



Legislation Text

File #: 20-350, **Version:** 1

Report adopting the Fiscal Year 2020-2021 Operating Budget, approving the Gann Appropriations Limit, and accepting the City's revised Salary Schedules. (*Janet Salisbury, Director of Finance*)

RECOMMENDATION

It is recommended that the City Council of South San Francisco adopt a resolution that approves the Fiscal Year (FY) 2020-21 Proposed Operating Budget, the Gann Appropriations Limit, and the updated City Salary Schedules.

BACKGROUND/DISCUSSION

In 2017, the City made the strategic shift away from a one-year operating budget cycle to a biennial operating budget cycle. The biennial operating budget provides a two-year outlook: The first year is presented to the City Council for budget approval; the second year is presented as a business plan and subject to adjustment. The upcoming FY 2020-21 represents the second year of the FY 2019-21 biennial operating budget, which was adopted by the City Council on June 26, 2019. The City Council must adopt a resolution to appropriate funding for FY 2020-21.

South San Francisco is a financially strong, economically diverse, AAA credit rated city - better positioned than most to weather a financial downturn. However, the severity of the coronavirus pandemic's economic consequences is unprecedented. More than 44 million people in America have applied for unemployment benefits as of mid-June. These figures, previously unfathomable, wiped out a job market that saw unemployment at historic lows as recently as February. Earlier this month, the Congressional Budget Office released new projections that the pandemic will shrink the U.S. economy by roughly \$8 trillion over the next decade. At the federal level, tax revenues have plummeted, while spending has skyrocketed largely due to the more than \$2 trillion stimulus package aimed at stabilizing the economic freefall that was occurring at the onset of the crisis. The extraordinary economic downturn stemming from the COVID-19 global pandemic has forced the City to significantly curtail its expenditures for FY 2019-20 and re-examine the budget for FY 2020-21.

The revised projections for the current fiscal year and the proposed FY 2020-21 budget were presented to the City Council at two open public meetings. The Budget Standing Committee of the City Council provided feedback on the proposed budget on May 18, 2020. The City Council provided feedback via a study session on the proposed budget on June 9, 2020.

CITYWIDE OVERVIEW - EXECUTIVE SUMMARY

The General Fund is the City's largest and core operational fund. In FY 2020-21, the City's General Fund is anticipated to have revenues of \$105,423,513 (not including carryover purchase orders) and expenditures of \$112,996,833 (net of departmental reductions, but includes CIP, additional UAL & healthcare costs, and transfers out). The projected operating shortfall for FY 2020-21 is \$7,573,320. Staff recommends using a combination of the FY2019-20 surplus of \$4,634,181 plus \$2,939,139 from the City's General Reserve Fund to balance the FY 2020-21 budget.

CITY RESERVES

Currently, the City's financial reserve funds total \$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.

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 move towards regular operations; domestic and eventual international travel resumes; and hotel occupancy increases.

1. FY 20-21 GENERAL FUND REVENUE PROJECTIONS

The revenue forecast for FY 2020-21 is shown below:

PROJECTED GENERAL FUND REVENUES (FY 2020-21)

Revenues	FY 2020-21 Planned Budget	REVISED FY 2020-21 Projection	2020-21 Net Loss/Add'l vs. Planned Budget	%age of Total Projected Revenues
Property Taxes	\$ 37,866,116	\$ 41,595,650	\$ 3,729,534	39.5%
Sales Tax (w/o Measure W)	19,553,400	16,900,000	-2,653,400	16.0%
Transient Occupancy Tax	17,023,850	7,872,437	-9,151,413	7.5%
Commercial Parking Tax	4,129,573	1,039,647	-3,089,926	1.0%
Other Taxes	1,595,015	2,078,559	483,544	2.0%
Franchise Fees	4,000,000	4,600,000	600,000	4.4%
Licenses and Permits	11,756,018	14,995,496	3,239,478	14.2%
Fines and Forfeitures	618,500	789,249	170,749	0.7%
Revenue from Other Agencies	2,485,604	2,222,769	-262,835	2.1%
Charges for Services	9,872,717	8,011,656	-1,861,061	7.6%
Interest and Rent	5,493,713	3,827,794	-1,665,919	3.6%
Other Revenues	-	175,341	175,341	0.2%
Transfers In	1,373,855	1,314,915	-58,940	1.2%
TOTAL REVENUES	\$ 115,768,361	\$ 105,423,518	-\$ 10,344,843	

