



STAFF REPORT

AGENDA NO: 10b

MEETING DATE: September 21, 2020

To: Honorable Mayor and City Council

Date: September 21, 2020

From: Carol Augustine, Finance Director – (650) 558-7222

Subject: Review of the FY 2019-20 Unaudited General Fund Financial Summary; and Adoption of a Resolution Amending the Operating Budget to Reflect Receipt of Coronavirus Relief Funds (CRF) in FY 2020-21

RECOMMENDATION

Staff recommends that the City Council accept the FY 2019-20 Unaudited General Fund Financial Summary, and adopt the attached resolutions amending the FY 2020-21 operating budget to reflect the receipt of Coronavirus Relief Funds (CRF) in FY 2020-21.

BACKGROUND

The budget process for the current (FY 2020-21) year was significantly upended by the world-wide outbreak of a coronavirus in late February, when staff was completing the mid-year report for FY 2019-20. The global response to the COVID-19 pandemic impacted every facet of life and greatly altered the economic landscape at the national, state, and local levels. Staff prepared a revised economic outlook for the City and amended current-year projections for the City's key revenue sources. With the proposed revenue adjustments, the General Fund balance at June 30, 2020 was estimated to be \$37.8 million, as opposed to the \$50.5 million presented in the mid-year report. Lacking a solid basis for revenue estimates, adoption of a cautious budget for the 2020-21 fiscal year in June was justified.

This report summarizes the City's General Fund fiscal status as of June 30, 2020 by providing an analysis of unaudited revenues and expenditures in comparison to the current adjusted budget for the 2019-20 fiscal year. Revised forecasts incorporate these unaudited results.

DISCUSSION

At the time of adoption, the City's FY 2019-20 budget anticipated another year of stable economic growth, with revenues generally expected to outpace those of the prior fiscal year by a moderate margin. The budget supported continued funding of the City's underfunded pension and retiree medical programs, as well as a \$6.5 million contribution to the Capital Investment Reserve. The budget also provided \$2 million for the anticipated debt service necessary to fund the new Community Center construction project.

The COVID-19 pandemic began to make headlines just as the City's mid-year financial report was being prepared, substantially altering the recommended mid-year adjustments to the 2019-20 fiscal year budget. This necessitated significant revenue budget revisions, including revising General Fund revenues downward by \$9.9 million (12.5 percent), to reflect the impacts of the public health crisis on the travel industry and global economic growth as a whole. The City Council approved these budget changes at the same time that the fiscal year 2020-21 budget was being formulated, projecting a further 11.2 percent decline in revenue.

City staff have worked diligently to close the books as of June 30, 2020 in preparation for the annual independent audit and the compilation of the Comprehensive Annual Financial Report for the fiscal year. Although the results presented at this time are not yet audited, staff is confident that they will not change significantly during the audit process.

The City's year-end unaudited General Fund revenues are approximately \$1.5 million (2.2 percent) higher than projected in the FY 2019-20 adjusted budget. While some of the budget variances are small, the larger variances merely reflect the difficulty in predicting the economic impact of the pandemic and the course of recovery that lies ahead. The major section of this analysis identifies the City's major General Fund Revenue variances, and, to the extent possible, the bearing these revenue results will have on the current-year budget.

Departmental expenditure budget results are discussed in less detail, as the departmental budgets were not significantly altered toward the end of the fiscal year. Budgetary savings of \$4.5 million serve to limit the draw on General Fund reserves: where the General Fund balance was anticipated to decrease nearly \$11.9 million, a \$5.9 million decrease is reported. In addition, a discussion of reimbursements of certain FY 2019-20 program expenditures from the Coronavirus Relief Fund is included to support the resolution to include these reimbursement grant revenues in the current-year budget.

Two months into the new fiscal year, there is no additional data to warrant any General Fund expenditure budget amendments at this time. The mid-year report will provide an opportunity to more accurately reflect current needs, respond to further unanticipated events, support changes in programming direction, or utilize information that was not available at the time the FY 2020-21 budget was proposed.

General Fund - Revenues

The following table shows actual General Fund revenues for the 18-19 fiscal year, the unaudited revenues for the fiscal year ended June 30, 2020, and the current-year adopted budget. There are four columns for the 2019-20 fiscal year: The "FY 19-20 Adjusted Budget" column shows the revenue budget as revised in May 2020; the "FY 19-20 Unaudited Results" column shows the most current results available for the fiscal year; the remaining two columns for the fiscal year reflect the budget variance in dollars and as a percentage of the adjusted revenue budget. A "FY 20-21 Adopted Budget" column is included to allow an overall assessment of the current year's revenue projections in light of the results for the fiscal year ended June 30, 2020. As the City is only in the

third month of the new fiscal year, there is insufficient data to provide further insight into the adequacy of the FY 2020-21 Budget; this will be provided later in the fiscal year.

CITY OF BURLINGAME, CA SUMMARY OF GENERAL FUND REVENUES						
	FY18-19 Actuals	FY19-20 Adjusted Budget	FY19-20 Unaudited Actuals	Budget Variance		FY20-21 Adopted Budget
				\$	%	
Property Tax	\$ 21,955,938	\$ 23,435,600	\$ 23,304,402	\$ (131,198)	-0.6%	\$ 25,136,000
Sales and Use Tax*	17,819,970	14,230,000	14,562,627	332,627	2.3%	12,000,000
Transient Occupancy Tax	29,384,461	20,050,000	20,416,543	366,543	1.8%	14,000,000
Other Taxes						
Franchise Tax	1,657,802	1,642,000	1,656,664	14,664	0.9%	1,641,200
Business Licenses	1,039,154	865,000	878,498	13,498	1.6%	730,000
Real Property Transfer Tax	476,852	360,000	534,517	174,517	48.5%	400,000
State HOPTR	59,592	60,000	59,000	(1,000)	-1.7%	60,000
Licenses & Permits	84,610	79,500	98,904	19,404	24.4%	78,200
Fines, Forfeitures and Penalties	1,255,675	608,000	791,870	183,870	30.2%	560,000
Use of Money & Property	1,870,150	130,000	101,996	(28,004)	-21.5%	80,000
Charges for Services	6,282,169	5,135,000	5,471,234	336,234	6.5%	5,007,000
Other Revenue	59,071	30,000	81,033	51,033	170.1%	30,000
State Subventions	211,117	140,000	177,563	37,563	26.8%	143,000
Interest Income	2,380,791	2,400,000	2,466,249	66,249	2.8%	1,563,000
Total, General Fund Revenue	\$ 84,537,352	\$ 69,165,100	\$ 70,601,100	\$ 1,436,000	2.08%	\$ 61,428,400

* Sales and Use Tax - included Measure I revenue \$1.96 million and \$1.925 million, respectively, for the FY19-20 and FY20-21 Budget.

Property Taxes – The San Francisco Bay Area housing sector has in the past been a sustaining factor in the local economy throughout the most difficult of past economic downturns. Property tax revenues leveled off in fiscal years 2010-11 and 2011-12, but have increased by over 70.4 percent since that time - nearly 40.0 percent in the last five years. Assessed property values continue to rise, increasing 11.52 percent in the past year, after rising 7.28 percent in the prior year. The local housing market appears to have remained strong throughout the first half of 2020, despite the cloud of economic uncertainty created by the pandemic. Mortgage/lending rates are extremely low. Although recent years have seen a continued interest in both residential and commercial real estate development, the stay-at-home orders have shifted the outlook for all commercial markets. Hotels, restaurants, and retail establishments have been hit hardest by the pandemic, but office vacancy rates are also expected to rise as businesses re-think their need for office space, and white-collar workers grow accustomed to working from home.

Property tax rolls are established prior to the beginning of the fiscal year. Therefore, fiscal year 2020-21 projections do not yet reflect any impact from the pandemic-induced recession. In fact, the County's roll value for Burlingame (land and improvements) has already increased 1.46 percent, excluding any inflationary factor of up to two percent applied each December to all California property assessments. As shown in the chart below, the preponderance of the City's property tax revenues (nearly 72 percent) comes from secured property taxes, which are established by the tax rolls and diminished only through refunds on successful appeals to the County Assessor's Office.

