



SAN RAFAEL CITY COUNCIL AGENDA REPORT

Department: Finance

Prepared by: Nadine Atieh Hade,
Administrative Services Director

Bill Guerin,
Director of Public Works

City Manager Approval: _____

A handwritten signature in black ink, appearing to be 'AS'.

TOPIC: FINAL CITYWIDE PROPOSED BUDGET FOR FISCAL YEAR 2022-2023 AND LEGAL SPENDING LIMIT

- SUBJECT:**
- 1. RESOLUTION APPROVING THE CITYWIDE BUDGET AND CAPITAL IMPROVEMENT PROGRAM FOR THE FISCAL YEAR 2022-2023; PROVIDING FOR THE APPROPRIATIONS AND EXPENDITURE OF ALL SUMS SET FORTH IN THE BUDGET IN THE AMOUNT OF \$166,109,509; AUTHORIZING AN INCREASE TO CITY STAFF HEADCOUNT; AMENDING RESOLUTION 14954 REGARDING THE COMPENSATION AND WORKING CONDITIONS FOR CERTAIN UNREPRESENTED EXECUTIVE MANAGEMENT EMPLOYEES; AND APPROVING A ONE-TIME 5% INCREASE TO CHILDCARE FEES**
 - 2. RESOLUTION APPROVING FISCAL YEAR 2022-2023 GANN APPROPRIATIONS LIMIT AT \$170,762,486**

RECOMMENDATION:

1. Adopt a resolution approving the Fiscal Year 2022-23 Operating Budget and Three-Year Capital Improvement Program, providing for the appropriations and expenditure of all sums set forth in the budget in the amount of \$166,109,509, authorizing an increase to city staff headcount, amending resolution 14954 regarding the compensation and working conditions for certain unrepresented executive management employees, and approving a one-time 5% increase to childcare fees.
1. Adopt a resolution approving the Fiscal Year 2022-23 Gann Appropriations Limit.

FOR CITY CLERK ONLY

Council Meeting:

Disposition:

SUMMARY:

This report presents the final proposed citywide budget for Fiscal Year (FY) 2022-23, beginning July 1, 2022, and ending June 30, 2023. This item is the culmination of a budget process that included several internal discussions of the assumptions underlying the draft budget and the City's goals and objectives. In addition, the preliminary Capital Improvement Program was presented to the City Council on May 16, 2022, for feedback and discussion.

For the FY 2022-23 budget, ongoing General Fund operational expenditures are supported by current period revenues. The spending plans of all other funds are supported by projected revenues and accumulated resources in their respective funds. Proposed appropriations citywide total \$166,109,509 and are within the legal spending limit.

Due to rising costs, particularly of staff salaries, there is a need to increase childcare fees to ensure the program's sustainability. The proposed 5% increase would help ensure the long-term viability of the City's childcare programs and keep fees at affordable levels compared with comparable operations in the region.

BACKGROUND:

This report will focus on the following:

1. Brief overview of FY 2021-22 budget performance
2. Proposed Goals and Objectives for FY 2022-23
3. Proposed Operating and Capital Budget presented for all City funds for FY 2022-23
4. FY 2022-23 Appropriations Limit
5. Staffing updates and adjustments
6. Childcare fee budget and comparison

BUDGET ACTION

The purpose of this report is to provide the City Council and community with the final proposed citywide budget for FY 2022-23.

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 of 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.

ANALYSIS:

UPDATE ON CURRENT BUDGET/FISCAL YEAR 2021-22

General Fund

Revenues: The original FY 2021-22 budget, adopted on [June 21, 2021](#), projected \$87,861,080 in revenues. The City worked with two revenue consulting companies (HdL and Management Partners) and other local agencies to project revenues for FY 2021-22. Fortunately, the recovery from the pandemic has outpaced projections and the mid-year budget review (updated budget) presented on [March 7, 2022](#), estimated an increase in revenues of \$5,060,000 for a projected balance of \$92,921,080 based on higher than anticipated sales and use tax receipts. Current revenues are projected to be \$93,160,919, which is \$239,839, or 0.3% above the updated budget, based on activity through April which is the most up to date information available. This is due to higher than anticipated Educational Revenue Augmentation Fund (ERAF) payments received from the County of \$293,000 and Vehicle License Fee remittances from the State of approximately \$200,000. These increases are partially offset by a reduction in estimated investment income as bond markets have declined in the second half of the fiscal year and a reduction in estimated Transit Occupancy Tax that still lags the rest of the recovery.

