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Fiscal Year 2020-2021 Operating Budget Presentation (*Janet Salisbury, Finance Director*)

RECOMMENDATION

It is recommended that the Budget Standing Committee provide feedback to staff in preparation for the City Council budget study session on June 9, 2020.

BACKGROUND/DISCUSSION

In 2017, the City made the strategic shift away from a one-year operating budget cycle to a biennial operating budget cycle. Fiscal Year (FY) 2020-21 represents the second year of the biennial operating budget which was adopted on June 26, 2019. The biennial budget provides a two-year outlook with the first year (FY 2019-20) presented to City Council for budget approval and the second year (FY 2020-21) presented as a business plan, subject to adjustment.

Adjustments to the FY 2019-20 budget and the proposed FY 2020-21 budget are required due to the extraordinary economic downturn stemming from the COVID-19 global pandemic. South San Francisco is a financially strong, AAA credit rated city-well positioned to weather the financial downturn associated with COVID-19. Nevertheless, it is obvious the global economy has contracted. Over 33 million Americans have lost their jobs and South San Francisco has not been spared this economic pain.

CITYWIDE OVERVIEW - EXECUTIVE SUMMARY

The General Fund is the City's largest and core operational fund. For the current fiscal year, FY 2019-20, rapid financial actions to reduce spending, combined with higher than anticipated actual revenues, have yielded a surplus of \$4,634,181 (operating revenues of \$126,247,355 less expenditures of \$121,613,174). This surplus can be used to offset some of the revenue losses anticipated in FY 2020-21.

For the upcoming fiscal year, FY 2020-21, the City is anticipated to have \$105,385,881 (not including carryover purchase orders) in revenues and \$112,217,884 in operating expenditures (net of departmental

reductions), yielding an operating shortfall of \$6,832,003. Staff recommends using a combination of the FY2019-20 surplus totaling \$4,634,181 and \$2,197,822 from the City's reserve fund to balance the FY 2020-21 budget.

CURRENT FY2019-2020 BUDGET

Prior to the COVID-19 outbreak, South San Francisco's FY 2019-20 budget reflected total general fund revenues of \$127,780,177 and commensurate expenditures of \$127,888,734. This balanced budget incorporated the \$2,174,663 surplus that was reported during the mid-year budget review, which was presented to Council on February 26, 2020.

Currently, the City's financial reserve fund totals \$52,346,000, broken down as follows:

General Reserves	\$24,400,000
Infrastructure Reserves	\$22,400,000
<u>CalPERS Stabilization Reserve</u>	<u>\$ 5,546,000</u>
TOTAL	\$52,346,000

The ***General Reserve***, which represents 20 percent of the City's annual operating budget (General Fund), follows the best practices guidelines from the Government Finance Officers' Association (GFOA). The ***Infrastructure Reserves*** are largely comprised of General Fund surpluses that were set aside over the last couple of years in anticipation of the City's future infrastructure projects. The ***CalPERS Stabilization Reserve*** was established through two separate Council actions (\$4.5 million in FY 2015-16 and \$1.046 million in FY 2017-18). Although placed in different categories, the City Council by majority vote is empowered to use the above reserve funds as necessary.

Below is city staff's best current estimate of revenues and expenditures for FY 2019-20, set side-by-side with the pre-COVID-19 revenue and expenditure estimates.