CITY OF BURLINGAME, CA PROPERTY TAXES						
	FY18-19 Actual	FY19-20 Adjusted Budget	FY19-20 Unaudited Actuals	Budget Variance		FY20-21 Adopted Budget
				\$	%	
Current Secured Property Tax	\$ 14,649,598	\$ 15,820,000	\$ 15,825,904	\$ 5,904	0.0%	\$ 17,573,000
Secured Supp. Property Tax	516,148	545,000	422,675	(122,325)	-22.4%	491,000
Current Unsecured Property Tax	755,835	821,000	804,184	(16,816)	-2.0%	821,000
Property Tax in Lieu of VLF	3,465,699	3,559,300	3,583,335	24,035	0.7%	3,560,000
ERAF Refund	2,252,373	2,374,300	2,374,327	27	0.0%	2,375,000
Unitary Tax	316,284	316,000	304,019	(11,981)	-3.8%	316,000
Total, Property Taxes	\$ 21,955,938	\$23,435,600	\$23,314,442	\$ (121,158)	-0.5%	\$25,136,000

In FY 2019-20, actual property tax revenue receipts were within ½ percent of the adjusted budget, representing an 8.0 percent increase in property taxes over the prior year. Revenues from secured property taxes are expected to rise approximately 11.0 percent in FY 2020-21, due partly to the addition of the newly developed properties at Burlingame Point. (The final assessed roll for Burlingame received from the County Controller in August reflects an 11.2 percent rise over the prior year.) Receipts of supplemental property taxes vary from year to year with the timing, value, and volume of property transfers and new construction. These revenues, which are difficult to predict, represent a small part of the secured roll. Revenues from unsecured property taxes (assessed on business fixtures, business personal property, boats, aircraft, etc.) fell slightly short of the budget projections in fiscal year 2019-20, but these are also less consequential to the total of property tax receipts. Unitary taxes are fairly consistent.

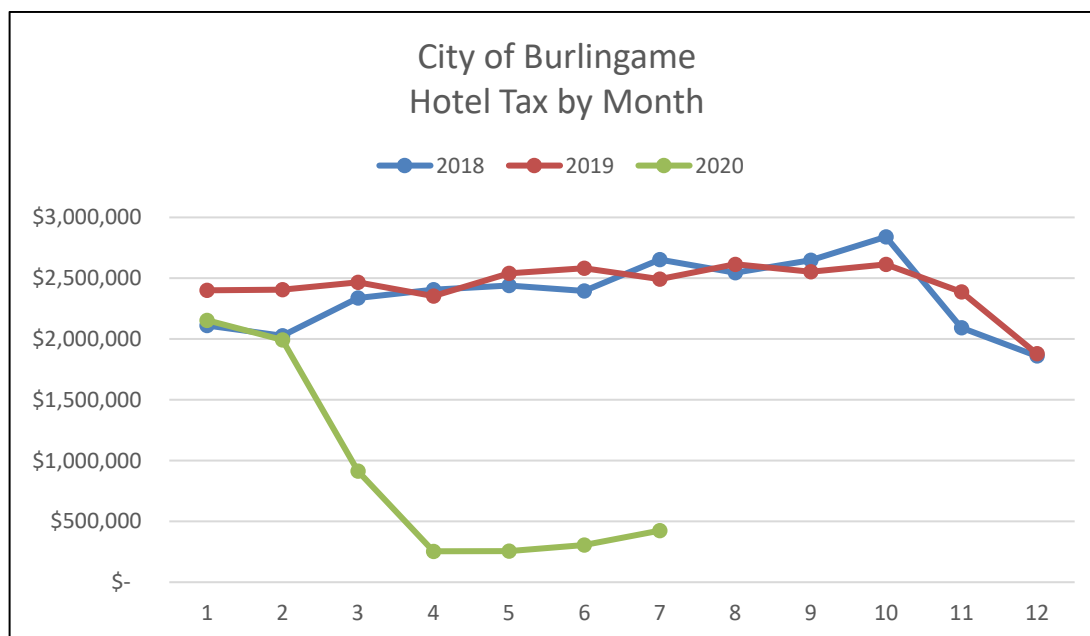
Excess ERAF (Educational Revenue Augmentation Fund) refunds have varied considerably over the years. Only in recent years has this revenue line item been fully budgeted, due to the possibility that the State's school funding formulas could change and require higher draws on the County's ERAF. Since 2010, the improved economy has had a positive effect on the County's ERAF, as it appears that the State can meet its obligations to educational agencies because of improved property tax revenues in the area. In fact, higher property tax revenues result in more funds from local agencies being held back for the ERAF, while fewer demands for education funding are being made on these funds. Therefore, the full amount of 2019-20 ERAF refunds (\$2.37 million) was included in the property tax projection for fiscal year 2020-21.

Although the amount of Property Tax In Lieu of VLF (which is based on growth in the County's secured property tax roll), should be fairly predictable, these revenues are *funded* from the county-wide ERAF, and then from the property tax revenues of non-basic aid school districts. The number of non-basic aid school districts in the County has fallen over recent years, resulting in less available property tax revenues to fund VLF. In FY 2019-20, there was a county-wide shortfall in the ERAF, decreasing the amount available for the VLF distribution. The County continues to work with its legislative advocates to request that any VLF shortfall amounts be appropriated in the State's subsequent year's budget. In addition, newly enacted SB 98 requires the State Controller's Office (SCO) to issue guidelines on how to determine a school district's ERAF entitlement no later

than December 2020 and be effective in calculating ERAF distributions for FY 2019-20 and thereafter. This should bring some stability to Property Tax In Lieu of VLF revenues in the future.

Transient Occupancy Taxes (TOT) – TOT revenues have (since 2011) constituted Burlingame's largest General Fund revenue source and are usually a good indicator of current economic activity. TOT revenues are reported and paid to the City each month (for the prior month), so results through July 31, 2020 have been collected as of the time of this report.

The graph below shows the rapid and sharp decline in these revenues as international air traffic began to slow early in 2020, and the progression downward as the pandemic brought most travel-related activities to a halt. Burlingame hotels, which had experienced very high occupancy rates in past years, were forced to cut staff, shutting off floors and even suspending operations for whole hotels. Many area hotels experienced single-digit occupancy rates in April and May. In an attempt to slow transmission of the virus, the County continues to lease some hotel rooms in order to offer health care workers and patients an alternative to returning home. Other hotels are being used to alleviate the density in homeless shelters, where the virus can also spread rapidly. But this temporary re-purposing of rooms does nothing to help the hospitality industry or the economy as a whole.



TOT revenues for the fiscal year ended June 30, 2020 were \$20.4 million. Although this result is 1.8 percent above the projection, the final adjustment to the budget was made with only one quarter remaining in the fiscal year. The budget for FY 2020-21 was established assuming that the 31.8 percent decrease in TOT revenues in fiscal year 2019-20 would be followed by an additional 32.4 percent slide. These projections were based on a conservatively estimated recovery of 70 percent of these revenues by the end of the 2020-21 fiscal year.

Because TOT revenues are based on room rentals, the negative impacts of the pandemic on both occupancy and room rates are considered in developing a projection for these revenues. A more recent forecast for the San Francisco Metropolitan Area indicates that both occupancy and room rates will not fully recover until *calendar* year 2023. The slide below was provided to the Economic Development Subcommittee at its September 9th meeting by John Hutar, CEO of the San Mateo County/Silicon Valley Convention and Visitors Bureau (SMCCVB). It should be noted that Burlingame's larger hotels are heavily reliant on travel into the SFO Airport – particularly corporate travel from the East Coast. Not until restrictions on business travel are lifted will these hotels begin their recovery, and the length of the recovery will depend on how willing employees will be to travel once the restrictions are lifted. Although smaller hotels are poised to recover more quickly (historically the limited service segment recovers first), Burlingame hotels may not follow the same path to recovery as others in the San Francisco Metropolitan Area. For example, resort hotels in Half Moon Bay and Pacifica are experiencing a late summer surge, with much higher occupancy rates than other hotels in the county.

