



## City Council Agenda Item Staff Report

CITY OF SAN BRUNO

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**DATE:** January 11, 2022

**TO:** Honorable Mayor and Members of the City Council

**FROM:** Jovan Grogan, City Manager

**PREPARED BY:** Qianyu Sun, Director

**SUBJECT:** Accept the City's Annual Comprehensive Financial Report, the Measure A and W Fund Reports, and the Memorandum on Internal Controls and Required Communications for the Fiscal Year Ended June 30, 2021

### **BACKGROUND:**

The City's independent auditor, Maze & Associates, completed the audit of the City's financial statements and provided the auditor's reports for the fiscal year ended June 30, 2021. The Finance Department prepares the City's financial statements in the form required of the Annual Comprehensive Financial Report (ACFR) as specified in the City's municipal code Section 2.28.030(b). The Government Accounting Standards Board (GASB) recommends the elements for the ACFR format. The ACFR and the related financial statements fully disclose the financial condition of the City and other reporting units of the City.

The following statements for the year ended June 30, 2021 are presented for the City Council's review:

1. Annual Comprehensive Financial Report
2. Measure A Funds, Report on Compliance with the *Agreement for Distribution of San Mateo County Measure A Funds for Local Transportation Purposes*
3. Measure W Funds, Report on Compliance with the *Agreement for Distribution of San Mateo County Measure A Funds for Local Transportation Purposes*
4. Memorandum on Internal Controls and Other Communications (MOIC)

The ACFR shows the total of all financial accounting for the fiscal year. As a guide to reading the ACFR, it is made up of three primary sections:

**Introductory Section:** provides general information of the City which includes the letter of transmittal, list of principal officials, and organizational chart.

**Financial Section:** provides the overall financial information of the City which includes the report of the independent auditor, management's discussion and analysis (MD&A), the basic financial statements, notes to the financial statements, required supplementary information, and other supplementary schedules and statements.

**Statistical Section:** provides a broad range of operational, economic, and historical data that provides a context for assessing the City's economic condition. This section provides information about the City's general financial trends, revenue capacity, debt capacity, economic and demographic trends, and operating information.

The format of the ACFR is designed to serve the needs of the following three primary users: the City Council and other governmental oversight bodies, the public, and agencies assessing the City's creditworthiness.

For a consecutive year, the City's ACFR for the year ended June 30, 2020 was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officer's Association (GFOA) of the United States and Canada. The Certificate of Achievement is the highest form of recognition for excellence in state and local government reporting and confirms that the published ACFR is an efficiently organized and readable annual financial report.

The City is responsible for complying with the *Agreement for Distribution of San Mateo County Measure A and Measure W Funds for Local Transportation Purposes* between the City and the San Mateo County Transportation Authority entered into on August 18, 1989 and September 24, 2019, respectively. This agreement requires an annual compliance audit by an external audit firm of the City's allocation of Measure A and Measure W funds. That report is attached to this staff report, as well as the Memorandum on Internal Controls and Required Communications (MOIC).

#### **DISCUSSION:**

Maze & Associates completed audits of the City's financial statements, Measure A and Measure W sales tax special revenue, and prepared the Memorandum on Internal Control and Required Communications (MOIC). Maze & Associates found the general-purpose financial statements present fairly, in all material ways, the City's financial position as of June 30, 2021 (Independent Auditors' Report, *Opinions*). The audited financial statements include the statement of net position, statement of activities and changes in net position, balance sheets, statements of revenues, expenditures, and changes in fund balances, and statements of cash flows.

Key financial highlights for fiscal year ending June 30, 2021 are as follows:

#### General Fund

At the end of the fiscal year, total fund balance increased by \$8 million to \$35.4 million. This increase was mainly contributed by revenue increases while expenditures totally just below the previous fiscal year.

