



City Council Agenda Item Staff Report

CITY OF SAN BRUNO

DATE: November 8, 2022

TO: Honorable Mayor and Members of the City Council

FROM: Bobby Magee, Interim Finance Director

PREPARED BY: Esther Garibay-Fernandes, Financial Services Manager

SUBJECT: Receive First Quarter Financial Update Report for FY2022-23 as of September 30, 2022 and Adopt a Resolution Approving the Carryover of FY2022-23 Purchase Order Encumbrances and FY2022-23 Budget Amendments

BACKGROUND:

The City Council approved the FY2022-23 Operating and Capital Improvement Budget on June 28, 2022. 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 July 1, 2022 through September 30, 2022 and serves as the first quarter budget update to the City Council for the current fiscal year. Analysis of the revenues collected and expenditures through September 30th provides a status updated of the objectives and priorities for departments that were articulated in the FY2022-23 budget.

The FY2022-23 adopted budget allocations do not include any purchase orders for the city's vendors from the prior fiscal year. During the FY2021-22 year-end financial close process, staff determine the vendor purchase orders that should be carried forward into FY2022-23 for services and other work to be performed. When a purchase order is executed, the department's budget line item for this expense is encumbered. An encumbrance is a portion of the budget that is set aside for the specific purpose outlined in the purchase order and cannot be used for any other purpose. The execution of purchase orders and encumbrances is a best practice for purchasing and budget management functions to ensure the City spend money in accordance with the budget and can effectively manage and track spending during the fiscal year. This report presents the total encumbrances from the prior fiscal year for City Council approval to be carried forward into FY2022-23. These encumbrances ensure that previously authorized funds are available in the current year covering incomplete projects and other continuing obligations.

DISCUSSION:

Financial Overview

The attached FY2022-23 Q1 Financial Report provides a summary of revenues and expenditures in 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

The General Fund finances the operations of the City that have no special or dedicated revenue sources and pays for basic municipal services. The FY2022-23 adopted General Fund budget projects revenues totaling \$54,885,106 and expenditures totaling \$55,519,905 resulting in a deficit of \$634,799. General Fund revenues come from taxes, such as property, sales, transient occupancy, and business license tax, among others, department revenues for services provided, and franchise fees among other sources of revenues. General Fund expenditures include the public safety functions of Police and Fire operations, General Administration, Public Works, Community and Economic Development, and Community Services among other functions. The City Council adopted the FY2022-23 budget authorizing the use of available fund balance in the General Fund to address the \$634,799 deficit. Funding to cover the difference between revenues and expenditures is detailed in the FY2022-23 operating budget.

The first quarter financial update contains limited data and the one-time nature of various revenue and expenditure transactions that only provide limited trend information as of this early point in the fiscal year. For example, nearly all of the City's secured property tax revenue is received in two payments (one in December and another in April). In addition, there are large expenditure payments that occur during the first quarter, such as a lump sum payment to CalPERS for annual employee pension cost as well as Association of Bay Area Governments liability and property insurance premiums are paid in full during the first quarter. Total actual revenues received for the first quarter are estimated at 20% of budget, which is approximately four percent less than the first quarter in FY2021-22. Expenditures are currently estimated at 32% of the approved budget, which is a similar figure as the prior fiscal year upon completion of the 1st quarter.

Notable Revenues – General Fund

Property Tax: (FY2022-23 Q1: 7% of budget compared to 7% in FY2021-22). The Finance Department currently estimates that property tax revenue will come in 1% lower than previous fiscal year. The majority of the property tax revenue is normally received in December and April. So far, the revenue received is on pace with previous years.

Sales Tax: (FY2022-23 Q1: 16% of budget compared to 6% in FY2021-22). Overall sales tax revenues throughout the course of the fiscal year are expected to increase over the previous fiscal year by 2%. The California Department of Tax and Fee Administration reported higher revenues received in first quarter, as compared to previous year, by \$1,099,785 due primarily to higher than expected tax returns submitted by local retailers.