IMPACT ON FORECASTED PERFORMANCE – BASELINE FORECAST – SAN FRANCISCO MSA						
San Francisco MSA Forecast Summary – Q1 2020						
Year	Occ	ΔOcc	ADR	ΔADR	RevPAR	ΔRevPAR
2018	81.9%	-1.0%	\$240.62	5.2%	\$197.13	4.1%
2019	82.0%	0.0%	\$250.67	4.2%	\$205.46	4.2%
2020	81.9%	-0.1%	\$247.98	-1.3%	\$203.13	-1.4%
2020 - Adj	45.4%	-44.7%	\$188.46	-24.8%	\$85.50	-58.4%
2021	67.0%	47.7%	\$204.23	8.4%	\$136.87	60.1%
2022	77.6%	15.9%	\$237.91	16.5%	\$184.72	35.0%
2023	82.0%	5.6%	\$249.91	5.0%	\$204.90	10.9%
2024	83.6%	2.0%	\$258.62	3.5%	\$216.24	5.5%

Source: CBRE Hotels Research, STR, Q1 2020
¹ Forecast for 2020 prior to COVID-19, CBRE Hotels Research, STR, Q4 2019

Long Run Averages 1988 to 2019
 Occupancy: 62.6%, ADR Change: 3.0%, RevPAR Change: 3.2%

CBRE 23 HOTEL COUNCIL OF SAN FRANCISCO

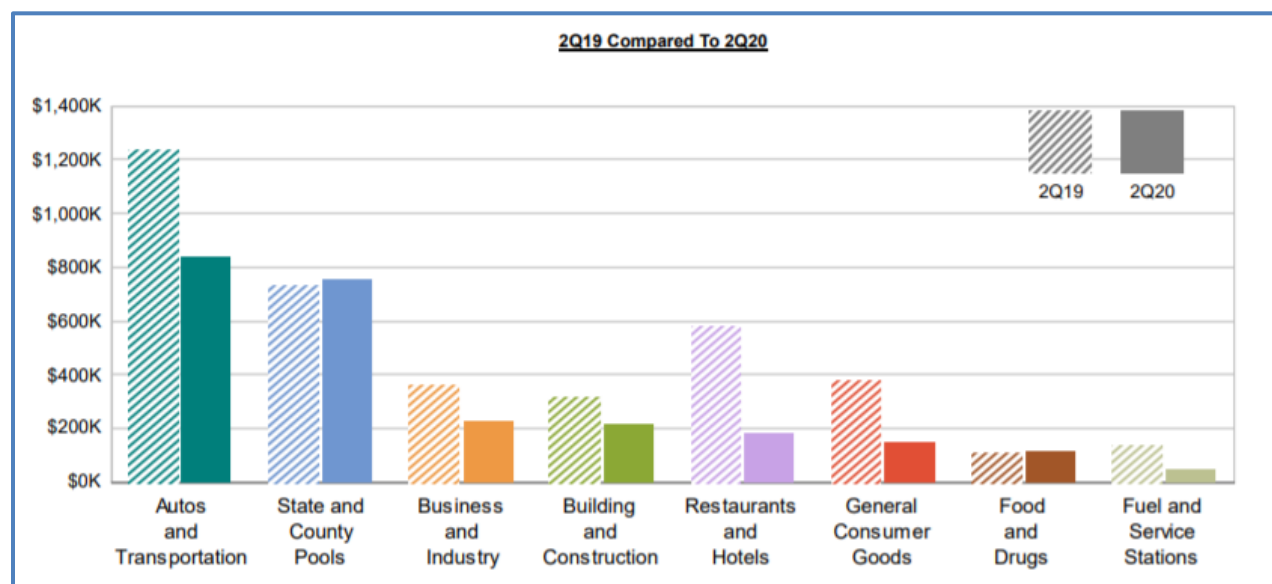
Although the “Re-opened and Ready” campaign spearheaded by the SMCCVB was widely implemented and has met with positive results, the trajectory of the recovery for Burlingame's hotels is unknown. As the fiscal year develops, staff will recommend an amendment to the adopted budget for TOT revenues as necessary. The “most probable” scenario of the 5-year forecast presented with the FY 2020-21 Budget assumed that TOT revenues would reach 83% of 2018-19 levels by fiscal year 2024-25 (the last year of the forecast). Given the information available at the time of this analysis, this assumption seems reasonable.

Sales and Use Taxes – Note that the revenues from the City's Measure I tax, which was effective April 1, 2018, are included in this analysis. Although Measure I revenues and expenditures are

tracked internally in a separate sub-fund, they are included as General Fund transactions for financial reporting purposes.

Because of the time lag in the reporting and submission of sales taxes to the California Department of Tax and Fee Administration (CDTFA), the results of the second quarter of 2020 are just now being deciphered. Coupled with the Governor's decision to allow a 90-day extension for sales, use, and transactions tax returns and payments, it is difficult to ascertain the true damage to these revenues resulting from the COVID 19 pandemic and its aftermath, even after the data is collected. Sales tax receipts reflected a fairly healthy economy at the time of the FY 2019-20 mid-year, analysis, despite an anticipated slowdown in auto sales. Once the City's sales tax consultant, HdL, estimated the impact of the COVID 19 pandemic, staff proposed a downward adjustment for the 2019-20 fiscal year of over \$2.6 million. The HdL forecast for California assumed that the statewide shelter-in-place order would continue until the end of May 2020. The forecast also assumed that the virus would have run its course by the end of September, and did not consider a return of the virus (and potential economic impacts) after that time. Under this scenario, declines in sales tax revenues were expected to continue through the fourth quarter of 2020, with only moderate gains for several quarters thereafter. The most dramatic decreases were expected during the first and second quarter of 2020.

The CDTFA just recently released sales tax totals for the second quarter of 2020. HdL has adjusted the data for aberrations to provide a clearer picture of actual economic activity behind the sales tax receipts, resulting in the *preliminary* charts and graphs that follow. (Note that sales tax revenues are recognized by the City based on allocations by the state, not the HdL reports.) The chart below shows the devastating impact of the pandemic on the City's sales tax revenues, with major declines in most major industry groups compared to the same quarter of 2019.



A review of Burlingame's second quarter data for 2020 indicates a decline in taxable transactions of approximately 33.6 percent from the second quarter of 2019. Not surprisingly, the industry group hardest hit as a percentage was Restaurants and Hotels, with a 68.3 percent decrease in taxable

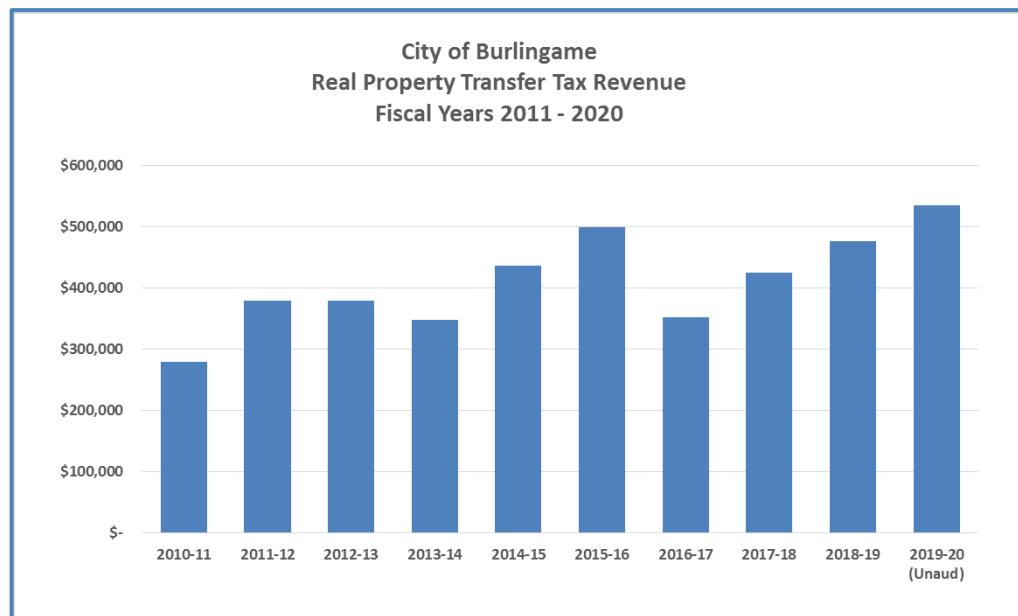
sales. Fuel and Service Stations suffered a 60.8 percent decline – the result of a sudden decrease in commuter traffic coupled with lower per gallon gas prices than in 2019. The General Consumer Goods sector saw a decrease of 58.6 percent when compared to the second quarter of 2019. The Autos and Transportation sector, which comprises nearly a third of the City’s taxable transactions, reflected a 31.8 percent decline in taxable sales. Some of the decline in auto sales was anticipated, as the prior-year totals were very strong.