Expenditures: As part of the approved FY 2021-22 budget, expenses were projected to be \$87,562,734 as the City projected to ramp up activities following the slow-down resulting from the pandemic. During the fiscal year, additional appropriations were requested totaling \$1,083,374 to cover the repayment of furloughs, additional overtime, and additional specialized wellness resources for Public Safety employees. City Council also approved additional appropriations totaling \$250,000 to stabilize the Recreation Fund, as activities remain adversely affected from the impacts of the COVID-19 pandemic.

The City performs bi-annual actuarial studies into both the Workers' Compensation and Liability programs to assess its ongoing self-insured exposure. Both actuarial studies were performed during the year resulting in an increase in estimated outstanding losses of \$2.8 million for Workers' Compensation and \$0.6 million for Liability over the prior estimates. These losses are attributable to a few large claims and follow a trend of declining total claims with rising severity on a per claim basis. The results of this study translate into increasing the fund balance for the City's Workers' Compensation and Liability programs in the amount of \$2,100,000 and \$600,000, respectively, to adequately prepare for future liabilities.

Operating results: The estimated increase to expenditures of the General Fund of \$2,700,000 changes the estimated positive net result of \$3,779,994 to \$1,319,833 for FY 2021-22. With the replenishment of the Emergency Reserve Fund in the amount of \$1,038,611 (in order to maintain the 10% reserve level per City Council policy), net unassigned funds (otherwise known as surplus) are forecasted to be \$814,596 at year-end. See Table 1 for additional details.

Staff will formally request the aforementioned adjustments be made to the budget along with other adjustments, if necessary, in September 2022 once the year-end update is presented to the City Council.

Table 1: FY 2021-22 General Fund Estimated Overview

General Fund	Adopted Budget FY 2021-22	Approved Changes	Current Budget	Projected Changes	Projected Budget
Revenues	87,861,080	5,060,000	92,921,080	239,839	93,160,919
Transfers in	1,755,022		1,755,022	-	1,755,022
Total Resources	89,616,102	5,060,000	94,676,102	239,839	94,915,941
Expenditures	87,562,734	1,083,374	88,646,108	2,700,000	91,346,108
Operating Transfer out	2,000,000	250,000	2,250,000	-	2,250,000
Total Appropriations	89,562,734	1,333,374	90,896,108	2,700,000	93,596,108
Net Result	53,368	3,726,626	3,779,994	(2,460,161)	1,319,833
Allocations					
Use/(Source) of Emergency Reserves	(720,651)	(47,960)	(768,611)	(270,000)	(1,038,611)
Use of Prior Period funds	-	533,374	533,374	-	533,374
Unassigned Funds Available	(667,283)	4,212,040	3,544,757	(2,730,161)	814,596

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, presented in September 2022.

GOALS AND OBJECTIVES

The City Council regularly establishes a set of goals, objectives, and key implementation tasks ([Goals and Objectives](#)) that guide decision-making. Last 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 are of particular focus. This year, the City Council elected to continue focusing on the goals and objectives established for FY 2021-22 and has attached a status report (Attachment 1). Also highlighted as part of the status report are 15 performance metrics that staff has identified and will start collecting, measuring and analyzing in the next fiscal year in order to track progress towards the Council’s key policy areas. 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 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.