The revenue forecast for FY 2020-21 remains the same as the one presented during the June 9th study session with the following exceptions:

- **Transient Occupancy Tax (TOT).** TOT collections for FY2020-21 is very conservatively projected to be \$7,872,437, which is lower than the \$8,288,206 presented during the City Council study session earlier this month. It is a forecasted decline of \$5,121,899, or about 39%, compared with the actual TOT revenue expected in FY 2019-20 (\$12,994,337); and a staggering 54% decline from the \$17,019,222 actuals collected in FY 2018-19.

This TOT projection was calculated by adjusting forecasts of average room rate and occupancy, informed by market data and recent conversations with local leaders in the hospitality industry, including Dean Grubl (Executive Director of the South San Francisco Conference Center) and John Hutar (President & CEO of the San Mateo County/Silicon Valley Convention and Visitors Bureau). The table below shows the monthly “percentage of normal” forecasts used in the calculation:

	Jul	Aug	Sep	Oct	Nov	Dec	Jan 2021	Feb	Mar	Apr	May	June
Room Rate	53%	53%	63%	63%	63%	73%	73%	73%	83%	83%	83%	83%
Occupancy	45%	45%	45%	45%	55%	55%	55%	65%	65%	70%	70%	70%

- **Revenue from Other Agencies.** The projection for revenue from other agencies is projected to be \$2,222,769, which is a \$722,769 higher than what was presented during the City Council study session. The \$722,769 represents the preliminary approval from the Federal Emergency Management Agency (FEMA) for reimbursements to the City for its COVID-19 related expenditures spent to date.

2. PROPOSED FY 2020-2021 GENERAL FUND EXPENDITURES

The table below is a departmental summary of General Fund expenditures by department, showing the planned budget determined as part of the FY 2019-21 biennial budget cycle; the proposed spending changes; the recommended final FY 2020-2021 budget; and the percentage change from the planned budget. Attachment 1 contains detailed descriptions of department reductions.

Department	FY2020-21 Planned Budget	FY2020-21 Proposed Budget Changes	FY2020-21 Proposed Budget	%age Reduction
City Council	\$ 300,644.57	\$ (16,600.00)	\$ 284,044.57	-5.52%
City Clerk	1,083,974.11	(3,500.00)	1,080,474.11	-0.32%
City Treasurer	144,833.74	-	144,833.74	0.00%
City Attorney	1,067,549.38	(157,500.00)	910,049.38	-14.75%
City Manager	2,540,584.05	(455,765.00)	2,084,819.05	-17.94%
Finance Department	3,160,480.78	20,484.00	3,180,964.78	0.65%
Non-Departmental	1,071,877.43	(27,625.00)	1,044,252.43	-2.58%
Human Resources	1,723,847.46	19,000.00	1,742,847.46	1.10%

Econ. & Comm. Develop.	9,593,179.20	(2,527,844.30)	7,065,334.90	-26.35%
Fire Department	29,964,391.38	(660,489.92)	29,303,901.46	-2.20%
Police Department	31,935,228.18	(807,183.25)	31,128,044.93	-2.53%
Public Works	6,260,592.70	(551,562.83)	5,709,029.87	-8.81%
Library Department	6,273,096.59	(331,234.92)	5,941,861.67	-5.28%
Information Technology*	3,696,731.02	(92,500.00)	3,604,231.02	-2.50%
Parks & Recreation Dept.	17,141,981.51	(1,741,980.00)	15,400,001.51	-10.16%
Total Reduction		\$(7,334,301.22)		

* Funded by Internal Service Fund; secondary savings impact on General Fund.