The allocation of taxes from the countywide use tax pool actually increased in the last two quarters of the 2019-20 fiscal year, constituting a larger portion of total sales tax revenues than ever before. This portion of the City’s sales tax revenues had been growing faster than most other components of local sales tax receipts for several years, but that growth has been intensified by the pandemic: the increase reflects a continued acceleration of online shopping for merchandise shipped from out of state, particularly as brick-and-mortar retailers are closed (or allowed to operate at minimum capacity). The Wayfair decision implementation, launched in the second quarter of 2019, providing for the remittance of more sales tax on out-of-state/on-line transactions, has also added new revenues in this category. The shift in consumer spending habits to non-taxable goods and services may have been suspended during the pandemic, but the trend toward reliance on on-line purchases will continue to put pressure on the City’s smaller retailers in the years to come.

Although it is generally recognized that the virus will not “have run its course by the end of September,” staff does not anticipate changes to the Sales Tax projection for fiscal year 2020-21 at this time. The adopted budget for FY 2020-21 for Sales and Use Tax provided for a slightly reduced forecast than projected by the HdL consultant and appears to be adequately conservative in light of the FY 2019-20 results. However, the allocations from the state rely on estimates of actual sales tax activity, and the analyses available from the data collected by the CDTFA are less than optimal due to the deferral of tax filings. More reliable data should be available once the deferrals have ended for all 2020 quarters.

<u>City of Burlingame Sales and Use Tax</u>			
Major Industry Groups	FY 2019-20 Adjusted Budget	FY 2019-20 Unaudited Actual	FY 2020-21 Adopted Budget
Autos & Transportation	3,328,621	4,175,335	3,120,000
Building & Construction	1,019,769	1,058,200	1,020,000
Business & Industry	1,152,424	1,050,836	1,090,000
Food & Drugs	363,930	412,234	375,000
Fuel & Service Stations	720,359	334,045	720,000
General Consumer Goods	1,230,328	1,349,012	1,200,000
Restaurants & Hotels	1,657,358	1,761,270	1,550,000
State & County Pools	2,669,464	3,009,040	2,875,000
State & County Admin		-776,378	
	<u>12,142,253</u>	<u>12,373,594</u>	<u>11,950,000</u>
Measure I (from State)	1,957,128	2,285,175	1,925,000
Public Safety Sales Tax	130,000	165,920	130,000
	<u>14,229,381</u>	<u>14,824,689</u>	<u>14,005,000</u>

Other Taxes – Although most of the City’s franchise taxes came in very close to the adjusted budget for FY 2019-20, Real Property Transfer Taxes came in much higher, reflecting a volume of home sales apparently unabated by the pandemic. Month-to-month variation in real estate sales makes this revenue difficult to project, as the sales of significant properties can cause “spikes” in the amount of taxes collected. The current year budget of \$400,000 for this line item appears to be appropriate.



Fines, Forfeitures and Penalties – This category consists largely of revenue from parking citations and vehicle code violation fines. Projections for parking citations were reduced (from \$900,000 to \$540,000) to reflect the lower volume of citations anticipated due to the waiving of parking fees in the downtown areas in the last quarter of the fiscal year. However, collections of these fines are delayed, so fees for citations issued prior to the pandemic continued to be paid. Actual parking citation fees collected in FY 2019-20 were nearly \$714,000. Vehicle Code Fines, which were reduced from \$70,000 to \$60,000, came in at \$63,000.

Charges for Services – As seen in the chart below, most departments generate some amount of receipts in this revenue category. The budget was greatly reduced for FY 2019-20 when the impact of the pandemic on the remaining fiscal year became apparent. At a revised budget of \$5.1 million, this category of receipts accounts for approximately 7.4 percent of Burlingame’s total General Fund revenues.

CITY OF BURLINGAME, CA CHARGES FOR SERVICES BY DEPARTMENT						
By Department	FY18-19 Actual	FY19-20 Adjusted Budget	FY19-20 Unaudited Actuals	Budget Variance		FY20-21 Adopted Budget
				\$	%	
Police	\$ 91,570	\$ 363,500	\$ 617,948	\$ 254,448	70.0%	\$ 75,000
Parks	127,470	140,000	103,817	(36,183)	-25.8%	160,000
Recreation	3,374,909	2,304,000	2,067,907	(236,093)	-10.2%	2,250,000
Aquatics	697	0	12,056	12,056	n/a	220,000
Planning	1,057,703	797,000	650,086	(146,914)	-18.4%	887,000
Public Works	861,185	781,000	1,267,341	486,341	62.3%	681,000
Library	759,320	740,500	741,253	753	0.1%	725,000
Other	9,315	9,000	10,826	1,826	20.3%	9,000
Total, Departmental Fees	\$ 6,282,169	\$ 5,135,000	\$ 5,471,234	\$ 336,234	6.55%	\$ 5,007,000

As a category, these General Fund revenues exceeded the adjusted budget in FY 2019-20 by \$336,000. This is largely attributable to a reimbursement of the cost of the additional police detail assigned to Burlingame Avenue. (Although an upward adjustment was made mid-year for this reimbursement, it was unknown if the request for these public safety services would continue through the remainder of the fiscal year.) In addition, the Public Works Department experienced a \$486,341 positive variance due largely to a shoring agreement for the 250 California Drive development project. These positive variances were somewhat offset by a decrease in Parks and Recreation fees due to the cancellation of many programs and summer camps. Planning fees also fell short of the adjusted budget for the fiscal year.

Due to the uncertain nature of the recovery, staff has no further insight into the volume of services that will ultimately be provided in the current fiscal year. By mid-year there may be more clarity on the volume of ongoing application and permit activity, as well as recreational offerings that may be available.

Investment Income – Similar to other cities, Burlingame invests in only the safest of securities (the highest priority of the City's investment policy is preservation of capital), and yields continued to hover at historic lows for the last ten years, rising only slightly in recent years prior to the COVID-19 pandemic. The Federal Reserve spent the second quarter of 2020 mobilizing and refining its arsenal of emergency lending programs to provide liquidity and stabilize financial markets. The central bank left the target range for the federal funds rate unchanged at 0.00% to 0.25%. Due to its diversified, yet conservative holdings, the yield on the City's \$124 million main portfolio dropped slowly from 2.42 percent as of June 30, 2019 to 1.99 percent as of June 30, 2020. Maintaining its focus on safety and liquidity, the City maintains funds in the State's Local Agency Investment Fund (LAIF) and the California Asset Management Program (CAMP). CAMP and LAIF are permitted investments for all local agencies under California Government Code §53601(p). The yield on the City's account with LAIF dropped from 2.42 to 1.22 percent over the fiscal year, and the yield on CAMP dropped from 2.48 to 0.51 percent over the same period. Investors are now braced for

interest rates to remain “lower for longer”, so the reduced budget for General Fund interest income for FY 2020-21 of \$1,563,000 seems appropriate.

It should be noted that the City’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2020 will reflect an additional \$2 million in “interest income” from the City’s investment holdings due to the requirement to “mark-to-market” the portfolio at each year end. Changes in market value have a significant impact on the reported earnings of the portfolio, and because the City’s safe investments were in high demand as of June 30, an unrealized gain was created when the investments were reported at market value.

For this reason, the City’s budget reflects investment income *with the mark-to-market adjustment removed* for all funds. Such treatment recognizes that the City typically holds its investments to maturity and removes the uncertainty of the market place from the City’s revenue forecasts. Therefore, “actual” interest income received in the prior year has been restated to reflect earnings unadjusted for market value, and budgets have been established to reflect interest earning prior to the market adjustment at year end.

State Subventions (Intergovernmental Revenues) – This revenue line item in the General Fund now consists largely of the State’s COPS (Citizens’ Option for Public Safety) program revenues. These funds are allocated to the counties and then distributed to the various agencies within each county, with a minimum of \$100,000 to each law enforcement jurisdiction. Burlingame has received an increased allocation of COPS funding in recent years, and FY 2019-20 was no exception, with approximately \$156,000 from this program.

