



## City Council Agenda Item Staff Report

CITY OF SAN BRUNO

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**DATE:** February 22, 2022

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

**FROM:** Jovan Grogan, City Manager

**PREPARED BY:** Qianyu Sun, Finance Director

**SUBJECT:** Receive Mid-Year Financial Update Report for FY2021-22 as of December 31, 2021 and Adopt a Resolution Approving a Second-Quarter Budget Amendment for the FY2021-22 Operating and Capital Budget

**BACKGROUND:** The City Council approved the FY2021-22 Operating and Capital Improvement Budget on June 22, 2021. The approved budget is the annual plan and resource allocation guiding and ensuring implementation of City Council policies and priorities. The budget implements the vision and direction for the broad range of services that meet the needs of the community in accordance with City Council policy.

The City of San Bruno operates on a July 1 to June 30 fiscal year cycle. This financial review covers the period of October 1, 2021 through December 31, 2021 and serves as the mid-year budget update to the City Council for the current fiscal year. Analysis of the revenues collected and expenditures through December 31<sup>st</sup> measures the budget's adherence to the established resource allocation plan.

### **DISCUSSION: Financial Overview**

The Adopted Budget incorporates the estimated revenues and planned expenditures for all funds. The attached Mid-Year Financial Update Report as of December 31, 2021 provides a summary of revenues and expenditures summary for the General Fund, Enterprise Funds, and Internal Service Funds. The following discussion focuses on variances from the revenue and expenditure plans and allocations contemplated in the budget.

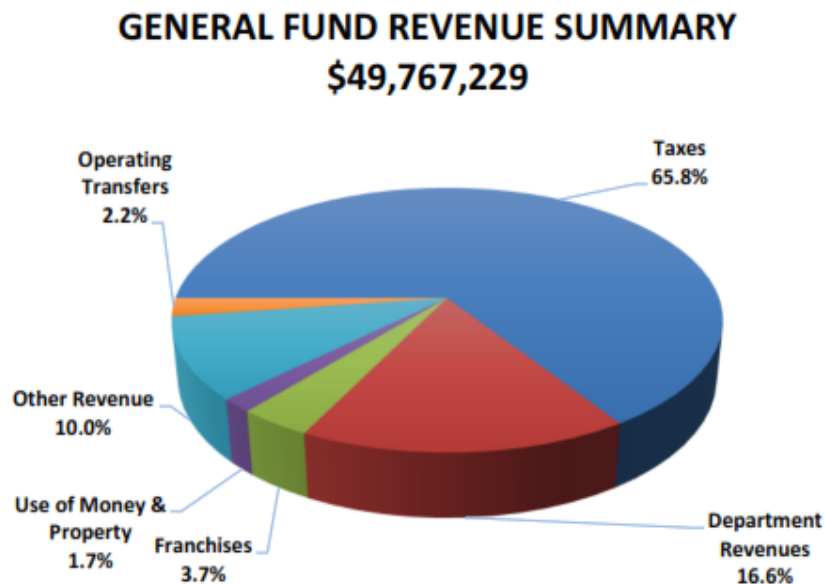
### **General Fund Budget Overview**

The General Fund finances the operations of the City that have no special or dedicated revenue sources and pays for basic municipal services. The FY2021-22 adopted General Fund budget projected \$1,084,261 in operating deficit which the City Council authorized to use available fund balance to cover. With the budget amendments, General Fund is now expected to end the year with a deficit of \$1,112,874. Sufficient fund balance is available to cover the additional deficit.

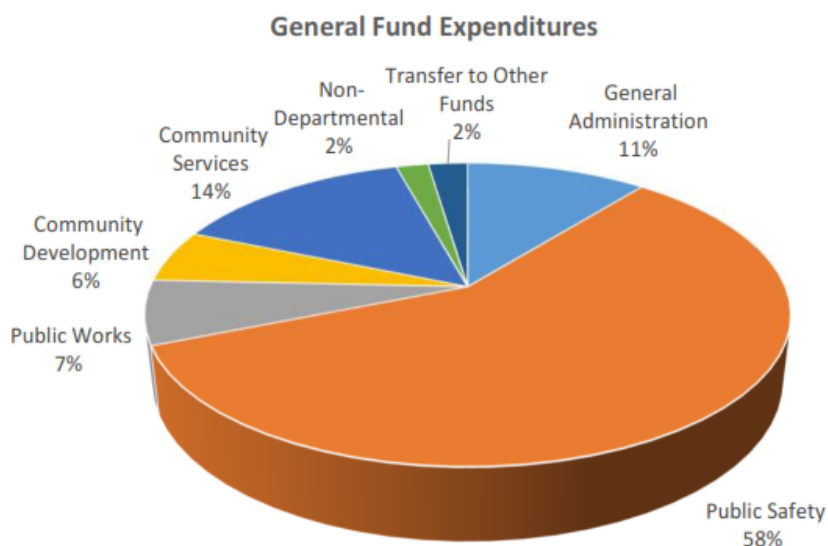
The table below compares the General Fund adopted budget with the mid-year financial update for FY 2021-22:

	ADOPTED BUDGET	MID-YEAR UPDATE
REVENUES	\$49,767,229	\$50,916,429
EXPENDITURES	\$50,851,490	\$52,029,303
SURPLUS/(DEFICIT)	(\$1,084,261)	(\$1,112,874)

The chart below shows the proportional share of the major revenue sources in the City's General Fund for the adopted FY2021-22 budget, with property tax and sales tax being the most significant sources.



The chart below shows the major City functions the General Fund goes to fund in the FY2021-22 adopted budget. A majority of General Fund sources go to pay for the public safety functions of the city at 58% of all spending.



Staff routinely use conservative budget projection methods when preparing financial projections, including estimating more stable revenues, such as property and business license taxes, at moderate growth rates compared to prior years and discounting higher fluctuating revenues, such as sales tax and building permit revenues, to account for timing and variability issues.

Revenue and expenditure data over the first six-months of the fiscal year begins portraying trends for actual year-end. General Fund revenue and expenditure percentages through December 31, 2021 can be found in attachment 2 (Mid-Year Financial Report). A detailed review of revenues and expenditures is presented below. Overall, staff is anticipating the General Fund will have an overall net operating deficit of \$974,550 at this time.

### Notable General Fund Revenues

Each major General Fund revenue source is discussed below. Those that significantly contribute to the projected shortfall are explained with additional detail.

**Property Tax:** (FY2021-22 Q2: 51% of budget compared to 53% in FY2020-21). The City receives the majority of the property tax revenue in December and April payments. There is a slight decrease of \$7,410 from same period last year.

**Sales Tax:** (FY2021-22 Q2: 52% of budget compared to 26% in FY2020-21). Sales tax receipts returned to the normal pace, 52% of the budget at mid-year, versus 26% in the year earlier. In 2020, business owners were granted tax filing extensions as a result of COVID and consequential business closures, therefore sales taxes were received slight later than normal. Overall sales tax received to date was \$3,074,000 higher than the same period last year.

**Hotel/Motel Occupancy Tax:** (FY2021-22 Q2: 56% of budget compared to 47% in FY2020-21). Transient Occupancy Tax (TOT) revenue was budgeted \$783,000 higher in FY2021-22 than FY2020-21, under the assumption that hotel tax revenues would increase about 80% from previous year. By mid-year, the City received \$524,399 more in TOT than same period last year. Staff are cautiously optimistic that the hospitality industry may continue the trend of improvements.

**Motor Vehicle License Fee and Property Taxes in Lieu of Vehicle Fees (VLF):** (FY2021-22 Q2: 47% of budget compared to 50% in FY2020-21). Staff increased the revenue budget by \$1.16 million in Q1 financial update after receiving the VLF update from the County of San Mateo. VLF revenue is received as property tax in-lieu, due in two installments in December and April in conjunction with the County's property tax payments. As of December, the City received 50% of VLF allotment for FY 2021-22. The amended budget includes catchup payments for prior years which will be distributed to the City in later dates.

**Regulatory Card Room Tax:** (FY2021-22 Q2: 50% of budget compared to 50% in FY2020-21). Regulatory Card Room Tax are billed to Artichoke Joe's quarterly. Revenue received to date is \$103,556 higher than the previous fiscal year.

**Business License Taxes:** (FY2021-22 Q2: 88% of budget compared to 100% in FY2020-21). Business taxes are due to the City when applications are submitted and annually on July 1<sup>st</sup>. The City has received majority of the business license taxes due in the current fiscal year. Negotiation with a large vendor for a new business license tax agreement is under way and the City requested the vendor to make an advance payment based on estimates. When the agreement is finalized, the City may receive additional payment from the vendor. Afterwards, the vendor should pay business license tax as scheduled.

**Departmental Revenues:** (FY2021-22 Q2: 46% of budget compared to 48% in FY2020-21). In aggregate, department revenues received to date is \$687,850 higher than last year. The biggest contributor to the increase was revenue deferral of the Police Department Cost Recovery Agreement with YouTube (\$770,000). Other notable department revenues received to date include:

1. Police Department Federal Assistance FEMA Grant \$95,800
2. Fire Department Permit Fees \$109,800
3. Fire Department Strike Team Reimbursements \$130,700
4. Building Permits \$776,100
5. Building Plan Checks \$241,200

#### Notable General Fund Expenditures

**Total Expenditures:** (FY2021-22 Q2: 52% of budget compared to 52% in FY2020-21). Mid-Year expenditures were \$26,900,000. Most departments are within an acceptable range of expenditures to date compared to the budget as of the end of the

second quarter. Expenditure to date increased by \$781,332 from the same period last year.

