



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 2021-2022 AND LEGAL SPENDING LIMIT

- SUBJECT:**
- 1. RESOLUTION APPROVING THE CITYWIDE BUDGET AND CAPITAL IMPROVEMENT PROGRAM FOR THE FISCAL YEAR 2021-2022 AND PROVIDING FOR THE APPROPRIATIONS AND EXPENDITURE OF ALL SUMS SET FORTH IN THE BUDGET IN THE AMOUNT OF \$127,789,398;**
 - 2. RESOLUTION APPROVING FISCAL YEAR 2021-2022 GANN APPROPRIATIONS LIMIT AT \$150,770,339**

RECOMMENDATION:

1. Adopt a resolution approving the Fiscal Year 2021-22 operating budget and Three-Year Capital Improvement Program.
2. Adopt a resolution approving the Fiscal Year 2021-22 Gann Appropriations limit.

SUMMARY:

This report presents the final proposed citywide budget for Fiscal Year (FY) 2021-22, beginning July 1, 2021 and ending June 30, 2022. This item is the culmination of a process that included a public discussion of the assumptions underlying the draft budget that were presented at the City Council meeting on June 7, 2021. In addition, the preliminary Capital Improvement Program was presented to the City Council on May 3, 2021 for feedback and discussion.

FOR CITY CLERK ONLY

Council Meeting: June 21, 2021

Disposition: Resolution 14938 x Resolution 14939

For the FY 2021-22 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 \$127,789,398 and are within the legal spending limit.

BACKGROUND:

This report will focus on the following:

1. Brief status of FY 2020-21 budget performance
2. Proposed Goals and Objectives for FY 2021-22
3. Proposed operating and capital budget presented for all City funds for FY 2021-22
4. FY 2021-22 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 2021-22 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 2020-21

General Fund

Revenues: The original FY 2020-21 budget, adopted on [June 15, 2020](#), projected \$75,483,680 in revenues. This was based on the soundest information available at the time as economists and revenue experts forecasted reductions in revenue based on the pandemic. The City worked with two revenue consulting companies (HdL and Management Partners) and other local agencies to project losses for FY 2020-21. Fortunately for the State of California, the federal aid (stimulus checks and extra unemployment

dollars) has played a significant role and revenues are not as impacted as originally expected. the mid-year budget review (updated budget) presented on [March 1, 2021](#), revenues were increased by \$5,500,000 for a projected balance of \$80,983,680 based on higher than anticipated sales and use tax receipts as well as the passage of Measure R and receipt of CARES Act funds. Current revenues are projected to be \$83,429,224, which is \$2,445,544, or 3% above the updated budget, based on activity through April which is the most up to date information available. This is due to an estimated increase in property transfer tax of approximately \$366,000, higher than anticipated Educational Revenue Augmentation Fund (ERAF) payments received from the County of \$367,970 and continuing increases in sales tax revenues estimated at approximately \$1,711,500.

Expenditures: As part of the approved FY 2020-21 budget, expenses were reduced by \$6,686,000 as the City was preparing for projected revenue losses associated with the COVID-19 pandemic and acted immediately to reduce expenses. During the fiscal year, an effort by all departments was made to keep to the original budget except for one request to increase appropriations during the mid-year budget update for the Public Safety Center total utility and janitorial service costs in the amount of \$275,000.

The impacts of COVID-19 have caused a revenue strain on several of the City's other funds such as Parking, Childcare, and Recreation. At this point, most funds continue to be self-sufficient by using available fund balances. However, due to starting the year with no available fund balance and with having to endure the year with significantly reduced program activity while still utilizing staff for other activities such as disaster service workers, the Recreation fund will need an additional transfer of an estimated \$500,000 from the General Fund. The Recreation fund receives an annual subsidy of approximately \$2 million each year from the General Fund as approved in the original budget. With this additional request, the total transfer from the General Fund to the Recreation fund amounts to \$2,500,000 for FY 2020-21.

