



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 2023-24, CAPITAL IMPROVEMENT PROGRAM, MEASURE A WORK PLAN, AND LEGAL SPENDING LIMIT

- SUBJECT:**
- 1. RESOLUTION APPROVING THE CITYWIDE BUDGET AND CAPITAL IMPROVEMENT PROGRAM FOR THE FISCAL YEAR 2023-24; PROVIDING FOR THE APPROPRIATIONS AND EXPENDITURE OF ALL SUMS SET FORTH IN THE BUDGET IN THE AMOUNT OF \$171,699,035**
 - 2. RESOLUTION APPROVING THE MEASURE A WORK PLAN FOR PROPOSED EXPENDITURE OF MEASURE A FUNDS FOR FY 2023-24**
 - 3. RESOLUTION APPROVING FISCAL YEAR 2023-24 GANN APPROPRIATIONS LIMIT AT \$179,385,992**
 - 4. RESOLUTION AMENDING RESOLUTION 14956 ESTABLISHING THE COMPENSATION FOR THE ELECTED CITY CLERK EFFECTIVE JULY 1, 2023**

RECOMMENDATION:

1. Adopt a resolution approving the Citywide Budget and Capital Improvement Program for the Fiscal Year 2023-24, providing for the appropriations and expenditure of all sums set forth in the budget in the amount of \$171,699,035.
2. Adopt a resolution approving the Measure A Work Plan for Fiscal Year 2023-24.
3. Adopt a resolution approving the Fiscal Year 2023-24 Gann Appropriations Limit.

FOR CITY CLERK ONLY

Council Meeting:

Disposition:

4. Adopt a resolution Amending Resolution No. 14956 establishing the Compensation for the elected City Clerk effective July 1, 2023.

SUMMARY:

This report presents the final proposed citywide budget for Fiscal Year (FY) 2023-24, beginning July 1, 2023, and ending June 30, 2024. This item is the culmination of a collaborative budget process that included considerable cross-departmental deliberations and discussions of the assumptions underlying the proposed budget. The process included a City Council study session on [May 8, 2023](#) to discuss the draft Goals and Objectives for FY 2023-24 and FY 2024-25. The Council members made recommendations to staff across various components of the report. At the [May 15, 2023](#) City Council meeting, the City Council accepted the updated Goals and Objectives report presented by staff.

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.

For the FY 2023-24 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 \$171,699,035 and are within the legal spending limit.

This report includes the three-year Capital Improvement Program (CIP) for FY 2023-24 through FY 2025-26 and Measure A Work Plan for approval. The CIP is formalized in a full, detailed report and incorporated into the proposed citywide budget for FY 2023-24.

This report also includes an overview of the calculated spending limit, known as the Gann 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 2022-23

General Fund

Revenues: The original FY 2022-23 budget, adopted on [June 21, 2022](#), projected \$95,870,730 in revenues. The City worked with two revenue consulting companies (HdL and Baker Tilly, formerly Management Partners) to project FY 2022-23 revenues. In spite of complex economic conditions and rising interest rates, revenues have outpaced projections. The mid-year budget review (updated budget) presented on [February 6, 2023](#), estimated an increase in revenues of \$1,500,000 for a projected balance of \$97,370,730 based on higher than anticipated sales and use tax receipts. Current revenues are projected to be \$97,684,030, which is \$313,300, or 0.3 percent above the updated budget, based on activity through April, which is the most up-to-date information available. While sales and use tax

increases did not materialize at the previously projected levels, property tax distributions and transient occupancy taxes outpaced projections and are expected to result in higher than projected total General Fund revenues.

Expenditures: As part of the approved FY 2022-23 budget, expenses were projected to be \$95,250,644. During the fiscal year, additional appropriations were approved by the Council totaling \$2,125,059 for support of additional capital projects and to ensure adequate funding for public safety overtime costs. Like many local government agencies, the City has experienced challenges with recruitment and retention since the COVID-19 pandemic. As a result, staff are projecting one-time salary savings of approximately \$4 to 5 million for FY 2022-23. The City also continues to experience and projects continued increases in workers’ compensation and liability costs, continuing the trend of declining total claims with rising severity on a per claim basis. As a result, staff have identified the need to transfer approximately \$3 million to the Liability and Workers’ Compensation Funds and approximately \$2 million to support immediate critical infrastructure needs. Staff plan to formally request the aforementioned adjustments be made to the FY 2022-23 budget along with other adjustments, if necessary, in Fall 2023 when the year-end update is presented to the City Council.

