



SAN RAFAEL CITY COUNCIL AGENDA REPORT

Department: Finance

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City Manager Approval: _____

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TOPIC: FINAL CITYWIDE PROPOSED BUDGET FOR FISCAL YEAR 2020-2021 AND LEGAL SPENDING LIMIT

- SUBJECT:**
- 1. RESOLUTION APPROVING THE CITYWIDE BUDGET AND CAPITAL IMPROVEMENT PROGRAM FOR THE FISCAL YEAR 2020-2021 AND PROVIDING FOR THE APPROPRIATIONS AND EXPENDITURE OF ALL SUMS SET FORTH IN THE BUDGET IN THE AMOUNT OF \$127,943,913;**
 - 2. RESOLUTION APPROVING FISCAL YEAR 2020-2021 GANN APPROPRIATIONS LIMIT AT \$143,208,909**

RECOMMENDATION:

1. Adopt a resolution approving the FY 2020-21 operating budget and Three-Year Capital Improvement Program.
2. Adopt a resolution approving the FY 2020-21 Gann Appropriations limit.

SUMMARY: This report presents the final proposed citywide budget for Fiscal Year (FY) 2020-21, beginning July 1, 2020 and ending June 30, 2021. This item is the culmination of a process that included a public discussion of the assumptions underlying the operating budget at the City Council Finance Subcommittee meeting on May 12, 2020, and the City's [COVID-19 Economic Recovery Plan \(CERP\)](#) which was presented to the City Council on May 18, 2020. In addition, the preliminary Capital Improvement Program was presented to the City Council Finance Subcommittee on April 14, 2020, and subsequently to the City Council on May 18, 2020 for feedback and discussion. The final draft budget and proposed staffing changes were presented and discussed at the City Council Finance Committee meeting of June 9, 2020.

FOR CITY CLERK ONLY

Council Meeting: June 15, 2020

Disposition: Resolutions 14830 x 14831

For the FY 2020-21 budget, ongoing General Fund operational expenditures are supported by current period revenues and use of emergency reserves, and the spending plans of all other funds are supported by projected revenues and accumulated resources in their respective funds. Proposed appropriations citywide total \$127,943,913 and are within the legal spending limit.

This budget is different than others we have presented over the past several years as the financial impacts of COVID-19 are substantial and have created a significant budget deficit for FY 2019-20, 2020-21 and are expected to have a longer lasting impact. As a result of the massive revenue losses which have been occurring since the pandemic and are projected to continue, the FY 2020-21 budget represents a reduction in every department's funding. Reductions City-wide amount to approximately \$6.7 million.

BACKGROUND:

This report will focus on the following:

1. Brief status of Fiscal Year 2019-20 budget performance
2. COVID-19 Economic Recovery Plan
3. Proposed operating and capital budget presented for all City funds for Fiscal Year 2020-21
4. Fiscal Year 2020-21 Appropriations Limit

BUDGET ACTION

The purpose of this report is to provide the City Council and community with the final proposed citywide budget for FY 2020-21 which has been prepared for adoption based on the direction provided at earlier public meetings.

The budget is both a spending plan for the City's available financial resources and the legal authority for City departments to spend these resources for public purposes. Through these resources, services are provided to meet the needs of the community. The City Council and City staff respond to the community's needs in part through the budget, which is intended to balance not only revenues and costs, but also community priorities.

Consistent with the direction provided by the City Council in May 2014, the additional one-quarter percent sales tax revenues provided by Measure E, effective April 1, 2014 through March 31, 2034, are dedicated to funding major construction and improvements to public safety facilities (also referred to as the [San Rafael Essential Facilities](#) project).

"GANN" APPROPRIATIONS LIMIT

Article XIII B of the California Constitution (enacted with the passage of Proposition 4 in 1979 – the Gann initiative – with modifications under Proposition 111 passed in June 1990, and implemented by California Government Code sections 7900, and following) provides the basis for the Gann appropriation limitation. The City's appropriation growth rate is limited to changes in population and either the change in California per capita income or the change in the local assessment roll due to new, non-residential construction.

ANALYSIS:

UPDATE ON CURRENT BUDGET/FISCAL YEAR 2019-2020

General Fund

Revenues: The original FY 2019-20 budget, adopted on [July 15, 2019](#), projected \$80,282,912 in revenues and in the Mid-year budget review (updated budget) presented on February 3, 2020, revenues were increased by \$200,000 for a projected balance of \$80,482,912 based on the one-time unexpected overperformance of sales tax. Current Revenues are projected to be \$75,401,133, which is \$5,081,780, or 6.3% below the updated budget, based on activity through March which is the most up to date information available from the State. This reduction is a result of the COVID-19 pandemic and resulting economic shutdown which significantly reduced local economic activity and corresponding tax and fee revenue to the City. Most notably, sales and use taxes are projected to be approximately \$3.7 million less than the updated FY 2019- 20 budget and Transit Occupancy tax about \$800 thousand less than the updated FY 2019-20 budget.

Expenditures: General Fund expenditures have also been significantly reduced based on strategic measures taken by the City immediately following the COVID-19 public health crisis; expenditures are currently projected to total \$76,510,689 on June 30, 2020. This is a \$2.8 million decrease from the updated budget total of \$79,311,813 and results mostly from salary, benefit, and retirement contributions savings. These savings were achieved due to the following:

- Freezing all vacant positions,
- A one-time reduction in overtime expenses due to the COVID-19 pandemic because public safety employees have not been taking vacation time and therefore no one has to fill in their shift on overtime, and
- Several employees either resigned or retired towards the end of Fiscal Year 2019 and during Fiscal Year 2020 whose positions were filled with PEPRA employees, which substantially decreases the employer’s pension contribution expense.

