



## City of South San Francisco Legislation Text

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File#: 21-898  
Version: 1

Agenda Date: 02/23/2022  
Item #:

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Report regarding the Annual Comprehensive Financial Report for fiscal year ended June 30, 2021, mid-year update for fiscal year ending June 30, 2022, and additional appropriation considerations.  
(Janet Salisbury, Director of Finance)

### **RECOMMENDATION**

**Staff requests that the City Council of the City of South San Francisco (“City”) accept the review of this report by the Budget Standing Committee and approve the adoption of a resolution accepting the Annual Comprehensive Financial Report (“ACFR”) for Fiscal Year (“FY”) 2020-21, acknowledging the mid-year financial update for FY 2020-21, and approving the additional appropriation requests for FY 2021-22.**

### **BACKGROUND/DISCUSSION**

The information contained herein was presented to the Budget Standing Committee of the City Council on February 8, 2022 via a teleconference meeting that was available to the public.

The fiscal year ending June 30, 2021 is notable in that it marks the first full year impacted by the COVID-19 pandemic. Having enjoyed a decade of marked economic growth, the City’s businesses and residents were forced to adapt as necessary virus containment measures slowed much of the global economy to a sluggish pace. With the shelter-in-place orders beginning in March 2020, the City’s economic activity fell precipitously, erasing much of the record-breaking revenue pace enjoyed throughout the first half of the previous fiscal year. As a result, the FY 2020-21 Budget was approved by Council in June 2020 under extraordinary circumstances, with tremendous uncertainty surrounding how the pandemic would impact the City’s budget.

As new information and circumstances emerged, the FY 2020-21 budget was modified several times to adapt to the ever-changing economic conditions. In October 2020 and again in February 2021, Council approved certain budget adjustments in anticipation of a healthy General Fund surplus for FY 2019-20. These actions allowed the City, for example, to move forward with key programs such as the establishment of the Commission on Racial and Social Equity and the art installation in the Karyl Matsumoto (Caltrain) Plaza. In addition, in March 2021, the federal government passed the American Rescue Plan Act (ARPA) emergency stimulus package which included \$350 billion in aid for states, counties and cities to combat the negative economic impacts

of the COVID-19 pandemic. South San Francisco’s award was \$12.28 million – \$6.14 million of which was received in June 2021. The first tranche in ARPA funded critical community programs such as the Guaranteed Income Program, Jobs for Youth, and seed funding for the City’s Economic Mobility Hub. The ARPA appropriations are discussed in further detail in Section V.E of this report.

With the FY 2020-21 now closed and the year-end results (ACFR) available, it shows the City continues to have a strong liquidity position with high reserve levels, allowing the City to fund mission-critical projects into the future. This report will review:

- I. FY 2020-21 ACFR & General Fund Summary
- II. FY 2020-21 General Fund Variance Analysis (Budget vs. Actuals)
  - A. Revenue Variance Rationale (includes Measure W)
  - B. Expenditure Variance Rationale
- III. FY 2020-21 Summary Results for Other Funds
- IV. Developer Impact Fees
- V. Current Fiscal Year (FY 2021-22) Update
  - A. General Fund Revenues – 2<sup>nd</sup> Quarter
  - B. General Fund Expenditures – 2<sup>nd</sup> Quarter
  - C. Additional General Fund Appropriations Request
  - D. Additional Non-General Fund Appropriations Request
  - E. ARPA
- VI. Reserves Overview & Considerations

## I. FY2020-21 ACFR & GENERAL FUND SUMMARY

The ACFR is an audited summary report of the City’s financial transactions over the course of the fiscal year. The final FY 2020-21 ACFR is attached to the resolution associated with this report (see **Exhibit A**). The financial statements enclosed were prepared in conformity with Generally Accepted Accounting Principles (GAAP) and comply with reporting requirements of the national Governmental Accounting Standards Board (GASB).

As the Committee is aware, the General Fund is the City’s main operating fund, where the bulk of the essential services delivered by departments such as Library, Parks and Recreation, Economic and Community Development, Fire, Police, and City Administration are budgeted.

As noted in the General Fund Summary, which is included as **Attachment 2** of this report, in FY 2020-21, the City received \$110.1 million in General Fund operating revenues, which was \$5.8 million, or 5.6 percent, above the amended budget of \$104.3 million. Including carryover purchase orders (\$5.6 million), General Fund expenditures were \$114.2 million, a favorable variance of \$1.6 million, or 1.4 percent, when compared to the amended budget of \$115.7 million.

Including transfers in and out and other accounting adjustments and excluding encumbrances, the

net reduction in fund balance (General Fund deficit) is \$2.3 million. It is important to note that these numbers do not include any Measure W activities. Table 1 below provides a summary of the General Fund position at the end of FY2020-21, which ties to the ACFR.

**Table 1: FY 2020-21 General Fund Operating Summary**

Total Revenues	\$	110,109,662
- Total Expenditures	\$	108,609,697
<b>Net Operating Surplus</b>	<b>\$</b>	<b>1,499,965</b>
- Net Transfers & Adjustments	\$	3,809,429
<b>TOTAL General Fund Deficit</b>	<b>\$</b>	<b>2,309,464</b>

A General Fund deficit for FY 2020-21 was anticipated and budgeted from the sizable \$16.3 million General Fund surplus realized in FY 2019-20. While the cashflow deficit for FY 2020-21 was \$2.3 million as shown above, this is over \$1.1 million lower than the \$3.4 million projected shortfall for the year when the FY 2020-21 was adopted back in June 2021. The available unappropriated fund balance as of June 30, 2021 in the General Fund is discussed further in Section VI.

## II. FY2020-21 GENERAL FUND VARIANCE ANALYSIS (BUDGET vs. ACTUALS)

The following details notable variances only between the FY2020-21 budget and actuals across the major subcategories within the General Fund. Please refer to **Attachment 2** of this report for the detailed quantitative budget to actuals analysis.

### A. Revenue Variance Rationale (includes Measure W)

The following section highlights the variance to budget across the major/notable revenue categories for FY2020-21. Favorable results, meaning a net positive for the City's finances, are noted with a "+", and conversely, unfavorable results are noted with a "-" in the following section.