### **Enterprise Funds**

Four Enterprise Funds make up the City's business type operations. The Water Fund, Stormwater Fund, Wastewater Fund, and CityNet Fund are City municipal operations designed to fully recover costs through user fees.

**Water:** (FY2021-22 Q2: 42% of budget compared to 46% in FY2020-21). Revenues for mid-year were \$7,093,400 compared to \$7,963,100 in the prior year. The City did not increase the water rate this year. Water consumption for mid-year decreased by 12% from the same period last year. Water operation revenue decreased by about \$840,000 and water capacity charges decreased by \$30,000.

**Wastewater:** (FY2021-22 Q2: 48% of budget compared to 44% in FY2020-21). Revenues for the mid-year were \$8,585,700 compared to \$7,869,900 in the prior year. Same as water operations, the City did not increase rates for wastewater operations this year. Wastewater operations are updated in the billing system every July, based on the prior winter month water usages. Wastewater operations increased by 10% in the amount of \$774,600 offset by reduced sewer capacity charges of (\$59,400) for FY2021-22.

Both Water and Wastewater Utility accounts have significant delinquencies as a result of the pandemic. The City applied to the State Water Resource Board for water arrearages assistance for the period from March 2020 to June 2021 and has recently received a check for Water arrearages in the amount of \$453,900 which will be applied to the respective accounts. We will apply for the same assistance program for wastewater arrearages in the next few weeks.

**Stormwater:** (FY2021-22 Q2: 50% of budget compared to 50% of budget in FY2020-21). Stormwater fees are collected through the County property tax roll with the first payment in December. The year-to-date revenue increase reflects the ARPA Funds monthly transfer for a total of \$1,000,000 by fiscal year end to help the Stormwater Fund per FY2021-22 Adopted Budget.

**CityNet Services:** (FY2021-22 Q2: 43% of budget compared to 49% in FY2020-21). Actual revenues of \$4,241,000 are less than last year by \$321,900. The shortfall is due to the decrease in 200 TV subscriptions and resulting collected revenues over the reporting period though accompanied with an increase of 128 internet subscriptions driven by a promotional rate. This shortfall points to an improving operating margin for the enterprise due to the addition of higher margin internet subscriptions and the loss of lower margin TV subscriptions

Revenue Category	Variance	Explanation
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Cable Operations	(9%)	Basic and Expanded Basic TV subscriber base reduced by a total of 200 TV subscriptions or \$20,000/month in total revenues with a gross margin of \$3,600 per month
Internet Service Fees	(2.6%)	While internet subscribers have increased by 128, the current decline in collected revenues is due to a 3 month promotion extended to new subscribers after which the expected average revenue per user (ARPU) will rise to \$52 per month from the current promotional rate of \$15 per month. At the regular ARPU, the gross margin on new subscribers will be \$5,658 per month
Other Cable Receipts	(60%)	Lower non program service revenue collection in mid-year for FY2022. In same time period FY2021 we had higher revenues due to credits from prior periods
Premium Channels	(12.8%)	Loss of 200 TV subscriber base by 200 subscriptions
Digital Equipment Service	(9%)	Reduction of TV subscriber base by 200 subscriptions
Revenue YTD	(7%)	Reduction in collected TV subscription revenue due to reduced subscription was not offset through subscriber and revenue growth in internet subscriptions

### **Internal Service Funds**

Internal Service Funds, which include the Central Garage, Building and Facilities Maintenance, Self-Insurance, and Technology Support also operate as business activities, exclusively supporting the City's internal operations. Charges for each of the Internal Service Funds are by monthly allocation based on the adopted budget.

**Central Garage:** (FY2021-22 Q2: 47% of budget compared to 52% in FY2020-21) The expenditure was slightly higher by \$1,300 compared to last year.

**Buildings & Facilities:** (FY2021-22 Q2: 45% of budget compared to 41% in FY2020-21) Expenditure was \$212,923 higher than last year.

**Self-Insurance Fund:** (FY2021-22 Q2: 74% of budget compared to 65% in FY2020-21) The expenditure by mid-year of FY2021-22 is \$433,600 higher than FY2020-21. Workers Compensation premiums claims were \$39,300 higher than the same period last year. General Liability premium increased by \$400,800 from last year. Insurance premiums are typically paid in the beginning of the fiscal year.

**Technology Support:** (FY2021-22 Q2: 43% of budget compared to 45% in FY2020-21) Expenditure \$174,027 higher than last year. The City enhanced the technology support budget for FY 2021-22 after many technological needs were delayed due to COVID.