After accounting for additional transfers to the Recreation fund as mentioned below and the budget deficit which was anticipated before COVID-19, the General Fund is in a projected deficit position of \$2.85 million for the fiscal year ending June 30, 2020. This loss will be absorbed by available one-time funds from the prior year in addition to the cost saving measures noted above. Unfortunately, this is insufficient to balance the budget, so staff regrettably recommends the use of emergency reserves.

General fund	6/30/2020
Projected net losses as of June 30, 2020	\$ 2,854,029
Use of One-time funds available from prior years	(2,132,487)
Use of emergency reserve funds	(721,542)
Adjusted losses as of June 30, 2020	\$ -

The use of \$721,542 from the City’s emergency reserve fund reduces the reserve percentage to 9% of originally budgeted expenditures. The General Fund Reserve Policy adopted on November 3, 2014 asks for the reserve to be at a ten percent minimum.

Other Funds

The impacts of COVID-19 have caused a revenue strain on several of the City’s other funds such as the General Plan Special Revenue Fund, the Gas Tax Fund, Child Care, and Recreation. At this point, most

funds continue to be self-sufficient by using available fund balance and/or putting a stop on non-essential projects. However, due to starting the year with no available fund balance and with having to refund fees for cancelled recreation programs while still utilizing staff for other operations such as disaster service workers, the Recreation fund will need an additional transfer of approximately \$300,000 from the General Fund. The Recreation fund receives annual contribution of approximately \$2 million each year dependent on operations.

The evaluation of other funds will continue with the year-end close. Any required adjustments will be presented to the City Council as part of the year-end update which staff will present to the City Council in September.

COVID-19 Economic Recovery Plan

When the City Council reviewed the mid-year report for FY 2019-20 on February 3, 2020, nothing indicated it would be an exceptional year and require a departure from the usual process. However, since then, the world has been faced with a public health crisis brought on by COVID-19 that led to a shelter-in-place order, which in turn shut down most economic activity world-wide.

On March 17, 2020, the City Council ratified the proclamation of a local state of emergency signed by the City Manager on March 10, 2020. The City's COVID-19 website can be [found here](#). On May 4, 2020, staff brought forward a report discussing the severe financial burdens this pandemic has created for the City, the lost revenues, recommended actions to reduce expenses and increase revenues.

On May 18, 2020, after a collaborative process that included all City departments, a COVID-19 Economic Recovery Plan (CERP) was presented to the City Council for consideration, feedback and acceptance of the informational report. The purpose of the CERP is to communicate how the City plans to economically recover from this public health and subsequent financial crisis.

In a typical year, staff would present the City's Goals and Objectives for the next fiscal year along with the proposed fiscal year budget. However, the CERP is currently serving as our goals and objectives, which gives staff time to continue assessing the impact of COVID-19 on the City's revenues. This additional time will allow staff to evaluate the further expense reductions necessary, which informs if additional reductions in services and/or staff are needed to maintain a balanced budget. Staff will have the opportunity to work with the City Council and our community as these goals are developed and consider such dynamic needs such as racial justice goals, pandemic and economic recovery goals, and more.

PROPOSED FISCAL YEAR 2020-21 CITYWIDE BUDGET

HIGHLIGHTS

- ❖ **Citywide Budget:** The total proposed FY2020-21 expenditure budget for the City is \$147,750,690 (Exhibit I to the Budget Resolution). This sum reflects all funds and operations for the City, including active capital projects. The Capital Improvement Program has planned expenditures of \$23 million for the year of which staff reports will be submitted for major projects. Appropriations are supported by FY2020-21 revenue and other sources projected at \$130,036,310 as well as by fund balances retained from previous periods for capital projects.
- ❖ **General Fund Budget:** The proposed General Fund expenditure budget comprises \$81,581,228 for operations which includes reductions of approximately \$6.7 million are supported by revenues, transfers in, and reserves, projected at \$79,398,300, resulting in a deficit before allocations of

\$2,182,928. The deficit is planned to be absorbed by an additional allocation from the emergency reserve of \$2,182,928, as we recover from the COVID-19 pandemic and resulting economic shut-down. (Exhibit II to the Budget Resolution).

- ❖ **State Budget Impacts:** On May 14, 2020, Governor Gavin Newsom signed the May revision to the FY 2020-21 state budget, which totals approximately \$203 billion in spending. The May revision saw nearly \$20 billion pared down from the January proposal in light of the COVID-19 pandemic. City staff will look for any opportunities to pursue additional assistance and available funding.
 - Housing: The May Revision proposes to expend \$331 for housing counseling and mortgage assistance and renter legal aid and maintains the \$500 million in low-income housing state tax credits from the Governor's previous budget in January. Significant reversions of funding include \$250 million in mixed-income development funds, \$200 million in infill infrastructure grant funds, and \$115 in other housing program funds.
 - Homelessness: The May Revision proposes \$750 million in federal funding to purchase hotels and motels secured through Project Room Key, to be owned and operated by local governments or non-profits providers.
 - Transportation: Although fuel tax revenues used to fund transportation project are expected to decline by \$1.8 billion over the next five years, the May Revision maintains planning and engineering staffing levels continue work on previously programmed projects and support preparedness for stimulus funding.
 - Emergency Preparedness and Response: The budget includes \$127 million to enhance the state's capacity to respond to natural disasters, including wildfires. Of this total \$38.2 million is proposed for the California Disaster Assistance Act to be used to repair, restore, or replace public real property damaged or destroyed by a disaster. The California Public Utilities Commission is set to receive \$30 million in an effort to combat risk of utility-caused wildfires.
 - Environmental Quality: The Revision includes a cut to the climate catalyst fund, a four-year \$1 billion revolving loan program proposed in the January budget intended to seed recycling, low-carbon transportation and climate-smart agriculture products. The revision also eliminates the proposal of a Climate Resilience Bond that was previously included as part of the January budget. The bond was meant to support investments over the next five years to reduce specific climate risks across California through long-term investment in natural and built infrastructure. Funding for the Natural Resources Agency and the Environmental Protection Agency was largely preserved. The \$965 million Cap and Trade expenditure plan was also preserved, however, given the uncertainty surrounding proceeds generated at auction due to the significant decrease in emissions, a pay-as-you-go mechanism was established.
 - Community Services: As may be expected, Community Services was the recipient of numerous cuts or eliminations in the revised budget. The Department of Parks and Recreation is facing \$30 million in budget cuts in fiscal 2021-22 and after.
 - Public Safety: To meet the immediate needs of local law enforcement training the May Revision proposes to use \$10 million to create a distance learning grant program, increase the functionality of the Police Officer Standards and Training Learning Portal, and upgrade previously produced and developed distance learning courses.
 - COVID-19: \$450 million in CARES act funding is proposed to be allocated to cities to be used toward homelessness, public health, public safety, and other services to address the COVID-19 pandemic. The State Senate and Assembly continue to release budget proposal details to increase this amount. At this time, The City of San Rafael could receive up to \$600,000 of funding for qualified expenses. The State has allocated the funds that

