



Council Agenda Report

Item 6e

Department: Finance
Cost Center: 2002
For Agenda of: 9/21/2021
Placement: Consent
Estimated Time: N/A

FROM: Brigitte Elke, Finance Director
Prepared By: Natalie Harnett, Principal Budget Analyst

SUBJECT: FISCAL YEAR 2020-21 4TH QUARTER BUDGET REVIEW (YEAR-END)

RECOMMENDATION

Receive and file the FY 2020-21 4th Quarter Budget Review and unaudited year-end results.

REPORT-IN-BRIEF

This report provides an overview of the City's unaudited financial position through the fourth and final quarter of fiscal year 2020-21 (July 1, 2020-June 30, 2021) for the General Fund and the City's four enterprise funds. It also delivers a re-cap on how the 2020-21 Supplemental Budget was developed and the decisions that Council made along the way, given the Covid-19 emergency.

Based on the unaudited financials, it is clear that the activation of the Fiscal Health Contingency Plan together with the third and last year of the Fiscal Health Response Plan measures adjusted the City's expenditures to withstand the revenue losses experienced during the Covid-19 year. In addition, the pace of the economic recovery was quicker than forecasted once public health restrictions were lifted, and people began to resume daily activities. Much pent-up demand led to spending and all funds ended the year in a positive position with operating revenues over operating expenditures.

The report also provides a review of the approved Measure G20, which was approved by the voters in November 2020. The City began collecting the additional one-cent transaction tax (G20) on April 1, 2021. On December 8, 2020, Council approved the allocation of \$3,425,000 from the anticipated first quarter revenue from the augmented local transaction and use tax for economic recovery efforts.

Lastly, the report provides an update on the American Rescue Plan Act (ARPA) funding. This historic bill will provide economic stimulus funding to the City of San Luis Obispo to reimburse lost revenue and help support economic recovery efforts. The originally authorized \$8.9 million was programmed into the 2021-23 Supplemental budget, but it has since been confirmed that the City will receive \$13.5 million.

No actions for allocating unaudited or unreceived ARPA funding are recommended at this time and staff will return with recommended appropriations once the final audit is reviewed and accepted by the City Council.