#### 1. Property Tax +\$1,187,908

Property tax revenue, one of the City's primary recurring General Fund revenue sources, continues to reflect the strong real estate prices in the area – totaling \$44.2 million in FY 2020-21. Compared to the amended budget which included a \$1.5 million upward adjustment during the mid-year review, revenues came in \$1.2 million, or 2.8 percent, higher than budget. This was primarily due to the former RDA property tax allocation, which was \$0.6 million over budget, and secured property tax which was \$0.6 million higher than anticipated.

#### 2. Sales & Use Tax +\$870,155

Sales and Use Tax revenue totaled \$19.4 million in FY 2020-21, which was \$0.9 million, or 4.7 percent, above the amended budget which included a \$1.6 million upward revision during the mid-year review. Early in the fiscal year, shelter-in-place orders related to the COVID-19 pandemic had a negative impact on sales tax but as the year progressed and vaccines were rolled out, restrictions eased and the local and wider economy began to rebound and spending levels increased, driving a recovery in sales tax revenue.

3. *Measure W* +\$671,292

Measure W brought in \$13.4 million which was \$0.7 million, or 5.3 percent, above budget expectations. While Measure W revenue is applied and remitted to the City differently than the general sales tax revenue category, it generally follows similar collection patterns and came in higher than budget due to the relaxing of COVID-19 related restrictions as the year progressed.

4. *Transient Occupancy Tax* +\$805,942

Transient Occupancy Tax (TOT) collection was the most dramatically impacted by the COVID-19 pandemic and associated restrictions on travel. TOT revenue for FY 2020-21 was \$6.7 million which was \$0.8 million, or 13.7 percent, higher than amended budget which included a \$2 million downward revision to this category from original budget during the mid-year review. The revision was made due to the unanticipated extended impacts of the pandemic on hotel occupancy. The full extent of the revision did not manifest, however, as travel restrictions eased as the second half of the year progressed and occupancy rates started to increase. By way of comparison, pre-pandemic TOT revenue (FY 2018-19) was \$17.1 million.

5. *Other Taxes* +\$1,411,558

This category includes Real Property Transfer tax, Business License tax and Commercial Parking Tax. In FY 2020-21, total other tax revenue was \$4.5 million which was \$1.4 million, or 45.3 percent, above the amended budget. The main reason for this variance were Real Property Transfer tax coming in \$1 million above the amended budget.

6. *Building & Fire Permits* +\$593,505

In FY 2020-21, permit revenue reflected the numerous residential and commercial developments currently under construction in South San Francisco. As such, the City's permit revenue reached a total of \$15.6 million which was \$0.6 million, or 4.0 percent, greater than amended budget and close to the prior year's record of \$15.9 million. Permit revenues are largely dependent upon prevailing winds in the local development environment. Staff from the Finance and Economic & Community Development departments meet regularly to review developments that are entitled, permitted, and under construction to project one-time permit and impact fee revenues, as well as the impact to recurring tax revenues.

7. *Fines & Forfeitures* -\$253,499

Fines and Forfeitures revenue totaled \$0.5 million in FY2020-21 which was \$0.3 million, or 32.1 percent, lower than the amended budget. This was due to reduced traffic levels which continued well into the year and enforcements (i.e., parking/street cleaning fines) remaining less of a priority during the period of COVID-19 related restrictions on residents.

8. *Intergovernmental* +\$1,062,519

The City received a total of \$4.3 million in revenue from other government agencies which

was \$1.1 million, or 32.6 percent, higher than the amended budget. The increase largely reflects the timing difference between when grants are accepted by Council and when monies are actually received by the City. Grants for departmental efforts, like fire suppression, street sweeping services and traffic signal maintenance, public safety OTS grants, and grants for the Library Department are often not received until the fiscal year following the actual approval by Council.

*9. Charges for Services -\$545,501*

Charges for Services revenue for FY2020-21 was \$6.5 million, which was \$0.5 million, or 7.7 percent, below the amended budget. Service charges revenue was still soft even despite the downward revision of \$950,000 during last year's mid-year review to account for the continuing impact on programs due to the pandemic-induced restrictions. The Parks and Recreation (P&R) Department, in particular, continued to be impacted during the year as many of the normal programs, like aquatics, special classes, events and picnic facility rental fees remained infeasible. Beyond P&R, the service charges also include fees for services from various City departments, including Economic & Community Development, Fire, Police, Public Works, and Library.

*10. Use of Money and Property +\$236,194*

Revenue from Use of Money and Property came in \$0.2 million, or 8.4 percent, above the amended FY 2020-21 budget for a total of \$3.1 million. This positive result is primarily driven by higher interest rates on investments than were originally projected. The Finance Department conservatively projects interest income.

*11. Other Revenues +\$558,482*

Other Revenue in FY2020-21 was \$0.7 million which was \$0.6 million above budget. This was solely due to the receipt of \$0.6 million from Verizon in relation to a Public-Private-Partnership for the deployment of wireline and wireless infrastructure within the City.

**B. Expenditure Variance Rationale**

After taking proactive measures to curb expenditures in the prior year when the COVID-19 pandemic began, the City continued with these into FY2020-21 as it became evident that some revenue streams would remain strained. Austerity measures like hiring freezes and curbing all non-essential spending aided in achieving savings in many departments. The following section highlights the variance to budget for the departments that were over budget and all those departments who realized greater than a 10% savings level. Favorable results (under budget), meaning a net positive for the City's finances, are noted with a "-", and conversely, unfavorable results (over budget) are noted with a "+" in the following section. The variance analysis includes all open purchase orders and accompanying budget appropriations that were rolled over to the subsequent fiscal year.

*1. City Council -\$60,305 (-21.2%)*

City Council expenditures in FY2020-21 were \$224,000, which was \$60,000, or 21.2

percent, below amended budget. Savings were seen in health-related benefits, office supplies and meeting-related expenses.

2. *City Attorney* +\$76,995 (+8.5%)

The City Attorney's office spent \$987,000 in FY2020-21 which was \$77,000, or 8.5 percent above amended the budget. This overspend was wholly related to a greater request for legal services than originally anticipated.