Operating results: The projected increase to General Fund revenues of \$313,300 and the transfers to internal service funds and core infrastructure projects change the estimated positive net result of \$1,765,099 to \$1,078,399 for FY 2022-23. With the replenishment of the Emergency Reserve Fund in the amount of \$322,570 (to maintain the 10 percent reserve level per City Council policy), net unassigned funds are forecasted to be \$755,829 at year-end. See Table 1 for additional details.

Table 1: FY 2022-23 General Fund Estimated Overview

General Fund	Adopted Budget FY 2022-23	Approved Changes	Current Budget	Projected Changes	Estimated Budget
Revenues	95,870,730	1,500,000	97,370,730	313,300	97,684,030
Transfers in	1,770,072		1,770,072	-	1,770,072
Total Resources	97,640,802	1,500,000	99,140,802	313,300	99,454,102
Expenditures	91,943,644	1,475,859	93,419,503	(4,000,000)	89,419,503
Operating Transfer out	3,307,000	649,200	3,956,200	-	3,956,200
Project Transfer out		-	-	5,000,000	5,000,000
Total Appropriations	95,250,644	2,125,059	97,375,703	1,000,000	98,375,703
Net Result	2,390,158	(625,059)	1,765,099	(686,700)	1,078,399
Allocations					
Use/(Source) of Emergency Reserves	(165,454)	(157,116)	(322,570)	-	(322,570)
Use of Prior Period funds	-	-	-	-	-
Unassigned Funds Available	2,224,704	(782,175)	1,442,529	(686,700)	755,829

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 2023.

GOALS AND OBJECTIVES

The City Council regularly establishes a set of goals, objectives, and key implementation tasks (Goals and Objectives) that guide decision-making. The City created four Policy Focus Areas to highlight

overarching policy priorities while retaining five City Service Areas to highlight operational efforts that are of particular focus. The four Policy Focus areas and five City Service Areas are listed below:

Policy Focus Areas

- **Economic Growth:** Building our economy to be stronger and more resilient.
- **Housing & Homelessness:** Creating new housing, keeping people in their homes, and using a “Housing First” model.
- **Diversity, Equity, Inclusion & Belonging (DEIB):** Working to create equitable outcomes for all, while addressing systemic racial injustices.
- **Sustainability, Climate Change & Disaster Preparedness:** 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 which 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 staff report presented to the City Council on [May 15, 2023](#).

PROPOSED FISCAL YEAR 2023-24 CITYWIDE BUDGET

HIGHLIGHTS

- ❖ **Citywide Budget:** The total proposed FY 2023-24 expenditure budget for the City is \$171,699,035 (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 2023-24 revenue and other sources projected at 145,551,239, as well as by fund balances retained from previous periods for capital projects.
- ❖ **General Fund Budget:** The proposed General Fund expenditure budget comprises \$100,041,140 for operations, an increase of approximately \$2.7 million over the prior year’s projected budget, supported by revenues, transfers in, and available fund balance.
- ❖ **State Budget Impacts:** On May 12, 2023, Governor Gavin Newsom released the May Revision to the FY 2023-24 state budget, totaling approximately \$306.5 billion in spending. The May Revision projects a \$31.5 billion deficit, contrasting against a projected \$97 billion surplus during

the May Revision of the FY 2022-23 budget. The revision assumes continued but slowing economic growth and does not include withdrawals from the state's reserve funds.

While the Governor's proposal does not include major cuts in existing appropriations to cities, the revised budget does not include significant funding for core initiatives like housing and homelessness. As a result, staff expect less funding support from the state during the next fiscal year than in the prior two fiscal years. Due to the postponement of the 2022 tax filing deadline to October, staff expect further revisions to the state budget in the coming months. City staff will seek opportunities to pursue additional assistance and available funding.

