



City of San Leandro

Civic Center
835 East 14th Street
San Leandro, California

Minutes

Finance Committee

Mayor Pauline Russo Cutter
Councilmember Ed Hernandez
Councilmember Benny Lee

Tuesday, May 5, 2020

4:30 PM

Access the meeting remotely by using this URL
<https://us02web.zoom.us/j/81913603321>

San Leandro Finance Committee conducted this meeting in accordance with the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20 issued on March 17, 2020.

1. CALL TO ORDER

The meeting was called to order at 4:34 p.m.

1.A. Attendance

COMMITTEE MEMBERS PRESENT:

Mayor Cutter
Councilmember Hernandez
Councilmember Lee

STAFF MEMBERS PRESENT:

Jeff Kay, City Manager
Liz Warmerdam, Assistant City Manager/Interim Finance Director
Mary Ann Perini, Budget & Compliance Manager
Leticia I. Miguel, City Clerk
Richard Pio Roda, City Attorney
Tony Batalla, Chief Technology Officer
David Rocha, Fire Chief
Theresa Mallon, Library Director
Amanda Cusick, Assistant City Attorney
Jim O'Leary, Assistant Finance Director
Thomas Liao, Community Development Director
Pete Ballew, Councilmember/Vice Mayor
Debbie Pollart, Public Works Services Director
Michael Hamer, Assistant Information Services Manager
Sally Perez, Purchasing Technician
Rachel Reside, Administrative Assistant III

1.B. Announcements

2. DISCUSSION ITEMS

- 2.A. [20-178](#) Preliminary Budget FY 2019-20 and Mid-Cycle Biennial Budget FY 2020-21

City Manager Kay stated that the COVID financial impacts are timely with the opportunity to make appropriate modifications to the budget. Mr. Kay also stated that the City is in a position with strong reserves where drastic changes do not have to be made at this time--only strategic tweaks that will result in a variant on the budget adopted last year. The information presented results from input provided by regional consultants, Michael Coleman, the State, and City management/staff.

Mr. Kay thanked the Finance team for their efforts: Budget Manager Perini, Assistant Finance Director O'Leary, and Assistant City Manager/Interim Finance Director Warmerdam.

Assistant City Manager/Interim Finance Director Warmerdam presented the discussion item "Preliminary Budget FY 2019-20 and Mid-Cycle Biennial Budget FY 2020-21" to subcommittee/Finance Committee. Due to the impacts of the March 19 stay-in-place (SIP) order issued by Governor Newsom, the budget was reevaluated accordingly. Ms. Warmerdam reminded the Committee that the City is in the middle of a two-year biennial budget starting July 1, 2019 through June 30, 2021. After committee, the next step is to go to Council with the Master Fee Schedule and proposed budget.

Ms. Warmerdam stated that in the current fiscal year (FY) 2019-2020, revenues decreased by approximately 10% due to COVID impacts. In the area of Property Tax revenue representing approximately 20% of the General Fund (GF), no impact has been witnessed so far. The rolls were set last August; thus, the impact will not be seen until next year. In the area of Sales Tax revenue representing approximately 40% of the GF, there is a decrease of approximately 10% which represents approximately \$5 million. Decreases are seen in the following Sales Tax categories: General Retail, Auto & Transportation, Fuel & Service Stations, Construction, Business-to-Business and Restaurants/Hotels. Increases are seen in the Food and Drug and County Pool subcategories. Transit Occupancy Tax (TOT) revenue, representing 5% of the GF, is down close to 20%. Utility Users Tax (UUT) revenue, representing 10% of the GF, is "flat" or generally stable with very little growth, and generally unaffected by COVID. Real Property Transfer Tax (RPTT) revenue, representing 5% of the GF, is down by approximately 25% with expectation to drop precipitously due to the SIP order.

In the current FY, expenses increased by approximately 4%. The major areas of COVID-related expenses are from Food Pantry Grants, Small Business Grants, Rental Assistance and Basic Needs, an Industrial Hygienist, and Loss of Productivity because of the SIP. Expenditures have increased in general due to: Salary and Benefits; Consulting contracts for Community Development and Finance as a result of vacancies; Fire Service contract which has increased annually; and the debt payment on 2018 Lease Revenue Bonds for all CIPs are in effect this year.

Ms. Warmerdam stated that the budget projections assume that the City will be headed into a recession next FY. For FY 2020-21 Property Tax is relatively immune to COVID and will likely remain stable with the shortage in housing. Decreases are expected for Sales Tax, Business License Tax, and Real Property Transfer Tax (RPTT). UUT is stable. Special Revenue Funds such as State Highway Users Gas Tax and Measure B/BB are expected to decrease also. Approximately \$452,000 in Community Development Block Grant (CDBG) funds are expected and will be discussed further in June.