3. *City Manager* +\$801,530 (+15.6%)

The City Manager's Office spent/encumbered \$5.9 million in FY 2020-21 which was \$802,000, or 15.6 percent, above amended budget. The unfavorable budget results were primarily due to increased spending on professional and specialized services throughout the fiscal year which included additional expenses for the General Plan update, a Special Tax consulting agreement and a CEQA consulting services agreement.

4. *Non-Departmental* -\$371,101 (-21.4%)

Expenditures for the Non-Departmental program (including encumbrances) were \$1.3 million which was \$371,000, or 21.4 percent, below the amended budget. The Non-Departmental program primarily consists of programs and costs which benefit the City as a whole and cannot be attributed to one specific department, such as Animal Services, C/CAG and various dues and memberships. The favorable budget variance was mainly due to lower than budgeted special program expenditures within the disaster response program.

5. *Economic & Community Development* -\$1,191,602 (-12.4%)

In FY 2020-21, the Economic & Community Development Department had a favorable budget variance of \$1.2 million, or 12.4 percent, with total expenditures (including encumbrances) of \$8.4 million. This variance is primarily due to reduced expenditure in professional and specialized services.

6. *Fire Department* +\$1,013,151 (+3.3%)

The Fire Department ended FY2020-21 with expenditures (including encumbrances) of \$32 million which was \$1 million, or 3.3 percent, above amended budget. This was solely due to increased spending on payroll-related expenses, particularly overtime – this was offset partially by lower-than-expected spending in professional and specialized services.

7. *Public Works* +\$116,713 (+2.0%)

Public Works Department expenditures for FY 2020-21 (including encumbrances) were \$6 million which was \$117,000, or 2.0 percent, higher than amended budget. The unfavorable budget results from higher than budgeted personnel costs.

### III. FY2020-21 SUMMARY RESULTS FOR OTHER FUNDS

Separate from the General Fund, the ACFR reports the financial results for the various other funds

within the City. The following outlines the year end information for the notable funds within the City.

1. *Common Green Funds*

The Common Green Funds include a collection of landscape maintenance district funds in the Westborough area - West Park, Stonegate Ridge, and Willow Gardens. A portion of the City's share of the one percent property tax levy supports this area. FY 2020-21 revenues were \$2.2 million, \$411,000 above expectations of \$1.8 million.

On the expenditure side, the Common Greens expenditures were \$1.6 million of the \$2.2 million budget. FY 2020-21 expenditures were \$556,000 less than anticipated.

Overall, the fund balance for the Common Greens Fund as of June 30, 2021 was \$4,816,000.

2. *Capital Improvement Programs*

The Capital Improvement Program (CIP) Fund accounts for expenditures associated with the acquisition, construction, or improvement of City owned facilities and infrastructure. Funding comes from various sources like the General Fund, special revenue funds, grants, and fees. The CIP fund accounts for capital expenses on a pass-through basis. Therefore, unexpended capital budget appropriations are carried over to the subsequent fiscal year until the projects are either finished or closed out. Of the \$84.7 million in amended appropriated budget in prior years, \$62.5 million was carried over into FY 2021-22.

3. *Programs Special Revenue Fund*

The City Programs Special Revenue Fund accounts for donations and other accounts that is dedicated for particular programs. Due to the restrictions related to all monies received into this fund, this fund is not budgeted. As such, all revenues and expenses are recognized at the end of each fiscal year. The FY 2020-21 net revenues were \$4.8 million.

4. *Sewer Enterprise Fund*

The City accounts for all sewer operation transactions in a dedicated enterprise fund. The Sewer Enterprise Fund independently supports all aspects of the City's sewer operations, including capital improvements, collection, conveyance, and the complete secondary treatment of residential and commercial wastewater. Revenues were \$53 million (including loan proceeds), falling short of projections by \$49 million. Much of the budget variance was timing related. Of the expected \$25 million loan from the State Revolving Fund (SRF) in FY 2020-21, the Sewer Enterprise only received a partial \$15 million loan, driving much of the variance to budget. However, this is purely a timing issue. SRF loans are received on a reimbursement basis, meaning that the Sewer Enterprise pays for those capital projects first, and received the reimbursement via the SRF loan. As a result, the remaining \$10 million is expected in the current or future fiscal year(s) depending upon the pace of the project completion. Another factor affecting the variance was that services charges were

lower than projected by \$5 million. The COVID-19 pandemic and resulting economic shutdown (worldwide) negatively impacted revenues from service charges, particularly from large industrial users and restaurants.

On the expenditure side of the enterprise, expenditures were below expectations as the capital project expenditures related to the SRF loans were delayed. The enterprise spent a total of \$52 million (includes \$22 million spent on capital projects) out of the \$89 million amended budgeted. Any unspent appropriations for capital projects was carried over to the current fiscal year.

Overall, the net position for the enterprise as of June 30, 2021 was \$105,748,210.

5. *Parking District Fund*

In FY 2020-21, Parking District revenues totaled \$771,000, which was \$133,000 lower than the adopted budget. Much of the variance stemmed from reduced collections in parking meter fees in the first half of the fiscal year due to the pandemic. Parking permit fees and Miller Avenue Parking Garage was able to meet revenue expectations for the year.

On the expenditure side, the Parking District realized actual expenditures of only \$1.3 million; this is approximately \$200,000 below the budgeted \$1.5 million for the year. The variance is mainly due to the underspending of the \$813,000 capital project appropriations; only \$297,000 was spent in FY 2020-21. As with prior years, any unspent appropriations for capital projects will be carried forward to the following year(s) until completed and/or closed.

The net position for the Parking District fund was of June 30, 2021 is \$13,610,245.

6. *Storm Water Fund*

In FY 2020-21, Storm Water revenues totaled \$7 million, which is \$8.6 million below the projected \$15.6 million revenues. The majority of the budget variance was related to the timing of a \$13.9 million Caltrans funding. The Storm Water Fund only received a partial \$5.6 million driving much of the budget shortfall of \$8.3 million. It is expected that the remaining Caltrans funding will be realized in the current (FY 2021-22) or subsequent fiscal year.

