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Staff Report for a MOTION to Accept the Fiscal Year 2020-21 1st Quarter Financial Report as of September 30, 2020

### SUMMARY AND RECOMMENDATIONS

MOTION to Accept the Fiscal Year 2020-21 1<sup>st</sup> Quarter Financial Report as of September 30, 2020

### BACKGROUND

The City Council adopted the Fiscal Year (FY) 2020-21 General Fund, Enterprise and Internal Service Funds, and the Parking Fund budgets as part of the biennial budget on June 3, 2019. On June 15, 2020, the Council amended the budgets to reflect the expected financial impacts of the COVID-19 pandemic. The approved budgets are the annual expenditure plan and resource allocation guiding and ensuring implementation of City Council policies and priorities. The budget implements the vision and direction for the broad range of services meeting the needs of the community in accordance with City Council policy.

This financial review as of September 30, 2020 provides the 1<sup>st</sup> Quarter budget update to the City Council for the current Fiscal Year. Analysis of the revenues collected and all expenditures through September 30, 2020 measures operational adherence to the allocations outlined in the budget.

### DISCUSSION

The amended budget incorporates estimated revenues and planned expenditures for all funds. The attached FY 2020-21 1<sup>st</sup> Quarter Financial Report as of September 30, 2020 provides the revenue and expenditure summary for the General Fund, Enterprise and Internal Service Funds, and the Parking Fund. The detailed discussion below offers comparisons to the prior year and focuses on variances from the revenue and expenditure plans and allocations contemplated in the budget.

## General Fund

The General Fund finances the operations of the City having no special or dedicated revenue sources and pays for basic municipal services. Before presenting the 1<sup>st</sup> quarter financial performance, this report provides the City Council an overview about the FY 2019-20 financial results and significant financial transactions and updates for FY 2020-21. The analysis is helpful in assessing the City's financial condition and planning for the upcoming mid-year budget review and FY 2021-23 budget development.

### Summary of (Last) Fiscal Year 2019-20 Financial Results

General Fund revenues totaled \$117.5 million for the Fiscal Year ended June 30, 2020. Revenues were in line with budget but \$1.3 million lower than the prior year actual. The year-over-year decrease was due to the shutdown of economic activities. The decrease was mainly attributed to the decline in sales tax revenue of \$1.2 million and in real property transfer tax revenue of \$1.6 million, partially offset by the increases in property tax, cannabis tax, and other revenues. Instead of a usual growth, the City's top revenue source sales tax decreased by 3% from prior year due to the COVID-19 pandemic.

General Fund expenditures totaled \$113.0 million, or \$10.7 million lower than budget. Expenditures were comparable to the prior year actual. Due to the shelter-in-place orders, certain City programs and activities were closed or deferred. Of the \$10.7 million unspent budget, approximately \$4.4 million will be carried over to Fiscal Year 2020-21 in the forms of carryover requests and rollover of unspent encumbrances. Please refer to the expenditure adjustments section below for details. The savings/unspent budget were primarily from staffing savings of approximately \$3.0 million, savings from the Alameda County Fire contract for \$1.9 million, and lower than anticipated spending of professional services for \$1.9 million.

The City achieved positive financial results due to prudent spending and early implementation of strategies to control costs in light of the COVID-19 pandemic. The implementation of soft hiring freeze helped the City achieve additional staffing savings. All city departments achieved savings except for Non-Departmental, which incurred expenditures related to the COVID-10 pandemic. The General Fund surplus for FY 2019-20 is \$4.5 million. Of this amount, \$3.0 million is not available for spending due to the following reasons:

- \$1.1 million in unrealized investment gains - the City intends to hold its investments until maturity. Therefore, the gains are not available resources for budget purposes.
- \$500,000 in one-time licensing fees from the Port of Oakland - this payment is earmarked for non-general fund operations.
- \$1.4 million in carryover requests for services and programs - this amount represents deferred purchases that will be carried over to FY 2020-21. Please refer to the budget adjustments discussed below.