The actual budget for FY 2017-2018 and FY 2018-2019 were shown alongside the adopted and projected budgets for FY 2019-2020 and FY 2020-2021. In FY 2018-2019, there was a \$6.7 million surplus with \$42.7 million or 38% in unassigned

fund balances. For the current FY 2019-2020, the projected deficit is approximately \$7.2 million with \$34.4 million or 30% in unassigned fund balances. For 2020-2021, the projected deficit is approximately \$11.0 million with \$22.2 million or 18% in unassigned fund balances. A forecast of the GF shows a recessionary model. It is estimated that over a five-year period the City will be experiencing a loss of approximately \$40.0 million due to COVID.

Ms. Warmerdam shared a list of solutions addressing the financial impacts of COVID by way of reducing expenditures. The following solutions were recommended: selective hiring freeze, elimination of non-essential travel and training, reduction/delay of GF contributions to specific CIPs, reduction of internal service funds contributions, annual contract savings from ACFD, and a 5% reduction of departmental services & supplies. After implementation of cost-savings solutions, it is recommended that the balance of the deficit would then be filled by reserves.

Ms. Warmerdam shared a snapshot of all the fund balances. Long-term deficits were already known about prior to COVID making the pursuit of RPTT important. This fall the potential to increase RPTT would yield approximately \$3.5 million with a \$9/\$12 split based on a \$2.0 million assessment value.

Ms. Warmerdam shared a list of Budget Revisions that amend the 2nd year of the biennial budget FY 2020-21. Department heads were asked to make adjustments in light of COVID, so the total requests of GF and other funds have been reduced significantly.

Councilmember Lee mentioned it is better to understand what the short and long-term impacts are. Mr. Lee inquired about the projections for property tax and RPTT. Ms. Perini confirmed that projections are based on the numbers from the County Assessor's Office. Mr. Lee also mentioned the possible loss of funding sources such as CDBG, with concern for potential greater impact on the underserved population. Director Liao stated that CDBG has been relatively consistent in the last 15 years, and a slight increase in the amount of \$60,000 was received this year. Mr. Lee stated that he is in support of all the recommendations.

Ms. Warmerdam mentioned that the process involved examination of conditions during recessions going back to 1999.

Councilmember Hernandez inquired about any opportunities for long-term investments, such as re-negotiating long-term bond debt and whether an aggressive approach for investments makes sense. Ms. Warmerdam stated that despite the economic downturn, the value of the City's major investments has not changed much, aligning with the City's goal to take a conservative approach with more stable investments that have minimal risk. The OPEB trust which is more aggressive is the only investment that has decreased in value.

Mr. Hernandez also inquired about any potential to increase efficiencies such as digitizing paystub distribution and road maintenance cost examination. Mr. Kay stated that roads will continue to be maintained at the same level for now to max out SB1 funding and avoid higher costs in the long-term. Mr. Kay stated that evidence has shown that while deferment of road maintenance yields short-term savings, it ends up being more costly in the long-term. Mayor Cutter concurred that the City should continue road maintenance on a contract basis and in-house especially after investing in equipment.

Mayor Cutter requested clarification about funding for projects. Ms. Warmerdam

clarified that bond proceeds must solely be used to fund projects, but slated GF contributions can be rescinded or reallocated as needed.

Mayor Cutter suggested looking for opportunity to review service contracts from a cost-benefit perspective, as well as potential cost-savings to conserve resources like electricity or water (e.g. lights off when not in use, reporting any leaky faucets, etc.) Mayor Cutter suggested analyses, such as examining the implementation of a furlough versus forgoing a pay-raise. Mayor Cutter mentioned consideration of including community input to participate in the budget process, especially where cuts are concerned.

Mayor Cutter stated that since her term is up in 2022, she would like to leave the City in good hands as much as possible.

3. PUBLIC COMMENTS

None.

4. COMMITTEE MEMBER COMMENTS

Councilmember Lee mentioned concern for the underserved population and suggested consideration of creating public health & safety policy, such as having businesses provide masks/face coverings to patrons without, and to consider providing or subsidizing costs of flu shots and COVID-19 vaccinations when available.

Councilmember Hernandez inquired about the possibility of reducing debt burden such as returning bond proceeds that are not yet spent for projects. Assistant Finance Director O'Leary remarked that refinancing opportunities can be explored for outstanding debt after a certain time period (8 to 10 years).

5. ADJOURN

The meeting was adjourned at 6:07p.m.