"The City With a Heart"

Rico E. Medina, Mayor
Sandy Alvarez, Vice Mayor
Tom Hamilton, Councilmember, District 2
Michael Salazar, Councilmember, District 3
Marty Medina, Councilmember, District 4

AGENDA
SAN BRUNO CITY COUNCIL SPECIAL MEETING
April 28, 2026
5:30 PM

IN PERSON* MEETING LOCATION	**Zoom Link
San Bruno Recreation and Aquatic Center, Community Room 251 City Park Way San Bruno, CA 94066 *Please turn off all electronic devices before the start of the meeting to prevent disruptions*	https://sanbruno-ca-gov.zoom.us/j/82680057870?pwd=R6vqbphzkEs0pv7ySg0q8MlJkCbQPo.1 **Phone Line:** 1-646-558-8656 **Webinar ID:** 826 8005 7870 **Webinar Password:** 102018 *Broadcast of the meeting is offered via Zoom as a courtesy to the public. **No public comment accepted via Zoom.

PUBLIC COMMENT: In person attendees who want to provide public comment, will be asked to fill out a speaker card and turn it into the City Clerk. Public comment may also be emailed to CityClerk@sanbruno.ca.gov. Comments received via email will not be read aloud during the meeting.

ACCESSIBILITY: In compliance with the Americans with Disabilities Act, individuals requiring special accommodations or modifications to participate in this meeting should contact the City Clerk's Office 48 hours prior to the meeting at (650) 616-7061 or CityClerk@sanbruno.ca.gov.

*Any disclosable public writings related to an open session item on a regular meeting agenda and distributed by the City to at least a majority of the City Council less than 72 hours prior to that meeting are available for public inspection at the City Clerk's Office at City Hall located at 567 El Camino Real, San Bruno, California during normal business hours. In addition, the City may also post such documents on the City's Website at sanbruno.ca.gov/AgendaCenter.

1. CALL TO ORDER

2. ROLL CALL

3. CLOSED SESSION

Public comment will be requested after each topic in this section

a. CONFERENCE WITH LABOR NEGOTIATORS
Agency designated representatives: City Manager
Employee Organizations: Teamsters Local 856, IBT Police; Teamsters Local 856, IBT Public Safety Mid-Management

b. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Pursuant to Government Code Section 54956.9(d)(1)
Name of Case: In Re: National Prescription Opiate Litigation

c. CONFERENCE WITH LEGAL COUNSEL – Existing Litigation
(paragraph (1) of subdivision (d) of Section 54956.9)
Name of Case: City of San Bruno and Walmart.com USA, LLC, v California Department of Tax and Fee Administration (San Mateo County Superior Court Case No. 23CIV05021)

4. **STUDY SESSION**
Public comment will be requested after each topic in this section

a. Receive the Fiscal Year 2026-27 Budget Preview and Forecast

5. **ADJOURNMENT –** The next Regular City Council Meeting will be held on April 28, 2026 at 7:00 pm.

POSTING: I declare a copy of this agenda was posted at City Hall, 567 El Camino Real, San Bruno, among other locations in the city limits of San Bruno, on April 23, 2026, by 8:00 pm.

Lupita Huerta, City Clerk

City Council Agenda Item
Staff Report

CITY OF SAN BRUNO

DATE: April 28, 2026

TO: Honorable Mayor and Members of the City Council

FROM: Alex D. McIntyre, City Manager

PREPARED BY: Nick Pegueros, Administrative Services Director & CFO

SUBJECT: Receive the Fiscal Year 2026-27 Budget Preview and Forecast

BACKGROUND:

The City is required to adopt a spending plan for the fiscal year beginning July 1, 2026, no later than June 30, 2026. According to San Bruno Municipal Code Section 2.12.060, the City Manager is responsible for preparing a recommended budget for City Council consideration, ensuring that the process follows legal guidelines and provides a foundation for financial decision-making.

