



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 2019-20 AND LEGAL SPENDING LIMIT

- SUBJECT:**
1. RESOLUTION APPROVING THE CITY-WIDE BUDGET AND CAPITAL IMPROVEMENT PROGRAM FOR THE FISCAL YEAR 2019-2020 AND PROVIDING FOR THE APPROPRIATIONS AND EXPENDITURE OF ALL SUMS SET FORTH IN THE BUDGET IN THE AMOUNT OF \$134,848,772;
 2. RESOLUTION APPROVING FISCAL YEAR 2019-2020 GANN APPROPRIATIONS LIMIT AT \$138,889,447

RECOMMENDATION:

1. Adopt a resolution approving the FY 2019-20 operating budget and Three-Year Capital Improvement Program.
2. Adopt a resolution approving the FY 2019-20 Gann Appropriations limit.

SUMMARY: This report presents the final proposed citywide budget for Fiscal Year (FY) 2019-20, beginning July 1, 2019 and ending June 30, 2020. 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 of April 9, 2019, and consideration of the City's goals and strategies at the City Council Study Session held on June 17, 2019. In addition, the preliminary Capital Improvement Program was presented to the City Council Finance Subcommittee on June 11, 2019, and subsequently to the City Council on [June 17, 2019](#) for feedback and discussion. The final draft budget and proposed staffing changes were presented and discussed at the City Council Finance Committee meeting of July 9, 2019.

FOR CITY CLERK ONLY

Council Meeting:

Disposition:

In the FY 2019-20 budget, ongoing General Fund operational expenditures are supported by current period revenues, and the spending plans of all other funds are supported by projected revenues and accumulated resources in their respective funds. Proposed appropriations citywide total \$134,848,772 and are within the legal spending limit.

BACKGROUND:

BUDGET ACTION

The purpose of this report is to provide the City Council and community with the final proposed citywide budget for FY 2019-20 which has been prepared for adoption based on the direction provided at earlier public meetings of the City Council Finance Subcommittee.

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 city residents. 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 XIIB 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.

This report will focus on the following:

1. Brief status of Fiscal Year 2018-19 budget performance
2. Proposed Goals and Strategies for Fiscal Year 2019-20
3. Proposed operating and capital budget presented for all City funds for Fiscal Year 2019-20
4. Fiscal Year 2019-20 Appropriations Limit

ANALYSIS:

FISCAL YEAR 2018-19 - UPDATE

General Fund

Revenues: The original FY 2018-19 budget, adopted on [June 18, 2018](#), projected \$78,503,000 in revenues. The latest projections, based on activity through May, anticipate revenues of \$78,996,639, which is \$493,639, or 0.6% greater than the original budget. The additional revenues are primarily due to greater than expected sales tax revenues and planning-related charges for services. Sales tax revenues were projected to experience a year-over-year decline of \$372,000, or 1.7%, but are now

projected to increase by \$59,000, or 0.3%, from \$21,566,000 to \$21,625,000. The favorable results are the outcome of a strong one-time surge in auto sales and building and construction. Current projections for future years indicate an overall downward trend for both auto sales and building and construction.

Expenditures: The General Fund-supported activities are performing within their respective budgets as amended by the City Council throughout the year. Based on analysis conducted through May 2019, staff is projecting that the actual year-end results will not deviate significantly from the budget.

Other Funds

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. At this time, no major adjustments are anticipated.

GOALS AND STRATEGIES

Each year, the City Council establishes a set of goals, strategies, and key implementation tasks (Goals and Strategies) that guide decision-making. The City has five core goals:

1. **Neighborhood and Economic Vitality:** Create and preserve a healthy economy and neighborhoods.
2. **Quality of Life:** Serve and strengthen community and regional relationships.
3. **Public Safety:** Prevent and respond to emergencies.
4. **Public Assets:** Improve and preserve public assets.
5. **Foundational Services:** Sustain organizational viability and exemplary service.

Every goal has a set of strategies, each of which, in turn, has a subset of key implementation tasks. These goals provide a basis for making resource allocation decisions during the budget process and serve as a focal point for assessing and coordinating the City's various short and long-term strategic planning. Additionally, they address the community's needs and priorities, as well as reflect an evaluation of community condition and the government's operating environment.

After a collaborative process that included all City departments, City staff presented the draft Goals and Strategies for FY 2019-20 to the City Council at its study session on June 17, 2019. The results of that discussion were incorporated into the Goals and Strategies document attached to this staff report (Attachment 1) for the consideration of and acceptance by the City Council.

FISCAL YEAR 2019-20 CITYWIDE BUDGET

The Goals and Strategies document serves as a work plan for City staff for the upcoming fiscal year. Resources with which to accomplish the goals are incorporated into the proposed annual citywide budget.

HIGHLIGHTS

- ❖ **Citywide Budget:** The total proposed FY2019-20 expenditure budget for the City is \$134,848,772 (Exhibit I to the Budget Resolution). This sum reflects all funds and operations for the City, including active capital projects. In addition to \$25.0 million projected to be spent on the San Rafael Essential Public Safety Facilities project, the Capital Improvement Program has planned expenditures of \$35.2 million for the year in which formal appropriations for major projects will be

made at the time of contract approval. Appropriations are supported by FY2019-20 revenue and other sources projected at \$113,262,003 as well as by fund balances retained from previous periods for capital projects, notably accumulated funds from prior years for the Public Safety Facilities.