Hotel/Motel Occupancy Tax: (FY2022-23 Q1: 20% of budget compared to 24% in FY2021-22). Transient Occupancy Tax (TOT) revenue was budgeted \$1,039,400 higher in FY2022-23 than FY2021-22, under the assumption that hotel tax revenues would increase about 60% from previous year. During the first quarter, the City received \$150,800 more in TOT than same period last year, which appears to reflect the expected gradual improvement of the hospitality industry.

Motor Vehicle License Fee (VLF): (FY2022-23 Q1: 36% of budget compared to 0% in FY2021-22). 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. In FY2020-21 San Mateo County endured a significant VLF Shortfall. As a result, the County filed a claim with the State Department of Finance on behalf of the counties and cities where San Bruno received \$2,399,390 from FY2020-21 VLF shortfall on 8/2/22. This was primarily due to Pacifica Elementary School, which was originally projected as basic aid turned non-basic aid at 6-30-22. As a result of this action, the total property taxes of non-basic aid school districts that are used to fund VLF increased by \$23.9 million, thus reducing the VLF shortfall amount to \$32.9 million from 56 million. Currently the City expects to see an overall decrease in VLF fees FY2022-23 Adopted Budget of (\$463,000).

Regulatory Card Room Tax: (FY2022-23 Q1: 34% of budget compared to 24% in FY2021-22). First quarter FY2022-23 is \$240,000 higher than same period last year, as the card room tax was expected to increase over the previous fiscal year. After reviewing additional requests for City services from Artichoke Joes, Finance updated the rate calculation for their firm through a negotiated agreement. City Council approved the resolution on July 12, 2022 for a quarterly increase of Card Room Tax of \$225,000 in addition to \$2,071 CPI Increase per table. As a result, the annual card room tax revenue expects a 2% increase this year compared to last year.

Business Taxes: (FY2022-23 Q1: 38% of budget compared to 57% in FY2021-22). Business taxes are due to the City when applications are submitted and annually on August 1st. First quarter FY2022-23 is \$478,000 lower than same period last year. The City received late payment on some of its top grossing vendors, which has not hit the City's accounting systems as of the close of the 1st quarter books. As local businesses continue to catch up on the required licenses, overall business tax revenues are expected to be received at a level closer to budgeted amounts in the mid-year report.

Departmental – Aggregate: (FY2022-23 Q1: 24% of budget compared to 27% in FY2021-22). Total departmental revenues as of the first quarter for FY2022-23 are \$394,790 lower than in FY2021-22. In FY2021-22 funding was received for the February 2021 Cost Recovery Agreement, which does not continue into this fiscal year. Overall, a slight increase in revenue for Public Works Engineer Plan check and Planning fees continues to be expected.

High-level Expenditure Summary Trends – General Fund

Total Expenditures: (FY2022-23 Q1: 32% of budget compared to 32% in FY2021-22). As noted above, first quarter expenditures are typically higher due to the City choosing to take advantage of the CalPERS pre-payment option of both the Safety and Miscellaneous Plans' annual costs for the Unfunded Accrued Liability for CalPERS employee retirement of approximately \$8.6 Million in FY2022-23, which is \$0.9 Million more than FY2021-22.

Aggregate departmental expenditures were at 32%, similar to last year during the same time period. It should be noted that there was a \$1,887,474 increase over the same time period last year due to the Union contract negotiations involving salary and CalPERS retroactive payments on 9/16/22. Most departments expenditures are in the range of 28% - 33%, with the exception of the Fire department which was at 38% with CalPERS being the highest driver of the contract negotiations offset by reduced Overtime expenses.

Measure G Fund

A total of \$3.7 million was budgeted for Measure G revenue, the half-cent use tax approved by voters in 2019. Based on a recent update from the City's Sales Tax consultants, HdL, Measure G appears to be on target and in line with FY2022-23 Adopted Budget. However, the first quarter in FY2022-23 is 12% higher than same period in FY2021-22. During the Budget Hearing of FY2022-23, City Council approved expenditures of \$6,110,000.

Enterprises and Internal Service Funds (ISFs)

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

Notable Revenues – Enterprise & ISFs

Water: (FY2022-23 Q1: 30% of budget compared to 28% in FY2021-22). Revenues for

the first quarter were \$4,549,900 compared to \$4,647,700 in the prior year. The City did not increase the water rate this year. Water consumption for FY2022-23 is closely equivalent to the same period last year.

