

OVERVIEW

OF THE

2021-22

PROPOSED BUDGET



2021-22 Proposed Budget
Presentation to the Budget and Finance Committee

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SUMMARY

- 2020-21 Financial Recap
- American Rescue Plan
- 2021-22 Proposed Budget:
 - Overview
 - Revenues
 - Expenditures
 - Financial Policies



2020-21 FINANCIAL RECAP

- The 2020-21 Budget was developed at the onset of the COVID-19 pandemic, at the height of uncertainty.
- By early September, it was clear that the City would not meet revenue projections, eventually projecting that it would fall \$600 million (now \$544 million, excluding federal relief funds) short – close to 10% of the General Fund budget.
- Under the leadership of the Budget and Finance Committee, the City Council and Mayor adopted a budget balancing plan that included:
 - \$158 million in spending reductions through a hiring freeze, retirement incentives, capital project deferrals, and cutting contracts and other expenditures.
 - \$104 of available federal relief funds.
 - \$294 million of the City’s General Fund Reserves, or all but 2.75% (the Charter emergency minimum).
 - \$133 million in deficit borrowing.
 - \$23 million in labor cost reductions from unpaid days for City workers and deferring compensation adjustments.
- If enacted, this plan would have allowed the City to persevere through the fiscal year, but it would have been in a weakened position, with dangerously low reserves and severely curtailed services.



AMERICAN RESCUE PLAN

- \$1.354 billion in estimate federal relief in two equal payments in May 2021, and May 2022.
- The 2020-21 tranche will:
 - Allow the City to not use its General Fund reserves or deficit borrow to close this year’s budget gap.
 - Will restore the pandemic-related lost 2019-20 revenue (\$200 million) to the Reserve Fund.
- The 2021-22 tranche:
 - Enabled the Mayor to present a General Fund budget of \$7.33 billion, 9.7% above the 2020-21 Adopted Budget, which maintains City services and initiates many new programs.
 - Will boost General Fund Reserves to historic levels.



2021-22 PROPOSED BUDGET OVERVIEW

TOTAL 2021-22 CITY GOVERNMENT

Appropriations
(\$ Millions)

Authorized Positions

I. Proprietary Departments

Airports	\$	7,691.0		3,992
Harbor	\$	1,641.8		999
Water and Power	\$	9,986.8		12,069
		<i>Total \$</i>	<i>19,319.6</i>	<i>17,060</i>

II. General City Budget

General Fund	\$	7,336.5	\$	23,992.0 *
Special Funds	\$	3,893.8	\$	12,000.0
		<i>Total \$</i>	<i>11,230.3</i>	<i>\$ 35,992.0</i>

III. Grants and other Non-Budgeted Funds

		<i>Total \$</i>	<i>1,678.4</i>	<i>-</i>
		<i>Grand Total \$</i>	<i>32,228.3</i>	<i>53,052</i>

* Sworn staff comprise 57% of General Fund staffing.



2021-22 PROPOSED BUDGET OVERVIEW

Budget Component	Budget (\$ Millions)			Authorized Positions		
	City Budget 2020-21	Proposed 2021-22	Percent Change	City Budget 2020-21	Proposed 2021-22	Percent Change
General Fund	\$ 6,687.3	\$ 7,336.5	9.7%	24,632	23,992	-2.6%
Special Funds	\$ 3,844.0	\$ 3,893.8	1.3%	12,541	12,000	-4.3%
Total	\$ 10,531.3	\$ 11,230.3	6.6%	37,173	35,992	-3.2%