cities are eligible for to counties, therefore the County of Marin will evaluate the City's reimbursement request and determine how much funding the City receives.

General Fund

The City's General Fund accounts for most of the major services to residents and businesses (such as police, fire suppression and prevention, planning, building, library, parks, streets, engineering, traffic enforcement and management, and cultural programs). The General Fund operating-related appropriations for FY 2020-21 total approximately \$81.6 million. These appropriations comprise \$79.6 million of operating expenditures and \$2 million of transfers to Community Services in support of the Recreation Fund.

The appropriations are supported by \$75.5 million in projected revenues and \$3.9 million of transfers from other funds. The transfers include \$1.1 million from the 2018 Lease Revenue Bond proceeds that will be used to pay interest on the Bonds from the General Fund; \$1.6 million reimbursement from Gas Tax for support of street maintenance salaries; \$0.7 million from the Employee Retirement internal service fund for debt service on the outstanding pension obligation bonds; and \$0.5 million from the Parking Services Enterprise Fund for administrative support.

The following table (Figure 1) summarizes the detailed information provided in Exhibit II of the Resolution (Attachment 2) and presents the proposed FY 2020-21 budget with a comparison to the approved FY 2019-20 budget.

Revenues available for operations are projected to be \$5 million, or 6.2% lower than those of the FY 2019-20 year. Most notably, property tax revenues increased by over 4%, or \$861,000 while sales and use tax, hit the hardest by the COVID-19 pandemic, decreased by over 15% or \$5.2 million dollars.

Expenditures are projected to decrease by a net \$1.8 million, or 2.4% over those of the FY 2019-20 approved budget. City-wide, departments actively worked to reduce expenses for the FY 2020-21 budget, while creatively working towards redesigning services to be able to deliver them more efficiently. Decreases to the FY 2020-21 expense budget include approximately \$700,000 in furloughs, \$1.4 million in frozen positions, \$586,000 due to the Voluntary Retirement Separation Program, and other reductions and transfers in of approximately \$4 million.

As part of the reductions of \$4 million, \$1.2 million was transferred in to the General Fund from the Gas Tax Fund to support salaries of those employees performing street and road maintenance and repairs. This shows up as a resource which offsets the salary expense so the reduction in the expenditure line is not visible, thus only showing a change from previous year of \$1.8 million but represents a change of \$3 million. Additionally, the gross reductions of approximately \$5.4 million were offset by expense increases such as agreed to salary increases for certain bargaining units that extended their contract prior to the COVID-19 events, an increase in the pension expense based on MCERA's updated contribution rates, one-time project costs of offset by grant revenues for Community Development, cost of living increases for non-personnel expenditures and other operating expenses as part of doing business.

Not only did the City have to balance the budget by using emergency reserve funds of \$2.2 million, but there are several City goals that remain unfunded. Most notably, building maintenance of city-owned property, below ground infrastructure, general unfunded liability for pension and health, and new initiatives.

Figure 1

General Fund	Approved FY 2019-20	Proposed FY 2020-21	\$ change from previous year	% change from previous year
Revenues	\$ 80,482,912	\$ 75,483,680	\$ (4,999,232)	-6.2%
Transfers in	4,701,350	3,914,620		
Total Resources	\$ 85,184,262	\$ 79,398,300	\$ (5,785,962)	-6.8%
Expenditures	\$ 76,357,589	\$ 74,557,667	\$ (1,799,922)	-2.4%
Debt Service	2,954,224	5,023,561	\$ 2,069,337	70.0%
Transfers out – operating	2,059,439	2,000,000		
Total Operating Uses	\$ 81,371,252	\$ 81,581,228	\$ 209,976	0.3%
Capital Transfers (Measure E for Essential Public Facilities)	\$ 4,077,000	\$ -		
Net Loss before Allocations	\$ (263,990)	\$ (2,182,928)		
Use of one-time funds	263,990	-		
Net Loss After Use of One-Time Funds	\$ -	\$ (2,182,928)		
Use of emergency reserve funds	-	2,182,928		
Net Loss After Use of Emergency Reserve	\$ -	\$ -		

Revenue Trends and Assumptions:

Sales and Transaction & Use Tax:

In March, staff began analyzing the City’s financial situation based on the Shelter-in-Place Order. The swift reaction by consumers and businesses to the COVID-19 public health crisis has caused a massive decrease in spending of goods and services. Staff has been working with our financial consultant (HDL) to better understand what to expect for sales and use tax revenue losses and assumptions on when we can expect to see these revenues return to normal. HDL has advised the City that both sales and Measure E tax projections will experience a recessionary impact from the Coronavirus pandemic. HDL’s Consensus Forecast modeled sales tax impacts based on our analysis of previous recessions plus a review of industry, economist, and news reports. HDL modified percentages to reflect the tax retailer business base specifically for the City of San Rafael. Business-level sales tax data from the State

reflecting the first weeks of this crisis arrives at the end of May; however, data reflecting the April-June impacts will not be available until August.