DISCUSSION

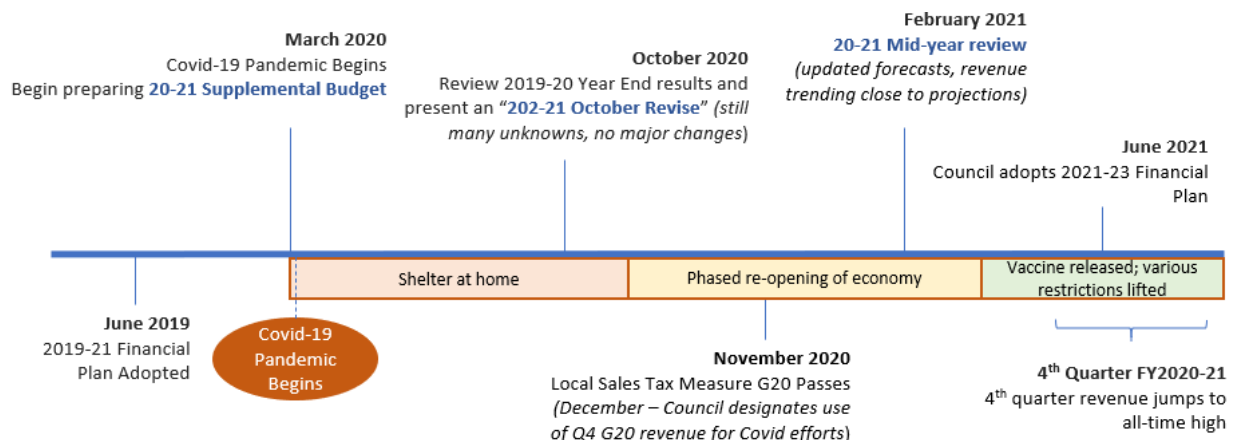
A Year Like No Other

During “normal” times, the second year of the City’s two-year 2019-21 Financial Plan (the 2020-21 *Supplemental Budget*) is simply an adjustment to the assumptions made a year earlier given a deeper understanding of the current trends and budget needs and therefore has generally very few significant changes from the work programs that were adopted with the two-year Financial Plan. The 2020-21 Supplemental Budget preparation was far from normal. Staff began the planning efforts right when the Covid-19 pandemic shut down the economy and introduced shelter-at-home directives that lasted through various stages until June 2021. Equipped with the savings measures from the third year of the Fiscal Health Response Plan (FHRP) and the immediate activation of the Fiscal Health Contingency Plan, staff further adjusted the operating and capital budget to an adjusted revenue forecast selected from several scenario models.

	Original 2020-21 Expenditure Budget (General Fund)	Revised 2020-21 Expenditure Budget (General Fund)	Reductions
Operating	\$75,025,818	\$70,283,576	\$4,742,242
Capital	\$5,627,937	\$4,346,518	\$1,281,419
Total	\$80,653,755	\$74,630,094	\$6,023,661

It is important to review the information provided in the report with the savings measures and adjustment efforts in mind. The detail of the individual reductions by department can be found in the [2020-21 Budget Supplement](#) beginning on page 57.

Timeline of Fiscal Year 2020-21



General Fund Expenditures Overview

Overall, the General Fund finished the year in a positive position and experienced about 4% in net expenditure budget savings in spite of already revised expenditure budget. The savings can be associated with both the effectiveness of the third year of the [Fiscal Health Response Plan](#) and the immediate activation of the [Fiscal Health Contingency Plan](#), and the disciplined adherence to both plans during a pandemic year that also saw wide-ranging protests. It is therefore important to note that the operating savings were achieved despite unbudgeted expenditures related to the Covid-19 pandemic and the additional cost related to the protests. To date, the City has submitted eight applications to FEMA amounting to \$1.8 million but has yet to receive any reimbursement. Given the ongoing nature of the pandemic with the 4th wave of infections currently raging and the natural disasters occurring on the U.S. East Coast, it is not anticipated that reimbursements will be received anytime soon.

Table 1: General Fund Expenditures by Department

Index	Department	2019-20	2020-21				2021-22
		Actual	Budget	Actual	Funds Available	%	Budget
1	Internal Services						
2	Administration/IT	\$ 7,391,885	\$ 8,914,944	\$ 8,561,681	\$ 353,263	4%	\$ 9,772,859
3	City Attorney	\$ 953,794	\$ 1,140,736	\$ 1,106,284	\$ 34,452	3%	\$ 1,185,571
4	Finance	\$ 1,755,289	\$ 2,137,421	\$ 1,836,038	\$ 301,383	14%	\$ 2,190,827
5	Non-dept, Support Services	\$ 605,707	\$ 2,533,201	\$ 2,374,349	\$ 158,852	6%	\$ 695,358
6	Human Resources	\$ 1,225,244	\$ 1,484,646	\$ 1,437,144	\$ 47,502	3%	\$ 1,700,849
7	Public Safety						
8	Fire	\$ 12,541,211	\$ 14,964,924	\$ 14,082,842	\$ 882,082	6%	\$ 13,997,547
9	Police	\$ 17,532,449	\$ 18,044,459	\$ 17,728,656	\$ 315,804	2%	\$ 19,141,343
10	Community Services Group (CSG)						
11	CSG Administration	\$ 9,593	\$ 404,998	\$ 338,468	\$ 66,530	16%	\$ 665,501
12	Community Development	\$ 5,671,947	\$ 7,328,592	\$ 6,687,988	\$ 640,605	9%	\$ 6,981,163
13	Parks & Recreation	\$ 3,743,241	\$ 4,476,025	\$ 4,159,514	\$ 316,511	7%	\$ 5,126,817
14	Public Works	\$ 12,508,036	\$ 14,348,211	\$ 13,276,038	\$ 1,072,173	7%	\$ 14,675,638
15	Utilities - Solid Waste Recycling	\$ 87,156	\$ 228,669	\$ 141,918	\$ 86,751	38%	\$ 199,699
16	Total	\$ 64,025,552	\$ 76,006,827	\$ 71,730,921	\$ 4,275,906	6%	\$ 76,333,171
17	Restricted for Carryover						
18	Restricted AB 939 Solid Waste Recycling Funds				\$ 103,571		\$ 103,571
19	Public Safety Equipment Funding				\$ 929,344		\$ 929,344
20	Total after Carryover	\$ 64,025,552	\$ 76,006,827	\$ 70,776,458	\$ 3,242,990	4%	\$ 1,032,915