- ❖ **General Fund Budget:** The proposed General Fund expenditure budget comprises \$80,881,189 for operations and \$4,077,000 for capital transfers. These \$84,958,189 in uses are supported by revenues and transfers in, projected at \$84,984,262, resulting in net results before allocations of \$26,073. The increase in expenditures over the previous year are projected to require an additional allocation of \$130,000 to the Emergency and Cashflow Reserve in order to maintain the minimum reserve level. There are projected remaining unassigned funds as of June 30, 2019 to support this allocation. (Exhibit II to the Budget Resolution)

- ❖ **Program funding:** Included in the expenditure budgets are provisions for the following:
 - Employee retirement obligations are fully-funded in accordance with actuarially-determined contribution levels and funding policies
 - The Homeless Initiative Program is incorporated into the General Fund operating budget
 - Major Crimes Task Force participation continues
 - Massage Ordinance Enforcement continues at a scaled-back level

- ❖ **State Budget Impacts:** On June 27, 2019, Governor Gavin Newsom signed the FY 2019-20 state budget, which totals approximately \$215 billion. While staff does not anticipate that the state budget will have an adverse impact on the City's General Fund budget, there are some notable components of the budget that are outlined below. City staff will look for any opportunities to pursue additional assistance and available funding.
 - **Housing:** The state budget includes \$1.75 billion for various housing-related programs, such as funding to assist renters, and repurposes housing production incentive grants to provide infill infrastructure funding for housing projects. The Governor has taken measures to hold local jurisdictions accountable to meet housing demand, which includes imposing fines of up to \$600,000 per month for cities and counties that violate [state law](#) that sets housing targets. To assist renters, the budget includes \$20 million to provide legal aid for renters and assist with landlord-tenant disputes, including legal assistance for counseling, renter education programs, and preventing evictions.
 - **Homelessness:** The budget includes \$1 billion in funding to combat homelessness. This includes the following: \$650 million to local governments for homeless emergency aid (the most populous 13 cities receive \$275 million, counties receive \$275 million, and Continuums of Care receive \$100 million); \$120 million for mental health; \$25 million for Supplemental Security Income advocacy; \$40 million for student rapid rehousing and services for the University of California (UC) and California State University (CSU) system; and \$20 million in legal aid for eviction prevention.
 - **Transportation:** SB 1 will provide the following funding for transportation on an annual basis: \$1.2 billion for local streets and roads, including \$600 million for cities (based on population) and \$600 million for counties; \$458 million for local transit operations; \$386 million for transit, commuter and intercity rail; \$200 million for the State-Local Partnership Program; \$100 million for the Active Transportation Program; \$36 million for Commuter Rail and Intercity Rail; and \$25 million for Local Planning Grants.
 - **Emergency Preparedness and Response:** The budget includes \$800 million to enhance the state's capacity to respond to natural disasters, including wildfires. The budget also includes \$15 million in one-time funds to Cal FIRE to enhance fire protection capabilities.

- Environmental Quality: The budget also includes \$1.25 billion in cap-and-trade program's Green House Gas Reduction Fund expenditure plan.
- Community Services: The state budget includes increased funding to support subsidized childcare, funding to address a shortage of mental health professionals in local communities, as well as funding for public libraries.
- Public Safety: The budget includes \$6.2 million for the Standards and Training for Corrections Program, \$112.8 million General Fund for the Community Corrections Performance Incentive Grant, and \$14.8 million for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision.
- Cannabis Tax Fund Allocations: The state budget includes a \$15 million for the Cannabis Tax Fund to provide grants to local governments to assist in the creation and administration of equity programs and to support equitable access to the regulated market for individuals through financial and technical assistance.

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 2019-20 total approximately \$80.9 million. These appropriations comprise \$78.9 million of operating expenditures and \$2.0 million of transfers to Community Services in support of the Recreation Fund.

Supplementing the operating activity, \$4.1 million in capital transfers are anticipated for the San Rafael Essential Facilities project, funded by Measure E Transactions and Use Tax (TUT) revenues. An allocation of \$130,000 is estimated to maintain the Emergency and cashflow reserve at its target level, or 10% of total General Fund expenditures.

The appropriations are supported by \$80.3 million in projected revenues and \$4.7 million of transfers from other funds. The transfers include \$2.2 million from the 2018 Lease Revenue Bond proceeds that will be used to pay capitalized interest on the Bonds from the General Fund; \$0.9 million reimbursement from Gas Tax for support of street maintenance; \$0.7 million from the Employee Retirement internal service fund for debt service on the outstanding pension obligation bonds; \$0.5 million from the Parking Services Enterprise Fund for administrative support; and \$0.4 million to reclassify revenues collected for map fees.

The following table (Figure 1) summarizes the detailed information provided in Exhibit II of the Resolution (Attachment 2) and presents the proposed FY 2019-20 budget with a comparison to the projected ending performance for FY 2018-19. Resources available for operations are projected to be \$1.7 million, or 2.0% higher than those of the FY 2018-19 year while operating uses are projected to grow by \$1.2 million, or 1.5% over those of the FY 2018-19 year. Although revenues are only projected to achieve moderate growth, a combination of reductions of non-personnel expenditures and a stable environment for pension contributions have enabled the City to achieve a balanced budget. City-wide, departments actively worked to reduce expenses for the FY 2019-20 budget, while creatively working towards redesigning services to be able to deliver them more efficiently. While the City was able to achieve a balanced budget, there were several City goals that remained unfunded. Most notably, building maintenance for non-public safety owned property, compensation levels, below ground infrastructure, general unfunded liability for pension and health, and new initiatives.