General Fund revenues totaled \$56.2 million in FY 2020-21, about \$9.9 million more than the previous fiscal year. Sales taxes were the biggest contributors of the increase. Bradley-Burns local sales and use tax increased by \$5.7 million after the City completed a sales tax sharing agreement with a major tax payer in San Bruno. Measure G sales tax took effect in April 2020 and the City received a full year of revenue in FY 2020-21, hence an increase of \$2.8 million from the previous year. Other taxes, such as property tax and card room tax saw moderate increases, about 3%. Two types of tax revenues experienced significant decreases from the previous year: transient occupancy taxes fell by \$1.4 million due to the impact of the Coronavirus pandemic, and motor vehicle in-lieu tax from the State of California decreased by \$1.8 million when more school districts in the San Mateo County converted from non-basic aid to basic aid school districts. Nevertheless, shortfalls in these two taxes were more than made up by other revenue categories. General Fund revenues were also boosted by the increase in license and permits and community benefit contributions as development activities picked up.

Compared to FY 2019-20 actual expenditures, General Fund overall expenditures decreased slightly by \$0.2 million. This was a concerted effort from the entire city to keep expenditures under control when revenue outlooks dimmed during the pandemic. Overall expenditures were over \$1.6 million below the final budget. Compared with the previous fiscal year, Community Services Department had the most decrease in expenditures, \$1.2 million, as a result of service reductions during the Coronavirus outbreak.

#### Reserves

The City Council adopted a reserve policy in 2013 to ensure financial stability and sustainability of operations during times of fiscal constraint and emergencies. The City's General Fund reserve fund balances as of June 30, 2021 are listed in the table below. The General Fund Reserve fund balance was slightly below the target, 25% of the budgeted General Fund Expenditures. The General Fund Contingency Fund and Capital Improvement /One-Time Initiative Reserve Funds were both above the policy targets when actual revenue received exceeded expectations. In April, Council appropriated the \$290,000 from the Emergency Disaster Reserve Fund to support the San Mateo County Strong Restaurant, Brewery and Winery Relief Program. The reserve has been replenished with the receipt of the American Rescue Plan Act (ARPA) funding.

General Fund Reserves and Re Balances		Reserve Policy Target	FY2020-21 Actual Fund Balance
	General Fund Reserve	25% of annual expenditures (or \$12.4 Million)	\$12.3 Million
	General Fund Contingency Fund	\$1.5 Million	\$5.5 Million
	Emergency Disaster Reserve Fund	\$3.0 Million	\$2.0 Million
	Capital Improvement/One-Time Initiative Reserve	\$5.0 Million Goal	\$9.9 Million
	<b>Sub-Total – General Fund Reserves</b>	<b>\$22.1 Million</b>	<b>\$29.7 Million</b>
	General Fund Equipment Reserve	\$0	\$3.7 Million
	Measure G District Sales Tax	\$0	\$1.2 Million
	<b>Total</b>	<b>\$22.1 Million</b>	<b>\$34.6 Million</b>

#### Enterprise Funds

Water Fund net position increased by \$5.4 million to \$65.3 million as a result of planned rate increases approved by City Council in 2017, which will be used to implement a number of critical infrastructure improvement projects in the coming years. A five-year rate plan was established and provides for annual 5% rate increases through June 30, 2022.

Wastewater Fund net position increased by \$5.9 million to \$66.4 million as a result of planned rate increases approved by City Council in 2017, which will be used to implement a number of critical infrastructure improvement projects in the coming years. A five-year rate plan was established and provides for annual 5% rate increases through June 30, 2022.

Stormwater Fund net position decreased by \$0.6 million to \$5 million due to operating expenses

exceeding revenues and transfers in. The long-range financial forecast projects that, without any additional dedicated revenue to support the enterprise, the Stormwater Fund will yield a negative fund balance in FY 2021-22 and sink into deficit further each year thereafter. To keep the Stormwater Enterprise operation afloat, Council appropriated \$1 million transfer from APRA to the Stormwater Fund. It is in the best interest of the City to explore other funding sources, such as increase of stormwater related property assessment, state and federal aid on infrastructural improvements, etc., to sustain Stormwater operations and capital improvements in the future.