Table 2: General Fund Expenditures by Type

Expenditure Type	2019-20	2020-21				2021-22
	Actual	Budget	Actual	Funds Available	%	Budget
Staffing	\$ 51,200,303	\$ 56,176,951	\$ 54,671,543	\$ 1,505,408	3%	\$ 59,262,760
Contract Services	\$ 5,841,089	\$ 9,053,545	\$ 7,779,421	\$ 1,274,124	14%	\$ 8,356,630
Other Operating Expenses	\$ 4,571,439	\$ 7,350,524	\$ 5,662,883	\$ 1,687,640	23%	\$ 5,876,080
Utilities	\$ 2,113,794	\$ 2,475,448	\$ 2,520,540	\$ (45,092)	-2%	\$ 2,837,702
Covid-19 *	\$ 298,927	\$ 950,359	\$ 1,096,534	\$ (146,175)	-15%	
TOTAL	\$ 64,025,552	\$ 76,006,827	\$ 71,730,921	\$ 4,275,906	6%	\$ 76,333,171

*This amount is not inclusive of all Covid-19 expenditures. Many Covid-19 related costs and budget allocations were distributed throughout department budgets and/or capital project budgets. See the "Covid-19 Impacts" section below for more detail.

General Fund Revenue Overview

Revenue Loss Assumptions

At the onset of the pandemic, the City's Finance Department immediately began to draft fiscal scenarios for the General Fund based on a multitude of data points including economist and econometric input and an analysis of revenue variances from 1998 to present; essentially assessing the fiscal trends following the past two recessions. The initial picture showed a revenue shortfall in the General Fund within three months at a level it took 16 months to develop during the Great Recession. Based on the intelligence gained through the models, staff estimated a revenue loss of \$8.6 million in the General Fund alone in fiscal year 2020-21.

However, at the end of the 4th quarter, two of the City's largest sources of revenue, Sales and Use Tax and Transient Occupancy Tax (TOT) far exceeded the City's projections for the year. This is consistent with trends across the state. At the end of the third quarter, revenue was tracking only slightly higher than projected, but the fourth quarter of the year experienced a huge spike in consumer spending. This coincided with increasing vaccination rates and the lifting of state-wide restrictions. While good news for the City's economy, this is likely a temporary escalation due to pent-up demand, excess savings, and a re-opening economy. The City had budgeted and anticipated robust Property Tax revenue due to a strong real estate market driven by a very low interest environment that continued the momentum. The growth is anticipated to continue into the current fiscal year and possibly into 2023. The City had reduced its Cannabis Tax assumption due to the delay in retail activity. The first retailer opened its doors in August 2020. Together with a rigorous enforcement of delivery activity, this revenue surpassed assumptions but was offset by the Council approved lowering of Cannabis fee revenue. Of note is also the recovery of Parks & Recreation fees once restrictions on adult and youth sports were lifted. All factors combined, the City ended with actual revenue about \$6.6 million over the projection with the 4th Quarter making up nearly all of this overage. For details about specific revenue categories, see Attachment A.