On the expenditure side, the Storm Water Fund was below expectations with a total expenditure (including capital projects expenditures) of \$6.6 million out of the budgeted \$15.5 million. The variance is mainly due to the fact that only \$5.6 million was spent out of the \$14.3 million capital projects appropriation in FY 2020-21. Any unspent appropriations for capital projects were carried forward to the current fiscal year.

The net position for the Storm Water fund was of June 30, 2021 was \$11,479,239.



7. *Self-Insurance Fund*

The Self Insurance Fund ended FY 2020-21 in the nominally positive territory, as total expenditures were \$5.9 million against revenues of \$6.5 million. Cost of workers compensation claims were higher compared to the prior year.

8. *Measure A Fund*

Measure A revenues were \$1.6 million, \$61,000 above the projected budget of \$1.5 million in FY 2020-21.

On the expenditure side, the Measure A expenditures were \$1.9 million, which was \$2.3 million below the \$4.2 million amended budget. This was primarily due to unspent project budget that will be carried forward to the next fiscal year.

The fund balance for the Measure A fund as of June 30, 2021 was \$2,524,000. This includes the \$2.1 million designation for capital projects.

#### IV. DEVELOPER IMPACT FEES

The City has several developer impact and in lieu fees in place to ensure that new development pays its fair share of the impact to the City's infrastructure and capital needs. The City received \$14.5 million in revenue during FY 2020-21. The table below is a summary of each fund's ending balances as of June 30, 2021. Staff presented this information to Council on January 12, 2022 as part of the required reporting under Assembly Bill 1600 ("AB 1600"), also known as the Mitigation Fee Act. AB 1600 requires agencies to report annually on the fees collected and their use.

**Table 2: Summary of Developer Impact Fee Fund Balance as of June 30, 2021**

Fees and Charges	Service Area	Ending Balance
Bicycle and Pedestrian Impact Fee	Citywide	\$ 116,813
Childcare Impact Fee	Citywide	6,788,327
Commercial Linkage Impact Fee (Affordable Housing)	Citywide	10,211,626
Park Construction Fee	Citywide	5,344,782
Park Land Acquisition Fee	Citywide	1,603,773
Public Safety Impact Fee	Citywide	1,499,387
Citywide Transportation Impact Fee	Citywide	1,962,343
Oyster Point Interchange Impact Fee	Oyster Point	38,709
Park In-Lieu Fee	Plan Area	3,850,903
Sewer Impact Fee	East of 101	4,144,279
Traffic Impact Fee	East of 101	22,527,967
Sewer Capacity Charges	Plan Area	7,726,129
<b>Total</b>		<b>\$ 65,815,038</b>

At the February 8<sup>th</sup> meeting, the Budget Standing Committee requested a projection of Childcare Impact Fees. The following are preliminary and based upon information available as of December 2021. Actual collections will be contingent upon the pace and completion of the expected development projects in the pipeline.

**Table 3: Childcare Impact Fee Projection\***

Fiscal Year	Amount
2022-23	\$ 6,940,028
2023-24	1,549,800
2024-25	3,407,618
2025-26	3,538,336
2026-27	2,426,621
2027-28	1,777,772
2028-29	1,871,697
<b>TOTAL</b>	<b>\$ 21,511,872</b>

\* Assumptions as of December 2021; actuals will vary.

## V. CURRENT FISCAL YEAR (FY2021-22) UPDATE

The FY 2021-22 budget that was approved by Council on June 23, 2021 anticipated that the pandemic would have a sustained negative impact on the City's revenues for the full fiscal year. The following section will show the revenue and expenditure results as of December 31, 2021.

### A. General Fund Revenues – 2<sup>nd</sup> Quarter

The following table shows actual revenues as of December 31, 2021 with a comparative view of where the City's revenues were at the same time last year (December 31, 2020):

**Table 4: FY 2020-21 vs. FY 2021-22 Revenues as of December 31**

Revenue Types	FY2020-21			FY2021-22		
	Budget	Actuals as of 12/31	%age of Budget	Budget	Actuals as of 12/31	%age of Budget
<b>Taxes</b>						
Property Tax	43,051,499	21,407,880	49.7%	41,074,710	18,960,305	46.2%
Sales Tax	18,500,000	6,493,797	35.1%	19,531,177	6,751,685	34.6%
Transient Occupancy Tax	5,904,328	2,476,118	41.9%	7,085,194	4,503,390	63.6%
Other tax	3,118,206	1,996,897	63.1%	3,614,753	1,276,424	35.3%
<b>Franchise Fees</b>	4,600,000	1,064,940	23.2%	4,600,000	1,152,788	25.1%
<b>Licenses and Permits</b>	14,995,496	7,403,837	49.4%	16,453,166	6,358,504	38.6%
<b>Fines &amp; Forfeitures</b>	789,249	234,236	29.7%	676,975	278,189	41.1%
<b>Intergovernmental</b>	3,260,630	1,171,755	35.9%	4,436,411	1,572,853	35.5%
<b>Charges for Services</b>						
Planning	209,562	72,822	34.7%	209,562	117,222	55.9%
Fire	2,076,314	1,448,756	69.8%	2,626,314	1,216,279	46.3%
Parks & Recreation	1,966,522	370,425	18.8%	2,973,722	849,034	28.6%
Police	727,811	418,982	57.6%	938,811	530,612	56.5%
City Admin & Other	2,081,448	1,078,537	51.8%	2,546,262	916,637	36.0%
<b>Money &amp; Property</b>	3,827,794	1,680,319	43.9%	4,194,976	1,493,658	35.6%
<b>Other Revenues</b>	175,341	62,576	35.7%	259,383	555,538	214.2%
<b>Transfers In</b>	2,323,872	765,014	32.9%	2,207,080	510,302	23.1%
<b>TOTAL REVENUES</b>	<b>\$107,608,069</b>	<b>\$ 48,116,893</b>	<b>44.7%</b>	<b>\$ 113,428,495</b>	<b>\$ 47,043,421</b>	<b>42.0%</b>

As shown in the above table, projected revenue for FY 2021-22 is \$113.4 million – approximately \$5.8 million more than the FY2020-21 budget. Actual revenue collections are lower on a percentage of budget basis than where the City was at the same time last year (42.0% vs. 44.7%).