PROPOSED FISCAL YEAR 2022-23 CITYWIDE BUDGET

HIGHLIGHTS

- ❖ **Citywide Budget:** The total proposed FY 2022-23 expenditure budget for the City is \$166,109,509 (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 for which staff reports will be submitted for approval of major projects and their associated funding source. Appropriations are supported by FY 2022-23 revenue and other sources projected at \$156,579,990, as well as by fund balances retained from previous periods for capital projects.
- ❖ **General Fund Budget:** The proposed General Fund expenditure budget comprises \$95,250,644 for operations, an increase of approximately \$4.35 million over the prior year current budget, supported by revenues, transfers in, and reserves, projected at \$97,640,802, resulting in a surplus before allocations of \$2,390,158.
- ❖ **State Budget Impacts:** On May 13, 2022, Governor Gavin Newsom signed the May revision to the FY 2022-23 state budget, which totals approximately \$300 billion in spending. The May revision projects a \$97 billion surplus, contrasting against a projected \$54 billion deficit in the FY2020-21 budget. City staff will look for any opportunities to pursue additional assistance and available funding.
 - **Broad-based Relief:** In addition to providing \$400 rebates to eligible owners of registered vehicles, the May Revision adds \$750 million in grants to transit and rail agencies to provide free transit to Californians for three months. Also included is \$2.7 billion for rental assistance, \$304 million to reinstate the healthcare premium subsidy program, and \$157 million to waive family fees for state-subsidized preschool and childcare.
 - **Homelessness:** The Budget provides an additional \$2 billion over two years to invest in behavioral health housing and encampment cleanup grants intended to serve as a bridge to other related programs, such as Project Homekey.
 - **Infrastructure:** The May Revision adds an additional \$17 billion in state funds to the \$20 billion previously allocated to accelerate the transition to zero-emission vehicles, modernize the state's transportation system, spur clean energy innovation, advance the

state's housing goals, reduce wildfire risk to communities, support drought resiliency and response, among other investments. The May Revision includes an additional \$1.1 billion for broadband, \$500 million for housing, \$500 million for active transportation, and \$650 million to expand efforts to build more housing for homeless individuals.

- Children's Behavioral Health: The Budget added \$290 million to the \$1.4 billion allocated to California's behavioral health system to support grants to deliver well-being and mindfulness programs, as well as parent support education programs. In addition, the program will support grants to support children at increased risk of suicide.
 - Wildfires: The Budget adds enhancements toward wildfire resilience and response capacity by adding funding to support expanded fire crews and air attack operations.
 - Drought: Included in the Revision is \$1.6 billion to continue the State's drought response through both augmentation to loans to drinking water systems, water recycling, conservation, and habitat restoration as well as \$75 million in support grants to farming and related businesses negatively impacted by drought.
 - Public Safety: The May Revision includes \$50 million in local law enforcement grants to support officer wellness as well as \$30 million in grants to assist minors who are victims of sex trafficking.
- ❖ **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. Funds must be obligated by December 31, 2024 and expended by December 31, 2026. In January of 2022 the Treasury Department issued its Final Rule, a document that provides guidance on compliance and eligibility, effective beginning April 1, 2022. The City Council has directed use of these funds towards the City's policy focus areas of Economic Recovery, Housing & Homelessness, Racial Equity and Sustainability, Climate Change & Disasters as well as infrastructure projects.

To date the City has utilized approximately \$600,000 of these monies for support of Housing & Homelessness and racial equity initiatives. City Council has approved an informational report recommending the use of ARPA funds for the San Quentin Pump Station that is expected to begin in the fourth quarter of fiscal 2021-22 with costs estimated in the amount of \$3.2 million. ARPA funds in the amount of \$110,000 have also been approved by Council to fund the design work required for the Pickleweed Park field renovation.

Staff will evaluate revenues and appropriations related to ARPA funds at year-end and provide any specific recommendations necessary for proper reporting at that time. The impact will be an increase to revenues that will be offset by approved expenditures and assignment of any unused portion.

General Fund

The City's General Fund supports 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 2022-23 total approximately \$95.3 million. These appropriations comprise \$92 million of operating expenditures, \$2.2 million of transfers to community services in support of the Recreation Fund and \$1.1 million of transfers to the employee retirement fund. This transfer to the retirement fund does not occur annually, however, when the City experiences a reduction in the MCERA

employer contribution rate due to specific one-time events, this translates into a reduction in the City's pension contribution expense for the year but not necessarily for future years. For FY 2022-23, the City will experience a reduction in the MCERA employer contribution rate due to extraordinary investment returns for the fiscal year ending June 30, 2021 of 32%. As we do not expect this level of investment return in subsequent years, the City is setting aside the \$1.1 million in one-time pension savings as we forecast increases in the future and will use the savings at that point.

