

**Financial Advisory Committee**  
Regular Meeting – April 27, 2021

**Attendance:**

Marie Chuang, Council Member and Commissioner	Jan Cooke, Finance Director
David Brooks, Chair	Ann Ritzma, City Manager
Jeffrey Baxter, Member	Al Royse, Mayor
Joel Friedman, Member	Rich Santiago, Assistant Finance Director
Michele Gutierrez, Member	Paul Willis, Public Works Director
Richard Kuersteiner, Member	Doug Davis, Police Chief
Tom Maloney, Member	Bruce Barron, CCFD Chief
Paul Regan, Commissioner Emeritus	Sarah Fleming, Building & Planning Director
	Liz Ruess, Planning Manager
	Gigi Ng, Budget Analyst

David Brooks called the meeting to order at 8:02 a.m.

Mr. Brooks called the meeting to order virtually, using Zoom. He stated that Financial Advisory Committee (FAC) members and staff were participating from remote locations to continue proper social distancing during the COVID-19 shelter-in-place order. Mr. Brooks also informed the committee that every action by the FAC requires a roll call vote.

**Item IV MINUTES: Approval of Minutes for February 25, 2021 meeting**

Minutes were approved by roll call vote with no modification. FAC member Richard Kuersteiner gave a motion to approve the minutes and the motion was seconded by FAC member Joel Friedman. FAC Member Jeff Baxter arrived in the zoom meeting at 8:35am so was not present for the roll call vote for minutes. FAC Member Tom Maloney requested an update on the City Council's feedback to the FAC recommendation to City Council from the February 25<sup>th</sup> meeting regarding the pace of the sewer pipe replacement plan. Finance Director Jan Cooke responded, stating that City Council approved the proposed rate study and that there would be a follow up memo to the FAC on the Town's approach to sewer capital program prioritization and the pace in which the pipe replacement is completed.

**Item VII NEW BUSINESS: FY 2021-2022 Proposed Budget and Fees**

Proposed Budget

Finance Director Jan Cooke presented the Town of Hillsborough's Proposed FY 2021-22 Budget. Ms. Cooke began with an executive summary of the proposed budget, highlighting a healthy financial position as the Town weathered the economic uncertainty due to the COVID-19 impacts. The Town does not rely on sales or transient occupancy tax compared to other cities, and the FY 2020-21 net revenues are projected to exceed the adopted budget. Ms. Cooke also stated that the Town's General Fund reserves are maintained at policy level for any contingencies. The Town has benefitted from a quick recovery of permitting and investment income, property tax remains strong as the main revenue sources for the Town, and there was also additional revenue received in the form of one-time CARES Act monies due to the pandemic. There will also be future relief monies as the Town is projected to receive \$2.1 million from the American Rescue Act distribution, which currently is not part of the FY 2021-22 proposed budget. The FAC asked when the American Rescue Act distribution would be received. Ms. Cooke replied that it has not been set and there is still a lot of details yet to be released but the Town should be receiving the monies in the next three to six months, and the spending needs to occur by December 2024. One revenue in a downward trend for Hillsborough is Property Tax In Lieu of Motor Vehicle License Fees. This is due to more school districts within San Mateo County shifting from non-basic aid to basic aid, resulting in less monies available from the Education Revenue Augmentation Fund (ERAF) in which the VLF is paid from. The revised FY 2020-21 budget and proposed FY 2021-22 budget for VLF have both been reduced for conservatism. Ms. Cooke stated that San Mateo County is filing for a reimbursement of the VLF shortfall with the State that could come in future years, as well as requesting (along with Napa County) a State legislative option to permanently backfill this shortfall going forward. Overall, the

revised FY 2020-21 budget is projected to be better than the original budget by adding \$0.1 million to reserves. The original adopted budget for FY 2020-21 had a net draw of reserves of \$0.5 million.

Ms. Cooke also presented the status of items being tracked on the COVID-19 dashboard. The Town tracks and reports items that may have a financial impact due to economic conditions caused by COVID-19. The “yellow” status items that the Town will continue to monitor are the investment earnings, CalPERS pension liability and overall economic recovery. CalPERS did not meet their targeted investment return last year, which could result in the CalPERS’ board lowering the discount rate going forward which would increase the Town’s annual contributions and pension liability. The Town established a Section 115 Trust two years ago to offset future budget impacts. Ms. Cooke stated that in addition to the items on the COVID-19 dashboard, the Town is monitoring the potential of a water drought in 2021. The Town actively reviews State and local drought conditions and legislation. In anticipation of the potential for water revenue shortfalls caused by drought, the City Council adopted rate stabilization factors, increased fixed charges, and a revenue stabilization reserve in the current five-year water rate series. City Manager Ann Ritzma stated that the Town is part of the Hetch Hetchy water system and there is adequate water for the year, and that there will be a 10% voluntary water use reduction since there is no state mandate.