With the assistance of HDL, recurring sales tax revenues are estimated to fall from \$21.8 million as originally projected in the FY 2019-20 budget, to \$18.7 million in FY 2020-21, a reduction of \$3.1M. Sales taxes account for about 25% of the City's General Fund revenues.

Revenues from the Transactions & Use tax (Measure E), which applies to most local retail sales, are estimated to fall from \$12.2 million as originally projected in the FY 2019-20 budget, to \$10.1 million in FY 2020-21, a reduction of \$2.1M. One-third of these funds are allocated to service debt related to the 2018 Lease Revenue Bonds. Measure E revenues account for about 13% of the City's General Fund revenues.

Property Tax:

Property taxes are one revenue stream that is projected to not be affected by the COVID-19 pandemic in the coming year with a projected increase of 4.4% over prior year or \$26.1 million. Property tax makes up 35% of the City's General Fund revenues.

Other General Fund Revenues:

Other revenues (including business tax, transient occupancy tax, development fees, permits, and charges for services) are expected to experience a decrease of 6% when compared to the prior year's budget. These revenues account for 27% of the City's General Fund revenues.

Expenditure Trends and Assumptions:

As detailed in the CERP and on page 6 of this report, The City's immediate response to the economic downturn was to implement a variety of measures to reduce expenses and City staff have also identified additional cost-savings opportunities to be implemented over the coming months. The projected expense reductions related to these measures include:

- Furloughs/Mandatory Time Off Work (MTO) for Non-Public Safety Employees - \$700,000
- Voluntary Retirement Separation Program - \$586,000
- 14 frozen positions - \$1,400,000
- Additional department reductions to be implemented over the coming months - \$4,000,000

The projected expense reductions total \$6,686,000 and all have been incorporated into the proposed FY 2020-21 budget.

The savings from furloughs, voluntary programs, and the 14 frozen positions have been confirmed and department reductions of an additional \$4 million are still needed and as mentioned above, have been incorporated into the proposed FY 2020-21 budget. Staff continues to assess departmental reductions to ensure they align with community needs, priorities, and programs to the best of our ability. Even with all the cost reduction measures taken thus far, FY 2020-21 is still projected to have a deficit of \$2.2 million, which will need to be covered by using emergency reserves.

While the recommended actions for this staff report do not include layoffs, further positions eliminations, including layoffs may be brought forward for your consideration at subsequent Council meeting(s).

As the City continues its efforts in decreasing expenses, it continues to collaborate with the County and all Marin cities and towns to evaluate opportunities for savings through partnerships, shared services, and/or other consolidation efforts. See Attachment 3 for a listing of the City of San Rafael's shared services with other governmental agencies as of June 2020.

As noted on page 6, while several cost saving measures have been set in place, there are also new expenses. Most notably, increases in compensation based on collective bargaining contract commitments, an increase in the pension expense based on MCERA's updated contribution rates, and an increase in debt service as the Public Safety Center is expected to be placed in service sometime in the fall. Pension expenses represent approximately 15% of total city-wide expenditures and approximately 20% of general fund expenditures, or \$16.3 million.

Capital Spending and Other Funds

Capital Improvement Program (CIP)

The CIP is a multi-year planning tool used to identify and implement the City's capital needs over the upcoming 3-year period: FY 2020-21 through FY 2021-23. The CIP document summarizes the City's planned capital and infrastructure improvement projects, including their funding sources, and prioritizes projects after analysis and coordination with other City departments in order to ensure that all department needs are represented. New to the CIP development process this year was the creation of a working group consisting of staff from various City departments. The working group met to discuss proposed projects and rank them based on the following criteria: 1) health/safety/liability; 2) priority initiatives/City goals; 3) time sensitive funds; and 4) maintain/enhance functionality. Furthermore, these four criteria were all weighted, with the category of health/safety/liability worth 35% of the overall points available. The CIP is intended to provide a comprehensive three-year project list for the City's known capital and infrastructure needs.

The general categories within the CIP are as follows:

- **City-Owned Properties:** City facilities including buildings, parking garages and lots
- **Drainage:** Stormwater systems including roadway drainage and the City's 12 stormwater pump stations
- **Parks:** Park infrastructure and facilities including playgrounds, recreation equipment, and restrooms
- **Streets/Transportation:** Roadway improvements including construction, resurfacing, and maintenance of existing bicycle and pedestrian facilities including sidewalks and bike lanes.
- **Transportation:** Transportation projects are separated out from Streets/Transportation projects. Transportation projects include traffic and signal improvements that increase traffic flow and capacity, as well as any circulation improvements that expand bicycle/pedestrian thoroughfare beyond the existing facilities in place. For example, new multi-use pathways and the expansion of existing sidewalk.

On May 18, 2020, Public Works presented the preliminary three-year CIP for Fiscal Year (FY) 2020-21 through FY 2022-23 for discussion and review by the City Council. The purpose of this presentation was

to provide the community members and the City Council an opportunity to participate in reviewing and sharing feedback relating to the CIP.

