



STAFF REPORT

AGENDA NO: 9c

MEETING DATE: June 21, 2021

To: Honorable Mayor and City Council

Date: June 21, 2021

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

Subject: Public Hearing and Adoption of Resolutions (1) Adopting the FY 2021-22 Operating and Capital Budgets and Authorizing the Finance Director to Assign Uses of Fund Balance Amounts; (2) Approving the Gann Appropriation Limit; and (3) Approving a Contribution to the City's Pension Benefit Trust Account with PARS

RECOMMENDATION

Staff recommends that the City Council hold a public hearing on the Proposed Budget and Capital Program for fiscal year 2021-22, and adopt three resolutions in the following order:

- a. Resolution of the City Council of the City of Burlingame Adopting Operating and Capital Improvement Budgets for the City of Burlingame for Fiscal Year 2021-22 and Authorizing the Finance Director/Treasurer to Assign Uses to Fund Balance Amounts
- b. Resolution of the City Council of the City of Burlingame Establishing the Fiscal Year 2021-22 Appropriation Limit for the City of Burlingame Pursuant to Article XIII B of the California Constitution.
- c. Resolution of the City Council of the City of Burlingame Approving a Contribution to the Public Agencies Post-Employment (Pension) Benefit Trust Administered by Public Agency Retirement Services (PARS)

BACKGROUND

The City Council held a budget study session on Wednesday, May 15, 2021, to review the City's initial operating and capital budgets for the upcoming fiscal year 2021-22. Though the City is not facing the significant uncertainties surrounding the evolving pandemic conditions as it did this time last year, the City will still experience reduced revenues in the upcoming fiscal year as business restrictions are eased and the economy recovers. Due to various levels of recovery across the globe, transient occupancy tax (TOT) revenues, a major source of funding for the General Fund activities, are not expected to improve fully in the short term, as the travel and tourism industry will recover more slowly than the general economy. As the reduction in TOT revenues in the past 15 months has been significant, the decreased revenues will continue to stress the General Fund budget for the next few fiscal years. At the study session, staff requested and obtained direction from the Council regarding adjustments necessary to support the priorities established by the Council for the 2021-22 fiscal year. While keeping an eye on both long-term liabilities and

initiatives, the short term focus will continue to be the provision of quality municipal services and maintenance of full-time staff. In presenting the initial budget for the upcoming fiscal year, staff emphasized this delicate balance between short-term and long-term funding needs.

A review of the City's General Fund revenues and expenditures, as well as the outlook for several of the City's other major funds, was included in the May 15th staff report and presentation. Staff has subsequently made several revisions to the initial budget presentation as described in this report.

DISCUSSION

General Fund

General Fund revenues are anticipated to increase approximately 12 percent (nearly \$7.3 million) in the 2021-22 fiscal year. This is due largely to the severe revenue reductions experienced in fiscal year 2020-21 as the result of the pandemic, from which only partial recovery is anticipated. The City will receive approximately \$2.9 million in American Rescue Plan Act funding (one half of the total funding from the plan to be received over the next two fiscal years), accounting for approximately 40% of the total increase in revenues. Changes to the General Fund revenue budget presented in May are minimal.

As noted at the budget study session, the City's property tax revenues are largely based on the County Assessor's secured property tax roll, which was experiencing some level of fluctuation in May due to the resolution of several large property tax appeals. Though the roll will continue to be adjusted up through June 30th, staff does not believe further major adjustments are forthcoming. Based on the most current data, current secured property tax revenues are expected to be \$170,000 higher than the \$18.4 million anticipated in the initial budget.