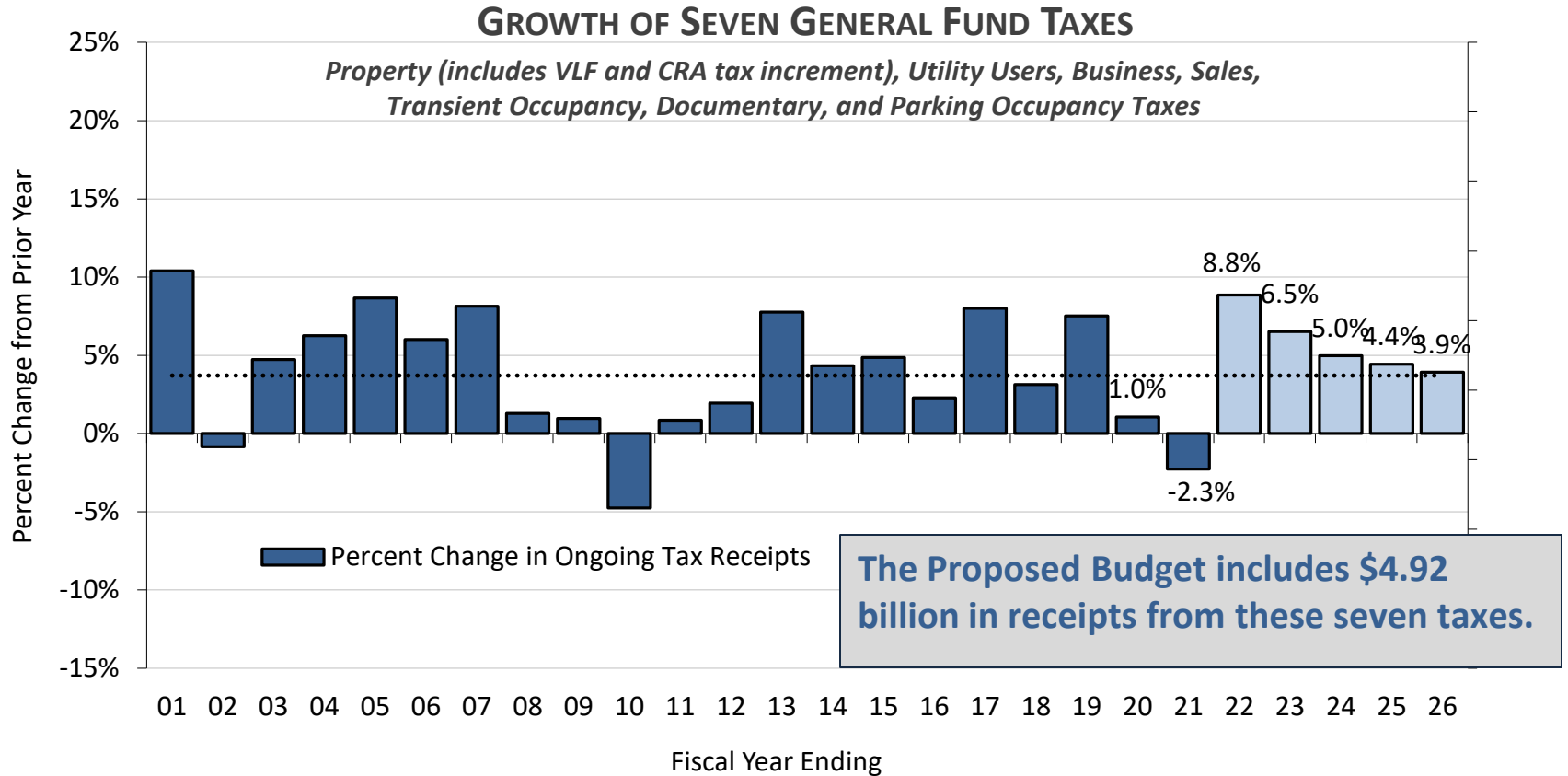
2021-22 PROPOSED BUDGET REVENUES

General Fund revenues increased by \$649.2 million from 2020-21 City Budget to the 2021-22 Proposed Budget. Major changes include:

Source	Amount (Millions)	
American Rescue Plan	\$677.2	Budget programs this funding assuming that it can be used as General Fund revenue.
Property Tax	\$103.2	Assumes similar growth and delinquency rates as 2020-21. Growth rate based on assessed value growth of 5.9 percent.
Business Tax	\$22.1	Assumes non-cannabis growth remains flat, with strong growth in cannabis receipts.
Sales Tax	\$49.6	Assumes a strong recovery when compared to lower receipts in 2020-21. Growth from estimated receipts at 17.5%.
Transient Occupancy Tax	\$(68.1)	Assumes strong growth from actual 2020-21 receipts, but still well below prior budget levels. Growth from estimated receipts at 75%.
Parking Occupancy Tax	\$(2.7)	Assumes strong growth from actual 2020-21 receipts, but still just below prior budget levels. Growth from estimated receipts at 75%.