In order to maintain the current level of services, in particular for Public Safety services, the City needs to consider other sources of general revenue funding for the next 10 years. By then, the retirement reforms that City Council implemented in prior years will start to significantly decrease retirement related contributions, resulting in an increase in available General Fund sources.

Figure 1

General Fund	Projected FY 2018-19	Proposed FY 2019-20	\$ Change from previous year	% Change from previous year
Revenues	\$ 78,996,639	\$ 80,282,912	\$ 1,286,273	1.6%
Transfers in	4,321,361	4,701,350		
Total Resources	\$ 83,318,000	\$ 84,984,262	\$ 1,666,262	2.0%
Expenditures	\$ 77,609,790	\$ 78,881,189	\$ 1,271,399	1.6%
Transfers out – operating	2,102,210	2,000,000		
Total Operating Uses	\$ 79,712,000	\$ 80,881,189	\$ 1,169,189	1.5%
Capital Transfers (Measure E for Essential Public Facilities)	\$ 4,145,000	\$ 4,077,000		
Net Results before Allocations	\$ (539,000)	\$ 26,073		
(Allocations) / Use of reserved funds				
Emergency reserve	(450,000)	(130,000)		
Purchase Order rollover	38,538			
Total Results	\$ (950,462)	\$ (103,927)		
Allocation of unassigned funds	1,133,725	103,927		
Net After Allocations	\$ 183,263	\$ -		

Revenue Trends and Assumptions:

Sales Tax:

After realizing consistently strong growth from 2011 through mid-2016, local sales tax receipts have plateaued during the past few years. Prior to 2016, healthy new auto sales, recovery from the recession and one-time catch-up payments provided for vigorous growth. More recently, we have watched major retail outlets close with limited prospects for their being replaced with equivalent taxable sales activity contributing to a modest sales tax forecast.

With the assistance of the City’s sales tax consultants, recurring sales tax revenues are estimated to remain flat at \$21.6 million in FY 2019-20. Sales taxes account for 27% of General Fund revenues.

Property Tax:

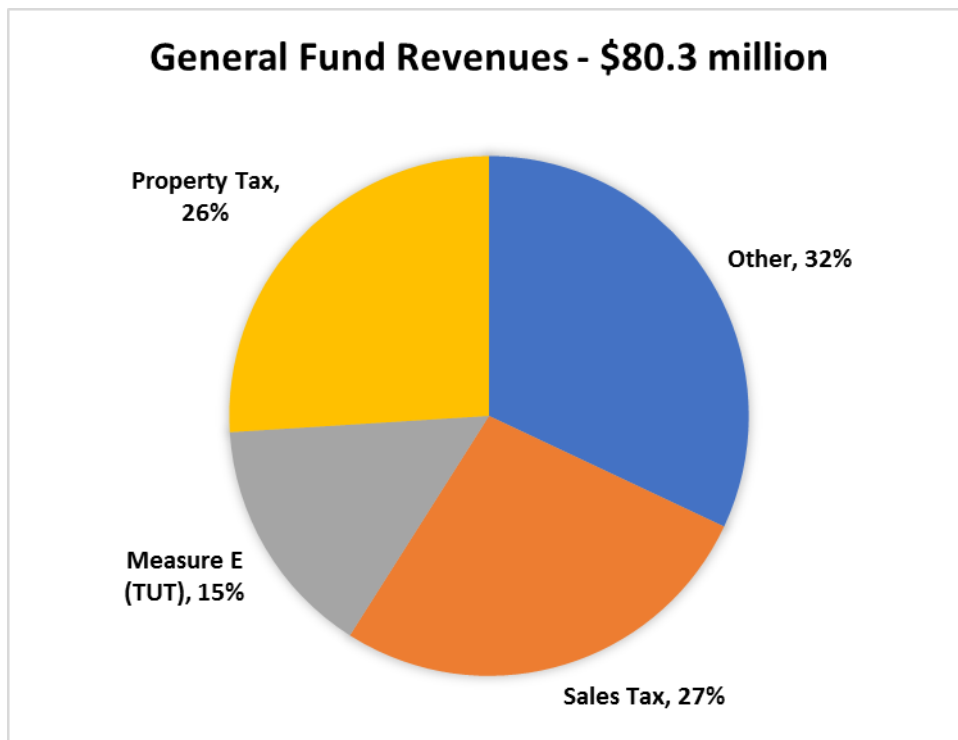
The City's second largest tax generator is property tax making up 26% of General Fund revenues. Growth in Property tax revenues has begun to taper off. Based on the most recent County property tax roll information and property transfer tax trends, the City is projecting an increase of 4.03% over prior year which equates to \$20.9 million in FY 2019-20.

Transaction & Use Tax (Measure E):

Revenues from this tax, which applies to most local retail sales, are projected to generate \$12.2 million in FY 2019-20. One-third of these funds are allocated to public safety facilities construction and improvements. Measure E revenues account for 15% of General Fund revenues.

Other General Fund Revenues:

Other revenues (including business tax, transient occupancy tax, development fees, Vehicle License Fee backfill, permits, and charges for services) are expected to experience moderate growth (i.e., 1-3%) over the next year. These revenues account for 32% of General Fund revenues.