San Bruno's General Fund is the primary account used to finance essential city services, including police, fire, streets, parks, recreation, library operations, and general administrative functions that support Citywide operations. For the current Fiscal Year 2025-26 (FY26), the City Council adopted a balanced budget, meaning that projected revenues match planned expenditures, totaling $68.8 million and supporting 188 full-time personnel.

During the annual budget process over the past two fiscal years, several risks to City finances have been identified, all stemming from actions by the State of California. These risks introduce significant uncertainty in the City’s financial planning efforts and have become a regular factor in budgetary decision-making. Understanding these threats is critical, as they may result in reduced resources for essential services and hinder the City's ability to maintain infrastructure. The following revenue risks require attention:

1. **VLF Backfill** – In 2004, the State replaced the vehicle license fee (VLF) with a property tax in-lieu payment calculated through a statewide funding formula. A flaw in that formula has left San Mateo County and its cities structurally underfunded, requiring an annual backfill from the State. The City’s total VLF revenue is approximately $7 million per year, of which <u>$3 million is at immediate risk</u>. Absent structural changes to the State’s funding formula, the full $7 million could eventually be at risk.
2. **TRSA Revenue** – The City receives approximately $8 million in annual sales tax revenue through a Tax Revenue Sharing Agreement (TRSA) with Walmart.com. The City is in litigation challenging the State’s reallocation of this revenue to other jurisdictions which would <u>eliminate the $8 million</u> revenue to the City. There is no material change in the litigation, however, and staff recommend maintaining the status quo of using 50 percent of the monies received for structural expenditures and transferring the other half to reserves. Without the TRSA revenue, the City has a structural deficit of $4 million.

3. **Cardroom litigation** – Senate Bill 549 enables tribal governments to sue cardrooms for lost revenue resulting from competition with cardrooms across the state. Artichoke Joe's Casino is named in the pending litigation. The cardroom contributes approximately $3.4 million per year to the General Fund through taxes and reimbursements. Loss of this revenue would result in a structural deficit.
4. **Excess ERAF** – The Educational Revenue Augmentation Fund (ERAF) has historically returned surplus ERAF withholdings to cities, referred to as Excess ERAF. When ERAF receives excess property tax (for example, due to corrections, appeal refunds, or overpayments), San Mateo County has been distributing the resulting refunds in a way that does not follow the statutory ERAF allocation and refund formula. The City receives approximately $2 million annually in Excess ERAF, which may be at risk if the updates to the County's calculations have an adverse impact on the City.

On the expenditure side of the General Fund, the City has had a long-standing deficiency in funds available for infrastructure needs as discussed in each of the past two fiscal year Capital Improvement Program Budget processes. In 2024, voters approved a $102 million general obligation bond, Measure Q, which provides some capacity to meet the City's unfunded capital needs in streets, stormwater infrastructure, and fire station replacements. Other General Fund capital needs, however, remain unfunded in excess of $750 million.

In addition to underfunded infrastructure, the City has struggled to keep employee compensation competitive with the local labor market. In the most recent labor contract negotiations, the City committed to making progress toward bringing employee compensation closer to market median. While market median continuously moves as the labor market incorporates inflation, demand for certain classifications, and local policy priorities, the City has successfully negotiated contracts with the Firefighter bargaining unit, and the two bargaining units representing non-public safety personnel. Contract negotiations are ongoing with the bargaining units representing Police and Public Safety Management.

Proactively Managing City Expenditures

To proactively address the significant revenue risks, the City has implemented several management and cost savings strategies over the past two fiscal years in response to the General Fund's structural challenges. Those efforts included:

1. **Department Consolidation.** The FY25 budget merged finance, human resources, information technology, and risk management into the Administrative Services Department, eliminating one department head position. Savings from this consolidation were approximately $0.35 million.
2. **Sale of CityNet.** In FY25, the City initiated the sale of CityNet to Comcast eliminating the General Fund's need to backfill CityNet's structural budget deficit. The transition to Comcast was completed in December 2025 resulting in annual savings of approximately $1 million to the General Fund.
3. **San Bruno Triple Flip – Measure Q and Measure G.** In the FY26 budget, the City Council supported the "San Bruno Triple Flip" which is a multi-step reallocation of existing funding sources. The first step leveraged funds from the San Bruno Community Foundation to support construction of a new Fire Station 52 which freed up Measure Q funds to provide for pavement management program funding. With Measure Q to support the pavement management program, funding from Measure G was freed up allowing for Measure G to support General Fund operations including City Council initiatives beyond the pavement management program. The Triple Flip was in direct response to the impacts of the VLF backfill revenue risk and helps fund ongoing

expenditures including salaries for public safety personnel and augmented services necessary to advance the Cleanup San Bruno initiative.

4. **10% reduction in market-rate salary adjustments for non-safety personnel**. In FY26 and in partnership with the City's labor units, the City's new labor agreements with non-public safety employees introduced a novel approach to improving the City compensation structure while also addressing long-term financial constraints through the transition to a 36-hour workweek. The change offset the first 10 percent of market-based salary adjustments necessary to compensate employees at the market median. The plan, which will be implemented on May 4, 2026, modernizes the City's compensation structure to position it as an employer of choice on the Peninsula which has long-term benefits through staff retention. Given the 24-hour operations, this option was not available for public safety, who already have modified work schedules. This strategy avoided structural salary increases estimated at approximately $0.9 million annually.

Overall, the City has taken a number of proactive steps to reorganize operations necessary to adapt to changing financial circumstances with modest impacts to public services. As discussed in this report, the forecast includes several significant revenue losses that staff anticipates are most likely to occur within the next one to two years, with additional impacts possible in the latter half of the forecast period.

DISCUSSION:

This report provides City Council with a preview of the FY27 General Fund budget which is scheduled to be published on May 8, 2026. The goal is to identify major budgetary considerations staff is currently exploring to balance as the City Manager's Recommended FY27 Budget is finalized. When published in early May, the Recommended Budget is the culmination of multiple budget related meetings that provide staff with direction necessary to develop a balanced budget, beginning with the Council's annual priority-setting study session. City Council will receive the full budget presentation at their June 9th meeting and take action on the budget at their June 23rd meeting.

Additionally, this report outlines the updated Five-Year Forecast which provides three scenarios, each with different revenue and expenditure assumptions. The Five-Year General Fund Forecast covers Fiscal Year 2027-28 (FY28) through Fiscal Year 2031-32 (FY32) using the draft Fiscal Year 2026-27 (FY27) as the base. Decisions made in the FY27 budget development will materially impact the trajectory of the forecast scenarios. It is important to note that the forecast is a planning tool, not a budget document. It is inherently imprecise; that is, the forecast is built on assumptions that will evolve as conditions change. Its purpose is to outline a range of potential fiscal outcomes, identify the most significant risks and opportunities, and surface policy questions for Council consideration.

<u>Section 1 – FY27 Budget Preview</u>

This section of the report outlines major themes and policy considerations necessary to deliver a balanced budget. This section includes draft numbers that will change to incorporate new assumptions, budget reduction decisions, and any other information that emerges between now and the Council's first review of the budget at the regular Council meeting on June 9, 2026.

Overview
The FY27 budget has a $1.7 million deficit resulting primarily from the structural loss of $3 million due to the anticipated loss of VLF In-Lieu shortfall backfill. Table 1 summarizes the General Fund's FY26 Estimated Actuals and FY27 Draft budget.