- ❖ **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 received a total of \$16,088,886, all of which met the eligibility requirements under the revenue loss provision. The funds were designated to support the City's policy focus areas of Economic Recovery, Housing & Homelessness, Racial Equity and Sustainability, Climate Change & Disasters as well as infrastructure projects. As of May 2023, the City has utilized or encumbered approximately \$10.4 million (65 percent) of these monies for support of housing and homelessness programs, racial equity initiatives, economic development, the Pickleweed Park renovation, and the San Quentin Pump Station. Staff will continue to identify opportunities for utilizing the remaining funds for the City Council's consideration.

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 2023-24 total approximately \$100 million. These appropriations comprise \$96.7 million of operating expenditures, \$2.2 million of transfers to community services in support of the Recreation Fund, and \$1.1 million to the building maintenance and workers compensation internal service funds.

The appropriations are supported by \$98.1 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; \$680,313 from the Employee Retirement Fund for debt service on the outstanding pension obligation bonds; and \$497,148 from the Parking Services Enterprise Fund for administrative support.

Table 2 summarizes the information provided in Exhibit II and presents the proposed FY 2023-24 budget with a comparison to the projected FY 2022-23 budget. The table presents the year-over-year change in revenues and expenses, as these are key performance metrics.

Revenues available for operations are projected to be \$818,869 higher than those of the FY 2022-23 year, an increase of 0.8 percent. This is mainly due to conservative projected growth in major revenue items such as property tax and transient occupancy tax, and a small projected decrease in sales and use taxes.

Expenditures are projected to increase by \$2.7 million, or 2.7 percent over those of the FY 2022-23 budget. Increases to the FY 2023-24 expense budget include approximately \$1.2 million in personnel expenses related to negotiated pay increases and \$1.2 million in non-personnel expenses related to

inflation and increasing contractual costs. There is also a budgeted increase of \$137,700 in one-time start-up costs and \$130,000 in ongoing annual costs due to the change in the fire dispatch contract, offset by a decrease in transfers to several internal service funds that were deemed fully funded for their intended purposes.

Table 2: Comparison of FY 2022-23 Projected Year End and FY 2023-24 Budget

General Fund	Adjusted Budget FY 2022-23	Proposed Budget FY 2023-24	\$ Change from previous year	% Change from previous year
Revenues	\$ 97,370,730	\$ 98,189,599	\$ 818,869	0.8%
Transfers in	1,770,072	1,827,461		
Total Resources	\$ 99,140,802	\$ 100,017,060	\$ 876,258	0.9%
Expenditures	\$ 93,419,503	\$ 96,734,140	\$ 3,314,637	3.5%
Transfers out – operating	3,956,200	3,307,000		
Total Operating Uses	\$ 97,375,703	\$ 100,041,140	\$ 2,665,437	2.7%
Net Results before Allocations	\$ 1,765,099	\$ (24,080)		
(Source) / Use of reserved funds				
Emergency reserve	(322,570)	(266,544)		
Use of prior period funds		290,624		
Total Results	\$ 1,442,529	\$ 0		

Revenue Trends and Assumptions:

Sales and Transaction & Use Tax:

The economy is in an uncertain period, with high interest rates and high (but declining) inflation coupled with low unemployment and a strong labor market. The economy is cooling from the high inflation and economic activity seen in the immediate post-COVID period, and some economists expect a recession in the next 18 months. Sales and use taxes are projected to remain mostly stable with a small decrease during the fiscal year. Areas of Auto & Transportation are expected to decrease in FY 2023-24 by 3.3 percent due to supply chain disruptions and high costs to lease vehicles, while Building and Construction areas are projected to stagnate at 0.7 percent. Meanwhile, Restaurants and Hotels are expected to continue their recovery with a 3.6 percent growth estimate for next fiscal year.

With the assistance of HdL Companies, the City’s sales tax consultant, staff are projecting recurring sales tax revenues to decrease from \$26.6 million as currently projected in the FY 2022-23 budget, to \$25.4 million in FY 2023-24, a decrease of approximately 4 percent. Sales taxes account for approximately 25 percent 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 decrease from \$14.7 million in the FY 2022-23 budget, to \$14.5 million in the proposed FY 2023-24 budget, a decrease of 1.4 percent. 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).