Expenditure Trends and Assumptions:

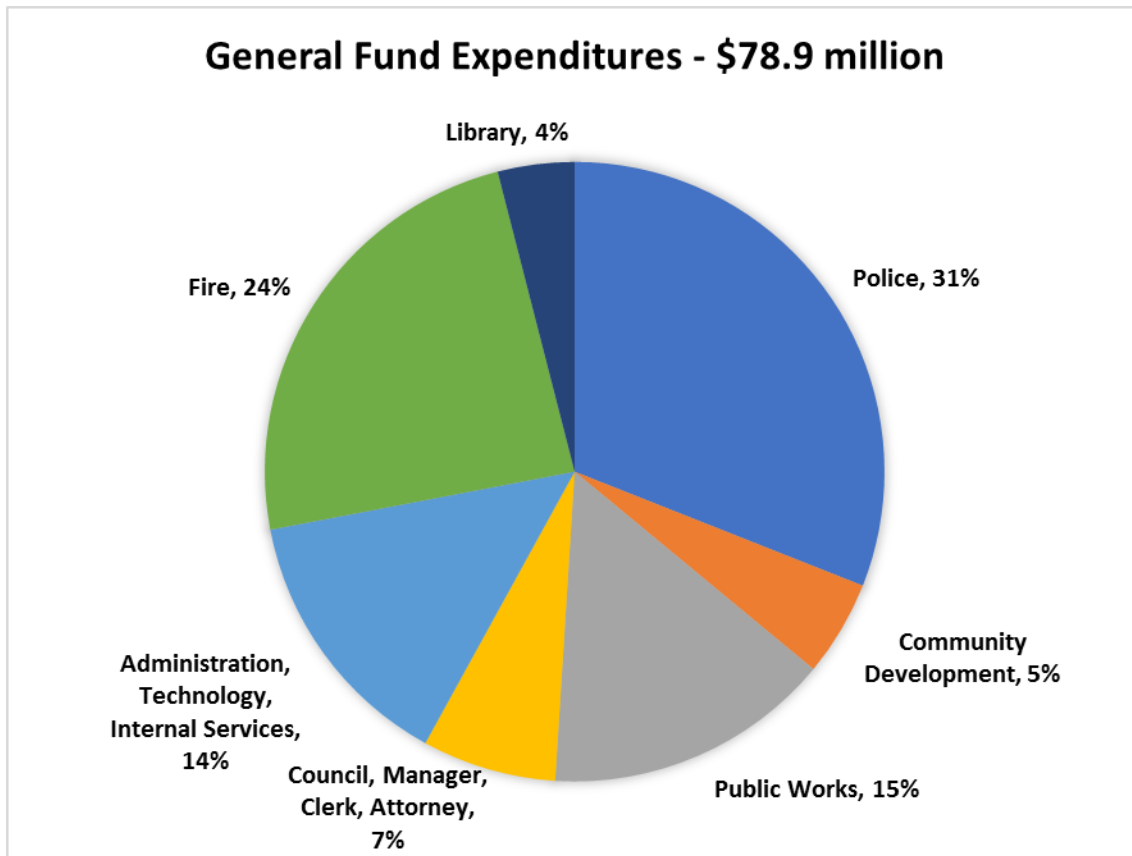
Expenditures are projected to grow by 1.6% in FY 2019-20. The annual expenditure plan includes provisions for continued support of the Homeless Initiative (detailed below), participation in the Major Crimes Task Force, and routine mass enforcement. The growth in expenditures incorporates increases in personnel costs, including step increases, and increases in compensation based on collective bargaining contract commitments. An organization-wide expenditure review contained the growth of expenditures as operational budget allocations were reduced across all departments, without which the General Fund would be experiencing a deficit. General Fund budgeted contributions to the

Marin County Employees Retirement Association (MCERA) are projected to decline by \$724,000, or 4% when compared to the previous year. While the base upon which contributions are made is growing in FY 2019-20 as a result of contractual salary increases, this factor is being offset by a decrease in contribution rates. At the direction of the City Council Finance Committee, the City has allocated the amount attributable to the decline in MCERA rates for future pension-related obligations.

Pension expenses represent approximately 17% of total citywide expenditures, and approximately \$17.3 million, or 20%, of an \$85.0 million general fund budget.

The Homeless Initiative was established in 2013 to fund homeless-related programs and activities recommended by the City Council’s Homeless Subcommittee and approved by the City Council. Since the initiative was created, it has supported a variety of successful initiatives, including Downtown Streets Team, the Homeless Outreach Team (HOT) program, and increased police patrols in downtown. FY 2019-20 marks the seventh full year of operations for this program. Funding provisions of approximately \$470,000 include the Director of Homeless Policy and Outreach, ongoing mental health outreach, continued police patrols, post office boxes at the United States Postal Service, and a commitment of \$36,091 annually to the Marin County Council of Mayors and Councilmembers Community Homeless Fund.

The following chart summarizes the fiscal year allocation of planned General Fund Expenditures by major function. Additional detail is provided in Exhibit II to the Resolution.