The following highlights the recommended revenue adjustments to the FY2021-22 budgets.

1. **Property Tax.** The real estate market remains strong as homeowners continue to make improvements on their existing homes and new construction are added to the tax roll. Property tax comprises almost 40% of the General Fund's total revenue. Property tax is allocated to the City in two large installments (December and April). Our records show property tax collections have reached 46% of our projection as of December 31, 2021. The \$18.9 million collected does not include the \$2.3 million of Excess ERAF that is expected in the first half of FY 2021-22. Staff recommends no change to the projections.
2. **Sales Tax.** There is about a two-month lag in the collection of sales tax receipts. The bulk of the sales tax figures shown above represent sales tax collection for July-November. Collections during the first half of the year mirrors prior year's figure in dollar amount and in percentage to budget. The most recent report by the City's sales tax consultant shows sales tax receipts for the 3<sup>rd</sup> quarter of 2021 had a modest increase of 2.8% when compared to the same quarter in 2020. With COVID restrictions easing, along with the general inflation in the region, staff is recommending an increase in the sales tax revenue forecast of an additional \$0.75 million—increasing projections to \$20.28 million.
3. **TOT.** This revenue stream, most impacted by the pandemic-imposed travel restrictions, continues to demonstrate a slow (but relatively steady) recovery. Collections as of December 31<sup>st</sup> are almost double the prior year's amount (\$4.5 million vs \$2.4 million). However, \$4.5 million constitutes only half of what was collected in the first two quarters of FY 2019-20 before the pandemic. Staff recommends increasing the current revenue projection by \$1.5 million to \$8.5 million for the current fiscal year.
4. **Other Tax.** Commercial parking tax demonstrates signs of a moderate recovery for the first half of the year. Actual collections are almost double the budget and is three times the collection from the prior year's first half. Revenues from business license are in line with our expectations. Staff recommends no change to the forecast.
5. **Licenses & Permits.** Fire permits are in line with our expectations. However, electric, plumbing and mechanical permits have been issued at a slower pace for the first half of the year. While revenue collections are \$1.3 million less than prior year, staff recommends no forecast changes in anticipation of a stronger development climate in the second half of the year.
6. **Service Charges.** Service charges are another revenue category that has been unduly affected by the pandemic. Revenues from P&R services charges experienced an all-time low in the prior fiscal year as programs were shuttered due to COVID restrictions. For the

first half of FY 2021-22, revenues from facility rentals, day care programs, aquatic programs and various classes are showing signs of gradual recovery. However, current collection is far from reaching the pre-pandemic level in terms of dollars (\$850,000 vs. \$2 million) and percentage of budget (29% vs 43%). Given the prolonged effects of the pandemic, exacerbated by recent rise of the Omicron variant, staff recommends that revenue expectations be decreased by \$1.5 million to \$7.8 million.

If approved by Council, the above changes would result in increasing the overall revenue budget for FY 2021-22 by \$0.75 million to \$114.18 million.

## B. General Fund Expenditures – 2<sup>nd</sup> Quarter

The following table shows the actual expenditures by Department that have been processed through December 31, 2021:

**Table 5: FY 2020-21 vs. FY 2021-22 Expenditures as of December 31**

Expenditures	FY2020-21			FY2021-22		
	Budget	Actuals as of 12/31	% of Budget	Budget	Actuals as of 12/31	% of Budget
<b>City Council</b>						
Payroll	205,970	82,182	40.9%	213,836	62,876	29.4%
Supplies & Services	34,819	3,206	9.2%	34,819	15,528	44.6%
Interdepartmental Charges	43,772	21,674	49.5%	43,772	21,674	49.5%
<b>Total</b>	<b>284,561</b>	<b>107,062</b>	<b>37.6%</b>	<b>292,426</b>	<b>100,078</b>	<b>34.2%</b>
<b>City Clerk</b>						
Payroll	849,578	447,030	52.6%	904,828	379,489	41.9%
Supplies & Services	198,503	33,115	16.7%	258,503	31,393	12.1%
Interdepartmental Charges	48,513	23,892	49.2%	48,513	23,892	49.2%
<b>Total</b>	<b>1,096,594</b>	<b>504,037</b>	<b>46.0%</b>	<b>1,211,844</b>	<b>434,774</b>	<b>35.9%</b>
<b>City Treasurer</b>						
Payroll	60,435	19,334	32.0%	60,156	16,236	27.0%
Supplies & Services	82,200	41,697	50.7%	97,200	53,795	55.3%
Interdepartmental Charges	2,889	1,445	50.0%	2,889	1,445	50.0%
<b>Total</b>	<b>145,524</b>	<b>62,476</b>	<b>42.9%</b>	<b>160,245</b>	<b>71,475</b>	<b>44.6%</b>
<b>City Attorney</b>						
Supplies & Services	893,150	318,849	35.7%	893,150	292,105	32.7%
Interdepartmental Charges	16,899	8,400	49.7%	16,899	8,400	49.7%
<b>Total</b>	<b>910,049</b>	<b>327,249</b>	<b>36.0%</b>	<b>910,049</b>	<b>300,505</b>	<b>33.0%</b>
<b>City Manager</b>			-			
Payroll	2,025,976	1,175,458	58.0%	2,437,586	1,330,951	54.6%
Supplies & Services	3,061,886	510,031	16.7%	2,940,283	749,402	25.5%
Interdepartmental Charges	44,144	21,465	48.6%	44,144	21,465	48.6%
<b>Total</b>	<b>5,132,005</b>	<b>1,706,954</b>	<b>33.3%</b>	<b>5,422,012</b>	<b>2,101,818</b>	<b>38.8%</b>
<b>Finance</b>						
Payroll	2,224,949	1,204,381	54.1%	2,993,438	1,381,975	46.2%
Supplies & Services	1,068,058	135,830	12.7%	992,899	100,401	10.1%
Interdepartmental Charges	346,545	171,655	49.5%	346,545	171,655	49.5%