Operating results: The proposed increase to revenues of \$2,445,544, in addition to the proposed increase in expenses (transfers out to the Recreation fund) of \$500,000 changes the updated budget estimated positive net result of \$3,042,072 to \$4,987,616 for FY 2020-21. With the replenishment to the Emergency reserve fund in the amount of \$499,248 (in order to maintain the 10% per City Council policy), net unassigned funds, (otherwise known as surplus), are forecasted to be \$4,488,368 at year-end. See Table 1 for additional details.

Due to the concerted city-wide effort to stay within the originally budgeted expenditures, the City is estimating a surplus of which Staff recommend be allocated towards several competing needs such as starting to right-size employee compensation to comparable agencies, vehicle maintenance, the maintenance of City owned parks and buildings, infrastructure needs, and the City's policy focus areas outlined in the Goals and Objectives section.

Staff will formally request the aforementioned adjustments be made to the budget along with other adjustments if necessary, in August 2021 once the year-end update is presented to the City Council.

Table 1

General Fund	Adopted Budget FY 2020-21	Approved Changes	Current Budget	Proposed Changes	Revised Budget
Revenues	75,483,680	5,500,000	80,983,680	2,445,544	83,429,224
Transfers in	3,914,620		3,914,620	-	3,914,620
FY20-21 Resources	79,398,300	5,500,000	84,898,300	2,445,544	87,343,844
FY19-20 P.O. reserve	-	-	-	-	-
Total Resources	79,398,300	5,500,000	84,898,300	2,445,544	87,343,844
Expenditures	79,581,228	266,557	79,847,785	-	79,847,785
P.O. Rollover	-	-	-	-	-
Operating Transfer out	2,000,000	8,443	2,008,443	500,000	2,508,443
Total Appropriations	81,581,228	275,000	81,856,228	500,000	82,356,228
Net Result	(2,182,928)	5,225,000	3,042,072	1,945,544	4,987,616
Allocations					
Use/(Source) of Emergency Reserves	2,182,928	-	2,182,928	(2,682,176)	(499,248)
Unassigned Funds Available	-	5,225,000	5,225,000	(736,632)	4,488,368

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 which staff will present to the City Council in September 2021.

GOALS AND OBJECTIVES

Each year, the City Council establishes a set of goals, objectives, and key implementation tasks ([Goals and Objectives](#)) that guide decision-making. This year, the City created four new Policy Focus areas to highlight overarching policy priorities while retaining five City Service areas to highlight operational efforts that will be of particular focus in FY 2021-22. The four Policy Focus areas and five City Service areas are listed below:

Policy Focus Areas

- **Economic Recovery:** Building back our economy stronger and more resilient than before.
- **Housing & Homelessness:** Creating new housing, keeping people in their homes, and use a “Housing First” model.
- **Racial Equity:** Working to achieve racial equity and advance opportunities for all.
- **Sustainability, Climate Change & Disasters:** Reducing greenhouse gas emissions while mitigating and adapting to climate change.

City Service Areas

A. Neighborhood and Economic Vitality: Create and preserve a healthy economy and sustain vibrant neighborhoods, Downtown, and other business areas.

B. Quality of Life: Serve and strengthen community relationships by providing literary, artistic, recreational, and cultural experiences for all residents and improving resident engagement and governmental transparency.

C. Public Safety: Prevent and respond to emergencies through essential facility improvements and community and organizational emergency readiness.

D. Public Assets: Improve and preserve public assets by sustaining effective levels of core infrastructure while reducing traffic congestion by expanding bicycle, pedestrian, and transit options.

E. Foundational Services: Sustain organizational viability and exemplary service through short and long-term financial success, organizational excellence and succession planning, and technology to improve efficiency and service levels.

Each Policy Focus and City Service area has a set of objectives, each of which, has a subset of key implementation tasks. These objectives and key implementation tasks 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. The resources required to perform each objective and task are summarized in the Time and Intensity graphic within the Goals and Objectives. Additionally, the Policy and City areas 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 Objectives for FY 2021-22 to the City Council at its study session on April 30, 2021. The feedback provided in that discussion were incorporated into the [Goals and Objectives document hyperlinked here](#) (Attachment 1) for the consideration by the City Council.