### **Budget Amendments**

The table below summarizes the budget amendments being requested:

<b>Item</b>	<b>Fund</b>	<b>Program / Request</b>	<b>Revenue Increase / (Decrease)</b>	<b>Expense Increase / (Decrease)</b>
<b>A</b>	General Fund	Human Resources		\$ 8,000
<b>B</b>	General Fund	Community Services: Recreation	76,189	54,314
<b>C</b>	General Fund	Community Services: Senior Services	(61,786)	
<b>D</b>	General Fund	Community Services: Library		54,000
<b>E</b>	ARPA		(290,000)	(281,842)
<b>F</b>	Equipment Reserves	Police Department		70,000
<b>Total Operating Budget Amendments Requests</b>			<b>(\$275,597)</b>	<b>(\$95,628)</b>

<b>CIP Budget Amendment Requests:</b>		<b>Expense Increase / (Decrease)</b>
<b>G</b>	Avenues 3-1 (#11009) – Water for construction	1,000,000
<b>H</b>	Avenues 3-1 (#31012) – Wastewater for construction	1,000,000
<b>I</b>	Avenues 2-1 (#31009) – Wastewater for design	100,000
<b>J</b>	Avenues 2-2 (#31010) – Wastewater for design	100,000
<b>Total CIP Budget Amendment Requests:</b>		<b>\$2,200,000</b>

An explanation of the proposed budget amendments for the mid-year of FY2021-22 is below.

A. **Human Resources** is requesting to increase the expenditure budget by \$8,000 to fill the vacant Management Analyst position at a level II Step 5 which was previously budgeted at Level I Step 5.

B. **Recreation** is projecting an increase in revenues for Recreation fees and charges, Aquatic programs, facility rentals, sports and contract fee classes totaling \$76,189. Expenditures need to increase by \$54,314, when the printing cost is estimated to grow by \$118,000. Recreation has cost savings somewhere else to partially offset the printing cost increase.

C. **Senior Services** is requesting to reduce the revenues by \$61,786 when facility closures at the beginning of the fiscal year contributed to lower rental revenues and class registrations.

D. **Library** is asking for an increase in expenditures in the amount of \$54,000 with increase in operation hours. During Q1 budget amendment, Council approved \$14,000 in additional office supplies. In addition, Library needs to increase books and materials to main reasonable collections to meet the needs of San Bruno residents.

E. **ARPA** Before receiving the first ARPA disbursement, \$290,000 was recorded as revenue in FY 2020-21 to support San Bruno small businesses under the San Mateo County Strong Restaurant, Brewery and Winery Relief Program; hence the need to reduce the FY 2021-22 revenue budgets. Much of ARPA appropriations are to enhance the City's staffing resources. As the recruitments are going on, some positions are taking longer than originally planned, therefore creating a saving of \$281,942 in expenditures.

F. **Police Department** is asking for a budget amendment to outfit police vehicles. The Police Department currently needs funding to outfit five vehicles in its fleet. The vehicles and price of outfitting were previously approved per the last budget. However, due to vehicle shortages, delayed delivery dates, changes to the Ford Explorer body type and needed equipment to match those body type changes, the updated current price to outfit the five vehicles is more than the previously approved budget amount and previously closed Purchase Order. Due to these facts, the Department is requesting a budget appropriation request in the amount of \$70,000.00 to outfit the five Police Department vehicles.

G & H. **Avenues 3-1** was originally budgeted for water main improvement (\$4.9 million) and sewer main improvement (\$5.06 million). Both were based on estimates. The actual bids received on the construction are higher and additional funding are required.

I & J. **Avenues 2-1 and 2-2** sewer main improvements were originally budgeted for \$400,000 and \$370,000 respectively. Additional funding is required for services related to survey, basemap work, potholing, field visits, design plans, specifications, construction estimates, updated Basis of Design Memorandum and construction support services.

**FISCAL IMPACT:** Approval of the budget amendments will increase the General Fund operating deficit by \$28,613 to \$1,112,874. ARPA operating surplus will decrease by



\$8,058. Equipment reserve will increase by \$70,000 and CIP appropriation will increase by \$2.2 million.

**ENVIRONMENTAL IMPACT:** There is no environmental impact.

**RECOMMENDATION:** Receive Mid-Year Financial Update Report for FY2021-22 as of December 31, 2021 and Adopt a Resolution Approving a Second-Quarter Budget Amendment for the FY2021-22 Operating and Capital Budget.

**ALTERNATIVES:** .

1. Do not approve of the proposed budget balancing strategy for FY2021-22 for the General Fund and provide direction to staff.
2. Do not approve the proposed budget amendments and maintain budgeted amounts as approved in the FY2021-22 budget.
3. Amend the proposed budget adjustments by adding to or eliminating any proposed budget changes.

**ATTACHMENTS:**

1. Resolution
2. Mid-Year Financial Report as of December 31, 2021