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 2019-20 through FY 2021-22. 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. Project selection and priority is based on recommendations by the Department Directors to accommodate high priority needs, which focused on life/safety, maintenance and repair, public and Council input, and other factors. 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 (C):** City facilities including buildings, parking garages and lots
- **Drainage (D):** Stormwater systems including roadway drainage and the City's 12 stormwater pump stations
- **Parks (P):** Park infrastructure and facilities including playgrounds, recreation equipment, and restrooms
- **Right-of-Way (R):** Roadway improvements including construction, resurfacing, and maintenance of existing bicycle and pedestrian facilities including sidewalks and bike lanes.
- **Transportation (T):** New this year, Transportation projects are separated out from Right-of-Way 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 [June 17, 2019](#), Public Works presented the preliminary three-year CIP for Fiscal Year (FY) 2019-20 through FY 2021-22 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: Fire Station 57
- 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 2019-20 to FY 2021-22 CIP include:

- Francisco Blvd. East Sidewalk Widening (Active)
- Third Street Rehabilitation Project – Grand to Miracle Mile. (Active)

- Third & Hetherton Intersection Improvements (Active)
- Albert Park ADA Restroom (Identified by the Facility Assessment Study)
- B Street Community Center Repairs (Identified by the Facility Assessment Study)
- Sun Valley Park, Peacock Gap Park, Bernard Hoffman Park Play Structure Replacement
- Lincoln Avenue Curb Ramps
- Smith Ranch Road Resurfacing
- Crosswalk Improvements
- Street Resurfacing

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

Figure 2

Fund #	Fund Name (CIP Category)	Description
205	Stormwater Fund (Drainage)	Established to fund Stormwater maintenance, programs, and improvements throughout the City—including maintenance and repair of the City’s 12 storm water pump stations. This fund receives annual revenues of approximately \$850,000 from the City’s Stormwater Activity fee (Municipal Code Chapter 9.40).
206	Gas Tax + Measure A (Right of Way, Transportation)	<p>The Gas Tax is a revenue distributed from the state based on a percentage tax on each gallon of gas purchased in San Rafael. Gasoline tax is collected and distributed to jurisdictions by the State on an annual basis and may be used for capital projects and maintenance to local streets, roads, traffic, and bicycle pedestrian facilities. In April 2017, Governor Jerry Brown signed Senate Bill 1: The Road Repair and Accountability Act to address the need for additional funding for transportation and infrastructure in California. Senate Bill 1 increased per gallon fuel excise taxes, diesel fuel sales taxes and vehicle registration fees. The effect was a doubling of Gas Tax revenues received for San Rafael, from roughly \$1.1m to \$2.2m.</p> <p>Fund #206 also collects annual Measure A Transportation Sales Tax dollars (distributed by Transportation Authority of Marin). A ½-cent sales tax approved initially by voters in 2004 and reapproved in November 2018, Measure A provides roughly \$700,000 annually to San Rafael towards local streets and road improvements.</p>
208	Childcare Fund	Projects identified in the CIP as utilizing the Childcare Fund are strictly for the facility improvements as related to 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 Storm Water system infrastructure in the district’s defined area
240	Parkland Dedication	This fund was established to account for long-term developer deposits used to enhance and maintain City park infrastructure.

241	Measure A <i>(Parks)</i>	Measure A is a nine-year ¼ percent transactions and use tax that was passed in 2012 and is managed by the County of Marin. The purpose of the tax is to care for existing parks and open spaces, support regional community parks, projects, and programs and to further farmland restoration. Community Services and the Parks Commission provides input each year as to which Parks projects should be prioritized to receive Measure A funding.
246	Traffic Mitigation Fee <i>(Transportation)</i>	Traffic Mitigation Fees are charged by to a developer in connection with the approval of a development project – in order to generate revenues for increasing street capacity to accommodate additional traffic generated by the new development. The City utilizes its Traffic Mitigation Fees for circulation identified in Exhibit 21 of Policy 6A of General Plan 2020 and similar projects that further the General Plan.
420	Measure E	Measure E was passed by the voters of San Rafael in November 2013 extending an existing 0.5% sales tax for 20 years and adding 0.25% (25 cents on a \$100 purchase). On February 3, 2014, the San Rafael City Council directed staff to set aside the revenues from the added quarter percent to begin to address our aging essential facilities, including making critical improvements to our public safety facilities in San Rafael. In July 2015 the City Council approved a strategic plan for essential public safety facilities in San Rafael. The plan recommends seven projects including a new public safety center across from City Hall that will house both the police and fire departments. In addition, the plan recommends upgrades to the other fire stations for seismic safety and operational improvements.
501	Parking Services	Projects identified in the CIP as utilizing the Parking Services Fund are strictly for the facility improvements as related to the City’s parking facilities.
603	Building Maintenance <i>(City Owned Property, Parks)</i>	The Building Maintenance Fund supports capital projects associated with the City’s buildings, parks and other facilities. The Building Fund is an internal revenue fund, which means General Fund monies are the sole source of revenue for the fund. Historically, \$500,000 in General Fund monies has been contributed annually to the Building Fund.

Projects in the CIP are funded through a combination of these annual funding sources, and Project specific funding sources such as Grants, Donations, and special funds. These “Project specific funding sources” are restricted to certain projects based on the nature of the funding source. For example, the Traffic Mitigation Fund may only be used to finance Right-of-Way projects that are pre-identified in the General Plan or similarly qualifying projects that address traffic congestion, and a grant received may only be used for the project for which the grant was applied for.

Unfunded projects in City-Owned Property and Parks total approximately \$8 million, with immediate project needs exceeding the \$1 million in funding available from FY 2018-19 and FY 2019-20. Therefore, staff is recommending that the annual \$400,000 Gas Tax transfer to the General Fund be increased to \$800,000 for the current FY 2018-19 and for FY 2019-20. The annual transfer is designed

to cover a portion of the Public Works salaries and benefits related to streets and roads maintenance (estimated at \$2 million/year). The General Fund transfer to the Building Maintenance Fund (to support City-owned property and parks projects) will then be increased by \$400,000 for FY 2018-19 and FY 2019-20. The effect will be net neutral on the General Fund, and the result will be an additional infusion of \$800,000 to support City-owned property and parks projects in FY 2019-20.