CIP Active Projects: Active projects are separated from the rest of the CIP project list since they are fully funded with prior year funds, and construction or design may be fully underway. A total of 15 projects are listed as Active in the CIP, including:

- Essential Facilities: Public Safety Center
- Sea level rise vulnerability study
- San Quentin pump station reconstruction (design)
- Pickleweed Park and Schoen Park improvements
- Shoreline Park restroom
- Street resurfacing FY 2018-19
- NB 101 offramp-second right turn lane (design)
- Second and Third Street queue cutters

Major new projects identified in the FY 2020-21 to FY 2022-23 CIP include:

- Third Street Safety Improvements Project
- Francisco Blvd West Multi-use Pathway Phase II Project
- Schoen Park Modifications
- Canal Neighborhood Pedestrian Improvements
- Woodland Avenue Retaining Wall
- San Rafael High School Crosswalk Improvements
- Southern Heights Blvd at Courtright Rd Retaining Wall
- Park and Recreation Master Plan
- Fifth Avenue and Garden Parking Lot Resurfacing
- City Hall Council Chambers Accessibility and Security Improvements

There are currently twelve major annual funding sources for the CIP:

Figure 2

Fund #	Fund Name	Description
205	Stormwater Fund	Established to fund stormwater maintenance, programs, and improvements throughout the City. Fund #205 receives annual revenues from the City’s Stormwater Activity fee (Municipal Code Chapter 9.40).
206	Gas Tax; Measure AA; Senate Bill 1 Funds	The Gas Tax is revenue collected and subsequently distributed by the State of California based on a percentage tax on each gallon of gas purchased in San Rafael. Gas Tax may be used for capital projects or maintenance on local streets, roads, traffic, and bicycle/pedestrian facilities. Additionally, local sales tax, passed by voters in 2018 as Measure AA, contributes to a portion of this fund for roadway improvement projects.
208	Childcare Fund	Projects identified in the CIP as utilizing Childcare Funds are restricted to facility improvements at the City’s childcare centers.

235	Baypoint Lagoon Assessment District	The Baypoint Lagoons Lighting and Landscape District was formed to protect and enhance wildlife habitat and water quality in Baypoint (Spinnaker) Lagoon and the adjacent diked salt marsh.
236	Loch Lomond Assessment District	The Loch Lomond (Melo-Roos) Assessment District was established in 1992 to pay for the repair and maintenance of the stormwater system infrastructure in the District.
240	Parkland Dedication	This fund was established to account for long-term developer deposits used to acquire and increase capacity of the City’s park infrastructure.
241	Measure A	Measure A is a nine-year ¼ percent transactions and use tax managed by the County of Marin. The tax is restricted to care for parks and open spaces. The Department of Library and Recreation, in consultation with the Parks and Recreation Commission, provides input each year as to which parks projects should be prioritized to receive Measure A funding.
246	Traffic Mitigation Fee	Traffic Mitigation Fees are an impact fee charged to a developer in connection with the approval of a private land development project with the purpose of offsetting or subsidizing public improvements made necessary by the private development. The City utilizes Traffic Mitigation Fees for circulation-related projects identified in the General Plan.
420	Measure E	Measure E was passed by San Rafael voters in November 2013 extending an existing 0.5% sales tax for 20 years and adding 0.25% (25 cents on a \$100 purchase). In February 2014, the City Council directed staff to set aside the revenues from the added quarter percent to fund public safety facilities improvements.
501	Parking Services	Projects identified in the CIP as utilizing Parking Services Funds are restricted to parking-related projects, including maintenance and upgrades at City parking garages and parking lots.
603	Building Maintenance	The Building Maintenance Fund supports routine maintenance and capital projects associated with the City’s buildings, parks and other facilities. The Building Maintenance Fund is an internal revenue fund, which means General Fund monies are the sole source of revenue.
	Grants (various)	The City actively seeks grant funding for capital projects and programs. Grant funding is available from regional, state, and federal agencies for safety, transportation, emergency response, and other types of projects.

While several CIP projects are grant-funded, most are not and are paid for through Funds 205 (Stormwater), 206 (Gas Tax), 246 (Traffic Mitigation), and 603 (Building Maintenance). Within each fund type is an Operating Budget which consists of expenses related to maintenance of infrastructure, equipment purchasing, miscellaneous contractual services, Annual Programs, and other non-project related work. Additionally, after deducting the Operating Budget from the total available funding in each fund type, staff allocated a 15-percent contingency of the remaining funds to provide a buffer for

unanticipated expenses which may arise mid-year.

The public health state of emergency due to the COVID-19 pandemic has created severe financial burdens for the City, its residents and businesses. Inevitably, this economic downturn is resulting in a dramatic reduction of the City's revenues, impacting CIP funding revenues in Funds 206 (Gas Tax), 208 (Childcare), 241 (Measure A-Parks), and 501 (Parking Services). The proposed projects in this year's CIP represent those projects staff can deliver based on revenue assumptions at this time, including known projected reductions. Staff plan to track revenues throughout the fiscal year to determine if additional reductions in project budgets are necessary.

As has been noted in prior year CIPs, the long-term capital and infrastructure improvement needs for City-owned property, parks, and drainage far exceed the available revenues each year. Therefore, a considerable number of projects are identified as real capital and infrastructure needs (and maintained on the CIP project list) but are categorized as "Unfunded".

Historically, staff transfers \$400,000 each year from the Gas Tax to the General Fund to support personnel related costs of Streets Maintenance staff, which we propose to do again this year. Personnel costs of employees performing street and road maintenance and repairs total over \$2M annually in the General Fund and are an allowable use of State gas tax monies. Due to the economic uncertainty caused by the COVID-19 virus and need for additional General Fund support, staff propose an additional one-time transfer of \$1,246,000 to the General Fund to more fully support personnel costs for street maintenance crews supporting Gas Tax projects above and beyond the annual \$400,000 contribution.

The complete, final draft of the CIP is attached to this report (Attachment 3).

Capital Project Funds

These funds are dedicated to the tracking and reporting of capital projects. The most significant capital project activity is the Public Safety Essential Facilities program, for which there are active projects associated with the construction of the new Public Safety Center and the rehabilitation of Fire Stations 54 and 55. This project has been funded from the following sources: (1) direct use of designated Measure E general tax funds; (2) Lease Revenue Bonds, Series 2018, which will be repaid from designated Measure E general tax funds; and (3) allocations from the paramedic tax used to fund capital projects. In FY 2020-21, the City expects to spend approximately \$8.4 million in construction costs in support of this program's completion.