PROPOSED FISCAL YEAR 2021-22 CITYWIDE BUDGET

HIGHLIGHTS

- ❖ **Citywide Budget:** The total proposed FY 2021-22 expenditure budget for the City is \$127,789,398 (Attachment 2, Exhibit I). This sum reflects all funds and operations for the City, including active capital projects. The Capital Improvement Program has planned expenditures of \$22 million for the year, of which staff reports will be submitted for approval of major projects and their associated funding source. Appropriations are supported by FY 2021-22 revenue and other sources projected at \$123,850,111, as well as by fund balances retained from previous periods for capital projects.
- ❖ **General Fund Budget:** The proposed General Fund expenditure budget comprises \$89,562,734 for operations, an increase of approximately \$7.2 million over the prior year adjusted budget, supported by revenues, transfers in, and reserves, projected at \$89,616,102, resulting in a surplus before allocations of \$53,368.
- ❖ **State Budget Impacts:** On May 14, 2021, Governor Gavin Newsom signed the May revision to the FY 2021-22 state budget, which totals approximately \$203 billion in spending. The May revision projects a \$75.7 billion surplus, contrasting against a projected \$54 billion deficit in the prior year's budget. City staff will look for any opportunities to pursue additional assistance and available funding.
 - **COVID-19:** In recognition of the disproportionate impact the COVID-19 Pandemic has had on low-income Californians and small businesses, the Budget proposes \$3 billion of pandemic relief for immediate action in January of 2021. Included in the package is \$2.4

- billion for Golden State Stimulus (a \$600 payment to low-income workers), an additional \$2 billion for grants to small businesses bringing the total to over \$2.5 billion, as well as fee relief for impacted industries such as restaurants and personal services.
- **Housing**: In January 2021 the COVID-19 Tenant Relief Act was signed, creating the California COVID-19 Rent Relief Program providing up to \$2.6 billion in federal assistance to those facing financial hardships as a result of the pandemic. The federal American Rescue Plan Act in March of 2021 provides an additional \$2.6 billion for a total of \$5.2 billion in federal rental relief aid. The May Revision also proposes \$1.75 billion to help support affordable housing projects.
 - **Homelessness**: The budget extends project Homekey, an effort to acquire motels for homeless housing, with \$2.75 billion in one-time funds to purchase additional motels, develop short-term community mental health facilities, and purchase or preserve housing dedicated to seniors. The revision adds \$40 million in one-time funds for the Homeless Coordinating Financing Council to provide grants and technical assistance to local jurisdictions to develop action plans that will address family homelessness.
 - **Transportation**: President Biden's proposed American Jobs Plan is set to provide a massive investment in broad infrastructure improvements. The May Revision proposes investing an additional \$11 billion in the transportation system and related zero-emission vehicle efforts. Included is \$2 billion through 2028 to advance State Highway Operation and Protection Program projects, Interregional Transportation Program projects, and local road and bridge investments.
 - **Emergency Preparedness and Response**: The Revision proposes \$98.4 million and 224 positions for Cal OES to address disasters across the state as well as an additional \$133.9 million for California Disaster Assistance Act funding, a Southern Regional Emergency Operations Center, and Wildfire Forecast and Threat Intelligence Center. The revision also includes \$38.9 million to augment CAL FIRE's resources for the 2021 fire season.
 - **Environmental Quality**: The budget proposes a \$1.5 billion comprehensive strategy to achieve the state's zero-emission vehicle goals by 2035 and 2045. An additional \$1 billion is proposed to support a coordinated forest health and fire prevention strategy that maximizes technology and science-based approaches to protect state forestlands. The budget also includes \$500 million in one-time funds for toxic site cleanup and investigations.
 - **Public Safety**: At the local level, the May Revision includes \$9 million in ongoing funding and \$100 million one-time funding for the CalVIP program providing grants to cities and community-based organizations to support services such as community education, diversion programs, outreach to at-risk transitional age youth, and violence reduction models.
- ❖ **American Rescue Plan Act**: On March 11, 2021, President Biden signed into law the American Rescue Plan Act (ARPA). The ARPA provided \$65.1 billion in direct aid to every city, town, and village across the country to help stabilize communities. The City of San Rafael has been allocated an amount of \$16,088,886. Of this one-time money, the first 50% of the allocation has been received and the second 50% will be distributed a year from now. Jurisdictions have until December 31, 2024 to spend the funding. On May 17th, the Treasury Department issued an [Interim Final Rule](#) document that provides guidance on what the funds may be used for. However, this document is not final and will be open for public comment through July 16, 2021. At this point, staff does not recommend bringing an ARPA Funding Plan to the City Council for approval since there are many eligibility and reporting questions pending that need to be addressed by the Treasury Department. However, in preparation for the utilization of the funds, staff proposes to prioritize allocations on unfunded initiatives and projects related to the City's policy focus areas that are one-time in nature. Staff has prepared a list of high priority needs below that address