Wastewater: (FY2022-23 Q1: 30% of budget compared to 28% in FY2021-22). Revenues for the first quarter were \$4,888,100, compared to \$5,000,600 in the prior year. Similar to water operations, the City did not increase rates for wastewater operations this year. The wastewater consumption is based on winter months water usage and is calculated for the period from November thru April. These are updated in the billing system every July. Wastewater operations also have similar averages in FY022-23 compared to same period last year.

Both Water and Wastewater Utility accounts continue to have significant delinquencies as a result of the Covid-19 pandemic. To collect overdue balances, Finance sent out several courtesy letters encouraging delinquent customers to set up payment plans and received responses from some customers. However, since the City has not sent out hangtags, customers continue to fall behind on payments and therefore continue to have significant delinquencies. Although the City received assistance program funding from several agencies such as State Waterboard for both Water \$440,000 and Wastewater \$320,000 for customers that qualified during the time period March 2020 thru June 2021; and programs like Housing is Key (CA COVID-19 Rent Relief Program), Samaritan House, Family Housing & Adult Resources, these funds are still not enough due to customers continuing to fall behind on their payments and effort to bring their account balances up to date.

Stormwater: (FY2022-23 Q1: 0% of budget compared to 15% of budget in FY2021-22). Stormwater fees are collected through the County property tax roll with the first payment expected in December. The 15% difference in FY2021-22 were internal transfers from ARPA approved funds per Adopted Budget FY21-22 totaling \$1,000,000 to help Stormwater Fund.

CityNet Services: (FY2022-23 Q1: 23% of budget compared to 21% in FY2021-22). Actual revenues of \$2,078,000 are \$20,700 less than the previous year. The CityNet budget for the FY2022-23 year was reduced by \$873,600. CityNet also experienced high delinquencies, similar to utility services during the Covid-19 pandemic. As a result, staff sent a letter to delinquent households in November 2020 indicating they would be switched to basic cable services if they did not bring their accounts up to date. Consequently, delinquent customers were downgraded to a lower subscription and rate plan last year. CityNet lowered the budget revenues during budget planning to reflect the lower rate subscriptions for phone service, internet service, regular tv and premium channels on traditional cable service, digital equipment and slow pickup of new subscriptions on Streaming TV service which is slated to launch between January and March 2023. CityNet reports delinquencies totaling approximately \$123,571 as of September 30, 2022.

Expenditures for the four Enterprise Funds are all within their respective budget levels for the first three months of the fiscal year.

Internal Service Funds: (FY2022-23 Q1: 35% of budget compared to 35% in FY2022-23). Charges for each of the Internal Service Funds are by monthly allocation based on the adopted budget.

FY2021-22 Carryover Purchase Order Encumbrances

The attached resolution re-appropriates outstanding encumbrances as of June 30, 2022 to the FY2022-23 budget to ensure that previously authorized funds are available in the current year to cover expenditures for uncompleted projects and continuing obligations approved during FY2021-22.

The largest PO Carryover amount listed below is under Facilities due to the Recreation & Aquatics Center project previously approved by City Council last fiscal year. The outstanding encumbrances are detailed in Attachment 3 to this report and are summarized as follows:

Fund	Amount
General Fund	\$1,089,024
ARPA Fund	166,272
Police Asset Forfeiture Fund	52,461
Federal /State Grants Fund	2,330
In Lieu Fees	10,000
Restricted Revenues Fund	7,720
Disaster Recovery Fund	2,864
Parks Capital Fund	48,711
Fire Capital Fund	201,246
Facilities Capital Fund	37,120,436
Streets Capital Fund	2,081,149
Technology Capital Fund	148,574
Water Fund	3,281,276
Stormwater Fund	127,183
Wastewater Fund	830,867
CityNet Services Fund	49,076
Central Garage Fund	8,431
Facility Maintenance Fund	26,151
General Equipment Revolving Fund:	891,416
Technology Development Fund	33,451
Total	\$46,178,638

Budget Amendments

The following table summarizes the budget amendments being recommended, with explanations below:

Item	Fund	Program / Request	Revenue Increase/ (Decrease)	Expenditure Increase /(Decrease)
A	General Fund	Police Department		\$33,589
B	General Fund	Building	785,000	785,000
C	General Fund	Library		26,000
D	Equipment Reserves	Police Department		42,058
E	Development Impact Fees	Community Services		\$100,000

An explanation of the proposed budget amendments for the first quarter of FY2022-23 is below.