CITY OF BURLINGAME, CA PROPERTY TAXES						
	FY19-20 Actuals	FY20-21 Adopted Budget	FY20-21 Revised Budget	FY21-22 Proposed Budget	\$ Change from Prior Year	% Change from Prior Year
Current Secured Property Tax	\$15,825,904	\$17,573,000	\$17,700,000	\$18,570,000	\$ 870,000	4.9%
Secured Supp. Property Tax	422,675	491,000	450,000	450,000	0	0.0%
Current Unsecured Property Tax	804,184	821,000	800,000	750,000	(50,000)	-6.3%
Property Tax in Lieu of VLF	3,583,335	3,560,000	2,832,000	2,400,000	(432,000)	-15.3%
ERAF Refund	2,374,327	2,375,000	2,557,000	2,500,000	(57,000)	-2.2%
Unitary Tax	304,019	316,000	320,000	320,000	0	0.0%
Total, Property Taxes	\$23,314,442	\$25,136,000	\$24,659,000	\$24,990,000	\$ 331,000	1.3%

The very low expectations of revenues from the State Property Tax in Lieu of VLF have also been a topic of discussion in the past few months. As it has yet to be determined if the State will agree to an amendment to the VLF Swap statute, Burlingame's budget continues to show a reduced revenue amount from this State obligation, and the projection for next year remains unchanged from the initial budget.

Staff has also made an upward revision (\$37,500) in the amount anticipated to be reimbursed from the Burlingame Aquatics Club (BAC) from operations. This reimbursement projection reflects the portion of the pool maintenance costs related to BAC's competitive programming for the first half of the fiscal year and is included in the revenue budget as General Fund "charges for services".

No other adjustments have been made to the City's General Fund revenues for the upcoming fiscal year. A revised table of General Fund revenue projections for fiscal year 2021-22 is shown below:

CITY OF BURLINGAME, CA SUMMARY OF GENERAL FUND REVENUES					
	FY19-20 Actuals	FY20-21 Revised Budget	FY21-22 Proposed Budget	\$ Change from Prior Year	% Change from Prior Year
Property Tax	\$ 23,304,402	\$ 24,659,000	\$ 24,990,000	\$ 331,000	1.3%
Sales and Use Tax	14,803,365	14,570,000	15,296,000	726,000	5.0%
Transient Occupancy Tax	20,416,543	7,500,000	13,500,000	6,000,000	80.0%
Other Taxes					
Franchise Tax	1,661,397	1,561,800	1,605,000	43,200	2.8%
Business Licenses	879,013	680,000	800,000	120,000	17.6%
Real Property Transfer Tax	534,517	500,000	550,000	50,000	10.0%
State HOPTR	59,000	61,000	62,000	1,000	1.6%
Licenses & Permits	98,904	71,200	73,200	2,000	2.8%
Fines, Forfeitures and Penalties	793,281	650,000	888,000	238,000	36.6%
Use of Money & Property	101,996	180,000	200,000	20,000	11.1%
Charges for Services	5,471,234	4,406,900	4,815,222	408,322	9.3%
Other Revenue	81,033	32,500	30,000	(2,500)	-7.7%
Federal COVID Relief Fund	0	3,271,871	2,900,000	(371,871)	-11.4%
State Subventions	177,563	162,500	167,000	4,500	2.8%
Interest Income	3,775,609	1,508,000	1,200,000	(308,000)	-20.4%
Total, General Fund Revenue	\$ 72,157,856	\$ 59,814,771	\$ 67,076,422	\$ 7,261,651	12.1%

General Fund expenditures were also scrutinized to ensure departmental needs were provided for. In the Parks Division, staff noted that the contractual services budget would probably be insufficient for the annual tree maintenance contract. The City typically utilizes an independent tree contractor to complete tree work on large-stature and sycamore trees, stump removal, emergency response, and limited tree removals. For FY 2021-22, the scope of work was expanded to provide for grid section tree work, additional large tree removals, tree planting, and watering. Although the bids were not due until after the completion of this staff report, Parks personnel have indicated that the additional scope will add approximately \$200,000 to the cost of the annual contract.

The General Fund expenditure budget was also minimally adjusted for a slight (\$2,500) omission in departmental operating costs in the initial budget for fiscal year 2021-22.