Measure E revenues account for about 14 percent of the City's General Fund revenues. Revenues from the Measure R Transactions & Use Tax are projected to generate \$4.8 million and represent about 4 percent of the City's General Fund revenues. Altogether, sales and use taxes comprise 45 percent of the City's General Fund revenues.

Property Tax:

Property taxes are currently projected to increase by 3 percent over projected FY 2022-23 results for a total of \$30.6 million. The increase is primarily due to a minor increase in excess Educational Revenue Augmentation Fund (ERAF) payments and growth of \$800 thousand in the overall property tax roll. Property taxes make up 30 percent 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 projected to show a modest increase of 2.8 percent when compared to the prior year's budget. This includes a projected decrease in Property Transfer Tax revenues due to slow real estate markets and high interest rates, which are offset by an increase in Transient Occupancy Tax revenues due to the continuing recovery of hotels after the pandemic. These revenues account for 25 percent of the City's General Fund revenues.

Expenditure Trends and Assumptions:

The expenditure growth incorporates inflationary increases and increases in personnel costs as the City increases compensation based on collective bargaining contract commitments. General Fund budgeted contributions to the Marin County Employees Retirement Association (MCERA) are projected to increase by \$483,956, or 2.7 percent, compared to the previous year. While the City's overall MCERA rates are decreasing due to continued strong asset gains during the actuary's measurement period, rates for public safety bargaining groups are increasing while non-safety units are decreasing. Due to the City's negotiated pay increases and to the relative balance of safety to non-safety employees in the City, the total impact is a slight increase overall. In FY 2022-23, the City Council approved a one-time transfer of \$1.1 million to the Employee Retirement Internal Service Fund to ensure continuity of programs over the long-term. Staff feel that the fund is adequately supported at this time and are not proposing an additional transfer for FY 2023-24. Pension expenses across all funds represent approximately 13.8 percent of total citywide expenditures, and approximately \$18.4 million, or 18.4 percent, of the \$100 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 2023-24 through FY 2025-26. 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 and existing planning documents to accommodate high priority

needs, which focused on life/safety, maintenance and repair, equity, 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 sidewalks.

Major projects/studies identified in the FY 2023-24 to FY 2025-26 CIP include:

- Canal Active Transportation Experience Improvements
- Lincoln Avenue Rehabilitation
- Fourth St/Second Street at Miracle Mile Improvements
- Southern Heights at Courtright Retaining Wall
- Storm Drainage Master Plan
- Building Maintenance Master Plan
- Marin Countywide Stormwater Pollution Prevention Program Trash Capture Design Projects
- Pump Station Generators (Portable)
- San Rafael Canal Crossing

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. This fund also includes revenue from the Refuse Regulatory Fee and Construction Impact Fee.

Fund #	Fund Name	Description
241	Measure A	Measure A is a nine-year ¼ percent Transactions and Use Tax managed by the County of Marin and re-approved by voters in June 2022. The tax is restricted to care for parks and open spaces. The Department of Library and Recreation prepared the Measure A work plan for FY 2023-24 based on the recommendations provided in the 2023 Citywide Parks and Recreation Master Plan and through consultation with the Parks and Recreation Commission.
246	Traffic Mitigation Fee	Traffic Mitigation Fees are 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.
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). Each of these funds has 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. After deducting the operating budget from the total available funding in Funds 206, 246, and 603, staff include a contingency of 15 percent of the remaining fund balance to provide a buffer for unanticipated expenses which may arise mid-year. The Stormwater Fund (205) does not include a contingency for FY 2023-24 as the estimated revenue for this fund is not sufficient to cover the actual project needs.

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 continue to actively pursue grant funding, congressional earmarks, and other infrastructure funding sources. Many of these funding sources require a local funding match.

The project funding tables in the CIP outline projects that would require grant funding to move forward. These are designated by “grant: unsecured” and the local match is listed in the associated fund category. If the City’s effort to obtain grant funding is unsuccessful, the available funding identified as the local match will be reevaluated during the next fiscal year as part of the CIP planning process to determine if the City should continue to seek grant funding for the specific projects or if the funding should be reallocated towards other projects in the same fund category.