Table 3: General Fund Revenue Overview

	2018-19 Actual	2019-20 Actual	2020-21			
			Budget	Actual	Variance	%
1 Tax & Franchise Revenue						
2 Sales Tax (Bradley Burns)	18,119,000	16,571,064	16,571,000	20,067,740	3,496,740	121%
3 Local Revenue Measure G20*	8,325,000	7,554,375	11,392,000	12,779,713	1,387,713	112%
4 Safety Prop 172		416,459	315,163	425,136	109,973	135%
5 Property Tax	17,473,000	18,591,951	19,553,558	19,587,146	33,588	100%
6 Transient Occupancy Tax	8,061,000	6,325,841	6,267,000	6,921,335	654,335	110%
7 Utility User Tax	4,920,000	5,439,144	5,565,000	4,934,876	(630,124)	89%
8 Franchise Fees	1,428,000	1,888,414	1,544,000	1,611,728	67,728	104%
9 Business Tax	2,630,000	2,913,665	2,853,740	2,937,176	83,436	103%
10 Cannabis Tax		81,599	400,000	830,265	430,265	208%
11 Gas Tax	937,032	1,047,225	1,082,390	1,038,123	(44,267)	96%
12 Gas Tax (SB1) *	722,436	1,015,564	795,548	779,144	(16,404)	98%
13 Total Tax/Franchise	\$ 62,615,468	\$ 61,845,300	\$ 66,339,399	\$ 71,912,382	\$ 5,572,983	108%
14 * Special Revenue Funds						
15 Fees and Other Revenue						
16 General Government	\$ 2,438,651	\$ 4,044,223	\$ 5,480,662	\$ 5,476,349	\$ (4,314)	100%
17 Development Review Services	\$ 5,881,785	\$ 7,257,859	\$ 6,387,087	\$ 6,732,896	\$ 345,809	105%
18 Fire Services	\$ 1,453,435	\$ 1,442,456	\$ 1,387,037	\$ 1,498,215	\$ 111,177	108%
19 Police Services	\$ 655,371	\$ 916,344	\$ 556,000	\$ 609,643	\$ 53,643	110%
20 Parks & Recreation Services	\$ 1,679,974	\$ 1,247,119	\$ 1,217,112	\$ 1,768,932	\$ 551,819	145%
21 Total Fees and Other Revenue	\$12,109,216	\$ 14,908,001	\$15,027,899	\$ 16,086,034	\$1,058,135	107%
22 TOTAL	\$ 74,724,684	\$ 76,753,301	\$ 81,367,298	\$ 87,998,416	\$ 6,631,118	108%

General Fund Ending Position

The table below shows the ending net position of the general fund and the estimated fund balance at year end. While these numbers are still unaudited, they show that the fund ended with revenue over expenditures and an undesignated fund balance of about \$10 million. This is a further increase from \$7.1 million on June 30, 2020 (audited financials), an amount the City Council decided to leave in fund balance for use of economic recovery and further pandemic related efforts. With this decision, the Council also postponed the previously scheduled CalPERS payments to reduce the City's unfunded liability.

Table 4: General Fund Ending Position (UNAUDITED) in thousands		
1	Total Operating Expenditures (not including encumbrances)	\$ (68,502)
2	Transfers, Debt, Capital	\$ (6,203)
3	Revenue	\$ 86,538
4	Encumbrances, Commitments, Carryover	\$ (4,589)
5	Adjustment for Audit/ Outstanding Invoices (estimate)	\$ (500)
6	Revenue Over/(under) Expenditures	\$ 6,745
7	2019-20 Ending Fund Balance	\$ 33,651
8	Ending Fund Balance before CalPERS	\$ 40,362

9	CalPERS Downpayments ¹	\$	3,000
10	Ending Fund Balance	\$	37,362
11	Policy Reserve Level - 20%	\$	11,394
12	Tenant Improvement(TI) Program	\$	1,950
13	Capital Reserve ²		
14	115 Pension Trust Fund	\$	2,000
15	Restricted based on Audit (estimate)	\$	12,000
16	Undesignated Fund Balance	\$	10,052

Covid-19 Impacts

Impacts on Departments

As soon as the City announced the “shelter-at-home” directive, it also enacted its Fiscal Health Contingency Plan that immediately placed a hiring, purchasing, and travel chill on all City operations. This longstanding planning tool allowed the City to control expenditures and limit them to essential services only.