Other Revenues – The City receives other miscellaneous revenues from time to time. The budget for these miscellaneous revenues includes unclaimed property from the State, rebates, miscellaneous reimbursements, and refunds of prior-year expenses. Such amounts average about \$30,000 annually. In fiscal year 2019-20, this category was credited with a \$25,000 one-time license fee for the operation of electric vehicle chargers in the City’s parking lot off Chula Vista. In total, over \$71,000 was received in miscellaneous revenues in the past fiscal year.

General Fund - Expenditures

The following table shows the FY 2019-20 actual (unaudited) General Fund expenditures by critical service area:

CITY OF BURLINGAME, CA
SUMMARY OF GENERAL FUND EXPENDITURES

	FY18-19 Actuals	FY19-20 Adjusted Budget	FY19-20 Unaudited Actuals	<u>Budget Variance</u>		FY20-21 Adopted Budget
				\$	%	
<u>By General Fund Program</u>						
General Government	\$ 5,513,693	\$ 7,191,099	\$ 6,482,228	\$ (708,871)	-9.9%	\$ 7,118,647
Public Safety	27,758,430	29,699,707	28,717,726	(981,981)	-3.3%	\$ 30,157,969
Public Works	5,934,117	6,533,410	5,940,832	(592,578)	-9.1%	\$ 7,073,458
Community Development	1,709,736	2,694,507	2,197,979	(496,528)	-18.4%	\$ 2,549,168
Leisure & Culture	14,847,131	16,610,808	14,854,509	(1,756,299)	-10.6%	\$ 16,395,637
Total Expenditures	\$ 55,763,107	\$ 62,729,531	\$ 58,193,274	\$ (4,536,257)	-7.2%	\$ 63,294,879

Again, there are four columns for fiscal year 2019-20. The “FY 19-20 Adjusted Budget” column shows the budget that the City Council revised in May 2020 after the short-term impacts of the pandemic could be analyzed. The second FY 2019-20 column shows the unaudited results for each program area’s expenditures. The third and fourth FY 2019-20 columns show the resulting variance with the FY 2019-20 adjusted budget, by dollar amount and percentage. These columns are flanked by the prior year (FY 2018-19) actuals on the left and the FY 2020-21 Adopted Budget on the right, for sake of comparison. Below is the same data, by expense category:

CITY OF BURLINGAME, CA
SUMMARY OF GENERAL FUND EXPENDITURES

	FY18-19 Actuals	FY19-20 Adjusted Budget	FY19-20 Unaudited Actuals	<u>Budget Variance</u>		FY20-21 Adopted Budget
				\$	%	
<u>By Expense Categories</u>						
Salaries & Wages	\$ 18,005,210	\$ 20,207,319	\$ 19,080,567	\$ (1,126,752)	-5.6%	\$ 20,394,956
Benefits	10,970,167	12,648,341	12,156,450	(491,891)	-3.9%	13,376,968
Operating Costs	22,478,484	25,445,119	22,644,706	(2,800,413)	-11.0%	24,789,910
Internal Services	4,177,333	4,170,252	4,170,252	0	0.0%	4,570,045
Capital Outlay	131,913	258,500	141,298	(117,202)	-45.3%	163,000
Total Expenditures	\$ 55,763,107	\$ 62,729,531	\$ 58,193,274	\$ (4,536,257)	-7.2%	\$ 63,294,879

A 7.2 percent variance exists for General Fund expenditures for the 2019-20 fiscal year. This is a rather high variance – departmental expenditures savings are usually within 3-4 percent of the adjusted budget. This large a variance would typically indicate a difficulty filling staff vacancies. Although much of the City’s casual (part-time and seasonal) work-force was furloughed in April and eventually terminated in May, the largest contributor to this positive variance was in operating costs. As City facilities were closed to the public, many activities were halted, and the associated contractual and operating costs, particularly in the Parks and Recreation and Community Development departments, ceased. Very few adjustments were made to the departmental operating budgets in the last months of the fiscal year, except to provide for certain programs developed specifically in response to the public health crisis recovery, as discussed below.

Coronavirus Relief Fund Expenditures

On March 4, 2020, Governor Newsom proclaimed a State of Emergency as a result of the threat of COVID-19. A week later on March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic. The San Mateo County Board of Supervisors voted on March 10 to ratify a declaration of a local health emergency and a proclamation of a local emergency in response to COVID-19. The City of Burlingame declared its own local emergency at the City Council meeting on March 16th. Given the significant needs and quick response necessary during an emergency, the City took several actions to provide immediate economic relief to local businesses and residents. Such actions included the funding of small business loans to Burlingame businesses, procurement of emergency supplies, distribution of stored value debit cards to low income households, and assistance to non-profit organizations to provide rental assistance and alleviate food insecurity.

The costs of all of these activities are reimbursable from the State's Coronavirus Relief Fund (CRF). The fund was established by the federal CARES Act, and distribution was made by the state, based on population (although some funding was dedicated to specific localities with populations of at least 500,000). Burlingame will receive \$371,871 (in six equal installments monthly thru December 2020) in the current fiscal year.

The CARES Act requires that the payments from the Coronavirus Relief Fund only be used to cover expenses that—

- are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
- were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
- were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

The U.S Treasury and California's State Department of Finance provided guidance on eligible uses of the funds. In addition to the > \$1 million spent on the programs described above, municipal expenditures for public safety personnel engaged in response to the coronavirus were also eligible for reimbursement, even if included in the municipal budget. Since Burlingame's eligible expenditures far exceeded the amount of its CRF allocation, Police personnel and CCFD costs were not included in the initial reporting to the state.

Because CRF revenues were not anticipated with the current-year budget adoption in June, approval of the resolution adjusting the fiscal year 2020-21 General Fund revenue budget for receipt of these funds is recommended with this report.

General Fund Operating Summary

A summary of the unaudited operating results of the General Fund for fiscal year 2019-20 is shown in the schedule below:

CITY OF BURLINGAME, CA GENERAL FUND OPERATING SUMMARY				
	FY18-19 Actuals	FY19-20 Adjusted Budget	FY19-20 Unaudited Actuals	FY20-21 Adopted Budget
Total Revenue	\$ 84,537,352	\$ 69,165,100	\$ 70,601,100	\$ 61,428,400
Expenditures				
Departmental Expenditures	(55,763,107)	(62,729,531)	(58,193,274)	(63,294,879)
Transfers to Debt Services	(4,684,811)	(4,708,763)	(4,708,763)	(2,728,338)
Transfers to Capital Project Fund	(10,934,000)	(9,485,000)	(9,485,000)	(3,155,000)
Other Transfer In (Out)	2,640,137	2,400,319	2,400,319	2,573,550
Total Expenditures	(68,741,781)	(74,522,975)	(69,986,718)	(66,604,667)
Net Operating Surplus (Deficit)	15,795,571	(5,357,875)	614,383	(5,176,267)
Transfer to Capital Investment Reserve	(3,000,000)	(6,500,000)	(6,500,000)	0
Change in General Fund Balance	\$ 12,795,571	\$ (11,857,875)	\$ (5,885,617)	\$ (5,176,267)

As a result of a \$1.4 million positive revenue variance and \$4.5 million in departmental budgetary savings (positive expenditure) variance, the General Fund shows a nearly \$5.9 million deficit (negative net operating revenues) for fiscal year 2019-20, an improvement over the \$11.9 million deficit provided in the adjusted budget.

General Fund Balance

Unaudited results for the City's General Fund show a total fund balance of approximately \$43.3 million at the end of the 2019-20 fiscal year.