The departments highlighted in pale orange are the departments whose budgets have been adjusted subsequent to the June 9th City Council study session. Those changes are as follows:

- **City Manager's Office (+ \$185,600)**

- Addition of \$185,600 for Community Action Initiatives, such as increased mental health services, wellness programs, homelessness prevention, and other community oriented programming to address the negative community side effects of COVID-19 and other community concerns. Of this amount, \$85,600 is from the Police Budget; the additional \$100,000 is from the FEMA reimbursement for COVID-19 expenses.

- **Human Resources Department (+ \$40,000)**

The Human Resources (HR) Department budget has been increased by \$40,000 to fund the following training programs:

- ***Diversity and Inclusion (D&I) training:*** In addition to current training for all employees on preventing harassment and discrimination, all employees will receive training on topics such as recognizing unconscious bias, cross-cultural communication, and maintaining a culture that supports and engages a diverse workforce and community.
- ***Police De-escalation and Crisis Intervention Training.*** Approximately 85% of the police force has recently received this training. COVID-19 interrupted training for the remaining 15% of the police force. This funding will ensure 100% of our police force receives de-escalation and crisis intervention training.

- **Library (+ \$130,793)**

- Restore funding to keep the Grand Avenue Library open on Saturdays (+ \$51,979)
- Restore funding associated with technology learning centers, makerspace activities and associated programs (+ \$78,814)

- **Information Technology (+ \$220,000)**

- Funding for Office 365 upgrade, providing enhanced ability to operate virtually, along with other upgrades (+ \$220,000)

- **Parks & Recreation (+ \$365,466)**

- Restore funding to keep the Magnolia Senior Center open on weekends (+ \$15,466)
- Increase P&R Innovation funding from \$100,000 to \$300,000 (+ \$200,000)

- Restore funding for youth and teen sports programs, modified art shows, weekend recreation events; and additional maintenance-related funding due to compliance with County Health protocols for frequently sanitizing facilities, posting signs, providing masks, and a much higher level of cleaning supplies and related expenses. (+ \$150,000)

Please note that the department expenditure budgets shown above do not take into account the normal necessary transfers out and the additional \$2.164 million that is necessary in the General Fund to cover the expected UAL payment increases and additional healthcare costs in FY2020-21. Once department budgets are set, the \$2.164 million additional expenditure will be added to the various departments on a pro-rated basis to cover this obligation.

3. POLICE DEPARTMENT BUDGET

Every department in the City is sharing in the expenditure reductions necessary due to the COVID-19 related revenue shortfalls, and the Police Department is no exception. Compared to the planned FY 2020-21 budget, the Police Department budget is being reduced by \$807,183.25, and totals \$31,128,044.93. This supports a department of 124 personnel, of which 83 are sworn police officers and 39 are support staff. It is important to note that the number of sworn officers in the Police Department has not increased since 2010, despite increases in population to over 67,000 residents, and a large increase in the number of jobs and associated workers coming to South San Francisco daily.

The Police Department is requesting to replace four high mileage, high maintenance patrol vehicles that are due for replacement based on Public Work's vehicle replacement schedule. The expected cost is \$170,000, which includes outfitting of police vehicles with lights and other equipment. All city vehicles, including police and fire vehicles, are centrally managed by the Public Works garage division. The vehicles are detailed below:

Replaced Vehicle	Current Mileage	Maintenance Cost (lifetime)	New Vehicle
'14 Ford Explorer	131,184	\$54,000	'21 Ford Explorer
'11 Ford Crown Victoria	128,888	\$61,000	'21 Ford Explorer
'10 Ford Crown Victoria	143,215	\$51,000	'21 Ford Explorer
'09 Ford Fusion Sedan	110,430	\$15,193	'21 Dodge Charger

The new vehicles will reflect the traditional black and white paint scheme associated with police vehicles, instead of the all black paint scheme of the past.

