



## City Council Agenda Item Staff Report

CITY OF SAN BRUNO

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**DATE:** June 28, 2022

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

**FROM:** Jovan D. Grogan, City Manager

**PREPARED BY:** Qianyu Sun, Director

**SUBJECT:** Hold Public Hearing and Adopt Resolutions • Approving FY2022-23 Operating and FY2023-27 Capital Improvement Program Budget • Approving City Appropriations (Gann) Limit for FY2022-23

**BACKGROUND:** The proposed FY2022-23 Operating and Capital Improvement Budget has been presented for City Council review and consideration. The proposed budget continues prior years' proactive efforts containing expenditures and using conservative revenue projections consistent with the City Council's budget preparation guidance.

The City's budget development approach across all operations and funds adheres to the City Council's ongoing policy for delivering a financial plan that is balanced with expenditures contained at levels that can reasonably be supported by on-going revenues, and that supports a work program targeted to meet the specific needs and interests of the City Council and San Bruno community. The City Council conducted two budget hearings to review the proposed FY2022-23 Operating and the FY2023-27 Capital Improvement Program Budget on May 31 and June 14, 2022. At the budget hearings, staff highlighted financial challenges facing the City in the budget year, a financial plan during a 5-year period beyond the current fiscal year, department achievements, strategic initiatives, service level challenges, recommended service enhancements, an overview of the capital improvement program projects and planned equipment purchases.

The proposed budget for FY2022-23 can be accessed on the City's website at <https://www.sanbruno.ca.gov/ArchiveCenter/ViewFile/Item/155>

### **DISCUSSION: I. Operating and Capital Improvement Program Budget**

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.

**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 tax, sales tax, hotel/motel tax and business license tax. The following table summarizes FY2022-23 financial information compared to the prior year in the City Manager’s proposed budget:

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)
<b>Ending Fund Balance</b>	<b>\$4,401,422</b>	<b>\$4,181,904</b>	<b>\$7,663,890</b>	<b>\$6,999,092</b>

Total projected General Fund revenue for FY2022-23 is \$54.9 million, increasing by \$4 million (or 7.8%) from the amended budget of FY 2021-22. A majority (67%) of the projected FY2022-23 General Fund revenue comes from taxes in six different categories, including property tax, sales tax, transient occupancy tax (TOT or hotel/motel tax), motor vehicle license fees, card room regulatory fees, and business taxes.

The proposed budget projects \$55.5 million in General Fund expenditures supporting operations and service delivery across all City departments. This total is an increase of \$3.3 million (or 6.3%) compared to the FY2021-22 Amended Budget. The increase is mostly contributed by the pension, insurance and inflation adjustments on on-going contracts.

**Service Level Enhancements**

The entire City team is dedicated in providing the best services to San Bruno residents and communities. However, it is undeniable that staff resources are overwhelmed, and the overall morale is at risk. With the proposed budget, staff includes service enhancements over the current operation model, for a total amount of \$2 million, including \$1 million impact to the General Fund.

The proposed budget includes an additional service enhancement proposal to adjust staffing positions within the City Manager’s Office. The proposal recommends elimination of a vacant Economic Development Manager position and replacement with a Human Resources Director position and one-time funding for contract economic development support in the amount of \$48,000. In total, the enhancement request does not have a net impact on the proposed FY 2022-23 budget, as two vacant positions will be budgeted for 10-months, instead of the full year. However, the net ongoing additional cost in future years is projected to be \$60,500. Attachment 5 discusses this enhancement request in detail.

**General Fund Reserves**

The City Council adopted a reserve policy in 2013 that set a target of retaining \$1.5 Million as contingency in the General Fund, 25% of annual, operating expense budget in the General Fund Reserve, \$5 Million in the General Fund Capital Reserve and \$3 Million in the Emergency Disaster Reserve Fund to only be accessed in a declaration of an emergency. The table below lists the City’s reserves funds and targets, and the estimated ending balance by the end of FY2021-22 and FY2022-23.