Ms. Cooke showed the FY 2021-22 Proposed Budget set at \$65 million, which represents a 2% (or \$1.5 million) increase from the prior year. The General Fund shows a 1.3% increase in revenue and a 6% increase in expenditures, which results in \$0.7 million drawdown on reserves. The majority of this draw down is due to capital funding and one-time projects. The Town’s General fund is projected to end with \$28.2 million in reserves. The projected \$2.1 million American Rescue Act revenue is not included in the budget. Ms. Cooke concluded that the proposed budget complies with polices and debt requirements.

The proposed budget was developed in a conservative manner along with the Town goals in mind, which began with staff and City Council public meetings that started in early January. City Council reviewed and prioritized the Town goals. Ms. Ritzma reviewed the list of FY 2021-22 Town priorities in conjunction with the proposed budget. The priorities are separated into five sections, which are Community and Customer Service, Financial Stability, Land Use Planning, Community Partnerships and Regional Partnerships. To achieve these priorities, there are a few one-time costs incorporated in the proposed budget. Some of the items Ms. Ritzma mentioned in the Community and Customer service priorities are Town website transparency, implementing the new agenda management and records retention systems, tracking, and implementing new legislative requirements, establishing the leaf blower ordinance, and preparing for the post-pandemic re-opening plan. Financial Stability priorities include developing a long-term plan for storm drain capital funding and funding for a new police facility, conducting rate studies for solid waste, sewer, and water, implementing a new financial system, and evaluating the interest rate swap alternatives tied to the sunset of LIBOR. Land Use Planning priorities include a major community engagement process for the Housing Element and General Plan Update, as well as developing a policy to address the State mandated housing requirements, implementing new permit tracking software, developing plans for the Baywood property donation, and partnering with Hillsborough Beautification Foundation (HBF) on the upcoming Eucalyptus Pathway project. City Council will continue active participation with the Community Partnerships, such as Firewise, Hillsborough Neighborhood Network (HNN), HBF, Hillsborough Recreation, Village of San Mateo County and continue public safety services. City Council will also continue active participation with the Regional Partners including Peninsula Clean Energy, BAWSCA, RECAPS, NPDES Airport Community Roundtable, Council of Cities, PLAN JPA and SBWMA JPA. The Town will also work with neighboring cities for the High Line Water Project, which will change the water supply source to be along Skyline instead of pumping it up to the top of Hillsborough (from El Camino). The Town filed a request to have funding from the American Rescue Act process for the High Line Project and is awaiting review. The FAC asked if the Town does not get funding would the Town still proceed with the project. Public Works Director Paul Willis informed the FAC the Town would still move forward with the project but need to determine a funding source with the City of Burlingame and City of Millbrae. The project is targeting to begin in two years after environmental work and documents are completed.

Ms. Cooke presented the funding sources of the Town for FY 2021-22, where the majority comes from the enterprise funds (water and sewer rates) and property taxes. For property taxes, the assessed valuation growth is at 4.3%, and the Town has budgeted construction permitting revenue to be flat with the current fiscal year. Prior year reserves of \$1.8 million are used as a funding source, primarily due to timing of capital project spending. Most of the \$65 million proposed budget expenditures are in the Water and Sewer Funds, as well as public safety, which includes a 5.1 % increase in contribution to the Central County Fire department (CCFD). The General Fund revenue is projected to increase by 1% over prior fiscal year, primarily from property tax growth. Overall General Fund spending increases 6% (or \$1.7 million) for one-time costs for projects tied to Town goals, as well as salary increases of 3% for cost of living and a 7% increase for CalPERS contributions. No new headcount is requested in the proposed budget. The proposed General Fund budget shows a positive net revenue from operations and funds capital transfers resulting in a net deficit of \$0.7 million for FY 2021-22 as a draw on reserves. The Capital Fund spending shows a \$4.5 million decrease over prior year due to timing of the street resurfacing project that was

awarded in FY 2020-21. The Water Fund revenue is budget reflects a 3% increase in water rates that would go into effect in January 2022 and the SFPUC cost per unit of wholesale water rate remains flat with no purchase rate increase. The Sewer Fund includes a 4% sewer charge increase which is part of the new five-year rate study that the Town is in the process of approval for July 2021. Overall spending for Sewer increases \$3.6 million over the prior fiscal year, primarily for timing of capital spending as well as the Town's share of the San Mateo Clean Water treatment plant, reflecting a \$2.4 million increase. Ms. Cooke concluded the proposed budget includes \$2.1 million of one-time costs in connection with City Council goals.

The FAC did asked whether the Town's allocation factor used to calculate the Town's contribution portion to the Central County Fire Department JPA had been reviewed recently due to Burlingame and Millbrae growing in commercial activity in contrast to no growth in Hillsborough. The FAC want to make sure the Town is paying only for its proportional share. Ms. Cooke stated that the cities share in net revenue growth that CCFD generates related to permitting and planning review for Millbrae and Burlingame and those cities share in the Town's Wildland Urban Interface program. An FAC member recalled that the original allocation method used included such measures as each City's FTE count and service call activity in Hillsborough and Burlingame, which became 60% and 40% (which is Hillsborough's current share). Ms. Cooke indicated that CCFD will be doing a Standard of Cover study and the allocations can be reviewed with that study.