Covid-19 had a citywide impact on department operations. In most cases, it led to an increased volume and complexity of workload. At the onset of the pandemic, the organization was able to quickly set up its Emergency Operations Center (EOC) and begin addressing the health emergency (with City staff performing essential and regular services simultaneously). See Attachment A for details on how Covid-19 impacted operations for each department.

Investment into Covid-19 Efforts

The table below lists the investments into economic recovery and relief efforts related to the Covid-19 pandemic. This table does not include staffing or overhead costs needed to respond to the health crisis. The City used CARES Act funding to pay for some of these expenditures, but the majority of the funding came from the General Fund undesignated fund balance or the 4th quarter of Measure G-20 revenue ([Resolution no. 11203](#)).

¹ See **Section 7 of Attachment A** for CalPERS update. This does not include postponed payments from prior years.

² Starting in 2021-22, the Capital Reserve will be moved to the General Capital Outlay Fund and will maintain a committed reserve of 20% of the capital improvement plan budget from the Local Revenue Measure for the purposes of offsetting unanticipated costs increases, unforeseen conditions, and urgent unanticipated projects to provide the continued investment in infrastructure maintenance and enhancement.

Table 5: Covid-19 Expenditures

2020-21 Investment into Covid-19 Relief Efforts	
Funded by 4th Quarter Measure G-20 Revenue (See Section 5 of Attachment A for more detail)	\$ 3,425,000
Shop Local Incentive	\$ 200,000
Mission Plaza Improvements/Landscaping	\$ 25,000
Downtown Future Strategy	\$ 29,400
Homeless Services Support/Coordination	\$ 300,000
Small Business Relief Program	\$ 500,000
Grant Funding Opportunities for Tenant Improvements ³	\$ 2,000,000
Open SLO Project/Parklets	\$ 370,600
Funded by CARES Act	\$ 566,680
Homeless Programs	\$ 29,132
Open SLO Project/Parklets	\$ 100,000
Small Business Relief Program	\$ 200,000
Other Covid-19 Expenditures	\$ 237,548
Funded by General Fund Balance	\$ 756,835
Open SLO Project/Parklets	\$ 329,603
Communications Support	\$ 60,000
Mini Grants	\$ 75,000
Childcare Amendments	\$ 20,000
Grant Writing Services	\$ 20,000
Homeless Services: Safe Parking, Shelter Capacity Increase	\$ 101,057
Shower the People Project	\$ 5,000
Other Covid-19 Expenditures	\$ 146,175
Total	\$ 4,748,515

Capital Improvement Plan (CIP)

Due to the revised projections in revenue, staff evaluated all projects currently funded and the projects that were previously identified in FY 2020-21 as part of the 2019-21 Financial Plan. Part of that evaluation included the role of capital projects in supporting recovery. The proposed capital projects support essential services to the community as well as proposes deferred projects to align with the revised revenue projections. These projects are identified in more detail starting on page 120 of the [2020-21 Budget Supplement](#).

³ **Tenant Improvement Grant Program:** The concept of this program is to locally invest \$2,000,000 in short term Certificates of Deposit to generate interest and use that interest for a grant program to help offset the cost of a TI permit. The principal amount would be budget to be spent on projects and services as a part of the 2021-23 Financial Plan. Due to the continuing low-income environment, no banks bid on the request for proposals and the funding will remain in LRM fund balance and is invested with the City's pooled assets under its current investment strategy.

The City completed over 20 capital improvement projects in 2020-21. A few of the accomplishments for 2020-21 were the Marsh Street Bridge Replacement, the Islay Hill Park Playground Replacements, the Chorro Street Traffic Circle, and Casa/Murray Street Waterline Replacements.

