

# **2022 City Council Candidate Briefing**

## **FINANCE DEPARTMENT OVERVIEW**

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### **BACKGROUND**

The Finance Department (Finance) manages all financial affairs of the City. Many of the duties of Finance are performed on an annual cycle (fiscal year) that runs from July 1 through June 30. Governments use fund accounting to ensure and demonstrate compliance with finance-related legal and accounting requirements. The City's 13 governmental funds include the General Fund, which is the City's general operating fund. In addition, the City's business-type activities (largely utilities) are accounted for in six separate funds, and various Internal Service Funds are used to track and allocate the costs of certain Citywide services (such as insurance and maintenance programs) to all departments on a cost-reimbursement basis.

**Budget:** Preparation of each fiscal year's budget is coordinated with all departments, with additional oversight by the City Manager. Monitoring and revision of the annual budgets is a year-round responsibility of all departments. Finance assists with monthly financial reports and analysis based on departmental needs. Based on the City Council's goals and priorities established early in the calendar year, departments submit their budget requests in March. The requests are reviewed by Finance for technical compliance and compiled for further analysis and adjustment. Competing priorities and organizational capacity shape the City Manager's final budget proposal. The budget process culminates with public hearings in May and the Council's budget adoption in June.

Along with each fiscal year's budget, Finance produces a long-term forecast of the General Fund, including the ensuing fiscal year and the succeeding five years. The forecast is designed to give clarity regarding potential and future revenue and expenditure scenarios, providing additional context for the financial decisions made by the City Council. Revenue assumptions are based upon historical collections and recent revenue trends. Expenditure assumptions are based upon known factors, such as pay and benefit policies, consumer price indices, and other economic information available from third-party experts or governing authorities.

**Financial Reporting:** In addition to providing periodic financial reports for specific purposes, Finance is responsible for procuring an external audit of the City's books and producing a *Comprehensive Annual Financial Report (CAFR)* that includes all funds of the City. After the close of each fiscal year, proper accruals and adjustments are made in order to compile the report in conformity with accounting principles and requirements of the Governmental Accounting Standards Board. The books are audited in October, and the CAFR is ready for publication near the end of each calendar year. Finance

simultaneously prepares the State Controller's Annual Report, Compensation Report, and Street Report for the fiscal year. Any Single Audit/federal Office of Management and Budget audits required for specific grant funds during the year are also performed during this same time frame.

**Information Technology:** The City has contracted with the City of Redwood City for information technology (IT) services since July 1, 1998. After a seven-month RFP process, the Council awarded a three-year contract, with an option to extend, to Eaton and Associates at a May 2022 meeting. Eaton and Associates began working for the City in June 2022. Finance manages the contract for IT services, maintains the IT network for all departments and programs, maintains technology disaster recovery and telecommunications systems, and ensures connectivity to the Internet and intranet. Finance is also responsible for overseeing the development of City-wide, long-term technology plans and strategies.

**Treasury:** The Finance Director serves as the City Treasurer. Finance is responsible for the collection and safekeeping of all funds and the investment of idle cash. This requires compliance with all laws governing the depositing and securing of public funds, monitoring of cash flow, maintenance of banking and custodial contracts, and an annual update of the City's investment policy. Safety, liquidity, and yield (in that order) are always considered in the investment of idle funds. Investment of the City's portfolio requires consultation with the City's investment advisors as well as keeping abreast of changes in the municipal market, general economy, and the federal monetary position. The portfolio is monitored closely, with a quarterly investment report provided to the City Council regarding investment activities and the status of the City's portfolio.

**Debt Management:** Finance staff works with other departments in the long-term planning of capital improvement projects or working capital programs that must rely on bond issuance or other types of financing. The tax-exempt status of municipal issuers distinguishes cities from other issuers of debt, and the City's financing team must include bond counsel, financial advisors, and underwriters that are experienced in the municipal market. After such financing is complete, the Finance Department is responsible for tracking, investing, and administering the expenditure of proceeds and collection of related revenues, payment of related expenses, and debt service. In addition, the Department is responsible for monitoring adherence to covenants, filing of reports, and proper disclosures associated with the type of debt issued. Finally, all inquiries from various governmental regulators, investors, or credit rating agencies are directed to Finance.

**Other Responsibilities:** In addition to the major roles detailed above, Finance is also responsible for the following:

- Fiscal stewardship and policy
- Tax and revenue collection
- Water and wastewater billing and collection
- Business license administration
- Payroll
- Disbursements
- Reception and customer service
- Intra-City mailroom service

Finance also provides administrative support to three of the City's business organizations: the Downtown Burlingame Business Improvement District, the Broadway Burlingame Business Improvement District, and the San Mateo County/Silicon Valley Convention and Visitors Bureau.

