



## City Council Agenda Item Staff Report

CITY OF SAN BRUNO

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**DATE:** May 23, 2023

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

**FROM:** Alex D. McIntyre, Interim City Manager

**PREPARED BY:** Bobby Magee, Interim Finance Director

**SUBJECT:** Consider Adoption of a Resolution Accepting the City's Annual Comprehensive Financial Report, the Measure A and W Fund Reports, and the Single Audit Report of Federal Awards for the Fiscal Year Ended June 30, 2022

### BACKGROUND:

The City's independent auditor, Badawi & Associates, completed the audit of the City's financial statements and provided the auditor's reports for the fiscal year ended June 30, 2022. 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, 2022 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 W Funds for Local Transportation Purposes*
4. Single Audit Report of Federal Awards
5. Letter to Governance

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.

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.

## DISCUSSION:

Badawi & Associates completed audits of the City's financial statements, Measure A, and Measure W sales tax special revenue. Badawi & Associates found the general-purpose financial statements present fairly, in all material ways, the City's financial position as of June 30, 2022 (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, 2022 are as follows:

### General Fund

At the end of the fiscal year, total fund balance increased by \$11.2 million to \$46.6 million. The increase was mainly attributed to the General Fund revenue overage against expenditures of about \$9.9 million and about \$1.3 million in interfund transfer in.

General Fund revenues totaled \$63.4 million in FY 2021-22, realizing an overall net of \$7.2 million more than the previous fiscal year. State motor vehicle in-lieu tax was the biggest contributor of the increase by \$4.5 million. The primary reason for the increase in state motor vehicle in-lieu tax was the County's receipt of reimbursement for the shortfall in in-lieu vehicle license fees for the fiscal years 2020-21 and 2021-22. Sales tax contributed to the increase in revenue by \$3.8 million. The increase in Bradley-Burns local sales and use tax was mainly driven by the City's engagement in a Revenue Participation Agreement with a major taxpayer in October 2020, resulting in the reporting of a complete year's sales tax revenue associated with the agreement in the current fiscal year. Measure G sales tax, which was approved by the voters in November 3, 2019 and became effective April 1, 2020, generated revenues of \$4 million. The gradual relaxation of COVID-19 restrictions fueled the expansion of both leisure and business travel, resulting increase in transient occupancy taxes by \$1.2 million, or 93.1%. Property taxes, increased by \$1.9 million, or 15.17%. The increase of property tax corresponds directly with the rise in property assessments within San Mateo County. There was a decrease in other miscellaneous revenue by \$3.4 million primarily due to previous one-time-only community benefit fees received from development activities.

Compared to FY2020-21, General Fund expenditures increased by \$5.3 million. The expense increase primarily stems from more funding allocated toward public safety and capital projects. These areas have received more funding to enhance community well-being and infrastructure development. The increase in expenses aligns with the rise in revenue, attributed to the steady reopening of community activities after the COVID-19 pandemic. Overall expenditures were \$1.3 million below the final budget. The savings were primarily contributed by the Community and Economic Development and Community Services Departments, as a result of salary savings and a reduced need for contractual services compared to initial projections.

### 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, 2022 are listed in the table below. The General Fund Reserve, Emergency Disaster Reserve Fund, and Capital Improvement /One-Time Initiative Reserve Fund balances were slightly below the target. The General Fund Contingency Fund was above the policy targets when actual revenue received exceeded initial expectations.

General Fund Reserves and Balances		Reserve Policy Target	FY2021-22 Actual Fund Balance
	General Fund Reserve	25% of annual budgeted expenditures (or \$13.7 Million)	\$12.3 Million
	General Fund Contingency Fund	\$1.5 Million	\$4.2 Million
	Emergency Disaster Reserve Fund	\$3.0 Million	\$2.8 Million
	Capital Improvement/One-Time Initiative Reserve	\$5.0 Million Goal	\$4.6 Million
	<b>Sub-Total – General Fund Reserves</b>	<b>\$22.1 Million</b>	<b>\$23.9 Million</b>
	General Fund Equipment Reserve	\$0	\$3.8 Million
	Measure G District Sales Tax	\$0	\$3.4 Million
	<b>Total</b>	<b>\$22.1 Million</b>	<b>\$34.6 Million</b>

### Enterprise Funds

Water Fund net position increased by \$4.9 million to \$70.2 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 future 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 \$5.4 million to \$71.8 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 future years. A five-year rate plan was established and provides for annual 5% rate increases through June 30, 2022.

Stormwater Fund net position increased by \$0.4 million to \$5.4 million primarily due to a transfer in from the American Rescue Plan Act fund to support operations. The long-range financial

forecast, without any additional dedicated revenue to support the enterprise, is projected to yield a negative fund balance beginning in FY2022-23 with a negative fund balance each year thereafter. The remaining stormwater system capital improvement projects are currently unfunded due to the lack of dedicated stormwater fees. The City held a mail ballot property-owner election to increase Storm Drainage and Flood Protection Fee on June 15, 2021. The initiative was rejected by the voters, and the City began exploring alternative options in 2021-22 to address needed stormwater system improvements. A path to alternative funding options has not been identified as of yet, and the City continues to explore options in FY2022-23.

CityNet Fund net position decreased by \$0.8 million to \$(18.7) million. This decline is primarily due to operating expenses exceeding operating revenues. CityNet Enterprise has continued to make efforts to cut expenditures, and total operating expenses were \$0.5 million lower than the previous year. The enterprise's financial deficit continued to grow and its borrowing from the General Fund has accumulated to \$15.2 million.

#### 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 \$10.7M in FY2021-22, which was a \$1.2 million increase 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 decreased from \$102.5M in FY2020-21 to \$68.2M in FY2021-22. The table below lists the NPL for the Miscellaneous and Safety plans for fiscal years ending June 30, 2021 and 2022 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.

<b>Net Pension Liability</b>	<b>Miscellaneous</b>	<b>Safety</b>	<b>Total</b>
<b>June 30, 2021</b>	\$ 48,947,544	\$ 53,531,797	\$ 102,479,341
<b>June 30, 2022</b>	33,618,509	34,593,086	68,211,595
<b>Change – Increase (Decrease)</b>	\$ (15,329,035)	\$ (18,938,711)	\$ (34,267,746)

#### Measure A and Measure W Funds Report

Badawi & 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, 2022.

The Measure A fund has \$0.9M of assets at June 30, 2022. Total revenues of \$1.6M were received in FY2022, and \$1.8M 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 \$0.9M of assets at June 30, 2022. Total revenue of \$0.6M was received in FY2022 and \$0.2M was spent on street rehabilitation projects.

**FISCAL IMPACT:**

The acceptance of the City's ACFR and other financial statements has no fiscal impact on the City. However, the reports are necessary in order to allow for City Council oversight of the financial condition of the City. Failing to prepare and accept such reports could jeopardize the City's credit rating and its ability to obtain grants and debt financing in the future.

**ALTERNATIVES:**

No action is being requested beyond receipt of the various reports, consequently, no alternatives are offered.

**RECOMMENDATION:**

Accept, by motion, the City's Comprehensive Annual Financial Report, the Measure A and Measure W Fund Reports on compliance, and the Single Audit Report of Federal Awards for the fiscal year ended June 30, 2022.

**DISTRIBUTION:**

None

**ATTACHMENTS:**

1. Resolution
2. Comprehensive Annual Financial Report for Fiscal Year Ending on June 30, 2022
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. Single Audit Report of Federal Awards
6. Letter to Governance