Special Revenue and Grant Funds

These funds have restricted uses, based on their respective sources. One significant fund in this group is the Emergency Medical Services/Paramedic Fund (EMS), which was presented to the City Council on June 1, 2020. The fund has planned expenditures of \$8.1 million for the upcoming fiscal year, of which \$5.1 million, or 63%, comes from the Paramedic Tax. The balance of the funding of this activity comes primarily from third-party recovery for emergency medical response and transport services. The spending plan requires no change in the level of support from taxpayers in San Rafael, County Services Area #13, and County Services Area #19, and Marinwood Community Services District.

The EMS fund is projected to retain \$814,298 in unallocated fund balance on June 30, 2021. This balance serves as an operational reserve equal to ten percent of expenditures. Funds not needed for the operations reserve are used to fund capital improvements that directly support the delivery of emergency medical transport services (e.g., Phase II essential public facilities projects, such as Fire Stations 54 and 55).

The City's Cannabis Business Tax is also reported in a special revenue fund. San Rafael has several licensees in active commerce. The City anticipates the receipt of \$300,000 in excise tax revenues for the FY 2020-21 year in which the fund will incur \$300,000 in qualifying expenses. The program is expected to generate revenues of approximately \$375,000 as it is forecasted to generate associated sales tax and licensing fees of \$75,000 received by the general fund.

The Measure A Open Space Program is in its eighth year. Funding for this activity is primarily provided by a nine-year, county-wide sales tax that is managed by the County of Marin, with the City providing discretionary contributions as needed. The focus for FY 2020-21, for which \$365.5 thousand in revenues is projected, remains on park capital improvements and open-space enjoyment and safety. The FY 2020-21 Measure A – Open Space Workplan was presented and approved separately at the City Council meeting of May 18, 2020.

Measure D, the successor Library parcel tax to Measure C, is entering its fourth year. This special revenue source has successfully expanded service levels, relative to those established under Measure C (previous Library parcel tax). The purpose of the tax is to “augment the capacity of the City of San Rafael to provide quality library services to its residents.” Measure D provides for expanded book and periodical purchases, including e-books; funds events and classes for all ages, and provides for supplementary technology supplies. Capital reserves were established under Measure C (previous Library parcel tax) for facility-related uses.

The Recreation and Childcare Funds are anticipating spending plans of \$3.9 million and \$4.7 million, respectively. As a result of the financial burden caused by COVID-19, it is assumed these programs will come in under budget in both revenues and expenses. As this point, the target is moving too rapidly for staff to make an accurate prediction on either. Staff will be updating Council on the activity of these funds over the next several months.

Voter approved Measure C, will fund the Marin County Wildfire Prevention Authority for ten years, starting with its first full year of operations in FY 2020-2021. An estimated \$4.56 million will be allocated to the City of San Rafael annually. This funding cannot be supplanted with current and ongoing expenditures used for wildfire prevention and this funding will be used to provide new, improved, and expedited services for the prevention of wildfire. During the first year of operations, while the tax is being collected and distributed to each agency, the City will dry fund approximately \$900,000 to support coordinated wildfire prevention including early detection, warning and alerts; reducing vegetation; ensuring defensible space around homes, neighborhoods and critical infrastructure; and improving disaster evacuation routes/procedures.

Other significant funds in this category include Gas Tax and Storm Water Funds. The spending plans for these funds were developed in conjunction with the Capital Improvement Program described previously.

Parking Fund

The Parking Fund is a self-sustaining enterprise fund whose revenues are dedicated to parking services. Currently, parking operations are funded via parking fees and fines, and fund balance is the only resource with which to cover capital improvements. The parking structures and lots have deferred maintenance issues that will need to be addressed in the coming years. In 2014, the Public Works Department engaged an engineering firm to evaluate current conditions of the garage structures and provide recommendations for repair and maintenance items. The study determined that the four city-owned structures (3rd/Lootens,

3rd/A, 3rd/C, 5th/C parking structures) require significant structural repairs due to deferred maintenance. The FY 2020-21 operating budget for this fund is \$5.1 million, inclusive of operating transfers.

Internal Service Funds and Capital Replacement Funds

These funds are used to manage services that are delivered within the organization. For example, computer replacement, employee benefits, workers compensation, general liability and vehicle replacement are funded via internal charges to the funds that utilize these respective services. These funds have sufficient resources to support services for FY 2020-21. The technology internal service fund and capital replacement funds remain underfunded with respect to the City's anticipated long-term needs.

Successor Agency

Prior to the state-initiated dissolution of the Redevelopment Agency in January 2012, the City Council met as the Redevelopment Agency and approved its annual budget as part of the citywide budget process. Under the current legislation, the Successor Agency is not required to prepare an annual budget. Funding for the Successor Agency follows a different process specified in the new law: funding must be approved by the Successor Agency's Oversight Board and the California Department of Finance for six-month periods. The economic development-related functions of the former Redevelopment Agency have been fully transferred to the City Manager's Office. The San Rafael Successor Agency Oversight Board has approved allowable administrative expenses of \$144,000 in FY 2020-21 for City staff time and other costs associated with the dissolution of the former Redevelopment Agency, although this amount is expected to be reduced, and eventually eliminated, in future years. The Successor Agency reimburses the General Fund \$190,443 per year under a repayment plan for the unfunded pension obligations of former Redevelopment Agency employees.

Status of Pension Funding

The City's [Pension Funding Policy](#) requires that the Finance Director and City Manager report on the status of pension funding as part of the annual budget adoption process.