GENERAL FUND SUMMARY (FY19-20) - Actuals available through April 30, 2020

Revenues	4/22 Council			2019-20 Net Loss/Add'l Revenues vs. Budget
	2019-20 Adopted Revenue Budget	2019-20 COVID-19 Revenue Projections	REVISED 2019-20 COVID-19 Revenue Projections	
Property Taxes	\$ 36,659,133	\$ 39,907,062	\$ 41,483,812	\$ 4,824,679
Sales Tax (w/o Measure W)	18,763,000	17,972,113	18,603,776	-\$ 159,224
Transient Occupancy Tax	16,855,297	12,807,873	12,994,337	-\$ 3,860,960
Commercial Parking Tax	3,979,573	1,735,724	1,805,434	-\$ 2,174,139
Other Taxes	2,078,559	2,339,594	2,379,210	\$ 300,651
Franchise Fees	4,000,000	4,262,052	4,626,476	\$ 626,476
Licenses and Permits	12,131,018	14,498,693	14,547,026	\$ 2,416,008
Fines and Forfeitures	618,500	782,178	876,944	\$ 258,444
Revenue from Other Agencies	2,485,622	2,087,768	1,512,612	-\$ 973,010
Charges for Services	10,417,837	8,267,610	8,429,360	-\$ 1,988,477
Interest and Rent	5,309,459	4,727,398	4,722,794	-\$ 586,665
Other Revenues	181,994	162,927	175,341	-\$ 6,653
Transfers In	1,524,868	1,439,915	1,314,915	-\$ 209,953
Carryover Purchase Orders	12,775,317	12,775,317	12,775,317	-
TOTAL REVENUES	\$ 127,780,177	\$ 123,766,223	\$ 126,247,355	-\$ 1,532,822

Property tax revenue is adjusted to match actual property tax receipts, a significant increase from projections due to the robust development occurring in the city. Licenses and permit revenue is adjusted to track actual receipts in the current fiscal year, also showing significant increase due to ongoing development. Despite these positive revenue items, city staff expects a net reduction in general fund revenue of \$1,532,822 due to COVID-19.

Below is a high-level summary of FY 2019-20 budgeted expenditures, along with the impact of spending reductions implemented due to COVID-19:

GENERAL FUND SUMMARY (FY19-20) - Actuals available through April 30, 2020

Expenditures	4/22 Council			2019-20 Net Expenditure Savings/Loss vs. Budget
	2019-20 Adopted Expenditure Budget	2019-20 COVID-19 Expenditure Projections	REVISED 2019-20 COVID-19 Expenditure Projections	
Payroll	\$ 86,893,930	\$ 85,848,589	\$ 86,480,599	\$ 413,332
Supplies and Services	27,581,572	25,720,694	24,587,067	\$ 2,994,505
PO Elimination (Estimated)	-	-	-1,800,000	\$ 1,800,000
Interdepartmental Charges	7,110,914	7,110,914	7,110,914	-
Transfer out to CDBG Fund	3,453	3,453	3,741	-
Transfer to CIP	5,245,712	4,136,052	4,136,052	\$ 1,109,660
Transfer to Storm Water Fund	553,154	553,154	553,136	-
Transfer to Benefits Fund	250,000	250,000	270,833	-\$ 20,833
Transfer to Equip. Replacement	\$ 250,000	250,000	270,833	-\$ 20,833
TOTAL REVENUES	\$ 127,888,734	\$ 123,872,856	\$ 121,613,174	\$ 6,275,560

Quick action in response to the COVID-19 crisis is expected to result in expenditure reductions of \$6,275,560. Considering the anticipated revenues detailed above, staff anticipates that the FY 2019-20 budget will have a **surplus of \$4,634,181**, which will be available to offset expected revenue shortfalls in FY 2020-21.

PROPOSED FY 2020-21 GENERAL FUND BUDGET

South San Francisco is well positioned to recover economically from COVID-19, with a large industrial base anchored by the world's largest biotechnology research center. It is expected that the negative economic impact of COVID-19 will be felt throughout FY 2020-21, gradually lessening in calendar year 2021 as businesses recover, restaurants reopen, travel resumes and hotel occupancy increases.

1. FY 20-21 GENERAL FUND REVENUE PROJECTIONS

GENERAL FUND SUMMARY (FY20-21 PROJECTION)