ECONOMICALLY SENSITIVE REVENUES



REVENUES: CONCERNS

Revenues assumption dependent on U.S. Department of Treasury guidance and an end to pandemic conditions and are heavily one-time reliant:

- American Rescue Plan projected \$677 million revenues in each of 2020-21 and 2021-22 require:
 - Treasury guidance that provide the City with spending flexibility.
 - Timely receipt of the second tranche during 2021-22, which the law states will be sent no sooner that 12 months after the first, so earliest would be May 2022.
- Revenues generally based on an assumption:
 - That pandemic conditions would end around August 1, 2021 and the economy would grow after that time.
 - That, for some revenue sources, recovery would be rapid and strong once it begins.
- \$715 million in one-time revenues is an all time high and puts the 2021-22 spending level at risk in future years.



2021-22 PROPOSED BUDGET EXPENDITURES

Significant expenditure changes include:

- Homelessness - \$800 million across all funding source and purposes, doubling the 2020-21 amount.
- COVID Relief - \$115 million for support of residents, small businesses, and other City relief services.
- Infrastructure - \$152 million in General Fund for facilities, public works projects, and technology projects.
- Liabilities and Obligations:
 - Fully funds departments to enable hiring again.
 - \$100 million for legal liabilities.
 - \$29 million to repay special funds for prior overpayments.
 - \$13 million to pay down debt.
- Reserve Fund - \$50 million contribution.



EXPENDITURES: CONCERNS

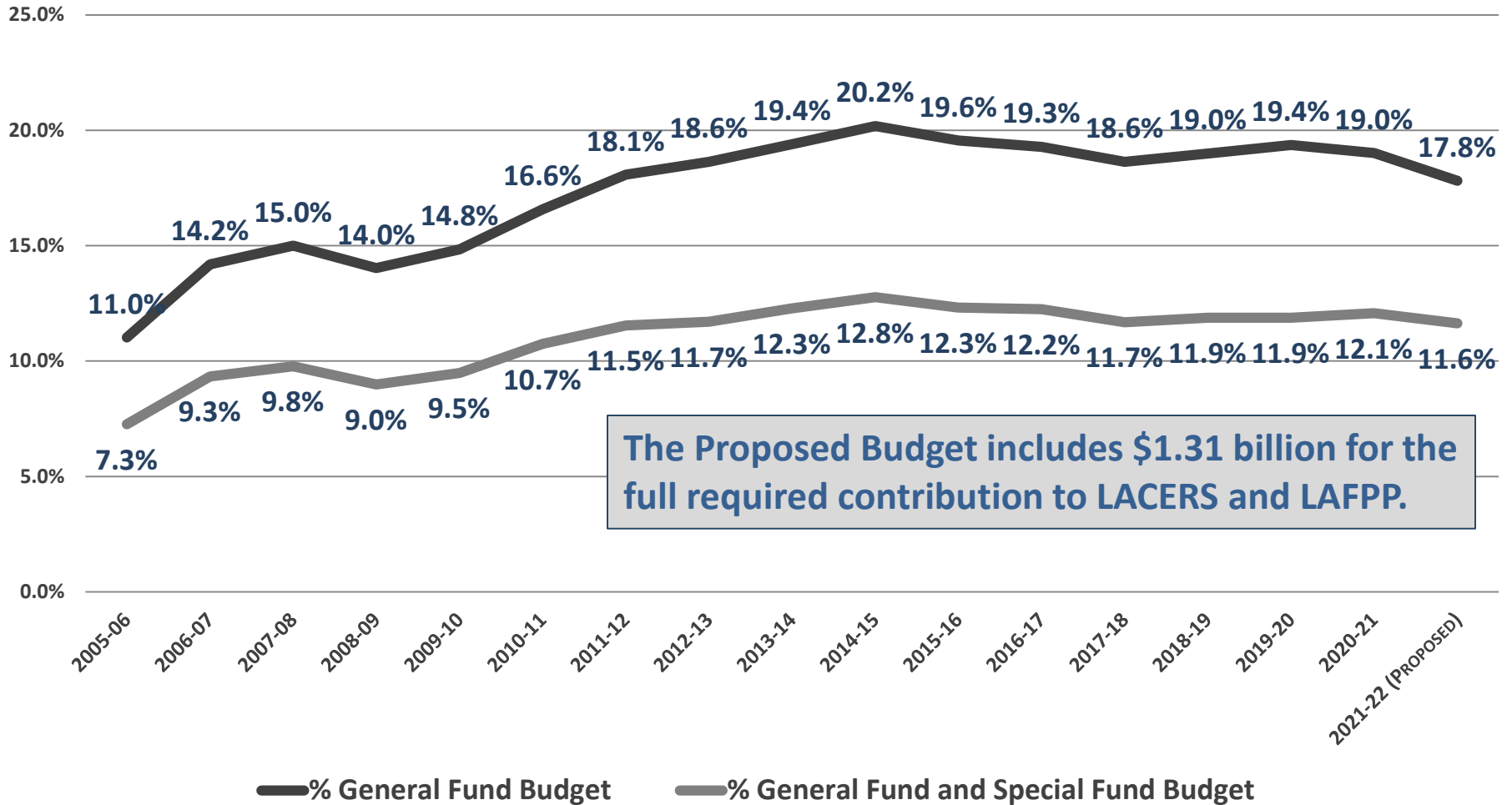
Expenditure concerns include:

- Based on CAO analysis, \$581 million of General Fund expenditures in the Proposed Budget are one-time:
 - Thus, \$134 million in ongoing spending is being paid in the Proposed Budget with one-time revenues calling into question whether even the base level of services is sustainable.
 - Many of the proposed new programs are designated as one-time, but there may be a desire to continue them, despite the loss of the on-time revenues, such as:
 - Basic Income Guaranteed (\$24 million GCP; \$3 million UB)
 - Restaurant and Small Business Recovery (\$25 million)
 - Additional Homeless Services (\$80 million)
 - Homeless Prevention and Eviction Defense (\$15 million)
- Separation Incentive Program
 - The proposed elimination of 1,278 positions as a result of the Separation Incentive Program will negatively impact departmental service delivery.
 - Restoring more of these positions would eliminate the fiscal benefits of this Program.



PENSION SHARE OF BUDGET

PERCENT OF BUDGET USED FOR LACERS/LAFPP CONTRIBUTION



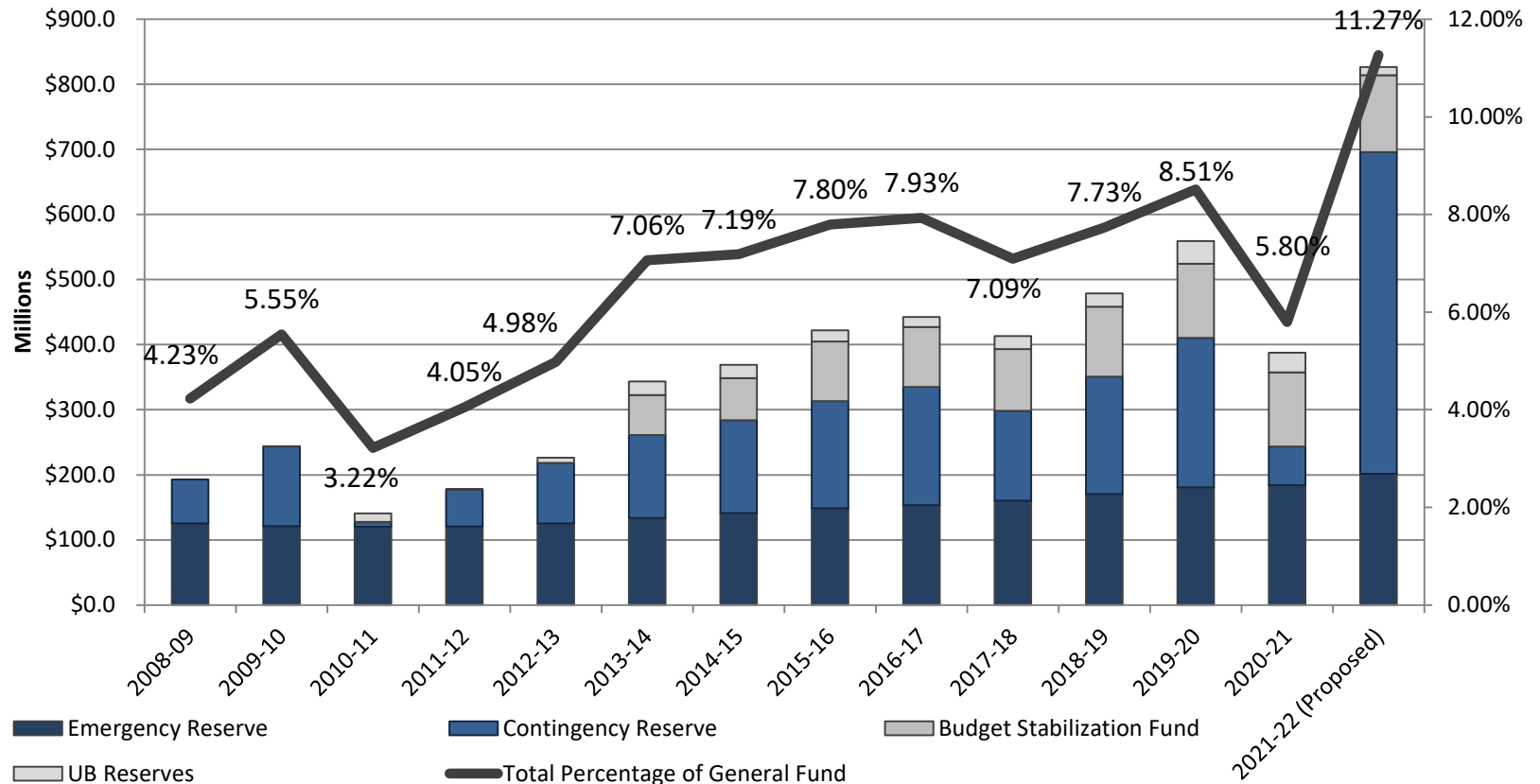
2021-22 PROPOSED BUDGET FINANCIAL POLICY COMPLIANCE