Expenditures	FY2020-21			FY2021-22		
	Budget	Actuals as of 12/31	% of Budget	Budget	Actuals as of 12/31	% of Budget
<b>Total</b>	3,639,552	1,511,865	41.5%	4,332,882	1,654,031	38.2%
<b>Non-Expense/Dept.</b>						
Payroll	146,785	39,130	26.7%	6,760	5,873	86.9%
Supplies & Services	1,590,638	861,774	54.2%	1,287,492	307,090	23.9%
Transfers	500,000	250,000	50.0%	500,000	250,000	50.0%
<b>Total</b>	2,237,423	1,150,904	51.4%	1,794,252	562,963	31.4%
<b>Human Resources</b>						
Payroll	1,474,719	788,221	53.4%	1,547,671	844,050	54.5%
Supplies & Services	448,320	34,667	7.7%	622,068	98,544	15.8%
Interdepartmental Charges	108,465	53,667	49.5%	108,465	53,667	49.5%
<b>Total</b>	2,031,503	876,555	43.1%	2,278,204	996,261	43.7%
<b>Economic &amp; Comm Development</b>						
Payroll	4,577,900	2,943,426	64.3%	5,264,926	2,941,084	55.9%
Supplies & Services	4,641,331	633,937	13.7%	6,534,753	1,821,038	27.9%
Capital Outlay	60,000	-	0.0%	60,000	-	0.0%
Interdepartmental Charges	327,516	160,063	48.9%	327,516	160,063	48.9%
<b>Total</b>	9,606,747	3,737,426	38.9%	12,187,196	4,922,184	40.4%
<b>Fire</b>						
Payroll	26,567,330	15,854,934	59.7%	25,703,062	16,128,428	62.7%
Supplies & Services	2,577,151	547,095	21.2%	2,214,078	685,887	31.0%
Interdepartmental Charges	1,865,577	814,544	43.7%	1,797,246	814,544	45.3%
<b>Total</b>	31,010,490	17,216,573	55.5%	29,714,386	17,628,859	59.3%
<b>Police</b>						
Payroll	28,575,330	15,682,757	54.9%	28,847,289	16,609,864	57.6%
Supplies & Services	1,474,257	564,893	38.3%	1,718,831	546,176	31.8%
Interdepartmental Charges	1,970,653	972,255	49.3%	1,970,653	972,255	49.3%
<b>Total</b>	32,020,240	17,219,905	53.8%	32,536,774	18,128,296	55.7%
<b>Public Works</b>						
Payroll	2,825,654	1,626,023	57.5%	3,353,119	1,739,058	51.9%
Supplies & Services	1,971,065	637,900	32.4%	1,827,878	508,931	27.8%
Interdepartmental Charges	1,059,984	526,742	49.7%	1,059,987	526,742	49.7%
<b>Total</b>	5,856,703	2,790,665	47.6%	6,240,981	2,774,732	44.5%
<b>Library</b>						
Payroll	4,750,472	2,603,852	54.8%	5,148,174	2,492,631	48.4%
Supplies & Services	857,109	339,343	39.6%	816,734	478,180	58.5%
Interdepartmental Charges	638,314	305,471	47.9%	638,314	305,471	47.9%
<b>Total</b>	6,245,744	3,248,565	52.0%	6,603,222	3,276,282	49.6%
<b>Parks and Recreation</b>			-			-
Payroll	11,735,452	6,647,583	56.6%	12,980,119	6,972,204	53.7%
Supplies & Services	3,306,407	1,101,632	33.3%	3,391,843	1,458,097	43.0%
Interdepartmental Charges	982,306	488,598	49.7%	982,306	488,598	49.7%
<b>Total</b>	16,024,164	8,237,812	51.4%	17,354,268	8,918,899	51.4%
<b>CIP</b>						
Transfers	7,429,073	830,759	11.2%	3,896,254	61,627	1.6%
<b>Total</b>	7,429,073	830,759	11.2%	3,893,254	61,627	1.6%

Expenditures	FY2020-21			FY2021-22		
	Budget	Actuals as of 12/31	% of Budget	Budget	Actuals as of 12/31	% of Budget
<b>Total General Fund Expenditures</b>	<b>123,770,523</b>	<b>59,528,807</b>	<b>48.1%</b>	<b>124,934,996</b>	<b>61,932,783</b>	<b>49.6%</b>
<b>Information Technology*</b>						-
Payroll	1,631,965	866,105	53.1%	1,675,719	865,265	51.6%
Supplies & Services	2,573,355	680,945	26.5%	2,532,189	638,991	25.2%
Interdepartmental Charges	10,469	5,234	50.0%	10,469	5,235	50.0%
<b>Total</b>	<b>4,215,789</b>	<b>1,552,284</b>	<b>36.8%</b>	<b>4,218,377</b>	<b>1,509,491</b>	<b>35.8%</b>

\* Non-General Fund; budgeted as internal service fund in Fund 785.

The expenditures outpacing revenues are fairly typical for the City this time of year. In the first half of the fiscal year, actual expenditures were greater than revenues by \$14.9 million (revenues of \$47.0 million less expenditures of \$61.9 million). Much of this mismatch is due to how the City pays its unfunded actuarial liability (UAL) to CalPERS. In order to receive a discount, the City pays CalPERS its UAL payment in July as a lump sum. This year, the UAL paid out of the General Fund exceeded \$13.5 million. The City's total UAL payment across all funds for the current fiscal year was \$15.625 million.

### C. ADDITIONAL GENERAL FUND APPROPRIATIONS REQUEST

The following are additional General Fund expenditure appropriations request totaling \$332,000.

#### 1. Non-Departmental \$25,000

Earlier this fiscal year, the City entered into a Memorandum of Understanding (MOU) with San Mateo County to fund a Mental Health Clinician who would assist the Police Department with mental-health related calls by providing appropriate, compassionate care involving non-violent individuals. Additional appropriation is necessary to fund the City's financial obligation under the MOU for the remainder of the current fiscal year. While accounted for as non-departmental for the current fiscal year, the budget for the Mental Health Clinician under the MOU will be included in the budget for the Police Department for future years.

#### 2. Public Works \$55,000

Additional appropriations are being requested to fund part-time staff for graffiti remediation along with right of way maintenance for the remainder of the fiscal year.