Economic Recovery, Housing & Homelessness, Racial Equity and Sustainability, Climate Change & Disasters. To provide an order of magnitude, a dollar symbol is placed after each item with one (\$) representing an estimated cost of under \$500,000, two (\$\$) a cost over \$500,000 and under \$1,000,000, three (\$\$\$) a cost over \$1,000,000 and under \$3,000,000 and 4 (\$\$\$\$) a cost over \$3,000,000.

- Economic recovery for small businesses including action items that result from the Economic Development Strategic Plan or other special initiatives (\$)
- Dedicate resources that keep racial equity work at the forefront of everything we do (\$\$\$)
- Support housing and homelessness initiatives including new homelessness programs and the facilitation of new housing (\$\$\$)
- Support climate change, sustainability and adaptation projects to reduce greenhouse emissions while mitigating and adapting to climate change (\$\$\$\$)
- Fund key community infrastructure projects such as a synthetic turf at the Pickleweed play fields and replacing pump stations (\$\$\$\$)
- Fund key technology infrastructure to replace and update outdated software systems (\$\$\$\$)

Lastly, projects where the use of ARPA funds is eligible will be brought to the City Council for approval prior to commencement. Staff recommends that ARPA funding received by the City and any expenditures thereof be separately tracked and accounted for to ensure allocation in accordance with the requirements and limitations on expenditures of those funds as required by the Act.

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 2021-22 total approximately \$89.6 million. These appropriations comprise \$87.6 million of operating expenditures and \$2 million of transfers to community services in support of the Recreation Fund.

The appropriations are supported by \$87.9 million in projected revenues and \$1.8 million of transfers from other funds. The transfers include a \$635 thousand reimbursement from Gas Tax for support of street maintenance salaries; \$683 thousand from the Employee Retirement internal service fund for debt service on the outstanding pension obligation bonds; and \$436 thousand from the Parking Services Enterprise Fund for administrative support.

The following table (Table 2) summarizes the detailed information provided in Exhibit II and presents the proposed FY 2021-22 budget with a comparison to the projected FY 2020-21 budget. The table presents year-over-year change in revenues and expenses as these are key performance metrics.

Revenues available for operations are projected to be \$4.4 million, or 5.3% higher than those of the FY 2020-21 year. This is mainly due to the receipt of Measure R funds for the entire year versus one quarter in FY20-21 and an increase in transient occupancy tax of approximately 20%. Other revenue items are budgeted for modest gains above FY20-21 projections, for example a 2% increase is budgeted in property tax revenues and 1% in sales tax revenues.

Expenditures are projected to increase by \$7.7 million, or 9.7% over those of the FY 2020-21 projected budget. Increases to the FY 2021-22 expense budget include approximately \$6.1 million in personnel

expenses as the furloughs lapse (\$700,000), frozen positions became unfrozen and funded (\$1,300,000), and wages increase as part of labor negotiations and as the City works to meet compensation goal needs (\$2,200,000). Respectively, pension expenses determined by MCERA also increased as the composite rate for the City of San Rafael will be 62.57 percent, a 1.8 percent increase from the current rate of 60.77 percent (\$1,900,000). Other increases in the budget of approximately \$1,900,000 are to support the City’s goals and objectives, primarily focused on the policy focus areas.