Table 1. General Fund Budget

	2025-26 Est. Actuals	2026-27 DRAFT
Operating Revenues		
Taxes	48,313,057	50,185,000
Charges for services	8,253,373	7,491,932
Licenses and permits	366,127	941,100
Intergovernmental	7,288,968	4,310,543
Fines and forfeitures	853,125	857,040
Use of money and property	5,081,060	4,263,757
Other revenue	3,390,182	3,385,658
Transfers in	2,574,241	3,275,000
Total	76,120,133	74,710,030
Operating Expenditures		
Salaries and benefits	47,539,221	50,039,870
Operating	9,783,925	9,222,249
Internal service charges	9,698,221	10,732,139
Transfers out	5,650,000	6,400,000
Total	72,671,367	76,394,258
Net Revenue - Surplus/(Deficit)	3,448,766	(1,684,228)

FY27 Draft General Fund Budget Revenues
Overall revenues are expected to decrease by a total of $1.4 million when compared to FY26, if the VLF backfill revenue is fully received which the City will not know until July. The primary factor impacting revenue decrease in FY27 is the assumed loss of $3 million in VLF backfill based on indications from the County Executive's Office that the loss is likely to occur as early as FY26 absent legislative action at the State level. Partially offsetting the decrease is an optimistic assumption that taxes will increase at historical highs. For context, a 1 percent increase in property taxes or sales taxes is approximately $0.18 million. Property taxes are estimated to increase by 4.5 percent while baseline sales taxes are estimated to increase by 1 percent.

FY27 Draft General Fund Budget Expenditures
Overall expenditures are expected to increase by $3.7 million. Growth is driven primarily by salary and benefit increases resulting from recent contract negotiations, a reserve for labor agreements still under negotiation, and the assumption of full staffing less a modest vacancy factor. Together, these account for the $2.5 million or 6 percent increase. Other increases include the annual operating costs for internet, phone, and audio-visual support previously carried by the CityNet Fund. Additionally, the City's liability and workers compensation costs are increasing along with software licenses and cybersecurity investments.

General Fund Budget Balancing Measures
Balancing the budget deficit caused by the State's failure to backfill will result in unavoidable impacts on the community. Staff have identified approximately $1.7 million in near-term General Fund savings that can be achieved with relatively lower operational impact. The actions focus on freezing or eliminating vacant positions, citywide, with an employee headcount reduction of 8.0 full-time positions. This reduction will have an impact on services.

<u>Section 2– Five-Year Forecast</u>
The Five-Year Forecast, Attachment 1, incorporates three scenarios, each incorporating known increases in costs, historical trends in revenue growth, and estimated timing of when major revenue risks will impact City finances. The forecast is built on the City's FY27 draft budget, currently under development, and serves as the baseline for all scenario modeling. Revenue and expenditure line items are projected forward for five years using growth rate assumptions derived from historical trends, current labor agreements, actuarial reports from the California Public Employees' Retirement System (CalPERS), and staff estimates of changes in operating conditions.

Forecast Scenarios
The forecast is presented at a point-in-time using the best information available and incorporating a number of assumptions. Given this range of variables, staff have prepared the forecast using three scenarios: a Best Case, a Budget, and a Worst Case. The three scenarios are not predictions but, rather, they are intended to demonstrate the effects of significant shocks to major revenues to allow Council and the community to evaluate how various combinations of risks and opportunities would affect the City's ability to maintain financial sustainability.

The **Best Case scenario** has a cumulative draw on reserves totaling $10 million, within the City's current reserve capacity, and assumes:

1. No loss of revenue from the four at risk revenues,
2. No change in service levels or staffing, and
3. Expenditure growth in the 2 to 3 percent range.

The **Middle scenario** has a cumulative draw on reserves totaling $28 million which would fully deplete the City's unassigned fund balance reserves based on the following assumptions:

1. In FY 27
    a. Loss of $3 million backfill from the State for VLF In-Lieu,
2. No change in service levels or staffing, and
3. Expenditure growth in the 3 to 4 percent range.