Revenues	19-20 Adopted Revenue Budget	REVISED 2019-20 COVID-19 Revenue Projections	2020-21 Planned Budget	4/22 Council FY20-21 Revenue Projection	REVISED FY20-21 Revenue Projection	2020-21 Net Loss/Add'l vs. 2019-20 COVID Projection
Property Taxes	\$ 36,659,133	\$ 41,483,812	\$ 37,866,116	\$ 39,108,920	\$ 42,313,489	\$ 829,676
Sales Tax (w/o Measure W)	18,763,000	18,603,776	19,553,400	15,276,296	16,900,000	-\$ 1,703,776
Transient Occupancy Tax	16,855,297	12,994,337	17,023,850	7,684,724	8,288,206	-\$ 4,706,131
Commercial Parking Tax	3,979,573	1,805,434	4,129,573	1,041,434	1,039,647	-\$ 765,787
Other Taxes	2,078,559	2,379,210	1,595,015	2,078,559	2,078,559	-\$ 300,651
Franchise Fees	4,000,000	4,626,476	4,000,000	4,250,000	4,600,000	-\$ 26,476
Licenses and Permits	12,131,018	14,547,026	11,756,018	13,048,823	14,547,026	-
Fines and Forfeitures	618,500	876,944	618,500	703,960	789,249	-\$ 87,694
Revenue from Other Agencies	2,485,622	1,512,612	2,485,604	2,500,000	1,500,000	-\$ 12,612
Charges for Services	10,417,837	8,429,360	9,872,717	6,766,415	8,011,656	-\$ 417,704
Interest and Rent	5,309,459	4,722,794	5,493,713	4,727,398	3,827,794	-\$ 895,000
Other Revenues	181,994	175,341	-	162,927	175,341	-
Transfers In	1,524,868	1,314,915	1,373,855	1,439,915	1,314,915	-
TOTAL REVENUES	\$ 115,004,860	\$ 113,472,038	\$ 115,768,361	\$ 98,789,372	\$ 105,385,881	-\$ 8,086,157
Carryover Purchase Orders	12,775,317	12,775,317	TBD	TBD	TBD	
REVENUES + PRIOR YEAR ENCUMBRANCE	\$ 127,780,177	\$ 126,247,355	\$ 115,768,361	\$ 98,789,372	\$ 105,385,881	

The revenue forecast for FY 2020-21 is shown below, set against revenues from FY 2019-20:

Property Tax revenue has, for the past six years, increased at an annual rate of 6% per year, reflective of a booming economy. Some slowdown in property transfers and development is anticipated and a conservative growth rate of 2% is used in this forecast. Note that even during the housing crisis of 2007-2008, the City did not observe a decline in property taxes.

Sales Tax revenue is expected to decline by \$1,703,766, or about 10%, compared with the actual sales tax revenue expected in FY 2019-20. The sales tax forecast is provided by the City's sales tax consultant as the best estimate available at this time.

Transient Occupancy Tax (TOT) revenue grew by 22% from March 2019 to March 2020, but was the hardest hit revenue sources due to COVID-19. TOT is estimated to decline by \$4,706,131, or about 36%, compared with the actual TOT revenue expected in FY 2019-20. This estimate is formed by a blend of average room rate and occupancy, shown month by month below, and reflecting a slow recovery of the hotel industry in South San

Francisco:

	July	Aug	Sep	Oct	Nov	Dec	Jan 21	Feb	Mar	Apr	May	June
Room Rate	50%	50%	60%	60%	60%	70%	70%	70%	80%	80%	80%	80%
Occupancy	50%	50%	50%	60%	60%	60%	70%	70%	70%	75%	75%	75%

Commercial Parking Tax revenue is expected to decline by \$765,787, or about 42%, compared with the actual commercial parking tax revenue expected in FY 2019-20. This reflects a COVID-19 decline due to a decline in airline passengers and a continued decline in business driven by the popularity of ride-share companies such as Uber and Lyft.

Licenses and Permit revenue has increased year-over-year since 2015. In FY 2020-21Q1, it is predicted to stay flat with revenues of \$14,547,026, but not decline compared to the previous year. Below is a chart showing the number of applied-for permits January through June 2019, as compared with January through May 2020. There is a distinguishable drop in permits from March 21, 2020, through May 2, 2020. However, the number of permits recovered to pre-COVID-19 levels by May 11, 2020. Discussions with developers and the biotechnology community do not indicate a significant slowdown of development in the South San Francisco market.



Charges for Services revenue is expected to decline by \$417,704, or about 5%, compared with the actual charges for services revenue expected in FY 2019-20, due to a delay in restarting for-fee city services such as the Pre-K program and recreational classes.