Policy		Compliance
Reserve Fund at least 5% of General Fund revenues	✓	July 1 at \$696 million, or 9.49%
Budget Stabilization Fund	✓	3.1% in growth is \$47 million under 4.1% growth threshold, permitting a \$2 million withdrawal. No transfer to Budget.
General Fund reserves goal: 10% of General Fund revenues	✓	11.27% or \$827 million: \$696 million Reserve Fund; \$118 million Budget Stabilization Fund; \$13 million UB – Reserve.
Capital and technology investment at 1.5% of General Fund revenues	✓	Investment of 2.07% or \$152 million
All one-time revenues used for one-time expenditures	✗	\$715 million in one-time revenues for \$581 million in one-time expenditures
Debt service as percent of general receipts: No more than 6% for non voter-approved and 15% for non voter-approved and voter-approved	✓	<ul style="list-style-type: none"> • 3.45% for non voter-approved • 5.04% for non voter-approved and voter-approved • Projected to remain below limits until at least 2028-29
Achieve structural balance	✗	Four-Year Outlook projects budget gaps through 2023-24 ranging from \$3 million to \$138 million, followed by two years of surpluses.



FINANCIAL POLICY COMPLIANCE: GENERAL FUND RESERVES

ADOPTED BUDGET RESERVES
(Reserve Fund, Budget Stabilization Fund, and UB Reserves)



FINANCIAL POLICY COMPLIANCE: GENERAL FUND RESERVES

General Fund reserves are at historic highs, and we strongly recommend that they be maintained as proposed.