Ms. Cooke presented the FY 2021-2 capital spending plan, including \$11.4 million in infrastructure and facilities capital improvements. The capital budget includes \$1.6 million in asset replacement, covering \$1.0 million in vehicles and \$0.6 million in IT software and equipment. Total capital project spending for FY 2021-22 is \$13.0 million. The FAC asked if any of the vehicles are set to be replaced will be electric. Police Chief Doug Davis responded that there is nothing set but Police can explore purchasing an electric vehicle for unmarked cars. The marked, or patrol police vehicles, using State guidelines for make and model of these cars. If the State requirements change to electric for patrol units, the Town would explore that option. Mr. Willis also added that the Public Works department will look to start purchasing electric vehicles to replace existing trucks, however, there is a six-month delay in manufacturing. In the next few fiscal years, the plan is to convert the maintenance vehicles to electric when vehicles are up for replacement.

The long-range projections for the Enterprise Funds include a new five-year rate series for the Sewer Fund. This assumes a 4% increase for the Sewer rates and any storm drain improvements will be funded by a transfer from the General Fund. Ms. Cooke also presented the five-year Sewer capital improvement plan, totaling \$27 million, along with the new contribution costs for the San Mateo Clean Water program. The Sewer reserves are in line with the rate study projection while meeting the Town's bond covenants. The Water Fund proposed budget projects a net revenue under expenditures due to timing of the CIP cycle as prior year reserves were built into the assumption. The Water capital five-year spending totals \$20 million. Long-term the funding source for the High Line project is to be determined. Mr. Willis stated he applied for federal funding and depending on other applicants and amount available, staff will update FAC in the future when it is determined how much of the project will be federally funded.

Ms. Ritzma presented the American Rescue Plan program and indicated that the Town projected to receive \$2.1 million within the next three to six months. These monies are designed to help communities recoup costs related to COVID-19 and improve resiliency for future disasters. The American Rescue Plan monies must be spent by December 2024 and expenditures will need to comply with approved guidelines. Ms. Ritzma stated that the Town is still waiting for the federal guidelines on the funds, but staff will be conducting advanced planning with City Council to determined potential uses for projects. The key sections identified for potential use are Police facility and Town Hall replacement, council chambers technology improvements, project management for upcoming key projects, technical support for software upgrades, sustainability projects and supporting fire services. The FAC asked if the American Rescue Plan funding would offset any of the planned budgeted spending and Ms. Ritzma confirmed that it would. The American Rescue Plan is not part of the budget but when received, this would relieve the General Fund reserve spending. Due to the timing of the guidelines being confirmed, it is most likely that the Town would incorporate the American Rescue Plan monies in a mid-year budget adjustment.

Ms. Cooke concluded the proposed budget item, showing that the Government Finance Officers Association (GFOA) came out with new budget book requirements and Town has incorporated some in this proposed FY 2021-22. Staff will continue to implement more requirements in the next budget book as well. The Town received the FY 2020-21 GFOA Distinguished Budget Award and anticipates receiving it again for the proposed FY 2021-22 budget. The FAC concluded that it was a well organized and conservative budget. Mr. Brooks then asked for a motion to approve the Proposed FY 2021-22 Budget. FAC member Richard Kuersteiner gave a motion to approve the item and the motion was seconded by FAC member Joel Friedman.

### Proposed Fees and Charges

Assistant Finance Director, Rich Santiago, presented the Proposed Fees and Charges for FY 2021-22. The residential sewer rates reflect a 4% increase, based on new five-year rate study that is under review for approval and would take effect July 2021. Non-residential rates are calculated based on a formula using a three-year average of winter water use for non-residential customer. Any variance up or down is due to actual water usage during hours of operation. Water and sewer connection fees reflect a 2.7% increase, per the Engineering News Record Construction Cost Index, provided by the Public Works department. Mr. Santiago also presented the complete master fee schedule, that was last fully updated in FY 2018-19. FY 2021-22 includes two new proposed fees from the Planning Department: (1) Pre-application Review Process and (2) Accessory Dwelling Unit Exception. There are twelve deleted fees that have been removed as they are incorporated in another fee. The rest of the existing fees have been changed to achieve full cost recovery with updated labor rates, labor hours, staffing involved and any consultant costs.

An FAC member asked why the new sewer rate for the Burlingame Country Club increased and Mr. Santiago replied that this was due to existing projects that are still in construction. The Burlingame Country Club is constructing a new golf pro shop and an accessory building which increased their indoor water use during the past winter months. Mr. Brooks asked for a motion to approve the Proposed FY 2021-22 Fees and Charges. FAC member Jeff Baxter gave a motion to approve the items and the motion was seconded by FAC member Tom Maloney.

### **Recommendation:**

1. The FAC recommends the City Council approve the Proposed FY 2021-2022 Budget Resolution.
2. The FAC recommends the City Council approve the Proposed FY 2021-2022 Fees and Charges.

Meeting adjourned at 10:07 am.