The appropriations are supported by \$95.9 million in projected revenues and \$1.8 million of transfers from other funds. The transfers include a \$650,000 reimbursement from Gas Tax revenues for support of street maintenance salaries; \$684,000 from the Employee Retirement Fund for debt service on the outstanding pension obligation bonds; and \$521,000 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 2022-23 budget with a comparison to the projected FY 2021-22 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 \$2.7 million higher than those of the FY 2021-22 year, an increase of 2.9%. This is mainly due to conservative projected growth in major revenue items such as property tax and sales and use tax.

Expenditures are projected to increase by \$600,000, or 0.7% over those of the FY 2021-22 projected budget. Increases to the FY 2022-23 expense budget include approximately \$1.6 million in personnel expenses related to negotiated pay increases and \$1 million in non-personnel expenses related to inflation. The FY 2022-23 increases in expense are overshadowed by the FY 2021-22 one-time workers' compensation and general liability adjustment that staff hopes to absorb as part of the current budget. If absorbed, expenditures year-over-year are projected to increase by 3.7%.

Table 2: Comparison of FY 2021-22 Projected Year End and FY 2022-23 Budget

General Fund	Projected FY 2021-22	Proposed FY 2022-23	\$ Change from previous year	% Change from previous year
Revenues	\$ 93,160,919	\$ 95,870,730	\$ 2,709,811	2.9%
Transfers in	1,755,022	1,770,072		
Total Resources	\$ 94,915,941	\$ 97,640,802	\$ 2,724,861	2.9%
Expenditures	\$ 91,346,108	\$ 91,943,644	\$ 597,536	0.7%
Transfers out – operating	2,250,000	3,307,000		
Total Operating Uses	\$ 93,596,108	\$ 95,250,644	\$ 1,654,536	1.8%
Net Results before Allocations	\$ 1,319,833	\$ 2,390,158		
(Source) / Use of reserved funds				
Emergency reserve	(1,038,611)	(165,454)		
Use of prior period funds	533,374			
Total Results	\$ 814,596	\$ 2,224,704		

Revenue Trends and Assumptions:

Sales and Transaction & Use Tax:

The recovery is in full swing on the sales and use tax front with strong growth quarter after quarter since the economy began reopening. Although facing difficult macro headwinds heading into the new fiscal year, sales and use taxes are projected to remain elevated. Areas of Auto & Transportation and Building & Construction are projected for modest growth as supply chains become less stressed and are better able to meet demand. Meanwhile, Restaurants & Hotels are expected to continue their pandemic recovery with a 5.7% growth estimate for next fiscal year.

With the assistance of HdL Companies, the City’s sales tax consultant, recurring sales tax revenues are estimated to increase slightly from \$24.8 million as currently proposed in the FY 2021-22 budget, to \$25.1 million in FY 2022-23, an increase of approximately 1.2 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 \$14.5 million as currently proposed in the FY 2021-22 budget, to \$14.7 million in FY 2022-23, an increase of 1.2 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 \$4.9 million and represent about 5% of the City’s General Fund revenues. Altogether, sales and use taxes comprise 47% of the City’s General Fund revenues.

Property Tax:

Property taxes are currently projected to increase by 8% over the prior year for a total of \$24.4 million. The increase is mainly due to increased excess Educational Revenue Augmentation Fund payments and growth in the overall property tax roll. Property tax makes up 25% 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 4% when compared to the prior year's budget. These revenues account for 28% of the City's General Fund revenues.

Expenditure Trends and Assumptions:

The growth in expenditures incorporates inflationary increases and 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 decrease by \$730,000, or 3.9% when compared to the previous year. The decrease is attributable to significant asset gains during the actuary's measurement period (\$1.1 million), partially offset by the increase in total payroll, however, these trends are not expected to persist into the following fiscal year as markets continue to experience downward pressure. Staff recommends smoothing the impact of the FY22-23 decrease and expected FY23-24 increase by transferring \$1.1 million to the Employee Retirement Internal Service Fund during FY22-23 to ensure continuity of programs over the long-term. Pension expenses represent approximately 14.1% of total citywide expenditures, and approximately \$17.9 million, or 19.1%, of an \$95.3 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 2022-23 through FY 2024-25. 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 16, 2022](#), Public Works presented the preliminary three-year CIP for Fiscal Year (FY) 2022-23 through FY 2024-25 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 2022-23 to FY 2024-25 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 five major annual funding sources for the CIP:

Table 3: CIP Funding Sources

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.
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.