2. PROPOSED FY 2020-2021 GENERAL FUND EXPENDITURES

There is a revenue shortfall projected for FY 2020-21; hence, there must be expenditure reductions. The table below is a summary by department of proposed spending reductions, in addition to what that means on a percentage basis with the adjusted FY2019-20 general fund budgets:

DEPARTMENT	FY19-20 Adjusted Budget	Proposed Budget Reductions	% Budget Reduction
City Council	\$290,291.22	\$16,600.00	5.72%
City Clerk	\$1,091,060.88	\$3,500.00	0.32%
City Attorney	\$1,115,935.47	\$157,500.00	14.11%
City Manager's Office	\$5,988,689.32	\$515,376.00	8.61%
Finance Department	\$3,851,735.60	\$427,916.00	11.11%
Human Resources Department	\$2,019,064.68	\$21,000.00	1.04%
Economic and Community Development Department	\$13,936,637.15	\$2,528,644.30	18.14%
Fire Department	\$30,983,929.58	\$660,489.92	2.13%
Police Department	\$31,071,929.71	\$1,200,276.00	3.86%
Public Works Department	\$5,755,271.29	\$551,562.83	9.58%
Library Department	\$6,528,045.84	\$462,028.16	7.08%
IT Department	\$4,496,112.52	\$312,500.00	6.95%
Parks & Recreation Department	\$17,679,689.99	\$2,180,365.00	12.33%
Non-Departmental	\$1,422,844.43	\$27,625.00	1.94%
TOTAL	\$126,231,237.68	\$9,065,383.21	7.18%

City Council: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$16,600, a 5.72% reduction of the department's FY 2019-20 budget.
- Supplies and services reduction of \$16,600, including eliminating funding for the Council Reorganization event and reduction in travel and conference budget.

City Clerk: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$3,500, a 0.32% reduction of the department's FY 2019-20 budget.
- Supplies and services reduction of \$3,500, including eliminating of promotions budget, and reduction in elections and travel budget.

City Attorney: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$157,500, a 14.11% reduction of the department's FY 2019-20 budget.
- Supplies and services reduction of \$157,500 in legal expenses and claims, anticipating a lower need for legal services with an economic slowdown.

City Manager's Office: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets.) Highlights include:

- Total reduction \$515,376, an 8.61% reduction of the department's FY 2019-20 budget.

- Personnel savings of \$315,151 through reassignment of a position to the Measure W Fund.
- Supplies and services reduction of \$200,225, including reduction in city newsletters, mailers and street banners, elimination of BIO 2021, elimination of food budget for Council Reorganization, and reduction of travel and training budget.

Finance Department: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$427,916, an 11.11% reduction of the department's FY 2019-20 budget.
- Personnel savings of \$238,916 through hiring freeze of currently vacant positions, reassignment of portions of positions to bond issuance costs, and reducing the hours for the mail courier.
- Supplies and services reduction of \$189,000, including reduction in outside contractors, travel and office supplies.

Human Resources (HR) Department: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$21,000, a 1.04% reduction of the department's FY 2019-20 budget.
- Services reduction of \$21,000 through reduction in training and recruitment costs.

Economic and Community Development Department: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$2,528,644, 18.14% reduction of the department's FY 2019-20 budget.
- Personnel savings of \$1,124,644 through hiring freeze of currently vacant positions, and reassignment of portions of positions to the General plan Fund.
- Supplies and services reduction of \$1,404,000, including reduction in outside contractor for building inspection, and reduction in advertising and promotion.

Fire Department: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$660,489, a 2.13% reduction of the department's FY19-20 budget.
- Personnel savings of \$450,319 through hiring freeze of currently vacant positions.
- Supplies and services reduction of \$355,500, including decrease plan check consultant costs and decrease in training and travel; offset by a **cost increase** including \$24,144 for cost of county contracts for Office of Emergency Services and Fire Dispatch; and \$111,160 increase for cost of Ambulance GEMT and QAF upfront payments to the State.

Police Department: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$1,200,276, a 3.86% reduction of the department's FY 2019-20 budget.
- Personnel savings of \$605,191 through hiring freeze of currently vacant positions, and \$361,359 in personnel savings through anticipated retirements over the next twelve months.
- Supplies and services reduction of \$233,725, including delaying handgun replacements, cutting the training budget by 50%, eliminating the Gun-Buy-Back program, and cancelling YMCA clinic-based and school-based counselling contracts.