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
<b>Total</b>		<b>\$30,811,777</b>	<b>\$50,081,381</b>

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.

City Reserves		FY2022-23 Budget Ending Balance
<b>General Fund Reserves</b>		<b>\$50,081,381</b>
Enterprise Fund Deficit		
	City Net Services	(15,471,571)
	Stormwater Funds	(1,171,255)
<b>Unrestricted General Fund Reserves - Subtotal</b>		<b>\$33,438,555</b>
Equipment Reserve		2,613,034
<b>Net Reserves</b>		<b>\$36,051,589</b>

**Enterprise Funds**

The City’s four Enterprise operations provide business-type services that are budgeted to be rate and fee supported. To recognize administrative and other services provided through the General Fund operating departments including the City Manager, City Attorney, Finance and Human Resources, each Enterprise Fund budget shows an administrative allocation to the General Fund covering these costs.

The following table provides a comparison of the FY2021-22 operating revenues and expenditures for the City’s Enterprise Funds to the amounts proposed for FY2022-23.

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

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). For FY2022-23, Water Enterprise costs are anticipated to increase compared to the prior year budget with total operating expenditures of \$11.2 Million. Once operating expenditures are covered, the operating surplus 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. The City Council withheld the water rate increase in FY 2022-23.

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

Council withheld the water rate increase in FY 2022-23. Total system revenues for FY2022-23 are projected to be \$16.7 Million and operating costs are budgeted at \$10.6 Million.

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 annual assessment has proven to be inadequate to fund ongoing operations and necessary equipment and capital investments to meet federal requirements. The fund balance has been declining in recent years and is forecasted to be negative in FY2022-23.

CityNet Services 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. In addition, CityNet Services operates San Bruno Cable Channel 1 which covers all local City meetings, events, local programming, and public service announcements.

Over the past several years, as the CityNet Services Enterprise has experienced increasing competition and has completed new projects to add services and new technologies, 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 FY2022-23.

To reduce the deficit, the City Council approved approaches for reducing costs over a multi-year period by gradually eliminating the amounts annually paid to the General Fund since the initial operations of the system over 40 years ago. Starting FY2019-20 CityNet Services operating budget eliminates the equity earnings transfer to the General Fund.

With great strides made to control expenses and focus on higher margin business, CityNet is forecasted to yield an operating surplus in FY 2022-23; however, the surplus is insufficient to cover planned capital expenditures and annual repayment of the debt for the router replacement project. In the long-range financial forecast, CityNet's negative fund balance is expected to gradually improve but persist for extended period of time.

### **Internal Service 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 operated through the Public Works Department, the Buildings and Facilities Division of the Community Services Department, Technology, and Self-Insurance. These Internal Service operations are funded through an expenditure allocation that is charged to each user department and enterprise. In total, internal service allocations amount to \$7,558,662 across all operations for FY2022-23. The largest single category of internal service costs is for Self-Insurance at \$3,408,873. The Internal Service Funds are required to maintain fund balances of at least 15% of annual budget.

The table below lists the ending fund balance projected in FY2021-22 and FY2022-23 for the four internal service funds. Central Garage, Building and Facilities and Technology funds meet

the reserve target identified in the City’s reserve policy.

Fund	Reserve Policy Target	FY2021-22 Ending Balance	FY2022-23 Ending Balance	Met Reserve Target?
Central Garage	15% of annual, budget expenditures	\$206,628	\$117,403	Yes
Building & Facilities	15% of annual, budget expenditures	659,708	290,875	Yes
Technology	15% of annual, budget expenditures	11,534	211,761	Yes
Self-Insurance	N/A	1,097,876	1,097,876	
<b>Total</b>		<b>\$1,975,747</b>	<b>\$1,717,916</b>	

### 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. 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. Many of the unfunded projects address community needs for rehabilitation and/or replacement of critical facilities such as the Library and Fire Stations. These projects remain shown in the CIP so that they are included in the City’s long-term strategic planning and remain on the “radar screen” as priorities for future funding initiatives.