Fund #	Fund Name	Description
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.

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 contingency of the remaining funds to provide a buffer for unanticipated expenses which may arise mid-year.

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”. City staff continues to actively pursue grant funding, congressional earmarks, and other infrastructure funding sources. Several of these funding sources require a local funding match.

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 \$650,000. Personnel costs of employees performing street and road maintenance and repairs total over \$2 million annually in the General Fund and are an allowable use of State Gas Tax monies.

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

Capital Project Funds

These funds are dedicated to the tracking and reporting of capital projects. The most significant capital project activity is the Public Safety Essential Facilities program, which in the last two years 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 2022-23, the City expects to complete 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 \$8.8 million for the upcoming fiscal year, of which \$5.2 million, or 59%, 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. Tax rates have reached their tax ceiling for County Services Area #13, County Services Area #19, and Marinwood Community Services District, so although the spending plan requires increases in revenue, operations must be subsidized by the City of San Rafael. For FY 2022-23, a \$5 increase in the tax rate for residential unit properties in San Rafael was approved as expenditure growth continues to outpace revenue growth.

The EMS Fund is projected to retain \$695,728 in unallocated fund balance on June 30, 2023. This balance serves as an operational reserve. 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), however, no transfers are expected to take place in FY23.

The City's Cannabis Business Tax is also reported in a special revenue fund. San Rafael has several licensees in active commerce. The City anticipates the receipt of \$300,000 in excise tax revenues for the FY 2022-23 year in which the fund will incur \$159,057 in qualifying expenses. The fund carries a fund balance of prior year savings that it plans to allocate to new projects specifically focused on economic development and service support.

The Measure A Open Space Program sunset on April, 1 2022. Funding for this activity was 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. A renewal of the quarter-cent tax was included on the June ballot and successfully passed. Staff will update the workplan and budget for this program based on revenues to be received as a result of the measure passing. Currently, \$300,000 in fund balance is budgeted to be expended during the year to fund project initiatives.

Measure D, the successor library parcel tax to Measure C, is entering its sixth 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 \$4.8 million and \$3.3 million, respectively. Revenue projections will depend on demand as they have not found their way back to pre-COVID activity. The Childcare Fund is projecting a deficit in fund balance at June 30, 2023 and will require an increase in fees. 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 third 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 \$1.9 million 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 2022-23 operating budget for this fund is \$5.0 million, inclusive of operating transfers. The Parking Fund continues to endure the negative effects of the pandemic and has only been self-sustaining over the past two years as it has drawn on its accumulated fund balance which is its only resource to cover capital improvements. For FY 2022-23, the Parking Fund is projected to incur a deficit which can no longer be covered by remaining fund balance. In order to prevent this from occurring, staff is in the process of analyzing the increase of fees or further expense reductions. Management will keep the City Council apprised of any events affecting the performance of this fund throughout the year.

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.

Status of Pension Funding

The City's [Pension Funding Policy](#) requires that the Administrative Services 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, 2021 and approved by the MCERA Board on February 9, 2022. This valuation was used to determine the contribution rates for FY 2022-23. The composite rate for the City of San Rafael will be 58.91 percent, a 3.6 percent decrease from the current rate of 62.57 percent. The budgeted pension contribution for FY 2022-23 provides full funding for the required contribution. The valuation also reported an unfunded actuarial liability of \$27 million for the City, representing a funded ratio of 95.8%.

MCERA's investment target (discount rate) remained at 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 \$2.1 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 2021-22 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, 2021, reports \$26 million in plan assets offset by \$48.2 million in actuarially accrued liabilities, leaving an unfunded actuarial liability of \$22.2 million. The City's ADC for FY 2022-23 is \$2.6 million.

General Fund Balance and Reserves

Under the proposed FY 2022-23 budget, all funds but two are projected to have a positive fund balance as of July 1, 2022, as well as at June 30, 2023. As previously mentioned, the Childcare Fund estimates a negative fund balance, but if fee increases are approved staff expects results to break-even. Additionally, the Parking Services Fund estimates a negative fund balance if no action is taken on either increasing fees or reducing expenses. Staff will return to City Council to provide status updates on both these funds.