Public Works Department: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$551,562, a 9.58% reduction of the department's FY 2019-20 budget.
- Personnel savings of \$682,816 through hiring freeze of currently vacant positions, offset by a **cost increase** of \$469,193 in personnel cost to correct a long-standing misapplication of city engineer staff cost to CIP instead of the General Fund.
- Supplies and services reduction of \$337,940, including reassigning some sidewalk and drainage work to the sewer enterprise fund, and reducing the Low-Income Sewer rebate program by \$245,000.

Library Department: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$462,028, a 7.08% reduction of the department's FY 2019-20 budget.
- Personnel savings of \$293,920 through hiring freeze of currently vacant positions and closing Grand Avenue Library on Sundays.
- Supplies and services reduction of \$168,108, including halting various technology equipment replacement, reduction of certain collections budgets, and elimination of some adult programs.

Information Technology (IT) Department: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

- Total reduction \$312,500, a 6.95% reduction of the department's FY 2019-20 budget.
- Supplies and services reduction of \$332,500, including reduction in outside contractor GIS services, Pen-TV contribution reduction, and Office 365 implementation delay.

Parks & Recreation Department: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets). Highlights include:

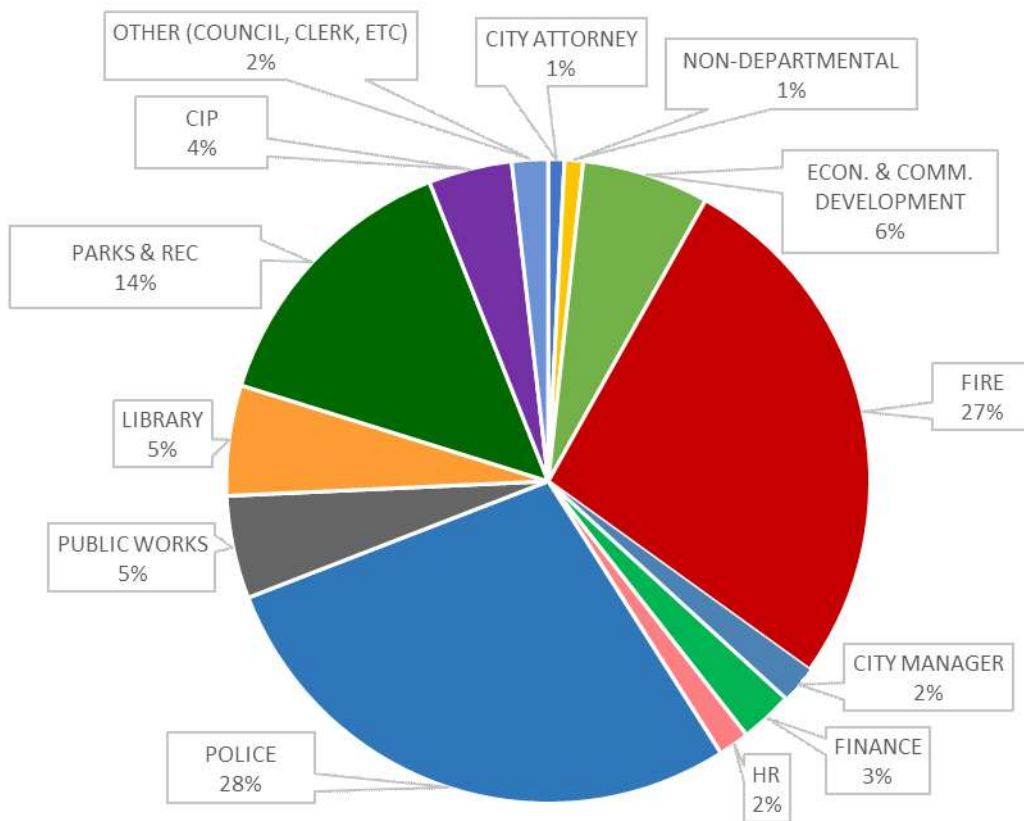
- Total reduction \$2,180,365, a 12.33% reduction of the department's FY 2019-20 budget.
- Personnel savings of \$817,746 through hiring freeze of currently vacant positions, and \$282,807 as a result of the reassignment of two positions to the Common Greens Fund.
- Supplies and services reduction of \$1,179,811, including closing the pool and elimination of recreation services on Sundays; reduction of services from July through September due to the Sheltering in Place Order; cancellation of Concert in the Park, Movie Night in the Park, Halloween Extravaganza, the Nutcracker performance, and October Middle School dances; reduction of the parks and building minor maintenance fund; elimination of summer camp field trips; and scaling back the Cultural Arts Commission and the Beautification Committee. This is offset by increased expenses for proposed "drive-in movie night" and creation of an "Innovation Fund" of \$100,000 providing the department a flexible fund to provide innovative offerings during the COVID-19 pandemic.