The department is actively seeking better long-term funding strategies for these projects, including:

- Pursuing bond financing for major capital projects, such as San Quentin Pump Station
- More aggressive pursuance of grant funding for non-right-of-way capital projects
- Pursuance of ballot measure to raise current per-parcel stormwater assessment
- Exploring alternative funding mechanisms, such as assessment districts or public-private partnerships (Community Services has taken a lead on this for some of the rental facilities)

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 Facilities project, for which there are active projects associated with the construction of the new Public Safety Center and the construction of Fire Station 57. 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) reimbursements from the County of Marin for a portion of improvements to Fire Station 57 that benefit the County. In FY 2019-20, the City expects to spend approximately \$25 million in construction costs in support of this project, most of which will be provided by the proceeds of the Lease Revenue Bonds.

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 [March 18, 2019](#). The fund has planned expenditures of \$7.8 million for the upcoming fiscal year, of which \$4.9 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, who are paying \$95 per residential living unit and 13.2 cents per non-residential building square foot. In the other area served, Marinwood Community Services District, rates will remain at the tax rate cap of \$85 per residential living unit and 11 cents per non-residential building square foot.

The EMS fund is projected to retain \$781,210 in unallocated fund balance on June 30, 2020. This balance serves as an operations 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 Two essential public facilities projects).

The City's new Cannabis Business Tax is also reported in a special revenue fund. San Rafael has several licensees in active commerce, while several are still working through the State of California's application backlog or are finding a location and conducting tenant improvement buildout. There are currently five delivery companies and two small-scale manufacturers paying into the cannabis business tax program. San Rafael's cannabis business tax program collected 1 partial 4th quarter 2018 (November – December) and 1 full quarter, 1st Quarter 2019 (January-March) totaling \$78,000 in cannabis business

tax revenue. The tax revenues collected are before businesses had authorization to conduct adult-use sales. In July 2019, an additional licensing round for a smaller number of licenses will open. Those licenses include testing laboratories, infused product manufacturing and distribution wholesale. The City anticipates the receipt of \$120,000 in revenues for the FY2019-20 year.

The Measure A Open Space Program is in its seventh 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 2019-20, for which \$487 thousand in revenues is projected, remains on recreational facility improvements and open-space enjoyment and safety. The FY 2019-20 Measure A – Open Space Workplan was presented and approved separately at the City Council meeting of [June 17, 2019](#).

Measure D, the successor Library parcel tax to Measure C, is entering its third year. This special revenue source has successfully expanded service levels, relative to those established under Measure C. 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 ebooks; funds events and classes for all ages, and provides for supplementary technology supplies. Capital reserves were established under Measure C for facility-related uses. Of the \$541,000 set aside, approximately \$188,000 has been committed to the new library costing study with Noll and Tam architects. The allocation of these special tax proceeds is consistent with best practices in the library field and the terms of the tax measures.

The Recreation and Childcare Funds, operated by Community Services, are anticipating spending plans of \$4.8 million and \$3.6 million, respectively. Fee income and earnings on reserves cover approximately 63% of the Recreation budget, 100% of the Childcare budget, and 72% of the Preschool program.

Community Services has recommended the consolidation of three obsolete accounts into the Recreation Fund. The three funds are: Falkirk Revolving Fund, with a balance of \$25,799, used to track Falkirk expenses before these activities were managed and tracked under Recreation; Falkirk Arts Program Fund, with a balance of \$11,011, which has not been used for several years; and the Recreation Fiduciary Fund, with a balance of \$23,850, which was created for tracking Community Center programs that have since been discontinued.

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 over the next few years. In 2014, Public Works 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. For example, it is estimated that one of the locations to be repaired, 3rd/Lootens, will cost approximately \$525,000. The FY 2019-20 operating budget for this fund is \$5.2 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 2019-20. The technology internal service fund and capital replacement funds (vehicles, City facilities) 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 \$143,500 in FY 2019-20 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, 2018 and approved by the MCERA Board on February 13, 2019. This valuation was used to determine the contribution rates for FY 2019-20. The composite rate for the City of San Rafael will be 57.67 percent, a 4.09 percent decrease from the current rate of 61.76 percent. The budgeted pension contribution for FY 2019-20 provides full funding for the required contribution. The valuation also reported an unfunded actuarial liability of \$134.1 million for the City, representing a funded ratio of 77.0%.

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 \$1.3 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 2018-19 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, 2017, reports \$18.1 million in plan assets offset by \$51.6 million in actuarially accrued liabilities, leaving an unfunded actuarial liability of \$33.5 million. The City's ADC for FY 2019-20 is \$3.7 million.