General Fund Emergency Reserves are projected to increase from \$9.3 million to \$9.5 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 2022-23, the City is using a 14.41 percent increase in San Rafael's assessment roll for nonresidential construction (this figure is provided by the County of Marin). For the change in population, the City is using negative 1.01 percent – representing the change in population for San Rafael, which is higher than Marin County's figure of negative 1.11 percent for the period January 1, 2021 to January 1, 2022 (provided by the State of California Department of Finance).

The attached Exhibit A establishes the new Appropriations Limit for FY 2022-23, which has been calculated to be \$170,762,486. 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 2022-23 appropriations subject to the GANN Limit is \$91,883,786 (Attachment 4, Exhibit B). Therefore, the portion of the City's budget appropriation that is restricted by the GANN Limit is \$78,878,700 under the legal limit.

STAFFING

For FY 2022-23, 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 addresses the ongoing pandemic and reimagines the way it provides services with the goal of equity in all that we do.

The City's current approved level of staffing for FY 2021-22 of 419.76 is 6 percent below the peak of 445 FTE that was supported in fiscal year 2007-2008. The 419.76 is comprised of 27.51 fixed term positions that are not MCERA annuitants and have a fixed term with the City. Many of these fixed term positions are a result of Measure C (wildfire prevention) funding.

For FY 2022-23, City staff are requesting authority to add a net of three new regular FTEs as presented below:

- Convert one fixed-term professional temp in the City Manager's Office to a permanent management analyst represented by Local 1 – this is a net neutral headcount change and is projected to be an increased cost of \$48,674. This position has been integrally involved in the staff work of several of the City's goals and objectives. The salary schedule and job description do not need to be updated.
- Convert one fixed-term professional temp in the Fire Department to a permanent mid-manager deputy fire marshal – this is a net neutral headcount change and is projected to be an increased cost of \$40,356. This mid-manager position is critical in the fire operation and the individual who is currently in a fixed term position has been acting in the deputy fire marshal capacity. The salary schedule does not need to be updated and the updated job description is attached.
- Eliminate the vacant senior recreation supervisor mid-manager position and add 3 office assistant positions represented by SEIU in the Recreation division. The total change in FTE is an increase of 2 represented headcount and by reducing the front desk temp staff budget by \$165,000 which is what it would cost to provide services with temp help, the Recreation division ends up saving slightly over \$5,000. This action will provide significant benefits to the department and customers as it will create consistent front counter assistance and will build a more cohesive customer experience. The salary schedule and job description do not need to be updated.
- Authorize the City Manager the ability to eliminate the housing manager position while adding a housing and homelessness analyst and an assistant director of Community Development. The total change in FTE is an increase of 1 headcount and the authority allowed to the City Manager is a net increased cost of \$250,000. The \$250,000 is a combination of an estimated cost for the two new positions offset by the \$256,431 cost already in the budget for the housing manager position. This will result in a new salary schedule(s) and job descriptions in which staff request the City Council allow the City Manager to implement within the above confines.

The combined impact of these positions would be a total of 422.76 FTEs, including 397.25 regular FTEs and 25.51 fixed-term FTEs. This does not include temporary and seasonal staff who support functions for the City including recreation and aquatics.

The history and detail for the 422.76 FTE/positions being proposed for FY 2022-23 are presented in Attachment 2, Exhibit III.

Compaction

The City of San Rafael continues to experience challenges with salary compaction, particularly in the Fire and Police Departments. Due to factors including incentive pay, holiday pay, and bilingual pay, there are instances where positions including the Police Captains and Deputy Fire Chiefs earn as much or more than the Police and Fire Chiefs. This becomes a problem for recruitment, retention, and promotional purposes. The City of San Rafael currently pays its Police and Fire Chief substantially below market rate, about 85% of the salary paid by comparable peers.