The remaining \$1.5 million is available fund balance. The City's policy for the Prioritization Unfunded Liability Liquidation (PULL) Plan authorizes the Council to direct up to 50% of all annual General Fund carryover toward the PULL Plan. The goal is to continue to reduce the City's unfunded pension

and retiree medical liabilities. Staff will review this policy/funding amount as part of the FY 2021-23 biennial budget development, taking into consideration the financial conditions in the upcoming years.

The financial report listing revenues by category and expenditures by department is attached to this staff report.

### **Summary of (Current) Fiscal Year 2020-21 Significant Financial Transactions and Updates**

When the COVID-19 pandemic hit in the third quarter of FY 2019-20, the City adjusted its revenue and expenditure projections for FY 2020-21. Revisions to the budget were necessary to reflect the changes in financial conditions. Like many other cities across the country, the City took a conservative approach to project revenues and implemented strategies to control costs and preserve reserves. These strategies are consistent with best practices and are necessary to ensure the City's long-term fiscal health.

Certain economic and financial data has changed since the budget was amended in June 2020. Some changes were approved by the City Council in the form of appropriations/budget adjustments in the first part of FY 2020-21; the significant budget adjustments are described below. Other key financial factors will also be evaluated and incorporated into the upcoming mid-year budget review. The financial highlights are presented below. Staff is planning to present the mid-year budget review to the City Council in early spring 2021.

#### ***Budget Adjustments***

Significant adjustments approved by the City Council are summarized below:

##### ***Revenue Adjustment***

- The City Council authorized the transfer of \$4.9 million unspent Capital Improvement Project (CIP) funds back to the General Fund. Sending the money back to the General Fund helps the City to preserve its reserves and assist with weathering the revenue losses resulting from the COVID-19 pandemic. It also provides the City the flexibility to better manage the current year spending plan while planning for the 2021-23 budget cycle. Funding for certain projects is still needed in future years and contributions back to the CIP Fund will be reflected in the General Fund long-term forecast

##### ***Expenditure Adjustments***

- Fiscal Year 20-2021 will see an increase of \$1.4 million to the budget due to carryover requests from Fiscal Year 2019-20 for services and programs that did not occur in FY 19-20 but should be completed this year.
- Fiscal Year 20-2021 will see an additional increase of \$3.0 million to the budget due to the rollover of unspent encumbrances from FY 2019-20 for contracts. Consistent with the City's policy, the annual carryover of unspent encumbrances does not require separate Council action.
- The City Council directed staff to create various programs to support San Leandro residents and business to reduce the combined health, social, and economic impacts of the COVID-19

pandemic. At the December 14<sup>th</sup> meeting, the City Council requested staff to further evaluate the needs of the residents and businesses and make recommendations to provide additional support to them. Staff proposes to use \$400,000 from the General Fund reserve to help eligible businesses that are negatively impacted by the pandemic. This action will be presented to the City Council at the January 19<sup>th</sup> meeting in a companion report presented by the Community Development Department. If approved by the Council, it will increase the General Fund budget.

### ***Financial Updates to Be Considered for the Upcoming Mid-year Budget Review***

The key financial data below will be reviewed and analyzed together with other financial information as part of the mid-year budget review.

- Allocation of \$1.1 million CARES Act funds from the California Department of Finance (DOF) for expenditures related to responses to the COVID-19 pandemic. The DOF approved the City's funding application in July 2020. This allocation will increase the City's General Fund revenue.
- Measure VV was approved by the San Leandro voters in November 2020. This measure authorized an increase to the real property transfer tax rate from \$6 per thousand dollars in assessed valuation to \$11 per thousand dollars in valuation, and which is forecasted to generate approximately \$4.0 million in new annual General Fund revenue beginning in the latter half of Fiscal Year 2020-21. Approximately \$2.0 million is expected to be generated in the current Fiscal Year.
- Sales tax is the City's major revenue source. In light of the COVID-19 pandemic, conservative estimates were included in the amended budget and sales tax revenue was projected at \$39.0 million. At the time, a 13% decrease from the \$44.6 million sales tax revenue that was previously adopted in 2019 was anticipated. Based on an update provided by the City's sales tax consultant, the decline is expected to be lower than previously projected for San Leandro and other cities in general partly due to increased online transactions. The decline is anticipated be around 4% for the City assuming the recession will not be prolonged.