CITY OF BURLINGAME, CA SUMMARY OF GENERAL FUND EXPENDITURES					
	FY19-20 Actuals	FY20-21 Revised Budget	FY21-22 Proposed Budget	\$ Change from Prior Year	% Change from Prior Year
<u>By Expense Categories</u>					
Salaries & Wages	\$ 19,080,567	\$ 20,246,633	\$ 20,558,107	\$ 311,474	1.5%
Benefits	12,156,450	13,124,163	13,880,828	756,665	5.8%
Operating Costs	22,656,895	24,192,954	24,448,176	255,222	1.1%
Internal Services	4,170,252	4,570,045	4,893,927	323,882	7.1%
Capital Outlay	141,298	163,000	35,000	(128,000)	-78.5%
Total Expenditures	\$ 58,205,462	\$ 62,296,795	\$ 63,816,038	\$ 1,519,243	2.4%

An additional expenditure item that was *not* included in this General Fund proposed budget for FY 2021-22 is the anticipated need for an audio and video solution that will deliver the capabilities required for effective hybrid Council meetings – integrating the in-person meetings held in the Council chambers with the convenience and increased public participation that video conferencing provides – in the near future. As staff has just begun to analyze the solutions available and the various costs associated with the equipment and software upgrades that will be required, this item will be brought forward for an additional budget appropriation once the new fiscal year is underway. To the extent the broadcasting to public meetings is impacted, the Public TV Access Fund may be utilized for this purpose, but an additional General Fund appropriation will probably be needed for this purpose.

Also, in order to develop strategies for future economic development in the City's downtown areas, Council will be considering an in-depth study (contractual) of the changing landscape of retail, service delivery, the travel industry, transit, and the use of office space as businesses recover from the pandemic. Such an investment in the long-term vibrancy of both commercial areas will help ensure the sustainability of Burlingame's economy going forward. Though the timing is probably optimal for such an investment, the study would also require a further commitment of General Fund reserves.

It should again be noted that, although there are requirements for expending and reporting the \$2.9 million of American Rescue Plan (ARP) funds to be received, Burlingame will not be tracking expenditure of these funds. Unlike the requirements of the Coronavirus Relief Fund (CRF) last year, the ARP authorizes the "replacement of lost public sector revenue due to the pandemic" as an appropriate use of the funds. Finance staff will be sure to follow all Treasury guidance required by all city recipients of these funds, but for all practical purposes, the revenues will flow through to the General Fund balance.

Due to revenues that remain diminished from pre-pandemic levels, transfers out for capital projects were held to a bare minimum for a second fiscal year. Many projects have been deferred in order to limit the General Fund deficit and use of reserves as much as possible. The reduction in capital funding is meant to be a temporary measure, often employed by municipalities to deal with short-term declines in revenues, while still maintaining core operations and a consistent level of public services. For longer-term declines, structural changes would be needed.

A revised General Fund Operating Summary is shown below.

CITY OF BURLINGAME, CA GENERAL FUND OPERATING SUMMARY				
	FY19-20 Actuals	FY20-21 Revised Budget	FY21-22 Proposed Budget	Change in \$
Total Revenue	\$ 72,157,856	\$ 59,814,771	\$ 67,076,422	\$ 7,261,651
Expenditures				
Departmental Expenditures	(58,205,462)	(62,296,795)	(63,816,038)	(1,519,243)
Transfers to Debt Services	(4,708,763)	(2,728,338)	(3,579,508)	(851,170)
Transfers to Capital Project Fund	(9,485,000)	(3,209,000)	(3,160,000)	49,000
Other Transfer In (Out)	2,400,319	2,573,550	1,786,230	(787,320)
Total Expenditures	(69,998,906)	(65,660,583)	(68,769,316)	(3,108,733)
Net Operating Surplus (Deficit)	2,158,950	(5,845,812)	(1,692,894)	4,152,918
Transfer to Capital Investment Reserve	(6,500,000)	0	0	0
Change in General Fund Balance	\$ (4,341,050)	\$ (5,845,812)	\$ (1,692,894)	\$ 4,152,918

The City's General Fund Balance at the end of fiscal year 2020-21 is projected to be approximately \$37.3 million, a drop of nearly \$1.7 million (4.3 percent) from the projected balance as of June 30, 2021.