The most recent pension actuarial valuation was prepared as of June 30, 2019 and approved by the MCERA Board on February 4, 2020. This valuation was used to determine the contribution rates for FY 2020-21. The composite rate for the City of San Rafael will be 60.77 percent, a 6 percent increase from the current rate of 57.67 percent. The budgeted pension contribution for FY 2020-21 provides full funding for the required contribution. The valuation also reported an unfunded actuarial liability of \$137.2 million for the City, representing a funded ratio of 77.3%.

MCERA's investment target (discount rate) is 7.00%. The City has dedicated a portion of its employee retirement reserve to buffer the impact of unexpected increases. This reserve, which currently totals \$2.7 million, is also used to accumulate payments for debt service on the \$4.5 million pension obligation bonds issued in 2010; and for optional, supplementary payments to MCERA.

Status of Other Postemployment Benefit (OPEB) Funding (Retiree Healthcare)

The City's OPEB Funding Policy was adopted on [September 18, 2017](#). The Policy cites the City's goal of fully funding the Actuarially Determined Contribution (ADC) each year. The budgeted OPEB contribution for FY 2019-20 provides full funding for the required contribution. The contribution is based

on an investment target (discount rate) of 6.75%. The most recent actuarial valuation, as of June 30, 2019, reports \$21.8 million in plan assets offset by \$48.3 million in actuarially accrued liabilities, leaving an unfunded actuarial liability of \$26.5 million. The City’s ADC for FY 2020-21 is \$3.0 million.

Citywide Summary

The following table summarizes the appropriations found in Exhibit I of the Resolution (Attachment 2), which provides the schedule of consolidated fund activities for FY 2020-21:

Figure 3

The funds listed in Figure 3 below, except for the General Fund, are all restricted in nature based on the explanations starting at page 9 of this report.

Fund	Projected Balance July 1, 2020	Sources (Revenues and Transfers)	Uses (Expenditures and Transfers)	Projected Balance June 30, 2021
General Fund	\$ (721,542)	\$ 79,398,300	\$ 81,581,228	\$ (2,904,470)
General Plan	1,359,111	776,956	1,464,130	671,937
Special Revenue/Grant/Trust	16,279,889	27,484,518	32,877,061	10,887,346
Enterprise (Parking)	2,079,136	5,076,525	5,072,452	2,083,209
Internal Service/Capital Replacement	8,444,373	16,657,617	17,238,594	7,863,396
Assessment Districts	474,033	-	-	474,033
Misc Capital Project Funds	11,380,954	642,394	9,517,225	2,506,123
Adj for ISF Charges/Transfers	-	(19,806,777)	(19,806,777)	-
Total City-Wide Totals	\$ 39,295,954	\$ 110,229,533	\$ 127,943,913	\$ 21,581,574

Under the proposed FY 2020-21 budget, all funds other than the General Fund are projected to have a positive fund balance as of July 1, 2020, as well as at June 30, 2021.

General Fund Balance and Reserves

As of July 1, 2020, the General Fund is projected to have a negative fund balance of \$721,542 after exhausting all one-time funds available from prior years. Similarly, with projected losses of approximately \$2.2 million for FY 2020-21, the cumulative general fund negative balance is \$2,904,470 as of June 30, 2021.

General fund	Net needs
Projected net needs as of June 30, 2020	\$ (721,542)
Projected net needs as of June 30, 2021	(2,182,928)
Cumulative net needs through June 30, 2021	\$ (2,904,470)
Use of emergency reserve funds through June 30, 2021	\$ 2,904,470

To date, General Fund Emergency Reserves are \$7.9 million. Staff propose allocating \$2,904,470 of emergency reserves to address the general fund deficit spanning both fiscal years. If approved, this will leave a balance of \$4,995,530 million, or 6.3% of General Fund budgeted expenditures.

When the CERP was presented on May 18th, \$3.6 of emergency reserves was estimated at that time for what would be needed to fund the budget deficits. Fortunately, the combination of an unexpected increase in ERAF payments from the State and a reduction in projected overtime costs in FY 2019-20, resulted in a reduction in the amount of emergency reserves needed at this time.

GANN APPROPRIATIONS LIMIT

The Appropriations Limit for each year is based on the prior year Appropriations Limit, adjusted by factors that incorporate changes in cost of living and population. For FY 2020-21, the City is using a 3.73 percent increase in California's per capita personal income from January 1, 2019 to January 1, 2020 (this figure is provided by the California Department of Finance). For the change in population, the City is using negative 0.60 percent – representing the change in population for Marin County, which is higher than San Rafael's figure of negative 0.66 percent for the period January 1, 2019 to January 1, 2020 (provided by the State of California Department of Finance).

The attached resolution (Attachment 5) establishes the new Appropriations Limit for FY 2020-21, which has been calculated to be \$143,208,909 (Exhibit A to the resolution). The actual budget subject to the limitation excludes self-supporting funds, capital improvement funds, capital outlay grant funds, and specific exclusions such as the Gas Tax Fund. The FY 2020-21 appropriations subject to the GANN Limit is \$73,554,079 (Exhibit B to the resolution). Therefore, the portion of the City's budget appropriation that is restricted by the GANN limit is \$69,654,830 under the legal limit.

STAFFING

Fiscal Year 2019-20

The City's current approved level of staffing for FY 2019-20 is 405.23 FTE (full-time equivalent), which is 9 percent below the peak of 445 FTE that was supported in FY 2007-08. The erosion of staffing levels has significantly reduced the City's organizational capacity and impedes the City's ability to proactively manage emerging issues, or to insure consistent continuity of services. The management team has considered the impact of the severe restructuring on the City's ability to effectively and sustainably deliver services upon which the residents depend and continues to explore and implement strategies to fulfill the community's expectations.