However, the City needs to be mindful about the new shelter-in-place orders imposed during the holidays. If the holiday sales are lower than expected, the City's portion of sales tax will also be impacted. The actual sales tax data from the State will not be available until March 2021. As part of the mid-year budget review, staff will be analyzing the sales tax revenue closely taking into account updated economic data that is available at that time.

- Due to the COVID-19 pandemic, many recreation and library programs have not reopened or are operating at a different scale. Revenues and expenditures associated with these programs will need to be revised to reflect projected activities.

### **Summary of (Current) Fiscal Year 2020-21 First Quarter Financial Results**

The amended FY 2020-21 General Fund revenues are projected at \$114.1 million and expenditures

are projected at \$122.2 million, which includes purchase order carryover balances from 2019-20 and City Council approved budget amendments.

First quarter revenue of \$9.7 million in 2020-21 totals 8% of the amended budget, compared to 7% in 2019-20. Expenditures of \$14.8 million at the end of first quarter amount to 12% of the anticipated total, compared to 16% in 2019-20. Revenues are in line with the prior year and expenditures are expected to stay within budget appropriations. Due to the COVID-19 pandemic, certain recreation and library programs have not reopened resulting in lower than expected expenditures in the first quarter. Nevertheless, expenditures will continue to be closely monitored throughout the year.

A detailed review of revenue and expenditure variances is presented below.

## General Fund Revenue

- **Property Tax** - (3% of anticipated revenue in the amended budget has been collected, compared to 3% in 2019-20). Property Tax is the City's second largest revenue source and represents about 23% of the total General Fund revenue. Secured Tax and Redevelopment Residual Property Tax revenues make up 62% of the City's annual Property Tax revenue. Please note that Property Tax payments from the county are not distributed evenly throughout the year. The significant payments are usually received in the second and fourth quarters.
- **Sales/Transaction and Use Tax** - (10% of anticipated revenue in the amended budget has been collected, compared to 5% in 2019-20). Sales and Transaction and Use Taxes are the City's largest revenue source and represent about 34% of the total General Fund revenue. Current year budget is \$6.1 million lower than prior year budget. As discussed earlier, the impact of the COVID-19 pandemic on sales tax revenues will be re-evaluated as part of the mid-year budget review. Sales tax receipts are \$1.5 million higher than prior year's receipts due to the timing of recording payments; prior year's July Transaction and Use Tax payment was recorded in the second quarter. Please note that Sales Tax remittances from the State have an approximate two month time lag.
- **Utility Users Tax** - (14% of anticipated revenue in the amended budget has been collected, compared to 12% in 2019-20). Current year budget is \$504,000 lower than the prior year budget, but year-to-date revenues are \$89,000 higher than the same period last year partly due to the timing of receipts.
- **Property Transfer Tax** - (22% of anticipated revenue in the amended budget has been collected, compared to 5% in 2019-20). First quarter revenue is \$589,000 higher than the same period last year due to the increase in revenue and timing of recording the August remittance. The August payment was recorded in the second quarter in the prior year. Property Transfer Tax is volatile depending on transaction volumes and property values. Fluctuations are expected from time to time.
- **Emergency Communications Access Fee (911)** - (0% of anticipated revenue in the amended budget has been collected, compared to 10% in 2019-20). Fees collected for the first quarter were recorded in the second quarter this year contributing to the year-over-year variance of \$311,000.
- **Business License Tax** - (2% of anticipated revenue in the amended budget has been collected, compared to 5% in 2019-20). The year-over-year decrease of \$215,000 is attributed to the COVID-19 pandemic. The pandemic has negatively impacted businesses.
- **Charges for Services** - (11% of anticipated revenue in the amended budget has been collected, compared to 27% in 2019-20). The year-over-year variance of \$527,000 is mainly

due to the reduction in recreation revenues. Due to the stay-at-home orders, many recreation and library programs are still closed.