CITY OF BURLINGAME, CA CHANGES TO GENERAL FUND BALANCE		
	FY19-20 Unaudited Actuals	FY 2020-21 Adopted Budget
Beginning Fund Balance (audited)	\$ 49,167,751	\$ 43,282,134
Projected Revenues & Expenditures		
Projected revenues	70,601,100	61,428,400
Projected departmental expenditures	(58,193,274)	(63,294,879)
Subtotal, Revenues Net of Expenditures	12,407,827	(1,866,479)
Transfer to Debt Service	(4,708,763)	(2,728,338)
Transfer to Capital Project Fund	(9,485,000)	(3,155,000)
Other Transfers In (Out) of General Fund	2,400,319	2,573,550
Transfer to CIP Renewal & Replacement Reserve	(6,500,000)	0
Ending Fund Balance (Projected)	\$ 43,282,134	\$ 38,105,867

The General Fund experienced a surplus of nearly \$12.8 million for fiscal year 2018-19, largely reflected in the increased *unassigned* fund balance to nearly \$20.4 million. This increase in General Fund unassigned fund balance provided the City opportunities to make progress in funding long-term pension liabilities and/or setting aside additional funds in the Capital Investment Reserve for infrastructure in the 2019-20 fiscal year. However, the abrupt decline in the City's revenues due to the pandemic in the third quarter of the fiscal year resulted in a \$5.9 million decrease in the General Fund Balance, leaving an (unaudited) unassigned fund balance of \$13.4 million as of June 30, 2020. Still, a \$6.5 million transfer from the General Fund to the Capital Investment Reserve was maintained; the City's pension trust fund was increased by over \$2.9 million (for General Fund liabilities), and retiree medical obligations continued to be funded and included in departmental operating expenses. These long-term obligations, and the City's strategies to provide for them as part of a sustainable budget, will be reviewed in detail in an upcoming City Council study session.

As of June 30, 2020, the General Fund's fund balance of \$43.3 million represents 61.8 percent of General Fund operating expenditures of \$70.0 million. Because \$10.8 million is restricted for pension benefits through the § 115 Trust Fund, a better measure of coverage may be that the unrestricted fund balance of nearly \$32.9 million equates to 54.7 percent of the fund's operating expenditures. The City's General Fund Reserve Policy and resulting reserve target was based on an assessment of the City's revenue volatility and infrastructure risks, as well as the possibility of extreme events, in establishing a reserve target specifically for the City of Burlingame. As such, the Council's reserve management strategies reflect best practices in public finance. Once funded according to the policy, the City's reserves (\$19.1 million) comprise the largest single portion of the General Fund's ending balance, an amount equal to 27.1 percent of General Fund revenues for the year. The reserve policy calls for an Economic Stability Reserve of 24 percent of budgeted revenues, a Catastrophic Reserve of \$2 million, and a \$500,000 Contingency Reserve. This leaves an unassigned fund balance of nearly \$13.4 million.

**CITY OF BURLINGAME, CA
GENERAL FUND BALANCE ASSIGNMENTS**

	FY18-19 Actuals	FY19-20 Unaudited Actuals	FY20-21 Adopted Budget
Economic Stability Reserve	\$ 18,837,000	\$ 16,600,000	\$ 14,743,000
Catastrophic Reserve	2,000,000	2,000,000	2,000,000
Contingency Reserve	500,000	500,000	500,000
Subtotal, Assigned Fund Balance	21,337,000	19,100,000	17,243,000
Add: Restricted for Pension Trust Fund (PARS)	7,459,442	10,823,849	13,073,849
Add: Unassigned Fund Balance	20,371,309	13,358,285	7,789,018
Total, Ending Fund Balance	\$ 49,167,751	\$ 43,282,134	\$ 38,105,867

In past years, staff had recommended that surpluses of the prior year be used to provide additional funding to the Capital Investment Reserve at midyear. As no surpluses are indicated for the next few fiscal years, the Capital Investment Reserve will remain at \$24,656,000, unless the City Council approves a drawdown of the reserve for specific purposes.

**CITY OF BURLINGAME, CA
CHANGES TO CAPITAL INVESTMENT RESERVE**

Beginning Balance Established 3/31/15 (FY14-15)	\$ 3,000,000
Budget Transfer from General Fund in FY 2015-16	3,000,000
Add'l Budget Transfer from General Fund in FY 2015-16 (mid-year)	5,000,000
Decrease in Catastrophic Reserve Fund (mid-year)	2,500,000
Ending Balance 6/30/16	\$ 13,500,000
Budgeted Transfer from General Fund in FY 2016-17	3,000,000
Add'l Budget Transfer from General Fund in FY 2016-17 (mid-year)	4,000,000
Ending Balance 6/30/17	\$ 20,500,000
Budget Transfer from General Fund in FY 2017-18	3,000,000
Add'l Budget Transfer From General Fund in FY 2017-18 (mid year)	2,300,000
Ending Balance 6/30/18	\$ 25,800,000
Budget Transfer from General Fund in FY 2018-19	3,000,000
Ending Balance 6/30/19	\$ 28,800,000
Budget Transfer from General Fund in FY 2019-20	6,500,000
Transfer to fund New Community Center Project	(10,644,000)
Ending Balance 6/30/20	\$ 24,656,000
Budget Transfer from General Fund in FY 2020-21	0
Budgeted Balance at 6/30/21	\$ 24,656,000

Also in the past, the City Council has been comfortable with a \$9-10 million unassigned fund balance for the General Fund. Because the pension trust fund is able to provide a better return on the City's investments than can be obtained in its general portfolio, staff recommends a continuation

of the pre-funding mechanism – the pension trust fund held by Public Agency Retirement Services (PARS) – established for that purpose. The trust fund is ultimately a very flexible placement of the City's funds. Although the funds can only be used to pay for retirement obligations through CalPERS, the City's required contributions to CalPERS will be over \$7.5 million in the current fiscal year, and increasing in future fiscal years. Should funds be needed for other purposes, the CalPERS contributions could be paid directly from the trust fund, freeing up the General Fund monies for other desired uses.

Debt Service – Mid-year adjustments to the adopted budget for fiscal year 2019-20 were made to reflect issuance and administrative costs of the 2019 Lease Revenue Bonds sold in December, along with the debt service payments in the current fiscal year. Funds for the first debt service payment (due July 1st) were set aside with General Fund and Measure I transfers in both fiscal years 2018-19 and 2019-20. Therefore, an additional \$2 million remained in the debt service fund for debt service payments beyond the 2019-20 fiscal year. The additional amount was anticipated in the development of the FY 2020-21 budget and will be applied to the debt service obligation. This application allows the General Fund a one-year reprieve from funding the 2019 Lease Revenue Bonds in the current fiscal year, as shown below.

CITY OF BURLINGAME, CA GENERAL FUND DEBT SERVICE OBLIGATIONS							
Description	Maturity	FY19-20 Adjusted Budget	FY19-20 Unaudited Actuals	Budget Variance		FY20-21 Adopted Budget	
				\$	%		
2006 Pension Obligation Bonds	FY2036	\$ 976,500	\$ 976,500	\$ (0)	0.0%	\$998,891	
2010 Lease Revenue Bonds (Corp Yard)	FY2021	1,167,775	1,170,163	2,388	0.2%	1,164,375	
2012 Lease Revenue Bonds (Burl Ave Streetscape)*	FY2042	551,488	551,488	(0)	0.0%	546,688	
2019 Lease Revenue Bonds (Community Center)	FY2049	1,997,334	1,997,334	0	n/a	0	
Cost of Issuance for 2019 Lease Rev Bonds		303,054	303,054	(0)	0.0%	0	
Debt Administration Costs		41,250	33,130	(8,120)	-19.7%	16,100	
Subtotal, Principal and Interest		5,037,401	5,031,668	(5,733)	-0.11%	2,726,054	
Contributions from Other Funds		(1,583,218)	(1,583,219)	(1)	0.0%	(1,579,750)	
Net General Fund Debt Service		\$3,454,183	\$3,448,449	(\$5,734)	-0.2%	\$1,146,304	

*100% reimbursed by the Special Assessment District and Parking Enterprise

General Fund Five-Year Financial Forecast

The five-year forecast attached to this report was developed using the FY 2019-20 adjusted budget as a starting point for estimating revenues and expenses of future operating budgets. The forecast has been updated to reflect actual (unaudited) results for 2019-20. In addition, the forecast has also been updated to reflect the additional \$371,871 grant revenue from the State's Coronavirus Relief Fund. No other adjustments have been made to the three scenarios.

Adjustments to the five-year forecast will be prepared with careful consideration to each revenue and expenditure category with the City's mid-year report. General Fund revenues are monitored closely, and projections are based on detailed assumptions specific to each revenue and expenditure category, which are in turn based on the most up-to-date information available.

FISCAL IMPACT

The presentation of the unaudited results of the General Fund for the fiscal year ended June 30, 2020 creates no fiscal impact. The overall goal is to deliver the most accurate picture of the 2019-20 fiscal year's standings so that some level of confidence can be placed in the FY 2020-21 budget, which should assist decision makers in planning for the City's needs in the long-term.