Citywide Summary

The following table summarizes the appropriations found in Exhibit II of the Resolution (Attachment 2), which provides the schedule of consolidated fund activities for FY 2019-20:

Figure 3

Fund	Projected Balance July 1, 2019	Sources (Revenues and Transfers)	Uses (Expenditures and Transfers)	Projected Balance June 30, 2020
General Fund	\$ 151,794	\$ 84,984,262	\$ 84,958,189	\$ 177,867
General Plan	2,073,008	393,110	1,405,333	1,060,785
Special Revenue/Grant/Trust	17,001,094	25,373,790	24,054,074	18,320,810
Enterprise (Parking)	4,060,216	5,238,406	5,165,257	4,133,365
Internal Service/Capital Replacement	6,995,868	18,148,574	17,057,307	8,087,135
Assessment Districts	470,833	1,377	-	472,210
Misc Capital Project Funds	27,854,267	4,149,072	27,235,200	4,768,139
Adj for ISF Charges/Transfers	-	(25,026,588)	(25,026,588)	-
Total City-Wide Totals	\$ 58,607,080	\$ 113,262,003	\$ 134,848,772	\$ 37,020,311

Fund Balances and Reserves

Under the proposed FY 2019-20 budget, all funds are projected to have a positive fund balance as of July 1, 2019, as well as at June 30, 2020. The General Fund is projected to have sufficient funds at July 1, 2019 and June 30, 2020. The balance shown in Figure 3 above incorporates the Emergency Reserve. The other funds listed in the Figure 3 are all restricted in nature based on the explanations provided on page 9 of this report.

General Fund Emergency Reserves are projected to increase from \$7.5 million to \$7.9 million, or 10% of General Fund expenditures, maintaining the minimum target reserve levels. There are sufficient funds retained in the general liability and workers compensation reserves to fund projected claims in those respective areas.

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 2019-20, the City is using a 3.85 percent increase in California’s per capita personal income from January 1, 2018 to January 1, 2019 (this figure is provided by the California Department of Finance). For the change in population, the City is using 0.04 percent – representing the change in population for San Rafael, which is higher than Marin County’s figure of negative 0.01 percent for the period January 1, 2018 to January 1, 2019 (provided by the State of California Department of Finance).

The attached resolution (Attachment 4) establishes the new Appropriations Limit for FY 2019-20, which has been calculated to be \$138,889,447 (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 2019-20 appropriations subject to the GANN Limit

is \$82,867,376 (Exhibit B to the resolution). Therefore, the portion of the City's budget appropriation that is restricted by the GANN limit is \$56,022,071 under the legal limit.

STAFFING

The City's current approved level of staffing, 412.58 FTE (full-time equivalent) is 7.9 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 ensure smooth and 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.

For the FY19/20 fiscal year, all departments are focused on finding ways to maximize current employee capacity and potential by re-examining the way that our teams are currently organized, and by creatively implementing process improvements cross departmentally. As a result, the following changes are being proposed:

Digital Service and Open Government

The Department of Digital Service and Open Government (DSOG) is proposing a new classification of the GIS Analyst to a Data Analyst. This is in support of the department's recently launched strategic framework that will broaden the department's service offerings beyond basic technology support, reflecting the evolution of the department's anticipated analytical needs. This new classification will include a three-step series for the Data Analyst to grow in to over time through the performance management process. There is no current fiscal impact related to this proposed change.

Police

The Police Department is proposing a reclassification of the Mental Health Outreach Provider to a Mental Health Liaison, in acknowledgement of how this single classification role has grown and developed into a more hands-on clinical liaison role. The Human Resources department recently partnered with a third-party vendor (RGS Consulting) to conduct a job classification study of the current responsibilities and found that there has been a significant change in the role's scope and depth of work. The total fiscal impact of this proposed change is \$12,911/annually.

City Manager

The City Manager's Department is proposing a reclassification of the Sustainability and Volunteer Program Coordinator to a Sustainability Program Manager. HR recently partnered with a third-party vendor (RGS Consulting) to conduct a classification study of the responsibilities (single position classification) and found that there has been a significant increase in the role's responsibilities and level of self-directed work more closely aligned with a management position. As such, this reclassification reflects how this work is developing in to a broader program, requiring a higher level of strategic leadership. The total annual cost of this change is \$12,745/annually.

Public Works

In order to ensure continuity of capacity to manage Capital Improvement Program projects, the Public Works Department is recommending the creation of a Senior Project Manager classification, and authorization to add 1.00 FTE in this job class effective April 1, 2019. The majority of the funding for this position, all but \$38,000, will come from funds that have been used to fund this position on a fixed-term basis.

The Department is also requesting the addition of 1.00 FTE Sweeper Operator to supplement the existing part-time sweeper operator position. The additional sweeper is necessary to keep pace with the increasing requirements of the Marin County Stormwater Pollution Prevention Program. Gas Tax Funds will be used to reimburse the General Fund for the \$95,000 cost of the new position.

These proposed changes have been discussed with the labor representatives for the affected bargaining units. They have a combined impact of adding 2.00 FTE and result in a \$38,000 annual cost to the General Fund, and a \$95,000 annual cost to the Gas Tax Fund.

Community Development

The Community Development Department has continued its review of how its staffing supports a positive customer experience. The Department would like to build on some of the recent adjustments by adding a Permit Services Coordinator position that would provide cross-divisional support to ensure that those who rely on the department for approvals and permits have a skilled point of contact at the customer service counter. In order to avoid raising fees, the Planning Technician position is being proposed to be eliminated and the Building Technician I position is proposed to be reduced from 1.00 Full-Time Equivalent (FTE) to 0.75 FTE. The resulting net change in staffing level is a reduction of 0.25 FTE and the net fiscal impact of these proposed changes is approximately \$8,000 per year. In order to ensure that the classification of the Permit Services Coordinator is compatible with the vision for the new role, the department worked with Human Resources and labor representatives to make the appropriate modifications to the classification. No changes are being proposed for the compensation for this position.