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 chart summarizes the carryforward appropriations, FY2022-23 funding request, total project funding in FY2022-23 and the total proposed 5 fiscal year capital budget (FY2023-27) appropriations by capital program area.

Fund	Carryover Appropriation	FY2022-23 Funding Request	FY2022-23 Project Funding	Total 5-Year Program
Water	\$14,933,889	\$10,354,091	\$25,287,980	\$103,737,98
Wastewater	20,168,279	5,300,000	25,468,279	76,918,279
Stormwater	2,462,052		2,462,052	2,462,052
CityNet Services	117,000		117,000	117,000
Parks	477,069	4,604,975	5,082,044	6,532,044
Fire	1,577,431	150,000	1,727,431	3,577,431
Police	295,681	427,000	722,681	722,681
Facilities	24,576,047	25,968,777	50,544,824	51,579,997
Streets	11,651,769	9,811,397	21,463,166	34,643,166
Technology	739,295	1,150,000	1,889,295	2,939,295
<b>Total</b>	<b>\$76,998,512</b>	<b>\$57,766,240</b>	<b>\$134,764,752</b>	<b>\$283,229,925</b>

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.

As required by California Government Code Section 65401 and consistent with prior fiscal year budgets, the City’s Planning Commission is required to make a determination that the list of proposed capital improvement projects recommended for planning, initiation or constructing during the ensuing fiscal year is in conformance with the City’s General Plan, prior to the adoption by the City Council. The Planning Commission held a public meeting on May 17, 2022 where a Resolution 2022-07 was adopted making this determination.

### Measure G District Sales Tax

San Bruno voters approved Measure G, a half cent district sales tax measure, in November 2019. The Measure G district sales tax is a general tax to support general governmental purposes and the revenues cannot be restricted to certain prescribed purposes. During the election, residents identified many top City service priorities including:

- Increasing pothole and other street hazard repair
- Increasing street repair and maintenance programs
- Maintaining street repair and rehabilitation programs
- Maintaining neighborhood police patrols
- Attracting and maintaining local business
- Maintaining City parks and playgrounds
- Maintaining and repairing park structures for children and youth

The forecasted sales tax revenue for Measure G is \$3.8 million for FY 2022-23. The table below summarizes the appropriations in FY2022-23 using Measure G district sales tax funds:

Measure G Proposed Allocation	FY2022-23 Proposed Budget
Pavement Management Program – Slurry Seal	\$ 500,000
Street Rehabilitation Project	5,400,000
Emergency Response Vehicle and Upfitting	60,000
Citywide Wildfire Mitigation	150,000
<b>Total</b>	<b>\$6,110,000</b>
<b>Projected Ending Fund Balance FY2022-23</b>	<b>\$876,075</b>

The Citizen’s Revenue Measure Oversight Committee held a meeting on May 11, 2022. Staff presented an overview of the proposed budget to the committee as well as the proposed Measure G allocations described above in the FY2022-23. ***The Committee approved proposed FY 2022-23 Measure G allocations.***

### American Rescue Plan Act

The American Rescue Plan Act of 2021 (ARPA) appropriates \$19.53 billion to States for distribution to tens of thousands of “non-entitlement units of local government” (NEUs), providing significant funding to help states and localities address the economic and health

consequences of the pandemic. San Bruno expects to receive just over \$10 million in ARPA appropriation through the State of California by July 2022. With this funding, the City plans to support local businesses, update citywide technology framework, reinstate previous frozen positions, and provide much needed service enhancements to residents. The City has obligated all APRA funds through FY 2024-25.

### **Vehicles & Equipment**

The FY2022-23 budget includes the planned purchase of necessary equipment and vehicles to continue to provide services to the community. The combined replacements and new acquisition amounts to \$1,121,100 for the entire City, including enterprise funds.