The acceptance of \$371,871 in Coronavirus Relief Funds (CRF) in FY 2020-21 will increase the current year's General Fund revenues by that amount.

Exhibit:

- Resolution to Amend the General Fund Revenue Budget for Receipt of Coronavirus Relief Funds (CRF) in FY 2020-21.

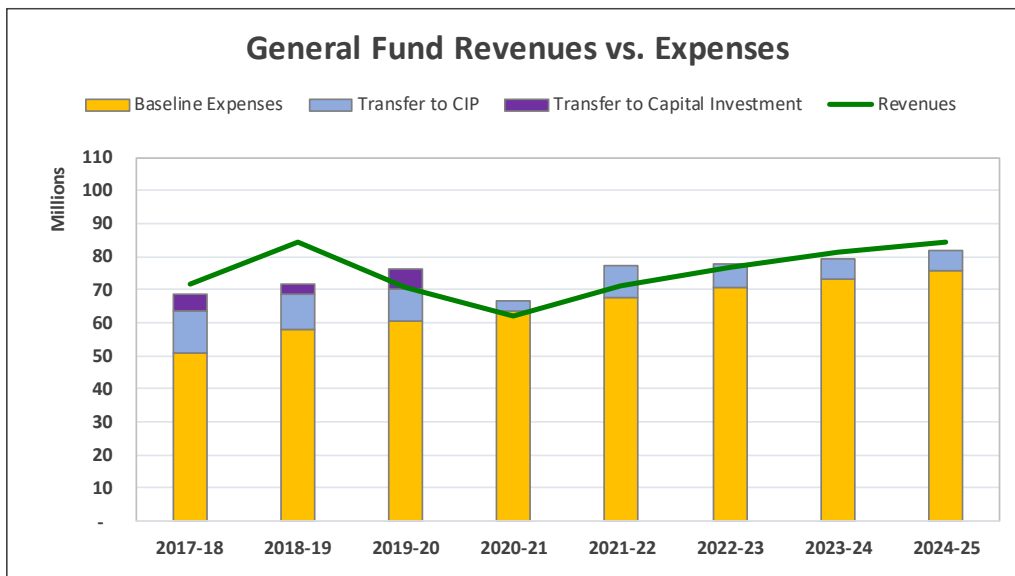
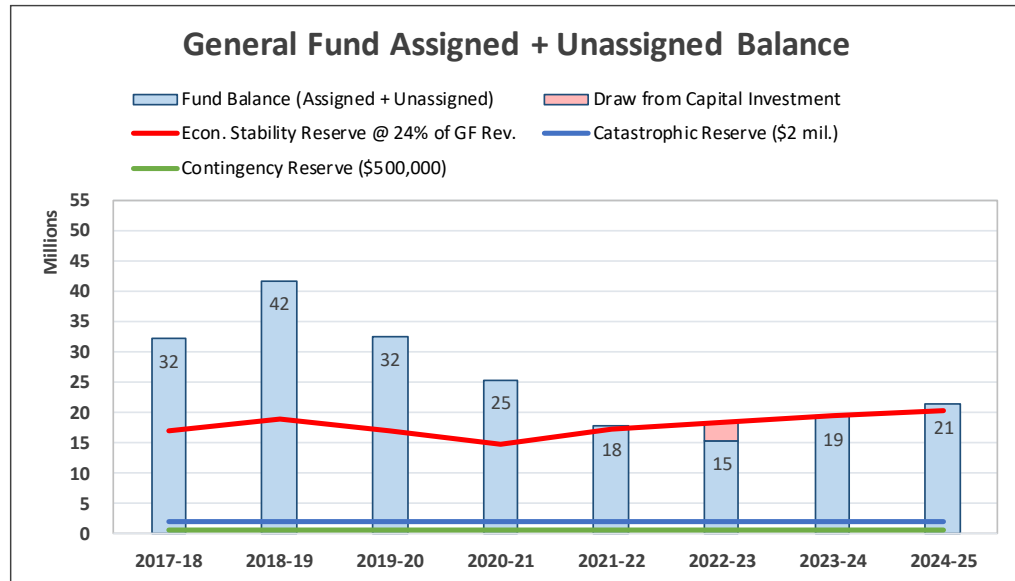
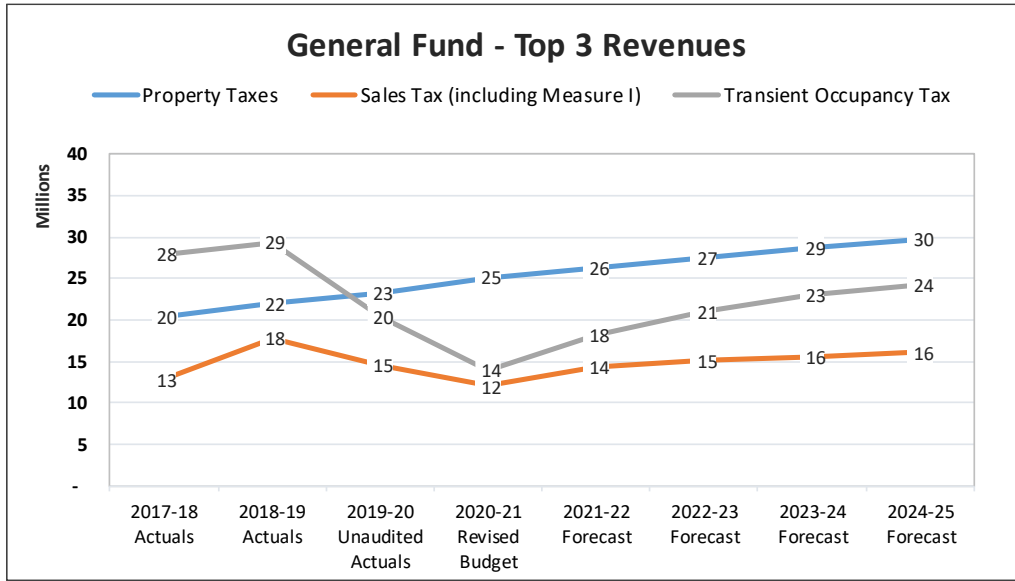
General Fund Five-Year Forecast