Due to the substantial amount of infrastructure needs and changing variables, such as the potential need to provide matching funds for unsecured grants, staff do not currently have sufficient information to project funding for FY 2024-25 (Year 2) and FY 2025-26 (Year 3) in the Gas Tax Fund 206. Only funds that have been previously committed or earmarked have been included in the proposed CIP for FY 2023-24. City staff will re-evaluate the prioritization of projects in Fund 206 during the upcoming fiscal year to prepare for the next CIP update.

As a part of the annual CIP, the Department of Public Works also recaps major projects completed in the prior fiscal year, including but not limited to:

- FY 2021-22 and FY 2022-23 Slurry Seal
- Bungalow and Woodland Resurfacing
- Fire Station 54 & 55 Remodels
- Freitas Parkway Sidewalk Replacement
- Citywide Parks and Recreation Master Plan
- Spinnaker Point Drive Parking Modification
- Sun Valley Park Playground Improvements

Projects currently under construction or underway:

- San Quentin Pump Station Reconstruction
- Third Street Rehabilitation
- Third Street Safety Improvements
- B Street Culvert Replacement

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, in which in the last few years projects such as the construction of the new Public Safety Center and Fire Stations 52 and 57 were completed. These projects have been funded from the following sources: (1) direct use of designated Measure E general tax funds; (2) Lease Revenue Bonds, Series 2018, which is being repaid from designated Measure E general tax funds; and (3) allocations from the Paramedic Tax used to fund capital projects.

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). This fund has planned expenditures of \$9.7 million for the upcoming fiscal year, supported by \$8.9 million in revenues of which \$5.3 million, or 59 percent, 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. As of [April 17, 2023](#), tax rates have reached their tax ceiling for all participating areas impacted by the Paramedic Services Special Tax. Revenues are insufficient to cover the long-term operating costs of paramedic services, and staff plan to pursue grant funding and other new revenue sources to improve the fund's performance.

The EMS Fund is projected to retain \$492,373 in unallocated fund balance on June 30, 2024. 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. However, no transfers are expected to take place in FY 2023-24.

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 \$225,000 in cannabis business tax revenues for the FY 2023-24, of which the fund will incur \$180,245 in qualifying expenses. Revenues are projected to decrease from the prior year budget due to challenging market conditions for cannabis businesses and the temporary two-year decrease in the local cannabis tax rate for delivery retail permits from 4 percent to 2 percent enacted by the City Council on [November 7, 2022](#). The fund has historically carried a fund balance of prior year savings to allocate to new projects. On [January 17, 2023](#), the City

Council approved the use of cannabis tax revenues to support the pilot of the City's Specialized Assistance for Everyone (SAFE) team.

The Measure A Open Space Program was renewed by voters in June 2022. Funding for this program 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. A total of \$665,000 is being proposed to be expended during the year to fund project initiatives, which would include the following projects:

- \$130,000 to design new play areas at Peacock Gap Park. Construction would follow completion of the design process and would likely occur in FY 2024-25.
- \$150,000 to develop a new Master Plan for the Terra Linda Park and Community Center. This plan was identified through the Park and Recreation Master Plan as a high priority project due to the high volume of use at this park, the existing conditions of the facilities, and the expected future demand due to population increases in the next ten years.
- \$285,000 to improve the fencing at Albert Park Field.
- \$100,000 to fund the creation of a Trails Existing Condition & Feasibility Study as part of a proposed Open Space and Trails Master Plan.

The proposed expenditures are summarized in the attached Measure A Work Plan for July 1, 2023, through June 30, 2024. These projects are included in the FY 2023-24 Capital Improvement Program and the FY 2023-24 budget.

Measure D, the successor library parcel tax to Measure C, is entering its seventh year. This special revenue source has successfully expanded service levels relative to those established under Measure C (the 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 supplementary technology supplies. Capital reserves were established under Measure C (previous library parcel tax) for facility-related uses.