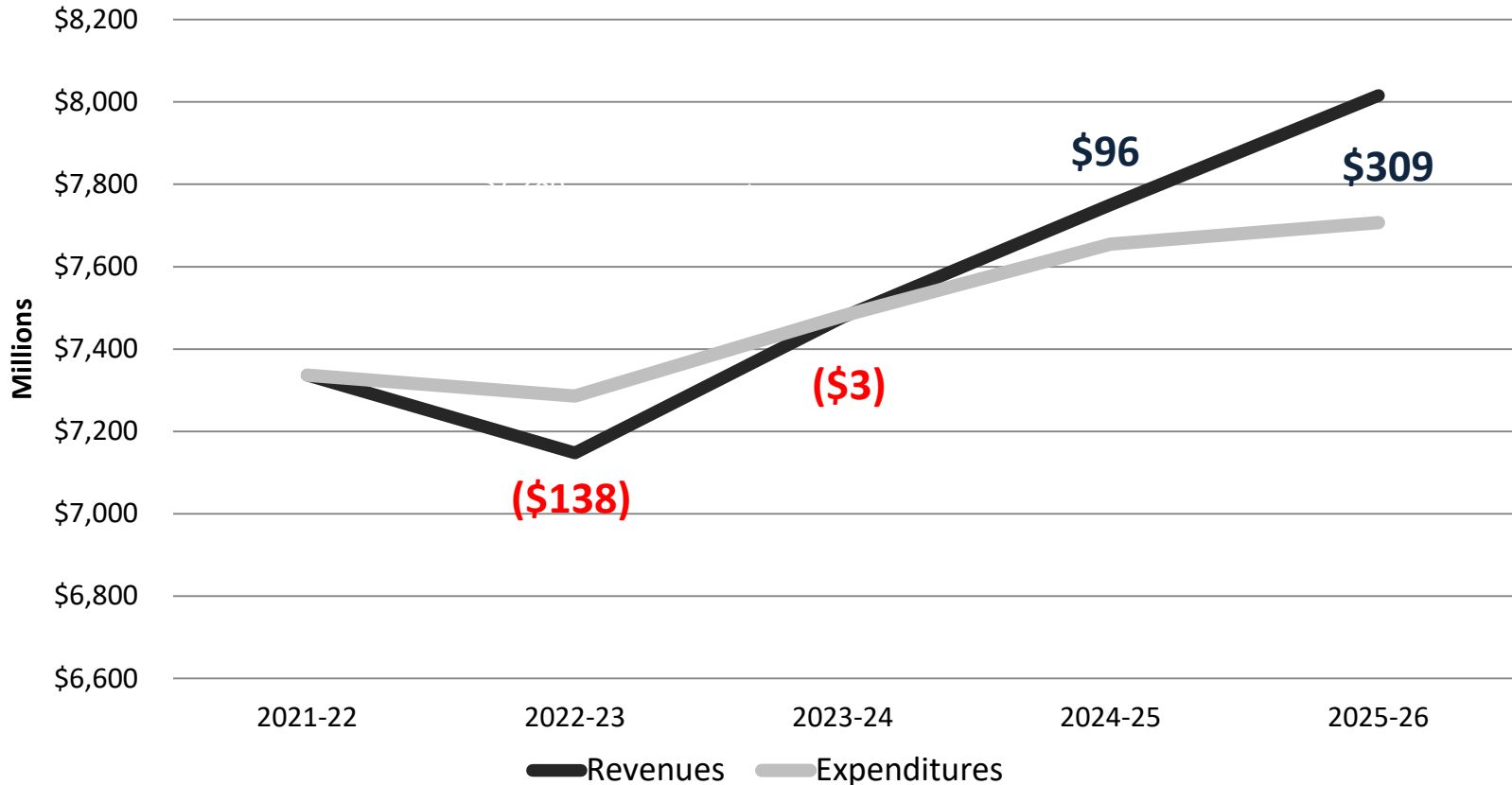
- For the first time, the General Fund reserves have met the Financial Policy goal of 10 percent, hitting 11.27 percent.
- It is essential to maintain these reserves as proposed:
 - The Proposed Budget assumes that second tranche of the American Rescue Plan will arrive in May. Even if it does, the City will need to rely on its reserves, in combination with larger cash flow borrowing to have adequate cash during 2020-21.
 - If the second tranche is delayed past May, or worse into 2022-23, the General Fund reserves will be essential to cover the revenue shortfall until the funds arrive.
 - The General Fund reserves can be used in 2022-23 to continue the high level of new programming in 2021-22 that may otherwise not be sustainable.
 - The General Fund reserves can be used in 2022-23 to cover the \$134 million in ongoing spending that is paid for in 2021-22 with one-time revenues.



