstand
- Police Facility Improvements – HVAC and Roof
- Library Facility Improvements – Library Generator
- Senior Center Deck Replacement
- Pavement Management Program – Huntington/San Antonio Street Rehabilitation

New projects for FY2022-23 in the Adopted Capital Improvement Program include:

- Water Quality Well System Upgrade & Sweeney Ridge Tank Chlorine Generator
- Earl/Glenview Avenue Wastewater Main
- Downtown Parking Program
- City Hall Facility Maintenance Program
- FY2022-23 Sidewalk Repair Project

While the comprehensive CIP is not limited to projects for which funding has been identified, the CIP generally includes a more limited presentation on proposed projects for which funding is not available. The FY2022-23 CIP Budget includes \$529.5 Million in capital projects that do not have a designated funding source. These projects are shown in the Unfunded Priorities section of the CIP. Many of the unfunded projects address community needs for rehabilitation and/or replacement of critical facilities such as the Library, City Hall, Fire Station 51 and 52 and the City's maintenance yard facilities that were originally constructed in the 1950's. While the buildings remain reasonably serviceable, they are increasingly outdated and will eventually need to be replaced. These projects remain shown in the CIP so that they are included in the City's long-term strategic planning and remain priorities for future funding initiatives.

Although these projects do not have available funding to move them to completion, they do represent projects with an identified need to protect the integrity of critical City facilities and infrastructure. Rehabilitation and replacement of these City facilities is one of the several issues driving a need for the establishment of a thoughtful strategic plan to grow General Fund revenues over the next several years. The City has generally relied on the General Fund Capital Reserve to fund necessary, but relatively minor facility repair and improvement projects as needed including such work as roof replacement, kitchen, and restroom improvement and minor remodeling to meet expanded or changing operational needs. Unlike other City reserve funds that are saved for use in the event of unexpected revenue loss, emergency or other "rainy day" situation, the General Fund Capital Reserve is intended to be used as needed to fund General Fund facility and infrastructure (streets, sidewalks, streetlights, etc.) projects that do not have another identified funding source. Additionally, development impact fees will be a critical funding sources to implement capital projects in the future.

The General Fund Capital Reserve is designated by City Council policy to maintain a minimum \$5 Million balance with expenditures replenished by eligible one-time revenues and excess General Fund operating revenues available at the close of the prior fiscal year. The City anticipates nearly \$26 million in community benefit payment from YouTube in FY2022-23 for the development of its office complex. The Reserve balance is projected to be \$27.9 million in FY 2022-23. Staff will seek Council guidance and develop an appropriation plan for the funds.

SERVICE LEVEL ENHANCEMENTS

The City endured significant service cuts during the FY 2020-21. Although some services were restored in FY2021-22 with the infusion of ARPA fund, the service level is still behind the pre-pandemic level. Many large developments are happening in the City and it is critical for the City to keep up with the needs of the business communities as well as the residential communities.

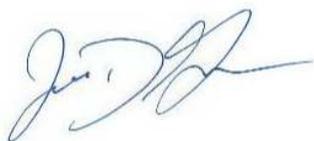
The entire City team is dedicated in providing the best services to San Bruno residents and communities. However, it is undeniable that the City needs additional resources, both staffing and supplies. With this budget, staff proposes limited service enhancements over the current operation model.

The detailed list of service enhancements is included in the proposed budget document. In summary, the total supplemental requests amount to \$2 million, including \$1 million net impact to the General Fund.

CONCLUSION AND ACKNOWLEDGEMENTS

The City's proposed General Fund budget is balanced for FY2022-23 after applying \$634,799 from the General Fund balance.

I want to personally thank each employee that works to move San Bruno forward each and every day. The budget team led by Finance Director Qianyu Sun includes Accounting Manager Darlene Wong, Financial Services Manager Esther Garibay-Fernandes, Accountant Yu Chiao Chao, Payroll Specialist Benjie Lin, CED Management Analyst Radha Mehta, and Public Works Management Analyst Jacinta Liang worked long hours and provided wise analysis to make sure this proposed budget contains clear, accurate and understandable information to make it easy for the City Council and members of the public to use. I truly appreciate their contributions and their support.



Jovan D. Grogan
City Manager