#### 3. Parks and Recreation Department

##### Concert in the Park \$150,000

An enhanced "Concert in the Park" at Orange Memorial Park will require the above additional appropriations. While some of the funding may be offset through future

fundraising, the appropriations are necessary to secure the contracts for performers and vendor tents, for example, along with other costs associated with executing an event of this scale.

**Irrigation Designer for Centennial Dr. → Chestnut Ave. Line** **\$30,000**

Additional funds are sought to cover costs to hire an irrigation designer to understand the costs related to upsizing the main irrigation line to get it across from Centennial Dr. to Chestnut Ave. This would be seed funding for the study and future additional funding necessary would be included as part of the FY 2022-23 CIP.

**4. CIP (Parks and Recreation)** **\$72,000**

Additional funding will be used for the necessary breezeway improvements next to Starbucks on Grand Ave.

In addition to the above, given the continuing economic recovery, all frozen positions citywide are being unfrozen. As vacancies take time to recruit, additional appropriations are not being requested at this time. Departments, with the aid of the Human Resources Department, will recruit for those vacancies, but the commensurate budget necessary will be absorbed via current appropriations. Any necessary additional appropriations will be accounted for with the FY 2022-23 Budget process.

**D. ADDITIONAL NON-GENERAL FUND APPROPRIATIONS REQUEST**

The following are the additional non-General Fund expenditure appropriations requests totaling \$1.52 million from Infrastructure Reserves:

**1. Employee Down Payment Assistance Program** **\$650,000**

***Funding Source: Infrastructure Reserves***

An additional \$650,000 is being requested from Infrastructure Reserve to further fund City's Down Payment Assistance Program. Council had approved an appropriation of \$1 million for this effort in prior years. The additional appropriation would allow an expansion of the number of employees who would be able to receive down payment assistance in the future.

**2. Employee Rental Assistance Program** **\$50,000**

***Funding Source: Infrastructure Reserves***

Seed funding of \$50,000 is requested to establish a pilot employee rental assistance program. The program would make funding available to assist employee households that are unable to make the initial security deposit required to secure rental housing within the local area.

**3. Parks and Recreation Vehicle Replacement** **\$820,000**

***Funding Source: Infrastructure Reserves***

The above funding is being requested in order to purchase of 5 new vehicles, 6 replacement vehicles, plus a trencher and mower to support the department's efforts.

## E. AMERICAN RESCUE PLAN ACT (ARPA)

In June 2021, the City received \$6.14 million (50 percent) of its \$12.3 million American Rescue Plan Act (ARPA) financial award. The remaining half will be received around June 2022. The following table shows the planned allocation of these funds to various projects:

**Table 6: ARPA Funded Project Summary**

Description	Total Project Cost	Tranche 1 (2021)	Tranche 2 (2022)	Amount Appropriated
Economic Advancement Center	\$ 2,000,000	\$ 1,000,000	\$1,000,000	\$1,000,000
Guaranteed Income Program	1,000,000	1,000,000	-	1,000,000
Food Voucher Program	100,000	100,000	-	100,000
Spit Sea Level Rise	30,000,000	1,000,000	3,000,000	1,000,000
City Operations – COVID Recovery	3,400,000	1,560,000	370,000	-
Youth Summer Internship Program	300,000	100,000	200,000	-
City Broadband Expansion	TBD	1,000,000	1,000,000	1,000,000
Community Navigator Program	500,000	-	-	-
Community Promotores Program	70,000	-	70,000	-
Francisco Terrace Flood Prevention	620,000	120,000	500,000	120,000
Restaurant Grants	260,000	260,000	-	-
<b>TOTAL</b>	<b>--</b>	<b>\$6,140,000</b>	<b>\$6,140,000</b>	<b>\$4,220,000</b>

The table above shows that, to date, \$4.22 million has been appropriated directly from ARPA funds. The above cells highlighted in green are the current appropriations request – either as a “clean-up” appropriation or due to current program needs. The details are as follows:

### 1. Economic Advancement Center (Tranche 2) \$1,000,000

The establishment of the Economic Advancement Center is currently actively underway. Staff is requesting that Council recognize the Tranche 2 of ARPA (\$6.14 million in revenues) that are expected to be received before the end of the current fiscal year and appropriate the additional \$1,000,000 earmarked for the Economic Advancement Center.

### 2. City Operations – COVID Recovery (Tranche 1) \$1,560,000

An allowable use for ARPA is to support the operational costs related to COVID. When Council adopted the FY 2021-22 Adopted Budget, a portion of the General Fund budget was to be balanced through the transfer of ARPA funding. Council is being asked to appropriate the \$1.56 million to reimburse the City’s General Fund for COVID-related costs such as public safety and public health efforts that have already been undertaken by various City departments.

### 3. Youth Summer Internship Program (Tranche 1 & 2) \$300,000

The City’s Youth Summer Internship Program was approved in concept by City Council in October 2020 with General Fund funds appropriated at that time. An update to Council was provided in March 2021 whereupon, given the direct negative impacts of COVID-19 on South San Francisco’s youth population and job opportunities for them, ARPA funds were identified as a suitable source of funding. The program ran for seven weeks in Summer 2021, providing fifteen South San Francisco youth with valuable paid short-term intern positions in City departments. The \$100,000 appropriation is a “clean-up” item to



reimburse the General Fund for the Summer 2021 program. The \$200,000 appropriation is necessary in order to begin establishing the program for Summer 2022 and beyond.

**4. Community Promotores Program (Tranche 2) \$70,000**

The COVID-19 pandemic highlighted the critical role that governments have in providing health and human services to its residents. However, the fact remains that in the more vulnerable communities, linguistic and/or cultural barriers often inhibit access to these critical services and/or civic engagement. Appropriations are being requested to kick start the Community Promotores Program, which aims to have a focused outreach to the underserved communities within South San Francisco to assist in connecting those residents with critical health and social services resources.

**5. Restaurant Grants – SAMCEDA (Tranche 1) \$260,000**

The City moved quickly to provide aide to South San Francisco businesses negatively impacted by the COVID-19 pandemic through the “San Mateo County Strong” initiative coordinated by the San Mateo County Economic Development Association (SAMCEDA). Prior to receipt of the ARPA funds, twenty-six qualifying businesses were awarded \$10,000 grants to assist with operational and other costs incurred as a result of COVID-19 impacts with funds coming from already appropriated General Fund budget. This is a “clean-up” appropriation to reimburse the General Fund following the receipt of ARPA funding.