CITY OF BURLINGAME, CA CHANGES TO GENERAL FUND BALANCE		
	FY 2020-21 Revised Budget	FY 2021-22 Proposed Budget
Beginning Fund Balance (audited)	\$ 44,826,701	\$ 38,980,889
Projected Revenues & Expenditures		
Projected revenues	59,814,771	67,076,422
Projected departmental expenditures	(62,296,795)	(63,816,038)
Subtotal, Revenues Net of Expenditures	(2,482,024)	3,260,384
Transfer to Debt Service	(2,728,338)	(3,579,508)
Transfer to Capital Project Fund	(3,209,000)	(3,160,000)
Other Transfers In (Out) of General Fund	2,573,550	1,786,230
Transfer to CIP Renewal & Replacement Reserve	0	0
Ending Fund Balance (Projected)	\$ 38,980,889	\$ 37,287,995

Because the reduction (from pre-pandemic levels) projected for General Fund revenues is not as severe as that experienced in the 2020-21 fiscal year, the proposed draw on reserves is not as large as the \$5.8 million budgetary deficit projected for the current fiscal year. In fact, because the General Fund's Economic Stability Reserve target is based on a percentage of estimated revenues, this reserve can be somewhat replenished: the 2021-22 fiscal year budget reflects an *increase* to the Economic Stability Reserve of \$1.74 million, based on the increase projected over the prior year revenues. The amount restricted for pension obligations (contributed to the \$ 115 Trust with PARS) will increase \$1.85 million, as provided in the City's pension funding plan. As shown below,

the \$37.3 million projected fund balance reflects the target amounts prescribed in the City's General Fund Reserve Policy, plus approximately \$1.76 million in unassigned fund balance, available for appropriation at the City Council's discretion.

CITY OF BURLINGAME, CA GENERAL FUND BALANCE ASSIGNMENTS			
	FY19-20 Actual	FY20-21 Revised Budget	FY21-22 Proposed Budget
Economic Stability Reserve	\$ 18,905,000	\$ 14,356,000	\$ 16,098,000
Catastrophic Reserve	2,000,000	2,000,000	2,000,000
Contingency Reserve	500,000	500,000	500,000
Subtotal, Assigned Fund Balance	21,405,000	16,856,000	18,598,000
Add: Restricted for Pension Trust Fund (PARS)	10,823,849	13,073,849	14,925,849
Add: Investment Mark-to-Market	2,003,217	2,003,217	2,003,217
Add: Unassigned Fund Balance	10,594,635	7,047,823	1,760,929
Total, Ending Fund Balance	\$ 44,826,701	\$ 38,980,889	\$ 37,287,995

Note that budgetary (expenditure) savings are always experienced with each fiscal year-end close, as departmental spending cannot exceed the adjusted budget for each major category of expenditures. Staff vacancies also contribute to "savings" – positive variances in personnel budgets. Budgetary savings, usually 3-4 percent of departmental expenditures in the General Fund, will serve to increase the amount of unassigned fund balance with the closure of the City's books for the current fiscal year. Even in difficult economic times, it behooves the City to fund infrastructure and post-employment benefits to the extent possible, once General Fund Reserves have been funded per the City's policy. A strong reserve position will allow the City to weather the remainder of the current fiscal year and is anticipated to provide sufficient funding to maintain a high level of municipal services in the upcoming fiscal year. However, the revised unassigned General Fund balance projected at the end of the 2021-22 fiscal year – at less than \$1.8 million - does not provide much flexibility in the event opportunities arise to further improve the City's long-term sustainability.

Due to the uncertainty of the course of the recovery from the current economic environment, frequent updates of revenue projections are anticipated throughout the fiscal year. Much will depend on the continued easing of the workplace and social restrictions established to curtail the spread of the virus, widespread vaccine deployment and acceptance worldwide, and recovery of business and international travel.

In addition to the General Fund operating budget, staff similarly reviewed all City funds for any revisions necessary to account for instances of discrepancies and/or the availability of updated information. For example, downward adjustments totaling \$64,300 were made to Gas Tax revenues based on the latest (May) estimates from the State's Legislative Analyst's Office, to \$1.3 million. Debt service funding was revised slightly per the most recent 2021 Storm Drain Bonds pricing. And an additional appropriation was provided in the City's Housing Fund, as the amount

needed for the HouseKeys contract was re-calculated. No other adjustments were made to the proposed 2021-22 fiscal year budget presented at the May budget study session.