Table 2

General Fund	Projected FY 2020-21	Proposed FY 2021-22	\$ Change from previous year	% Change from previous year
Revenues	\$ 83,429,224	\$ 87,861,080	\$ 4,431,856	5.3%
Transfers in	3,914,620	1,755,022		
Total Resources	\$ 87,343,844	\$ 89,616,102	\$ 2,272,258	2.6%
Expenditures	\$ 79,847,785	\$ 87,562,734	\$ 7,714,949	9.7%
Transfers out – operating	2,508,443	2,000,000		
Total Operating Uses	\$ 82,356,228	\$ 89,562,734	\$ 7,206,506	8.8%
Net Results before Allocations	\$ 4,987,616	\$ 53,368		
(Source) / Use of reserved funds				
Emergency reserve	(499,248)	(720,651)		
Total Results	\$ 4,488,368	\$ (667,283)		
Allocation of unassigned funds	-	667,283		
Net After Allocations	\$ 4,488,368	\$ 3,821,085		

Revenue Trends and Assumptions:

Sales and Transaction & Use Tax:

The COVID-19 pandemic has not caused the severity in recessionary impact many had feared in Sales and Use tax remittances. Low interest rates have buoyed construction and auto sales as well as the timely passage of the Wayfair ruling dramatically increased remittances from the County pool from online transactions, now accounting for the City’s largest Major Industry Group for tax remittances. Growth in auto sales and building and construction is projected to slow in FY 2021-22 where restaurants and hotels and fuel and service stations are projected to grow 23.9% and 15.5%, respectively, as we project to recover from the pandemic.

With the assistance of HdL Companies, the City’s sales tax consultant, recurring sales tax revenues are estimated to increase slightly from \$22.3 million as currently proposed in the FY 2020-21 budget, to \$22.5

million in FY 2021-22, an increase of approximately 1 percent. Sales taxes account for approximately 26% of the City's General Fund revenues.

Revenues from the Measure E Transactions & Use tax, which applies to most local retail sales, are estimated to rise from \$12.5 million as currently proposed in the FY 2020-21 budget, to \$12.8 million in FY 2021-22, an increase of 2 percent. One-third of these funds are allocated to service debt related to the 2018 Lease Revenue Bonds. Measure E revenues account for about 15% of the City's General Fund revenues. Revenues from the new Measure R Transactions & Use tax are projected to generate \$4.3 million in its first full year of implementation.

The State recently informed San Rafael and other local agencies that a taxpayer, which allocates the majority of its tax revenue through the countywide use tax pools, may be reporting incorrectly. The State said in their communication that they are looking into the matter and depending on their ultimate determination, some portion of this taxpayer's revenue will shift outside of the Marin pool. This would have the result of dampening some of the growth in revenue allocations that San Rafael would have otherwise received from this use-tax pool. The amount of any potential shift, however, is unknown. This change in taxpayer filing is expected to begin sometime in 2021. In their most recent sales tax forecast HdL calculated an estimated loss of San Rafael's pool allocations for calendar year 2021. Staff will continue to update City Council on any material shifts.

Property Tax:

Property taxes are currently projected to modestly increase by 2% over the prior year for a total of \$22.6 million. Property tax makes up 26% 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 show a modest increase of 3% when compared to the prior year's budget. These revenues account for 29% of the City's General Fund revenues.

Expenditure Trends and Assumptions:

As we look forward to the recovery from the pandemic, we are projecting general fund expenditures to grow by 9.7% in FY 2021-22. The growth in expenditures incorporates increases in personnel costs as we increase compensation based on collective bargaining contract commitments. General Fund budgeted contributions to the Marin County Employees Retirement Association (MCERA) are projected to increase by \$2.3 million, or 14% when compared to the previous year. The increase is attributable to unfreezing positions as well as increased compensation coupled with an increase of 1.8% in the City's net contribution rate. Pension expenses represent approximately 16.7% of total citywide expenditures, and approximately \$18.6 million, or 20.7%, of an \$89.6 million general fund budget.

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 three-year period: FY 2021-22 through FY 2023-24. 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 to ensure that all department needs

are represented. Project selection and priority is based on recommendations by a Working Group representing various City departments to accommodate high priority needs, which focused on life/safety, maintenance and repair, public and City 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:** 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 3, 2021](#), Public Works presented the preliminary three-year CIP for Fiscal Year (FY) 2021-22 through FY 2023-24 for discussion and review by the City Council. The purpose of the presentation was to provide the community members and the City Council an opportunity to participate in reviewing and sharing feedback relating to the CIP.