## VI. RESERVES OVERVIEW & CONSIDERATIONS

In FY 2020-21, General Fund revenues, excluding Measure W, were \$110.1 million. In keeping with the City’s Reserve Policy of maintaining 20 percent of operating revenues which follows the Government Finance Officers Association’s (GFOA) best practice, the City’s General Fund reserves levels were reduced by approximately \$2.2 million, from \$24.1 million to \$21.9 million.

After meeting the reserves requirement noted above, Table 7 below shows a summary of the City’s current official Reserve Levels:

***Table 7: Current City Reserves Summary***

General Reserves	\$ 21,900,000
Pension Stabilization Reserves	\$ 5,546,000
+ Infrastructure Reserves	\$ 13,700,000
<b>Total Reserve Levels</b>	<b>\$ 41,146,000</b>

The Infrastructure Reserve figure in Table 7 above is net of \$5.5 million for the purchase of the land at 71 Camaritas Circle for the new Fire station and \$4 million appropriated for the FY2021-22 Capital Improvement Plan, but does not include the current \$1.52 million additional

appropriations request as detailed in Section V.D. Other standalone appropriation requests to Council that may be in process are also not included in these reserve figures.

In addition to the above, the City also has available an additional \$15 million of unappropriated General Fund balance. These are funds available that have built up from General Fund surpluses in prior years, a release of General Reserves due to the lower operating budget as a result of COVID, along with active fund clean-up conducted by the Finance Department to ensure all General Fund reimbursements are accounted properly.

When considering use of the General Fund unassigned fund balance, it is important to bear in mind that adoption of the mid-year appropriation requests in Section V.C. of this report will use up part of this “surplus” as will any potential deficit (revenues less expenditures) that may be experienced by the General Fund during the current year, so sufficient room should remain to absorb these movements. The unassigned fund balance also acts as a buffer allowing for the natural ebb and flow within the General Fund that occurs during the year as a result of the mismatch between when revenues are received and expenditures are incurred.

Please see Table 8 which shows the unassigned fund balance including the General Fund mid-year appropriations requests herein:

**Table 8: FY 2020-21 General Fund Surplus Summary**

<b>FY2020-21 General Fund Surplus</b>	<b>\$ 15,000,000</b>
<b>Adjustments</b>	
- Budgeted Shortfall for FY2021-22	(\$ 2,800,000)
+ Add'l Proj. Revenue Adjustments	\$ 750,000
- Mid-Year Appropriations Request	(\$ 332,000)
<b>Total Adjustments</b>	<b>(\$ 2,382,000)</b>
<b>General Fund Surplus less Adjustments equals:</b>	
<b>Net GF Unappropriated Surplus</b>	<b>\$ 12,618,000</b>

It is recommended that \$8.5 million of the \$12.6 million in General Fund surplus be transferred to the Infrastructure Reserve Fund, with the remaining \$4.1 million to serve as a buffer for any cashflow deficits in the future fiscal year(s) as the City faces rising payroll and other costs. According to a report released by Standard & Poor's on January 6, 2021, the outlook on the U.S. Local Government Sector remains negative. As it states, “Local governments that have weaker financial reserves and less flexibility, and don’t proactively manage their budgets in 2021, will be most at risk for credit deterioration.” The increase in CPI for the Bay Area for calendar year 2021 was 4.3%; nationally, it was 7.0%. Given those facts, the City will need to bolster its liquidity position in order to absorb rising levels of inflation. Combined with rising costs anticipated across all categories – payroll, benefits, services, and materials – staff cautions the against rapid depletion of fund balance in order to maintain the current service levels.

Staff also strongly recommends that any appropriations from the surplus be limited to one-time projects, versus funding ongoing needs such as increasing staff or continuing operating costs. As

a financial best practice, one-time revenues should be used for one-time expenditures. Possible future one-time needs include:

**Table 9: Unfunded Capital Projects**

	Description	Estimated Cost*
1	Oyster Point Sea Level Rise Protection	\$30M
2	Colma Creek/Oak Ave Bridge Replacement	\$7M
3	Building Repairs/Upgrades	\$3M
4	Replace Fire Station 63 (MSB)	\$25M
5	New Finance Computer System	\$5M
6	Grand Avenue Improvements	\$4M
7	Grand Boulevard Initiative Mediates	\$3M
8	Park Renovation / Expansion	\$7.5M
9	Oak Avenue Extension	\$15M
10	Annex Reconstruction	\$30M

*\* Very preliminary and expected to change when requirements are better understood.*

Additionally, medium-sized maintenance obligations related to city buildings, parks and other public spaces continue to require funding. The City's CalPERS (California Public Employees' Retirement System) obligations are another category where available surplus could be spent.

## **CONCLUSION**

The results of the FY2020-21 ACFR reflects the robust development and strength of the larger Bay Area economy. While from a cashflow perspective the City did have a nominal deficit, the high fund balance, attained by the City's early actions at the beginning of the pandemic to be fiscally conservative, allowed the City to operate while maintaining and even enhancing services for the residents. Limiting non-essential spending, enacting hiring freezes, and eliminating non-mission critical encumbrances allowed the City's to maintain its solid financial standing.

An analysis of the actuals for the first half of the current fiscal year shows that the City is currently on pace to meet budget targets. The question remains for Council in terms of which community needs and projects will be addressed with the funds available in the General Fund and Infrastructure Reserves as discussed herein.

The pandemic continues to affect the City. The travel industry still remains shackled by slower than expected recovery in business travel, affecting TOT, and service charges are still low, reflective of the sustained negative impacts of COVID on City programs. However, the negative effects of the pandemic are tempered by the City's diverse revenue streams, combined with prudent policy decisions, all of which is reflected in the City's enviable AAA-rating from S&P.

Staff recommends that the City Council approve the resolution accepting the ACFR and financial results for the first half of FY2021-22 and appropriating additional funds as described herein.