The equipment budget annual allocation of \$340,600 into the fund from departments was postponed this year for a third time as a budget balancing strategy. Staff estimate a \$2.6 million ending balance at the end of FY2022-23.

### **II. Gann Limit**

Voters approved Proposition 4 and 111, known as the Gann Initiatives, which place a limit on the amount of tax-generated revenue (proceeds of taxes) that a local agency can receive and appropriate each year. The limit is based on actual appropriations during 1978-79 and is adjusted each year by cost-of-living and population growth adjustments. Only revenues defined as proceeds of taxes, which for San Bruno are property tax, sales tax, transient occupancy tax, and business tax, are restricted by the limit.

As shown in Attachment 5, the FY2022-23 appropriation limit is adjusted by the cost-of-living factor (7.55%) and the population factor (-0.92%) provided by the Department of Finance; establishing the FY2022-23 appropriation limit at \$51,583,158. Reducing the revenues generated from tax proceeds by exempted expenditures, such as debt service, capital outlay, and federal mandates, total revenue subjected to the Appropriation Limit is \$42,695,519. The City's appropriations subject to limit are \$8,887,639, or 17%, below the FY2022-23 appropriations limit.

**FISCAL IMPACT:** The City Council reviewed proposed reserves, fund balances, revenues, expenditures, and department budget information for the Operating and Capital Budget at public budget hearings on May 31 and June 14 2022. General Fund revenues are budgeted to be \$54,885,106, and expenditures are budgeted to be \$55,519,905 in FY2022-23 resulting in an operating deficit of \$634,799.

The City's four Enterprise operations provide business-type services that are budgeted to be entirely rate and fee supported. The adoption of the FY2022-23 budget will appropriate revenues and expenditures for the Enterprises to carry out operational and capital improvement initiatives in the coming year.

The City's four Internal Service departments provide direct services to support all City departments and City Enterprise Fund operations. The adoption of the FY2022-23 budget will appropriate revenues and expenditures for these departments to carry out operational support initiatives in the coming year.

The 5 fiscal year Capital Improvement Program work program identifies \$283,229,925 of prior year budget carryforward and new requests for FY2023-27 in necessary capital investment to assure rehabilitation, replacement, and improvement of City facilities and infrastructure.

The budget anticipates \$3,763,212 in Measure G district sales tax revenue. The Citizen's Revenue Measure Oversight Committee approved allocations on CIP street projects, an emergency response vehicle and citywide wildfire mitigation for a total of \$6,110,000.

The proposed budget includes equipment and vehicle purchases for a total of \$1,121,100.

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

**RECOMMENDATION:** Hold public hearing and adopt resolutions approving FY2022-23 Operating and FY2023-27 Capital Improvement Program Budget, and the City Appropriations (Gann) Limit for FY2022-23.

**ALTERNATIVES:** 1. Amend the appropriation amounts contained in the proposed budget at the time of the approval.

2. Do not approve proposed budget appropriations effective July 1, 2022. In this case, the City Council can adopt an alternate resolution assuring continued municipal operations until the City Council adopts the budget at a later meeting. An alternate resolution for this purpose is attached to this report.

**ATTACHMENTS:**

1. City Manager's Proposed Budget Transmittal Letter, May 31, 2022
2. Resolution Approving FY2022-23 Operating and the FY2023-27 Capital Improvement Program Budget
3. Resolution Authorizing Preliminary Expenditure Appropriation to Support City Operations Pending Approval of the Proposed FY2022-23 Operating and Capital Budget
4. FY 2022-23 Service Level Enhancements
5. Memo: Human Resources Director Enhancement Request Detail, June 28, 2022
6. Resolution Approving the City's Appropriation Limit (Gann Limit) of \$51,583,158 for FY2022-23
7. Gann Limit Report
8. Resolution of the San Bruno Planning Commission Finding that the Proposed Capital Improvement Program Budget for FY2022-23 is in Conformance with the City of San Bruno General Plan