Scenario A – Most Probable

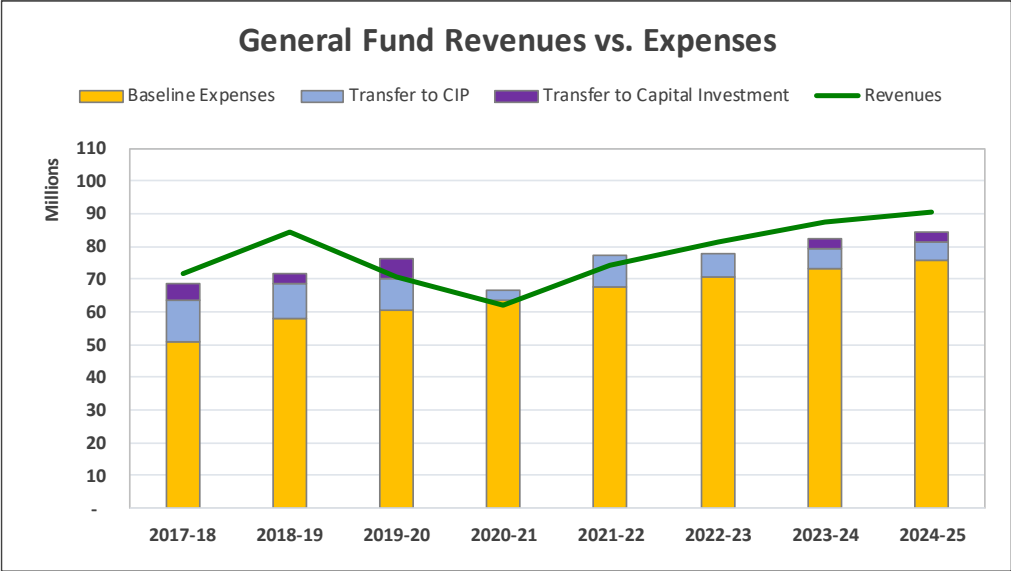
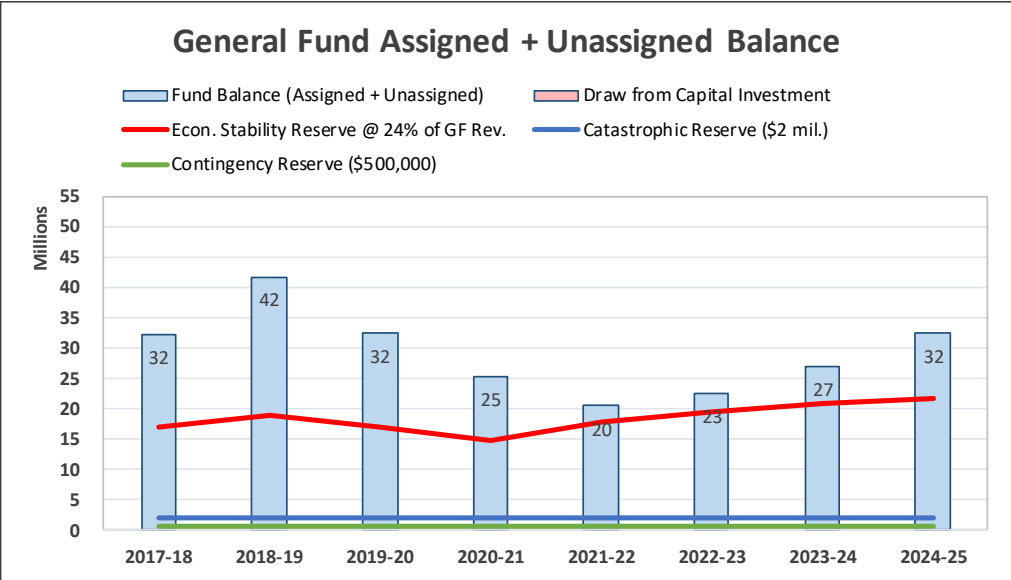
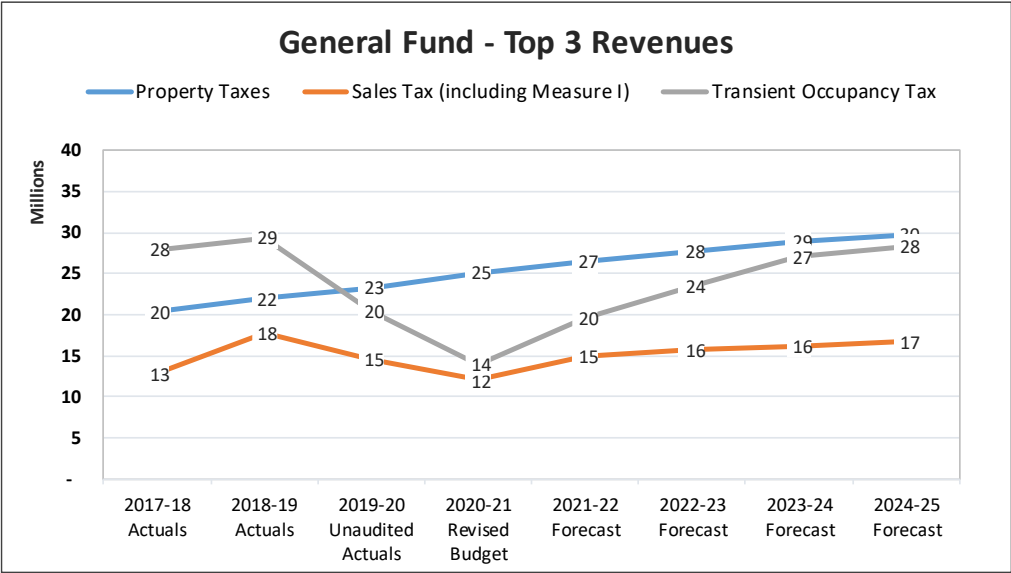
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Unaudited	Revised	Forecast	Forecast	Forecast	Forecast
Revenue Categories	Actuals	Budget				
Property Taxes	23,304,402	25,136,000	26,274,000	27,469,000	28,724,000	29,778,000
Sales Tax (including Measure I)	14,562,627	12,000,000	14,400,000	15,120,000	15,574,000	16,041,000
Transient Occupancy Tax	20,416,543	14,000,000	18,200,000	20,930,000	23,023,000	24,174,000
Other Taxes - Franchise Tax	1,656,664	1,641,200	1,672,000	1,687,000	1,703,000	1,720,000
Other Taxes - Business Licenses	878,498	730,000	803,000	811,000	831,000	856,000
Other Taxes - Transfer Tax	534,517	400,000	460,000	483,000	497,000	502,000
Other Taxes - State HOPTR	59,000	60,000	63,000	66,000	67,000	68,000
Licenses & Permits	98,904	78,200	82,000	86,000	88,000	90,000
Fines, Forfeitures & Penalties	791,870	560,000	728,000	750,000	773,000	796,000
Use of Money & Property	101,996	80,000	84,000	88,000	90,000	92,000
Charges for Services	5,471,234	5,007,000	5,758,000	6,334,000	6,524,000	6,720,000
Other Revenue	81,033	401,871	422,000	443,000	452,000	461,000
Federal & State Subventions	177,563	143,000	150,000	158,000	161,000	164,000
Interest Income	2,466,249	1,563,000	2,345,000	2,580,000	2,709,000	2,844,000
Total Revenues	70,601,100	61,800,271	71,441,000	77,005,000	81,216,000	84,306,000
Expenditure Categories						
Salaries & Wages	(19,080,567)	(20,394,956)	(21,131,000)	(21,765,000)	(22,418,000)	(23,090,000)
Benefits	(12,156,450)	(13,376,968)	(14,133,000)	(15,138,000)	(15,966,000)	(16,864,000)
Operating Costs	(22,644,706)	(24,789,910)	(25,708,000)	(26,664,000)	(27,661,000)	(28,701,000)
Internal Services	(4,170,252)	(4,570,045)	(4,753,000)	(4,896,000)	(5,043,000)	(5,194,000)
Capital Outlay	(141,298)	(163,000)	(250,000)	(258,000)	(266,000)	(274,000)
Total Expenditures	(58,193,274)	(63,294,879)	(65,975,000)	(68,721,000)	(71,354,000)	(74,123,000)
Operating Revenue	12,407,827	(1,494,608)	5,466,000	8,284,000	9,862,000	10,183,000
Transfer In (Out)						
Transfer to CIP Project Funds	(9,485,000)	(3,155,000)	(9,405,000)	(7,435,000)	(6,155,000)	(5,835,000)
Transfer to Debt Service Fund	(4,708,763)	(2,728,338)	(3,580,400)	(3,600,700)	(3,623,500)	(3,651,060)
Transfers In (Out) - other funds	2,400,319	2,573,550	1,693,525	1,723,779	1,755,120	1,790,059
Transfer to Capital Investment	(6,500,000)	-	-	-	-	-
Change in Fund Balance before Adjustments	(5,885,617)	(4,804,396)	(5,825,875)	(1,027,921)	1,838,620	2,486,999
Adjustments						
Transfer to Pension 115 Trust	(2,957,000)	(2,250,000)	(1,867,000)	(1,285,000)	(876,000)	(503,000)
Net Surplus / (Deficit)	(8,842,617)	(7,054,396)	(7,692,875)	(2,312,921)	962,620	1,983,999

FUND BALANCE	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
General Fund Beginning Bal.	49,167,751	43,282,134	38,477,738	32,651,863	34,623,942	36,462,562
General Fund Ending Bal.	43,282,134	38,477,738	32,651,863	31,623,942	36,462,562	38,949,561
Assigned Balance:	19,444,000	17,332,000	19,646,000	20,981,000	21,992,000	22,733,000
Econ. Stability Reserve @ 24%	16,944,000	14,832,000	17,146,000	18,481,000	19,492,000	20,233,000
Catastrophic Reserve (\$2 mil.)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Contingency Reserve (\$500,000)	500,000	500,000	500,000	500,000	500,000	500,000
PARS restricted cash	10,823,849	13,073,849	14,940,849	16,225,849	17,101,849	17,604,849
Unassigned Fund Balance	13,014,285	8,071,889	(1,934,986)	(5,582,907)	(2,631,287)	(1,388,288)

Scenario A – Most Probable (continued)



Scenario B – More Optimistic



Scenario C – More Pessimistic