A. General Fund – Police Department:

The Police Department is asking for a \$33,589 expenditure increase for LawNet Messaging Switch - The LawNet network connects police departments and the County's criminal justice agencies together and provides a gateway to external criminal justice networks. The equipment is more than 12 years old and needs to be replaced due to age. LawNet uses unreliable, expensive, and outdated AT&T circuits. These circuits need to be replaced with fiber-optic circuits and this will allow agencies to ensure higher standards of encryption. The shared components for the system are funded by all participating law enforcement agencies through the Message-Switch Budget which is administered by the County's Office of Public Safety Communications. The County invoices each participating agency for share of the overall budget. Each participating agency is responsible for purchasing its own date communications equipment.

B. General Fund – Building:

A request to increase revenue by \$785,000 and expenditures account and appropriation of \$785,000 to pay for Consultant Off-Site Plan Check Services. The expenditure will be offset by the increase in Revenue as the services are fully cost recoverable.

C. General Fund – Library:

The Department is recommending additional tools & equipment in the amount of \$26,000 for Replacement of self-checkout machines and security gates. The units/software are no longer supported and presents a network security risk.

D. Equipment Reserves – Police Department:

Bulletproof Vests - Replacement of expired bulletproof vests required by MOU for members of the police department. Partially grant funded by Federal Bulletproof Vest Partnership (BVP Federal Grant Program). Total cost was \$62,057.11 minus the grant PD received for \$19,998.90 for a total cost to the equipment reserve fund of \$42,058.21.

E. Development Impact Fees:

Funding for the City on-call Landscape Architect for the Crestmoor Multi-Use Fields Facility Project. The consultant will facilitate a community engagement process, build consensus for a preferred master plan, and prepare plans and supporting documents delineating proposed multi-use fields facility improvements at the former Crestmoor High School site. The current developer has offered to dedicate this land to the City. The recommended action includes an increase in expenditures of \$100,000 to this fund.

FISCAL IMPACT:

The resolution appropriating funds in the budget amendment for purchase order carryover encumbrances will increase the adopted Operating and Capital Improvement Budget in each fund as summarized below:

Fund	Amount
General Fund	\$1,089,024
ARPA Fund	166,272
Police Asset Forfeiture Fund	52,461
Federal/State Grants Fund	2,330
In Lieu Fees	10,000
Restricted Revenues Fund	7,720
Disaster Recovery Fund	2,864
Parks Capital Fund	48,711
Fire Capital Fund	201,246

Facilities Capital Fund	37,120,436
Streets Capital Fund	2,081,149
Technology Capital Fund	148,574
Water Fund	3,281,276
Stormwater Fund	127,183
Wastewater Fund	830,867
CityNet Services Fund	49,076
Central Garage Fund	8,431
Facility Maintenance Fund	26,151
General Equipment Revolving Fund	891,416
Technology Development Fund	33,451
Total	\$46,178,638

The resolution appropriating funds for additional budget amendments will change the adopted operating and capital improvement budgeted appropriation in each fund as summarized below:

Fund	Revenue Budget Change	Expenditure Budget Change
General Fund	\$785,000	\$844,589
Equipment Reserves		42,058
Development Impact Fund		\$100,000

ALTERNATIVES:

1. Do not adopt a resolution approving the carryover of FY2021-22 Purchase Order Encumbrances in FY2022-23 and provide direction to staff.
2. Do not adopt a resolution approving additional budget amendments for FY2022-23 and provide direction to staff.

RECOMMENDATION:

Receive First Quarter Financial Update Report as of September 30, 2022 for FY2022-23 and adopt resolution amending FY2022-23 Operating and Capital Improvement

Budget approving carryover FY2021-22 purchase order encumbrances and budget amendments.

ATTACHMENTS:

1. Resolution
2. Quarterly Financial Report as of September 30, 2022
3. Outstanding Purchase Orders by Fund on June 30, 2022

DATE PREPARED:

October 20, 2022