The Recreation and Childcare Funds anticipate spending plans of \$4.5 million and \$3.3 million, respectively. Revenue projections will depend on demand as programs slowly return to levels closer to pre-COVID activity. The Childcare Fund is operating at cost, meaning that revenues equal expenditures, due to both increasing program enrollment and fee increases approved by the City Council, most recently on [December 19, 2022](#).

Measure C, a historic wildfire prevention measure is entering its fourth 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 \$2 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. Appropriations for new CIP projects are not included in the budget until they are brought to the City 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 (Third/Lootens, Third /A, Third /C, Fifth/C parking structures) require significant structural repairs due to deferred maintenance.

The FY 2023-24 operating budget for this fund is \$5.0 million, inclusive of operating transfers, supported by \$4.6 million in revenues. The Parking Fund continues to endure the negative effects of the pandemic and changes in workforce patterns. In [December 2022](#), the City Council approved increases in some parking citation rates that have positively impacted the department's fiscal sustainability. For FY 2023-24, the Parking Fund is projected to incur a deficit of \$400,000. Staff are in the process of analyzing department operations and identifying ways to change parking operations to improve the sustainability of the Parking Fund. Staff 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 by 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 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, 2022, and approved by the MCERA Board in February 2023. This valuation was used to determine the contribution rates for FY 2023-24. The composite rate for the City of San Rafael will be 56.76 percent, a 2.15 percent decrease from the current rate of 58.91 percent. The budgeted pension contribution for FY 2023-24 provides full funding for the required contribution. The rate for public safety employees increased from 67.68 percent to 69.44 percent, an increase of 1.76 percent. The rate for miscellaneous employees decreased from

49.23 percent to 44.37 percent, a decrease of 4.86 percent. The valuation also reported an unfunded actuarial liability of \$108 million for the City, representing a funded ratio of 83.5 percent.

MCERA's investment target (discount rate) remained at 6.75 percent during the measurement period. The City has dedicated a portion of its employee retirement reserve to buffer the impact of any unexpected increases. This reserve, which is projected to total \$1.7 million at the end of FY 2023-24, 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 2023-24 provides full funding for the required contribution. The contribution is based on an investment target (discount rate) of 6.75 percent. The most recent actuarial valuation, as of June 30, 2022, 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 2023-24 is \$2.6 million.

General Fund Balance and Reserves

Under the proposed FY 2023-24 budget, all funds are projected to have a positive fund balance as of July 1, 2023, as well as of June 30, 2024. General Fund Emergency Reserves are projected to increase from \$9.7 million to \$10 million, or 10 percent of General Fund expenditures, maintaining the minimum target emergency reserve levels.

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 2023-24, the City is using a 6.02 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 0.92 percent – representing the change in population for San Rafael, which is higher than Marin County's figure of negative 1.06 percent for the period January 1, 2022 to January 1, 2023 (provided by the State of California Department of Finance).

Attachment 6, Exhibit A establishes the new Appropriations Limit for FY 2023-24, which has been calculated to be \$179,385,992. 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 2023-24 appropriations subject to the Gann Limit are \$102,494,532 (Attachment 6, Exhibit B). Therefore, the portion of the City's budget appropriation that is restricted by the Gann Limit is \$76,891,460 under the legal limit.

STAFFING

For the current fiscal year, all departments are focused on continuing to find 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. The City's current approved level of staffing

for FY 2022-23 of 424.76 is 4.5 percent below the peak of 445 FTE that was supported in FY 2007-08. The proposed budget for FY 2023-24 includes the same staffing level as the prior year of 424.76.

For FY 2023-24, staff are recommending staffing adjustments (see below) to ensure that staff can serve the community and achieve the City Council's goals and objectives. None of the proposed staffing changes add new headcount for the City of San Rafael. However, since the San Rafael Sanitation District Board approved an additional FTE position in their budget and the City includes SRSD's budget in our financial reporting, the City's FY 2023-24 budget reflects a proposed increase of one FTE to 425.76 to include the increase in SRSD's staffing.