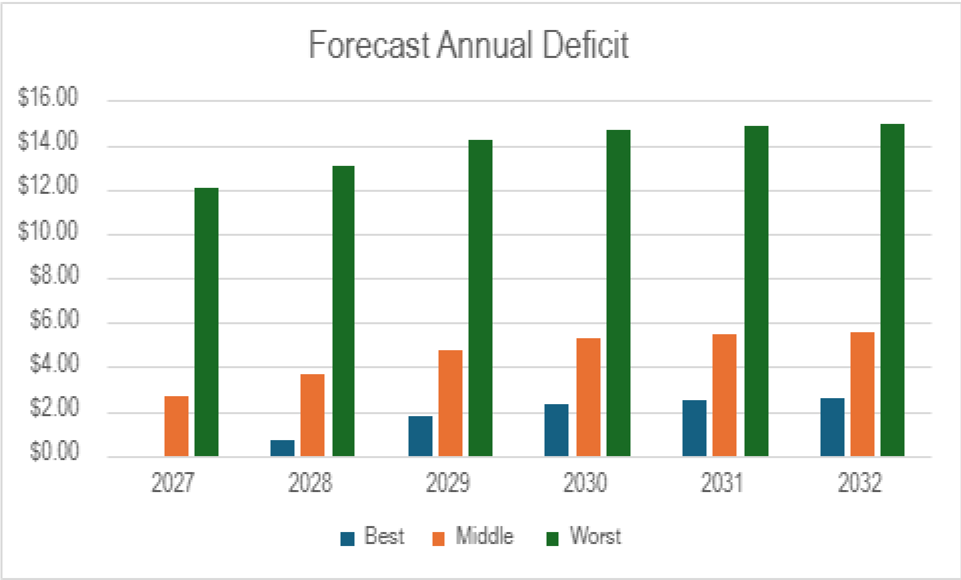
The level of reserves needed for this scenario, absent any drastic service level reductions, places the City at risk of fiscal emergency if the City does not prevail in its challenge against the

State's TRSA revenue allocation determination and the City is required to return all TRSA revenue received.

The **Worst Case scenario** has a cumulative draw on reserves totaling $84 million and assumes:

1. In FY27
   a. Loss of $3 million backfill from the State for VLF In-Lieu
   b. Loss of $8 million in TRSA revenue
   c. Loss of $3.4 million in Cardroom revenue
   d. Loss of $2.0 million in Excess ERAF revenue
2. No change in service levels or staffing, and
3. Expenditure growth in the 4 to 5 percent range.

As of June 30, 2026, the City's General Fund reserve balance is projected to be approximately $60 million.



Expenditure Options
Each year the City is tasked with balancing its budget and has been very successful in identifying cost efficiencies while maintaining and expanding services. The impact of all forecast scenarios, however, require a more drastic review of services to achieve a balanced budget. The scale of reductions required is unprecedented for the City. In the FY27 draft budget, service reductions are anticipated that will result in reductions to public safety services, reduce the City's capacity to complete essential capital improvement program projects and impair the City's ability to implement new technologies necessary for future efficiencies. The FY27 cuts represent the lowest-impact reductions available given the anticipated revenue loss.

Revenue Options
The single most viable option available to ensure the General Fund's long-term financial sustainability while also preserving critical services is to pursue voter-approved revenue measures. In initial research leading up to past elections, the City considered options including a real property transfer tax, increase in the transient occupancy tax, and utility users' taxes. Of

those considerations, expected annual revenue would generate less than $2 million per year with some generating highly volatile revenue. The more substantive revenue options are an additional local sales tax, Measure G generates approximately $3.5 million per year, and parcel tax which can be structured in a number of ways that could generate upwards of $8 million per year.

The City Manager's Office is spearheading the effort with the City Council's Ad Hoc Revenue Measure Subcommittee (Hamilton/Salazar) to explore whether a November 2026 ballot measure is feasible. Consideration of the subcommittee's work will return at a future City Council meeting for discussion and deliberation.

FISCAL IMPACT:

There is no fiscal impact.

ENVIRONMENTAL IMPACT:

The action is not a project subject to CEQA. City Council's action is not considered a "Project" per CEQA Guidelines and therefore no further environmental analysis is required.

RECOMMENDATION:

Receive the Fiscal Year 2026-27 Budget Preview and Forecast

ALTERNATIVES:

None.

ATTACHMENTS:
None.