Non-Departmental: Reductions in this department's budget are detailed in Attachment 1 (Department Master Worksheets.) Highlights include:

- Total reduction \$27,625, a 1.94% reduction of the department's FY19-20 budget.
- Supplies and services reduction of \$77,625 due to a decrease in expected animal control contract costs and transfer of budget for certain citywide dues, offset by a **cost increase** of \$50,000 in the City's safety program.

City staff are confident that despite these reductions, a high level of service will be provided to city residents, businesses and visitors. With the above spending reductions, the proposed FY 2020-2021 General Fund operating budget expenditures **total \$112,217,884.51**, as detailed in Attachment 2. The General Fund percentage breakdown by department is shown visually below:

FY20-21 Proposed Expenditures by Department*



* Does not include P.O. carryforwards

3. PROPOSED FY 2020-2021 GENERAL FUND BUDGET SUMMARY

The summary of the proposed FY 2020-2021 General Fund Budget is as follows:

FY2020-2021 Projections	
Revenue	\$ 105,385,881.00
Expenditures	\$ 112,217,884.51
Subtotal Shortfall	\$ 6,832,003.51
Add FY19-20 Surplus	\$ 4,634,181.00
Needed from Reserves (or Additional Budget Reductions)	\$ 2,197,822.51

City reserves total \$52,346,000, of which \$24,400,000 are in **General Reserves**. The General Reserve represents 20 percent of the City's annual operating budget (General Fund). As the FY2020-2021 operating budget is decreasing due to COVID-19, a lower amount is needed in the General Reserves to maintain the City's 20 percent policy; specifically, only \$22,700,000 is required to meet the 20 percent requirement, not \$24,400,000. This frees \$1,700,000 from the General Reserve Fund, which can be used to meet the anticipated FY 2020-2021 budget shortfall. If this \$1,700,000 is so applied, then only an additional **\$497,822.51** is needed from the remaining reserves to balance the budget.

4. OTHER FUNDS

There are another 50 funds that the City Finance Department manages outside of the General Fund. The notable fund budgets (governmental, major proprietary and internal service fund) for FY2020-21 are represented in Attachment 3.

FISCAL IMPACT

In Fiscal Year 2020-21 the City's General Fund, with revenues of \$105,385,881.00, net of any carryover purchase orders, and \$112,217,884.52 in expenditures, requires an additional \$6,832,003.51 to achieve a balanced budget. Staff recommends applying \$4,634,181.00 from the FY 2019-20 budget surplus, plus \$2,197,822.51 from city reserves, to balance the FY 2020-21 General Fund operating budget.

RELATIONSHIP TO STRATEGIC PLAN

The budget is the City's spending plan that supports Priority Area 3, Financial Stability.

CONCLUSION

While South San Francisco remains financially strong, the breadth and depth of the economic downturn associated with COVID-19 is still unknown. A sharp economic recovery is hoped for, but staff recommend a conservative budget approach at this time with minimal reliance on city reserves to preserve the City's ability to respond over time if the economic downturn deepens further.

The presented budget for FY 2020-2021 provides city departments sufficient resources to maintain an excellent level of service for the coming fiscal year. Staff intends to revisit the FY 2020-2021 budget with City Council, likely in October 2020, to adjust the budget as necessary based upon tax receipts and other economic data indicators available at that time.

Attachments:

1. General Fund Reduction Proposal (By Department)
2. Proposed FY2020-21 General Fund Expenditure Budget
3. Fund Summaries of Other Funds and Impact Fees
4. Presentation - Proposed Budget FY2019-21