During FY 2019-20, the Police Department identified a need to support the community by adding two positions to the department:

1. School Resource Officer (fully grant funded)
 2. Open Space Ranger (fully funded by Measure C)
-
1. School Resource Officer. To support the cost of the School Resource Officer position, the City's Police Department entered into discussions with the San Rafael City School Superintendent (SRCS) to explore funding sources and identified a grant option supported by State funding. The application for this three-year grant was submitted, and accepted, thereby enabling the City to move forward with recruitment efforts for this School Resource Officer position. The grant amount for the first year is \$175,515, followed by \$179,025 and \$188,066 for the next two years. Prior to the grant expiring, the SRCS plans to apply for a grant renewal for an additional two years. If the grant is unable to be extended, or the

department cannot pay for the ongoing costs, the position may be eliminated in the future. Therefore, there is no current, or ongoing fiscal impact for this new position.

2. Open Space Ranger. In March 2020, voters passed Measure C, the Marin Wildfire Prevention Measure. As a member of the Marin Wildfire Prevention Authority, the City is entitled to use proceeds from the tax for new eligible activities and services. The annual cost of the Open Space Ranger position is approximately \$176,248 per year, which is supported by Measure C proceeds.

Lastly, staff recommends a reduction of 1.5 FTE as part of the proposed changes to the City's staffing levels for FY 2019-20. These are the elimination of a .80 FTE fixed term Evidence Technician for the police department and a 0.70 FTE Network Support Technician in Digital Services and Open Government.

In summary, the FY 2019-20 personnel proposal ends with 405.73 full-time employees, which is an increase of 0.5 FTE with no additive fiscal impact. This recommended proposal of 405.73 FTE will roll into FY 2020-21.

Fiscal Year 2020-21

For FY 2020-21, all departments are focused on finding ways to maximize the capacity of our current staff by re-examining the way that our teams are currently organized, and by creatively implementing process improvements cross departmentally. This is especially important as 14 vacant positions have been frozen and an additional 11 positions were approved as part of the Voluntary Retirement Separation Program.

The City accepted 11 early retirement applications, which resulted in a net savings of approximately \$586,000. This estimate assumes that all applicants do not revoke their interest within the revocation period available to them, which will end on July 27th, 2020. The Police Sergeant and Police Call Taker are deemed essential due to their public safety affiliation and will be rehired at a lower total compensation amount because they are PEPPRA employees replacing Classic employees, therefore there will still be associated savings.

The final list of accepted applications corresponds to the positions listed below:

Position
Administrative Assistant III
Events Coordinator
Police Sergeant
Senior Associate Engineer
Child Care Director
Code Enforcement Official III
Dispatcher
Police Call Taker
Child Care Instructor
Parking Operations Supervisor
Parking Attendent

Furloughs

The City's labor negotiations team also implemented a city-wide mandatory furlough, as described in the non-public safety collective bargaining agreements. represented and unrepresented groups will be participating in this mandatory furlough starting the new fiscal year. By bargaining group, the percentage of wage reductions for FY 2020-21 will be as follows:

1. WCE Bargaining Group – 3%
2. Local 1 Confidential Bargaining Group – 3%
3. SEIU Bargaining Group – 5%
4. Unrepresented Groups – 5%
5. City Council – 5%

The total anticipated savings for the city-wide mandatory furloughs is approximately \$700,000. The total anticipated savings for both the Voluntary and Mandatory Programs is approximately \$1,286,000.

The history and detail for the 405.73 FTE/positions being proposed for FY 2020-21 are presented in Exhibit III of the resolution (Attachment 2). Accompanying Exhibit III are the salary schedules for all bargaining groups which have been updated to reflect their respective compensation increases if any and all agreed upon furlough percentage decreases. However, it is important to note that of the authorized positions of 405.73 FTE, 23 are to remain unfunded unless it can be substantiated the position is essential or there are additional funds to cover it, leaving the City with a workforce of 382.73 FTE.

FISCAL IMPACT: By approving the resolutions as presented, the City Council is authorizing the levels of expenditures, within funds, for FY 2020-21. The proposed budgets reflect all assumptions outlined and incorporate direction received from the City Council and City Council Finance Subcommittee. The City is also adopting the GANN Appropriations Limit which confirms that the budgeted expenditures are within legal limits.

The FY 2020-21 Budget Resolution also provides for the “roll-over” of unspent capital project funds from FY 2019-20 for projects that will not be completed by June 30, 2020. Capital project spending occurs each year by appropriating accumulated funds (e.g., gas tax, traffic mitigation, etc.), in addition to new revenue sources. By carrying over the unspent portion of a project's budget into the subsequent year, capital project budget performance is easier to track because the same budget authority is not duplicated for unspent funds. This also makes it easier to match budgeted and actual expenditures.

Similarly, the budget resolution (Attachment 2) provides for the “roll-over” of active purchase orders that will not be completed by year-end. This provides for operational continuity and avoids having to re-budget expenditures that were previously authorized.

OPTIONS: The City Council can choose to either:

- (1) Accept the report, recommendations and resolutions as presented; or
- (2) Make modifications to the recommendations and/or resolutions.

RECOMMENDATION: Accept the report and:

1. Adopt the Resolution Approving the Citywide Budget and Capital Improvement Program for the Fiscal Year 2020-2021 and Providing for the Appropriations and Expenditure of All Sums Set Forth in the Budget

2. Adopt the Resolution Approving Fiscal Year 2020-2021 Gann Appropriations

ATTACHMENTS:

1. COVID-19 Economic Recovery Plan
2. Resolution Approving the Citywide Budget and Capital Improvement Program for the Fiscal Year 2020-2021 and Providing for the Appropriations and Expenditure of All Sums Set Forth in the Budget, and Exhibits I, II, III (Budget and Personnel Actions)
3. Shared Services with Other Governmental Agencies
4. Capital Improvement Program: FY 2020-21 through 2022-23
5. Resolution Approving Fiscal Year 2020-2021 Gann Appropriations Limit, and Exhibits A and B