CityNet Fund net position decreased by \$0.9 million to \$(17.9) million. This decline is primarily a result of operating expenses exceeding operating revenues. CityNet Enterprise made a valiant effort to cut expenditures and total operating expenses were \$1.1 million lower than the previous year. Nevertheless, the enterprise's financial deficit continued to grow and its borrowing from the General Fund has accumulated to \$14.1 million.

The City's external auditor, Maze and Associates, points out in MOIC that CityNet Enterprise fund advance balance and net deficit are material weaknesses. The auditors have commented on this issue since 2018. It is possible that, if CityNet is not able to turn its finances around and begin paying back the General Fund, the auditors will at some point no longer allow the General Fund to count the amount owed by CityNet as part of General Fund reserves. Without the advance to CityNet, the General Fund's reserve balance would be \$15.7 million as of June 30, 2021.

The City is reviewing whether implementing fiber to the homes (FTTH) would be a viable investment that, if made, could return CityNet to solvency and allow a payback of the General Fund loan over time. The investment for FTTH is approximately \$12 million and would allow CityNet to offer more streaming and internet-based services to subscribers, thereby potentially increasing the customer base and the monthly subscriptions.

#### Pension Costs and Net Pension Liability

The City continues to experience significant impacts from increasing costs for retirement benefits through the CalPERS system. Employee retirement benefits totaled \$10.6M in FY2020-21, which was a 9% increase, or \$0.9M, over the prior fiscal year.

GASB 68 was first implemented in the City's FY2014-15 financial statements and requires the City's net pension liability (NPL) to be recognized on the Statement of Net Position. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside to pay benefits to current employees, retirees, and their beneficiaries. The NPL has increased from \$94.8M in FY2019-20 to \$102.5M in FY2020-21. The table below lists the NPL for the Miscellaneous and Safety plans for fiscal years ending June 30, 2020 and 2021 and the year over year change. CalPERS provides the City with detailed actuarial reports that identify the NPL for financial reporting purposes and fluctuate based on the amount of projected benefit payments, employer and employee contributions, the discount rate, among other factors.

Net Pension Liability	Miscellaneous	Safety	Total
June 30, 2020	\$45,902,570	48,942,165	\$94,844,735
June 30, 2021	48,847,544	53,531,797	102,479,341
Change – Increase (Decrease)	\$3,044,974	\$4,589,632	<b>\$7,634,606</b>

Measure A and Measure W Funds Report

Maze & Associates completed the audit on the San Mateo County Measure A and Measure W Funds for Local Transportation Purposes and issued an opinion that all requirements of the funding were met for the fiscal year ending June 30, 2021.

The Measure A fund has \$1.1M of assets at June 30, 2021. Total revenues of \$1M were received in FY2021, and \$2.4M was appropriated on a variety of transportation programs including the street rehabilitation program, street medians, traffic calming measures, sidewalk repairs and accessible pedestrian ramps, among other projects.

The Measure W fund has \$0.5M of assets at June 30, 2021. Total revenue of \$0.5M was received in FY2021 and \$0.4M was spent on street rehabilitation projects.

**FISCAL IMPACT:**

There is no fiscal impact.

**ENVIRONMENTAL IMPACT:**

There is no environmental impact.

**RECOMMENDATION:**

Accept the City's Annual Comprehensive Financial Report, the Measure A and W Fund Reports, and the Memorandum on Internal Controls and Required Communications for the Fiscal Year Ended June 30, 2021

**ALTERNATIVES:**

No alternative is offered.

**ATTACHMENTS:**

1. Resolution
2. Comprehensive Annual Financial Report for Fiscal Year Ending on June 30, 2021
3. Measure A Funds, Report on Compliance with the Agreement for Distribution of San Mateo County Measure A Funds for Local Transportation Purposes
4. Measure W Funds, Report on Compliance with the Agreement for Distribution of San Mateo County Measure W Funds for Local Transportation Purposes
5. Memorandum of Internal Controls and other Communications (MOIC)