Overall, the City's budget increased by \$480,000 - less than ½ percent in the new fiscal year, when compared with the prior year *adjusted* budget. This is notable, as the adopted budget for the 2020-21 fiscal year had *decreased* \$11.6 million, or 9.1 percent, from the prior fiscal year, reflecting the significant plunge in spending for governmental capital projects in response to the pandemic-induced recession. Capital budgets for the 2020-21 fiscal year were reduced from the previous spending plan by deferring certain non-essential projects to future years, to limit the extent of the deficit anticipated for the General Fund. This reserve-protecting tactic has been duplicated in the proposed budget for the 2021-22 fiscal year. Note, however, that infrastructure maintenance projects were left largely intact. The FY 2021-22 budget totals that are recommended for adoption are as follows:

CITY OF BURLINGAME, CA BUDGET SUMMARY BY FUND		
	FY20-21 Revised Budget	FY21-22 Proposed Budget
General Fund	\$ 62,296,795	\$ 63,816,038
Capital Projects	16,409,000	15,370,000
Financing Authority	6,634,393	6,445,528
Water Enterprise	15,329,401	15,128,916
Sewer Enterprise	11,281,711	11,530,021
Parking Enterprise	821,372	831,600
Solid Waste Enterprise	889,975	685,937
Landfill Fund	258,414	261,035
Building Enterprise	2,774,375	2,735,663
Special Revenue Funds	375,500	271,500
Internal Service Funds	133,348	608,496
Total	\$ 117,204,284	\$117,684,734

To avoid duplication of appropriations, the budgets shown exclude interfund transfers. The City's internal service funds have been shown net of the charges to other funds/departments and included as "other funds" in the chart above.

The chart also does not include the City's contributions to the § 115 Pension Trust Fund, as these are not reported as fund expenditures for financial statement purposes.

ARTICLE XIII(B) APPROPRIATION LIMIT (GANN LIMIT)

The City's appropriation limit for this budget cycle has been prepared in accordance with uniform guidelines. The appropriations limit imposed by state regulations creates a restriction on the amount of "proceeds of taxes" that can be appropriated by the City in any fiscal year. The limit is

based on actual appropriations during the 1978-79 fiscal year, as increased each year using growth of population and inflation indexes.

For fiscal year 2021-22, the appropriation limit of \$91,553,235 is significantly greater than the \$40,778,938 of proposed City expenditures that is subject to the limit for this year. Therefore, the City is well within its appropriation limit.

STATEMENT NO. 54 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD: FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS

GASB Statement 54 was intended to improve the usefulness of governmental fund balance information by providing the users of financial information with clearly defined categories of fund balance and the constraints placed on the City's fund balances. Enterprise or business-type funds are not affected. GASB 54 requires governmental fund balances to be reported using five categories that take into consideration the makeup and intended use of the various fund balances. The hierarchy of the five possible classifications of fund balance is:

- **Non-spendable**
 - **Restricted**
 - **Committed**
 - **Assigned**
 - **Unassigned**
- } **Unrestricted
(Reserves)**

Reserves are obviously a critical element of careful, conservative financial management so that the City is positioned to effectively respond to catastrophic or unanticipated emergencies, including natural catastrophes. In order to establish appropriate reserve levels, the City has adopted a risk-based General Fund Reserve Policy that is reviewed at least annually with the budget adoption. Recognizing the City's various economically sensitive revenues, a very high Economic Stability Reserve (24 percent of General Fund revenues) was established. The reserve strategy for catastrophic events calls for a General Fund Catastrophic Reserve of \$2 million. The following assignments of the fund balance of the City's General Fund are shown here with the estimated amounts to be assigned as of the end of fiscal year 2020-21:

Economic Stability Reserve: Available to protect and preserve City services from dramatic drops in General Fund revenues that are highly sensitive to economic conditions, mainly sales taxes and transient occupancy taxes; the recommended reserve level was established at 24 percent of the fund's budgeted revenues. This equates to nearly \$16.1 million for the year ending June 30, 2022.