Enterprise Fund Overviews

Water Fund

For the most part, Water operations continued as normal through the pandemic. The Utilities department lowered its revenue projections for the supplemental budget because of uncertainties about consumer usage and assumptions that the shelter-at-home order would lower overall consumption due to lack of tourism and business activity. However, a dry winter increased irrigation usage by 14% and the residential increase of 7% made up for the 5% decrease in commercial use. Additionally, the fund ended the year with about 11% in operating expenditure savings. This was due to several staffing vacancies and a reduction in electricity costs due to the Nacimiento pipeline being shut down for construction for part of the year. Overall, about \$6 million dollars will return to the fund's working capital. It is important to note that the increases in revenue were considered during the review of the long-term financial outlook and the previously projected water rate increase was reduced from 5.5% to 3.5% for both 2021-22 and 2022-23.

Table 6: 2020-21 Water Fund Summary

	Budget	Actual	Difference	Variance
Revenue	24,198,489 ⁴	28,935,456	4,736,967	+20%
Expenditures	18,122,881	16,090,107	2,032,774	-11%
Year-End Net Increase Return to Unreserved Working Capital			6,769,741	

Sewer Fund

The Wastewater division was busy in 2020-21 with normal operations, responding to the Covid-19 health emergency, and undertaking the first full year of construction of the WRRF upgrade project. Like the Water Fund, the Sewer Fund ended the year with revenue about 18% higher than projected due to a change in consumption patterns and increased residential usage. Additionally, actual expenditures were about 13% below budget. This was because some WRRF upgrade project expenses were postponed, and anticipated contract services were shifted for completion in next fiscal year (2021-22). As mentioned under the Water Fund, the financial picture led to a review of the previous rate increases by the rate consultant, HDR, and the lowering from originally 6.5% for both years of the 2021-23 Financial Plan to 3.5%. Overall, the Sewer Fund ended the year with about \$4 million dollars returning to its working capital. This is especially important as the fund continues to hold unassigned working capital to reduce the needed amount of the construction loan from the State Revolving Fund at the end of the project.

⁴ Budget revenue number excludes Proceeds from Debt to better demonstrate operating revenue compared to actual operating expenditures.

Table 7: 2020-21 Sewer Fund Summary

	Budget	Actual	Difference	Variance
Revenue	18,692,895 ⁵	22,001,248	3,308,353	+18%
Expenditures	8,454,246	7,317,963	1,139,284	-13%
Year-End Net Increase return to Unreserved Working Capital			4,447,637	

Parking Fund

There is no question that the Parking fund was hit the hardest by the pandemic and the resulting shut-down of the economy. It also greatly assisted with the economic recovery as 120 on-street parking spaces were used to provide parklets for restaurants downtown. As in the General Fund, the 4th quarter saw a return of the Farmers' Market and an influx of tourists, which allowed the Parking Fund to finish FY 20-21 in a stronger position than anticipated at the onset of the COVID-19 pandemic. Additionally, Parking Services was able to reduce operating expenditures by holding positions vacant, transitioning to electronic communications, and switching contract services to City staff. Parking Services has shown community leadership assisting with economic recovery efforts and enhancing parking facilities with public art and restoration projects. While multiple capital projects were deferred to account for projected revenue shortfalls, parking completed critical maintenance and on-bill financing-energy upgrades.

The COVID-19 pandemic has significantly affected Parking program operations as most fee services were suspended during the initial order to shelter-at-home and were gradually reimplemented to match demand. Parking suspended most enforcement, waived all parking fees at meters and in parking structures for certain time periods, and made reductions to staffing to account for the projected decrease in revenues. The Fund is seeing a significant increase in the use of parking pay stations as a means for contactless payment much welcomed by Covid-19 wary customers.

Table 8: 2020-21 Parking Fund Summary

	Budget	Actual	Difference	Over/Under Budget
Revenue	\$2,296,291	\$3,127,150	\$830,859	73%
Expenditures *	\$2,582,378	\$2,127,147	\$455,230	-18%
Year-End Net Difference	\$ (286,087)	1,000,003	\$1,286,090	

Transit Fund

The Transit Enterprise Fund ended the year with significant variances in both anticipated expenditures and forecasted revenues because of COVID-19. The pandemic had negative impacts on ridership and fare revenue that was offset by reduced expenditures in maintenance and supplies. The availability of CARES Act funds supplemented the Transit Fund, paying for 100% of the operating costs. Using CARES Act to fund

⁵ Budget figure excludes Proceeds from Debt to better demonstrate operating revenue compared to actual operating expenditures.