Major new projects/studies identified in the FY 2021-22 to FY 2023-24 CIP include:

- 20 Meyer Road Slide Repair
- North San Pedro Medians at SMART Railroad Crossing
- Center Street Resurfacing – Phases I and II
- Francisco Blvd West at Irwin St: Trash Rack
- Sun Valley Park Playground Improvements
- Grand Ave (Second St to Fourth St) Class IV Cycle Track
- Bike & Ped Master Plan 2022 Update

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.
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While some 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.

Beginning in March 2020, the COVID-19 pandemic created financial burdens for the City, its residents and businesses. Inevitably, the economic downturn resulted in a 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 CIP for fiscal year 2020-21 assumed a 30-percent reduction in gas tax revenues as many sectors of the economy closed and the community sheltered in place. Staff are pleased to report that gas tax revenues were better than forecasted with an additional \$600,000 received above what was anticipated. Unfortunately, this trend did not continue for the other mentioned City funds.

Staff are not anticipating any revenue reductions in Funds 206 (Gas Tax) or 246 (Traffic Mitigation) this fiscal year and have budgeted accordingly when recommending projects in the CIP. The two funds that continue to be impacted are Funds 208 (Childcare) and 501 (Parking Services). The Library and Recreation Department as well as Parking Services had to suspend or postpone planned CIP projects last fiscal year and will again do the same until revenues return to appropriate levels.

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 a flat amount each year from the Gas Tax to the General Fund to support personnel costs of Streets Maintenance staff, which we propose to do again this year in the amount of \$635,000. 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.

The complete, [final draft of the CIP is hyperlinked here](#) (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, which in the last year has completed projects such as the construction of the new Public Safety Center and the rehabilitation of Fire Stations 52 and 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) allocations from the paramedic tax used to fund capital projects. In FY 2021-22, the City expects to start construction on the rehabilitation of Fire Stations 54 and 55.

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). The fund has planned expenditures of \$8.6 million for the upcoming fiscal year, of which \$5.1 million, or 60%, 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 \$801,476 in unallocated fund balance on June 30, 2022. 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 tax rate for fiscal year 2021-22 remains unchanged from the prior year, however, expenditure growth is projected to outpace revenue growth in future periods and further increases to the San Rafael tax rate may be necessary to support the program in the future.

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 \$500,000 in excise tax revenues for the FY 2021-22 year in which the fund will incur \$500,000 in qualifying expenses. The program is expected to generate revenues of approximately \$640,000 as it is forecasted to generate associated sales tax and licensing fees of \$140,000 received by the General Fund.

The Measure A Open Space Program is in its ninth 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 2021-22, for which \$472 thousand in revenues is projected, remains on park capital improvements and open-space enjoyment and safety. The FY 2021-22 Measure A – Open Space Workplan was presented and approved separately at the City Council meeting of May 3, 2021.

Measure D, the successor Library parcel tax to Measure C, is entering its fifth 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 \$4 million and \$4.2 million, respectively. Revenue projections will depend on the reopening which, although underway, could see setbacks should coronavirus case rates rise again. Management will keep the City Council apprised of any events affecting the performance of these funds.

Measure C, a historic wildfire prevention measure is entering its second year. Funding for this activity is provided by a ten-year parcel tax and is managed by the Marin Wildfire Prevention Authority, a Joint Powers Authority. The City of San Rafael is expected to receive \$1,826,000 in revenues 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. Costs for new CIP projects are not included in the budget until they are brought to Council for approval at time of commencement.

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 2021-22 operating budget for this fund is \$4.9 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, capital replacement, technology replacement and vehicle replacement are funded via internal charges to the funds that utilize these respective services.

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 2021-22 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.

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, 2020 and approved by the MCERA Board on February 10, 2021. This valuation was used to determine the contribution rates for FY 2021-22. The composite rate for the City of San Rafael will be 62.57 percent, a 1.8 percent increase from the current rate of 60.77 percent. The budgeted pension contribution for FY 2021-22 provides full funding for the required contribution. The valuation also reported an unfunded actuarial liability of \$148.2 million for the City, representing a funded ratio of 76.2%.