FINANCIAL POLICY COMPLIANCE: FOUR-YEAR BUDGET OUTLOOK

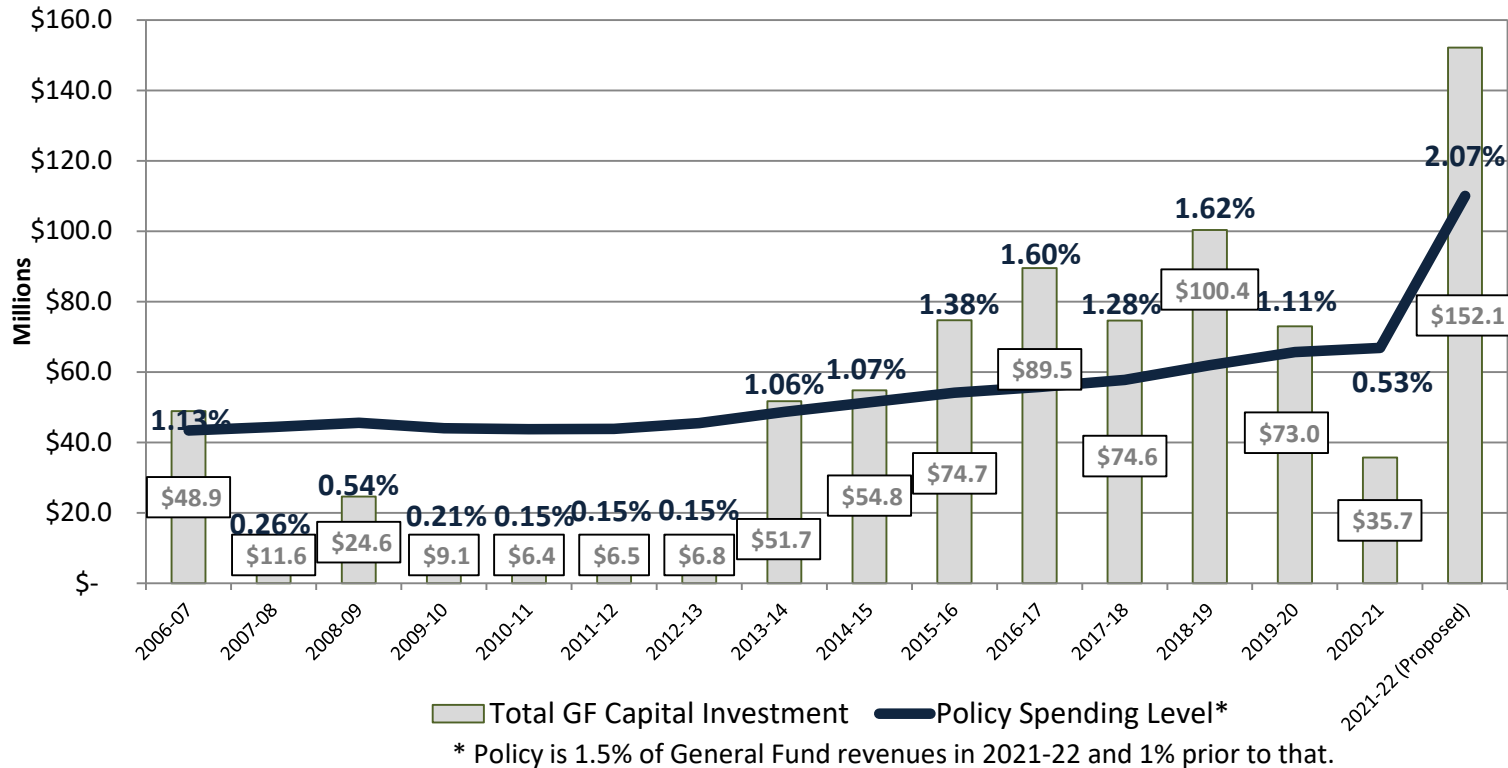
FOUR-YEAR BUDGET OUTLOOK

(2021-22 Proposed Budget)