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operational costs in FY 20-21 allowed the Transit Fund to use the originally programmed Federal funds for the purchase of two electric buses.

The reduction in service levels resulted in cost savings that helped to offset current losses in revenues. CARES Act funds were prioritized as the primary revenue source for the Transit Fund for FY 20-21. The unused balance of typical annual allocations of Federal 5307 and State Transit Development Act (TDA) Funds have been deferred for future use in FY 21-22.

The two electric buses have been ordered and are anticipated to arrive toward the end of the calendar year.

Local Revenue Measure

In 2014, the City's voters approved the continuation of the half-cent transaction tax (Local Revenue Measure) to protect and maintain essential services and facilities. In November 2020, voters approved Measure G20 and an increase of this vital revenue source to one and a half cent. This tax will provide an additional \$14-16 million for community services and infrastructure improvements each year.

The City began collecting the additional transaction tax on April 1, 2021. Since the voter approval did not happen until November 2020, this revenue was not programmed into the adopted supplemental budget and staff returned to Council with an updated revenue forecast at mid-year. At the time Measure G20 passed, there was an immediate need to invest in additional economic recovery efforts to support businesses and for services to support the community's most vulnerable. On December 8, 2020, Council approved the allocation of \$3,425,000 from the anticipated first quarter revenue from the augmented local transaction and use tax (see *Table 5*).

Table 9: LRM Ending Position for 2020-21

a. Forecast Revenue	b. Actual Revenue	Variance (a-b)	c. Approved Budget Allocations (expenditures)	Unallocated Revenue (b-c)
\$11,392,000	\$12,779,713	\$1,387,713	\$10,643,000	\$2,136,713

CalPERS Update

Fiscal Health Response Plan and Payment of Unfunded Liability

With the development of the 2017-19 Financial Plan, it became apparent that the City was facing a structural budget gap due to increases in pension cost. Starting in 2018-19, it implemented an aggressive three-year Fiscal Health Response Plan to pay down the pension obligation. Overall, the strategy included 1) New Ways of Doing Business 2) Employee Concessions and 3) Cannabis Revenues.

The plan included multiple one-time additional payments to CalPERS to reduce the unfunded liability payment term from 30 to 20 years. At the onset of the pandemic, the City had successfully built-up sufficient fund balance in its General Fund to make the second scheduled payment to CalPERS for 2019-20.

However, the City Council decided to retain this funding in fund balance to cover anticipated revenue shortfalls and to assist with economic recovery efforts as the shut-down of the economy and shelter-at-home directives had just taken place and the future looked precarious. With the prolonged duration of the pandemic and slow reopening of the economy, the third payment scheduled in Spring of 2021 was also postponed. The City is now behind on its scheduled one-time payments by \$7.2 million.

Table 10: Scheduled CalPERS Payments

2018-19	2019-20	2020-21	2021-22
\$4.2 million	\$4.2 million	\$3.0 million	\$3.0 million

Paid, Unpaid, Planned

CalPERs Risk Mitigation Policy

In July 2021, CalPERs reported a 21.3% net return on investments for the 12-month period that ended June 30, 2021. Under the Funding Risk Mitigation Policy, approved by the CalPERS Board of Administration in 2015, the double-digit return triggered a reduction in the discount rate used to calculate employer and Public Employees' Pension Reform Act (PEPRA) members contributions. The discount rate, or assumed rate of return, will drop from 7% to 6.8% on ongoing basis.

The lowering of the discount rate will increase both employee and employer normal cost and also influence the unfunded liability. However, the double-digit gains should offset the impact of the lower discount rate on the unfunded liability. The City will see the effects of the change to the discount rate with the 2022-23 contributions. Staff is currently evaluating the impact of the change to adjust its 20-year pay-down strategy and will provide a full report at the mid-year budget in February 2022.