- **Interest & Property Income** - (32% of anticipated revenue in the amended budget has been collected, compared to 43% in 2019-20). The year-over-year variance of \$230,000 is largely due to the reduction in facility rental revenues as city facilities are still closed.
- **Intergovernmental** - (83% of anticipated revenue in the amended budget has been collected, compared to 9% in 2019-20). The year-over-year increase of \$538,000 is primarily attributed to the allocation of CARES Act funds from the California Department of Finance.
- **Interdepartmental** - (0% of anticipated revenue in the amended budget has been collected compared to 25% in 2019-20). Internal service charges to other funds/programs are recorded in the second quarter this year contributing to the year-over-year variance.

As reported in the attached 1<sup>st</sup> Quarter Financial Report, all other taxes and revenue receipts are relatively in line with budgeted revenues.

## General Fund Expenditures

**General Fund, Total Expenditures** - (12% of amended budget has been spent compared to 16% in FY 2019-20). Expenditures for the quarter ended September 30, 2020 were \$14.8 million, or 12% of the amended budget of \$122.2 million. General Fund expenditures were \$4.8 million lower than the same period last year mainly due to the timing of recording the internal cost allocations between the General Fund and Internal Service Funds. The close of certain recreation and library programs also resulted in lower staffing and program costs in the first quarter. Every department's expenditures remain less than 25% of its annual budget appropriation. Significant variances are discussed below.

- **Police** - (21% of the amended budget has been spent compared to 24% in FY 2019-20). The variance is primarily due to the Internal Service Fund charges mentioned above. First quarter charges were recorded in the second quarter this year. When accounting for the cost allocations, year-to-date expenditures are in line with prior year expenditure.
- **Recreation & Human Services** - (10% of the amended budget has been spent compared to 24% in FY 2019-20). Lower expenditures correspond to reduction in recreation revenues due to the shelter-in-place orders.
- **Debt Services** - (3% of the amended budget has been spent compared to 16% in FY 2019-20). First quarter contributions to the debt service fund are recorded in the second quarter this year. Contributions/charges are spread out over a twelve-month period and resources are accumulated to make debt service payments.

## Enterprise, Internal Service Funds, and Parking Fund

Four Enterprise Funds make up the City's business-type operations. The Water Pollution Control Plant Fund, the Environmental Services Fund, the Shoreline Enterprise Fund, and the Storm Water Fund are City municipal operations designed to fully recover costs through user fees. Internal Service Funds also operate as business activities, exclusively supporting the City's internal operations. Facilities Maintenance, Information Technology, Insurance Services, and Equipment Maintenance make up these Internal Service Funds. The Parking Fund provides for parking meter and parking lot operations and maintenance at the Downtown Parking Structure and has been restructured in recent year to bring expenditures in line with annual revenues.

- **Shoreline Enterprise, Expenditures** - (7% of the amended budget has been spent compared

to 27% in FY 2019-20). During the same quarter last year, this fund incurred approximately \$334,000 in expenditures related to the Golf course renovations contributing to the year-over-year variance.

- **Internal Services Funds, Revenue** - As discussed in the General Fund expenditures section, internal cost allocations/revenues were recorded in the second quarter this year. Revenues presented on the attached financial report represent other revenues such as interest income. The second quarter financial report will reflect charges for six months.
- **Insurance Services, Expenditures** - (25% of the amended budget has been spent compared to 40% in FY 2019-20). In the prior year, the \$750,000 budgeted contribution to the City's other post-employment benefits (OPEB) trust was made in the first quarter contributing to the year-over-year variance.
- **Equipment Maintenance, Expenditures** - (14% of the amended budget has been spent compared to 5% in 2019-20). The year-over-year variance is due to the timing of equipment purchase. A few large pieces of equipment were purchased in the first quarter of FY 2020-21.
- **Parking Fund, Revenue/Expenditures** - (7% and 10% of has been spent he amended budget has been spent compared to 31% and 17% in 2019-20). Parking activities are impacted by the stay-at-home orders, resulting in decline in revenues and expenditures from the prior year.

## ATTACHMENTS

- FY 19-20 Financial Report
- FY 20-21 1<sup>st</sup> Quarter Financial Report

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