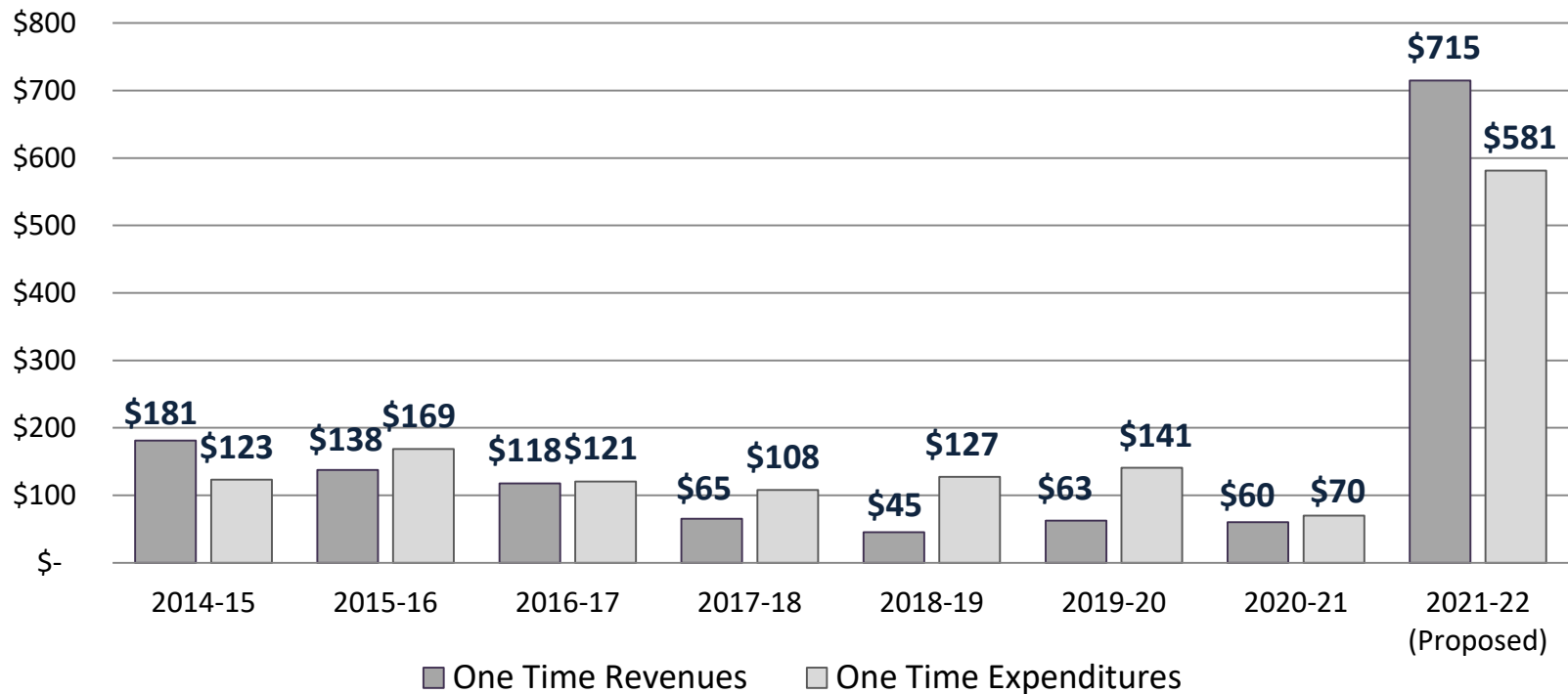
FINANCIAL POLICY COMPLIANCE: CAPITAL INVESTMENTS

CAPITAL INVESTMENT AS PERCENTAGE OF GENERAL FUND REVENUE



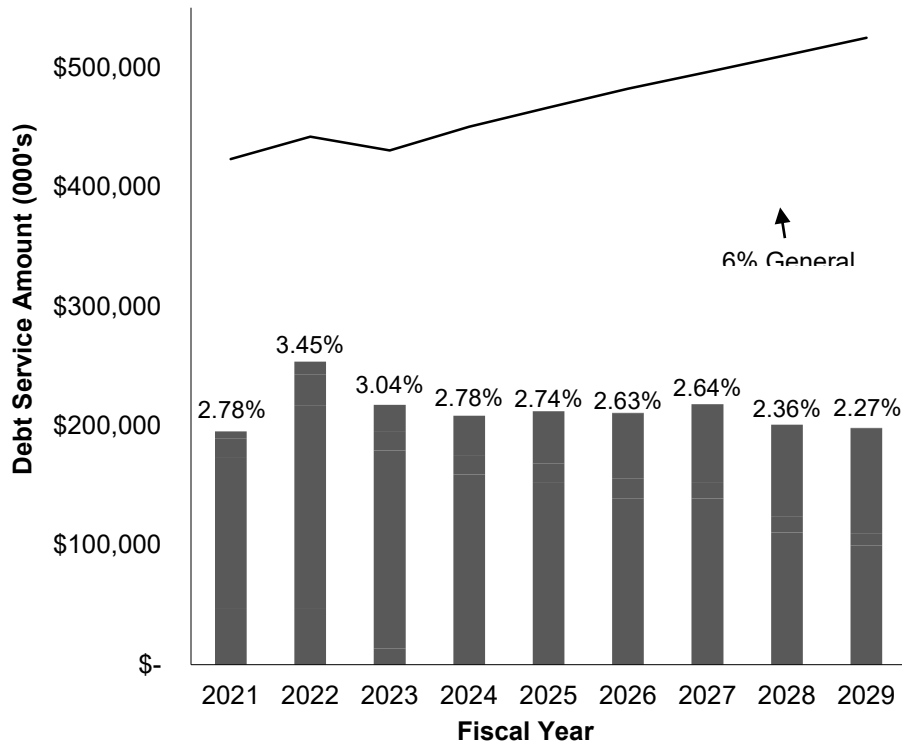
FINANCIAL POLICY COMPLIANCE: ONE-TIME REVENUES

ONE-TIME REVENUES VS. ONE-TIME EXPENDITURES ADOPTED BUDGETS (2020-21 PROPOSED)



FINANCIAL POLICY COMPLIANCE: DEBT LIMITS

NON VOTER-APPROVED DEBT



VOTER-APPROVED AND NON VOTER-APPROVED DEBT