American Rescue Plan Act (ARPA)

On March 6, 2021, Congress approved a second stimulus bill known as the American Rescue Plan Act (ARPA), releasing \$1.9 trillion in funding. In a historic move, the bill includes direct payments to 19,000 municipalities, including the City of San Luis Obispo. In April 2021, the City received confirmation of an estimated allocation of \$8.9 million and the amount was built into the 2021-23 Financial Plan. However, the U.S. Treasury recently updated the City's allocation to \$13.5 million of which 50% was received on July 6, 2021, after staff placed the request for funding. The second installment will arrive one year after (July 2022) and jurisdictions have until December 31, 2024, to obligate the funds.

The original assumed \$8.9 million was programmed into the 2021-23 Supplemental budget to assist in reinstating frozen positions and invest in capital projects that had to be defunded due to the revenue shortfall. Applying the formula required through the Interim Final Rule, the City's revenue shortfall amounted to \$8.7 million for calendar year 2020. Staff is preparing to return to Council with strategic options on how to utilize the additional \$4.6 million at the 2021-22 Mid-Year Budget Review meeting in February 2022.

Recommendations

The careful management of expenditures, over realized revenues and additional ARPA funding provide a once in a lifetime opportunity to address liabilities and community livability. Staff intends to return to the Council in February 2022 as part of the mid year presentation to 1) Make additional CalPERS payments consistent with FHRP 2) Fund offsetting general fund budget appropriations with additional ARPA funding and 3) Provide additional allocations to the Infrastructure Investment Fund to advance critical key community and public infrastructure projects. More details will be provided as part of comprehensive report in February 2022.

Previous Council or Advisory Body Action

On June 4, 2019, the City adopted a two-year Financial Plan and the budget appropriations for 2019-20. Council later adopted the Supplemental Budget for the 2020-21 fiscal year on June 2, 2020 (Resolution no. 11126). The 2020-21 Mid-Year Review was before Council on February 6, 2021, and Council took action on allocation of G-20 funding anticipated in the last quarter of the fiscal year.

The City Council's advisory body for the Local Revenue Measure, the Revenue Enhancement Oversight Committee, recommended adoption of the Local Revenue Measure budget for the 2020-21 Budget Supplement on May 14, 2020.

Policy Context

The City's budget policies⁶ require that City Council review the City's budget and financial condition through periodic reports.

Public Engagement

Public comment on this item can be provided to the City Council through written correspondence prior to the meeting and through public testimony at the first meeting. The Fourth Quarter Financial Report for 2020-21 (Attachment A) will also be posted to the City's website for public review.

CONCURRENCE

Operating departments were provided the fourth quarter financial results before the preparation of this report. The respective fiscal officers and department analysts reviewed the numbers and have provided department evaluations and review summaries within Section 2 of Attachment A.

⁶ **Pg.20, 2019-21 Financial Plan: Interim Reporting** The City will prepare and issue timely interim reports on the City's fiscal status to the Council and staff. This includes online access to the City's financial management system by City staff; monthly reports to program managers; more formal quarterly reports to the Council and Departments heads, mid-year budget reviews; and interim annual reports.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act does not apply to the recommended action in this report, because the action does not constitute a “Project” under CEQA Guidelines Sec. 15378.

FISCAL IMPACT

Budgeted: Yes

Budget Year: 2020-21

Funding Identified: Yes

Fiscal Analysis:

Funding Sources	Total Budget Available	Current Funding Request	Remaining Balance	Annual Ongoing Cost
General Fund	N/A	N/A	N/A	N/A
State				
Federal				
Fees				
Other:				
Total	N/A	N/A	N/A	N/A

This report provides a high-level overview and analysis of the City’s financial position after the fourth and final quarter of FY 2020-21. No changes to the budget are being made at this time and results remain unaudited until the City’s Annual Comprehensive Financial Statements are published.

ALTERNATIVES

This is a “receive and file” item and no action from Council is required.

ATTACHMENTS

A – 2020-21 4th Quarter Budget Report