MCERA's investment target (discount rate) was updated from 7.00% to 6.75% during the measurement period. The City has dedicated a portion of its employee retirement reserve to buffer the impact of unexpected increases. This reserve, which currently totals \$2.8 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 2020-21 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 2021-22 is \$3.1 million.

General Fund Balance and Reserves

Under the proposed FY 2021-22 budget, all funds are projected to have a positive fund balance as of July 1, 2021, as well as at June 30, 2022.

General Fund Emergency Reserves are projected to increase from \$8.3 million to \$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 2021-22, the City is using a 5.73 percent increase in California's per capita personal income from January 1, 2020 to January 1, 2021 (this figure is provided by the California Department of Finance). For the change in population, the City is using negative 0.43 percent – representing the change in population for Marin County, which is higher than San Rafael's figure of negative 0.62 percent for the period January 1, 2020 to January 1, 2021 (provided by the State of California Department of Finance).

The attached Exhibit A establishes the new Appropriations Limit for FY 2021-22, which has been calculated to be \$150,770,339. 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 2021-22 appropriations subject to the GANN Limit is \$82,522,271 (Attachment 4, Exhibit B). Therefore, the portion of the City's budget appropriation that is restricted by the GANN limit is \$68,248,068 under the legal limit.

STAFFING

For FY 2021-22, all departments are focused on finding ways to maximize the capacity of our current staff by re-examining the way our teams are currently organized, and by creatively implementing process improvements cross departmentally. This is especially important as the City reopens and reimagines the way it provides services with the goal of equity amongst all that we do.

In the last quarter of the FY 2019-20, in preparation for the unknown financial repercussions of the COVID-19 pandemic, the City froze vacant positions and offered a Voluntary Separation Retirement program. The savings of these actions were presented in the FY 2020-21 budget and were adhered to throughout the year which successfully decreased expenses by more than \$1,200,000. For FY 2021-22, staff recommends the frozen positions to be reinstated and reviewed for hiring on a per position basis. Additionally, a furlough was implemented for FY 2020-21 which will not be carried into FY 2021-22.

The Department of Public Works is proposing to convert one job classification into a new job classification in order to meet the current service needs. With the additions of the 40,000 ft² Public Safety Center, Fire Station 52 and 57, there is an increased workload for the City's facility maintenance team. The staffing needs associated with maintaining these new facilities are not currently adequate. Therefore, the department proposes to convert the vacant Public Works Dispatcher position to a Facilities Maintenance Worker position. The cost of this change will be offset by the reduced facility maintenance professional services costs. The proposed changes have been discussed with the labor representatives of the affected bargaining units.

The City's current approved level of staffing for FY 2020-21 is 411.73 which is six more positions than what had been approved at the original budget in June of 2020. The six positions approved throughout the year are all funded through non-general fund operations and consist of one San Rafael Sanitary District position which does not come from City funds and the other five positions are fixed term wildfire specialists funded through Measure C, the Wildfire Prevention program.

The history and detail for the 411.73 FTE/positions being proposed for FY 2021-22 are presented in Attachment 2, Exhibit III. In summary, the FY2021-22 personnel proposal ends with 411.73 full-time employees which remains the same as the current FTE. There are no requests for additional positions at this time.

FISCAL IMPACT: The preliminary fiscal year 2021-22 budget has been prepared for all funds. Funding sources are sufficient to support the preliminary spending plans presented. There is no fiscal impact associated to the acceptance of this report.

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 2021-2022 and Providing for the Appropriations and Expenditure of All Sums Set Forth in the Budget

2. Adopt the Resolution Approving Fiscal Year 2021-2022 Gann Appropriations

ATTACHMENTS:

1. FY 2021-22 City Council Goals & Objectives
2. Resolution Approving the Citywide Budget and Capital Improvement Program for the Fiscal Year 2021-2022 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 2021-22 through 2023-24
4. Resolution Approving Fiscal Year 2021-2022 Gann Appropriations Limit, and Exhibits A and B