The Finance Director provides technical support to the City's representative on the South Bayside Waste Management Authority (for solid waste services) and represents the City on the San Mateo County Telecommunications Authority.

### **MAJOR DEPARTMENT INITIATIVES**

**New Financial System** – In 2018, the City contracted with Tyler Technologies for its Munis® Enterprise Resource Planning (ERP) solution, for a more robust and modern financial system in order to increase efficiency and update existing processes; focus on improving the timeliness, accuracy, and consistency of financial information; and improve Citywide internal operations. The implementation of each set of modules follows six phases: infrastructure planning, data conversion, mapping and validation, testing, training, and production cutover.

After implementing the major financial modules of the Munis® ERP solution in fiscal year 2019-20, the Human Capital Management modules, Phase II of the ERP project, went live in September 2020, allowing for payroll processing to be fully integrated with the Munis® Accounting modules. The City completed Phase III, the Utility Billing System modules, in January 2022. The interface allows for the timely creation of work requests and subsequent updates to the City's customer account database. Finance also assists the Public Works Department with analysis and projections of future revenue needs, which are required to establish appropriate rates for water and sewer utilities.

**Finance Department Reorganization** – During fiscal year 2021-22, the Finance staff proposed a reorganization of the department to provide the resources needed to effectively and efficiently supervise existing staff; provide growth and employee retention opportunities within the department; provide for long-term service level sustainability; and provide continuing support to the new ERP system.

**Funding the Rising Cost of Pension and Retiree Medical Benefits** – In anticipation of rapidly rising employer contribution rates, the City established an account with Public Agency Retirement Services (PARS) to participate in their Pension Rate Stabilization Program, a §115 Trust, in October 2017. The City Council approved the initial contribution amount of \$3.7 million needed from all operating funds for the higher pension funding rate as part of the 2017-18 fiscal year budget adoption. Since then, the City has made an effort to continue the trust contribution each year. As of March 31, 2022, the City's trust account with PARS has a balance of \$20 million.

Participation in the pension trust enables the City to provide additional funding for the City's pension liabilities, optimizing the interest earnings of the fund while still allowing flexibility of the timing and sources to be used to fund the trust. As of June 30, 2021, the citywide net pension liability was \$76.3 million for both safety and miscellaneous (or non-safety) plans. Funds placed in an irrevocable pension supplemental §115 trust are restricted in use solely for pension obligations. Finance will continue to monitor the City's fiscal activities to determine if funding can be accelerated by additional contributions to the §115 Trust or directly to CalPERS.

In 2013, the City established an irrevocable trust to fund retiree medical benefits to systematically support the financial liability associated with the City's Retiree Health Benefits Plan. Periodic contributions to the trust account have since been charged to the City's various funds, departments, and programs through an Internal Service Fund. As of March 31, 2022, the cash balance in the City's account within the trust was \$30.5 million. The retiree medical defined benefits program has been closed to new employees since 2012; employees now receive an employer contribution to the individual's post-employment Health Reimbursement Arrangement (HRA) account. The City's net liability for retiree medical benefits as of June 30, 2021, is approximately \$23.1 million.

**Financing of Unfunded Infrastructure Needs** – To assist in budget preparation, Finance staff facilitates the City Council's prioritization of unfunded needs by analyzing capital projects and unfunded liabilities. Finance provides the City Council with information about the funding options available to municipalities, including a comparison of the benefits and limitations of each. An analysis of available resources is prepared with

each fiscal year's budget and again with a mid-year assessment. The City's risk-based General Fund Reserve Policy provides guidance as to the availability of funds for operations and service delivery by ensuring that reserves are adequate as a hedge for unexpected losses (from natural disasters and economic downturns). Once the General Fund reserve targets are met, the City Council is able to consider unfunded needs.

The Capital Investment Reserve Policy assists the Council in prudently funding long-term projects that address the City's future capital needs. For example, funding for the construction of the new Community Center was provided in part by a lease revenue bond issuance in 2019. The \$31.4 million issuance will be paid off by July 1, 2049, with \$1 million committed annually from the General Fund and an additional \$1 million annually from Measure I (quarter-cent sales tax) funding. As the total project costs exceeded \$50 million, the City also relied on other sources of revenue and draws on its Capital Investment Reserve.

Finance continues to work with its financial advisor to determine which financing strategies are optimal for each of the City's unfunded needs, to provide funding for established priorities and maximize opportunities for leveraging City funds with other revenue sources as they arise.

### **FURTHER INFORMATION**

For further information regarding Finance Department programs and projects, please contact Helen Yu-Scott, Finance Director and Treasurer, at 650-558-7210 or [hyscott@burlingame.org](mailto:hyscott@burlingame.org).