In order to address these salary compaction issues, and for recruitment and retention purposes, particularly in the Fire and Police Departments, staff recommends that the City Council amend resolution 14954 regarding the compensation and working conditions for certain unrepresented executive management employees for the term of June 30, 2022 through June 30, 2024. Specifically, the resolution and the salary schedule will reflect the following actions:

- Increase the City Manager’s salary to market. The increase to the City Manager’s salary translates into a total cost increase of approximately \$13,600;
- Grant the City Manager the authority to adjust upwards upon performance evaluation the salary of the Assistant City Manager to no more than 15% less than the City Manager base salary; and
- Grant the City Manager the authority to adjust upwards upon performance evaluation the salary of the Police Chief and the Fire Chief to no more than 18% less than the City Manager base salary.

CHILDCARE

The City of San Rafael provides childcare services through the Library and Recreation Department. The fees were most recently [adjusted in 2021](#) after an extensive fee study to improve cost recovery levels in accordance with Council policy and to ensure the long-term sustainability of the program. Due to inflationary impacts causing an increase in the cost of living as well as a challenging hiring environment, the fees approved in 2021 no longer meet the Council’s cost recovery goals. As a result, staff recommend that all fees receive an increase of 5% to bring them to more sustainable levels.

The fee increase would go into effect on August 18 to ensure that staff have sufficient time to communicate the changes to the community. The City’s childcare fees have been increased on a semi-regular basis since 2011 and customers are accustomed to regular, incremental increases.

Table 4: Current Childcare Fees

Day	Approximate Times	Child Care Fees			
		Proposed Regular Rate	Current Regular Rate	Proposed Drop-in Rate	Current Drop-in Rate
Full Day	7:30-6:30	\$59	\$56	\$64	\$61
Recreation Day	10:00-4:00	\$46	\$44	\$51	\$49
After School	2:30-6:30	\$26	\$25	\$31	\$30
Minimum Day/K-Full	1:25-6:30	\$38	\$36	\$43	\$41
Minimum Day Conf/ * K-Full 8/23-9/07	12:05-6:30	\$48	\$46	\$53	\$51
K-Part/TK-Part	1:25-2:30	\$17	\$16	\$23	\$21
*K-Part 8/23-9/07	11:50-2:30	\$22	\$21	\$27	\$26
Preschool Tuition		\$1,548	\$1,474		

Table 5: 2022 Market Comparison of Childcare Rates

	San Rafael – Proposed Fees	Corte Madera	YMCA
After School			
Full Day	\$59	\$56	\$68

	San Rafael – Proposed Fees	Corte Madera	YMCA
Recreation Day	\$46	\$40	NA
After School	\$26	\$27	\$29
Minimum Day/K Full	\$38	\$36	\$45
Minimum Day Conf/K-Full 8/23-9/07	\$48	NA	NA
K-Part/TK-Part	\$17	\$14	NA
K-Part 8/23-9/07	\$22	NA	NA
	San Rafael – Proposed Fees	Trinity	San Anselmo
Preschool			
Preschool Tuition	\$1,548	\$2,025	\$2,100
Registration Fee	\$75	\$75	\$75

FISCAL IMPACT: The preliminary fiscal year 2022-23 budget has been prepared for all funds. Funding sources are sufficient to support the preliminary spending plans presented and staff believes the two funds that do not currently have sufficient sources to support their preliminary spending plans will do so once fees are increased for the Childcare fund and cost saving measures or increased fees are experienced throughout the next fiscal year for the Parking fund.

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:

2. Adopt a resolution approving the Fiscal Year 2022-23 Operating Budget and Three-Year Capital Improvement Program, providing for the appropriations and expenditure of all sums set forth in the budget in the amount of \$166,109,509, authorizing an increase to city staff headcount, amending resolution 14954 regarding the compensation and working conditions for certain unrepresented executive management employees, and approving a one-time 5% increase to childcare fees.
3. Adopt the Resolution Approving Fiscal Year 2022-2023 Gann Appropriations Limit

ATTACHMENTS:

1. City Council Goals & Objectives Update
2. Resolution Approving the Citywide Budget and Capital Improvement Program for the Fiscal Year 2022-2023 and Providing for the Appropriations and Expenditure of All Sums Set Forth in the Budget, and Exhibits I, II, III, IV and V (Budget and Personnel Actions)
3. Capital Improvement Program: FY 2022-23 through 2024-25

- 4. Resolution Approving Fiscal Year 2022-2023 Gann Appropriations Limit, and Exhibits A and B