The Police Department budget represents 27.51% of the City's General Fund budget for FY 2020-2021. Below is a comparison of Police Department budgets in every city in San Mateo County, sorted by percentage of General Fund. Note the South San Francisco Police Department by comparison represents a smaller percentage of the General Fund than most cities:

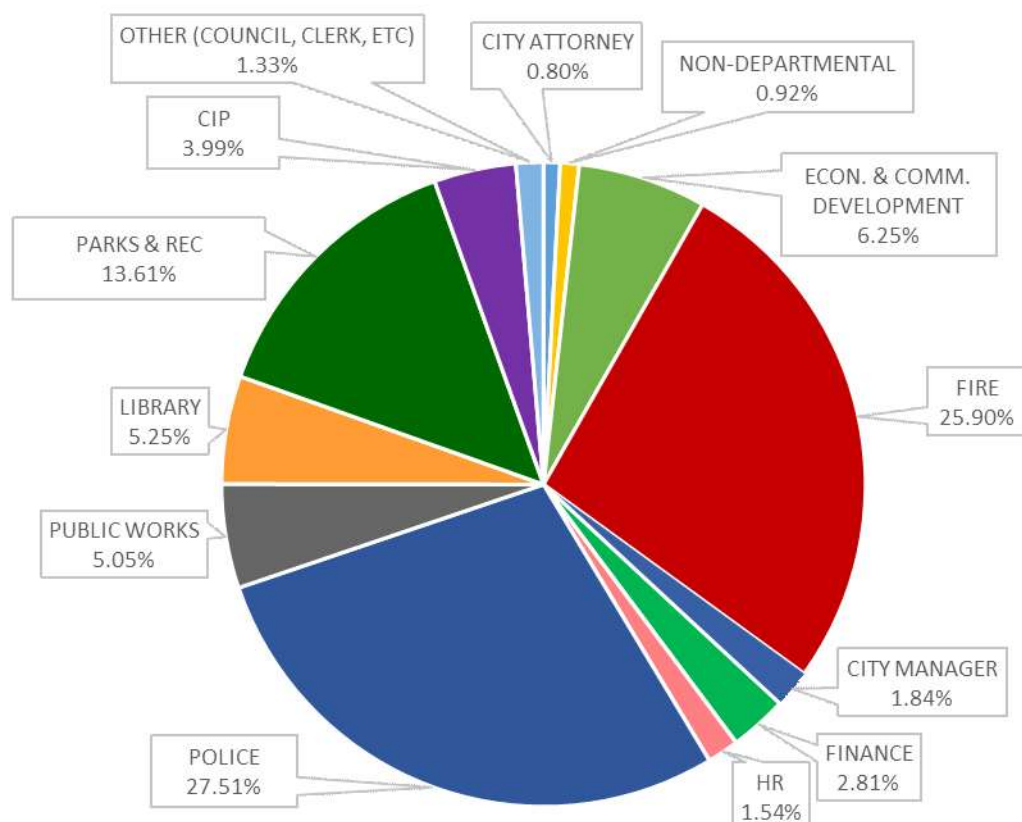
Agency	General Fund Budget	Police Dept. Budget	% of Total Budget
Atherton	\$10,000,000	\$7,500,000	75%
Belmont	\$27,800,000	\$14,500,000	52%
Colma	\$17,000,000	\$8,000,000	47%

Daly City	\$90,000,000	\$37,000,000	41%
East Palo Alto	\$30,000,000	\$12,000,000	40%
San Bruno	\$51,000,000	\$20,000,000	39%
Hillsborough	\$30,000,000	\$11,000,000	37%
Redwood City	\$143,000,000	\$49,000,000	34%
San Mateo	\$138,000,000	\$47,000,000	34%
Foster City	\$47,000,000	\$15,000,000	32%
Menlo Park	\$71,000,000	\$21,000,000	30%
Pacifica	\$36,000,000	\$10,000,000	28%
South San Francisco	\$112,000,000	\$31,000,000	27.51%
Pacifica	\$37,000,000	\$10,000,000	27%
Burlingame	\$63,000,000	\$17,000,000	27%
Brisbane	\$20,272,000	\$5,261,668	26%

OVERVIEW OF EXPENDITURES BY DEPARTMENT

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 **\$112,996,833** 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*