Community Services

The Childcare Program is experiencing a drop in demand since San Rafael schools transitioned to a full day kindergarten. In response to this decrease in demand, the department is recommending the elimination of 1.00 Childcare Director and 5.00 Childcare Instructors. These proposed changes have been discussed with the labor representatives for the Childcare unit. The net impact on staffing is a reduction of 6.00 FTE, and the savings from the eliminated positions is projected to offset the loss in revenues.

Summary of Staffing Changes

Department	Regular FTE Change	Funding Source	Fiscal Impact Increases
Digital Services and Open Government	GIS Analyst -1.00 Data Analyst +1.00	No funding impact	\$0
Police	Mental Health Outreach Provider -1.00 Mental Health Liaison +1.00	General Fund	\$12,911/year
City Manager	Sustainability and Volunteer Program Coordinator -1.00 Sustainability Program Manager +1.00	General Fund	\$12,745/year
Public Works	Sweeper Operator +1.00	Gas Tax Fund	\$95,000
	Senior Project Manager +1.00 2.00	General Fund*	\$38,000
		*offset by discontinuing fixed-term project manager	
Community Development	Permit Services Coordinator +1.00 Planning Technician -1.00 Building Technician I <u>-0.25</u> - 0.25	General Fund	\$8,000/year
Community Services (Childcare Division)	Childcare Director -1.00 Childcare Instructor <u>-5.00</u> -6.00	Childcare Fund	Negligible after taking into account revenue losses.
Total proposed changes requiring City Council Approval:	-4.25		General Fund \$71,656 Gas Tax Fund \$95,000
Fixed term position changes (no City Council approval required)	Public Works Project Manager -1.00 Fire Administrative Specialist -0.60 Fire Management Analyst <u>1.00</u> -0.60		
Total Proposed Changes:	-4.85		

The history and detail for all authorized positions are presented in Exhibit III of the resolution (Attachment 2). Accompanying Exhibit III are job class specifications for the Data Analyst, Mental Health Liaison, Sustainability Program Manager, Senior Project Manager, Sweeper Operator and Permit Services Coordinator. Also included are the salary schedules for SEIU, SRPA and Mid-Management Resolution, which have been updated to reflect the new positions in their respective units.

In summary, the FY2019-20 personnel proposal ends with 407.73 full-time employees (from 412.58 as of June 30, 2019) which is a decrease in 4.85 FTE. The General Fund increases of \$71,656 are being funded by department budget reductions in other expenses.

In addition to these aforementioned staffing changes, the City leadership team is proposing additional support and career investment in our Police Department's Mid Management group. The Educational Incentive for Police Captains and Police Lieutenants who have received their post Management Certificate is being proposed to be paid a flat dollar in the amount of \$264.50 bi-monthly. Details of this incentive program are outlined in a side letter attached.

Community Services and Library Integration

Over the past several months, staff has been working on an effort to combine the Community Services Department with the Library Department from an internal, organizational standpoint. For purposes of the City's organizational structure, it would be the "Library, Recreation, and Childcare Department" and begin as such immediately with this new fiscal year. Susan Andrade-Wax, currently the Community Services Director, will be the Director of the newly merged department. Staff will continue to track separately the budget of these functions as we have in the past in order to maintain transparency into the various costs by function and restricted uses by Measure D. Therefore, there are no budgetary recommendations in this staff report regarding the reorganization. However, at a later date, staff anticipates returning to the City Council with a new organizational chart for the Department and any reclassifications or compensation adjustments that are recommended at that time. Staff will work with any affected labor groups as those changes are considered. Staff will not be making any recommended changes to how the current boards, commissions, and affiliate groups function as they relate to the Library and Community Services. Those will continue as they have in the past.

The two Departments are proposed to be integrated in order to create new possibilities for collaboration and innovation in programming and services for the community, as well as to create efficiencies through eliminating duplication, combining resources, and leveraging diverse skill sets. Another goal is to create more shared professional development, shared training, and more opportunities for growth and advancement of employees. Workshops were held with all affected staff to create a new departmental vision, mission, set of values and initial goals. The identified vision is, "Connect and flourish" and the mission is, "Enriching our community through discovery, learning, and play." Some minor examples of new opportunities include: unified promotion of activities, classes, and events; sharing of resources such as vehicles and equipment; optimization of building space/land usage; and greater opportunities for staff to excel/promote in the larger organization.

Included in the draft City Council Goals and Strategies for Fiscal Year 2019-2020 is, "Complete the integration, policies/procedures, and team development of the new 'Library, Recreation, and Childcare' Department. The Council's approval of the Citywide Budget for Fiscal Year 2019-2020 will put this effort into motion.

FISCAL IMPACT: By approving the resolutions as presented, the City Council is authorizing the levels of expenditures, within funds, for FY 2019-20. 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 the legal limit.

The FY 2019-20 Budget Resolution also provides for the “roll-over” of unspent capital project funds from FY 2018-19 for projects that will not be completed by June 30, 2019. 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 City-Wide Budget and Capital Improvement Program for the Fiscal Year 2019-2020 and Providing for the Appropriations and Expenditure of All Sums Set Forth in the Budget
2. Adopt the Resolution Approving Fiscal Year 2019-2020 Gann Appropriations

ATTACHMENTS:

1. FY 2019-20 City Council Goals & Strategies
2. Resolution Approving the City-Wide Budget and Capital Improvement Program for the Fiscal Year 2019-2020 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. Capital Improvement Program: FY 2019-20 through 2021-22
4. Resolution Approving Fiscal Year 2019-2020 Gann Appropriations Limit, and Exhibits A and B