Proposed Staff Changes:

- 1) The Community Development Department has experienced significant staff turnover, hiring more than half of their current staff over the past two years. In assessing their staffing needs, and to support succession planning in the Building Division, the department has determined that there is a need for a Deputy Building Official classification as a step between Building Inspector and the highly specialized Chief Building Official classification. This change will provide an internal promotional opportunity.
- 2) The Human Resources Department will experience a staffing change with the departure of the HR Operations Manager later this calendar year. In anticipation of this staffing change and in preparation of upcoming labor negotiations in 2024, the department proposes renaming the classification to Principal Human Resources Analyst. The position will have an increased focus on employee relations, labor relations and negotiations, performance management, and benefits administration.
- 3) The City Clerk's office consists of the Deputy City Clerk and the Elected City Clerk. The Elected City Clerk is a full-time position serving in the same capacity as all Executive Management staff. The current salary for the City Clerk position does not align with other department directors and, in a recent review, Bryce Consulting determined that the salary is significantly below market in relation to comparator agencies. Staff recommends that the City Clerk salary range be aligned with the compensation of the Executive Management group. Additionally, Bryce Consulting recently conducted a review and analysis of the Deputy City Clerk position which included areas such as decision-making responsibility and degree of independence, breadth and difficulty of the assigned function or program responsibility, level of supervision received, and types of contacts and interactions required for this single-position classification. Over the years, the duties and responsibilities for this position have evolved requiring an advanced level. Staff recommends the creation of a Deputy City Clerk I/II series, which will create an internal promotional opportunity. The SEIU bargaining unit has been notified of this intent to create the Deputy City Clerk I/II series and staff will meet all requirements of the Meyers-Milias Brown Act (MMBA) prior to implementing this change.
- 4) In addition, staff recommend that the budget resolution include an administrative cleanup item for the Unrepresented Executive Management and Mid-Management employees. Like the Temporary, Seasonal and Fixed Term employees, these groups of employees also serve in an at-will capacity. This cleanup language does not change the terms and conditions of their employment in any way. This action will simply clarify the current at-will employment status for these positions.

- 5) The San Rafael Sanitation District is currently supported by one full-time Administrative Analyst position, which is responsible for more technical and professional level duties and serves as the Clerk to the Board, and one temp/seasonal Administrative Assistant who performs general administrative work. Municipal Resource Group (MRG) conducted a review of the staffing needs for the division and, in collaboration with the District Manager, determined that having two full-time administrative staff members would provide consistency and the support required to maintain efficient and productive service to the public and staff, as well as ensure phone and over-the-counter coverage for the public and sewer spill calls. The Administrative Assistant classification currently exists within the SEIU bargaining group. The SRSD Board approved the funding for the additional position at their April 21, 2023 Board meeting and City staff recommends increasing the authorized budgeted positions for SRSD by 1.0 FTE.

The history and details for the 425.76 FTE/positions being proposed for FY 2023-24 are presented in Attachment 2, Exhibit III.

FISCAL IMPACT: The preliminary fiscal year 2023-24 budget has been prepared for all funds. Funding sources are sufficient to support the preliminary spending plans presented.

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 a resolution approving the Fiscal Year 2023-24 Operating Budget, providing for the appropriations and expenditure of all sums set forth in the budget in the amount of \$171,699,035.
2. Adopt a resolution approving the Measure A Work Plan for FY 2023-24.
3. Adopt the Resolution Approving Fiscal Year 2023-24 Gann Appropriations Limit.
4. Adopt a resolution Amending Resolution No. 14956 establishing the compensation for the elected City Clerk effective July 1, 2023.

ATTACHMENTS:

1. Resolution Approving the Citywide Budget for the Fiscal Year 2023-24 and Providing for the Appropriations and Expenditure of All Sums Set Forth in the Budget, and Exhibits I, II, and III
2. City Council Goals and Objectives for FY 2023-24 and FY 2024-25
3. Capital Improvement Program: FY 2023-24 through 2025-26
4. Resolution Approving the Measure A Work Plan for Proposed Expenditure of Measure A Funds for FY 2023-24
5. Measure A Work Plan for Fiscal Year 2023-24

6. Resolution Approving Fiscal Year 2023-24 Gann Appropriations Limit, and Exhibits A and B
7. Resolution Amending Resolution No. 14956 establishing the Compensation for the elected City Clerk effective July 1, 2023
8. Correspondence