PROPOSED FY 2020-2021 GENERAL FUND BUDGET SUMMARY

Higher than anticipated revenues like property taxes and licenses and permits, combined with quick action in response to the COVID-19 crisis in terms of curbing expenditures, is expected to result in a surplus of \$4,634,181 in this current fiscal year (FY2019-20). Staff recommends that the \$4,634,181 million surplus be appropriated in this fiscal year for the anticipated FY2020-21 capital improvement projects (\$4,509,171) with the remaining \$125,010 to return to fund balance such that it can be used to cover the anticipated shortfall for FY20-21. The summary of the proposed FY 2020-2021 General Fund Budget is as follows:

FY2020-2021 Projections	
Revenue	\$ 105,423,513
Expenditures	\$ 112,996,833
Subtotal Shortfall	\$ 7,573,320
Add FY19-20 Surplus	\$ 4,634,181
Needed from Reserves	\$ 2,939,139

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) of the prior year (FY2018-19). Because the FY2019-2020 operating budget is lower than FY2018-19 due to the impacts of COVID-19, the General Reserves would naturally be lowered. In order to maintain the 20% threshold, approximately \$1.7 million would have been released based on the FY2019-20 projected revenue.

The \$2,939,139 release from the General Reserve means the remaining amount in the General Reserve equals **18.91%** of the City's annual operating budget for FY 2020-2021. This percentage is well within the recommended best practices range for reserves recommended by the Government Finance Officers' Association (GFOA). Use of this amount from the General Reserve leaves the City with \$49,406,861 in total financial reserves.

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 FY 2020-21 the City's General Fund, with projected revenues of \$105,423,513, net of any carryover purchase orders, and \$112,996,833 in expenditures, requires an additional \$7,573,320 to achieve a balanced budget. Staff recommends applying \$4,634,181 from the FY 2019-20 budget surplus, plus \$2,939,139 from city reserves, to balance the FY 2020-21 General Fund operating budget.

Gann Appropriations Limit

The associated resolution includes a provision for the City Council to approve the Gann Appropriations Limit, as required by the State. Proposition 4 (the Gann Appropriations Limit) was a constitutional amendment approved by California voters in 1979 that:

- Limits the growth in appropriations made by the State and individual local governments from the proceeds of taxes. The limit in the rate of growth is the percentage increase in the cost of living and the percentage increase in the State or local government's population.
- Requires the State of California and local governments to calculate their annual appropriations limit and return any excess funds from the proceeds of taxes to taxpayers for a given Fiscal Year.

Appropriations Limit - FY 2019-20

	Fiscal Year	CPI/Personal Income Change	Population Change	Per Capita Change	Cumulative Appropriations Limit
	2013-14	5.12	1.51	6.71	493.82115,362,
	2014-15	(0.23)	0.79	0.56	497.14116,008,
	2015-16	3.82	0.68	4.53	524.19121,263,
	2016-17	5.37	0.43	5.82	560.52128,321,
	2017-18	3.69	0.11	3.80	585.62133,197,
	2018-19	3.67	0.49	4.18	614.28138,764,
	2019-20	3.85	0.04	3.89	642.07144,162,
	2020-21	3.73	0.98	4.75	677.31151,010,
FY 2016-17 FY 2017-18 FY 2018-19 FY 2019-20 FY 2020-					
Proceeds of Taxes	75,222,871	82,850,048	85,548,494	92,903,308	83,865,000
Appropriations Subject to Limit	75,222,871	82,850,048	85,548,494	92,903,308	83,865,000
Current Limit	128,321,141	133,197,341	138,764,991	144,162,951	151,010,711
Amount Under Limit	53,098,270	50,347,303	53,216,501	51,259,651	67,145,411

The City of South San Francisco, like the majority of California cities, is significantly under its Gann Appropriations limit, meaning the tax revenues it receives is less than the maximum. For FY 2020-21, the allowable limit is \$151.0 million, and the actual proceeds of taxes (excluding user fees or permits or fines) are estimated at \$83.9 million, meaning the City is under its Appropriations limit by \$67.1 million.

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 recommends a conservative budget approach at this time with measured 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. Proposed FY2020-21 General Fund Department Budget
2. Proposed FY2020-21 General Fund Expenditure Budget
3. Fund Summaries of Other Funds and Impact Fees
4. PowerPoint Presentation