Catastrophic Reserve: Available to initiate funding of repairs and reconstruction of City buildings and facilities that may be damaged by natural disasters or acts of war and terrorism; the reserve level is \$2 million – about 5.3 percent of projected revenues in the FY 2021-22 budget.

Contingency Reserve: Available to cover unexpected expenses that may arise during the course of the fiscal year that were not considered during budget planning (\$500,000).

The City Council provides direction on the assignment of fund balance and the amounts to be assigned with the adoption of each fiscal year's budget. The budget adoption resolution gives the

Finance Director the authority to assign these uses to General Fund balance together with the amounts of each assignment in accordance with Council policies and direction.

The City's risk-based reserve policy also describes acceptable uses of reserves, establishes who is authorized to use the reserves, and provides guidance as to replenishing reserves (back to target levels) when necessary. Note that, although the City's reserves are adequate as a hedge for unexpected losses from events such as natural disaster and economic downturns, a separate Capital Investment Reserve was established within the City's Capital Projects Fund to fund both a long list of specifically identified capital needs as well as unknown capital outlays required in the future. To the extent capital projects remain unfunded, they represent a type of long-term liability to the City. The Capital Investment Reserve was first funded with a mid-year transfer of \$3 million from the City's General Fund in fiscal year 2014-15. The City Council approved a policy identifying future sources and uses of this reserve within the Capital Projects Fund in 2017. The reserve balance as of the end of the current fiscal year is anticipated to be \$21.2 million. These funds are largely earmarked for the City's anticipated "matching" funds for the Broadway Grade Separation project (\$15 million), and the \$6 million estimated to complete the funding needed for the El Camino Real Utilities Undergrounding project. The most recent five-year forecast projects that additional funds for the Capital Investment Reserve may be available from General Fund operations beginning in fiscal year 2025-26.

Restriction of Fund Balance for § 115 Pension Trust:

As previously indicated, the City Council established a § 115 Pension Trust in order to set aside funds to cover the escalating CalPERS rates anticipated in the next 10-15 years. Contributions to the trust fund (administered by PARS) cannot be recorded as expenditures of the City, as the fund is considered to be a City asset. However, the trust fund balance will be reflected as "restricted" fund balance for financial reporting purposes.

CITY OF BURLINGAME, CA CONTRIBUTIONS TO PENSION TRUST BY FUND	2021-22 Proposed Budget
General Fund	1,852,000
Admin/IT	4,700
Building Enterprise	67,800
Facilities	35,800
Fleet/Equipment	23,900
Landfill Fund	3,500
Parking Enterprise	12,600
Sewer Enterprise	113,800
Solid Waste Enterprise	19,500
Water Enterprise	138,400
TOTALS	2,272,000

The proposed budget for the 2021-22 fiscal year calls for a \$1,852,000 contribution to the § 115 Pension Trust from the General Fund, for a \$2.27 million total contribution from all operating funds of the City.

The restricted fund balance in the General Fund after the contribution to the pension trust for the 2021-22 fiscal year will be approximately \$15 million. A separate resolution providing for these contributions is attached to this staff report.

FISCAL IMPACT

The General Fund budget for the 2021-22 fiscal year calls for projected revenues of \$67,076,422, with expenditures and net transfers out of \$68,769,316. The General Fund balance is estimated to be approximately \$37.3 million at the end of fiscal year 2021-22. Estimated increases or decreases to other major fund balances are shown on pages 51-52 of the 2021-22 Budget document.

Exhibits:

- Resolution of the City Council of the City of Burlingame Adopting Operating and Capital Improvement Budgets for the City of Burlingame for Fiscal Year 2021-22 and Giving the Finance Director/Treasurer the Authority to Assign Uses to Fund Balance Amounts
- Resolution of the City Council of the City of Burlingame Establishing the Fiscal Year 2021-22 Appropriation Limit for the City of Burlingame Pursuant to Article XIII B of the California Constitution
- Resolution of the City Council of the City of Burlingame Approving an Additional Contribution to the Public Agencies Post Employment (Pension) Benefit Trust for Fiscal Year 2021-22
- City of Burlingame Proposed Budget for the 2021-22 Fiscal Year